capacity

Annual Report

2008–2009

Protecting the environment is inherent in everything we do

CONTENTS

About Capacity

Capacity is a centre of excellence for water services management and is located in the Wellington region.

We began operation in April 2004 after being set up by Wellington City Council and Hutt City Council as a Council Controlled Trading Organisation. As such, we are governed by our shareholding councils. We do not own the water, stormwater and wastewater assets, set policies, or control the rates and user charges. These roles remain with both councils.

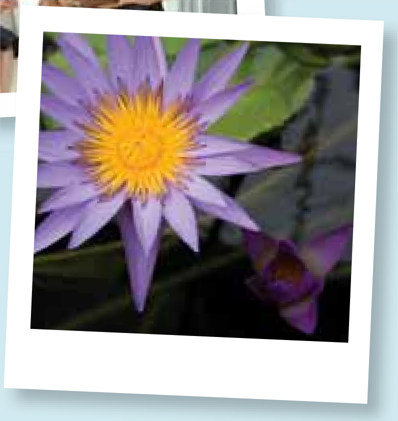
During the past year we extended our management of water services to include the Upper Hutt City Council area. With this acquisition we now manage 5086km of pipes, 121 reservoirs and 175 pump stations for all three councils. During 2008/2009 we were responsible for managing $29 million of capital expenditure and $65 million (excluding interest and depreciation) of operational expenditure for the three councils. The cost of Capacity managing this work was 7.2 per cent or $7.39million.

The successful integration of Upper Hutt water services over the past year demonstrates our ability to deliver high-quality, safe and environmentally sustainable services as we continue in our quest to become the first choice in infrastructure services in the Wellington region.

From 1 July 2009 our name will change to 'Capacity Infrastructure Services Limited'. Our new name now includes information about what we do – 'infrastructure services' – and is used in addition to our existing trading name, which is already well-recognised within the industry.

DAVID HILL
CHIEF EXECUTIVE

MANAGER	MANAGER	MANAGER	MANAGER	MANAGER	MANAGER	MANAGER
PROGRAMME MANAGEMENT	BUSINESS ASSURANCE	CORPORATE SERVICES	STRATEGIC PROJECTS	ASSET DEVELOPMENT	ASSET PLANNING	OPERATIONS
PRITHI GAJANAYAKA	**PAT SCAHILL**	**JANET DOBBIE**	**KEVIN ROBERTSON**	**JETESH BHULA**	**YON CHEONG**	**GARY O'MEARA**



From the Chairman

As we celebrate our fifth year of successful operation it is important to pause and reflect upon the factors that have helped Capacity get where it is today and continue to contribute to achieving our vision of being the first choice in infrastructure services.

Firstly, I think it comes back to the people in our organisation. We have a dedicated, strong team of water service professionals who are committed to providing the best water, wastewater and stormwater services management possible for all our clients.

In order to ensure this dedication we continue to look at ways to support and encourage our staff. One of the most important things you can do to maintain a successful business is to look after your staff and give them a good working environment.

During June this year we moved to new premises at 85 The Esplanade, Petone. These premises provide more space for our existing team and room for us to expand our activities as we grow and provide water services management to more councils in the region.

Innovation is also key to the success of Capacity. For the first time this financial year we introduced innovation awards for our staff in an effort to recognise the continuous improvement they strive for.

The inaugural award was presented to members of the Asset Management Team for their Capital Prioritisation Framework. This framework provides our clients with documented reasons as to why some physical work projects proceed at the expense of others and demonstrates that the correct decisions are being made. A presentation on this framework given at the Advanced Asset Management Forum in August 2008 prompted interest from others within the industry, both in New Zealand and further afield.

Critical also to the success of Capacity has been the foresight of our shareholding councils. Capacity was set up with the potential to provide water services management across the region. We now provide these services to 334,700 residents, or 70 per cent of residents in the greater Wellington region.

Having kept an eye on developments coming out of Auckland and the move towards creating a 'super city' with the regionalisation of certain services, it appears to me that our shareholders were ahead of the game and that we are already well down this path in the water services management area. Creating a joint infrastructure model provides an excellent way of managing long-term infrastructure for our shareholding councils.

To that end I must thank our shareholders for their continued vision and thank our Board members for their continued guidance. At the end of the year we farewelled Richard Westlake, who is retiring from the Board after three years. I'd like to wish him well in the future.

I would also personally like to thank the staff and management of Capacity for shaping Capacity over the past five years into the well-recognised and flourishing water services management company it is today.

Bryan Jackson

Bryan Jackson
CHAIRMAN

Past achievements and future activities

Inherent in all our work is a commitment to protecting the environment. We do this through many different means, including identifying opportunities for water conservation and the management of stormwater and wastewater to eliminate pollution of our streams and harbour.

The majority of our past achievements and future activities directly relate to delivering on this commitment.

Hand in hand with our commitment to the environment is a commitment to providing an excellent water management service to our clients. In order to achieve this we are constantly looking at new and better ways of doing things.

I am delighted to be able to report that the past year has been one of significant highlights for the company that have contributed to our ability to provide this excellent service.

During the year we received ISO 9001:2000 accreditation for the company, were recognised both nationally and internationally for our achievements in our capital prioritisation framework work, and realised savings for our shareholders.

We have spent some time this year looking at the savings and wider benefits we have been able to realise for our shareholders over our first five years of operation. This has been an interesting exercise and has shown some significant benefits and savings to our shareholders. We have also had a look at the savings model which is used to report against savings as part of our key performance indicators.

Unfortunately the savings model has proved to be a difficult measure to manage during an operating period and does not capture a full picture of savings realised. Thus we have gone into details of the wider savings realised throughout this report.

We have identified in excess of $30 million in capital expenditure savings for Wellington, enabling us to undertake or bring forward additional work in its place. These savings are outlined in the planning section of this report.

In reporting against the actual savings model we note that the cost of operating Capacity over the past five years is $670,000 below the projected costs had water services management stayed within both Hutt City Council and Wellington City Council.

We have made savings for Hutt City Council of $1.34 million over the five years, which is 80 per cent of our target.

However, in the case of Wellington City Council we have not met our savings model target of $2.5 million. Rather, we have overspent by $872,000. There are several mitigating factors for this, including an acknowledged amount of $1.53 million in additional work undertaken for the Council that was not allowed for in the model. Were the model adjusted to allow for this additional work, that would result in a net saving of $663,000 or 26 per cent of the target.

Due to the complexities of the model and the fact it does not allow for a full picture of savings realised for the shareholders, all parties have agreed the model will no longer be used as a savings measure.

To read more about this savings model and the savings made check out the rest of this Annual Report.

As we now move into our sixth year of operation we find that our collective experiences have strengthened our existing areas of operation and that we are well placed to develop further areas of activities that are beneficial to our existing and potential clients.

The effects of the current economic climate are yet to be fully felt within the infrastructure sector. However, we have always been strongly focused on regionalisation, which in itself sees an emphasis on efficient and effective ways of doing things for our clients and their ratepayers.

