

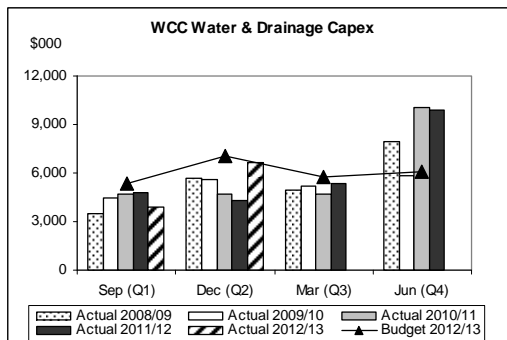
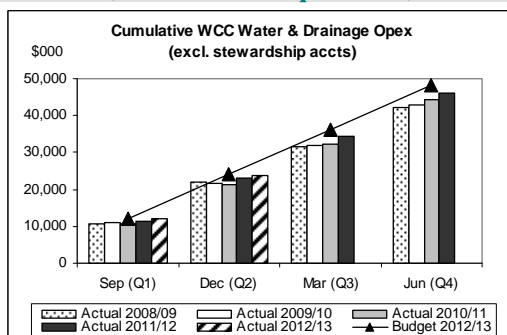
Quarterly Review – Capacity Infrastructure Services Limited

Capacity has presented its report for the quarter ended 31 December 2012 for review. A summary of key findings is presented below and the full report is attached.

Highlights / Summary

- Following the fatal accident in Q1, MBIE has reviewed the Company's health and safety practices and has not identified recommendations for improvement. The MBIE investigation also found that there were no breaches of the HSE Act by the contractor.
- Capacity continued work on increasing resilience for the network. The Carmichael reservoir strengthening is complete and work has commenced on the Newlands No. 2 reservoir and the upgrade of the water main in Tasman St. A trial water bore was completed in Miramar, but did not locate a viable potable water supply.
- PCC has agreed to consultation documents being prepared on the proposal from Capacity that it become a shareholder and customer. It also agreed that negotiations continue with Capacity and the other Councils on the PCC proportion of overheads for the first two years.

Performance (WCC 3-waters expenditure)



Key Performance Indicators

Measure	Annual Target	YTD WCC Actual	YTD HCC Actual	YTD UHCC Actual
Unplanned water supply cuts/1000 connections	4 per 1000	0.60	1.38	0.65
Wastewater incidents/km of reticulated pipeline	1.2 per km	0.20	0.33	0.18
Responsiveness to service request within 1 hour				
- water supply	97%	99%	99%	100%
- stormwater	97%	68%*	98%	100%
- wastewater	97%	60%*	97.5%	94.5%
Capex - YTD actual \$m		10,491	3,497	470
- YTD budget \$m		12,346	3,279	1,170
- YTD variance \$m		1,855	-219	701
Opex - YTD actual \$m		19,505	10,146	2,832
- YTD budget \$m		19,389	9,489	2,706
- YTD variance \$m		-116	-656	-125

* See Activities discussion

- Wellington city currently has an A1b drinking water standard rating.
- The Company is discussing with GWRC an environmental non-compliance with the stormwater discharge resource consent, relating to its reporting of prevention measures.

Contact officer:

Maree Henwood

Activities During the Quarter

- City Care took over responsibility for the drainage service responsiveness indicators on 1 July 2012. The below target results are largely due to transfer issues with new staff and the City Care IT reporting system. Capacity has noted no significant issues with City Care's actual service response YTD and expects the indicators to be correct in time for Q4.
- A report on the Water Conservation Plan was presented to SPC in November. Capacity is working to improve its benchmarking data, but acknowledged a number of challenges in engaging with the top 25 commercial customers to date and noted that analysis of the commercial sector's water consumption is the priority for 2013.
- A draft policy, strategy and objectives document on asset management planning across the Councils is expected to be ready for comment in February.

Underlying Financial Commentary

- Capacity budgets for a breakeven result for the year. Revenue is below budget by 4.9% YTD and this has been offset by lower than budgeted personnel and operating expenditure.
- The Council's internal reports record a slight YTD opex underspend of \$252k (or 1%) compared to budget and a slight forecast overspend (\$123k) for the full year. However, Capacity reports a YTD overspend of \$116k (or 0.6%) compared to budget and an expected overspend for the full year of \$1.4m (or 3.7% of budget). This is due to the underfunding of reactive maintenance work and unbudgeted increases in treatment plant tariffs. Officers are looking into the differences between the Capacity report and WCC reports.
- Capex for Q2 (\$6.6m) was slightly under budget (\$7.0m). YTD capex is under-budget by \$1.9m or 15%. At the end of December the budget was expected to be fully spent by year end.

Note that individual project expenditure is reported within the shareholding councils. The performance charts list the aggregate project expenditure being managed on behalf of WCC. Financial performance figures below refer to the company's income/expenditure.

Statement of Financial Performance

For the quarter ended 31 December 2012

\$000	Q2 Actual	Q2 Budget	YTD Actual	YTD Budget	FY Budget
Income	1,951	2,067	3,959	4,146	8,298
Expenditure	1,937	2,067	3,944	4,134	8,298
Net surplus / (loss)	14	0	15	12	0

Statement of Financial Position

As at 31 December 2012

\$000	YTD Actual	FY Budget	FY 2011/12 Actual
Current assets	1,771	1,294	1,699
Non-current assets	173	187	163
Current liabilities	1,566	1,204	1,499
Non-current liabilities	0	0	0
Equity	378	276	363
Current ratio	1.13	1.08	1.13
Equity ratio	19.4%	18.6%	19.5%

Statement of Cash Flows

For the quarter ended 31 December 2012

\$000	YTD Actual	FY Budget	FY 2011/12 Actual
Operating	504	(74)	344
Investing	(45)	(121)	(115)
Financing	0	0	0
Net	(460)	(195)	230
Closing balance	839	388	379

Note: FY Budgets are as approved in the Statement of Intent

Profile - Capacity Infrastructure Services Limited

Capacity Infrastructure Services Limited is a council controlled trading organisation established in April 2004. Its primary role is to manage the water, wastewater and stormwater assets of its shareholding councils. Currently the shareholders are Hutt City Council and Wellington City Council (WCC). Capacity also manages the water, wastewater and stormwater assets of Upper Hutt City Council under a service agreement.



