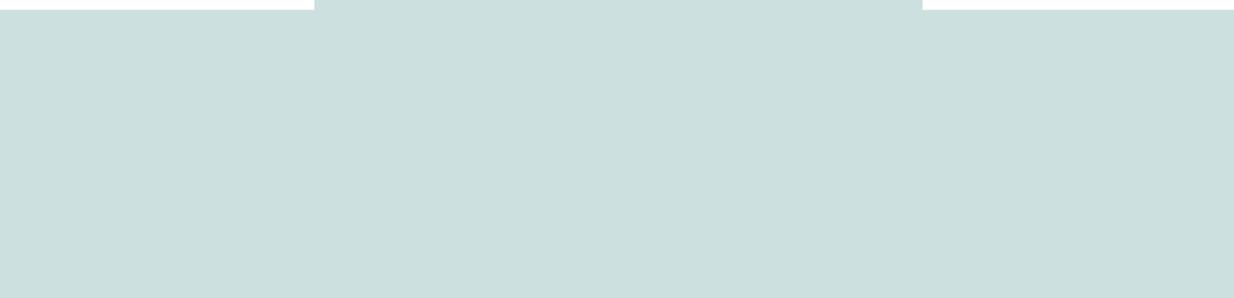
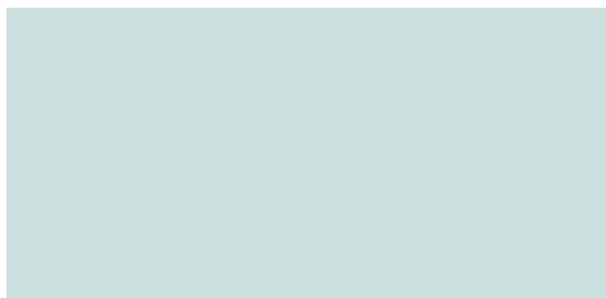
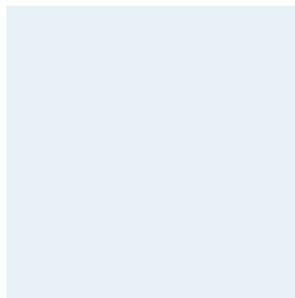


# Statement of Intent & Business Plan 2011 – 2012

Capacity Infrastructure Services Limited

12 May 2011



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# 1.0

## Purpose



The purpose of this Statement of Intent is to:

- state publicly the activities and intentions of this council controlled trading organisation for the year, and the objectives to which those activities will contribute
- provide an opportunity for shareholders to influence the direction of the organisation
- provide a basis for the accountability of the Directors to their shareholders for the performance of the organisation.

This Statement of Intent covers the year 1 July 2011 to 30 June 2012, and the following two financial years.

# 2.0

## Introduction

Capacity Infrastructure Services Limited (Capacity) manages the delivery of water supply, wastewater and stormwater infrastructure services. Capacity operates as a council controlled trading organisation under the Local Government Act 2002 and has two shareholders, Hutt City Council and Wellington City Council.

Capacity is mindful of the financial implications for councils and communities when undertaking the management of the three water activities. Water services constitute a critical activity in normal times and have a particular criticality in times of emergency. Capacity ensures that its activities are undertaken in an environmentally sensitive and safe manner.

Staff are committed to finding better and more efficient ways of providing water, stormwater and wastewater management services. Capacity is actively working with its shareholder councils to identify and develop regionally based water services activities. We look forward to delivering and continually improving water services to existing clients and applying our expertise across the wider Wellington region.

# 3.0

## Strategic directions



Capacity developed a strategic plan for the period 2010–2014 in 2010.

The Strategic Plan outlined four principal strategies and was communicated with and endorsed by shareholder councils. Capacity will also review progress and the continued relevance of the four strategies each year.

To meet the Strategic Plan objectives a budget item titled Strategic Projects has been included within the budgets for the 2011/2012 and 2012/13 years (see Section 10). This comprises \$135,000 to be spent in 2011/12, and \$100,000 in 2012/13. Capacity's budgets are prepared on a least cost of delivery basis for operational and capital expenditures. Strategic development imperatives have historically been unbudgeted and shareholder approval and funding assistance has been sought during a budget period. With the endorsement of the Capacity Strategic Plan notification of possible funding requirements is regarded as prudent if regional shared water services are to be achieved in the shortest possible timeframe. (See section 3.4 below)

### 3.1 STAKEHOLDER INTIMACY

Capacity will ascertain stakeholder needs and be fanatical about delivery of reliable and quality services. We will be more proactive and relationship based as we manage the assets of more clients and deal directly with thousands of customers. We will also improve customer feedback mechanisms. An extensive work programme has been instituted to continuously improve our responsiveness to clients and customers. Capacity is committed to maintaining and developing its relationship with its shareholders and a "no surprises" policy of open communication.

### 3.2 EMPOWERMENT OF OUR PEOPLE

Capacity's people will be empowered to meet all stakeholder needs. The company will have the right people with the right skills, knowledge and attitude. This includes staff and our business partners (contractors, consultants and other suppliers). The two year programme mentioned above incorporates significant staff empowerment elements to ensure the people empowerment strategy outcomes are achieved.

### **3.3 INTEGRATED MANAGEMENT OF INFORMATION**

The company's strategic plan, endorsed by shareholder councils, identifies the need to obtain information system integration in order to achieve the full benefits available from the regional integration of water services. Capacity is working with shareholder councils and external parties to identify the most effective merge of information systems. The timetable for information integration has yet to be determined but is unlikely to be before 2012/13.

During the current year Capacity will work with shareholder councils, clients and other local councils to define and undertake a business case analysis setting out the costs and potential benefits arising from regional information integration in relation to delivery of water services.

Capacity has sought advice and paid for a report in respect to broad order costs for information integration with particular regard to Asset Management Systems. The budget for the 2011/12 year has incorporated an expenditure item of \$135,000 in respect to possible expenditure on Integrated Information Management items such as business case preparation, process review and solution identification and optimization. Such expenditure will only be incurred with board approval and following consultation with shareholder councils. Contribution to such costs will also be sought from other authorities when that is appropriate and possible.

### **3.4 WELLINGTON REGIONAL WATER SERVICES NETWORK ENHANCED INTEGRATION STRATEGY**

This strategy will support our shareholders in the attainment of an integrated water services network across the greater Wellington region, to improve the region's competitive advantage through the efficiency and quality of its water services.

Capacity and its shareholders are seeking external consultant support to identify the most effective model to achieve full regional integration of water services within the Wellington metropolitan area and perhaps further afield. Implementation of the final phase of regional integration may not be completed until the 2012/13 or later.

The potential for the establishment for an integrated water services office may give rise to requests to shareholders for additional resources. While a steering group of officers from local councils is likely to be formed soon, the project has not developed to the stage where broad order cost estimates can be formulated.

# 4.0

## Nature and scope of activities



Below is a summary of Capacity activities.

