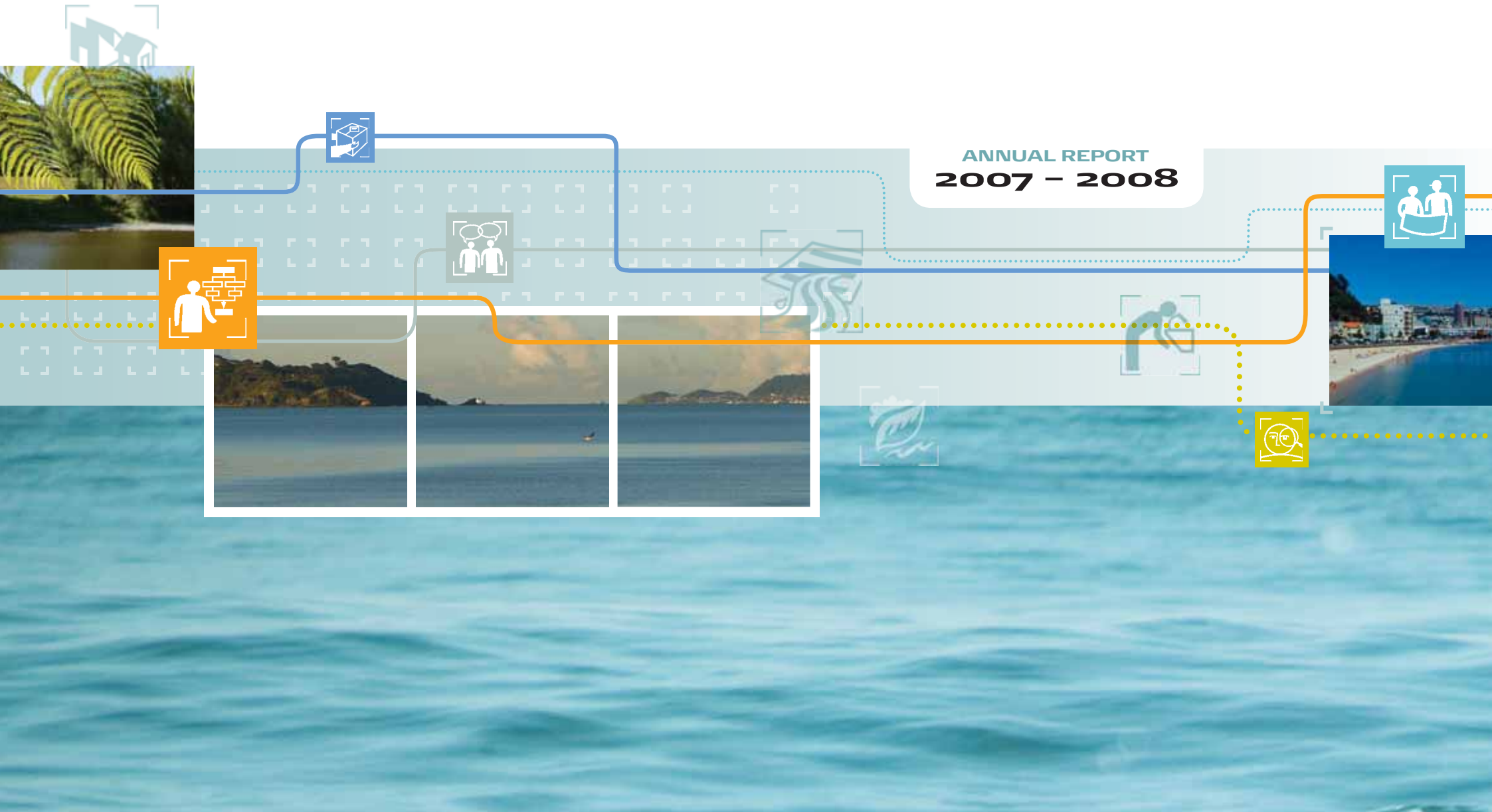


ANNUAL REPORT  
2007 - 2008



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## ABOUT CAPACITY

Capacity is the trading name of Wellington Water Management Limited. It was set up in April 2004 by Wellington City Council and Hutt City Council as a Council Controlled Trading Organisation.

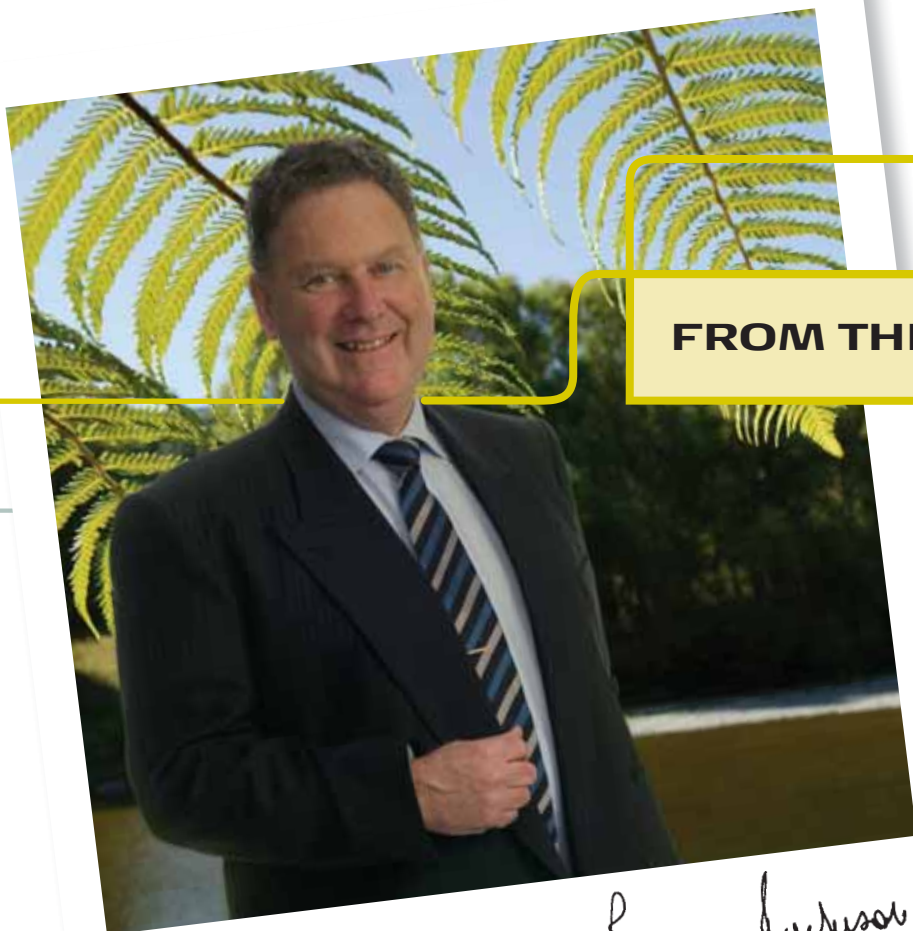
As a Council Controlled Trading Organisation we manage the water, stormwater and wastewater assets on behalf of our shareholding councils. We do not own the water, stormwater and wastewater assets, set policies or control the rates and user charges. These roles remain with both councils.

During the past year we continued to manage 4,500km of pipes, 100 reservoirs and 140 pump stations for both councils. During 2007/2008 we were responsible for managing \$71 million of operational expenditure and \$38 million of capital expenditure for the two councils.

Setting up a foundation for growth during our first four years of operation has paid off, as we embark on a new era of our operation after welcoming Upper Hutt water services management into the fold.

The acquisition of the Upper Hutt services gives us the opportunity to continue to demonstrate the delivery of high-quality, safe and environmentally sustainable services as we move to becoming the first choice in infrastructure services in the Wellington region.





*Bryan Jackson*

## FROM THE CHAIRMAN

The past year has been an exciting one for Capacity. We have seen a number of changes, from the governance of the company right through to the decision by Upper Hutt City Council to contract us to manage their water, stormwater and wastewater services.

As in any times of change and growth, there is the need to nurture and maintain relationships with existing clients. We are working hard at continuing to understand and meet the expectations and demands of these clients as we look to meeting the needs of our new client.

