



Quarterly Report to Shareholders

For the nine month period ended 31 March 2007

Contents

| | |
|---|----|
| INTRODUCTION | 3 |
| FINANCIAL RESULTS | 4 |
| FINANCIAL STATEMENTS | 5 |
| Statement of Financial Performance | 5 |
| Statement of Cash Flows | 6 |
| Statement of Financial Position | 7 |
| STATEMENT OF INTENT PERFORMANCE MEASURES | 8 |
| APPENDIX ONE - WELLINGTON CITY COUNCIL ACTIVITIES | 10 |
| APPENDIX TWO - HUTT CITY COUNCIL ACTIVITIES | 12 |

Introduction

Capacity is a Council Controlled Trading Organisation that manages water, stormwater and wastewater services on behalf of Wellington City Council and Hutt City Council for residents, ratepayers and visitors.

This report covers Capacity's activities for the period from 1 July 2006 to 31 March 2007 for Wellington City Council and Hutt City Council. Financial statements for Capacity and activity highlights for each council are included in Appendix One of this report.

Financial Results

Total expenditure for the year is \$3,712,250 against a budgeted sum of \$3,679,799. Year to date expenditure is over budget by \$32,451. This equates to less than one percent of Capacity's total budget.

| Operating Statement | Actual YTD | Budget YTD | Variance YTD | % Variance | Full Year Budget 05/06 |
|-------------------------|------------|------------|--------------|------------|------------------------|
| Income | 3,712,250 | 3,679,799 | 32,451 | 1% | 4,919,232 |
| General Expenditure | 957,784 | 855,674 | 102,110 | -12% | 1,162,232 |
| Personnel Expenditure | 2,739,494 | 2,807,625 | 68,131 | 2% | 3,735,000 |
| Depreciation and other | 14,973 | 16,500 | 1,778 | 11% | 22,000 |
| Total Costs | 3,712,250 | 3,679,799 | 32,451 | -1% | 4,919,232 |
| Total Surplus / Deficit | - | - | - | - | - |

General expenditure is above budget due to additional costs incurred for vehicle maintenance and fleet costs (\$35,000 above budget). However, the termination of three vehicles at the end of January shall reduce the effects of the increased cost of petrol and ongoing leasing costs in the long term.

Consultant costs are \$50,000 above budget due to factors including:

- Procuring specialist services for Capacity to become ISO accredited
- Capacity agreed to a service level agreement with Wellington City Council payments services incurring a cost of \$14,500 per annum. Previously these services had been provided at no charge.

Telecommunication costs are above budget by \$18,000. This is due to Capacity moving to a wireless environment, where all operational staff have been equipped with laptops that have the capability to connect (through wireless technology) to the Capacity network when offsite. This is to improve service levels and increase efficiency of staff in the field and allows field staff access to the CONFIRM (customer request for service) and GIS systems.

Personnel costs are below budget due to staff vacancies. Using consultants and temporary staff to undertake the work that would normally be conducted by permanent staff offsets some of the savings achieved from staff vacancies.

FINANCIAL STATEMENTS

Financial statements are presented as required by our shareholders and provide details of Capacity's financial performance for the period ended 31 March 2007.

Statement of Financial Performance

FOR THE NINE MONTH PERIOD ENDED 31 MARCH 2007

| Actual 30-Jun-06 | EARNINGS STATEMENT | Qtr to 30-Sep-06 | Qtr to 31-Dec-06 | Qtr to 31-Mar-07 | Qtr to 30-Jun-07 | Total YE 30-Jun-07 | Total YE 30-Jun-08 | Total YE 30-Jun-09 |
|---------------------|--|---------------------|---------------------|---------------------|---------------------|-----------------------|-----------------------|-----------------------|
| | Revenue | | | | | | | |
| 4,613 | Other Income | 1,247 | 1,270 | 1,196 | | 3,712 | 5,117 | 5,308 |
| 4,613 | Total Revenue | 1,247 | 1,270 | 1,196 | 0 | 3,712 | 5,117 | 5,308 |
| | Expenditure | | | | | | | |
| 3,488 | Employee Costs | 924 | 910 | 854 | | 2,688 | 3,886 | 4,030 |
| 1,195 | Other Operating Expenses | 318 | 354 | 337 | | 1,009 | 1,209 | 1,254 |
| 18 | Depreciation | 5 | 5 | 5 | | 14 | 21 | 22 |
| 2 | Interest | (1) | 2 | 0 | | 1 | 2 | 2 |
| 4,703 | Total Expenditure | 1,247 | 1,270 | 1,196 | 0 | 3,712 | 5,117 | 5,308 |
| (90) | Net Surplus/(Deficit) before Taxation | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 4 | Taxation Expense | 0 | 0 | 0 | | 0 | 0 | 0 |
| (94) | Net Surplus/(Deficit) | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| -2.0% | Operating Margin | 0.0% | 0.0% | 0.0% | | 0.0% | 0.0% | 0.0% |

