
Utility Services Division

Annual Review

for

**The Water Group and
Plantation Forestry**

For the Year Ended 30 June 2003

Utility Services Division - Annual Review

For the Year Ended 30 June 2003

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Divisional Manager's Report**Water Supply**

From a Water Supply perspective a routine but successful year. This last quarter being the least eventful of an uneventful year.

The system once again proved to be very robust, comfortably meeting significantly greater demand during a very dry, late summer and autumn. This I believe reflects well on the Operations Group from an operating sense but is also a tribute to the planning, development and maintenance of the system over many years.

A number of issues, from a public perspective, also kept us busy over the year. Notably the Kapiti water crisis and our option to provide water from the Wellington system. Also the proposal to put a smiley face on top of the Ngauranga Reservoir, while pretty much an amusing side-show, absorbed an enormous amount of time.

Financially also a successful year with the surplus ahead of budget by \$1.6M (this though will reduce by approximately \$220,000 with some asset write-offs that are yet to be entered in the accounts). This has contributed to the debt balance reducing by \$4.2M in the financial year to \$48.0M at 30 June 2003 and also represents a reduction in debt of \$24M since 30 June 1997. The financial cost savings from this reducing debt (and interest rate falls), together with other operating cost savings has meant that the overall price of water charges have fallen, or stayed the same, over the last seven years. Non-controllable cost increases in infrastructure rates, insurance and corporate communications of \$1.7M over the 2002/03 and 2003/04 years have had to be absorbed. Notwithstanding these increases the levy for 2003/04 has been held at the existing level. The proposed annual plan for 2003/04 and projections for the next nine years were presented to the four city councils in April/May and the response was generally good. Wellington City Council continues to strongly advocate that debt should not be reduced from the current level, and any savings should be used to reduce the levy. To date we have had a differing view.

In summary, the achievements were:

- An operating surplus \$1.6M ahead of budget.
- Total operating expenditure excluding the new impost of infrastructural rates and significantly higher insurance premiums is \$0.6M below last year and \$5.9 below 1997.
- The current debt balance is \$48M, which is \$24M below 1997, and \$4M below last year, as at 30 June.
- The self-insurance fund has reached \$5.1M. After a review of our exposures in this area, an increase in future annual contributions to the fund from \$500,000 to \$750,000 is included in the 2003/04 Annual Plan. This should see the fund reach \$20M in ten years time.
- A relatively light capital expenditure programme went pretty well this year although a number of projects were delayed for a variety of reasons.
- The consolidation and move of the Operations and Laboratory groups to refurbished premises at Oxford Terrace was completed and both sections are now operating well.
- All grading achieved in June 2003 for Wainuiomata Treatment Plant after many years of fine-tuning the plant.

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- Good progress made on changing to ISO9001 :2000 and it is expected this will be achieved by December 2003.
- The Water Group System Optimiser received a highly commended award as part of ECCA's annual awards. This follows an earlier Gold Award from Association of Consulting Engineers.
- Engineering Consultancy Group just made it in terms of surplus, however reduced staff numbers and health problems reduced revenue.
- Laboratory completed a successful year producing a surplus of \$29,000. The subsequent loss of Environment Division work as a result of a public tender however is, a serious blow to the Laboratory.

Plantation Forestry

A very difficult year for the forests largely driven by the rapid rise in the value of the NZ dollar. Broadly speaking, had September 2002 prices continued for the remainder of the financial year, the bottom line would have benefitted by \$280,000.

Roading absorbed significant dollars and better processes are now in place to manage this expenditure. Notwithstanding that the key outcomes were:

- Actual operating deficit of \$283,000, which is \$58,000 worse than budget for the year.
- Debt has reached \$12M, which is a \$1 M deterioration on last year.
- \$1,523,000 net cash flow generated from harvesting operations.
- 56,729 tonnes harvested.
- \$433,000 spent on existing road maintenance and \$392,000 spent on new roads, to facilitate future harvesting operations.

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Water Supply Excluding Intragroup Revenues / Costs

4s at 30 June 2003

	Actual June 97 \$'000	Actual June 98 \$'000	Actual June 99 \$'000	Actual June 00 \$'000	Actual June 01 \$'000	Actual June 02 \$'000	Actual 30 Jun 03 \$'000	Budget 30 Jun 03 \$'000
OPERATING REVENUE								
Bulk Water Levy	25,213	25,218	25,218	24,210	23,241	22,777	22,777	22,777
Internal Revenue	2,027	1,642	743	716	687	744	374	356
Other	1,400	675	1,442	1,280	1,324	916	853	736
Total Operating Revenue	28,640	27,535	27,403	26,206	25,252	24,437	24,004	23,869
OPERATING EXPENDITURE								
Personnel	4,422	3,851	3,357	3,570	3,631	3,476	3,441	3,616
Power	2,065	1,706	1,533	1,853	1,665	1,642	1,866	1,936
Chemicals	1,965	1,690	1,644	1,452	1,383	1,590	1,627	1,723
Other Materials, Supplies & Services	2,245	1,093	1,770	1,878	1,925	1,428	2,563	3,181
Contractors & Consultants	1,554	2,240	1,901	1,666	1,687	1,438	1,316	1,300
Travel & Transport	166	164	185	163	172	167	155	142
Internal Contractors	854	836	577	692	716	699	671	718
Movement in Doubtful Debt Provision		78	(17)	5	-	(1)	-	-
Loss / (Gain) on Sale of Assets		(42)	(20)	(67)	(14)	(44)	(25)	(11)
Direct Expenditure	13,271	11,617	10,929	11,212	11,165	10,397	11,613	12,605
Financial Costs	8,243	6,909	6,166	5,399	4,943	4,497	3,794	4,317
Depreciation	4,028	4,193	4,335	5,009	5,117	5,320	5,347	5,347
Corporate Overhead	741	750	616	731	766	767	816	816
Corporate Rent	328	328	317	320	320	318	219	219
Indirect Expenditure	13,340	12,180	11,434	11,459	11,146	10,901	10,175	10,699
Total Operating Expenditure	26,611	23,797	22,363	22,671	22,311	21,298	21,789	23,304
Surplus before Abnormals	2,029	3,738	5,040	3,534	2,941	3,139	2,216	565
Abnormal Items								
Karori Land Asset Write Down			(1,590)	-	-	-		
Distribution Stock Write Up			1,111		132			
Interest - Buy Back of Debt			(455)					
Petone De-fluoridation					205			
Wainui Pipeline Easement						500		
Infrastructure Asset W/o - 1999/2002						(307)		
Surplus after Abnormals	2,029	3,738	4,106	3,534	3,278	3,332	2,216	565

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Departmental Highlights and Issues
For the Year Ended 30 June 2003

Operations

- Despite the very dry late summer and autumn, direct operating costs for Production came in only slightly greater than budget for the full year, whilst staff time spent on large scale third party cost recoverable work has made a significant contribution to the final Operations result.
- There have been no issues with either the availability of source water and/or maintaining storage levels in the Stuart Macaskill Lakes over the last year.
- Blending trials at the Te Marua Water Treatment Plant recommenced during the last quarter with particular emphasis placed upon analysing the impact that varying levels and types of algae in the lake water have upon operating efficiency.

Strategy and Asset

- An 'A1' grading was finally achieved for the Wainuiomata Water Treatment Plant after several years of fine-tuning its operation, being the result of combined effort from staff of the Operations and Strategy and Asset Sections.
- The scope of the 2002/03 capital works programme and incurred net expenditure of \$2,364,700 was modest, compared with previous years, although aside from an amount of \$237,000 re-budgetted into 2003,04, the programme was essentially achieved.

Engineering Consultancy

- In spite of periodic skilled staff shortages throughout the year, and the recurrent uncertainty of ongoing revenue streams, a credible full year performance has still been generated.

Laboratory

- The final realised surplus has comfortably exceeded the full year budget surplus for this business unit, although achieving this outcome each year becomes an increasingly difficult challenge.
- Relocation to the refitted new Laboratory premises at 44 Oxford Terrace, Lower Hutt was achieved without any apparent disruption to the normal Laboratory operation and a seamless service delivery standard was maintained throughout.

Plantation Forestry

- The persistent weakness of the US dollar has significantly and increasingly reduced local currency returns over the last financial year, which directly correlates to a disappointing final result for 2002/03.

Marketing and Communications Report

It should be noted that this report covers water activities. Plantation Forestry Marketing and Communications activities have not been considered necessary to report at this point in time.

Media

- The Wellington Metropolitan Emergency Water Supply Planning Group, an inter-agency grouping, has been working for over 12 months to identify priorities for improving emergency readiness for water supply across the metropolitan region. In May, the first Wellington Region Civil Defence and Emergency Management Group (CDEMG) meeting of mayors and chairs was held; their role is to direct and champion co-ordinated emergency preparedness. The first CDEMG meeting signalled the political leaders' intention to focus on the emergency water issue, and publicity for the Emergency Water Planning Group's findings was planned to coincide with that meeting. Two media releases were prepared in relation to the above; (1) the proceedings of first CDEMG meeting and (2) the key findings of the emergency water supply working group, particularly that most households, businesses and community facilities do not have enough water stored for an emergency. The 'store more water' message was widely picked up and reported by the region's newspapers.
- During the March quarter, publicity material explaining a planned 1080 possum control operation in the Hutt water catchment was released to the media, and a fact sheet issued to the metropolitan region's four city councils and other supportive organisations, for their information and provision to the public if requested. News of the planned operation generated very little adverse public comment.
- A total of eight media releases were prepared during the 2002/03 year.
- Media coverage of note included:
 - . The Water Group receiving a gold award for innovation excellence from ACENZ (the association of consulting engineers) in relation to energy minimisation software.
 - Being selected as a finalist and receiving a Highly Commended Award in the EECA 2002 'Energy Wise' Awards.
 - . The 2003 Summer Water Conservation Campaign launch being widely reported in the region's community newspapers.
 - . The feasibility and options for Greater Wellington supplying water to Kapiti.
 - . A 'Smiley Face' mural proposal from a member of public for our Ngauranga Reservoir.
- The 2003 Summer Water Conservation Campaign was conducted during January and February in association with the four customers. Firm recall of our advertising – television supported by print and radio - was low compared with previous years, however there was strong recall for having seen water conservation messages focused on garden watering. As Greater Wellington's was the only such advertising campaign in the region, it appears that while the detail of the creative work was not particularly memorable, the messages the advertisements contained may have been.

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- Media issues that we anticipate during the first quarter of 2003/04 are water supply to Kapiti, pest-animal control in the Hutt water catchment, and further work, with Emergency Management and the region's territorial authorities, to develop emergency water supply communications in time for Hazard Awareness Week in October.

Stakeholders

A commitment to sustainable development means recognising our role in the wider community. It also relies on building strong relationships with other stakeholders in our operations.

Our stakeholders encompass our direct water supply customers (the four city councils of metropolitan Wellington), Government agencies (such as the Ministry of Health), water supply related working groups, the wider community, including water consumers, learning institutions and recreational interest groups, tangata whenua, the media, our councillors, staff, suppliers and contractors.

Four City Customers

The Annual Plan consultation process represents a formal opportunity for our four Territorial Authority (TA) customers to have input into our future operation. Contact at senior officer level occurs on shared issues as the need arises. Presentations to the four customers on the 2003/04 levy took place in April/May. This involved presentations to each council and a more detailed officer's presentation.

The 2003 Summer Water Conservation Campaign ran during January and February in association with the customers (see 'Media' for detail). The TAs have supported the goals and strategy of this programme for a number of years, and received feedback after each summer about campaign performance. The 2003/04 budget allocation for this annual programme has been re-committed to meet an increased contribution to Greater Wellington's corporate communications for the next year. The future of shared activity around water conservation is yet to be determined.

New discussions commenced with the customers over a formal agreement covering bulk water supply. Greater Wellington Water initiated contract discussions some four years ago, however protracted negotiations failed to result in an agreement. The four customers have now signalled their desire to adopt a formal contract, and have supplied a jointly-worded draft contract document for discussion. We are currently working towards upgrading our Quality Management System to meet new ISO guidelines (ISO 9001/2000), which include greater customer focus. A customer contract for water supply is consistent with the emphasis of ISO 9001/2000, and we welcome this development.

In December 2001 Greater Wellington Water identified that the recovery period for restoration of water supply to the four cities after an earthquake would probably be in excess of four weeks. The Wellington Metropolitan Emergency Water Supply Planning Group, an inter-agency grouping including our customers, was established in February 2002 to examine the "gap" that exists between local emergency supplies (household and city council) and the restoration of bulk supplies following a major earthquake. The project objective is the production of an integrated plan, summarising the response and recovery strategies to be adopted by the five Councils to deliver water to consumers. A 'Preliminary Findings' report was presented to the inaugural Civil Defence and Emergency Management Group (CDEMG) meeting of 15 May, with publicity for the key conclusions arranged around that meeting. The full report will be finalised shortly and GW Water officers are involved with a project team that is developing a public communications plan around the key conclusions.

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During the fourth quarter of 2001/02, Greater Wellington Water formally approached Hutt City Council (HCC) requesting confirmation that it wants to retain an unchlorinated water supply from the Waiwhetu aquifer. This followed various incidents in recent years from other developed countries of contaminated potable water causing public health problems. HCC has recently indicated that it wishes to retain the current supply arrangement.

Wellington and Hutt City Councils have voted to combine their water supply, waste water and storm water operations into a single entity. This development is not expected to have a significant impact on Greater Wellington Water.

In addition to annual reporting, each customer is provided with a weekly report of water supplied and supply trends, and a monthly report of production volumes, the levels and flows in our water sources relative to historical trends, and forecast supply conditions.

Industry Working Groups

GW Water is represented on the national Water Supply Managers' Group, which meets regularly to address common interests, and on the management committee of the Hansen asset-management system user group. Work of note with these and other ad-hoc technical groups included:

- A GW Water staff member has been involved in consultation with Central Government officers on a new draft of the Health (Drinking Water) Amendment Bill.
- The new 'Code of Practice for Working in the Road' was published during the fourth quarter. A GWW staff member represented water supply and drainage interests on the Standards NZ Technical Committee that produced this document.
- A new Standard AS/NZS6400:2003 Water Efficient Products – Rating and Labelling has been announced by Standards NZ. This standard sets out a rating system for appliances similar to the energy efficiency rating system, which indicates the efficiency of the appliance with respect to water use. Its adoption by manufacturers is voluntary at present. The Water Supply Managers' Group had input into the development of the standard.
- Further work was undertaken on a project, established in February 2002, to improve planning for provision and distribution of water following a major earthquake (see 'Four City Customers' section above). The project group features representation from both water supply and emergency managers from each of the councils in the metropolitan Wellington area, along with public health agencies and the NZ Fire Service.

Water Supply to Kapiti

Kapiti Coast District Council (KCDC) has decided to proceed with a detailed investigation of a combination of storage lakes and bores; to meet their water needs from within the Kapiti area. We continue to monitor the situation and respond to requests for information.

On 26 February the Divisional Manager presented information on the proposed pipeline to a meeting arranged by the Waikanae Community Board. Over 100 members of the community attended. On 25 March an informal meeting was held with councillors of KCDC to discuss various issues and questions they had on the pipeline proposal.

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In response to a request from Greater Wellington's Environment Committee, GW Water officers are currently reviewing actual weather and supply data from the 2003 summer period to identify the likely impact on our supply system that would have resulted from supplying Kapiti with water during that period.

