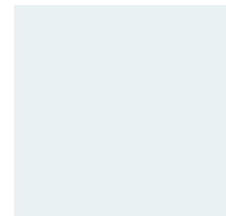
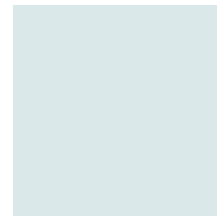
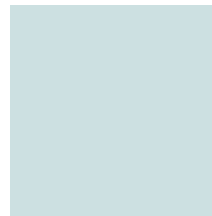
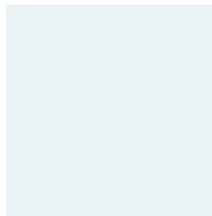


CAPACITY INFRASTRUCTURE SERVICES LIMITED

ANNUAL REPORT 2011-2012

FOR THE YEAR ENDED 30 JUNE 2012



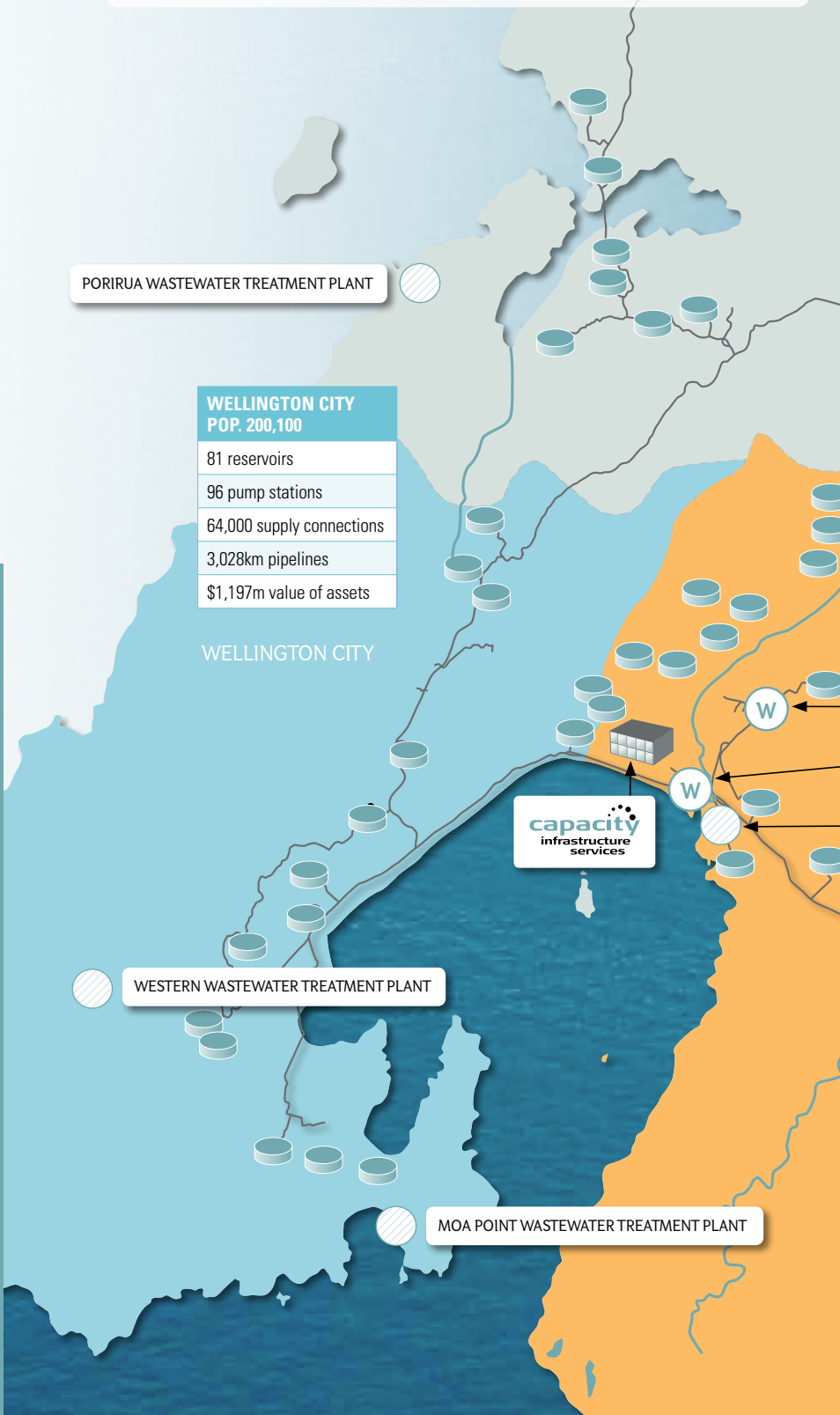
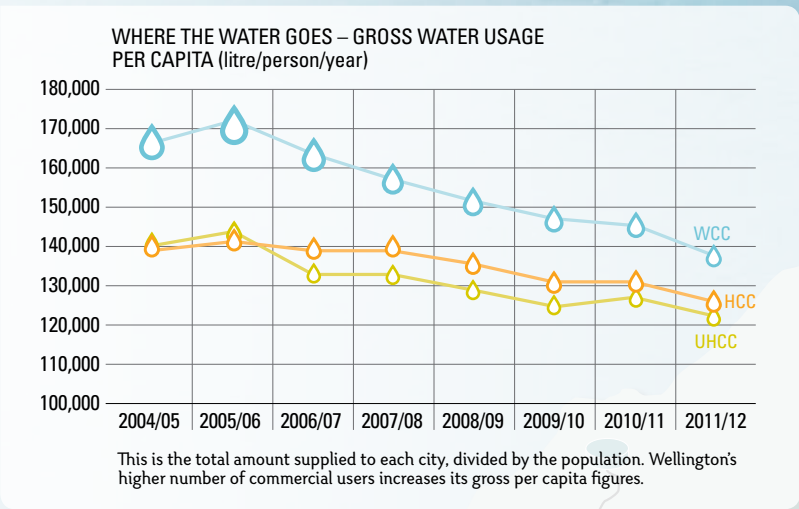
Capacity Infrastructure Services Limited (Capacity) manages the delivery of water supply, wastewater and stormwater services for the Wellington, Hutt and Upper Hutt city councils.

We are owned by the Wellington and Hutt city councils* and provide consulting, planning, advisory, investigation, design management, operations and monitoring services to help our clients effectively manage the assets they own on behalf of their communities.

Each client council owns all the water assets within its territory, such as pipes, pump stations and reservoirs. They buy treated water in bulk from the Greater Wellington Regional Council and supply it to ratepayers, offices and businesses, recovering the cost through general rates and commercial water charges. Councils set all policies and performance objectives they expect for each network, and also manage customer (residential and commercial user) relationships.

Our role is to manage network operation, maintenance and improvement for the 'three waters'.






* At 30 June 2012, Wellington, Hutt and Upper Hutt city councils had voted to approve adding Upper Hutt and Porirua city councils as shareholders in Capacity. Porirua City Council is to vote on this in 2012.



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KEY

-  Water treatment plant
-  Wastewater treatment plant
-  Water reservoir
-  River
-  Trunk main pipeline

UPPER HUTT CITY POP. 41,500

16 reservoirs
26 pump stations
12,000 supply connections
641km pipelines
\$261m value of assets

UPPER HUTT CITY

WATERLOO WATER TREATMENT PLANT

GEAR ISLAND WATER TREATMENT PLANT

SEAVIEW WASTEWATER TREATMENT PLANT

HUTT CITY

Wainuiomata /
Orongorongo Water
Collection Area

WAINUIOMATA WATER TREATMENT PLANT

HUTT CITY POP. 103,000

24 reservoirs
54 pump stations
38,000 supply connections
1,801km pipelines
\$510m value of assets

HOW WE PERFORMED

Our services include asset management planning, consenting processes, financial management, project management, contractor management, network management and operations management. We also deliver information services, quality assurance and performance monitoring.

Our organisational performance for the year was evaluated against seven service objectives as set out in our Statement of Intent 2011–2012. How we performed is summarised below, and reported in detail on pages 11–30 of this report. Performance against the key performance indicators set by each client for each water network is reported on pages 22, 26 and 30.

ORGANISATIONAL PERFORMANCE CATEGORIES AND MEASUREMENT AREAS:

SERVICE OBJECTIVE	PERFORMANCE TARGET	2011–12	2010–11
To provide a reliable water supply, stormwater and wastewater service	Fewer than four unplanned supply cuts per 1,000 connections.	Achieved	Achieved
	Fewer than 1.2 wastewater incidents reported per km of pipeline.	Achieved	Achieved
	Dwelling flood notifications as a result of a 1:50 year flooding event (or less).	Achieved	Achieved
	Water quality compliant with standards.	Achieved	Achieved
To respond promptly to service requests	Respond to at 97 per cent of all requests for service within one hour.	Achieved	Achieved
Timeliness and quality of asset management plans	Plans completed within agreed timeframe.	Mainly achieved*	Achieved
	Report by Dec 2011 of action plan for water following an emergency event.	Achieved	Not measured
To provide a cost-effective service	Water services operating cost relative to a national average.	Achieved	Achieved
To manage operating and capital projects within budgets and timeframes	Capital projects.	Achieved	Achieved
	Operating projects.	Mainly achieved*	Mainly achieved
To manage Capacity within budget		Achieved	Mainly achieved
To comply with relevant standards, resources consents and legislation	Full compliance with relevant standards, resource consents and legislation.	Mainly achieved*	Mainly achieved

*See notes page 11

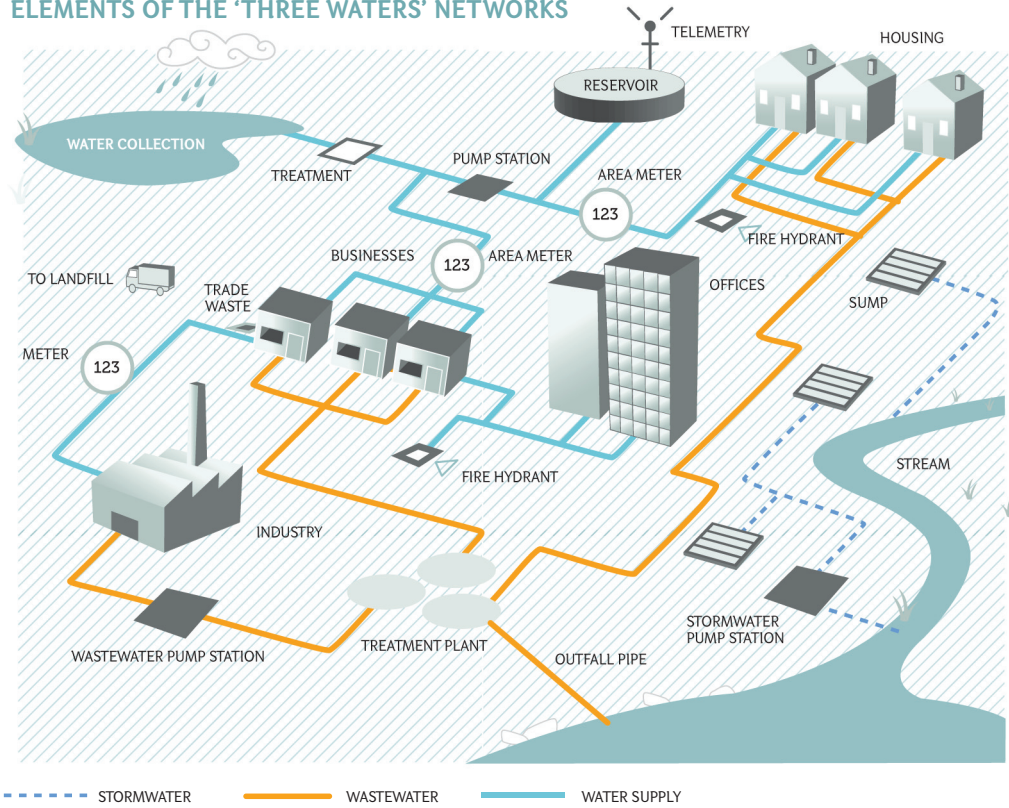
THE THREE WATERS

All three water services are crucial to community wellbeing, economic development and the protection of life, health and property. They are critical components of a council's service to ratepayers in normal times – and in times of emergency.

At Capacity we are particularly mindful of the financial and social implications for councils and communities in managing the 'three waters'. We work with our client councils to identify and develop improvements to services, infrastructure performance and network management across the wider Wellington region.

Our staff are committed to delivering regional water services management at the best possible value.

ELEMENTS OF THE 'THREE WATERS' NETWORKS



ASSET VALUES

(based on optimised depreciated replacement cost, or the current book value of the assets) in millions of dollars

	WATER SUPPLY		WASTEWATER		STORMWATER	
	2012	2011	2012	2011	2012	2011
UPPER HUTT	\$80.7	\$66.4	\$81.6	\$71.3	\$99.3	\$84.5
HUTT	103.0	101.6	234.4	232.4	172.9	161.1
WELLINGTON	372.0	372.0	459.6	459.6	365.8	365.8
TOTAL	\$555.7	\$540.0	\$775.6	\$763.3	\$638.0	\$611.4

All figures for Wellington at 30 June 2011; Hutt at 31 December 2011; Upper Hutt at 30 June 2012

PIPELINES KM	WATER SUPPLY		WASTEWATER		STORMWATER	
	2012	2011	2012	2011	2012	2011
UPPER HUTT	278	277	215	215	148	147
HUTT	677	683	576	573	548	546
WELLINGTON	1,245	1,245	1,058	1,058	725	725
TOTAL	2,200	2,205	1,849	1,846	1,421	1,418

	RESERVOIRS		PUMP STATIONS		SERVICE CONNECTIONS	
	2012	2011	2012	2011	2012	2011
UPPER HUTT	16	16	26	26	12,288	12,267
HUTT	24	24	54	52	38,360	38,223
WELLINGTON	81	79	96	97	64,000	64,581
TOTAL	121	119	176	175	114,648	115,071

TELEMETRY

We also manage one of the country's largest system control and data acquisition (SCADA) operations on behalf of the Wellington, Hutt and Upper Hutt city councils. This consists of:

- 353 remote telemetry sites
- 11 radio channels
- 10 repeater sites
- 7 base stations.

