



Annual Report
2009 - 2010

*Caring for water
in the
Wellington region*



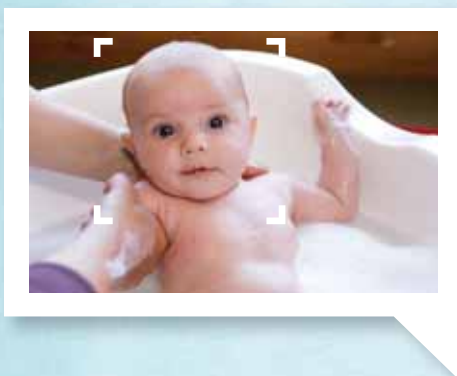
About Capacity

Capacity Infrastructure Services Limited (Capacity) is responsible for managing the water services for a large part of the Wellington region – namely Wellington City, Hutt City and Upper Hutt City.

Over the years we have demonstrated the benefits and efficiencies that can be made through centralising water services management. We continue to look at opportunities for providing these services to other councils in the greater Wellington region as we strive to become the *first choice in infrastructure services*.

We began operating 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 water, stormwater and wastewater assets, set policies, or control rates and user charges. These roles remain with both councils.

In mid-2008 we extended our management of water services to include the Upper Hutt City Council area. We now manage 5,083km of pipes, 121 reservoirs and 175 pump stations for all three councils. During 2009/2010 we were responsible for managing \$31 million of capital expenditure and \$70 million (excluding interest, depreciation and revenue) of operational expenditure for the three councils.



Our Vision: First choice in infrastructure services

Capacity Infrastructure Services plans and manages the development and maintenance of the 'three waters' – drinking, storm and waste water.

This includes maintaining pipes, managing and monitoring pump stations and providing advice and information on water conservation to preserve the Wellington region's water wealth now and into the future.



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Highlights

Management of over **\$100 million of expenditure** on behalf of our three client councils, including \$70 million of operational and maintenance project work, and \$31 million of programmed capital works

Achieved **savings of \$391,000** on costs for services for Wellington City Council

Achieved **92%** of agreed key performance measures

Cost of operation 7.0% of funds spent, or a total \$7.15 million spread across the three councils

Renewal of **service contract** with Upper Hutt City Council, reducing overhead costs for the benefit of shareholders

Wastewater overflows into the Waiwhetu Stream, Hutt City, dropped 60% during winter and 90% during summer following **private drain repair** programme

Unaccounted-for water in Wellington now **below 16% of water supplied**, down from 26% five years ago - a difference of over 1,300 Olympic-size swimming pools-full

Asset management planning work completed for our councils commended as exemplary by Audit New Zealand

Our **Capital Works Prioritisation framework**, developed to help prioritise essential work, presented at international conference

Contractor Evaluation Tool developed to improve consistency and speed of tendering process

Successful transition to new operations and maintenance contractors, City Care

Established in-house design joint venture with engineering consultants GHD, building internal capability and saving consultancy fees

Began developing cost-per-property model for service delivery **benchmarking**

Completed **Three Waters Strategy** to facilitate discussion and planning for future demand

Message from the Chairman



The past year has been a good one for Capacity. We've continued to improve all facets of the way we work to ensure we can meet and exceed our service level agreements with our clients.

Testament to this was Upper Hutt City Council's decision to renew its contract with us, and recently Wellington City Council formally reaffirmed its support of us.

Highlights of the year included further recognition for the excellent work we do around asset management planning, and significant inroads into leak detection and unaccounted-for water. We also completed major initiatives such as the four year wastewater upgrade of both private and public mains in the Waiwhetu catchment in the Hutt.

We changed our name during the year to Capacity Infrastructure Services Limited. The name change reflects more information about what we do – 'infrastructure services' – and is used in addition to our existing name, which is already accepted within the industry.

During the year we saw some significant changes to the Board. Bryan Jackson completed his term as establishment Chair and retired at the end of November 2009.

Bryan's contribution to the Board has been immense. He took the company from its inception through to the set-up and change management involved in merging water services from within the Hutt and Wellington city councils. He led the Board with its vision to make Capacity the *first choice in infrastructure services* and the centre of water services excellence that we are today.

I took over from Bryan as Chair on 1 December 2009 and I am looking forward to leading the company to new levels of participation in the integrated delivery of quality water services to the Wellington region.

We also welcomed two new directors to the Board during the year. Ian Hutchings with his extensive knowledge of local government has been a valuable addition to the Board, as has John Strahl who is a very senior law practitioner and a professional director.

Looking forward to the coming year, we continue to watch with interest the debate around amalgamation of local councils and their activities.

A lot of the discussion has centred on the integration of water services, which is seen as one area where some significant scale advantages can be achieved. In Auckland one of the first major initiatives to be integrated is water services.

We continue to discuss the benefits of sharing services with Greater Wellington and the other councils in the region. It may not be necessary to amalgamate councils to share services and achieve significant cost savings, as is evidenced by the shared services approach we are already taking across a large portion of the Wellington region.

However, it is clear to me that we have reached a plateau in cost and service delivery improvement. We are unlikely to achieve, without further fundamental structural changes, increased integration and network standardisation. Just adding network components to what we already do without accompanying information systems and operational standards integration and rationalisation will not deliver the reduced costs and further quality improvement being sought.

It is time to come to grips with the fundamental integration required to optimise the scale effects of ubiquitous information systems, operational standards and methods. We will work collaboratively and professionally with all key participants towards achieving this end.

Next year and beyond we will continue implementing Capacity's revised Strategic Plan 2010 – 2014. This plan has been developed through taking a top-down/bottom-up look at the organisation. It outlines an exciting new direction for us with a stronger focus on customer relations, empowerment of our staff, integrated management of information and enhanced integration of the regional water services network.

Finally, I'd like to thank all staff, the management team and the Board for their commitment to achieving our vision and the dedication with which they go about their work.

Peter Allport
CHAIRMAN

Past achievements and future activities



Conservation

Water conservation and efficiency is a key driver for everything we do. During the past year we have led a number of successful initiatives with the sole aim of conserving this precious resource.

Along with implementing initiatives that we know will conserve water, we have been working with our clients and Greater Wellington to look more widely at the issue. There are some weighty decisions coming the way of the region's councils if we don't reduce consumption and conserve water.

The population in the greater Wellington region is forecast to grow by 57,000 in the next 20 years. Climate change and economic development will place additional demands on our resources and infrastructure. We must all make a commitment to living within our means.

This will mean changing water consumption patterns if we want to delay costly solutions such as building another dam, introducing water meters or widespread water restrictions. Limiting summer water usage is just one of the ways we can contribute to these aims.

We're committed to working with councils and communities to make a real difference, so consumption can be kept to the levels required that will ensure there is enough water for all, and the public are informed and knowledgeable about the issues and solutions. Supply augmentation and demand management alternatives will be presented to councils and the public throughout the next few years.

During the year we continued to undertake extensive leak detection programmes across all our client councils. In Wellington we introduced the Roseneath and Hataitai pressure reduction trial to reduce leaks, we began our domestic water meter trial enabling us to better understand household daily consumption and developed a draft Water Conservation and Efficiency Plan for consultation in Wellington City. As a result in Wellington we have reduced the amount of unaccounted-for water from 26 per cent five years ago to below 16 per cent now.

In Upper Hutt we developed a water conservation campaign for implementation during the next financial year and in Hutt City we are continuing with our water usage patrols and seasonal advertising campaigns.

All these initiatives will continue in years to come, with plans to implement the proposals contained in the Wellington City Water Conservation and Efficiency Plan across the region.

Efficiency

We achieved savings of \$391,000 over historical cost levels in providing our services for Wellington City Council in the 2009/10 year. This was \$41,000 under our target of \$432,000 for the year. Resource consent hearing and subsequent appeal preparation costs exceeded budget by \$43,000, and I am very satisfied with our performance in achieving over 90 per cent of the savings target for Wellington City.

