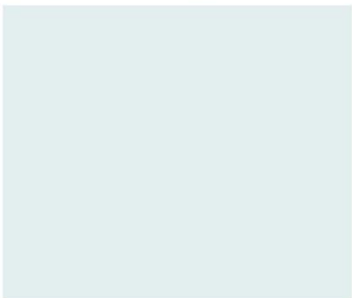




Capacity Infrastructure Services Ltd

Statement of Intent and Business Plan 2013-2014

1 March 2013



[PLANNING]

[CONSULTATION]

[MANAGING]

[MONITORING]

[DELIVERY]

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1. Introduction

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

Changes to the Act and local government reform, continued fiscal pressure stemming from the global financial crisis, climate change, and community concern over emergency preparedness, infrastructure resilience and natural resources are the key factors affecting the present macro environment within which Capacity operates.

These factors and others are addressed in the *Strategic overview* of this statement of intent, whose overall purpose is to:

- state publicly our activities and intentions for the year, and the objectives to which those activities will contribute
- provide an opportunity for our shareholders to influence the direction of the organisation
- provide a basis for the accountability of our directors to our shareholders for the performance of the organisation.

Within the context of our operating environment are two significant elements likely to have a lasting impact on the organisation and its direction and accountability:

1. The proposal to provide water management services to Porirua City Council, and at the same time, to include both Porirua and Upper Hutt city councils as joint shareholders
2. The proposal to shift from input-based performance management and evaluation to outcome based delivery and measurement.

The first of these elements is in progress, with Porirua City Council in the process of consulting with its citizens on the proposal. The second requires adoption by existing and new shareholders. Both are in line with the recent amendments to the local government act relating to the purpose of local government in providing efficient solutions appropriate to present and anticipated future circumstances.

Performance indicators proposed under the outcome based model are included with current indicators.

Budget constraints could affect progress on some of the intended activities highlighted in this document, particularly those that support data acquisition and modelling. We recognise the constraints our client councils are operating under, and are working closely with them to ensure we continue to deliver water services at the best possible value.

This statement of intent covers the year 1 July 2013 to 30 June 2014, with financial forecasts for the following two financial years.

2. Strategic overview

Capacity is a council-controlled trading organisation established by the Wellington and Hutt City councils to manage the delivery of the three waters: water supply, wastewater and stormwater infrastructure services. We manage more than 5,000km of pipes, over 120 reservoirs and more than 175 pump stations for three councils. During 2013-2014 we will be responsible for managing \$61 million of operational expenditure and \$36 million of capital expenditure on our clients' behalf.

Since our establishment, we have assumed the management of water services for Upper Hutt City Council, and are presently in negotiation to provide the same service for Porirua City Council, as well as including Upper Hutt and Porirua city councils as shareholders.

2.1 Core purpose

Our principal objectives are:

1. To operate as a cost effective, resilient and successful business, returning benefits to our shareholder councils and their communities.
2. Through our people, to build a reputation for reliability, excellence, effectiveness, efficiency, courtesy and integrity, and as an organisation where people want to work.
3. To develop and deliver sustainable and integrated service delivery and management of our clients' assets.
4. To ensure the people of the Wellington region have safe reliable drinking water, effective wastewater collection and treatment, clean harbours, healthy streams and protection from flooding.

Section 59 of the Local Government Act 2002 requires that the principal objectives of a council-controlled trading organisation include the objectives of its shareholders.

Councils set these out in long term plans as community outcomes and performance measures, supplemented by more specific service and activity requirements to meet shareholder priorities.

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' long term 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 building communities that are resilient, dynamic and sustainable.

Outcomes currently expressed in council long term plans are:

Hutt City

Our community goals

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

Our Community Goals – *Together we are a city; Hutt City Long Term Plan 2012-2022*, p 62.

Porirua

Porirua is ...

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

Community Outcomes – *Porirua City Long Term Plan 2012-2022*, p 55

Upper Hutt City

City vision priority areas

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

Upper Hutt City Council's revised outcomes – *Upper Hutt City Long Term Plan 2012-2022* p. 24

Wellington City

Four outcomes

- | | |
|---------------------|---------------------------|
| 1. A connected city | 3. A people-centred city |
| 2. An eco-city | 4. A dynamic central city |

Three priorities

- | | |
|--|------------------------|
| 1. An inclusive place where talent wants to live | 2. Resilient city |
| | 3. A well managed city |

Our Strategic Direction – *Wellington City Council Long-Term Plan 2012-22*, p6.

Council long term plan measures relating specifically to each of the three water activities are reproduced in Appendix 1.

2.2 Operating environment update

Capacity manages water, wastewater and stormwater networks that serve 340,000 people in the cities of Hutt City, Upper Hutt and Wellington. Our staff represent New Zealand's largest pool of knowledge and expertise in water services management outside of Auckland. Our engineers, project managers, operations team, planners and advisers are highly skilled and experienced in water and drainage activities, with extensive institutional knowledge of our clients' infrastructure and the local government environment.

Operating as a shared service among the major metropolitan areas of the Wellington region, Capacity provides greater operational efficiency and organisational resilience than any single city could manage on its own. These financial and performance benefits are passed on to the region's ratepayers in improved efficiencies and cost containment.

Our current shareholders are the Hutt City Council and Wellington City Council. We anticipate that at the date of publication of this document, they will have been joined by Upper Hutt City Council. Our shareholders have resolved to amend Capacity's ownership structure, governance arrangements and operating model to include Porirua City Council as a shareholder and client. We expect these changes to take effect as close as is practical to 1 July 2013.

Consequent changes to Capacity's constitution and governance including both rearranging director appointments and executing the shareholders' memorandum of understanding will be undertaken once these changes are finalised.

In addition, we are implementing a significant change to the way Capacity is funded. In essence this involves shifting from funding based on specific activities to a bulk funded model. Under the new model, network performance outcomes are agreed with individual clients, and we work to deliver those as efficiently as possible.

Hutt City Council and Upper Hutt City Council have unanimously approved the establishment of Capacity operating on an outcomes basis from 1 July 2013. Wellington City Council has approved the outcomes basis in principle and the Council's Strategic Planning Committee is to consider approving the model and transition plan in March 2013.

Capacity staff are mindful of the financial implications for councils and communities when undertaking the management of infrastructure for the three waters. We are committed to finding better and more efficient ways of providing water, stormwater and wastewater management services. We actively work with our client councils to identify and develop regionally based water service activities that will help deliver these outcomes.

We look forward to delivering and continually improving water services for our clients, through aligning our activities to enhance and support council priorities as advised through approved strategies, processes and policies, and by applying our expertise across the wider Wellington region.

2.2.1 Local government reform

The proposed changes to Capacity's structure are taking place in the political context of keen central government interest in local government purpose and organisation, as expressed in the government's Better Local Government reform programme. The first stage of the programme was enacted in the Local Government Act 2002 Amendment Act 2012, which provided for a new purpose statement, new financial prudence requirements, changes to the way councils are governed, and changes to the process for reorganising local government. The revised purpose statement in the Act maintains local government's purpose is to "enable democratic local decision-making and action by, and on behalf of, communities", and amended the focus of council activities from:

Section 3(d)

provides for local authorities to play a broad role in promoting the social, economic, environmental, and cultural well-being of their communities, taking a sustainable development approach.

Local Government Act 2002

to Section 3(d)

provides for local authorities to play a broad role in meeting the current and future needs of their communities for good-quality local infrastructure, local public services, and performance of regulatory functions.

Local Government Act 2002 Amendment Act 2012

A further amendment (section 10, subsection (2)) defines "good-quality" as

infrastructure, services, and performance that are—

- (a) efficient; and
- (b) effective; and
- (c) appropriate to present and anticipated future circumstances.

Local Government Act 2002 Amendment Act 2012

These amendments place clear emphasis on the importance of effective and efficient infrastructure management in meeting current and future community needs.

The second stage of reforms focuses on local government service provision efficiency, development contributions and performance monitoring.

Our mission, of providing regional water services at the best possible value, fits closely with the overall intent of the Better Local Government programme. As a shared service provider, Capacity delivers scale and network efficiencies that have translated to savings in excess of \$3.7 million to its shareholders over the past eight years. We have identified

several ways in which further savings and greater effectiveness can be achieved on behalf of the communities we serve, and these will be the focus of our strategic direction in the coming years. These include:

- Changing from an input-focused to an outcome-focused, performance based funding and monitoring model
- Developing a single asset information management system for the region
- Incorporating management of bulk water supply, to provide a 'raindrop to sea' ambit of water services management in the Wellington region

In the coming period we will continue to work with our clients and shareholders to progress these aims. We are looking to implement the outcome-based business model from July 2013. We are confident that after an initial settling-in period, the shift in emphasis away from reporting on individual activity costs and timings, and towards network performance and key deliverables will free up internal resource to focus on more strategic activity. In addition, increased control over how funds are applied will enable more effective network management within a framework of meeting agreed outcomes. This approach is more consistent with the objectives and potential of shared service provision that led to Capacity establishment in 2004.

Independent reports (by PricewaterhouseCoopers) indicate that significant benefit to the community would be gained both from a single asset information management system and from including bulk water supply with the management of local distribution. Our estimates show these benefits could translate to \$5 million in savings annually – roughly equivalent to a year's free water for the region every five years.

Regardless of the future structure of local governance in the region, maintaining Capacity as a jointly owned, independently managed provider of water network management services offers the Wellington region and its communities the best opportunity to achieve central government aims of efficient, effective service delivery that is appropriate to present and likely future circumstances.

2.2.2 Economic constraints

Key drivers for central government's focus on local government performance and its "core business" of infrastructure and service provision are the lasting effects of the global financial crisis and the Canterbury earthquakes on resources. In turn, our shareholders are underlining to us the imperative of seeking efficiencies in operations and costs.

We continue to emphasise these needs to staff and support that through competitive tendering, incentives for cost reduction in service contracts and initiatives such as our internal innovation awards, which encourage efficiency improvements.

We are convinced that we can deliver the greatest long term benefit to clients and their communities through planned asset management and replacement, in addition to planned operations and maintenance. In the coming year we will work with our board and shareholders to emphasise this point at the client level, to ensure that strategic work streams already under way will continue. These include, among others:

- asset management plan improvement
- asset condition modelling
- asset renewal cost projections
- hydraulic modelling

We are seeking to align our existing asset management plans with the recently published standard ISO 31000:2009 and its associated handbook HB 89-2012 Risk management - Guidelines on risk assessment techniques, and the approach to activity risk outlined in the 2011 International Infrastructure Management Manual, for use in the next iteration of plans for clients. We will also introduce the process of activity risk management planning for Upper Hutt.

Asset condition modelling improves the accuracy of renewal forecasting. The renewal curve produced by condition modelling helps councils gain a much clearer picture of the cost implications of the age and nature of their infrastructure, and is thus essential to their own budgeting processes.

Similarly, data gained from hydraulic modelling improves decision-making when planning renewals and upgrades for all three networks. The outcome is systems that are better designed to meet current and anticipated needs.

Funding permitting, we will continue the investigation and analysis required to improved modelling outcomes that we see as essential to a strategic approach to infrastructure management.

2.2.3 Environmental focus

Local councils and Capacity also face competing priorities from their communities with respect to environmental health issues such as coastal water quality, wastewater collection and treatment, drinking water supply and quality, flood protection and the consequences of climate change.