ACTIVITY	NATURE	SCOPE
<b>Planning</b>	Our planning covers everything from asset management to catchment management plans and flood hazard maps.	<ul style="list-style-type: none"> <li>■ Asset management planning</li> <li>■ Resource consent applications</li> <li>■ Risk management plans</li> <li>■ Level of service development</li> <li>■ Strategic planning</li> <li>■ Policy advice and development</li> <li>■ Improvement opportunities</li> </ul>
<b>Consultation</b>	Capacity specialises in infrastructure based management services including resource consent consultations.  Consultation with our communities ranges from discussions on water conservation to formal submissions on major capital projects.	<ul style="list-style-type: none"> <li>■ Resource consent applications</li> <li>■ Strategic planning and direction</li> <li>■ Water conservation planning</li> <li>■ Policy advice and development</li> <li>■ Improvement opportunities</li> </ul>
<b>Managing</b>	Managing water, wastewater and stormwater services for our clients requires reviews, investigations and assessments of the assets to ensure the best outcomes for both our clients and their residents and ratepayers are achieved.  We manage maintenance and operations contracts; prepare new contracts and manage the tendering processes for our clients.	<ul style="list-style-type: none"> <li>■ Programme management</li> <li>■ Project management</li> <li>■ Demand management</li> <li>■ Maintenance and operations</li> <li>■ Improvement opportunities</li> <li>■ Customer Service</li> </ul>
<b>Monitoring</b>	Monitoring our clients' assets for managing water, stormwater and wastewater services to continuously improve the networks.	<ul style="list-style-type: none"> <li>■ Water quality</li> <li>■ Environmental effects</li> <li>■ Service delivery</li> <li>■ Contract performance</li> <li>■ Improvement opportunities</li> </ul>
<b>Delivery</b>	To ensure timely and efficient delivery of services to our clients we prepare draft capital works programmes consistent with asset management plans. We have collaborative management agreements with these contractors which enable us to achieve efficiencies in service activities and costs that benefit our clients.	<ul style="list-style-type: none"> <li>■ Project management</li> <li>■ Service delivery</li> <li>■ Improvement opportunities</li> </ul>
<b>Coordination</b>	Support the achievement of an integrated water services network across the Wellington region to improve the region's competitive advantage through the quality of its water services.	<ul style="list-style-type: none"> <li>■ Emergency management and preparedness</li> <li>■ Codes of practice</li> <li>■ Design standards</li> <li>■ Regionalisation of water services delivery</li> </ul>

For the past seven years Capacity has consolidated its position and the services provided to the two shareholding councils. Since July 2008 Capacity has also managed the three water services for Upper Hutt City Council as a client.

The company will continually seek opportunities to integrate water, stormwater and wastewater activities within the Wellington region where such integration can deliver least cost, best practice outcomes to the benefit of all our clients. This coming year will again see a focus on expanding our client base by offering services to other councils in the greater Wellington region.

Capacity returns all financial benefits to its shareholders through a reduction in service delivery costs. Accordingly business expansion provides benefits to the company's shareholders by a reduction in overhead and staff costs, arising from apportioning of such costs over a broader customer base. This benefit can be further increased by the current contracted customer revenue exceeding delivery costs.

Capacity will continue to focus on key areas which drive us towards being the first choice in infrastructure services in the Wellington region. These include an in-house engineering design team and the expanding of the project supervision team to manage the Wellington City Council capital works programme. It also includes the continuation of the partnership relationship with GHD for the delivery of Hutt City Council capital projects and other tasks.

Capacity remains focused on a commitment to protect the environment. During 2011/2012, we will implement water conservation, leak detection and pressure management activities to manage water demand and reduce water usage in the cities. Strategies for stormwater management and flood mapping will be further enhanced to help manage risk of flooding. Implementation of wastewater overflow mitigation plans to reduce wet weather overloading of the wastewater systems will continue.

Capacity actively seeks opportunities to improve services in asset planning and contract management. We continue to manage more than 5,000km of pipes, over 120 reservoirs and more than 175 pump stations for three councils. During 2011/2012 Capacity is responsible for managing \$56 million of operational expenditure and \$41 million of capital expenditure for our clients.

Schedule One outlines how Capacity's costs are allocated across client councils based on planned work activities for 2011/2012.

Schedule Two lists the capital projects that will be managed by Capacity on behalf of its clients during the 2011/2012 year.

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

Capacity staff are highly skilled and experienced in water and drainage activities. They have extensive institutional knowledge of clients' infrastructure and a thorough understanding of working in the local government environment. We are proud of our strengths and recognise that the recruitment and retention of skilled personnel with water industry knowledge is essential to the ongoing success of our business.

# 5.0

## Our business objectives



Capacity's principal objectives are:

- the long term planning management and delivery of the water, stormwater and wastewater assets of its clients and across the wider Wellington region.
- the long term planning, management and delivery of high quality water, stormwater and wastewater service to its clients.
- to support the development and early implementation of an integrated system for the management of information required by Capacity for the effective management of water services.
- to support the achievement of integrated water services network across the Wellington region to improve the region's competitive advantage through the quality of its water services.
- to operate as a successful business, returning benefits to shareholders.
- to exhibit a sense of social and environmental responsibility by having regard to the interests of the community and to conduct its affairs in accordance with sound business practice.

Section 59 of the Local Government Act 2002 also provides that the principal objective of council controlled trading organisations is to achieve the objectives of the shareholder, be a good employer, and exhibit a sense of social and environmental responsibility by having regard to the interests of the community and to conduct its affairs in accordance with sound business practice.

In order to meet these objectives we focus our work on asset planning and development, capital project management, operations management, risk management, strategic directions and corporate governance.

# 6.0

## Activities for 2011/2012



### 6.1 ASSET PLANNING AND DEVELOPMENT

#### Water Conservation Plan

Increased demand from population growth, a changing built environment and the anticipated effects of climate change will affect the way that councils view water supply activities and the associated infrastructure.

Capacity will be managing the implementation of conservation and water efficiency activities that were developed for Wellington City Council to manage demand and reduce consumption across residential and commercial sectors. Successful activities will be implemented across Lower and Upper Hutt communities as desirable or appropriate. Successful initiatives from either of the client councils will be considered for application across the other councils.

Community engagement options will be evaluated so that we can be sure that the information being provided to residents and businesses is relevant and correct. Capacity should also be providing the information that allows them to act for themselves confidently.

#### Leak Detection

Leak detection programmes to reduce water wastage in Wellington and Hutt cities will continue into 2011/12. In addition to routine maintenance for pipe bursts, water supply zones will be proactively targeted to detect and repair unseen leakage. Installation of District Metering Areas (DMA) in Wellington and Hutt Valley will continue as an initiative to identify leakage. Creating a DMA involves dividing the distribution system into well-defined areas to measure daily consumption or minimum night instantaneous flows by installing flow meters at supply points and creating distinct boundaries. This will allow for a more focussed identification and response within reduced timelines across the leak detection programmes. This programme commenced in 2007 and is scheduled to be completed in 2017.

#### Water Pressure Management

The pilot pressure management project is currently being reviewed with a view to establish the effectiveness of reduction in water consumption. Based on the outcome, a decision will be made whether to introduce the pressure management to other zones in Wellington City.

#### Water Restrictions during summer

Summer water restrictions are enforced in Wellington, Lower Hutt, Upper Hutt and Porirua to manage water demand. Capacity coordinates the publicity and education of this activity for Wellington, Lower Hutt and Upper Hutt in conjunction with Greater Wellington Regional Council. This will continue in 2011/12.

