

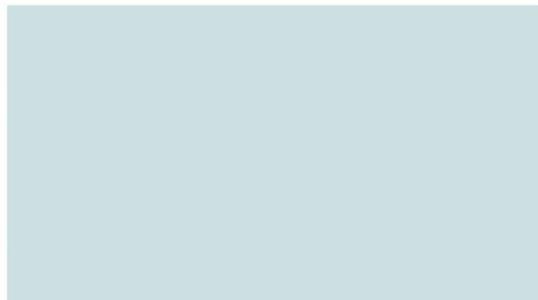
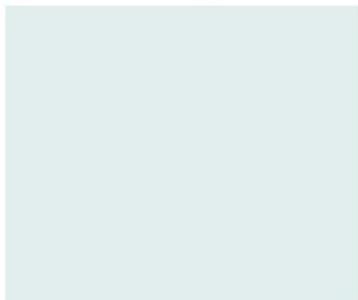


Capacity Infrastructure Services Limited

Report for the nine months to 31 March 2013



29 April 2013



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1. Purpose

This Quarterly report:

- provides shareholders with performance information for the nine months to 31 March 2013
- provides shareholders with financial results for the nine months to 31 March 2013.



Strengthening works at Newlands Reservoir, February 2013

2. Introduction

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

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

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

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

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

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

3. Key performance indicators

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

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

4. Key performance indicator results to 31 March 2013

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

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

	Wellington City	Hutt City	Upper Hutt City
Year to date	0.91	2.17	1.30

On track to achieve at year end.

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

	Wellington City	Hutt City	Upper Hutt City
Year to date	0.33	0.57	0.35

On track to achieve at year end.

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

	Wellington City	Hutt City	Upper Hutt City
Year to date	12 ¹	0	0

¹Five service requests regarding flooding in dwellings were reported after rainfall on 17 September 2012 (a 1 in 30 year event). Seven further requests regarding flooding in dwellings in the Tawa area (3 residential, 4 commercial) were reported after rainfall on 4 February 2013 (a 1 in 30 year event). The flooding was primarily due to pipe capacity issues and stormwater debris blocking the intakes. Options to resolve the issues including increased pipe capacity and/or maintenance mitigation works are being investigated.

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

	Wellington City	Hutt City	Upper Hutt City
Year to date	A1b	Bb ²	A1a

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

4.1.5 Deliver capital projects within budget and timeframes

(\$000s) Capex	YTD Actual	YTD Budget	YTD Variance	Annual Forecast	Annual Budget	Forecast Variance	Carry Forward
Wellington	15,063	18,070	3,007	22,878	24,128	1,250	1,350
Hutt City	6,458	7,226	768	10,096	11,877	1,781	1,781
Upper Hutt City	1,432	2,966	1,533	3,607	3,897	290	134
Total	22,953	28,262	5,308	36,651	39,902	3,251	3,265

At the end of the third quarter, all the Capital projects are tracking well within budget with an overall underspend of \$5.3 million. Of this, \$2.81million worth of projects is being deferred to 2013-14 primarily due to requests to meet council financial requirements and increased scope of works.

Wellington City Council

Details (\$000)	YTD Actual	YTD Budget	YTD Variance	YE Forecast	Annual Budget	YE Forecast Variance	Carry Forward
Watersupply	8,760	8,563	-196	11,457	11,357	-100	0
Stormwater	1,162	2,719	1,558	3,093	3,793	700	700
Wastewater	3,997	5,422	1,425	6,902	7,552	650	650
Carry Forward (WS + WW)	1,144	1,365	221	1,427	1,427	0	0
Total	15,063	18,070	3,007	22,878	24,128	1,250	1,350

Water supply

The YTD overspend is primarily due to additional work completed ahead of time in water reticulation projects.

Increased reactive maintenance activities (capitalised) carried out by City Care is expected to result in a YE overspend of \$100k.