This year's Annual Report provides an exciting catalogue of our achievements for the past year and gives an insight into some of the activities we have earmarked for the coming year.

David Hill
CHIEF EXECUTIVE

Demonstrating a commitment to **continuous improvement**

"We are committed to continuous improvement across everything we do, and in particular around how we run our own ship. We know that our own internal processes and standards have to be of the best quality to ensure a quality product for our clients." David Hill

SLA REPORTING TO CLIENTS

During the past year we developed a new Service Level Agreement (SLA) report framework to ensure our regular reporting to clients exceeds expectations. Having finalised the framework, we look forward to rolling it out during the coming year.

PERFORMANCE MANAGEMENT FRAMEWORK

Our commitment to high performance is reflected in the development of a performance management framework during the year. Our new framework ensures performance is monitored at different levels in the company and across a range of performance categories, including:

- the quality of the services we provide to our clients, including our environmental performance
- our performance in the way we interact with our clients
- our financial performance
- our performance in achieving capable and motivated staff
- the effectiveness of our key business processes
- our leadership performance, including governance and social responsibility.

By monitoring our performance relative to performance targets we can identify where we are performing well and where we should be aiming to make improvements, reflecting our aim of ongoing improvement in the way we operate.

BUSINESS IMPROVEMENTS

During 2008/09 we implemented a business improvement process funded by shareholders. As at 30 June, the 2008 process improvements had realised savings to shareholders in excess of $400,000. This was achieved through the reduction of consultancy services and better management of our contracts and expenditure.

ISO 9001:2000 ACCREDITATION

We achieved ISO 9001:2000 certification in November 2008. This gives our clients the assurance that our processes are robust, of an international standard and have been audited as such.

ISO 9000:2000 is the world's most widely used quality management system, with certification to ISO 9001:2000 becoming an expected mark of quality organisations. We will be working hard to ensure we maintain this certification.

ISO 9001 CERTIFIED GCS

Demonstrating expertise in **planning**

"Planning is the plank that underpins all the work we do. As the saying goes – 'failing to plan is planning to fail'. We have demonstrated a high level of expertise in this area." David Hill

During the past year we co-presented a paper at the Advanced Asset Management Forum on our capital works framework. This was well received within the industry nationally and has also attracted international interest. We have been invited to present the framework at a conference in Canada and to a workshop in Brisbane during the coming year.

A number of strategic improvement projects for both Wellington and Hutt councils were also completed. Demonstrating our commitment to continuous improvement, we have developed a framework for our asset management plans to identify service gaps, options for closing these gaps and how to select the best options.

We have also developed a database to capture all the ongoing contract prices incurred in implementation of the capital works programme. We will be populating this data In 2009/2010. Once this database is populated, we will be able to price our new capital works more accurately. We will also be able to use this in the asset valuations process.

We have also developed the framework for activity risk management plans showing how these are linked to asset management plans, organisational risk, asset criticality, quality assurance, continuity planning and emergency planning.

We undertook stormwater catchment management planning in Wellington City in the Newtown, Taranaki, Te Aro, Tory and Harris streets area which identified the need for an upgrade of the stormwater system. This work will be put into asset management planning for future funding of the improvements.

Work on strategic improvement projects will continue into the 2009/2010 year as we complete risk management planning for Wellington and look in more detail at levels of service. These will set out the process for managing risk associated with the provision of water services in the councils.

We will complete the Water Supply Public Health Risk Management Plan for Upper Hutt City Council and will work on enhancing its asset management plans.

Over the past few years we have undertaken a review of Wellington City Council's 10-year capital expenditure work programme. As a result, we have identified savings in excess of $30 million, enabling the Council to programme additional work or bring work forward in its place. The savings have been made on the following projects.

- Low level zone investigation. An investigation into Wellington City's water supply low level zone has identified a proposal that replaces the concept of the water supply ring main. This new proposal, which involves the upgrading of four water supply transmission mains across the city, has estimated cost savings of $14 million.
- Ngaio West/Onslow reservoir investigation. An investigation was undertaken to consider opportunities to optimise the proposed Ngaio West reservoir and the Onlsow reservoir water supply zone. The proposed outcome is to abandon the Ngaio West reservoir proposal and build a smaller reservoir on the Onslow Road site. The estimated savings are in the order of $6 million.
- South Karori outfall pipe. The resource consent application has postponed the outfall pipe replacement from the scheduled 2007/09 period for 14 years. The pipeline has an estimated current cost of $10 million. An ongoing maintenance provision of $50,000 per annum has been instituted, providing a present value for the deferment of over $3 million.
- Pump station overflow prevention. Capacity has presented a report to Greater Wellington Regional Council recommending overflow prevention works estimated to cost $18.7 million are not required to comply with the existing resource consents. Final resolution is awaited. It is likely that some mitigation works may be required. However, savings of $5-7 million are anticipated at this stage.
- Messines Road. Redesign work undertaken for the Messines Road reservoir have provided an overall reduction in capital expenditure of $1 million. Read more on this in the delivery section of this report.

ASSET MANAGEMENT PLANS

During the year we completed asset management plans for Wellington City, Hutt City and Upper Hutt City. The Wellington Wastewater Asset Management Plan was independently audited by Audit New Zealand as part of the council's Long Term Council Community Plan audits. The wastewater plan prepared by Capacity for Wellington City Council was awarded a 'very good' rating – the highest level on the scoring scale. The Hutt City water supply plan was rated as 'good'.

Audit New Zealand applauded the clarity and completeness of the levels of service set out in the plans and the well-documented links between the community outcomes, the strategic objectives of the council and the contribution that the assets make.

We were able to demonstrate that the data and information contained in the asset management plans is reliable for the purpose of supporting the Council Long Term Plan and that there is a sound approach to data collection to ensure databases are up to date.

Our aim is to bring the asset management planning for all our clients up to the 'very good' standard.

Demonstrating expertise in **consultation**

"We specialise in infrastructure-based management services, including resource consent consultations. Our staff are skilled in the project management of complex resource consent applications." David Hill

During the year we worked with Wellington City Council on lodging a resource consent application for stormwater operations around the city. Once granted, the consent will ensure that all stormwater discharges are operated in line with current legislation and regional plans. As part of this application a greater focus on the environmental impacts of stormwater has been introduced, with increased monitoring programmes. This will not only tell us what is going into the harbour and coastal areas but also what impact it might be having.

Work continued on the Western Wastewater Treatment Plant resource consent application, which is proceeding through an appeal process.

In Hutt City we are continuing to work with the council towards renewing the resource consent for wastewater overflows into Waiwhetu Stream from Malone Road and Hinemoa Street. The current consent expires in October 2009. A substantial amount of work has been undertaken to reduce these overflows, and we are now consulting with a range of organisations to ensure that the final application accurately addresses the community's concerns and expectations. We will be lodging a resource consent application with Greater Wellington in July 2009.