Statement of Cash Flows

FOR THE NINE MONTH PERIOD ENDED 31 MARCH 2007

| Actual 30-Jun-06 | STATEMENT OF CASH FLOWS | Qtr to 30-Sep-06 | Qtr to 31-Dec-06 | Qtr to 31-Mar-07 | Qtr to 30-Jun-07 | Total YE 30-Jun-07 | Total YE 30-Jun-08 | Total YE 30-Jun-09 |
|---------------------|--|---------------------|---------------------|---------------------|---------------------|-----------------------|-----------------------|-----------------------|
| | Cash provided from: | | | | | | | |
| 4,441 | Trading Receipts | 1,282 | 1,408 | 1,212 | | 3,901 | 1,337 | 1,337 |
| 3 | Other Income | 0 | 0 | 0 | | 0 | 0 | 0 |
| 4,444 | | 1,282 | 1,408 | 1,212 | 0 | 3,901 | 1,337 | 1,337 |
| | Cash applied to: | | | | | | | |
| 4,457 | Payments to Suppliers | 1,473 | 1,183 | 1,302 | | 3,958 | 1,292 | 1,292 |
| | Net GST Cashflow | 21 | -40 | 60 | | | 65 | 65 |
| 4,457 | | 1,494 | 1,143 | 1,362 | 0 | 3,958 | 1,357 | 1,357 |
| (13) | Total Operating Cash Flow | (212) | 264 | (151) | 0 | (58) | (20) | (20) |
| | Investing Cash Flow | | | | | | | |
| | Cash applied to: | | | | | | | |
| 9 | Purchase of Fixed Assets | | | | | | | |
| 9 | | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (9) | Total Investing Cash Flow | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | Financing Cash Flow | | | | | | | |
| | Cash applied to: | | | | | | | |
| 12 | Other | 3 | 3 | 3 | | 10 | | |
| 12 | | 3 | 3 | 3 | 0 | 10 | 0 | 0 |
| (12) | Total Financing Cash Flow | (3) | (3) | (3) | 0 | (10) | 0 | 0 |
| (34) | Net Increase/(Decrease) in Cash H | (215) | 261 | (154) | 0 | (67) | (20) | (20) |
| 437 | Opening Cash Equivalents | 403 | 188 | 449 | 295 | 403 | 352 | 352 |
| 403 | Closing Cash Equivalents | 188 | 449 | 295 | 295 | 336 | 332 | 332 |

Statement of Financial Position

AS AT 31 MARCH 2007

| Actual 30-Jun-06 | STATEMENT OF FINANCIAL POSITION | As at 30-Sep-06 | As at 31-Dec-06 | As at 31-Mar-07 | As at 30-Jun-07 | | As at 30-Jun-08 | As at 30-Jun-09 |
|---------------------|--------------------------------------|--------------------|--------------------|--------------------|--------------------|--|--------------------|--------------------|
| | Shareholder/Trust Funds | | | | | | | |
| 600 | Share Capital/Settled Funds | 600 | 600 | 600 | | | 600 | 600 |
| -223 | Retained Earnings | -223 | -223 | -223 | | | -129 | -129 |
| 377 | Total Shareholder/Trust Funds | 377 | 377 | 377 | 0 | | 471 | 471 |
| | Current Assets | | | | | | | |
| 403 | Cash and Bank | 188 | 449 | 295 | | | 333 | 333 |
| 664 | Accounts Receivable | 634 | 477 | 460 | | | 64 | 64 |
| 8 | Other Current Assets | 8 | 8 | 8 | | | 543 | 543 |
| 1,075 | Total Current Assets | 830 | 935 | 763 | 0 | | 940 | 940 |
| | Non-Current Assets | | | | | | | |
| 92 | Fixed Assets | 86 | 81 | 77 | | | 70 | 70 |
| | Other Non-current Assets | 0 | 1 | 1 | | | 0 | 0 |
| 92 | Total Non-current Assets | 86 | 82 | 78 | 0 | | 70 | 70 |
| | | | | | | | | |
| 1,167 | Total Assets | 916 | 1,017 | 841 | 0 | | 1,010 | 1,010 |
| | Current Liabilities | | | | | | | |
| 532 | Accounts Payable and Accruals | 246 | 345 | 221 | | | 186 | 186 |
| 258 | Other Current Liabilities | 293 | 296 | 243 | | | 259 | 259 |
| 790 | Total Current Liabilities | 539 | 640 | 464 | 0 | | 527 | 527 |
| | Total Non-Current Liabilities | | | | | | | |
| 0 | | 0 | 0 | 0 | 0 | | 12 | 12 |
| 377 | Net Assets | 377 | 377 | 377 | 0 | | 471 | 471 |
| | | | | | | | | |
| 1.4 | Current Ratio | 1.5 | 1.5 | 1.6 | | | 1.8 | 1.8 |
| | | | | | | | | |
| 32.3% | Equity Ratio | 41.2% | 37.1% | 44.8% | | | 46.6% | 46.6% |

