

Statement of Intent 2008-09
Wellington Water Management Limited
trading as Capacity

21 May 2008

Contents

Purpose	3
Introduction	3
A word from the Chairman	4
Focusing on the future.....	5
Our business	6
Our business objectives	6
Activities for 2008/2009	7
Focus on planning	7
Focus on consultation	7
Focus on managing	7
Focus on monitoring	7
Focus on delivery	9
Focus on growing our own business.....	9
Capacity's contribution to council and community outcomes	10
Corporate governance.....	12
The Board of Directors	12
Ratio of Consolidated Shareholders Funds to Total Assets.....	14
Accumulated profits and capital reserves	14
Information to be provided to shareholders	14
Share acquisition.....	14
Compensation from Local Authority	14
Commercial value of the shareholders' investment.....	14
Management Team.....	15
Forecast financial statements.....	15
Forecast Statement of Financial Performance	15
Forecast Statement of Financial Position.....	16
Forecast Statement of Cash Flows	16
Statement of Accounting Policies	17
Key performance indicators.....	23
Performance measures for Wellington City Council 2008/09.....	23
Performance measures for Hutt City Council 2008/09	24
Directory	27

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 2008 to 30 June 2009 and the following two financial years.

Introduction

Capacity is a management company specialising in the delivery of infrastructure based services. Under the Local Government Act (2002) Capacity operates as a Council Controlled Organisation and is answerable to our two shareholders, Hutt City Council and Wellington City Council. Our Statement of Intent describes our organisation and its objectives and activities for the next three years, reflects the objectives of our shareholders, and defines our performance measures and budgets.

Our staff are committed to finding better and more efficient ways of providing for water, stormwater and wastewater management services, and at the same time we are developing our products for future growth as we look to expand into other markets.

During 2008/2009 we will continue to implement the business improvement project aimed at improving our asset management efficiency and effectiveness. This will further improve our service level delivery to our customers as well as improve our internal capability.

A word from the Chairman

In the coming year we will be continuing to focus on the two key areas which drive us towards being *the first choice in infrastructure services* in the Wellington region. These are the recruitment, retention and development of our most important resource, our people, and our continuous improvement programme.

We want to ensure that everything we do is best practice and the best way of ensuring this is to have the right people working for us and to be continually challenging ourselves to find the best way of doing things.

2008/2009 is an exciting year for Capacity as we take the best of everything we have developed over the past few years and offer these services to other councils in the greater Wellington region.

The Board and I are looking forward to a year of opportunities presented by the growth of the company.

Bryan Jackson

Focusing on the future

“Here at Capacity we are committed to becoming *the first choice in infrastructure services* for the water services industry.

For the past four years we have consolidated our position and services to our two shareholding councils. This coming year will see a focus on expanding our client base by offering services to other councils in the Greater Wellington region.

Our new clients will benefit from the knowledge we have acquired through providing comprehensive water services to a large part of the region already and the expertise and relationships that have already been established.

The existing shareholders will benefit from the expansion of the business through a return on their investment.

As we look to expand we remain focused on our commitment to protecting the environment. So much of what we do on a day-to-day basis involves protecting the environment by striving to keep our streams and harbours clean and safe for all to enjoy, and to supply good quality drinking water.

In 2008/2009 we aim to take our protection of the environment to a new level by adopting environmental policies and procedures that are adopted throughout our entire workplace including back in the office.

We will be working on an environmental sustainability policy which will guide our decisions on using environmentally friendly products such as corporate stationery and vehicles.

For our clients it means that we will focus even more strongly on water conservation and promoting the benefits of this to all residents and ratepayers.

Water is a precious commodity needing protection – the leak detection and pressure management strategies we are introducing will help councils conserve water and detect problems in the network more quickly.

We will work with councils to help encourage ratepayers and residents to take their water conservation responsibilities seriously as well. We all need to work together to conserve water for the future benefit of all.

David Hill, Chief Executive

Our business

Capacity was established in 2004 with the purpose of providing high quality, safe and environmentally sustainable services to our shareholding councils and other customers, with a focus on asset management planning and contracted service delivery. We primarily offer our services in the operation, maintenance and on-going development of drinking water, stormwater and wastewater assets. We are committed to ensuring that our work is managed according to the highest standards and that we have regard for the health and safety for our employees, contractors and for the general public.

