

capacity



STRATEGIC PLAN 2007-2010

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FOREWORD

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. Capacity is a limited liability company under corporation law with special provisions under local government legislation.

Capacity is financially supported by both its shareholders, Wellington City Council and Hutt City Council. Shareholders fund Capacity on the basis of work allocation. Historically, this has been based on a 20 percent Hutt City Council, 80 percent Wellington City Council split.

Capacity operates under a unique model where the owner of the assets is also the business owner (governed by the statement of intent) and Capacity's customer (managed through a service level agreement). Residents and contractors retain the direct relationship with the councils. As such Capacity's customer is the principal budget determinant and also holds infrastructure delegations.

Capacity faces many challenges in the coming three years as the company moves from establishment to the growth phase. These challenges span the range from operational issues with escalating costs in the construction industry through to resource capability and availability with labour shortages in the engineering sector. The challenge is how we can meet increased cost pressures while still delivering cost savings to shareholding customers.

Exciting opportunities are available to broaden our client base and seek to provide our services to other councils throughout the country. Our success in this endeavour will directly benefit our shareholding councils.

1. Capacity's nature and scope

1.1. OUR VISION

Capacity's vision is to be the first choice in infrastructure services.

1.2. OUR MISSION

Capacity's mission is:

- the long term management of the water, stormwater and wastewater assets of the shareholding councils
- to operate as a successful business, returning all benefits to our shareholders
- to contribute to achieving the cooperative delivery of integrated water services in the Wellington metropolitan region
- to develop a satisfying culture and work environment where empowered staff feel motivated and rewarded for excellence.

1.3. OUR STAKEHOLDERS

Capacity has two key stakeholders - they are Hutt City Council and Wellington City Council. We recognise each customer has differing expectations and requires differing levels of service and relationship management.

Hutt City Council (HCC) has used an outsourced model of service delivery for a number of years. Capacity is meeting HCC's expectations in terms of service delivery and relationship management but is underperforming on meeting savings targets.

Wellington City Council (WCC) undertakes the majority of its activities using an in-house model. Capacity is meeting WCC's savings expectations but further development is required in asset policy and planning to meet service delivery and relationship management expectations.

Customer Expectations	Hutt City Council	Wellington City Council
Delivery of service	✓	✗
Relationship Management	✓	✗
Savings	✗	✓

Table 1: Customer expectations

1.4. OUR FUNCTIONS

Capacity is a management company specialising in the provision of the full range of functions required to deliver infrastructure based services to high standards. We do this by using our own resources supplemented by external expertise as required.

Capacity is committed to delivering best practice solutions to the participating councils and has the potential to become a model for the management of infrastructure based services in New Zealand.

Capacity provides a comprehensive range of water services management activities. The range of services we offer to our shareholding councils are:

- **Asset Management Plans**
Capacity prepares Asset Management Plans that meet the requirements of the Local Government Act 2002. We involve external expertise in the preparation of these plans, to produce asset management plans that represent industry best practice.
- **Risk Management Plans**
Capacity prepares structured risk management plans at activity level (water supply, wastewater and stormwater). These plans include more specific plans to deal with identified high risks such as earthquakes and floods and contingency plans to ensure an effective response to significant risks.
- **Capital Works Programmes**
Capacity prepares draft capital works programmes consistent with asset management plans. We manage the entire capital works programme for water, stormwater and wastewater including design, obtaining necessary consents, tendering, contract administration and financial management.
- **Long Term Council and Community Plan (LTCCP) preparation**
Capacity provides assistance as required with the development and preparation of the water services related aspects of shareholding council's LTCCPs ensuring Local Government Act 2002 requirements for the management of water services are achieved.
- **Customer and Public Relations**
We ensure water services related requests for service are responded to in accordance with shareholding council's customer service policies and practices and that target response times are achieved.
- **Contract Management – Operations and Maintenance**
We manage maintenance and operations contracts; prepare new contracts before existing contracts expire and manage the tendering processes. As new contracts are prepared recommendations will be made on the extent to which efficiencies might be generated by merging maintenance and operations contracts with those of other participating Councils.
- **Policy Development**
We develop water services policy and recommend policy development needs to shareholding councils.

