



「 CREATING EXCELLENCE IN DELIVERING REGIONAL
WATER SERVICES FOR HEALTHY COMMUNITIES 」



Annual Report 2013-2014



**WATER THAT
IS SAFE
TO DRINK**



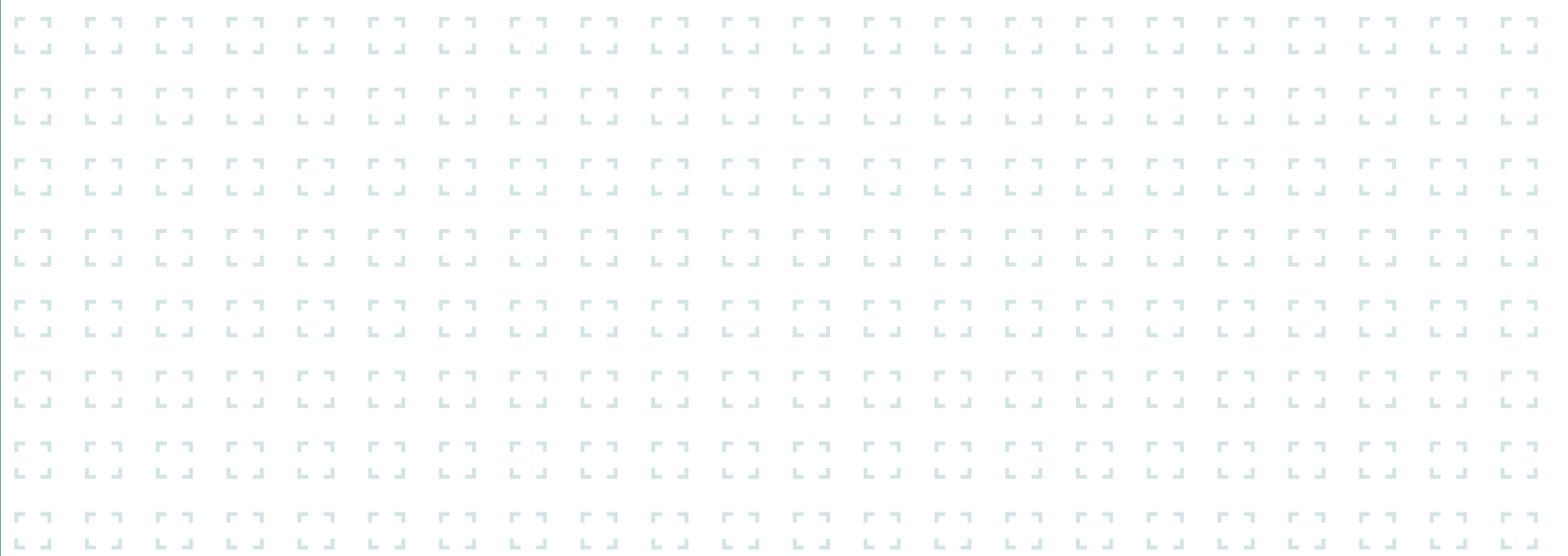
**NETWORKS
THAT ARE
RESILIENT,
NOW AND IN
THE FUTURE**



**RESPECT FOR
COMMUNITIES
AND THE
ENVIRONMENT**

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Capacity Infrastructure Services

Capacity Infrastructure Services is a council-owned company that manages water networks for the Hutt, Porirua, Upper Hutt and Wellington city councils.

Our purpose is to create excellence in delivering regional water services for healthy communities. We do this by working across the region to identify issues that are significant and common to our council clients and their ratepayers, then advising each client on the best solutions to achieve the outcomes they seek from their drinking water, wastewater and stormwater services.

We engage with a range of suppliers and other stakeholders to carry out agreed programmes of work. This includes obtaining resource consents, designing and managing projects, investigating and responding to network problems such as leaks, breakdowns, flooding and pollution, advising property developers and businesses, planning for emergencies, developing and delivering information programmes – and reporting on this activity.

As well as managing our clients' water network assets, we also promote awareness of ways in which everyone can play a positive role in achieving our three waters outcomes:

- Water that is **safe** to drink.
- **Respect** for communities and the environment.
- Networks that are **resilient**, now and in the future.

Three waters, three outcomes

The three waters – drinking water, wastewater, stormwater – and their successful management are essential elements for the health and growth of any urban area.

In the four cities, safe drinking water is delivered every day to around 140,000 homes, offices and commercial premises, through over 2,500km of publicly owned pipes.

Wastewater from those homes and businesses is transported via a network totalling more than 2,200km to one of four treatment plants, in Porirua, Seaview (Hutt City), western Karori and Moa Point (Wellington). It is then discharged to the sea.

And stormwater systems in each city that include streams, rivers, and almost 1,700km of pipes, carry rain water that runs from city roofs and streets to enter the coastal environment.

When setting their expectations for the performance of these critical networks, city councils must be mindful of the impacts of population growth and development needs, climate change, aging infrastructure and replacement costs, changing regulatory requirements and public expectations. Capacity's role is to act as a trusted advisor, taking account of all this information and more, looking into the future as well as across the region, then applying our expertise to help each council make the best decisions to meet their vision for the future of their city.

This report reviews our performance as an advisor and manager of the three water networks on behalf of our clients, and as a standalone business responsible to our four shareholders – the Hutt, Porirua, Upper Hutt and Wellington city councils.

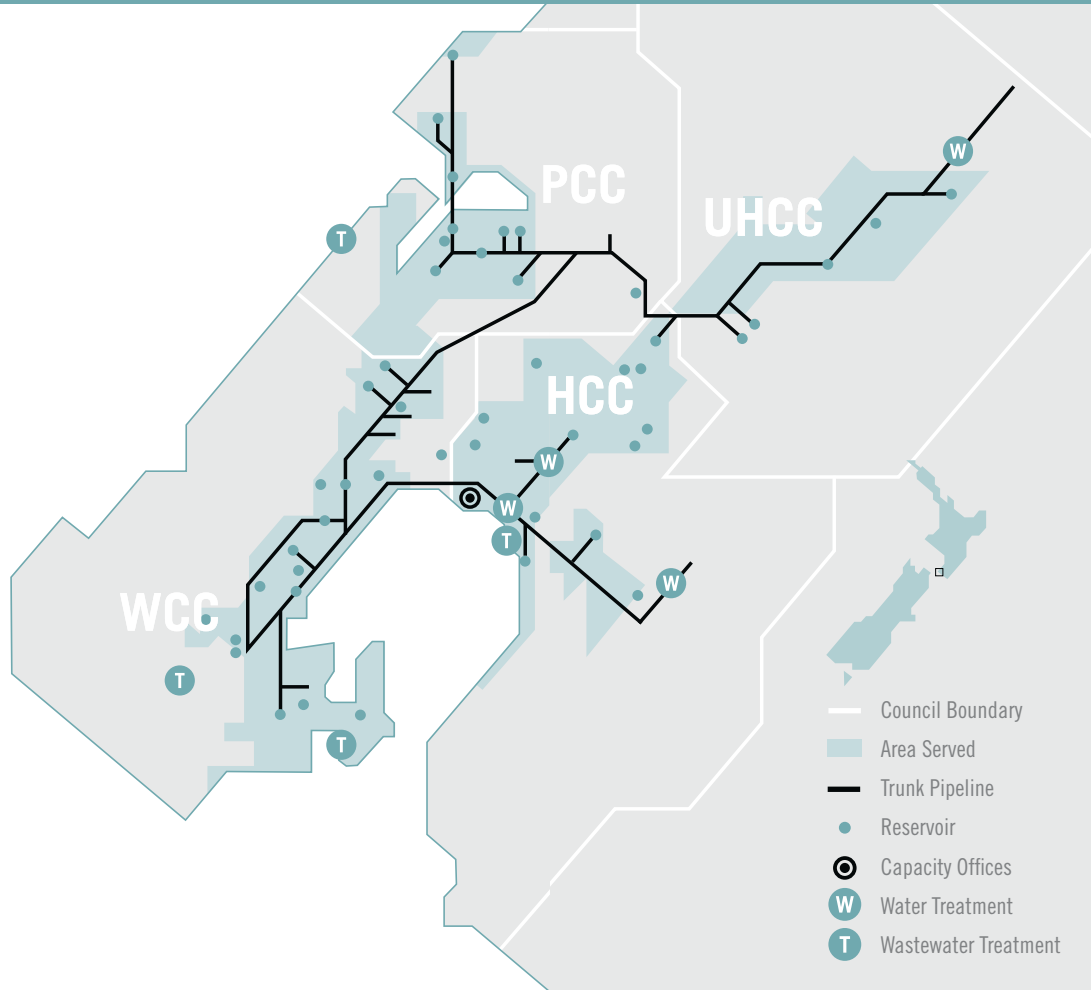
49,291,000,000

litres of water supplied to Porirua, Lower Hutt, Upper Hutt and Wellington, 1 July 2013 – 30 June 2014



*Population figures are based on projections from Statistics New Zealand. Includes all water supplied. Average residential consumption per person is 210-225 litres per day.

ONE REGIONAL NETWORK



FOUR COUNCILS

HUTT CITY

Asset value: \$510 million
 Population: 103,400
 Connections: 38,718
 Pipelines (km): 1,801
 Pumping Stations: 54
 Reservoirs: 24

PORIRUA CITY

Asset value: \$320 million
 Population: 51,700
 Connections: 18,040
 Pipelines (km): 1,009
 Pumping Stations: 57
 Reservoirs: 18

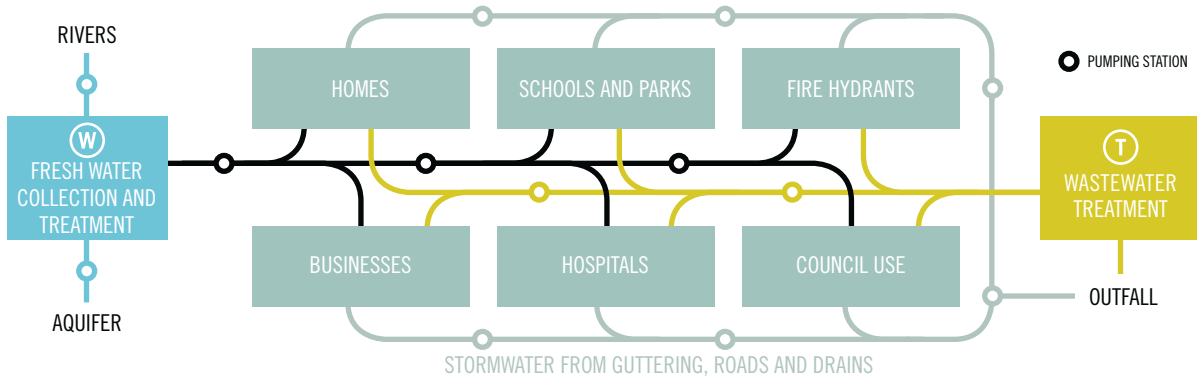
UPPER HUTT CITY

Asset value: \$272 million
 Population: 39,360
 Connections: 12,302
 Pipelines (km): 649
 Pumping Stations: 27
 Reservoirs: 16

WELLINGTON CITY

Asset value: \$1197 million
 Population: 201,160
 Connections: 69,000
 Pipelines (km): 3,028
 Pumping Stations: 96
 Reservoirs: 80

THREE WATERS



From the Chairman

During the course of the year, Capacity celebrated its tenth year in operation. We began the year jointly owned by the Wellington and Hutt city councils, as a separate business entity to manage the provision of the three water services to our two client shareholders. Four years later, Upper Hutt City Council joined Capacity as a client, but not as a shareholder.

Over the first ten years, Capacity has worked to provide water services as sustainably and economically as possible. Though our vision to expand and provide services right across the region did not initially materialise, it is now a reality.

During the past year, Upper Hutt City Council joined as a shareholder. Porirua City Council joined as both a shareholder and a customer. The plan to move to a more outcomes-based business model, signalled in our last year's report, became fully operational during this year.

Of even greater satisfaction was seeing our four shareholders agree in principle that the Greater Wellington Regional Council's bulk water division should integrate with Capacity to form a new water management company. The new company will be owned by and provide services to all the five local authorities across the Wellington region.

The vision's final stage, to provide 'source to sea' service on an integrated basis, is now being planned in earnest. It is our expectation that this can be achieved before the end of this calendar year.

It is very encouraging to see the constructive cooperation between all of the local authorities in the Wellington region, which I am sure will result in great long-term benefits for the citizens of the Wellington region.

Despite these significant changes, Capacity staff have continued to operate business as usual, providing great service to all of our customers over the year.

During the year we farewelled directors Peter Allport, Andy Foster and Peter Leslie who each served their full terms. New Board members appointed during the year were Sarah Free, Nick Leggett, Wayne Guppy, Raveen Jaduram and Nicki Crauford. They have all brought diverse skills and passion to the Board. As the integration with the bulk water service gathered momentum post balance date, a new governance model was agreed. This saw the creation of a five person Water Committee whose members will be representatives of each of the four city councils and the regional council.

A new Board will be formed, under my chairmanship, with Raveen, Nicki, and Ian Hutchings in place, to be joined by up to four new directors.

The company also recruited a new chief executive, Colin Crampton, following the retirement of our inaugural chief executive, David Hill. Colin commenced work in late January and has thrown himself into the job with huge energy and great enthusiasm. He is doing a splendid job in a fast-changing environment.

During the year, the Board has refreshed and adopted a new strategic plan. This is focused on working effectively to achieve the community objectives determined by our respective council clients. Our focus is to provide the three water outcomes dictated by our clients, on a coordinated basis with a regional overview and three priorities:

- Safe to drink.
- Respectful to the environment.
- Resilient now and in the future.

The assets of the water network remain with our client councils and they retain final decisions on all investment matters and the outcomes required. We work hard to provide them consistent, coordinated and first-class advice to enable them to make the right decisions. I am confident that there is a greater understanding of the role Capacity provides in a refreshed environment of trust and greater cooperation, such that Capacity can rightly claim to be the trusted advisor to all its council clients.