Data such as reservoir levels, waste, storm and water pump station operations and condition, security information, flow and rainfall volumes are sent to base stations at Capacity's offices and other sites in each city.

HIGHLIGHTS OF THE YEAR

DEVELOPED
A CONDITION MODEL
FOR WATER SUPPLY
PIPELINES
TO IMPROVE RENEWAL
COST FORECASTS

COMPLETED
MAJOR STORMWATER
PUMP STATION
IN KILBIRNIE TO
ALLEVIATE
FLOODING RISK
AND SERVE NEW
INDOOR STADIUM

10-YEAR
UPPER HUTT CBD
STORMWATER
DUPLICATION
PROGRAMME
COMPLETED

MANAGED
\$113 MILLION
SPENDING FOR
THREE CLIENTS,
INCLUDING
\$38 MILLION IN CAPEX
PROJECTS
AND \$65 MILLION
ON OPEX

PRESSURE
MANAGEMENT
PROJECT
SUCCESSFULLY
IMPLEMENTED,
SHOWS
5 YEAR RETURN
ON INVESTMENT

UNACCOUNTED-FOR
WATER
REDUCED TO 13%
IN WELLINGTON CITY,
COMPARED
TO 25% IN 2004-05

KARORI
RESERVOIRS
ENLARGED AND
STRENGTHENED FOR
EARTHQUAKE
RESILIENCE,
COMMISSIONED
AHEAD OF SCHEDULE

NO HEALTH AND
SAFETY
TIME LOST
AMONG
CAPACITY STAFF

REGIONAL EMERGENCY
WATER SUPPLY AND
SEWAGE DISPOSAL PLANS
COMPLETED

REGIONAL CODE OF
PRACTICE
FOR WATER SERVICES
DEVELOPED,
TO HARMONISE
CONSTRUCTION
METHODS
THROUGHOUT
THE REGION

BLACK CREEK,
WAINUIOMATA,
STORMWATER
IMPROVEMENTS
COMPLETED
ON SCHEDULE

CARMICHAEL
RESERVOIR,
WELLINGTON
UPGRADED
AND STRENGTHENED

STAFF MEMBER
KEITH WOOLLEY
SELECTED TO JOIN LEADING
INTERNATIONAL
RESEARCH
AND CONSULTING
INSTITUTE

Chairman's report



Since its creation in 2004 as a shared service provider for the Wellington and Hutt city councils, one of Capacity's key goals has been to provide improved services to our water network clients and customers.

The benefits of a shared service model include greater organisational resilience, improved knowledge sharing, better learning and career opportunities, common standards, more transparency and accountability of funding and performance, and more efficient network management – and the financial savings those outcomes deliver.

These were recognised and targeted for Capacity by the councils of the day.

Capacity has delivered significant savings – over \$3.8 million – to its shareholding councils over the past eight years. It has built a team of committed professionals. But the full flow of shared services benefits was always impeded by the fact our performance was not judged on the outcomes achieved, nor were we working with the full network of the Wellington region, including bulk water supply.

Upper Hutt joined Capacity as a client in 2008. The Greater Wellington Regional Council controls bulk water supply, and has done so since the Wellington Regional Water Board merged with the Wellington Regional Planning Authority in 1980. Porirua continues to manage its networks on its own.

Today, the debate about how to improve value for ratepayers has widened and been given new impetus by tough economic conditions and central government. Different models of local government have been proposed and are being discussed by councils, ratepayers and business. Shared service operations such as Capacity are part of the mix.

Residents of the Wellington region should participate in this debate actively, and in the knowledge that regardless of the outcome, ownership of their water networks, and Capacity, will stay in public hands.

Our aim has always been to deliver services to the four cities, along with managing bulk water supply. Over the past year, we've worked with Wellington, Hutt, Upper Hutt and Porirua city councils to make the case for both Upper Hutt and Porirua to become shareholders in Capacity.

It was gratifying to hear the almost universal endorsement among our client councillors for this proposal.

Our studies, and those of PricewaterhouseCoopers, show there are further opportunities to reduce costs to ratepayers through the integrated management of water services. These savings come from economies of scale, coordinated asset planning, operations and management, and reduced overhead costs and duplication of effort.

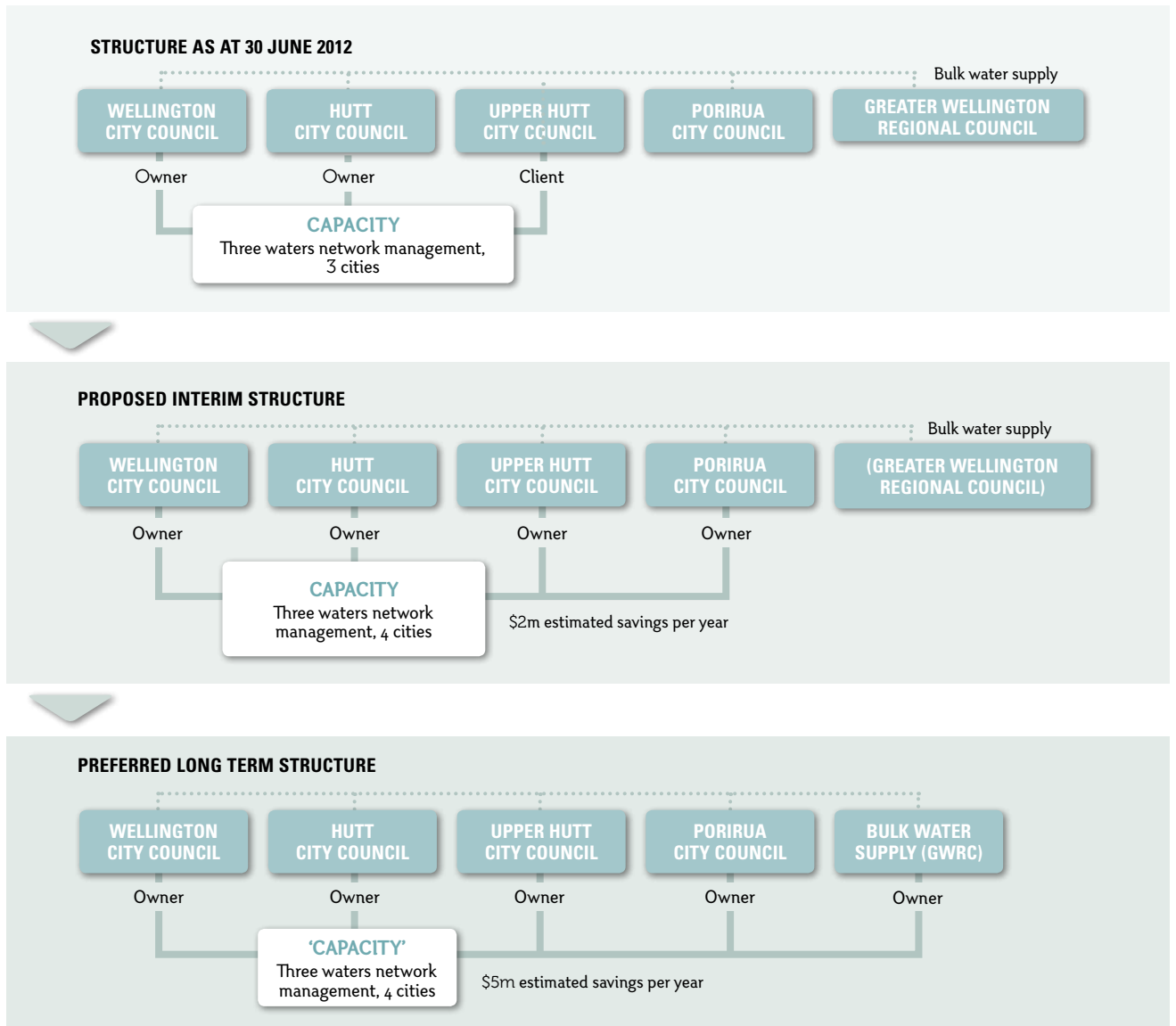
In particular, coordinating water supply and distribution in one entity will deliver substantial savings – we estimate this to be in the vicinity of \$5–\$7 million a year, or a year's free bulk water every five years.

In the current climate of emphasising efficiency and cost savings, moving towards public and council endorsement of this model is our next priority.

I have every confidence in the leadership and the team at Capacity to deliver improved efficiencies to the Wellington region. The achievements and performance highlighted in this report are evidence of their capability and I commend staff for that.

One area we could improve is in making sure people are fully aware that Capacity, its Board of Directors, and therefore its strategic direction, are fully accountable to its owners and shareholders – the city councils so people should not fear the separation of service ownership and management. In fact, because of the improved transparency of funding and decision-making this model brings, they should embrace it.

A REPRESENTATION OF PROPOSED AND PREFERRED CHANGES TO CAPACITY'S OWNERSHIP STRUCTURE TO DELIVER MAXIMUM BENEFITS TO WATER USERS IN THE WELLINGTON REGION.



Whatever the outcome of local government changes, I am confident that the people of Wellington can expect even greater efficiency under an independent, council-owned, shared service model that manages water from catchment to sea.

My thanks to my fellow board members, David, the leadership team and especially Capacity staff for their continuing dedication to improving water infrastructure and performance in the Wellington region.

Peter Allport
Chairman

Chief Executive's report



Capacity continues to grow in strength in delivering the outcomes our client councils want. Outside of Auckland, Capacity represents the greatest pool of knowledge and expertise in water network management in the country. This is the value created by councils taking a proactive approach to shared service delivery – combining resources to create a centre of excellence, with the resilience and experience to meet diverse and demanding expectations.

These strengths enabled us to complete a major project that will greatly reduce the risk of flooding in the Upper Hutt central business district, commission a new pump station to handle increased stormwater volumes from the new indoor community sports centre in Kilbirnie, Wellington, and complete the final stage of a \$5.6 million flood mitigation programme in Wainuiomata, Lower Hutt.

In the year to 30 June 2012, our staff managed over \$100 million in expenditure on projects to improve and maintain the three water networks of our clients.

The completion of such extensive works programmes is a credit to our team's dedication and passion for their work. Equally important and valued are the contributions of our colleagues within the Hutt, Upper Hutt and Wellington city councils, and the contractors with whom our staff work closely.

I am very pleased with our organisational performance for the year, much of which is captured in the 52 financial, operational and 'three waters' indicators we report on for our clients.

The coming year will see us re-focus on how Capacity delivers on client expectations. We will launch a business excellence project to improve productivity performance and lock in our continuous improvement capability, as well as a programme to improve our standards of asset management practice, relative to three national and international benchmarks.

And in support of the likely change in ownership structure that Peter referred to in the Chairman's report, we will shift to an 'outcome-focused' funding and delivery model.

To date, our performance has been measured through a focus on inputs.

Continual monitoring of our management of the resources needed to complete a project places undue emphasis on reporting and unnecessarily increases the time and effort of the decision-making process.

It is more efficient to monitor the results, or outcomes, of decisions and the completed projects – and then for councils and communities to monitor that the project delivers the service required.

Instead of budgeting for and funding Capacity on an individual project basis, it is more effective for councils to consider the levels of service to the community they want each network to achieve, and provide funding based on those outcomes.

An outcome selection model allows for each council to specify and fund what they want. For example if Council A wants to ensure all water main bursts are fixed within two hours, Capacity would be responsible for estimating how much that level of service will cost, then delivering that. For Council B, due to factors such as network age and type, the cost to deliver the same level of service might be different. Or Council B might want a different level of service.

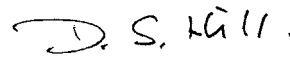
Water network users should not notice any change in service. However our revised performance indicators, how they link to community expectations, and what they cost, should be much more transparent.

The service areas and levels are still being defined with our clients. But like the assets which each city owns, they will remain under the complete control of each individual council. Capacity will remain as a network services manager, with our

staff overseeing the efficient operation, renewal, replacement and development of each city's water infrastructure assets.

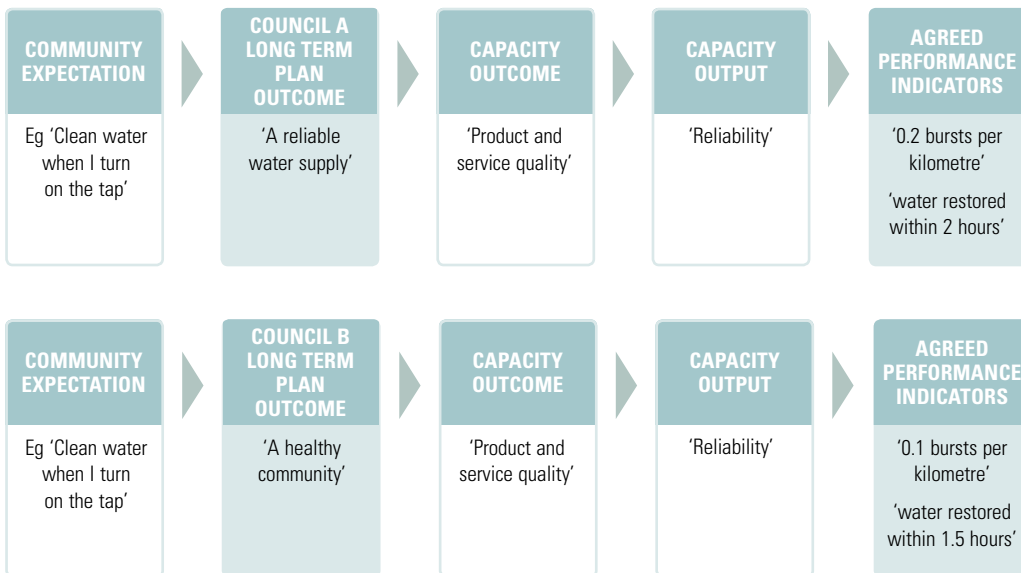
As we look to the next phase in Capacity's delivery of regional water services management, I am more confident than ever we have the team and the relationships to improve services to the people of the Wellington Region.