Stormwater

The YTD underspend is primarily due to:

- delays in physical works in the Rongotai Road – Ross Street project on account of further investigations from other services, and
- design and access issues within the Massey university site resulting in delays in the Tasman Street project with physical works now scheduled to commence in May 2013. \$700k relating to the Tasman St project is being carried over to 2013-14 at YE.

The YE underspend has not been adjusted to include unbudgeted software expenses of \$46k posted by Council to the project.

Wastewater

The YTD underspend is primarily due to the wastewater renewals program running behind schedule on account of increased scope of works and a request to accommodate funds for the Buckle Street Memorial Park upgrade project. All projects are scheduled for completion by 30th of June with the exception of those projects deferred to accommodate the Buckle Street upgrade project.

A carry-over of \$650k is anticipated at YE to complete those projects deferred to accommodate the Buckle Street Memorial Park upgrade project. The YE underspend has not been adjusted to include unbudgeted software expenses of \$46k and \$233k on the Infonet project posted by Council.

Hutt City Council

Details (\$000)	YTD Actual	YTD Budget	YTD Variance	YE Forecast	Annual Budget	YE Forecast Variance	Carry Forward
Watersupply	1,451	1,452	1	1,900	2,438	538	538
Stormwater	1,874	1,803	-71	2,670	2,670	0	0
Wastewater	3,133	3,971	837	5,526	6,769	1,243	793
Total	6,458	7,226	768	10,096	11,877	1,781	1,331

Water supply

A carry-over of \$538k is anticipated at YE to complete the Kelson/Fairway Drive Link Main, Kelson Pump Station renewal, and Konini Road Reservoir projects which have been deferred to 2013-14 to meet council financial requirements

Stormwater

The YTD overspend is due to the capital works programme tracking ahead of schedule. No YE variance is anticipated.

Wastewater

The YTD underspend is primarily due to the capital works programme tracking behind schedule on some projects and reduced contract costs.

A carry-over of \$793k is anticipated at YE as the physical works for Vista Grove Sewer Renewal (access issues) & Trunk DBO Pipeline Cyclic Replacement (increased scope of work) projects are being deferred to 2013-14. The reduced scope of work and contract costs in the Trunk DBO network project will also result in a project underspend of \$450k resulting in a total underspend of \$1243k at YE.

Upper Hutt City Council

Details (\$000)	YTD Actual	YTD Budget	YTD Variance	YE Forecast	Annual Budget	YE Forecast Variance	Carry Forward
Watersupply	517	783	266	1,046	1,046	0	0
Stormwater	62	709	647	733	783	50	50
Wastewater	853	1,473	620	1,828	2,068	240	84
Total	1,432	2,966	1,533	3,607	3,897	290	134

Water supply

The YTD underspend is primarily due to the capital works programme tracking behind schedule. No YE variance is anticipated.

Stormwater

The YTD underspend is primarily due to the capital works programme tracking behind schedule. A carryover of \$50k is anticipated at YE to complete the Sunbrae Drive

upgrade project deferred to 2013-14 pending the outcome of the Pinehaven Stream Management Plan with GW.

Wastewater

The YTD underspend is primarily due to the capital works programme tracking behind schedule. A YE underspend of \$240k is anticipated including a carry-over of \$84k to complete the Trunk DBO Silverstream River Crossing project deferred to 2013-14 as a result of increased design requirements.

4.1.6 Deliver operating and maintenance projects within budget and timeframes

(\$000s) Opex	YTD Actual	YTD Budget	YTD Variance	Annual Forecast	Annual Budget	Forecast Variance	Carry Forward
Wellington	28,608	29,082	474	40,146	38,776	-1,370	0
Hutt City	14,625	13,704	-921	19,339	18,503	-836	0
Upper Hutt City	4,133	4,235	102	5,286	4,555	-731	22
Total	47,366	47,021	-345	64,725	61,834	-2,891	22

Operating projects are tracking higher than budgets at the end of third quarter. It is anticipated that the YE overspend will be around \$2.9 million. Detailed analysis of the overspend is outlined below.