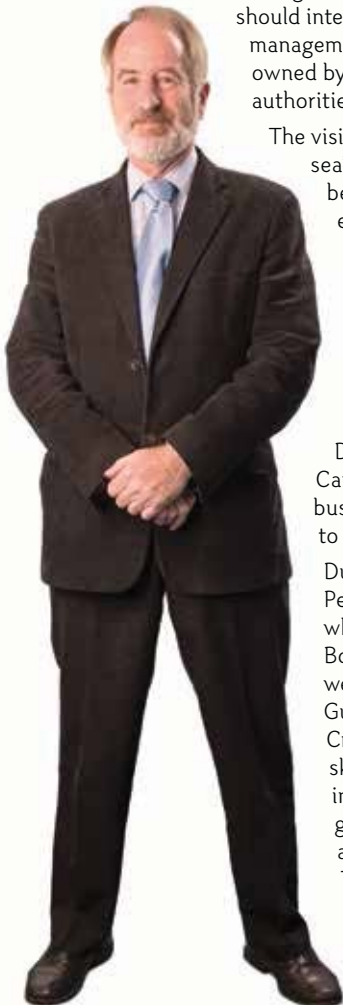
I would particularly like to record the Board's appreciation and thanks to our inaugural chairman, Bryan Jackson, and chief executive, David Hill, my predecessor as chair of the Board, Peter Allport, and outgoing directors Peter Leslie, Andy Foster, David Bassett, Sarah Free, Wayne Guppy and Nick Leggett.

I have huge confidence in the qualities and enthusiasm of our new chief executive and of all of the current staff in Capacity. This will be enhanced further with the proposed integration with the excellent people working in the Water Supply Group of the regional council. I have no doubt that the new combined entity will deliver on the hopes and expectations of our five shareholders.

My thanks to the staff at Capacity for all of their hard work, and for the help and support of my fellow Board members.



John Strahl
Chairman

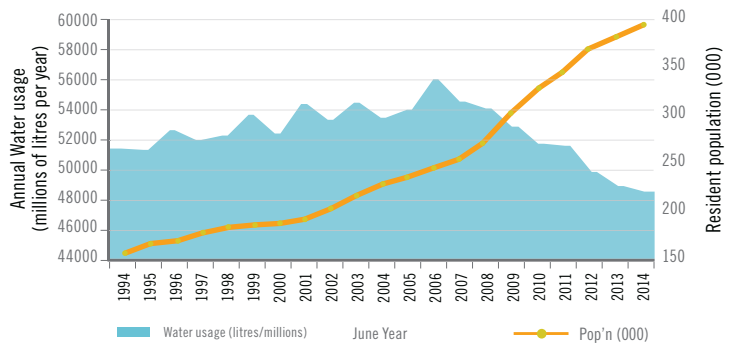


Highlights of the Year

WATER USE PER CAPITA CONTINUES TO FALL

Despite a growing population, and even without increased watering restrictions implemented in the summer of 2012-13, water use in the June year was the lowest per capita in 40 years. This is a reflection of leak detection and repair work, as well as water conservation messaging and increased use of water efficient devices.

Water Supply and population (4 cities)



STORMWATER MANAGEMENT PLAN

We completed Stage 1 of the Integrated Stormwater Catchment Management plan. This plan is required by a resource consent permitting Wellington City Council to discharge stormwater and occasionally contaminated stormwater into the coastal marine area. Stage 1 identified different catchments and various impacts of stormwater discharges. Stage 2, now under way, will develop catchment-specific plans to manage existing and future water quality.



An integrated approach to addressing stormwater issues is a requirement of the new National Policy Statement on freshwater.

CAPACITY HITS TEN YEARS

Ten years after it was formed, Capacity achieved its aim of managing three waters networks across four major cities. Capacity achieved this goal when Upper Hutt and Porirua City became shareholders of Capacity in November. By June 2014, negotiations were well advanced with the Water Supply Group of Greater Wellington Regional Council to create a full source to sea water services management company.



The mayors of Hutt, Upper Hutt, Porirua and Wellington cities – Ray Wallace, Wayne Guppy, Nick Leggett and Celia Wade-Brown, raise a glass to Capacity's 10 years.

From the Chief Executive

Capacity sought to take a new direction in 2014. Over the previous six months the company had been focused on growing from an efficient delivery business to a value-added outcomes-based business, culminating in Porirua City Council and Upper Hutt City Council becoming shareholders in November 2013. With these shareholders added, Capacity became a true regional retail three waters business, delivering service to 400,000 people within the Wellington region.

At the beginning of 2014, the most important question we asked ourselves was “Who is our customer?” There were two choices:

- a) our client councils, or
- b) the general population of the four cities.

The unique model under which Capacity operates resulted in the decision that our client councils were our primary customers. They consult with ratepayers through their long term plans and set levels of service and investment to achieve three waters outcomes. It is Capacity’s job to work with councils to achieve these service levels and outcomes by being their trusted advisor. That is, we work as an extension of councils, providing excellent advice and consistency across the region. Our secondary customer angle is to deliver great customer service to the communities of the four cities.

With our primary customer decision in place, we set about determining our company strategy. The result of this was a focus on the regional nature of our business. In providing identical services to all clients, we have the opportunity to look across all four cities for key regional issues and promote a conversation on how to deal with these. If we are successful with this, individual councils will then invest in a coherent fashion, resulting in a region working hard to deal with the issues most important to it. It is very early days with this work and we are looking forward to progressing this strategy over the next year.

To deliver this strategy we need the capability to match. Capacity has sound capability to cover its entire operational works, and some strategic asset management skills. To be a trusted advisor and deliver on the regional strategy, we need more strength in our strategic planning and asset management functions. We are looking to build up these skills over the next financial year. At the same time, we are working hard to build a culture where staff are empowered to make things happen, work in a collaborative manner and feel comfortable to lead in regional debates. Our internal culture survey suggests we are growing our people-leading capability and ensuring we are results focused.

The fourth key task for us was to progress the merge with Greater Wellington Regional Council’s Water Supply Group. This was the last element of Capacity achieving the full regional model. Great progress had been made by year end and, shortly after balance date, the regional council undertook public consultation, then agreed with the four city councils to proceed with the proposal.

This is an exciting period of change for Capacity, while we continue to manage asset work programmes exceeding \$150m a year. We look forward to consolidating our regional work in the financial year ahead.



Colin Crampton



Client Feedback

Hutt City Council has for many years maintained a strong focus on a financial strategy aimed at reducing debt and minimising rates increases, while at the same time maintaining first class core infrastructure assets and customer services. Within those challenging parameters, Capacity has consistently provided quality asset management advice and planning, combined with expert contractor and financial management skills, to deliver annual operating programmes and capital projects on time, to quality, and within budget.

I look forward to continuing our open, strong relationship with Capacity as a full end-to-end service provider.

Bruce Sherlock, General Manager,
City Infrastructure, Hutt City Council



Joining Capacity meant greater opportunities for council staff in a bigger organisation, as well as reducing the risk to Upper Hutt, as a smaller council in the region, of attracting and retaining highly skilled staff. The shared service model ensures we're able to get the best advice and retain local knowledge.

Lachlan Wallach, Director Asset Management
and Operations, Upper Hutt City Council



It was always the vision of Wellington City Council to see a region-wide water services entity that had the scale to develop a true 'centre of excellence' for these essential services.

International best practice shows that scale is essential to be able to attract and retain the diverse range of skills necessary to provide this.

We are delighted to see the progress towards this vision with Upper Hutt and Porirua joining the company as both shareholders and clients. With the Greater Wellington Regional Council bulk water team planning to join, the future looks even brighter.

Anthony Wilson, chief asset officer,
Wellington City Council

How Capacity is funded to perform

City councils are required by the Local Government Act (2002) to describe community outcomes and set measures and targets for the performance of activities including each of the three waters. Councils do this through long term (10-year) and annual plans. The public can make submissions on any aspect of these plans, so councils can be sure their communities are comfortable with proposed levels of service. Capacity is responsible for delivering on our client councils' three waters measures and targets. We generally refer to these as LTP

Indicators and we report on them every quarter. Because we're a council-owned organisation, we also report to our shareholders on targets and measures relating to our performance as a well-run business. These are Capacity's Performance Indicators. To achieve our LTP and performance indicator targets, we are funded through annual budgets set by councils as part of their annual plans. We apply this money to the three water networks, to deliver the level of performance funded, and to achieve our agreed outcomes.

FROM LONG TERM PLANS TO COMMUNITY OUTCOMES

Councils' LTP measures and targets for the three waters are reported in detail on pages 20-21.

WATER SUPPLY

Drinking water quality
Customer satisfaction
Service response time
Network reliability

STORMWATER

Flooding incidents
Beach water quality
Customer satisfaction
Service response times
Network reliability

WASTEWATER

Water quality
Customer satisfaction
Service response times
Network reliability

CAPACITY'S PERFORMANCE INDICATORS

These indicators were published in our 2013-14 Statement of Intent. We report on them on the next page and throughout this Annual Report. They are grouped as follows:

SERVICE QUALITY

CUSTOMER FOCUS

COST EFFECTIVENESS

ENVIRONMENTAL STANDARDS

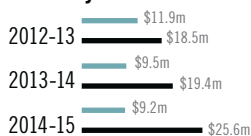
LEGISLATIVE COMPLIANCE

PROCESS

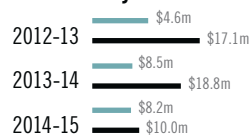
COUNCIL WATER BUDGETS

Councils allocate money for their water networks in two main categories: capital expenditure (capex) and operational expenditure (opex). Capex work includes replacing or upgrading assets, such as pipes and reservoirs; opex funding is spent on repairs and maintenance. (Figures below exclude interest and depreciation, and include bulk water fees.)

Hutt City Council



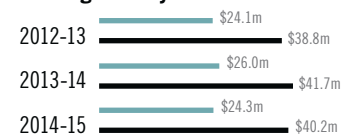
Porirua City Council



Upper Hutt City Council



Wellington City Council



Capex Opex 2014-15 forecast

OUTCOMES FOR COUNCILS AND COMMUNITIES

We are an outcome focused business, meaning we emphasise delivering what is meaningful to our clients and customers.

WATER THAT IS SAFE TO DRINK

RESPECT FOR THE ENVIRONMENT

NETWORKS THAT ARE RESILIENT NOW AND IN THE FUTURE

HOW WE PERFORMED ON OUR STATEMENT OF INTENT 2013-2014

CAPACITY'S STATEMENT OF INTENT PERFORMANCE INDICATORS		HOW WE DID				NOTE
OUR SERVICE QUALITY Water Supply						
1	Fewer than four unplanned supply cuts (pipe bursts) per 1000 connections	HCC 1.87	PCC N/A	UHCC 1.55	WCC 1.55	✔
2	Fewer than 1.2 wastewater incidents reported per kilometre of wastewater reticulation pipeline	0.68	N/A	0.58	0.58	✔
3	Maintain existing Ministry of Health grades for water supply	b	a	a	b	✔
4	Comply with New Zealand drinking water quality standards	100%	100%	100%	100%	✔
5	Complete annual operating and maintenance programmes within budget	(See table below)				△
6	Complete annual capital projects programmes within budget	(See table below)				✔
7	Complete annual operating and maintenance programmes within the financial year (+/-10%)	93%	N/A	100%	95%	✔ see p12
8	Complete annual capital projects programmes within the financial year (+/-10%)	90%	N/A	86%	89%	△ see p12
9	Maintain network serviceability indicators within agreed tolerances	See Note 1				
OUR CUSTOMER FOCUS						
10	Achieve A & B response time targets for priority one activities in 97% of incidents or better	99%	N/A	98%	98%	✔
11	Achieve customer service satisfaction survey targets relating to network performance and activity within Capacity's control, as agreed with each client council (Targets 95%, WCC 90%)	92%	N/A	94%	100%	△
12	Achieve customer complaint targets relating to network performance and activity within Capacity's control, as agreed with each client council	See Note 1				
OUR COST EFFECTIVENESS						
13	Meet client council requirements for operating costs per connection	See Note 1				
14	Maintain capital projects design and consultancy charges as a percentage of capital expenditure within industry guidelines	See Note 1				
15	Manage Capacity within budget	(See table below)				✔ Note 2
16	Maintain unaccounted for water percentages at or below levels agreed with each council	17.3%	14.2%	15.9%	11.3%	Note 3
OUR ENVIRONMENTAL STANDARDS						
17	Maintain average unmetered water consumption (normal year) at or below levels agreed with each council (Targets HCC 350L, WCC 290L Residential use)	220	N/A	N/A	264	✔
18	No resource consent related infringement notices received from Greater Wellington Regional Council	0	1	0	0	△
19	Full compliance with all relevant legislation					✔ Note 2
OUR LEGISLATIVE COMPLIANCE						
20	Full compliance with the Health and Safety in Employment Act 1992					✔ Note 2
21	Achieve key milestones for emergency management planning delivered by Capacity					✔ Note 2
OUR PROCESSES						
22	Meet Audit New Zealand requirements for asset management plans					✔ Note 2
23	Deliver asset management plans, statement of intent, annual report and other agreed documents on time					✔ Note 2
24	Maintain ISO accreditation					✔ Note 2

Note 1. Indicator under review for inclusion in council 2015-25 long term plans.
 Note 2. Single indicator represents organisation performance.
 Note 3. WCC target 14%. Targets for HCC, PCC and UHCC to be determined for inclusion in 2015-25 long term plans.

Indicator 5

	2013-14		2012-13
	Budget	Actual	Actual
HCC	19.363	18.460	22.79
PCC	18.818	19.072	17.684
UHCC	4.551	4.598	6.85
WCC	42.360	41.380	39.96
Total	85.092	84.482	87.284

Indicator 6

	2013-14		2012-13
	Budget	Actual	Actual
HCC	9.475	8.130	9.786
PCC	8.522	6.0	6.196
UHCC	3.726	2.915	3.483
WCC	26.025	23.399	21.617
Total	47.749	40.445	41.082

Indicator 15

	2013-14		2012-13
	\$m	Actual	Budget
Revenue	13.281	16.570	7.620
Expenditure	13.225	16.456	7.646

The significant change in revenue and expenditure compared to last year is a result of Porirua and Upper Hutt becoming shareholders, and a change in our funding model. Full financial statements and notes appear on pages 34-51.

Service Delivery Review

This section provides an update on specific activities we noted in our 2013-14 Statement of Intent, in response to requests from our shareholders.