In particular, we are conscious of concerted efforts by both Hutt and Wellington city councils to respond to issues of sustainability, protecting the environment and acting in an environmentally

appropriate way. We will be working with both these councils to help meet their and our own goals in these areas.

Wellington City Council has undertaken some challenging goals to reduce greenhouse emissions and become the first capital city in the world to be carbon neutral. We are looking at our business to see how we can work smarter to help it achieve this goal. We are mindful of the impact of fuel and energy use within our own business, in terms of both the financial and environmental cost, and continue to look at what can be done to minimise this.

Looking to the future, the changes made to the Board in the last year reflect the changing nature of our company. We have moved from set-up through to establishment, and are now fully embarked on our growth phase. The Board now has a more commercial focus to drive us forward in this competitive industry.

Thanks must go to our outgoing Board members who contributed hugely to ensuring the company was in fine health as it now enters this new growth phase. I would like to thank Roger Styles and Bryan Pepperell for their support and wise governance. Special thanks go to Alick Shaw, who was one of our inaugural Board members. He was passionate about the regionalisation of water services and provided great direction for Capacity. All three Board members left us in December 2007.

I would also like to welcome Andy Foster, Peter Leslie and Peter Allport as our new Board members and look forward to their contributions.

Finally, I would like to thank the staff of Capacity for their continued dedication and professionalism and welcome the staff from Upper Hutt on board.

**Bryan Jackson**  
CHAIRMAN



## A NEW ERA

In order to grow and flourish as an organisation it is imperative that we take time out to assess our position, consider how we can do things better, and develop strategies for future growth. In 2007 we took a rigorous look at our business and how we could find further efficiencies, reduce costs and provide a greater return to our shareholders, as well as embarking on further growth.

As a part of our quest for continuous improvement we looked at our internal processes to see where they could be improved. As a result we introduced a higher level of management controls and better workflow management across all areas of our business. Subsequently we initiated a review looking at where else we could lift performance and how we could more rigorously maintain and develop our business relationships with our clients. This review will provide an outline of further areas where we can focus improvements in the next financial year and beyond.

Externally we looked to grow the business by managing water services for another council by the end of this financial year. We implemented our marketing strategy and held discussions with councils in the lower North Island and the top of the South Island to outline the services Capacity can offer.

We are delighted that Upper Hutt City Council has decided to have us manage all their water, stormwater and wastewater services from 1 July 2008. Upper Hutt City Council expects to achieve operating cost savings of approximately \$205,000 per year under the Capacity proposal.



D. S. Hill.





Acknowledging the wealth of knowledge of the water and drainage staff at Upper Hutt City Council, we have offered them employment at Capacity and look forward to welcoming them on board.

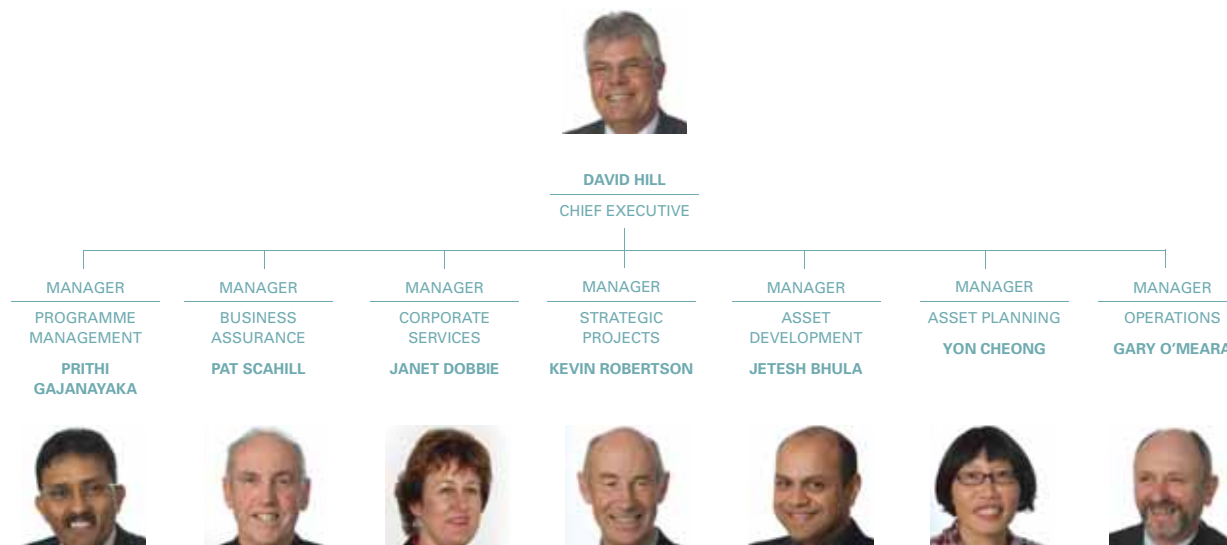
The addition of Upper Hutt City Council to the Capacity fold is another step towards our stated intention of attaining the regionalisation of water services in the greater Wellington region, to the benefit of all the councils and their ratepayers.

Capacity is now growing as a centre of excellence. It is developing as a hub of water management expertise where staff and management can learn, react, develop policy and assist in managing water, stormwater and wastewater services across the region.

We are fostering a positive team culture by encouraging our staff to actively participate in our local community. Our community participation programme saw staff involved in the Corporate Challenge run by the Wellington Region Foundation Trust earlier in the year. Our staff supported Cricket Wellington in a cricket fun day for Hutt City school children at Sladden Park.

Over the next six to nine months we will be consolidating our operations at Upper Hutt to ensure our service delivery is well tuned and that we are able to add real value to our new client. Towards the end of the financial year we will be implementing our Relationship Programme Plan. This plan will focus on raising our profile as we look for further growth opportunities to strengthen our position as the first choice in infrastructure services.

**David Hill**  
CHIEF EXECUTIVE



## Past achievements and future activities



## DEMONSTRATING EXPERTISE IN PLANNING

2007/2008

### HUTT CITY COUNCIL

During the course of the year, we tested the reliability of the Hutt City Council asset valuation software (called "Confirm"). We identified improvements that could be made to the current manual system and introduced a new calibration system which has the benefit of being able to run in-house. Other benefits of the new system include improving the process for valuations, data collection, accuracy of the information and time savings.

The Council's Public Health Risk Management Plan has been substantially completed and awaits final comment from Regional Public Health. Once we have this approval, our other clients will benefit from our ability to provide their Public Health Risk Management Plans in an already agreed format.

### HUTT CITY COUNCIL AND WELLINGTON CITY COUNCIL

We completed the capital works prioritisation framework, one of the asset management improvement projects enabling us to justify physical expenditure and help link that to the council and community outcomes contained in the Long Term Council Community Plan. This framework will be used to prioritise all capital work.

Comprehensive asset managing planning is undertaken on behalf of all our clients each year.

2008/2009

### HUTT CITY COUNCIL AND WELLINGTON CITY COUNCIL

Over the next couple of years we aim to substantially complete a number of other strategic improvement projects for both Wellington and Hutt city councils. We have identified potential areas of improvement to help these councils meet expected requirements as part of their asset management planning. Projects are diverse and include everything from service gap analysis to risk management planning and consultation on levels of service.

We continued to make good progress toward ISO certification during the year, with an audit of ISO processes being undertaken in July 2008. We are aiming to achieve ISO 9001 certification before March 2009 and to produce a high-level summary document of the Capacity ISO system for staff and clients. ISO certification will demonstrate that our processes have reached an internationally recognised standard of quality.

## DEMONSTRATING EXPERTISE IN CONSULTATION



2007/2008

### WELLINGTON CITY COUNCIL

We are in discussion with Greater Wellington and other interested parties to finalise resource consent applications for:

- Western Wastewater Treatment Plant (Karori) – consent for the continuing operation and discharge of treated wastewater from the plant
- Moa Point Wastewater Treatment Plant – consent for the continuing operation and discharge of treated wastewater from the plant.

It is expected that the consent applications will be granted in the 2008/09 year.

We have also been working with Wellington City Council on resource consent renewals for the discharge of contaminated stormwater into the harbour during heavy rainfall. The first of these consents, Tory Street culvert, expired in June 2008.