Wellington City Council

Details (\$000)	YTD Actual	YTD Budget	YTD Variance	YE Forecast	Annual Budget	YE Forecast Variance
Watersupply	14,107	14,101	-6	19,162	18,802	-360
Stormwater	2,451	2,832	380	3,925	3,775	-150
Wastewater	12,049	12,149	100	17,059	16,199	-860
Total	28,608	29,082	474	40,146	38,776	-1,370

Water supply

A YE overspend of \$360k is anticipated primarily due to increased reactive maintenance activities.

Stormwater

The YTD underspend of \$380k is primarily due to invoicing issues and ring fenced (withheld) consultancy budgets in the asset planning area.

A YE overspend of \$150k is anticipated in the Stormwater reactive maintenance projects due to the underfunding of City Care contract costs.

Wastewater

The YTD underspend of \$100k is primarily due to ring fenced (withheld) consultancy budgets in the asset planning area offset by increased treatment plant operating costs

and underfunding of operating costs. A YE overspend of \$860k (\$430k for treatment plant and \$430k for reactive maintenance) is anticipated due to the above reasons.

Hutt City Council

Details (\$000)	YTD Actual	YTD Budget	YTD Variance	YE Forecast	Annual Budget	YE Forecast Variance
Watersupply	6,059	5,758	-301	7,913	7,910	-3
Stormwater	2,432	2,286	-146	3,222	3,033	-189
Wastewater	6,134	5,660	-475	8,203	7,559	-644
Total	14,625	13,704	-921	19,339	18,503	-836

Water supply

The YTD overspend of \$ 301k is primarily due to a shortfall in operating revenue due to lower than budgeted development contributions and vested asset income, combined with operating projects being ahead of schedule.

At YE, the shortfall in revenue will be offset by reduced bulk water levies. No variance is anticipated.

Stormwater

The YTD overspend of \$ 146k is primarily due to reduced development contribution income and operating projects being ahead of schedule. A YE overspend of \$189k is anticipated due to reduced development contribution income.

Wastewater

The YTD overspend of \$475k is primarily due to higher than budgeted insurance costs, operating projects being ahead of schedule, and a shortfall in revenue from trade waste and development contributions. A YE overspend of \$644k (\$310 shortfall in revenue & \$304 insurance costs) is anticipated.

Upper Hutt City Council

Details (\$000)	YTD Actual	YTD Budget	YTD Variance	YE Forecast	Annual Budget	YE Forecast Variance	Carry Forward
Watersupply	1,612	1,706	93	1,952	1,946	-6	0
Stormwater	206	352	146	317	-56	-374	22
Wastewater	2,314	2,177	-137	3,016	2,664	-352	0
Total	4,133	4,235	102	5,286	4,555	-731	22

Water supply

The YTD underspend of \$93k is primarily due to reduced bulk water levies and lower than budgeted reactive maintenance work. A marginal YE variance is anticipated.

Stormwater

The YTD underspend of \$146k is primarily due to unbudgeted development contribution revenue and reduced operational costs associated with reduced rainfall events. A YE overspend of \$374k is anticipated due to an overall shortfall in budgeted

revenue from development contributions and vested assets. A carryover of \$22k to 2013-14 is anticipated at YE relating to the Pinehaven Stream Study.