The health and safety of our employees, contractors and the public will always remain a principal driver of our business. Sadly, shortly after our balance date of 30 June 2012, one of our contractors suffered a fatality at a work site under our management. Our thoughts are with the family of the deceased. We firmly believe workplace accidents are preventable, and will use our knowledge and systems to ensure our focus and delivery in the area of health and safety are enhanced.



David Hill
Chief Executive

HOW COMMUNITY EXPECTATIONS DRIVE CAPACITY'S PERFORMANCE



Community expectations drive council planning, which produces service level expectations from the service provider (Capacity). These are translated into performance indicators specific to the service – eg water main reliability.

THE BOARD



PETER ALLPORT, CHAIRMAN

Peter has a 49-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, strategic business consulting and corporate governance as a professional company director. He is chairman of high-tech start-up Magritek, and a board member of Mongolia-based firms Newcom, Newcom Mining Services and Eznis Airways, 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. Peter joined Capacity's Board in March 2008.



IAN HUTCHINGS, DIRECTOR

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 transport and infrastructure portfolios. Ian provides policy advice to the Ministry of Economic Development's Energy and Communications Branch, specialising in radio frequency spectrum use. He 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. Ian joined Capacity's Board in July 2009.

GOVERNANCE

Capacity is a council-controlled trading organisation as defined by section 6 of the Local Government Act 2002. It is 100% owned by local authorities, being the Wellington and Hutt city councils. Each council is entitled to appoint two directors, and to jointly appoint two independent directors.

Our activity is governed by the Companies Act 1993 and the laws and accepted standards of New Zealand for company reporting and performance.

Capacity's principal objective is to help its client councils achieve their objectives relating to water services. Each council determines its own policy and objectives in these areas, through the long term plans they prepare in consultation with their communities.

BOARD OF DIRECTORS

The function of the board is to provide stewardship and guidance to the company in achieving its objectives. The Local Government Act states the principal objective of a council-controlled organisation is to:

- achieve the objectives of its shareholders, both commercial and non-commercial as specified in the statement of intent
- be a good employer
- exhibit a sense of social and environmental responsibility by having regard to the interests of the community in which the company operates and by endeavouring to accommodate or encourage these when able to do so
- conduct its affairs in accordance with sound business practice.

To do this, the board must collectively have relevant knowledge and experience of finance, water services, public bodies, the Wellington region, the environment and resource management. Directors must also have appropriate skills to contribute to relevant plans and strategies of the shareholders in respect to the management and provision of water services.

Board performance reviews are undertaken annually using the Institute of Directors' board evaluation service.

Capacity's board of directors consists of six members*. To ensure continuity of relevant knowledge, skills and experience, the expiry dates of directors' terms vary, with each director serving a maximum of six years.

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:

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 performance, including financial statements.
3. An annual report which provides a comparison of 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 22, 26 and 30.



ANDY FOSTER, DIRECTOR

Andy Foster joined the Board in November 2007. Andy is a long-standing Wellington City Councillor, where he currently chairs the Strategy and Policy Committee and is the Transport Portfolio leader. Andy is a Guardian of Wellington's wildlife sanctuary Zealandia and is active

in community organisation governance. His background is in finance and economics.



DAVID BASSETT, DIRECTOR

David Bassett, JP, is deputy mayor of the Hutt City Council. David has private and public sector experience in finance, accounting and human resources management, with a focus on organisational development and change management. David is the

chair of Hutt City Council's Finance and Audit Committee and a member of the Hutt Valley District Health Board.



JOHN STRAHL, DIRECTOR

John is an experienced commercial lawyer with specialist experience in local government and the governance of council controlled trading organisations, commercial organisations and financial services. A former chairman of DLAPhillipsFox in both Australia and New

Zealand, he is a company director and former director of several public companies. John Strahl joined Capacity's Board as an independent director in December 2009.



PETER LESLIE, DIRECTOR

Peter 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. Peter joined Capacity's Board in 2007.

STATUTORY INFORMATION

DIRECTOR'S ATTENDANCES AND REMUNERATION

The company had eight board meetings during the year (2010–11: 8). Attendances of directors at meetings and their remuneration were:

	ATTENDANCES (2010–11)	REMUNERATION, \$ (2010–11)
Peter Allport	8 (7)	30,000 (30,000)
Andy Foster	7 (6)	15,000 (15,000)
Ian Hutchings	8 (8)	15,000 (15,000)
Peter Leslie	8 (8)	15,000 (15,000)
David Bassett	8 (3)	15,000 (7,500)
John Strahl	8 (7)	15,000 (15,000)

DIRECTORS' AND EMPLOYEES' INSURANCE

The company has taken insurance for directors and employees in respect of any liability for any act or omission in his or her capacity as a director or employee.

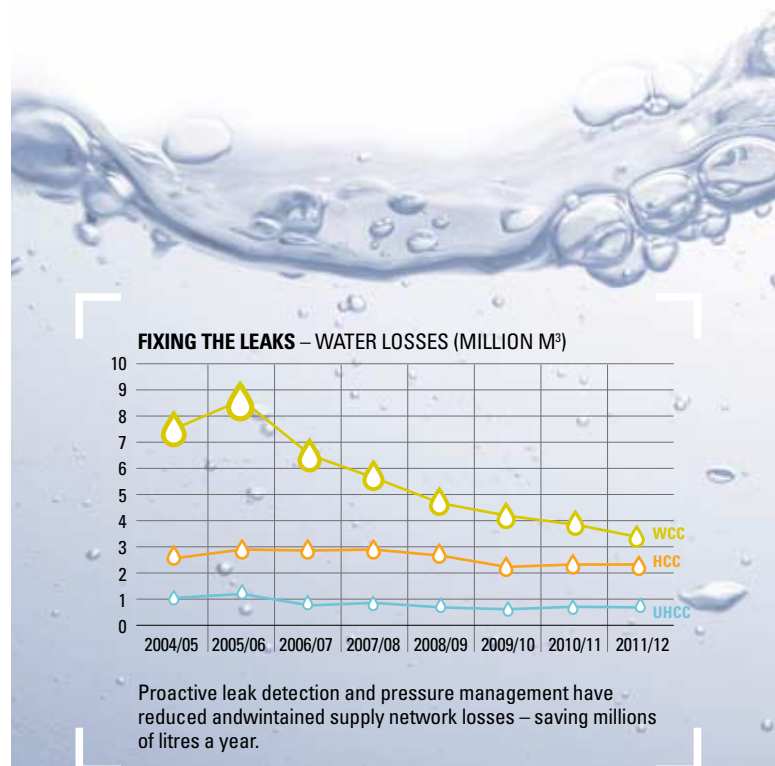
DONATIONS

There were no donations made during the year.

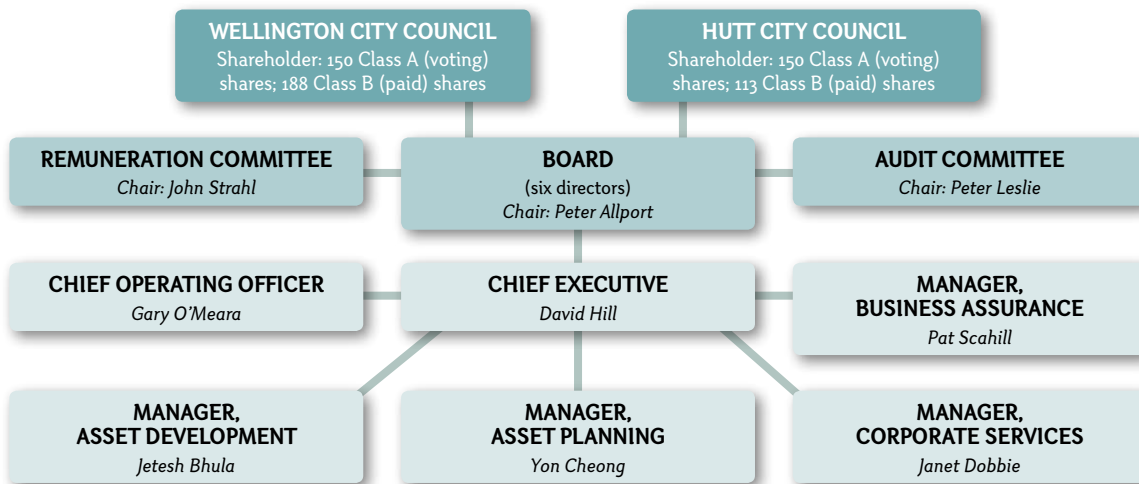
AUDITOR

The auditors are appointed under Part 5, Section 70 of the Local Government Act 2002. Audit New Zealand has been appointed by the Auditor-General to provide these services.

* At year end our two shareholders, Wellington and Hutt city councils, had voted to approve adding Upper Hutt and Porirua city councils as shareholders in Capacity. Should this happen, Capacity is likely to move to an 8-seat board in the short term.



Our Organisational Structure



Broadly speaking, there are two types of work that Capacity manages across the three waters: operational and capital. Operational work is handled by our operations and asset development teams. This covers wastewater and trade waste oversight, repairs and maintenance management and network monitoring. Capital work is planned asset renewals and upgrades. This involves asset planning and performance monitoring, project programming, project design and project management. The operations, programme management, asset planning and asset development teams are supported by corporate services and business assurance functions.

MANAGEMENT TEAM



DAVID HILL, CHIEF EXECUTIVE

David was appointed chief executive in late 2003 to establish Capacity and provide on-going leadership. Prior to his appointment, he held senior executive positions in the financial and energy sectors within New Zealand over a period of 20 years. David is also an experienced company director having held directorships in private and public companies, including six years as chairman of a public company.



JETESH BHULA, ASSET DEVELOPMENT MANAGER

Jetesh manages the asset development process for all of Capacity's clients. This includes forward works programmes, investigations, water quality monitoring, new water supply connections and subdivisions, project management of development projects and three water supply modeling. Jetesh joined Capacity from Wellington City Council, where he worked as an engineer for 12 years.



JANET DOBBIE, CORPORATE SERVICES MANAGER

Janet manages the corporate services team, with overall responsibility for finance and accounting, human resources, records and information management, IT and communications, board and corporate functions. Prior to joining Capacity in 2008 Janet held senior positions in private and public sectors.



GARY O'MEARA, CHIEF OPERATING OFFICER

Gary manages Capacity's operations team, with overall responsibility for operating and maintaining our clients' water service networks to meet required service levels. Gary has over 30 years' experience in water services asset management, operations, design and contract/project management, most of it in the Wellington region. In addition, Gary provides support across the organisation at both a governance and management level.



YON CHEONG, ASSET PLANNING MANAGER

Yon's team is responsible for the long term management of our clients' infrastructural assets. This includes preparing asset management plans and long term financial strategies for client councils, reviewing and advising on council processes, strategies and policies, resource consent applications, consultation and preparing service level reports.



PAT SCAHILL, BUSINESS ASSURANCE MANAGER

Pat is responsible for Capacity's quality assurance and risk management, ISO certification compliance, business systems and internal audits. With an extensive background in water services asset management, he provides additional resource across business teams and special projects. Pat joined Capacity from the Hutt City Council.

ORGANISATIONAL PERFORMANCE INDICATORS

CATEGORY / OBJECTIVE	TARGET	ACHIEVEMENT		TARGET	ACHIEVEMENT	
Service quality To provide a reliable water supply, wastewater and stormwater service	Fewer than four unplanned supply cuts (pipe burst) per 1,000 connections	2012 Achieved WCC – 1.2 HCC – 3.0 UHCC – 2.1	2011 Achieved WCC – 1.0 HCC – 2.61 UHCC – 2.45	Fewer than 1.2 wastewater incidents reported per km of wastewater reticulation pipeline	2012 Achieved WCC – 0.5 HCC – 0.9 UHCC – 0.5	2011 Achieved WCC – 0.63 HCC – 1.01 UHCC – 0.66
	Number of dwelling flood notifications received as a result of a 1:50 year flooding event (or less)	2012 Achieved WCC – 0 HCC – 0 UHCC – 0	2011 Achieved WCC – 0 HCC – 0 UHCC – 0	Water quality compliant with NZ drinking water standards	2012 Achieved WCC – A1b HCC – Bb UHCC – A1a	2011 Achieved WCC – 'b' HCC – 'b' UHCC – 'A1a'
Customer focus Prompt responses to service requests, quality of asset management plans	Respond to at least 97% of all requests for service within one hour of notification	2012 Achieved WCC – 99.7% HCC – 100% UHCC – 99% (av. of 3 waters)	2011 Achieved WCC – 99.3% HCC – 99.5% UHCC – 99.7%	Completion of approved asset management plan within agreed timeframe	2012 HCC – Achieved UHCC – Achieved WCC – Not achieved (see note below)	2011 Achieved
	Complete report by Dec 2011 of action plan for supply of water following an emergency event	2012 Achieved	This measure was established in 2011	Note: On request from Wellington City Council a three waters summary asset management plan was produced in October 2011. This meant it was not possible to meet the previously agreed timeframe for the full plans.		