An application to renew the Tory Street culvert resource consent was lodged with Greater Wellington on 20 December 2007. The consent was approved in June 2008.

2008/2009

### WELLINGTON CITY COUNCIL

We will be working with Wellington City Council on resource renewals for the discharge of contaminated stormwater into the harbour during heavy rainfall during the 2008/09 year. The next resource consents due to expire, Island Bay and Houghton Bay culverts, need to have a resource renewal lodged by 20 December 2008.

### HUTT CITY COUNCIL

We will be working on the resource consent for wastewater overflows into Waiwhetu Stream from Malone Road and Hinemoa Street. The current consent will expire in October 2009 and we will lodge a new application on behalf of Hutt City Council by April 2009.





## DEMONSTRATING EXPERTISE IN **MANAGING**



2007/2008

### WELLINGTON CITY COUNCIL

During the year we studied areas of the central business district to better understand the flood risk and to model flood mitigation proposals to manage this risk. In 2008/09 we will present Wellington City Council with options for upgrading the Taranaki Street stormwater culvert.

We also initiated strategic reviews of water, stormwater and wastewater assets for Wellington City Council. These reviews will enable us to plan for the management of the assets over the next 80 years so we can ensure that they are well maintained and, where necessary, altered to meet the changing demands of Wellington city. Work on this strategic planning will continue over the next couple of years.

We have completed an investigation into the water supply for the Grenada South zone. This will assist our plans to optimise the water network in the area and meet the demands of the new development arising from the Northern Growth Management Framework. Through our optimisation work we will be able to line up the network so that it feeds into the new development and meets the increased demand on the water supply.

In 2007 Capacity made a strategic assessment of the central business district (CBD) and surrounding supply zone. This assessment looked at demand growth, consumption trends, storage requirements, asset and supply utilisation, network redundancy,

network configurations, and optimisation of the network and strategic mains renewal/replacement programmes.

The assessment focused on network configurations to ensure optimal supply to and from the reservoirs in the supply zone. The aim was to improve network effectiveness, and at the same time identify a more economic solution than the ring main proposal by using existing infrastructure more effectively.

The outcome of the assessment is a new strategy that will effectively address stored water turnover in a proposed CBD reservoir and improve water transmission to the CBD and the eastern and southern suburbs.

The new strategy replaces the concept of a ring main around the CBD with a substantial cost reduction estimated at greater than \$14 million.

We finished writing the Water Loss Reduction and Leakage Management Strategy and began to implement pressure management in the pilot areas in parts of Roseneath, the eastern suburbs and Melrose. Implementation of the strategy involved adjusting water pressure levels in the supply system to achieve more consistent pressure levels. We anticipate that over time we will see a reduced number of water main breaks, reduced leakages, and improvements in the reliability of the water supply system and water conservation. Ultimately we expect this to lead to cost savings for the Council.



#### HUTT CITY COUNCIL

During the year, we investigated a number of issues identified in the Council's stormwater assessment. These included stormwater outlets on Hutt City beaches; stormwater capacity in parts of Stokes Valley; low-lying areas between State Highway 2 and the base of the Western Hills; and backflows from the Hutt River up into the stormwater system. We will be addressing these issues through the development of a stormwater strategy for the city.

We will be reviewing the wastewater overflow strategy for the local wastewater network. This strategy will enable us to plan and implement measures to reduce wastewater overflows during heavy rain.

We have also completed investigations into flood protection measures for properties along Opahu Stream that remain at risk of flooding, despite the construction of the new Opahu Stream pump station. Assistance will be given to the property owners to construct flood walls in 2008/09.

2008/2009

#### WELLINGTON CITY COUNCIL

We will be working on a draft strategic plan for water modelling, which will help us to determine how we manage water. It will also establish the improvement tasks to be undertaken on the water supply model. This will improve the accuracy of data obtained from our modelling work.

Water optimisation investigations will be carried out in the Karori, Ngaio West, Johnsonville and Grenada North supply zones. Ultimately these investigations will lead to better management of the water supply in these zones.

During the coming year we will develop a strategic plan for wastewater flow monitoring, and establish a three-year work programme for water main renewals and a two-year work programme for drainage renewals.

#### HUTT CITY COUNCIL

As part of the development of the stormwater strategy, we will be looking at how to improve flood protection in the city.





## DEMONSTRATING EXPERTISE IN **MONITORING**



2007/2008

### WELLINGTON CITY COUNCIL

During the year we inspected 60 per cent of the private grease traps in Wellington. We found many people were either unaware that they had a grease trap or had no idea how to maintain it. Consequently we have instigated some major improvements, with owners now undertaking remedial work and operating maintenance schedules. As a result there has been a noticeable drop in fat levels found at pump stations in the central business district.

A monitoring overflow strategy programme introduced during the year involved the installation of monitoring devices in manholes. This has enabled us to see the extent of sewer overflows, gather data and then to work on strategies to minimise these overflows in future.

### WELLINGTON CITY COUNCIL AND HUTT CITY COUNCIL

Regional Public Health carried out public health grading of Hutt City Council and Wellington City Council distribution systems. Capacity gathered documentation for the grading. The gradings provide a public statement on the overall level of risk of the systems.

2008/2009

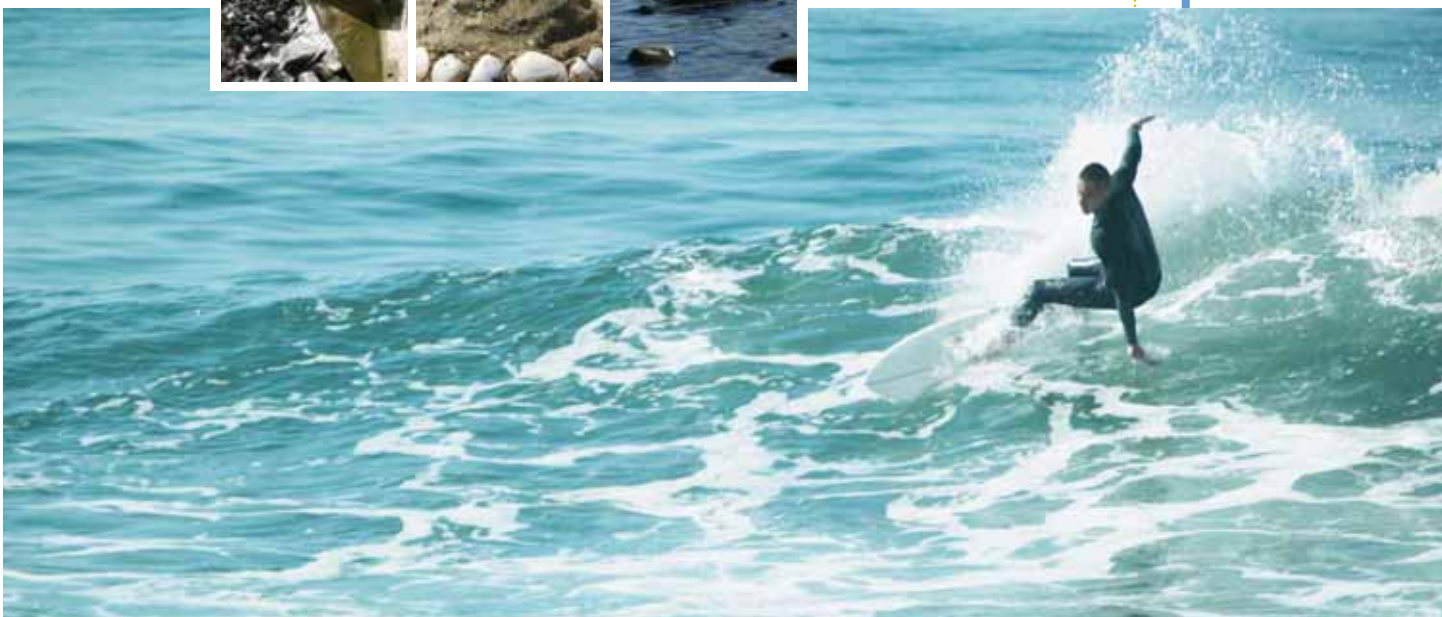
Over the next year we will review the SCADA (Supervisory Control and Data Acquisition) systems based at Capacity. The review will look at options for standardising equipment and systems in an effort to reduce operational costs.