Addressing these concerns requires resources in competition with those needed for present renewal and maintenance work programmes, as well as the many other demands on council funds. Our asset renewal planning takes into account the latest forecasts of the impact of climate change and sea level rise on the region – yet increasing network performance capabilities without looking at alternatives will lead to an untenable increase in expenditure for councils and ratepayers.

One such source of alternatives is non-asset solutions, such as public education. These can deliver long term savings, and we are employing these for all our councils to help manage water demand and, in the coming year, to raise awareness of stormwater issues.

Non-asset solutions may include, for example:

- education programmes to:
 - effect reduced stormwater flows and impediments

- increase community awareness on stormwater contamination and its effects
- increase water conservation and efficiency measures in the home and businesses
- support programmes to
 - provide options for homes and businesses in achieving individualised water conservation and efficiency targets
 - offer advice of best practice options via Capacity's website and community engagement opportunities

These approaches are included in the water conservation and efficiency programmes adopted by Hutt and Wellington City Councils as well as inclusion in Wellington's stormwater discharge consents via the Environmental Objectives (for Integrated Catchment Management Plans) and stormwater education programme.

Asset based solutions are traditionally centred on pipes, pump stations and reservoirs and are therefore largely fixed in terms of performance or maintenance requirements – it is possible however that the non-asset solutions can reduce demand on some water, wastewater or stormwater assets and accordingly offer efficiencies and savings.

Innovation in addressing the challenges likely to arise from environmental changes such as climate change and sea level rise, and community expectations in relation to resilience, is an important part of our contribution to specific council objectives such as the 2040 strategies developed by Wellington City Council

Wellington City's Living City principles include the integration of urban and natural aspects in order to safeguard the natural environment. By working in an integrated manner across the three waters, we can enable these principles and goals, as they become engrained in codes of practice and district plans, and subsequently flow through to work programmes, contracts and planning mechanisms.

At a regional level this will see benefits achieved among all our stakeholders and client councils.

Water Conservation and Efficiency Planning

As a result of on-going efforts in water conservation and efficiency messaging, active leak detection and renewals programmes gross water demand has continued its downward trend. Capacity recognises the importance of these achievements as well as their contribution to achieving council aims and will continue to place a high level of importance in ensuring achievable efficiencies can be realised. Established activities such as education and awareness campaigns are planned to continue along with increased emphasis on the savings potential for commercial and residential customers.

Increased focus on commercial customers with high consumption can result in savings in the bulk water levy, reduced pumping costs and potentially reductions in pump maintenance or renewal costs. The approach to targeting high volume consumers will be

augmented by advice to lower volume users on how they too can realise water consumption efficiencies and the associated reduced business costs. This, for example, may include advice on obtaining grants for workplace water efficiency and energy audits and installing high efficiency water use devices.

Disseminating water conservation and efficiency knowledge among retailers and service providers will enable an increased knowledge base across the residential sector. This will include advice as to how voluntary metering can realise savings for the home through better consumption practices. Alternative supplies, via rainwater detention and/or retention, will also be advanced via messaging and education programmes in order to achieve both water consumption and potential stormwater reduction benefits.

These activities contribute directly our clients' aims of reducing expenditure. The longer new investment in water catchment infrastructure can be deferred, the better for the region's ratepayers. The regional application and approach to water conservation messaging is an example of our own strategic goals of working closely with stakeholders to achieve regional and council-specific benefits.

Stormwater education programme

The Stormwater Education Programme (SEP) is an outcome of the discharge resource consents operated by Wellington City Council. As such it is underpinned by the requirements of the consents but lends itself towards supporting Wellington City Council's Eco-City and Living City goals, while achievements in improving stormwater and receiving water quality may be realised regionally.

Primary activities include a stock-take of existing stormwater-related education resources to reduce duplication and message confusion and increased coordination of messages and outcomes. Formal reviews of education programmes will enhance the ability to transfer successful approaches within the region

The stormwater education programme is planned for implementation alongside the other requirements of the discharge consents and will be used to support non-asset solutions that emerge from monitoring regimes, investigations and the Integrated Catchment Management Plan process.

2.2.4 Emergency preparedness

Aside from society's concerns about the environment, civic preparedness for an emergency such as that created by the Canterbury earthquakes is a key area of interest influencing the management of the three waters networks. Building network resilience and participation in planning for post-event restoration are perhaps the most important activities we can contribute to in this area, and we will continue active programmes in the coming years.

Planning activities, including network upgrades and modifications to key facilities, are aimed at improving network resilience, emergency preparedness and post-event recovery of the client councils' three waters infrastructure. These happen in the context of our participation 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 we formed five years ago.

WeLG includes representatives from other utilities. Projects recently completed include the memorandum of understanding for the Thorndon and Seaview critical area response and identifying utility service restoration times after a major earthquake event. WSEPG considers emergency planning and post-event response and recovery. It includes representatives from Wellington, Upper Hutt, Hutt, and Porirua city councils, the Wellington Regional Emergency Management Office and Greater Wellington Regional Council, and is chaired by Capacity. Its main focus is improvements in:

- maintaining emergency management plans for water supply, wastewater and stormwater infrastructure;
- supply of water post event by:
 - preserving existing water in each city's reservoirs
 - distributing available water to the public and emergency centres
 - procuring alternative supplies of water until bulk water supply is functioning
 - repairing damaged infrastructure (emergency materials and mitigation works).
- disposal of wastewater and stormwater

We have and will continue to support the work of other groups active in this area, such as Civil Defence and council initiatives promoting householder preparation for emergency events.

Construction standards that reflect the risk of seismic events are incorporated in the new regional code of practice for water infrastructure development that came into effect late in 2012, signed off by Wellington, Hutt, Upper Hutt and Porirua city councils. The code sets out new minimum requirements for infrastructure development. New regional specifications will now be developed to ensure resilience in infrastructure construction and maintenance is standardised across the region.

2.2.5 Keeping people informed

We are also very conscious of the need to work with other council departments, such as transport, parks, recreation and events, to minimise public disruption and ensure cities present themselves positively. We will continue to share work programme information and to work with council communications to inform communities and promote the value of public amenities and infrastructure.

Public interest in the way public money is spent, and group activism on issues such as the environment, are increasingly facilitated by the use of social media and mobile communications. The reaction to these circumstances by other organisations have in turn increased individual expectations that they will be kept reliably and regularly informed, that queries will be responded to promptly, and that people will have access and input to information we hold.

The advent of new channels of communication enables activities such as water conservation and stormwater education programmes. We have already introduced Twitter and texting to communicate with the public regarding water outages and wastewater overflows, and will continue to explore how electronic media can improve service delivery. Social media and public relations activity will be increasingly important tools for us in supporting councils' community outcomes relating to water. Both our intranet and internet will undergo further evolution, and, as funds permit, we will explore the value of additional social media engagement to support behaviour change.

Google maps recording details of projects planned and under way are in development and will be expanded in the coming year. Placing more network information on the web will be of value to our contractors and contributes to local government's key objective of democratic local decision-making.

We also believe firmly in the value of increasing public awareness about the nature of urban water management, and are increasing our outreach to the community through education and sustainability networks. While education efforts helps to 'headline' such engagement, these are also opportunities to share other information about the three waters, their networks and our councils' investments in them. We will look for new ways to inform and learn from the many communities with which we work in water services management.

A project to improving the system that remotely monitors and relays network information to our offices gets under way in 2013-14. This should improve what we can usefully share with our stakeholders in terms of network activity and performance – as well as our ability to manage the network.

We continue to seek standardised asset management plans across client councils, and to press for a regional asset information management system to best meet the needs of our current and potential future clients across the Wellington region. A regionally-based procurement process is anticipated for the first half of the 2013-14 year.

The coming year will see increased network information, performance and activity available on our website, including network diagrams, water supply grading zone maps, information for contractors and education resources.

2.3 Capacity's strategic directions

Capacity's Strategic Plan for the period 2013–2017 consists of four principal strategies. These are listed below, with commentary on progress and intentions for the coming year:

***1 Stakeholder intimacy** – Establish partnerships through empowered people in a supportive culture, with improved performance standards, improved client and stakeholder interactions, common goals and relationships with end users of the services we provide.*

Commentary: We have worked to define stakeholder groups and their expectations of us and the service we provide, and to monitor their satisfaction with our performance.

This includes customer service training courses and culture surveys to track progress. Capacity is making towards a constructive and customer-focused organisational culture.

Initiatives to improve external customer communications, such as the use of Twitter and customer feedback cards, will be continued, with Capacity emphasising customer service standards in the coming year. Following organisation-wide programmes on developing customer intimacy and understanding personal styles, we will act on outcomes from these to address gaps; survey and monitor customer satisfaction, identify and implement initiatives to promote communications with clients, promote Capacity as 'the water people' and hold workshops to promote our activity to the public.

2 Empowering our people – *We actively recruit, train and retrain the right people and resources. Excellent performance and outcomes are officially recognised and rewarded. We encourage our people to take the lead, provide innovative solutions and establish and strengthen relationships with clients and customers.*

Commentary: During the 2012-13 year, the emphasis has been on improving internal communications, recognising staff effort and achievements through monthly awards, and a project to redefine and express our core values. Survey results indicate improving levels of staff engagement, and staff turnover continues to be well below the national average.

In the coming year, the values will be publicised and embedded in organisational documents such as personal development plans, recruitment material and intranet material. Survey outcomes will guide prioritisation for training and action programmes.

3 Integrating information management – *Undertake analysis of business processes to determine the key information required by Capacity to effectively manage the delivery of water services. Capacity will work with client councils to implement the most effective mechanisms for the provision of this information.*

Commentary: One of the key efficiencies identified by PricewaterhouseCoopers in delivering effective shared service management of water networks is in the amalgamation of asset management systems. During 2012 consultants completed a detailed business case and recommended approach. The next steps are to gain shareholder agreement on the approach to amalgamation and the project plan to achieve this. As noted above, timing of these activities depends on shareholder processes and funding.

***4 Wellington regional water services network enhanced integration –
Work with our shareholders and other councils in the Wellington region to
develop a single water services delivery approach across the region.***

Commentary: Incorporating Porirua City Council as a shareholder and client and Upper Hutt City as a shareholder, and implementing the new outcomes-based business and performance model are the immediate priorities under this strategy. With local body elections programmed for late in 2013, possible changes to council structures and priorities could affect the pace and scope of Capacity's efforts in this area.

3. Our activities

Meeting council expectations

We continue to align our activities and works programmes to help our clients meet their target outcomes, goals and priority areas, while minimising negative public impact and maximising positive community engagement. This section highlights key projects that support client council long term plans and strategies. A separate table summarises the nature and scope of our activity in consultation, planning, managing, delivery and monitoring water services. Appendix 2 recaps how our activities support the long term policies and strategies of Wellington City Council in particular.

3.1 Wastewater modelling

Modelling is an essential asset management planning tool for all networks managed by Capacity. The wastewater network modelling strategy is prepared in accordance with our Framework for Water Model Development. It outlines wastewater network development and upgrade plans for Wellington City, Hutt City and Upper Hutt City wastewater catchments.

Wellington City Council

Using historic and current data for flows and overflows, we are recalibrating the existing model for Wellington's trunk wastewater system. Model outputs are being used with investigations to establish Murphy Street overflow incidents that affect stormwater discharges at Davis Street. These investigations are part of the requirements of the global stormwater discharge consent issued by the regional council. Wastewater flow data and model outputs will also be used to establish the severity of inflow and infiltration at the sub-catchment level.

Catchments targeted for modelling work in 2013-2014 as part of the overflow mitigation programme include Island Bay, Houghton Bay and Owhiro Bay. All model outputs will be used to develop integrated catchment management plans, as required by the council's stormwater consent.