Capacity actively seeks opportunities to improve our services in asset planning and contract management. We continue to manage more than 4,500km of pipes, 100 reservoirs and 140 pump stations for both councils. During 2008/2009 Capacity is responsible for managing \$98 million of operational expenditure and \$32 million of capital expenditure for the two councils.

Standards for the management of infrastructure based services are continually changing due to requirements of legislation and increasing community expectations. At the same time councils are striving to contain costs. Most councils simply do not have the level of resource or expertise to achieve the standards now being demanded. Addressing this issue must inevitably lead to higher costs to councils already under pressure to contain spending. Capacity has been established to share the expertise and resources between our two shareholders and to build on our water and drainage management expertise.

Our staff show a commitment to quality and value. They are highly skilled in the engineering and drainage fields. Staff have extensive institutional knowledge of the water works and infrastructure. Our staff have an excellent understanding of working in the local government environment. We are proud of our strengths and recognise that the recruitment and retention of skilled engineers and project managers with water industry knowledge is difficult, particularly in a competitive labour market.

Our business objectives

Capacity has three principal objectives which are:

- the longer term management of the water, stormwater and wastewater assets of the shareholding councils
- to operate as a successful business, returning any benefits to shareholders
- to contribute to achieving the cooperative delivery of integrated water services in the Wellington metropolitan region.

Section 59 of the Local Government Act 2002 also provides that the principal objective of council-controlled 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 key activities, including planning, consultation, managing, monitoring, delivery and corporate services.

Activities for 2008/2009

Focus on planning

During 2008 progress has been made on the preparation of the three WCC strategic plans (water, waste water and stormwater). The delivery of the strategic plans is a complex project and involves a considerable amount of consultation and discussion with various parties to take it through to completion.

A pre-draft framework and strategic summary documents have been provided to WCC for perusal. The strategic plans will ultimately feed into the asset management plans and form the basis for network improvements and renewals over the long term.

Focus on consultation

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

In 2008/09 we will be working with Wellington City Council on two stormwater discharge consents that are due to expire and will continue with representation and consultation for lodged consents.

We will also be working on resource consent applications for wastewater overflow for Hutt City Council.

Focus on managing

We manage maintenance and operations contracts; prepare new contracts and manage tendering processes. We are actively engaged with the maintenance contractors to ensure that the work is carried out to appropriate standard and that all calls logged are progressed accordingly.

The maintenance contract is due to expire 30 June 2009. Capacity will continue with the existing collaborative arrangement through 2008/09 and will recommend a contract structure to both councils.

ISO accreditation is anticipated by 30 June 2008 and during 2008/09 we will continue with quality improvement.

Focus on monitoring

Monitoring the water services aspect of Asset Management System (AMS) is a key component of asset management including managing data input, system development reporting and quality assurance. We monitor various pump stations and treatment plants.

We provide input to the GIS system to continually improve the quality of data and as required incorporating additions, deletions or other changes to the water services infrastructure.

In 2008/09 we anticipate finalising the work for implementing additional system functionality within the Asset Management System. This will improve the monitoring of the performance of infrastructural assets and help identify renewal projects.

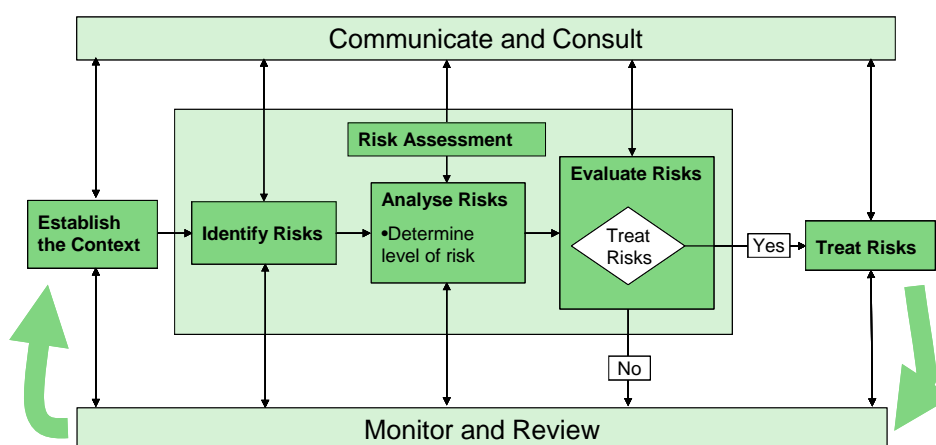
Our risk management system covers identification, registration, measurement and management of Capacity’s business risks. The Board’s Audit and Risk Committee regularly review and measure all outstanding risks and also review the internal audit report on an annual basis.

