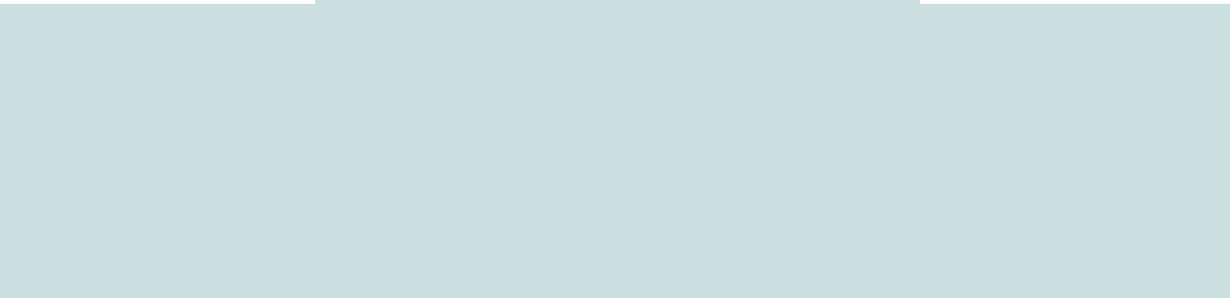
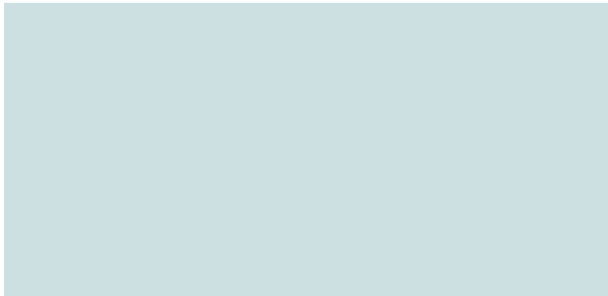
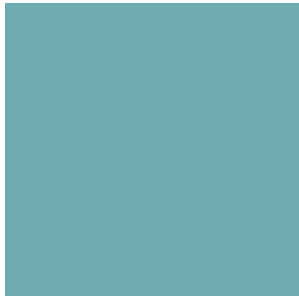
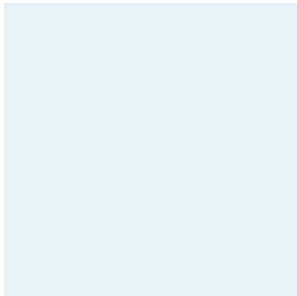


Statement of Intent  
2009 – 2010  
20 May 2009



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# 1

## PURPOSE

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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 2009 to 30 June 2010 and the following two financial years.

# 2

## INTRODUCTION

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Capacity is a management company specialising in the delivery of infrastructure based 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 staff are committed to finding better and more efficient ways of providing water, stormwater and wastewater management services. At the same time we are developing our services for future growth as we look to expand our client base.



# 3

## NATURE AND SCOPE OF ACTIVITIES

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For the past five years Capacity has consolidated our position and services to our two shareholding Councils and now manage services for Upper Hutt City Council as a client.

This coming year will again see a focus on expanding our client base by offering services to other councils in the greater Wellington region. The existing shareholders will benefit from the expansion of the business through a return on their investment.

Capacity returns all financial gains to its shareholders through a reduction in service delivery costs. Accordingly business expansion provides returns to the company's shareholders by reduction in overhead costs currently met by shareholder clients, a reduction in Capacity staff costs directed to delivery and management of an expanded client base and a reduction on shareholder client costs by profit contribution from contracted customers.

Capacity will continue to focus on key areas which drive us towards being the first choice in infrastructure services in the Wellington region. These are the setting up of an in-house engineering design team and the expansion of the project supervision team to manage the Wellington City Council capital works programme.

Capacity has revised savings targets from 1 July 2009 onwards. Capacity will formally report on the performance of the Upper Hutt contract prior to the contract expiring on 30 June 2010.