Statement of Intent Performance Measures

| Measure | Wellington City Council | Hutt City Council |
|---|--|---|
| Asset Management | | |
| Complete Asset Management Plans within timeframe | Asset Management Plans for water, stormwater and wastewater were completed and presented to Council officers in January 2007. | Capacity is currently reviewing the draft copies of Hutt City Council's Asset Management Plans for the three water activities. |
| Resource Consents | | |
| Compliance with existing resource consents | <p>The majority of resource consent conditions have been met.</p> <p>The resource consents for contaminated discharges have 57 consent conditions requiring physical work costing \$62 million over a 15 year period. Two consent conditions requiring sewage pump station overflow prevention works have not been completed by the due date. The work is highly complex and we are investigating an affordable mitigation of the overflow risk for the Council.</p> | <p>The majority of resource consent conditions have been met.</p> <p>Four instances of non compliance were reported to HCC during the first half of 2006/2007. This was for the overflow of wastewater discharge in to Waiwhetu Stream because of heavy rainfall at Hinemoa Street and Malone Road.</p> |
| Consent renewals accepted by regulatory authority prior to expiry | In progress are Moa Point, Careys Gulley and the Western Treatment Plant consent renewals. All are on track to meet the required deadlines. | The Gracefield resource consent was lodged in September 2006. |
| Customer Service | | |
| <i>Responsiveness</i> | | |
| 90% requests for service resolved within 15 days | 98% of requests for service were resolved within 15 days during the quarter. | 92% of customer requests were resolved within 15 days. |
| <i>Customer satisfaction</i> | | |
| 90% of customers are satisfied with the work completed | During quarter three, 88% of customers are satisfied with the work completed for water, stormwater and wastewater. | During quarter 3, 92.5% of customers were satisfied with the work completed. |

Measure

Contractor Performance

Progress against agreed programme of capital works

- 90% completed on time
- 90% completed within budget

Reported at year end

Financial Performance

Actual total operating expenditure within budget

Capacity's operational expenditure is less than one percent above budget.

Budget savings in five years

The savings model is currently under review with both councils.

Target: \$4.175 million by 30 June 2009

Appendix One - Wellington City Council Activities

Resource Consent Process – Moa Point Wastewater Treatment Plant and the Southern Landfill Sludge Disposal

Wellington City Council (WCC) holds a number of resource consents for the operation of Moa Point and Southern Landfill Sludge Disposal. The Southern Landfill Sludge Disposal resource consents will expire on 8 January 2008 and the Moa Point Wastewater Treatment Plant resource consents will expire on 16 February 2008.

Applications for new resource consents were lodged for the operation of the Carey's Gully Sludge Dewatering Plant and the sludge disposal at the Southern Landfill at the end of April. Resource consents for the Moa Point Wastewater Treatment Plant will be lodged by 6 July 2007.

The draft Assessment of Environmental Effects (AEE) for the Moa Point Resource Consent has been sent to key stakeholders. Feedback is being sought by 7 May 2007.

Capacity presented two briefing papers to the Strategy and Policy Committee (SPC) and a third paper will be presented on 7 June 2007. The first two papers outlined progress of the resource consent renewal project and the proposed methodology to identify the wastewater network management options to minimise the sewer overflows of the Moa Point sewer catchment.

Workshops on Multi Criteria Analysis¹ were held with the project team and iwi groups (separate workshop for Tenth's Trust and Ngati Toa) to rank the proposed sewer overflow prevention. A joint workshop with councillors and iwi were held to discuss overflow bypass mitigation options. Cultural impact reports have been prepared by both the Tenth's Trust and Ngati Toa to address cultural and spiritual aspects of the activities associated with the operation of the plants.