ASSET MANAGEMENT PLANNING

In 2012 Capacity completed a review of our asset management practices and prioritised twelve key areas for improvement. We have now completed eight of these. Three of the four uncompleted projects, demand forecasting, contingency plans, and levels of service, will be completed by December 2014.

With the integration of Greater Wellington's Water Supply Group and Capacity into a new council-controlled organisation, the remaining improvement project – implementing a single regional three waters asset management system within Capacity that links to council systems – has to be extended to include Greater Wellington. This will be carried out in the 2015-16 year.

Over the past year we have developed a standard template for asset management plans across client councils and we are now populating this.

We completed pipeline condition models and will continue to calibrate them by taking representative pipe samples and adjusting the models according to actual pipe condition.

The criticality framework for identifying and managing critical assets which we have developed was presented at the IPWEA conference in June this year.

We also completed preliminary work on identifying key regional issues faced by our client councils, and proposed responses to these issues. These will be used to guide conversations with our clients in the coming months, with the aim of developing a coherent regional investment strategy to address the issues.

Standardising asset management systems for the region



Installing a section of 900mm water main in Hargreaves Street, Wellington



Above: Water supply pipework relaid as part of the Memorial Park development.

Developing regional investment strategies to address issues



CAPITAL PROJECT MANAGEMENT

Capital works projects are managed through programmes agreed with individual councils, sometimes several years ahead of when they are carried out. As a consequence, the actual work programme can vary from that set out in council annual plans and our Statement of Intent.

This year our project completion numbers reached 90% of target for Hutt City, 86% for Upper Hutt and 89% for Wellington. Overall capital projects expenditure was 12.2% below budget.

The main reason for the variance was project deferrals. These occurred for a variety of reasons, including diverting funding to more urgent work, additional investigation or timing requirements, and project scope changes. Wellington's Hospital Prince of Wales reservoir is a major budgeted project that was placed on hold by Wellington City Council, and the timing of stormwater works within Tasman Street and the campus of Massey University was delayed to fit in with the Memorial Park project.

We believe we could be better prepared to cope with variations in the annual programme. We completed a significant amount of forward design work in the year which will help us be more resilient to change in the coming year. We also examined our own performance in this area and identified that we needed to be better prepared to cope with unforeseen events and urgent client requests. This resulted in a stronger focus on forward planning, and greater accountability. We also tasked individual staff members with responsibility for work programme delivery, and increased our monitoring of programme progress, to better track and forecast programme completion issues.

We are also developing a process to agree on programme changes as a result of urgent works or council requirements.



A contracts and procurement manual is in development, to make our tendering processes more transparent. We had expected this to be ready by 1 July 2014, but have delayed implementation to allow for implications of the merger with the regional council's Water Supply Group, and to engage with our suppliers for their feedback.

We have undertaken improvements to our health and safety systems including improved documentation from contractors concerning site-specific health and safety plans, and additional forms and checklists to be used by our staff for contract management.

PROGRAMME HIGHLIGHTS

Hutt City

Wastewater pipes in Wainuiomata and Naenae were assessed for their impact on inflow and infiltration issues. We renewed wastewater drains in Wainuiomata, Naenae, Alicetown and Point Howard.

We carried out work to improve the earthquake resilience of the water network, strengthening the Konini and Kingsley reservoirs, and renewing a major water main that travels under the Kennedy Good bridge.

New pumps were installed at the Kelson pump station and water and stormwater mains were renewed in Stokes Valley.

Porirua City

Capacity took over delivery of Porirua's capital expenditure programme a third of the way through the financial year.

We completed a refit of Porirua Low reservoir, including installing seismic resilient valves, and the structural relining of a water main which crosses beneath State Highway 1, Porirua Stream and the rail network. This was the first time this technique had been used in New Zealand.

Stormwater upgrades consisted of city-wide minor works including sump, manhole and inlet upgrades, with larger works centred on addressing flooding issues within the Waitangirua area.

To help reduce bathing beach water contamination, we undertook CCTV investigations, smoke testing, flushing and patch repairs in the Titahi Bay area. Five kilometres of wastewater drains and associated manholes were relined in Cannons Creek, Waitangirua and Papakowhai. Twenty residential wastewater pumps, associated pipework and water supply reticulation in Pauatahanui were added to Porirua's network management. A suite of maintenance activities was also completed on the Porirua wastewater treatment plant.

Upper Hutt City

We improved the earthquake resilience of two water reservoirs and installed new pumps at the Seddon Street bore, which is a key asset should normal supply be disrupted. Water mains were renewed at seven locations. Wastewater and stormwater drains are being renewed in

Elmslie Road including Stage 2 of the Elmslie Road wastewater project, which was brought forward from the 2014-15 year. Consequently construction of the Whakatiki Street wastewater drain was deferred to 2014-15.

Six other stormwater and wastewater drains were renewed, although completion on two projects was delayed when the contractor was diverted to complete urgent work elsewhere.

Wellington City

Water supply resilience work included seismic upgrades for Maupuia reservoir and a similar upgrade for Maldive No. 2 reservoir. We decommissioned unused reservoir tanks in Khandallah, Karori, Karaka Bay, Woodridge, Mt Cook and Northland.

We renewed pipe networks in Miramar, Strathmore, Kilbirnie, Tawa, Melrose and in the central business district. We upgraded pipe networks in Aro Valley, Karori, Glenside and Highbury to meet firefighting standards. Three water pump stations were upgraded.

Wastewater network renewals were completed at 18 locations throughout the city with a strong focus on Miramar, where seven renewals were completed. Three wastewater pump stations were upgraded to ensure they meet performance expectations into the future.

Stormwater drains were upgraded at five locations throughout the city. The Davis Street culvert was strengthened as the culvert is located beneath the Wellington oversized vehicles route. To address historical flooding issues in Te Aro, work began on Stage 2 of the Tasman Street stormwater upgrade project, tunnelling under the Massey University campus.

ANNUAL PLAN PROGRAMME COMPLETION AND BUDGET

Hutt City Council

Projects	Planned	Completed	% Completion	Target +/-10%
Capex	26	23.3	90%	✓
Opex	28	26	93%	✓
Budget (\$000)		Actual (\$000)	% Completion	Target +/-10%
Capex	\$9,475	\$8,130	86%	△
Opex	\$19,363	\$18,460	95%	✓

Capex underspend was mainly due to public and private consent requirements for two projects.

Upper Hutt City Council

Projects	Planned	Completed	% Completion	Target +/-10%
Capex	28	24	86%	△
Opex	25	25	100%	✓
Budget (\$000)		Actual (\$000)	% Completion	Target +/-10%
Capex	\$3,726	\$2,915	78%	△
Opex	\$4,551	\$4,598	101%	✓

Under-completion was mainly due to an urgent wastewater network repair which needed specialist skills that were not immediately available. Funding was carried forward to the new year.

Wellington City Council

Projects	Planned	Completed	% Completion	Target +/-10%
Capex	70	62.5	89%	△
Opex	38	36	95%	✓
Budget (\$000)		Actual (\$000)	% Completion	
Capex	\$26,025	\$23,399	90%	✓
Opex	\$42,360	\$41,380	98%	✓

The Tasman Street tunnelling project was re-tendered; and Maupuia reservoir construction delayed due to asbestos.

EMERGENCY MANAGEMENT

Resilient infrastructure

Our work in this area focuses on strengthening existing network components, improving network resilience, and improving reservoir, pipe, valve and pump station design.

Work over the 2013-14 year included assessing and upgrading critical assets including pipelines, pumping stations and reservoirs. This improves the security of supply in a post-earthquake environment, and reduces the length of time taken for network restoration.

Hutt City: We replaced critical pipelines, upgraded Kelson water pump station, and conducted seismic assessments of all reservoirs and reservoir couplings.

Porirua: The replacement of critical pipelines and upgrade of the Porirua Low reservoir upgrade were completed under a programme targeting major reservoirs that began three years ago and has five more years to run.

Wellington: We replaced critical pipelines and upgraded Karori Park pump station. Work on Maupuia and Maldive No. 2 reservoirs was almost complete by the end of the period. Work on the Hospital Prince of Wales reservoir was deferred at the council's request, pending investigation into other resilience options.

Response Capability

Our work in this area includes emergency response planning to ensure an effective response to emergency events. We also undertook specific

projects to provide alternative supply sources to supply communities until such time as normal service levels are resumed following a major event including:

- updating the Capacity Emergency Management Plan and participating in Wellington Regional Emergency Management Office and Wellington Lifelines Group planning and information management projects
- reviewing and scoping a regional telemetry plan across the three waters infrastructure to build resilience in information and control systems
- installing emergency water storage facilities at key distribution sites
- identifying and procuring additional emergency water sources from ground water (bores and streams)
- preparing an emergency water supply plan that sets out for each council its potential alternative supply sources and the programme and funding requirements to develop them
- identifying options for safe waste disposal.

WASTEWATER NETWORK MODELLING

Modelling is an essential planning tool for shaping development and upgrade plans.

Hutt City Council: Modelling of the Wainuiomata network is being used to identify and prioritise solutions to minimise inflow and infiltration. With the model complete, the next stage is to evaluate options and settle on the preferred strategy for addressing network issues. This work is now pending funding from the council.

CCTV investigations, pressure testing and inflow surveys completed in Naenae and Stokes Valley identified renewal projects to be included in future work programmes.

Upper Hutt City: Work continued on extending and upgrading Upper Hutt's network model with new asset data collected through monitoring programmes. We expect this to be complete in the coming financial year, prior to preparing management and renewal programmes for 2015–16.

Wellington: Earlier in the year we recalibrated the network model for Wellington's trunk wastewater system and used it for an investigation required by the council's global stormwater discharge consent. Further catchment-targeted modelling was placed on hold by the council for 2013–14, but more will be undertaken in the coming year through the work of the integrated catchment management plan.

NETWORK OPERATION DATA

We manage and monitor a supervisory control and data acquisition (SCADA) network that consists of over 350 telemetry sites, 12 repeaters, 12 channels and seven base

stations. This system is due to be upgraded from analogue to digital. Plans for this work have been prepared for evaluation by our client councils. We extended the scope of the upgrade to allow for integration with the regional council's Water Supply Group, and their Scada operation. We also integrated Porirua's network into our base station, to enable real time monitoring of that city's networks.

LEAK DETECTION AND WATER CONSERVATION

The year to June was the eighth in a row that water consumption has fallen, and was the lowest in about 40 years, despite population growth. This is an outstanding achievement and we expect it to allow for increased flexibility in the timing of investment in additional water storage infrastructure.

Even so, water supply consumption and demand management in Wellington, Hutt, Upper Hutt and Porirua remain critical to keep costs down, meet community outcomes and support the strategic goals of individual councils.

Ongoing leak detection and repair programmes supplement the responses to leaks and bursts by our contractors. Nearly 2,600 toby repairs, and 462 service pipe repairs were made in Hutt City, Upper Hutt and Wellington last year, while callouts to burst mains and rider, or secondary, mains, were down on previous years. Response time targets for attendance to leaks are also intended to ensure water lost through leaks and bursts is minimised. These targets were met for Hutt and Wellington, and only narrowly missed in Upper Hutt.

Capacity has continued to work with Wellington and Hutt city councils on executing their water conservation and efficiency plans, and with Upper Hutt City Council on its established approach of demand management. This activity includes promoting water restrictions and managing and monitoring water patrols during summer, as well as a suite of year-round activity.

We conducted a project directly approaching the largest commercial water users in each city to start a conversation about better managing water consumption. In collaboration with Hutt City Council, we surveyed retailers of whiteware and water fixtures to gauge staff and customer awareness of water conservation and efficiency. We revamped our water conservation demonstrator Aquarius with new design and educational material, and developed promotional shower timers and stickers.

Aquarius appeared at a Wellington home and garden exposition show and similar events. We took it to five schools in the region, providing pupils with the opportunity to discuss, discover and learn about the importance of using water wisely. More detail is provided in the Working with Communities section on page 26.

Three Waters in the Region

Water supply

The Wellington region's drinking water comes from four main areas: the headwaters of the Hutt River, the Orongorongo and Wainuiomata rivers, and the Waiwhetu aquifer.

The river water is treated – clarified, filtered, chlorinated and fluoridated – by Greater Wellington Regional Council at its Te Marua (Upper Hutt) and Wainuiomata treatment stations. Aquifer water is extracted, chlorinated and fluoridated at



Waterloo (Lower Hutt) – except for the supply to Petone, which is not fluoridated. 'Bulk' water – typically between 100 and 150 million litres a day – is then delivered to reservoirs in Upper Hutt, Lower Hutt and Wellington, from where it is pumped to other reservoirs in their networks for delivery to customers.



Water from the aquifer meets about 40 per cent of demand, and supplies Wellington's CBD, southern and eastern suburbs, and all of Lower Hutt except Manor Park, Stokes Valley and Wainuiomata. Water from Wainuiomata meets about 20 per cent of daily demand, supplying that suburb and supplementing water from the aquifer for

Wellington. The balance comes from Te Marua supplying Manor Park and Stokes Valley, Porirua and Wellington's northern and western suburbs.

To reduce the risk of reliance on river water – which can be affected by excessive rainwater, when it becomes too dirty to treat, or not enough, when levels get too low – Greater Wellington also has two large storage lakes, at its Te Marua treatment facility. These hold a total of about 3.5 billion litres, and are used to supplement supplies from the aquifer.

Drinking water quality standards are managed by the Ministry of Health, which sets the maximum acceptable values or amounts for substances, organisms, contaminants or residues that may be present. New Zealand water supplies are graded from A1 to E according to water quality and the procedures in place to manage it. An additional grading, from a1 to e, is applied to the distribution network, according to the risk of the water in the network becoming contaminated, and the procedures in place to manage that risk.

Water quality grading is one of the key performance measures set by Capacity's client councils. You can see maps of grading zones in Porirua, Lower Hutt, Upper Hutt and Wellington on our website: Capacity.net.nz/your-water.

WHERE THE WATER GOES

There are three main categories of water usage: residential, commercial, and 'unaccounted for'.

Because we don't have universal water metering in the Wellington region, it is not possible to give exact figures on where the water goes. However, using survey meters and usage patterns from similar cities that are metered, we estimate an average per person consumption at home of 210–225 litres a day.

Unaccounted-for water includes leaks, firefighting, council use such as watering public parks and gardens, and unauthorised use.

These three usage types make up the gross consumption figure.