## Stormwater Strategy / Policy

Over the past 12 months Capacity (on behalf of Hutt City Council) has been developing a stormwater strategy for the city. The purpose of this strategy is to “set out the principal stormwater issues facing Hutt City, and outline how these issues should be managed into the future”. The strategy details the city’s particular stormwater issues, assesses the risk and sets out management options. This year we will be taking the draft strategy to interested parties for comment; before reporting back to Hutt City councillors.

This year Capacity (on behalf of Upper Hutt City Council) will be preparing a draft stormwater policy for consideration by Upper Hutt City. This project is still in its infancy, with work currently being undertaken to define the scope of the policy and the most appropriate methodology.

## Stormwater discharge consents

Capacity, on behalf of Wellington City Council applied for a ‘global’ resource consent that would cover all of the City’s coastal marine area stormwater discharge points under a single consent. This provides for a more holistic approach to stormwater management.

The new consent calls for integrated catchment management plans, more interaction and knowledge sharing with the community and increased monitoring for the effects of stormwater on the marine ecologies.

During 2011/12 Capacity will be working through the planning for the development of the integrated catchment management plans and supporting mechanisms.

The increased and more diverse approach will see an increased knowledge base leading to integrated planning that includes effects-based solution investigation and development.

This work is expected to extend over a period of approximately seven years with a longer term consent application planned for 2020.

## Flood Hazard Mapping

Flood hazard mapping for Wellington City has been carried out for a number of years. The recent new predictions for sea level rise by the Ministry for the Environment has complicated flood hazard mapping, and assimilating these new predictions will result in some changes to procedures and maps during 2011/12.

## Wastewater Overflow Mitigation

Councils’ wastewater networks perform well during dry weather and moderate rainfall. However, like other wastewater networks in New Zealand and around the world, wastewater overflows can occur when the network becomes overwhelmed during heavy rainfall. This occurs predominantly through the entry of groundwater and stormwater into the wastewater network. Capacity manages the implementation of the wastewater overflow mitigation plans developed for Wellington and Hutt City Council. A pilot wastewater monitoring project completed for Miramar catchment led to

the development of a wastewater network model which has identified where additional investigation is required. During 2011/12 investigations will continue in the areas identified by the wastewater network model. Monitoring constructed overflow points will continue during 2011/12, the results will be used for developing an approach to reduce stormwater inflow and infiltration and its effects on the frequency of wastewater entering water bodies.

### Asset Management Plans and Improvement Tasks

Asset Management Plans for Wellington, Hutt and Upper Hutt will be completed for each council during 2011/12. Client councils will receive project plans with milestones and delivery dates for these plans during the year.

In 2010, we embarked on a project to improve our understanding of the condition of the buried pipe network through modelling, as this will help us in our renewal forecasting and asset valuation processes. We started off with a pilot study, focussing on wastewater pipes in selected catchments in Wellington. Building a robust model requires condition data such as relevant Closed Circuit Television condition grading information and maintenance history. The next step in this project is for us to review the Wellington Closed Circuit Television inspection strategy and data use, as well as refining the process for maintenance data capture.

We will also continue to review our pipe renewal prioritisation processes to ensure appropriate weighting is given to pipes which are contributing to poor performance of the network. An improved process has been set up for water pipes and this will be extended to stormwater and wastewater pipes.

Capacity will be developing a self assessment and benchmarking tool to help us better define the quality of our asset management plans. By finding an industry-agreed definition of a quality / advanced asset management plan, Capacity can begin benchmarking its own performance against that of its peers.

### Benchmarking

Building on the success of last year's 'cost per property' benchmarking survey we have expanded the survey this year by attracting more participants. We have continued to keep our survey simple and confidential, but this year will be attempting to benchmark the costs of delivering the three water services across both the 2009/10 and 2010/11 financial years.

### Emergency Preparedness

Capacity responds to civil emergencies in conjunction with our clients' emergency requirements. Capacity has recently revised the Emergency Management Plan which covers actions relating to emergency management (reduction, readiness, response and recovery) and the three water activities' assets for all client councils. The plan covers retro-fitting of facilities, network reinforcement, redundancy improvements, emergency exercises and training, and providing direction for long-term recovery. The physical works will take many years to implement, but long term planning will provide the guidance to ensure works are undertaken in a structured and prioritised manner.

Capacity commissioned an emergency management preparedness project in 2008 to improve the service response to the client councils' in an emergency event. A project team was convened, made up of Capacity and client councils' infrastructure and emergency management personnel. The project team was extended in 2010 to include representatives from Greater Wellington Council and Porirua City Council. The initial focus of the project included emergency response planning, emergency stores, securing and distributing stored water in the region's reservoirs and the prioritisation of critical infrastructure for seismic upgrade to meet community needs post event.

The Canterbury earthquakes have provided a new emphasis to the project, and highlighted the vulnerability of the region's bulk water supply and the need to procure alternative supplies of water until such time as the supply of bulk water can be resumed (up to 55 days in Wellington after an event). The project team commissioned consultants to carry out a study to identify and report on the risks and options available to each city to supply water to their communities. The draft report presented to the project team at a meeting held in November 2010 identified the risks and options available with recommendations for further investigation for the respective cities. Wellington and Porirua are most at risk with the longest bulk water supply outage and few options for 'in catchment' alternative supplies, other than storage and transportation of tankered water. Hutt and Upper Hutt communities will have the supply of bulk water restored earlier and have artesian and surface water supply options available. A further meeting of the project team is planned in 2011 to endorse the recommendations and prioritise funding for further investigations. Reports will be forwarded to the client councils outlining the recommendations and additional funding requirements for inclusion in the 2012/13 draft Annual Plans. The report will be updated as further recommendations following the Christchurch earthquake are identified.

## **6.2 CAPITAL PROJECT MANAGEMENT**

To ensure continued efficient delivery of services to our customers we prepare draft capital works programmes consistent with asset management plans. Capacity manages the capital works programme including design, obtaining necessary consents, tendering, contract administration, construction supervision and financial management.

In the 2011/12 year we will complete construction of the Messines Road reservoir project which will replace an aging undersized reservoir that has met the end of its economic life.

Flood protection work on Black Creek in Wainuiomata will be entering the final stages in 2011/12 with the replacement of the Fitzherbert Road stormwater culvert which restricts water flow in the stream during heavy rain.

To reduce engineering consultancy expenditure and to expand our project supervision capability Capacity engaged in a joint venture agreement with GHD in 2009 to provide in-house engineering consultancy services. The venture has been working well with the design programme and the in-house engineering design team will be relocated to Capacity offices from 1 July 2011.

### **6.3 OPERATIONS MANAGEMENT**

Capacity manages operations and maintenance activities for all our client councils. The activities are managed through formal contracts with specialised service providers to ensure that work is carried out to appropriate standards within required timeframes.

Following an extensive tendering process, Capacity entered into a formal contract with City Care Ltd on 1 July 2009 for the operation and maintenance of the water supply networks for Wellington, Hutt and Upper Hutt cities and drainage networks for Hutt and Upper Hutt cities. The performance based contract is for an initial five year term and has a strong emphasis on working collaboratively with Capacity to deliver world class service while seeking ongoing best value through innovation and continuous improvement.