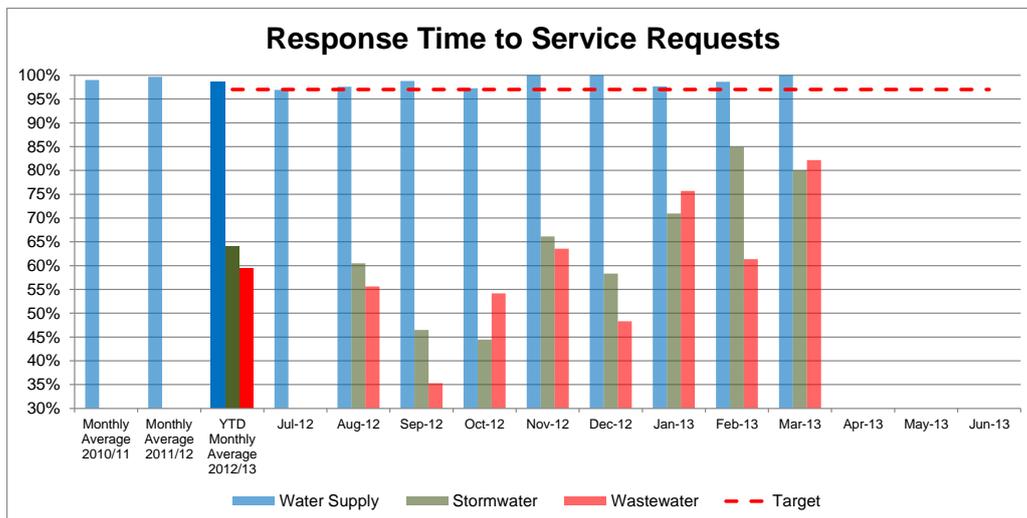
Wastewater

The YTD overspend of \$137k is primarily due to higher than budgeted insurance costs, pipe maintenance repair costs and the CCTV pipe inspection programme being ahead of schedule. A YE overspend of \$352k is anticipated due to a shortfall in revenue from development contributions, increased volume of reactive maintenance work and higher drainage levies.