The Community

Water Supply

Delivering a consistently high quality water supply in sufficient quantity and at reasonable cost is the main community benefit of our work. Water quality is measured against the Drinking Water Standards for New Zealand (DWSNZ). Results are reported fully under 'Social Responsibility', however there were no water quality compliance issues during the March-June quarter. All demand for water was met during the year, despite drought conditions in late summer. The Bulk Water Supply Levy for 2003/04 has been held at the same level as for 2002/03; it has now been held or cut for seven years running.

Educational Activities

Greater Wellington Water offers free guided tours of its main water treatment plants to educational and other organised community groups on request. Three groups, comprising around 60 people, visited a treatment plant during the fourth quarter, bringing total visitor numbers for the year to almost 600. Visitor numbers in general and school visits in particular were unusually few for both the second and fourth quarters; it is unclear why this has occurred. New visitor resource material that targets school groups is being developed (see below) and it is our intention to publicise the opportunity to visit a treatment plant more actively once this material is introduced.

An education consultant is developing a written resource and treatment plant tour content in relation to the school curriculum for 8-12 year-olds. Our objective is to attract more primary and intermediate school visits, by producing a written resource for teachers that links visit outcomes to school curriculum learning objectives, and by improving the delivery of information to this audience. A first draft of the resource was under review at year-end, and will be tested by a few schools for feedback later this year. The presentation of treatment plant tours will be reviewed once the written resource is completed. The Environment Division's Environmental Education team has been consulted in developing the new resource kit draft, with a view to branding it as part of the 'Take Action for Water' programme and presenting treatment plant visits as a field trip option.

A large treatment process 'mimic' diagram has been designed and installed in the reception area of the Wainuiomata Water Treatment Plant. The mimic board will assist staff to explain the workings of the treatment plant to visiting groups.

Utility Services has reluctantly withdrawn its funding contribution to GW's 'Take Action' programme for 2003/04, following a substantially increased financial commitment to the Corporate Communications budget for 2003/04.

Consultation

At the request of the Utility Services Committee, a consultation process was undertaken to assess local support for a proposal to paint a Smiley Face mural on the Council's Ngauranga reservoir. This process was undertaken after Wellington City Council advised that resource consent (involving public consultation) was not required for the proposal under its District Plan.

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Subsequently, WCC advised that resource consent was required for the proposed mural. The results of the consultation process were made available to the mural's sponsor for use in support of a resource consent application, should he choose to continue with his proposal.

Other Stakeholder Matters

In response to a nationally publicised threat to contaminate water supplies with cyanide in March, Greater Wellington Water worked closely with local police and health, water and emergency management personnel from across the Wellington metropolitan area to ensure an effective and co-ordinated response to any potential incident.

In February, Greater Wellington Water hosted a visit from the general manager of Toronto Works and Emergency Services, to demonstrate our System Optimiser software in operation. Toronto WES was investigating installing optimisation software on its water network.

An Open Day for Greater Wellington staff, councillors and contractors was held in March at the new Laboratory and Operations Centre in Oxford Terrace, Lower Hutt.

Marketing

A new tactical advertising approach was developed for the 2003 Summer Water Conservation Campaign, run during January and February. The campaign, supported by Hutt, Porirua, Upper Hutt and Wellington city councils, and Kapiti Coast District Council, used TV, radio, print and the internet to communicate. Ratings information indicates that the television advertising was seen by 93% of all homeowners aged 30-plus and 87% of all women aged 40-70; demographic groups that are more likely to water gardens.

Post-campaign research indicated that some two-thirds of the research sample could recall seeing conservation messages during the summer period, with garden watering most commonly mentioned. However, only 13% of respondents could positively identify the communications material they had seen or heard with our campaign. This result suggests that the creative material was not sufficiently memorable to our target audience. The advertising is currently under review.

Brands

Further work was undertaken with Greater Wellington Corporate Communications regarding development of detail surrounding new branding and the brand extension Greater Wellington Water.

- Thirty-five new signs carrying the brand extension were designed, fabricated and installed by quarter-end at main facilities: treatment plants, pumping stations and reservoirs.
- All water conservation advertising material appearing during the summer carried the new Greater Wellington brand logo.
- New livery on the vehicles was installed in the fourth quarter.
- New branding for uniforms is under investigation
- A design for redeveloping the reception area on Level 4 at the Regional Council Centre, to reflect the organisation's new branding, has been finalised. Building work is to be completed during the first quarter of 2003/04. This work is being co-ordinated with the installation of new carpet on Level 4.

Delivering Sustainability within The Water Group

Sustainable organisations meet the needs of the present without compromising the ability of future generations to meet their own needs.

In attempting to act in a sustainable way, we have adopted elements of triple bottom line reporting, to reflect on our social and environmental performance in addition to economic performance indicators. This report therefore provides an annual position statement – where appropriate – in a triple bottom line format. Please note that most ‘Social’ aspects of our work are reported under ‘Marketing and Communications’, so are not repeated.

1. Environmental Responsibility

1.1 Introduction

A key requirement of any organisation committed to sustainable development is evidence that it is continually improving its environmental performance in balance with social and financial results.

The Water Group recognises its responsibilities in this regard and has maintained an Environmental Management System, accredited to the ISO 14001 Standard, since June 2000 in order to assist in this process. The intention is to report in the context of that approach.

An independent ‘surveillance’ audit of the Environmental System during January 2003 resulted in certification to ISO 14001 being maintained. A full re-certification audit is required every three years; that audit is timed for August 2003.

Our activities have a direct impact on the environment in a number of specific areas. They include:

- Water sources and catchment areas;
- Water treatment plants;
- Distribution system;
- System management;
- New one-off projects associated with our activities;
- Environmental discharges.

Of a more indirect nature we can affect or have some influence over community behaviour and hence the environment generally, in aspects of water consumption.

Further we can influence the environment generally through resource use in the following areas:

- Energy use;
- Material use.

The intention therefore is to report on outcomes in these areas.

1.2 Potential Direct Environmental Impacts

Summary – 1.2

- Source water volume – near normal catchment river flows by year-end after low flows in the March and June quarters. No significant issues in the year to 30 June.
- Catchment management – planning completed for a 1080 possum control operation in the Hutt water catchment.
- Unaccounted-for water less than 1 .0% (within the margin of meter error) for the year.
- Water take – one minor breach (30 minutes) of a ‘water-take’ consent (for the Hutt River during the March quarter) occurred during the year.
- Discharge consents – one breach for the year (March quarter), due to pipe failure.

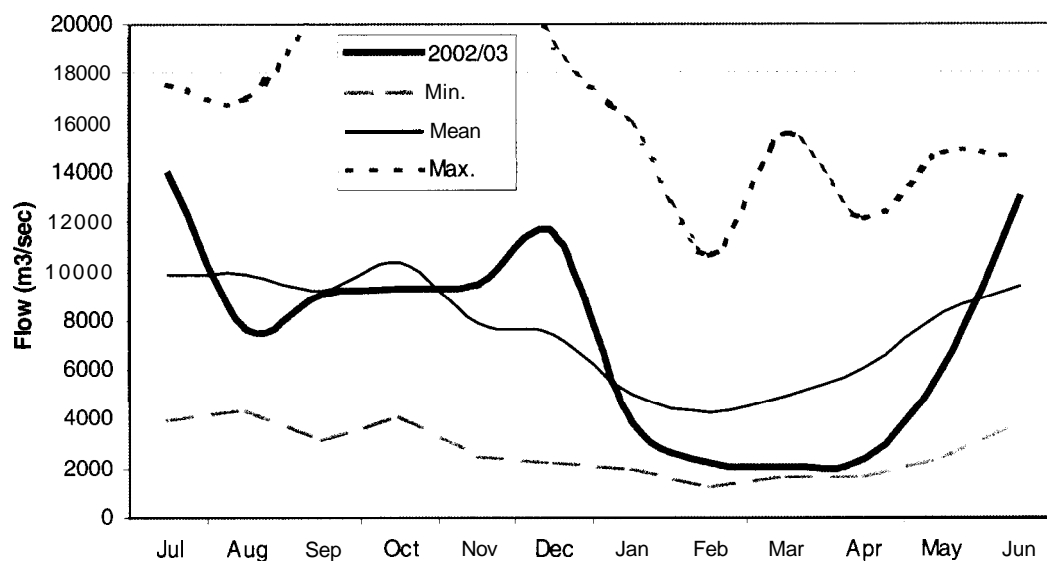
1.2.1 Water Sources and Catchment Areas

Sources of Supply – Abstraction

Abstraction consent conditions are consistent with the Resource Management Act (1991) and the Council’s Regional Freshwater Plan (1999), the latter of which balances the demands of ecology and recreation with the need for a safe and reliable public water supply. These consents require minimum river flows downstream of our intakes throughout the year. GW Water has recognised the ecological value of preserving natural variation in river flows where consistent with an adequate supply of water, and has adopted a flow sharing policy whereby part of the maximum allowable take is left in the rivers at higher flow rates.

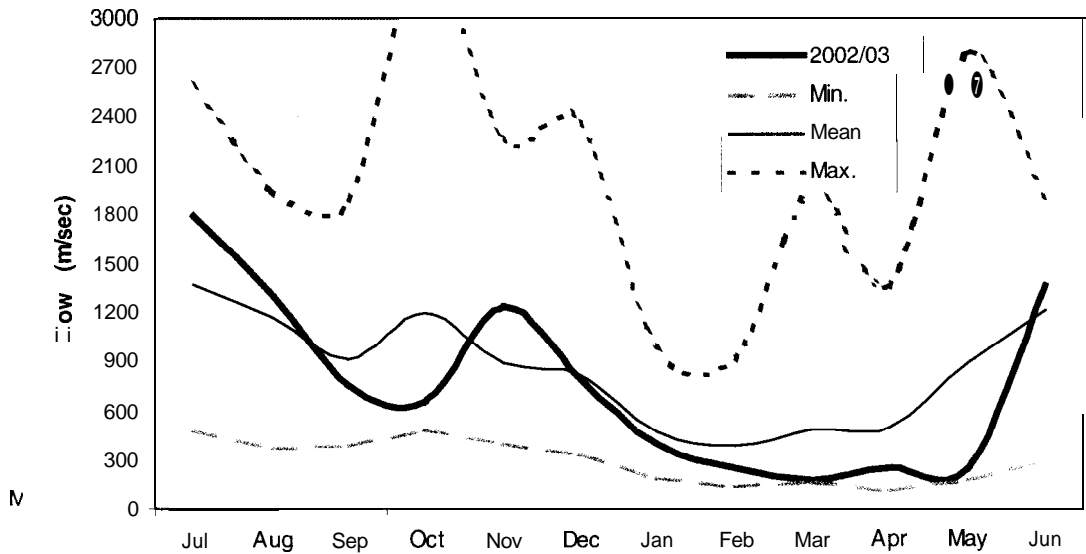
The following three graphs show the range of monthly average water flows/levels for our main water sources. Average monthly flow in the Hutt River returned to more normal levels in May after four months of low flows, while flow in the Wainuiomata River only returned to more normal levels in June. The monthly average level in the Hutt aquifer dipped below the historical norm in March, but was otherwise above average levels.

Hutt River Flow - Kaitoke



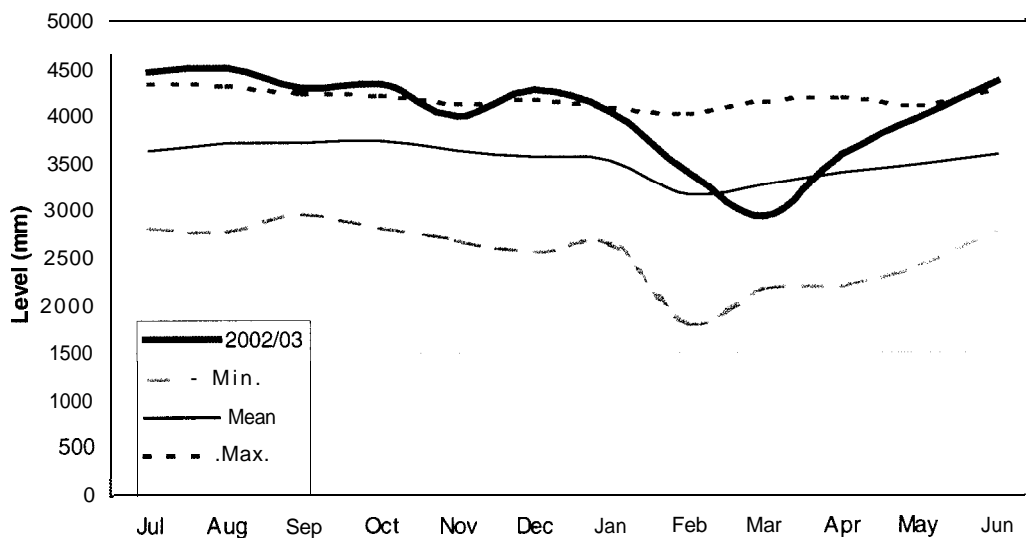
Minimum, mean and maximum data is for the period 1968 to 2001

Wainuiomata River Flow



Minimum, mean and maximum data is for the period 1971 to 2001

Hutt Aquifer Level - McEwan Park



Analysis of the severity of drought experienced during the late summer and autumn is currently being undertaken in conjunction with Council's Resource Investigations staff.

Catchment areas

Greater Wellington's Landcare division carries out catchment management work under contract to Utility Services. Significant matters for the year to June 2003 were:

Planning and preparation for a possum control operation in the Hutt catchment, using 1080 poison bait, was completed. The poison bait is due to be sown by helicopter early in the 2003/04 financial year. A post-operation possum monitor is planned for September, to determine the success of the operation.

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Indications from personnel working in the Wainuiomata catchment are that possum numbers are getting back to a level requiring further culling. A formal possum monitor is planned for 2004/05, with a control operation scheduled for the following year.

A 'Judas goat' programme was introduced to the Hutt catchment following the success of a similar operation in the Wainuiomata/Orongorongo catchment. Landcare recommends that both programmes be continued.

Professional pig control in the Wainuiomata/Orongorongo catchment has kept pig numbers under control.

Monitoring of mustelids and rodents in the Wainuiomata/Orongorongo catchment has shown high numbers of rats. Landcare has recommended that control of these predators should be continued.

Construction of a fence along the entire northern boundary of the Wainuiomata catchment has commenced, to prevent the infiltration of deer and stock from adjoining private land. The first stage of this five-year project is well advanced.

Consent to discharge was granted for a wheel wash at the entrance to the Wainuiomata/Orongorongo catchment. The wheel wash was under construction at year-end.

1.2.2 **Wafer Treatment Plants**

The major potential environmental impacts from water treatment plant activity are from chemical spills and sludge discharges; there were no such incidents to report for the fourth quarter. The only incident during the year to 30 June resulted from a pipe failure at Te Marua in February.

Two redundant outlet pipes from Gear Island WTP to the 'dead arm' of the Hutt River were removed to enhance the visual aspect of the area during the third quarter.

1.2.3 **Distribution System**

The major area of potential environmental impact is from discharges containing abnormal pH or chlorine levels. There are no areas of concern to report for the fourth quarter or the year to 30 June.