In addition, the Asset Management Plans set out the process for managing risk associated with the provision of water services in the Councils. This process is designed to ensure that:

- all significant risks associated with the three water activity are identified, understood and managed
- the highest risks that should be addressed within the short to medium term
- risk reduction treatments which best meet business needs are applied
- requirements for reporting of risk are specified (these integrate with corporate risk reporting processes for Council and Capacity).

This risk management process is consistent with corporate risk management processes in Council and Capacity and with Australian/New Zealand standard AS/NZS 4360, which defines risk assessment and management.

The risk management process is set out in the following diagram.



The major elements of the process are:

1. Risk management context – establishes criteria against which risk can be evaluated.
2. Risk identification – identifies the risks Council may encounter and helps explain the impact of those risks on the business.

3. Risk assessment – establishes a risk rating for all assets or asset groups, and describes which assets represent the greatest risk to the business.
4. Risk treatment – identifies what actions are available to reduce risk at asset or asset group level to an acceptable level, and identifies the most cost - effective treatment option.
5. Monitor and review – ongoing process to ensure risk levels remain acceptable even if risks change.

Development of a separate activity risk management plan for each of the three water activities has been identified as an improvement project. Work on this project is scheduled to start in 2008/09.

During 2007/08 the Wellington City Council's internal audit team are to complete a review focusing on our improved business performance and highlighting industry changes.

Focus on delivery

To ensure timely and efficient delivery of services to our customers we prepare draft capital works programmes consistent with asset management plans. We manage the capital works programme including design, obtaining necessary consents, tendering, contract administration and financial management. We ensure that water services related requests for service are responded to in accordance with customer policies and practices.

We also process water services management aspects of subdivision and building consent applications to meet standards within required timeframes.

In 2008/09 we will complete the implementation of the Business Improvement Project. This project has provided improvements in our job workflow design and improved our numerical measures which will increase productivity, quality and timeliness of work delivered. The project is estimated to save \$436,000 for Wellington City Council and Hutt City Council which will be realised through a reduction in council's capital expenditure. We continue to develop the skills of our project managers to ensure that agreed capital works is carried out on time, to cost and at a high standard.

Focus on growing our own business

Capacity's growth strategy for the first half of the 2008/09 year will be focussed on the delivery of water services to Upper Hutt City Council. On 14 May 2008, Upper Hutt City Council agreed to accept the Capacity offer to provide water services on a contract for services basis from 1 July 2008.

Planning for contract acceptance is well advanced and contract commencement from 1 July 2008 is confirmed. Staff currently undertaking water services activities at Upper Hutt Council will transfer to Capacity, commensurate with the contract start date. Through accommodating the additional staff in the company's existing premises and primarily utilising existing staff resources for Upper Hutt service delivery the impact on services to existing customers will be minimised.

Later in the 2008/09 year Capacity will consider marketing its products and services to councils in the greater Wellington region. At the same time we will reinforce the implementation of the business improvement process to better support potential growth. The decision to further expand Capacity's activities beyond the Upper Hutt City Council contract will be dependent upon full development of the improved business processes and full delivery of required services pursuant to the Upper Hutt City Council service level agreement.

