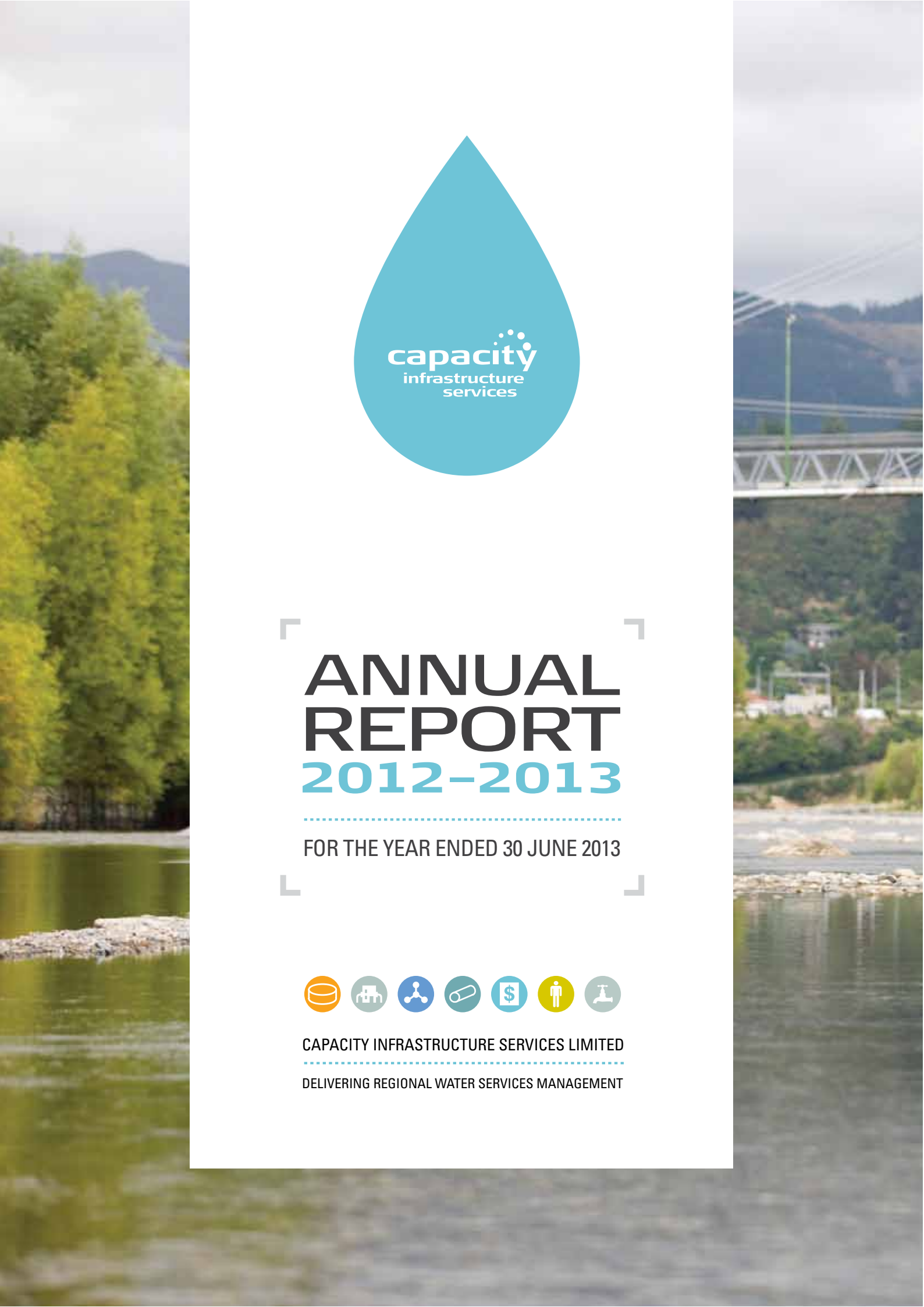


capacity
infrastructure
services

ANNUAL REPORT 2012–2013

FOR THE YEAR ENDED 30 JUNE 2013

CAPACITY INFRASTRUCTURE SERVICES LIMITED

DELIVERING REGIONAL WATER SERVICES MANAGEMENT

CONTENTS

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

We are a council controlled organisation owned by the Wellington and Hutt city councils*. Our services include planning, advice, design, project and operations management, maintenance, and monitoring relating to the assets and services of the three water networks.

As a shared service provider, Capacity doesn't own any water assets. Each client council owns all the pipes, pump stations, reservoirs and other water assets within its territory. Councils also set all policies and performance objectives they expect for each network.

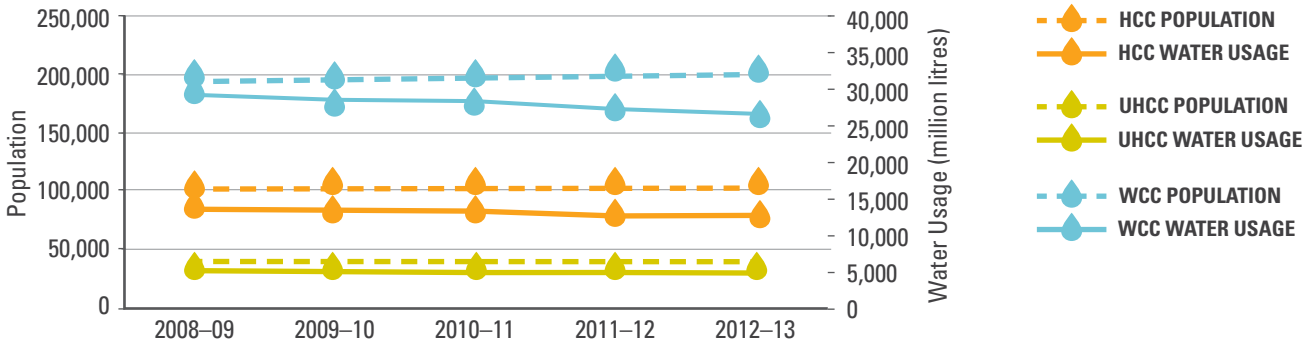
Our role is to manage network operation, maintenance and improvement to achieve the best outcomes for the community.

* *Upper Hutt City Council is to become a shareholder in 2013. Pending the outcome of public consultation on the issue, Porirua City Council may also become a shareholder at the same time.*

ANNUAL WATER USE AND POPULATION BY CITY

The 2012-13 year saw a continuing trend in declining water usage despite rising population. This is a result of leak detection and repairs, improved water efficiency by commercial and residential users, and water conservation activity.

WATER USAGE AND POPULATION BY CITY 2009–2013



Population is based on Statistics New Zealand population estimates and median population projections (2006 base), adjusted to account for residents not on town supply networks.

	2008–2009	2009–2010	2010–2011	2011–2012	2012–2013
HCC POPULATION	101,900	102,200	102,700	103,000	103,200
HCC WATER USAGE	2,853,445	2,414,020	2,441,186	2,423,073	2,318,099
UHCC POPULATION	38,916	39,052	39,188	39,246	39,304
UHCC WATER USAGE	5,157,734	5,012,394	4,881,074	4,992,415	4,783,729
WCC POPULATION	192,800	193,520	195,460	197,380	199,280
WCC WATER USAGE	29,134,464	28,510,771	28,441,023	27,212,296	26,593,281

HOW WE PERFORMED

SERVICE PERFORMANCE SUMMARY

Our overall performance in 2012-13 was evaluated in six categories. How we performed in these areas is summarised below. More detail is provided in the Performance Review (pages 14-15), Key Activity Update (pages 16-23), and reports on each of the three waters (pages 32-42) in this report.

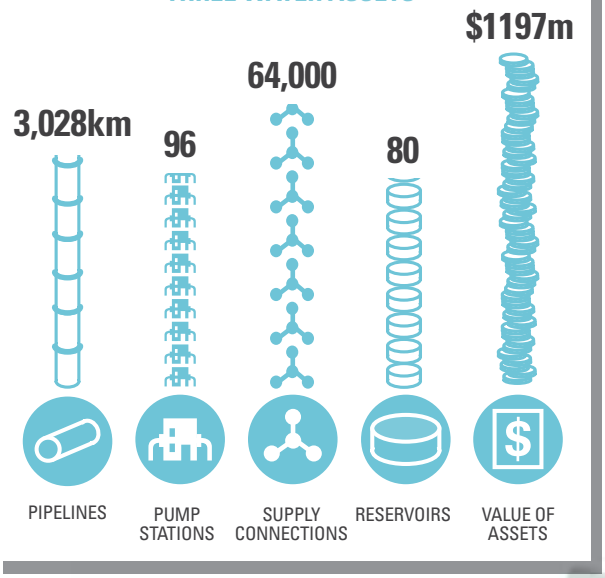
SERVICE CATEGORY	SERVICE OBJECTIVE	PERFORMANCE TARGET	2012-13	2011-12
SERVICE QUALITY	To maintain a quality of service that represents a low level of risk	1] Fewer than four unplanned water supply cuts (pipe burst) per 1000 connections	**Achieved**	Achieved
		2] Fewer than 1.2 wastewater incidents reported per kilometre of wastewater reticulation pipeline	**Achieved**	Achieved
		3] Number of dwelling flood notifications received as a result of a 1:50 year flooding event (or less)	**Mainly achieved**	Achieved
		4] Compliance with NZ drinking water quality standards	**Achieved**	Achieved
		5] Deliver operating projects within budget and timeframes	**Mainly achieved**	Mainly achieved
		6] Deliver capital projects within budget and timeframes	**Achieved**	Achieved
CUSTOMER FOCUS	To respond promptly to service requests	7] Meet all Response A & B times for Priority One (P1) activities ("Onsite within one hour") *Note: WCC's response time data were affected by recording issues and the transfer of operations from the council to a contractor*	**Mainly achieved**	Mainly achieved
		8] Achievement of council's own customer satisfaction survey targets *Note: Based on an average of feedback through calling cards and direct response, for all three waters*	**Achieved**	Achieved
COST EFFECTIVENESS	To provide a cost-effective service	9] Trend of the operating cost of delivering water supply, wastewater and stormwater services relative to a national average *(Note: trends shown on pages 14-15)*	**Achieved**	Achieved
		10] Manage Capacity within budget	**Achieved**	Achieved
ENVIRONMENTAL PERFORMANCE	To minimise adverse effects on the environment	11] No resource consent-related infringement notices received from GWRC *Minor technical non-compliance in 2012*	**Achieved**	Mainly achieved
LEGISLATIVE COMPLIANCE	To comply with relevant legislation	12] Full compliance with all relevant legislation	**Achieved**	Achieved
		13] Full compliance with the Health and Safety in Employment Act 1992	**Achieved**	Achieved
PROCESS	Continuous improvement in management and delivery of water services	14] Achievement of key milestones in emergency management planning	**Achieved**	New measure
		15] Achievement of key milestones in asset management plan improvement project, planning and production	**Mainly achieved**	New measure

WHERE THE WATER GOES

Key facts and figures about the water networks of Hutt City, Upper Hutt and Wellington.

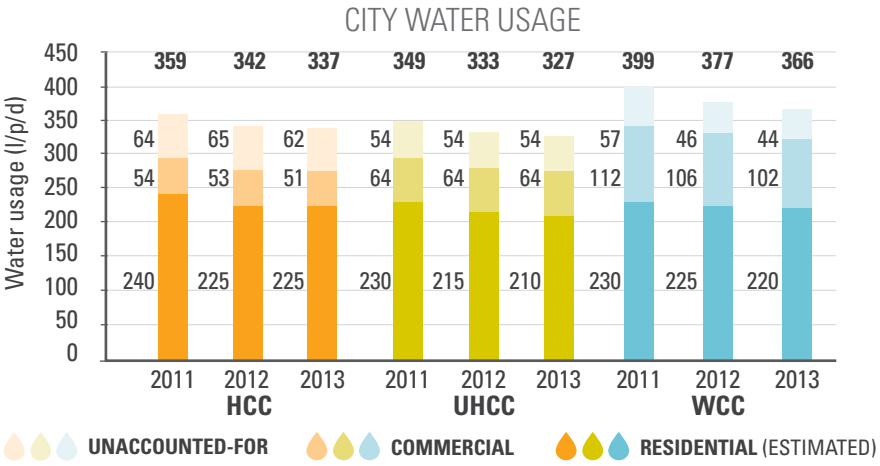
WELLINGTON CITY
200,100 POPULATION

THREE WATER ASSETS



GROSS WATER CONSUMPTION 2011–2013

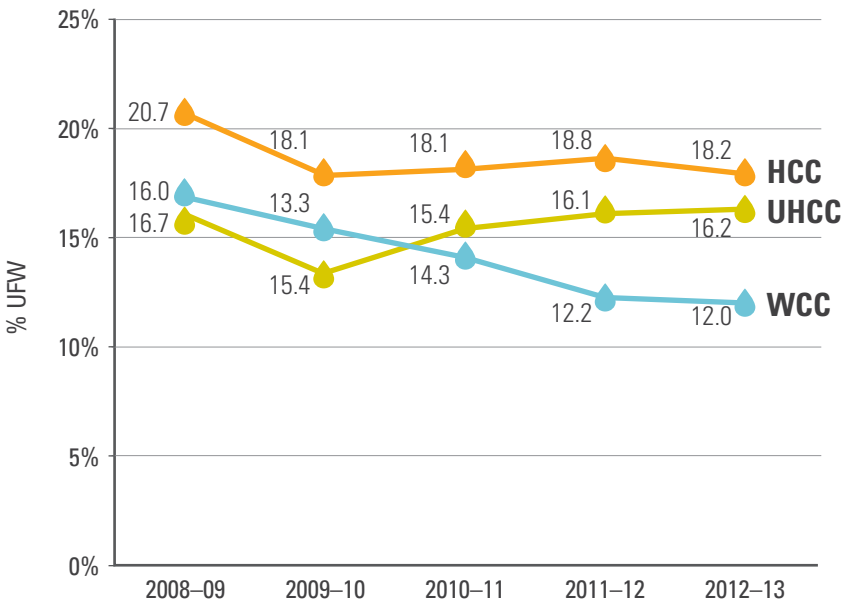
Dividing a city's total water consumption by its population gives gross consumption per person. There are three main usage types: residential, commercial and unaccounted-for water (see below). Residential figures are estimates, based on sample metering and universal metering in similar cities.



UNACCOUNTED-FOR WATER 2009–2013

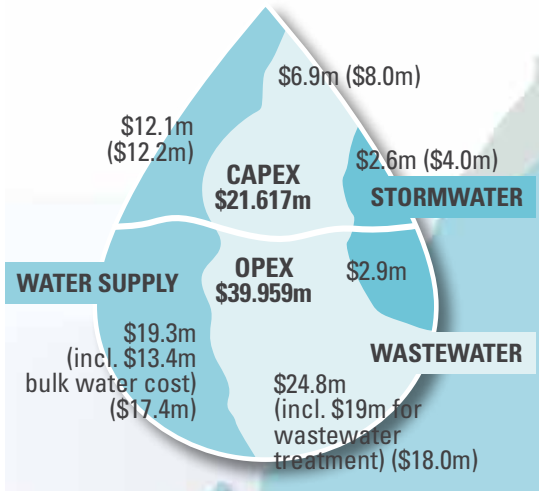
AS A PERCENTAGE OF SUPPLY, BY CITY

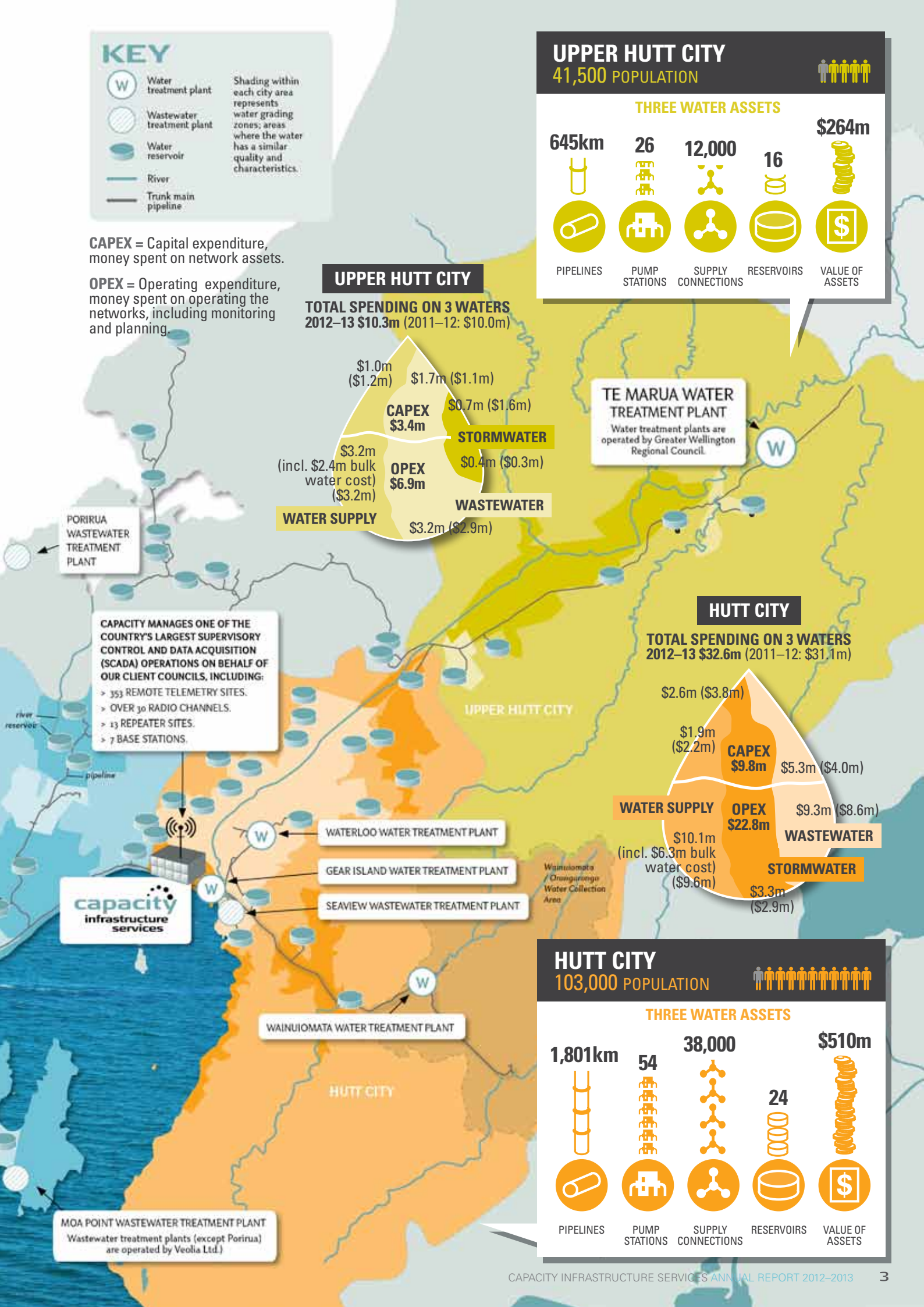
Unaccounted-for water (UFW) is mainly water lost through leaks in the public and private network. It also covers water used in firefighting, unmetered council use, and even theft.