Capacity remains focused on a commitment to protect the environment. In 2009/2010 we aim to take our protection of the environment to a new level by focussing even more strongly on promoting the benefits of water conservation to all residents and ratepayers. The leak detection and pressure management strategies we have introduced will help Councils conserve water and detect problems in the network more quickly. Capacity has undertaken to prepare policy papers for its shareholder clients focussing on demand management for potable water. Such policy recommendations will outline costs, benefits and appropriate methodologies.

Capacity actively seeks opportunities to improve services in asset planning and contract management. We continue to manage more than 5,217 km of pipes, 115 reservoirs and 165 pump stations for three councils. During 2009/2010 Capacity is responsible for managing \$67 million of operational expenditure and \$35 million of capital expenditure for our client Councils.

Schedule two outlines how Capacity's costs are allocated across client Councils based on planned work activities.

Capacity is committed to ensuring all work managed on behalf of our client's accords with the highest standards of health and safety for those involved in the work and for the general public. The company will continually seek opportunities to integrate water, stormwater and waste water activities within the Wellington region where such integration can deliver least cost, best practice outcomes to the benefit of all our clients.

Capacity staff are highly skilled in the engineering water and drainage fields. Staff have extensive institutional knowledge of clients' infrastructure and 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.

# 4

## OUR BUSINESS OBJECTIVES

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Capacity has four principal objectives which are:

- the long term planning management and delivery of the water, stormwater and wastewater assets of the client Councils
- to contribute to achieving the co-operative delivery of integrated water services in the Wellington metropolitan region
- to operate as a successful business, returning any 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.

Capacity's business objectives are set out in the Business Plan 2009-2012 .

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 planning, consultation, managing, monitoring, delivery and corporate governance.

# 5

## ACTIVITIES FOR 2009/2010

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### Focus on planning

During 2009/10 Capacity will deliver strategic network plans for the three waters to Wellington City Council. The strategic plans will ultimately contribute to the asset management plans and form the basis for network improvements and renewals over the long term.

Asset Management Plans 2010/11 will be completed for each council during 2009/10. 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 activities are identified, understood and managed
- the highest risks 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 the councils and Capacity).

Following the precedent established during 2008/09, client councils will receive and agree project plans with milestones and delivery dates for the asset management plans during 2009/10. the project plans will also identify resources inputs to be provided by Capacity.



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Development of a separate activity risk management plan for each of the three water activities for Wellington City Council and Hutt City Council will be completed during 2009/10.

We will complete the Water Supply Public Health Risk Management Plan for Upper Hutt City Council.

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

We are working towards the renewal of the consent for wastewater overflows into the Waiwhetu Stream. A substantial amount of work has been undertaken to reduce these overflows, and as such we are now consulting with a range of organisations to ensure that the final application accurately addresses the community's concerns and expectations.

## 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 standards and that all calls logged are progressed accordingly.

The maintenance contracts are due to be revised by 30 June 2009. Capacity will continue consulting with all client Councils with the tendering arrangement through 2009 and will recommend a contract structure to all three Councils. Capacity will be actively working with the selected contractor to ensure the contracts are transitioned in a seamless manner.

During 2008/09 Capacity implemented a business improvement process funded by shareholders. As at 30 June the 2008 process improvements had realised savings to shareholders in excess of \$400,000.

ISO accreditation was achieved in November 2008 and during 2009/10 we will continue with quality improvement.

During 2008/09 staff shortages at a critical time led to inaccuracies in a financial report to shareholders. Additional staff have been engaged to provide ongoing continuity. Monthly and quarterly financial reports have been timely and accurate since the rectification required to the Quarter 1 Report 2008/09. The shareholder reporting format has been expanded to provide further details on Capacity's service delivery.

## Focus on monitoring

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

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

Our risk management system covers identification, registration, measurement and management of Capacity's business risks. Capacity regularly reviews risk identification and management to ensure new risks are recorded and mitigation strategies are implemented. The Board's Audit and Risk Committee regularly review and measure all outstanding risks and also review internal audit process on an annual basis. Table one, Capacity's Risk Profile shows reduction in risk profile over the period 2005 – 2009.