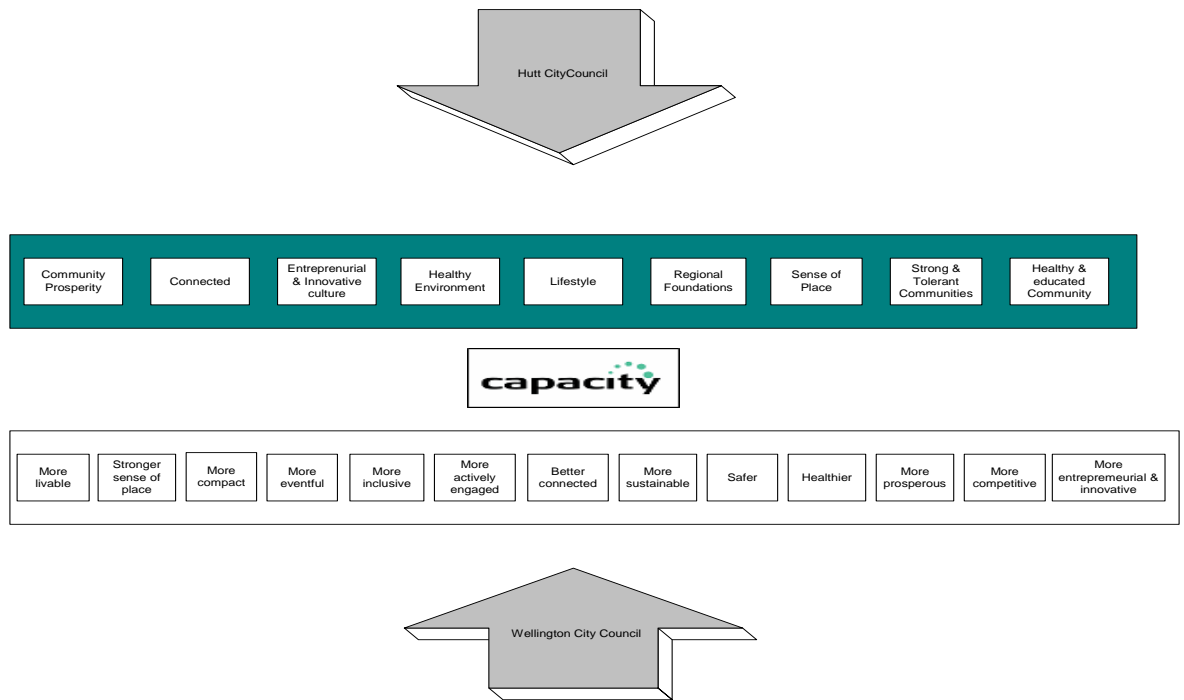
In 2008/9 we will ensure that our organisation has the necessary systems in place to support us as our business expands. We will complete a review of Key Performance Indicators satisfying Capacity needs and our customers' requirements.

Capacity's staff numbers have remained at 53 since 2006. Capacity has improved service delivery and output to both customers during this period. The growth strategy will provide opportunity for us to increase staff numbers. Capacity staff numbers will be 60 from 1 July 2008 following integration of the transferring staff from Upper Hutt City Council. Capacity has an active remuneration, recruitment and retention strategy to ensure that staff turnover since January 2006, excluding two retirees in their late 60's, remains at or below the current 8% level. The outcome of our latest staff engagement survey results shows 63% of staff are positively engaged. This compares favourably with other well performing organisations. During the 2008/09 period focussed Human Resource initiatives will be implemented with the aim of Capacity achieving an 'excellent' staff engagement rating of 78%.

Capacity's contribution to council and community outcomes

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

The following diagram shows the similarities between both councils and the table below details our contribution towards these outcomes.



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/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/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 appropriate skills and knowledge to meet current and future business demands.

Healthy environment/safer – Capacity will ensure that drinking water and waste water 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.

Strong lifestyle/liveable/eventful – 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.

Regional foundations/more actively engaged - Capacity will assist in the development of a regional approach to delivery of water. Capacity will seek and welcome feedback from the community on water services.

Entrepreneurial and innovative - Capacity will use best practice 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.

Corporate governance

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 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. Board performance reviews will be undertaken annually by 30 June each year commencing in the 2008/09 year using the Institute of Directors, LeBlanc Board Effectiveness Diagnostic or a similar programme.

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.

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 (entering into any major transaction, see 3.5 below);
- 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); and
- 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 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

There is no intention to pay a dividend in the 2008/09 financial year or succeeding years.