Key performance measures are used to measure operational performance against industry accepted benchmarks and key operational procedures are continuously reviewed as part of business system audits (ISO accreditation). The annual performance review for the first year of the contract has resulted in City Care being awarded an additional one year contract extension available under the contract.

Capacity also oversees the management of wastewater treatment plant operating contracts on behalf of our clients who operate four wastewater treatment plants each with their own resource consents and operational issues. In 2011/12 Capacity will continue working with the contractor UWI at the Moa Point plant to implement required improvements to meet renewed resource consent conditions including disinfection of wet weather flows bypassing the full treatment process.

### **6.4 RUGBY WORLD CUP 2011**

With the Rugby World Cup event in 2011, all capital works that may impact on the fixtures have been identified and programmed to be completed either before 9 September, or not undertaken until after the tournament concludes on 23 October 2011.

Capacity will ensure that all planned maintenance that may impact on fixtures will be identified and programmed to be completed before the tournament commences in September. This will minimise reactive maintenance required on the network during the event. If reactive maintenance is required it will be designed to minimise any disruptions. Capacity will provide regular updates and active monitoring through the Service Level Agreement reporting process of all work that may impact upon Rugby World Cup 2011.

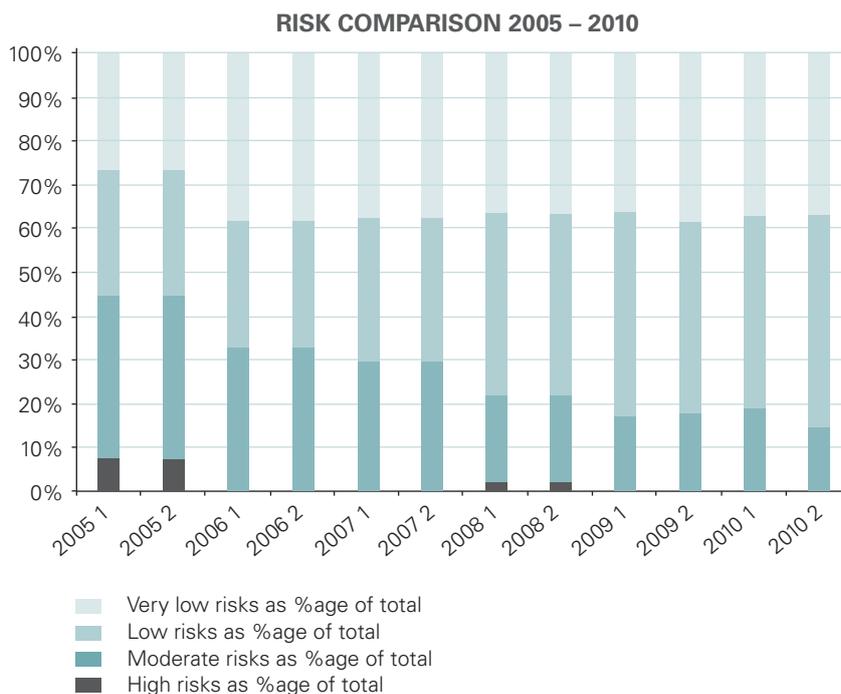
## 6.5 RISK MANAGEMENT

Capacity manages risk at the corporate (or organisational) risk and operational activity risk levels.

Capacity has a corporate risk management framework which was developed in 2005. This framework has been reviewed and updated to ensure compliance with AS/NZS ISO 31000:2009.

Corporate risks are identified in terms of Capacity’s key business objectives. The risk management framework identifies risk management strategies for all risks and these are reassessed six monthly by the Capacity Board’s Audit and Risk Committee.

The change in Capacity’s risk profile over time is shown in the following graph.



(No risks have been ranked high since 2008)

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

RISK	CONSEQUENCE	LIKELIHOOD	MITIGATION MEASURES
<b>Inability to manage efficiently due to use of different AMS systems (Corporate)</b>	<b>High/Very high</b> Difficulty in basing key decisions on hard data leading to possibility of poor quality decision making	<b>Moderate</b> Reflects Capacity needing to use three different systems for managing asset management data for the three Councils	<ul style="list-style-type: none"> <li>Definition of business needs/current problem</li> <li>Consultation with client councils</li> <li>Issues identification (technical and non technical)</li> <li>Business Process Analysis to preferred solution</li> </ul>
<b>Inability to attract and retain quality staff (Corporate)</b>	<b>High/Very high</b> Staff are primarily responsible for results produced by Capacity. Good staff are likely to produce good results	<b>Minimal</b> Capacity is increasingly seen as a desirable place to work. Current job market means Capacity can choose when filling vacancies	<ul style="list-style-type: none"> <li>Have a clear vision for Capacity</li> <li>Define values and behaviours</li> <li>Provide training and development opportunities</li> <li>Provide competitive remuneration</li> </ul>
<b>Inadequate management of risks associated with key activities (water supply, wastewater, stormwater)</b>	<b>Very high</b> Inadequate risk management could result in widespread failure of service delivery, injury and financial loss	<b>Unlikely</b> Capacity has activity risk management procedures in place which could be considered industry leading	<ul style="list-style-type: none"> <li>Activity Risk Management Plans</li> <li>Use of approved contractors</li> <li>Specifications for physical works</li> <li>Emergency Management Planning</li> <li>Health and Safety Management Plans</li> <li>Contract Audits</li> </ul>
<b>Contamination gets into water mains (Water Supply)</b>	<b>Catastrophic</b> Serious contamination could result in widespread illness	<b>Moderate</b> Good procedures in place to prevent contamination entering water supply system	<ul style="list-style-type: none"> <li>Approved PHRMP for water supply</li> <li>FAC residual in reticulation</li> <li>Testing of water supply in reticulation</li> <li>Backflow prevention programme</li> <li>Use of approved contractors</li> <li>Specifications for construction and repairs includes requirements for flushing and disinfection</li> </ul>
<b>Excessive entry of stormwater to the wastewater system (Wastewater)</b>	<b>Major</b> Excessive entry of stormwater leads to wastewater overflows with adverse health, environmental and cultural implications	<b>Likely</b> This is a problem in most urban wastewater systems despite programmes to improve infrastructure	<ul style="list-style-type: none"> <li>Infiltration/Inflow Programme</li> <li>Asset Renewal Programme</li> <li>Asset Development Programme</li> <li>Beach closures</li> </ul>
<b>Blockage of intakes (Stormwater)</b>	<b>High</b> Blockage of intakes renders stormwater drains inoperative. Overland flows have high potential to cause property damage	<b>Possible</b> Ability to control amount of debris that will potentially enter intakes during major storms is limited	<ul style="list-style-type: none"> <li>Preventive maintenance programmes</li> <li>Target standards for response</li> <li>Inspection programme for critical assets</li> </ul>

A comprehensive internal audit programme is carried out (a programme of planned audits in addition to random spot audits) in conjunction with Capacity's ISO 9001:2000 certification. External audits are carried out six monthly as part of Capacity's quality certification (ISO 9001).

'Activity Risk' is risk associated with the delivery of water supply, wastewater and stormwater services and is addressed in the Asset Management Plans. Capacity has prepared Activity Risk Management Plans for Hutt and Wellington City as complementary documents to the Asset Management Plans to cover risk at a greater level of detail than is practical in the Asset Management Plans. The preparation of Activity Risk Management Plans is a risk mitigation strategy identified in the Capacity corporate risk management framework.