The efficiency of a distribution system can be gauged by the level of unaccounted-for water (UFW); the difference between the volume treated and the volume supplied to customer reservoirs. UFW – either used for mains flushing, due to leaks, or as a result of metering inaccuracy – has been less than the margin of error for our meters (+/- 1%) since June 2000, reflecting accurate metering and pipeline assets in good condition.

Unaccounted-for water

2002103	2001/02	2000101	1999/2000	1998199
0.5%	0.2%	0.7%	3.5%	3.9%

1.2.4 **System Management**

System Optimiser software, which governs the control systems for the Wainuiomata and Waterloo Water Treatment Plants, attempts to minimise the marginal cost of production. There are three elements to the marginal cost, namely: energy, chemicals and waste removal. Environmentally it is not possible to determine which method of water production has the least impact. Pending any better information, it is intended to produce water on a minimum marginal cost basis.

1.2.5 Environmental Discharges

The Water Group holds 22 discharge consents and three permits for trade-waste discharge. One new 'discharge consent' was obtained during the year, in relation to the planned vehicle wheel wash at the entrance to Wainuiomata water catchment.

As noted in 1.2.2, there was one issue during the year to 30 June, a discharge of caustic soda at Te Marua during the third quarter.

1.3 Potential Indirect Environmental Impacts

Summary 1.3

- . Water supply volume for the year was the highest since 1992, following high supplied volumes in the March and June quarters.
- . Power use per volume of water supplied has remained virtually unchanged from 2001/02, however chemical use by volume has increased.
- No resource consent issues relating to the June quarter; two minor issues relating to production or supply activities for the 2002/03 year.

1.3.1 Wafer Take, Treatment and Consumption

The Water Group holds 11 consents relating to water take for supply; these are reported on monthly. A 'mostly complying' assessment has been received for the year to 30 June 2003. This has resulted from late delivery of two monthly reports and one minor breach of our water-take consent for the Hutt River, which lasted for approximately 30 minutes.

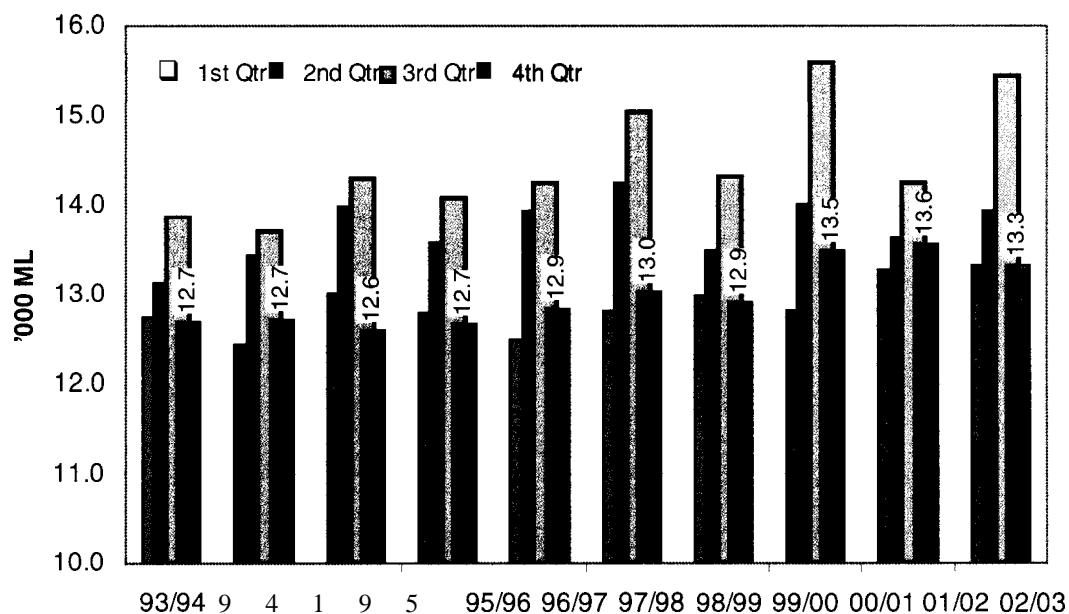
Summary - water-take, treatment and supply

June Year	2003 - ML	2002 - ML	% Change
Water Take	60,817	58,785	+3.5
Production	56,327	54,858	+2.7
Storage Change	+598	+699	n/a
UFW (Take less Production and Storage Change)	3,892	3,228	+20.6
Supply	56,050	54,760	+2.4

The total water take unaccounted for in production figures for the year to 30 June (after adjustment for storage change) was 6.4% (5.5% for 2002). Reasons for unaccounted-for water take can include unrecorded treatment-related use, planned overflow from the Stuart Macaskill Lakes back to the Hutt River (to control algae growth in the lakes) and evaporation from the lakes, as well as losses between the intakes and outflows from the treatment plants. Unaccounted-for abstraction has increased year on year as a proportion of total abstraction and we are currently working to identify and quantify the reasons underlying this result.

Level of demand for water has a major bearing on resource use and environmental impact of our activities. We treated 2.7% more water than during the 2001/02-year. Water supplied to our customers was 56,050 ML (average 153.6 ML/day), an increase of 2.4% year on year.

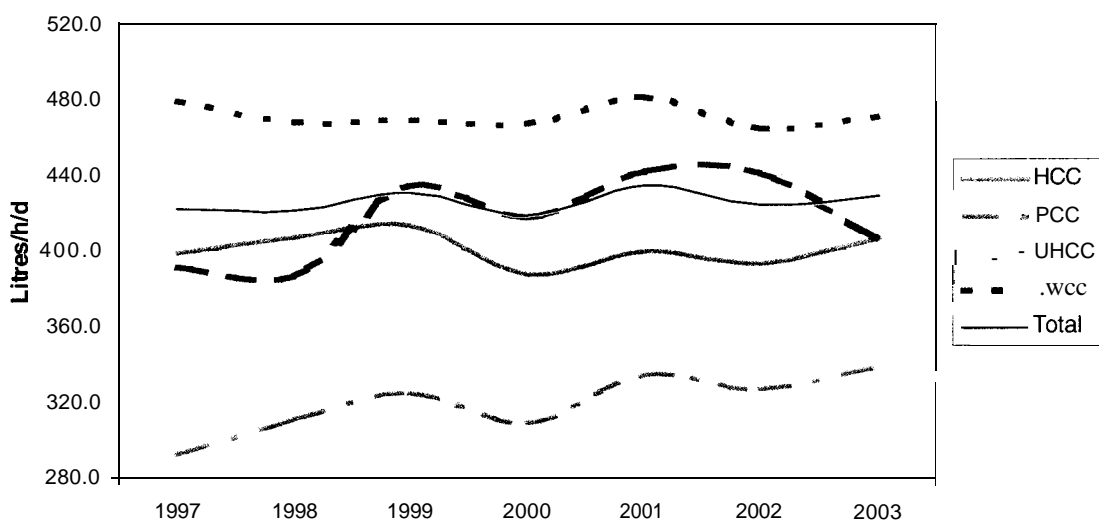
Water Supply Volume by Quarter



The total volume of water supplied for the fourth quarter was the third highest over the last ten years, and contributed to the highest annual supply volume since 1992. Higher volumes coincide with relatively drier summer weather and a greater reliance on the Hutt aquifer and Stuart Macaskill storage lakes; sources which have a high energy/ML component relative to direct-from-river sources.

Water Supply Share by Customer

Litres/head/day equivalent - Annual



(Consumption has been divided by the Statistics NZ estimated usually-resident population at 30 June the previous year)

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Average per capita water consumption (litres/head/day) for the year to 30 June shows a slight overall increase for the last seven years. Porirua City's consumption over the period has increased by the greatest percentage, but from the lowest base. Upper Hutt has bucked the general trend of increased per capita water use compared with the year to June 30 2002; this appears to be due to a reduction in leakage from their reticulation system.

1.3.2 Energy Use

The National Energy Efficiency and Conservation Strategy (September 2001) called for an energy savings target of 20% by 2012. Over recent years we have investigated energy efficiency options, and those that were financially viable, such as the optimiser software, have been adopted. While we continue to look for worthwhile energy saving measures (three new initiatives are listed below), the most significant options for reducing power use per litre of water supplied would result in an increased total supply cost.

Universal metering, with a consequent reduction in water use, now appears the only chance of meeting the government target while continuing to produce water at the lowest marginal cost. However the cost of introducing metering far outweighs the forecast dollar savings in power use; given this situation and our approach to minimise marginal cost, the national savings target is beyond our reach.

The level of power and chemical usage is partially dependent on the balance of total production taken directly from river sources (relatively high-chemical/low-power production requirement) as opposed to aquifer-sourced water. Share of production was 61.8% from rivers and 38.2% from the aquifer; a shift of just 0.5 percentage points to rivers compared with the 2001/02 year.

Energy use for production and distribution was 336.4 kilowatts per million litres (kWh/ML), compared with 340.3 kWh/ML for 2001/02 (a decrease of 1.1%). This result is broadly consistent with the slight shift away from aquifer-derived production for the year. These figures should be viewed in conjunction with chemical use. Recent annual performance is:

Electricity and chemical use per million litres of water produced

	2002103	2001102	2000/01	1999/2000
Electricity (kWh/ML)	336	340	365	348
Chemicals (kg/ML)	80	71	71	79

Review of Lighting

The review of lighting at the treatment plants has been carried out. There are opportunities for energy reduction in some areas.

Some of these opportunities, such as replacing old tubes with new high efficiency tubes, or simply reinforcing good energy conservation behaviour, carry little or no cost to implement.

Other opportunities for savings can only be realised if investment is made in things like additional controls, means of providing natural light, changing light fittings etc. In these cases the cost of implementation is being investigated.

Autumn/Winter 2003 Power Shortage

During the autumn and early winter power crisis, Greater Wellington Water changed its operation from cost minimisation to energy minimisation. This was the same response as was employed in similar circumstances in 2001. This year though it was not quite as effective as there was less water available in the rivers. Even so, production was minimised from the Waterloo Water Treatment Plant during the period.

Neotiations were also concluded with Genesis Energy to run standby generation if the need arose. Fortunately the crisis abated before this was needed.

Installation of additional power meters

Installation of power meters at the Te Marua pumping station is still being considered if the technical difficulties can be overcome at a modest cost.

Installation of power factor correction

Power factor correction equipment has been installed on the Waterloo wellfield pumps. Significant power savings (\$'s) have already been gained.

1.3.3 Chemical Usage

In addition to the source used for production, chemical use (kilograms) per million litres of water produced is influenced by how clean the source water is prior to treatment and can be effected by the trial use of alternative chemical types. We continue to monitor chemical use and attempt to improve the efficiency of our treatment plants. Our Operations section is considering how to identify internal benchmarks for chemical use relative to source water quality, to allow this variable to be isolated in future analysis of chemical use efficiency.

The treatment of lake-stored water typically increases our chemical demand per litre, due to algae growth in the lakes. An outflow meter has recently been installed for the lakes, to allow chemical demand associated with treating 'lake water' to be analysed more closely.

Chemical use per million litres of water produced for the 2002/03-year increased 13.5 percent over 2001/02. The very limited availability of source water from the Wainuiomata/Orongorongo catchment during late summer/early autumn, together with an increased use of lake-stored water at Te Marua for the same period, would have contributed to the increased chemical use per million litres of production. We are not currently able to attribute changes in chemical requirement more accurately, however, our Operations section is considering how to identify internal benchmarks for chemical use relative to source water quality, to allow this variable to be isolated in future analysis of chemical use efficiency.

Aeration Trials

Trial work is underway at Waterloo Treatment Plant to ascertain the effectiveness of aerating the raw water as it enters the plant. If successful this there will be a significant reduction in lime usage with additional benefits being lower turbidity levels in the treated water and reduced maintenance costs for operators of the city reticulation systems.

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Recent trial work has confirmed that a good level of aeration can be achieved, however changes to the lime dosing and pH sampling arrangements are necessary. The next phase is to prove control of treated water pH with the changed dosing/sampling set up.

Lime Waste Reuse

The Wainuiomata Treatment Plant discharges up to 5,000 litres of lime slurry per week. This waste has to be removed from site and disposed of by a chemical waste contractor. In June work will begin to investigate the feasibility of recovering the waste slurry and using it to supplement the raw water pH correction lime dosing.

This project has been delayed due to other priorities. Investigations should recommence by October.

1.3.4 Noise Reduction

Our activities can make a significant noise impact on the environment. A survey of noise measurements on 15 pumping stations during 2001 found that emissions from the majority of pumping stations are at acceptable levels. The only remaining pump station where emissions exceed the permissible level, Warwick Street, is a shared facility with WCC, and it is their equipment that is responsible for the peak emissions. Engineering Consultancy is project managing the installation of new, quieter, pumps for the city; the pumps were purchased during the third quarter, but have not arrived in the country yet. Further noise emission tests will be conducted once the new pumps are in place, later this calendar year.

1.3.5 Resource Consents

The Resource Management Act 1991 requires that Greater Wellington Water hold resource consents for all activities that impact on the environment. At 30 June 2003 we held 75 consents, encompassing water use and diversion, land use, and discharges. Two non-complying events occurred during the year (both during the March quarter, as detailed previously); their impact appears to have been minimal.

2. Social Responsibility

The Marketing, Media, Stakeholder and Education categories that have previously been reported in this section now form the Marketing and Communications Report (see page 4). To avoid duplication, those sections are not repeated.

2.1 Introduction

A commitment to sustainable development means recognising our role in the wider community. It also relies on building strong relationships with other stakeholders in our operations.

Our stakeholders encompass our direct water supply customers (the four city councils of metropolitan Wellington), government agencies (such as the Ministry of Health), water supply related working groups, the wider community, including water consumers, learning institutions and recreational interest groups, tangata whenua, the media, our councillors, staff, suppliers and contractors.

2.2 Stakeholders -Water Quality

Greater Wellington Water has operated a quality management system certified to the ISO 9002 standard since 1996. Certification to ISO 9002:1994 was maintained following an external audit in December 2002. An upgrade audit against the new ISO 9001: 2000 quality standard, which has a greater focus on customer satisfaction, is due to take place during August 2003 in conjunction with the re-certification audit for the Environmental Management System.

2.2.1 Treated Wafer Quality

Summary

- . Wainuiomata Water Treatment Plant received an A1 grading assessment in June.
- . All water treatment plants operated by Greater Wellington complied fully with the requirements of DWSNZ: 2000 for the June 2003 quarter.
- . The distribution network complied with the DWSNZ: 2000 for the June quarter.
- . No abnormal levels of Giardia, Cryptosporidium or coliforms were detected in our monitoring of raw water for the June quarter.

Compliance Assessment for 2002

Compliance with the Drinking Water Standards for New Zealand 2000 (DWSNZ) is currently assessed on a calendar-year basis by Regional Public Health.

Microbiological compliance to the Standards was received for Te Marua, Waterloo and Gear Island treatment plants for 2002, while Wainuiomata WTP was listed as complying from April 2002 onwards. There were no microbiological compliance issues for the first six months of the 2003-compliance year (see below).

Priority 2 (Chemical) compliance was received for Te Marua, Waterloo and Wainuiomata treatment plants for 2002, however Gear Island was non-complying due to a fluoride transgression. The cause of the transgression has been addressed, and we do not expect it to adversely affect the grading for the plant.

In June 2003, we received confirmation from Hutt Valley District Health Board (the Regional Public Health provider) that Wainuiomata Water Treatment Plant has been assessed as A1 grade under current grading criteria; it had previously been graded C.