Information to be provided to shareholders

In each year the 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 one month after the end of each quarter 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).
- 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 3 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 section 67, 68 and 69 of the LGA 2002)

Share acquisition

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

Compensation from Local Authority

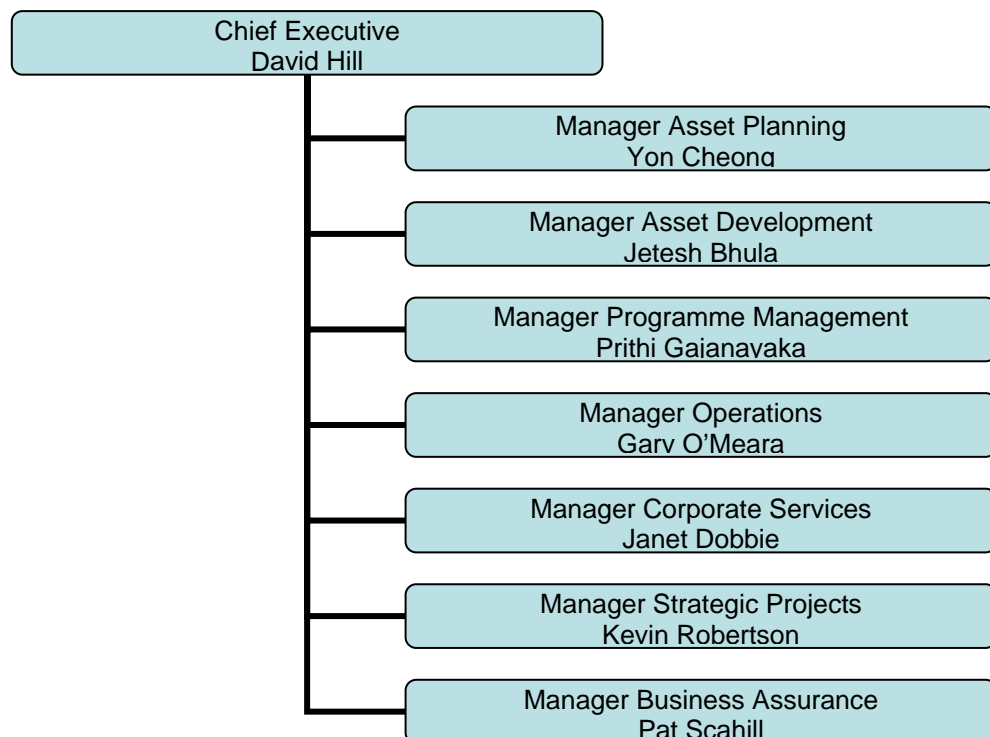
It is not anticipated that the company will seek compensation from any local authority otherwise than in the context of normal commercial contractual relationships.

Commercial value of the shareholders' investment

The net value of the Shareholder's investment in the company is estimated to be valued at \$300,000 as at 31 December 2007. 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.

Management Team

The company's organisational structure is focused on the management of Wellington City Council and Hutt City Council 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 and Hutt City Council.



Forecast financial statements

Forecast Statement of Financial Performance

FOR THE FINANCIAL YEARS ENDING 30 JUNE 2009, 30 JUNE 2010, and 30 JUNE 2011.

	Budget 2008/2009 000's	Forecast 2009/2010 000's	Forecast 2010/2011 000's
REVENUE			
Operations	6,264	6,470	6,658
TOTAL REVENUE	<u>6,264</u>	<u>6,470</u>	<u>6,658</u>
EXPENDITURE			
General expenditure	1,356	1,401	1,442
Personnel expenditure	4,885	5,045	5,192
Depreciation	21	22	22
Interest on finance leases	2	2	2
Total Expenditure	<u>6,264</u>	<u>6,470</u>	<u>6,658</u>
NET SURPLUS/(DEFICIT) BEFORE TAXATION	-	-	-
Tax expense/(benefit)	-	-	-
NET SURPLUS/(DEFICIT) AFTER TAXATION	<u>-</u>	<u>-</u>	<u>-</u>