# 7.0

## Key performance indicators



SERVICE CATEGORY	SERVICE ASPECT	SERVICE OBJECTIVE	PERFORMANCE TARGET
<b>Service quality</b>	Service reliability	To provide a reliable water supply, stormwater, wastewater service	Fewer than four unplanned supply cuts (pipe burst) per 1000 connections
			Fewer than 1.2 wastewater incidents reported per kilometre of wastewater reticulation pipeline.
			Number of dwelling flood notifications received as a result of a 1:50 year flooding event (or less).
			Water quality compliant with NZ drinking water standards.
<b>Customer focus</b>	Responsiveness to service request	To respond promptly to service request	97 per cent response to all requests for service within one hour of notification
	Timeliness and quality of asset management plan for councils	Timeliness and quality of asset management plan	Completion of approved asset management plan within agreed timeframe. Complete report by Dec 2011 of action plan for supply of water following an emergency event.
<b>Cost effectiveness</b>	Operating efficiency	To provide a cost-effective service	Trend of the operating cost of delivering water supply, wastewater and stormwater services relative to a national average
<b>Financial, Project and Network Management</b>	Financial, Project and Network Management	To manage operating and capital projects within budgets and timeframes	Deliver operating projects within budget and timeframes
		To manage Capacity within budget	Deliver capital projects within budget and timeframes Manage Capacity within budget
<b>Legislative, financial, technical, compliance</b>	Legislative, financial, technical, compliance	To comply with relevant standards, resource consents and legislation	Full compliance with relevant standards, resource consents and legislation

Any performance measure below target (or as requested by shareholders) will be included and commented upon when reporting upon key performance indicators.

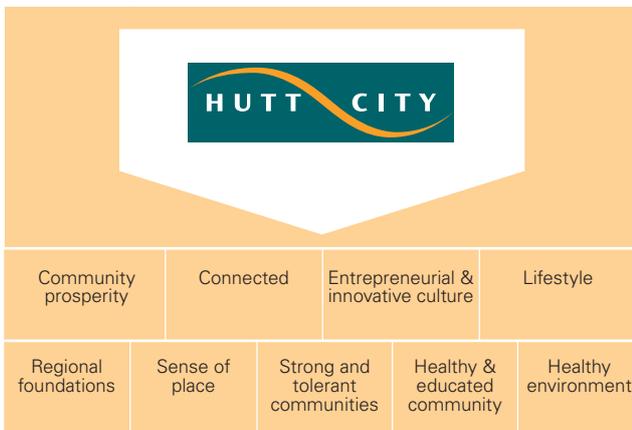
# 8.0

## Capacity's contribution to council and community outcomes



Capacity contributes to shareholder council and community outcomes for Wellington City, Hutt City and Upper Hutt city councils through the work that we do, in order to meet the vision of these cities. Council and community outcomes are the community's overall aspirations for the city.

They relate to all aspects of community living – its environment, economy, transport system, and social, economic, environmental and cultural wellbeing. The following diagram shows the similarities between both councils and the table below details our contribution towards these.



**Connected** – Capacity provides staff with remote access to computer networks for quicker and more accurate site based management.

**Sense of place** – Capacity will ensure that above ground infrastructure is designed to be compatible with its surroundings and is part of a quality built environment.

**Healthy, sustainable and educated communities** – Capacity will manage the provision of reliable, cost effective water services that will ensure network practices are based on long term sustainable values with a community health focus. Capacity will participate in the community events that educate on conservation techniques particularly with regard to water. Capacity will develop a sustainability policy to encourage staff to meet current and future business demands.

**Community prosperity and competitiveness** – Through our asset planning framework Capacity will undertake long term planning and policy development to ensure infrastructure networks will grow and perform to meet growing demand and customer expectations. Capacity will operate at an efficient level ensuring that staff have the appropriate skills and knowledge to meet current and future business demands.

**Healthy and safe environment** – Capacity will ensure that drinking water and wastewater disposal is maintained at a high standard and in accordance with resource consent and regional plan requirements. Public safety will be ensured by insisting on highest delivery of health and safety practice on all work sites.

**Resilient living space with minimal disruption** – Capacity will manage infrastructure projects to minimise or avoid disruption to event programmes. Capacity will provide quality service to protect the streams, harbour and coastline and people.

**Entrepreneurial and innovative** – Capacity will use best practices and continuous development to ensure innovation in network processes and practices. Capacity will use innovative practices to reduce the cost of service delivery and meet established savings targets. Capacity will seek to grow the business and thereby reduce costs to shareholders through spreading costs over a broader business base.

**Regional foundations with more active engagement** – Capacity will assist in the development of a regional approach to the delivery of water. Capacity will seek and welcome feedback from the community on water services.

In delivering contract based water services to Upper Hutt City, Capacity will ensure the quality and timeliness of delivery will also accord with Upper Hutt City's stated community outcomes.

# 9.0

## Corporate governance



Capacity is a council controlled trading organisation as defined by Section 6 of the Local Government Act 2002. Capacity is also covered by the Companies Act 1993 and governed by law and best practice. This statement provides an overview of Capacity's main corporate governance policies, practices and processes adopted by the Board.

### The Board of Directors

The board of directors consists of six members, with each shareholder separately appointing up to two directors and jointly appointing up to two independent directors. To ensure that Capacity has the continuity of the relevant knowledge, skills and experience, the expiry dates of their terms of office vary for each director. Each director can serve a maximum of six years.

HCC Councillor David Bassett replaces Ray Wallace who completed his second term on 31 December 2010 and the second term of Board Chair Peter Allport expires on 31 December 2013. Peter Leslie and WCC Councillor Andy Foster complete their second term on 31 October 2013. The first three year terms of John Strahl and Ian Hutchings expire during 2012.

Board performance reviews have been undertaken in the 2010/11 year and will be undertaken annually, using the Institute of Directors' Board evaluation service.

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

Unanimous approval of the Board is required for:

- 1.1. significant changes to the company's structure
- 1.2. extraordinary transactions (entering into any contract or transaction except in the ordinary course of business)
- 1.3. delegation of Directors' powers to any person
- 1.4. any decision to diversify business into a business not forming part of or being naturally ancillary to the core business of managing water services
- 1.5. major transactions including establishment and renewal of contracts for delivery of services
- 1.6. disputes (commencing or settling any litigation, arbitration or other proceedings which are significant or material to the company's business)
- 1.7. borrowings in a manner that materially alters the company's banking arrangements, advancing of credit (other than normal trade credit) exceeding \$5,000 to any person except for making deposits with bankers, or giving of guarantees or indemnities to secure any person's liabilities or obligations
- 1.8. sale of assets (sell or dispose of fixed assets for a total price per transaction exceeding \$100,000 or a series of aggregated transactions exceeding \$200,000)

- 1.9. capital expenditure (other than in the ordinary course of doing business) at a total cost to the company, per transaction, exceeding \$100,000 or a series of aggregated transactions exceeding \$200,000.

The agreement of the Shareholders is required for:

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

### **Ratio of consolidated shareholders funds to total assets**

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

### **Accumulated profits and capital reserves**

The current structure of the company does not enable Capacity to pay a dividend in the 2011/12 financial year or succeeding years.