Water Produced by the Treatment Plants

There are several criteria to be met to achieve compliance with the DWSNZ.

The presence of E. coli indicates likely faecal contamination. The Standard requires that only a very small proportion of the samples of treated water taken contain E. coli. Any positive result requires immediate action.

For large surface water treatment plants such as Te Marua and Wainuiomata, continuous monitoring of the Free Available Chlorine (FAC) residual is used to indicate the absence of E.coli, since coliforms will not survive in the presence of chlorine. Compliance requires at least 0.2 mg/L FAC at all times (subject also to limits on pH and turbidity).

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Water produced by the Waterloo WTP and Gear Island WTP (when it is running) is tested for *E. coli* every day.

Protozoa (that is *Giardia* and *Cryptosporidium*) compliance for surface water treatment plants is achieved through strict control of treated water turbidity. DWSNZ requires that turbidity be less than 0.5 NTU for at least 95% of the time. After 1 January 2005 this limit reduces to 0.1 NTU, and this lower level is currently being targeted at Greater Wellington's treatment plants. DWSNZ also prohibits sudden short "spikes" in turbidity as these may indicate that a filter is not operating properly and protozoa may be carried through into the treated water. These rules apply to each individual filter.

At Waterloo and Gear Island elimination of protozoa depends on the groundwater being at least one year old, as research indicates that these organisms will not survive underground for more than a year. Recent tritium water age tests have confirmed that the water extracted from the Hutt groundwater source is over a year old.

Fluoride is also monitored for compliance with the MoH recommended guideline of supplying between 0.7 and 1 mg/L for oral health reasons. Fluoride content is tested for on every weekday at Te Marua, Wainuiomata and Waterloo and Gear Island.

Test results for the June quarter:*E. coli*

Waterloo Treatment Plant	None detected
Gear Island Treatment Plant	None detected

No *E. coli* was detected during the March quarter of the compliance year at either plant.

Free Available Chlorine (FAC) Monitoring

Detailed analysis of the FAC, pH and turbidity readings (taken at one-minute intervals) shows that 100% compliance with DWSNZ was achieved at the Te Marua and Wainuiomata WTPs during the June quarter. Full compliance has been maintained for the compliance year to date.

Protozoa Compliance

Plant/Filter	Percentage of time turbidity <0.5 NTU	Percentage of time turbidity <0.1 NTU	Number of "spikes" detected
Te Marua			
Filter No.1	100.00%	99.36%	
Filter No.2	100.00%	99.54%	
Filter No.3	100.00%	99.71%	
Filter No.4	100.00%	99.96%	
Filter No.5	100.00%	100.00%	
Filter No.6	100.00%	99.97%	

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Wainuiomata

Filter No.1	99.96%	97.80%	0
Filter No.2	100.00%	99.47%	0
Filter No.3	100.00%	99.22%	0
Filter No.4	99.98%	99.20%	0
Filter No.5	100.00%	98.63%	0

Fluoride

Percentage compliance for WTPs with MoH recommended fluoride content, for oral health reasons.

Te Marua	98.33%
Wainuiomata	93.33%
Waterloo	100.00%
Gear Island	73.33%

All four water treatment plants complied fully with the requirements of DWSNZ:2000 for the June quarter.

The Standards require that 13 tests for fluoride content are carried out at Gear Island per calendar quarter, which typically equates to one test per week. Weekly testing was conducted during the March quarter, however that resulted in only 12 tests between 1 January and 31 March, therefore Gear Island did not comply with the letter of monitoring frequency requirement of the Standard. This error of interpretation has been explained to the region's public health provider and it is hoped that compliance will still be granted for Gear Island WTP for the 2003 compliance year.

2.2.2 Distribution Network Wafer Quality

The DWSNZ allows no more than seven of the approximately 250 E. coli samples taken each quarter at various points in the distribution network to contain E. coli. However any detection requires follow up action. Test results for the quarter:

Number of E. coli tests carried out this quarter:	354
Number of samples containing E. coli	0

The test results constitute that the distribution network complied with the DWSNZ: 2000. No E. coli has been detected in samples taken during the current compliance year.

2.2.3 Raw Wafer Quality

There are no specific requirements in the DWSNZ: 2000 for the quality of raw water. The following is provided for information only.

Monitoring of the raw water sources during the June quarter showed no abnormal levels of Giardia, Cryptosporidium, coliforms or algae; this same result as for the March quarter.

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2.3 Staff**2.3.1 Staff Turnover**

Kevin Gilbert, of the Operations Distribution Section, left Greater Wellington Water on 28 March. Kim Blackwell started her new role as Support Officer at the Waterloo Administration Office, at the beginning of February. Richard Greenfield was appointed to the Assistant Engineer role, in the Engineering Consultancy Group, in June.

2.3.2 Staff Training

Annual expenditure on training, seminars and conferences as a percentage of total personnel costs for Greater Wellington Water was:

	1999/2000	2000101	2001102	2002103
Actual	1.4%	1.1%	1.3%	1.3%
Budgeted	3.2%	2.9%	2.5%	2.3%

Time spent on training during 2002103 totalled 1,845 hours, or 32 hours per employee¹, compared to a total of 551 hours, or 8 hours per employee, during 2001/02. The increase in training hours reflects a more systematic approach to gathering this data, (introduced during the 2001/02 year), rather than any marked change in philosophy or commitment to training.

2.4 Health and Safety

It is imperative that the health and safety plan for the Utility Services Division ensures that the commitment to zero work place incidents for all stakeholders is demonstrated.

The CRM Impac Health and Safety Review, December 2000, identified that it was a requirement to develop a health and safety plan with performance objectives which were specific, measurable, obtainable, realistic and time framed.

The Utility Services Division continues to monitor accidents/injuries to produce the:

- incidence rate (number of injuries/number of employees x 100);
- frequency rate (number of injuries/person hours worked x 1,000,000); and
- severity rate (days lost/person hours worked x 1,000,000);

over a 12 month period, commencing 1 January, in the year to be monitored. This is compared to the previous year's figures and recorded in graphical format (see page 25). Any trends are investigated and reported on in the next quarterly report.

A register of incidents is maintained and these incidents include accidents and incidents not causing injury, together with accidents and incidents causing injury.

All incidents are investigated and steps taken to minimise, isolate or eliminate the hazard causing the incident identified and entered on the hazard register. Any recurrence of any incident is investigated and the steps taken to eliminate, isolate or minimise the hazard causing the incident are reviewed.

¹ Employee numbers in 2002/03 averaged 58 over 12 months compared to 71 in 2001/02. This reduction is driven by the Division's Network Section being disbanded in December 2001.

All staff are encouraged to report incidents whether they cause injury or not as the process of investigation of these incidents may identify the hazard relating to the incident, and it is by the identification of hazards that continual improvement of the Health and Safety Plan is achieved. The analysis of incidents and of recurring incidents assists in the hazard identification process. It is accepted that hazards can be location or activity based.

2.4.1 Health and Safety in Employment Amendment Act 2002

The provisions of the Health and Safety in Employment Amendment Act 2002 came into force on 5th May 2003.

The changes to the Act that impact on our present management system are:

Stress – The definition of ‘harm’ has been extended to include *physical or mental harm caused by work related stress*. This means that we must have systems in place to monitor the work environment and ensure that hazards in that environment do not cause employees physical or mental harm. We already have procedures in place to monitor the work environment and identify hazards. These procedures are being expanded to allow identification of hazards that may cause stress.

Employee Participation – There is a new general duty on all employers to *provide reasonable opportunities for their employees to participate effectively*. Our existing systems of participation need to be documented and employee representatives agreed upon by staff.

Work on developing a council wide structure for representation and approach to employee participation is underway by the Health and Safety Advisory Group (HSAG).

2.4.2 Review of Divisional Plan

Owing to the movement of staff, changing responsibilities and changes to the Act mentioned above, a review of the ‘Water Group Health and Safety Plan’ is being undertaken to ensure it remains current. In addition, the Plan will be expanded to include all other departments within the Utility Services Division.

2.4.3 Long-term Performance Indicator

The manner in which we carry out our operations will comply with the Health and Safety in Employment Act 1992, Health and Safety Regulations 1995, relevant Codes and Practice and current legislation.

A hazard identification programme will be undertaken at all work locations in order to eliminate, isolate or minimise the effect of risk to all Utility Services Division staff and contractors working at those locations. These hazards will be entered on a hazard register, which will be continually updated.

A hazard identification programme has been undertaken for all operational sites and hazard registers have been updated.

2.4.4 Short-term Performance Indicator

The Hazard Register will be reviewed on a six-monthly basis. We will assess the effectiveness of the measures taken to eliminate, isolate or minimise risk to all Utility Services Division employees and contractors.

The health and safety plan of all contractors employed by the Utility Services Division will be reviewed prior to their employment. Their activities should comply with the Health and Safety in Employment Act 1992, the Health and Safety Regulations 1995, relevant Codes of Practice and current legislation, and meet or exceed the methods of operation as determined within the various Utility Services Division's Health and Safety Plans. Their activities will be monitored on a regular basis, to ensure that any risk to their employees, employees of subcontractors, Greater Wellington staff or the general public is eliminated, isolated or minimised.

The hazard registers are currently under review. No issues relating to their effectiveness have been identified to date.

Contractor Health and Safety plans are reviewed prior to engagement. Where possible contractors follow the Water Groups procedures and sign a declaration to this effect.

There have been no incidents or accidents relating to contractors activities reported for the period April – June. However, in the third quarter a near miss incident was investigated and recorded because an electrician received a small electric shock during the final fit out of the Oxford Terrace offices.

2.5 Councillors

Contributions have been made as appropriate to various LTCCP workshops. These included the Insurance Review and Treasury Management Review. During the third quarter a workshop was held to discuss and analyse the Regional Water Supply component of Greater Wellington's 2003-2013 LTCCP.

2.6 Tangata Whenua – nothing to report.

3. Economic Performance

To demonstrate a commitment to sustainable development an organisation must be financially sound.

The bulk of this annual report concentrates on the financial performance of our water supply operations. Results for the 2002/03 year are satisfactory.

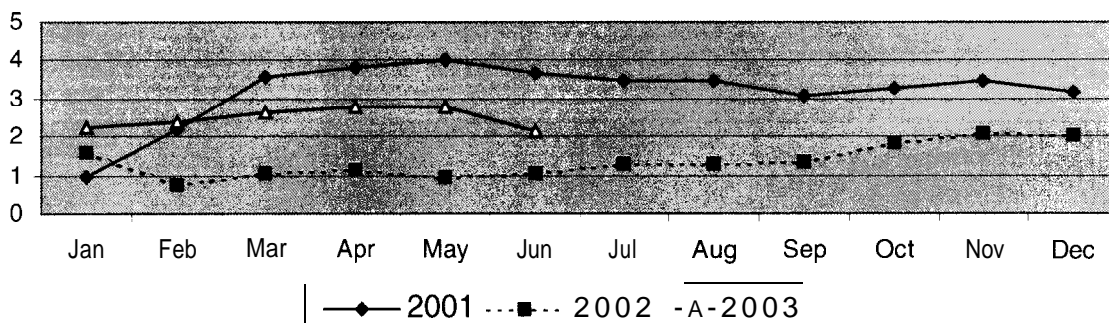
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Incidence Rate

(based on running total)

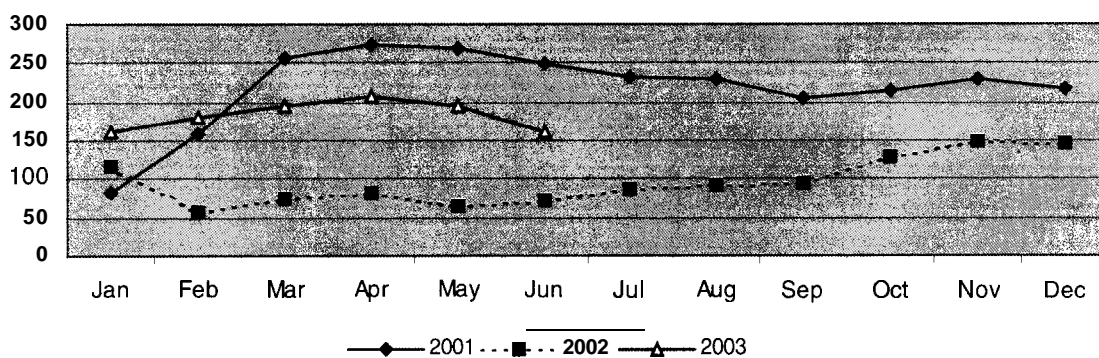
$Incidence\ Rate = \frac{number\ of\ incidents}{number\ of\ employees} \times 100$



Frequency Rate

(based on running total)

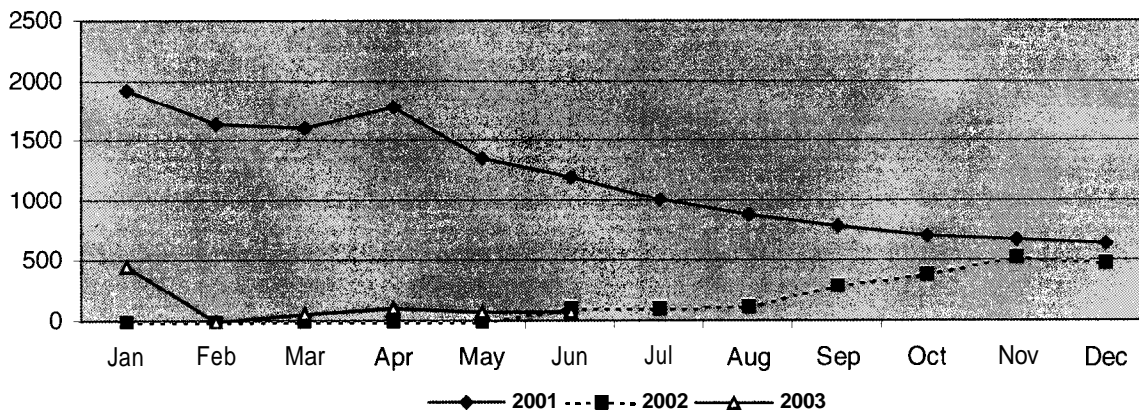
$Frequency\ Rate = \frac{number\ of\ incidents}{person\ hours\ worked} \times 1,000,000$



Severity Rate

(based on running total)

$Severity\ Rate = \frac{days\ lost}{person\ hours\ worked} \times 1,000,000$



Delivering Sustainability Within Plantation Forestry

The Regional Council holds significant tracts of land as future water catchment areas. Approximately 3,700 hectares of this area has been planted in exotic forestry. These areas are managed as a forest business to both give Council a return and to maintain the “health” of the area for future catchment use.

The lead-time available, prior to any of these areas being converted to active catchments, is sufficient to enable any exotic species to be harvested and the area prepared for catchment use.

1. Environmental Responsibility

1.1 Introduction

A key requirement of any organisation committed to sustainable development is evidence that it is continually improving its environmental performance in balance with social and financial results.

Plantation Forestry (PF) Department recognises its responsibilities in this regard and introduced an Environmental Management System in February 2001.