THE COST OF WATER

Lower Hutt, Porirua, Upper Hutt and Wellington all buy bulk water from Greater Wellington. Each city pays according to the proportion of the total delivered, rather than the actual amount. For 2013-14, the total paid was \$25.6 million.

Leak reduction measures we carry out in each city, such as zone metering, pressure management and leak detection, have contributed to falling water consumption per capita. In addition, response times to leak and burst alerts are closely monitored, and they are a key performance metric for our council clients.

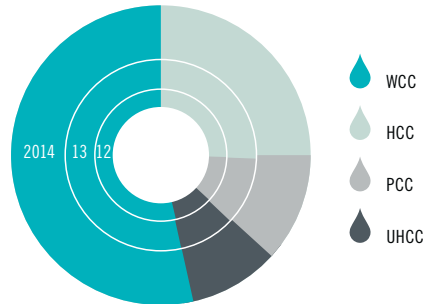
ANNUAL PROGRAMME

Our work in water supply focuses on projects to strengthen, renew or upgrade infrastructure; and managing reactive work to repair bursts or leaks.

In the past year we managed capital works expenditure of \$16.2 million and operational expenditure, including the cost of bulk water, of \$35.5 million. We completed 46 water supply capital works projects for Hutt, Upper Hutt and Wellington cities, against the annual programme of 62. These included pipe replacements, reservoir and network seismic upgrades, and improvements to the Scada remote monitoring network. Incomplete projects were due to funding and timing re-prioritisation, scope changes, and urgent works arising throughout the year.

Cities' share of total bulk water cost

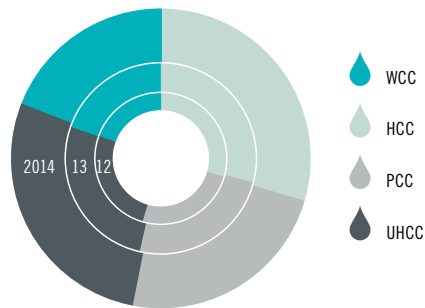
	2012	2013	2014	\$m (2014)
HCC	25.4%	25.6%	25.0%	6.46
PCC	11.5%	11.5%	11.8%	2.98
UHCC	9.4%	9.4%	9.8%	2.46
WCC	53.6%	53.5%	53.4%	13.74



Unaccounted-for water (% of supply)

Unaccounted-for water (UFW) is the difference between metred commercial use and estimated residential use. The major component of UFW is network leakage. Note that the figures here are estimates, as we do not meter every household.

	2012	2013	2014
HCC	18.3	17.7	17.3
PCC	15.6	14.9	14.2
UHCC	16.1	16.2	15.9
WCC	12.2	12.0	11.3



Water use by type (litres per day, per person)

Residential and unaccounted-for water figures are estimates.

	Hutt City Council			Porirua City Council			Upper Hutt City Council			Wellington City Council		
	2012	2013	2014	2012	2013	2014	2012	2013	2014	2012	2013	2014
Commercial	54	53	50	51	48	52	64	64	69	106	102	98
UFW	63	60	57	49	46	44	54	54	54	46	44	40
Residential	225	225	220	212	210	212	215	210	212	225	220	220



Water supply capital expenditure by city (\$000): *forecast

	2010-11	2011-12	2012-13	2013-14	*2014-15
Hutt City	\$1,702	\$2,187	\$1,885	\$2,604	\$2,579
Porirua	\$2,627	\$1,565	\$1,184	\$1,620	\$1,389
Upper Hutt	\$934	\$1,157	\$1,046	\$1,022	\$1,707
Wellington	\$11,257	\$12,224	\$12,170	\$10,983	\$12,294
Total	\$16,520	\$17,133	\$16,285	\$16,229	\$17,969

Length of water supply pipe renewals and upgrades by city



Wastewater

Water that goes down the sinks, drains, showers, baths and toilets of our cities' households, businesses, offices, restaurants, bars, hospitals and schools ends up at one of four treatment plants.



Moa Point (Wellington), Western (Karori), Seaview (Lower Hutt) and Porirua (north Wellington and Porirua) treat some 140 million litres of wastewater a day, using biological and ultraviolet treatment processes. The treated water is then piped via outfall pipes into the sea.

The sludge resulting from filtration and treatment is de-watered (with this water re-entering the treatment plant) and the remaining solid disposed of in landfills. Each of the treatment plants operates under its own resource consent, which permits the discharge of treated wastewater to the sea.

Several key factors affect planning and expenditure on wastewater networks. These include overflow incidents and blockages, network integrity, and treatment capacity.

WASTEWATER OVERFLOWS

Most wastewater networks perform well during dry weather and moderate rainfall. During prolonged, heavy rainfall, the increased inflow from cross-connections – where stormwater drains are mis-connected to wastewater pipes – and infiltration from rising groundwater levels and leaky pipes increases the load on the system. This can lead to overflows from the network.



These conditions can also lead to overflows at treatment plants. In a typical year, there are four to eight wet weather treatment plant overflow incidents a year, depending very much on the weather. Each overflow incident is reported to the relevant council and interested parties such as environmental and recreational groups.

BLOCKAGES AND TRADE WASTE

As with water conservation and stormwater quality, wastewater also has an element of public responsibility that contributes to network performance. An ongoing cost for councils is that of unblocking pumps clogged up by paper towels, cloths, wipes and other material that should not be flushed. Because it does not disintegrate in the way toilet tissue does, this material causes blockages in public and private drains that can lead to overflows.

Waste from commercial operations, whether a fast-food outlet or a manufacturing plant, is often required to be pre-treated prior to entering the public network. Trade waste management is particularly important because it protects the health and safety of treatment plant operators as well as the general public. It also reduces the load on the network, minimising damage from toxic or damaging material and the risk of blockages. Like the arteries of the human body, wastewater pipes are particularly susceptible to clogging by fat – hence the importance of commercial food premises installing and properly maintaining their own grease traps.

INFLOW AND INFILTRATION

Unlike water supply networks which are pressurised, meaning major leaks generally make themselves known pretty quickly, damage or faults in wastewater and stormwater networks are harder to find.

The consequences of poor connections and damaged pipes – inflow and infiltration – are evident in the massive increases in flows that treatment plants experience during wet weather – up to five times and more that of typical dry weather volumes.

Wet weather overflows from the wastewater system are highly diluted. Nevertheless, they are not desirable. One solution would be to increase the treatment plant capacity, though this would cost tens of millions of dollars. Another is to improve the integrity of both the wastewater and stormwater networks. A third is to undertake a campaign to address the issue of stormwater deliberately diverted into the wastewater network

Protecting the health and safety of people and the environment



Gaining understanding of network performance

cross-connections, as many of these are on private property.

Inflow and infiltration programmes are under way in all cities. Porirua is spending approximately \$2 million a year on the issue. CCTV inspections help us identify faults and get a better understanding of network and material performance to improve planning decisions.

The outcomes of this work are reduced wastewater treatment loads and costs, reduced likelihood of overflows and other inflow and infiltration impacts, and improved investment decision-making.



ANNUAL PROGRAMME

Our annual project work in wastewater focuses on renewing or upgrading infrastructure including pipes, pumps and pump stations, and managing responses to water quality issues, blockages and overflows.

In the past year, we managed wastewater capital works expenditure of \$17 million, and operational expenditure of \$38 million, including wastewater treatment costs. This included 36 capital expenditure projects for Hutt, Upper Hutt and Wellington cities, against a planned total of 36. Programme changes meant an increased number of projects were completed within the existing budget.



Wastewater capital expenditure by city (\$'000): *forecast

	2010-11	2011-12	2012-13	2013-14	*2014-15
Hutt City	\$2,129	\$4,013	\$5,335	\$4,514	\$4,995
Porirua	\$10,067	\$8,431	\$3,440	\$3,459	\$6,264
Upper Hutt	\$1,103	\$1,074	\$1,704	\$1,142	\$2,567
Wellington	\$7,910	\$8,068	\$6,883	\$7,923	\$7,745
Total	\$21,209	\$21,566	\$17,362	\$17,038	\$21,571

Length of wastewater pipe renewals and upgrades by city



- WCC
- HCC
- PCC
- UHCC

Stormwater

City stormwater networks include both natural water courses and the built drains, sumps, pipes and pump stations that help channel rainwater off our streets and away from buildings.

Because it is untreated before entering streams, rivers and the sea, stormwater run-off presents a major challenge in urban environments, as well as in rural areas.

Rain flushes roads and other hard surface areas into receiving environments including coastal waters, meaning they can be adversely affected by contaminants and bacteria from chemicals, litter, debris and animal faeces.

In addition, some people still treat stormwater drains as waste disposals, and deliberately tip waste material and detergents into street-side gutters or sumps, polluting the environment.

In extreme rain events, or due to system failure such as blockages, excess stormwater can cause flooding and have potentially devastating and costly effects. Climate change studies suggest there are two significant areas of impact likely to affect stormwater network performance. Firstly, reports indicate Wellington faces a sea-level rise of up to a metre over the next 100 years. For stormwater pipes that discharge into rivers and the sea, rising sea levels means they might not function as effectively as they do now. This increases the risk to people, property and the environment.

Secondly, climate change is likely to see more intense weather events such as isolated, extremely heavy rainfall. This can quickly overload networks or cause blockages, leading to flooding that disrupts traffic, damages homes and businesses, and once again put human health and safety at risk.

As awareness of these issues increases, so do community expectations around stormwater network performance. Yet many stormwater pipes already in the ground were built to perform to lower standards, to cope with storms expected once every six or seven years, rather than once every 50.

On top of all this, the government has recently updated the National Policy Statement for Freshwater Management. From 1 August 2025, all councils will be required to meet or exceed “national bottom line” fresh water quality values, and must maintain or improve water quality within their regions. In addition, councils are required to take a more integrated approach to the relationship between fresh water and coastal impacts.

Stormwater management is thus a key item for city council infrastructure planning and budgeting – and, as with drinking and wastewater, it is also an area where public responsibility plays a role.

INTEGRATED STORMWATER CATCHMENT MANAGEMENT PLAN

As noted, councils are increasingly expected to take an integrated approach to freshwater quality, and its impact on coastal waters. This year we completed stage one of Wellington City Council’s integrated catchment management plan, which focuses on precisely this issue.

Stage one involved identifying catchments and finding out what was going on within them that might affect stormwater quality, including, ecosystem health and human recreational values. Relevant factors include recreational activities, amenity values, receiving environment characteristics, existing contamination issues, the effects of flooding, potential wastewater contamination of stormwater, and future growth.

The next stage involves preparing detailed management plans for five coastal catchments. These will aim to achieve council objectives and those of the national policy statement, to maintain and improve water quality.

ANNUAL PROGRAMME

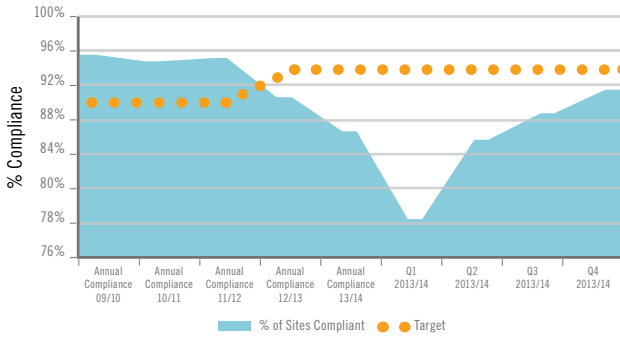
Our work in stormwater focuses on projects to improve capacity and address flooding issues, and replace or repair elements of the system to achieve our quality and resilience outcomes.

In the past year, we managed stormwater capital works expenditure of \$6.9 million, and operational expenditure of \$10.2 million. We completed 25 capital expenditure projects for Hutt, Upper Hutt and Wellington cities, against a planned programme of 26. This included deferral of four and adding five new projects for Wellington, all completed within the overall budget.

Water quality samples are taken at bathing beaches weekly during summer, and monthly during winter. The dry weather sampling data illustrate the effect of rain washing contaminants into the receiving environment. In most cases, re-sampling required by a high bacteria count shows levels have returned to normal three or four days after heavy rainfall.

Bathing beaches compliance with Ministry for the Environment guidelines (% of samples taken)

Bathing beaches (%) compliance with MfE guidelines (green status)



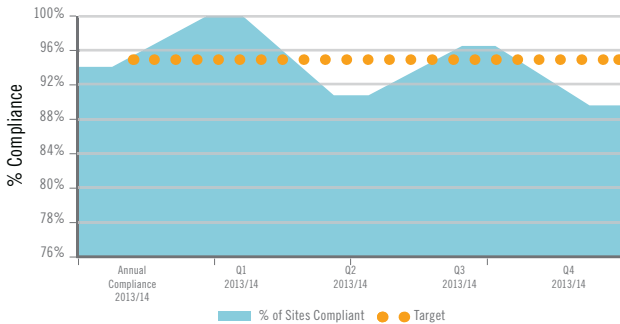
An integrated approach to stormwater quality

Water quality at bathing beaches is monitored weekly during summer, monthly during winter. In Quarter One – July to September – the test results are easily skewed by wet weather impacts. Excluding weather-affected results (below) shows 93% of tests complied with Ministry for the Environment guidelines. Last summer, no beaches were closed during the summer period.



Below: Shoring protects Tasman Street stormwater work six metres below ground level.