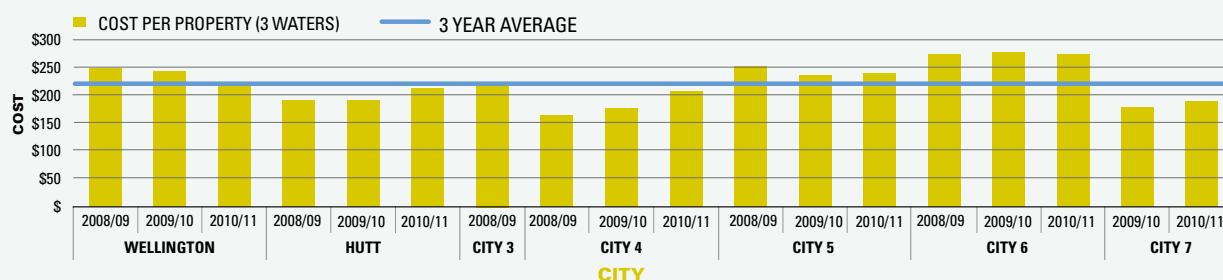
CATEGORY / OBJECTIVE	TARGET	ACHIEVEMENT					
Cost effectiveness To provide a cost effective service	Trend of the operating cost of delivering water supply, wastewater and stormwater services relative to a national average	Achieved 2010–11 comparative figures are shown on page 13.					
Legislative, financial, technical, compliance	Full compliance with relevant standards, resource consents and legislation	Mainly achieved: Awaiting outcome of compliance report at publication.					
Financial, project and network management Manage operating and capital projects and the organisation within budget.	Deliver capital projects within budget and time frames	2012 Achieved	CAPITAL PROJECT EXPENDITURE (\$000)				2011 Achieved
				Actual	Budget	Variance	
			WCC	\$24,294	\$25,890	6.16%	
			HCC	10,008	12,508	19.99%	
			UHCC*	3,841	4,311	10.92%	
	Total	\$38,142	\$42,709	10.69%			
Variance notes: WCC – includes carry forward of Moa Point wastewater treatment plant; Tasman Street water main upgrade; HCC – includes carry forward for Dowse Drive stormwater improvement, Vista Grove, Wainuiomata catchment sewer renewal & trunk DBO network development; UHCC – includes carry forward of pressure management & trunk DBO network projects.							
Deliver operating projects within budget and time frames	2012 Mainly achieved	OPERATING PROJECT EXPENDITURE (\$000)				2011 Mainly achieved	
			Actual	Budget	Variance		
		WCC	\$38,282	\$37,409	-2.33%		
		HCC	21,123	22,346	5.47%		
		UHCC*	6,205	6,562	5.44%		
Total	\$65,610	\$66,317	1.06%				
Variance notes: WCC – unfavourable variance relates to reactive maintenance historic spend coupled with contract price increase in wastewater treatment plant; HCC – includes carry over of operating projects (DBO main outfall leak invest & repairs), reduced bulk water charges and water consumption, favourable DBO contract escalation rates & reduction in major reactive maintenance works; UHCC – favourable variance is due to savings in CCTV activities, favourable operating costs and carry over of Pinehaven Stream study.							
Manage Capacity within budget See financial statements pages 33–51	2012 Achieved		(\$000)	Actual	Budget	2011 Mainly achieved	
			Revenue	\$7,798	\$7,880		
			Expenditure	\$7,715	\$7,880		

STATEMENT OF INTENT

Our Statement of Intent is published annually by 30 June. It comprises a list of performance objectives and activities agreed in consultation with our shareholder that we intend to focus on and deliver in the following year.

WHAT WE SAID WE'D DO	PROGRESS – WHAT WE DID	WHY WE DID IT
WATER CONSERVATION PLAN Manage conservation and efficiency activities; implement successful initiatives across other councils. Evaluate community engagement options	<p>Water conservation approaches have been targeted to ensure benefits can be achieved and measured against resources allocated. We worked with customers such as Wellington Zoo and CentrePort to assess consumption against specific needs.</p> <p>Wellington Zoo, already a frontrunner in water conservation techniques, relies on Capacity to assist with network expertise. CentrePort made use of daily meter readings to assess consumption volumes against expected usage – this identified anomalies in flows and potential locations for leaks. Consequently their overall consumption has fallen.</p> <p>At a community level we continued summer water conservation messages in conjunction with Wellington, Hutt, Upper Hutt and Porirua city councils and GWRC in order to provide consistent and community-relevant information. We also developed a water conservation demonstrator and trialled it at a Wellington home and garden exhibition.</p>	<p>Water conservation (using less) and efficiency (using it wisely) are important in managing consumption.</p> <p>Using less water also reduces costs to councils both in the short term with treatment costs and in the long term with the reduced need for increased storage resources.</p> <p>Other large commercial users will be approached individually to identify how similar gains can be made.</p>
LEAK DETECTION Target supply zones to detect and repair leaks. Establish district metering areas	<p>Forty-seven out of Wellington City's 63 area zones were surveyed in the 2011–12 year.</p> <p>Three rounds of ground survey in the 14 leak detection zones of Upper Hutt City were completed, and in Hutt City, 20 of 31 district metering areas were surveyed.</p>	<p>Reducing the amount of water lost through leaks in the private and public networks contributes to overall reduction in demand, as well as minimising damage to property. Water usage in Wellington for the 12 months to June 2012 year was 1,228,000 m³ less than for the 2010–11 year. This was the sixth consecutive year that water usage has come down – a 14% or 4,444,000 m³ reduction in water usage since 2005–06. For Hutt City, water usage dropped 4.3% and Upper Hutt, 4.2%.</p>
WATER PRESSURE MANAGEMENT Review pilot project, decide whether to introduce to other zones	<p>Established 5-year return on investment for pressure management project in Roseneath, Wellington, through reduced bursts and water loss by leakage.</p> <p>Two additional pressure management zones were created in Hutt City in 2011–12, bringing the total to 22. In Upper Hutt, we began a project to improve pressure management with the Timberlea and Emerald Hill zones. A city-wide survey is being carried out to re-establish district meter areas for further improving pressure management.</p>	<p>Wellington's hilly topography can create excessive pressure. Water pressure management helps reduce bursts and leaks by reducing wear and tear on pipes, and saves money by reducing lost water.</p>
WATER RESTRICTIONS DURING SUMMER Coordinate publicity across all councils, with Greater Wellington regional council	<p>'Use a bit less, make a big difference' branding and marketing developed with Greater Wellington, Upper Hutt, Wellington, Hutt and Porirua councils. Water consumption reached a decade low. This and a relatively damp summer meant there was no need for additional garden watering restrictions.</p>	<p>Demand management is vital to deferring investment in new water supply or storage facilities. Coordinated marketing will continue in the coming year.</p>
STORMWATER STRATEGY/POLICY Gain comment on draft strategy, report to councillors	<p>Hutt City Council's draft stormwater plan went to public consultation in June.</p> <p>We have prepared a draft outline stormwater management plan for consideration by Upper Hutt City Council.</p>	<p>After feedback is considered, the revised plan will be tabled in August. Planned stormwater management helps cities prioritise works programmes, taking into consideration public concerns.</p>
EMERGENCY PREPAREDNESS Recommend additional funding requirements to councils	<p>A plan for the supply of water following a major emergency event was completed in June, and a draft plan for the disposal of wastewater was prepared for consultation with the region's councils.</p>	<p>These plans coordinate activity such as identifying alternative supplies and installing emergency storage facilities, and will improve resilience in the event of a major earthquake.</p>

WHAT WE SAID WE'D DO	PROGRESS – WHAT WE DID	WHY WE DID IT
STORMWATER DISCHARGE CONSENTS Developing integrated catchment management plans and supporting mechanisms	<p>The requirements of the Wellington stormwater discharge consents call for monitoring of key stormwater discharge points and the investigation of any increased bacteriological contamination.</p> <p>This work has seen investigations and remedial works to correct cross-connections and other minor faults identified during the investigation process.</p> <p>We established the Stormwater Consultative Committee which will provide a connection between the management of the consents and achieving the community's expectations.</p> <p>Background work to establish the Integrated Catchment Management plan portion of the consent has begun with the establishment of budgets and working parameters. This work will continue over the next seven years as the main elements of the consent are addressed.</p>	<p>The state of the city's receiving waters provides an indication of the performance of the city's stormwater and wastewater infrastructure. It also provides insight into what messages should be taken to the community in regard to addressing the contamination of streams and beaches.</p> <p>Without accurate information from structured monitoring programmes it is almost impossible to isolate any issue areas or determine if a negative impact is occurring.</p> <p>Assessment of monitoring programmes and their respective results can lead to remedial works or upgrades, or, where no effects are observed, to reallocating resources into other investigation areas.</p>
FLOOD HAZARD MAPPING Assimilate sea level rise predictions into procedures and maps	<p>The Ministry for the Environment's latest predictions for sea level rise to the 2090s were assimilated into Wellington City Council's models and flood hazard maps developed this year.</p>	<p>Predicted future sea level rise will exacerbate flood risk in low lying coastal areas.</p>
WASTEWATER OVERFLOW MITIGATION Use wastewater network model to identify required investigations. Use results from monitored constructed overflows to develop inflow and infiltration approach	<p>Based on the outcome of three years of overflow monitoring, wastewater flow monitoring and overflow mitigation work (pilot project in Miramar pump station 23) we have updated the Wellington Overflow Mitigation Plan (WOMP). This plan prioritises work over the next 10 years to mitigate overflows. In the coming year, work will be done in Island Bay, Houghton Bay and Owairo Bay. Overflow mitigation work will involve long term monitoring, catchment data clean-up, short-term (8–12 weeks) wastewater flow monitoring in sub-catchments, and wastewater model development.</p> <p>The outcome of the 2012–13 year work will lead to catchment wastewater models to review system performance and develop overflow containment standards. Based on the agreed containment standard an option analysis will be undertaken to identify solutions to mitigate overflows.</p>	<p>The primary objective of the Wellington Overflow Mitigation Plan is to minimise wastewater overflow volumes from known constructed overflows within the city's sub-catchments to an agreed containment standard. The standard (level of service) will be established considering community needs and affordability. This will help the council meet obligations under existing resource consents which require affirmative activities aimed at reducing the level of pollution reaching coastal waters. The plan's objectives also align with the council's community and city outcomes.</p>
ASSET MANAGEMENT PLANS AND IMPROVEMENT TASKS Complete plans for each council Extend renewal prioritisation to stormwater and wastewater pipes Develop self-assessment tool for asset management plans	<p>Asset Management Plans – Full plans completed for Hutt and Upper Hutt city councils; summary plan (three waters) and draft detailed plan completed for Wellington.</p> <p>A drainage pipe risk assessment process has been developed, which will be applied for developing and prioritising capital expenditure renewal/ upgrade programmes.</p> <p>Developed self assessment relative to Office of the Auditor General, International Infrastructure Management Manual and PAS 55 criteria. This indicated that asset management by Capacity is of a consistently high standard.</p>	<p>Asset management plans provide the foundation for the strategic and efficient management of a city's assets to deliver specific levels of service. They comprise a detailed summary of the assets themselves, their condition, how they are managed, and special issues for consideration by their owners. They help councils budget for necessary renewals and upgrades.</p>
BENCHMARKING Expand cost per property model	<p>We are now in the fourth year of this survey, and are receiving increasing interest from other councils (see graph below)</p>	<p>Benchmarking across councils is not about trying to meet or beat a particular target, but allows us to gain a better understanding of the work we do. Different councils have different cost structures, owing to factors such as network age, condition and local topography. Discussing these factors with other councils and trending the results provides valuable insight.</p>



OPERATING COST PER PROPERTY

The three year (2008–2011) average cost of delivering the three water activities among cities surveyed is \$218.10 per property (red line). Costs vary according to topography, network age and materials.

RISK MANAGEMENT

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 9001:2008 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	COMMENT
Contamination gets into water mains	Catastrophic	Moderate	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	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	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	Infiltration/Inflow programme Asset renewal programme Asset development programme
Inability to attract and retain quality staff	High/very high	Minimal	Communicate a clear vision for Capacity, its values and behaviours Raise Capacity's profile within the industry as an employer of choice Facilitate learning and development
Inability to manage efficiently due to use of different asset management software systems	High/very high	Moderate	Definition of business needs/current problem Consultation with client councils Issues identification (technical and non technical) Business process analysis to preferred solution

STRATEGIC PLAN AND PROGRESS

Our current strategic plan was formulated in 2010. It targeted four areas of achievement. Delivery in each of these areas will provide better value and more resilient water services

management for all people in the Wellington region. The strategic plan will be updated in the 2013/14 year.

STRATEGY	PERFORMANCE
Staff empowerment Staff satisfaction and engagement	Recent organisational culture survey shows improving levels of staff engagement compared to earlier surveys. Monthly staff awards for exceptional performance revised
Training and development	Training courses provided for staff to address identified skill gaps and support staff personal development.
Stakeholder intimacy	All staff have undertaken customer service / interface training to increase skills and abilities in communicating, responding and working with clients and consumers.
Community engagement activity	Our operations contractors leave 'calling cards' inviting feedback and conduct telephone surveys of customer satisfaction with recently completed maintenance works in their street. We introduced Twitter as an additional channel for customer communications such as water shutdowns.
Information management Selection of regional asset management system platform	Project to investigate the costs and timeframes for providing a regional asset management system completed.
Regional integration Formal agreement by councils to undertake water services provision through a regional water entity	Negotiations with Porirua City Council joining with the other three cities in the Wellington metropolitan area to have its water services managed by a single shared entity. The new business model is intended to be operational from 1 October 2012 dependent on successfully concluding shareholder negotiations with the four councils. The proposal changes our existing operations and governance structures.

WELLINGTONIANS ENJOY – AND ARE FIERCELY PROTECTIVE OF – A HIGH QUALITY MARINE ENVIRONMENT THAT SUPPORTS A RANGE OF RECREATIONAL AND CULTURAL ACTIVITY, SUCH AS ANNUAL OCEAN SWIM EVENTS.

RESILIENCE

Resilient water networks are paramount in delivering sustainable water services that meet client expectations now and for the future.

Within the constraints of available resources, networks need to be planned and built to achieve their service potential over their useful lives, and to remain operative or be efficiently reinstated after an emergency event – such as an earthquake.