In summary the PF Department, with regard to its environmental obligation undertakes to:

- Comply with all relevant laws and with any standards to which the Wellington Regional Council subscribes;
- Monitor the environmental effects and risks of all activities, and through the adoption of “best industry practice” avoid, remedy or mitigate any adverse effects;
- Minimise pollution of the environment by the adoption of procedures for the handling and disposal of hazardous substances and waste;
- Recognise and operate within the natural limits of renewable resources, and conserve non-renewable resources such as fuels and materials;
- Aim for no net loss of significant habitats or ecosystems;
- Consider, and take into account, the environmental implications of business decisions;
- Ensure that all staff is aware of the importance of the environmental performance of the department and the environmental implications of the activities they undertake;
- Specify the environmental requirements to be met by third parties engaged by the department;
- Where practicable, include consideration of environmental performance in the selection of contractors and suppliers;

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- Continuously monitor environmental performance by the department with a view to identifying any areas where performance can be improved;
- Make this environmental policy available to the public with all other such policies adopted by Council;
- Review this policy and the supporting systems on a regular basis;
- Report annually on the environmental performance of the department.

Our activities have a direct impact on the environment in a number of specific areas. They include:

- Ecosystems or Significant Habitats;
- Heritage Assets;
- Watercourses and Potential Filtration;
- Soils and Potential Erosion;
- Roading and Land Use Impacts;
- Harvesting Trees Thereby Reducing Carbon Absorption;
- Planting Trees and Thereby Increasing Carbon Absorption;
- Landscape Appearance;
- Environmental Discharges.

Of a more indirect nature we can affect or have some influence over the environment generally through our resource use in the following areas:

- Energy use;
- Material use.

The intention therefore would be to report annually the outcome in all these areas.

For the purpose of reporting quarterly we have noted any significant variances against our year end June 2002 position where apparent.

1.2 **Potential Direct Environmental Impacts**

1.2.1 ***Ecosystems or Significant Habitats***

As planning for specific blocks is undertaken significant ecosystems or habitats are identified and strategies developed for their protection. Where these areas have been planted the harvest methodology is tailored to the area and the aspects to be protected. After harvest any replanting is “set back” to ensure any future harvesting will not impact on the area.

There have been no issues with this aspect within the reporting period.

1.2.2 **Heritage Assets**

Known heritage assets will be protected by specific conditions in any work contracts for activities in the vicinity.

All harvest contracts include provisions, which require work to stop should any previously unknown heritage items be discovered. Work will not be permitted to recommence in that particular area until the items have been assessed and if necessary a specific harvest methodology developed to ensure no damage will result.

There have been no issues with this aspect in the reporting period.

1.2.3 **Watercourses and Potential Siltation**

Both clearfell harvesting and more particularly road and track construction and maintenance have the potential to increase the silt loadings within watercourses during weather events.

The harvesting carried out in the Pakuratahi Forest over the past five years has shown that there is very little scouring from the cutover slopes and that vegetation (other than the planted trees) re-establishes within about three months. Future harvested blocks will be monitored to ensure that this trend continues.

All road and track constructions and maintenance in accordance with the Soil and Water Plans and include provision for the control of surface water. Culverts are installed at regular intervals and these have **stillage** basins at the upstream end. Where culverts are laid in waterways care is taken to ensure that they are installed at the gradient of the waterway so that they do not induce unnecessary scouring.

All activities in relation to harvesting are reviewed by an independent soil scientist who submits regular reports on his findings.

Because of the steep and broken nature of the area currently being harvested, and the high wind run in the area, there have been a number of issues related to slash and stumps accumulating in watercourses. This problem was exacerbated by a number of wind thrown trees where the root balls became unstable after the trunk was removed. The affected waterways were cleared by hand or where access was available, by machine. This work has to await suitable weather conditions.

1.2.4 **Soils and Potential Erosion**

Prior to commencing harvest activities the area is surveyed by a soil scientist who takes core samples to ascertain the soil types and to assess their propensity for erosion. The findings from this survey are then considered when developing the harvest plan for the area. Actual harvest activity is reviewed on a regular basis with emphasis on those areas known to be prone to erosion.

Apart from some minor slippage on the roads there have been no significant incidents of erosion attributable to the logging activities.

1.2.5 **Roading and Land Use Impact**

The basic roading system for the major forest blocks are now in place and suitable for use by current log haulage vehicles. As each block comes due for harvesting there will be a requirement to upgrade the tracks within the blocks. There will be two standards of upgrade. Those intended for use by the loaded logging trucks which will have more favourable grades and corner radii, and those intended for use by ground based skidders which will have steeper grades and tighter radii on corners.

Generally only the main access road into the block will be retained after replanting of the block is completed. The other roads and tracks will be ripped and/or mounded to avoid the problems which arise from compaction. Where possible within the constraints of gradient and curvature, roads and tracks will be sited to minimise any potential for adverse effect on the environment.

Over the summer quarter roads and skids have been constructed in the Reservoir Ridge block in Valley View. This block is to be the site of winter harvesting in order to reduce the cart distance to public roads and thus minimise maintenance.

Road access has also been constructed into the Blow Fly block. Further road construction has been deferred until spring.

1.2.6 **The Effects of Harvesting on Carbon Absorption**

The current policies for the management of the Plantation Forests include:

- the requirement to work towards a sustainable yield.
- the requirement to ensure riparian set backs meet current practice.
- newly created riparian areas may be allowed to regenerate with native vegetation or may be directly planted with a suitable final or nursery crop.

As these policies come to fruition the effects on carbon absorption will reduce as a “steady state” forest profile evolves. At this time the only ongoing effect would be slower growth rates of native vegetation compared with *Pinus radiata*.

1.2.7 **Landscape**

Harvesting forests undoubtedly alters the landscape by presenting first a bare cutover visage with or without exposed tracks. Within about 4 to 6 months these areas will have “greened” and those areas replanted in *Pinus radiata* will have seedlings about 1 m high within 2 years, and 5 m high within 5 to 6 years. Total canopy closure would usually occur around 20 years.

These areas represent a “working landscape” and the attractiveness or otherwise of the landscape is very much a matter of personal choice.

There still have been no adverse comments regarding the landscape in Puketiro Forest.

Recent logging activity has centred on the Reservoir Ridge block at Valley View. This area has a far higher pedestrian count than Puketiro because of its proximity to the Upper Hutt City urban area. To date no adverse comment has been reported.

1.2.8 *Environmental Discharges*

There are a number of discharges inherent in a plantation forestry business. These will include:

Discharges to Air

- . Carbon dioxide
- Carbon monoxide
- Sulphur
- Particulates

(All of the above relate to the use of internal combustion engines in the process of tending and harvesting the forests.)

- Fertiliser dust
- . Spray residues
- Methanes

Discharges to Land

- Tannins
- Fertilisers
- . Sprays

Potential Discharges to Land

- Fuels
- Oils
- Lubricants

Discharges to Water

- Road and track runoff

Potential Discharges to Water

- Fuel, oil lubricant residues
- Silt
- Slash

The harvesting and management of the forest is carried out in the full knowledge of the above discharges and potential discharges. Activities are planned to minimise the risk of unintentional discharges and in the knowledge of the action required to mitigate the effects should a discharge occur. Such planning includes:

- No refuelling or maintenance where an accidental spill could end up in a waterway;

- Runoff from roads and tracks controlled through water tables and culverts to ensure volumes and speed do not reach levels where siltation and/or scouring could become an issue;
- No tracking allowed in watercourses. Right angle crossing only permitted at purpose built fords or by way of bridges or culverted crossings.

We are not aware of any events of the nature listed above having occurred during the period under review.

1.3 Potential Indirect Environmental impacts

1.3.1 Energy Use

- *Electricity*

The activity of plantation forestry does not in itself impose any marked increase in electricity usage. However, if the harvested product is milled domestically rather than exported as a log, there will be increased electricity usage involved in the further processing of the logs.

- *Fuel*

Given the location of many of the forestry blocks, there is an ongoing fuel use related to the day to day management of the estate. This usage increases while silviculture activities take place and reaches a peak at the time of clear-fell harvesting.

1.3.2 Chemical Usage

- 1080 for possum control
- Various selective weedsprays
- Various selective pesticide and fungicide sprays
- Various selective fertilisers

Chemicals are applied only where there is a demonstrable need or a clear benefit. All chemicals are applied by certified operators who are required to demonstrate "best industry practice".

1.3.3 Noise

The predominant noise from a plantation forest is from the use of chainsaws. This may be associated with either silviculture activities or at clear-fell. In the latter situation the noise of chainsaws will be accompanied by the noise of the associated haulers, skidders, loaders and trucks.

No complaints have been received during the period under review.

1.3.4 Resource Consents

The Resource Management Act 1991 requires the Plantation Forestry Department to hold resource consents for the following activities:

- Roding and tracking;
- Installation of culverts in waterways;
- Construction of bridges and fords;
- Harvesting.

Issues or Transgressions

Despite prior knowledge of the lead time required for resource consents, the need to undertake an activity requiring a resource consent can arise at relatively short notice and thus delays can occur awaiting receipt of the necessary approvals.

Both independent inspections and compliance monitoring by the consent issuing authority are carried out on an ongoing basis. All contracts include specific provisions requiring all activities to be in accordance with the RMA legislation.

There has been a reported breach of the Soil Plan provisions in the Harris South block at Puketiro where slash remains in the main creek. It has been agreed with Environment Division that remedial work should be deferred until summer to avoid further damage to the stream.

2. Social Responsibility

2.1 Introduction

A commitment to sustainable development means recognising our role in the wider community. It also relies on building strong relationships with other stakeholders in our operations.

Our stakeholders are:

- The Community
- Customers
- Suppliers and Contractors
- Councillors
- The Government
- Educational Institutions and Educators
- Recreationalists
- The Media
- Tangata Whenua
- Business and Community Groups
- Staff

From an annual perspective we would expect to report activity across all stakeholders. From a quarterly reporting perspective we will report any specific issues that have arisen during the period under review and any major variances.

2.2 Staff

Current staffing arrangements are proving adequate.

There are no outstanding staff issues.

2.2.1 Staff Turnover

There have been no staff changes in the review period.

2.2.2 Staff Training

No specific staff training undertaken in the review period, although the Plantation Forest Ranger attended the Mystery Creek Field days to update himself on advances in the industry.

2.3 Health and Safety

There were no health and safety incidents during the period.

2.4 The Community

There has been little comment from the community on the activities of this department.

2.5 Customers

As the sale of the harvested logs is contracted to Rayonier NZ, we do not have customers as such. Rayonier report that the all weather access to the harvest blocks is seen as an advantage by the domestic mill owners.

2.6 Councillors

Councillors are kept apprised of the activities of the department through the regular reports presented at each Utility Services Committee meeting. A much more comprehensive report is presented in September of each year. This report summarises the activities of the previous year and sets out the proposed programme for the forthcoming year. The report also seeks specific permission for replanting on a harvested block by block basis.

2.7 The Government

The Government has adopted the Kyoto Protocol and also any carbon credits arising from forest ownership. At this stage the effects of this decision are uncertain.

2.8 Educational Institutions

There are occasional requests for information and addresses for visiting classes but most of these types of activity are carried out by the Landcare Division personnel.

2.9 Recreationalists Issues

- Harvesting in areas where there is traditional recreational activity requires the change in circumstances to be controlled. This control is exercised through the Recreation section and by the issue of permits. There is an agreed “no go” area which is protected by signage and the shared areas operate with logging having priority on weekdays and recreational users having priority on weekends. Thus far, there has been a good ongoing relationship with this sector of the community.
- There are two potential issues – the first are trespassers who access the forests from neighbouring properties and who would not hesitate to enter the logging area.
- The second are generally horse riders who overestimate the control and timidity of their mounts. Despite being warned that there is machinery operating in the area these people claim there is no risk as their horses are accustomed and trained. It regularly turns out that this is not the case.

There have not been any incidents of this nature reported during the period under review .

2.10 Media

As this has been an ongoing activity of Council for a number of years there is little interest from the press.

2.11 Tangata Whenua

There has been little specific interest in the activities of this department from tangata whenua and thus their interests have been addressed as part of the overall consultation during the annual planning process.

2.12 Business and Community Groups

Rayonier act as our agents in the marketplace and hence the majority of approaches are made to them. From time to time we are invited to make financial contributions to forthcoming projects or to pledge the output of our forests but to date we have declined in favour of regular competitively tendered management contracts.

Council is a member of The Forest Owners Association and the Local Bodies Forestry Group and has close links with The Farm Foresters Association, The Forest Research Institute and the Log Industry Research Organisation.

3. Economic Performance

To demonstrate a commitment to sustainable development an organisation must be financially sound. Our concerns have been expressed in this area previously. Nothing has changed to alter our views except to say that they have probably hardened.

The Water Group

Water Supply
Operating Surplus I (Deficit)

30 June 2002 Actual \$000's		30 June 2003 Actual \$000's	30 June 2003 Budget \$000's
78.3	Engineering Consultancy	7.8	1.4
26.0	Laboratory Services	28.9	0.5
950.2	Operations	250.5	
828.4	Strategy and Asset	1,232.2	
1,449.1	Support Services	697.0	562.6
3,332.0	Total Water Supply	2,216.4	564.5

Water Supply
Capital Expenditure

30 June 2002 Actual \$000's		30 June 2003 Actual \$000's	30 June 2003 Budget \$000's
3,643.7	Total Capital Expenditure	2,591.9	3,005.5

Plantation Forestry
Operating Surplus / (Deficit)

30 June 2002 Actual \$000's		30 June 2003 Actual \$000's	30 June 2003 Budget \$000's
(649.1)	Operating Surplus I (Deficit)	(282.9)	(224.5)

Forecast Review

Explanation of Forecast vs Actual 2002103 Year End Surplus / (Deficit) Variances

As at 30 June 2003

Operating Surplus / (Deficit)				
Water Supply	Actual	Forecast	Variance	Variance Explanation
	June 2003	March 2003		
	\$000's	\$000's	\$000's	
Engineering Consultancy	7.8	4.6	3.2	* The anticipated shortage of skilled staff availability during the final quarter, due to paternity leave and medical surgery did not fully materialise and hence the slightly better than forecast final result.
Laboratory Services	28.9	24.2	4.7	* The seasonal Qtr 4 operating loss of \$7.6k was smaller than in previous years and correspondingly a marginally better than forecast final result was achieved.
Operations	250.5	246.7	3.8	<ul style="list-style-type: none"> • Despite the dry summer, direct operating costs at the WTPs came in only slightly greater than budget for the full year. • Time spent by Distribution staff on activities on behalf of other departments and also various cost recovery work projects has been sustained in Qtr 4 and made a significant contribution to the final Operations result.
Strategy & Asset	1,232.2	867.4	364.8	<ul style="list-style-type: none"> • Lower financial costs due to ongoing higher than budgeted divisional cash surpluses were maintained throughout Qtr 4. • Sustained materials, supplies, services & external contractor cost savings + recoveries
Support Services	697.0	675.2	21.8	* A forecast \$220k infrastructure asset write off charge for 2002103 is still to be incurred and reflected in the final annual accounts.
				* A combination of further incremental direct cost savings and cost recovery opportunities identified in March 2003 were achieved during the final quarter.
Total Water Supply	2,216.4	1,818.1	398.3	

Operating Surplus / (Deficit)				
Plantation Forestry	Actual	Forecast	Forecast	Variance Explanation
	June 2003	March 2003	Variance	
	\$000's	\$000's	\$000's	
	(282.9)	(118.2)	(164.7)	* Reduced harvest crew availability for the final quarter, combined with an ongoing unfavourable \$ US / NZ exchange rate were the key factors which generated difficult operating conditions and ultimately a disappointing final result for the full year.