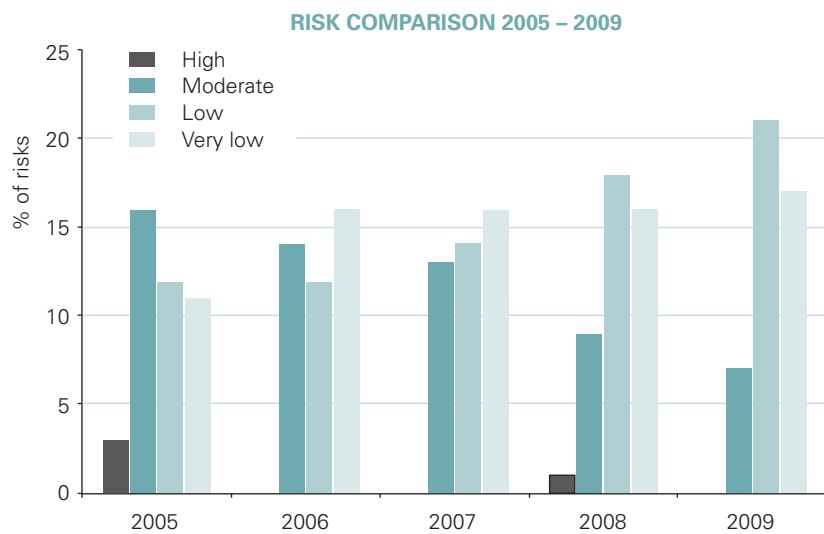


Table one: Capacity's risk profile

During 2008/09 Wellington City Council undertook an internal audit and review on behalf of the Capacity Board.

The internal audit report from the WCC Risk Assurance team advised the Board that many of the operational tasks and activities required by the Service Level Agreement are appropriately carried out. The audit report provided a number of recommendation that have been implemented with the Board of Directors monitoring the implementation of the remaining recommendations. The Audit Status Report has been forwarded to Wellington City Council Risk Assurance team following directors' review.

Capacity reports monthly and quarterly to its clients, quarterly to its shareholders and produces semi-annual and annual reports. Capacity will ensure agreed targets and key performance indicators are referenced in such reports when appropriate.



The key focus during 2009/10 will be providing annual savings while maintaining service delivery. Timelines on recommendations in the audit report will be in the Business Plan 2009/10.

## 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. Capacity manages the capital works programme including design, obtaining necessary consents, tendering, contract administration and financial management. In 2009/10 financial year, we will set up an in-house design team and expand the project supervision team to manage Wellington City Council capital works programme. Wellington City Council Infrastructure has approved the reduction in external consultancy expenditure in 2009/10 and 2010/11 commensurate with the costs and benefits associated with the development of in-house design competence.

The Board has approved the reduction in external consultancy expenditure in 2009/10 and 2010/11 commensurate with the costs and savings associated with the development of in-house design competence.

We continue to develop the skills of our project managers to ensure that agreed capital works are carried out on time, to cost and at a high standard. 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.

Capacity and the shareholder councils will provide a report of the savings performance over the initial five-year period. A savings target has been agreed with Wellington City Council for the 12 months ended 30 June 2010 and is included within the Key Performance Indicators (Section 10).

Hutt City Council has requested future performance is measured by comparative network key performance indicators benchmarked against other New Zealand resident entities. Recommended saving goals based upon operating cost per property for each of the three waters is included within the Key Performance Indicators (Section 10).

## Focus on growing our own business

During 2009/10 Capacity will continue marketing its products and services to Councils in the greater Wellington region.

Capacity staff numbers from 1 July 2008 total 60 following integration of the transferring staff from Upper Hutt City Council. The growth strategy requires us to seek bigger premises in Petone to accommodate all staff in mid 2009.

# 6

## CAPACITY'S CONTRIBUTION TO COUNCIL AND COMMUNITY OUTCOMES

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





## CORPORATE GOVERNANCE

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

### The Board of Directors

Capacity is a Council Controlled Trading Organisation as defined by Section 6 of the Local Government Act 2002. Capacity is also covered by the Companies Act 1993 and governed by law and best practice. Board performance reviews have been undertaken in the 2008/09 year and will be undertaken annually by 30 June each year using the Institute of Directors Board evaluation service. A Board development programme will be implemented in 2009/10 in response to outcomes of the 2008/09 evaluations reports if required.