Capacity's infrastructure planning, management, construction and maintenance activities are in a sense all about resilience. We work closely with our client councils to build water service networks that are able to meet required service levels over the long term. Our activities include:

- 1. Asset planning.** Assessing and modelling infrastructure condition, demand and environmental impacts and associated funding requirements to ensure councils manage and meet levels of service
- 2. Asset development.** Monitoring and assessing infrastructure performance, and prioritising renewals, upgrades, and improvements and delivering solutions that meet or exceed client expectations

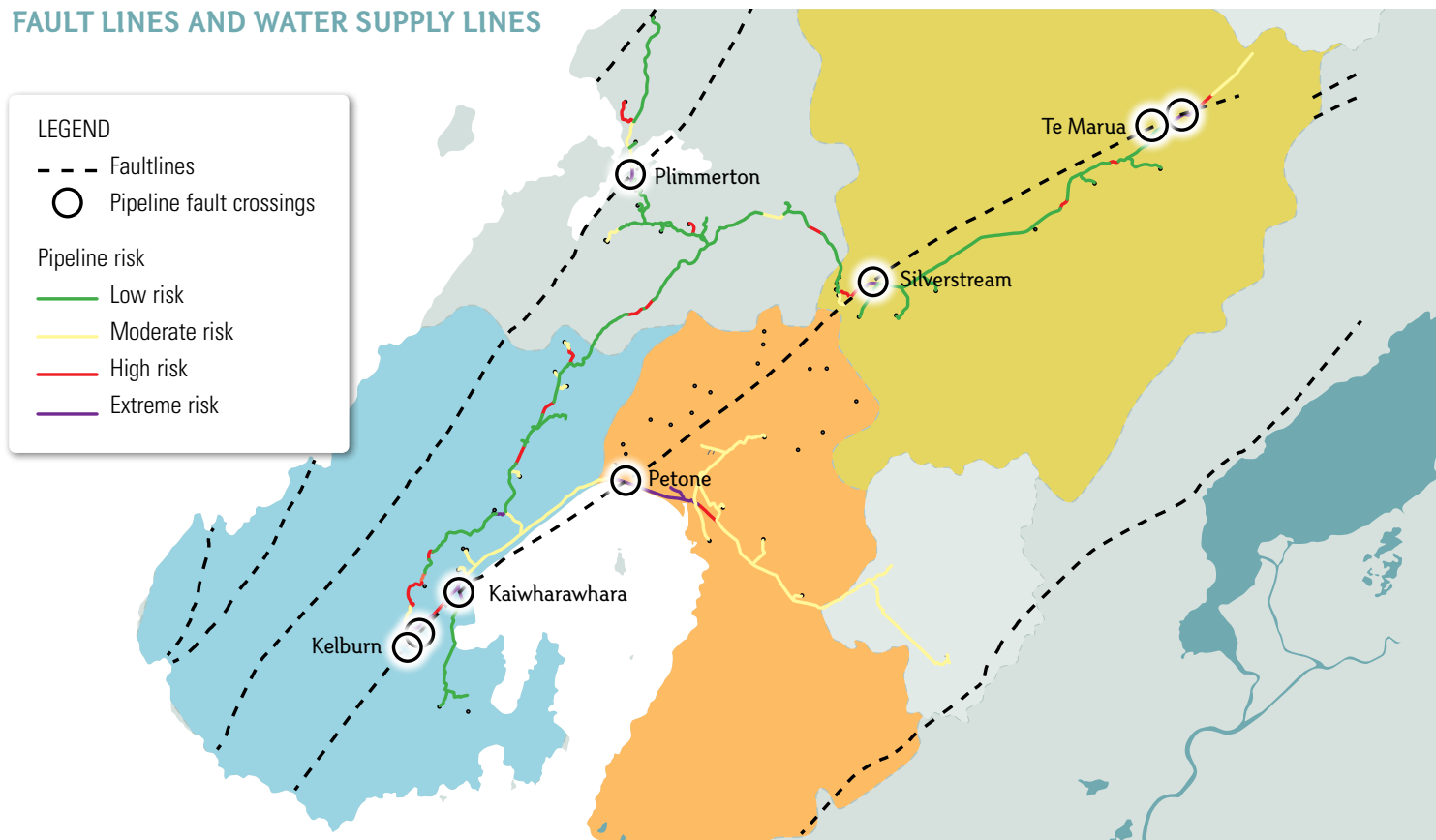
3. Project management. Commissioning and managing renewals, upgrades, and improvement work programmes to meet client expectations and ensure levels of service are met in the long term

4. Operations. Implement operations and maintenance programmes to ensure efficient operations and serviceability of the assets so they achieve their service potential over their useful lives.

The overall aim is to achieve the maximum economic serviceability of the assets and reduce the level of damage the infrastructure is exposed to, and the risk to the community, through planning, policy and network upgrades.

In 2011–12, Capacity produced stormwater, wastewater and water supply asset management plans for Hutt, Upper Hutt and Wellington (draft). We completed projects valued at approximately \$38 million to build or renew or modify key facilities aimed at improving network resilience, emergency preparedness and post-event recovery of the client councils' three waters infrastructure.

FAULT LINES AND WATER SUPPLY LINES



CAPACITY'S ROLE IN WELLINGTON REGION EMERGENCY MANAGEMENT



Emergency preparedness

We participate in several emergency groups, including the Wellington Lifelines Group (WeLG), regional emergency management offices and the Water Services Emergency Preparedness Group (WSEPG), a group formed by Capacity in 2008. The general objectives of our emergency management planning are to:

- reduce the impact of an event through long term planning and upgrade works
- improve emergency readiness through training, feedback, education, communication with other utilities and maintaining the emergency management plans and procedures;
- improve immediate post-event response mechanisms with suitable equipment and documentation; and
- have a clear, co-ordinated plan for the recovery of the networks to facilitate the cities' long-term economic and social recovery.

These objectives are aligned with the National Civil Defence Emergency Management Strategy which is built around the concept of the four "R"s; Reduction, Readiness, Response and Recovery.

Over the 2011–12 year, we delivered a regional *Plan for the Supply of Water Following a Major Earthquake* and a draft regional *Emergency Sewage Disposal Plan*. We also developed a draft *Plan for the Supply of Water to Wellington City Following a Major Earthquake Event* and began several projects to provide alternative emergency supplies of water to consumers involving artesian bores, emergency water storage and surface water supplies.

Business resilience

Capacity's emergency management plan and our business continuity plan are two closely related documents that support the prompt and efficient restoration of our key operating and business activities and functions, and our response to emergency events.

Both these documents were updated in 2011–12.

Resilience also applies to our ability to offer consistent levels of service across the region under a variety of circumstances – which is one of the major advantages of a shared services provider. Capacity is the largest centre of water network management expertise and resource in the country outside of Auckland, meaning we can back up our staff if they are away for any reason – as well as contribute positively to their development and wellbeing in the workplace.



NEW COLUMNS AND ROOF BEAMS, ALONG WITH INTERNAL AND EXTERNAL RING BEAMS, ARE INSTALLED TO MAKE WELLINGTON'S CARMICHAEL RESERVOIR MORE EARTHQUAKE-RESISTANT.

ENVIRONMENT AND THE COMMUNITY

BOB FISHER, OF CAPACITY,
DEMONSTRATES TO CHILDREN OF
EASTERN HUTT SCHOOL HOW PEOPLE
CAN USE LESS WATER AT HOME.



Reliable wastewater and stormwater disposal networks that preserve the environment are essential for community health and economic sustainability. And just like having potable water on tap, these services are often taken for granted.

On top of the frustration people can experience when the water is 'off', the three waters (water, wastewater and stormwater) are central to environmental and human health, safety and economic issues.

Capacity is continually working to improve its relationships with the communities affected by the activities we undertake in delivering water services.

Community consultation

We are involved with the community through liaison groups established to provide a communication channel with people interested in specific areas. These include the Moa Point and Western wastewater treatment plants, and a stormwater community liaison group.

Like wastewater treatment, stormwater issues have the potential to raise significant concerns among the public. Many people are unaware of the fact that street debris washes straight into streams and the sea via stormwater pipes rather than being treated. Heavy rainfall can cause elevated levels of bacteria in the sea or waterways near stormwater outfalls, including swimming beaches. In the 2012–13 year, we'll look to apply a joint council approach, similar to that for water conservation, to help raise awareness of how the public can help reduce these adverse effects.

Over the past year we have re-focused our website to address public concerns, with project updates and information on water quality. We launched a Twitter feed, @CapacityNZ, to provide alerts on water outages. This is being followed by council and private users, who can re-tweet information relevant to their friends and followers.

We also participated in a public presentation on resilience, organised by the Wellington City Council public library, and will look to re-present information on why and how people should prepare for an emergency through residents' and other community groups.

Water conservation

Though 'blessed' with plentiful rainfall, the Wellington region has only limited water storage capacity. The two storage lakes that provide back-up to the aquifer and river-based supply hold about a month's worth of water. For this reason the four cities that receive water from Greater Wellington Regional Council employ garden watering restrictions – in Wellington and Upper Hutt, they are year-round.

In the past, each city has managed its own water conservation campaigns, while Greater Wellington retains the authority to escalate water restriction levels. Over the past year we've worked with the five councils to coordinate their water conservation messaging and activity.

Regardless of rainfall or lake levels, using water efficiently is better than using more than we really need to. We also developed a water conservation demonstration device that shows people how much water can be wasted through a dripping tap or toilet cistern, or saved by using a low-flow shower head.

Over the coming years we'll use these and other methods to work with schools and businesses in educating people on why and how to use less water.



WATER SUPPLY

WATER

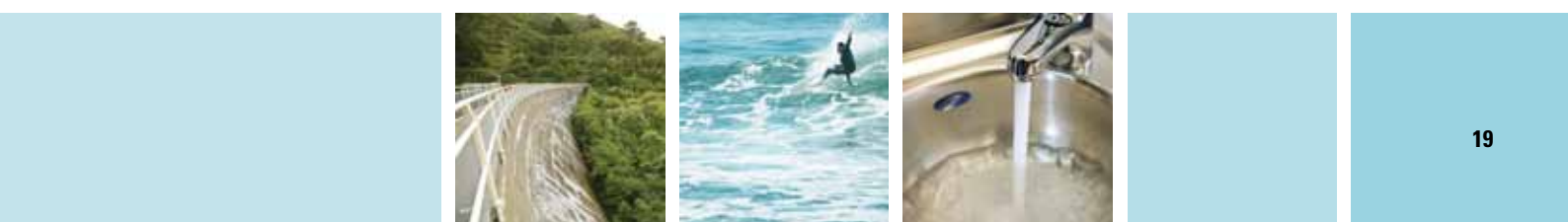
The Wellington region sources its drinking water from four main areas: the headwaters of the Hutt River, where water is drawn off at the Kaitoke weir; the Orongorongo and Wainuiomata rivers; and the Waiwhetu aquifer.

The river water is treated – clarified, filtered, chlorinated and fluoridated – at Te Marua (Upper Hutt) and Wainuiomata treatment stations, and the aquifer water is chlorinated and fluoridated at Waterloo (Lower Hutt) – except for water supplied to Petone, which is unfluoridated.

‘Bulk’ water is then delivered by Greater Wellington to several reservoirs in each city and pumped to other reservoirs within their distribution networks. From there it is gravity fed via mains to houses and commercial premises throughout the city.

Water quality grading is one of the key performance measures set by Capacity’s client councils, while water quality standards are managed by the Ministry of Health. These set the maximum acceptable values or amounts of substances, organisms, contaminants or residues that may be present in drinking water.

Water supplies are graded from A1 to E according to their quality, and the procedures in place to manage it. An additional grading, from a1 to e, is applied to the distribution network, according to the risk of the water in the network becoming contaminated and the procedures in place to manage that risk.





Daily demand for Wellington, Hutt and Upper Hutt cities ranges from just over 100 million litres (ML) to about 180ML a day. In general, water from the aquifer meets about 40% of this demand, supplying Wellington's CBD, southern and eastern suburbs and all of Hutt City except Manor Park, Stokes Valley and Wainuiomata. Water from Wainuiomata meets about 20% of demand, supplying that suburb and supplementing water from the aquifer for Wellington's CBD, southern and eastern suburbs. The balance comes from Te Marua – supplying Manor Park and Stokes Valley, Porirua and Wellington's northern and western suburbs.

Each city pays for the amount of bulk water supplied, based on their respective percentage consumed of the total. Because universal water metering is not used in the Wellington region, it is not possible to give exact figures on where the water goes. However, survey meters and usage patterns in similar cities which are metered, indicate an average per person consumption at home of 225–230 litres a day. Commercial use is metered and paid for, and there is a certain amount of unaccounted-for water which includes leaks, fire-fighting, council use (eg for public parks) and unauthorised use. These combined uses make up the gross per capita consumption figure, and vary considerably from city to city depending mainly on the commercial use profile.

During summer water use climbs, and in a dry spell, when river levels drop, demand can sometimes exceed the ability of the rivers and aquifer to supply everyone's needs. Water use restrictions – limiting the days and times of garden hose use – help manage demand at these times.

There is some bulk water storage capacity, in large, purpose-built lakes at Te Marua, to supplement river and aquifer supply. These are being upgraded to meet supply and earthquake resistance standards. One lake was out of commission over the 2011–12 summer, and the other one will likely be unavailable in 2012–13.