WELLINGTON CITY

TOTAL SPENDING ON 3 WATERS
2012–13 $61.7m (2011–12: $62.6m)




KEY
Water treatment plant
Wastewater treatment plant
Water reservoir
River
Trunk main pipeline
Shading within each city area represents water grading zones; areas where the water has a similar quality and characteristics.
CAPEX = Capital expenditure, money spent on network assets.
OPEX = Operating expenditure, money spent on operating the networks, including monitoring and planning.
UPPER HUTT CITY
41,500 POPULATION
THREE WATER ASSETS
645km
26
12,000
16
$264m
PIPELINES
PUMP STATIONS
SUPPLY CONNECTIONS
RESERVOIRS
VALUE OF ASSETS
UPPER HUTT CITY
TOTAL SPENDING ON 3 WATERS
2012–13 $10.3m (2011–12: $10.0m)
$1.0m ($1.2m)
$1.7m ($1.1m)
$0.7m ($1.6m)
CAPEX $3.4m
STORMWATER
$3.2m (incl. $2.4m bulk water cost) ($3.2m)
OPEX $6.9m
$0.4m ($0.3m)
WASTEWATER
WATER SUPPLY
$3.2m ($2.9m)
TE MARUA WATER TREATMENT PLANT
Water treatment plants are operated by Greater Wellington Regional Council.
PORIRUA WASTEWATER TREATMENT PLANT
CAPACITY MANAGES ONE OF THE COUNTRY'S LARGEST SUPERVISORY CONTROL AND DATA ACQUISITION (SCADA) OPERATIONS ON BEHALF OF OUR CLIENT COUNCILS, INCLUDING:
> 353 REMOTE TELEMETRY SITES.
> OVER 30 RADIO CHANNELS.
> 13 REPEATER SITES.
> 7 BASE STATIONS.
HUTT CITY
TOTAL SPENDING ON 3 WATERS
2012–13 $32.6m (2011–12: $31.1m)
$2.6m ($3.8m)
$1.9m ($2.2m)
CAPEX $9.8m
$5.3m ($4.0m)
WATER SUPPLY
OPEX $22.8m
$9.3m ($8.6m)
WASTEWATER
$10.1m (incl. $6.3m bulk water cost) ($9.6m)
STORMWATER
$3.3m ($2.9m)
UPPER HUTT CITY
river
reservoir
pipeline
WATERLOO WATER TREATMENT PLANT
GEAR ISLAND WATER TREATMENT PLANT
SEAVIEW WASTEWATER TREATMENT PLANT
Wainuiomata / Orongorongo Water Collection Area
capacity infrastructure services
WAINUIOMATA WATER TREATMENT PLANT
HUTT CITY
MOA POINT WASTEWATER TREATMENT PLANT
Wastewater treatment plants (except Porirua) are operated by Veolia Ltd.)
HUTT CITY
103,000 POPULATION
THREE WATER ASSETS
1,801km
54
38,000
24
$510m
PIPELINES
PUMP STATIONS
SUPPLY CONNECTIONS
RESERVOIRS
VALUE OF ASSETS

THE THREE WATER NETWORKS

All three water services are crucial to community wellbeing, economic development and the protection of life, health and property but it is often only in times of emergency that water network issues hold wide public interest. At Capacity we are always mindful of the financial and welfare impacts of building and maintaining these vital assets.

ELEMENTS OF THE 'THREE WATERS' NETWORK

ASSET VALUES

Based on optimised depreciated replacement cost, or what it would cost to replace the assets to their present level of service and lifespan in millions of dollars. Hutt City as at 31 December 2011, Upper Hutt as at 30 June 2013, Wellington as at 30 June 2011.

	HUTT CITY			UPPER HUTT			WELLINGTON		
$ MILLION	**2012–13**	2011–12	2010–11	**2012–13**	2011–12	2010–11	**2012–13**	2011–12	2010–11
Water Supply	**$103.0**	$103.0	$101.6	**$82.3**	$80.7	$66.4	**$372.0**	$372.0	$372.0
Wastewater	**234.4**	234.4	232.4	**78.6**	81.6	71.3	**459.6**	459.6	459.6
Stormwater	**172.9**	172.9	161.1	**102.7**	99.3	84.5	**365.8**	365.8	365.8
TOTAL	**$510.3**	$510.3	$495.1	**$263.6**	$261.6	$222.2	**$1,197.4**	$1,197.4	$1,1974.4

	HUTT CITY			UPPER HUTT			WELLINGTON		
PIPELINES KM	**2012–13**	2011–12	2010–11	**2012–13**	2011–12	2010–11	**2012–13**	2011–12	2010–11
Water Supply	**677**	677	683	**280**	278	277	**1,245**	1,245	1,245
Wastewater	**576**	576	573	**216**	215	215	**1,058**	1,058	1,058
Stormwater	**548**	548	546	**149**	148	147	**725**	725	725
TOTAL	**1,801**	1,801	1,801	**645**	641	639	**3,028**	3,028	3,028

	HUTT CITY			UPPER HUTT			WELLINGTON			TOTAL
KEY ASSETS	**2012–13**	2011–12	2010–11	**2012–13**	2011–12	2010–11	**2012–13**	2011–12	2010–11	**2012–13**
Reservoirs	**24**	24	24	**16**	16	16	**80**	80	79	**120**
Pump Stations	**54**	54	52	**26**	26	26	**96**	96	97	**176**
Water supply	***13***	*13*	*13*	***8***	*8*	*8*	***33***	*33*	*33*	***54***
Wastewater	***27***	*27*	*27*	***12***	*12*	*12*	***62***	*62*	*62*	***101***
Stormwater	***14***	*14*	*14*	***6***	*6*	*6*	***1***	*1*	*1*	***21***
Connections	**38,380**	38,360	38,223	**12,296**	12,288	12,267	**64,000**	64,000	64,581	**114,676**

Opposite: Reinforcing steel is prepared for the new floor of a tank during the Messines Road reservoir renewal.

HIGHLIGHTS OF THE YEAR

COMPLETED OVER 60 CAPEX PROJECTS WORTH OVER **$34 MILLION**

EMERGENCY PLANS COMPLETED FOR THREE CITIES

THREE CITIES UNACCOUNTED-FOR WATER REDUCED TO 14.2% AVERAGE, DOWN FROM 14.5%

RE-NEWED COMPANY VALUES TO REFLECT OUR PASSION AND PURPOSE

OVER 21KM OF PIPE RENEWED OR REPLACED

PUBLISHED THE REGIONAL STANDARD FOR WATER SERVICES **CODE OF PRACTICE** FOR DEVELOPMENT PROJECTS

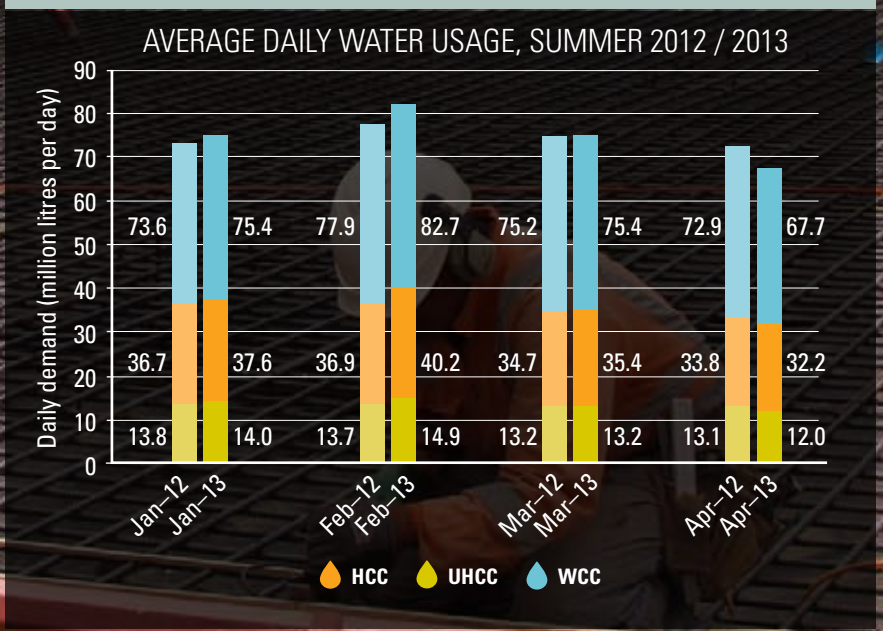
MESSINES ROAD RESERVOIR COMPLETED FOR $1M LESS THAN ORIGINAL BUDGET

CONDITION MODEL DEVELOPED AND PRESENTED FOR IMPROVING RENEWAL EXPENDITURE FORECASTING FOR **THE THREE WATERS** PIPELINE ASSETS FOR HUTT CITY

REGIONAL MODELLING STRATEGIES AND SPECIFICATIONS PREPARED FOR THE THREE WATERS

NON-PRICE ATTRIBUTES DATABASE AND STANDARD CONTRACT DOCUMENTS DEVELOPED

WATER RESTRICTIONS IN MARCH AND APRIL 2013 REDUCED WATER USE DURING A **LONG DRY SUMMER**



STAFF MEMBER **NICOLA CHISNALL** WON SCIENCE, ENGINEERING AND ARCHITECTURE MANAGEMENT AWARD FROM WELLINGTON BRANCH OF NZ FEDERATION OF UNIVERSITY WOMEN

STAFF MEMBER **NATALIE THURLOW** WINS LOWER NORTH ISLAND **OFFICE HERO AWARD**

STATEMENT OF THE CHAIRMAN OF THE BOARD

PETER ALLPORT

STEPS TOWARDS NETWORK INTEGRATION

Capacity staff are to be congratulated on their achievements over the past year. They managed capital and operational expenditure programmes worth a total of over $100 million for our three clients, under considerable financial pressure. They progressed key activities aimed at improving service delivery and network performance. And they rose to the challenge of a year that saw unusual demands on their time and experience, as a result of extreme weather events.

They also put the foundations in place for what are the most significant changes to Capacity since its establishment in 2004.

At the close of the year, Upper Hutt City Council had agreed to become a shareholder, Porirua City Council had completed public consultation on also becoming a client and co-owner of Capacity's, and we had developed a new framework for our shareholders to measure Capacity's performance.

Without prejudicing the outcome of Porirua's consultation or PCC's response to it, I believe by this time next year our ownership structure and board composition should have changed in a way that will enable Capacity to deliver better than ever on our mission of regional water services management.

With directors appointed by each shareholding council, and independent directors selected for their knowledge and expertise in infrastructure and corporate management, Capacity will provide an effective and transparent mechanism for spending on core council services in the most efficient manner, regardless of the future structure of local government administration in the region.

As a shared council-owned service, Capacity provides the benefits of consolidated and consistent processes, such as regional standards for construction and contractor performance, or sharing policy and planning knowledge. These benefits translate to reduced costs to ratepayers, through efficient management of projects such as Wellington's Messines Road reservoir upgrade, and the ability to bring expertise and manpower to bear as quickly as possible, such as during the extreme weather events in June.

As a business entity existing outside of councils, Capacity is fully and publicly accountable for our service performance to each of our customers and their communities. Our performance is reflected in an array of organisational and network indicators, published in this report and in others we deliver to our shareholders.

And as an infrastructure management company, Capacity's 65 staff represent the largest pool of knowledge of the three water networks in the region. The key strength of the shared services model is that the benefits of this knowledge are not limited to one local council, but are working across the wider region.

These benefits have always been part of the vision that led to Capacity's establishment in 2004. Four years later Upper Hutt City Council joined the Capacity model as a client (all Upper Hutt City Council staff who joined Capacity at that time are still with us). The next steps are significant milestones – but some major challenges remain.

The biggest of these is perhaps coordinating asset management information among the cities we work for. The problem of having different councils using different asset management information systems remains, and, as is often the case with such projects, the stumbling blocks are not just financial. Each council we work for has a significant investment in existing systems,

Capacity's Board of Directors (from left): Peter Leslie, John Strahl, CEO David Hill, Chairman Peter Allport, Andy Foster, David Bassett, Ian Hutchings.

its own information management strategies, and is understandably resistant to change. The benefits of information integration are clear, however, and all parties should look forward to developing solutions that will clearly prove the value of the shared service model.

Alongside information management is the question of including bulk water supply management within the same organisation managing the networks. Our studies show savings of up to $5 million a year are possible under this model.

The changes to Capacity's ownership and scope bring with them new ways we manage funding for the work we do. This will see a focus on the performance of the overall water networks, rather than on individual projects. In effect, this 'outcome-based' business model means Capacity will have greater responsibility in managing budgets and work programmes to achieve agreed outcomes, and more autonomy in deciding to optimise that, using its expertise and that of our consultants.

Along with this responsibility comes a greater duty of care for directors to ensure Capacity fully meets its obligations to staff and contractors in ensuring our workplace and those we are associated with are safe.

All staff and directors at Capacity were shocked and saddened by the fatality that occurred at one of our worksites last July. While a subsequent investigation by the Ministry of Business, Innovation and Employment found our procedures were adequate, we identified areas that could be improved on, and have done so.

Under the new business model, Capacity will stand as principal to contracts, a position formerly held by councils. Our requirements and procedures aim to ensure worker safety on Capacity-managed worksites.

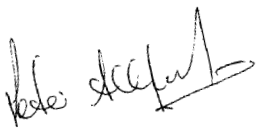
There is plenty left to do before Capacity is fully delivering the efficiencies of scale that are possible. Yet the staff should be proud of what they achieved. I am pleased to note that despite the constraints and challenges of the year, staff engagement scores have improved.

Capacity's new structure and regionalised operation provide what I think is the basis for the best possible option for managing urban water networks in the Wellington region. The next logical step should be the inclusion of bulk water management so that integrated 'sky to sea' management of water resources optimised in one entity is achieved.

I have every confidence that Capacity's staff and management will justify that faith in the coming years.

I thank my fellow Board members and Chief Executive David Hill for their support and insight during what has been a busy and productive year for Capacity.

Shortly after our balance date, David announced his retirement as chief executive. David has played a tremendously important role in making a vision into reality, building Capacity from a plan on paper into what it is today – an effective and productive team, justly proud of the work they deliver for their clients and communities. As Capacity looks toward the next phase of its development, it does so from the firmest of foundations, which David has guided into place. It has been a great pleasure working with him, and I join with my fellow directors in thanking him and wishing him all the best for the future.



Peter Allport
CHAIRMAN

STATEMENT OF THE CHIEF EXECUTIVE
DAVID HILL

OPERATIONAL ACHIEVEMENTS AND OUR FUTURE BUSINESS MODEL

Storms, floods, landslides, water shortages – the Wellington region in 2012–13 year had it all, with the exception of earthquakes. And they were not far away, as events transpired.

It is often said that true character is shown in adversity, and I had several occasions to be both impressed and proud of the way Capacity team members demonstrated that 'customer focus' is not a trite phrase in a corporate document, but a real quality of who we are.

From battling winter storms and power cuts to restart pumps, to working non-stop to divert drainage services around a major landslip, our frontline team, support staff and contractors showed the dedication that comes from a core value of commitment to the communities we serve.

It was in these times of emergency that the depth and breadth of resource that Capacity has showed its value.

For most of the year, of course, it was business as usual. On behalf of our clients, we managed spending of $69 million in operational costs, and $34 million on capital works projects.

In total, our team oversaw the renewal or upgrade of over 21,000 metres of pipe in 61 renewal and upgrade projects in the three cities.

PIPELINES RENEWED OR UPGRADED BY NETWORK AND CITY (NUMBER OF PROJECTS)		
WELLINGTON	Water	6,440m (9)
	Wastewater	2,674m (11)
	Stormwater	734m (5)
HUTT CITY	Water	2,595m (4)
	Wastewater	5,207m (6)
	Stormwater	652m (3)
UPPER HUTT	Water	1,380m (10)
	Wastewater	1,450m (11)
	Stormwater	337m (2)

In addition, pumps were upgraded in 11 pump stations, three reservoirs were seismically strengthened and over 20 kilometres of pipes were inspected and tested. Numerous other projects and activities were completed that contributed to the resilience and improved management of water networks for our clients – including the completion of the Messines Road reservoir. This two-year project to double the capacity of the reservoirs serving Karori and upgrade them to modern seismic codes was completed for just on $6 million – well under the figure of over $7 million that had initially been approved based on consultant estimates.

The above recital does not really do justice to the tremendous list of work that our operations, programme management and asset development teams have delivered for our clients.

During the year we also completed asset management plans for Hutt City and Upper Hutt City councils, emergency management plans for each of our clients, and played a major role in managing down domestic water use during an unusually dry summer.

Internally, we re-appraised our organisational values with a view to developing a clear 'line of sight' between Capacity's purpose and the role of every individual

in the organisation. Most of us undertook customer service training. Perhaps as a result of this work, our staff engagement figures climbed on almost every metric.

We also continued with a number of programmes aimed at improving internal procedures and outcomes for our clients. These included regional standards for water services, strategies for mapping and modelling stormwater and wastewater flows, and data acquisition.

The year that ended in storms and flooding began in the worst way possible, with the death of a worker on one of our construction sites. The Ministry of Business, Innovation and Employment's investigation into the accident showed Capacity's procedures were in no way deficient. However we took the opportunity to make sure we are doing everything we can to make sure something like this never happens again. By year end we had a suite of revised health and safety forms and procedures that we and our contractors will adopt, in our best efforts to assure that our staff, and those of our contractors, work safely.

Alongside this full programme of work, I and my management team have been working hard to develop and gain support for the inclusion of both Upper Hutt City Council and Porirua City Council as shareholders in Capacity, and for the adoption of a new set of performance measures that more closely align to the work we do and the services we deliver for our clients. It has taken a lot longer than I would have liked, but by year end it was at last looking like these two significant milestones were near.

Both changes will deliver future benefits to the residents and ratepayers of the four cities. Porirua's water networks and topography offer interesting challenges that have already seen the city engage with Wellington in shared wastewater treatment, and with Wellington and the regional council on a joint approach to improving the environmental and ecological health of the harbour and Pauatahanui Inlet. We are looking forward to both helping and learning from Porirua's water team in dealing with these and other challenges. Capacity's size and focus means not just more diverse skills, experience and resources, but increased security for the council and its residents; at the same time the other cities will gain from the strengths and abilities of Porirua City Council's staff.

Secondly, the development and adoption of new performance measures will result in more practical and relevant indicators of Capacity's performance, and that of the networks we manage in each city.

Network measures we have previously reported on derive mainly from councils' long term plans. Many measures are affected by factors beyond our control – the age of the network, for example, or the actions or performance of those upstream or downstream of the work we do. Those we have proposed more accurately reflect the impact of our work and the outcomes that are relevant to the community. They include additional indicators in the areas of customer focus, cost effectiveness and environmental performance.

Within the service quality category, an indicator of serviceability will be added. This will allow individual councils to select and fund accordingly the performance they expect for each network.

Capacity staff gather at our offices at 85 The Esplanade, Petone, Lower Hutt.

Altogether the 24 proposed indicators will give clients and citizens a clearer picture of what they are getting for their money, and how well we are meeting expectations with regard to water network management. They will bring increased transparency, and greater accountability.

We will need to remember that not everything is under our control. As we saw, weather and environmental factors can overwhelm systems built to historical standards; despite our best efforts, we were unable to achieve several stormwater network targets for the year. This just serves to emphasise the need for us to look after and support our people, and to encourage that strong sense of purpose that they already have, of serving their communities.