### **Information to be provided to shareholders**

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

In particular Capacity will provide:

- 1 A statement of intent detailing all matters required under the Local Government Act 2002, including financial information for the next three years.
- 2 Within two months after the end of the first and third quarters Capacity will provide verbal shareholders' briefings.
- 3 Within two months after the end of the first half of each financial year, the Company shall provide a report on the operations of Capacity to enable an informed assessment of its performance, including financial statements (in accordance with section 66 of the LGA 2002).
- 4 Within three months after the end of each financial year, Capacity will provide an annual report which provides a comparison of its performance with the Statement of Intent, with an explanation of any material variances, audited consolidated financial statements for that financial year, and an auditors report (in accordance with sections 67, 68 and 69 of the LGA 2002).

Note: Due to the extensive reporting requirements undertaken in accordance with the Service Level Agreements with client councils, the reliance on six monthly reports fully meets the LGA's requirements and is appropriate in the circumstances.

### **Share acquisition**

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

### **Compensation from Local Authority**

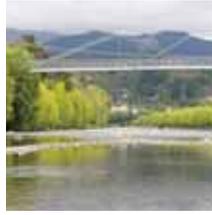
It is not anticipated that the company will seek compensation from any local authority other than in the context of normal commercial contractual relationships.

### **Commercial value of the shareholders' investment**

The net value of the shareholders' investment in the company is estimated to be valued at \$353,000 as at 31 March 2011. This value shall be assessed by the Directors on completion of the annual accounts or at any other time determined by the Directors. The method of assessment will use the value of shareholders funds as determined in the annual accounts as a guide.

# 10.0

## Forecast Financial Statements



### Forecast Statement of Comprehensive Income

FOR THE FINANCIAL YEARS ENDING 30 JUNE 2012, 30 JUNE 2013, 30 JUNE 2014

	Forecast 2010/2011 000's	1st Qtr 1-Jul – 30 Sep 000's	2nd Qtr 1 Oct – 31 Dec 000's	3rd Qtr 1 Jan – 31 Mar 000's	4th Qtr 1 Apr – 30 Jun 000's	Budget 2011/2012 000's	Budget 2012/2013 000's	Budget 2013/2014 000's
<b>REVENUE</b>								
Operations	7,352	1,960	1,964	1,960	1,997	7,880	8,077	8,208
<b>TOTAL REVENUE</b>	<b>7,352</b>	<b>1,960</b>	<b>1,964</b>	<b>1,960</b>	<b>1,997</b>	<b>7,880</b>	<b>8,077</b>	<b>8,208</b>
<b>EXPENDITURE</b>								
General Expenditure	1,546	412	412	412	449	1,685	1,727	1,770
Personnel Expenditure	5,770	1,531	1,535	1,531	1,531	6,127	6,281	6,437
Depreciation	36	17	17	17	17	67	67	0
Interest	–	1	1	1	1	2	2	2
<b>TOTAL EXPENDITURE</b>	<b>7,352</b>	<b>1,960</b>	<b>1,964</b>	<b>1,960</b>	<b>1,997</b>	<b>7,880</b>	<b>8,077</b>	<b>8,208</b>
<b>NET SURPLUS/(DEFICIT) BEFORE TAXATION</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Tax expense/(benefit)	0	0	0	0	0	0	0	0
<b>NET SURPLUS/(DEFICIT) AFTER TAXATION</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

Note:

Budget for Strategic Projects (see Section 3)

	1st Qtr 1-Jul – 30 Sep 000's	2nd Qtr 1 Oct – 31 Dec 000's	3rd Qtr 1 Jan – 31 Mar 000's	4th Qtr 1 Apr – 30 Jun 000's	Budget 2011/2012 000's	Budget 2012/2013 000's	Budget 2013/2014 000's
	25	35	35	40	135	100	0

## Forecast Statement of Financial Position

FOR THE FINANCIAL YEARS ENDING 30 JUNE 2012, 30 JUNE 2013, 30 JUNE 2014

	1st Qtr 1-Jul – 30 Sep 000's	2nd Qtr 1 Oct – 31 Dec 000's	3rd Qtr 1 Jan – 31 Mar 000's	4th Qtr 1 Apr – 30 Jun 000's	Budget 2011/2012 000's	Budget 2012/2013 000's	Budget 2013/2014 000's
<b>CURRENT ASSETS</b>							
Cash	392	397	225	327	327	335	343
Prepayments	71	32	143	104	104	107	110
Trade and other receivables	751	756	751	773	773	792	812
<b>Current Assets</b>	<b>1,214</b>	<b>1,185</b>	<b>1,120</b>	<b>1,203</b>	<b>1,203</b>	<b>1,234</b>	<b>1,264</b>
<b>NON CURRENT ASSETS</b>							
Property, plant and equipment	62	45	28	12	12	0	0
<b>Non current assets</b>	<b>62</b>	<b>45</b>	<b>28</b>	<b>12</b>	<b>12</b>	<b>0</b>	<b>0</b>
<b>TOTAL ASSETS</b>	<b>1,276</b>	<b>1,231</b>	<b>1,148</b>	<b>1,215</b>	<b>1,215</b>	<b>1,234</b>	<b>1,264</b>
<b>CURRENT LIABILITIES</b>							
Trade and other payables	576	441	369	498	498	506	527
GST payable	68	135	122	133	133	137	140
Annual leave	315	330	245	270	270	277	284
<b>TOTAL LIABILITIES</b>	<b>959</b>	<b>906</b>	<b>736</b>	<b>902</b>	<b>902</b>	<b>920</b>	<b>951</b>
<b>NET WORKING CAPITAL</b>	<b>317</b>	<b>324</b>	<b>412</b>	<b>313</b>	<b>313</b>	<b>313</b>	<b>313</b>
<b>EQUITY</b>							
Share Capital	600	600	600	600	600	600	600
Retained Earnings	(283)	(276)	(188)	(287)	(287)	(287)	(287)
<b>TOTAL EQUITY</b>	<b>317</b>	<b>324</b>	<b>412</b>	<b>313</b>	<b>313</b>	<b>313</b>	<b>313</b>

## Forecast Statement of Cash Flows

FOR THE FINANCIAL YEARS ENDING 30 JUNE 2011, 30 JUNE 2012, 30 JUNE 2013

	1st Qtr 1 Jul – 30 Sep 000's	2nd Qtr 1 Oct – 31 Dec 000's	3rd Qtr 1 Jan – 31 Mar 000's	4th Qtr 1 Apr – 30 Jun 000's	Budget 2011/2012 000's	Budget 2012/2013 000's	Budget 2013/2014 000's
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>							
Cash was provided from:							
Operating receipts	2,080	2,254	2,258	2,275	8,868	9,250	9,257
GST receivable	(232)	(135)	(392)	(254)	(1,013)	(1,038)	(1,064)
Cash was disbursed to:							
Payment to suppliers	(1,930)	(2,113)	(2,038)	(1,920)	(8,002)	(8,203)	(8,184)
<b>NET CASH INFLOW/ (OUTFLOW) FROM OPERATING ACTIVITIES</b>	<b>(82)</b>	<b>5</b>	<b>(172)</b>	<b>101</b>	<b>(147)</b>	<b>8</b>	<b>8</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES:</b>							
Cash was disbursed to:							
Purchase of fixed assets	(16)	0	0	0	(16)	0	0
<b>NET CASH INFLOW/ (OUTFLOW) FROM FINANCING ACTIVITIES</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>NET CASH INFLOW / (OUTFLOW)</b>	<b>(98)</b>	<b>5</b>	<b>(172)</b>	<b>101</b>	<b>(163)</b>	<b>8</b>	<b>8</b>
OPENING CASH BALANCE	489	392	397	225	489	327	335
CLOSING CASH BALANCE	392	397	225	327	327	335	343

# 11.0

## Statement of accounting policies



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

### Cautionary note

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

### Nature of prospective information

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

### Statement of compliance with International Financial Reporting Standard

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

### Reporting entity

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

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

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

### Reporting period

The reporting period covers the 12 months from 1 July 2011 to 30 June 2012. Comparative projected figures for the year ended 30 June 2012 and 30 June 2013 are provided.