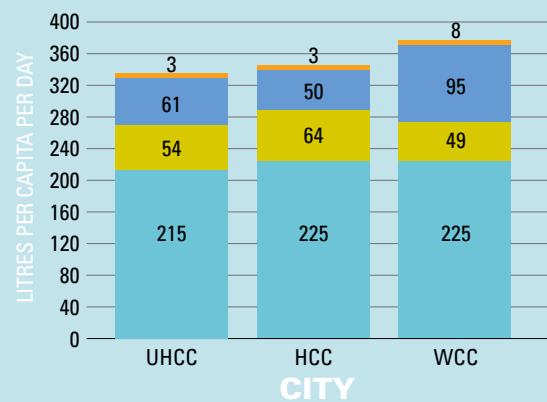
Leak reduction programmes such as pressure management and leak detection have also contributed to falling per capita water consumption. In addition, response times to leak and burst alerts are closely monitored, and are a performance metric for our council clients.

Other key supply network management issues are water quality and taste; service response times; and network integrity (see water supply key performance indicators).



WATER USE BY TYPE

Water usage by major use group. Residential consumption is based on estimates.



- Un-metered Commercial Water Usage (litres/head/day)
- Metered Commercial Water Usage (litres/head/day)
- UFW or Non Revenue Water (litres/head/day)
- Non Commercial Consumption/Population (litres/head/day)

WATER SUPPLY PROJECTS

The two tanks making up Karori's Messines Road reservoir were rebuilt over 2010–2012, making them larger and stronger. A temporary bypass was installed to ensure water security to the 12,000 residents of Karori, and the project has proceeded largely ahead of schedule. Reinstatement work, including landscaping and the provision of extra carparking on Messines road should be complete by December 2012.



LARGER, DEEPER, STRONGER: PREPARING THE FLOOR OF NO. 2 TANK AT MESSINES ROAD FOR CONCRETING.

SEDDON STREET BORE, UPPER HUTT

Establishing emergency water supplies in the event of total loss of supply – such as following an earthquake – has been a high priority for councils even before the Christchurch earthquakes. In Upper Hutt, the artesian bore previously owned and used by South Pacific Tyres was upgraded to provide an emergency point of supply and distribution. More such supply points are being investigated over the coming year in all three cities.

CAPACITY'S PAUL WINSTANLEY CHECKS THE NEW TELEMETRY AND PUMP SYSTEMS AT UPPER HUTT'S SEDDON STREET EMERGENCY WATER BORE. THE BORE IS BENEATH THE TIMBER COVER IN THE FOREGROUND, WITH THE WATER ITSELF ABOUT 15 METRES BELOW GROUND LEVEL.



WATER SUPPLY RENEWAL EXPENDITURE (\$000)

	2009–10	2010–11	2011–12	2012–13*
Wellington	9,136	10,278	11,020	8,573
Hutt City	1,314	1,495	2,042	1,998
Upper Hutt	1,057	934	1,143	860

WATER SUPPLY UPGRADE EXPENDITURE (\$000)

	2009–10	2010–11	2011–12	2012–13*
Wellington	780	978	1,202	2,783
Hutt City	0	207	145	440
Upper Hutt	0	0	14	103

RENEWALS expenditure includes rehabilitating and replacing assets to restore them to their original capacity or condition. **UPGRADES** means increasing the performance or capacity of existing assets, or adding new assets.

*forecast

WATER SUPPLY

KEY PERFORMANCE INDICATORS (BY CITY)

INDICATOR	TARGET	2010–11	2011–12	COMMENT
WELLINGTON CITY				
Response time to service requests	(Response A) 97%	Achieved: 99.3%	Achieved: 99.7%	Response A requires customer contact and work prioritisation within one hour of a service request.
Customer satisfaction	(% of satisfied customers) 85%	Achieved: 94%	Achieved: 97.8%	Measured by customer response through calling cards and direct feedback.
"Residential" consumption	345 /litres/person/day	Achieved: 297l/p/d	Achieved: 282 litres	Measured as total supply less metred consumption, divided by population.
Estimated % of unaccounted-for water	Target: 19.5%	Achieved: 14%	Achieved: 13%	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	Not achieved: 202	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'	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%	Not achieved: 96%	This figure is a consequence of historical housing development above existing reservoir levels.
HUTT CITY				
Quality of water	'b' grading from the Ministry of Health for distribution	Achieved	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.
Quality of water	full compliance with NZ Drinking Water Standards	Achieved	Achieved	
Customer satisfaction	% of satisfied customers: 95%	Achieved: 98%	Achieved: 95%	Measured by council survey of residents
Reliability of water supply	fewer than four unplanned supply cuts per 1,000 connections	Achieved: 2.61 (year end)	Achieved: 3	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	less than 350 litres per head per day	Achieved: 308 litres per head per day (year end)	Achieved: 292	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	97% within one hour	Achieved: 99.5%	Achieved: 100%	
UPPER HUTT CITY				
Compliance with New Zealand drinking water standards	A-bulk, a-distribution	Achieved	Achieved: A1a	
Customer satisfaction	% of satisfied customers: 95%	Achieved: 96%	Achieved: 96.7%	Measured by council survey of residents
Continuity of supply	95% of service disruptions restored within two hours	Achieved: 99.7%	Achieved: 99%	
Continuity of supply	fewer than four supply cuts per 1,000 connections	Achieved: 2.45 (year end)	Achieved: 2.1	Connections are points of supply to homes and businesses.
System integrity – minimum night flow	flow not to exceed 65 litres per second	Achieved: 59.3 (year end)	Achieved: 54.9	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: 229m ³	Achieved: 202m³	

WASTE WATER



Water that goes down the sinks, drains, showers, baths and toilets of Wellington's 240,000-odd households, businesses, offices, restaurants, bars, hospitals and schools ends up at one of four treatment plants.

Moa Point (Wellington), Western (Karori), Seaview (Lower Hutt) and Porirua (north Wellington and Porirua) treat some 140 million litres of wastewater a day, using biological and ultraviolet treatment processes.

The treated water is then piped into the sea, via outfall pipes off Hue te Taka Peninsula, Pencarrow Head (Seaview), the southern coast (Western), and Round Point (Porirua).

Sludge resulting from filtration and treatment is further processed to remove as much liquid as possible. This is then retreated and discharged, and the remaining solid is disposed of in landfills.

Each of the treatment plants operates under its own resource consent, which permits the discharge of water to the sea.





Wastewater overflows

Most wastewater networks perform well during dry weather and moderate rainfall. During prolonged, heavy rainfall, the increased inflow from cross-connections – where stormwater drains are connected to wastewater pipes – and infiltration from rising groundwater levels increases the load on the system and can lead to overflows from the network.

These conditions can also lead to overflows at treatment plants, an event which is covered under the resource consent for each plant. In a typical year, there are four to eight treatment plant overflow incidents a year, depending very much on the weather (see chart below). Each incident is reported to the relevant council and interested parties such as environmental and recreational groups.

We work with such community groups and the consenting authority, Greater Wellington Regional Council, to improve communication about when these overflows happen and have established community liaison groups as a channel to keep people informed.

Inflow and infiltration (I and I)

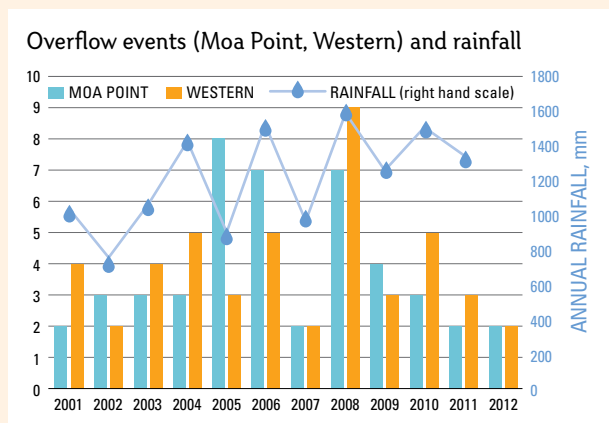
In addition, we're managing ongoing programmes to identify and remedy one of the main causes of overflows, stormwater inflow and infiltration. We also manage the implementation of wastewater overflow mitigation plans developed for Wellington, Hutt and Upper Hutt cities.

To get a better understanding of the extent of 'I and I', and to help with budgeting and planning for improvements we carried out a pilot investigation in the Wellington suburb of Miramar. Testing methods involve using dye, pressure and an odourless, non-toxic smoke to identify if cross connections between wastewater and stormwater pipes exist, sometimes followed up by CCTV inspections.

This work helps prioritise pipe repairs and renewals to maximise the benefit to both wastewater and stormwater systems, and further investigations are planned for the coming years.

The eventual outcome of such work is reduced wastewater treatment load and cost, and improved coastal environments.

RAINFALL AND OVERFLOW INCIDENTS



SUN YINGRU (CHAIRWOMAN, XI'AN WATER GROUP) PRESENTS A TOKEN OF APPRECIATION TO VALITHA ROOS OF VEOLIA, THE MANAGERS OF THE MOA POINT TREATMENT PLANT

Trade waste

Trade waste is any waste originating from a commercial operation, whether it's a fast food outlet or a manufacturing plant. All commercial premises in Hutt and Upper Hutt cities are required to have a trade waste consent, whereas in Wellington, this is done on a case-by-case basis.

Trade waste management is important because it protects the health and safety of the general public and treatment plant operators; reduces the load at the treatment plant; preserves wastewater infrastructure, minimising damage from toxic or damaging material; and it helps protect the environment by ensuring harmful material is treated appropriately.

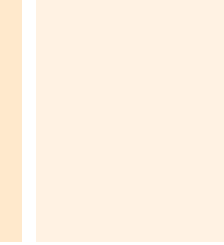
Tissue issue

Trade waste issues aren't just about highly toxic and harmful substances like chemicals or oils. Even paper towels can cause problems if the system is not built to handle them. Wet wipes and nappy liners, hand towels and other sanitary items that people flush down the toilet also contribute to blocking pipes, filters and pumps, which then need to be cleaned. All this comes at a cost to the ratepayer and is another example of where public education can help save public money.

A news item highlighting this issue helped to raise public awareness of what not to flush. We'll be working with treatment plant operators and commercial users such as restaurants and bars to further highlight the 'tissue issue' – and how people can play their part to keep costs down.

As with water supply maintenance, wastewater incidents are another key performance area for our councils that we monitor and report on regularly. Blockages are the most common issue, so minimising contributing factors helps reduce the number of incidents, and improve response times.





An old sewer line running beneath State Highway 1 near Tawa needed to be replaced after it was found to be leaking into a nearby stream. Contractors used trenchless technology to draw a high density polyethylene pipe beneath the carriageway. Pits were dug at each end of the drilling path to capture and recycle drilling mud, minimising impact on the stream.



WASTEWATER PROJECTS



CLOSED CIRCUIT TV INSPECTIONS

Closed circuit television is a valuable tool in finding sources of infiltration. It's also extensively used to assess network condition, which is critical to improving the accuracy of models used in planning. These plans then guide work programmes for the coming years.

UPPER HUTT

	WASTEWATER KM	STORMWATER KM
2009/10	24	9
2010/11	42.5	13
2011/12	36	12

WELLINGTON

	WASTEWATER KM	STORMWATER KM
2009/10	26.8	21.6
2010/11	19.7	16.5
2011/12	21	16

HUTT

	WASTEWATER KM	STORMWATER KM
2009/10	18	0
2010/11	9	0
2011/12	13	0

WASTEWATER RENEWAL EXPENDITURE (\$000)

	2009-10	2010-11	2011-12	2012-13*
Wellington	7,485	7,463	7,813	7,844
Hutt City	3,573	1,751	3,809	5,319
Upper Hutt	952	1,103	522	1,880

WASTEWATER UPGRADE EXPENDITURE (\$000)

	2009-10	2010-11	2011-12	2012-13*
Wellington	44	493	255	0
Hutt City	1,417	378	204	1,450
Upper Hutt	0	0	0	0

RENEWALS expenditure includes rehabilitating and replacing assets to restore them to their original capacity or condition. **UPGRADES** means increasing the performance or capacity of existing assets, or adding new assets.

*forecast

WASTEWATER

KEY PERFORMANCE INDICATORS (BY CITY)

INDICATOR	TARGET	2010-11	2011-12	COMMENT
WELLINGTON CITY				
Response time to service requests	(Response A and B) 97%	Not achieved: 91%	Not achieved: 96%	Response A requires customer contact and work prioritising within one hour of a service request. Response B means people on site equipped to make the repair.
Customer satisfaction	85%	Achieved: 94%	Achieved: 93.5%	This indicator is reported as a technical non-achievement, because the council contractor responsible was unable to report on Response A times.
Resource consent compliance	Meet compliance	Achieved	Achieved	Measured by customer response through calling cards and direct feedback.
HUTT CITY				
Reliability of wastewater service	Fewer than 1.2 incidents reported per kilometre of pipeline	Achieved: 1.01	Achieved: 0.9	'Incidents' are mainly blocked pipes.
Customer satisfaction	95%	Achieved: 98%	Achieved: 96%	Measured by independent survey
Resource consent compliance	No consent-related infringement notices	Achieved	Mainly achieved	Minor technical non-compliance relating to reporting.
Respond promptly to wastewater disruptions	97% within one hour	Achieved: 99.9%	Achieved: 100%	
UPPER HUTT CITY				
Customer satisfaction	91% of respondents 'satisfied' or 'very satisfied'	Achieved: 99.1%	Achieved: 97.2%	Measured by response to specific questions in council's own ratepayer survey.
Use of system	91% of properties connected to the system have service restored within six hours	Achieved: 100%	Achieved: 100%	
Public health	No illness reported related to system failure.	Achieved	Achieved	



STORM WATER

Water from rain or storms either soaks into the ground or becomes surface water.

Surface water is channelled to rivers and the sea either through the drains, sumps, pipes and pumping stations of a city's primary stormwater network, or flows directly through streams and secondary flow paths.

In extreme rain events, or due to system failure such as blockages, excess stormwater causes flooding, with potentially devastating and costly effects.

Stormwater management is thus a key budget item for city council infrastructure spending.

'Save the drain for rain'

Although it originates as rain, stormwater can create significant environmental issues. Because it flushes roads and other ground areas, the receiving environments can be adversely affected by contaminants including chemicals, litter, debris and faecal matter.