4.2 Customer focus: To respond promptly to service requests.

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

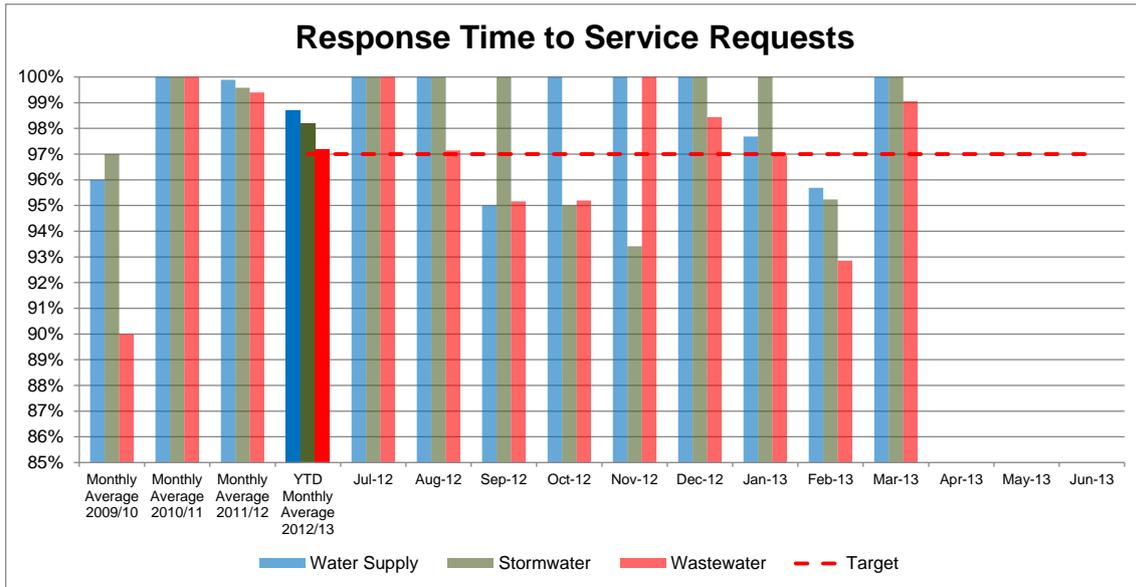
Wellington City



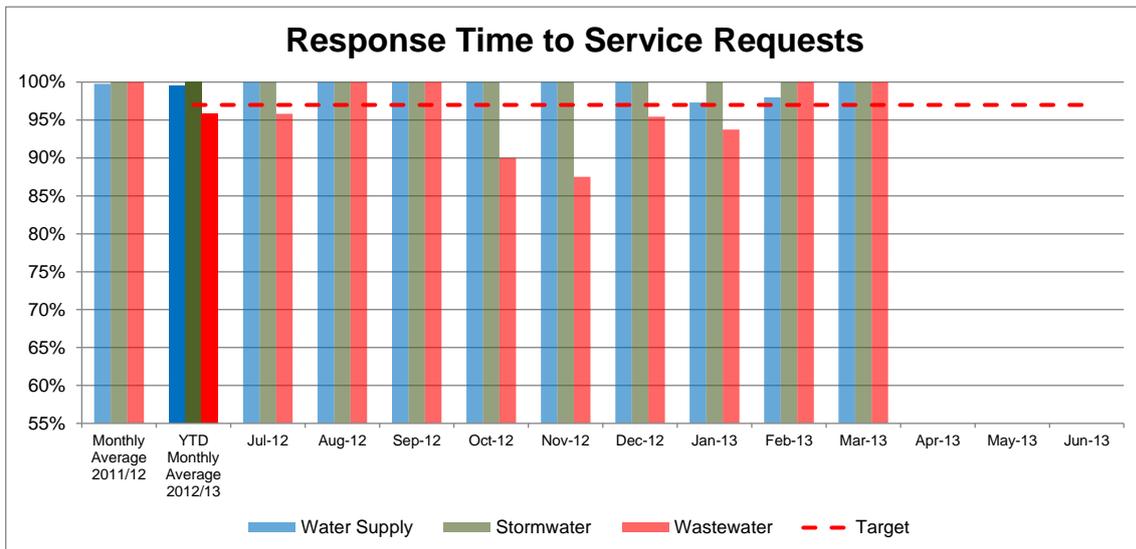
¹ Results in the drainage area are associated with the transfer of activities from CitiOperations to the City Care contract and issues with new staff and the City Care IT reporting system. No significant issues with the service response have been identified. City Care is focussed on ensuring the reporting matches their service response.

Hutt City

The poor February 2013 result is because of City Care staff’s incorrect use of PDA reporting equipment.



Upper Hutt City



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

Note: Capacity manages water services on behalf of the councils and therefore contributes to the overall achievement of the customer satisfaction targets.

The tables below show the latest annual survey results.

Activity	Wellington City	Target ²
Water supply	85%	90%
Stormwater	67%	75%
Wastewater	67%	75%

² Residents (%) who agree that the activity provides good value for money. Result is supplied from Council customer satisfaction survey reported in February 2012. The inappropriate question in respect to value rather than satisfaction will continue to

provide poor response levels. Please note that the February 2013 results were not yet published at time of going to print.

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

³ Residents' satisfaction with the city activity. Result is supplied from Council customer satisfaction survey in April 2012. Please note that the April 2013 results were not yet published at time of going to print.

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

⁴ Residents surveyed rated the activity as satisfactory or better. Result is supplied from Council customer satisfaction survey published in April 2012. Please note that the April 2013 results were not yet published at time of going to print.

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

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

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

4.3.2 *Manage Capacity within budget.*

Capacity's income and expenditure is 8.75% under budget for the year to date. See section 5 for financial reports.

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

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

We have been notified of a technical non-compliance that is under discussion with the regulatory authority.

4.5 Legislative compliance

4.5.1 *Full compliance with all relevant legislation*

No compliance issues during the reporting period.

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

No compliance issues during the reporting period.

5. Financial information

Financial results

Income

Ten percent of the total revenue for the three quarters ended 31 March 2013 is for contracted services from Upper Hutt City Council.