Hutt City Council

Outputs from the Wainuiomata wastewater model are being used to identify and prioritise solutions to minimise inflow and infiltration in the catchment. With the Wainuiomata catchment model completed, the next stage is to evaluate model outputs for option analysis.

Catchments targeted for modelling work in 2013-2014 include Naenae and Stokes Valley, which have significant inflow and infiltration issues.

Upper Hutt City Council

Previously Upper Hutt's reticulation network model has been used for future planning work and renewal decisions. We are extending and upgrading the model with new asset

data collected as part of on-going monitoring programmes to meet the modelling strategy developed for Upper Hutt City.

The programme is to complete the model's update in the 2014–15 financial year, prior to preparing the asset management and renewal programme for 2015–16.

3.2 Emergency preparedness

As noted, our work in this area includes building resilient infrastructure, such as by strengthening existing network components reservoirs, pipes, valves, pumps and information management, as well as specific projects to provide additional connections, emergency water supply points and water storage.

One of the most significant individual projects coming up is the Hospital-Prince of Wales park reservoir, which is planned to begin construction in 2014. In the coming year, we aim to begin community consultation and resource consent proceedings for this 35 million litre reservoir that will supply Wellington's central business district and provide emergency storage for nearby Wellington hospital.

Other major projects to be continued over the 2013-14 year include:

- critical pipelines renewals
- seismic assessments and upgrades of critical assets including pump stations and reservoirs (see below)
- installing emergency water storage facilities at key water distribution sites
- identifying and procuring additional emergency water sources from ground water (bores and streams)
- preparing an emergency water supply plan that sets out for each council its potential alternative supply sources and the programme and funding requirements to develop these
- identifying options for safe waste disposal.

3.2.1 Seismic strengthening

Seismic assessments of all critical reservoirs and pumping stations are being carried out to improve both the security of supply in a post-earthquake environment and reduce the length of time for network restoration.

Wellington City Council

Wellington City has begun a programme of assessments of all critical water supply facilities. This is targeted for completion by the end of 2013–14, allowing the prioritisation of any remedial works. Some remedial works have been completed, including Carmichael and Newlands reservoirs this year. Funding is available to complete another one to two reservoirs or pumping stations per year over the next ten years.

Hutt City Council

All Hutt City reservoirs have been assessed and remedial work completed. Seismic assessments on wastewater and stormwater pumping stations are now being carried out to develop a remedial programme of works. The assessments are progressing based on station risk profiles. The highest risk stations, typically the largest and oldest, are being evaluated for upgrades first. Pharazyn St and Kelson water pumping stations, the two largest in the network, have recently been assessed and remedial works are programmed to be completed over the next three years. Work on other stations will be prioritised and funding secured as the assessments progress and remedial works identified.

Upper Hutt City Council

All critical reservoirs in Upper Hutt have been assessed. Four reservoirs have been assessed as requiring remedial work and these are programmed to be completed by 2019–20.

Risk assessment is also carried out on critical pipelines to ascertain their current risk exposure and remedial options. This assessment is expected to be completed over the next two years and will be included in future calculations for prioritising pipeline renewals.

3.3 Network operation data

We manage and monitor a system control and data acquisition network (Scada) that consists of over 350 telemetry sites, 12 repeaters, 12 channels and seven base stations.

Through Scada, data such as reservoir levels, pump station activity for the three waters, area meter monitoring and asset security information can be accessed and delivered remotely and presented graphically.

The Wellington City component of this analogue-based system was designed in 1982, and the whole network has become increasingly overwhelmed in the past few years as data amounts and requests increase. In 2013-14, we will begin converting Scada to a digital network. This will allow for future network growth, improved data acquisition and management by internet protocol, greater resilience in the event of emergency, and better security. Funding for the coming year allows for repeater sites in Wellington and Hutt City to be converted, with the Upper Hutt repeater programmed for 2015-16.

3.4 Capital project management

We prepare draft capital works programmes consistent with asset management plans for our client councils. We manage the capital works programmes through to completion including the design, obtaining necessary consents, tendering, contract administration, construction administration and financial management using approved consultants and

our in-house engineering design and project management resource. A list of planned capital works, with a combined estimated value of \$36 million, is included in Schedule 2.

This year we are planning to completed and implement Capacity's contract manual, to supplement the manuals currently in use for each individual council. As with the regional standards code, this will take a regional approach to contract management for water infrastructure projects. It should lead to increased efficiency for contractors and our staff, and improved overall standards.

Following the tragic fatality at a Wellington City Council wastewater renewal project last year, we thoroughly reviewed our health and safety procedures, as well as contributing to the investigation by the Ministry of Business, Innovation and Employment. The ministry found no specific recommendations for improvement in our processes; however we identified several improvements that we will be implementing to strengthen our health and safety management processes.

3.5 Asset management planning

Pipe material, condition and age data can be used to forecast network renewal requirements and likely costs. Cost profiles for the renewal of underground pipelines are forecast to increase over the next two to three decades. Analysis to improve and validate these profiles will continue in the coming years, including the use of condition modelling to gain a better understanding of the lifespans of different materials in different conditions.

We will also analyse risks associated with the timing of renewal works, to ensure informed network investment decisions are made in future long term plan planning cycles.

The major components of this work include:

- working on condition models for underground pipeline assets
- reviewing and implementing an improved approach to identifying and managing critical assets
- enhancing data in the model by representative sampling.

This work is important in ensuring the best balance between replacing infrastructure before it fails but not when it still has significant useful service life left. Renewal curves help councils see what's coming in terms of spending on infrastructure, and gives them time to build those costs into their long term plan.

3.6 Water conservation and leak detection

Water supply demand management in Wellington, Hutt, Upper Hutt and Porirua remains critical to meeting community outcomes and strategic goals of the individual councils. Population growth, the changing built environment and climate change have the

potential to affect the region’s ability to meet the needs and resilience of residents and businesses.

Capacity will continue to work with Wellington City Council and Hutt City Council on executing their water conservation and efficiency plans. This activity includes promoting water restrictions, managing and monitoring water patrols, directly approaching commercial water users with options to better manage water and energy costs and reporting on activities. Upper Hutt City Council will continue with its established approach of water patrols and community water surveys.

We will also expand our engagement with schools and other community groups using our water conservation demonstrator.

Leak detection efforts will continue. These are designed to minimise impacts on residential and commercial customers while councils pursue gains in improving the public network. Along with activities such as pressure reduction and district metering have contributed to reducing water usage to their lowest levels in 15 years.

Achievements and milestones in delivering water conservation and efficiency plans are reported at the end of each financial year and reinforce Capacity’s commitment to achieving council goals in water conservation.

3.7 Activity streams

Alongside the areas highlighted above, Capacity’s strategic objectives, and the means through which they support our clients’ own objectives, are achieved through our day-to-day work of consultation, planning, managing, delivery, monitoring and coordination with suppliers, clients and the public.

The following table summarises the nature and scope of these activity areas.

Activity	Nature	Scope
Consultation	Capacity specialises in infrastructure-based management services including resource consent consultations. Consultation with our communities ranges from discussions on water conservation to formal submissions on major capital projects.	<ul style="list-style-type: none"> ● Resource consent applications ● Strategic planning and direction ● Policy advice and development ● Improvement opportunities ● Water conservation planning
Planning	Our planning covers everything from asset management to catchment management plans and flood hazard maps.	<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	Managing water, wastewater and stormwater services for our clients	<ul style="list-style-type: none"> ● Programme management

	<p>requires reviews, investigations and assessments of the assets to ensure the best outcomes for both our clients and their residents and ratepayers are achieved.</p> <p>We manage maintenance and operations contracts; prepare new contracts and manage the tendering processes for our clients.</p>	<ul style="list-style-type: none"> ● 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 have collaborative management agreements with these contractors 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 assets and receiving environments to manage water, stormwater and wastewater services and 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

4. Key performance indicators

Levels of service provision relating to our activities are captured in key performance indicators based on council long term plans, and 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.

4.1 Present performance indicators

Service category	Service aspect	Service objective	Performance target
Service quality	Service reliability	To provide a reliable water supply, stormwater and wastewater service	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.
Customer focus	Responsiveness to service requests	To respond promptly to service requests	Respond to at least 97 per cent of all requests for service within one hour of notification
	Timeliness and quality of asset management plan for Councils	Timeliness and quality of asset management plan	Completion of approved asset management plan within agreed timeframes.
Cost effectiveness	Operating efficiency	To provide a cost-effective service	Trend of the operating cost of delivering water supply, wastewater and stormwater services relative to a national average.
Financial, project and network management	Project and network management performance	To manage operating and capital projects within budgets and timeframes	Deliver operating projects within budget and timeframes
			Deliver capital projects within budget and timeframes

		To manage Capacity within budget	Manage Capacity within budget
Legislative, financial, technical, compliance	Compliance	To comply with relevant standards, legislation and resource consents.	Full compliance with relevant standards and legislation. No infringements of resource consents.

4.2 Proposed outcome-based performance indicators

Under the proposed outcome-based model, the aim is to ensure Capacity's key performance indicators remain relevant, measurable and achievable within the constraints of client resources. The draft indicators below are proposed to meet the focus of this approach, pending approval by Capacity's shareholder councils. Once agreed, trending tolerances and specific targets will also be confirmed with each council. Historic trends and tolerance levels are presented in 'Serviceability indicator' tables.

Service category	Performance target
Service quality	Unplanned supply cuts (pipe burst) per 1000 connections
	Wastewater incidents reported per kilometre of wastewater reticulation pipeline
	Ministry of Health grading for the local water supply
	Compliance with NZ drinking water quality standards.
	Completion of annual opex programme within budget
	Completion of annual capex programme within budget
	Completion of annual opex programmes within the financial year
	Completion of annual capex programmes within the financial year
	Networks operated and maintained to deliver network capability
Customer focus	Response (A & B) times for priority one activities
	Achievement of council's customer service satisfaction survey targets
	Number of justified complaints

Cost effectiveness	Operating cost per connection
	Total labour and consultancy charges as a percentage of total expenditure (inflation adjusted)
	Design and supervision labour and consultancy charges measured against industry guidelines
Environmental	Management of unaccounted for water (UFW%)
	Maintain the average unmetered water consumption (normal year)
	No resource consent related infringement notices received from GWRC
Legislative compliance	Full compliance with all relevant legislation.
	Full compliance with the Health and Safety in Employment Act 1992
Process	Emergency management planning – Achievement of key milestones
	Asset management improvement planning – Evaluation by Audit NZ or peer review
	Asset management plans rated “Good” to “Very Good” by Audit NZ or peer review
	Activity risk management planning – Achievement of key milestones
	Delivery of asset management plans, statements of intent, annual report and other agreed documents on time
	Maintenance of ISO Accreditation

4.3 Proposed serviceability indicators

The tables below show the trends of performance in a ‘basket’ of network service indicators over the past three years, against suggested tolerances. The outcome-based model allows for tolerances to be set by each council that reflect their preferred risk appetite. Only water and wastewater indicators are presented, as stormwater networks include both natural and constructed elements and are heavily influenced by topography, making high-level cost and performance comparisons meaningless.