I thank the Board for their contribution over the year, particularly in regard to developing proposals for Upper Hutt and Porirua city councils; my management team for their support during a challenging and busy year; and the staff of Capacity for their dedication and commitment to customer service. It has been my pleasure to lead them.

D. S. Hill.

David Hill
CHIEF EXECUTIVE

OUR BOARD

CHAIRMAN *Peter Allport*

Peter Allport joined the Board in March 2008. Peter has a 50-year international business career in industrial process design engineering, corporate management, and governance in both the private and public sectors. He remains active in the development and management of infrastructure assets in water, mobile telecommunications, commercial aviation, property and power generation. He is chairman of Magritek Ltd and a board member of Newcom LLC, Eznis Airways (Mongolia), Wellington Free Ambulance and the New Zealand Red Cross Foundation. He also chairs the Retail Advisory Group of the Electricity Authority and is the Honorary Consul of Mongolia in New Zealand.

DIRECTOR *Andy Foster*

Andy Foster joined the Board in November 2007. Andy is a long-standing Wellington City councillor. He chairs the council's Strategy and Policy Committee and is also its Transport Portfolio leader. Andy is a Guardian of Zealandia nature reserve and is active in governance of community organisations. He has a background in finance and economics.

DIRECTOR *Peter Leslie*

Peter Leslie joined the Board in 2007. He is a professional engineer with wide experience in managing water and wastewater infrastructure in both the public and private sectors. He has worked in the UK, Australia and southeast Asia and is a former CEO of the facilities management firm PAE (NZ). Peter is currently deputy chairman of the Wellington Engineering Lifelines Group, a voluntary association of utility services companies.

DIRECTOR *John Strahl*

John Strahl joined the Board as an independent director in December 2009. John is an experienced commercial lawyer and was a former chairman of DLA Phillips Fox in both Australia and New Zealand. His specialist legal experience is in local government and governance especially for council controlled trading organisations, and commercial, and financial services. John is also a company director and previously a director of several public companies.

DIRECTOR *Ian Hutchings*

Ian Hutchings joined the Board in July 2009. Ian is a professional engineer and, prior to 2004, served for 12 years as a Wellington City councillor where he had responsibility for the Finance and the Transport and Infrastructure portfolios. Ian is employed in the Ministry of Business, Innovation and Employment's Energy and Communications Branch, specialising in policy advice on use of the radio frequency spectrum. He also chairs the Hutt Mana Charitable Trust, and is a director of the Trust's HMCT Holdings company.

DIRECTOR *David Bassett*

David Bassett, deputy mayor of Hutt City Council, joined the Board in January 2011. David has private and public sector senior management experience in finance, accounting and human resource management, with a focus on organisation development and change management. Chairman of Hutt City Council's Finance and Audit Committee, David is also a member of the Hutt Valley District Health Board.

GOVERNANCE

Capacity is a council controlled trading organisation as defined by s6 of the Local Government Act 2002. It is 100% owned by local authorities, namely the Wellington and Hutt city councils. Each council is entitled to appoint two directors, and to jointly appoint two independent directors.

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

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

BOARD OF DIRECTORS

The function of the Board is to provide stewardship and guidance to the company in achieving its objectives. The Local Government Act 2002 states that the principal objective of a council controlled organisation is to:

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

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

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

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

REPORTS TO SHAREHOLDERS AND THE PUBLIC

Capacity complies with reporting requirements under the Local Government Act 2002 and the Companies Act 1993 and regulations. These include:

1. A statement of intent. This document sets out intended activities for the coming year, and includes financial information for the next three years. It must be approved by shareholders.
2. Half-yearly reports on operations to enable an informed assessment of our performance, including financial statements.
3. An annual report which provides a comparison of our performance with the statement of intent, with an explanation of any material variances, audited consolidated financial statements for that financial year, and an auditor's report.

We also report monthly to clients on service performance. This fulfils requirements under the Local Government Act 2002 and our service agreements, enabling council officers to report on expenditure, service performance and project progress. Key service level agreement areas, such as response times, appear as Key Performance Indicators, which are covered in detail elsewhere in this report.

STATUTORY INFORMATION

DIRECTORS' ATTENDANCES AND REMUNERATION

The company had eight Board meetings during the year (2011-12: 8). Attendances of directors at meetings and their remuneration were as follows:

	ATTENDANCES FY13 (FY12)	REMUNERATION, $ FY13 (FY12)
Peter Allport	6 (8)	30,000 (30,000)
David Bassett	8 (8)	15,000 (15,000)
Andy Foster	7 (7)	15,000 (15,000)
Ian Hutchings	7 (8)	15,000 (15,000)
Peter Leslie	7 (8)	15,000 (15,000)
John Strahl	8 (8)	15,000 (15,000)

DIRECTORS' AND EMPLOYEES' INSURANCE

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

DONATIONS

There were no donations made during the year.

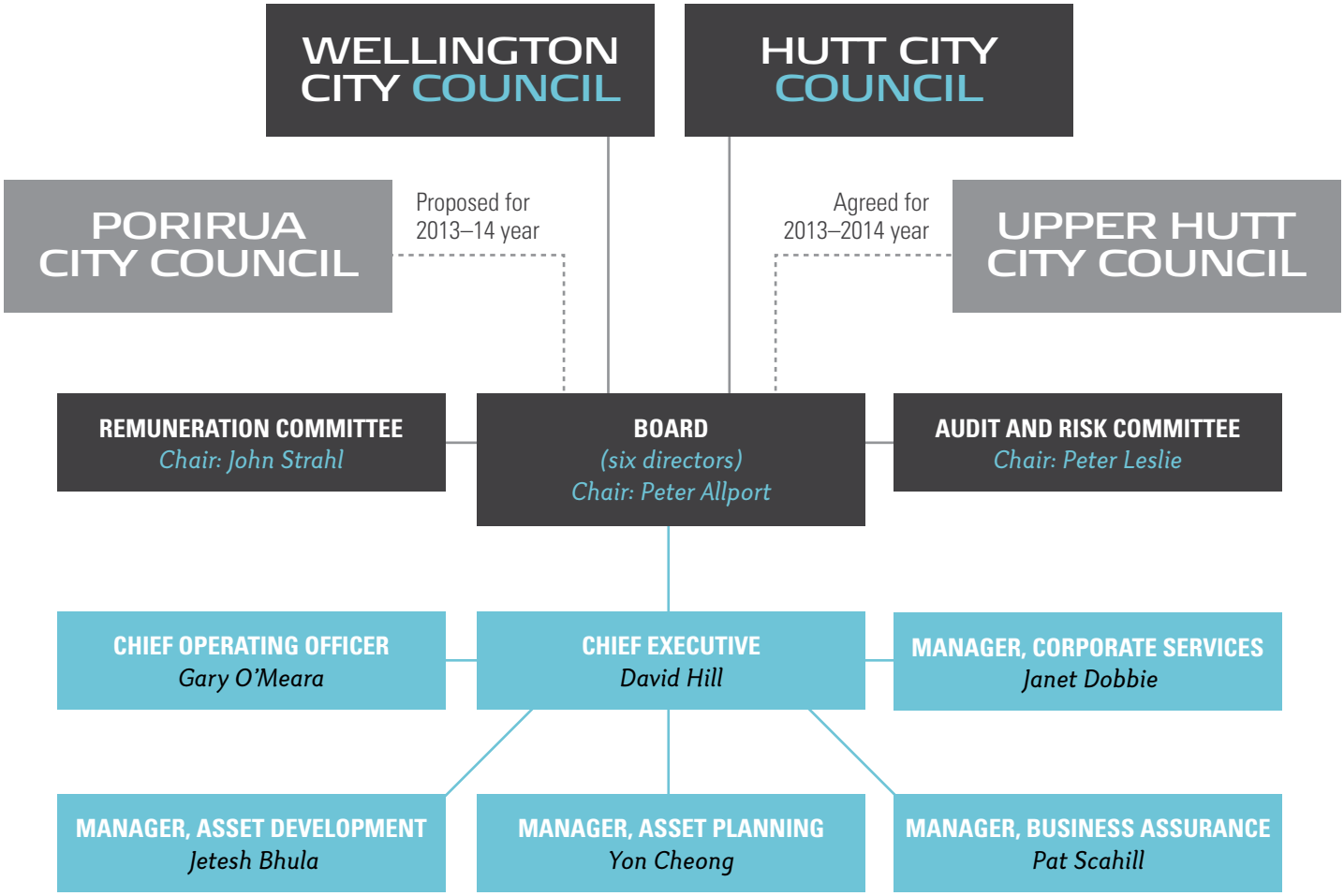
AUDITOR

The auditors are appointed under Part 5, s70 of the Local Government Act 2002. Audit New Zealand has been appointed by the Auditor-General to provide these services.

OUR ORGANISATIONAL STRUCTURE

Capacity is a council-owned organisation. Our shareholders appoint directors to the Board, who govern and are responsible to shareholders for Capacity's performance.

As at 30 June 2013, we had two shareholders. During the 2013-14 year, we are expecting two more councils to become shareholders – Upper Hutt City Council and Porirua City Council.



WHAT WE DO

Capacity manages two broad expenditure programmes across the three waters for our clients: operational and capital. Operational activity is handled by our Operations and Asset Development teams. This includes wastewater and trade waste oversight, repairs and maintenance management, and network monitoring. Capital expenditure is the planned renewal and upgrade of assets. This includes planning, performance monitoring, project programming, project design and project management. The Operations, Programme Management, Asset Planning, and Asset Development teams are supported by Corporate Services and Business Assurance functions.

MANAGEMENT TEAM

CHIEF EXECUTIVE
David Hill

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

ASSET PLANNING MANAGER
Yon Cheong

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

ASSET DEVELOPMENT MANAGER
Jetesh Bhula

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

CHIEF OPERATING OFFICER
Gary O'Meara

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

CORPORATE SERVICES MANAGER
Janet Dobbie

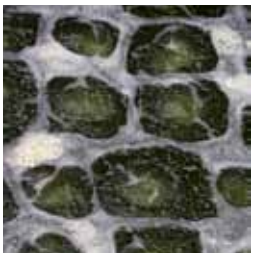
Janet manages the Corporate Services team, with overall responsibility for finance and accounting, human resources, records and information management, IT and communications, and Board and corporate functions. Prior to joining Capacity in 2008 Janet held senior positions in private and public sectors.

BUSINESS ASSURANCE MANAGER
Pat Scahill

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

ORGANISATIONAL PERFORMANCE INDICATORS





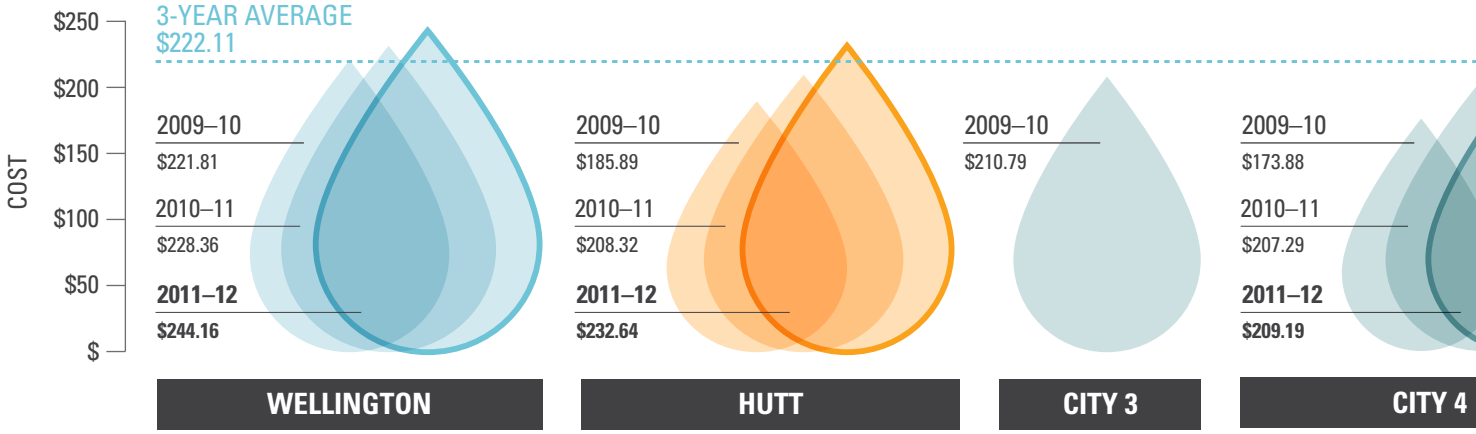
SERVICE CATEGORY	PERFORMANCE TARGET	RESULT 2012-13	RESULT 2011-12
SERVICE QUALITY **Objective:** To maintain a quality of service that represents a low level of risk	1] Fewer than four unplanned supply cuts (pipe burst) per 1,000 connections	**Achieved:** WCC:1.3 HCC: 2.7 UHCC:2.2	Achieved: WCC: 1.2 HCC: 3.0 UHCC: 2.1
	2] Fewer than 1.2 wastewater incidents reported per kilometre of wastewater reticulation pipeline	**Achieved:** WCC: 0.5 HCC: 0.7 UHCC: 0.5	Achieved: WCC: 0.5 HCC: 0.9 UHCC: 0.5
	3] Zero dwelling flood notifications received as a result of a 1-in-50 year flooding event (or less) *Locally intense rain overwhelmed the network in parts of Wellington, during a 1-in-20 year storm*	**Mainly achieved:** WCC: 49 HCC: 0 UHCC: 0	Achieved: WCC: 0 HCC:0 UHCC 0:
	4] Compliance with NZ drinking water quality standards	**Achieved:** WCC: b HCC: b UHCC: A1a	Achieved: WCC: A1b HCC: Bb UHCC: A1a

SERVICE CATEGORY	PERFORMANCE TARGET	RESULT	2012-13 OPERATING PROJECT EXPENDITURE ($000)				
				Actual	Budget	Variances	2011-12 Actual
SERVICE QUALITY **Objective:** To maintain a quality of service that represents a low level of risk	5] Deliver operating projects within budget and timeframes	**2012-13 Mainly achieved** 2011-12 Mainly achieved	WCC	$39,959	$38,817	-2.94%	$38,282
			HCC	22,786	22,826	0.17%	21,123
			UHCC	6,852	6,952	0.14%	6,205
			Total	$69,597	$68,595		$65,610

Variance notes: *WCC: $700,000 of the $1.1 million variance relates to an increase in contract costs arising from the transfer of services outside of the council; and $178,000 relates to a tariff increase for wastewater treatment.*

OPERATING COSTS PER PROPERTY

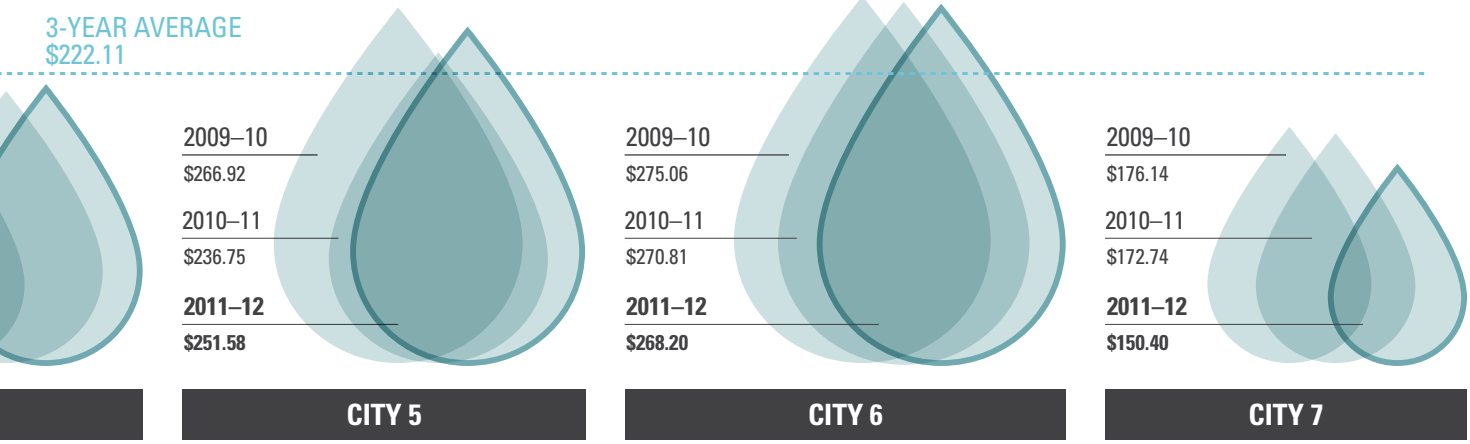
Excluding bulk water and treatment costs, depreciation, interest and overheads, divided by number of connections.



SERVICE CATEGORY	PERFORMANCE TARGET	RESULT	2012-13 CAPITAL PROJECT EXPENDITURE ($000)				
SERVICE QUALITY **Objective:** Deliver capital projects within budget and timeframes	6] Deliver capital projects within budget and timeframes	**2012-13 Achieved** 2011-12 Mainly achieved		Actual	Budget	Variances	2011-12 Actual
			WCC	$21,617	$24,128	10.53%	$24,294
			HCC	9,786	11,877	17.60%	10,008
			UHCC	3,483	3,897	10.62%	3,841
			Total	$34,886	$39,902		$38,142
Variance notes: *WCC: Includes carry forward of $2,242,000 (9.3%). HCC: Includes carry forward of $1,510,000 (12.7%). UHCC: Includes project delayed due to third party action.*							

SERVICE CATEGORY	PERFORMANCE TARGET	RESULT	
		2012-13	2011-12
CUSTOMER FOCUS **Objective:** To respond promptly to service requests	7] To meet all Response A & B times for Priority One (P1) activities ("Onsite within one hour"). *Council transferred operations to a contractor, affecting data recording. Service delivery was not affected*	**Mainly achieved:** WCC: 79% HCC: 98% UHCC: 98%	Achieved: WCC: 99.7% HCC: 100% UHCC: 100%
	8] Achievement of council's own customer satisfaction survey targets (average of three waters) *WCC: Average of customer response through Capacity calling cards and direct feedback* *HCC, UHCC: By council survey*	**Achieved:** WCC: 99% HCC: 99% UHCC:99%	Achieved: WCC: 95% HCC: 93% UHCC: 95%
COST EFFECTIVENESS **Objective:** To provide a cost-effective service	9] Trend of the operating cost of delivering water supply, wastewater and stormwater services relative to a national average*	**Achieved:** (see below)	Achieved
	10] Manage Capacity within budget 2012–13 / 2011–12 $000 / Actual / Budget / Actual Revenue / $7,620 / $8,298 / $7,798 Expenditure / $7,646 / $8,298 / $7,715	**Achieved:**	Achieved
ENVIRONMENTAL PERFORMANCE **Objective:** To minimise adverse effects on the environment	11] No resource consent-related infringement notices received from GWRC	**Achieved:**	Mainly achieved (technical non-compliance)
LEGISLATIVE COMPLIANCE **Objective:** To comply with relevant legislation	12] Full compliance with all relevant legislation	**Achieved:**	Achieved
	13] Full compliance with the Health and Safety in Employment Act 1992	**Achieved:**	Achieved

Because of the impact of different conditions, such as topography, network age, climate and population, the value of comparing costs per property (operational expenditure divided by number of connections) in one city against a national average is in the trend over time, rather than the absolute values.