- **Management Systems (AMS, GIS and SCADA)**
 Managing the water services aspect of Asset Management System (AMS) is a key component of asset management including managing data input, system development reporting and quality assurance.
 We provide input to the GIS system to continually improve the quality of data and, as required, incorporating additions, deletions or other changes to the water services infrastructure.
 Alongside GIS, we manage the Scada system including asset management planning aspects of system management, system operation and maintenance, monitoring, data management and report generation.
- **Condition Assessments**
 Carrying out condition assessments of water services assets as required ensures the quality of condition data permits realistic projections on renewal requirements for these assets.
 We review the quality of condition data for non discrete assets and developing and implementing systems and programmes to upgrade the quality of this data as required.
- **Asset Valuations**
 Capacity manages valuations of the water services infrastructure to meet financial reporting, asset management and statutory requirements.
- **Standards and Specifications**
 We review standards and specifications relating to water services at agreed intervals, making recommendations for changes to Hutt City Council and implementing agreed changes.
- **Subdivisional and Building Consent Applications**
 We process water services management aspects of subdivisional and building consent applications to meet standards within required timeframes.
- **Resource Consent Management**
 We manage applications for Resource Consents as necessary and monitor and report on compliance with Resource Consents.

1.5. OUR PEOPLE

Our staff have substantial experience in all aspects of managing the provision of public water services from the strategic to the operational level and include staff who are recognised nationally for expertise in their fields. Staff have a mix of public and private sector backgrounds. They have a good understanding of the issues facing local authorities.

Capacity supplements its in house capability with external expertise as appropriate to ensure issues are considered from a wide perspective and solutions, which represent industry best practice, are defined.

More specifically Capacity staff have proven skills in the following areas:

- Asset Management
- Water Services Engineering and Technology
- Financial Management
- Customer Relationships
- Contracts Management
- Strategic Planning
- Policy Development
- Quality Processes
- Project Management
- Information Technology Systems

For our people to be effective, we expect and encourage our staff to exemplify the following values.

- Honesty - Capacity operates in an open and honest environment where all transactions and relationships with people are transparent.
- Trust - Capacity staff can be trusted to act in the best interests of customers and shareholders and carry out their duties in a fair and equitable way.
- Flexibility - Capacity is flexible and can respond quickly to requests for service and to change initiatives.
- Friendliness - Capacity has a strong customer service approach where everyone deals with each other in a friendly manner.
- Timeliness - Capacity ensures that all deliverables are completed on time and to the highest standard.

2. Capacity's operating environment

2.1. THE NEW ZEALAND WATER INDUSTRY

Water supply and sewage disposal in New Zealand is predominantly a function of local government. Water supply and sewerage are functions local government can undertake as being within its statutory powers.

Provision of new capital works is largely by independent contractors. Councils generally ceased to undertake capital works with their own staff by the early 1990s. Similarly provision of professional advice and design services is now very largely with private consultants.

The New Zealand water industry generally operates in a vertically integrated manner. Exceptions are Auckland which has separation between bulk and retail operations in both water and wastewater, and Wellington where there is a separation in the water supply sphere only between the Greater Wellington Regional Council (GWRC) and several local councils which it supplies.

In recent years there has been increasing pressure on councils in New Zealand to demonstrate efficiency in the way they manage their activities. It is not unusual for around 90% of the expenditure of local authorities to be for the delivery of infrastructure based services. The value of the infrastructure involved typically runs to hundreds of millions of dollars. Local authority costs are therefore significantly influenced by how efficiently infrastructure based services are managed.

Standards for the management of infrastructure based services are continually increasing. These arise from changes to legislation and increasing community expectations. The Local Government Act 2002 has imposed further requirements for the management of infrastructure based services particularly in the area of water and sanitary services. At the same time most councils are striving to contain costs. The challenge facing councils is to do more with less.

Many councils in New Zealand simply do not have the level of resource or expertise to achieve the standards now being demanded. Addressing this issue must inevitably lead to higher costs to councils already under pressure to contain spending. With other potentially conflicting spending priorities more cost effective ways of managing these services must be put in place.

Solutions to the current problem of meeting higher management standards with limited resources and budgets appear to involve either political amalgamations between councils or co-operative arrangements between councils for the management of infrastructure based services.