We have committed to an ongoing reduction in costs of \$737,000 per year.

Looking to the future

While externally water conservation and efficiency will underpin a lot of our initiatives, internally our Strategic Plan 2010 – 2014 is our guiding document. The plan consists of four key strategies:

- Improved stakeholder relations
- Empowerment of our people
- Integrated management of information
- Wellington regional water services network enhanced integration strategy

Implementing these strategies over the coming years will cement our position as a centre for excellence for water services management in the Wellington region.

This Annual Report showcases some of our achievements over the past year and gives a sense of things to come in future years.

David Hill
CHIEF EXECUTIVE



Demonstrating a commitment to planning

It's no accident that our expertise in planning, in particular our asset management planning, is being recognised as among the best there is in New Zealand. We believe that robust planning underpins the success of all our initiatives.

Every year we work on several planning documents to ensure we can manage our clients' assets in the best way possible, both now and into the future.

During the year we completed strategies for the 'three waters' – drinking, storm and waste water – for Wellington City Council. The strategies are intended to be flexible enough to adapt to changing circumstances and continue to guide us in the effective provision of services towards the 22nd century. The strategies look at a 75-plus year planning horizon to identify the issues the council will be facing over time and what can be done to address these.

Some of the specific activity identified in the strategies will be prioritised and delivered through the long-term plan and asset management planning processes. One example of where this is happening is under the wastewater strategy. Wastewater overflow was identified as a key issue needing to be addressed to minimise pollution of streams and Wellington Harbour. Over the coming year we will be developing plans to mitigate the effects of wastewater overflows, including looking at an inflow infiltration management plan and other initiatives.

During the past year we worked on stormwater catchment planning for Wellington City Council. This involved prioritising future catchment management planning work for Wellington City and was undertaken to steer future work. Flood hazard mapping work is being undertaken in Island Bay and in the central city, incorporating allowances for climate change agreed with Wellington City Council.

We prepared risk management plans for Wellington and the Hutt during the past year and will continue to work on these so there is a consistent framework between the two plans.

Emergency management planning around water services is critical in Wellington because of our high risk of earthquakes. During the year Capacity developed a revised emergency management plan encompassing all three client councils with the aim of ensuring we have the resources and plans in place for dealing with any emergency.

The plan looks at all phases of emergency management – reduction, readiness, response and recovery – and includes a timeline of actions that is being worked through with the councils.

Seismic assessment of the storage reservoirs is one of the key issues identified in the plan. We need to ensure these reservoirs are still standing after a big quake. We've completed the assessment of reservoirs for the Hutt and are working through those in Wellington and Upper Hutt.

The plan also involves identifying of additional emergency storage facilities where people can access water in an emergency.

We are continuing to work with our client councils to fund the work required within this plan.

FIRST RATE ASSET MANAGEMENT PLANNING

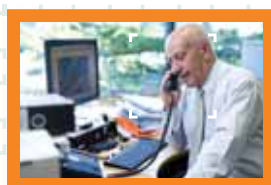
'Asset management for public entities: Learning from local government examples April 2010' has been published by Audit New Zealand and highlights examples of how organisations have tackled aspects of asset management effectively.

The report contains a number of examples from water services asset management plans prepared by Capacity for Wellington and Hutt City Council.

Wellington City received three mentions – for asset data collection, asset condition monitoring and financial forecasting.

Hutt City received two mentions – for development of activity standards and using these standards to measure the performance of the activity and maintenance contracts. These two items were cited in the series of the most effective improvements which public sector entities could adopt without needing a lot of additional resources.

Examples were also drawn from Upper Hutt City Council asset management plans prepared by Upper Hutt City Council staff prior to the outsourcing of water management services to Capacity. These were documentation of life cycle asset management and integrating asset management plans with business planning.





Demonstrating a commitment to consultation

Protecting the environment is close to our hearts so managing our resource consent processes effectively is critical. An integral part of this process is consulting with all affected parties and ensuring mitigation of any issues wherever possible.

IMPROVEMENT WORKS LEAD TO CONSENT

During the year Greater Wellington Regional Council granted resource consent to “intermittently discharge screened wastewater to the Waiwhetu Stream” from the two overflow structures at Malone Road and Hinemoa Street in Hutt City.

In releasing its decision the hearing committee considered it worthy to grant consent for 15 years (with ongoing environmental and cultural monitoring) “given the extensive, and costly, improvement works the applicant has undertaken in the past five years”.

This decision reflects Capacity’s commitment to ensuring community engagement is prioritised throughout the consent process.

During the year we continued working with Wellington City Council and other key stakeholders on stormwater discharge consents that are due to expire. A single consent approach for discharges into the coastal marine environment has been adopted and the application is now being processed.

The work we have identified as part of the three waters strategy into overflow mitigation forms part of this consent, as does the stormwater monitoring framework we are currently developing. This framework enables us to monitor the sediment (heavy metals) in the harbour and on the shores.

Previously we have monitored microbiological organisms with Regional Public Health but now we are shifting to include the receiving environment to find out the impact. In the future this sediment sampling will be part of all our new consents.

In Wellington, work continued on the Western (Karori) Wastewater Treatment Plant resource consent application, which is proceeding through an Environment Court appeals process. This is in its final stages with the new operating consents expected in the second half of 2010.



(From left) Alisa Brown, Records Coordinator; Tony Jaegers, Investigation Design Engineer; Isabel Radebe, Senior Drainage Engineer and Ramesh Pillai, Engineer, review water network plans for Wellington City Council.



Demonstrating a commitment to managing

Achieving sustainable and efficient service delivery through better processes is a key benefit of the Capacity business model.

We continue to work at aligning and improving our systems across all three councils, and taking the best initiatives and ideas being used in one council area and rolling them out to the other cities. Taking this a step further we have started work on a regional specifications and standards project. Initially we are looking at the Code of Practice for Water Services to improve consistency of codes, materials, systems and processes across the region. Work on this is continuing in liaison with the client councils.

Last year we welcomed City Care Limited as the maintenance contractor for the vast majority of the maintenance and day-to-day upkeep of our clients' networks. We worked hard to ensure a seamless transition and have received a lot of positive customer feedback regarding their level of service, with very few complaints. We look forward to an ongoing relationship with City Care as we continue to refine and improve our management systems.

CitiOperations is our other major maintenance contractor and is responsible for maintaining the stormwater drainage network for Wellington City Council. Over the past year we have been working with them to capture operations and maintenance data using Wellington City Council's Confirm asset management system. The data will be used for performance management, reporting and asset management purposes.

FLOOD INFORMATION AVAILABLE TO HUTT RESIDENTS

Providing Hutt City residents with comprehensive flood information about individual properties was the impetus for a joint project among Capacity, Hutt City Council and Greater Wellington Regional Council this year. We worked with Hutt City Council to develop an information collection process for a flood database which includes flood information for LIM reports that are available to the public and council planners.

We developed a process that collects factual flood information maps for the Council. Greater Wellington also incorporated its river models into the process. Hutt City Council has integrated the information into its GIS (geographical information system) so people can now get reliable flood level and history information when they are looking at a specific property.

One of the many benefits of the system is that it is also linked to the capital expenditure work programme, so that when work is completed that impacts on flood risks this is entered into the database, updating the information for that property. Ultimately we would like to introduce this system for our other clients.

During the year we developed a drainage term contract. This enables us to select a contractor to undertake smaller jobs and urgent works without having to put each job to tender. At present the contract is specifically for drainage renewal works in Wellington City, for individual projects of less than \$100,000. We expect a minimum of \$500,000 of work will be allocated through this contract each year.

The contract is for an initial term of one year starting 1 July 2010, and may be renewed twice for a maximum of twelve months each time.

We also set up a contractor non-price attribute assessment process, where we called for drainage and water contractors to submit their attributes for assessment for future projects up to a value of \$1.5 million. Registered contractors will have the benefit of a quicker and simplified tender process for subsequent projects.