KEY ACTIVITIES UPDATE

Every year in our statement of intent, published by 30 June, we outline key activities that we've agreed with our shareholding councils to focus on for the year. This is a summary of the progress made on those activities.

WATER CONSERVATION PLANNING

WHAT WE SAID WE'D DO

We said we'd implement and report on activities in the water conservation and efficiency plans of Wellington and Hutt city councils, including directly approaching commercial water users with options to better manage water and energy costs.

We also said we'd use 'water audits' for council and commercial users with the intention of developing an information pack for the city's businesses for 2013, and analyse the impact of water patrols on water consumption.

Leak detection, pressure reduction and district metering programmes would continue, helping to minimise impacts on residential and commercial customers of bursts and leaks as councils work to improve networks.

Above: Billboard advertising reminds residents of the need to use less water.

WHAT WE DID

In Upper Hutt we carried out three rounds of leak detection surveys over the entire city water reticulation. Reservoir outlet meters and zone meters connected to telemetry were monitored daily, and area water meters read weekly to monitor consumption trends and help identify leaks early. New flow meters were installed at Trentham and Cruickshank reservoirs, primarily to activate the auto shut-off valve when a high outflow is detected, but also to provide corresponding flow data with the existing outlet flow meters.

In Wellington we carried out leak detection surveys in 51 of the 70 zones. The budget for new meter installations was deferred to 2015-16 but we were able to create two new district metering area zones through use of existing meters, by valving changes in Karori and Tawa zones. Metered area zoning helps manage and monitor water supply and demand for issues such as pressure and leaks. We also created one new pressure management area in Tawa North by upgrading the pressure reduction valve at Davies Street along with some valving changes.

In Hutt City we carried out leak detection surveys in 16 of the 30 zones. We created two new district metering area zones in Wingate and Epuni and installed new meters at Rata Street pump station, Wilkie Street pump station, Kamahi reservoir and Tirohanga reservoir.

Annual water usage for Upper Hutt, Hutt City and Wellington was the lowest for 28 years.

The first annual report on the progress of the Wellington City Council water conservation and efficiency plan reported savings made under the two main objectives: of managing water demand and deferring capital expenditure. The report acknowledged difficulty in engaging with the top 25 commercial customers; however we did engage with the three highest commercial users who use the bulk of the commercial water. We installed equipment to monitor their water use and notify them when unusual consumption patterns occur. We are still developing a plan to engage with the remaining commercial high users.

We took the 'Aquarius' water conservation education tool into primary schools and other venues, such as the Royal Society's Science Teachers' Forum on teaching resources in March 2013.

Capacity contributed to the Wellington City Council 'Home & Dry' programme which carries out energy and water consumption audits in homes, and installs subsidised water efficient shower roses. Approximately 250 low-flow shower roses and 180 aerator inserts have been installed this year.

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

Water conservation and efficiency measures continued across the region. We worked with all four city councils and the Greater Wellington Regional Council to jointly communicate conservation messages, particularly over the summer months when an extended dry spell led to increased water restrictions. These messages, backed up by water patrols, contributed to a drop in water consumption from above 150 million litres a day, to below 130 million litres

WHY WE DID IT

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.

Demand management, including reduced per capita consumption and improved network integrity will help delay investment in costly new water storage or supply infrastructure. The success of our activities is demonstrated in falling water consumption.

WELLINGTON CITY STORMWATER DISCHARGE CONSENTS

In February 2011 Greater Wellington Regional Council granted consent[1] to Wellington City Council to *"continue to discharge stormwater and occasionally contaminated stormwater ... directly into the coastal marine area ..."* Four consents have been granted for this purpose.

WHAT WE SAID WE'D DO

We said we'd investigate a cultural health monitoring approach to augment existing monitoring programmes, and increase community involvement through a consultative committee.

WHAT WE DID

As part of the consent, we prepared Environmental Objectives for the Integrated Catchment Management Plans 2012. This paper was circulated among councils and the community and was approved by Greater Wellington Regional Council in June 2013. The objectives equate to a high level summary of the outcomes of the integrated catchment management plans (ICMP).

We are progressing with the next stage of the ICMPs, gathering information and preparing environmental assessments.

A cultural health approach considers community and cultural values, including collaboration and consultation in developing solutions and programmes of work. The development of a stormwater cultural health monitoring programme has been delayed, pending a region-wide assessment of cultural health monitoring by Greater Wellington Regional Council and determining how these consents fit into that.

The Stormwater Consultative Committee, created by Capacity to engage with communities with a particular interest in stormwater issues, met twice during the year. A stormwater education programme was developed and submitted to the consent authority. Staff contributed to a youth design workshop with a theme of raising awareness of stormwater in an urban environment, convened by Wellington City Council.

WHY WE DID IT

Resource consents granted for discharging stormwater into the coastal marine and harbour areas are leading towards an integrated approach to stormwater management and its associated objectives.

The information gathered from both monitoring and community engagement will contribute to developing Stage 1 of the ICMP, as required by the consent.

[1]Consents WGN090219 [27418] [27419] [30500] & [30501]

KEY ACTIVITIES UPDATE

A review of our performance against our Statement of Intent 2012-13

A new seismic coupling is fitted to a water main.

FLOW MONITORING

WHAT WE SAID WE'D DO

We said we'd continue long term wastewater flow monitoring and gauging rainfall in Hutt, Upper Hutt and Wellington cities and area-specific flow monitoring in Wellington and Hutt City, to help narrow down areas with high levels of groundwater and stormwater inflow and infiltration into the wastewater network.

Stormwater flow monitoring will continue in Upper Hutt, for the third year of a four-year programme.

WHAT WE DID

We used flow meters installed in Wainuiomata and Naenae, (Hutt City), Pinehaven (Upper Hutt) and south Karori, Miramar, Ngaio and northern Wellington to collect data from the wastewater network. Flow information was used to prioritise catchments for further inflow and infiltration investigation work, such as CCTV inspection, pressure testing of wastewater pipes and inflow surveys.

In Wellington City we installed nine flow meters in wastewater pump stations to help identify areas with high inflow and infiltration issues.

Flow data collected for the Wellington wastewater 'interceptor' (trunk main) has been used to appraise the trunk model. This model is used as a planning tool to evaluate overflow performances at constructed overflows in the wastewater system.

We completed Upper Hutt City Council's stormwater flow monitoring programme and started a project to use that data to calibrate the city's stormwater model, produce flood maps and develop network upgrade programmes.

WHY WE DID IT

This work is undertaken to realise council goals of providing affordable, reliable and culturally acceptable wastewater network systems in an environmentally, ecologically and economically sustainable way that protects public health and meets the needs of present and future communities.

Monitoring data has been analysed for average dry weather flows, peak wet weather flows, total rainfall, rainfall intensity and percentage rainfall ingress. Using these values we can assess the severity of inflow and infiltration and prioritise work to reduce the problem.

The overall objective is to reduce wastewater overflows into the stormwater system and watercourses. This activity is covered in more detail in the next section.

Stormwater model information will be used to plan flood mitigation work in Upper Hutt.

INFLOW AND INFILTRATION REDUCTION

WHAT WE SAID WE'D DO

Following investigations in Miramar to identify areas of inflow and infiltration which contribute to network overflows, this year we intended to begin a similar investigation in Island Bay.

Investigations in Wainuiomata over the past two years resulted in the development of a capital works programme which is continuing.

WHAT WE DID

We used information from flow meters and wastewater modelling in Wainuiomata and surveyed 1,622 properties in Taita, Hutt City, to prioritise catchments for inflow and infiltration mitigation. In total we inspected 17,861 metres of wastewater pipelines in Hutt City.

We completed an inflow reduction programme in Pinehaven, Upper Hutt, identifying 72 private and 24 public faults under this programme.

In Wellington City, investigations and activities aimed at reducing inflow and infiltration, including the pilot study in Miramar, continued under the Wellington Overflow Mitigation Plan.

The key programmes/plans are:

- Seawater ingress investigations – pump stations 7 and 8 catchments (in the Wellington central business district near the waterfront)
- Inflow and infiltration investigations – Khandallah, Ngaio and Davis Street catchments
- Wastewater trunk model development plan – calibrated the interceptor model upstream of Murphy Street
- GIS data review for flow monitoring – Island Bay, Owhiro Bay and Houghton Bay

Investigations were carried out in the Khandallah, Ngaio, Island Bay, Owhiro Bay, Houghton Bay, and Davis Street stormwater catchments as a requirement of the global stormwater discharge consent.

In Island Bay, we gathered data to help plan for wastewater flow modelling and prepared specifications and tender documents for the project.

WHY WE DID IT

Sub-catchment investigations serve to gauge the effectiveness of overflow reduction activity, and help identify the capital works needed to reduce the extent and effect of inflow and infiltration.

NETWORK INTEGRATION

WHAT WE SAID WE'D DO

We said we'd work with our shareholders, Upper Hutt City Council and Porirua City Council to achieve an integrated approach to water services management, with a goal to having a new structure in place by 1 July 2013.

WHAT WE DID

We developed reports including business cases, shareholder agreements and draft service level agreements to support the case for Porirua City Council joining the shared service model.

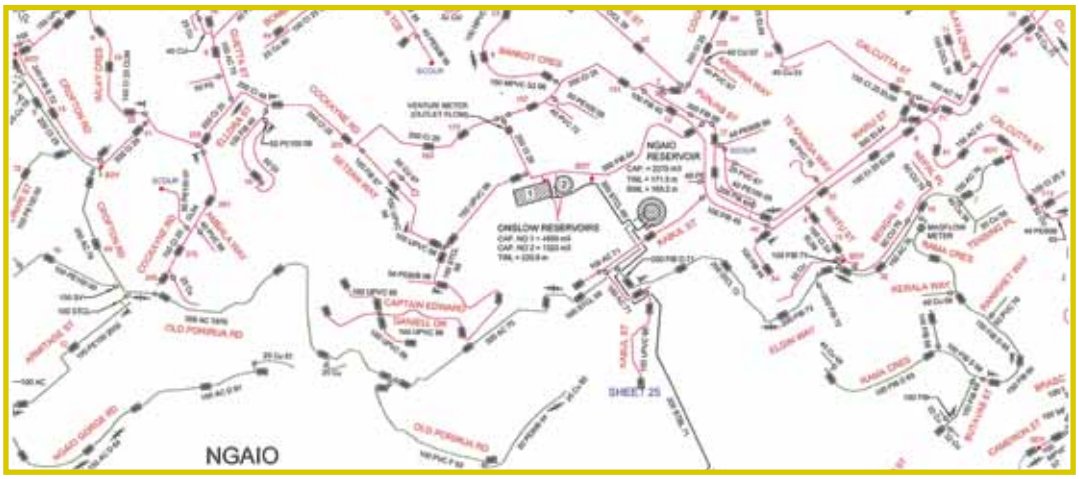
Porirua City Council officers delivered a paper to councillors recommending public consultation on the Capacity proposal.

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

WHY WE DID IT

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

Water supply network diagrams record asset information including pipe diameter, material and year of installation.



KEY ACTIVITIES UPDATE

A review of our performance against our Statement of Intent 2012-13

FLOOD HAZARD MAPPING

WHAT WE SAID WE'D DO

We said we'd continue to collect data to update flood hazard maps for the Upper Hutt area, and resume stormwater model development in Wellington.

WHAT WE DID

We established a long term prioritised model development plan for key areas of Wellington City. Work on Island Bay, Kilbirnie and Wellington central business district catchments was planned to begin this year, but was suspended due to budget constraints. Information from hydraulic models and flood hazard maps will be used in integrated catchment management plans required to be developed as part of the global stormwater consents.

We completed a regional stormwater hydraulic modelling strategy for model development in Hutt City, Upper Hutt City and Wellington City. We also developed modelling specifications which will standardise flood hazard mapping across the region.

We completed a year-round stormwater flow monitoring programme at nine locations in Upper Hutt. Data from this work will improve stormwater models for that city. We have a long-term contract with Greater Wellington Regional Council (GWRC) for receiving and managing Upper Hutt's rainfall data and also use GWRC's aerial mapping model. We began a one-year contract to calibrate and upgrade the existing one dimensional model to a combined 1D/2D model using data gathered from these programmes. Our intention is to use the new model to produce flood maps for Upper Hutt and identify network upgrade requirements.

WHY WE DID IT

Flood hazard mapping is an ongoing task for Capacity and the councils. Information from the Ministry for the Environment on climate change and sea-level rise is included in updated flood hazard maps.

Flood hazard mapping shows potential areas of flooding risk. Once these areas are identified, programmes can be developed to manage the risk.

Information from this activity will also be used in preparing the integrated catchment management plans we are required to develop as part of the global stormwater consents.

EMERGENCY PREPAREDNESS

WHAT WE SAID WE'D DO

We said that with respect to emergency preparedness, our core activities including network upgrades and modifications to key facilities would improve network resilience, emergency preparedness and post-event recovery of our client councils' three waters infrastructure.

WHAT WE DID

As a member of the Wellington Lifelines Group, we contributed to preparing and releasing a report on lifeline utility restoration times to the Civil Defence Emergency Management Group joint committee. The report, based on a 7.5 Richter scale earthquake scenario, indicated 'survival' (reduced quantity and quality) water supply restoration times of between 30 and 65 days, and 'operational' (treated water, functional distribution networks) restoration times of 45-70 days, depending on location.

Lifelines group workshops also contributed to an upgrade of the Wellington Region Civil Defence Emergency Management Plan for the Wellington Region Emergency Management Office.

The water service emergency preparedness group completed a report on managing the restoration and recovery of water services after an emergency event. This was assimilated into emergency response plans for each of Wellington, Hutt and Upper Hutt, which detail reduction, readiness, response and recovery project programmes specific to each city.

We updated our own emergency management plans for water supply, wastewater and stormwater emergencies, incorporating improvements identified during the national 'Shake Out' exercise and flooding events.

We participated in a Treasury unit workshop, Impacts of Infrastructure Damage, led by GNS Science, that focused on modelling the effects of damage to underground pipelines. We also commissioned the preparation of an emergency sewage disposal plan to identify the options for disposing of wastewater following a major earthquake. Additional detailed plans specific for each city will be developed subject to funding outlining the various reduction, readiness response and recovery project programmes and funding requirements.

Planning helps prioritise projects that strengthen the network and reduce restoration times. Over the past year, such projects included strengthening reservoirs at Johnsonville, Newlands and Mt Wakefield; and installing the Tasman Street 900-millimetre water main in Wellington; and the Knights Road emergency link main in Hutt City; and upgrading an emergency water bore supply in Upper Hutt City.

Other projects are associated with procuring and establishing alternative emergency water supplies and water storage options. A trial water bore was completed in Miramar, although without locating a viable potable water supply, and a new artesian bore drinking water supply was installed in Laings Road, Hutt City.

More details and context on emergency management planning methods and activities appear on pages 28-29.

WHY WE DID IT

The general objectives of our emergency preparedness activities are to:

- reduce the level of damage the infrastructure is exposed to, and the risk to the community, through planning, policy and network upgrades
- improve emergency readiness through training, feedback, education, communication with other utilities and maintaining the emergency management plans and procedures
- improve immediate post-event response mechanisms with suitable equipment and documentation
- have a clear, coordinated plan for the recovery of the networks to facilitate the cities' long-term economic and social recovery.

These objectives and activities are aligned with the National Civil Defence Emergency Management Strategy which is built around the concept of the four Rs: reduction, readiness, response and recovery.

KEY ACTIVITIES UPDATE

A review of our performance against our Statement of Intent 2012-13

CAPITAL PROJECT MANAGEMENT

WHAT WE SAID WE'D DO

We said that in the 2012-13 year we would manage pipeline and utility renewal programmes and major asset upgrade/improvement works for our client councils including:

- completing the Messines Road reservoir renewal
- Hospital Prince of Wales reservoir and pipelines design
- Davis Street culvert upgrade
- seismic strengthening of reservoirs
- Awamutu Stream flood protection works.

WHAT WE DID

UPPER HUTT CAPITAL WORKS

We replaced 987 metres of water mains in 10 streets, improved the seismic resilience of two reservoirs and introduced pressure reduction measures in four areas to reduce leakage and extend the life of assets. We completed 1,452 metres of sewer renewals in 13 streets and conducted infiltration surveys and CCTV inspections of 20 kilometres of sewer mains. This completed a five-year city-wide CCTV programme. We completed 315 metres of stormwater renewals in two projects, inspected 15 kilometres of stormwater drains, and improved the stormwater network model across the network. The coming year will see the completion of the stormwater CCTV programme.

HUTT CITY CAPITAL WORKS

Water mains with a total length of 2,595 metres were replaced in four suburbs as well as works to improve the earthquake resilience of a reservoir outlet main and emergency distribution mains. Wastewater drain renewals were completed in the Wainuiomata catchment, and stormwater improvements works were performed in the Awamutu Stream and around the Boulcott golf course. Three stormwater renewal projects, totalling 652 metres, were completed in other parts of the city.

WELLINGTON CITY CAPITAL WORKS

We completed water main renewal programmes in nine suburbs, replacing a total 6,440 metres of pipe. We also managed seismic strengthening work on three reservoirs and replaced pumps in three water and six wastewater pump stations. Wastewater renewals totalling 2,634 metres were carried out in 11 suburbs, and pressure testing work was undertaken to help prioritise future projects. We renewed 734 metres of stormwater pipes in five suburbs. The Davis Street culvert project was deferred to the 2013-14 year.

We completed the project to upgrade the tanks at the Messines Road reservoir. The two tanks were demolished and replaced while water supply to Karori suburb was maintained. The new tanks will provide six million litres of storage – a 70% increase – and are designed to be seismically resilient. The site, between the Russian Embassy and suburban residences, was particularly challenging for contractors.

Preliminary design work for the Hospital Prince of Wales reservoir project was completed. This project will see a 35 million-litre buried concrete reservoir built to provide emergency water storage for Wellington Hospital and supply the central business district. It will replace and expand existing water storage and provide for population increases in the central Wellington area. Next steps, early in the coming (financial) year, include public consultation toward obtaining a resource consent to construct the reservoir. Construction is scheduled to begin in 2015.

WHY WE DID IT

We prepare capital works programmes consistent with asset management plans for our client councils, to maintain the serviceability of their assets.

We manage capital works programmes from forward programming through to project 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.

With all of Wellington's bulk water supply pipelines crossing major earthquake fault lines, total disruption to the city's water supply is possible in the event of a severe earthquake. Work to improve the seismic resilience of the city's water network including upgrading and building new reservoirs is part of ongoing work to improve Wellington City's water supply storage in case of an emergency. Pipes, pump stations, reservoirs and other assets are designed and installed to modern seismic standards, which are considerably higher than earlier standards.

ASSET MANAGEMENT PLANNING

WHAT WE SAID WE'D DO

For 2012-13, we said we'd:

- continue developing a condition model for underground pipeline assets to help establish realistic remaining lives of these assets
- gather condition data by sampling targeted critical assets and representative (non-critical assets) in Wellington
- review and implement an improved approach to identifying and managing critical assets
- carry out wastewater hydraulic modelling in Owhiro Bay, Island Bay and Houghton Bay catchments to identify the extent of inflow and infiltration
- continue to develop Wellington water supply models, focusing on demand allocation and model calibration
- review the strategy for stormwater hydraulic modelling for WCC and update stormwater hydraulic models and flood hazard maps for Island Bay and Miramar.