In 2009/10 we will continue working with Wellington City Council and other key stakeholders on stormwater discharge consents that are due to expire. A single consent approach for stormwater discharges into the coastal marine environment has been adopted, with increased and more diverse monitoring options recommended. This will allow a more in-depth knowledge base that can be used to integrate planning, solution investigation and development, as well as community involvement.

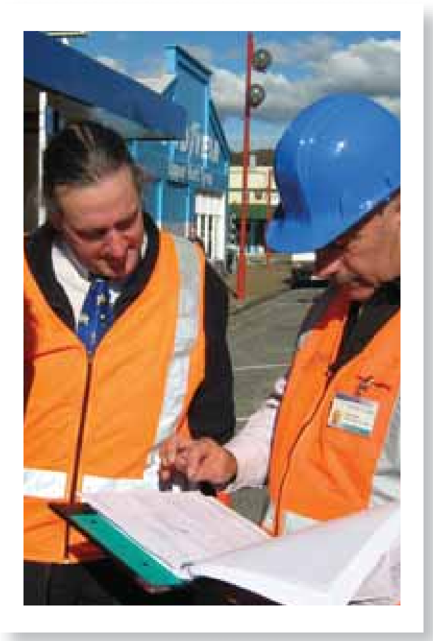
MOA POINT

We are proud to have obtained 25-year duration resource consent to operate the Moa Point Wastewater Treatment Plant. The existing consent was for a 10-year term. Future renewal costs for obtaining new resource consents have been reduced by having the longer term.

In the next few years we will be upgrading the inlet pump station and implementing the treatment of excess flows that currently bypass the treatment processes on average three times per year.

Demonstrating expertise in **managing**

"Managing water services delivery for our clients is what we do. In order to ensure we do this to the highest standard possible we have implemented a number of management systems and tools for our clients." **David Hill**



During the year we also worked on a draft strategic plan for water modelling for Wellington City Council to help us determine how we manage water. The plan will establish the improvement tasks to be undertaken on the water supply model, enabling work to be undertaken in a structured and measured manner. As a first step, pipe network parameters have been reviewed for approximately 30 per cent of the city. This will improve the accuracy of data obtained from our modelling work.

We have established a monitoring programme for constructed overflows in the wastewater reticulation, which is capable of capturing data in real time. This enables us to gain an understanding on how the overflows operate and develop a mitigation plan to reduce overflows. We have also established a three-year work programme for water main renewals and a two-year work programme for drainage renewals for Wellington City. This will improve the management of planning and design for completing capital expenditure works within the programmed year.

In Hutt City we looked at ways to improve flood protection in the city through the development of the stormwater strategy. The purpose of this strategy is to set out the principal stormwater issues facing Hutt City and how these issues will be managed. It also sets out the options that have been considered to manage stormwater issues. Capital expenditure arising from this strategy will be fed into the Council's Long Term Plan process, which involves public consultation.

Over the past year, leak detection and the subsequent repairs have brought down 'non-revenue water' rates for Wellington and Lower Hutt. We have achieved these improvements by monitoring the water flows into discrete areas in the cities and directing leak detection to those areas where higher than expected flows are observed. 'Non-revenue water' includes: unmetered commercial usage; the flushing of hydrants to maintain water quality; water used for fire-fighting; water lost from burst mains; system leakage; reservoir overflows; unmetered council garden/park watering; water stolen from hydrants; and street cleaning.

During the past year we presented policy options to Wellington City Council on how to respond to calls to remedy defective private wastewater drains. Future work will assess options for reducing wastewater overflows.

VALUATION FOR WATER SERVICES

During the past year we successfully completed the Hutt City Council valuation for water services using mainly internal resources and Confirm – the Council's asset management system. In the past this had been done externally using external specialists.

We were able to save $42,500 by bringing this service in-house. Using the asset management system to value our clients' networks represents leading best practice.

In addition to the cost savings achieved, this system also provides our clients with greater robustness and auditability of the valuation process. It also helps support improvements in several other key asset management processes which are underpinned by the asset valuations.

Demonstrating expertise in **monitoring**

"Monitoring is an integral part of our everyday work. We monitor all levels of our business, from ensuring we meet our client's expectations through to monitoring the water quality in our harbour and streams, to monitoring the performance of the pipe networks and pump stations." David Hill

The Asset Management System is a key component of asset management. It includes managing data input, system development reporting and quality assurance. Real time monitoring of asset systems operations and functionality, including pump stations and treatment plants, is carried out through Supervisory Control and Data Acquisition (SCADA) telemetry.

We continued to inspect and monitor grease traps in Wellington City, where we have identified issues associated with grease converters and fats, oils and greases arriving at the Moa Point Wastewater Treatment Plant.

SCADA

During the year we incorporated access to the Upper Hutt SCADA system within Capacity and reviewed all the SCADA systems based at Capacity. The review looked at options for standardising equipment and systems in an effort to reduce operational costs.

Over the coming year we will continue to look at ways of enhancing our monitoring systems and services for all our clients. This will include monitoring pressure flows in the Roseneath district metered area in Wellington City, where we are installing pressure-reducing valves, flow meters and telemetry. Early in the 2009/10 year we will be monitoring flows without the pressure-reducing valves operating.

Once baseline data has been obtained, the pressure-reducing valves will be switched on and the system monitored for improved performance. With the reduced pressure it is expected that the unavoidable background leakage will reduce, thereby reducing the overall consumption for the zone. This is the first of the pressure management zones to be installed in Wellington and, should the benefits prove worthwhile, it is expected that additional zones will be created.

"Delivery of operational and capital expenditure projects along with the ongoing maintenance of networks and assets forms a large, and often most publicly visible, part of managing the water services for our clients. The safety of the public and our staff is paramount." David Hill

During the past year we continued to work with United Water International and Wellington City Council to review the processes used in wastewater treatment plants to optimise energy and chemical use. We will be looking at the cost effectiveness of implementing the recommendations in the next year.

Redesign work was undertaken for the Messines Road reservoir, providing an overall reduction in capital expenditure of $1million. The reservoir is located in Karori, Wellington, and a resource consent application was lodged. The new reservoir will provide operational and emergency storage and regulate pressure for the Messines supply zone. It will also serve as a feeder reservoir to the other water supply zones in Karori. The Messines Road reservoir will replace two aged and undersized reservoirs. Construction is scheduled to begin in the 2009/10 year.

During the past year we continued work in the Gracefield area, Hutt City, clearing the stormwater network and installing backflow prevention.

Looking forward to next year we will start to build our in-house design capability. Initially we will employ four design project managers who will be working with an external consultant for two years to gain the level of skill and expertise required to run our own design team. This will enable routine design to be carried out by Capacity at reduced costs to our clients.

Over the coming year we will be undertaking an estimated $34 million of capital works and $67 million (excludes interest and depreciations) of operational work for all our clients.