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); 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 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.

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## **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 2009/10 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 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 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 section 67, 68 and 69 of the LGA 2002).

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## 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 \$362,000 as at 31 March 2009. 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.



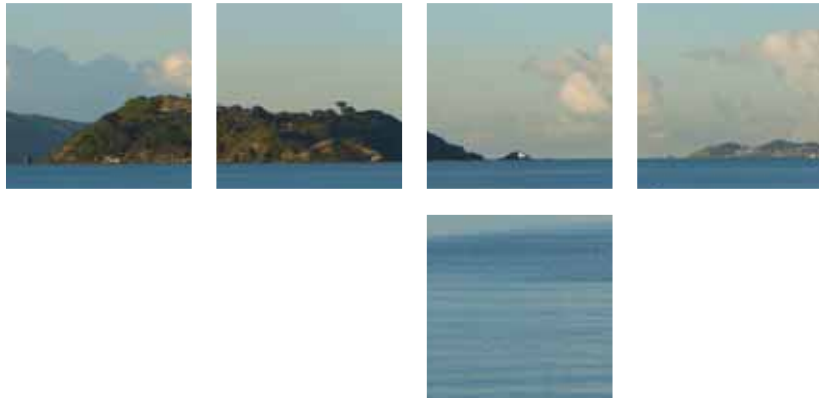
# 8

## FORECAST FINANCIAL STATEMENTS

### Forecast Statement of Financial Performance

FOR THE FINANCIAL YEARS ENDING 30 JUNE 2010, 30 JUNE 2011, 30 JUNE 2012

	Budget 2009/2010 000's	Budget 2010/2011 000's	Budget 2011/2012 000's
<b>REVENUE</b>			
Operations	7,378	7,652	7,885
<b>TOTAL REVENUE</b>	<b>7,378</b>	<b>7,652</b>	<b>7,885</b>
<b>EXPENDITURE</b>			
General expenditure	1,597	1,657	1,707
Personnel expenditure	5,729	5,941	6,122
Depreciation	50	52	53
Interest on finance leases	2	2	2
<b>TOTAL EXPENDITURE</b>	<b>7,378</b>	<b>7,652</b>	<b>7,885</b>
NET SURPLUS/(DEFICIT)			
BEFORE TAXATION	-	-	-
Tax expense/(benefit)	-	-	-
NET SURPLUS/(DEFICIT)			
<b>AFTER TAXATION</b>	<b>-</b>	<b>-</b>	<b>-</b>



## Forecast Statement of Financial Position

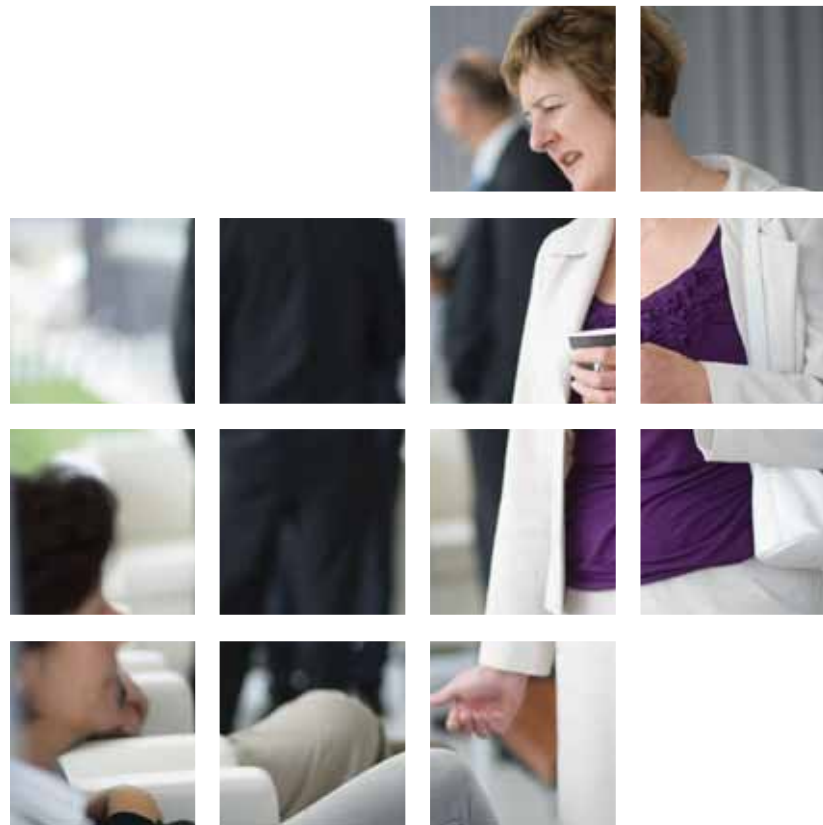
FOR THE FINANCIAL YEARS ENDING 30 JUNE 2010, 30 JUNE 2011, 30 JUNE 2012