Wellington City Council's total 3 Waters budget for 2012/13 is \$114.8m. Capacity is responsible for the effective and efficient management or guardianship of:

- 19 opex projects with a total budget of \$48.2m
- 9 capex projects with a total budget of \$22.7m
- 2 capex carry forward projects with a total budget of \$1.4m

WCC is responsible for three opex stewardship projects with a total budget of \$42.5m. In addition, WCC manages a portion of the asset management function within three of the opex projects.

In addition to the long term management of the 3 Waters assets, Capacity was established with the objective and ability to pursue the development of related opportunities with other local authorities and organisations.

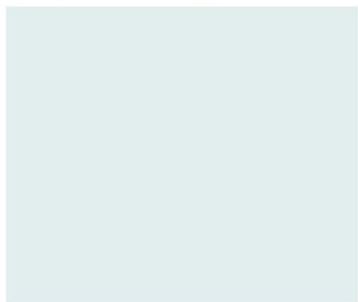
Entity Data		
Established	5 April 2004	
Board	Peter Allport (Chair) Peter Leslie Ian Hutchings John Strahl Cr Andy Foster (WCC) Cr David Bassett (HCC)	<i>Term expires:</i> 31 Dec 2013 31 Dec 2013 31 Dec 2015 31 Dec 2015 31 Oct 2013 31 Dec 2013
CEO	David Hill	
Balance date	30 June	
Number of FTE staff	65	
Website	www.capacity.net.nz	
Type of entity	Company	
LGA designation	CCTO	
By reason of	Board control: all trustees appointed by shareholding Councils	
Wellington City Council interest	\$226k (book value)	
Type of interest	50% Shareholding (class A shares); 63% Financial Interest (class B shares)	



Capacity Infrastructure Services Limited

Report for the six months to 31 December 2012

27 February 2013



Contents	Page
1. Purpose	3
2. Introduction	4
3. Our business objectives	5
4. Our activities	6
5. Contribution to council and community outcomes	7
6. Key performance indicators	9
7. Key performance indicator results to date	10
8. Key activities update	17
9. Risk management	21
10. Health and safety	22
11. Financial information	23

1. Purpose

This half-yearly report:

- provides shareholders with an update on the progress of activities and intentions of Capacity Infrastructure Services (Capacity) as set out in the company's Statement of Intent 2012–2013
- provides shareholders with performance information for the six months to 31 December 2012
- provides shareholders with financial results for the six months to 31 December 2012.



New beams form part of the strengthening measures put in place in Carmichael reservoir. This project was concluded in November 2012.

2. Introduction

Capacity is a council-controlled trading organisation operating under the Local Government Act 2002 to manage the delivery of the three waters: water supply, wastewater and stormwater infrastructure services.

Our current shareholders are the Wellington City Council and the Hutt City Council, and we also provide services to Upper Hutt City Council under contract.

We actively work with our client councils to deliver and continually improve water services management across the wider Wellington region.

We are mindful of the financial implications for councils and communities when managing water, stormwater and wastewater infrastructure. Our people are committed to finding better and more efficient ways of providing management services for the three waters. This commitment is reflected in the activity updates in this report

Water services constitute a vital activity in normal times; they are even more critical in times of emergency. We emphasise resilience in infrastructure management and work closely with other regional and national organisations on emergency preparedness.

Capacity ensures all activities under its control are undertaken in an environmentally sensitive and safe manner.

3. Our business objectives

Capacity's principal objectives as set out in our Statement of Intent 2012-13 are:

1. the long term planning, management and delivery of water, stormwater and wastewater assets and services for our clients and across the wider Wellington region
2. to develop and implement an integrated system for managing the information Capacity needs to effectively carry out its objectives
3. to support an integrated water services network across the Wellington region and improve the region's competitive advantage through the quality of its water services
4. to operate as a successful business, returning benefits to shareholders
5. to exhibit a sense of social and environmental responsibility by having regard to the interests of the community and to conduct our affairs in accordance with sound business practice.

In order to meet our objectives we focus our work activity on asset planning and development, capital project management, operations and maintenance management, risk management, staff development and corporate governance.

4. Our activities

This table summarises the nature and scope of our activities.

Activity	Nature	Scope
Consultation	<p>Capacity specialises in infrastructure-based management services including resource consent procurement.</p> <p>Consultation with our communities ranges from discussions on water conservation to formal submissions on major capital projects.</p>	<ul style="list-style-type: none"> • Resource consent applications • Strategic planning and direction • Policy advice and development • Improvement opportunities • Water conservation planning
Planning	<p>Planning covers everything from asset management to catchment management plans and flood hazard maps.</p>	<ul style="list-style-type: none"> • Asset management planning • Resource consent applications • Risk management plans • Level-of-service development • Strategic planning • Policy advice • Improvement opportunities
Managing	<p>Managing for our clients' water supply, wastewater and stormwater services reviews, investigations and assessments of the assets to ensure the best outcomes for both our clients and their residents and ratepayers.</p> <p>We procure and manage contracts for the operation and maintenance and upgrade and replacement of the assets.</p>	<ul style="list-style-type: none"> • Programme management • Project management • Demand management • Maintenance and operations • Improvement opportunities • Customer Service
Delivery	<p>To ensure timely and efficient delivery of services to our clients we prepare draft capital works programmes consistent with asset management plans. We manage contracts across multiple clients which enable us to achieve efficiencies in service activities and costs that benefit our clients.</p>	<ul style="list-style-type: none"> • Project management • Service delivery • Improvement opportunities
Monitoring	<p>Monitoring our clients' assets to continuously improve the networks.</p>	<ul style="list-style-type: none"> • Water quality • Environmental effects • Service delivery • Contract performance • Improvement opportunities
Coordination	<p>Support the achievement of an integrated water services network across the Wellington region to improve the region's competitive advantage through the quality of its water services.</p>	<ul style="list-style-type: none"> • Emergency management and preparedness • Codes of practice • Design standards • Regionalisation of water services delivery

5. Capacity's contribution to council and community outcomes

Councils identify and monitor community outcomes through long term plans, strategic plans and reports. These outcomes relate to all aspects of community living, including the environment, the economy, infrastructure, and social and cultural wellbeing.