CITY CARE

Historically, different contractors have managed the maintenance contracts for our different clients. During the year we spent a considerable amount of time reviewing these contracts and running a robust tender process to ensure the maintenance and day-to-day upkeep of the water, stormwater and wastewater networks for our clients was well looked after.

City Care Ltd was awarded the contract in June after demonstrating a clear ability to provide a quality service to the three cities. City Care is a major player in New Zealand's water services industry with the experience and expertise to deliver enhanced cost-effective services to our client cities. The contract, which runs for an initial five-year period, is effective from 1 July 2009.

Corporate governance statement

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

THE BOARD OF DIRECTORS

Capacity is a Council Controlled Trading Organisation as defined by Section 6 of the Local Government Act 2002. The role of a director is defined in Section 58 of the Act as follows:

"The role of the director of a Council Controlled Trading Organisation is to assist the organisation to meet its objectives and any other requirements in its Statement of Intent."

The Board is responsible for the preparation of the Statement of Intent, which must receive approval from the company's shareholders (Wellington City Council and Hutt City Council).

In addition to the obligations imposed by the form of the company, Capacity is also covered by the Companies Act 1993 and governed by law and best practice.

The Board is responsible for the proper direction and control of Capacity. This responsibility includes areas of stewardship such as identification and control of the company's business risk, the integrity of management, information systems, reporting to shareholders and approval of the strategic business plan.

While the Board acknowledges that it is responsible for the overall control framework of the company, it delegates the overall management of Capacity to the Chief Executive.

MANAGEMENT TEAM

The company's organisational structure is focused on the management of Wellington, Hutt and Upper Hutt water, stormwater and wastewater assets, maintenance of the assets, construction of assets and support services. These areas are all managed within delegated authorities approved by Wellington City Council, Hutt City Council and Upper Hutt City Council.

AUDIT AND RISK COMMITTEE

The Audit and Risk Committee operates under a charter approved by the Board. The Audit and Risk Committee is required to establish a framework of internal control mechanisms to ensure proper management of Capacity's affairs and support effective business risk management.

The Audit and Risk Committee is accountable to the Board for addressing the recommendations of the external auditors and reviewing the quality of the processes.

The Audit and Risk Committee provides the Board with additional assurance regarding the accuracy of financial information for incorporation in the company's annual report.

ROLE OF THE SHAREHOLDERS

The shareholders review and approve the Statement of Intent. Quarterly and annual reports of financial and operational performance are provided to shareholders.

CHAIRMAN
BRYAN JACKSON

DIRECTOR
PETER ALLPORT

DIRECTOR
ANDY FOSTER

DIRECTOR
PETER LESLIE

DIRECTOR
RAY WALLACE

DIRECTOR
RICHARD WESTLAKE

Statutory information

DIRECTORS

The company held 11 Board meetings during the year. Attendances of directors at meetings of the Board were:

Name	Number of meetings attended
Bryan Jackson	11
Peter Allport	10
Andy Foster	10
Peter Leslie	11
Ray Wallace	11
Richard Westlake	9

EMPLOYEE REMUNERATION

The number of employees who during this accounting period received remuneration of $100,000 or more per annum:

SALARY RANGE	Year ended 30 June 2009	Year ended 30 June 2008
$240,000 – $250,000	1	1
$120,000 – $130,000	1	
$110,000 – $120,000	2	1
$100,000 – $110,000	2	2

No other employees earned over $100,000 during this period.

David Hill
CHIEF EXECUTIVE

Bryan Jackson
CHAIRMAN

DIRECTORS' REMUNERATION

Chairman	
Bryan Jackson	$30,000
Directors	
Peter Allport	$15,000
Andy Foster	$15,000
Peter Leslie	$15,000
Ray Wallace	$15,000
Richard Westlake	$15,000

DIRECTORS' AND EMPLOYEES' INSURANCE

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

DONATIONS

There were no donations made during the year.

AUDITOR

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

FINANCIAL STATEMENTS

Statement of **financial performance**

FOR THE YEAR ENDED 30 JUNE 2009

	Note	Actual 2009 $'000	Budget 2009 $'000	Actual 2008 $'000
REVENUE				
Operations		6,287	6,329	5,417
Grant		218	–	–
Interest		15	–	6
TOTAL REVENUE		6,520	6,329	5,423
EXPENDITURE				
Operational expenditure		1,215	839	838
Audit fees		29	33	29
Directors' fees	13	105	105	86
Depreciation	6	22	21	20
Interest on finance leases		0	2	1
Rental and operating lease costs		430	484	455
Personnel expenditure		4,696	4,781	4,079
TOTAL EXPENDITURE		6,498	6,265	5,508
NET SURPLUS/(DEFICIT) BEFORE TAXATION		23	64	(85)
Tax expense/(benefit)	4	31	–	4
NET SURPLUS/(DEFICIT) AFTER TAXATION		(8)	64	(89)

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 2009

	Actual 2009 $'000	Budget 2009 $'000	Actual 2008 $'000
Net surplus/(deficit) for the year	(8)	64	(89)
MOVEMENTS IN EQUITY FOR THE PERIOD	(8)	64	(89)
Equity at beginning of year	287	377	376
Adjustment	(4)		
EQUITY AT END OF YEAR	275	441	287

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

Statement of **financial position**

FOR THE YEAR ENDED 30 JUNE 2009

	Note	Actual 2009 $'000	Actual 2008 $'000
CURRENT ASSETS			
Cash and cash equivalents		383	286
Trade and other receivables	7	922	748
Taxation receivable	5	–	2
		1,305	1,036
NON-CURRENT ASSETS			
Property, plant and equipment	6	53	59
		53	59
TOTAL ASSETS		1,358	1,095
CURRENT LIABILITIES			
Trade and other payables	8	714	476
Provision for taxation		25	–
Employees benefits	9	344	332
		1,083	808
NON-CURRENT LEASES			
Finance leases		–	–
		–	–
TOTAL LIABILITIES		1,083	808
NET WORKING CAPITAL		275	287
EQUITY			
Share capital		600	600
Retained earnings		(325)	(313)
TOTAL EQUITY		275	287

Bryan Jackson
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 2009

	Note	Actual 2009 $'000	Actual 2008 $'000
CASH FLOW FROM OPERATING ACTIVITIES			
Cash was provided from:			
Trade and other receivables		6,660	5,173
Taxation receivable		(3)	36
Cash was disbursed to:			
Payments to suppliers and employees		(6,536)	(5,294)
Income tax paid		(8)	–
Interest paid		–	–
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	14	112	(85)
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was applied to:			
Purchase of property, plant and equipment		(15)	(5)
Purchase of intangible assets		–	–
NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITES		(15)	(5)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was applied to:			
Finance lease repayments		–	–
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES		0	0
Net increase/(decrease) in cash and cash equivalents		98	(90)
Opening cash balance		286	376
CLOSING CASH BALANCE		384	286

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

1. STATEMENT OF COMPLIANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARD

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

REPORTING ENTITY

Wellington Water Management Limited, trading as Capacity, is a company registered under the Companies Act 1993 and a Council Controlled Trading Organisation as defined by Section 6 of the Local Government Act 2002. Current shareholders are Wellington City Council and Hutt City Council. Capacity was incorporated in New Zealand in 2003.