The SCADA systems are used to control pump stations and collect data for trending analysis for reservoir inlet/outlet flows, water consumption, pump run frequencies, and wet well and reservoir levels. Ultimately the engineers use this data to maintain and optimise network operations, produce monthly reports, cost analysis, consumption prediction and improve overall system synergies.





## DEMONSTRATING EXPERTISE IN **DELIVERY**



2007/2008

During the year we reached a collaborative management agreement with our operations and maintenance contractors, BBS and Citioperations. This agreement identified improvements that could be made to the operation of the network activities and also established a preferred contract structure from 1 July 2009 (when the current contract period ends). By doing this we are able to look for efficiencies in service activities and cost.

We continued to maintain the networks for both our clients and met our service level requirements. In addition, during the year we had three significant rainfall events which led to a lot of investigation and mitigation work being carried out. The impact of the flooding was more extensive in Wellington: it involved additional clean-up work and identifying further upgrades and improvements needed to minimise the impact of future flooding.

### WELLINGTON CITY COUNCIL

During the year we completed construction work on the Lincolnshire reservoir, which is being built as part of the Northern Growth Management Framework project. This project will service the expected growth of 9000 people and associated industry over the next 20 years. The reservoir will be commissioned in September 2008.

A geotechnical investigation enabled us to finalise sewer renewal works that will avoid overflows into the tributary of the Korimako Stream. We are now finalising costs for recommended options for sewer network renewal in the Waikowhai Street area. In the next financial year we will start the detail design work and aim to begin construction towards the end of the year.



#### HUTT CITY COUNCIL

Work continued during the year on upgrading private drains in Waiwhetu, Lower Hutt, to minimise sewerage overflows into the Waiwhetu Stream during heavy rain. The work has been split into three areas and is almost fully completed in area one and two. The private drains upgrade contract will begin in area three in July 2008. This is expected to be completed by June 2009.

Stage three of the Black Creek/Wainuiomata Stormwater Improvements Project, which will increase flood protection, was completed during the year. This involved replacing the Best Street footbridge to widen the creek at this point. Further work to progressively replace other bridges and culverts is scheduled to start from 2010/2011.

The construction of a stormwater pump station to provide better flood protection in the Gracefield area was completed at the end of the financial year. Commissioning took place in July 2008.

#### WELLINGTON CITY COUNCIL AND HUTT CITY COUNCIL

During the year Wellington, Porirua, Upper and Lower Hutt experienced an unusually dry summer, resulting in the introduction of water restrictions across the region. Working with Greater Wellington, we co-ordinated the advertising of water restrictions and activities for our clients. The ban on sprinklers and irrigations systems was lifted after five weeks.

2008/2009

#### WELLINGTON CITY COUNCIL

During the new financial year we will continue to work with United Water International and Wellington City Council to review the processes used in wastewater treatment plants to optimise energy use. This will support the Council's goal of making Wellington the first carbon neutral capital city in the world.

We will start design work for the Messines Road reservoir in Karori. The new reservoir will provide water to the entire Karori area, provide operational and emergency storage and regulate pressure for the Messines supply zone. The Messines Road reservoir will replace two aged and undersized reservoirs.

#### HUTT CITY COUNCIL

In the coming year we will continue work in the Gracefield area by clearing drains and installing backflow prevention. In addition we will run the Gracefield education programme (with Hutt City Council staff) as an initiative to improve the stormwater quality within the Gracefield area. The education programme will focus on general stormwater run-off from public land and from industrial properties in the Gracefield area. It will involve press releases, publicity in Hutt News, plaques on sumps, information sheets to industries, and site audits carried out in conjunction with trade wastes inspections. Council trade waste officers will visit local industries to help identify and reduce potential sources of contamination that may be entering waterways.

#### HUTT CITY COUNCIL, UPPER HUTT CITY COUNCIL AND WELLINGTON CITY COUNCIL

We will be undertaking network renewals and upgrades for approximately 18.5km water main, 3km stormwater and 6.5km wastewater pipes over the next year for our clients.

#### UPPER HUTT CITY COUNCIL

During the next financial year we will be responsible for monitoring and maintaining the water, stormwater and wastewater services for Upper Hutt.

We will look at the benefits of a collaborative management agreement for the operations and maintenance contract in Upper Hutt once the existing contract period ends.



## STATUTORY INFORMATION

### DIRECTORS

The company held 12 Board meetings during the year. Attendances of directors at meetings of the Board were:

	Number of meetings attended	Number of eligible meetings
<b>Chairman</b>		
Bryan Jackson	12	12
<b>Directors</b>		
Peter Allport <i>from 1 February 2008</i>	4	4
Andy Foster <i>from 1 November 2007</i>	8	8
Peter Leslie <i>from 1 January 2008</i>	6	6
Bryan Pepperell <i>retired 31 October 2007</i>	3	4
Alick Shaw <i>retired 31 December 2007</i>	5	7
Roger Styles <i>retired 31 December 2007</i>	4	6
Ray Wallace	11	12
Richard Westlake	10	12

### EMPLOYEE REMUNERATION

The number of employees who during this accounting period, received remuneration to the value of or exceeded \$100,000 per annum.

Salary Range	Year ended	Year ended
	30 June 2008	30 June 2007
\$240,000–\$250,000	1	1
\$110,000–\$120,000	1	–
\$100,000–\$110,000	2	1

No other employees earned over \$100,000 during this period.

### DIRECTORS' REMUNERATION

#### Chairman

Bryan Jackson	\$25,000
---------------	----------

#### Directors

Peter Allport	\$6,000
Andy Foster	\$9,000
Peter Leslie	\$8,500
Bryan Pepperell	\$3,000
Alick Shaw	\$5,000
Roger Styles	\$5,000
Ray Wallace	\$12,500
Richard Westlake	\$12,500

### 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.



*D. S. Hill*

David Hill

CHIEF EXECUTIVE

*Bryan Jackson*

Bryan Jackson

CHAIRMAN



# CORPORATE GOVERNANCE STATEMENT



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

## THE BOARD OF DIRECTORS

Capacity is a Council Controlled Organisation as defined by Section 6 of the Local Government Act 2002. The role of a director is defined in Section 58 of the act as follows:

"The role of the director of a Council Controlled Organisation is to assist the organisation to meet its objectives and any other requirements in its Statement of Intent."

The Board is responsible for the preparation of the Statement of Intent, which must receive approval from the company's shareholders (Wellington City Council and Hutt City Council).

In addition to the obligations imposed by the form of the company, Capacity is also covered by the Companies Act 1993 and governed by law and best practice.

The Board is responsible for the proper direction and control of Capacity. This responsibility includes areas of stewardship such as identification and control of the company's business risk, the integrity of management, information systems, reporting to shareholders and approval of the strategic business plan.

While the Board acknowledges that it is responsible for the overall control framework of the company, it delegates the overall management of Capacity to the Chief Executive.

## MANAGEMENT TEAM

The company's structure is organised by the functions of water, stormwater and wastewater assets, maintenance of the assets, construction of assets and support services for both Wellington City Council, Hutt City Council and from 1 July 2008 Upper Hutt City Council.

## AUDIT AND RISK COMMITTEE

The Audit and Risk Committee operates under a charter approved by the Board. The Audit and Risk Committee is required to establish a framework of internal control mechanisms to ensure proper management of Capacity's affairs and support effective business risk management.

The Audit and Risk Committee is accountable to the Board for addressing the recommendations of the external auditors and reviewing the quality of the processes.

The Audit and Risk Committee provides the Board with additional assurance regarding the accuracy of financial information for incorporation in the company's annual report.

## ROLE OF THE SHAREHOLDERS

The shareholders review and approve the Statement of Intent. Quarterly and annual reports of financial and operational performance are provided to shareholders.