Wellington City Council serviceability indicators

Indicators ("the basket")	Results			Trend
	2009-10	2010-11	2011-12	
Number of water main bursts	59	74	66	Marginally declining
Number of total water leaks	2695	2958	2680	Stable
Maintenance costs	\$4,576,000	\$5,285,000	\$5,491,000	Marginally declining
Operating cost per km of pipeline	\$4,612	\$5,155	\$5,384	Marginally declining
Water supply pressure	historical data invalid			
Number of requests for service	10,745	8875	8588	Marginally improving
Level of unaccounted for (non-revenue) water	15.4%	14.3%	12.2%	Marginally improving
Water supply serviceability				Stable

Tolerance	
-15%	Improving
-5%	Marginally improving
	Stable
5%	Marginally declining
15%	Declining

Indicators ("the basket")	Results			Trend
	2009-10	2010-11	2011-12	
Number of pipeline blockages	679	639	495	Improving
Maintenance costs	\$4,715,000	\$4,185,000	\$4,511,000	Stable
Overflow incidents reported	1	3	4	Declining
Operating cost/km of pipeline	\$5,505	\$4,979	\$5,304	Stable
Ratio of average daily flow/peak daily flow	4.2680	4.5630	4.2970	Stable
Number of wet weather system discharges	47	88	51	Stable
Number of dry weather system discharges	1	3	4	Declining
Number of requests for service	1,827	1,637	1,293	Improving
Wastewater serviceability				Marginally declining

Upper Hutt City Council serviceability

Indicators ("the basket")	Results			Trend
	2009-10	2010-11	2011-12	
Number of water main bursts	34	52	54	Declining
Number of total water leaks	759	820	789	Stable
Maintenance costs	\$1,295,000	\$1,364,000	\$1,268,000	Stable
Operating cost per km of pipeline	\$5,563	\$5,859	\$5,527	Stable
Water supply pressure	historical data invalid			
Number of requests for service	1190	1339	1257	Stable
Level of unaccounted for (non-revenue) water	13.3%	15.4%	16.1%	Marginally declining
Water supply serviceability				Stable

Tolerances	
-10%	Improving
-5%	Marginally improving
	Stable
5%	Marginally declining
10%	Declining

Indicators ("the basket")	Results			Trend
	2009-10	2010-11	2011-12	
Number of pipeline blockages	30	64	54	Declining
Maintenance costs	\$1,073,000	\$988,000	\$922,000	Marginally Improving
Overflow incidents reported	0	0	0	Stable
Operating cost per km of pipeline	\$6,135	\$5,795	\$5,512	Marginally Improving
Ratio of average daily flow/peak daily flow	2.4	2.4	2.6	Stable
Number of wet weather system discharges	1	0	0	Improving
Number of dry weather system discharges	0	0	0	Stable
Number of requests for service	301	237	246	Improving
Wastewater serviceability				Improving

Hutt City Council serviceability

Indicators ("the basket")	Results			Trend
	2009-10	2010-11	2011-12	
Number of water main bursts	98	103	102	Stable
Number of total water leaks	1952	2129	1888	Stable
Maintenance costs	\$2,348,000	\$2,611,000	\$2,712,000	Marginally declining
Operating cost per km of pipeline	\$4,341	\$4,873	\$5,019	Marginally declining
Water supply pressure	74	71	88	Marginally declining
Number of requests for service	3,593	4,080	3,609	Stable
Level of unaccounted for (non-revenue) water	17.5%	17.8%	18.5%	Stable
Water Supply Serviceability				Stable

Tolerances	
-10%	Improving
-5%	Marginally improving
	Stable
5%	Marginally declining
10%	Declining

Indicators ("the basket")	Results			Trend
	2009-10	2010-11	2011-12	
Number of pipeline blockages	465	483	439	Stable
Maintenance costs	\$1,701,000	\$1,960,000	\$2,330,000	Declining
Overflow incidents reported	4	3	1	Improving
Operating cost/km of pipeline	\$3,545	\$4,208	\$4,903	Declining
Ratio of average daily flow/peak daily flow	2.4	2.4	2.6	Stable
Number of wet weather system discharges	historical data invalid			
Number of dry weather system discharges	historical data invalid			
Number of requests for service	947	962	957	Stable
Wastewater serviceability				Stable

5. Risk management

Including health and safety management, insurance, business continuity planning and emergency preparedness.

5.1 Risk

Capacity is moving to an outcome-based business model. Under this model we change from being a risk 'manager' (i.e. managing risks that are ultimately our clients') to a risk 'owner' and manager.

This move provides us with the impetus to develop our risk management processes. In 2013-14 we will consolidate our existing risk management activities into an organisation-wide risk management framework, using key performance indicators to price our risk appetite.

Under the new model each council will agree on the desired level of service they require, which will be measured via a range of standardised indicators. If we achieve or exceed the agreed targets, we will be provided with a performance bonus. This will enable stakeholders to define Capacity's risk tolerance (the level at which no bonus is paid), and Capacity to price its risk appetite (the level within tolerance it wishes to operate at).

A project has been developed to build this risk and performance indicator framework to align, manage, measure and communicate our strategic and organisational risks, as well as our and clients' operation and activity risks.

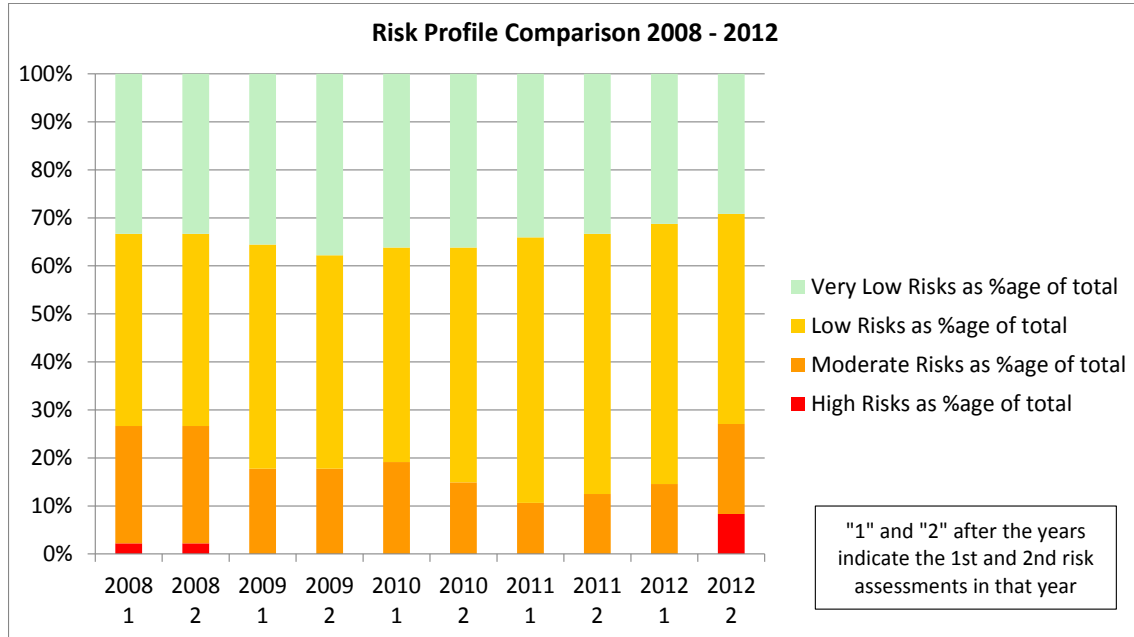
The framework and associated tools and techniques will enable us to monitor and report on corporate performance, and our clients to better understand how their risks are being managed.

Risk management approach

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.



Some of the principal risks facing Capacity and mitigation measures adopted are as follows:

Risk	Consequence	Likelihood	Mitigation Measures
Significant earthquake or other natural disaster	Catastrophic	Rare	<ul style="list-style-type: none"> Capacity emergency management plan Activity (water supply, wastewater and stormwater) risk management plans Capacity business continuity plan Contingency plans Increased emphasis on earthquake resilience in design of infrastructure
Inadequate management of risks associated with key activities (water supply, wastewater, stormwater)	Very high	Unlikely	<ul style="list-style-type: none"> Activity risk management plans Use of approved contractors Specifications for physical works Emergency management planning Health and safety management plans Contract audits
Contamination of water mains (water supply)	Catastrophic	Moderate	<ul style="list-style-type: none"> Approved public health risk management plan for water supply Free available chlorine

Risk	Consequence	Likelihood	Mitigation Measures
			residual in reticulation <ul style="list-style-type: none"> • Testing of water supply in reticulation • Backflow prevention programme • Use of approved contractors • Specifications for construction and repairs includes requirements for flushing and disinfection
Excessive entry of stormwater to the wastewater system (Wastewater)	Major	Likely	<ul style="list-style-type: none"> • Infiltration/inflow programme • Asset renewal programme • Asset development programme
Blockage of intakes (Stormwater)	Catastrophic	Possible	<ul style="list-style-type: none"> • Preventive maintenance programmes • Target standards for response • Inspection programme for critical assets
Inability to manage efficiently due to use of different asset management software systems (Corporate)	High/Very High	Moderate	<ul style="list-style-type: none"> • Definition of business needs/current problem • Consultation with client councils • Issues identification (technical and non-technical) • Business process analysis to preferred solution
Inability to attract and retain quality staff (Corporate)	High/Very High	Minimal	<ul style="list-style-type: none"> • Have a clear vision for Capacity • Define values and behaviours • Provide training and development opportunities • Provide competitive remuneration

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

Activity risk is risk associated with the delivery of water supply, wastewater and stormwater services and is addressed in our asset management plans.

We have prepared activity risk management plans for Hutt and Wellington cities, complementing their asset management plans, to cover risk at a greater level of detail. Preparing activity risk management plans is a risk mitigation strategy identified in the Capacity corporate risk management framework.

5.2 Health and safety

We are committed to ensuring all work managed on behalf of our clients' accords with the highest standards of health and safety for those involved in the work and for the general public.

Health and safety management is one of 15 key business processes that form the basis of the Capacity Quality System. Health and safety management is subject to internal and external audit as required by the ISO 9001:2008 standard.

The principal health and safety elements in the Capacity Quality System are:

- The Capacity Health and Safety Manual; this sets out Capacity's health and safety system including
 - health and safety objectives and strategies
 - responsibilities for health and safety
 - hazard identification and management
 - staff health and safety training and supervision
 - incident and injury investigation and management
 - staff participation in health and safety management including the Capacity Health and Safety Committee
 - health and safety in design
 - health and safety management for physical works contracts
 - site-specific health and safety management
- Capacity offices
- Capacity vehicles
- External worksites
 - emergency planning and readiness
 - health and safety audits
 - health and safety performance monitoring
 - managing health and safety records and documentation
- Specific procedures and forms covering
 - confined space entry (including management of potentially hazardous atmospheres)
 - hazard management
 - incident investigation and management
 - contracts management (health and safety)

- health and safety induction (staff)
- health and safety induction (contracts).

We identify and manage health and safety risk in operations, maintenance and capital works activities through procurement and contractor engagement processes. Contractor management includes pre-approval qualification, site induction, periodic audits through construction, and post contract reviews.

Health and safety management at Capacity is overseen by the Capacity Health and Safety Committee. Individual managers are responsible for managing health and safety within their area of responsibility.

The Health and Safety Committee, which meets monthly, comprises staff representatives and at least one senior manager. Meetings are “open door” with staff encouraged to attend.

Additional training in health and safety management is provided for members of the health and safety committee.

5.3 Insurance

Our insurance programme has the full range of liability insurances, including general liability, professional indemnity, directors’ and officers’ liability, fidelity guarantee, employer’s liability and statutory liability, motor vehicle insurance for Capacity-leased vehicles, and material damage and business interruption insurances.