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 2009. The financial statements were authorised for issue by the Board of Directors on 19 August 2009.

SPECIFIC ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

The measurement basis applied is historical cost.

The accrual basis of accounting has been used unless otherwise stated. These financial statements are presented in New Zealand dollars rounded to the nearest thousand, unless otherwise stated.

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 2008/2009 the customers were shareholder councils Wellington City Council and Hutt City Council, as well contracted services for Upper Hutt City Council.

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

b) Expenses

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

c) Taxation

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

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

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

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

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

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

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

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

d) Goods and Services Tax (GST)

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

e) Financial instruments

Capacity classifies its financial assets and financial liabilities according to the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

Non-derivative financial instruments

Financial assets

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

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

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

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

Financial liabilities

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

Financial liabilities comprise trade and other payables and borrowings. Financial liabilities with duration more than 12 months are recognised initially at fair value less transaction costs and subsequently measured at amortised cost using the effective interest rate method. Amortisation is recognised in the statement of financial performance 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 will be reported at its recoverable amount and an impairment loss will be recognised. The recoverable amount is the higher of an item's fair value less costs to sell and value in use. Losses resulting from impairment are reported in the statement of financial performance.

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 financial performance in the period in which the transaction occurs.

Depreciation

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

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

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

Work in progress

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

g) Intangible assets

Acquired intangible assets are initially recorded at cost.

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

Computer software	five years

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

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 year end. The discount rate used represents the company's average cost of borrowing.

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

i) Other liabilities and provisions

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

j) Equity

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

The components of equity are accumulated funds and retained earnings.

k) Leases

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

The statement of cash flows has been prepared using the direct approach.

Operating activities include cash received from all income sources of the company and record the cash payments made for the supply of goods and services. Investing activities relate to the acquisition and disposal of assets. Financing activities relate to activities that change the equity and debt capital structure of the company.

The GST component of operating activities reflects the net GST paid and received with the IRD. The GST component has been presented on a net basis, as the gross amounts do not provided meaningful information for financial statement purposes.

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.

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.

	2009 $'000	2008 $'000
CURRENT TAX EXPENSE		
Current year	31	4
Prior period adjustment	0	0
	31	4
DEFERRED TAX EXPENSE		
Origination and reversal of temporary differences	(24)	(24)
Change in unrecognised temporary differences	24	24
Recognition of previously unrecognised tax losses	0	0
	0	0

RECONCILIATION OF EFFECTIVE TAX RATE

	2009 $'000	2008 $'000
Surplus for the period excluding income tax	23	(85)
Prima facie income tax based on domestic tax rate	7	(28)
Effect of non-deductible expense	2	4
Effect of tax exempt income	0	0
Effect of tax losses utilised	0	0
Current year's loss for which no deferred tax asset was recognised	0	0
Change in unrecognised temporary differences	22	28
Prior period adjustment	0	0
	31	4

INCOME TAX RECOGNISED DIRECTLY IN EQUITY

The amount of current and deferred tax charged or credited to equity during the period was $nil (2008:$nil).

IMPUTATION CREDITS

	2009 $'000	2008 $'000
Imputation credits as at 1 July	27	25
New Zealand tax payments	6	5
Imputation credits attached to dividends	0	0
Other credits	0	0
New Zealand tax refunds received	(5)	(3)
Imputation credits attached to dividends paid	0	0
Other debits	0	0
	28	27

5. DEFERRED TAX ASSETS

UNRECOGNISED DEFERRED TAX LIABILITIES

As at 30 June 2009 the company had an unrecognised deferred tax liability of $nil (2008:$nil).

UNRECOGNISED DEFERRED TAX ASSETS

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

	2009 $'000	2008 $'000
Deductible temporary differences	411	332
Tax losses	0	0
	411	332

Under current income tax legislation, deductible temporary differences referred to above do not expire.

The unrecognised deferred tax asset in respect of the deductible temporary differences referred to above is $123,000 (2008: $99,000).

Deferred tax assets have not been recognised in respect of these items as it is not probable that future taxable profits will be available against which the benefit of the losses can be utilised.

MOVEMENT IN UNRECOGNISED DEFERRED TAX ASSETS AND LIABILITIES DURING THE YEAR

	Taxable temporary difference	Deductible	Tax losses	Total
Balance as at 30 June 2008	0	99	0	99
Additions/(reductions) during the year	0	24	0	24
Recognised during the year	0	0	0	0
Reductions due to tax rate change for tax years beginning on or after 1 April 2008	0	0	0	0
Balance as at 30 June 2009	0	123	0	123

6. PROPERTY, PLANT AND EQUIPMENT

	2008 Total cost $000	2008 Accumulated depreciation $000	2008 Net book value $000	2009 Current additions $000	2009 Current disposals $000	2009 Current depreciation $000	2009 Total cost $000	2009 Accumulated depreciation $000	2009 Net book value $000
Telephone system	34	17	17			(4)	34	21	13
Owned assets:									
Furniture	33	15	19			(4)	33	18	15
Intangibles, plant and equipment	65	41	23	15	0	(14)	80	55	25
	132	73	59	15	0	(22)	147	94	53

7. TRADE AND OTHER RECEIVABLES

	Note	Actual 2009 $'000	Actual 2008 $'000
Trade receivables		10	282
Related parties receivables	12	765	412
Prepayments		147	54
		922	748

Related party receivables include all accruals relating to the recovery of all relocation costs to the new office premises at 85 The Esplanade

8. TRADE AND OTHER PAYABLES

	Note	Actual 2009 $'000	Actual 2008 $'000
Trade payables		492	283
Related parties payables	12	3	3
Payroll accruals		133	102
GST		86	89
		714	476

9. EMPLOYEE BENEFITS LIABILITIES

	Actual 2009 $'000	Actual 2008 $'000
Annual leave	315	315
Long service leave	29	17
TOTAL EMPLOYEE BENEFITS	344	332
Represented by:		
Current	344	332
TOTAL EMPLOYEE BENEFITS	344	332

10. SHARE CAPITAL

	Actual 2009 $'000	Actual 2008 $'000
300 FULLY PAID $2,000 ORDINARY SHARES	600	600

11. RETAINED EARNINGS

	Actual 2009 $'000	Actual 2008 $'000
Balance at beginning of year	(313)	(224)
Adjustment during the year	(4)	–
Net surplus/(deficit) for the year	(8)	(89)
BALANCE AT END OF YEAR	(325)	(313)