3. Capacity's organisational capability

3.1. OUR CURRENT CAPABILITY

Capacity has an established staff of 53 full-time equivalents (FTE) who are based in our Petone office. Our field staff use mobile technology to access real time information about the network from their vehicles and are vehicle based rather than office based. We also have an office at the CitiOperations department of Wellington City Council where field staff are able to access the Capacity network.

Capacity's strengths are:

- Staff show a commitment to quality and value and are highly skilled and experienced in the engineering and water fields. Staff also have extensive institutional knowledge of the water networks and infrastructure and an understanding of working in the local government environment.
- Our asset management planning processes are a high quality and are continuously improving. We are in the process of a project targeted to improve asset planning to exceed current standards.
- A fully developed and implemented Risk Management System governing identification, registration, measurement and management of Capacity's business risks. Management has responsibility for on-going management and identification of risks with the Capacity Risk Committee meeting twice yearly to review and measure all outstanding risks. The risk register and the company's risk management activities are reviewed annually by the Board Audit and Risk Committee. The Internal Audit process identifies areas for review on an annual basis and reports to the Board Audit and Risk Committee on the performance of areas under review.
- Our technology and systems are state of the art. We have upgraded our computer hardware and software so that staff have the best possible resources available. Our SCADA technology allows for realtime information and analysis of water data for effective control, management and decision making of the network.
- Operational response to emergencies and customer requests is excellent. Because our field staff are vehicle based we are able to respond quickly to service requests with appropriate information at our finger tips.

We are proud of the strengths in capability but recognise that we have weaknesses in the following areas:

- Our existing skills and knowledge are not necessarily aligned with growth opportunities. Some staff find growth and development challenging and a movement away from the status quo provides a nervousness of the “business” environment.
- The recruitment and retention of skilled engineers and project managers with water industry knowledge is very difficult in a competitive labour market. Industry shortages creates inflationary pressures on remuneration and benefits with potential and existing staff being offered higher benefits from competitive labour options.
- Due to labour shortages we are lagging in providing the strategic and policy advice that councils are requesting. Our business merge process has also been slow in development due to the lack of staff to complete the required tasks.

4. Capacity's strategic objectives

Our 2006 – 2009 strategic business plan identified four key areas that focussed on improving and growing the company's business capability over the next three years. These are Service Excellence, Leadership, Growth and External Recognition and People Development. Capacity will continue to work towards achieving these results over the period 2007-2010.

■ Service Excellence

Capacity will take a concentrated focus on service delivery to exceed service level agreements so that customers are highly satisfied. Capacity recognises that through continuous development in people and processes, services will be delivered more effectively and efficiently. This will be achieved by incorporating performance excellence at every level of the organisation.

■ Leadership

Capacity will strive to become leaders in asset management planning and will drive policy changes at the highest levels. Capacity's management team and staff will lead development in areas of policy, planning and service delivery in water services across the Wellington region.

■ Growth and External Recognition

Capacity plans to expand operations by actively pursuing business development opportunities. This will reduce costs to shareholding councils through spreading costs over a broad base. Capacity will promote achievements and pursue opportunities to be recognised in the water industry and in local government.

■ People Development

Capacity will build organisational capability through succession planning and ensure staff have appropriate skills and knowledge to meet current and future business demands.

Key objectives for 2007/2008

Capacity will focus on two key objectives during 2007/2008 that will support the strategic objectives mentioned above. They are:

- **Our strategic relationship objective** - To improve relationships and exceed service levels with the current shareholders
- **Our growth objective** - Develop the business and pursue opportunities to be recognised as a leader in infrastructure services.

4.1. OUR STRATEGIC RELATIONSHIP OBJECTIVE

We recognise that improved relationships with our current shareholders are vital to the growth of Capacity. Our shareholders need to recognise that the councils will gain from the success of Capacity in terms of reputation and savings.

Strategic Objective 1

A strategic objective of Capacity is to improve relationships with both councils.

To improve relationships and exceed service levels with the current shareholders the following initiatives need to be achieved:

- Ensure the success of the company is highly visible and recognised in the industry – through winning awards.
- Leverage off improved relationships with the councils – Capacity CEO and Chairman continue meeting with the Mayor and CEO's of each council.
- Improve the meeting structure of the service level agreement (SLA) meetings with WCC.
- Deliver the strategic advice to councils.
- Meet or exceed savings expectations and report these to shareholders.
- Develop consistent standards and processes between shareholders.