Water Supply

Statement of Financial Performance
For the Year Ended 30 June 2003

30 Jun 02 Actual \$000's	30 Jun 03 Actual \$000's	30 Jun 03 Budget \$000's	YTD Variance \$000's	Full Year Mar F'cast \$000's	Full Year Budget \$000's
22,776.5 Wholesale Water Levy	22,776.5	22,776.5	0.0 u	22,776.5	22,776.5
277.1 Investment & Reserve Interest	313.1	343.7	30.6 U	303.5	343.7
1,139.3 External Revenue	539.9	392.3	147.6 F	547.3	392.3
2,809.1 Internal Revenue	2,668.8	2,519.9	148.9 F	2,619.6	2,519.9
27,001.9 Total Revenue	26,298.2	26,032.4	265.8 F	26,246.9	26,032.4
3,476.2 Personnel Costs	3,441.0	3,616.1	175.0 F	3,400.0	3,616.1
4,660.7 Materials, Supplies & Services	6,055.9	6,839.8	783.9 F	6,151.0	6,839.8
167.4 Travel & Transport	155.0	142.5	12.6 U	155.0	142.5
1,438.4 Contractors & Consultants	1,316.1	1,299.5	16.6 u	1,380.0	1,299.5
2,139.4 Internal Contractors	2,337.0	2,267.0	70.0 u	2,372.3	2,267.0
11,882.2 Total Direct Expenditure	13,305.1	14,164.8	859.8 F	13,458.3	14,164.9
4,496.5 Financial Costs	3,793.5	4,317.2	523.7 F	3,800.0	4,317.2
(0.9) Bad Debts, incl Provision	(0.7)	-	0.7 F	(0.5)	-
5320.2 Depreciation	5,346.9	5,347.1	0.2 F	5,421.0	5,347.1
263.4 Loss / (Gain) on Sale	(25.3)	(11.0)	14.3 F	71.9	(11.0)
10,079.2 Total Indirect Expenditure	9,114.4	9,653.3	538.9 F	9,292.4	9,653.3
766.8 Net Corporate Overhead	815.7	815.7	0.0 F	815.8	815.7
941.7 Corporate Rent / Internal Charges	846.6	834.0	12.6 U	862.3	834.0
1,708.5 Total Corporate Costs	1,662.3	1,649.7	12.6 U	1,678.1	1,649.7
23,669.9 Total Expenditure	24,081.8	25,467.9	1,386.1 F	24,428.8	25,467.9
3,332.0 Surplus I (Deficit)	2,216.4	564.5	1,651.9 F	1,818.1	564.5
Capital Expenditure					
Asset Acquisition & Disposal Summary					
186.6 Acquisitions	273.3	275.5	2.2 F	308.7	275.5
(58.1) Disposals	(46.2)	(22.0)	24.2 F	(46.2)	(22.0)
128.4	227.2	253.5	26.3 F	262.5	253.5
3,515.3 Capital Projects	2,364.7	2,752.0	387.3 F	2,483.9	2,752.0

Water Supply

Movement in Equity and Debt
For the Year Ended 30 June 2003

Statement of Movement in Equity	30 Jun 02 Actual \$000's	30 Jun 03 Actual \$000's
Retained Earnings Opening Balance	62,622	66,296
Surplus for Period	3,332	2,216
Other Reserve & Equity Movements	343	102
Asset Revaluation Reserve	135,083	135,083
Departmental Reserve (note 1)	707	605
Closing Equity	202,087	204,302

Notes**1 Departmental Reserves at 30 June 2002**

Chemical Contingency Reserve	562	
General Reserve	145	
	<hr/>	
Opening Balance 1 July 2002		707
Transfer from General Reserve	(145)	
Interest Transfer to Chemical Contingency Reserve	43	
	<hr/>	
Closing Balance at 30 June 2003		605

2 Movement in Debt

Opening Balance 1 July 2002		52,241
New Debt for 2002/03 Capital Expenditure	2,351	
Debt Repayment for 2002/03 Matured Loans	(6,571)	
	<hr/>	
Closing Balance at 30 June 2003		48,021

Water Supply

Statement of Financial Position

As at 30 June 2003

30 Jun 02 \$000's		30 Jun 03 \$000's
	EQUITY	
66,297.6	Retained Earnings	68,614.6
135,083.0	Asset Revaluation Reserve	135,083.0
706.4	Departmental Reserve	604.9
<u>202,087.0</u>	Total Equity	<u>204,302.4</u>
	Represented By:	
	ASSETS	
	Current Assets	
2,150.8	Receivables	2,616.2
69.1	Accrued Revenue & Prepayments	11.8
1,433.8	Stocks	1,431.9
<u>3,653.7</u>	Total Current Assets	<u>4,059.9</u>
	Investment	
4,310.6	Insurance Investment	5,138.2
706.4	Capital Reserve	604.9
<u>5,017.0</u>	Total Investment	<u>5,743.1</u>
	Fixed Assets	
262,790.1	Cost or Valuation	262,614.4
(16,132.8)	less: Accumulated Depreciation	(21,052.5)
<u>246,657.3</u>	Total Fixed Assets	<u>241,561.9</u>
2,654.1	Capital Works in Progress	5,018.7
<u>257,982.1</u>	Total Assets	<u>256,383.6</u>
	LIABILITIES	
	Current Liabilities	
2,356.8	Creditors	1,891.3
644.0	Employee Provisions	587.0
652.9	Treasury Payables	1,581.6
<u>3,653.7</u>	Total Current Liabilities	<u>4,059.9</u>
52,241.4	Public Debt	48,021.3
<u>55,895.1</u>	Total Liabilities	<u>52,081.2</u>
<u>202,087.0</u>	Net Assets	<u>204,302.4</u>

Water Supply
Statement of Funding
For the Year Ended 30 June 2003

	30 Jun 02 \$000's	30 Jun 03 \$000's
FUNDING FROM OPERATING ACTIVITIES		
Funds were provided from:		
Levies	22,776.5	22,776.5
Interest received	277.1	313.1
Other activities	3,948.4	3,208.6
	<u>27,001.9</u>	<u>26,298.2</u>
Funds were applied to :		
Operating activities	(13,589.7)	(14,966.6)
Interest paid	(4,496.5)	(3,793.5)
	<u>(18,086.2)</u>	<u>(18,760.2)</u>
Net Funding from Operating Activities / Cash Operating Surplus	<u>8,915.7</u>	<u>7,538.1</u>
FUNDING FROM INVESTING ACTIVITIES		
Funds were provided from:		
Sale of assets	58.1	46.2
Transfer from reserves	1,435.4	145.0
	<u>1,493.5</u>	<u>191.2</u>
Funds were applied to :		
Purchase of land	-	-
Purchase of vehicles	(133.0)	(101.3)
Purchase of office equipment	(33.5)	(152.7)
Purchase of plant and equipment	(15.9)	(3.7)
Purchase of computer equipment	(4.2)	(15.6)
Capital projects	(3,515.3)	(2,364.7)
Transfer to reserves (incl interest)	(1,092.0)	(43.5)
Investment additions	(655.3)	(827.7)
	<u>(5,449.2)</u>	<u>(3,509.2)</u>
Net Funding from Investing Activities	<u>(3,955.7)</u>	<u>(3,318.0)</u>
FUNDING FROM FINANCING ACTIVITIES		
Funds were provided from:		
New loans	2,079.9	2,351.2
	<u>2,079.9</u>	<u>2,351.2</u>
Funds were applied to :		
Debt repayment	(7,039.9)	(6,571.3)
	<u>(7,039.9)</u>	<u>(6,571.3)</u>
Net Funding from Financing Activities	<u>(4,960.0)</u>	<u>(4,220.0)</u>
Net Increase / (Decrease) in Funds Held	<u>(0.0)</u>	<u>(0.0)</u>

Water Supply - Total Excluding Business Units

Statement of Financial Performance

For the Year Ended 30 June 2003

30 Jun 02 Actual \$000's	30 Jun 03 Actual \$000's	30 Jun 03 Budget \$000's	YTD Variance \$000's	Full Year Mar F'cast \$000's	Full Year Budget \$000's
22,776.5 Wholesale Water Levy	22,776.5	22,776.5	0.0 u	22,776.5	22,776.5
277.1 Investment & Reserve Interest	313.1	343.7	30.6 U	303.5	343.7
600.4 External Revenue	179.7	52.3	127.4 F	187.3	52.3
1,284.1 Internal Revenue	1,066.4	946.4	120.0 F	1,041.6	946.4
24,938.1 Total Revenue	24,335.6	24,118.9	216.7 F	24,308.9	24,118.9
2,368.7 Personnel Costs	2,362.5	2,524.4	161.9 F	2,330.0	2,524.4
4,529.7 Materials, Supplies & Services	5,896.6	6,680.7	784.0 F	5,996.0	6,680.7
132.9 Travel & Transport	123.8	109.3	14.5 u	120.0	109.3
1,367.4 Contractors & Consultants	1,227.3	1,259.0	31.7 F	1,315.0	1,259.0
1,956.9 Internal Contractors	2,172.8	2,103.4	69.4 U	2,204.9	2,103.4
10,355.6 Total Direct Expenditure	11,783.1	12,676.8	893.7 F	11,965.9	12,676.8
4,496.5 Financial Costs	3,793.5	4,317.2	523.7 F	3,800.0	4,317.2
(0.9) Bad Debts, incl Provision	(0.7)	-	0.7 F	(0.5)	-
5,266.5 Depreciation	5,285.6	5,272.9	12.6 U	5,359.0	5,272.9
269.7 Loss / (Gain) on Sale	(14.4)	-	14.4 F	82.8	
10,031.8 Total Indirect Expenditure	9,064.0	9,590.1	526.2 F	9,241.3	9,590.1
581.8 Net Corporate Overhead	631.4	631.4	0.0 F	631.5	631.4
741.3 Corporate Rent / Internal Charges	677.3	657.8	19.5 u	680.9	657.8
1,323.0 Total Corporate Costs	1,308.7	1,289.2	19.5 u	1,312.4	1,289.2
21,710.4 Total Expenditure	22,155.8	23,556.2	1,400.4 F	22,519.6	23,556.2
3,227.7 Surplus / (Deficit)	2,179.8	562.7	1,617.1 F	1,789.3	562.7
Capital Expenditure					
Asset Acquisition & Disposal Summary					
140.1 Acquisitions	100.4	125.0	24.6 F	116.2	125.0
(51.8) Disposals	(35.3)	-	35.3 F	(35.3)	-
88.3	65.0	125.0	60.0 F	80.9	125.0
3,515.3 Capital Projects	2,364.7	2,752.0	387.3 F	2,483.9	2,752.0

Note

These numbers represent the total for Operations, Strategy & Asset and Support Services departments.

Water Supply - Performance Indicators
Collecting, Treating and Delivering Water

Quality: Long-term

The quality of water supplied will continually meet the Ministry of Health's Drinking-Water Standards. The related water supply infrastructure will be maintained and improved to meet the standards specified in the *Regional Water Supply Asset Management Plan*.

The water supplied from the water treatment plants will meet the Ministry of Health's Drinking-Water Standards for 2005. These Standards are higher than the Standards introduced in January 2001.

All water that The Water Group treats currently meets Ministry of Health Drinking Water Standards. The Regional Council has a policy to target an A grade standard for each of its water treatment plants. This means the water supplied to its customers is completely satisfactory, with minimal levels of health risk.

Waterloo and Gear Island Treatment Plants are graded B. This would be upgraded to A if chlorine was added to the treated water, although Hutt City Council requested that this should not occur.

Wainuiomata Water Treatment Plant is now graded A1. Te Marua Water Treatment Plant is currently graded A.

The Water Group holds certification to ISO 9002 for its wholesale water supply operations.

Quality: Short-term

By 30 June 2003:

The collection, treatment and delivery of water will be managed to ensure the quality of water supplied continually complies with the Ministry of Health's *Drinking-Water Standards for New Zealand 2000*.

Analysis of the test results for the quarter indicated full compliance and hence no significant breaches of this standard occurred during the year.

Water testing will be carried out by an International Accreditation New Zealand (IANZ) registered laboratory at sampling points defined by the Quality Assurance Section of The Water Group, not less than five days out of every seven. Expenditure will not exceed the budget of \$465,000.

Water testing expenditure for the year was \$466,281, which was slightly more than budget because of additional miscellaneous testing requirements.

The Wainuiomata Water Treatment Plant will be regraded to an A or A1 grading by 30 June 2003.

An A1 grading was achieved in June 2003.

Vegetation management measures will be carried out in the Council's water supply catchments, in accordance with the Council's Forestry Management Plan and within a budget of \$180,000, so that the treatment plants receive good quality water.

Work by Regional Park Operations was carried out according to a programme weighted towards the second half of the year. Annual expenditure of \$91,671 was incurred against a budget of \$180,000. An additional \$85,000 for 1080 bait purchase was rebudgeted into the 2003/04 financial year, reflecting the delay in the Kaitoke catchment bait drop operation.

A ranger service for the Wainuiomata/Orongorongo Water Supply Catchment will be obtained from the Landcare Division at a cost not exceeding \$116,000.

Work by Regional Park Operations was carried out according to a programme weighted towards the second half of the year. Annual expenditure of \$109,326 was incurred against a budget of \$116,000.

Water Supply - Performance Indicators
Collecting, Treating and Delivering Water

Security of Supply: Long-term

Sufficient water will be available on a daily basis to meet the 1 in 50 year return period drought situation. The related water supply infrastructure will be maintained and improved to meet the standards specified in the *Regional Water Supply Asset Management Plan*.

In the event of a major emergency, appropriate contingency plans will be in place.

Projections using a computer based sustainable yield model show that the Council's water supply infrastructure is sufficient to meet a 1 in 50 year return period event until at least 2020, at current growth rates. A 1 in 50 year drought strategy has been adopted after consultation with our customers. This is less than that of Auckland's 1 in 200 year strategy, although their system is less dynamic in its raw water supply.

The Council manages water supply assets in accordance with a planned programme of maintenance. Council policy is that there is no deferred maintenance. The Asset Management Plan was prepared in accordance with the National Asset Management Steering Group guidelines.

The Council has a "n-1" policy for security of water supply. This means that either Te Marua or Waterloo Water Treatment Plants could be out of commission and the daily base water requirement of 145 ML still met.

Security of Supply: Short-term

By 30 June 2003:

The Orongorongo intakes will be refurbished to accepted engineering standards at a cost not exceeding \$200,000.

River conditions precluded this work being completed. Costs for the year were \$93,569. The remainder of the project has been deferred until December 2003 with an additional \$53,000 budgeted to complete the work in 2003/04.

The standby generator at Waterloo Water Treatment Plant will be upgraded within a budget of \$150,000.

The late delivery of the generator precluded its commissioning which is now scheduled for early September. Expenditure of \$140,195 was incurred in the financial year.

Karori Pumping Station equipment will be refurbished to accepted engineering standards at a cost not exceeding \$420,000.

As part of the seismic review work it has been identified that the pumping station is almost on top of the Wellington fault. Instead of refurbishment, work is underway to locate a more secure site for a new pumping station. The refurbishment did not proceed with only minimal expenditure of \$3,590 being incurred in the financial year.