Bathing beaches (%) compliance with MfE guidelines (green status) - dry weather samples only



Stormwater capital expenditure by city (\$000): *forecast

	2010-11	2011-12	2012-13	2013-14	*2014-15
Hutt City	\$1,141	\$3,809	\$2,566	\$1,012	\$1,640
Porirua	\$828	\$676	\$647	\$921	\$579
Upper Hutt	\$305	\$1,609	\$733	\$751	\$100
Wellington	\$5,040	\$4,001	\$2,564	\$4,193	\$4,255
Total	\$7,314	\$10,095	\$6,510	\$6,877	\$6,574

Length of stormwater pipe renewals and upgrades by city



- WCC
- HCC
- PCC
- UHCC

Three Waters Performance Indicators

Hutt City Council

MEASURE	TARGET	RESULT
• Residents' satisfaction with service : water supply <i>(measured by independent survey)</i>	95% of respondents	✓ 96.0%
: wastewater	95% of respondents	✓ 96.0%
: stormwater	80% of respondents	✓ 84.0%
• Provide a reliable service : water supply	< 4 unplanned supply cuts	✓ 1.87
: wastewater	< 1.2 wastewater incidents per km/network	✓ 0.68
: stormwater	< 0.5 stormwater incidents per km/network	✓ 0.09
• Respond promptly to disruptions to : water supply	97% meet A and B response time targets for Priority One activities (on-site within one hour)	✓ 99.1%
: wastewater		✓ 98.8%
: stormwater		✓ 97.2%
Water Supply		
• Compliance with New Zealand Drinking Water Standards	Full compliance	✓ 100%
• Quality of drinking water	Maintain at least a 'b' grading (satisfactory, very low level of risk) across all distribution	✓ b
• Maintain the average unmetered water consumption	< 350L per head per day	✓ 220L
Wastewater		
• No resource consent related infringement notices received from GWRC	100% compliance	✓ 0
Stormwater		
• Achieve water quality at main recreational beaches	90% of sampling days when water quality meets Ministry guidelines 53 of 61	△ 83.0%

Porirua City Council

MEASURE	TARGET	RESULT
• Reduce the number of maintenance requests per 1000 households relating to the : water supply network	81	✓ 18.0
: wastewater network	24	✓ 23.7
: stormwater network	15	✓ 12
• Reduce % estimated unaccountable water lost through : water supply network	18%	✓ 17%
: wastewater network	1%	✓ 1%
• Maintain the number of Council initiatives to : secure adequate water supply into the future	7	✓ 7
: contain stormwater at source, reduce peak flows and ensure future capacity	7	✓ 7
: preserve future capacity in wastewater network	7	✓ 7
Water supply		
• Reduce the number of major water reticulation breakage incidents per 100km of network per year	80	✓ 17.53
• Maintain random tests throughout the city to ensure that the water supply is safe to drink	100%	✓ 100%
• Improve compliance with minimum firefighting standards for fire hydrants tested during the year	92%	✓ 100%
Wastewater		
• Maintain compliance with resource consent conditions of the Wastewater Treatment Plant	100% compliance <i>Plant capacity issues during and after heavy rain resulted in consent limits being exceeded</i>	△ 91%
• No discharges to the sea to bypass the Wastewater Treatment Plant screen and UV treatment	0 <i>Overflow from aeration basin in October 2013</i>	△ 1
• Ratio of peak wet weather flow to average dry weather flow (indicating amount of stormwater entering wastewater network)	Install calibrated flow meters to set baseline for 2015-16 target	✓ 8
Stormwater		
• No residential, commercial or public buildings affected by the entry of floodwater during storm events	0	✓ 0
• Introduce a bylaw to control pollutants at source	Develop bylaw <i>Bylaw will be developed after GWRC adopts regional plan in late 2014</i>	△

Upper Hutt City Council

MEASURE	TARGET	RESULT	
• Minimise interruptions to : water supply	97% service restored within 2 hours <i>Repairs to three bursts exceeded the 2 hour limit in Q4.</i>	△	93.0%
: wastewater	95% service restored within 6 hours	✓	100%
Water Supply			
• Compliance with New Zealand Drinking Water Standards	Maintain A1a grading	✓	
• Community satisfaction with water supply service	95% satisfied or very satisfied	△	94.0%
Wastewater			
• Minimise number of blockages	< 2 blockages per km of network	✓	0.54
Stormwater			
• Preventative measures are undertaken to ensure that no flooding occurs within habitable buildings during a 1 in 50 year rainfall event	0	✓	0

Wellington City Council

MEASURE	TARGET	RESULT	
• Customer satisfaction with : water quality and supply	95%	✓	99.0%
: wastewater network	90%	✓	100%
: stormwater network	85%	✓	100%
• Response time to service requests: water supply network	97% meet A and B response time targets for Priority One activities (on-site within one hour)	✓	99.3%
: wastewater network	95%	✓	95.4%
: stormwater network	95%	✓	98.0%
• Residents agree service provides good value for money : water supply	90%	✓	96.0%
: wastewater	75%	✓	94.0%
: stormwater	75%	✓	93.0%
Water Supply			
• Compliance with New Zealand Drinking Water Standards	100%	✓	100%
• Limit complaints about water quality, taste and odour	< 200	✓	196
• Properties with appropriate water pressure (> 250kPa)	97%	△	96.3%
• Fire hydrants meet NZFS Code of Practice (supply)	95%	✓	99.7%
• Water distribution network (quality grading)	Graded a to b	✓	
• Reduce % unaccounted-for water from the network	14%	✓	11.3%
• Residential water consumption (litres/person/day)	290L (defined as total supplied less commercial metered usage)	✓	264L
• Total annual city water consumption	< 30 billion litres	✓	26.3BL
Wastewater			
• Freshwater sites within acceptable bacteria counts (<i>E.coli</i>)	95% of monitored freshwater sites have an annual median <i>E.coli</i> <1000 per 100mL. <i>Investigations and a programme of repairs and renewal are in place to address a trend of decreasing water quality.</i>	△	85%
• Sewage network is resource consent compliant	100%	✓	
Stormwater			
• No flooding occurs within habitable buildings during a 1 in 50 year rainfall event	0	△	5
• Bathing beaches compliance with Ministry guidelines	95% of sampling days when water quality meets Ministry guidelines (green status) <i>Re-sampling indicated recent rainfall was the main contributing factor to samples exceeding guidelines</i>	△	85%
• Resource consent compliance, including monitoring of overflows, outfall discharge and coastal water quality	100%	✓	

Our Board



From left: Ian Hutchings, Sarah Free, Raveen Jaduram, David Bassett, Nicki Crauford, Colin Crampton, John Strahl, Wayne Guppy.

John Strahl (Chairman) is an experienced commercial lawyer with extensive experience in local government commercial work as well as expertise in the financial services sector. John has provided advice on corporate governance and trust structuring for local authorities including the establishment and funding of Westpac Stadium. He joined the Board in 2009.

David Bassett JP is Deputy Mayor of Hutt City Council. David has a long career in managing organisations to achieve optimum profitability through the effective use of business assets and human resources. He is a former chief executive of commercial law firm Rudd Watts & Stone and executive director of the New Zealand branch of management consulting practice Cull Egan Dell.

Dr Nicola Crauford has a PhD in engineering from the University of Southampton. Nicki is a former general manager of strategic services at the national electricity grid, Transpower, CEO of the Institute of Directors, and deputy CE of IPENZ. She currently works as a senior consultant with WorleyParsons, and is a director of Watercare Services, the Environmental Protection Authority and Orion Energy. Nicki also chairs the Wellington Rural Fire Authority.

Sarah Free has an electrical engineering degree and postgraduate qualifications in teaching and public health. She has worked for several years as a residential energy consultant, providing advice on both energy and water usage. Sarah is a Wellington City Councillor and a member of the Electricity Authority's Retail Advisory Group.

Wayne Guppy was first elected to the Upper Hutt City Council in 1998. He was elected Mayor in 2001 and has retained that position since then. He has a Doctor of Pharmacy degree from the University of Nebraska, lectured at the School of Pharmacy, and has owned community pharmacies in Upper Hutt.

Ian Hutchings joined the Board in July 2009. Ian is a professional engineer and, prior to 2004, served 12 years as a Wellington City councillor where he had responsibility for the Finance and the Transport and Infrastructure portfolios. Ian is employed in the Ministry of Business, Innovation and Employment's Resources, Energy and Communications branch, specialising in policy advice on use of the radio frequency spectrum. He also chairs the Hutt Mana Charitable Trust and represents the Trust's north Wellington area.

Raveen Jaduram, is chief executive (acting) at Auckland Council-owned Watercare Services Ltd. He re-joined Watercare in July 2013 as General Manager Maintenance Services, after serving as managing director and chief executive of Murrumbidgee Irrigation, a private water company in Australia. Prior to that, Raveen was chief operating officer at Watercare, during the 2010 amalgamation of local government. He has over 25 years' experience in the water industry.



Nick Leggett is the mayor of Porirua City. He has a BA in Politics from Victoria University and worked in commercial property prior to his election as mayor in 2010.

Our Leadership Team



Colin Crampton, CEO.

Colin is responsible for leading the company to achieve the regional goals our client councils require of us. His focus is on developing the company's capability so it can deliver on its strategy and the

various water, wastewater and stormwater services across the region. He is also responsible for the relationships we have with our client councils and leads work aimed at integrating Greater Wellington's Water Supply Group into the company.

Colin started at Capacity in January 2014. Prior to joining Capacity he was the group manager of Highways and Network Operations at the New Zealand Transport Agency.



Jetesh Bhula manages Capacity's asset development and programme management group's activities. These include developing and implementing works

programmes, investigations, water quality monitoring, subdivisions, project management and water supply modelling for each client council.



Janet Dobbie manages the corporate services team, with overall responsibility for finance and accounting, human resources, IT, and records and information management. Janet has previously held senior

positions in the private and public sectors.



Yon Cheong manages the team responsible for the long term planning of our clients' infrastructure assets. This includes regional service delivery planning, strategic planning, asset management planning,

developing optimised investment programmes and strategies, and meeting Resource Management Act obligations.



Gary O'Meara manages operations and maintenance works to support operating, maintaining and upgrading our clients' water service networks, as well as the Porirua Wastewater Treatment

Plant. He is also responsible for our emergency management planning.



Gunther Wild manages delivery of business monitoring, reporting and improvement, health and safety, risk management, communications and relationship management for Capacity. Gunther's

group also provides Board secretariat services and prepares the company's key accountability documents.

Our Structure

OUR STRUCTURE (as at 30 June 2014)

HUTT CITY
COUNCIL

PORIRUA CITY
COUNCIL

UPPER HUTT CITY
COUNCIL

WELLINGTON
CITY COUNCIL

GREATER WELLINGTON
REGIONAL COUNCIL
from September 2014

JOHN STRAHL
Chairman + 7 Directors
including 4 council appointees

COLIN CRAMPTON
Chief Executive



Staff gathered at Capacity's office at 85 The Esplanade, Petone, Lower Hutt.

Health, safety
and environment
(Vacant)

JETESH BHULA
Asset Development
& Programme
Management
(+25 FTE)

YON CHEONG
Asset Planning
(+6 FTE)

JANET DOBBIE
Corporate Services
(+11 FTE)

GARY O'MEARA
Operations
(+31 FTE)

GUNTHER WILD
Business
Performance
(+2 FTE)

Our Strategy

Capacity's purpose: To create excellence in regional water services for healthy communities.

WE EXIST TO DELIVER THREE OUTCOMES

WATER THAT IS **SAFE**
TO DRINK

RESPECT FOR PEOPLE
AND THE ENVIRONMENT

NETWORKS THAT ARE **RESILIENT**,
NOW AND IN THE FUTURE

WE FACILITATE A REGIONAL VIEW ON THE BEST WAY TO ACHIEVE THIS FOR OUR CLIENTS



ADDRESSING THE ISSUES THAT MATTER, OPERATING AS A SINGLE END-TO-END BUSINESS

REGIONAL STRATEGIC ANALYSIS AND PLANNING

OPTIMISED ASSET
MANAGEMENT
PLANNING

WORK PROGRAMMING,
TIMING, FUNDING

PROJECT RENEWALS
AND IMPROVEMENTS

NETWORK OPERATIONS
AND MAINTENANCE

ORGANISATIONAL PERFORMANCE AND IMPROVEMENT

STAKEHOLDER RELATIONSHIPS AND CUSTOMER CARE

INVESTING IN HOW: PEOPLE WHO TAKE PRIDE IN THE WATER RESOURCE

WORKING COLLABORATIVELY ACROSS THE REGION

LEADERSHIP

BEHAVIOURS

HIGH PERFORMANCE

VALUES

INVESTING IN WHAT: CAPABILITY SO OUR CLIENTS TRUST US AS AN EXTENSION OF THEMSELVES

OUTCOME-BASED

LIFTING STAFF
CAPABILITY

BUILDING
RELATIONSHIPS

OPERATIONAL
FRAMEWORKS

REGIONAL WATER
SERVICES INTEGRATION

Working with Communities

Stakeholder relationships and customer care are key elements of our strategy to build our capability and reputation as a trusted advisor to our clients.

To support this strategy, in the past year we identified our client and customer relationships and established key stakeholder groupings. We then assigned relationship managers, developed reporting structures and prioritised issues and areas to work on for key groups.

In addition to our client councils, key groups included contractors and consultants we work with to deliver council work and maintenance programmes, compliance bodies, and 'guardians'. Guardians include groups with specific interests relating to water quality, water use, or other areas impacted by three waters' management.

We held inaugural meetings with suppliers and received positive feedback on the forum as a way to share market conditions and programme issues. We also established a relationship, meeting and activity framework with the consents team at Greater Wellington Regional Council. We look forward to being able to report in more detail on targets, priorities and progress of individual stakeholder relationships in future years.

COMMUNITY ENGAGEMENT

As part of our existing work for clients, we actively engage with different sectors of the community over specific interests.

The stormwater consultative committee meets once a quarter to provide a forum for information on work relating to Wellington City Council's global stormwater consent. This year we welcomed five new members of the committee,



to replace resignations. The integrated catchment management plan we are preparing for Wellington is also a requirement of the global consent.

Communicating with catchment-specific communities over water quality issues is part of this work. Over the past year we developed and distributed communications to tradespeople and DIY stores in the city to raise awareness of issues such as cross-connections. We visited 162 sites in the Gracefield industrial area to speak with owners and tenants about potential stormwater contamination sources. We included messages about contamination on letters to households where we were carrying out renewal work, and followed up with a survey that indicates awareness increased in about 40% of cases.

We met with Ngati Toa and Port Nicholson Block / Wellington Tenth Trust representatives, to familiarise iwi groups in the region with the nature and scope of this work.

We also manage community liaison groups that relate to the operation of Wellington's wastewater treatment plants at Moa Point and Western Karori. We are required to meet once a year with each group. Last year we met once with the Western Karori group and twice with the Moa Point group. We also held a public meeting to present the findings of research into the environmental impact of wet weather overflows on marine fauna and beach users.

With support of the Western Karori group, we are working on an application for a global consent for maintenance work on the outfall pipe, something which should both improve the efficiency and reduce the cost of this activity.