4.2. OUR GROWTH OBJECTIVE

Capacity plans to expand operations by actively pursuing business development opportunities. This will reduce costs to shareholding councils through spreading costs over a broad base.

Strategic Objective 2

Develop the business and pursue opportunities to be recognised as a leader in infrastructure services.

Imperatives

For Capacity to move forward and enhance its growth potential certain imperatives need to be achieved. These are:

- Investment and enhancement of people including having staff with the skills and ambition to drive the company forward. Staff need to believe in the direction and challenges of growth and buy-in to the concept of continuous improvement.
- Obtaining buy-in from our shareholders to Capacity's growth strategy. Our shareholders need to recognise that the councils will gain from the success of Capacity in terms of reputation and savings.
- Leadership within the company to lead change and growth is imperative to success. The company must have competent and confident leaders to inspire staff and shareholders.
- Corporate support and company requirements will need to be established to support the growth environment. This includes adequate office space and equipment, identifying financial implications and processes and customer service requirements.
- A review of company operations and services should be undertaken to measure Capacity's performance in delivering service. This will identify Capacity's core business, streamline the services provided to current and potential customers and provide metrics from which the company's performance can be measured.

Other considerations

Capacity operates in a political environment where ownership, customers and potential clients also come under political influence. Every local authority in New Zealand is required to hold an election of members every three years. The triennial elections are held on the second Saturday of October with the next election being in 2007.

Potential Products

The following products and services were identified by the Capacity Board of Directors as potential areas to market and provide to customers. Each product is analysed in more detail for viability.

- *Asset Management Planning (AMP)*
Capacity has improved both Hutt City Council and Wellington City Council's AMP's. These have been completed with the assistance of external consultants.
- *Strategic Capabilities*
Intellectual property is a product that Capacity could leverage off in terms of the development of delivering strategic advice to councils.

4.2.1. The Product – Asset Management Planning Services

Asset Management Planning is a legislative requirement under the Local Government Act. Capacity is required to complete asset management plans for shareholding councils as part of the service provision outlined in the service level agreement (SLA) with each council.

Audit New Zealand (NZ) identified in their 2004/05 audit report¹ of local government that ongoing work is needed on asset management plans. Audit NZ state they have become concerned that asset management plans are not informing maintenance and development work as intended. Audit NZ has taken a sustained interest in asset management for the last 15 years and continues to do so. They have generally focused on assessing the state of asset management and encouraging councils to improve the preparation of asset management plans. More recently, they have encouraged councils to move to enhanced plans. However, it appears that many councils still do not understand the benefit of good asset management planning, and that, while software tools are available to help councils integrate asset management information into business planning, these are not being used to their full potential.

Capacity has developed a sound methodology for asset management planning that takes into account Audit NZ's requirement of enhanced asset management plans. Capacity has a partnership with an external consultant to deliver these services to the councils.

Capacity can leverage on the work already completed for our current shareholders by:

- developing a replicable asset management framework that can be easily tailored for alternative customers
- accomplishing advanced asset management status through the finalisation of the asset management improvement project
- investment in the development of software systems that support the asset management environment and assist in optimal decision making.

The Market

Capacity is best placed to provide asset management planning services to other local government organisations, particularly in the Wellington region. Relationships have been established with Porirua City Council and Upper Hutt City Council at the senior management level. Discussions with these councils has progressed around possible service level options.

The smaller councils in the Wairarapa (South Wairarapa, Carterton, Greytown) are potential markets because of their smaller size they often do not have the internal resources to effectively complete asset management plans as required. Capacity currently has no relationship with these councils at the executive level.

The smaller councils face ongoing problems of flooding during heavy weather events and water shortages during summer and are under increasing pressure with a smaller rating base to cut costs and invest effectively in infrastructure.

Capacity must establish relationships with the Wairarapa councils through executive management or political avenues to promote Capacity services to them.

¹ Local government: Results of the 2004-05 audits, section 7.103

The Investment

To provide asset management planning services to other customers, Capacity needs to ensure that internal capability and resources are able to provide effective asset management planning services. We also need to ensure that adequate resources are committed to completing the improvement projects in developing an asset management framework, achieving advanced asset management status and asset systems development.