12. RELATED PARTY TRANSACTIONS

	Actual 2009 $'000	Actual 2008 $'000
Revenues for services by Capacity to:		
Wellington City Council	4,165	4,585
Hutt City Council	1,376	1,749
	5,542	6,334
Goods and services supplied by Capacity to:		
Wellington City Council	109	168
Hutt City Council	31	7
	141	175
Receivables owing to Capacity by:		
Wellington City Council	412	483
Hutt City Council	135	198
	547	681
Payable by Capacity to:		
Wellington City Council	3	3
Hutt City Council	–	–
	3	3
Accrued receivable for relocation and additional services		
Wellington City Council	139	–
Hutt City Council	90	–
	228	0

13. RELATED PARTY DISCLOSURES

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

KEY MANAGEMENT PERSONNEL

	Actual 2009 $'000	Actual 2008 $'000
KEY MANAGEMENT PERSONNEL REMUNERATION	998	960

DIRECTORS' REMUNERATION

	2009 $'000	2008 $'000
Bryan Jackson	30	25
Peter Allport	15	6
Andrew Foster	15	9
Peter Leslie	15	9
Bryan Pepperell		3
Alick Shaw		5
Roger Styles		5
Ray Wallace	15	12.5
Richard Westlake	15	13
TOTAL DIRECTORS' REMUNERATION	105	87

EMPLOYEE REMUNERATION

The number of employees earning over $100,000 per annum

SALARY RANGE	Year ended 30 June 2009	Year ended 30 June 2008
$240,000 - $250,000	1	1
$120,000 - $130,000	1	–
$110,000 - $120,000	2	1
$100,000 - $110,000	2	2

No other employees earn over $100,000.

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

	Actual 2009 $'000	Actual 2008 $'000
REPORTED SURPLUS/(DEFICIT) BEFORE TAXATION	23	(85)
Add non-cash items:		
Depreciation	22	19
	45	(66)
Add/(less) movements in other working capital items:		
Increase/(decrease) in trade receivable	(81)	(248)
Increase/(decrease) in prepayments	(93)	42
Increase/(decrease) in trade payable	240	66
Increase/(decrease) in GST payable	(3)	36
Increase/(decrease) in annual leave	12	85
Tax provision movement	(8)	0
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	112	(85)

15. NET SURPLUS BEFORE TAX

The net surplus before taxation for the year ended 30 June 2009 represents a decrease in leave accrued by staff while working at Capacity not funded by charge-out rates agreed with customers. The gain arising from a decrease in accrued leave represents a non-cash item and the company's cash resources are not increased by this gain.

16. 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 and Hutt City Council for the company's revenue. However, the councils are considered by the Directors to both be high credit quality entities.

Capacity invests funds on deposit with The National Bank of New Zealand Limited.

FAIR VALUE

Fair value is the amount for which an item could be exchanged, or a liability settled, between knowledgeable and willing parties in an arms length transaction. There were no differences between the fair value and the carrying amounts of financial instruments at 30 June 2009.

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.

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.

Capacity's maximum exposure to credit risk at balance date is: (see overleaf)

	2009 $'000	2008 $'000
FINANCIAL ASSETS		
Cash and cash equivalents	383	286
Trade and other receivables	922	748
TOTAL FINANCIAL ASSETS	1,305	1,034

The status of trade receivables at the reporting date is as follows:

	2009 $'000	2008 $'000
TRADE AND OTHER RECEIVABLES		
Not past due date	922	748
Past due zero to three months	–	–
Past due three to six months	–	–
Past due more than six months	–	–
TOTAL TRADE AND OTHER RECEIVABLES	922	748

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 12 months $'000	One to two years $'000	Two to five years $'000	More than five years $'000
2009						
TRADE AND OTHER PAYABLES	713	–	713	–	–	–
2008						
TRADE AND OTHER PAYABLES	476	–	476	–	–	–

17. COMMITMENTS AND CONTINGENCIES

Capacity had a one year lease for the premises occupied at 75 The Esplanade, Petone. The lease terminated on 30 April 2009, and was extended for a further two months to 30 June 2009. From 1 July 2009, Capacity is leasing premises at 85 The Esplanade, Petone, for the next six years.

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

18. NON-ADJUSTING EVENTS AFTER BALANCE DATE

Capacity did not have any non-adjusting events occur after balance date.

Audit report

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

To the readers of Wellington Water Management Limited's financial statements and performance information for the year ended 30 June 2009.

The Auditor-General is the auditor of Wellington Water Management Limited (the company). The Auditor-General has appointed me, Andy Burns, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and performance information of the company, for the year ended 30 June 2009.

UNQUALIFIED OPINION

In our opinion:

- The financial statements of the company on pages 13 to 26:
  - comply with generally accepted accounting practice in New Zealand;
  - comply with International Financial Reporting Standards; and
  - give a true and fair view of:
- the company's financial position as at 30 June 2009; and
  - the results of its operations and cash flows for the year ended on that date.
- The performance information of the company on pages 29 to 33 gives a true and fair view of the achievements measured against the performance targets adopted for the year ended 30 June 2009.
- Based on our examination, the company kept proper accounting records.

The audit was completed on 15 September 2009, and 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 the Auditor, and explain our independence.

BASIS OF OPINION

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements and performance information did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements and performance information. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

The audit involved performing procedures to test the information presented in the financial statements and performance information. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Board of Directors;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all required disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and performance information.

We evaluated the overall adequacy of the presentation of information in the financial statements and performance information. We obtained all the information and explanations we required to support our opinion above.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE AUDITOR

The Board of Directors is responsible for preparing the financial statements in accordance with generally accepted accounting practice in New Zealand. The financial statements must give a true and fair view of the financial position of the company as at 30 June 2009 and the results of its operations and cash flows for the year ended on that date. The Board of Directors is also responsible for preparing performance information that gives a true and fair view of service performance achievements for the year ended 30 June 2009. The Board of Directors' responsibilities arise from the Financial Reporting Act 1993 and the Local Government Act 2002.

We are responsible for expressing an independent opinion on the financial statements and performance information and reporting that opinion to you. This 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 Institute of Chartered Accountants of New Zealand.

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

A P Burns
AUDIT NEW ZEALAND
On behalf of the Auditor-General
Wellington, New Zealand

KEY PERFORMANCE INDICATORS

Capacity's **key performance indicators**

FOR THE YEAR ENDED 30 JUNE 2009

KEY PERFORMANCE TARGETS	ACTUAL
Achieve total overall savings of $4.175 million to shareholding councils after five years (30 June 2009).	**Not achieved** Hutt City Council – $1.342 million (80.4 per cent) savings realised of the $1.67 million target. Wellington City Council – $872,000 (35 per cent) overspent on the savings target of $2.505 million. Wellington City Council has acknowledged potential mitigating factors for this result – in particular $1.53 million of additional work undertaken with its agreement that was not factored into the model. If the model was adjusted to acknowledge this work the result would be a $663,000 saving (26 per cent).[1]
Achieve targets within allocated Capacity budget.	**Achieved** Targets achieved within budget.
Comply with financial, technical and regulatory standards.	**Achieved** All standards have been complied with.
Delivery of capital expenditure against budget for respective councils.	**Achieved** Wellington City Council. **Not achieved** Hutt City Council with five projects carried to 2009/2010. **Achieved** Upper Hutt City Council.
Delivery of operating expenditure against budget for respective councils.	**Achieved**[2] Wellington City Council. **Not achieved** Hutt City Council. **Achieved** Upper Hutt City Council.
Establish Strategic Business Plan by 30 June 2008.	**Achieved** The 2009/2010 Strategic Business Plan was completed by 20 May 2009.
Develop asset management plans as required.	**Achieved** Asset management plans for 2008/2009 completed.
Capacity labour recovery to be 80 per cent or more at year end.	**Not achieved** 69 per cent Using labour productivity rate this is achieved at 82.2 per cent.[3]
Meet performance measures as set (by councils) in the Service Level Agreements.	**2009: 29 out of 34 performance measures were achieved.** See following pages. **2008: 28 out of 31 performance measures achieved.**

[1] See note on savings model overleaf.