The other major area of community involvement Capacity undertakes is in promoting awareness and behaviour change in water conservation. While the Greater Wellington Regional Council is tasked with promoting conservation to reduce demand during summer, our councils are interested in effecting long term, sustainable, year-round water savings.

As noted on page 12, our activity in this area is structured through formal plans agreed with the Wellington and Hutt city councils, and through supporting other council programmes. It ranges from sending water restriction flyers to approximately 130,000 households in the region, to organising billboard advertising and water patrols, to developing marketing collateral such as shower timers.

EDUCATION ON WATER ISSUES

We also put considerable effort into the development and promotion of our demonstration unit, Aquarius. This stand alone device is available free to schools in the region, and also to events and groups that promote sustainable living and environmental awareness.

Aquarius offers school users the opportunity to directly explore and understand water use at home and in school, and the impact that individuals, including children, can have. It provides children with real world problem solving challenges that develop mathematical and statistical skills, as well as building an understanding about the infrastructure beneath their streets.

At events and sustainability displays, Aquarius provides a starting point for conversations about using water efficient devices, and practical advice on how to use water wisely.

While community education is not an activity for which we are specifically resourced, we recognise the importance of a holistic approach, presenting three waters issues in the context relevant to the specific audiences we are dealing with.

As our merged organisation and our relationship strategy takes shape, there will likely be increased opportunity to develop a programmed approach to community engagement, targeting specific interests, issues and interventions.

We anticipate this will include developing closer relationships with learning networks, particularly those with connection to Māori education. We will also encourage staff to participate in volunteer community support activity.

We expect to be able to better track and report on customer experience of our services, working with the new shared IT service provider created by several Wellington region councils.



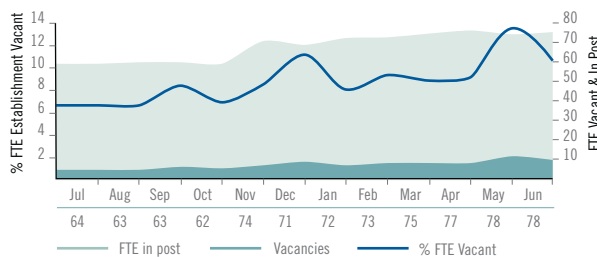
Promoting awareness and behaviour change



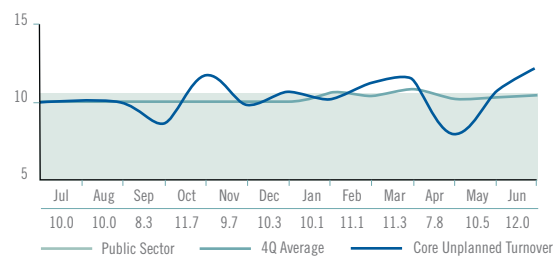
Our People

Becoming a high performing organisation and a trusted advisor to our clients are key strategic priorities. To help deliver on these, we developed a People Plan, which identified three themes to help build a high performing organisation.

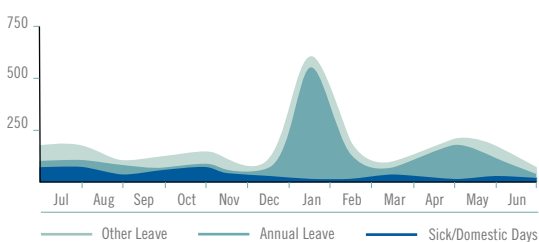
STAFF NUMBERS



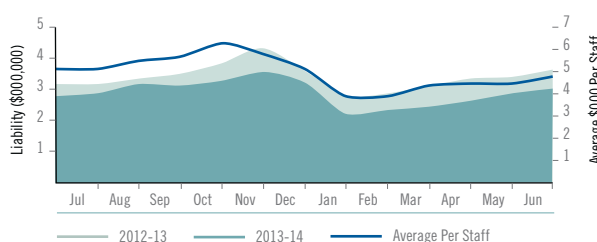
UNPLANNED TURNOVER



LEAVE DAYS



LEAVE LIABILITY



Capacity average sick days 2013-14: **6.0** Public sector average: **7.9** Are our sick days better than the benchmark? **YES**

- 1 Growing our leadership capability
- 2 Demonstrating our values and behaviours
- 3 High performing organisation

We'll measure our progress on these themes by what we do and how we do it, using evidence from culture, engagement and leadership surveys, and shareholder and customer feedback. Our new results sheets and personal development plans will give staff members clarity about their work priorities and how they are expected to deliver them.

To track growth we'll use softer measures to gauge the feel of the office, ease with which we work together, and meeting effectiveness.

With the merger on the near horizon, this year we looked to collaboration as the key interpersonal skill necessary for a regional water entity. In September 2013, a new intranet was launched to support collaboration and engagement across the business. Named "The Source", the intranet features profiles on each staff member, polls, knowledge sharing, and the ability for any staff member to personalise their home page, post new features and comment on articles.

Our staff awards continued to promote and reward effective behaviours at monthly staff meetings. The award category that received the most nominations was the 'Above and Beyond' award.

In May and June 2014, 84% of staff completed the Human Synergistics workplace culture and leadership survey, the third one we have completed in four years. The results showed that our strongest cultural style has moved from defensive, avoidance-based behaviours to the more productive and constructive cluster of encouragement and achievement.

The results were hugely encouraging for staff who have worked hard over the last four years to move towards our preferred working style. It puts us in a good place to adapt and move ahead with new workplace models and structures.

Health and Safety, and Risk Management

In mid-2013 the Government announced a major reform of workplace health and safety. This included establishing a new entity, Work Safe NZ, and overhauling the law.

In response to legislative changes likely next year, we presented to our Board a number of actions to ensure we are at the forefront of best practice health and safety policy, systems and practice.

During the year both staff and our Board were involved in developing a policy that represents a best-in-class approach to health and safety. We have created a full-time health and safety manager role that reports directly to the chief executive. This new staff member will be charged with implementing the majority of actions agreed with the Board, as well as growing our health and safety culture and improving and maintaining our health and safety systems – both internally and with our consultants and contractors.

RISK MANAGEMENT

In 2013-14 we developed a new risk management framework and processes to ensure our governance and management teams have a better understanding of the risks facing the business and the work being done to manage them. The framework complies with AS/NZS ISO 31000:2009 and was peer-reviewed by an external risk expert.

We also developed a risk register, based on the framework. The register will continue to be refined through into the 2014-15 year. It categorises risks under the following categories:

• Strategic	Risk arising from the external environment and associated with the achievement of Capacity's strategic objectives.
• Organisational	Risk associated with the functioning of Capacity as an organisation on a day-to-day basis.
• Organisational Key Performance Indicators	Risk associated with the organisational KPIs Capacity is required to achieve.
• Activity	Risk associated with achieving the outcomes required from Capacity's management of the three waters activities.

• Operational	Risk associated with activities carried out by Capacity staff and contractors, and with infrastructure managed by Capacity.
• Health and safety	Risk associated with the achievement of our health and safety vision that "our people, suppliers and affected parties go home healthy and safe."
• Project	Risk associated with the planning and delivery of Capacity projects.

Our new risk procedures require all groups to actively maintain their risk profiles and discuss risks, their treatment programmes, and to report on them at a leadership level on a monthly basis.

We report risks quarterly and any newly identified extreme risk in real time with our Board. We discuss the treatment programmes to mitigate those extreme risks at each Board meeting.

This approach ensures that our Board and leadership team have a better understanding of what work is being done across the organisation to manage the inherent uncertainties surrounding the achievement of Capacity's objectives, and the delivery of value to our shareholders.



Governance

Capacity is a council-controlled trading organisation as defined by section 6 of the Local Government Act 2002. It is 100% owned by the Hutt, Porirua, Upper Hutt and Wellington city councils. Each council is entitled to appoint one director, and to jointly appoint additional independent directors, subject to the maximum number of directors permitted under the company's constitution.

Our activity is governed by the Companies Act 1993 and the laws and accepted standards of New Zealand for company reporting and performance.

Capacity's principal objective is to help its client councils achieve their objectives relating to water services. Each council determines its own policy and objectives in these areas, through the long term plans they prepare in consultation with their communities.

BOARD OF DIRECTORS

The function of the Board is to provide stewardship and guidance to the company in achieving its objectives. The Local Government Act states the principal objective of a council-controlled organisation is to:

- a) achieve the objectives of its shareholders, both commercial and non-commercial as specified in the statement of intent
- b) be a good employer
- c) exhibit a sense of social and environmental responsibility by having regard to the interests of the community in which the company operates and by endeavouring to accommodate or encourage these when able to do so
- d) conduct its affairs in accordance with sound business practice.

To do this, the Board must collectively have relevant knowledge and experience of finance, water services, public bodies, the Wellington region, the environment and resource management. Directors must also have appropriate skills to contribute to relevant plans and strategies of the shareholders in respect of the management and provision of water services.

Board performance reviews are undertaken annually.

Capacity's Board of Directors consists of eight members. To ensure continuity of relevant knowledge, skills and experience, the expiry dates of directors' terms vary, with each director serving a maximum of six years.

INFORMATION TO BE PROVIDED TO SHAREHOLDERS

Capacity complies with the reporting requirements of the Local Government Act 2002 and the Companies Act 1993 and regulations. In particular we 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 half of each financial year, a report on our operations to enable an informed assessment of our performance, including financial statements (in accordance with section 66 of the LGA 2002).
3. Within three months after the end of each financial year, an annual report which provides a comparison of our performance with the statement of intent, with an explanation of any material variances, audited consolidated financial statements for that financial year, and an auditor's report (in accordance with sections 67, 68 and 69 of the LGA 2002).

We also report quarterly to clients on service performance. This fulfils requirements under the Local Government Act and our service agreements, enabling council officers to report on expenditure, service performance and project progress. Key service level agreement areas, such as response times, appear as key performance indicators, and are covered in detail in this report.

Directors' remuneration

This information is reported in the notes to the financial statements.

Directors' and Employees insurance

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

Donations

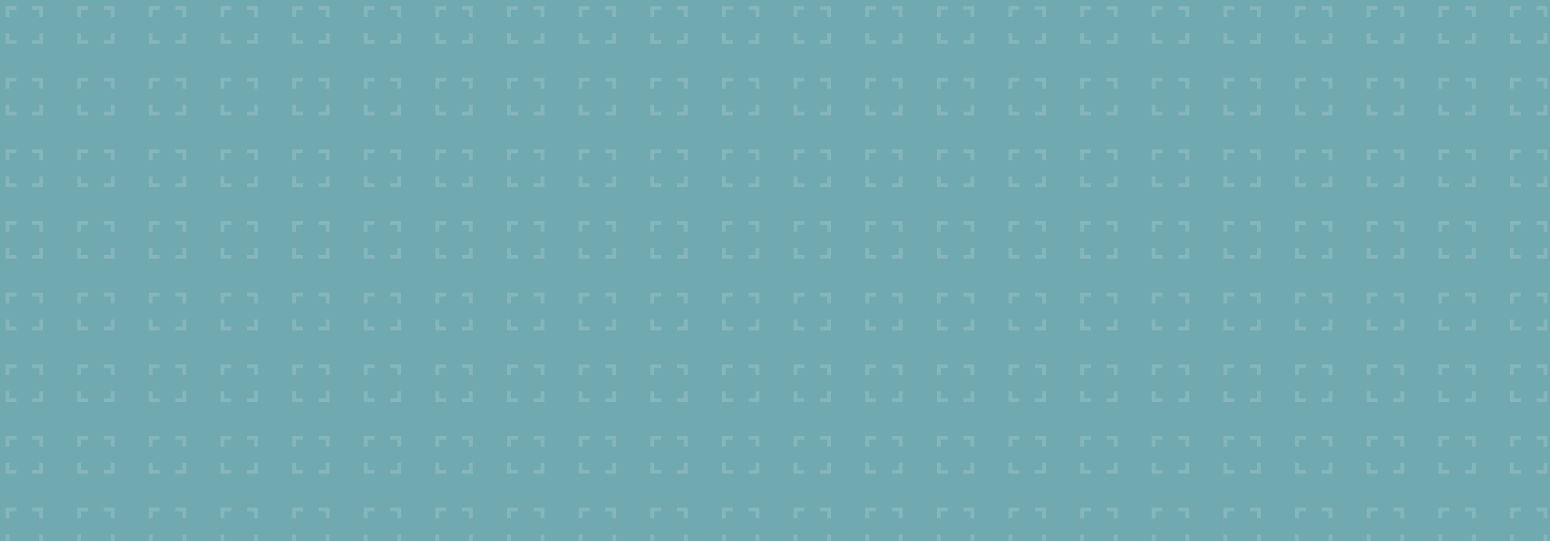
There were no donations made during the year.

Auditor

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

Financial Statements

2014



Independent Auditor's Report

To the readers of Capacity Infrastructure Services Limited's financial statements and statement of service performance for the year ended 30 June 2014

The Auditor-General is the auditor of Capacity Infrastructure Services Limited (the company). The Auditor-General has appointed me, J.R Smaill, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and statement of service performance of the company on her behalf.

We have audited:

- the financial statements of the company on pages 34 to 51, that comprise the statement of financial position as at 30 June 2014, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the statement of service performance of the company on page 9.

Opinion

Financial statements and statement of service performance

In our opinion:

- the financial statements of the company on pages 34 to 51:
 - comply with generally accepted accounting practice in New Zealand; and
 - give a true and fair view of the company's:
 - financial position as at 30 June 2014; and
 - financial performance and cash flows for the year ended on that date.
- the statement of service performance of the company on page 9:
 - complies with generally accepted accounting practice in New Zealand; and
 - gives a true and fair view of the company's service performance achievements measured against the performance targets adopted for the year ended 30 June 2014.

Other legal requirements

In accordance with the Financial Reporting Act 1993 we report that, in our opinion, proper accounting records have been kept by the company as far as appears from an examination of those records.

Our audit was completed on 23 September, 2014. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities, and explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements and statement of service performance are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements and statement of service performance. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and statement of service performance. The procedures selected depend on our judgement, including our assessment of risks of material misstatement

of the financial statements and statement of service performance whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the company's financial statements and statement of service performance that give a true and fair view of the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board of Directors;
- the adequacy of all disclosures in the financial statements and statement of service performance; and
- the overall presentation of the financial statements and statement of service performance.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and statement of service performance. Also we did not evaluate the security and controls over the electronic publication of the financial statements and statement of service performance.