## Specific accounting policies

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

The measurement basis applied is historical cost.

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

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 2011 under the revised standard. Items of other comprehensive income presented in the Statement of Comprehensive Income were previously recognized 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 who are 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 of more than 12 months are recognised initially at fair value less transaction costs and subsequently measured at amortised cost using the effective interest rate method. Amortisation is recognised in the Statement of Comprehensive Income as is any gain or loss when the liability is derecognised. Financial liabilities entered into with duration less than 12 months are recognised at their nominal value.

## **f) Property, plant and equipment**

### *Recognition*

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

### *Measurement*

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

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

### *Impairment*

The carrying amounts of property, plant and equipment are reviewed at least annually to determine if there is any indication of impairment. Where an asset's recoverable amount is less than its carrying amount, it 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	7.80–48.0 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 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 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 Comprehensive Income in the period in which they are incurred. Payments made under operating leases are recognised in the Statement of Comprehensive Income on a straight-line basis over the term of the lease. Lease incentives received are recognised in the Statement of Comprehensive Income as an integral part of the total lease payment. Leases which effectively transfer to the lessee substantially all the risks and benefits incident to ownership of the leased item are classified as finance leases.

**l) 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 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 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.



# 12.0

## Schedule One

Capacity's cost allocation  
summary 2011/2012



		CAPACITY Direct costs				
		Strategic and asset planning	Investigation, monitoring and development	Capital project management	Operations management	Total
		\$000	\$000	\$000	\$000	\$000
WATER	WCC	191	530	949	676	2,346
	HCC	105	31	39	355	529
	UHCC	114	10	18	207	349
	<b>Total</b>	<b>410</b>	<b>570</b>	<b>1,005</b>	<b>1,239</b>	<b>3,224</b>
WASTEWATER	WCC	129	464	708	705	2,006
	HCC	190	64	84	234	571
	UHCC	61	11	16	82	171
	<b>Total</b>	<b>380</b>	<b>539</b>	<b>808</b>	<b>1,021</b>	<b>2,748</b>
STORMWATER	WCC	129	258	574	186	1,148
	HCC	188	31	93	225	536
	UHCC	57	12	13	141	223
	<b>Total</b>	<b>374</b>	<b>301</b>	<b>681</b>	<b>552</b>	<b>1,908</b>
TOTAL NETWORK	WCC	450	1,252	2,231	1,568	5,501
	HCC	482	125	215	814	1,636
	UHCC	232	34	47	430	743
	<b>Total</b>	<b>1,164</b>	<b>1,410</b>	<b>2,494</b>	<b>2,812</b>	<b>7,880</b> ****
		% of controllable costs				8.02%
		% of grand total costs				4.60%
TOTAL NETWORK ASSET VALUES (OPTIMIZED REPLACEMENT COST)		\$000	WCC <b>2,153,702</b>	HCC <b>948,097</b>	UHCC <b>339,558</b>	Total <b>3,441,357</b>

\*net of WCC consultancy savings

\*\* Excludes revenue, depreciation, interest and other council controlled costs

\*\*\* Includes revenue, depreciation, interest, and other council controlled costs

\*\*\*\* Excludes Strategic Projects budget due to uncertainty of funding.

**CONSULTANTS/CONTRACTOR COSTS  
MANAGED BY CAPACITY ON BEHALF OF  
RATEPAYERS (INCLUDES CAPACITY COSTS)**

Operational programmes	Capital programmes
\$000	\$000
19,027	13,123
9,405	2,974
3,201	1,240
<b>31,633</b>	<b>17,337</b>
14,727	7,918
1,724	5,670
2,972	1,246
<b>19,422</b>	<b>14,834</b>
3,588	3,675
1,820	4,588
385	924
<b>5,793</b>	<b>9,187</b>
37,341	24,716
12,948	13,232
6,558	3,411
<b>56,848</b>	<b>41,359</b>
57.89%	42.11%
<b>130,122</b>	<b>41,359</b>
75.88%	24.12%

**TOTAL COST TO  
RATEPAYERS**

\$000
32,150
12,379
4,441
<b>48,970</b>
22,645
7,394
4,218
<b>34,257</b>
7,263
6,408
1,309
<b>14,980</b>
62,057 *
26,180
9,969
<b>98,207 **</b>
100.00%
<b>171,481 ***</b>
100.00%

**Capacity annual costs as a % of asset values**

**0.23%**

# 13.0

## Schedule Two

Capacity's capital project  
delivery 2011/2012



These capital projects will be managed by Capacity on behalf of its clients during the 2011/2012 year. The project lists do not include Capacity management costs. These projects and funding are indicative only as the Councils' annual plan public consultation process may change priorities.

WELLINGTON CITY COUNCIL
<b>Project Name</b>
<b>WATER SUPPLY</b>
Design funds for 2012/13 projects
Funds for urgent works
Hataitai, Mt Victoria and CBD watermain renewals
Johnsonville, Tawa and Wilton watermain renewals
Karori water main renewals
Khandallah & Ngaio water main renewals
Miramar and Strathmore watermain renewals
Sutherland Cres (no34 to 44) watermain renewal (on new line)
Seatoun watermain renewals
Water model project
Forward planning – investigations/designs
Ladder and hatch upgrade programme reservoirs
Pump station renewals – Maupuia
Pump station renewals – Miramar Nth
Pump station renewals – Townsend
Reservoir renewal – Messines Road
Reservoir zone valving
Seismic strengthening
Urgent works/minor works (pump stations/reservoirs)
Area water meter installation – Southern and Northern suburbs
Tasman St watermain upgrade project
CBD Reservoir project design
Reservoir pipe work – seismic coupling installation
Water network maintenance renewal
<b>Total \$13,123,000</b>