After heavy rainfall, this can result in the temporary pollution of inshore waters. This is one reason why discharging stormwater is a consented activity, and why it is illegal to put anything down a stormwater sump other than rainwater. Even detergents rinsed away during the Sunday morning carwash can have an adverse effect, and are not permitted.





WATER SAMPLING IS CARRIED OUT REGULARLY TO MONITOR LEVELS OF ECOLI AND ENTEROCOCCI BACTERIA LEVELS

Sharing a lengthy coastline, Wellington and Hutt city councils have a strong focus on managing stormwater quality. Thirty-five separate coastal water quality monitoring sites are checked once a month during winter (April to October) and once a week from November to March.

Samples are analysed for enterococci indicator bacteria. If they exceed trigger levels, a series of actions is initiated, including follow-up sampling and/or investigations. Weather conditions such as heavy rainfall and wind direction can contribute to elevated bacteria levels for several days, as street dirt washes into the harbour and the monitoring site is unable to refresh itself.

The resource consent issued by Greater Wellington Regional Council also requires a stormwater education programme and a public consultative committee. As we've done with water conservation, we are working with our client councils and the regional council to improve public awareness of the need to 'save the drain for rain'.

STORMWATER PROJECTS

Hutt City Stormwater Plan

The geography of Hutt City features steep hillsides surrounding a river plain, valleys and coastal areas, making its primary and secondary stormwater networks particularly vulnerable to heavy rain events. Over the years, flooding and surface stormwater flows have periodically affected several suburbs. Following the development of a 'stormwater strategy' for the Hutt City area, we worked with the council to prepare a draft stormwater plan to address these issues. The purpose of the plan is to set out these issues and the actions to address them.

The plan went to public consultation in May 2012.

Black Creek upgrade

Over the Christmas break, we had to close one of the main roads in Wainuiomata in order to complete a major upgrade to a culvert beneath the road. Black Creek serves as a vital stormwater drain

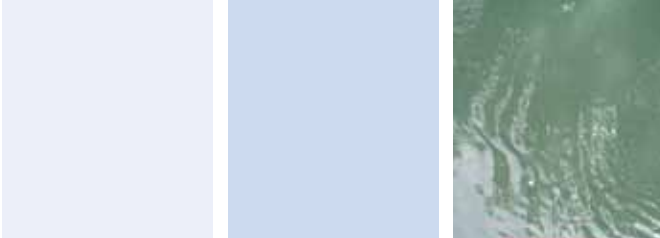
Climate change

Climate change impacts are important for stormwater network planning. A recent report on sea level variability showed Wellington faces a sea-level rise of 0.8–1 metre over the next 100 years. This is after experiencing an average rise of 2mm a year over the past century.

With stormwater pipes discharging into rivers and the sea, rising sea level means networks might not function as effectively as they should – putting people and property at risk.

In addition, climate change is likely to see more intense weather events such as rainfall. Sudden heavy rain can quickly overload networks, causing flooding that can disrupt traffic, damage homes and harm people.





for the valley suburb, and the old divided culvert construction was easily blocked, leading to flooding. The Fitzherbert road culvert upgrade was part of Hutt City Council's multi-million dollar investment in mitigating flooding in Wainuiomata.

Kilbirnie pump station

The construction of a new stadium, and historical problems with surface flooding in Kilbirnie were drivers for a major new pump station installed five metres beneath the surface of Tacy Street.

It was a challenging project, being so near to a popular retail complex, and we were very appreciative of contractors' and other stakeholders' willingness to work together to ensure it was completed with a minimum of disruption to residents and customers.



CAPACITY'S MIKE PRASAD (ABOVE, RIGHT) CHECKS PROGRESS ON THE FITZHERBERT ROAD, WAINUIOMATA, CULVERT UPGRADE. THIS WAS THE LAST MAJOR PROJECT OF A SEVEN-YEAR, \$5.6 MILLION PROGRAMME OF WORK TO ADDRESS FLOODING IN THE LOWER HUTT SUBURB.



THE OUTER WALLS OF THE TACY STREET PUMP STATION (LEFT) WERE POURED IN PLACE AND SUNK BENEATH THE ROAD SURFACE BY EXCAVATING FROM WITHIN THE CHAMBER. THIS METHODOLOGY, BY CONTRACTORS BRIAN PERRY CIVIL, SIGNIFICANTLY REDUCED THE RISK OF DAMAGE TO NEARBY BUILDINGS THAT ALTERNATIVES SUCH AS PILE-DRIVING WOULD HAVE CREATED.

STORMWATER RENEWAL EXPENDITURE (\$000)

	2009–10	2010–11	2011–12	2012–13*
Wellington	3,428	3,220	3,363	3,443
Hutt City	493	297	1,287	750
Upper Hutt	613	305	1,606	733

STORMWATER UPGRADE EXPENDITURE (\$000)

	2009–10	2010–11	2011–12	2012–13*
Wellington	223	1,333	688	349
Hutt City	913	844	2,522	1,920
Upper Hutt	0	0	3	0

RENEWALS expenditure includes rehabilitating and replacing assets to restore them to their original capacity or condition. **UPGRADES** means increasing the performance or capacity of existing assets, or adding new assets.

*forecast

STORMWATER

KEY PERFORMANCE INDICATORS (BY CITY)

INDICATOR	TARGET	2010–11	2011–12	COMMENT
WELLINGTON CITY				
Response time to service requests	Response A and B: 97%	Not achieved: 92% (year end)	Achieved: 97.3%	
Customer satisfaction	% of satisfied customers: 85%	Achieved: 78%	Achieved: 93.8%	
Resource consent compliance	100%	Achieved	Mainly achieved	Resource consents are required to allow stormwater to discharge into Wellington harbour and coastal marine areas.
Properties flooded as a result of a one in 50 year rain event	0	Achieved	Achieved: 0	
Compliance at monitored bathing beaches	Target: 93%	Achieved	Achieved: 95%	Seawater samples are collected and analysed for enterococci bacteria, in accordance with regional council, Ministry of Health and Ministry for the Environment requirements.
Compliance at monitored freshwater sites	Target: 90%	Achieved	Not achieved: 86%	This indicator measures the percentage of monitored freshwater sites where annual median faecal coliform bacteria counts are less than 1000 per 100ml
HUTT CITY				
Reliability of stormwater services	Target: <0.5 incidents reported per kilometre of pipeline	Achieved: 0.13	Achieved: 0.06	
Customer satisfaction	Target: 80%	Achieved: 87%	Achieved: 87%	Measured by independent survey.
Respond promptly to stormwater disruptions	Target: 97% within one hour	Achieved: 99.75%	Achieved: 100%	
UPPER HUTT CITY				
Resource consent requirements	Target: compliance with resource consent conditions	Achieved: 100%	Achieved: 100%	Measured by response to specific questions in council's own ratepayer survey.
Customer satisfaction	Target: 87.5% of respondents 'satisfied' or 'very satisfied'	Achieved: 91.1%	Achieved: 92.3%	



Most of Capacity's 65 staff gathered in the lobby of our offices at 85 The Esplanade, Petone.

HEALTH AND SAFETY



The safety of the community, contractors and our staff is our top priority. During the year we revised our procedure for the management of hazards to incorporate an improved method of hazard assessment. All identified hazards are recorded in a comprehensive hazard register which incorporates controls for the elimination, isolation or minimisation of each hazard.



The health and safety requirements of staff positions 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. Health and safety performance by our contractors is audited and is taken into account when awarding new contracts.

Professional training on responding to a fire in the Capacity offices was provided to Capacity's emergency wardens. Training on the safe use of 4WD vehicles was also provided to staff whose duties involve using off road access tracks (such as some reservoir access tracks).

Our Health and Safety Committee, which oversees the management of health and safety at Capacity, completed a revision of our Health and Safety Manual to ensure it continues to represent best practice. A review of the manual by an independent health and safety specialist was also carried out. The health and safety manual is supported by a comprehensive range of health and safety procedures which are controlled in our ISO 9001:2008 certified quality system.

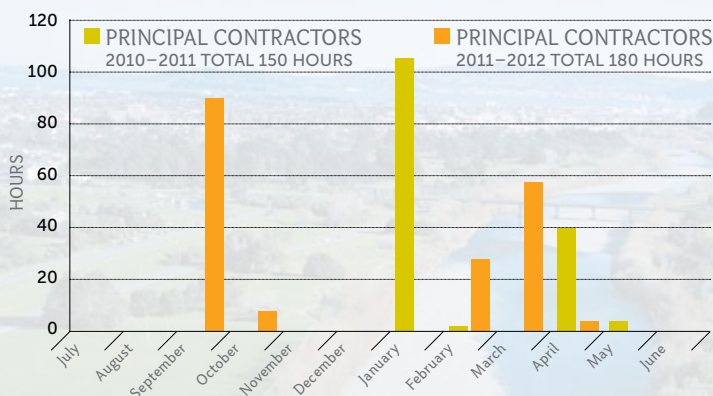
Lost time incidents

There was an increase in reported lost time incidents (which include near misses) during the year involving our contractors although none involved serious harm. (See the Chief Executive's Report. A construction site fatality occurred post balance date that is the subject of investigation). This increase reflects more robust requirements for the reporting of these incidents by contractors rather than an upward trend in actual incidents. Contractors are required to satisfy Capacity that appropriate corrective action is taken with respect to these incidents.

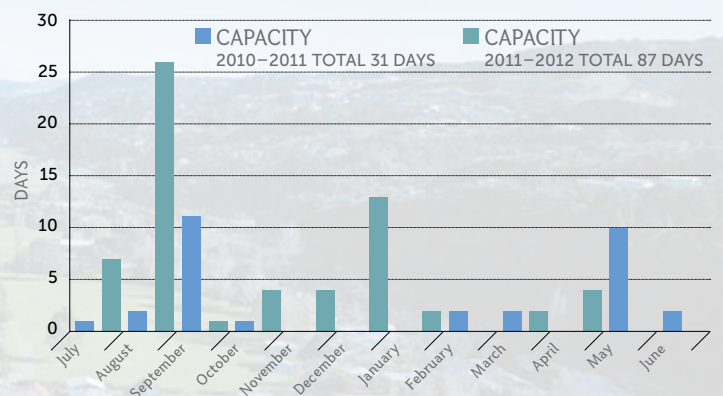
Health and safety training

The equivalent of 87 staff days of health and safety training was carried out. This includes health and safety training for members of the health and safety committee and for general staff.

TIME LOST DUE TO INCIDENTS



STAFF HEALTH AND SAFETY TRAINING



FINANCIAL STATEMENTS

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 2012

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 36 to 51, that comprise the statement of financial position as at 30 June 2012, 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 11.

OPINION

Financial statements and statement of service performance

In our opinion:

- the financial statements of the company on pages 36 to 51:
 - comply with generally accepted accounting practice in New Zealand; and
 - give a true and fair view of the company's:
 - financial position as at 30 June 2012; and
 - financial performance and cash flows for the year ended on that date; and
- the statement of service performance of the company on page 11:
 - 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 2012.

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 29 August 2012. 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 preparation of the company's 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. Smail

Audit New Zealand
On behalf of the Auditor-General
Wellington, New Zealand

Statement of comprehensive income

For the year ended 30 June 2012

	Notes	Actual 2012 \$000	Budget 2012 \$000	Actual 2011 \$000
REVENUE				
Operations		7,648	7,880	7,323
Recovered Expenditure Income		125	0	0
Interest		25	0	17
TOTAL REVENUE		7,798	7,880	7,340
EXPENDITURE				
Operational expenditure		1,227	1,127	981
Audit fees		33	37	32
Directors fees	13	105	116	105
Depreciation	6	47	67	31
Interest		1	2	0
Rental and operating lease costs		553	520	509
Personnel expenditure	14	5,749	6,011	5,720
Total Expenditure		7,715	7,880	7,378
NET SURPLUS/(DEFICIT) BEFORE TAXATION		83	0	(38)
Tax benefit	4	4	0	(1)
NET SURPLUS/(DEFICIT) AFTER TAXATION		87	0	(37)
Other Comprehensive Income		0	0	0
TOTAL COMPREHENSIVE INCOME		87	0	(37)
Total Comprehensive Income Attributable to:				
Wellington City Council		43	0	(19)
Hutt City Council		44	0	(18)
Non-Controlling Interest				
Total		87	0	(37)

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

Statement of changes in equity

For the year ended 30 June 2012

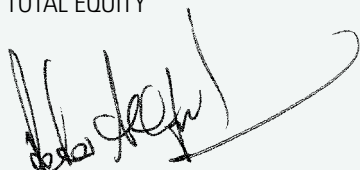
	Actual 2012 \$000	Actual 2011 \$000
Net surplus/(deficit) for the year	87	(37)
TOTAL COMPREHENSIVE INCOME	87	(37)
Balance at 01 July	276	313
BALANCE AT 30 JUNE	363	276

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

Statement of financial position

As at 30 June 2012

	Notes	Actual 2012 \$000	Actual 2011 \$000
CURRENT ASSETS			
Cash and cash equivalents		379	149
Trade and other receivables	7	1,320	1,048
Provision for Income tax refund		1	(10)
		1,700	1,187
NON CURRENT ASSETS			
Intangible assets	6	86	19
Property, plant and equipment	6	79	70
Work In Progress	6	0	7
		165	96
TOTAL ASSETS		1,865	1,293
CURRENT LIABILITIES			
Trade and other payables	8	1,050	475
Employee benefits	9	452	532
TOTAL LIABILITIES		1,502	1,007
NET WORKING CAPITAL		363	276
EQUITY			
Share capital	10	600	600
Retained earnings	11	(237)	(324)
TOTAL EQUITY		363	276



Peter Allport
Chairman
29 August 2012



Peter Leslie
Director
29 August 2012

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

Statement of cash flows

For the year ended 30 June 2012

	Notes	Actual 2012 \$000	Actual 2011 \$000
CASH FLOW FROM OPERATING ACTIVITIES			
<i>Cash was provided from:</i>			
Operating receipts		7,551	7,063
Income Tax received (net)		0	6
GST receivable		0	54
<i>Cash was disbursed to:</i>			
Payments to suppliers and employees		(7,145)	(7,443)
Income tax paid (net)		(8)	0
Interest paid		(1)	0
GST Paid		(52)	0
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	15	345	(320)
CASH FLOWS FROM INVESTING ACTIVITIES			
<i>Cash was applied to:</i>			
Purchase of property, plant and equipment		(21)	(17)
Purchase of intangible assets		(94)	(11)
NET CASH INFLOW(OUTFLOW) FROM INVESTING ACTIVITIES		(115)	(28)
Net increase/(decrease) in cash and cash equivalents		230	(348)
Opening cash balance		149	497
CLOSING CASH BALANCE		379	149

* 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 2012

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 Limited and 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 2012. The financial statements were authorised for issue by the Board of Directors on 29 August 2012.