[2] Excludes depreciation.

[3] Labour productivity excludes leave and measures hours billed against available hours.

Note on **savings model**

Prior to establishment, Capacity's shareholders agreed on an operational cost savings target of $4.175 million for the first five years ending 30 June 2009. The savings target was apportioned $1.67 million to Hutt City Council and $2.505 million to Wellington City Council.

A measurement model was developed to compare Capacity's costs year-by-year against the prior costs expended by the councils to undertake the delivery of water services. The base year council costs were inflated each year by independently identified indices and compared with the audited company results. The model also used a similar process to compare base year council operational expenditure year-by-year against the same accounts under Capacity's management of water services.

The savings model has proved to be a difficult measure to manage during an operating period. The model does not give a full picture of all the savings and efficiencies that have been realised for shareholders. For example, elsewhere in this Annual Report we discuss capital project savings, (realised for Wellington City Council and additional to the operational cost savings targets talked about here) in excess of $30 million.

Therefore by agreement between Capacity and its shareholders the savings model has been discontinued from the end of the 2008/2009 year and other measures will be adopted.

However, in reporting back against the five-year cost saving targets it is noted that:

- Capacity's costs over the five-year period are $670,000 below the comparable inflation-adjusted Wellington City Council and Hutt City Council combined costs incurred prior to Capacity managing water services for both councils.
- Capacity has achieved 80 per cent of the Hutt City Council's target savings ($1.34 million). This means Capacity has undertaken water services activities for Hutt City at $1.34 million less than would have been the case if Hutt City's water activities had not been integrated within Capacity and costs had continued at the pre-Capacity level. The 20 per cent we have been unable to realise is because last year's costs were higher than allowed for in the inflation-adjusted figures.
- Capacity has not achieved Wellington City Council's target savings as measured through the savings model. Rather, an additional cost of $872,000 has been recorded over the five-year period.

The unrealised savings for Wellington are in part because of the fact that last year's costs were higher than allowed for in the inflation-adjusted figures. They are also in part because of additional initiatives undertaken to enhance the infrastructural network over past years.

In the key performance indicator results we talk about mitigating factors which, if they had been included in the savings model, would have netted a $663,000 saving for Wellington. These factors are outlined below in four large additional initiatives representing the improved processes which have increased service levels and network performance for Wellington City.

Water leak detection: A structured leak detection programme was instituted in July 2005 and has incurred costs of $515,000 over the period. This expenditure was above base year levels.

Miramar flood mitigation works: Flood mitigation works were undertaken following property inundation in 2004. Unplanned and unbudgeted expenditure of $480,000 is recorded as a cost within the savings model.

Drain cleaning: A proactive programme to remove debris from the stormwater network was commenced following surface flooding in Kilbirnie during 2007. Since that time additional unbudgeted expenditure of $120,000 has been incurred.

Critical drains programme: In 2006/2007 Capacity was provided with a $420,000 increase in council operational budgets to undertake additional monitoring and clearing of critical drains.

The total expenditure on the above items is $1,535,000. This amount offset against the overspend of $872,000 as recorded in the savings model would have provided savings of $663,000, or 26 per cent of the target. This has been acknowledged by Wellington City Council as a mitigating factor in the savings achievement.

In addition to the above, certain costs and revenues are removed from the model as they are beyond the control of Capacity. One such cost relates to the payment for bulk water.

The leak detection programme discussed above has been successful in reducing Wellington City's unaccounted for water. Wellington City has to pay Greater Wellington Regional Council for delivery of bulk water irrespective of whether it is gainfully used or lost through leakage. Therefore the reduction of leaks reduces the unaccounted for water and the amount the Council has to pay to Greater Wellington.

The calculations required to convert savings from reduced leakage into bulk water cost savings are the subject to some debate. Capacity has sought independent review of the bulk water cost savings arising from leak detection. The independent review confirms bulk water costs savings from combined leak detection, mains renewals and conservation initiatives are likely to be in the range of $1 million to $2 million but further information is required before accurate estimates of savings can be attributed to each.

As mentioned previously, the original savings model will no longer be used as a measure of savings realised for shareholders. Instead, for the 2009/2010 year, separate savings measures have been established for Wellington City Council and Hutt City Council.

Wellington City Council has adopted a reduction in Capacity and consultancy costs target of $432,000.

Hutt City Council has instituted a benchmark comparison of costs per property for the delivery of water services against Auckland Water Services averages. This involves the operating cost per property indicator as a measure of performance as part of the ongoing management of the three-water assets for Hutt City.

Performance measures for **Wellington City Council**

FOR THE YEAR ENDED 30 JUNE 2009

KEY PERFORMANCE INDICATOR	TARGET	ACTUAL
WATER		
Compliance with New Zealand Drinking-Water Standards[4].	100 per cent	**2009: Achieved** **2008: Achieved**
Service requests relating to the water network are responded to within one hour of the request being received. ('Response' includes initial investigation and prioritisation of work).	97 per cent	**2009: Achieved** 97 per cent **2008: Achieved** 99 per cent
Residents surveyed about water network service are satisfied with work carried out.	75 per cent	**2009: Achieved** 99 per cent **2008: Achieved** 91 per cent
Minimising unaccounted for water loss from the network.	No more than 19 per cent of the water in the network is unaccounted for.	**2009: Achieved** 17 per cent[5] **2008: Not achieved** 21 per cent
STORMWATER		
Service requests relating to the stormwater network are responded to within one hour of the request being received. ('Response' includes initial investigation and prioritisation of work).	97 per cent	**2009: Achieved** 99 per cent **2008: Achieved** 97 per cent
Residents surveyed about stormwater network service are satisfied with work carried out.	75 per cent	**2009: Achieved** 93 per cent **2008: Achieved** 100 per cent
The percentage of sampling days where the following contaminants are not seen – scums or foams, floating or suspended material, abnormal colour or clarity, fats or gross solids.	100 per cent	**2009: Not achieved** 98 per cent **2008: Not achieved** 97 per cent
The percentage of sampling days at monitored bathing beaches when water quality complies with Ministry for the Environment guidelines (green status).	90 per cent	**2009: Achieved** 98 per cent **2008: Achieved** 93 per cent
Percentage of monitored freshwater sites where the median annual faecal coliform bacteria counts are less than 1000 per 100ml.	90 per cent	**2009: Achieved** 90 per cent **2008: Achieved** 89 per cent (target 80 per cent).
WASTEWATER		
Service requests relating to the wastewater network are responded to within one hour of the request being received. ('Response' includes initial investigation and prioritisation of work.)	97 per cent	**2009: Achieved** 99 per cent **2008: Achieved** 99 per cent
Residents surveyed about stormwater network service are satisfied with work carried out.	75 per cent	**2009: Achieved** 93 per cent **2008: Achieved** 100 per cent
The percentage of monitored consented harbour/coastal sites where the median annual level of faecal coliform bacteria counts are less than 2000 per 100ml (lower levels of these bacteria mean the water is cleaner).	80 per cent	**2009: Achieved** 92 per cent **2008: Achieved** 92 per cent
Resource consent compliance – the number of infringement notices received.	No infringement notices are received.	**2009: Not achieved** One infringement notice received. United Water International (who manage the Moa Point Treatment Plant) received Infringement Notice 192387 from Wellington City Council for an odour breaching the District Plan designation on 5 May 2009. **2008: Achieved**