Capacity will need to increase capability in the asset management planning area which will require additional investment to attract suitable personnel with the knowledge and expertise to work at Capacity. Increasing pressure in a tight labour market may require Capacity to recruit from international labour markets and provide incentives in terms of benefits and remuneration to attract potential candidates.

A gap analysis of current capability versus future requirements will be completed to assess what level of resource is needed to bring the asset planning team up to the necessary capability as well as determining an appropriate quantity of staff for the team.

When a level of skill mix and quantity has been determined for asset planning, a realignment of the organisation structure will be necessary to focus resources in to the asset planning area (possibly from other Capacity teams).

The Time Horizon

Capacity can realistically provide asset management planning services once the investment in people and processes has been completed. The resourcing of personnel in the asset planning team and the completion of improvement projects must be done by 30 June 2007.

Communication with potential customers can begin as soon as possible and will be supported by a targeted communications plan. Early communications and promotion of Capacity's asset management planning services can secure fee paying work for the next planning round which usually begins for councils in February each year.

Capacity's goal is to secure additional fee paying work by September 2007 and preliminary work for the customer should begin by October 2007 to begin asset planning by February 2008.

4.2.2. The Product – Strategic Capabilities

Capacity currently provides strategic advice to our existing shareholders. It is imperative this work is completed so that Capacity can fulfill the strategic requirements of current shareholders and to promote strategic projects that other councils can benefit from.

Areas where Capacity could have greatest strategic impact are:

- developing consistent standards and processes between shareholders
- reservoir rationalisation strategies
- network optimisation strategies and scenario planning

- define and develop a ten year water strategy that takes into consideration the three year political cycle and risk planning for issues such as climate change
- project manage the resource consenting process
- the bulk water agreement and adequate pricing model agreed and signed.

The Market

The potential market where Capacity is best placed to provide strategic advice is to other local government organisations. This is the same target market as for asset planning services with a focus on the Wellington region councils such as Upper Hutt and Porirua City Councils.

The Investment

To provide strategic services, Capacity needs to ensure that internal capability and resources are adequate. We also need to ensure that dedicated resources are committed to completing the strategic projects already in progress.

Capacity will need to increase capability in the strategic area which will require additional investment to attract suitable candidates to work at Capacity. Increasing pressure in a tight labour market may require Capacity to recruit from international labour markets and provide incentives in terms of benefits and remuneration to attract potential candidates.

The Time Horizon

Capacity can realistically provide strategic services once the investment in people has been completed and strategic projects are being provided to current shareholders. The appropriate resourcing of strategic personnel in the organisation needs to be an ongoing process. Capacity cannot realistically provide this service to a broader client base until we have the required expertise and experienced staff to do so. Our objective is to have resources in place by June 2007.

5. Capacity's 2007/2008 Action Plan to Success

The table below outlines the actions required for Capacity to achieve its strategic objectives in 2007/2008.

Actions required	Milestones
Strategic Objective 1 - Improve relationships with both councils	
Ensure the success of the company is highly visible and recognised in the industry – through winning awards.	Application for an award by March 2008
Leverage off improved relationships with the councils – Capacity CEO and Chairman continue meeting with the Mayor and CEO's of each council.	Ongoing meetings with a set agenda
Improve the meeting structure of the service level agreement (SLA) meetings with WCC.	Implement by March 2007
Deliver the strategic advice to councils.	Capability to deliver strategic advice by June 2007
Meet or exceed savings expectations and report these to shareholders.	Savings model signed off by both councils by June 2007
Develop consistent standards and processes between shareholders.	Standards completed by December 2007
Strategic Objective 2 - Develop the business and pursue opportunities to be recognised as a leader in infrastructure services.	
Organisation Imperatives	
A review of company operations and services is undertaken to measure Capacity's performance in delivering service.	Business review completed by August 2007
A gap analysis of current capability versus future requirements to determine the level of human resource needed to meet the growth objective.	Gap analysis completed by September 2007
Realignment of the organisation structure to focus resources in to the asset planning and strategic areas.	Realignment completed by October 2007
Communication/relationship building in place with councils in the South Wairarapa.	Relationships established by September 2007
Promote Capacity services to other local councils in the Wellington region.	Secure fee paying work by October 2007 with fee payment starting from February 2008
Asset Management Planning	
Develop a replicable asset management framework that can be easily tailored for alternative customers.	Framework completed by October 2007
Accomplish advanced asset management status through the finalisation of the asset management improvement project.	Advanced status achieved by November 2007
Investment in the development of software systems that support the asset management environment and assist in optimal decision making.	Software systems developed by June 2008
Strategic Projects	
Reservoir rationalisation strategies developed.	High level review - August 2007
Network optimisation strategies and scenario planning completed.	Completed by June 2008
Define and develop a ten year water strategy.	Completed by June 2008
Project manage the resource consenting process.	Completed by August 2007
The bulk water agreement and adequate pricing model agreed and signed.	Completed by July 2007