Hutt City Council's newly implemented in-house asset valuation system, developed by Capacity, was showcased during the year at a national conference of Confirm asset management system users. Although doing in-house valuations using asset management systems is relatively common practice in Australia, it is still new to New Zealand with Capacity among the first to implement this for a New Zealand council.

Managing the build-up of hydrogen sulphide in the wastewater system was the subject of a new strategy developed for Wellington City Council. Hydrogen sulphide in the network can corrode the interior of concrete sewers and, when not controlled, can cause structural failures in critical assets.

The strategy we developed includes monitoring the network, identifying hot spots and fixing them. We will be working with Wellington City Council to implement this strategy. Once it has been successfully implemented we will look to implement the strategy across the wastewater networks of our other clients.

An innovative design solution is being investigated for the new Tacy Street stormwater pump station in Wellington. This pump station will accommodate the additional stormwater run-off expected from the Indoor Community Sports Centre under construction at Cobham Park in Kilbirnie, and provide some flood relief to lower Kilbirnie.

An alternative design to the conventional design option is being considered for this stormwater pump station. The alternative design process is a jet pump option. The two detail design streams are being carried out in parallel, and if the jet pump alternative becomes viable in time to build it for the current Tacy Street pump station, then it will replace the conventional design.

The construction of the Tacy Street pumping station is planned for the next financial year.



Demonstrating a commitment to monitoring

Thorough monitoring is critical to obtaining optimum performance from our clients' networks. We use this information to respond to issues, prioritise and set forward work programmes.

During the year we monitored pressure flows in parts of Roseneath and Hataitai in Wellington City and as a result, began reducing water pressure. The pressure in these areas is much higher than the optimum water main pressure and can cause bursts and increased leakage.

We have gradually been reducing the pressure through the use of pressure reducing valves, flow meters and telemetry. As well as reducing water main breaks and leakage, the reduction of the water pressure levels will improve the reliability of the water supply system and conserve water.

To date pressure has been lowered by 250 kPa¹ and the minimum night flows, an indicator of leakage, have reduced. Pressure reduction in these areas will continue into the next financial year. Once completed we will look to reduce pressure in other high pressure areas of the city should the benefits of the Roseneath trial indicate this is worthwhile.

In order to establish an accurate residential daily consumption figure to measure unaccounted-for water, we are planning to install water meters in a number of homes throughout our three client cities. These meters will be purely for data collection and not for billing.

The information recorded will give us a more accurate idea of how much domestic water each city is using, and will enable us to better target leaks and repairs.

This domestic water consumption monitoring project has been initiated in Wellington City with approximately 65 meters installed to the end of June 2010, with plans to install a total of 300 at various homes over the next two years. Meters will also be installed in Lower Hutt and Upper Hutt in the coming two years for the same purpose.

As a part of the wastewater overflow mitigation work we have developed a strategy for Wellington's wastewater flow monitoring. This strategy will be implemented in 2010/11 and beyond and will be aligned with the overflow mitigation work mentioned earlier in this report.

Leak detection programme

Leak detection is a significant aspect of water conservation in which councils and ratepayers need to be pro-active. Unaccounted-for water includes leakage in network and private systems, as well as un-metered usage such as firefighting.

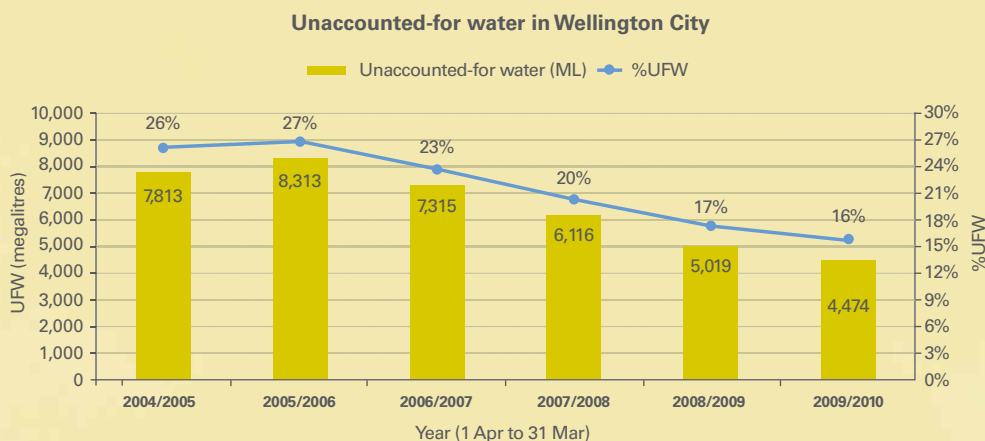
Detecting and fixing leaks, as well as replacing old pipes through programmed maintenance, has obvious environmental and community benefits. It can also mean delaying expensive capital works. We're pleased to support our client councils in their campaigns to reduce the amount of unaccounted-for water.

Hutt City puts aside \$75,000 annually for leak detection, which enables us to survey 50 per cent of its network each year. Currently Lower Hutt's unaccounted-for water measure is down to 16 per cent.

In Upper Hutt, \$89,000 is spent annually on leak detection, which enables us to survey its network three times each year. Data suggests that we are working at an optimal level of leak detection in Upper Hutt.

And in Wellington City \$108,000 was used last year for the leak detection programme, enabling us to survey about half of the network. This includes planned and reactive detection. Currently unaccounted-for water is down to 16 per cent from 26 per cent five years ago.

LEAK DETECTION NETS RESULTS



Proactive detection programmes, ongoing asset management and renewal all contribute to the reduction in unaccounted-for water.

¹ 100 kPa is the pressure exerted by a column of water 10 metres high.



Demonstrating a commitment to *delivery*

Delivery is the operational end of what we do – it's where our planning gets put into practice, our maintenance is undertaken and our construction works get done. It's the bit that everyone sees but is the end result of all that has gone before.

Karori Dam in Wellington City is a historic structure, one of only a few of its type in New Zealand. It also happens to be built on a fault line. During the year we completed work on lowering the lake level and changing discharge flows from the left to the right side of the dam to ensure minimal risk of water overflowing the dam in the event of an emergency. The new spillway runs under the new visitor centre at Zealandia (formerly Karori Wildlife Sanctuary) with a platform provided so visitors can view the spillway and take photos. The original historic timber spillway is not used in this new configuration but has been kept and maintained as a heritage artefact.

Also completed during the year was the relining of a sewer main under Wellington Airport's runway. This concrete pipe had lost wall thickness due to hydrogen sulphide damage and needed repairing or replacing. A spiral, wound-in-place PVC liner was used, which was considerably more economical than a traditional method would have been. The work could be completed without completely by-passing the sewer and without disrupting airport operations.

Work to begin building the new reservoir at Messines Road in Karori is planned to start early in the 2010/2011 financial year, following the granting of relevant resource and building consents during 2010.

During the year we completed \$1.6 million of upgrade work to Hutt City Council's water mains. Stormwater work was completed in Udy Street to minimise flooding in the area and we also upgraded the water main and ridermain in Bledisloe Crescent. We continued work on the water main renewal up to Gawler Reservoir, which involves replacing the existing main to improve water supply to the Wainuiomata water zone. This work will continue into the next financial year.

Next year we will continue our programme of upgrading water, stormwater and wastewater mains in Hutt City. We will also be undertaking pressure testing and closed circuit television (CCTV) analysis to determine which areas need upgrading and to prioritise these for future years.

With the Rugby World Cup in 2011 we are working to ensure that all planned maintenance that may impact on Cup-related fixtures will be identified and programmed for completion before the tournament starts in September.

We continue to work through the projects identified in the assessment of Hutt City's stormwater services. Assessments have been made, all details recorded and risk assessments completed. We are now working to prioritise the implementation of the work.

Over the next financial year we will be upgrading Wellington's Moa Point Wastewater Treatment Plant inlet pump station and trialling the treatment of wastewater bypass flows with ultraviolet irradiation.

PROTECTING WAIWHETU STREAM

After four years' hard work and a huge commitment from local residents, wastewater overflows into the Waiwhetu Stream during heavy rainfall have been substantially reduced.