CHAIRMAN  
BRYAN JACKSON



DIRECTOR  
PETER ALLPORT



DIRECTOR  
ANDY FOSTER



DIRECTOR  
PETER LESLIE



DIRECTOR  
RAY WALLACE



DIRECTOR  
RICHARD WESTLAKE





## FINANCIAL REPORTS





## Statement of financial performance

FOR THE YEAR ENDED 30 JUNE 2008

	Note	Actual 2008 \$000	Budget 2008 \$000	Actual 2007 \$000
<b>REVENUE</b>				
Operations		5,417	5,132	4,979
Interest		6	–	2
<b>TOTAL REVENUE</b>		<b>5,423</b>	<b>5,132</b>	<b>4,981</b>
<b>EXPENDITURE</b>				
Operational expenditure		838	767	836
Audit fees		29	21	21
Directors fees	14	87	70	70
Depreciation	6,7	19	19	19
Interest on finance leases		1	2	1
Rental and operating lease costs		455	409	447
Personnel expenditure		4,079	3,844	3,586
<b>TOTAL EXPENDITURE</b>		<b>5,508</b>	<b>5,131</b>	<b>4,980</b>
<b>NET SURPLUS/(DEFICIT) BEFORE TAXATION</b>		<b>(85)</b>	<b>1</b>	<b>1</b>
Tax expense/(benefit)	4	4		2
<b>NET SURPLUS/(DEFICIT) AFTER TAXATION</b>		<b>(89)</b>	<b>–</b>	<b>(1)</b>

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 2008

	Note	Actual	Budget	Actual
		2008	2008	2007
		\$000	\$000	\$000
Net surplus/(deficit) for the year		(89)	–	(1)
MOVEMENTS IN EQUITY FOR THE PERIOD		(89)	–	(1)
Equity at beginning of year		376	377	377
<b>EQUITY AT END OF YEAR</b>		<b>287</b>	<b>377</b>	<b>376</b>





## Statement of financial position

AS AT 30 JUNE 2008

	Note	Actual 2008 \$000	Actual 2007 \$000
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		286	376
Trade and other receivables	8	748	543
Taxation receivable	5	2	6
		1,036	925
<b>NON-CURRENT ASSETS</b>			
Intangible assets	7	-	-
Property, plant and equipment	6	59	72
		59	72
<b>TOTAL ASSETS</b>		<b>1,095</b>	<b>997</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	9	476	374
Provision for taxation		-	-
Employee benefits	10	332	247
		808	621
<b>NON-CURRENT LEASES</b>			
Finance leases		-	-
		-	-
<b>TOTAL LIABILITIES</b>		<b>808</b>	<b>621</b>
<b>NET WORKING CAPITAL</b>		<b>287</b>	<b>376</b>
<b>EQUITY</b>			
Share capital	11	600	600
Retained earnings	12	(313)	(224)
<b>TOTAL EQUITY</b>		<b>287</b>	<b>376</b>

**Bryan Jackson**  
CHAIRMAN

**Richard Westlake**  
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 2008

### CASH FLOW FROM OPERATING ACTIVITIES

*Cash was provided from:*

Operating receipts  
GST receivable

*Cash was disbursed to:*

Payments to suppliers and employees  
Income tax paid

NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES

### CASH FLOWS FROM INVESTING ACTIVITIES

*Cash was applied to:*

Purchase of property, plant and equipment  
Purchase of intangible assets

NET CASH INFLOW(OUTFLOW) FROM INVESTING ACTIVITIES

### CASH FLOWS FROM FINANCING ACTIVITIES

*Cash was applied to:*

Finance lease repayments

NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES

Net increase/(decrease) in cash and cash equivalents

Opening cash balance

CLOSING CASH BALANCE

Note	Actual 2008 \$000	Actual 2007 \$000
	5,173	5,140
	36	(8)
	(5,294)	(5,150)
	–	–
	–	–
	–	–
15	(85)	(18)
	(5)	–
	–	–
	(5)	0
	–	(9)
	0	(9)
	(90)	(27)
	376	403
	286	376

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 2008

### 1. Statement of compliance with International Financial Reporting Standard

The financial statements have been prepared in accordance with New Zealand generally accepted accounting practice. They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for public benefit entities.

#### REPORTING ENTITY

Wellington Water Management Limited, trading as Capacity, is a company registered under the Companies Act 1993 and a Council Controlled Trading Organisation as defined by Section 6 of the Local Government Act 2002. Current shareholders are Wellington City Council and Hutt City Council. Capacity was incorporated in New Zealand in 2003.

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

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

#### REPORTING PERIOD

The reporting period for these financial statements is the year ended 30 June 2008.

#### SPECIFIC ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

The measurement basis applied is historical cost.

The accrual basis of accounting has been used unless otherwise stated. These financial statements are presented in New Zealand dollars rounded to the nearest thousand, unless otherwise stated.

#### JUDGEMENTS AND ESTIMATIONS

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

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

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

#### a) Revenue

Capacity derives revenue from its customers. In 2007/08 the customers were Wellington City Council and Hutt City Council.

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

#### b) Expenses

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

#### c) Taxation

Income tax expense 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 not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of an asset and liability in a transaction that is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit.

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

## Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2008

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 financial performance, 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 and borrowings. 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 financial performance 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 will be reported at its recoverable amount and an impairment loss will be recognised. The recoverable amount is the higher of an item's fair value less costs to sell and value in use. Losses resulting from impairment are reported in the statement of financial performance.

### Disposal

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

### Depreciation

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

Telephone system	10.75 per cent
Furniture	7.80–18.6 per cent
Plant and equipment	7.80–48 per cent



## Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2008

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

### Work in progress

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

### g) Intangible assets

Acquired intangible assets are initially recorded at cost.

Intangible assets with finite lives are subsequently recorded at cost, less any amortisation and impairment losses. Amortisation is charged to the statement of financial performance on a straight-line basis over the useful life of the asset. Typically, the estimated useful lives of these assets are as follows:

Computer software	five years
-------------------	------------

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

### 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 (not yet qualified for) 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 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 accumulated funds and retained earnings.

### k) Leases

Leases where the lessor effectively retains substantially all the risks and rewards of ownership of the leased items are classified as operating leases. Payments made under these leases are charged as expenses in the statement of financial performance in the period in which

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

### l) Statement of cash flows

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

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

### m) Related parties

A party is related to Capacity if:

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

## Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2008

- 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.

#### 4. Income tax expense

##### CURRENT TAX EXPENSE

	2008 \$000	2007 \$000
Current year	4	2
Deferred tax	–	–
	<b>4</b>	<b>2</b>

##### RECONCILIATION OF EFFECTIVE TAX RATE

	2008 \$000	2007 \$000
Surplus (deficit) for the period excluding income tax	(85)	1
Prima facie income tax based on domestic tax rate	(28)	–
Effect of non-deductible expenses	4	2
Effect of tax exempt income	–	–
Effect of tax losses utilised	–	–
Current years loss for which no deferred tax asset was recognised	–	–
Change in unrecognised temporary differences	28	–
Prior period adjustment	–	–
	<b>4</b>	<b>2</b>

##### IMPUTATION CREDITS

#### 2. Changes in accounting policies

There are no 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 incorporated Capacity to manage water services (water, stormwater and wastewater) for both cities. The two councils continue to own their respective water service assets and to separately determine the level and standard of service to be provided.



## Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2008



	2008 \$000	2007 \$000
Imputation credits as at 1 July	25	25
New Zealand tax payments	5	–
Imputation credits attached to dividends received	–	–
Other credits	–	–
New Zealand tax refunds received	(3)	–
Imputation credits attached to dividends paid	–	–
Other debits	–	–
	<b>27</b>	<b>25</b>

The Taxation (Kiwisaver and Company Tax Rate Amendments) Act 2007 containing the provisions for the reduction of the company income rate from 33 per cent

to 30 per cent for tax years beginning on or after 1 April 2008 was given Royal assent on 21 May 2007.

### 5. Deferred tax assets

#### UNRECOGNISED DEFERRED TAX ASSETS

Deferred tax assets have not been recognised in respect of the following items

	2008 \$000	2007 \$000
Deductible temporary differences	332	247
Tax losses	–	–
	<b>332</b>	<b>247</b>

Under current income tax legislation, deductible temporary differences referred to above do not expire.

The unrecognised deferred tax asset in respect of the deductible temporary differences referred to above is \$99,000 (2007: \$81,000).