Capacity contributes to its shareholding councils' visions and community outcomes through high quality, value-for-money management of water supply, stormwater and wastewater infrastructure. Each of these services is essential to resilient communities seeking sustainable growth within a healthy and safe environment, and to that extent all of Capacity's activities contribute to community outcomes.

Outcomes currently expressed by councils are:

Hutt City

1. A safe community
2. A strong and diverse economy
3. An accessible and connected city
4. Healthy people
5. A healthy natural environment
6. Actively engaged in community activities
7. Strong and inclusive communities
8. A healthy built environment
9. A well-governed city

Porirua

1. Well connected & on the move
2. Multicultural & creative
3. Strong families & people, young & old
4. Active & healthy
5. Learning for life
6. Prosperous
7. A safe city
8. Sustainably designed & built
9. A valued natural environment

Upper Hutt City

1. We're a scenic playground
2. We're family
3. We're a gateway to the great outdoors
4. We're ready to grow
5. We're an easy access destination

Wellington City

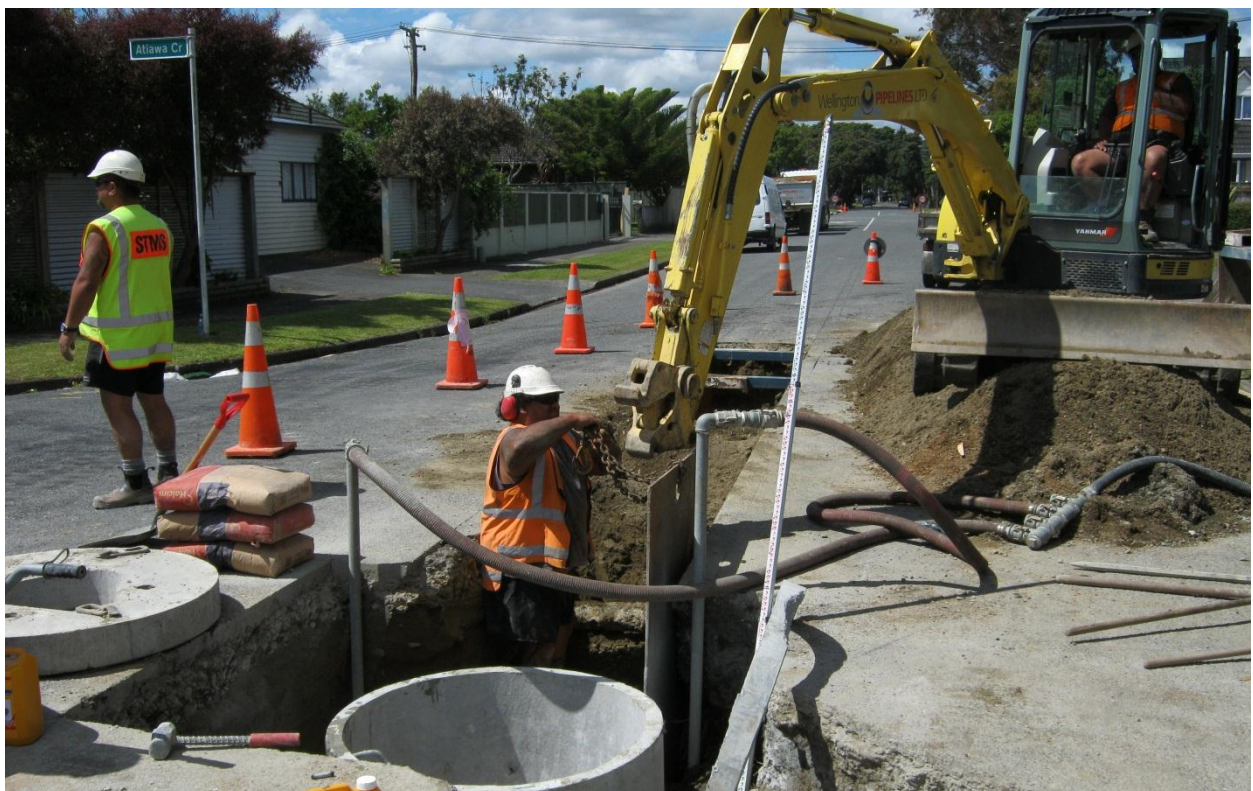
1. People-centred city
2. Eco-city
3. Connected city
4. Dynamic central city

Capacity supports each of our client councils in working towards their outcomes.

Although there are differences in the focus and articulation of each city's vision, the outcomes of well managed water supply, wastewater and stormwater networks are essential to all of them:

- efficient and effective delivery of potable water
- clean rivers, streams and seas
- roads and property that are safe from flooding in the event of heavy rains and rising sea levels
- the efficient and effective transportation, treatment and disposal of wastewater.

Capacity's mission is to support our client councils in delivering the outcomes valued by their communities through delivering value-for-money, high quality water infrastructure management. We do this by developing and maintaining the capability to manage network activities on a daily basis and in emergency situations, as described in our business strategies, objectives and activities.



Workmen install a stormwater manhole as part of a renewal project in Waiwhetu, Hutt City.

6. Key performance indicators

Levels of service provision relating to our activities are captured in key performance indicators agreed with each council. Achievements are reported to individual councils, and areas where targets have not been met are specifically addressed in those reports. Annual achievements are summarised in Capacity's annual report.