[4] The NZDWS (2005) details how to assess the quality and safety of drinking-water using water quality standards compliance criteria.

[5] We have adopted Statistics New Zealand's methodology for calculating population in the production of the water use, per capita and the water loss figures. As a consequence the 2007/08 figure would likely be 20 per cent. This year's 2 – 3 per cent improvement reflects the effectiveness of our leak detection and repair programmes.

Performance measures for **Hutt City Council**

FOR THE YEAR ENDED 30 JUNE 2009

KEY PERFORMANCE INDICATOR	TARGET	ACTUAL
WATER		
Resident satisfaction with water supply is equal to or above the peer council average.	>95 per cent	**2009: Achieved** 95 per cent **2008: Achieved** 96 per cent
Programmes (operational expenditure) and projects (capital expenditure) completed on time to the required quality.	90 per cent	**2009: Achieved** 100 per cent **2008: Achieved** 100 per cent
Achieve full compliance with New Zealand Drinking-Water Standards.	Compliance	**2009: Achieved** Full compliance **2008: Achieved** Full compliance
Water supply reliability.	Fewer than four unplanned supply cuts per 1000 connections.	**2009: Achieved** fewer than 1.86 unplanned supply cuts. **2008: Achieved** fewer than 1.48 unplanned supply cuts.
Water supply quality: to maintain a 'b' grading from the Ministry of Health for the Hutt City water supply distribution ('b' means satisfactory, low level of risk). Most of Hutt City water supply is not chlorinated. Chlorination of the water supply would be required to achieve an 'a' grading.	Maintain a "b" grading.	**2009: Achieved** 'b' grading **2008: Achieved** 'b' grading
Net capital expenditure and operational expenditure[6].	Within budget.	**2009: Not Achieved.** Unfavourable variance mainly due to Naenae Reservoir roof upgrade. **2008: Not measured**
Responsiveness to water supply disruptions: 96 per cent of disruptions are responded to within one hour of notification.	97 per cent of requests responded to with one hour of notification.	**2009: Achieved** 99 per cent **2008: Achieved** 99 per cent
Maintain the average un-metered water consumption in Hutt City.	Less than 350 litres per head per day.	**2009: Achieved** Less than 318 litres **2008: Achieved**
Minimise the potable water network leakage	Annual Infrastructure Leakage Index to be at or below 2.2[7].	**2009: Achieved** 1.9 Annual Infrastructure Leakage Index **2008: Not measured**
STORMWATER		
Resident satisfaction with stormwater drainage system is equal to or above the peer council average.	> 80 per cent	**2009: Achieved** 81 per cent **2008: Not achieved** 86 per cent (target 89 per cent)
Programmes (operational expenditure) and Projects (capital expenditure) completed on time to the required quality.	90 per cent	**2009: Achieved** 100 per cent **2008: Achieved** 100 per cent
Net capital expenditure and operational expenditure[8].	Within budget.	**2009: Achieved** **2008: Not measured**
Reticulation incidents per kilometre of public stormwater drains.	Less than one incident reported per kilometre of stormwater pipeline.	**2009: Achieved** 0.1268 incidents **2008: Achieved** 0.075 incidents
Watercourse water quality at main recreational beaches over the daylight saving period is compliant.	Complies with the Recreational Water Quality Standards[9].	**2009: Achieved** **2008: Achieved**
Responsiveness to blockages in the stormwater pipe: the contractor is on-site within one hour of notification.	97 per cent of requests responded to within one hour of notification.	**2009: Achieved** 99 per cent **2008: Achieved** 98 per cent
WASTEWATER		
Resident satisfaction with the sewage system is equal to or above the peer council average.	>95 per cent	**2009: Achieved** 97 per cent **2008: Achieved** 97 per cent
Programmes (operational expenditure) and projects (capital expenditure) completed on time to the required quality.	90 per cent	**2009: Not achieved[10]** Five programmes carried forward due to adverse weather conditions and consent conditions. **2008: Achieved**
Net capital expenditure and operational expenditure[11].	Within budget.	**2009: Not Achieved** Unfavourable variance due to main outfall repair. **2008: Not measured**
Comply with resource consent conditions.	100 per cent	**2009: Achieved** **2008: Achieved**
Wastewater system reliability.	Less than 1.2 wastewater reticulation incident reports per kilometre of wastewater reticulation pipeline.	**2009: Achieved** 0.730 incidents **2008: Achieved** 1.01 incidents
Responsiveness to blockages or overflows: The contractor is on-site within one hour of notification.	97 per cent of requests responded to within one hour of notification.	**2009: Achieved** 98 per cent **2008: Achieved** 99 per cent

[6] When reporting capital and operating expenditure for Hutt City Council depreciation, interest and revenue are not included.

[7] The Infrastructure Leakage Index (ILI) is a performance indicator of water loss from the supply network of water distribution systems. The ILI was developed by the International Water Association (IWA) and has been included in the New Zealand BenchlossNZ manual, which outlines performance indicators for non-revenue water and its components.

[8] When reporting capital and operating expenditure for Hutt City Council depreciation, interest and revenue are not included.

[9] The Recreational Water Quality Standards are monitored by Greater Wellington Regional Council, which feeds the information into a national database of approximately 230 monitored sites. Compliance for samples from lakes and rivers is based on the 'action' threshold from the guidelines for contact recreation of 550 E. coli per 100 millilitres of water sampled.

[10] Of the five programmes carried forward, two involve works in the local network; three involve works in the trunk network.

[11] When reporting capital and operating expenditure for Hutt City Council, depreciation, interest and revenue are not included.

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