The full year forecast for total revenue is \$7,679,000. No surplus is forecast for the year ending 30 June 2013.

Expenditure

Total expenditure for three quarters of the 2012/13 year of \$5,699,000 is 8.75% under budget.

Personnel expenditure is running below budget, through deferred recruitment and other staff expenses. Operating expenditure is 11.85% below budget.

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

Cash flow

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

Financial statements

Statement of Comprehensive Income

For the period ended 31 March 2013

	Dec 2012 YTD \$000	March 2013 Quarter \$000	YTD Actual 31 Mar 2013 \$000	YTD Budget 12/13 \$000	YTD Variance \$000	Forecast to Year End \$000
Revenue						
Operations	3,944	1,755	5,699	6,264	(565)	7,679
Interest	15	8	23	0	23	28
Total Revenue	3,959	1,763	5,722	6,264	(542)	7,707
Expenditure						
Operating Expenditure	694	250	944	1,213	(269)	1,341
Personnel Expenditure	2,979	1,367	4,346	4,727	(381)	5,788
Directors' Fees	53	26	79	87	(8)	105
Rental and Operating Lease Costs	182	92	274	168	106	364
Audit Fees	0	0	0	0	0	34
Depreciation	36	20	56	49	7	73
Interest Expense	0	0	0	2	(2)	2
Total Expenditure	3,944	1,755	5,699	6,246	(547)	7,707
Net surplus (deficit) before taxation	15	8	23	18	5	0
Tax Expense	0	0	0	0	0	0
Net surplus (deficit) after taxation	15	8	23	18	5	0

Statement of movements in equity

For the period ended 31 March 2013

	Mar 2013 \$000	June 2013 \$000
Net surplus (deficit) for the year	23	87
Contribution from owners:		
Share capital paid	-	-
Movements in equity for the period	<u>23</u>	<u>87</u>
Equity at beginning of year	363	276
Equity at end of year	<u>386</u>	<u>363</u>

Statement of financial position

As at 31 March 2013

	Mar 2013 \$000	June 2012 \$000
Current Assets		
Bank	885	379
Accounts Receivable	832	1,184
Sundry Debtors & Prepayments	64	136
	<u>1,781</u>	<u>1,699</u>
Non-current assets		
Work in Progress-Capitalized	4	-
Intangible Assets	67	84
Property, Plant & Equipment	125	79
	<u>196</u>	<u>163</u>
Total assets	<u>1,977</u>	<u>1,862</u>
Current liabilities		
Accounts Payable	1,350	1,212
Provision for Taxation	(1)	(2)
Annual Leave	242	290
	<u>1,591</u>	<u>1,499</u>
Non-current liabilities		
Finance leases	-	-
Total liabilities	<u>1,591</u>	<u>1,499</u>
Net working capital	<u>386</u>	<u>363</u>
Share Capital	600	600
Retained Earnings	(214)	(237)
Equity	<u>386</u>	<u>363</u>

Statement of cash flows

As at 31 March 2013

	YTD March 2013 \$000	FY June 2012 \$000
Cash flows from operating activities		
Cash was provided from:		
Operating Receipts	6,074	7,551
GST	(92)	(52)
Cash was disbursed to:		
Payments to Suppliers	(5,388)	(7,145)
Payments of Tax	0	(8)
Interest Paid		(1)
Net cash inflow/(outflow) from operating activities	<u>594</u>	<u>345</u>
Cash flows from investing activities		
Cash was applied to:		
Purchase of Property, Plant & Equipment	(50)	(21)
Purchase of Intangible Assets	(38)	(94)
Net cash outflow from investing activities	<u>(88)</u>	<u>(115)</u>
Net Increase in Cash held	506	230
Opening Cash Balance	379	149
Closing Cash Balance	<u>885</u>	<u>379</u>
Made up of:		
Cash	885	379
Short term deposits	-	-
Closing Cash Balance	<u>885</u>	<u>379</u>