Service Category	Service Objective	Performance target
1. Service quality	To maintain a quality of service that represents a low level of risk.	Fewer than four unplanned supply cuts (pipe burst) per 1000 connections
		Fewer than 1.2 wastewater incidents reported per kilometre of wastewater reticulation pipeline
		Number of dwelling flood notifications received as a result of a 1:50 year flooding event (or less)
		Compliance with NZ drinking water quality standards.
		Deliver operating projects within budget and timeframes
		Deliver capital projects within budget and timeframes
2. Customer focus	To respond promptly to service requests.	To meet all Response A & B times for Priority One (P1) activities (on site within one hour).
		Achievement of councils' own customer satisfaction survey targets
3. 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.
		Manage Capacity within budget
4. Environmental Performance	To minimise adverse effects on the environment	No resource consent-related infringement notices received from Greater Wellington Regional Council
5. Legislative Compliance	To comply with relevant legislation	Full compliance with all relevant legislation
		Full compliance with the Health and Safety in Employment Act 1992
6. Process	Continuous Improvement in management and delivery of water services	Achievement of key milestones in emergency management planning
		Achievement of key milestones in AMP improvement project planning and production

7. Key performance indicator results to 31 December 2012

7.1 Service quality: To maintain a quality of service that represents a low level of risk.

7.1.1 *Target: Fewer than four unplanned supply cuts (pipe burst) per 1000 connections per year.*

	Wellington City	Hutt City	Upper Hutt City
Year to date	0.60	1.38	0.65

On track to achieve at year end.

7.1.2 *Target: Fewer than 1.2 wastewater incidents reported per kilometre of wastewater reticulation pipeline per year.*

	Wellington City	Hutt City	Upper Hutt City
Year to date	0.20	0.33	0.18

On track to achieve at year end.

7.1.3 *Target: No dwelling flood notifications received as a result of a 1 in 50 year flooding event (or less).*

	Wellington City	Hutt City	Upper Hutt City
Year to date	5 ¹	0	0

¹Five service requests regarding flooding in dwellings were reported after rainfall on 17 September 2012 (a 1 in 30 year event). The flooding was primarily due to pipe capacity issues and stormwater debris blocking the intakes. Options to resolve the issues are being investigated.

7.1.4 *Target: Compliance with NZ drinking water quality standards.*

	Wellington City	Hutt City	Upper Hutt City
Year to date	A1b	Bb	A1a

² Hutt City has mixed grading in its six supply zones. Most are Bb, due to the inclusion of some unchlorinated artesian water. Stokes Valley is A1b and Haywards A1a. Unchlorinated water from a treatment plant can only get a maximum 'B' rating and a distribution grading cannot be higher the treatment plant grading. There are also two public bores, at Buick Street, Bb, and Civic Square (Laings Road), *ungraded*.

7.1.5 Deliver operating projects within budget and timeframes

Operating projects are under way but tracking higher than budgets at the end of second quarter. It is anticipated that the year-end overspend will be around \$2.198 million. Detailed analysis of this overspend is outlined below.

Operating expenditure \$000s

Opex	YTD Actual	YTD Budget	YTD Variance	Annual Forecast	Annual Budget	Forecast Variance
Wellington	19,505	19,389	-116	40,196	38,776	-1,420
Hutt City	10,146	9,489	-656	19,281	18,503	-778
Upper Hutt City	2,832	2,706	-125	4,555	4,555	0
Total	32,483	31,584	-897	64,032	61,834	-2,198

Wellington City Council

At the end of the second quarter, operational projects were overspent by \$116,000. An overall overspend of \$1,420,000 is forecast for year-end, due to:

- *Water supply* – There is a marginal year-to-date overspend of \$12,000. Due to underfunding and the transfer of CitiOperations work activities to the City Care contract, a year-end unfavourable variance of \$310,000 is anticipated.
- *Stormwater* – The year-to-date underspend is \$148,000. A year-end unfavourable variance of \$100,000 is anticipated in stormwater reactive maintenance projects associated with underfunding and transfer of the CitiOperations work activities to the City Care contract.
- *Wastewater* – The year-to-date unfavourable variance of \$252,000 is partly due to underfunding and the transfer of CitiOperations work activities to the City Care contract, and partly due to increased wastewater treatment costs associated with the plant operator's tariff revision. The Porirua treatment plant subsidy is higher than the figure provided to Capacity for our 2012-13 budget-setting process. A year-end unfavourable variance of \$1,010,000 is anticipated.

Council officers have not requested to seek savings in other areas to reduce this forecast overspend.

Hutt City Council

At the end of the second quarter, operational projects were overspent by \$656,000 and an overall overspend of \$778,000 is forecast for year-end, due to:

- *Water supply* – A shortfall in operating revenue due to development contributions being less than expected, and vested asset income combined with operating projects being ahead of schedule, has resulted in a year-to-date unfavourable variance of \$125,000. An overspend of \$43,000 is expected at year-end.

- *Stormwater* – A shortfall in operating revenue due to development contributions being less than expected, and vested asset income combined with operating projects being ahead of schedule, have resulted in a year-to-date unfavourable variance of \$108,000. An unfavourable variance of \$140,000 is expected at year-end.
- *Wastewater* – Insurance costs that were higher than expected, combined with operating projects being ahead of schedule and a shortfall in revenue from trade waste and development contributions have resulted in a year-to-date unfavourable variance of \$424,000. A year-end unfavourable variance of \$595,000 is anticipated.

Council officers have not requested to seek savings in other areas to reduce this forecast overspend.

Upper Hutt City Council

At the end of the second quarter, operational projects were overspent by \$125,000 due to:

- *Water supply* – A year-to-date favourable variance of \$48,000 in water network projects is due to the bulk water levy being lower than budgeted.
- *Stormwater* – A \$91,000 year-to-date underspend in stormwater activity is due partly to unbudgeted development contribution revenue and partly to operational costs that were lower than expected, mostly because of the weather.
- *Wastewater* – Insurance costs and pipe maintenance repair costs were higher than budgeted and the CCTV programme is ahead of schedule, resulting in a year-to-date unfavourable variance of \$265,000 in wastewater activity.

No year-end variance is anticipated.