Water Supply - Performance Indicators
Collecting, Treating and Delivering Water

**Environmental Management:
Long-term**

All water supply activities will be undertaken in an environmentally sympathetic manner according to the principles of the *Resource Management Act 1991*.

The Council acquires and seeks to comply with all appropriate resource consents. Abstraction consents govern the quantity of water that can be drawn from each source and how much must remain. Consents are also sought for any discharges from the treatment plants. Most by-products from the plants are processed through waste water recovery plants and removed off-site.

The Council holds certification to ISO 14001 (the International Standard Organisation's environmental management benchmark) for its wholesale water supply activities.

**Environmental Management:
Short-term**

By 30 June 2003:

All appropriate resource consent conditions will be complied with, within a monitoring budget of \$65,000.

Annual consent charges for 2002/03 were \$53,405. There have been no significant breaches of the consents during the period.

Resource consent compliance will be demonstrated to an auditable standard and a report on compliance for 2001/02 will be prepared by 30 November 2002.

The report was published in early November 2002.

Water conservation will be promoted by way of an education campaign during the 2002/03 summer, at a cost not exceeding \$70,000.

The final cost of preparing and running a new television water conservation advertisement campaign slightly exceeded the budget at \$73,513.

Power factor correction equipment will be installed as part of the Karori Pumping Station refurbishment.

This work has been deferred as the pumping station refurbishment work did not proceed.

Health and Safety: Long-term

The manner in which we carry out our operations will comply with the *Health and Safety in Employment Act 1992*, *Health and Safety Regulations 1995*, relevant Codes of Practice and current legislation.

A hazard identification programme will be undertaken at all work locations in order to eliminate, isolate or minimise the effect of risk to all Water Group staff and contractors working at those locations. These hazards will be entered on a hazard register, which will be continually updated.

A hazard identification programme has been undertaken for all operational sites and hazard registers have been updated.

Health and Safety: Short-term

By 30 June 2003:

The Hazard Register will be reviewed on a six monthly basis. We will assess the effectiveness of the measures taken to eliminate, isolate or minimise risk to all Water Group employees and contractors.

The health and safety plans of all contractors employed by The Water Group will be reviewed prior to their employment. Their activities should comply with the *Health and Safety in Employment Act 1992*, the *Health and Safety Regulations 1995*, relevant Codes of Practice and current legislation, and meet or exceed the methods of operation as determined within the *Utility Services Water Group Health and Safety Plan*. Their activities will be monitored on a regular basis, to ensure that any risk to their employees, employees of subcontractors, Wellington Regional Council staff or the general public is eliminated, isolated or minimised.

The hazard registers are currently under review. No issues relating to their effectiveness have been identified to date.

Contractor Health and Safety plans are reviewed prior to engagement. Where possible contractors follow the Water Groups procedures and sign a declaration to this effect.

There have been no incidents or accidents relating to contractors activities reported for the period April – June. However, in the third quarter a near miss incident was investigated and recorded because an electrician received a small electric shock during the final fit out of the Oxford Terrace offices.

Water Supply - Performance Indicators
Collecting, Treating and Delivering Water

Customer Service: Long-term

The Council will continue to demonstrate that it has a high standard of customer service. It will provide customers with up-to-date and relevant information, as well as listening and responding to their needs.

The Water Group maintains regular communication with customer organisations at various levels of seniority.

Business Efficiency: Long-term

To demonstrate a reduction in the operational costs of collecting, treating and delivering wholesale water over time, while maintaining levels of service agreed externally and internally.

The annual costs of running the operation, excluding changes in depreciation rates reduced by \$6.1 M or 27% between 1997 and 2003, whilst service levels were maintained.

Customer Service: Short-term

By 30 June 2003:

Customers will be provided with a business report by 30 November 2002 which will include the following information:

- Financial results for the 2001/02 year.
- Actual quality compared with targeted performance.
- A list of incidents where supply has been interrupted, together with the time taken to respond and repair.
- A report on compliance with resource consent requirements.

The business report was published in early November 2002. It included content on all of the above subjects.

Business Efficiency: Short-term

By 30 June 2003:

Direct operating costs for the wholesale water supply for 2002/03 will be minimised and not exceed the budget of \$15,000,000.

Final full year expenditure of \$14,151,700 was incurred whilst carrying out activities according to requirements.

Operations

Operations Review

Manager's Commentary

Re-organisation

Both vacancies for Treatment Technicians have now been filled and the new staff are presently undergoing intensive training to enable them to relieve the after hours work load of the other two technicians. It is expected that the new technicians will be ready for after hours duty by the end of August. The call out roster will then revert to one week in four.

Supply

There have been no issues with the availability of source water and maintaining storage levels in the Stuart Macaskill Lakes has been comfortably achieved.

Very high levels of algae have been present in Lake Two and high levels in Lake One. Interestingly there is a different predominant species in each lake, neither of which are known toxin producers. Although the risk of toxins being present is very low, there is a strong possibility that taste causing compounds can be imparted to the treated water from this algae.

There have been no issues with the artesian supply.

Te Marua Trials

Since March we have been waiting for the lakes algae levels to rise before continuing with the blending trial work. Mother Nature, or some other unknown force, kindly obliged and by early July we had more than enough Phytoplankton with which to work.

Trials carried out on a blend of waters from the Hutt River and Lake One showed that, in Direct Filtration mode, the robustness of the filters was compromised and quality excursions were apparent when filter flows were increased. The same blend was treated through the clarifiers with no observable deterioration in plant performance.

Prior to the 1080 drop going ahead in the Hutt catchment it was considered prudent to ensure that the water in Lake Two, with its very high levels of algae, was in fact treatable. The treatment plant ran for about 24 hours solely on Lake Two water with no observable deterioration in plant performance. It should be noted however that under such raw water conditions the plant output is limited to maximum of 80 MLD and the chemical costs are significantly increased.

A series of sampling was carried out which will hopefully allow us to estimate the effect of algae levels on treated water taste. Work is also underway to assess the level of risk in treating lake water when potentially toxic algae are present.

Security

The upgrading of security at Operations sites is continuing. All work at the treatment plants is complete and installations at high priority distribution sites are underway. Harbour City Security was awarded the contract to carry out the remaining upgrade work at the priority 2 sites.

*Operations - Distribution*Statement of Financial Performance
For the Year Ended 30 June 2003

30 Jun 02 Actual \$000's		30 Jun 03 Actual \$000's	30 Jun 03 Budget \$000's	YTD Variance \$000's	Full Year Mar F'cast \$000's	Full Year Budget \$000's
1,986.1	Wholesale Water Levy	2,169.6	2,169.6	0.0 u	2,169.6	2,169.6
25.8	External Revenue	20.9		20.9 F	15.0	
203.4	Internal Revenue	85.2	51.4	33.8 F	75.9	51.4
2,215.3	Total Revenue	2,275.7	2,221 .0	54.7 F	2,260.5	2,221 .0
488.6	Personnel Costs	383.9	524.9	140.9 F	425.0	524.9
702.3	Materials, Supplies & Services	680.7	933.0	252.3 F	721 .0	933.0
45.4	Travel & Transport	53.5	26.7	26.8 U	50.0	26.7
162.9	Contractors & Consultants	249.4	175.0	74.4 u	270.0	175.0
326.1	Internal Contractors	390.7	354.4	36.3 U	379.9	354.4
1,725.2	Total Direct Expenditure	1,758.2	2,013.9	255.8 F	1,845.9	2,013.9
(0.9)	Bad Debts, incl Provision	(0.7)	-	0.7 F	(0.5)	-
71.0	Depreciation	70.1	80.0	9.8 F	70.0	80.0
(20.7)	Loss / (Gain) on Sale					
49.4	Total Indirect Expenditure	69.4	80.0	10.5 F	69.5	80.0
100.0	Net Corporate Overhead	108.3	108.3	0.0 F	108.3	108.3
75.5	Corporate Rent / Internal Charges	56.7	18.8	37.9 u	57.0	18.8
175.6	Total Corporate Costs	165.0	127.1	37.9 u	165.3	127.1
1,950.2	Total Expenditure	1,992.6	2,221 .0	228.4 F	2,080.7	2,221 .0
265.1	Surplus I (Deficit)	283.1	(0.0)	283.1 F	179.8	(0.0)
Asset Acquisition & Disposal Summary						
40.3	Acquisitions		25.0	25.0 F	10.0	25.0
(32.6)	Disposals					
7.8			25.0	25.0 F	10.0	25.0

*Operations - Production*Statement of Financial Performance
For the Year Ended 30 June 2003

30 Jun 02 Actual \$000's	30 Jun 03 Actual \$000's	30 Jun 03 Budget \$000's	YTD Variance \$000's	Full Year Mar F'cast \$000's	Full Year Budget \$000's
5,921.5 Wholesale Water Levy	5,702.8	5,702.8	0.0 u	5,702.8	5,702.8
41.6 Reserve Interest	43.5	43.5	-	43.5	43.5
0.6 External Revenue	1.1		1.1 F	2.0	
64.2 Internal Revenue	64.2	4.0	60.2 F	50.0	4.0
6,027.9 Total Revenue	\$811.6	5,750.3	61.3 F	5,798.3	5,750.3
833.1 Personnel Costs	911.6	866.6	45.1 u	830.0	866.6
3,078.0 Materials, Supplies & Services	3,393.5	3,422.4	28.9 F	3,300.0	3,422.4
44.7 Travel & Transport	47.1	42.9	4.2 U	45.0	42.9
460.9 Contractors & Consultants	537.8	417.0	120.8 U	570.0	417.0
674.5 Internal Contractors	738.2	708.8	29.4 u	727.4	708.8
5,091.1 Total Direct Expenditure	5,628.3	5,457.7	170.6 U	5,472.4	5,457.7
78.0 Depreciation	67.2	76.7	9.4 F	70.0	76.7
(6.4) Loss / (Gain) on Sale	(12.8)	-	12.8 F	(13.7)	-
71.6 Total Indirect Expenditure	54.4	76.7	22.2 F	56.3	76.7
159.5 Net Corporate Overhead	168.8	168.8	0.0 F	168.8	168.8
46.3 Corporate Rent / Internal Charges	39.3	47.1	7.9 F	40.0	47.1
205.8 Total Corporate Costs	208.1	215.9	7.9 F	208.8	215.9
5,368.6 Total Expenditure	5,890.8	5,750.3	140.5 u	5,737.5	5,750.3
659.3 Surplus / (Deficit)	(79.2)	(0.0)	79.2 u	60.8	(0.0)
Asset Acquisition & Disposal Summary					
46.8 Acquisitions	38.7	30.0	8.7 U	64.0	30.0
(6.4) Disposals	(13.7)	-	13.7 F	(13.7)	-
40.5	25.0	30.0	5.0 F	50.3	30.0

*Operations - Administration*Statement of Financial Performance
For the Year Ended 30 June 2003

30 Jun 02 Actual \$000's	30 Jun 03 Actual \$000's	30 Jun 03 Budget \$000's	YTD Variance \$000's	Full Year Mar F'cast \$000's	Full Year Budget \$000's
454.0 Wholesale Water Levy	527.7	527.7	0.0 F	527.7	527.7
0.1 External Revenue					
54.0 Internal Revenue	11.6		11.6 F	10.0	
508.1 Total Revenue	539.4	527.7	11.6 F	537.7	527.7
155.4 Personnel Costs	229.4	236.4	7.0 F	230.0	236.4
14.2 Materials, Supplies & Services	26.7	22.0	4.7 u	35.0	22.0
11.2 Travel & Transport	4.6	8.6	4.0 F	5.0	8.6
72.0 Contractors & Consultants	(21.2)	3.0	24.2 F	10.0	3.0
134.0 Internal Contractors	159.8	161.1	1.4 F	156.1	161.1
386.8 Total Direct Expenditure	399.3	431.2	32.0 F	436.1	431.2
10.9 Depreciation	6.3	10.2	3.9 F	8.0	10.2
(5.3) Loss / (Gain) on Sale					
5.6 Total Indirect Expenditure	6.3	10.2	3.9 F	8.0	10.2
57.3 Net Corporate Overhead	68.5	68.5	0.0 u	68.5	68.5
32.6 Corporate Rent / Internal Charges	18.7	17.9	0.8 U	19.1	17.9
89.9 Total Corporate Costs	87.2	86.4	0.8 U	87.6	86.4
482.3 Total Expenditure	492.7	527.7	35.0 F	531.7	527.7
25.8 Surplus I (Deficit)	46.6	0.0	46.6 F	6.0	0.0
Asset Acquisition & Disposal Summary					
25.7 Acquisitions	24.5	10.0	14.5 u	5.0	10.0
(7.1) Disposals					
18.6	24.5	10.0	14.5 u	5.0	10.0

Operations - Total

Explanation of Material Variances
For the Year Ended 30 June 2003

	YTD Actual	YTD Budget	YTD Variance
Other Revenue (Excluding Water Levy)	226.5	98.9	127.7 F
Admin Unbudgeted labour recovery income within Water Group:	11.6	-	11.6 F
Production Unbudgeted labour recovery income within Water Group: 60.2 F Unbudgeted income from sale of surplus equipment: 1.1 F	108.8	47.5	61.3 F
Distribution Unbudgeted labour recovery income within Water Group: 37.0 F Unbudgeted income from miscellaneous sales & private supplies: 20.9 F Lower than budgeted recoveries from other departments: 3.2 U	106.1	51.4	54.7 F
Total Other Revenue (Excluding Water Levy)	226.5	98.9	127.6 F
	YTD Actual	YTD Budget	YTD Variance
Personnel Costs	1,525.0	1,627.9	102.9 F
Admin Miscellaneous unders and overs:	229.4	236.4	7.0 F
Production Capex programme resource costing less than budget: 12.6 U Miscellaneous unders and overs reflecting the organisational structure change undertaken by Operations: 32.5 U	911.6	866.6	45.1 u
Distribution Capex programme resource costing greater than budget: 72.4 F Miscellaneous unders and overs reflecting the organisational structure change undertaken by Operations: 68.5 F	383.9	524.9	140.9 F
Total Personnel Costs	1,525.0	1,627.9	102.9 F
	YTD Actual	YTD Budget	YTD Variance
Materials, Supplies & Services	4,100.8	4,377.4	276.6 F
Admin Miscellaneous unders and overs:	26.7	22.0	4.7 u
Production Less materials / supplies used in jobs: 26.5 F Power used in production more than budget: 99.6 U Chemical costs less than budget: 102.0 F	3,393.5	3,422.4	28.9 F
Distribution Power used in distribution under budget: 161.6 F External occupancy costs lower than budget due to the extended, but unanticipated stay at the Mabey Road site: 58.7 F Less materials / supplies used in jobs: 32.0 F	680.7	933.0	252.3 F
Total Materials, Supplies & Services	4,100.8	4,377.4	276.6 F
	YTD Actual	YTD Budget	YTD Variance
Travel & Transport	105.2	78.2	27.1 U
Admin Vehicle, travel & accommodation expenditure less than budget:	4.6	8.6	4.0 F
Production Vehicle, travel & accommodation expenditure more than budget:	47.1	42.9	4.2 U
Distribution Vehicle costs significantly more than budget, due to organ'l changes:	53.5	26.7	26.8 U
Total Travel & Transport	105.2	78.2	27.1 U