The overflows were occurring during heavy rain when sewer drains were overloading. It was identified at the time that the overflows were largely being caused by stormwater entering cracks and breaks in private sewer drains. Capacity and our contractors Cardno TCB worked alongside private landowners to identify where the problems were and to provide advice on fixing them.

More than 90 per cent of the private drain upgrades are now completed. Other work that has also been completed to protect the stream included improvements to public mains, storage tanks, pump station management, improved flow monitoring and manholes.

Recent analysis has shown a 60 per cent reduction in overflow volumes during winter, when the groundwater table is higher, and a 90 per cent reduction in overflow volumes during the summer months, when the groundwater table is lower.





Demonstrating a commitment to continuous improvement

We're always looking at how we can do things better. This means looking at how we do things internally as well as looking for innovative and creative solutions to the work we are producing for our clients.

During the past year we conducted our first full client survey, providing us with baseline information about client satisfaction. We intend to regularly survey client satisfaction, compare our results, build on the areas where we are performing well and address any areas that need strengthening.

MASTERS OF OUR OWN DESIGN

A significant development during the past year has been establishing our in-house design team. The team is currently upskilling and receiving mentoring from professionals at GHD engineering consultancy.

The new team has already completed 65 per cent of the structural designs for Wellington City Council for the coming financial year. Currently this in-house design capability is for Wellington work only.

In the past we used external consultants for all our design work. Although we will continue to outsource advanced design work, our internal team will undertake all the standard designs.

Over time this will enable us to make considerable savings on costs, which will be passed on to our clients. In-house design will also enhance Capacity as a centre of excellence as an industry training entity.

Following our ISO 9001:2000 certification in 2008 we have continued to build our quality systems, processes and procedures enabling us to maintain this distinction.

We are placing greater emphasis on staff training in support of our Strategic Plan. As a part of this, we will be evaluating the organisational culture to measure and improve the behaviours and skills that are required for organisational success through greater effectiveness and high quality customer service.



Using a self-winding liner to form a new, stand-alone pipe within a corroded sewer main at Moa Point, near Wellington Airport, saved almost \$1 million over conventional replacement methods. Airport disruption was minimised as well.

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 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.



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
Peter Allport (Chair from Dec 2009)	11
Andy Foster	11
Ian Hutchings	10
Bryan Jackson (Chair retired Nov 2009)	5
Peter Leslie	11
John Strahl (from Dec 2009)	7
Ray Wallace	10

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 2010	Year ended 30 June 2009
\$260,000 – \$270,000	1	–
\$240,000 – \$250,000	–	1
\$130,000 – \$140,000	1	–
\$120,000 – \$130,000	–	1
\$110,000 – \$120,000	3	2
\$100,000 – \$110,000	3	2

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



Peter Allport
CHAIRMAN



DIRECTORS' REMUNERATION

Chairman	2010
Peter Allport (Chair from Dec 2009)	\$23,750
Bryan Jackson (Chair retired Nov 2009)	\$12,500
Directors	
Andy Foster	\$15,000
Ian Hutchings	\$15,000
Peter Leslie	\$15,000
John Strahl (from Dec 2009)	\$8,750
Ray Wallace	\$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

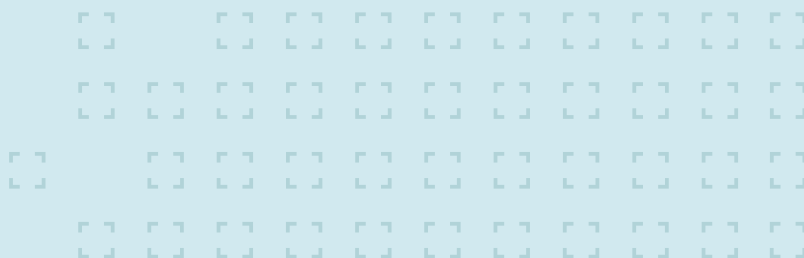
There were no donations made during the year.

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.



David Hill
CHIEF EXECUTIVE



Organisational Functions

PROGRAMME MANAGEMENT & OPERATIONS – CHIEF OPERATING OFFICER GARY O'MEARA

The Operations team oversees the day-to-day work of programmed and emergency projects as well as the ongoing leak detection and repair work.

The Programme Management team completes detailed project design, manages the tendering process, and is responsible for management and completion of capital and operational projects.



ASSET PLANNING – MANAGER YON CHEONG

Yon and her team are responsible for the long-term management of our clients' infrastructural assets. This includes preparing asset management plans and long-term financial strategies; reviewing and updating processes, strategies and policies; and preparing applications for resource consents.



ASSET DEVELOPMENT – MANAGER IQBAL IDRIS (ACTING)

The Asset Development team performs asset investigation, monitoring and supply modelling work and following up on the work identified through the planning process. They also develop plans for new subdivision and water connections, provide information for consent applications and develop design briefs for the Operations team.



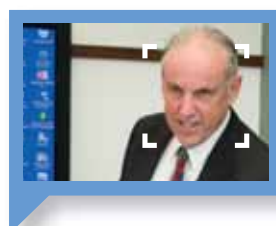
CORPORATE SERVICES – MANAGER JANET DOBBIE

Janet manages Capacity Infrastructure Service's internal business and corporate services including human resources, finance and accounting, IT and information management, operational performance, Board services and administration activities. Janet's team also co-ordinates and advises on the company's communications and marketing activities.



BUSINESS ASSURANCE – PAT SCAHILL

Pat is responsible for our quality assurance and risk management. This includes managing Capacity Infrastructure Service's ISO 9001 quality certification, the development of business systems and managing the internal audit programme.



SPECIAL PROJECTS – KEVIN ROBERTSON

Projects led by Kevin in this area have focused on re-consenting wastewater treatment plants and stormwater discharges, stormwater catchment management planning and wastewater network optimisation.



Financial statements

For the year ended 30 June 2010
Capacity Infrastructure Services



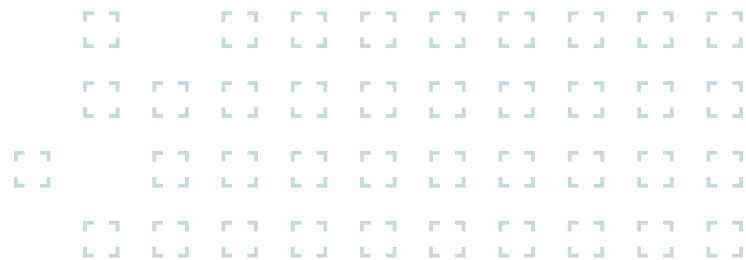
Statement of *comprehensive income* FOR THE YEAR ENDED 30 JUNE 2010

	Note	Actual 2010 \$000	Budget 2010 \$000	Actual 2009 \$000
REVENUE				
Operations	19	7,176	7,364	6,287
Grant		0	0	218
Interest		20	0	15
TOTAL REVENUE		7,196	7,364	6,520
EXPENDITURE				
Operational expenditure	19	929	1,109	1,215
Audit fees		30	30	29
Directors' fees	13	105	105	105
Depreciation	6	42	50	22
Interest		1	2	0
Rental and operating lease costs		500	484	430
Personnel expenditure	14	5,542	5,600	4,696
TOTAL EXPENDITURE	19	7,149	7,380	6,497
COMPREHENSIVE INCOME BEFORE TAXATION		47	(16)	23
Tax expense/(benefit)	4	9	0	31
COMPREHENSIVE INCOME AFTER TAXATION		38	(16)	(8)
Total comprehensive income attributable to:				
Wellington City Council		19	(8)	(4)
Hutt City Council		19	(8)	(4)
Non-controlling interest		0	0	0
Total		38	(16)	(8)

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 2010

	Actual 2010 \$000	Budget 2010 \$000	Actual 2009 \$000
Net surplus/(deficit) for the year	38	(16)	(8)
MOVEMENTS IN EQUITY FOR THE PERIOD	38	(16)	(8)
Equity at beginning of year	275	275	287
Adjustment	0	0	(4)
EQUITY AT END OF YEAR	313	259	275

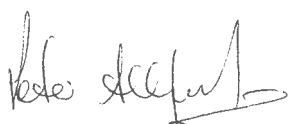


The accompanying notes form part of, and are to be read in conjunction with, these financial statements.