7.1.6 Deliver capital projects within budget and timeframes

Capital expenditure \$000s

Capex	YTD Actual	YTD Budget	YTD Variance	Annual Forecast	Annual Budget	Forecast Variance
Wellington	10,491	12,346	1,855	24,128	24,128	0
Hutt City	3,497	3,279	-219	10,726	11,877	1,151
Upper Hutt City	470	1,170	701	3,897	3,897	0
Total	14,458	17,245	2,337	39,853	39,902	1,151

Wellington City Council

At the end of the second quarter, capital projects were underspent by \$1,855,000, due to:

- *Water supply* – Year to date unfavourable variance of \$472,000 arising from additional work completed ahead of time for renewals in Johnsonville and Tawa; northern and western renewals; and higher volumes of reactive

maintenance work, against delays in design work for the Hospital-Prince of Wales reservoir. We anticipate the budget will be fully spent by the end of the financial year.

- *Stormwater* – The year-to-date underspend of \$1,093,000 is due to delays in construction associated with additional geotechnical and structural design requirements. The budget will be fully spent and no year end variance is expected at this stage.
- *Wastewater* – With most projects in the tendering stage, there is a year-to-date favourable variance of \$1,234,000. A catch up in the next quarter will result in the budget being fully spent at year end.

Hutt City Council

A year-end underspend of \$1,151,000 in capital projects is forecast arising from a review of fish passage options over the Silverstream River crossing, rescheduled commencement of three water supply projects due to be completed in the 2013-14 year, and confirmed timing of the Vista Grove judicial review delaying proposed commencement of remedial works.

Upper Hutt City Council

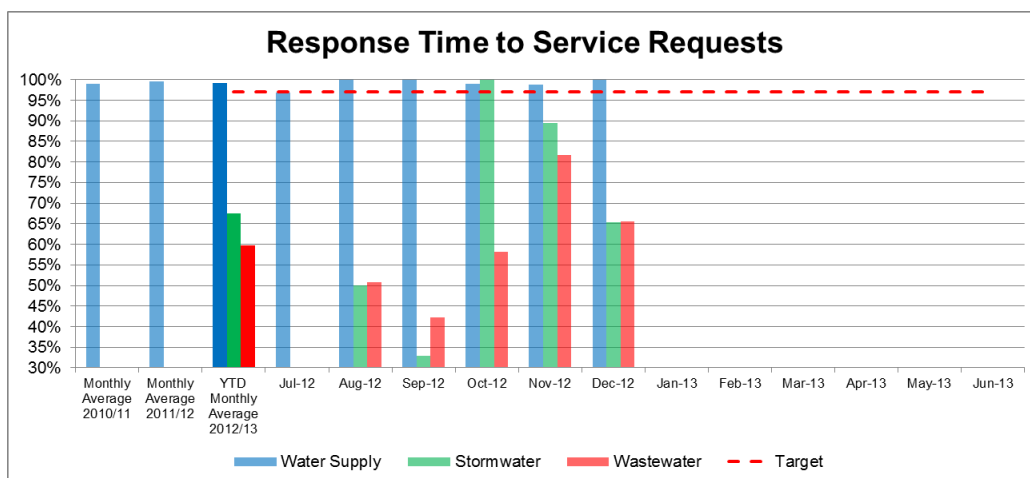
Although the year-to-date underspend is \$701,000, construction is due to start on planned water and stormwater network projects. Most wastewater projects have completed design and tender recommendations are awaiting Council approval.

No year-end variance is anticipated.

7.2 Customer focus: To respond promptly to service requests.

7.2.1 *Target: To meet all Response A & B times for Priority One (P1) activities (on site within one hour)¹.*

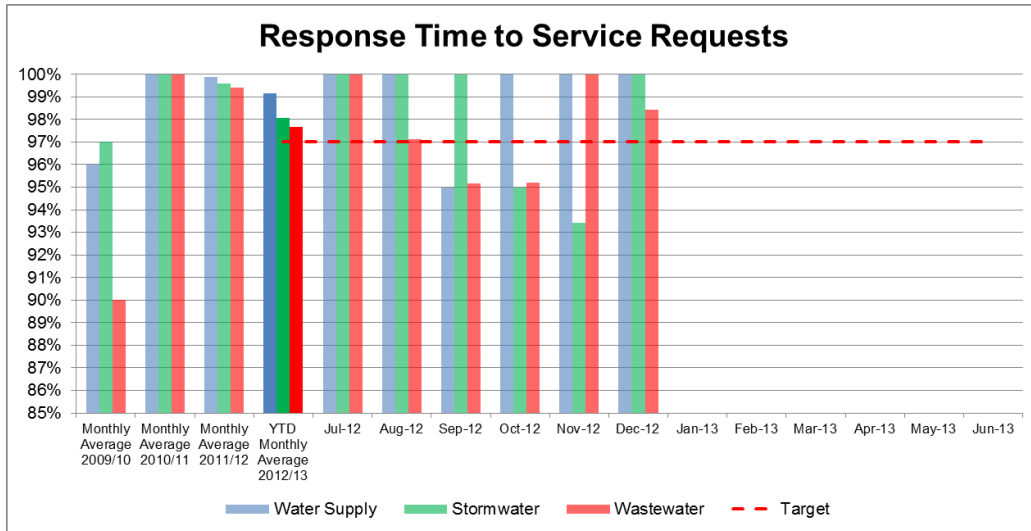
Wellington City



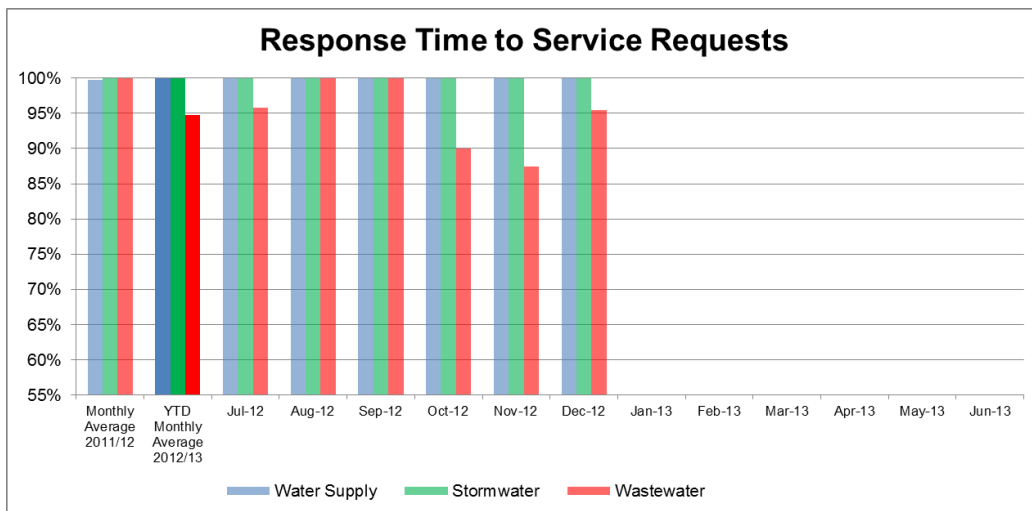
¹ Results in the drainage area are associated with the transfer of activities from CitiOperations to the City Care contract and issues with new staff and the City Care IT reporting system. No

significant issues with the service response have been identified. City Care is focussed on ensuring the reporting matches their service response.