As the water network assets we manage are owned by the respective councils, councils insure them separately.

AON New Zealand has been our insurance broker since 2010.

The liability package and material damage and business interruption insurances are renewed with Vero. NZI insures the motor vehicles. The policy limit for general liability is \$20 million for any one loss. Other policy limits vary from \$500,000 for any one claim for fidelity guarantee, to statutory liability at \$2 million for any one claim.

The deductible amounts range from \$500 for motor vehicles to \$50,000 for each and every professional indemnity claim.

To include separate set limits for liabilities and defence costs at the time of renewal. Pre-renewal meetings commence in February, since the renewal date is 2 April.

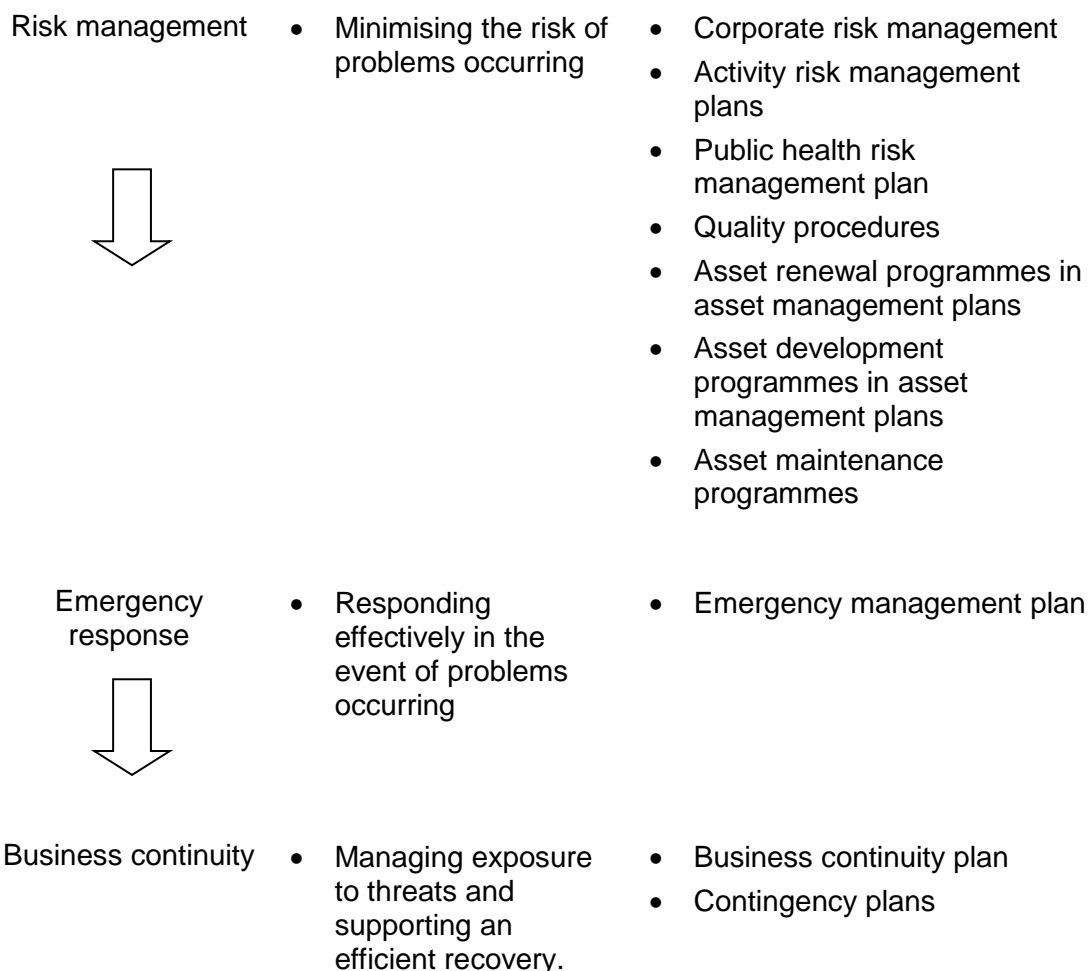
Business continuity

The Capacity Business Continuity Plan was reviewed and updated in late 2011.

The purpose of this plan is to support the prompt and efficient restoration of Capacity’s key business processes and supporting procedures that may be interrupted following a significant disaster or emergency. This will provide for the on-going delivery or efficient

restoration of essential water supply, wastewater and stormwater services in Wellington, Hutt, Upper Hutt and Porirua cities in the event of an emergency.

The business continuity plan is closely related to the Capacity Emergency Management Plan and forms part of Capacity's risk management capability. The relationship between risk management, emergency response and business continuity is as follows:



5.4 Emergency preparedness

Capacity responds to civil emergencies in conjunction with our clients' emergency requirements.

Our emergency management plan covers actions relating to emergency management (reduction, readiness, response and recovery) and the three water activities' assets for all client councils. The plan covers retro-fitting facilities, network reinforcement, redundancy improvements, emergency exercises and training, and providing direction for long-term recovery.

The physical works will take many years to implement, but long term planning will provide guidance to ensure works are undertaken in a strategic manner.

As noted, our emergency management planning and activity takes place with representatives of our client councils, Porirua City and Greater Wellington Regional Council, as well as internally.

6. Corporate governance

Capacity is a council-controlled trading organisation as defined by Section 6 of the Local Government Act 2002. Capacity is also covered by the Companies Act 1993 and governed by law and best practice.

This statement provides an overview of our main corporate governance policies, practices and processes adopted by the Board.

Upon finalisation of agreement between existing and proposed shareholders on the share structure, share capital and Board of Directors for a regional water business, this section will be updated.

Depending on the new shareholding arrangements the reporting requirements may change. Inherent in any new arrangement will be a commitment to the “no surprises” policy between Capacity and shareholder councils.

The Board of Directors

The Board of Directors consists of six members, with each shareholder separately appointing up to two directors and jointly appointing up to two independent directors. Directors serve three-year terms. To ensure we have continuity of relevant knowledge, skills and experience, the expiry dates of terms of office are different for each director. Each director can serve a maximum of two terms, or six years.

Board Chair Peter Allport’s and Peter Leslie’s second three-year terms expire on 31 December 2013. Hutt City Council is represented by Councillor David Bassett, who completes his first term in December 2013. Wellington City Council Councillor Andy Foster completes his second term on 31 October 2013. The second three year terms of John Strahl and Ian Hutchings expire on 31 December 2015.

Board performance reviews are undertaken annually. On completion of the current review an update will be provided to shareholders.

The Board is responsible for the proper direction and control of Capacity.

Unanimous approval of the Board is required for:

- 1.1 significant changes to the company’s structure
- 1.2 extraordinary transactions (entering into any contract or transaction except in the ordinary course of business)
- 1.3 delegation of Directors’ powers to any person
- 1.4 any decision to diversify business into a business not forming part of or being naturally ancillary to the core business of managing water services
- 1.5 major transactions including establishing and renewing contracts for service delivery
- 1.6 disputes (commencing or settling any litigation, arbitration or other proceedings that are significant or material to the company’s business)
- 1.7 borrowings in a manner that materially alters the company’s banking arrangements, advancing credit (other than normal trade credit) exceeding

- \$5,000 to any person except for making deposits with bankers, or giving guarantees or indemnities to secure any person's liabilities or obligations
- 1.8 sale of assets (selling or disposing of fixed assets for a total price per transaction exceeding \$100,000 or a series of aggregated transactions exceeding \$200,000)
 - 1.9 capital expenditure (other than in the ordinary course of doing business) at a total cost to the company, per transaction, exceeding \$100,000 or a series of aggregated transactions exceeding \$200,000.

The agreement of the shareholders is required for:

- 1.10 any changes to the constitution
- 1.11 any increases in capital and the issue of further securities, share buybacks and financial assistance
- 1.12 any alteration of rights attaching to shares
- 1.13 any arrangement, dissolution, reorganisation, liquidation, merger or amalgamation of the company
- 1.14 any "major transactions" as that term is defined in the Companies Act 1993.

Ratio of consolidated shareholders' funds to total assets

Ownership of infrastructural assets is retained by the shareholders (or other clients). As a business that returns all benefits to shareholders, a statement of the ratio of shareholders' funds to assets is not considered appropriate.

The existing and proposed shareholders are to put in place a memorandum of understanding through which shareholders can provide timely advice to directors and agree on future director appointments.

Accumulated profits and capital reserves

The current structure of the company does not enable Capacity to pay a dividend in the 2012-2013 financial year. Capacity envisages that this will be reviewed by shareholders as a part of the transition to an outcome based model where the retention of accumulated profits arising from efficiencies within the agreed fee structure could be used to invest in improving the Company or paid as dividend to shareholders.

Information to be provided to shareholders

In each year Capacity shall comply with the reporting requirements under the Local Government Act 2002 and the Companies Act 1993 and regulations.

In particular Capacity will provide:

1. A statement of intent detailing all matters required under the Local Government Act 2002, including financial information for the next three years.
2. Within two months after the end of the first half of each financial year, the Company shall provide a report on the operations of Capacity to enable an

informed assessment of its performance, including financial statements (in accordance with section 66 of the LGA 2002).

3. Within three months after the end of each financial year, Capacity will provide an annual report which provides a comparison of its 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 (in accordance with sections 67, 68 and 69 of the LGA 2002).

Due to the extensive reporting requirements undertaken in accordance with the service level agreements with client councils, the reliance on six monthly reports fully meets the LGA's requirements and is appropriate in the circumstances.

Share acquisition

There is no intention to subscribe for shares in any other company or invest in any other organisation.

Compensation from local authority

It is not anticipated that the company will seek compensation from any local authority other than in the context of normal commercial contractual relationships.

Equity value of the shareholders' investment

The net value of the shareholders' investment in the company is estimated to be valued at \$378,000 as at 31 December 2012. This value will be assessed by the directors on completion of the annual accounts or at any other time determined by the directors. The method of assessment will use the value of shareholders' funds as determined in the annual accounts as a guide.

7. Financial forecasts

Forecast Statement of Comprehensive Income

CAPACITY INFRASTRUCTURE SERVICES LIMITED

STATEMENT OF INTENT

Forecast Statement of Comprehensive Income

FOR THE FINANCIAL YEARS ENDING 30 JUNE 2014, 30 JUNE 2015, 30 JUNE 2016

	Forecast	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Budget	Budget	Budget
	2012/13	1-Jul - 30 Sep	1 Oct - 31 Dec	1 Jan - 31 Mar	1 Apr - 30 Jun	2013/2014	2014/2015	2015/2016
	000's	000's	000's	000's	000's	000's	000's	000's
REVENUE								
Operations	7,822	2,042	2,042	2,042	2,074	8,199	8,381	8,587
TOTAL REVENUE	7,822	2,042	2,042	2,042	2,074	8,199	8,381	8,587
EXPENDITURE								
General Expenditure	1,764	439	439	439	471	1,787	1,827	1,872
Personnel Expenditure	5,989	1,569	1,569	1,569	1,569	6,275	6,414	6,572
Depreciation	69	34	34	34	34	135	138	141
Interest on Finance Leases	1	0	0	-0	-0	2	2	2
TOTAL EXPENDITURE	7,822	2,042	2,042	2,041	2,074	8,199	8,381	8,587
NET SURPLUS/(DEFICIT) BEFORE TAXATION	0	0	0	0	0	0	0	0
Tax expense/(benefit)		0	0	0	0	0	0	0
NET SURPLUS/(DEFICIT) AFTER TAXATION	0	0	0	0	0	0	0	0

Note: The financial forecasts are based on Capacity's current shareholder and client structure. If Porirua City joins Capacity's list of clients in the period 2013-14 as planned, this will affect Capacity's financial forecasts, and revised forecasts will be prepared and notified as set out under Schedule 8, clause 5, of the Act.