Statement of financial position

FOR THE YEAR ENDED 30 JUNE 2010

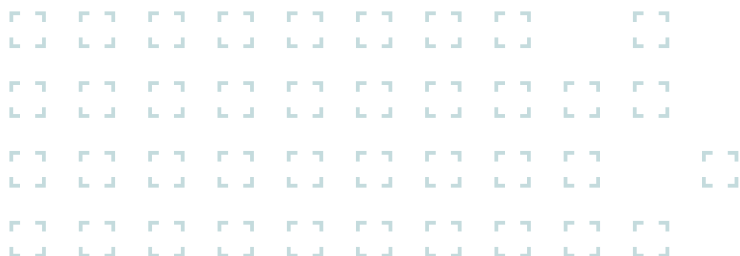
	Note	Actual 2010 \$000	Actual 2009 \$000
CURRENT ASSETS			
Cash and cash equivalents		497	383
Trade and other receivables	7	769	922
		1,266	1,305
NON-CURRENT ASSETS			
Intangible assets	6	19	0
Property, plant and equipment	6	74	53
		93	53
TOTAL ASSETS		1,359	1,358
CURRENT LIABILITIES			
Trade and other payables	8	564	581
Provision for taxation		5	25
Employee benefits	9	476	477
TOTAL LIABILITIES		1,045	1,083
NET WORKING CAPITAL		313	275
EQUITY			
Share capital	10	600	600
Retained earnings	11	(287)	(325)
TOTAL EQUITY		313	275



Peter Allport
CHAIRMAN



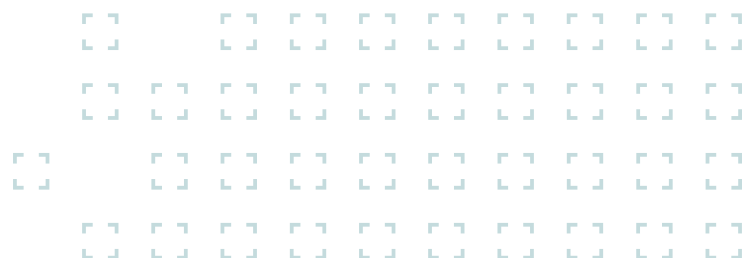
David Hill
CHIEF EXECUTIVE



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 2010

	Note	Actual 2010 \$000	Actual 2009 \$000
CASH FLOW FROM OPERATING ACTIVITIES			
<i>Cash was provided from:</i>			
Operating receipts		7,081	6,660
GST receivable		18	(3)
<i>Cash was disbursed to:</i>			
Payments to suppliers and employees		(6,873)	(6,537)
Income tax paid		(28)	(8)
Interest paid		(1)	0
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	15	197	112
CASH FLOWS FROM INVESTING ACTIVITIES			
<i>Cash was applied to:</i>			
Purchase of property, plant and equipment		(63)	(15)
Purchase of intangible assets		(20)	0
NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES		(83)	(15)
Net increase/(decrease) in cash and cash equivalents		114	97
Opening cash balance		383	286
CLOSING CASH BALANCE		497	383



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

Capacity Infrastructure Services Limited, trading as Capacity, is a company registered under the Companies Act 1993 and a Council Controlled Trading Organisation as defined by Section 6 of the Local Government Act 2002. Current shareholders are Wellington City Council and Hutt City Council. Capacity was incorporated in New Zealand in 2003 as Wellington Water Management Services Limited and changed its name in July 2009.

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

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

REPORTING PERIOD

The reporting period for these financial statements is the year ended 30 June 2010. The financial statements were authorised for issue by the Board of Directors on 17 August 2010.

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.

The revised standard requires information in financial statements to be aggregated on the basis of shared characteristics and introduces a statement of comprehensive income. The statement of comprehensive income will enable readers to analyze changes in equity resulting from non-owner changes separately from transactions with owners. Capacity has decided to prepare a single statement of comprehensive income for the year ended 30 June 2010 under the revised standard. Financial statement information for the year ended 30 June 2009 has been restated accordingly. Items of other comprehensive income presented in the statement of comprehensive income were previously recognised directly in the statement of changes in equity.

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 2009/2010 the customers were shareholder councils Wellington City Council and Hutt City Council, as well as contracted services for Upper Hutt City Council.

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

b) Expenses

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

c) Taxation

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

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

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

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

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

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

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

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

d) Goods and Services Tax (GST)

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

e) Financial instruments

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

Non-derivative financial instruments

Financial assets

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

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

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

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

Financial liabilities

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

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

Disposal

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

Depreciation

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

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

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

Work in progress

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

g) Intangible assets

Acquired intangible assets are initially recorded at cost.

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

Computer software	five years
-------------------	------------

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

h) Employee benefits

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

Long-service leave and retirement gratuities have been calculated on an actuarial basis based on the likely future entitlements accruing to staff, after taking into account years of service, years to entitlement, the likelihood that staff will reach the point of entitlement and other contractual entitlements information. This entitlement is not offered to new Capacity employees. The present value of the estimated future cash flows has been calculated using an inflation factor and a discount rate. The inflation rate used is the annual Consumer Price Index to 31 March prior 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 Comprehensive Income 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 by the Inland Revenue Department. The GST component has been presented on a net basis, as the gross amounts do not provide 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.

Notes to the financial statements FOR THE YEAR ENDED 30 JUNE 2010

4. INCOME TAX EXPENSE

	2010 \$000	2009 \$000
CURRENT TAX EXPENSE		
Current year	2	31
Prior period adjustment	7	0
	9	31
DEFERRED TAX EXPENSE		
Origination and reversal of temporary differences	(13)	(24)
Change in unrecognised temporary differences	13	24
Recognition of previously unrecognised tax losses	0	0
	0	0

RECONCILIATION OF EFFECTIVE TAX RATE

	%	2010	%	2009
Surplus for the period excluding income tax		47		23
Prima facie income tax based on domestic tax rate	30%	14	30%	7
Effect of non-deductible expenses		1		2
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		(13)		22
Prior period adjustment		7		0
		9		31

INCOME TAX RECOGNISED DIRECTLY IN EQUITY

The amount of current and deferred tax charged or credited to equity during the period was \$Nil (2009: \$Nil)

IMPUTATION CREDITS

	2010 \$000	2009 \$000
Imputation credits as at 1 July 2010	28	27
New Zealand tax payments	29	6
Imputation credits attached to dividends received	0	0
Other credits	0	0
New Zealand tax refunds received	0	(5)
Imputation credits attached to dividends paid	0	0
Other debits	0	0
	57	28

5. DEFERRED TAX ASSETS

UNRECOGNISED DEFERRED TAX LIABILITIES

As at 30 June 2010 the company had an unrecognised deferred tax liability of \$Nil (2009: \$Nil).

UNRECOGNISED DEFERRED TAX ASSETS

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

	2010 \$000	2009 \$000
Deductible temporary differences	367	411
Tax losses	0	0
	367	411

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

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.

6. PROPERTY, PLANT, EQUIPMENT AND INTANGIBLES

During the office relocation in June 2009 and towards the completion of related tasks in September, Capacity organised the physical identification and tagging of assets resulting from the move. This consisted of identifying furniture and equipment that were swapped with the previous landlord as part of the make good arrangement at the old premises, as well as the identification of new furniture and equipment acquired during the move and the

conditions of the assets in the existing register. In addition, the asset register was also updated for correct classifications and depreciation rates.

Consequently, software and licences which have been identified, particularly during the review of tax liabilities, have been reclassified and correctly reflected as part of intangibles.