	Budget 2009/2010 000's	Budget 2010/2011 000's	Budget 2011/2012 000's
<b>CURRENT ASSETS</b>			
Cash	294	400	404
Prepayments	102	106	109
Trade and other receivables	739	739	739
<b>Current assets</b>	<b>1,135</b>	<b>1,245</b>	<b>1,252</b>
<b>NON CURRENT ASSETS</b>			
Property, plant and equipment	9	1	-
<b>Non current assets</b>	<b>9</b>	<b>1</b>	<b>-</b>
<b>TOTAL ASSETS</b>	<b>1,144</b>	<b>1,245</b>	<b>1,252</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	388	476	471
GST payable	113	117	120
Annual leave	267	277	285
<b>TOTAL LIABILITIES</b>	<b>768</b>	<b>870</b>	<b>876</b>
<b>NET WORKING CAPITAL</b>	<b>376</b>	<b>376</b>	<b>376</b>
<b>EQUITY</b>			
Share capital	600	600	600
Retained earnings	(224)	(224)	(224)
<b>TOTAL EQUITY</b>	<b>376</b>	<b>376</b>	<b>376</b>

## Forecast Statement of Cash Flows

FOR THE FINANCIAL YEARS ENDING 30 JUNE 2010, 30 JUNE 2011, 30 JUNE 2012

	Budget 2009/2010 000's	Budget 2010/2011 000's	Budget 2011/2012 000's
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Cash was provided from:			
Operating receipts	8,110	8,722	8,870
GST receivable	(655)	(810)	(821)
Cash was disbursed to:			
Payment to suppliers	(7,324)	(7,807)	(8,045)
<b>NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES</b>	<b>130</b>	<b>106</b>	<b>4</b>
OPENING CASH BALANCE	164	294	400
<b>CLOSING CASH BALANCE</b>	<b>294</b>	<b>400</b>	<b>404</b>



# 9

## STATEMENT OF ACCOUNTING POLICIES

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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 Wellington 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. IFRS was adopted from 1 July 2006.

### REPORTING ENTITY

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 2009 to 30 June 2010. Comparative projected figures for the year ended 30 June 2011 and 30 June 2012 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.

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## 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 clients. In 2009/10 its clients are Wellington City Council, Upper Hutt 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.



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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.

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### ***Impairment***

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

### ***Disposal***

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

### ***Depreciation***

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

Telephone system	10.75 per cent
Furniture	7.80–18.60 per cent
Plant and equipment	7.80–48.0 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 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.



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#### **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, 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 a record of 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.



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#### **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 controlled 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.

# 10

## KEY PERFORMANCE INDICATORS

### KEY PERFORMANCE INDICATORS 2009/10

Develop and complete Asset Management Plans for client Councils annually.

Deliver budgeted capital expenditure projects for respective Councils.

Deliver budgeted operating and maintenance activities for respective Councils.

Manage and operate Capacity within its 2009/10 budget.

Manage Capacity labour productivity rate to be 80 per cent or more at year end.

Achieve total annual savings of \$432,000 for Wellington City Council.

Annual increases in operating cost per property benchmarks for Hutt City Council's water, stormwater and wastewater networks are at or below Auckland Water Industry averages.