We also said we'd improve our activity risk management planning and introduce this approach to Upper Hutt.

WHAT WE DID

We prepared 2013-14 budgets for Hutt, Upper Hutt and Wellington city councils. We also tabled a business case to Wellington and Hutt city councils for amalgamating their asset management systems.

We completed asset management plans for HCC and UHCC. We are working with WCC to prepare their 2014–15 plan.

ASSET MANAGEMENT IMPROVEMENT PROJECT

As part of our programme of work to improve asset planning, we made progress in the following areas:

- Established a generic asset management plan structure to support a standard approach for asset management including policy, strategies and objectives, across all client councils.
- Began work to amalgamate asset management systems among councils.
- Completed condition models for Hutt City's three water underground pipe networks. A pilot project to establish condition models for asbestos cement pipes for Wellington is under way.
- Completed three of the five phases required for preparing activity risk management plans for Hutt City and Upper Hutt: establishing context, identification of risk, and risk analysis. We aim to complete the last two phases – risk evaluation and identifying risk treatment options – in time to include the information in the 2014-15 asset management plans.
- WCC activity risk management plans will be started on confirmation of their requirements.
- Updated the construction schedule for capturing capital work unit rates. This revised schedule will help us to prepare more accurate capital project cost estimates.

WHY WE DID IT

Asset management planning forms the basis of decision-making and budgeting for asset owners such as councils. The better the information used to inform planning, the better the decisions the councils can make about expenditure.

Cost profiles for the renewal of underground pipelines are forecast to increase over the next two to three decades. Analysis to validate these profiles, including the use of condition modelling, hydraulic modelling and pipe sampling, will improve the quality of forecasts and timing.

Analysing risks associated with the timing of renewal works ensures informed decisions are made for investing in the networks in future long term plan planning cycles.

RISK AND STRATEGIC PLANNING

We manage risk at corporate and operational activity levels. Corporate risks are identified in terms of our key business objectives, and addressed by our strategies. Activity risks are those associated with the delivery of water supply, wastewater and stormwater services, and are addressed in detail through our client asset management plans.

We also prepare activity risk management plans for Hutt and Wellington cities. These examine risk and mitigation strategies at a greater level of detail than is practical in asset management plans. Preparing these plans is itself a risk mitigation strategy identified in our corporate risk management framework.

Our corporate risk management framework complies with AS/NZS ISO 31000:2009. Internal audits are carried out in conjunction with our ISO 9001:2000 certification, and external audits are carried out six-monthly.

The risk management framework also identifies strategies for all risks, which are reassessed six-monthly by the Board's Audit and Risk Committee.

Capacity is currently moving to an Enterprise Risk Management Framework. This framework provides a structure to align and understand strategic, organisational and operational risks associated with the activities Capacity undertakes in pursuit of achieving our strategic objectives. We expect the new framework will be in place 2013–2014 year.

The following table sets out the principal risks to our business and operations.

RISK	CONSEQUENCE	LIKELIHOOD	MITIGATION
Contaminants enter water mains	Catastrophic	Moderate	Approved public health risk management plan for water supply
			Free available chlorine residual in reticulation
			Testing of water supply in reticulation
			Backflow prevention programme
			Use of approved contractors
			Specifications for construction and repairs include requirements for flushing and disinfection
Blockage of intakes	Catastrophic	Possible	Preventive maintenance programmes
			Target standards for response times Inspection programme for critical assets
Inadequate management of risks associated with key activities	Very high	Unlikely	Activity risk management plans
			Use of approved contractors Specifications for physical works Emergency management planning
			Health and safety management plans
			Contract audits
Excessive entry of stormwater to the wastewater system	Major	Likely	Infiltration/inflow programme asset renewal programme Asset Development Programme
			Public notifications of overflows
Inability to attract and retain quality staff	High/very high	Minimal	Have a clear vision for Capacity
			Define values and behaviours
			Provide training and development opportunities
			Monitor staff engagement
			Provide competitive remuneration
Inability to manage efficiently due to use of different asset management software systems	High/very high	Moderate	Definition of business needs/current problem
			Consultation with client councils
			Issues identification (technical and non technical)
			Business process analysis to preferred solution

STRATEGIC PLAN UPDATE

Our strategic plan is reviewed by the Board and management team annually. This year the plan was renewed for the period 2013-17, in light of progress made, with new objectives set in each of four strategic areas:

STRATEGY	2012-13 PROGRESS
STAKEHOLDER INTIMACY Ascertaining customer needs and delivering reliable, quality service	Staff completed training in advanced customer service/ communications focused on increasing skills and abilities in communicating, and responding and working with clients and consumers.
STAFF EMPOWERMENT Staff satisfaction and engagement	Results from a staff 'best workplaces survey' show an increasing level of staff engagement reflecting staff commitment and work satisfaction.
	Staff training courses aimed at addressing identified skill gaps and supporting personal development were provided.
INTEGRATED INFORMATION MANAGEMENT Fostering standardisation of regional practice and asset management processes	A Regional Standard for Water Services has been developed by Capacity and signed off by the respective councils.
	Development of a common regional asset management system to be managed by Capacity is awaiting final sign off by client councils.
REGIONAL WATER SERVICES NETWORK INTEGRATION Formal agreement by councils to undertake water services provision through a regional organisation	Porirua City Council has completed a public consultation process concerning joining with the other three cities in the Wellington region to have its water services managed by a single shared entity. The Porirua City Council will make its decision in August; if approved, commencement is likely around 1 November 2013.
	It is anticipated that the new business model will be operational as from 1 November 2013 following successful negotiations with shareholder councils. The proposal changes our existing operations and governance structures.

CAPACITY'S ORGANISATIONAL ELEMENTS

OUR VISION
First choice in infrastructure services

OUR MISSION
Delivering regional water services at the best possible value

OUR PLAN
Stakeholder intimacy
Staff empowerment
IT integration
Network integration

OUR VALUES
Diving in
Fountain of knowledge
Riding the waves

OUR PEOPLE
HEALTH & SAFETY

Several key achievements in the past year were aimed at improving staff welfare, ensuring our team members feel safe and knowing they make a positive contribution to the overall aims of Capacity.

HEALTH AND SAFETY

The safety of the community, contractors and our staff is our top priority. The health and safety requirements of staff positions are assessed with training and equipment being provided to ensure staff can carry out their work safely.

Contractors have their health and safety practices independently assessed and must achieve an acceptable standard before they are eligible to be awarded contracts by Capacity. Contractor health and safety performance is audited and is taken into account when awarding new contracts.

Within our organisation, our Health and Safety Committee oversees the management of health and safety practices and processes, supported by a comprehensive range of procedures controlled through our ISO 9001:2008 certified quality system.

Sadly there was a construction site fatality involving a contractor's staff member in July 2012. This was the first such fatality at any site Capacity has been involved with. As part of their investigation into this accident, the Ministry of Business, Innovation and Employment (MBIE) visited Capacity offices and reviewed our health and safety management practices as they apply to contracts. There were no deficiencies or recommendations for improvement made in the course of this investigation; MBIE also found there were no breaches by the contractor of the Health and Safety in Employment Act 1992 in this incident.

Nevertheless we have reviewed our practices and prepared updated procedures for our contractors to follow in the coming years. These incorporated recommendations from the Government-appointed independent task force review of health and safety legislation following the Pike River Mine disaster. Presentations on this are planned for early in the new financial year.

HEALTH AND SAFETY TRAINING

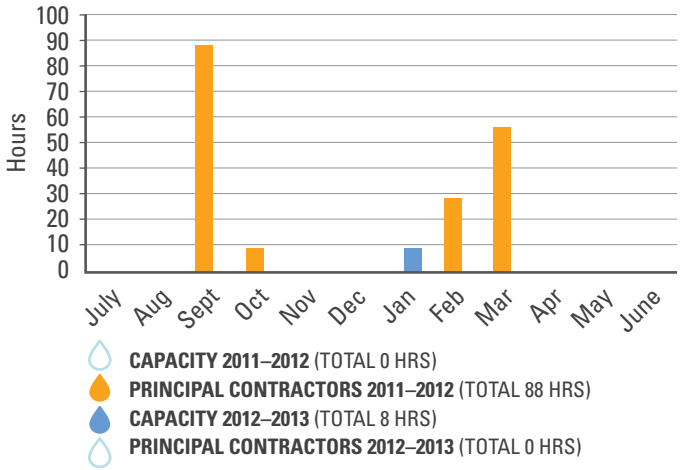
The equivalent of 46 staff days of health and safety training were carried out during the year. This included training in traffic control, confined spaces, work safety training and committee members' training. The type and frequency of training undertaken by staff varies depending on individual staff needs.

LOST TIME INCIDENTS

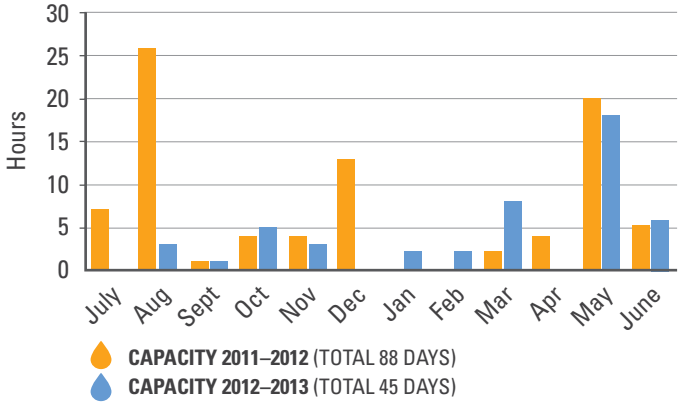
With the exception of the construction site fatality in July 2012 there were no serious incidents reported during the year. There was one lost time incident (lost time incidents are incidents where an employee is absent from the work site due to injury for more than one working day), when a Capacity work vehicle waiting at a red light was hit by a Wellington city bus. The Capacity staff member received bruising and was off work for a day.

There have been no lost time incidents reported by principal contractors this year. This result reflects more robust practices by contractors. We firmly believe that workplace incidents are preventable and will continue our strong emphasis on a high standard of health and safety management practices.

TIME LOST DUE TO INCIDENTS



STAFF HEALTH AND SAFETY TRAINING



OUR VALUES

As part of our strategies to improve customer focus and stakeholder intimacy, we undertook a programme to re-define our values. This process involved workshops, feedback, presentations and several iterations to capture what our staff feel are the core positive elements of their working life at Capacity. These feelings were then captured in three water-themed values: Diving in, Fountain of knowledge, and Riding the waves.

Over the coming years, these values and their underlying qualities will be embedded and expressed in a wide range of internal and external corporate instruments.

One such application is in induction material, used to introduce new staff to the Capacity way and the work we do; another is in personal development planning materials.

DEVELOPMENT AND SUPPORT

We invested further in productivity tool training in the past year, with Outlook courses now completed by all but two staff.

Staff also undertook cross-team customer service and communications training; attended professional development courses and conferences relating to their roles in information management, accounting, climate change, stormwater and water services management; and completed training for the safe performance of their roles.

Individual staff performance is recognised at monthly staff meetings through a values-based award programme, with more than 50 awards made in categories including Above and Beyond, Sustainable Performance, and Innovation. These meetings provide an opportunity for our team members to develop their presentation skills through updates to the whole team on projects or other work they are involved in.

Capacity provides all staff with access to the Employee Assistance Programme, and encourages team members to take up free flu injections ahead of every winter.

CAPACITY'S VALUES

DIVING IN ...
to serve our customers

People come first. What we do makes a big difference to other people's lives, and we strive for excellence in serving our communities and each other.

FOUNTAIN OF KNOWLEDGE ...
we keep learning

We're a diverse team of skilled professionals, soaking up new knowledge to share innovative solutions that meet our customers' and clients' needs.

RIDING THE WAVES ...
together

We know building relationships makes us stronger. We look out for each other, we trust and respect each other, and we're proud of our achievements.

EMERGENCY MANAGEMENT PLANNING

BUILDING RESILIENT COMMUNITIES

As a regional provider of water services management, Capacity plays a leading role in regional emergency management planning. We do this both through direct engagement with and advice to councils and communities, and by participating in groups such as Wellington Lifelines Group (WLG), the Wellington Region Emergency Management Office (WREMO) and the Wellington Region Civil Defence Emergency Management Group.

Clean water is the first priority after an emergency. While we work with councils to help them prioritise spending to improve their water infrastructure, a resilient community is one where individuals can survive without immediate outside help. As Fran Wilde, chairwoman of the WLG, noted, "There is also a role here for every individual, family and neighbourhood in the region. It is critical each one of us takes personal responsibility for being prepared."[1]

[1] WLG Restoration Times report 2012.

HCC Mayor Ray Wallace tops up his drink bottle at the new Laings Road artesian bore.

PLANNING FOR EMERGENCIES

We prepare and regularly update water supply emergency management plans for each of our client councils, and for our own organisation.

These plans outline issues, options, recommendations and funding requirements for councils to mitigate risks and impacts of an emergency event. Based on emergency supply requirements of 20 litres per person per day, with additional bulk requirements for hospitals, these plans identify gaps and priorities using the four Rs – reduction, readiness, response, recovery – approach. Typical recommendations include the following:

Reduction – improving the seismic strength of reservoirs; installing auto-closing valves; upgrading critical pipelines; building emergency cross connections between bulk supply and distribution networks.

Readiness – installing emergency water tanks; developing and providing alternative water supply sources; establishing emergency water distribution points.

We then work with each council to develop action plans based on available funding, and incorporate those actions into our annual work programmes. Over the past year, work on activities identified in these plans and the Wellington Emergency Management Preparedness Project included:

- installing emergency storage facilities for water distribution in Wellington City
- establishing an artesian bore drinking water supply in Laings Road, Hutt City
- completing an artesian tanker filling facility in Knights Road, Hutt City, supplied from Greater Wellington Regional Council's collector main
- identifying alternative surface water sources
- retrofitting an emergency water bore supply for Upper Hutt City
- seismic assessments and upgrades of reservoirs, pumping stations and pipelines.

We delivered several presentations based on our work, including to the national water management body Water New Zealand, regional public health officers, and to the School of Architecture at Victoria University.

AFTER THE EVENT

Post-event response and recovery activity will be managed by Capacity initially under the direction of the regional Civil Defence office and WREMO. Over the past year we contributed to updating the Wellington Region Civil Defence Emergency Management Group Plan, and took part in civil defence workshops that identified strategic issues and areas for future development across each of the four Rs.

Early response activity involves determining the extent of damage to key assets and its impact on water delivery, with the priority being distributing drinking water to hospitals and the community from stored or alternative sources. Local and external contractors and consultants will be deployed according to need, using experience gained from the Christchurch earthquake recovery.

The recovery phase, which involves restoring water supplies to normal, will begin once emergency water distribution has been established.

RESTORATION TIMES

The Wellington Lifelines Group coordinates knowledge and planning among utility operators, including telecommunications, transport, gas, and electricity, as well as water supply, and stormwater and wastewater disposal. In November 2012 the group published a report on how long it would take for key utilities to be restored following a major earthquake. We identified that parts of the Wellington region, notably the eastern suburbs and central business district of Wellington City, could be without water for as long as 70 days after a major (Richter 7.8 or above) quake.

RESTORATION TIMES FOR SERVICES IN THE WELLINGTON REGION

RESTORATION TIMES FOR KEY UTILITIES	**Gas** restoration time (days)	**Power** restoration time (days)	**Water** restoration time (days)
Upper Hutt and Stokes Valley	80	50	30
Hutt Western Hills	80	60	40
Hutt Central	80	60	25
Wainuiomata	80	50	35
Hutt City Harbourside	80	70	40
Mana, Plimmerton and Pukerua Bay	60	40	75
Porirua Central	60	40	75
Pauatahanui – Haywards	60	40	35
Northern Wellington suburbs	60	60	45
Western Wellington suburbs	60	60	55
Wellington CBD	80	95	55
Central Wellington suburbs	80	60	55
Roseneath, airport and Southern Bays	80	60	70
Eastern Wellington suburbs	80	60	70

This is a consequence of water catchments and sources being located in the Hutt Valley, and supply pipelines to Wellington that cross known fault lines several times. Reducing restoration times is one of the key factors in prioritising our work programmes, along with ensuring water storage is secure.

WORK PLANNED

Over the next 10 years, Wellington City Council is planning to spend around $5.8 million seismically strengthening 11 more reservoirs in Wellington, and $0.7 million strengthening pipework and installing automatic closing valves and seismic triggers on around 15 reservoirs.

Around 45% of the city's 132,000,000 litres of stored water is in seismically secure storage – reservoirs that meet contemporary design codes, and have suitable automated protection devices such as auto-closing valves.

Another 35,000,000 litres of seismically secure storage will be added to the network in the form of the Hospital Prince of Wales park reservoir. This is intended to provide dedicated post-event water supply to Wellington Regional Hospital, in Newtown. The reservoir's preliminary design has been completed, and, subject to resource consent, is programmed to be completed by 2016.

A further 10,000,000 litres of storage is being replaced in Melrose and Bell Road by 2018. By 2023, 80% of Wellington's stored water will be in seismically secure tanks around the city.

Hutt City has 24 reservoirs storing a total 71,000,000 litres or water, of which about two-thirds is in seismically secure storage. Another 31% of storage is in reservoirs planned for strengthening work over the next 10 years, and the 11 reservoirs without auto-closing valves will have these installed over the next eight years.

All of Upper Hutt's 16 reservoirs have auto-closing valves, and will have seismic triggers installed on these over the next five years. Of the 34,000,000 litres of total storage capacity, about 85% is in reservoirs built to contemporary seismic standards. From 2014, three more reservoirs will be strengthened over the following six years.

COMMUNITY ENGAGEMENT AND THE ENVIRONMENT

Capacity's community engagement activities are focused on raising and sharing awareness about issues relating to water conservation, the environment, and specific projects. Our premise is that an informed community is better able to contribute to decisions affecting investment in sustainable three waters infrastructure.

Over the past year we prioritised our proactive communications on informing communities about the need to conserve water. In early summer, we sent flyers to every ratepayer in Hutt City, Upper Hutt and Wellington, reminding people of summer restrictions on garden watering and suggesting ways they could reduce water use.

Water conservation in summer is particularly important because that is the most likely time of year for any shortfall between supply and demand. Conservation reduces demand. It is also a lot cheaper than investing in new supply sources such as new storage lakes or dams. Estimates from Greater Wellington Regional Council show that deferring this investment provides present value savings on repayment costs of $2 million to $6 million a year.

At the base level, restrictions limit people to watering on alternate days. In the event of extreme weather, however, people can be asked to stop watering altogether. As it happened, in March this year we did need to elevate restriction levels, asking people to stop watering outside. We supported our client councils by handling customer queries, reports of leaks and use contravening the ban, and exemption applications, as well as managing water patrols and media requests. Working with our colleagues at Greater Wellington Regional Council, we helped to reduce demand by about 15%.