¹ Multi-criteria analysis is a technique for evaluating alternative measures that takes into consideration a number of criteria, such as cultural, social, economic and environmental factors.

Resource Consent Process – Western Wastewater Treatment Plant

Five consents authorising the continued operation of the Western Wastewater Treatment Plant at South Karori were provisionally granted on 22 December 2006, with the two coastal permits requiring approval by the Minister of Conservation. Subsequently three parties have appealed the decision; Wellington City Council with the involvement of Capacity, an adjacent landowner and two environmental groups in a joint appeal.

The scope of the appeals from the three parties is wide ranging. An attempt to clarify issues through mediation is scheduled for July or August 2007. Should the appeals proceed to the Environment Court, a hearing time is unlikely to be available until 2008.

Mercer Street Link Sewer

We are connecting pump station seven in Willeston Street to the Michael Fowler Centre storage tank allowing temporary wastewater storage in emergency situations. Physical work is currently underway. There has been some complication with the work due to unexpected underground conditions.

Johnsonville Main Sewer Upgrade

We are renewing 800 metres of the Johnsonville main trunk sewer on Johnsonville Road and State Highway 1 between Broderick Road and the Newlands off ramp. This work will be completed to allow for the future population growth in Johnsonville. The contract has been awarded with approximately \$800,000 in savings for Council than originally budgeted. Physical work is planned to start in early June 2007.

Central Business District Rising Main Valves

Seven valves have been installed to optimise the control of the sewer network, reduce down time and keep the remaining sewer network running while repairs are being undertaken. This forms part of the work required under the sewage pollution elimination programme that aims to contain sewage in the network during pump station outage.

Appendix Two - Hutt City Council Activities

Jackson Street, Petone Upgrade

This project involves the renewal of water, stormwater and wastewater networks and the resurfacing of the carriageway in Jackson Street, Petone. The work has been divided in to three financial years. Resurfacing of the road is being managed by Hutt City Council. The schedule for the three years is outlined below.

- *2005/06 Financial Year:* All work between Hutt Road and Victoria Street - Services renewal complete.

- *2006/07 Financial Year:*
Victoria Street and Bay Street - Stormwater pipe renewal completed
Gear Street West to Fitzherbert Street - Water mains renewals completed
Bay Street to Queen Street - Sewer pipe renewals will commence in June 2007

- *2007/08 Financial Year:* All work between Bay Street and Queen Street – Plan to commence in July 2007.

Trunk Wastewater Excess Flow Management

This is a major project to mitigate wet weather overflows in Hutt city. Construction of a storage tank, pump station and underground pipe work at the Silverstream site were completed in August 2006.

Opahu Stream Pump Station Construction Project

A new pumping station is being constructed at the outlet of the Opahu Stream to reduce the flood risk of the Opahu Stream catchment area and improve the water-way capacity. The project is a joint initiative between Hutt City Council and Greater Wellington Regional Council. Electrical installation is 80% complete. The control system has been finalised and will be installed upon completion of the electrical installation. The pumping station will be completed and commissioned in June 2007.

Gracefield Pump Station (PS) Project

The pump station construction will start on 21 May 2007. The construction of the delivery main has been delayed until June 2007, due to the contractor being engaged in urgent water works in Wainuiomata.

Black Creek/ Wainuiomata Stormwater Improvements Project (Stage two)

This project forms part of the HCC programme to increase flood protection. The project involves widening and upgrading of Black Creek to minimise flooding risk to adjacent properties.

The excavation and hydroseeding of Black Creek, Parkway and Konini Drains are complete. Erosion protection measures will remain in place until the hydroseed is well established. The new Frederick Wise Park pedestrian bridge is completed and the former crossing has been removed. Minor reinstatement works are underway to repair and reinstate construction areas to their original condition.

Private Drains Project

The upgrading of leaking private drains is one of the projects we are working on to reduce wastewater overflows into the Waiwhetu stream. We have grouped the work into three areas - in several catchments near the stream.

In Area One the participation rate for people opting to have the Council manage the work for them was higher than expected meaning all the upgrades will be completed by March 2007. Area One is to the east of Waiwhetu Road in the Leighton Avenue catchment.

The water tightness testing programme in Area Two - roughly bounded by Guthrie Street, Riverside Drive, St Ronan's Avenue and Waiwhetu Road - is complete and the upgrade of faulty private drains was started earlier this year. Tenders have been evaluated with two contractors engaged to complete the works by March 2008.

We have now begun testing in Area Three – to the west of Waiwhetu Road and south of White Line East Road. The remainder of private drains in Area Three will be tested by the end of this year with work in Area Three to be completed by the end of 2008.