Forecast Statement of Financial Position

AS AT 30 JUNE 2009, 30 JUNE 2010, 30 JUNE 2011

	Budget 2008/2009 000's	Forecast 2009/2010 000's	Forecast 2010/2011 000's
CURRENT ASSETS			
Cash	274	397	510
Prepayment	102	105	104
Trade and other receivables	669	691	688
	<u>1,045</u>	<u>1,193</u>	<u>1,302</u>
NON CURRENT ASSETS			
Property, plant and equipment	39	18	-
	<u>39</u>	<u>18</u>	<u>-</u>
TOTAL ASSETS	<u>1,083</u>	<u>1,211</u>	<u>1,302</u>
CURRENT LIABILITIES			
Trade and other payables	341	444	538
GST payable	100	103	102
Annual leave	267	276	275
	<u>707</u>	<u>823</u>	<u>915</u>
TOTAL LIABILITIES	<u>707</u>	<u>823</u>	<u>915</u>
NET WORKING CAPITAL	<u>376</u>	<u>388</u>	<u>387</u>
EQUITY			
Share capital	600	600	600
Retained earnings	(224)	(212)	(213)
TOTAL EQUITY	<u>376</u>	<u>388</u>	<u>387</u>

Forecast Statement of Cash Flows

FOR THE FINANCIAL YEARS ENDING 30 JUNE 2009, 30 JUNE 2010, and 30 JUNE 2011.

	Budget 2008/2009 000's	Forecast 2009/2010 000's	Forecast 2010/2011 000's
CASH FLOW FROM OPERATING ACTIVITIES			
<i>Cash was provided from:</i>			
Operating receipts	6,927	7,154	7,128
GST receivable	(568)	(587)	(584)
<i>Cash was disbursed to:</i>			
Payments to suppliers	(6,247)	(6,453)	(6,430)
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	110	114	114
CASH FLOWS FROM FINANCING ACTIVITIES			
Opening cash balance	164	283	396
Net increase/(decrease) in cash held	110	114	114
Closing cash balance	<u>274</u>	<u>397</u>	<u>510</u>
<i>Made up of:</i>			
Cash	274	397	510
Closing cash balance	<u>274</u>	<u>397</u>	<u>510</u>

Statement of Accounting Policies

Wellington Water Management Limited 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 Wellington Water Management Limited 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. IFRS was adopted from 1 July 2006.

Reporting entity

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

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 the purposes of financial reporting Capacity is a public benefit entity.

Reporting period

The reporting period covers the 12 months from 1 July 2008 to 30 June 2009. Comparative projected figures for the year ended 30 June 2010 and 30 June 2011 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.

Judgements and estimations

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

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

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

a) Revenue

Capacity derives revenue from its customers. In 2008/09 the customers are Wellington City Council and Hutt City Council.

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

b) Expenses

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

c) Taxation

Income tax expense is charged in the statement of financial performance in respect of the current year's earnings after allowing for permanent differences. Deferred taxation is determined on a comprehensive basis using the liability method.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for taxation purposes.

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 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, trade and other receivables.

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.

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. Fair value is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date for loans of a similar maturity and credit risk. Trade and other receivables issued with duration of less than 12 months are recognised at their nominal value. Allowances for estimated irrecoverable amounts are recognised when there is objective evidence that the asset is impaired.

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 financial performance as is any gain or loss when the liability is derecognised. Financial liabilities entered into with duration of less than 12 months are recognised at their nominal value.

f) Property, plant and equipment

Recognition

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

Measurement

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

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

Impairment

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

Disposal

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

Depreciation

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

Telephone system	nine years three months
Furniture	ten years
Plant and equipment	two years - twelve years

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

resulting from impairment are reported in the statement of financial performance.

h) Employee benefits

A provision for employee benefits (holiday leave) is recognised as a liability when benefits are earned but not paid. These include salaries and wages accrued up to balance date.

The long service leave liability is a contractual entitlement for a reducing number of grand-parented ex-council employees who after 20 years service are granted a one-off entitlement of extra leave. This entitlement is not offered to new Capacity employees.

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

l) Statement of cash flows

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

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

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 control 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.

Key performance indicators

Capacity's key performance indicators for the 2008/09 year are:

Key performance targets

Achieve total overall savings of \$4.175 million to shareholding councils after five years (30 June 2009), and \$1.6 million annually thereafter.

Achieve targets with allocated Capacity budget.

Comply with financial, technical, and regulatory standards.

Delivery of Capital Expenditure against budget for respective Councils.

Delivery of Operating Expenditure against budget for respective Councils.

Establish Strategic Business Plan by 30 June 2008.