	2009 Total cost \$000	2009 Accumulated depreciation \$000	2009 Net book value \$000	2010 Current additions \$000	2010 Current disposals \$000	2010 Current depreciation \$000	2010 Elimination on disposal \$000	2010 Total cost \$000	2010 Accumulated depreciation \$000	2010 Net book value \$000
Telephone system	34	21	13			4		34	25	9
Owned assets:										
Furniture, plant and equipment	112	72	40	61	(41)	26	(31)	132	67	65
Intangibles	1	1	0	37	(6)	12		32	13	19
	147	94	53	98	(47)	42	(31)	198	105	93

Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2010

7. TRADE AND OTHER RECEIVABLES

	Note	Actual 2010 \$000	Actual 2009 \$000
Trade receivables		0	10
Related parties receivables	12	661	765
Prepayments		108	147
		769	922

8. TRADE AND OTHER PAYABLES

	Note	Actual 2010 \$000	Actual 2009 \$000
Trade payables		457	492
Related parties payables	12	3	3
GST		104	86
		564	581

9. EMPLOYEE ENTITLEMENT LIABILITIES

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

	Note	Actual 2010 \$000	Actual 2009 \$000
Current			
Annual leave		267	315
Long-service leave		30	29
Payroll accruals		179	133
TOTAL EMPLOYEE ENTITLEMENT		476	477

10. SHARE CAPITAL

	Actual 2010 \$000	Actual 2009 \$000
300 FULLY PAID \$2,000 ORDINARY SHARES	600	600

11. RETAINED EARNINGS

	Actual 2010 \$000	Actual 2009 \$000
Balance at beginning of year	(325)	(313)
Adjustment during the year	0	(4)
Net surplus/(deficit) for the year	38	(8)
Balance at end of year	(287)	(325)

12. RELATED PARTY TRANSACTIONS

	Actual 2010 \$000	Actual 2009 \$000
<i>Revenue for services by Capacity to:</i>		
Wellington City Council	5,015	4,165
Hutt City Council	1,422	1,376
	6,437	5,542
<i>Goods and services supplied to Capacity by:</i>		
Wellington City Council	41	109
Hutt City Council	0	32
	41	141
<i>Receivable owing to Capacity from:</i>		
Wellington City Council	507	412
Hutt City Council	154	135
	661	547
<i>Payable by Capacity to:</i>		
Wellington City Council	3	3
Hutt City Council	0	0
	3	3
<i>Accrued receivable for relocation costs and additional services</i>		
Wellington City Council	0	139
Hutt City Council	0	90
	0	228

13. RELATED PARTY DISCLOSURES

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

KEY MANAGEMENT PERSONNEL

	Actual 2010 \$000	Actual 2009 \$000
KEY MANAGEMENT PERSONNEL REMUNERATION	1,035	998

DIRECTORS' REMUNERATION

	2010	2009
Peter Allport (Chair from Dec 09)	23,750	15,000
Bryan Jackson (Chair retired Nov 09)	12,500	30,000
Andy Foster	15,000	15,000
Peter Leslie	15,000	15,000
Ray Wallace	15,000	15,000
Richard Westlake	0	15,000
Ian Hutchings	15,000	0
John Strahl	8,750	0
TOTAL DIRECTORS' REMUNERATION	105,000	105,000

Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2010

During the year, Capacity purchased legal services from DLA Phillips Fox, a legal firm in which Capacity Director John Strahl was formerly a partner and occasionally is engaged by DLA Phillips Fox for ad hoc assignments. These services cost \$9,533.10 (2009 – \$14,321.18) and were supplied on normal commercial terms. There is a balance of \$50.00 (2009 – \$660.45) outstanding for unpaid invoices at year end.

EMPLOYEE REMUNERATION

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

SALARY RANGE	Year ended 30 June 2010	Year ended 30 June 2009
\$260,000 - \$270,000	1	–
\$240,000 - \$250,000	–	1
\$130,000 - \$140,000	1	–
\$120,000 - \$130,000	–	1
\$110,000 - \$120,000	3	2
\$100,000 - \$110,000	3	2

No other employees earn over \$100,000.

14. PERSONNEL EXPENDITURE

Personnel costs consist of salaries and wages/bonuses/overtime, other employee costs and staff recruitment costs. The increase in employee remuneration include costs of \$707,000 representing the commencement of the in-house joint venture design office.

	Actual 2010 \$000	Actual 2009 \$000
Employee remuneration	5,181	4,310
Other employee costs	366	308
Recruitment costs	41	92
TOTAL	5,542	4,710

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

	Actual 2010 \$000	Actual 2009 \$000
REPORTED SURPLUS/(DEFICIT) BEFORE TAXATION	38	(8)
<i>Add non-cash items:</i>		
Depreciation	42	22
Gain on disposal	2	
	82	14
<i>Add/(less) movements in other working capital items:</i>		
(Increase)/decrease in trade receivable	114	(81)
(Increase)/decrease in prepayments	40	(93)
Increase/(decrease) in trade payable	10	240
Increase/(decrease) in GST payable	18	(3)
Increase/(decrease) in annual leave	(47)	12
Tax provision movement	(20)	23
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	197	112

The 2009 figures have been adjusted to reflect the movements on reported surplus after taxation.

16. NET SURPLUS BEFORE TAX

The net surplus before taxation for the year ended 30 June 2010 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.

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 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 arm's length transaction. There were no differences between the fair value and the carrying amounts of financial instruments at 30 June 2010.

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 are held on deposit with the ANZ National Bank under a call and a cheque account, which are part of the Crown Retail Deposit Guarantee Scheme. The cap on the size of the deposit that is covered by the guarantee is \$1million per guaranteed institution; therefore, Capacity's funds are covered by the guarantee scheme. 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.

Capacity's maximum exposure to credit risk at balance date is:

	2010 \$000	2009 \$000
FINANCIAL ASSETS		
Cash and cash equivalents	497	383
Trade and other receivables	769	922
TOTAL FINANCIAL ASSETS	1,266	1,305

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

	2010 \$000	2009 \$000
TRADE AND OTHER RECEIVABLES		
Not past due date	769	922
Past due zero to three months	–	–
Past due three to six months	–	–
Past due more than six months	–	–
TOTAL TRADE AND OTHER RECEIVABLES	769	922

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
2010						
TRADE AND OTHER PAYABLES	564	0	564	0	0	0
2009						
TRADE AND OTHER PAYABLES	581	0	581	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 three years. Lease terms will be reviewed after the end of three 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.

	Actual 2010 \$000	Actual 2009 \$000
NON-CANCELLABLE OPERATING LEASE COMMITMENTS		
Not later than one year	491	528
Later than one and not later than two years	438	456
Later than two years and not later than five years	865	361
	1,794	1,345

19. BUDGET DISCLOSURE

The 2009/10 Budget stated here differs slightly from that in the Statement of Intent 2009 – 2010 (SOI) prepared in May 2009. The budgeted total expenditure increased by \$2,000 due to increased insurance requirements for the joint venture. The reduction of personnel expenditure and corresponding increase in operational expenditure is due to the decision to undertake engineering design through a joint venture rather than in-house as originally planned. Revenue figures in the SOI have been altered to match total expenditure that is billable to the shareholder councils.

20. NON-ADJUSTING EVENTS AFTER BALANCE DATE

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

To the readers of Capacity Infrastructure Services Limited's financial statements and performance information for the year ended 30 June 2010

The Auditor-General is the auditor of Capacity Infrastructure Services 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 on her behalf. The audit covers the financial statements and performance information included in the annual report of the Company for the year ended 30 June 2010.

UNQUALIFIED OPINION

In our opinion:

- The financial statements of the Company on pages 14 to 27:
 - 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 2010; and
 - the results of its operations and cash flows for the year ended on that date.
- The performance information of the Company on pages 30 to 35 gives a true and fair view of the achievements measured against the performance targets adopted for the year ended 30 June 2010.
- Based on our examination the Company kept proper accounting records.