Common sense and a growing awareness of the need to protect our natural resources mean people are treating water with respect all year round. To support this – especially among the young – we encourage councils and schools to make use of our self-contained water conservation demonstrator,

Aquarius. This resource is a practical complement to material and other conservation initiatives developed by councils in the region. It was used at several schools and events in the region over summer. We will be exploring ways to further promote this resource in the coming year.

Communities are concerned with the state of the environment around them. Both wastewater and stormwater networks have an impact on the environment, and we work with five separate community liaison groups to ensure network performance information is shared and community concerns considered in network management decisions. These groups meet periodically through the year.

We are now looking to develop options for an education programme on stormwater. The aims of this will be to raise awareness of the impact people can have on stormwater quality, and to improve environmental outcomes. Activities will be catchment-focused, and evolve throughout the lifespan of the 10-year resource consent for Wellington City Council's coastal discharges of stormwater, which the programme supports.

Our community engagement also has a significant reactive element to it. We were able to support people affected by inner city flooding, publicise the harm caused by people flushing inappropriate material into sewers, draw attention to illegal discharges in the wastewater system, and support our client councils in communicating with their customers.

Towards the end of the year, we began what will be a long term programme of proactive communications with people and groups likely to be interested in the impacts of building the proposed Hospital Prince of Wales reservoir. Building the largest reservoir in the region, in the midst of a well-used park in the inner city, will doubtless present challenges for community engagement as well as engineering design and construction.

Water conservation messages make a splash during a hot Te Ra o Raukura Festival in Hutt City.

WATER SUPPLY

THE FOLLOWING PAGES REVIEW ISSUES AND ACTIVITIES RELEVANT TO THE CURRENT AND FUTURE PERFORMANCE OF EACH OF THE THREE WATERS.

The Wellington region's drinking water comes from four main areas: the headwaters of the Hutt River, the Orongorongo and Wainuiomata rivers, and the Waiwhetu aquifer.

The river water is treated – clarified, filtered, chlorinated and fluoridated – at Greater Wellington Regional Council's Te Marua (Upper Hutt) and Wainuiomata treatment stations. Aquifer water is extracted, chlorinated and fluoridated at Waterloo (Hutt City) – except for the supply to Petone, which is not fluoridated. 'Bulk' water – typically between 100–180 million litres a day – is then delivered to key reservoirs in Upper Hutt, Hutt City and Wellington (and Porirua), and from there it is pumped to other reservoirs in their networks and delivered to customers.

Water from the aquifer meets about 40% of demand, and supplies Wellington's central business district, southern and eastern suburbs, and all of Hutt City except Manor Park, Stokes Valley and Wainuiomata. Water from Wainuiomata meets about 20% of daily demand, supplying that suburb and supplementing water from the aquifer for Wellington. The balance comes from Te Marua – supplying Manor Park and Stokes Valley, Porirua, and Wellington's northern and western suburbs.

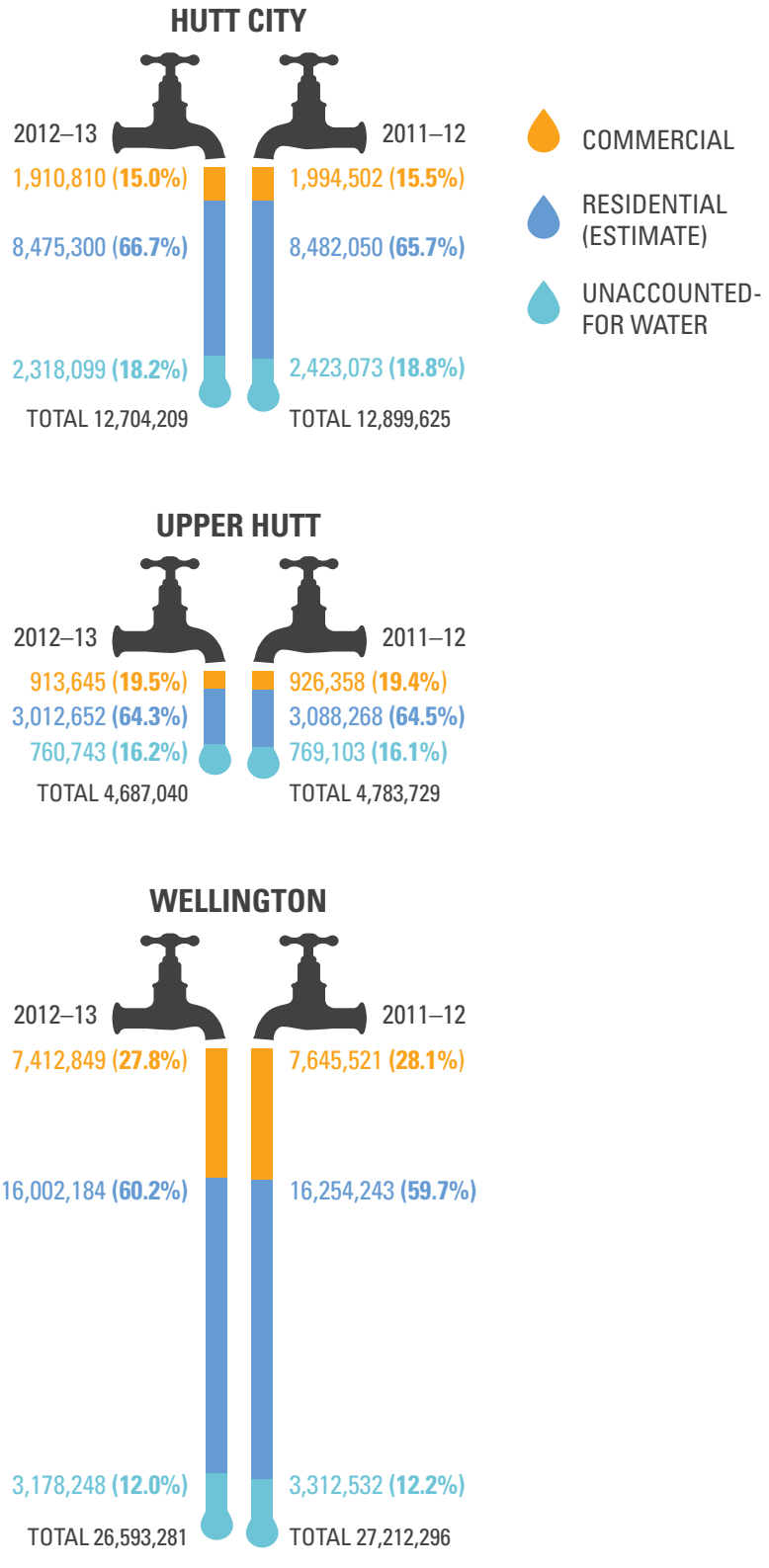
To mitigate the risk of the bulk supply's reliance on river water – and therefore reasonably regular rainfall – GWRC also has two storage lakes at its Te Marua treatment facility. These hold a total of about 3.5 billion litres.

Water quality standards are managed by the Ministry of Health, which sets the maximum acceptable values or amounts of substances, organisms, contaminants or residues that may be present in drinking water.

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

Water quality grading is one of the key performance measures set by Capacity's client councils. Maps of grading zones in Wellington, Upper Hutt and Hutt City are available on our website at: **Capacity.net.nz/your-water.**

ANNUAL WATER CONSUMPTION BY CITY AND USAGE, 2012–2013 (000 LITRES)



THE LONG DRY SUMMER

THE COST OF WATER

Hutt, Porirua, Upper Hutt and Wellington city councils all buy bulk water from Greater Wellington Regional Council, paying according to the percentage of the region's total they use. In 2012-13, this amounted to $25.6 million for a total of 49.7 billion litres (2011-12: $24.9 million, for a total 50.7 billion litres).

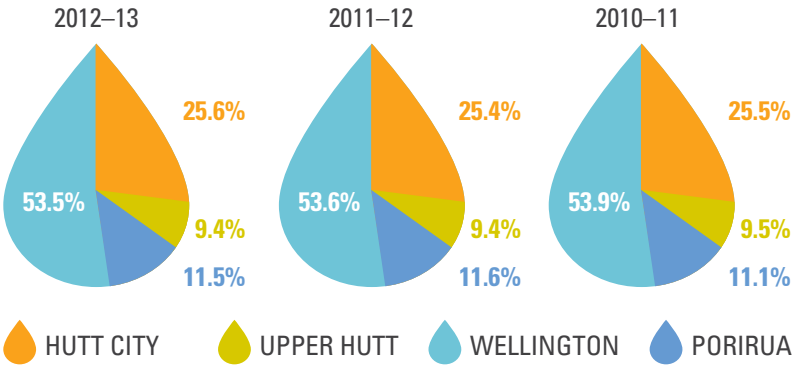
Because universal water metering is not used in the Wellington region, it is not possible to give precise figures on where the water goes and, in particular, how much people use at home.

However, survey meters and usage patterns in similar cities that are metered indicate an average per person consumption at home of 215–230 litres a day. Commercial use is metered and paid for, and there is a certain amount of 'unaccounted-for water' which includes leaks, firefighting, council use (eg for public parks) and unauthorised use. These three areas make up the gross per capita consumption figure, and vary considerably from city to city depending mainly on the commercial use profile.

Leak reduction measures we carry out in each city, such as zone metering, pressure management and leak detection, have contributed to falling per capita water consumption. In addition, response times to leak and burst alerts are closely monitored, and are a performance metric for our council clients.

ANNUAL WATER CONSUMPTION, 2011–2013

AS A PERCENTAGE OF TOTAL SUPPLY, BY CITY



TOTAL BULK WATER USAGE AND COST (HUTT, UPPER HUTT, PORIRUA AND WELLINGTON) 2011–2013

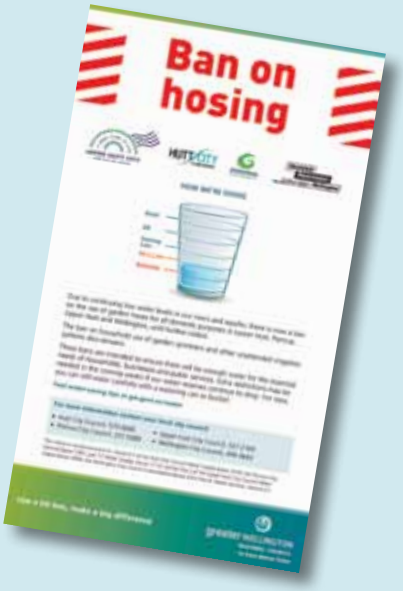
TOTAL USAGE (000 LITRES)			TOTAL BULK WATER COST		
2012–13	2011–12	2010–11	**2012–13**	2011–12	2010–11
49,672,241	**50,729,429**	**52,782,089**	**$24,888,467**	**$24,163,560**	**$23,460,000**

From 6 February 2013, much of the Wellington region went without rain for almost 40 days. It was the longest dry spell on record in some areas, including the Wainuiomata and Hutt river catchments (GWRC, 2013).

With one of GWRC's storage lakes out of action for an upgrade and less water available in rivers, as the dry weather progressed it became clear we needed to ask the public to use less water. A full ban on outdoor water use was imposed by all four cities from 16 March. Consumption quickly dropped to around 130 million litres a day, a typical winter usage level, as people throughout the region got behind the ban and recycled or reduced water use as much as possible. By early April, we were out of danger, and the restrictions were lifted on 9 April.

Capacity worked with its client councils and GWRC to ensure businesses dependant on water could survive, while both clients and commercial users did what they could to use a bit less.

While restrictions were policed through water patrols and responses to reports of 'ban busters', almost all of the public awareness of and support for the restrictions were achieved without the need for prosecution.



On the job with...

Sarath Amarasekera, Senior Project Manager

My job is to organise and manage projects for capital works in Wellington City. I manage water supply projects – those involving water mains, reservoirs and pumping stations. My work directly helps to give an uninterrupted, sustainable and high quality water supply to the community.

I like knowing that my job helps to provide drinking water to the community. I really enjoy the challenge of completing projects on time, to a high standard and within budget.

On a typical workday I'll have two to three projects being carried out in the streets of Wellington or at a reservoir. It's a bit of a juggling act and at any one time I've got several projects at various stages on the go.

Throughout the day I'll talk with the consultants and contractors working on these projects so I can keep up to date on progress and sort out any issues. I'll also talk to the Clerk of Works assigned to my projects. Clerks visit the sites daily to monitor progress and ensure quality, and that health and safety procedures are being carried out correctly. Once or twice a week I'll go and visit the project sites myself.

There's a lot of administration to my role – I regularly process contract payments, produce documents going out for tender and report on project progress against wider objectives.

Sarath Amarasekara project managed the $6 million upgrade of the Messines Road reservoirs, completed this year.

ANNUAL PROGRAMME

Our work in water supply focuses on projects to renew or upgrade water supply infrastructure, and managing reactive work to repair bursts or leaks.

Asset plans and condition models are used to help prioritise planning for future work programmes and to guide decisions about repairs and replacements following bursts or leaks.

In the past year, we managed capital works expenditure in water supply of $17.5 million, and operational expenditure (excluding the cost of bulk water) of $44 million. These include over 25 pipe renewal projects, reservoir and network seismic upgrades, and improvements to the SCADA (remote monitoring) network.

WATER SUPPLY EXPENDITURE

RENEWAL EXPENDITURE ($000)

HUTT

$1,495	2010–11
$2,042	2011–12
$1,793	**2012–13**
$2,489	2013–14*

UPPER HUTT

$934	2010–11
$1,143	2011–12
$860	**2012–13**
$931	2013–14*

WELLINGTON

$10,278	2010–11
$11,020	2011–12
$8,823	**2012–13**
$10,799	2013–14*

Renewal means rehabilitating and replacing assets to restore them to their original capacity or condition.

*Forecast.

UPGRADE EXPENDITURE ($000)

HUTT

$207	2010–11
$145	2011–12
$92	**2012–13**
$476	2013–14*

UPPER HUTT

$0	2010–11
$14	2011–12
$186	**2012–13**
$83	2013–14*

WELLINGTON

$978	2010–11
$1,202	2011–12
$3,347	**2012–13**
$1,382	2013–14*

Upgrade means increasing the capacity or performance of existing assets, including adding new facilities.

*Forecast.

WATER SUPPLY

KEY PERFORMANCE INDICATORS BY CITY

INDICATOR	TARGET	2012–13	2011–12	COMMENT
HUTT CITY				
Customer satisfaction: % of satisfied customers	**95%**	**Achieved: 97%**	Achieved: 95%	Measured by council survey of residents.
Quality of water	**'b' grading** from the Ministry of Health for distribution	**Achieved**	Achieved	'a' grade Ministry standards require drinking water to be chlorinated. Some of Hutt City's water supply is pure artesian water, and is untreated.
	Full compliance with NZ Drinking Water Standards	**Achieved**	Achieved	
Reliability of water supply	**Fewer than four** unplanned supply cuts per 1,000 connections	**Achieved: 2.7**	Achieved: 3	An unplanned supply cut is typically a result of a pipe failure (burst) or supply interruption caused without prior notice to affected parties.
Respond promptly to water supply disruptions	**97%** within one hour	**Achieved: 98.8%**	Achieved: 100%	
Maintain average un-metered water consumption	**Less than 350** litres per person per day	**Achieved: 290 l/p/d**	Achieved: 292 l/p/d	This represents total city consumption, less metered use, divided by population. Average domestic use is estimated at 230 litres per person per day.
UPPER HUTT CITY				
Compliance with New Zealand Drinking Water Standards	**A-bulk, a-distribution**	**Achieved: A1a**	Achieved: A1a	
Customer satisfaction: % of satisfied customers	**95%**	**Achieved: 95%**	Achieved: 96.7%	Measured by council survey of residents.
Continuity of supply	**97%** of service disruptions restored within two hours	**Achieved: 97%**	Achieved: 99%	
WELLINGTON CITY				
Compliance with New Zealand Drinking Water Standards and distribution network quality	**100% compliance**; graded 'a' to 'b'	**Achieved: 100%; 'b'**	Achieved: 100%; 'b'	New Zealand Drinking Water Standards are set and overseen by the Ministry of Health.
Customer satisfaction: % satisfaction with water quality and network service	**95%**	**Achieved: 99.2%**	Achieved: 97.8%	Measured by customer response through calling cards and direct feedback.
Complaints regarding water taste and odour	**Fewer than 200**	**Achieved: 165**	Not achieved: 202	The main cause of taste and odour issues is the change in supply from 'run of river' water to water from storage lakes, a factor beyond our control. This target was adjusted from 80 to 200 in the council's 2012-22 long term plan.
Properties with appropriate pressure (250kpa)	**98%**	**Not achieved: 96%**	Not achieved: 96%	This figure is a consequence of housing development above existing reservoir levels, a factor beyond our control.
Response time to service requests	Response A: **97%**	**Achieved: 98.6%**	Achieved: 99.7%	Response A requires customer contact and work prioritisation within one hour of a service request.
Estimated % of unaccounted-for water	**19.5%** of bulk water supplied	**Achieved: 11%**	Achieved: 13%	Unaccounted-for water includes leaks on public and private networks, un-metered use by council, firefighting, and theft.
Residential consumption	**345** litres per person per day	**Achieved: 270 l/p/d**	Achieved: 278 l/p/d	Measured as total city consumption, less metred use, divided by population.

STORM WATER

Stormwater networks have two main components. Primary flow paths are the drains, sumps, pipes and pumping stations that make up the built network. Streams, rivers and other surface channels form the secondary flow paths of a stormwater system.

Many people are unaware that stormwater, and what goes down the drain, enters the environment with no water treatment – other than perhaps some gross screening – at all.

In extreme rain events, or due to system failure such as blockages, excess stormwater causes flooding, with potentially devastating and costly effects. Stormwater management is thus a key budget item for city council infrastructure spending – and once again, as with water supply and wastewater, it is an area where public responsibility plays a role in keeping down costs.

'SAVE THE DRAIN FOR RAIN'

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

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

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

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

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

CLIMATE CHANGE

Climate change impacts are important for stormwater network planning. A 2012 report on sea-level variability[1] showed Wellington faces a sea-level rise of 0.7 – 1.5 metres over the next 100 years. This is after experiencing an average rise of two millimetres a year over the past century.

With many stormwater pipes discharging into rivers and the sea, rising sea levels means networks might not function as effectively as they should – putting people and property at risk. In addition, climate change is likely to see more intense weather events such as rainfall. Sudden heavy rain can quickly overload networks, causing flooding that can disrupt traffic, damage homes and harm people.

Silt washed down in heavy rain is cleared from the culvert beneath Pinehaven Road in Upper Hutt. Keeping flow paths clear is vital in reducing flood risks.

[1] Sea level variability and trends: Wellington region. NIWA. June 2012.

FLOODS AND FIXES

Until recently, stormwater pipes were generally designed to cope with volumes delivered by a one-in-five year storm. This means that, all things being equal, incidences of flooding might be expected from the kind of storm that returns every five years. Design standards have now increased to meet one-in-50 year return periods. This means parts of the existing stormwater network are undersized by current standards. It also means people's expectations of the network are increasing.

Following a night of rain, lightning and high winds, on the morning of 6 May 2013, an intense downpour in Wellington stopped traffic, halted flights in and out of the city and caused flooding in central and eastern suburbs. A basement carpark near the Basin Reserve and nearby commercial buildings were flooded, and one unlucky resident in Newtown suffered extensive damage to her uninsured belongings when floodwaters entered her ground floor flat. As our engineers sought to gather as much information as possible about flooding events throughout the city, we also worked with Wellington City Council and support agencies to help the young family re-establish itself in alternative accommodation.