In accordance with the Financial Reporting Act 1993, we report that we have obtained all the information and explanations we have required. We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board of Directors

The Board of Directors is responsible for preparing financial statements and a statement of service performance that:

- comply with generally accepted accounting practice in New Zealand;
- give a true and fair view of the company's financial position, financial performance and cash flows; and
- give a true and fair view of its service performance.

The Board of Directors is responsible for such internal control as it determines is necessary to enable the preparation of financial statements and a statement of service performance that are free from material misstatement, whether due to fraud or error. The Board of Directors is also responsible for the publication of the financial statements and statement of service performance, whether in printed or electronic form.

The Board of Directors' responsibilities arise from the Local Government Act 2002 and the Financial Reporting Act 1993.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and statement of service performance and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and section 69 of the Local Government Act 2002.

Independence

When carrying out the audit, we followed the independence requirements of the Auditor General, which incorporate the independence requirements of the External Reporting Board.

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



J.R. Smaill
Audit New Zealand
On behalf of the Auditor-General Wellington, New Zealand

Statement of Comprehensive Income

For the year ended 30 June 2014

	Note	Actual 2014 \$000	Budget 2014 \$000	Actual 2013 \$000
REVENUE				
Operations		8,981	8,981	7,591
Recovered Expenditure Income	19	4,204	7,507	0
Interest		96	82	29
TOTAL REVENUE		13,281	16,570	7,620
EXPENDITURE				
Operational expenditure		5,730	8,413	1,098
Audit fees		40	32	35
Directors fees	13	114	123	105
Depreciation / amortisation	6	116	124	75
Interest		1	2	1
Rental and operating lease costs		540	573	545
Personnel expenditure	14	6,684	7,189	5,787
Total expenditure		13,225	16,456	7,646
NET SURPLUS/(DEFICIT) BEFORE TAXATION		56	114	(26)
Tax benefit/(expense)	4	(18)	0	79
NET SURPLUS/(DEFICIT) AFTER TAXATION		38	114	53
Other comprehensive income		0	0	0
TOTAL COMPREHENSIVE INCOME		38	114	53
Total comprehensive income attributable to:				
Wellington City Council		19	114	27
Hutt City Council		9	0	26
Upper Hutt City Council		4	0	0
Porirua City Council		6	0	0
Total		38	114	53

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

Statement of Changes in Equity

For the year ended 30 June 2014

	Actual 2014 \$000	Actual 2013 \$000
Net surplus/(deficit) for the year	38	53
TOTAL COMPREHENSIVE INCOME	38	53
Equity balance at 01 July	416	363
Share capital	200	0
EQUITY BALANCE AT 30 JUNE	654	416

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

Statement of Financial Position

As at 30 June 2014

	Note	Actual 2014 \$000	Budget 2014 \$000	Actual 2013 \$000
CURRENT ASSETS				
Cash and cash equivalents		3,781	2,255	814
Trade and other receivables	7	784	460	1,067
Provision for income tax		16	0	(9)
		<u>4,581</u>	<u>2,715</u>	<u>1,872</u>
NON CURRENT ASSETS				
Intangible assets	6	153	130	64
Property, plant and equipment	6	130	116	123
Deferred tax asset	5	117	0	92
		<u>400</u>	<u>246</u>	<u>279</u>
TOTAL ASSETS		<u>4,981</u>	<u>2,961</u>	<u>2,151</u>
CURRENT LIABILITIES				
Trade and other payables	8	3,754	1,940	1,293
Employee entitlements	9	573	291	442
TOTAL LIABILITIES		<u>4,327</u>	<u>2,231</u>	<u>1,735</u>
NET WORKING CAPITAL		<u>654</u>	<u>730</u>	<u>416</u>
EQUITY				
Share capital	10	800	800	600
Retained earnings	11	(146)	(70)	(184)
TOTAL EQUITY		<u>654</u>	<u>730</u>	<u>416</u>



John Strahl
Chairman



Ian Hutchings
Director

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

Statement of Cash Flows

For the year ended 30 June 2014

	Note	Actual 2014 \$000	Budget 2014 \$000	Actual 2013 \$000
CASH FLOW FROM OPERATING ACTIVITIES				
<i>Cash was provided from:</i>				
Operating receipts		13,740	16,162	7,842
Bank interest received		96	82	29
Income tax received (net)		0	0	0
<i>Cash was disbursed to:</i>				
Payments to suppliers and employees		(10,410)	(14,565)	(7,319)
Income tax paid (net)		(68)	0	(2)
Interest paid		(1)	0	0
GST paid		(380)	(335)	(18)
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	15	2,977	1,344	532
CASH FLOWS FROM INVESTING ACTIVITIES				
<i>Cash was applied to:</i>				
Purchase of property, plant and equipment		(32)	(10)	(68)
Purchase of intangible assets		(178)	(93)	(29)
NET CASH INFLOW (OUTFLOW) FROM INVESTING ACTIVITIES		(210)	(103)	(97)
CASH FLOWS FROM FINANCING ACTIVITIES				
<i>Cash was provided from:</i>				
Shares issued		200	200	0
<i>Cash was applied to:</i>				
		0	0	0
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES		200	200	0
Net increase/(decrease) in cash and cash equivalents		2,967	1,441	435
Opening cash balance		814	814	379
CLOSING CASH BALANCE		3,781	2,255	814

Note: The GST (net) and income tax (net) components of cash flows from operating activities reflects the net GST paid to and received from the Inland Revenue Department. The GST and income tax components have been presented on a net basis, as the gross amounts do not provide meaningful information for financial statement purposes and to be consistent with the presentation basis of the other primary financial statements.

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

Notes to the Financial Statements

For the year ended 30 June 2014

1. STATEMENT OF COMPLIANCE

The financial statements have been prepared in accordance with New Zealand's generally accepted accounting practices. 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. It was incorporated in New Zealand in 2003 as Wellington Water Management Limited and changed its name in July 2009. Wellington City Council and Hutt City Council agreed to include Upper Hutt City Council and Porirua City Council as new shareholders in the business. The new Shareholders' Agreement and Constitution were signed with effect from 01 November 2013.

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

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

Reporting period

The reporting period for these financial statements is the year ended 30 June 2014. The financial statements were authorised for issue by the Board of Directors on 23 September 2014.

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.

Standards, amendments and interpretations issued but not effective that have not been early adopted

NZ IFRS 9 Financial Instruments will eventually replace NZ IAS 39 Financial Instruments:

Recognition and Measurement. NZ IAS 39 is being replaced in three phases: Phase 1 Classification and Measurement, Phase 2 Impairment methodology, and Phase 3 Hedge Accounting. Phase 1 has been completed and published in the new financial instrument standard NZ IFRS 9. The new standard is required to be adopted for the year ended 30 June 2016. However as a new accounting standards framework will apply before this date, there is no certainty when an equivalent standard to NZ IFRS 9 will be applied by public benefit entities.

The Minister of Commerce has approved a new Accounting Standards Framework developed by the External Reporting Board based on a multi-sector, multi-tier approach. The new framework applicable to Capacity was issued in May 2013 and is effective for periods beginning on or after 1 July 2014. Early adoption is not permitted. Capacity has not assessed the implications of the new Accounting Standards Framework at this time.

Due to the change in the Accounting Standards Framework for public benefit entities, it is expected that all new IFRS and amendments to existing NZ IFRS will not be applicable to public benefit entities. Therefore, the External Reporting Board has effectively frozen the financial reporting requirements for public benefit entities up until the new Accounting Standard Framework is effective. Accordingly, no disclosure has been made about new or amended NZ IFRS that exclude public benefit entities from their scope.

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 2013/2014 the customers were shareholder councils Wellington City Council, Hutt City Council, Upper Hutt City Council, with Porirua City Council joining in from November 2014.

From July to October, Upper Hutt City Council was on a contracted service, and shareholders Wellington and Hutt City shared the remaining cost through a time sharing calculation consistent with those of prior years.

At the introduction of the outcome-based model in November 2013, standard charges were predetermined and agreed with the client councils. Revenues were billed and recognised monthly.

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 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. Financial liabilities with duration more

than 12 months are recognised initially at fair value less transaction costs and subsequently measured at amortised cost using the effective interest rate method. Amortisation is recognised in the Statement of Comprehensive Income as is any gain or loss when the liability is derecognised. Financial liabilities entered into with duration less than 12 months are recognised at their nominal value.

f) Property, plant and equipment

Recognition

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

Measurement

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

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

Impairment

The carrying amounts of property, plant and equipment are reviewed at least annually to determine if there is any indication of impairment. Where an asset's recoverable amount is less than its carrying amount, it is 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 useful lives and depreciation rates of the major classes of property, plant and equipment are as follows:

Furniture and Office Equipment	2-14 years (7.00-48.00 per cent)
Plant Equipment	3-10 years (10.00-36.00 per cent)

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

Work in progress

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

g) Intangible assets

Acquired intangible assets are initially recorded at cost.

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

Computer software	2 ½ to 5 years (18.60 to 40.00 per cent)
-------------------	---

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 is recognised. Losses resulting from impairment are reported in the Statement of Comprehensive Income.

h) Employee benefits

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

Long-service leave and retirement gratuities have been calculated on an actuarial basis based on the likely future entitlements accruing to staff, after taking into account years of service, years to entitlement, the likelihood that staff will reach the point of entitlement, and other contractual entitlements information. This entitlement is not offered to new Capacity employees. The present value of the estimated future cash flows has been calculated using an inflation factor and a discount rate. The inflation rate used is the annual Consumer Price Index to 31 March prior to 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 share capital 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) Superannuation Schemes

Defined contribution schemes

Obligations for contributions to KiwiSaver and other cash accumulation schemes are recognised as an expense in the surplus or deficit as incurred.

m) Related Parties

A party is related to Capacity if:

- directly or indirectly through one or more intermediaries, the party:
 - controls, is controlled by, or is under common control with, Capacity
 - has an interest in Capacity that gives it significant influence over the control of the company
 - has joint control over Capacity
- the party is an associate of Capacity
- the party is a member of key management personnel of Capacity
- the party is a close member of the family of any individual referred to above
- the party is an entity controlled jointly or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to above

Directors' remuneration is any money, consideration or benefit received, receivable or otherwise made available, directly or indirectly, to a Director during the reporting period. Directors' remuneration does not include reimbursement of legitimate work expenses or the provision of work-related equipment such as cell phones and laptops.

n) Budget Figures

The budget figures are derived from the statement of intent as approved by the Board at the beginning of the financial year. The budget figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted by the Board in preparing these financial statements.

2. CHANGES IN ACCOUNTING POLICIES

Except for the change in revenue recognition discussed in item (a) of the preceding judgement and Estimations, there are no other changes in accounting policies. All policies have been applied on a consistent basis with those used in the previous year.

3. NATURE OF THE BUSINESS

Wellington City Council and Hutt City Council together with new shareholders Upper Hutt City Council and Porirua City Council incorporated Capacity to manage water, stormwater and wastewater services for the four cities. The four councils continue to own their respective water service assets and to separately determine the level and standard of service to be provided.

4. INCOME TAX

Income tax expense

	2014 \$000	2013 \$000
Current tax expense		
Current year	56	17
Prior period adjustment	(12)	(5)
	44	12
Deferred tax expense/(benefit)		
Origination and reversal of temporary differences	(26)	(9)
Change in unrecognised temporary differences	0	0
Recognition of previously unrecognised tax losses	0	(82)
	(26)	(91)
Tax expense - net	18	(79)

Reconciliation of effective tax rate

	2014 \$000	2013 \$000
Surplus/(Deficit) for the period excluding income tax	56	(26)
Prima facie income tax based on domestic tax rate	16	(7)
Effect of non-deductible expenses	17	12
Effect of tax exempt income	0	0
Effect of tax losses utilised	0	9
Current year's loss for which no deferred tax asset was recognised	0	0
Deferred tax assets not previously recognised	0	(82)
Change in temporary differences	(27)	(16)
Prior period adjustment	12	5
	18	(79)

Imputation credits

	2014	2013
	\$000	\$000
Imputation credits as at 30 June available for use in subsequent periods	54	69

5. DEFERRED TAX

Deferred tax asset (liability)

	Property, plant and equipment	Employee entitlements	Other provisions	Tax losses	Total
Balance at 30 June 2012	0	0	0	0	0
Charged to surplus or deficit	3	89	0	0	92
Charged to other comprehensive income	0	0	0	0	0
Balance at 30 June 2013	3	89	0	0	92
Charged to surplus or deficit	(1)	26	0	0	25
Charged to other comprehensive income	0	0	0	0	0
Balance at 30 June 2014	2	115	0	0	117

Other disclosures

A deferred tax asset has been recognised in relation to temporary differences of \$418,305 (2013: \$326,941) as it is probable that future taxable profits will be available against which the benefit of the deductible temporary differences can be utilised.

6. PROPERTY, PLANT, EQUIPMENT AND INTANGIBLES

The asset register continues to be updated and stock takes are periodically conducted.

Several obsolete and fully depreciated assets were auctioned out to staff and items of software were written off. As a result, an elimination adjustment was incurred in respect of the accumulated depreciation.

There was no work in progress at the end of 2014.