Hutt City



Upper Hutt City



7.2.2 Target: Achievement of council's own customer satisfaction survey targets.

Results below show the latest annual survey.

Activity	Wellington City	Target ²
Water supply	84%	90%
Stormwater	69%	75%
Wastewater	69%	75%

² Residents (%) who agree that the activity provides good value for money. Result is supplied from Council customer satisfaction survey reported in September 2012.

Activity	Hutt City	Target ³
Water supply	96%	95%
Stormwater	90%	80%
Wastewater	99%	95%

³ Residents' satisfaction with the city activity. Result is supplied from Council customer satisfaction survey in April 2012.

Activity	Upper Hutt City	Target ⁴
Water supply	96.7%	95%
Stormwater	92.3%	87.5%
Wastewater	97.2%	91%

⁴ Residents surveyed rated the activity as satisfactory or better. Result is supplied from Council customer satisfaction survey published in April 2012.

7.3 Cost effectiveness. To provide a cost-effective service.

7.3.1 Trend of the operating cost of delivering water supply, wastewater and stormwater services relative to a national average.

This is an annual data set and is reported in Capacity's annual report.

7.3.2 Manage Capacity within budget.

Capacity's income and expenditure is 4.8% under budget for the year to date. See section 11, for financial reports.

7.4 Environmental performance. To minimise adverse effects on the environment.

7.4.1 No resource consent-related infringement notices received from Greater Wellington Regional Council.

We have been notified of a technical non-compliance that is under discussion with the regulatory authority. Refer to comment in Section 8, Wellington City Stormwater Discharge consents.

7.5 Legislative compliance

7.5.1 *Full compliance with all relevant legislation*

No compliance issues during the reporting period.

7.5.2 *Full compliance with the Health and Safety in Employment Act 1992*

No compliance issues during the reporting period.

8. Key activities update

Water conservation planning

Water conservation reduces demand, helping to contain costs and defer capital expenditure. In the past six months Capacity has gained access to water consumption benchmarking information from Auckland's Watercare and water supply authorities in Australia, to improve our ability to assess and work with commercial customers on their consumption patterns.

The first annual report on the progress of the Wellington City Council water conservation and efficiency plan reported savings made under the two main objectives, of managing water demand and deferring capital expenditure. The report acknowledged difficulty in engaging with the top 25 commercial customers, although the benchmarking data is expected to improve this.

We continue to work with Greater Wellington Regional Council and its four bulk water customers to increase public awareness of the need for water conservation. Water consumption has continued to fall year on year.

Based on work done for Wellington City, we prepared a water conservation plan for Hutt City Council. This is being evaluated for resource requirements.

Wellington City stormwater discharge consents

The annual compliance report received in November relating to discharges of stormwater to the coastal marine area noted one environmental non-compliance.

Greater Wellington Regional Council management have identified there is a "disconnect" between the two parties in relation to understanding what was to be provided. Capacity is working with Greater Wellington to achieve an improved mutual understanding of expectations relating to this consent.

Wastewater flow monitoring

Flow monitoring provides data on network performance and helps determine the extent of inflow/infiltration levels in sub-catchments. This information assists in prioritising remedial works. The information is also used to develop a strategic network model.

Data has been gathered for catchments in Wainuiomata and Naenae, (Lower Hutt), Pinehaven (Upper Hutt) and in the Murphy, Tawa and Island Bay catchments (Wellington). This information has been used to prioritise catchments for further investigation work such as CCTV inspection, pressure testing of sewer pipes and inflow surveys.

Regionalisation

An integrated water services network will improve the region's competitive advantage through the efficiency and quality of water services. The amalgamation of Porirua City Council's three water activities into the Capacity framework will see programmes designed to ensure regional consistency in policy advice, asset planning, service delivery, maintenance and operations.

Porirua City Council officers have delivered a paper to councillors recommending public consultation on the Capacity proposal.

Following Wellington City Council's review of council controlled organisations, council officers have committed to reaching agreement on the content of the service level agreement by the end of March, and implementation by July 2013.

Flood hazard mapping

We are currently finalising regional stormwater hydraulic modelling specifications which will standardise flood hazard mapping across the region. Flood hazard mapping in Wellington is on hold until the modelling specifications are completed (due early 2013). A long term prioritised model development plan for key areas of the city has been established, with work on Island Bay, Kilbirnie and CBD catchments planned to begin in the second half of 2012-13. Information from this exercise will be used in integrated catchment management plans required to be developed as part of the global stormwater consents.

We have continued to collect flow and rainfall data in Upper Hutt City which will be used to update the city's flood hazard maps.

In Hutt City, we will prioritise stormwater catchment areas for future consideration.

Emergency planning

As a member of the Wellington Lifelines Group, Capacity took part in the public release of the report to the civil defence emergency management group joint committee on lifeline utility restoration times. The report, based on a 7.5 Richter scale earthquake scenario, indicated survival (reduced quantity and quality) water supply restoration times of between 30 and 65 days, and operational (treated water, functional distribution networks) restoration times of 45-70 days, depending on location.