Forecast Statement of Financial Position

Forecast Statement of Financial Position

FOR THE FINANCIAL YEARS ENDING 30 JUNE 2014, 30 JUNE 2015, 30 JUNE 2016

	Forecast	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Budget	Budget	Budget
	2012/13	1-Jul - 30 Sep	1 Oct - 31 Dec	1 Jan - 31 Mar	1 Apr - 30 Jun	2013/2014	2014/2015	2015/2016
	000's	000's	000's	000's	000's	000's	000's	000's
CURRENT ASSETS								
Cash	455	486	441	237	303	303	351	159
Prepayments	121	145	120	175	149	149	153	156
Trade and other receivables	809	783	783	783	820	820	838	859
Current Assets	1,385	1,414	1,344	1,194	1,273	1,273	1,342	1,174
NON CURRENT ASSETS								
Property, plant and equipment	169	160	175	165	155	155	96	55
Non current assets	169	160	175	165	155	155	96	55
TOTAL ASSETS	1,554	1,573	1,519	1,359	1,428	1,428	1,438	1,229
CURRENT LIABILITIES								
Trade and other payables	739	826	686	601	629	629	629	410
GST payable	161	81	141	127	142	142	145	149
Annual leave	291	303	330	267	294	294	300	308
TOTAL LIABILITIES	1,191	1,210	1,156	996	1,065	1,065	1,075	866
NET WORKING CAPITAL	363	363	363	363	363	363	363	363
EQUITY								
Share Capital	600	600	600	600	600	600	600	600
Retained Earnings	(237)	(237)	(237)	(237)	(237)	(237)	(237)	(237)
TOTAL EQUITY	363	363	363	363	363	363	363	363

Forecast Statement of Cash Flows

Forecast Statement of Cash Flows

FOR THE FINANCIAL YEARS ENDING 30 JUNE 2014, 30 JUNE 2015, 30 JUNE 2016

	Forecast	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Budget	Budget	Budget
	2012/13	1-Jul - 30 Sep	1 Oct - 31 Dec	1 Jan - 31 Mar	1 Apr - 30 Jun	2013/2014	2014/2015	2015/2016
	000's	000's	000's	000's	000's	000's	000's	000's
CASH FLOW FROM OPERATING ACTIVITIES:								
Cash was provided from:								
Operating receipts	8,197	2,374	2,348	2,348	2,348	9,418	9,786	9,804
GST receivable	(6)	(311)	(151)	(408)	(261)	(1,132)	(1,157)	(1,186)
Cash was disbursed to:								
Payment to suppliers	(8,042)	(2,008)	(2,192)	(2,120)	(1,996)	(8,316)	(8,501)	(8,711)
NET CASH INFLOW/ (OUTFLOW) FROM OPERATING ACTIVITIES	150	55	5	(181)	91	(31)	128	(92)
CASH FLOW FROM INVESTING ACTIVITIES:								
Cash was disbursed to:								
Purchase of fixed assets	(74)	(24)	(49)	(24)	(24)	(121)	(80)	(100)
NET CASH INFLOW/ (OUTFLOW) FROM FINANCING ACTIVITIES	(74)	0	0	0	0	0	0	0
NET CASH INFLOW / (OUTFLOW)	76	31	(44)	(205)	67	(152)	48	(192)
OPENING CASH BALANCE	379	455	486	441	237	455	303	351
CLOSING CASH BALANCE	455	486	441	237	303	303	351	159

8. Statement of accounting policies

Capacity will apply the following accounting policies consistently during the year and apply these policies to the Statement of Intent. In accordance with the New Zealand Institute of Chartered Accountants Financial Reporting Standard 42 (FRS 42), the following information is provided in respect of the statement of intent.

Cautionary note

The statement of intent's forecast financial information is prospective. Actual results are likely to vary from the information presented, and the variations may be material.

Nature of prospective information

The financial information presented consists of forecasts that have been prepared on the basis of best estimates and assumptions on future events that Capacity expects to take place.

Statement of compliance with International Financial Reporting Standard

The financial statements have been prepared in accordance with New Zealand generally accepted accounting practice. They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable financial reporting standards, as appropriate for public benefit entities.

Reporting entity

Capacity Infrastructure Services Limited, trading as Capacity, is a company registered under the Companies Act 1993 and a council-controlled trading organisation as defined by Section 6 of the Local Government Act 2002. Current shareholders are Wellington City Council and Hutt City Council. Capacity was incorporated in New Zealand in 2003 as Wellington Water Management Services Limited and 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 covers the 12 months from 1 July 2013 to 30 June 2014. Comparative projected figures for the year ended 30 June 2015 and 30 June 2016 are provided.

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 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 for public benefit entities will apply before this date, there is no certainty as to when an equivalent standard to NZ IFRS 9 will be applied.

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 2012-2013 the customers were shareholder councils Wellington City Council and Hutt City Council, as well as contracted services for Upper Hutt City Council.

Revenue is recognised when earned and is reported in the financial period to which it relates.

b) Expenses

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

c) 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 not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of an asset and liability in a transaction that is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is recognised on taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the company can control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Current tax and deferred tax is charged or credited to the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the tax is dealt with in equity.

d) Goods and Services Tax (GST)

All items in the financial statements are exclusive of GST, with the exception of receivables and payables, which are stated as GST inclusive. Where GST is not recoverable as an input tax, it is recognised as part of the related asset or expense.

e) Financial instruments

Capacity classifies its financial assets and financial liabilities according to the purpose for which the investments were acquired. Management determines the classification of

its investments at initial recognition and re-evaluates this designation at every reporting date.

Non-derivative financial instruments

Financial assets

Capacity classifies its investments into the following categories: financial assets at fair value through profit and loss, and loans and receivables.

Loans and receivables comprise cash and cash equivalents and trade and other receivables.

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the company provides money, goods or services directly to a debtor with no intention of trading the receivable. Trade and other receivables are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method.

Cash and cash equivalents comprise cash on hand, deposits held on call with banks, and call deposits with up to three months maturity from the date of acquisition. These are recorded at their nominal value.

Financial liabilities

Capacity classifies its financial liabilities into the following categories: financial liabilities at fair value through profit and loss or other financial liabilities.

Financial liabilities comprise trade and other payables and borrowings. Financial liabilities with a duration of 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 a duration of 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 will be reported at its recoverable amount and an impairment loss will be recognised. The recoverable amount is the higher of an item's fair value less costs to sell and value in use. Losses resulting from impairment are reported in the Statement of Comprehensive Income.

Disposal

Gains and losses arising from the disposal of property, plant and equipment are determined by comparing the proceeds with the carrying amount and are recognised in the Statement of Comprehensive Income in the period in which the transaction occurs.

Depreciation

Depreciation is provided on all property, plant and equipment, except for assets under construction (work in progress). Depreciation is calculated on a straight line basis, to allocate the cost or value of the asset (less any residual value) over its useful life. The depreciation rates of the major classes of property, plant and equipment are as follows:

Telephone system	10.75 per cent
Furniture	7.80-18.60 per cent
Plant and Equipment	7.80-48.00 per cent

The residual values and useful lives of assets are reviewed and adjusted if appropriate at each balance date.

Work in progress

The cost of projects within work in progress is transferred to the relevant asset class when the project is completed and then depreciated.

g) Intangible assets

Acquired intangible assets are initially recorded at cost.

Intangible assets with finite lives are subsequently recorded at cost, less any amortisation and impairment losses. Amortisation is charged to the Statement of Comprehensive Income on a straight-line basis over the useful life of the asset. Typically, the estimated useful lives of these assets are as follows:

Computer Software

2 ½ to 5 years

Realised gains and losses arising from disposal of intangible assets are recognised in the Statement of Comprehensive Income in the period in which the transaction occurs. Intangible assets are reviewed at least annually to determine if there is any indication of impairment. Where an intangible asset's recoverable amount is less than its carrying amount, it will be reported at its recoverable amount and an impairment loss will be recognised. Losses resulting from impairment are reported in the Statement of Comprehensive Income.

h) Employee benefits

A provision for employee benefits (holiday leave) is recognised as a liability when benefits are earned but not paid.

Long-service leave and retirement gratuities have been calculated on an actuarial basis based on the likely future entitlements accruing to staff, after taking into account years of service, years to entitlement, the likelihood that staff will reach the point of entitlement, and other contractual entitlements information. This entitlement is not offered to new Capacity employees. The present value of the estimated future cash flows has been calculated using an inflation factor and a discount rate. The inflation rate used is the annual Consumer Price Index to 31 March prior to year end. The discount rate used represents the company's average cost of borrowing.

Holiday leave is calculated on an actual entitlement basis at the greater of the average or current hourly earnings in accordance with sections 16(2) and 16(4) of the Holidays Act 2003.

i) Other liabilities and provisions

Other liabilities and provisions are recorded at the best estimate of the expenditure required to settle the obligation. Liabilities and provisions to be settled beyond 12 months are recorded at their present value.

j) Equity

Equity is the shareholders' interest in the entity and is measured as the difference between total assets and total liabilities. Equity is disaggregated and classified into a number of components to enable clearer identification of the specified uses of equity within the entity. The components of equity are accumulated funds and retained earnings.

k) Leases

Leases where the lessor effectively retains substantially all the risks and rewards of ownership of the leased items are classified as operating leases. Payments made under these leases are charged as expenses in the Statement of Comprehensive Income in the period in which they are incurred. Payments made under operating leases are recognised in the Statement of Comprehensive Income on a straight-line basis over the term of the lease. Lease incentives received are recognised in the Statement of

Comprehensive Income as an integral part of the total lease payment. Leases which effectively transfer to the lessee substantially all the risks and benefits incident to ownership of the leased item are classified as finance leases.

l) Superannuation scheme

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.

9. Schedule 1: Cost allocation summary

We manage more than 5,000km of pipes, over 120 reservoirs and more than 175 pump stations for three councils. During 2013-2014 we will be responsible for managing \$61 million of operational expenditure and \$36 million of capital expenditure for our clients.

Schedule 1 below outlines how Capacity's costs are allocated across client councils based on planned work activities for 2013-2014.

Under the outcomes-based business model, costs managed by Capacity for the 2013-14 year would include Capacity's direct costs of \$8.199m and consultants' costs in the operational (\$2.060m) and capital (\$6.927m) programmes, or a total of \$17.186 million

Schedule 2 lists the capital projects that will be managed by Capacity on behalf of its clients during the 2013-2014 year.