Deferred tax assets have not been recognised in respect of these items as it is not probable that future taxable profits will be available against which the benefit of the losses can be utilised.

## Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2008

### 6. Property, plant and equipment

	2007 Total cost \$000	2007 Accumulated depreciation \$000	2007 Net book value \$000	2008 Current additions \$000	2008 Current disposals \$000	2008 Current depreciation \$000	2008 Total cost \$000	2008 Accumulated depreciation \$000	2008 Net book value \$000
<i>Finance lease assets:</i>									
Telephone system	34	(13)	21			(4)	34	17	17
<i>Owned assets:</i>									
Furniture	33	(11)	22			(4)	33	15	19
Intangibles, plant and equipment	60	(31)	29	9	(1)	(11)	65	41	23
	<b>127</b>	<b>(55)</b>	<b>72</b>	<b>9</b>	<b>(1)</b>	<b>(19)</b>	<b>132</b>	<b>73</b>	<b>59</b>

### 7. Intangibles

	2008 \$000	2007 \$000
Cost	0.900	0.900
Accumulated amortisation	(0.530)	(0.363)
	<b>0.370</b>	<b>0.537</b>

### 8. Trade and other receivables

	Note	Actual 2008 \$000	Actual 2007 \$000
Trade receivables		13	(42)
Related parties receivables	13	681	488
Prepayments		54	97
		<b>748</b>	<b>543</b>



## Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2008



### 9. Trade and other payables

	Note	Actual 2008 \$000	Actual 2007 \$000
Trade payables		283	246
Related parties payables	13	3	1
Payroll accruals		102	73
GST		89	54
		<b>476</b>	<b>374</b>

### 10. Employee benefits liabilities

	Actual 2008 \$000	Actual 2007 \$000
Annual leave	315	239
Long service leave	17	8
<b>TOTAL EMPLOYEE BENEFITS</b>	<b>332</b>	<b>247</b>
<i>Represented by:</i>		
Current	332	247
<b>TOTAL EMPLOYEE BENEFITS</b>	<b>332</b>	<b>247</b>

### 11. Share capital

	Actual 2008 \$000	Actual 2007 \$000
300 fully paid \$2,000 ordinary shares	<b>600</b>	<b>600</b>



## Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2008

### 12. Retained earnings

	Actual 2008 \$000	Actual 2007 \$000
Balance at beginning of year	(224)	(223)
Net surplus/(deficit) for the year	(89)	(1)
Balance at end of year	<b>(313)</b>	<b>(224)</b>

### 13. Related party transactions

	Actual 2008 \$000	Actual 2007 \$000
<i>Revenue for services by Capacity to:</i>		
Wellington City Council	4,585	4,174
Hutt City Council	1,749	1,477
	<b>6,334</b>	<b>5,651</b>
<i>Goods and services supplied to Capacity by:</i>		
Wellington City Council	168	77
Hutt City Council	7	10
	<b>175</b>	<b>87</b>
<i>Receivable owing to Capacity from:</i>		
Wellington City Council	483	360
Hutt City Council	198	128
	<b>681</b>	<b>488</b>
<i>Payable by Capacity to:</i>		
Wellington City Council	3	1
Hutt City Council	-	-
	<b>3</b>	<b>1</b>



## Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2008



### 14. Related party disclosures

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

#### KEY MANAGEMENT PERSONNEL

	2008 \$000	2007 \$000
<b>KEY MANAGEMENT PERSONNEL REMUNERATION</b>	<b>960</b>	<b>911</b>

#### DIRECTORS' REMUNERATION

	2008 \$000	2007 \$000
Bryan Jackson	25	20
Peter Allport	6	–
Andy Foster	9	–
Peter Leslie	8.5	–
Bryan Pepperell	3	10
Alick Shaw	5	10
Roger Styles	5	10
Ray Wallace	12.5	10
Richard Westlake	12.5	10
<b>TOTAL DIRECTORS' REMUNERATION</b>	<b>86.5</b>	<b>70</b>



## Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2008

### 15. Reconciliation of net surplus before taxation with cash inflow from operating activities

	Actual 2008 \$000	Actual 2007 \$000
REPORTED SURPLUS/(DEFICIT) BEFORE TAXATION	(85)	1
Add non-cash items:		
Depreciation	19	19
	(66)	20
Add/(less) movements in other working capital items		
(Increase)/decrease in trade receivable	(248)	160
(Increase)/decrease in prepayments	42	(40)
Increase/(decrease) in trade payable	66	(149)
Increase/(decrease) in GST payable	36	(8)
Increase/(decrease) in annual leave	85	(1)
<b>NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES</b>	<b>(85)</b>	<b>(18)</b>

### 16. Net deficit before tax

The net deficit before taxation for the year ended 30 June 2008 represents an increase in leave accrued by staff while working at Capacity not funded by charge out rates agreed with customers. The loss arising from an increase in accrued leave represents a non-cash item and the company's cash resources are not depleted.





## Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2008

### 17. 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 and Hutt City Council for the company's revenue. However, the councils are considered by the Directors to both be high credit quality entities.

Capacity invests funds on deposit 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 2008.

#### 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.

Receivables balances are monitored on an ongoing basis to 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.

Capacity's maximum exposure to credit risk at balance date is:

	2008 \$000	2007 \$000
<b>FINANCIAL ASSETS</b>		
Cash and cash equivalents	286	376
Trade and other receivables	748	543
<b>TOTAL FINANCIAL ASSETS</b>	<b>1034</b>	<b>919</b>

The status of trade receivables at the reporting date is as follows:

	2008 \$000	2007 \$000
<b>TRADE AND OTHER RECEIVABLES</b>		
Not past due date	748	543
Past due zero to three months	–	–
Past due three to six months	–	–
Past due more than six months	–	–
<b>TOTAL TRADE AND OTHER RECEIVABLES</b>	<b>748</b>	<b>543</b>

## Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2008

### 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 12 months \$000	One to two years \$000	Two to five years \$000	More than five years \$000
2007						
TRADE AND OTHER PAYABLES	476	–	476	–	–	–
2006						
TRADE AND OTHER PAYABLES	374	–	374	–	–	–

### 18. Commitments and contingencies

A claim has been lodged under the company's professional indemnity insurance. The company's insurer has confirmed indemnity exists and has prepared a defence of the claim. The company's indemnity insurance includes a cost-inclusive excess of \$50,000 of which \$42,675 had been expended by balance date.

The company has notified insurers of a further incident which could potentially give rise to a claim. At balance date no claim has been notified and insurers have not allocated a reserve.

Capacity has a one-year lease for the premises occupied at 75 The Esplanade, Petone. The lease terminates on 30 April 2009.

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





## Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2008

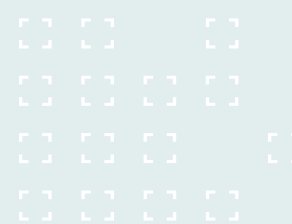
### NON-CANCELLABLE OPERATING LEASE COMMITMENTS

- Not later than one year
- Later than one and not later than two years
- Later than two years and not later than five years

	Actual 2008 \$000	Actual 2006 \$000
	382	266
	179	112
	103	10
	<b>664</b>	<b>388</b>

### 19. Non- adjusting events after balance date

Capacity did not have any non-adjusting events occur after balance date.



## Audit report

To the readers of Wellington Water Management Limited's financial statements and performance information for the year ended 30 June 2008.

The Auditor-General is the auditor of Wellington Water Management Ltd (the company). The Auditor-General has appointed me, A P Burns, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and performance information of the company, on his behalf, for the year ended 30 June 2008.

### UNQUALIFIED OPINION

In our opinion:

- The financial statements of the company on pages 14 to 30
  - comply with generally accepted accounting practice in New Zealand
  - comply with International Financial Reporting Standards
  - give a true and fair view of:
    - the company's financial position as at 30 June 2008
    - the results of its operations and cash flows for the year ended on that date.
- The performance information of the company on pages 34 to 37 gives a true and fair view of the achievements measured against the performance targets adopted for the year ended 30 June 2008.
- Based on our examination, the company kept proper accounting records.

The audit was completed on 11 September 2008, and 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 the Auditor, and explain our independence.