Meet key performance measures as set out in Service Level Agreements.

Comply with financial, technical, and regulatory standards.

Complete a Business Plan by 30 June 2009.



# 11

## SCHEDULE ONE – CAPACITY'S COST ALLOCATION SUMMARY

		CAPACITY <i>Direct costs</i>				
		Strategic and asset planning	Investigation, monitoring and development	Capital project management	Operations management	Total
		\$ mil	\$ mil	\$ mil	\$ mil	\$ mil
WATER	WCC	0.16	0.61	1.06	0.40	2.23
	HCC	0.14	0.04	0.09	0.26	0.53
	UHCC	0.06	0.01	0.07	0.15	0.29
	<b>Total</b>	<b>0.36</b>	<b>0.65</b>	<b>1.22</b>	<b>0.81</b>	<b>3.04</b>
WASTEWATER	WCC	0.15	0.45	0.51	0.63	1.74
	HCC	0.22	0.01	0.14	0.25	0.61
	UHCC	0.08	0.00	0.04	0.10	0.22
	<b>Total</b>	<b>0.45</b>	<b>0.46</b>	<b>0.68</b>	<b>0.97</b>	<b>2.57</b>
STORMWATER	WCC	0.15	0.32	0.42	0.16	1.05
	HCC	0.17	0.01	0.14	0.18	0.50
	UHCC	0.08	0.00	0.04	0.10	0.22
	<b>Total</b>	<b>0.40</b>	<b>0.33</b>	<b>0.60</b>	<b>0.44</b>	<b>1.77</b>
TOTAL NETWORK	WCC	0.47	1.38	1.99	1.19	5.02
	HCC	0.52	0.06	0.37	0.69	1.64
	UHCC	0.22	0.01	0.15	0.35	0.73
	<b>Total</b>	<b>1.21</b>	<b>1.44</b>	<b>2.51</b>	<b>2.22</b>	<b>7.39</b>
				% of total costs	7.2%	
TOTAL CURRENT NETWORK ASSET VALUES			WCC	HCC	UHCC	Total
		\$ mil	<b>2,154</b>	<b>923</b>	<b>303</b>	<b>3,379</b>

CONSULTANTS/CONTRACTOR COSTS MANAGED BY CAPACITY ON BEHALF OF RATEPAYERS (INCLUDES CAPACITY COSTS)		TOTAL COST TO RATEPAYERS
Operational programmes	Capital programmes	
\$ mil	\$ mil	\$ mil
18.65	10.76	29.42
7.39	1.52	8.90
2.64	1.17	3.81
<b>28.68</b>	<b>13.45</b>	<b>42.13</b>
22.29	7.87	30.17
7.27	3.85	11.13
3.11	0.96	4.07
<b>32.68</b>	<b>12.69</b>	<b>45.36</b>
2.61	4.99	7.60
2.69	2.99	5.68
0.71	0.74	1.44
<b>6.01</b>	<b>8.72</b>	<b>14.72</b>
43.55	23.63	67.18
17.35	8.36	25.72
6.45	2.87	9.32
<b>67.36</b>	<b>34.85</b>	<b>102.21</b>
65.9%	34.1%	100.0%

**Capacity annual costs as a % of asset values** **0.22%**

\*Includes all administration costs of Councils and revenues

\*Excludes interest expenses and depreciations

\* Includes HCC DBO budgets

# 12

## DIRECTORY

### DIRECTORS

Bryan Jackson (Chairman)  
Peter Allport  
Andy Foster  
Peter Leslie  
Ray Wallace  
Richard Westlake

### CHIEF EXECUTIVE

David Hill

### REGISTERED OFFICE

85 The Esplanade  
Petone  
Wellington  
New Zealand

### POSTAL ADDRESS

Private Bag 39804  
Wellington Mail Centre 5045

### TELEPHONE

64 4 910 3800

### WEB

[www.capacity.net.nz](http://www.capacity.net.nz)

### 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

### SHARE REGISTRY

Level 4  
Civic Administration Building  
101 Wakefield Street  
Wellington  
New Zealand