2013 – 2014

	2014 Current additions \$000	2014 Current disposals \$000	2014 Current deprcn \$000	2014 Elimination on disposal \$000	2014 Total cost \$000	2014 Accu deprcn \$000	2014 Net Book value \$000
Owned assets:							
Telephone system	0	0	0	0	34	34	0
Furniture, plant & equipment	36	4	27	2	267	137	130
Intangibles	178	0	89	0	327	174	153
Work in progress	0	0	0	0	0	0	0
	214	4	116	2	628	345	283

2012 – 2013

	2013 Current additions \$000	2013 Current disposals \$000	2013 Current Deprcn \$000	2013 Elimination on Disposal \$000	2013 Total Cost \$000	2013 Accu Deprcn \$000	2013 Net Book Value \$000
Owned assets:							
Telephone system	0	0	2	0	34	34	0
Furniture, Plant & Equipment	68	10	22	10	235	112	123
Intangibles	29	17	51	17	149	85	64
Work in Progress	0	0	0	0	0	0	0
	97	27	75	27	418	231	187

7. TRADE AND OTHER RECEIVABLES

	Note	Actual 2014 \$000	Actual 2013 \$000
Trade receivables		0	0
Related parties receivables	12	390	945
Prepayments and sundry debtors		156	122
GST receivable		238	0
		784	1,067

8. TRADE AND OTHER PAYABLES

	Note	Actual 2014 \$000	Actual 2013 \$000
Trade payables		2,715	1,147
Related parties payables	12	1,039	3
GST payable		0	143
		3,754	1,293

9. EMPLOYEE ENTITLEMENTS

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

	Actual 2014 \$000	Actual 2013 \$000
Current		
Annual leave and time in lieu	358	307
Long-service leave	0	0
Payroll accruals	215	135
TOTAL EMPLOYEE ENTITLEMENT	573	442

10. SHARE CAPITAL

	Actual 2014 \$000	Actual 2013 \$000
400 fully paid \$2,000 ordinary shares	800	600

<i>Shareholder</i>	<i>No. of Shares</i>
Wellington City Council	200
Hutt City Council	100
Upper Hutt City Council	40
Porirua City Council	60

11. RETAINED EARNINGS

	Actual 2014 \$000	Actual 2013 \$000
Balance at beginning of year	(184)	(237)
Net surplus/(deficit) for the year	38	53
Balance at end of year	(146)	(184)

12. RELATED PARTY TRANSACTIONS

	Note	Actual 2014 \$000	Actual 2013 \$000
<i>Revenue for services by Capacity to:</i>			
Wellington City Council		8,259	5,152
Hutt City Council		2,549	1,630
Upper Hutt City Council		1,096	0
Porirua City Council		834	0
		12,738	6,782
<i>Goods and services supplied to Capacity by:</i>			
Wellington City Council		45	34
Hutt City Council		8	0
Upper Hutt City Council		0	0
Porirua City Council		0	0
		53	34
<i>Payments by councils relating to City Care:</i>			
Wellington City Council		6,745	6,155
Hutt City Council		2,776	2,570
Upper Hutt City Council		901	0
Porirua City Council		0	0
		10,422	8,725
<i>Payments by councils relating to other reimbursements:</i>			
Wellington City Council		196	62
Hutt City Council		138	29
Upper Hutt City Council		33	0
Porirua City Council		30	0
		397	91
<i>Receivable owing to Capacity from:</i>			
Wellington City Council		0	605
Hutt City Council		326	340
Upper Hutt City Council		64	0
Porirua City Council		0	0
	7	390	945
<i>Payable by Capacity to:</i>			
Wellington City Council		1,039	3
Hutt City Council		0	0
Upper Hutt City Council		0	0
Porirua City Council		0	0
	8	1,039	3

13. RELATED PARTY DISCLOSURES

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

Key management personnel

	Actual 2013-14 \$000	Actual 2012-13 \$000
Salaries and other short term benefits	1,250	1,128
Post employment benefits	44	46
Termination benefits	25	
Key management personnel compensation	1,319	1,174

The former Chief Executive, David Hill, received a non-contractual severance payment of \$25,000 in December 2013.

Directors' remuneration

	2014 \$	2013 \$	Important Dates
John Strahl	27,500	15,000	Appointed Chairman 01/01/2014
Peter Allport	15,000	30,000	Term End 31/12/2013
Andrew Foster	7,500	15,000	Term End 31/12/2013
Peter Leslie	7,500	15,000	Term End 31/12/2013
David Bassett	17,500	15,000	
Ian Hutchings	17,500	15,000	
Sarah Free - via consultancy paid to WCC	0	0	Appointed 01/01/2014
Raveen Jaduram - via consultancy paid to Watercare	0	0	Appointed 01/01/2014
Wayne Guppy	10,000	0	Appointed 01/01/2014
Nick Leggett	10,000	0	Appointed 01/01/2014
Nicki Crauford	1,667	0	Appointed 01/06/2014
TOTAL DIRECTORS' REMUNERATION	114,167	105,000	

During the year, Capacity purchased legal services from DLA Phillips Fox, a legal firm in which Capacity Director John Strahl was formerly a partner. He continues to be occasionally engaged by DLA Phillips Fox for ad hoc assignments. These services cost \$55,511.69 for 2014, which included review of the company restructure documents, and advice on employment and insurance matters (2013: \$20,774.96). The services were supplied on normal commercial terms. There is an accrued outstanding balance in 2014 of \$2,571.44 (2013: \$nil) for unpaid invoices at year end.

Employee Remuneration

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

SALARY RANGE	Year ended 30 June 2014	Year ended 30 June 2013
\$300,000 - \$310,000	1	
\$280,000 - \$290,000		1
\$190,000 - \$200,000	1	
\$180,000 - \$190,000		1
\$150,000 - \$160,000	2	
\$140,000 - \$150,000	1	3
\$110,000 - \$120,000	5	1
\$100,000 - \$110,000	6	6

No other employees earn over \$100,000.

14. PERSONNEL EXPENDITURE

Personnel expenditure consists of salaries, wages, bonuses, overtime, other employee costs and staff recruitment costs.

	Actual 2014 \$000	Actual 2013 \$000
Employee remuneration	6,084	5,389
Other employee costs	520	369
Recruitment costs	80	29
Total	6,684	5,787

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

	Actual 2014 \$000	Actual 2013 \$000
REPORTED SURPLUS/(DEFICIT) AFTER TAXATION	38	53
<i>Add non cash items:</i>		
Depreciation	116	75
Work in progress	0	0
Adjustment	0	0
	154	128
Add/(less) movements in other working capital items		
(Increase)/decrease in trade and related party receivable	555	239
(Increase)/Decrease in Deferred Tax Asset	(25)	(92)
(Increase)/decrease in prepayments and sundry debtors	(34)	14
Increase/(decrease) in trade and related party payable	2,604	261
Increase/(decrease) in GST payable	(381)	(18)
Increase/(decrease) in employee entitlements	130	(10)
Tax provision movement	(26)	10
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	2,977	532

16. FINANCIAL INSTRUMENTS

Capacity's financial instruments include financial assets (cash and cash equivalents and receivables), and financial liabilities (payables that arise directly from operations).

The Directors do not consider there is any material exposure to interest rate risk on its investments.

Concentrations of credit risk with respect to accounts receivable are high due to the reliance on Wellington City Council, Hutt City Council, Upper Hutt City Council and Porirua City Council for the company's revenue. However, the councils are considered by the Directors to be high credit quality entities.

Capacity invests funds on deposit with the ANZ Bank (merged with The National Bank of New Zealand Limited).

Fair value

Fair value is the amount for which an item could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction. There were no differences between the fair value and the carrying amounts of financial instruments at 30 June 2014.

Market risk

Cash flow interest rate risk is the risk that the cash flows from a financial instrument will fluctuate because of changes in market interest rates.

There is no exposure to interest rate and currency risk as Capacity does not have borrowings or other foreign currency transactions.

Credit risk

Credit risk is the risk that a third party will default on its obligations to Capacity, therefore causing a loss. Capacity is not exposed to any material concentrations of credit risk other than its exposure within the Wellington region.

Cash is held on deposit with ANZ Bank under a call and a cheque account. Capacity holds no other collateral or credit enhancements that give rise to credit risk.

Receivables balances are monitored on an ongoing basis to reduce Capacity's exposure to bad debts. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the Statement of Financial Position.

	2014 \$000	2013 \$000
TRADE AND OTHER RECEIVABLES		
Not past due date	784	1,067
Past due zero to three months	0	0
Past due three to six months	0	0
Past due more than six months	0	0
TOTAL TRADE AND OTHER RECEIVABLES	784	1,067

Liquidity risk

Liquidity risk is the risk arising from unmatched cash flows and maturities.

The following table sets out the contractual cash flows for all financial liabilities that are settled on a gross cash flow basis.

	Statement of financial position \$000	Total contractual cash flows \$000	Zero to twelve months \$000	One to two years \$000	Two to five years \$000	More than five years \$000
2014						
TRADE AND OTHER PAYABLES	3,754	3,754	3,754	0	0	0
2013						
TRADE AND OTHER PAYABLES	1,293	1,293	1,293	0	0	0

17. COMMITMENTS AND CONTINGENCIES

Capacity has a six-year lease commitment at 85 The Esplanade, Petone, starting 1 July 2009, with a two-month lease-free period on each year for the first three years. Lease terms have not been changed over the last five years.

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

	Actual 2014 \$000	Actual 2013 \$000
NON-CANCELLABLE OPERATING LEASE COMMITMENTS		
Not later than one year	514	541
Later than one year and not later than five years	347	626
Later than five years	0	0
	861	1,167

Capacity has no contingent liabilities in 2014 (2013: \$nil) and no contingent assets in 2014 (2013: \$nil).

18. CAPITAL MANAGEMENT

The company's capital is its equity, which comprises shareholders' equity and retained surpluses. Equity is represented by net assets.

The company requires the Board of Directors to manage its revenues, expenses, assets, liabilities, investments, and general financial dealings prudently. The company's equity is largely managed as a by-product of managing revenues, expenses, assets, liabilities, investments, and general financial dealings.

The objective of managing the company's equity is to ensure that the company effectively achieves its objectives and purpose, while remaining a going concern.

19. BUDGET DISCLOSURE

The budget was revised to incorporate the inclusion of Porirua City Council as a client council from 1 November 2013. The fees were recalculated under the outcome-based model. Shareholders approved the revised financials in the Statement of Intent 2013-14 on 24 March 2014.

From November 2013, the funds allocated by the four client councils for project consultancy were also transferred to Capacity to manage for the councils. These charges were invoiced monthly as a Recovered Expenditure Income and as these budgets were incompletely used we credited unspent amounts back to the councils at year end.

20. EVENTS AFTER BALANCE DATE

The current shareholding councils of Hutt, Porirua, Upper Hutt and Wellington have agreed and approved the proposed integration of the Water Supply Group of Greater Wellington Regional Council into Capacity, forming a new Council Controlled Organisation (CCO) with five shareholders. The transfer of approximately 63 staff from GWRC Water Supply Group is expected to be completed by mid-September 2014. Governance and shareholding changes for this new CCO are in progress and due to be completed by October 2014.

Directory

Directors

John Strahl (Chairman)
David Bassett
Nicki Crauford
Sarah Free
Wayne Guppy
Ian Hutchings
Raveen Jaduram
Nick Leggett

Chief Executive

Colin Crampton

Registered Office

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Web

www.capacity.net.nz, info@capacity.net.nz

*Note: From 19 September 2014 our
web address changed to:
www.wellingtonwater.co.nz
info@wellingtonwater.co.nz*

Auditor

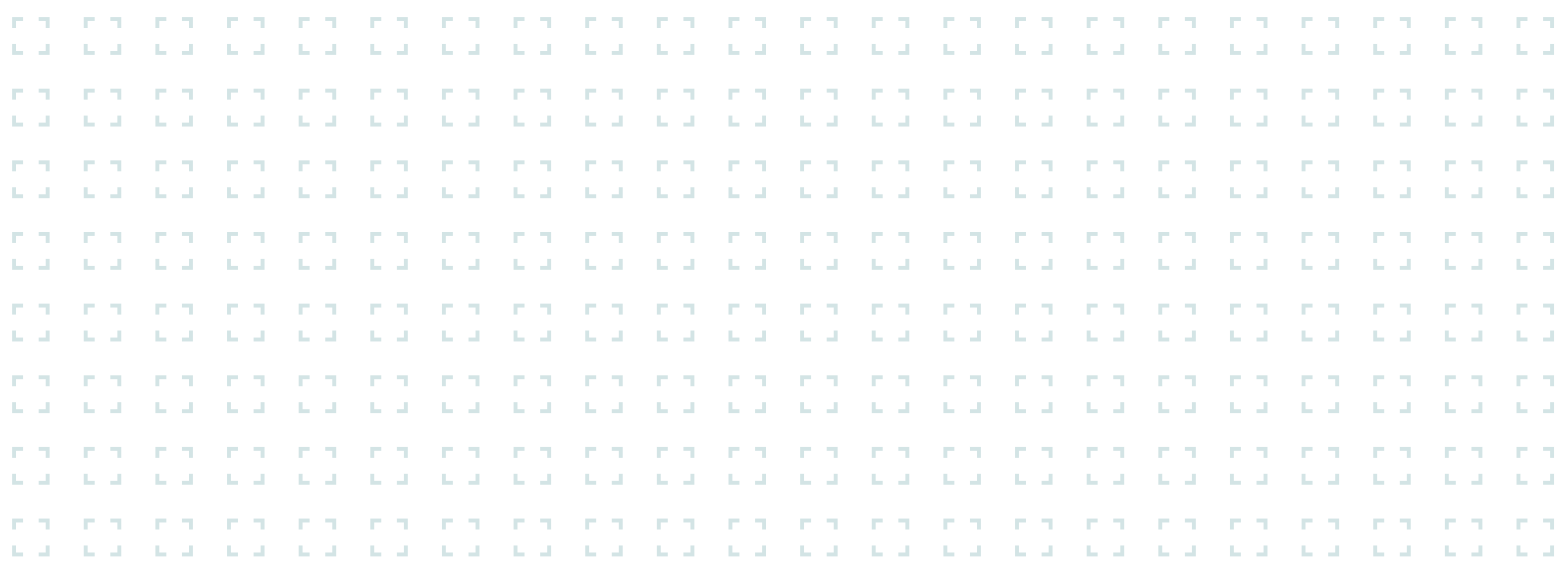
Audit New Zealand on behalf
of the Auditor-General

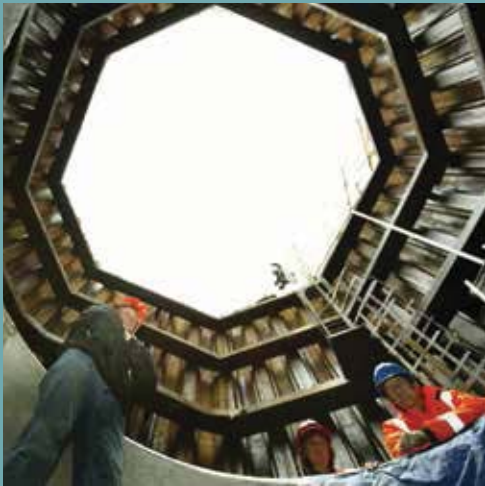
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ANZ New Zealand
Wellington
New Zealand

Solicitors

DLA Phillips Fox
Wellington
New Zealand







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