The audit was completed on 25 August 2010, 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 2010 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 2010. 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 New Zealand Institute of Chartered Accountants.

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



AP Burns
Audit New Zealand
On behalf of the Auditor-General
Christchurch, New Zealand.

Matters relating to the electronic presentation of the audited financial statements and performance information

This audit report relates to the financial statements and performance information of Capacity Infrastructure Services Ltd for the year ended 30 June 2010 included on Capacity Infrastructure Services' website. Capacity Infrastructure Services' board is responsible for the maintenance and integrity of Capacity Infrastructure Services' website. We have not been engaged to report on the integrity of Capacity Infrastructure Services' website. We accept no responsibility for any changes that may have occurred to the financial statements and performance information since they were initially presented on the website.

The audit report refers only to the financial statements and performance information named above. It does not provide an opinion on any other information which may have been hyperlinked to or from the financial statements and performance information. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and performance information and the related audit report dated [date] to confirm the information included in the audited financial statements and performance information presented on this website.

Legislation in New Zealand governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

*Key
performance
indicators*



Key performance indicators

Last year we agreed with our shareholders and clients a set of 10 indicators to measure our performance against. These indicators are likely to change over time as priorities and the environment changes, as with Indicator 7 for example, where political events made this measure as written redundant.

Presented here are the indicators as stated in our Statement of Intent 2009 – 2010, and how we did against each of them.

KEY PERFORMANCE INDICATORS 2009/10

1. Develop and complete asset management plans for the client councils annually
2. Deliver budgeted capital expenditure projects for respective councils
3. Deliver budgeted operating and maintenance activities for respective councils
4. Manage and operate Capacity within its 2009/10 budget
5. Manage Capacity labour productivity rate to be 80 per cent or more at year end
6. Achieve total annual savings of \$432,000 for Wellington City Council
7. Annual increases in operating costs per property benchmarks for Hutt City Council's water, stormwater and wastewater networks are at or below Auckland water industry averages
8. Meet key performance measures as set out in service level agreements
9. Comply with financial, technical and regulatory standards
10. Complete a business plan by 30 June 2009



1. DEVELOP AND COMPLETE ASSET MANAGEMENT PLANS FOR THE CLIENT COUNCILS ANNUALLY

Wellington City Council (WCC) – **Achieved**

Hutt City Council (HCC) – **Achieved**

Upper Hutt City Council (UHCC) – **Achieved**

2. DELIVER BUDGETED CAPITAL EXPENDITURE PROJECTS FOR RESPECTIVE COUNCILS

Achieved

	Actual \$000	Budget \$000	Variance* \$000
WCC	21,098	24,773	3,675
HCC	7,710	9,681	2,041
UHCC	2,622	3,070	448
TOTAL	31,430	37,524	

* WCC – Favourable variance is due to carry forward of Messines Road, Tacy Street and Moa Point Treatment Plant

HCC – Variance is mainly due to Waiwhetu Stream Contribution to Remediation cost transferred to operating project and carry forward of Leighton Avenue sewer replacement to 2010/11, Black Creek Stage 3, Hutt River floodplain and Main Road watermain and services – Phase 2/3.

UHCC – Variance is due to projects carried forward.

3. DELIVER BUDGETED OPERATING AND MAINTENANCE ACTIVITIES FOR RESPECTIVE COUNCILS

Achieved

	Actual \$000	Budget \$000	Variance* \$000
WCC	35,269	34,862	-406
HCC	28,541	21,931	-6,610
UHCC	6,324	6,216	-108
TOTAL	70,134	63,009	

* WCC – Variance is mainly due to unbudgeted trade waste charges, adverse weather causing increased flow through wastewater treatment plants and underbudgeting of reactive projects compared with previous years, offset by favourable variance due to savings of share of bulk water usage.

HCC – Variance is mainly due to the Waiwhetu Stream project to clean up the streambed and reduce flood risk, managed with Greater Wellington Regional Council. It comprises additional landfill fees, levies, costs incurred by the contractor and work brought forward that was planned for 2010/11. The variance is fully endorsed by Hutt City Council and the Waiwhetu Stream Advisory Committee and is outside Capacity's control.

Key performance indicators continued

4. MANAGE AND OPERATE CAPACITY WITHIN ITS 2009/10 BUDGET

Achieved

	Actual \$000	Budget \$000
Revenue	7,196	7,378
Expenditure	7,149	7,378

See full financial statement pages 13–28

Our operating costs represent 7 per cent of the total amount spent on capital expenditure and operating and maintenance activities, spread across our three client councils.

5. MANAGE CAPACITY LABOUR PRODUCTIVITY RATE TO BE 80 PER CENT OR MORE AT YEAR END

Achieved: 83.4 per cent

This is the ratio of the hours billed against the hours available for billing.

6. ACHIEVE TOTAL ANNUAL SAVINGS OF \$432,000 FOR WELLINGTON CITY COUNCIL

Not achieved

Savings of \$391,000 or 91 per cent of target were recorded. These savings represent the provision of required services by volume and quality below historical cost levels. During the period 2009/10 resource consent hearing and subsequent appeal preparation costs exceeded budget by \$43,000. The result was our total savings fell \$41,000 below target at year end.

7. ANNUAL INCREASES IN OPERATING COSTS PER PROPERTY BENCHMARKS FOR HUTT CITY COUNCIL'S WATER, STORMWATER AND WASTEWATER NETWORKS ARE AT OR BELOW AUCKLAND WATER INDUSTRY AVERAGES

Indicator data unavailable

In early 2009 Capacity proposed an 'operating cost per property' as a cost saving performance indicator. It was our intention to benchmark ourselves against the Auckland water industry (AWI) using data obtained from their annual performance review.

However later that year the government announced that as part of the creation of the Auckland 'Supercity', the AWI would consolidate water activities into Water Care Limited, meaning this data was no longer available.

In the absence of robust national indicators for the cost per property to provide water services, we surveyed and analysed results from seven councils. These showed that our costs per property for the delivery of water and waste water services to Hutt City are below the average of the councils surveyed. For stormwater services, the cost per property was higher than average. This is because the flood plain topography of the Hutt Valley requires a higher than average number of pump stations, outlet structures and retention dams, with their associated operating and maintenance costs.

8. MEET KEY PERFORMANCE MEASURES AS SET OUT IN SERVICE LEVEL AGREEMENTS

We have Service Level Agreements with each of our client councils. Key performance indicators under those agreements which Capacity can affect are presented below.

WELLINGTON CITY – WATER SUPPLY		
KEY PERFORMANCE MEASURES		Comment
Response time to service requests	Target: (Response A) 97%	The year end average is 98% (achieved). This average reflects only the results of the past six months. This is to take account of the integration of the City Care contract – which has been agreed with the Council.
	Achieved: 98%	
Customer satisfaction	Target: (% of satisfied customers) 85%	We are reviewing this measure with Wellington City Council.
	Achieved: 94%	
Estimated % of unaccounted-for water	Target: 20%	
	Achieved: 16%	
Compliance with NZ Drinking Water Standards	Target: 100%	
	Achieved: 100%	
WELLINGTON CITY – STORMWATER		
Response time to service requests	Target: (Response A and B) 97%	Response A: customer contacted by contractor within one hour. Response B: contractor on site (time depending on job priority). Throughout the year there have been difficulties in establishing consistent reporting times and criteria. Capacity staff have been working on this with Wellington City Council.
	Not achieved: 87% (year end)	
Customer satisfaction	Target: (% of satisfied customers) 85%	Work has been undertaken by Capacity and Wellington City Council on the reporting of this indicator – and in particular the data that supports it. Wellington City Council will be reporting the result as 88% in their annual report.
	Achieved: 88%	
Resource consent compliance	Target: 100%	
	Achieved	
Compliance at monitored bathing beaches	Target: 93%	
	Achieved	
Compliance at monitored freshwater sites	Target: 90%	This indicator measures the percentage of monitored freshwater sites where annual median faecal coliform bacteria counts are less than 1000 per 100ml (lower levels of these bacteria mean cleaner water).
	Achieved	
WELLINGTON CITY – WASTEWATER		
Response time to service requests	Target: (Response A and B) 97%	Throughout the year there have been difficulties in establishing consistent reporting times and criteria. Capacity staff have been working on this with Wellington City Council's CitiOperations staff.
	Not achieved: 92%	
Customer satisfaction	Target: (% of satisfied customers) 85%	Work has been undertaken by Capacity and Wellington City Council on the reporting of this indicator – and in particular the data that supports it.
	Achieved: 100%	