### BASIS OF OPINION

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements and performance information did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements and performance information. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

The audit involved performing procedures to test the information presented in the financial statements and performance information. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data

- verifying samples of transactions and account balances
- performing analyses to identify anomalies in the reported data
- reviewing significant estimates and judgements made by the Board of Directors
- confirming year-end balances
- determining whether accounting policies are appropriate and consistently applied
- determining whether all required disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and performance information.

We evaluated the overall adequacy of the presentation of information in the financial statements and performance information.



## Audit report

(CONTINUED)

We obtained all the information and explanations we required to support our opinion above.

### RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE AUDITOR

The Board of Directors is responsible for preparing the financial statements in accordance with generally accepted accounting practice in New Zealand. The financial statements must give a true and fair view of the financial position of the company as at 30 June 2008 and the results of its operations and cash flows for the year ended on that date. The Board of Directors is also responsible for preparing performance information that gives a true and fair view of service performance achievements for the year ended 30 June 2008. The Board of Directors' responsibilities arise from the Financial Reporting Act 1993 and the Local Government Act 2002.

We are responsible for expressing an independent opinion on the financial statements and performance information and reporting that opinion to you. This 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 Institute of Chartered Accountants of New Zealand.

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



**A P Burns**

Audit New Zealand

On behalf of the Auditor-General Wellington, New Zealand

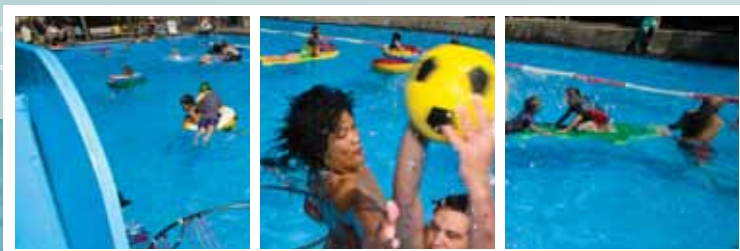
### MATTERS RELATING TO THE ELECTRONIC PRESENTATION OF THE AUDITED FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION

This audit report relates to the financial statements and performance information of Wellington Water Management Limited for the year ended 30 June 2008 included on Wellington Water Management's website. The Wellington Water Management Limited Board is responsible for the maintenance and integrity of Wellington Water Management's website. We have not been engaged to report on the integrity of Wellington Water Management Limited's website. We accept no responsibility for any changes that may have occurred to the financial statements and performance information since they were initially presented on the website.

The audit report refers only to the financial statements and performance information named above. It does not provide an opinion on any other information which may have been hyperlinked to or from the financial statements and performance information. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and performance information and the related audit report dated 11 September 2008 to confirm the information included in the audited financial statements and performance information presented on this website.

Legislation in New Zealand governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

## KEY PERFORMANCE INDICATORS



## Performance targets for Capacity as set out in the Statement of Intent 2007/2008

The results shown against the key performance targets below indicate that the business has been managed successfully.

KEY PERFORMANCE TARGET	ACTUAL
Develop asset management plans that reflect best practice or meet specific requirements for approval by the appropriate council.	<b>Achieved.</b> Asset management plans for water, stormwater and wastewater are on target to be completed by the agreed date.
Ensure infrastructure asset maintenance is carried out in accordance with asset management plans and to best applicable trade standards and practice.	<b>Achieved.</b> Asset maintenance has been carried out in accordance with asset management plans.
Meet the performance measures set by shareholders in service contracts or service level agreements, including managing emergencies.	Twenty-seven out of 30 performance measures were achieved.
Comply with financial, technical, and regulatory standards.	<b>Achieved.</b> All standards have been complied with.
Achieve total overall savings of \$4.175 million to shareholding councils after five years (30 June 2009), and \$1.6 million annually thereafter.	Under the service level agreement between Capacity, Hutt City Council and Wellington City Council, a savings model has to be approved by shareholders before savings can be reported. The savings model developed by Capacity is currently under review by Wellington City Council. Hutt City Council has approved the savings model.
Achieve targets within allocated budgets.	<b>Achieved.</b> Targets achieved within budgets.
Establish a strategic business plan by 30 June 2007.	<b>Achieved.</b> The 2007/08 strategic business plan was completed by 30 June 2007.
Prepare a work programme on public awareness of water consumption and report back to shareholders by 31 March 2008.	Undertook a public awareness campaign on water restrictions in Wellington and Hutt City during the 2007/2008 summer period. A Water Conservation Strategy was initiated during 2007/2008 in conjunction with Greater Wellington Regional Council and the four local councils. It is anticipated to be completed during 2008/2009.

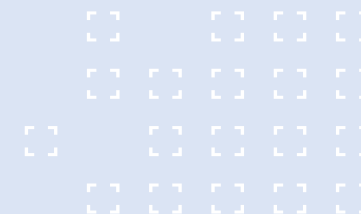




## Performance targets for Wellington City Council 2007/2008

KEY PERFORMANCE INDICATOR	ANNUAL TARGET	ACTUAL
<b>WATER</b>		
Compliance with New Zealand drinking water standards.	100 per cent	<b>2008: Achieved</b> <b>2007: Achieved</b>
Response times to service requests – to respond to all requests for service within one hour of notification (response includes initial investigation and prioritisation work).	97 per cent	<b>2008: Achieved</b> 99 per cent <b>2007: Achieved</b> 97 per cent
Percentage of customers satisfied with work carried out.	75 per cent	<b>2008: Achieved</b> 91 per cent <b>2007: Achieved</b> 85 per cent
Water loss from the network – the percentage of unaccounted for water.	19 per cent	<b>2008: Not achieved</b> 21 per cent <b>2007: Not achieved</b>
<b>STORMWATER</b>		
Response times to service requests – to respond to all requests for service within one hour of notification (response includes initial investigation and prioritisation work).	96 per cent	<b>2008: Achieved</b> 97 per cent <b>2007: Achieved</b> 99 per cent
Percentage of customers satisfied with work carried out.	75 per cent	<b>2008: Achieved</b> 100 per cent <b>2007: Achieved</b> 80 per cent
Percentage of sampling days where the following contaminants are not seen: scums or foams, floating or suspended material, abnormal colour or clarity, fats or gross solids.	100 per cent	<b>2008: Not achieved</b> 97 per cent <b>2007: Not achieved</b>
The percentage of sampling days at monitored bathing beaches when water quality complies with Ministry for the Environment guidelines (green status).	90 per cent	<b>2008: Achieved</b> 93 per cent <b>2007: Achieved</b> 93 per cent
Percentage of monitored freshwater sites where the median annual faecal coliform bacteria counts are less than 1000 per 100ml.	80 per cent	<b>2008: Achieved</b> 89 per cent <b>2007: Not achieved</b> 48 per cent

KEY PERFORMANCE INDICATOR	ANNUAL TARGET	ACTUAL
<b>WASTEWATER</b>		
Response times to service requests – to respond to all requests for service within one hour of notification (response includes initial investigation and prioritisation work).	96 per cent	<b>2008: Achieved</b> 99 per cent <b>2007: Achieved</b> 98 per cent
Percentage of customers satisfied with work carried out.	75 per cent	<b>2008: Achieved</b> 100 per cent <b>2007: Achieved</b> 77 per cent
The percentage of monitored consented harbour/coastal sites where the median annual level of faecal coliform bacteria counts are less than 2000 per 100ml (lower levels of these bacteria mean the water is cleaner).	80 per cent	<b>2008: Achieved</b> 92 per cent <b>2007: Achieved</b> 92 per cent
Resource consent compliance – the number of infringement notices received.	No infringement notices are received	<b>2008: Achieved</b> <b>2007: Achieved</b>





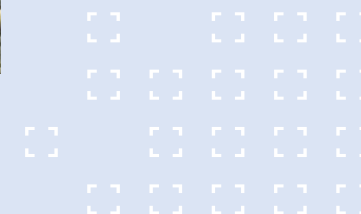
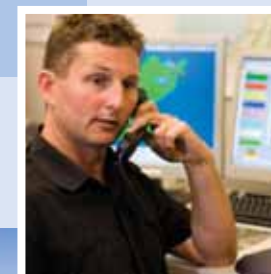
## Performance targets for Hutt City Council 2007/2008