Progress continues on projects to strengthen the network and thus reduce those restoration times, including Carmichael reservoir strengthening (completed), Newlands No 2 reservoir (commenced) and the Tasman Street 900mm water main. Progress continues on other projects associated with procuring alternative emergency water supplies and water storage options. A trial water bore was completed in Miramar, without locating a viable potable water supply.

The water service emergency preparedness group completed a report on managing the restoration and recovery of wastewater services after an emergency event. This will be assimilated into emergency response plans.

Capital project management

Hutt City -- All stormwater and wastewater renewal contracts were tendered before the end of 2012. Three remaining water reticulation renewal contracts will be tendered in March as they are financed from the 2012-13 and 2013-14 financial years.

Upper Hutt -- Water supply reticulation renewal contracts have been awarded, with construction starting in January. The wastewater renewal contract is expected to start in February, and the stormwater renewal contract in late February or early March.

Wellington --The majority of the water supply and wastewater reticulation renewal and upgrade contracts have been tendered. The remaining (minor) contracts will be tendered in early 2013. Landscaping at the Messines Road reservoir in Karori concluded a two-year project to upgrade and enlarge the two tanks at this site. The upgrade improved the city's emergency resilience through increased storage and improved seismic performance of the reservoir. Also completed was the roof replacement and seismic upgrading of Carmichael Reservoir, which serves the eastern suburbs. An upgrade of the 900mm diameter water main in Tasman Street is underway, with completion expected in January 2013. Delays have been experienced in tendering the stormwater reticulation renewals/upgrade contracts associated with additional geotechnical and structural design requirements.

All contracts are scheduled for completion by 30 June 2013.

Asset management planning

Proposed budgets for 2013-2014 were submitted to Hutt, Upper Hutt and Wellington city councils in October and November 2012. Draft asset management plans were forwarded to Hutt City Council in December. Upper Hutt City Council's asset management plans are due at the end of March 2013. Wellington City Council has requested an asset management short form update for March 2013.

Asset management improvement project planning and production

Work is progressing well on seven of the projects identified in the asset management improvement plan subject to available funding.

Establishing an asset management policy, strategy and objectives, and a framework to support a standard approach for asset management plans across client councils is under way. A draft policy, strategy and objectives document is expected to be ready for comment in February 2013.

We have completed and tabled a business case to Wellington and Hutt city councils for the amalgamation of asset management systems to provide an integrated approach to information management.

Condition models

Models for Hutt City Council's three water underground pipe networks have been completed. These predict pipe deterioration and lifespans and will be used to forecast short to long term renewal expenditure. Information from the models is displayed on InfoNet to help pinpoint areas in the city requiring renewals. The confidence level of these models will be continuously improved using condition data from selected pipe samples.

Activity risk management planning

The activity risk management process seeks to understand the uncertainty of achieving the levels of service as outlined in the asset management plan. For Wellington and Hutt Cities we are building on work previously undertaken, introducing new analysis tools and techniques, and recasting the document to align it with ISO 31000:2009 and the associated handbook HB 89-2012 Risk management – Guidelines on risk assessment techniques. For Upper Hutt City we are introducing the ARMP concept and approach.

It is expected that the plans will be finalised in time to introduce the risk treatment options into the next iterations of the asset management plans.

Hydraulic modelling

A strategic model framework is being used to develop hydraulic models for stormwater, wastewater and water supply across the three cities. The framework ensures all modelling carried out is consistent with and contributes to the achievement of the strategy.

We are currently developing hydraulic modelling specifications for stormwater and wastewater modelling, and developing regional stormwater and regional wastewater model strategies that will cover all three client councils.

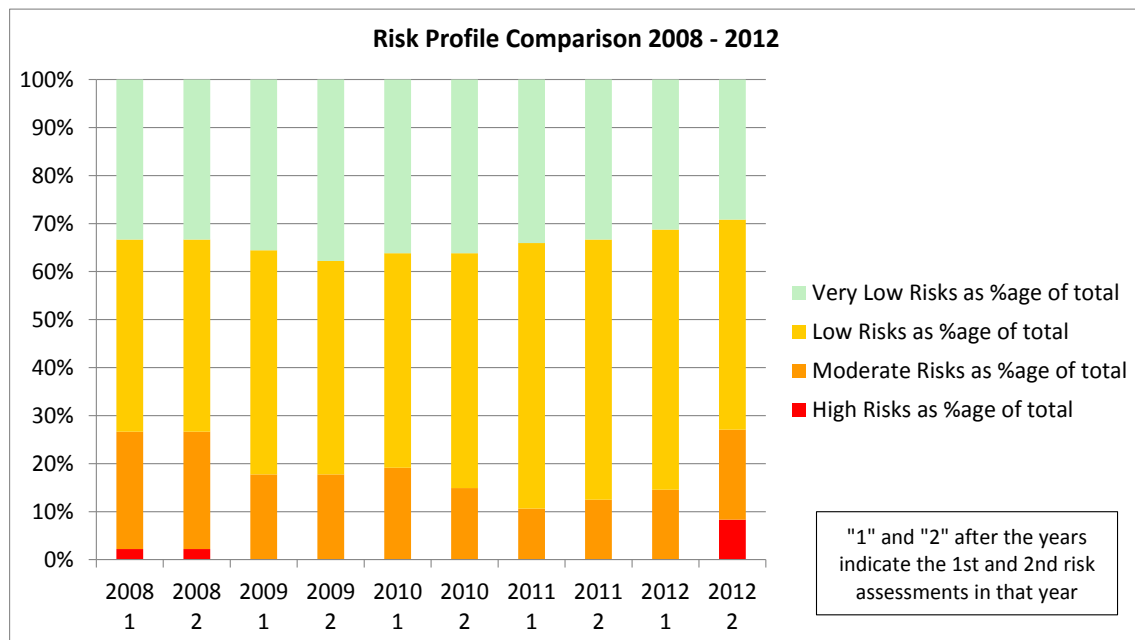
The water supply modelling strategy and specifications have been developed for Wellington City Council, and future water modelling work is proposed for Hutt and Upper Hutt.

9. Risk management

We manage risk at the corporate (or organisational) risk and operational activity risk levels. Our corporate risk management framework complies with AS/NZS ISO 31000:2009.