Develop Asset Management Plans as required.

Capacity labour recovery to be 80% or more at year end.

Meet Performance Measures as set in Service Level Agreements.

Performance measures for Wellington City Council 2008/09

Water

Key performance indicator	Target
Compliance with New Zealand drinking water standards.	100 per cent
Service requests relating to the water network are responded to within one hour of the request being received. ('response' includes initial investigation and prioritization of work)	97 per cent
Residents surveyed about water network service are satisfied with work carried out.	75 per cent
Minimising unaccounted for water loss from the network.	No more than 19% of the water in the network is unaccounted for.

Stormwater

Key performance indicator	Target
Service requests relating to the stormwater network are responded to within one hour of the request being received. ('response' includes initial investigation and prioritization of work)	97 per cent

Residents surveyed about stormwater network service are satisfied with work carried out.	75 per cent
The percentage of sampling days where the following contaminants are not seen - scums or foams, floating or suspended material, abnormal colour or clarity, fats or gross solids.	100 per cent
The percentage of sampling days at monitored bathing beaches when water quality complies with Ministry for the Environment guidelines (green status).	90 per cent
Percentage of monitored freshwater sites where the median annual faecal coliform bacteria counts are less than 1000 per 100ml.	80 per cent

Wastewater

Key performance indicator	Target
Service requests relating to the wastewater network are responded to within one hour of the request being received. ('response' includes initial investigation and prioritization of work)	97 per cent
Residents surveyed about stormwater network service are satisfied with work carried out	75 per cent
The percentage of monitored consented harbour/coastal sites where the median annual level of faecal coliform bacteria counts are less than 2000 per 100ml (lower levels of these bacteria mean the water is cleaner).	80 per cent
Resource consent compliance – the number of infringement notices received.	No infringement notices are received.

Performance measures for Hutt City Council 2008/09

Water

Key performance indicator	Target
Resident satisfaction with water supply is equal to or above the peer council average.	≥95 per cent
Programmes (operational expenditure) and projects (capital expenditure) completed on time to the required quality.	90 per cent
Achieve full compliance with New Zealand Drinking Water Standards.	Compliance

Key performance indicator	Target
Water supply reliability.	Fewer than four unplanned supply cuts per 1000 connections.
Water supply quality: to maintain a 'b' grading from the Ministry of Health for the Hutt City water supply distribution ('b' means satisfactory, low level of risk. Most of Hutt City water supply is not chlorinated. Chlorination of the water supply would be required to achieve an 'a' grading).	Maintain a "b" grading
Net Capital expenditure and operational expenditure.	Within budget
Responsiveness to water supply disruptions: 96 per cent of disruptions are responded to within one hour of notification.	97 per cent of requests responded to with 1 hour of notification
Maintain the average un-metered water consumption in Hutt City.	Less than 350 litres per head per day
Minimise the potable water network leakage	Annual Infrastructure Leakage Index to be at or below 2.2

Wastewater

Key performance indicator	Target
Resident satisfaction with the sewage system is equal to or above the peer council average.	≥95 per cent
Programmes (operational expenditure) and projects (capital expenditure) completed on time to the required quality.	90 per cent
Net capital expenditure and operational expenditure	Within budget
Comply with resource consent conditions.	100 per cent
Wastewater system reliability.	Less than 1.2 wastewater reticulation incident reports per kilometre of wastewater reticulation pipeline

Responsiveness to blockages or overflows: The contractor is on-site within one hour of notification.	97 per cent of requests responded to within 1 hour of notification.
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Stormwater

Key performance indicator	Target
Resident satisfaction with stormwater drainage system is equal to or above the peer council average.	≥ 80 per cent
Programmes (operational expenditure) and Projects (capital expenditure) completed on time to the required quality.	90 per cent
Net capital expenditure and operational expenditure	Within budget
Reticulation incidents per km of public stormwater drains.	Less than one incident reported per kilometre of stormwater pipeline
Watercourse water quality at main recreational beaches over the daylight saving period.	Complies with the Recreational Water Quality Standards.
Responsiveness to blockages in the stormwater pipe: the contractor is on-site within one hour of notification.	97 per cent of requests responded to within 1 hour of notification.

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Peter Leslie
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