Table 2: Capacity's 2007/2008 action plan

6. Capacity's financial statements

The financial statements show Capacity's draft operating budget for 2007/2008 by quarter and budget forecast for 2008/2009 and 2009/2010. The budget has been adjusted for the following two years to allow for inflation changes.

Statement of Financial Performance

	Quarter 1 Jul 07-Sep 07 000's	Quarter 2 Oct 07-Dec 07 000's	Quarter 3 Jan 08-Mar 08 000's	Quarter 4 Apr 08-Jun 08 000's	Budget 2007/2008 000's	Forecast 2008/2009 000's	Forecast 2009/2010 000's
Income	1,266	1,292	1,283	1,292	5,132	5,472	5,651
General Expenditure	291	299	291	317	1,197	1,294	1,336
Personnel Expenditure	969	988	987	970	3,914	4,155	4,291
Depeciation & loss/gain on sale	5	5	5	5	20	21	21
Interest Expense	1	1	1	1	2	2	2
Total Expenditure	1,266	1,292	1,283	1,292	5,132	5,472	5,651
Net Surplus/ (Defecit)	-	-	-	-	-	-	-

Note: Capacity has adjusted base financial projections to reflect the estimated impact of inflation. Inflation rates have been estimated using the BERL (water) price level change forecasts to calculate an inflation rate for each year. The adjustments are summarised as follows:

2007/2008 Base year
 2008/2009 3.72%
 2009/2010 3.28%

Statement of Financial Position

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Budget	Forecast	Forecast
	Jul 07-Sep 07	Oct 07-Dec 07	Jan 08-Mar 08	Apr 08-Jun 08	2007/2008	2008/2009	2009/2010
	000's	000's	000's	000's	000's	000's	000's
Bank	578	644	626	611	611	617	598
Prepayments	45	25	6	64	64	67	66
Account receivable	473	482	493	501	501	520	517
Current assets	1,096	1,151	1,126	1,176	1,176	1203	1182
Fixed assets	67	62	57	52	52	33	12
Non current assets	67	62	57	52	52	33	12
Total Assets	1,162	1,213	1,182	1,227	1,227	1236	1194
Accounts payable	508	488	637	603	603	589	549
GST payable	40	81	31	80	80	83	83
Annual leave	238	268	138	168	168	175	174
Current liabilities	786	837	806	851	851	846	805
Non current liabilities	-	-	-	-	-	0	0
Total liabilities	786	837	806	851	851	846	805
Net working capital	376	376	376	376	376	390	388
Equity	376	376	376	376	376	390	388

Statement of Cash Flows

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Budget	Forecast	Forecast
	Jul 07-Sep 07	Oct 07-Dec 07	Jan 08-Mar 08	Apr 08-Jun 08	2007/2008	2008/2009	2009/2010
	000's	000's	000's	000's	000's	000's	000's
Cash was provided from							
Operating receipts	1,503	1,469	1,425	1,446	1,446	1,500	1,493
GST	(164)	(81)	(161)	(71)	(71)	(74)	(73)
Cash was disbursed to							
Payments to supplies	1,313	1,323	1,282	1,390	1,390	1,442	1,436
Net cash inflow/(outflow) from operating activities	26	65	(17)	(15)	(15)	(16)	(17)
Net increase/(decrease) in cash	26	65	(17)	(15)	(15)	(16)	(16)
Opening cash balance	553	578	644	626	626	633	615
Closing cash balance	578	644	626	611	611	617	599