Corporate risks are identified in terms of our key business objectives. The risk management framework identifies risk management strategies for all risks which are reviewed every six months by our Audit and Risk Committee.

The change in Capacity's risk profile over time is shown in the following graph.



A comprehensive internal programme of planned audits in addition to random spot audits is carried out in conjunction with Capacity's ISO 9001:2008 certification requirements. External audits are carried out six-monthly as part of Capacity's quality certification.

10. Health and safety

The safety of the community, contractors and our staff is our top priority. 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. The health and safety performance of our contractors is audited and is taken into account when awarding new contracts.

Sadly there was a construction site fatality involving a contractor's staff member during the year. As part of their investigation into this accident the Ministry of Business Innovation and Employment (MBIE) visited Capacity offices and reviewed Capacity's health and safety management practices as they apply to contracts. MBIE did not identify any deficiencies or recommendations for improvement in Capacity's health and safety management practices in the course of this investigation. The MBIE investigation also found there were no breaches by the contractor of the Health and Safety in Employment Act 1992.

Our Health and Safety Committee oversees the management of health and safety at Capacity. The health and safety process is supported by a comprehensive range of health and safety procedures which are controlled in our ISO 9001:2008 certified quality system.

With exception of the construction site fatality in July 2012 there have been no serious or lost time incidents reported to date this year. (Lost time incidents are incidents where an employee is absent from the work site due to injury for more than one working day). This result reflects robust health and safety practices. Capacity firmly believes that workplace incidents are preventable and will continue its strong emphasis on a high standard of health and safety management practices.

The equivalent of 11 staff days of health and safety training have been carried out so far this year. This includes confined space and site traffic management training. The type and frequency of training undertaken by staff varies depending on individual staff needs.

11. Financial information

Financial results

Income

Revenue for the year to 31 December 2012 of \$3,959,000 includes \$404,000 (10% of total) for contracted services from Upper Hutt City Council.

The full year forecast for total income is \$7,990,000. A surplus of \$4,000 is forecast as at 30 June 2013 with the half-year result being a surplus of \$15,000.

Expenditure

Total expenditure for the year to date of \$3,944,000 is 4.8% under budget for the first half of the 2012-13 year.

Personnel expenditure is running below budget, through deferred recruitment, reduced staff training and other staff expenses.

In response to Wellington City Council's reduction of its long term plan budget in water infrastructure and operations, we continue to re-align and monitor our approved budget throughout the 2012-13 year.

Cash flow

We currently hold funds on behalf of our clients for City Care contract payments. With the transfer of CitiOperations functions to City Care from 1 July 2012, drainage services for Wellington City Council are now part of the City Care contract payments.

Financial statements

Statement of Comprehensive Income

For the period ended 31 December 2012

	Sept 2012 Quarter \$000	Dec 2012 Quarter \$000	YTD Actual 31 Dec 2012 \$000	YTD Budget 12-13 \$000	YTD Variance \$000	Forecast Year end \$000
Revenue						
Operations	2,001	1,943	3,944	4,146	(202)	7914
Interest	7	8	15	-	15	27
Total revenue	2,008	1,951	3,959	4,146	(187)	7,941
Expenditure						
Operating expenditure	352	342	694	741	47	1,448
Personnel expenditure	1,521	1,458	2,979	3,134	155	5,940
Directors' fees	26	27	53	58	5	110
Rental and operating lease costs	90	92	182	168	(14)	336
Audit fees	-	-	-	-	-	34
Depreciation	18	18	36	32	(4)	68
Interest expense	-	-	-	1	1	1
Total expenditure	2,007	1,937	3,944	4,134	190	7,937
Net surplus/(deficit) before taxation	1	14	15	12	3	4
Tax Expense	-	-	-	-	-	0
Net surplus/(deficit) after taxation	1	14	15	12	3	4

Statement of movements in equity

For the period ended 31 December 2012

	Dec 2012 \$000	June 2012 \$000
Net surplus/(deficit) for the year	15	87
Contribution from owners:		
Share capital paid	<u>-</u>	<u>-</u>
Movements in equity for the period	<u>15</u>	<u>87</u>
Equity at beginning of year	363	276
Equity at end of year	<u><u>378</u></u>	<u><u>363</u></u>

Statement of financial position

As at 31 December 2012

	Dec 2012 \$000	June 2012 \$000
Current assets		
Bank		379
Accounts receivable	900	1,184
Sundry debtors & prepayments	32	136
	<u>1,771</u>	<u>1,699</u>
Non current assets		
Work in progress-capitalised	-	-
Intangible assets	78	84
Property, plant and equipment	95	79
	<u>173</u>	<u>163</u>
Total assets	<u>1,944</u>	<u>1,862</u>
Current liabilities		
Accounts payable	1,311	1,212
Provision for taxation	(6)	(2)
Annual leave	261	290
	<u>1,566</u>	<u>1,499</u>
Non current liabilities		
Finance leases	-	-
Total liabilities	<u>1,566</u>	<u>1,499</u>
Net working capital	<u>378</u>	<u>363</u>
Share capital	600	600
Retained earnings	(222)	(237)
Equity	<u>378</u>	<u>363</u>

Statement of cash flows

As at 31 December 2012

	Quarter Dec 2012 \$000	FY June 2012 \$000
Cash flows from operating activities		
Cash was provided from:		
Operating receipts	4,243	7,551
GST	(38)	(52)
Cash was disbursed to:		
Payments to suppliers	(3,696)	(7,146)
Payments of tax	(4)	(8)
Interest Paid		(1)
Net cash inflow/(outflow) from operating activities	<u>504</u>	<u>344</u>
Cash flows from investing activities		
Cash was applied to:		
Purchase of Property, Plant & Equipment	(26)	(22)
Purchase of Intangible Assets	(19)	(94)
Net cash outflow from investing activities	<u>(45)</u>	<u>(115)</u>
Net Increase in Cash held	460	- 230
Opening Cash Balance	379	149
Closing cash balance	<u>839</u>	<u>379</u>
Made up of:		
Cash	839	379
Short term deposits	-	-
Closing Cash Balance	<u>839</u>	<u>379</u>