Schedule 1. Cost allocation summary

Schedule One Capacity's Cost Allocation Summary 2013-14		CAPACITY DIRECT COSTS				
		Strategic & Asset Planning	Investigation, monitoring and development	Capital Project Management	Operations Management	Total
		\$000's	\$000's	\$000's	\$000's	\$000's
Water	WCC	141	823	520	1,074	2,558
	HCC	141	72	107	381	702
	UHC	60	57	67	329	514
	Total	342	952	695	1,784	3,773
Wastewater	WCC	216	398	438	794	1,846
	HCC	137	113	123	228	602
	UHC	37	53	12	79	181
	Total	389	564	573	1,102	2,629
Stormwater	WCC	178	340	233	397	1,148
	HCC	169	51	89	199	508
	UHC	36	14	16	75	140
	Total	383	405	338	671	1,797
Total Network	WCC	535	1,560	1,191	2,266	5,552
	HCC	448	237	319	808	1,812
	UHC	133	124	95	483	835
	Total	1,115	1,922	1,606	3,556	8,199 #
		% of controllable costs				7.56%
		% of grand total costs				4.28%

Consultants/Contractor Costs managed by Capacity on behalf of Ratepayers (includes Capacity costs)				Total Cost to Ratepayers
Operational Programmes		Capital Programmes		Total Opex & Capex
Consultants costs	Contractor Costs	Consultants costs	Contractor Costs	
\$000's	\$000's	\$000's	\$000's	\$000's
371	19,311	2,277	9,889	31,847
130	10,457	290	2,123	12,999
0	3,542	101	913	4,556
500	33,310	2,668	12,925	49,403
425	16,781	2,049	5,228	24,483
151	11,935	718	3,772	16,576
0	3,206	181	1,627	5,014
576	31,922	2,948	10,627	46,074
859	2,362	1,043	2,969	7,233
124	3,385	191	871	4,571
0	459	76	688	1,223
983	6,206	1,311	4,527	13,027
1,655	38,454	5,369	18,086	63,564 *
405	25,777	1,199	6,766	34,147 *
0	7,207	359	3,228	10,793 *
2,060	71,438	6,927	28,080	108,504 **
1.90%	65.84%	6.38%	25.88%	100.00%
2,060	154,278	6,927	28,080	191,344 ***
1.08%	80.63%	3.62%	14.67%	100.00%

Total Network Asset Values (Optimised Replacement Cost)	(\$000's)	WCC	HCC	UHCC	Total
		2,430,701	1,021,327	418,919	3,870,947

* All figures are draft, Annual Plan process not complete

**excludes revenue,depreciation,interest & other council controlled costs

***includes revenue,depreciation,interest & other council controlled costs

Please refer to note in Finance Section.

Note: The budget for 2013-14 is the Board approved Budget

The LTP however for WCC show \$4.94 million for Capacity Direct Costs which is \$ 612k less than the Board approved budget

This has been agreed with WCC to be compensated with consultancy.

10. Schedule 2: Capital project delivery 2013-2014

These capital projects will be managed by Capacity on behalf of our clients during the 2013-2014 year. The projects are indicative only and are subject to change. The project lists do not include Capacity's management costs.

Wellington City Council capital projects

WCC water supply projects

Pump station renewals	Miramar water main renewals
Seismic strengthening of reservoirs	Mt Crawford water main renewals
Seismic improvements	Mt Victoria water main renewals
Prince of Wales Reservoir design (continuation)	Owhiro Bay water main renewals
Reactive maintenance renewals	Rongotai water main renewals
Network flow calibration	Roseneath water main renewals
Forward work - investigations and design	Strathmore water main renewals
Hataitai water main renewals	Te Aro water main renewals
Lyllall Bay water main renewals	Wilton water main renewals
Maupuia water main renewals	Urgent works
Melrose water main renewals	

Total	\$12,165,546
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WCC wastewater projects

Spot repairs and maintenance works	Mt Victoria sewer renewals
Telemetry – analogue to digital conversion	Brooklyn sewer renewals
Overflow reduction assessment	Khandallah sewer renewals
Condition assessment, testing and inspection	Island Bay sewer renewals
Forward work – investigations and design	Kilbirnie sewer renewals
Belleview Heights attenuation tank – Stage 2	Wadestown sewer renewals
Miramar sewer renewals	Spot repairs and maintenance works
Thorndon sewer renewals	Urgent works
Ngaio sewer renewals	

Total	\$7,411,469
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WCC stormwater projects

Condition assessment, testing and inspection	Tasman St stormwater renewal
Spot repairs and maintenance works	Forward works – investigation and design
Stormwater main hydraulic profiling	Urgent works
Newlands Rd stormwater renewal – Stage 1	

Total	\$4,012,078
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Total Wellington City Council	\$23,589,093
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Hutt City Council capital projects

HCC water supply projects

Emergency water supply earthquake mitigation
Hawthorn Crescent - main/rider/services renewal
Kelson pump station renewal

Stokes Valley Road main - rider/services renewals
Kelson/Fairway Drive link main renewal stage 2
Kingsley Street Reservoir outlet main renewal stage 2

Network minor works
Pump station minor works
Reservoir minor works
Konini Road Reservoir outlet main renewal stage 2
SCADA renewals

Total **\$2,413,000**

HCC wastewater projects

Westhill Rd / Howard Rd sewer renewals
Local pumping stations
Minor asset renewals
Naenae sewer renewals
Pressure testing of sewers
Scada renewals

Trunk DBO asset replacement fund
Trunk DBO network cyclic replacement
Trunk Non DBO minor works
Trunk Type A asset development
Trunk Type B network development

Total **\$4,490,000**

HCC stormwater projects

Awamutu Stream
Hutt River floodplain
Hutt River backflow electrical
Tawhai St stormwater renewal
Cheviot St stormwater improvement

East St / Petone stormwater improvement
Minor works
Scada renewals

Total **\$1,062,000**

Total Hutt City Council

\$7,965,000

Upper Hutt City Council capital projects

UHCC water supply projects

Harewood Gr	Kowhai Av	
Huia Gr	Minor works	
Matuku St	Telemetry	
Victoria St	Pump station	
Kiln St	Bulk Meter Purchase/Install	
Royal St	Pressure Management	
	Total	\$1,013,908

UHCC wastewater projects

Whakatiki St	Pump station	
Forest Rd	Telemetry	
Elmslie Rd	Wastewater project capital	
Minor works		
	Total	\$1,275,477

UHCC stormwater projects

Rata Street	Holdsworth Av	
Field St	Bristol St	
Turon Cr	Shakespeare Av/Byron St	
Elmslie Rd	Minor works	
Rongonui St	Telemetry	
	Total	\$763,535

Total Upper Hutt City Council **\$3,052,919**

Appendix 1: Client council expectations and long term plan measures – as expressed in council long term plans 2012-22

Wellington City Council long term plan measures – water

Purpose of measure	Measuring our performance	Targets				
		Baseline 2011	2012/13	2013/14	2014/15	2015/16–2022/23
To measure the quality of water supplied to residents	Water compliance (%) with Drinking Water Standards for NZ (2005)	100%	100%	100%	100%	100%
	Residents (%) who agree that water services provide good value for money	85%	90%	90%	90%	90%
	Number of complaints about water quality (taste and odour)	289	Fewer than 200	Fewer than 200	Fewer than 200	Fewer than 200
	Customer satisfaction (%) with water quality and network service	94%	95%	95%	95%	95%
To measure the performance of services that ensure security of supply	Properties (%) with appropriate water pressure (a minimum of 250kPa)	96%	97%	97%	97%	98%
	Fire hydrants (%) tested that meet NZFS Code of Practice fire fighting water supply requirements	95%	95%	95%	95%	95%
	Water distribution network – quality grading (assessed by the Ministry of Health)	Achieved	Graded a to b	Graded a to b	Graded a to b	Graded a to b
	Response time to service requests (%) within one hour of notification	99%	97%	97%	97%	97%
	Unaccounted for water (%) from the network	14%	14%	14%	14%	14%
	Residential water consumption (per person per day)	297L	292L	290L	287L	285L
	Total city water consumption during the year	28.4 billion L	Less than 30 billion L	Less than 30 billion L	Less than 30 billion L	Less than 30 billion L

Wellington City Council long term plan measures – wastewater

Purpose of measure	Measuring our performance	Targets				
		Baseline 2011	2012/13	2013/14	2014/15	2015/16–2022/23
To measure the standard of the wastewater service	Customer satisfaction (%) with wastewater network service	86%	90%	90%	90%	90%
	Response time to all service requests (%) within one hour of notification	91%	95%	95%	95%	95%
	Residents (%) who agree that wastewater services provide good value for money	71%	75%	75%	75%	75%
To measure the impact of wastewater on the environment	Freshwater – sites (%) within acceptable bacteria counts (E.Coli)	100%	95%	95%	95%	95%
	Sewage network – resource consent compliance	100%	100%	100%	100%	100%

Wellington City Council long term plan measures – stormwater

Purpose of measure	Measuring our performance	Targets				
		Baseline 2011	2012/13	2013/14	2014/15	2015/16–2022/23
To measure the standard of the stormwater service	Residents (%) who agree that stormwater services provide good value for money	71%	75%	75%	75%	75%
	Customer satisfaction (%) with stormwater network service (calling cards)	86%	85%	85%	85%	85%
	Response time to all service requests (%) within one hour of notification	91%	95%	95%	95%	95%
	Number of buildings reported to have been flooded as a result of a less than 1-in-50-year rain event.	No historical data	No properties	No properties	No properties	No properties
To understand the impact of stormwater on the environment	Bathing beaches (%) compliance with Ministry for the Environment guidelines (green status)	96%	95%	95%	95%	97%
	Stormwater network – resource consent compliance	Achieved	100%	100%	100%	100%

Hutt City Council long term plan measures – water

Measure	Achieved 2008-09	Achieved 2009-10	Achieved 2010-11	Target 2011-12	Target 2012-13 TO 2021-22
Residents' satisfaction with the city water supply (measured by independent survey)	95%	97%	98%	≥95% of those expressing an opinion	≥95% of those expressing an opinion
Compliance with New Zealand Drinking Water Standards	Achieved full compliance with 1587 of the 1590 tests carried out	Achieved full compliance	Achieved full compliance	Full compliance	Full compliance
Quality of water (measured by Ministry of Health) Note: 'b' grading means a satisfactory, low level of risk. Most of Hutt City water supply is unchlorinated. Chlorination of the water supply would be required to achieve an 'a' grading	Achieved a'b' grading from the Ministry of Health for the Hutt City water supply distribution	Achieved a'b' grading from the Ministry of Health for the Hutt City water supply distribution	Achieved a'b' grading from the Ministry of Health for the Hutt City water supply distribution	Achieved a'b' grading from the Ministry of Health for the Hutt City water supply	Achieved a'b' grading from the Ministry of Health for the Hutt City water supply
Provide a reliable water supply service (measured by contract reports)	Achieved 1.99 unplanned supply cuts per 1000 connections	Achieved 2.415 unplanned supply cuts per 1000 connections	Achieved 2.61 unplanned supply cuts per 1000 connections	Fewer than four unplanned supply cuts per 1000 connections	Fewer than four unplanned supply cuts per 1000 connections
Respond promptly to water supply disruptions (measured by contract reports)	98%	99%	99.53%	97% of requests responded to within one hour of notification	97% of requests responded to within one hour of notification
Maintain the average un-metered water consumption in Hutt City	Not measured	Achieved 304 litres per head per day	Achieved 308 litres per head per day	Less than 350 litres per head per day	Less than 350 litres per head per day

Hutt City Council long term plan measures – wastewater

Measure	Achieved 2008-09	Achieved 2009-10	Achieved 2010-11	Target 2011-12	Target 2012-13 TO 2021-22
Residents' satisfaction with the city wastewater service (measured by independent survey)	97%	95%	97%	≥95% of those expressing an opinion	≥95% of those expressing an opinion
No resource consent related infringement notices received from GWRC	100% compliance	100% compliance	100% compliance	100% compliance	100% compliance
Provide a reliable wastewater service (measured by contract reports)	Achieved 0.7975 incidents	Achieved 0.875 incidents	Achieved 1.01 incidents	Fewer than 1.2 wastewater incidents reported per kilometre of wastewater reticulation pipeline	Fewer than 1.2 wastewater incidents reported per kilometre of wastewater reticulation pipeline
Respond promptly to wastewater disruptions (measured by contract reports)	98%	96%	99.93%	97% of requests responded to within one hour of notification	97% of requests responded to within one hour of notification