Key performance indicators continued

HUTT CITY – WATER SUPPLY		
KEY PERFORMANCE MEASURES		Comment
Quality of water	Target: 'b' grading from the Ministry of Health for distribution	
	Achieved	
Quality of water	Target: full compliance with NZ Drinking Water Standards	
	Achieved	
Reliability of water supply	Target: less than four unplanned supply cuts per 1,000 connections	
	Achieved: 2.415 (year end)	
Maintain average un-metered water consumption	Target: less than 350 litres per head per day	
	Achieved: 304 litres per head per day (year end)	
Respond promptly to water supply disruptions	Target: 97% within one hour	The year end average is 99% (achieved). This average reflects only the results of the past six months. This is to take account of the integration of the City Care contract – which has been agreed with the Council.
	Achieved: 99%	
HUTT CITY – STORMWATER		
Reliability of stormwater services	Target: <0.5 incidents reported per kilometre of pipeline	
	Achieved: 0.169	
Respond promptly to stormwater disruptions	Target: 97% within one hour	The year end average is 98% (achieved). This average reflects only the results of the past six months. This is to take account of the integration of the City Care contract – which has been agreed with the Council.
	Achieved: 98%	
HUTT CITY – WASTEWATER		
Reliability of wastewater service	Target: fewer than 1.2 incidents reported per kilometre of pipeline	
	Achieved: 0.875	
Respond promptly to wastewater disruptions	Target: 97% within one hour	The year end average is 96% (a non-achievement). This average reflects only the results of the past six months. This is to take account of the integration of the City Care contract – which has been agreed with the Council. The non-achievement of this indicator is due to the lack of real-time information reporting capabilities of the sub-contractor (City Care). It should be noted that there have been no issues identified with the levels of service being provided.
	Not achieved: 96%	

UPPER HUTT CITY – WATER SUPPLY		
KEY PERFORMANCE MEASURES		Comment
Compliance with NZ Drinking Water Standards	Target: A-Bulk a-Distribution	
	Achieved	
Continuity of supply	Target: 95% of service disruptions restored within 2 hours	
	Achieved: 100%	
Continuity of supply	Target: fewer than 4 supply cuts per 100 connections	
	Achieved: 2.96 (year end)	
System integrity – minimum night flow	Target: flow not to exceed 65 litres per second	This is an indicator of unaccounted-for water.
	Achieved: 56.98 (year end)	
UPPER HUTT CITY – STORMWATER		
Resource consent requirements	Target: compliance with resource consent conditions	
	Achieved: 100%	
UPPER HUTT CITY – WASTEWATER		
Customer satisfaction	Target: 87.5% of respondents 'satisfied' or 'very satisfied'	
	Achieved: 89%	
Use of system	Target: 95% of properties connected to the system have service restored within six hours	
	Achieved: 100%	

9. COMPLY WITH FINANCIAL, TECHNICAL AND REGULATORY STANDARDS

Achieved

10. COMPLETE A BUSINESS PLAN BY 30 JUNE 2009

Achieved

Directory

DIRECTORS

Peter Allport (Chairman)
Andy Foster
Ian Hutchings
Peter Leslie
John Strahl
Ray Wallace

CHIEF EXECUTIVE

David Hill

REGISTERED OFFICE

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AUDITOR

Audit New Zealand on behalf of the Auditor-General

BANKERS

The National Bank of New Zealand Limited
Wellington
New Zealand

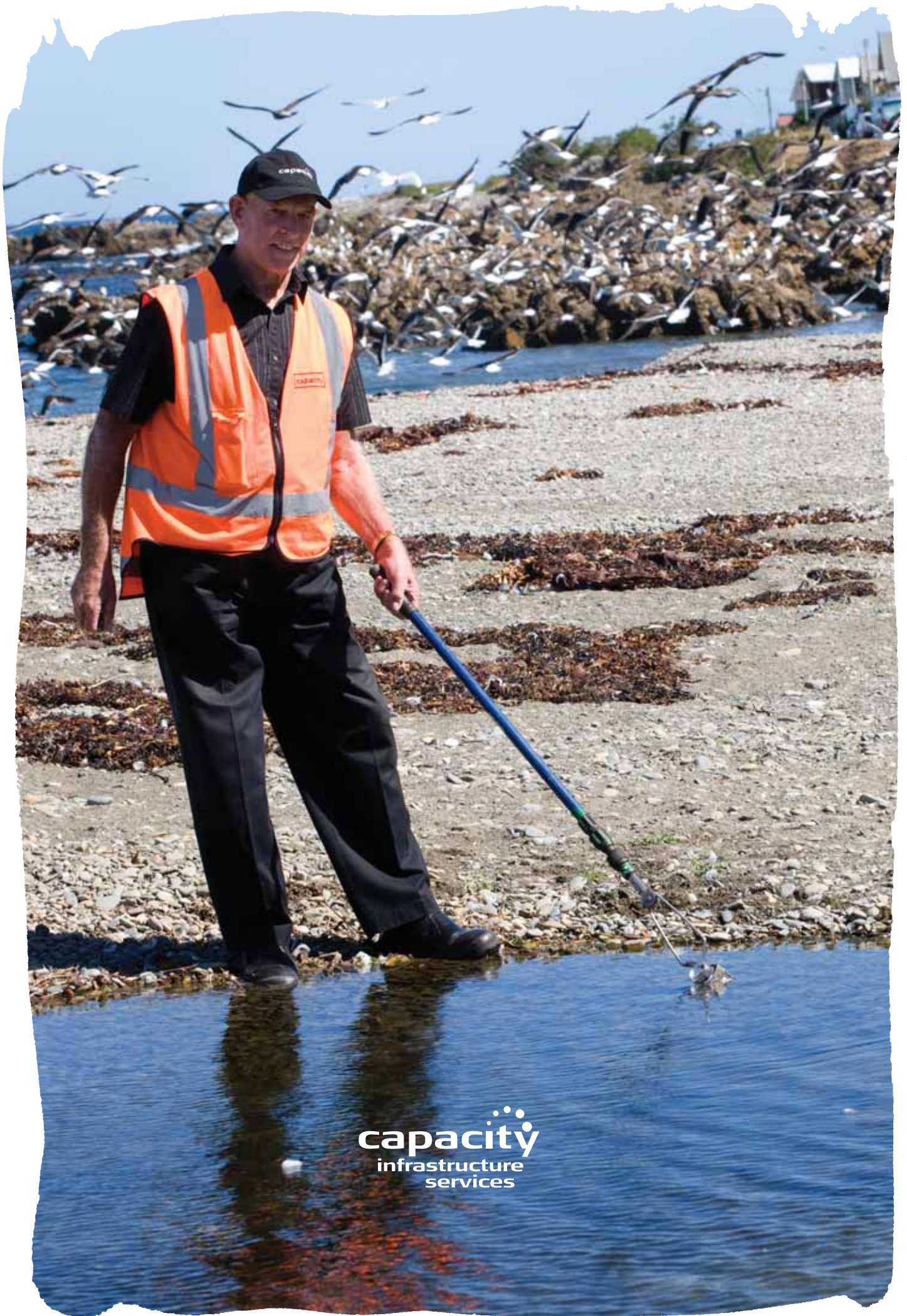
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Photography by Neil Price and Justine Hall.

BACK PAGE IMAGE: Bob Fisher, Clerk of Works for Capacity Infrastructure Services, takes a water sample from Owhiro Bay, Wellington.



capacity
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services