KEY PERFORMANCE INDICATOR	ANNUAL TARGET	ACTUAL
<b>WATER</b>		
Resident satisfaction with water supply is equal to or above peer average.	94 per cent	<b>2008: Achieved</b> 96 per cent <b>2007: Achieved</b> 97 per cent
Programmes (operational expenditure) and projects (capital expenditure) are delivered on time and to the required quality.	90 per cent	<b>2008: Achieved</b> 100 per cent <b>2007: Achieved</b>
Achieve full compliance with New Zealand Drinking Water Standards.	Compliance	<b>2008: Achieved</b> full compliance <b>2007: Achieved</b>
Water supply reliability is ensured.	Fewer than four unplanned supply cuts per 1,000 connections	<b>2008: Achieved</b> fewer than 1.48 unplanned supply cuts <b>2007: Achieved</b> fewer than 0.2 unplanned supply cuts
Water supply quality: to maintain a 'B' grading from the Ministry of Health for the Hutt City water supply distribution (B means satisfactory, low level of risk. Most of Hutt City water supply is unchlorinated. Chlorination of the water supply would be required to achieve an 'A' grading).	Maintain a 'B' grading	<b>2008: Achieved</b> 'B' grading <b>2007: Achieved</b> 'B' grading
Responsiveness to water supply disruptions: 96 per cent of requests responded to within one hour of notification.	96 per cent	<b>2008: Achieved</b> 99 per cent <b>2007: Achieved</b> 99 per cent
Maintain the average un-metered water consumption in Hutt City.	Less than 350 litres per head per day.	<b>2008: Achieved</b> less than 336 litres <b>2007: Achieved</b> less than 325 litres

KEY PERFORMANCE INDICATOR	ANNUAL TARGET	ACTUAL
<b>STORMWATER</b>		
Resident satisfaction with stormwater drainage is equal to or above peer average.	89 per cent	<b>2008: Not achieved</b> – 86 per cent There has been a significant improvement over the past three years from 59 per cent in 2005 to 86 per cent in 2008. <b>2007: Not achieved</b> – 80 per cent
Programmes (operational expenditure) and projects (capital expenditure) are delivered on time to the required quality.	90 per cent	<b>2008: Achieved</b> 100 per cent <b>2007: Achieved</b>
Reticulation incidents per km of public stormwater drains are kept to a minimum.	Less than one incident reported per km	<b>2008: Achieved</b> 0.075 incidents <b>2007: Achieved</b> 0.12 incidents
Watercourse water quality at main recreational beaches over the daylight saving period meets required standards.	Complies with Recreational Water Quality Standards	<b>2008: Achieved</b> <b>2007: Achieved</b>
Responsiveness to blockages in the stormwater pipe: the contractor is on-site within one hour of notification.	96 per cent	<b>2008: Achieved</b> 98 per cent <b>2007: Achieved</b> 99 per cent

## Performance targets for Hutt City Council 2007/2008 (continued)

KEY PERFORMANCE INDICATOR	ANNUAL TARGET	ACTUAL
<b>WASTEWATER</b>		
Resident satisfaction with sewage system is equal to or above peer average.	94 per cent	<b>2008: Achieved</b> 97 per cent <b>2007: Achieved</b> 96 per cent
Programmes (operational expenditure) and projects (capital expenditure) are delivered on time to the required quality.	90 per cent	<b>2008: Achieved</b> <b>2007: Achieved</b>
Compliance with resource consent conditions.	100 per cent	<b>2008: Achieved</b> <b>2007: Achieved</b> 100 per cent
Wastewater system reliability is ensured.	Fewer than 1.8 wastewater reticulation incident reports per km of pipeline	<b>2008: Achieved</b> 1.01 incidents. <b>2007: Achieved</b> 0.7 incidents
Responsiveness to blockages or overflows: the contractor is on-site within one hour of notification.	96 per cent	<b>2008: Achieved</b> 99 per cent <b>2007: Achieved</b> 99 per cent



## DIRECTORY

### DIRECTORS

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

### CHIEF EXECUTIVE

David Hill

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### AUDITOR

Audit New Zealand on behalf of the Auditor-General

### BANKERS

The National Bank of New Zealand Limited  
Wellington  
New Zealand

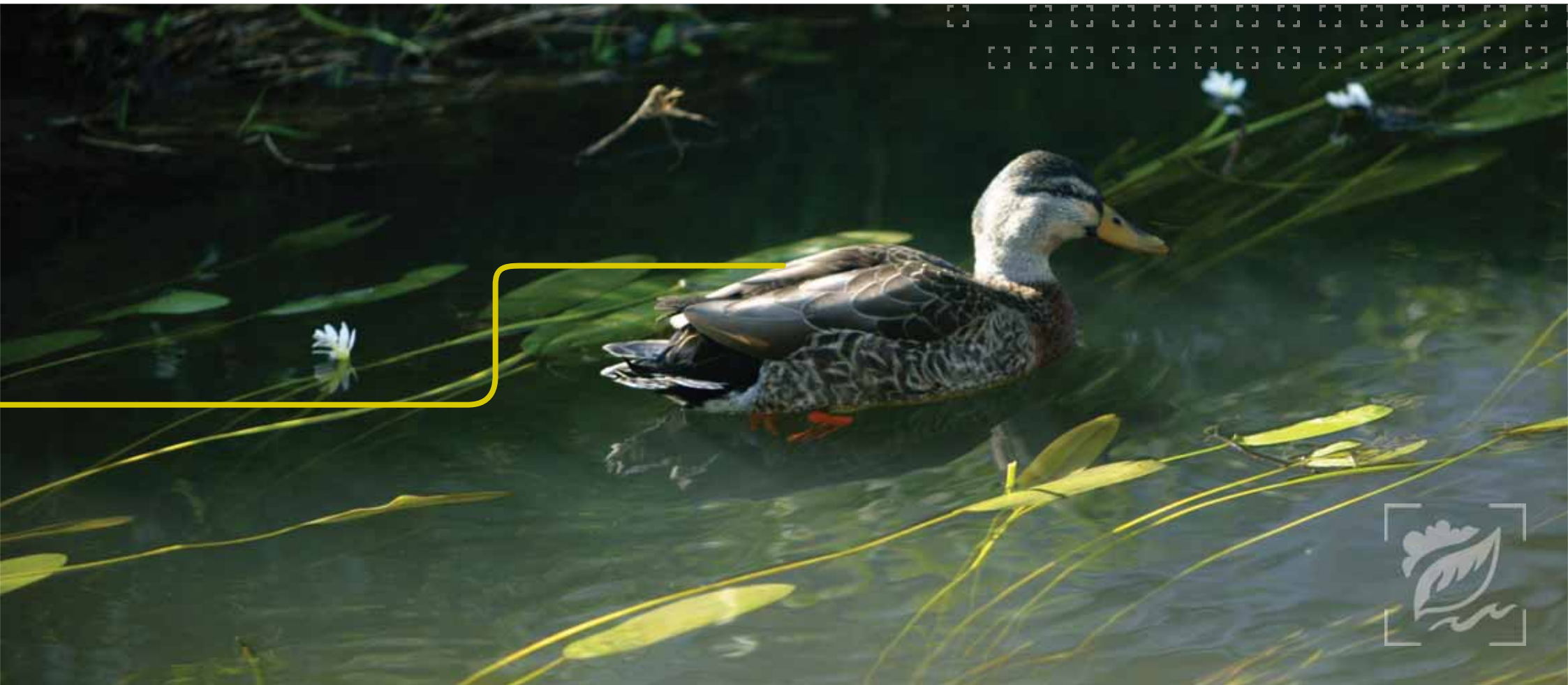
### SOLICITORS

DLA Phillips Fox  
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New Zealand

### SHARE REGISTRY

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101 Wakefield Street  
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New Zealand





Photography by Guy Robertson, Neil Price and Justine Hall.

Capacity is passionate about maintaining a clean environment and is proud to use SILK GLOSS paper from BJ Ball. The credentials for this paper stock are ECF, FSC and ISO 14001.