Hutt City long term plan measures – stormwater

Measure	Achieved 2008-09	Achieved 2009-10	Achieved 2010-11	Target 2011-12	Target 2012-13 to 2021-22
Residents' satisfaction with the city stormwater service (measured by independent survey)	81%	83%	87%	≥80% of those expressing an opinion	≥80% of those expressing an opinion
Provide a reliable stormwater service (measured by contract reports)	Achieved 0.1287 incidents	Achieved 0.169 incidents	Achieved 0.13 incidents	Fewer than 0.5 stormwater incidents reported per kilometre of stormwater pipeline	Fewer than 0.5 stormwater incidents reported per kilometre of stormwater pipeline
Achieve water quality at main recreational beaches (measured by contract reports)	Achieved Recreational Water Quality Standards	Achieved Recreational Water Quality Standards on 95% of sampling days	Achieved Recreational Water Quality Standards on 94% of sampling days	90% of sampling days when water quality meets Ministry for the Environment guidelines	90% of sampling days when water quality meets Ministry for the Environment guidelines
Respond promptly to stormwater disruptions (measured by contract reports)	99%	98%	99.75%	97% of requests responded to within one hour of notification	97% of requests responded to within one hour of notification

Hutt City Council: Outcomes and indicators

4. Outcome: Healthy people

We live healthy lives, and our city's services help to protect our health and our environment

Indicator	Measure	Target	Rationale	Activity
4.2 Water quality	Water quality at main recreational beaches	90% of samples meet Ministry for the Environment guidelines	Strong fit with outcome	Stormwater
4.3 Water quality	Quality of drinking water	Maintain at least a 'b' grading ('satisfactory, very low level of risk') across all distribution zones	Strong fit with outcome.	Water Supply
4.4 Water quality	Residents' satisfaction with the city water supply	≥80%	People's perception of water quality is closely associated with perceptions about their health and the health of the natural environment.	Water Supply

5. Outcome: A healthy natural environment

We value and protect the natural environment and promote a sustainable city. Resources are used efficiently and there is minimal waste and pollution.

5.4 Freshwater quality	Biological health of rivers (macroinvertebrates)	Maintain at least a 'good' rating across all sampling sites	Strong link to outcome. Reliable measure that is readily understood. Report on six sample sites across three rivers (ESS reports on two rivers).	Stormwater
5.5 Water use	Total (residential and commercial) water use (per capita)	Reducing trend over five years	Strong fit with outcome and ESS. Target modified from static target of <350 litres per head (which is consistently achieved	Water Supply

Upper Hutt City long term plan measures – water

Level of service objectives and performance measures

Level of service

Council will maintain a high quality water supply with minimal interruptions.

Performance measures

1. Compliance with NZ drinking water standard

2010 – 2011 actual	2011 – 2012 target	2012 – 2013 target	Years 2-3	Years 4-10
Upper Hutt's water supply has maintained an A1a grading	Maintenance of our existing A1a grading	Maintenance of our existing A1a grading	Maintain A1a grading	Maintain A1a grading

2. Community satisfaction with water supply service

2010 – 2011 actual	2011 – 2012 target	2012 – 2013 target	Years 2-3	Years 4-10
96.4% of respondents rated the water supply as satisfactory or very satisfactory	95% of survey respondents are satisfied or very satisfied	95% of respondents are satisfied or very satisfied	95%	95%

3. Interruptions to the water supply

2010 – 2011 actual	2011 – 2012 target	2012 – 2013 target	Years 2-3	Years 4-10
99% of the customers who experienced water disruptions had their service restored within two hours	95% of individual consumers who experience unplanned water disruptions have the service restored within two hours	97% of individual consumers who experience unplanned water disruptions have the service restored within two hours	97%	97%

Upper Hutt City long term plan measures – wastewater

Level of service

Our wastewater system will continue to be well maintained, safe and allow for growth.

Performance measures

1. Minimise interruptions to the ability to use the wastewater system¹

2010 – 2011 actual	2011 – 2012 target	2012 – 2013 target	Years 2-3	Years 4-10
100% of properties unable to discharge sewer to the network had their service restored within six hours	95% of properties connected to the wastewater system who are unable to dispose of wastewater will have their service restored within six hours	95% of properties connected to the wastewater system who are unable to dispose of wastewater due to unplanned interruption will have their service restored within six hours	95%	95%

2. Minimise number of blockages on Council mains

2010 – 2011 actual	2011 – 2012 target	2012 – 2013 target	Years 2-3	Years 4-10
New measure		Less than two blockages reported per kilometre of pipeline	Less than two blockages reported per kilometre of pipeline	Less than two blockages reported per kilometre of pipeline

Upper Hutt City long term plan measures – stormwater

Level of service

Council will preserve public safety and health and minimise the risk of damage to public and private property through effective stormwater management.

2010 – 2011 actual	2011 – 2012 target	2012 – 2013 target	Years 2-3	Years 4-10
	New measure	Zero reports of inhabited buildings being flooded	Zero reports of inhabited buildings being flooded	Zero reports of inhabited buildings being flooded

Porirua City Council long term plan measures – water

Level of Service	Service Delivery Performance Measures	Actual (average over last 3 years)	Target		Data source
			Years 1-3	Years 4–10	
	Reduce the number of major water reticulation breakage incidents per 100 kilometres per year	New measure	80	70	Works Operations Group records
	Maintain random tests throughout the City to ensure that the water supply is safe to drink	100%	100%	100%	Environmental Lab Services (Contractors)
	Reduce the number of maintenance requests per 1000 households relating to the water supply network ⁴⁰	New measure	8.0	7.0	Council database
	Reduce the % estimated ⁴² unaccountable water lost through the public network (versus bulk water produced)	New measure	18%	15%	GW Regional Council
	Improve compliance with minimum fire-fighting pressures for fire hydrants tested during the year	New measure	92%	95%	Internal management records
	Programme/ Project Performance Measure				
	Maintain the number of Council initiatives to secure adequate water supply into the future ⁴⁴	New measure	7	7	Council records

Porirua City Council long term plan measures – stormwater

Level of Service	Service Delivery Performance Measures	Actual (average over last 3 years)	Target		Data source
			Years 1- 3	Years 4 – 10	
Stormwater is drained in a controlled manner through pipes and open watercourses to the city's streams, harbours and coastline	Reduce the number of maintenance requests per 1000 households relating to the stormwater network (excludes roading culverts, sumps and sump leads)	New measure	27.0	25.0	Council database
	No residential, commercial or public buildings affected by the entry of floodwater during storm events	New measure	Nil	Nil	Council records
Programme/ Project Performance Measures					
	A stormwater bylaw is introduced to control pollutants at the source	New measure	Bylaw developed	Bylaw implemented	Council records

Porirua City Council long term plan measures – wastewater

Level of service	Service delivery performance measures	Actual (average over last 3 years)	Target		Data source
			Years 1-3	Years 4-10	
Urban wastewater is collected and treated to protect public health and the environment	Reduce the number of maintenance requests per 1000 households relating to the wastewater network ³⁴	New measure	5.0	4.0	Council database
	Reduce the amount of estimated ³⁶ unaccountable wastewater lost throughout the public network	New measure	Implement accurate measurement of network flows	Reduce losses ³⁷	Council records
	Ratio of peak wet weather flow to average dry weather flow (indicating amount of stormwater entering the wastewater network)	New measure	Baseline to be set	4:1	Council records
	Programme/ Project Performance Measure				
	Maintain the number of Council initiatives ³⁸ to preserve future capacity in the wastewater network	New measure	7	7	Council records

Appendix 2. Capacity's alignment with Wellington City Council strategies

In its Letter of Expectation to Capacity, Wellington City Council asked that Capacity directly address in this statement of intent our progress towards:

1. With respect to ownership restructuring, working with the owners to develop a shareholders' agreement as a mechanism to agree common direction

This is addressed in the section 6 **Corporate governance** and section 2.2 **Operating environment update**

2. Agreeing and implementing the detail of the outcome based business model.

Proposed outcome-based performance indicators are set out in section 4 **Key Performance indicators**. Details regarding:

- ownership of the three waters assets
- ownership of the three waters information and asset management info system (AMS)
- responsibility for policy and strategic direction
- approval of asset management plans
- approval of the service level agreement and Key Performance Indicators and
- approval of budgets (and funding) for operating and capital expenditure related to Council's three water activities;

These are covered separately in a report to Wellington City Council, as noted in Section 2.2 **Operating environment update**.

Living City programme

The letter of expectation also asks that Capacity note its contribution to the Council's Living City programme. Our consideration of the programmes focus is embedded in much of our activity, which is focused on delivering on our objective of ensuring the people of Wellington have safe, reliable drinking water, effective wastewater collection and treatment, clean coastal waters, healthy streams and protection from flooding. Details are given in both section 2 Strategic overview and section 3 Our activities, and include:

- network planning with reference to climate change information
- emergency management planning
- community engagement and education activities
- environmental monitoring
- regional standards and network development approaches
- aligning activities and outcomes to Council priorities

Other Council policies and strategies highlighted in the letter of expectation are the Economic Development Strategy, Events Policy and Accessible Wellington Plan

Performance indicators (section 4) and activities (section 3) set out in the body of this statement of intent address these policies, including

Economic Development Strategy

This strategy aims to support Wellington City's economic growth. A well performing, resilient, adequately funded water network is vital to support business and protect built and natural environments. While water networks are perhaps performing best when out of the news, areas of activity that support this strategy, and mentioned in this statement of intent, include:

- response times for repairs
- meeting performance measures as set out in Council's long term plan
- operation and maintenance programmes to agreed standards
- planned renewal and upgrades in agreed capital expenditure programmes
- environmental monitoring, action and reporting
- publication of reports on activities and council investment in infrastructure
- stakeholder education and awareness activity

Events Policy

This policy recognises the importance of events to Wellington City Council. Along with representatives from other infrastructure managers, we attend a bi-monthly utilities meeting, coordinated by Wellington City Council Roadway. This meeting serves to coordinate planned work by the various operators, as well as highlight upcoming planned events. We then work closely with the relevant operators to ensure our projects do not interfere with the running of the event. At the same time we prioritise any urgent reactive work which might arise during or near the event.

In addition, we participate where appropriate with other council business units directly in event activity. One example of this is joint appearance with Parks and Gardens and Sustainability staff at a home and garden expo at Westpac Stadium.

Accessible Wellington Policy

This plan supports the reduction and elimination of social and physical barriers to the Council's facilities, services and programmes.

We promote and facilitate community engagement with our activities through liaison groups and educational outreach, a growing area of interest that we are keen to support. Community engagement activity is reported to Council quarterly, and we are in regular contact with Council officers

We also aggregate and publish information on our website including water saving tips, water supply zone, and will be looking to further exploit different communication channels to keep people better informed. One example of this is tweeting water outage advice; this usefully supplements loudspeaker announcements for the hard of hearing.

Digital Strategy

We are keen to continue supporting the Council's vision of Wellington as a creative digital city, and will be working to increase our use of and value delivery by digital channels. Gathering and sharing information is central to this work and activities under way relating to this strategy are noted in section 2.2.5 Keeping people informed and in our review of activities.

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