Just a few weeks later, early on Saturday 1 June, another event took place that disrupted the lives of residents and soon had our staff responding quickly. A large land slip left several houses on the edge of destruction, tearing away sewer and stormwater services to other houses in the vicinity. Emergency service and council officers worked quickly to find alternative housing for those affected. Then it was time for our engineers to evaluate the damage to water infrastructure, and identify possible solutions. Overground bypasses were quickly put in place, to be followed by longer term solutions as the problem of stabilising the landslip and threatened properties is dealt with.

Workers lower trench shoring into place to carry out a pipe renewal.

Intense rain overwhelmed the stormwater network near the Basin Reserve in Wellington.

On the job with...

Richard Keightley,
Investigation & Design Engineer

I'm part of the Asset Development team, and one of our main roles is planning renewals and upgrades to the existing networks. My work revolves around stormwater and flood risk. I carry out proactive investigations to help us understand the capacity of the stormwater network and identify parts of the city that have an unacceptable risk of flooding. We then prioritise investigations and develop solutions to mitigate flood risk to the community.

I work with a group of committed and passionate people, on a diverse range of projects and come up with innovative solutions to protect the community from flooding.

The 6th of May 2013 was anything but a typical working day, with many parts of Wellington City affected by serious flooding. Several staff from our team were focused solely on reconnaissance, visiting the worst hit areas. We talked to affected people and gathered information to identify what caused the flooding. This information is a vital part of our ongoing investigations, and ensures that solutions we develop are effective and robust.

Most days aren't so hands-on though. I'm looking at 'modelling' which is where we project how areas will be affected by different levels of heavy rain. I look at past events like the May one and recommend where renewal money will best be spent.

Richard Keightley checks the height floodwaters reached during a severe storm in Wellington.

STORMWATER EXPENDITURE

RENEWAL EXPENDITURE ($000)

HUTT

$297	2010–11
$1,287	2011–12
$792	**2012–13**
$351	2013–14*

UPPER HUTT

$305	2010–11
$1,606	2011–12
$733	**2012–13**
$814	2013–14*

WELLINGTON

$3,200	2010–11
$3,363	2011–12
$2,502	**2012–13**
$4,953	2013–14*

Renewal means rehabilitating and replacing assets to restore them to their original capacity or condition.

*Forecast.

UPGRADE EXPENDITURE ($000)

HUTT

$844	2010–11
$2,522	2011–12
$1,774	**2012–13**
$711	2013–14*

UPPER HUTT

$0	2010–11
$3	2011–12
$0	**2012–13**
$0	2013–14*

WELLINGTON

$1,333	2010–11
$638	2011–12
$62	**2012–13**
$266	2013–14*

Upgrade means increasing the capacity or performance of existing assets, including adding new facilities.

*Forecast.

STORMWATER

KEY PERFORMANCE INDICATORS BY CITY

INDICATOR	TARGET	2012–13	2011–12	COMMENT
HUTT CITY				
Residents' satisfaction with stormwater service	**80%**	**Achieved: 87%**	Achieved 87%	Measured by council-managed independent survey.
Reliability of stormwater services	**<0.5** incidents reported per kilometre of pipeline	**Achieved: 0.09**	Achieved: 0.06	
Water quality at monitored bathing beaches	**90%** of days water quality meets Ministry for the Environment guidelines	**Not achieved: 89%**	Achieved: 91.5%	Samples collected within 48 hours of a heavy rain event can read high, when follow-up testing records low (achieving) results, a factor beyond our control.
Respond promptly to stormwater disruptions	**97% within one hour**	**Achieved: 98.4%**	Achieved 100%	
UPPER HUTT CITY				
Flooding within habitable buildings resulting from a less than one-in-50-year rain event.	**0**	**Achieved: 0**	New measure	Previous long term plan measures addressed resource consent compliance and customer satisfaction.
WELLINGTON CITY				
Residents' satisfaction: % of customers satisfied with stormwater service	85%	**Achieved: 100%**	Achieved: 93.8%	Determined from feedback response cards and calls.
Response time to service requests	95%	**Not achieved: 71.5%**	Achieved: 97.8%	Stormwater operations and maintenance activities were performed by the council until July 2012. WCC approved a one-year period to allow new contractors (City Care) to transition and train staff in the systems required to accurately report on this measure. The work itself has been unaffected.
Properties flooded as a result of a less than one-in-50-year rain event	**0**	**Not achieved: 49**	Achieved: 0	Locally intense rain events combined with high seas overwhelmed some parts of the network; however the storm itself was not rated at a one-in-50 year level.
Compliance with guidelines at monitored bathing beaches	**95%**	**Not achieved: 89.4%**	Achieved: 95%	Seawater samples are collected and analysed for *Enterococci* bacteria, in accordance with regional council, Ministry of Health and Ministry for the Environment requirements. Samples collected within 48 hours of a heavy rain event can read high, when follow-up testing records low (achieving) results, a factor beyond our control.
Resource consent compliance	100%	**Achieved**	Mainly achieved (a single technical non-compliance)	Resource consents are required to allow stormwater to discharge into Wellington harbour and coastal marine areas.





WASTE WATER

Water that goes down the sinks, drains, showers, baths and toilets of Wellington, Hutt City and Upper Hutt's 150,000-odd households, businesses, offices, restaurants, bars, hospitals and schools ends up at one of four treatment plants.

Moa Point (Wellington), Western (Karori), Seaview (Hutt City) and Porirua (north Wellington and Porirua) treat some 140 million litres of wastewater a day, using biological and ultraviolet treatment processes. The treated water is then piped into the sea, via outfall pipes off Hue te Taka Peninsula, Pencarrow Head (Seaview), the southern coast (Western) and Round Point (Porirua).

Sludge resulting from filtration and treatment is further processed to remove as much liquid as possible. This is then retreated and discharged, and the remaining solid is disposed of in landfills. Each of the treatment plants operates under its own resource consent, which permits the discharge of treated wastewater to the sea.

WASTEWATER OVERFLOWS

Most wastewater networks perform well during dry weather and moderate rainfall. During prolonged, heavy rainfall, however, the amount of water in the wastewater system increases. This is a result of cross-connections from stormwater pipes into the wastewater network, and infiltration from rising groundwater levels and leaky pipes. The temporary increased load can lead to overflows from the network.

These conditions can also lead to overflows at treatment plants.

As an example of the scope of the problem, during the storm in Wellington on 6 May 2013, flow to the Moa Point treatment plant reached a peak of 4,400 litres per second – six times the typical dry-weather volume of 700 litres per second.

And during the storm of 20 June, matters were made worse by power cuts affecting wastewater pumping stations. Overseen by our telemetry engineers, contractors worked in the atrocious conditions of that night to minimise overflows by using generators and back-up systems to restore the network as quickly as possible.

Each overflow incident is reported to the relevant council and interested parties such as environmental and recreational groups. We work with community groups and Greater Wellington Regional Council to improve communication about when these overflows happen.

INFLOW AND INFILTRATION

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

To get a better understanding of the extent of inflow and infiltration, and to help with budgeting and planning for improvements, every year we carry out investigations including CCTV inspections of pipes in Hutt City, Upper Hutt and Wellington.

This work helps prioritise pipe repairs and renewals to maximise the benefit to both wastewater and stormwater systems. The eventual outcome of such work is reduced wastewater treatment load and cost, and reduced likelihood of overflows and other inflow and infiltration impacts.

On the job with...

Jan Christensen,
Investigation & Clerk of Works

I joined Capacity with my colleagues from Upper Hutt City Council when the council contracted out its water services management in 2009.

In a nutshell, my job involves keeping waterways open to prevent flooding, and managing contractors who build essential infrastructure in the community.

The best things about my job are working outdoors, and building relationships with contractors. I also like helping to solve ratepayers' problems.

I'm Capacity's eyes and ears on the street – on any given day, I've got a number of sites to visit. I check the progression of projects and audit contractors' health and safety and traffic management plans.

I also set the programme for the drainage contract, which makes sure all culverts, inlets, outlets, etc are okay and not going to cause flooding. Part of this is managing a group of prisoners who do valuable work by maintaining open drains.

TRADE WASTE

Hutt News reporter Karoline Tuckey grabs a picture of Hutt Valley Water Services' Steve Daken holding what's blocking the pumps at wastewater pumping stations.

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

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

It's not just trade waste issues that can cause problems. Paper towels, wet wipes, nappy liners and other sanitary items flushed down the loo continue to cost ratepayers thousands of dollars a year in service calls to unclog blocked pumps. This is another example of where community responsibility and public education can help save public funds.

In the past year, media interest in these issues was highlighted with reports in *The Dominion Post* about a 'phantom dumper' who has been illegally discharging concentrated organic material into the wastewater network in Karori, and the issue of supposedly flushable wipes causing blockages in private wastewater pipes in an item on TV's *Fair Go*.

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

WASTEWATER EXPENDITURE

RENEWAL EXPENDITURE ($000)

HUTT

$1,751	2010–11
$3,809	2011–12
$4,409	**2012–13**
$5,048	2013–14*

UPPER HUTT

$1,103	2010–11
$1,074	2011–12
$1,704	**2012–13**
$1,898	2013–14*

WELLINGTON

$7,463	2010–11
$7,813	2011–12
$6,720	**2012–13**
$8,242	2013–14*

Renewal means rehabilitating and replacing assets to restore them to their original capacity or condition.

*Forecast.

UPGRADE EXPENDITURE ($000)

HUTT

$378	2010–11
$204	2011–12
$926	**2012–13**
$400	2013–14*

UPPER HUTT

$0	2010–11
$0	2011–12
$0	**2012–13**
$0	2013–14*

WELLINGTON

$493	2010–11
$255	2011–12
$163	**2012–13**
$0	2013–14*

Upgrade means increasing the capacity or performance of existing assets, including adding new facilities.

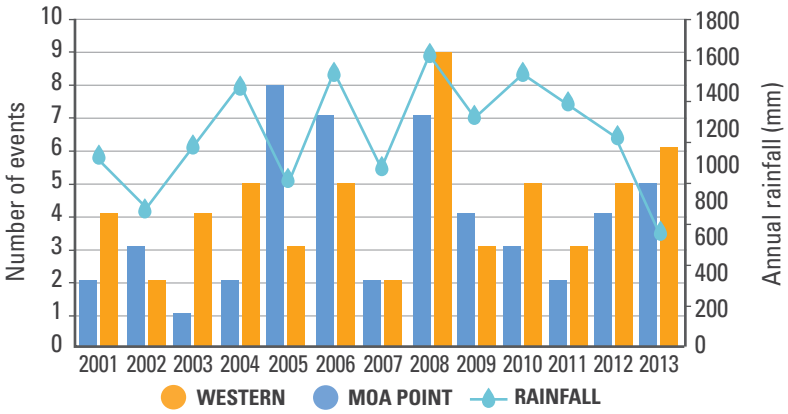
*Forecast.

WASTEWATER

KEY PERFORMANCE INDICATORS BY CITY

INDICATOR	TARGET	2012–13	2011–12	COMMENT
HUTT CITY				
Customer satisfaction	**95%**	**Achieved: 97%**	Achieved: 96%	Measured by council's independent survey.
Resource consent compliance	**No** consent-related infringement notices	**Achieved**	Mainly achieved	Minor technical non-compliance in 2011-12.
Reliability of wastewater service	**Fewer than 2** incidents reported per kilometre of pipeline	**Achieved: 0.7**	Achieved: 0.9	'Incidents' are mainly blocked pipes.
Respond promptly to wastewater disruptions	**97%** within one hour	**Achieved: 97.7%**	Achieved 100%	
UPPER HUTT CITY				
Reliability of wastewater service	**Fewer than 2** incidents reported per kilometre of pipeline	**Achieved: 0.7**	Achieved: 0.9	
Use of system	**95%** of properties connected to the system have service restored within six hours	**Achieved: 100%**	Achieved: 100%	
WELLINGTON CITY				
Customer satisfaction with wastewater network service	**85%**	**Achieved: 99%**	Achieved: 93.5%	Measured by customer response through calling cards and direct feedback.
Response time to service requests Customer contact and work prioritised within 1 hour	**97%**	**Not achieved: 66.9%**	Not achieved: 96%	Wastewater operations and maintenance activities were performed by the council until July 2012. WCC approved a one-year period to allow new contractors (City Care) to transition and train staff in the systems required to accurately report on this measure. The work itself has been unaffected. The previous year's target was 97%.
Freshwater monitored sites within acceptable bacteria count *(E. Coli)*	**95%**	**Not achieved: 89%**	Achieved: 94.5%	Faecal coliform bacteria are measured against an acceptable count level of less than 1,000 per 100ml. Results of this measure are outside our control.
Resource consent compliance	**100%**	**Achieved**	Achieved	

OVERFLOW EVENTS AND RAINFALL 2001–2013



In general, higher rainfall coincides with higher numbers of overflow events, although rainfall intensity is a key factor in the overloading that leads to overflow events.

Note – the 2013 figures are for six months.

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

INDEPENDENT AUDITOR'S REPORT

To the readers of Capacity Infrastructure Services Limited's financial statements and statement of service performance for the year ended 30 June 2013

The Auditor General is the auditor of Capacity Infrastructure Services Limited (the Company). The Auditor General has appointed me, J. R. Smaill, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and statement of service performance of the Company on her behalf.

We have audited:

- the financial statements of the Company on pages 45 to 60, that comprise the statement of financial position as at 30 June 2013, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the statement of service performance of the Company on page 1.

OPINION

Financial statements and statement of service performance

In our opinion:

- the financial statements of the Company on pages 45 to 60:
  - comply with generally accepted accounting practice in New Zealand; and
  - give a true and fair view of the Company's:
    - financial position as at 30 June 2013; and
    - financial performance and cash flows for the year ended on that date; and
- the statement of service performance of the Company on page 1:
  - complies with generally accepted accounting practice in New Zealand; and
  - gives a true and fair view of the Company's service performance achievements measured against the performance targets adopted for the year ended 30 June 2013.

Other legal requirements

In accordance with the Financial Reporting Act 1993 we report that, in our opinion, proper accounting records have been kept by the Company as far as appears from an examination of those records.

Our audit was completed on 28 August 2013. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities, and explain our independence.

BASIS OF OPINION

We carried out our audit in accordance with the Auditor General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements and statement of service performance are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements and statement of service performance. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and statement of service performance. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and statement of service performance whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the Company's financial statements and statement of service performance that give a true and fair view of the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board of Directors;
- the adequacy of all disclosures in the financial statements and statement of service performance; and
- the overall presentation of the financial statements and statement of service performance.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and statement of service performance. Also we did not evaluate the security and controls over the electronic publication of the financial statements and statement of service performance.

In accordance with the Financial Reporting Act 1993, we report that we have obtained all the information and explanations we have required. We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS

The Board of Directors is responsible for preparing financial statements and a statement of service performance that:

- comply with generally accepted accounting practice in New Zealand;
- give a true and fair view of the Company's financial position, financial performance and cash flows; and
- give a true and fair view of its service performance.

The Board of Directors is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements and a statement of service performance that are free from material misstatement, whether due to fraud or error. The Board of Directors is also responsible for the publication of the financial statements and statement of service performance, whether in printed or electronic form.

The Board of Directors' responsibilities arise from the Local Government Act 2002 and the Financial Reporting Act 1993.

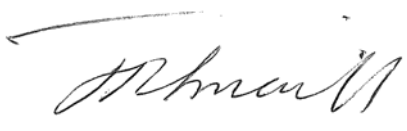
RESPONSIBILITIES OF THE AUDITOR

We are responsible for expressing an independent opinion on the financial statements and statement of service performance and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and section 69 of the Local Government Act 2002.

INDEPENDENCE

When carrying out the audit, we followed the independence requirements of the Auditor General, which incorporate the independence requirements of the External Reporting Board.

Other than the audit, we have no relationship with or interests in the Company.



J. R. Smaill
Audit New Zealand
On behalf of the Auditor General
Wellington, New Zealand

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2013

	NOTE	ACTUAL 2013 $000	BUDGET 2013 $000	ACTUAL 2012 $000
REVENUE				
Operations		**7,591**	8,298	7,648
Recovered Expenditure Income		**0**	0	125
Interest		**29**	0	25
TOTAL REVENUE		**7,620**	8,298	7,798
EXPENDITURE				
Operational expenditure		**1,098**	1,286	1,227
Audit fees		**35**	34	33
Directors fees	13	**105**	116	105
Depreciation	6	**75**	64	47
Interest		**1**	2	1
Rental and operating lease costs		**545**	530	553
Personnel expenditure	14	**5,787**	6,266	5,749
TOTAL EXPENDITURE		**7,646**	8,298	7,715
NET SURPLUS/(DEFICIT) BEFORE TAXATION		**(26)**	0	83
Tax benefit	4	**79**	0	4
NET SURPLUS/(DEFICIT) AFTER TAXATION		**53**	0	87
Other Comprehensive Income		**0**	0	0
TOTAL COMPREHENSIVE INCOME		**53**	0	87
Total Comprehensive Income Attributable to:				
Wellington City Council		**27**	0	43
Hutt City Council		**26**	0	44
Non-Controlling Interest		**0**	0	0
Total		**53**	0	87

THE ACCOMPANYING NOTES FORM PART OF AND ARE TO BE READ IN CONJUNCTION WITH THESE FINANCIAL STATEMENTS.

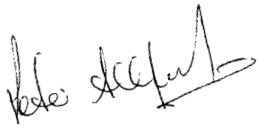
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2013

	ACTUAL 2013 $000	ACTUAL 2012 $000
Net surplus/(deficit) for the year	**53**	87
TOTAL COMPREHENSIVE INCOME	**53**	87
Equity balance at 01 July	**363**	276
EQUITY BALANCE AT 30 JUNE	**416**	363

THE ACCOMPANYING NOTES FORM PART OF AND ARE TO BE READ IN CONJUNCTION WITH THESE FINANCIAL STATEMENTS.