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.

Standards, amendments and interpretations issued but not effective that have not been early adopted

NZ IFRS 9 Financial Instruments will eventually replace NZ IAS 39 Financial Instruments: Recognition and Measurement. NZ IAS 39 is being replaced in 3 phases: Phase 1 Classification and Measurement, Phase 2 Impairment methodology, and Phase 3 Hedge Accounting. Phase 1 has been completed and published in the new financial instrument standard NZ IFRS 9. The new standard is required to be adopted for the year ended 30 June 2016. However as a new accounting standards framework will apply before this date, there is no certainty when an equivalent standard to NZ IFRS 9 will be applied by public benefit entities.

Judgements and estimations

The preparation of financial statements in conformity with NZ IFRS requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Where material, information on the major assumptions is provided in the relevant accounting policy or will be provided in the relevant note to the financial statements.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in the relevant notes.

a) Revenue

Capacity derives revenue from its customers. In 2011/2012 the customers were shareholder councils Wellington City Council and Hutt City Council, as well as contracted and other services for Upper Hutt City Council.

Revenue is recognised when services are rendered.

b) Expenses

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

c) Taxation

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 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 inequity.

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. Financial liabilities with duration 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 is 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 consist of operational assets. Expenditure is capitalised as property, plant and equipment when it creates a new asset or increases the economic benefits over the total life of an existing asset and can be measured reliably. Costs that do not meet the criteria for capitalisation are expensed.

Measurement

Items of property, plant and equipment are initially recorded at cost.

The initial cost of property, plant and equipment includes the purchase consideration and those costs that are directly attributable to bringing the asset into the location and condition necessary for its intended purpose. Subsequent expenditure that extends or expands the asset's service potential and that can be measured reliably is capitalised.

Impairment

The carrying amounts of property, plant and equipment are reviewed at least annually to determine if there is any indication of impairment. Where an asset's recoverable amount is less than its carrying amount, it is 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. The estimated useful lives of these assets are as follows:

Computer software	2 ½ to 5 years
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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 is 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 share capital 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) Superannuation schemes

Defined contribution schemes

Obligations for contributions to KiwiSaver and other cash accumulation schemes are recognised as an expense in the surplus or deficit as incurred.

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 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.

n) Budget figures

The budget figures are derived from the statement of intent as approved by the Board at the beginning of the financial year. The budget figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted by the Board of Trustees in preparing these financial statements.

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, storm water 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

	2012 \$000	2011 \$000
Current tax expense	5	20
Current year	(9)	(21)
Prior period adjustment	(4)	(1)
Deferred tax expense		
Origination and reversal of temporary differences	25	(2)
Change in unrecognised temporary differences	(25)	2
	0	0

Reconciliation of effective tax rate

	2012 \$000	2011 \$000
Surplus/(Deficit) for the period excluding income tax	83	(38)
Prima facie income tax based on domestic tax rate	22	(12)
Effect of non-deductible expenses	5	4
Effect of tax exempt income	(15)	0
Change in unrecognised temporary differences	(25)	29
Prior period adjustment	9	(22)
	(4)	(1)

Imputation credits

	2012 \$000	2011 \$000
Imputation credits as at 1 July	51	57
New Zealand tax payments	16	14
Imputation credits attached to dividends received	0	0
Other credits	0	0
New Zealand tax refunds received	(8)	(20)
Tax refundable in the current year	(1)	
Prior year adjustments	(1)	
Imputation credits attached to dividends paid	0	0
Other debits	0	0
	56	51

5. Deferred tax

Unrecognised deferred tax liabilities

As at 30 June 2012 the company had an unrecognised deferred tax liability of \$Nil (2011: \$Nil).

Unrecognised deferred tax assets

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

	2012 \$000	2011 \$000
Deductible temporary differences	294	385
Tax losses	0	0
	294	385

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 Intangibles

The Asset register continues to be updated and stock take are periodically conducted.

A number of software were acquired in 2012 which included the roll out of Office 2010 and the capability upgrade to Windows 2007.

Work in progress at the end of 2011 has been transferred to the appropriate asset classification.

2011–12	2012 Current additions \$000	2012 Current disposals \$000	2012 Current Deprcn \$000	2011 Elimination on Disposal \$000	2012 Total Cost \$000	2012 Accu Deprcn \$000	2012 NetBook Value \$000
<i>Owned assets</i>							
Telephone system			4		34	32	2
Furniture, Plant & Equipment	28		16		177	100	77
Intangibles	94		27		137	51	86
Work in Progress	(7)				0		0
	115	0	47	0	348	183	165

2010–11	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 NetBook Value \$000
<i>Owned assets</i>							
Telephone system			4		34	28	6
Furniture, Plant & Equipment	17		17		149	84	64
Intangibles	11		11		43	24	19
Work in Progress	7				7		7
	35	0	32	0	233	136	96

7. Trade and other receivables

	Notes	Actual 2012 \$000	Actual 2011 \$000
Trade receivables		158	56
Related parties receivables	12	1,026	881
Prepayments and Sundry Debtors		136	111
		<u>1,320</u>	<u>1,048</u>

8. Trade and other payables

	Notes	Actual 2012 \$000	Actual 2011 \$000
Trade payables		886	313
Related parties payables	12	3	4
GST		161	158
		<u>1,050</u>	<u>475</u>

9. Employee liabilities

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

	Actual 2012 \$000	Actual 2011 \$000
Current		
Annual leave and Time in Lieu	289	304
Long service leave	1	35
Payroll accruals	162	193
TOTAL EMPLOYEE ENTITLEMENTS	<u>452</u>	<u>532</u>

10. Share capital

	Actual 2012 \$000	Actual 2011 \$000
300 fully paid \$2,000 ordinary shares	<u>600</u>	<u>600</u>

11. Retained earnings

	Actual 2012 \$000	Actual 2011 \$000
Balance at beginning of year	(324)	(287)
Net surplus/(deficit) for the year	87	(37)
Balance at the end of year	<u>(237)</u>	<u>(324)</u>

12. Related party transactions

	Notes	Actual 2012 \$000	Actual 2011 \$000
<i>Revenue for services by Capacity:</i>			
Wellington City Council		5,234	5,073
Hutt City Council		1,701	1,475
		6,935	6,548
<i>Goods and services supplied to Capacity by:</i>			
Wellington City Council		19	100
Hutt City Council		45	48
		64	148
<i>Payments by Councils relating to City Care:</i>			
Wellington City Council		2,937	3,208
Hutt City Council		2,409	2,615
		5,346	5,823
<i>Receivable owing to Capacity from:</i>			
Wellington City Council		605	621
Hutt City Council		421	261
	7	1,026	882
<i>Payable by Capacity to:</i>			
Wellington City Council		3	4
Hutt City Council		0	0
	7	3	4

13. Related party disclosures

In this section we disclose the remuneration and related party transactions of directors, key management personnel, which comprise the Chief Executive and the management team.

Key management personnel

	Actual 2012 \$000	Actual 2011 \$000
Salaries and other short term benefits	1,124	998
Post employment benefits	36	26
KEY MANAGEMENT PERSONNEL REMUNERATION	1,160	1,024

Director's remuneration

	2012	2011
Peter Allport	30,000	30,000
Andy Foster	15,000	15,000
Peter Leslie	15,000	15,000
Ray Wallace (retired Dec 2010)		7,500
David Bassett	15,000	7,500
Ian Hutchings	15,000	15,000
John Strahl	15,000	15,000
TOTAL DIRECTORS' REMUNERATION	105,000	105,000

During the year, Capacity purchased legal services from DLA Philips Fox, a legal firm in which Capacity Director John Strahl was formerly a partner and occasionally is engaged by DLA Philips Fox for ad hoc assignments. These services cost \$2,329.83 for 2012 (2011—\$145.85) and were supplied on normal commercial terms. There is no balance outstanding (2011—\$nil) for unpaid invoices at year end.

Employee remuneration	Year ended 30 June 2012	Year ended 30 June 2011
The number of employees earning over \$100,000 per annum.		
\$280,000 – \$290,000	1	1
\$180,000 – \$190,000	1	
\$150,000 – \$160,000		1
\$140,000 – \$150,000	2	
\$130,000 – \$140,000	1	
\$110,000 – \$120,000	1	4
\$100,000 – \$110,000	6	4
No other employees earn over \$100,000		

14. Personnel expenditure

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

	Actual 2012 \$000	Actual 2011 \$000
Employee Remuneration	5,308	5,275
Other Employee Costs	373	387
Recruitment Costs	68	58
Total	5,749	5,720

15. Reconciliation of net surplus before taxation with cash Inflow from operating activities

	Actual 2012 \$000	Actual 2011 \$000
REPORTED SURPLUS/(DEFICIT) AFTER TAXATION	87	(37)
<i>Add non cash items:</i>		
Depreciation	47	32
Work in Progress	0	(7)
Gain on Disposal	0	0
	134	(12)
Add/(less) movements in other working capital items		
(Increase)/decrease in trade and related party receivable	(247)	(277)
(Increase)/decrease in prepayments and sundry debtors	(25)	(2)
Increase/(decrease) in trade and related party payable	571	(130)
Increase/(decrease) in GST payable	3	54
Increase/(decrease) in leave entitlements	(80)	42
Tax provision Movement	(11)	5
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	345	(320)

16. Net surplus before tax

The surplus before taxation for the year ended 30 June 2012 represents a decrease in leave accrued by staff while working at Capacity not funded by charge out rates agreed with customers. The gain arising from a decrease in accrued leave represents a non-cash item and the company's cash resources are not increased by this gain.

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 arms length transaction. There were no differences between the fair value and the carrying amounts of financial instruments at 30 June 2012.

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 do 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 are held on deposit with the 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.

	2012 \$000	2011 \$000
TRADE AND OTHER RECEIVABLES		
Not past due date	1,320	1,048
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	1,320	1,048

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	Zero to twelve months \$000	One to two years \$000	Two to five years \$000	More than five years \$000
2012 TRADE AND OTHER PAYABLES	1,050	1,050	1,050	0	0	0
2011 TRADE AND OTHER PAYABLES	475	475	475	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 3 years. Lease terms will be reviewed after the end of 3 years.

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

	Actual 2012 \$000	Actual 2011 \$000
NON-CANCELLABLE OPERATING LEASE COMMITMENTS		
Not later than one year	544	478
Later than one year and not later than five years	980	1,015
Later than five years	0	0
	1,524	1,493

Capacity has no contingent liabilities in 2012 (2011:\$nil) and no contingent assets in 2012 (2011: \$nil).

19. Capital management

The company's capital is its equity, which comprises shareholders' equity and retained surpluses. Equity is represented by net assets.

The company requires the Board of Directors to manage its revenues, expenses, assets, liabilities, investments, and general financial dealings prudently. The company's equity is largely managed as a by-product of managing revenues, expenses, assets, liabilities, investments, and general financial dealings.

The objective of managing the company's equity is to ensure that the company effectively achieves its objectives and purpose, whilst remaining a going concern.

20. Budget disclosure

Revenues are \$82,000 below the budget of \$7,880,000 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 the June accounts normally been paid for by Upper Hutt before the close of year had been paid on the first day of the following month.

Net working capital remained within budget.

Statement of Cash Flow

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

21. Events after balance date

Plans to transform Capacity to provide “outcome focused” services with four shareholder councils are proceeding, with intentions to implement the new company reforms before June 20 13. There are no liabilities existing at balance date prior to approval of the financial statements relating to the reforms.

Directory

DIRECTORS

Peter Allport (Chairman)

Andy Foster

Ian Hutchings

Peter Leslie

John Strahl

David Bassett

CHIEF EXECUTIVE

David Hill

REGISTERED OFFICE

85 The Esplanade

Petone

Wellington

New Zealand

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Wellington Mail Centre 5045

TELEPHONE

64 4 910 3800

WEB

www.capacity.net.nz

AUDITOR

Audit New Zealand on behalf of the

Auditor-General

BANKERS

The National Bank of New Zealand Limited

Wellington

New Zealand

SOLICITORS

DLA Phillips Fox

50–64 Customhouse Quay

Wellington

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

This audit report relates to the financial statements and statement of service performance of Capacity Infrastructure Services Limited for the year ended 30 June 2012 included on the Capacity Infrastructure Services Limited's website. The Capacity Infrastructure Services Limited's Board is responsible for the maintenance and integrity of the Capacity Infrastructure Services Limited's website. We have not been engaged to report on the integrity of the Capacity Infrastructure Services Limited's website. We accept no responsibility for any changes that may have occurred to the financial statements and statement of service performance since they were initially presented on the website.

The audit report refers only to the financial statements and statement of service performance named above. It does not provide an opinion on any other information which may have been hyperlinked to or from the financial statements and statement of service performance. 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 statement of service performance and the related audit report dated 29 August 2012 to confirm the information included in the audited financial statements and statement of service performance presented on this website.

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