WELLINGTON CITY COUNCIL	
Project Name	
<b>STORMWATER</b>	
Bassett Rd (no 77) to Middleton Rd (no 82 to no 106) stormwater upgrade	
Kilbirnie Cres grit trap construction upgrade	
Abermarle Rd (no. 41) stormwater renewal (with sewer)	
BCLS related projects	
Davidson Cres (no76), Tawa stormwater renewal	
Design funds for 12/13 projects	
Funds for urgent/minor works	
Glen Rd (no 19 to no 33) stormwater renewal	
Condition assessment of stormwater culverts	
Hanson St (no 144 to no 196) stormwater renewal (with sewer)	
Karori Rd (no 294) stormwater renewal	
Kemp St, Tacy St to Rongotai Rd stormwater renewal	
Newlands Rd (no 124 to no 161) stormwater renewal	
Rixon Gr (no 7 to no 11) stormwater renewal (with sewer)	
Nottingham St (no 86 to no 92) stormwater renewal (with sewer)	
Oban St (no 76) stormwater renewal	
Tasman St (no 190) stormwater renewal (with sewer)	
Upper Bourke St (no 15 to no 19) stormwater renewal	
Upper Watt St (no 24 to no40) stormwater renewal (with sewer)	
<b>Total \$3,675,000</b>	

WELLINGTON CITY COUNCIL

**Project Name**

**WASTEWATER**

Adams Tce (no 2 to no 4) sewer renewal
Albemarle Rd (no 41) sewer renewal (with stormwater)
Alfred St sewer renewal
BCLS related projects
Central Tce (no 2 to 20) sewer renewal
Condition assessment of interceptor
Condition assessment of pump stations
Coutts St (no 204 to no 254) sewer renewal
Delhi Cres (no 17 to no 27) sewer renewal stage 2
Design funds for 12/13 projects
Devon (no 1 to no 20) and Essex sewer renewal
Devonshire Rd (no 70 to no 77) sewer renewal
Funds for urgent/minor works (pipes)
Glen Rd (no 1 to no 20) sewer renewal
Glen Rd (no 29 to no 74) sewer renewal
Grosvenor Tce ( no 9) & Goldies Brae sewer renewal
Grove Rd (no 14 to no 31) sewer renewal
Hanson St (no 144 to no 196) sewer renewal (with stormwater)
Harrold St (no 10 to no 14) sewer renewal
Homewood Ave (no 4) to Nottingham St (no 1) sewer renewal (with stormwater)
Kelburn Pde (no 52 to no 84) & Glasgow St (no 20 to no 28) sewer renewal
Kent Tce pump station renewal
King St (no 10 to no 21) sewer renewal
Lonsdale Cres (no 5 to no 37) sewer renewal
Lower North Tce sewer renewal
Marsden Ave (no 7) sewer renewal
Mein St (no 23 to no 43) sewer renewal
Minor work (telemetry)
Mt Pleasant Rd (no 2 to no 12) sewer renewal
North Tce (no 4 to 18) sewer renewal
Nottingham St (no 86 to no 92) sewer renewal (with stormwater)
Onepu Rd (no 115 to no 209) and Apu Cre (no 104 to no 133) sewer renewal
Pump station minor works/urgent works
Raroa Rd (no 29 to no 50) and Norway St (no 58 to no 72) sewer renewal
Raroa Rd (no 82 to no 111) sewer renewal
Resource consent projects – Moa Point Treatment Plant
Resource consent projects – Western Treatment Plant
Rixon Gr (no 7 to no 11) sewer renewal (with stormwater)
Rugby St and Basin Reserve sewer renewal
Russell Tce (no 50 to no 72) sewer renewal
Spencer St (no 10) sewer renewal
Tasman St (no 190) sewer renewal (with stormwater)
Thorndon Quay pump station 11 renewal
Thurle St sewer renewal
Tirangi Rd (no 63 to no 75) sewer renewal
Upland Rd (no 72 to no 28) sewer renewal
Upper Watt St (no 24 to no 40) sewer renewal (with stormwater)
Vallance St (no 16) sewer renewal
Waiapu Rd (no 31 to no 49) sewer renewal
Wallace St (no 145) sewer renewal
Waru St (no 2) sewer renewal
Wigan St sewer renewal
Willeston St pump station renewal
Oriental Bay pump station 2 upgrade project
<b>Total \$7,918,000</b>

HUTT CITY COUNCIL	
<b>Project Name</b>	
<b>WATER SUPPLY</b>	
Bore in the square development project	
Kingsley St Reservoir outlet main renewal	
Konini Reservoir seismic upgrade	
Lord St watermain renewal	
Miromiro Rd watermain and ridermain renewal	
Network minor works	
Pump station minor works	
Rata St watermain and ridermain renewal	
Reservoir minor works	
Robson St watermain renewal	
SCADA renewals	
Wheatley St watermain renewal	
Wilkie Cres watermain and ridermain renewal	
<b>Total \$2,974,000</b>	
<b>STORMWATER</b>	
Awamutu Stream works	
Black Creek project stage 3	
Boulcott stopbank project – HCC contribution	
Dowse Dr stormwater improvement project	
Godley St – Bauchop St stormwater main renewals	
Jackson St stormwater main renewals	
Jessie St (Jackson to The Esplanade) stormwater main renewal	
Manuka St stormwater main renewals	
Network minor works	
SCADA renewals	
Pump station minor works	
<b>Total \$4,588,000</b>	
<b>WASTEWATER</b>	
Local network minor works	
Local pump station minor works	
Mahina Bay pumping station flowmeter	
Naenae wastewater main renewals	
Pressure testing of wastewater mains	
SCADA renewals	
Trunk DBO asset renewal fund	
Trunk DBO network renewals	
Trunk DBO pipeline renewal	
Trunk DBO type A network development	
Trunk Non-DBO Te Marua pumping station flowmeter	
Trunk Non DBO minor works	
Trunk Resource Consent renewals	
Trunk type A asset development	
Wainuiomata Catchment wastewater main renewals	
<b>Total \$5,670,000</b>	

UPPER HUTT CITY COUNCIL	
<b>Project Name</b>	
<b>WATER SUPPLY</b>	
Area water meter telemetry	
Craig Gr watermain renewal	
Dowling Gr watermain renewal	
Dunns St watermain renewal (on new line)	
Emerald Hill pressure management project	
Fergusson Dr watermain renewal	
Forest Rd watermain renewal	
King St watermain renewal	
Palfrey St watermain renewal	
Ranfurly St watermain renewal	
Seddon St emergency bore supply (on new line)	
Waimarama Gr watermain renewal	
Water Supply telemetry upgrade	
<b>Total \$1,240,000</b>	
<b>STORMWATER</b>	
Davis Cres stormwater main renewal	
Hudson Ave stormwater main renewal	
Park St stormwater main renewal	
Station Cres stormwater main renewal	
Stormwater telemetry upgrade	
Exchange St stormwater main renewal	
<b>Total \$924,000</b>	
<b>WASTEWATER</b>	
Bracken St /Ward St wastewater main renewal	
Courtenay Rd wastewater main renewal	
Pinehaven Rd wastewater main renewal	
Pump station renewal	
Tararua St/Merton St / Ruahine St wastewater main renewal	
Tennyson St wastewater main renewal	
Trunk DBO capital project	
Wastewater telemetry upgrade	
<b>Total \$1,246,000</b>	

## Directory



### **DIRECTORS**

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

### **CHIEF EXECUTIVE**

David Hill

### **REGISTERED OFFICE**

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### **AUDITOR**

Audit New Zealand on behalf of the  
Auditor-General

### **BANKERS**

The National Bank of New Zealand Limited  
Wellington  
New Zealand

### **SOLICITORS**

DLA Phillips Fox  
50-64 Customhouse Quay  
Wellington  
New Zealand