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2013

		NOTE	ACTUAL 2013 $000	BUDGET 2013 $000	ACTUAL 2012 $000
CURRENT ASSETS					
	Cash and cash equivalents		**814**	388	379
	Trade and other receivables	7	**1,067**	906	1,320
			1,881	1,294	1,699
NON CURRENT ASSETS					
	Intangible assets	6	**64**	55	86
	Property, plant and equipment	6	**123**	132	79
	Deferred tax asset	5	**92**	0	0
			279	187	165
TOTAL ASSETS			**2,160**	1,481	1,864
CURRENT LIABILITIES					
	Trade and other payables	8	**1,293**	914	1,050
	Employee Entitlements	9	**442**	290	452
	Provision for Income Tax		**9**	0	(1)
TOTAL LIABILITIES			**1,744**	1,204	1,501
NET WORKING CAPITAL			**416**	277	363
EQUITY					
	Share capital	10	**600**	600	600
	Retained earnings	11	**(184)**	(323)	(237)
TOTAL EQUITY			**416**	277	363



Peter Allport
CHAIRMAN

Peter Leslie
DIRECTOR

THE ACCOMPANYING NOTES FORM PART OF AND ARE TO BE READ IN CONJUNCTION WITH THESE FINANCIAL STATEMENTS.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2013

	NOTE	ACTUAL 2013 $000	BUDGET 2013 $000	ACTUAL 2012 $000
CASH FLOW FROM OPERATING ACTIVITIES				
Cash was provided from:				
Operating receipts		**7,871**	9,420	7,551
Income Tax received (net)		**0**	0	0
Cash was disbursed to:				
Payments to suppliers and employees		**(7,319)**	(8,418)	(7,145)
Income tax paid (net)		**(2)**	0	(8)
Interest paid		**0**	0	(1)
GST Paid		**(18)**	(1,076)	(52)
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	15	**532**	(74)	345
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash was applied to:				
Purchase of property, plant and equipment		**(68)**	(41)	(21)
Purchase of intangible assets		**(29)**	(80)	(94)
NET CASH INFLOW(OUTFLOW) FROM INVESTING ACTIVITIES		**(97)**	(121)	(115)
Net increase/(decrease) in cash and cash equivalents		**435**	(195)	230
Opening cash balance		**379**	583	149
CLOSING CASH BALANCE		**814**	388	379

The GST (net) and Income tax (net) components of cash flows from operating activities reflect the net GST paid to and received from the Inland Revenue Department. The GST and Income Tax components have been presented on a net basis, as the gross amounts do not provide meaningful information for financial statement purposes and to be consistent with the presentation basis of the other primary financial statements.

THE ACCOMPANYING NOTES FORM PART OF AND ARE TO BE READ IN CONJUNCTION WITH THESE FINANCIAL STATEMENTS.

1. STATEMENT OF COMPLIANCE

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 s6 of the Local Government Act 2002. Current shareholders are Wellington City Council and Hutt City Council. Capacity was incorporated in New Zealand in 2003 as Wellington Water Management Limited and changed its name in July 2009.

The financial statements have been prepared in accordance with the requirements of the Companies Act 1993, the Financial Reporting Act 1993 and the Local Government Act 2002.

For purposes of financial reporting, Capacity is a public benefit entity.

REPORTING PERIOD

The reporting period for these financial statements is the year ended 30 June 2013. The financial statements were authorised for issue by the Board of Directors on 28 August 2013

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 accounting policies set out have been applied consistently to all periods presented in the financial statements. The measurement basis applied is historical cost. The accrual basis of accounting has been used unless otherwise stated. These financial statements are presented in New Zealand dollars rounded to the nearest thousand, unless otherwise stated.

STANDARDS, AMENDMENTS AND INTERPRETATIONS ISSUED BUT NOT EFFECTIVE THAT HAVE NOT BEEN EARLY ADOPTED

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

JUDGEMENTS AND ESTIMATIONS

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

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

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

A) REVENUE

Capacity derives revenue from its customers. In 2012-2013 the customers were shareholder councils Wellington City Council and Hutt City Council, as well as contracted and other services for Upper Hutt City Council.

Revenue is recognised when services are rendered.

B) EXPENSES

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

C) TAXATION

Income tax expense comprises both current tax and deferred tax, and is calculated using tax rates that have been enacted or substantively enacted by balance date.

Current tax is the amount of income tax payable based on the taxable profit for the current year, plus any adjustments to income tax payable in respect of prior years.

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets

and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the entity expects to recover or settle the carrying amount of its assets and liabilities.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised.

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

Current tax and deferred tax is charged or credited to the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the tax is dealt with 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. 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 duration less than 12 months are recognised at their nominal value.

F) PROPERTY, PLANT AND EQUIPMENT

Recognition

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

Measurement

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

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

Impairment

The carrying amounts of property, plant and equipment are reviewed at least annually to determine if there is any indication of impairment. Where an asset's recoverable amount is less than its carrying amount, it is reported at its recoverable amount and an impairment loss will be recognised. The recoverable amount is the higher of an item's fair value less costs to sell and value in use. Losses resulting from impairment are reported in the Statement of Comprehensive Income.

Disposal

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

Depreciation

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

Telephone system	9 years (10.75%)
Furniture and Office Equipment	2-14 years (7.00-48.00%)
Plant Equipment	3-10 years (10.00-36.00%)

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

Work in progress

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

G) INTANGIBLE ASSETS

Acquired intangible assets are initially recorded at cost.

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

Computer software	2 ½ to 5 years (18.60-40.00%)

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

H) EMPLOYEE BENEFITS

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

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

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

I) OTHER LIABILITIES AND PROVISIONS

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

J) EQUITY

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

K) LEASES

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

L) SUPERANNUATION SCHEMES

Defined contribution schemes

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

M) RELATED PARTIES

A party is related to Capacity if:

- directly or indirectly through one or more intermediaries, the party:
  - > controls, is controlled by, or is under common control with, Capacity
  - > has an interest in Capacity that gives it significant influence over the control of the company
  - > has joint control over Capacity
- the party is an associate of Capacity
- the party is a member of key management personnel of Capacity
- the party is a close member of the family of any individual referred to above
- the party is an entity controlled jointly or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to above

Directors' remuneration is any money, consideration or benefit received, receivable or otherwise made available, directly or indirectly, to a Director during the reporting period. Directors' remuneration does not include reimbursement of legitimate work expenses or the provision of work-related equipment such as cell phones and laptops.

N) BUDGET FIGURES

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

2. CHANGES IN ACCOUNTING POLICIES

There are no changes in accounting policies. All policies have been applied on a consistent basis with those used in the previous year

3. NATURE OF THE BUSINESS

Wellington City Council and Hutt City Council incorporated Capacity to manage water services (water, stormwater and wastewater) for both cities. The two councils continue to own their respective water service assets and to separately determine the level and standard of service to be provided.

4. INCOME TAX

	2013 $000	2012 $000
CURRENT TAX EXPENSE		
Current year	**17**	5
Prior period adjustment	**(5)**	(9)
	12	(4)
DEFERRED TAX EXPENSE/(BENEFIT)		
Origination and reversal of temporary differences	**(9)**	25
Change in unrecognised temporary differences	**0**	(25)
Recognition of previously unrecognised tax losses	**(82)**	0
	(91)	0
TAX EXPENSE/(BENEFIT)	**(79)**	(4)

RECONCILIATION OF EFFECTIVE TAX RATE

	2013 $000	2012 $000
Surplus/(Deficit) for the period excluding income tax	**(26)**	83
Prima facie income tax based on domestic tax rate	**(7)**	22
Effect of non-deductible expenses	**12**	5
Effect of tax exempt income	**0**	(15)
Effect of tax losses utilised	**9**	0
Current year's loss for which no deferred tax asset was recognised	**0**	0
Deferred tax assets not previously recognised	**(82)**	0
Change in temporary differences		
Prior period adjustment	**5**	9
	(79)	(4)

IMPUTATION CREDITS

	2013 $000	2012 $000
Imputation credits as at 30 June available for use in subsequent periods	**69**	57

5. DEFERRED TAX

DEFERRED TAX ASSET (LIABILITY)	PROPERTY, PLANT AND EQUIPMENT $000	EMPLOYEE ENTITLEMENTS $000	OTHER PROVISIONS $000	TAX LOSSES $000	TOTAL $000
BALANCE AT 30 JUNE 2011	0	0	0	0	0
Charged to surplus or deficit	0	0	0	0	0
Charged to other comprehensive income	0	0	0	0	0
Balance at 30 June 2012	0	0	0	0	0
Charged to surplus or deficit	3	89	0	0	92
Charged to other comprehensive income	0	0	0	0	0
Balance at 30 June 2013	**3**	**89**	**0**	**0**	**92**

OTHER DISCLOSURES

A deferred tax asset has been recognised in relation to temporary differences of $326,941 (2012: $nil) as it is probable that future taxable profits will be available against which the benefit of the deductible temporary differences can be utilised.

A deferred tax asset was not recognised in 2012 in relation to temporary differences of $293,872.

6. PROPERTY, PLANT, EQUIPMENT AND INTANGIBLES

The asset register continues to be updated and stocktakes are periodically conducted.

Several obsolete and fully depreciated assets were auctioned out to staff and some software was written off. As a result, an elimination adjustment was incurred in respect of the accumulated depreciation.

Work in progress at the end of 2013 has been transferred to the appropriate asset classification.

2012–13	**2013 CURRENT ADDITIONS $000**	**2013 CURRENT DISPOSALS $000**	**2013 CURRENT DEPRCN $000**	**2013 ELIMINATION ON DISPOSAL $000**	**2013 TOTAL COST $000**	**2013 ACCU DEPRCN $000**	**2013 NET BOOK VALUE $000**
OWNED ASSETS:							
Telephone system	**0**	**0**	**2**	**0**	**34**	**34**	**0**
Furniture, Plant & Equipment	**68**	**10**	**22**	**10**	**235**	**112**	**123**
Intangibles	**29**	**17**	**51**	**17**	**149**	**85**	**64**
Work in Progress	**0**	**0**	**0**	**0**	**0**	**0**	**0**
	97	**27**	**75**	**27**	**418**	**231**	**187**

2011–12	2012 CURRENT ADDITIONS $000	2012 CURRENT DISPOSALS $000	2012 CURRENT DEPRCN $000	2012 ELIMINATION ON DISPOSAL $000	2012 TOTAL COST $000	2012 ACCU DEPRCN $000	2012 NET BOOK VALUE $000
OWNED ASSETS:							
Telephone system	0	0	4	0	34	32	2
Furniture, Plant & Equipment	28	0	16	0	177	100	77
Intangibles	94	0	27	0	137	51	86
Work in Progress	(7)	0	0	0	0	0	0
	115	0	47	0	348	183	165

7. TRADE AND OTHER RECEIVABLES

	NOTE	ACTUAL 2013 $000	ACTUAL 2012 $000
Trade receivables		**0**	158
Related parties receivables	12	**945**	1,026
Prepayments and Sundry Debtors		**122**	136
		1,067	1,320

8. TRADE AND OTHER PAYABLES

	NOTE	ACTUAL 2013 $000	ACTUAL 2012 $000
Trade payables		**1,147**	886
Related parties payables	12	**3**	3
GST		**143**	161
		1,293	1,050

9. EMPLOYEE ENTITLEMENTS

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

	ACTUAL 2013 $000	ACTUAL 2012 $000
Current		
Annual leave and Time in lieu	**307**	289
Long service leave	**0**	1
Payroll accruals	**135**	162
TOTAL EMPLOYEE ENTITLEMENT	**442**	452

10. SHARE CAPITAL

	ACTUAL 2013 $000	ACTUAL 2012 $000
300 fully paid $2,000 ordinary shares	**600**	600

11. RETAINED EARNINGS

	ACTUAL 2013 $000	ACTUAL 2012 $000
Balance at beginning of year	**(237)**	(324)
Net surplus/(deficit) for the year	**53**	87
Balance at end of year	**(184)**	(237)

12. RELATED PARTY TRANSACTIONS

	NOTES	ACTUAL 2013 $000	ACTUAL 2012 $000
REVENUE FOR SERVICES BY CAPACITY TO:			
Wellington City Council		**5,152**	5,234
Hutt City Council		**1,630**	1,701
		6,782	6,935
GOODS AND SERVICES SUPPLIED TO CAPACITY BY:			
Wellington City Council		**34**	19
Hutt City Council		**0**	45
		34	64
PAYMENTS BY COUNCILS RELATING TO CITY CARE*:			
Wellington City Council		**6,155**	2,937
Hutt City Council		**2,570**	2,409
		8,725	5,346
RECEIVABLE OWING TO CAPACITY FROM:			
Wellington City Council		**605**	605
Hutt City Council		**340**	421
	7	**945**	1,026
PAYABLE BY CAPACITY TO:			
Wellington City Council		**3**	3
Hutt City Council		**0**	0
	8	**3**	3

* Payments relating to City Care have no effect on Revenue and Expenses as Capacity is purely managing the City Contract in behalf of the councils and a monthly wash up of the funds is done.

13. RELATED PARTY DISCLOSURES

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

KEY MANAGEMENT PERSONNEL	ACTUAL 2013 $000	ACTUAL 2012 $000
Salaries and other short term benefits	**1,128**	1,124
Post-employment benefits	**46**	36
Key management personnel compensation	**1,174**	1,160

DIRECTORS' REMUNERATION	ACTUAL 2013 $	ACTUAL 2012 $
Peter Allport	**30,000**	30,000
Andrew Foster	**15,000**	15,000
Peter Leslie	**15,000**	15,000
David Bassett	**15,000**	15,000
Ian Hutchings	**15,000**	15,000
John Strahl	**15,000**	15,000
TOTAL DIRECTORS' REMUNERATION	**105,000**	105,000

During the year, Capacity purchased legal services from DLA Philips Fox, a legal firm in which Capacity Director John Strahl was formerly a partner, and by which he is occasionally engaged for ad hoc assignments. These services cost $20,774.96 for 2013, which included review of the proposed shareholder agreement for the proposed new model (2012: $2,329.83), and were supplied on normal commercial terms. There is no balance outstanding (2012: $nil) for unpaid invoices at year end.

EMPLOYEE REMUNERATION	ACTUAL 2013	ACTUAL 2012
The number of employees earning over $100,000 per annum.		
SALARY RANGE		
$280,000 - $290,000	**1**	1
$180,000 - $190,000	**1**	1
$140,000 - $150,000	**3**	2
$130,000 - $140,000	**0**	1
$110,000 - $120,000	**1**	1
$100,000 - $110,000	**6**	6
No other employees earn over $100,000.		

14. PERSONNEL EXPENDITURE

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

	ACTUAL 2013 $000	ACTUAL 2012 $000
Employee remuneration	**5,389**	5,308
Other employee costs	**369**	373
Recruitment costs	**29**	68
Total	**5,787**	5,749

15. RECONCILIATION OF NET SURPLUS BEFORE TAXATION WITH CASH INFLOW FROM OPERATING ACTIVITIES

	ACTUAL 2013 $000	ACTUAL 2012 $000
REPORTED SURPLUS/(DEFICIT) AFTER TAXATION	**53**	87
ADD NON CASH ITEMS:		
Depreciation	**75**	47
Work in progress	**0**	0
Adjustment	**0**	0
	128	134
ADD/(LESS) MOVEMENTS IN OTHER WORKING CAPITAL ITEMS		
(Increase)/decrease in trade and related party receivable	**239**	(247)
(increase)/decrease in deferred tax asset	**(92)**	0
(Increase)/decrease in prepayments and sundry debtors	**14**	(25)
Increase/(decrease) in trade and related party payable	**261**	571
Increase/(decrease) in GST payable	**(18)**	3
Increase/(decrease) in employee entitlements	**(10)**	(80)
Tax provision movement	**10**	(11)
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	**532**	345

16. NET DEFICIT BEFORE TAX

The deficit before taxation for the year ended 30 June 2013 represents an increase in leave accrued by staff while working at Capacity not funded by charge out rates agreed with customers. The loss arising from an increase in accrued leave represents a non-cash item and the company's cash resources are not decreased by this loss.

17. FINANCIAL INSTRUMENTS

Capacity's financial instruments include financial assets (cash and cash equivalents and receivables), and financial liabilities (payables that arise directly from operations).

The Directors do not consider there is any material exposure to interest rate risk on its investments.

Concentrations of credit risk with respect to accounts receivable are high due to the reliance on Wellington City Council, Hutt City Council and Upper Hutt City Council for the company's revenue. However, the councils are considered by the Directors to be high credit quality entities.

Capacity invests funds on deposit with the ANZ Bank (merged with The National Bank of New Zealand Limited).

FAIR VALUE

Fair value is the amount for which an item could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction. There were no differences between the fair value and the carrying amounts of financial instruments at 30 June 2013.

MARKET RISK

Cash flow interest rate risk is the risk that the cash flows from a financial instrument will fluctuate because of changes in market interest rates.

There is no exposure to interest rate and currency risk as Capacity does not have borrowings and other foreign currency transactions.

CREDIT RISK

Credit risk is the risk that a third party will default on its obligations to Capacity, therefore causing a loss. Capacity is not exposed to any material concentrations of credit risk other than its exposure within the Wellington region.

Cash is held on deposit with the ANZ Bank under a call and a cheque account. Capacity holds no other collateral or credit enhancements that give rise to credit risk.

Receivables balances are monitored on an ongoing basis to Capacity's exposure to bad debts. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

TRADE AND OTHER RECEIVABLES	ACTUAL 2013 $000	ACTUAL 2012 $000
Not past due date	**1,067**	1,320
Past due zero to three months	**0**	0
Past due three to six months	**0**	0
Past due more than six months	**0**	0
TOTAL TRADE AND OTHER RECEIVABLES	**1,067**	1,320

LIQUIDITY RISK

Liquidity risk is the risk arising from unmatched cash flows and maturities.

The following table sets out the contractual cash flows for all financial liabilities that are settled on a gross cash flow basis.

	STATEMENT OF FINANCIAL POSITION $000	TOTAL CONTRACTUAL CASH FLOWS $000	ZERO TO TWELVE MONTHS $000	ONE TO TWO YEARS $000	TWO TO FIVE YEARS $000	MORE THAN FIVE YEARS $000
2013 TRADE AND OTHER PAYABLES	**1,293**	**1,293**	**1,293**	**0**	**0**	**0**
2012 TRADE AND OTHER PAYABLES	1,050	1,050	1,050	0	0	0

18. COMMITMENTS AND CONTINGENCIES

Capacity has a six year lease commitment at 85 The Esplanade, Petone, starting 1 July 2009, with a two-month lease-free period on each year for the first 3 years. Lease terms have not been changed over the last 4 years.

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

NON-CANCELLABLE OPERATING LEASE COMMITMENTS	**ACTUAL 2013 $000**	ACTUAL 2012 $000
Not later than one year	**541**	544
Later than one year and not later than five years	**626**	980
Later than five years	**0**	0
	1,167	1,524

Capacity has no contingent liabilities in 2013 (2012: $nil) and no contingent assets in 2013(2012: $nil).

19. CAPITAL MANAGEMENT

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

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

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

20. BUDGET DISCLOSURE

STATEMENT OF COMPREHENSIVE INCOME

Revenues are $707,000 below the budget of $8,298,000 because Wellington City Council reduced their 2012–13 budget for drainage and water services from Capacity at short notice.

There are no major variances against the prospective statement of changes in equity, as a result of the parallel reduction in both revenues and expenditures.

STATEMENT OF FINANCIAL POSITION

The receivables were slightly higher than budgeted because of the wash-up invoices relating to City Care June claims, as well as reimbursements for consultancy services.

Net working capital remained within budget.

STATEMENT OF CASH FLOW

Because revenues were lower than budgeted, operating receipts were lower than initially projected.

21. EVENTS AFTER BALANCE DATE

A new shareholders' agreement and new service level agreements with each council are expected to be signed by all councils by the end of 2013, allowing Upper Hutt City Council and Porirua City Council to become shareholders, and allowing Capacity to provide "outcome focused" services to the client councils. The commencement of Capacity managing Porirua City Council's water services is intended for November 2013. There are no liabilities existing at balance date prior to approval of the financial statement relating to the reforms.

DIRECTORY

DIRECTORS

Peter Allport (chairman)
David Bassett
Andy Foster
Ian Hutchings
Peter Leslie
John Strahl

CHIEF EXECUTIVE

David Hill

REGISTERED OFFICE

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behalf of the Auditor-General

BANKERS

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