Operations - Total

Explanation of Material Variances

For the Year Ended 30 June 2003

		YTD Actual	YTD Budget	YTD Variance
External Contractors & Consultants				
Admin	The actual credit value is generated by the release of a number of miscellaneous Network related provisions that are no longer required:	(21.2)	3.0	24.2 F
Production	Used more contractors than budgeted YTD at all WTPs on both process improvement investigation style work and general maintenance activities:	537.8	417.0	120.8 U
Distribution	Ongoing operational maintenance task requirements and the deployment of our own staff on various other cost recovery projects have necessitated greater use of external resource, hence the budget has been exceeded:	249.4	175.0	74.4 u
Total External Contractors & Consultants		766.0	595.0	171.0 u
		YTD Actual	YTD Budaet	YTD Variance
Internal Contractors				
Admin	Engineering Consultancy: 6.3 F			
	Unbudgeted labour recovery charges within Water Group: 4.9 U	159.8	161.1	1.4 F
Production	Consents Management: 6.9 F			
	Regional Parks (Ops) - Wainui Ranger: 6.5 F			
	Engineering Consultancy: 15.0 F			
	Laboratory Services: 32.5 U			
	Unbudgeted labour recovery charges within Water Group: 25.3 U	738.2	708.8	29.4 u
Distribution	Engineering Consultancy: 18.7 F			
	Laboratory Services: 6.4 U			
	Internal occupancy costs at Mabey Road site not budgeted: 33.1 U			
	Unbudgeted labour recovery charges within Water Group: 48.3 U			
	Miscellaneous unders and overs: 5.2 U	447.5	373.2	74.3 u
Total Internal Contractors & Consultants		1,345.5	1,243.2	102.3 U
		YTD Actual	YTD Budaet	YTD Variance
Indirect Expenditure				
Admin	Actual depreciation less than budgeted:	6.3	10.2	3.9 F
Production	Actual depreciation less than budgeted: 9.4 F			
	Gain on sale of vehicles: 12.8 F	54.4	76.7	22.2 F
Distribution	Actual depreciation less than budgeted: 9.8 F			
	Reduction in bad debt provision: 0.7 F	69.4	80.0	10.5 F
Total Indirect Expenditure		130.2	166.8	36.6 F

Strategy and Asset

Manager's Commentary

For the Strategy and Asset group, the 2002/03 financial year has been reasonably routine but there has been a number of frustrations external to Greater Wellington Water that have impacted on the performance of the group. There have been no personnel changes during the year.

Notwithstanding the above, there have been a significant number of achievements during the year.

- The capital expenditure programme for the year was modest compared with previous years and apart from re-budgeted items, it essentially was achieved. Capital expenditure for the year was \$2,364,700 net of adjustments and an amount of \$237,000 from this year's budget has been re-budgeted for 2003/04. The major change was not proceeding with refurbishment of the Karori Pumping Station due to the close proximity of the Wellington Fault, which became apparent during the investigation phase. A new site is being sought for a pumping station that is further from the fault.
- An 'AI' grading was finally achieved for the Wainuiomata Water Treatment Plant after several years of fine-tuning its operation. This was a combined effort of the Operations and Strategy and Asset Sections.
- A new television conservation advertisement was prepared using graphics characters. Market research showed its effectiveness was quite low and this was disappointing compared with the very high effectiveness of the previous Maggie Barry television advertisement. This issue is currently being discussed with the advertising agency that created the concept. Even so, the advertisement was prepared within budget and in time for the summer conservation campaign.
- The possibility of buying green energy from Genesis Energy's expansion of its Hau Nui wind farm was agreed in principle with the company, but has not proceeded as Genesis Energy has not been able to arrange an agreement with the local network company for distribution of the power to one of Transpower's sub-stations in the Wairarapa. It is expected that it is only a matter of time before a contract can be concluded.
- Approaches were received from two companies about bottling water in the Petone area and approval was obtained from the Utility Services committee to transfer a very small quantity of the abstraction consents held by Greater Wellington Water.
- As part of the risk management programme, a complete review of the possible damage to assets from a seismic event was undertaken. As a result, the mix of assets insured externally and those insured through self-insurance was reviewed. The annual contribution to the self-insurance fund is being increased from 2003/04 onwards to \$750,000, (\$500,000), as a result of the re-assessment.
- The five year safety review for the Stuart Macaskill water storage lakes was completed and the issues arising from the safety assessment are very minor.
- A start has been made on preparing a new Asset Management Plan and this will be completed within the next year.
- Eight media releases were made during the year.

*Strategy and Asset – Annual Review*For the Year Ended 30 June 2003

- The format of the Annual Report was revised with an eight-page presentation for wide circulation, and a more detailed plain version containing all the financial and reporting data for a smaller distribution list.
- A mimic board was prepared for the Wainuiomata water treatment plant and this now completes the upgrading of the area used by visitors to the water treatment plant.
- The system optimiser project, completed about two years ago, resulted in the consultants Beca Applied Technology and Greater Wellington Water receiving a gold award from the Association of Consulting Engineers. The same project was entered in the Energy Efficiency and Conservation Authority awards and received a highly commended award in the Innovation category.
- The staff has spent some time on a variety of projects that were not initiated by Greater Wellington Water during the year. These included re-routing of a pipeline in a major residential development in Porirua City called the Aotea Block, pipework relocation at Paremata related to state highway work, and protection of Greater Wellington Water's infrastructure at Te Marua related to major upgrading of the state highway.
- Good progress is being made on changing to ISO 9001:2000 and it is expected this will be achieved by the time the current certificate expires in December 2003.
- Two seismic investigation projects near Silverstream were completed and referred to the Utility Services committee for approving officers' recommendations.

*Strategy and Asset*Statement of Financial Performance
For the Year Ended 30 June 2003

30 Jun 02 Actual \$000's	30 Jun 03 Actual \$000's	30 Jun 03 Budget \$000's	YTD Variance \$000's	Full Year Mar F'cast \$000's	Full Year Budget \$000's
12,681.4 Wholesale Water Levy	13,433.6	13,433.6	0.0 u	13,433.6	13,433.6
235.5 Investment & Reserve Interest	269.6	300.2	30.6 U	260.0	300.2
573.2 External Revenue	157.6	52.3	105.3 F	170.0	52.3
0.2 Internal Revenue	0.5		0.5 F		
13,490.4 Total Revenue	13,861.3	13,786.2	75.1 F	13,863.6	13,786.2
302.6 Personnel Costs	318.7	326.9	8.2 F	320.0	326.9
698.1 Materials, Supplies & Services	1,762.1	2,247.4	485.3 F	1,900.0	2,247.4
9.7 Travel & Transport	9.7	14.1	4.4 F	10.0	14.1
667.0 Contractors & Consultants	454.8	634.0	179.2 F	450.0	634.0
816.1 Internal Contractors	882.1	879.0	3.0 u	938.0	879.0
2,493.5 Total Direct Expenditure	3,427.4	4,101.5	674.0 F	3,618.0	4,101.5
4,496.5 Financial Costs	3,793.5	4,317.2	523.7 F	3,800.0	4,317.2
5,097.1 Depreciation	5,130.9	5,080.1	50.8 U	5,200.0	5,080.1
302.0 Loss / (Gain) on Sale	0.3	-	0.3 u	100.0	-
9,895.6 Total Indirect Expenditure	8,924.8	9,397.3	472.6 F	9,100.0	9,397.3
200.9 Net Corporate Overhead	212.4	212.4	0.0 F	212.4	212.4
72.0 Corporate Rent / Internal Charges	64.5	75.0	10.5 F	65.8	75.0
272.8 Total Corporate Costs	276.9	287.4	10.5 F	278.2	287.4
12,661.9 Total Expenditure	12,629.1	13,786.2	1,157.1 F	12,996.2	13,786.2
828.4 Surplus I (Deficit)	1,232.2	(0.0)	1,232.3 F	867.4	(0.0)

Capital Expenditure

Asset Acquisition & Disposal Summary

23.0 Acquisitions					
(5.8) Disposals					
17.2					
3,515.3 Capital Projects	2,364.7	2,752.0	387.3 F	2,483.9	2,752.0

Strategy and Asset

Explanation of Material Variances
For the Year Ended 30 June 2003

	YTD Actual	YTD Budget	YTD Variance
Total Revenue	13,861.3	13,786.2	75.1 F
Utilities easement - annual charge from United Network:			70.0 F
Utilities easement - one off fee from Housing New Zealand:			25.8 F
Reserve interest income lower than budgeted:			30.6 U
Miscellaneous unders and overs:			9.9 F
Total Revenue			75.1 F
	YTD Actual	YTD Budget	YTD Variance
Personnel Costs	318.5	326.9	8.4 F
Unbudgeted capitalisation of resource labour costs:			5.0 F
Miscellaneous unders and overs:			3.4 F
Total Personnel Costs			8.4 F
	YTD Actual	YTD Budget	YTD Variance
Materials, Supplies & Services	1,762.1	2,247.4	485.3 F
Rate charges lower than budget:			187.0 F
Catchment 1080 bait purchase deferred until 2003/04 financial year:			85.0 F
Advertising & Promotions lower than budget:			84.1 F
Previously expensed but unbudgeted material costs recovered for the Plimmerton Deviation (12.0k) and Hutt Park Relocation (23.0k) projects:			35.0 F
Miscellaneous unders and overs, incl'g Maps & Plans (19.2) Insurance (17.3):			94.2 F
Total Materials, Supplies & Services			485.3 F
	YTD Actual	YTD Budget	YTD Variance
External Contractors & Consultants	454.8	634.0	179.2 F
Previously expensed but unbudgeted contractor costs recovered for the Plimmerton Deviation (94.0k) and Hutt Park Relocation (80.0k) projects:			174.0 F
Miscellaneous unders and overs:			5.2 F
Total External Contractors & Consultants			179.2 F
	YTD Actual	YTD Budget	YTD Variance
Internal Contractors	882.1	879.0	3.1 U
Regional Parks (Ops) - Kaitoke Catchment 1080 drop delay:			88.3 F
Used Engineering Consultancy more than budgeted on opex jobs:			40.2 U
Miscellaneous unders and overs, including in lieu of resource costs:			51.2 U
Total Internal Consultants			3.1 u
	YTD Actual	YTD Budget	YTD Variance
Indirect Expenditure	8,924.8	9,397.3	472.5 F
Depreciation approximately \$4k per month higher than budget:			50.8 U
Financial costs less than budgeted primarily due to the ongoing impact of greater than budgeted Water Supply cash surpluses:			523.7 F
Unbudgeted write off for miscellaneous furniture & fittings :			0.4 u
Total Indirect Expenditure			472.5 F

Engineering Consultancy

*Engineering Consultancy – Annual Review*For the Year Ended 30 June 2003

Manager's Commentary

The actual operating surplus of the Engineering Consultancy Group for the year was \$7,760 compared to the budgeted operating surplus of \$1,360 and is a very satisfying result considering the uncertainty of future external revenue streams at the time of determining the 2002/03 budget and periodic skilled staff shortages throughout the financial year.

Capex revenue of \$307,300 from WCC was \$7,300 greater than budget for the year. This amount of future work is not assured as WCC appear to have already committed most of their 2003/04 water supply projects.

The revenue from internal clients, outside of the Utility Services Division, was \$26,900 higher than budgeted. This is an area of the business where we are continuing to focus our efforts to try to encourage further growth.

The revenue from Water Group internal clients was \$43,000 lower than budgeted. This was offset by the higher revenue streams detailed above.

The vacant Assistant Engineer position in the Group was filled in June 2003. This will boost our ability to manage the water group's capital expenditure projects for 2003/04.

*Engineering Consultancy*Statement of Financial Performance
For the Year Ended 30 June 2003

30 Jun 02 Actual \$000's		30 Jun 03 Actual \$000's	30 Jun 03 Budget \$000's	YTD Variance \$000's		Full Year Mar F'cast \$000's	Full Year Budget \$000's
493.9	External Revenue	307.7	300.0	7.7	F	315.0	300.0
798.1	internal Revenue	837.9	854.0	16.1	U	823.0	854.0
1,292.0	Total Revenue	1,145.6	1,154.0	8.4	U	1,138.0	1,154.0
735.1	Personnel Costs	712.4	711.1	1.2	u	700.0	711.1
40.1	Materials, Supplies & Services	34.0	43.6	9.6	F	35.0	43.6
15.5	Travel & Transport	7.6	15.6	8.0	F	10.0	15.6
6.7	Contractors & Consultants	3.8	3.0	0.8	U	5.0	3.0
131.0	Internal Contractors	117.1	112.3	4.8	U	118.3	112.3
928.5	Total Direct Expenditure	874.7	885.5	10.9	F	868.3	885.5
14.1	Depreciation	11.7	6.0	5.7	u	12.0	6.0
(6.3)	Loss / (Gain) on Sale	(7.2)	(6.0)	1.2	F	(7.2)	(6.0)
7.7	Total Indirect Expenditure	4.6		4.6	U	4.8	
121.3	Net Corporate Overhead	114.8	114.8	0.0	F	114.8	114.8
156.2	Corporate Rent / Internal Charges	143.8	152.3	8.5	F	145.5	152.3
277.4	Total Corporate Costs	258.6	267.1	8.5	F	260.3	267.1
1,213.7	Total Expenditure	1,137.8	1,152.6	14.8	F	1,133.4	1,152.6
78.3	Surplus I (Deficit)	7.8	1.4	6.4	F	4.6	1.4
Asset Acquisition & Disposal Summary							
22.0	Acquisitions		30.0	30.0	F		30.0
(6.3)	Disposals	(7.2)	(12.0)	4.8	U	(7.2)	(12.0)
15.6		(7.2)	18.0	25.2	F	(7.2)	18.0

Engineering Consultancy

Statement of Financial Performance For the Year Ended 30 June 2003

Split between WCC and Other Clients

	ECG Internal & Other External Clients		ECG WCC Capex Work			Total Department		V a r i a n c e
	30 Jun 03 Actual	30 Jun 03 Budget	30 Jun 03 Actual	30 Jun 03 Budget	30 Jun 03 Actual	30 Jun 03 Budget		
External Revenue	468		307,241	300,000	307,709	300,000	7,709	
Internal Revenue								
Wholesale Water Projects	794,844	835,000			794,844	835,000	-40,156	
Plantation Forestry	2,159	5,000			2,159	5,000	-2,841	
Other Internal Clients	40,897	14,000			40,897	14,000	26,897	
Total Internal Income	837,900	854,000			837,900	854,000	-16,100	
Total Income	838,368	854,000	307,241	300,000	1,145,609	1,154,000	-8,391	
Direct Expenditure								
Personnel	543,105	526,259	169,259	184,869	712,364	711,128	-1,236	
Materials	30,207	43,556	3,744		33,951	43,556	9,605	
Transport	7,556	15,580			7,556	15,580	8,024	
Contractors / Consultants		3,000	3,770		3,770	3,000	-770	
	580,868	588,395	176,773	184,869	757,641	773,264	15,623	
Internal Consultants								
Distribution (WCC Capex)			4,506		4,506		-4,506	
Utility Services Support	112,284	112,284			112,284	112,284	-	
Other Internal Suppliers	266				266		-266	
Total Internal Consultants	112,550	112,284	4,506		117,056	112,284	-4,772	
Total Direct Expenditure	693,418	700,679	181,279	184,869	874,697	885,548	10,851	
Indirect Expenditure								
Departmental O/h Allocat'n	-114,328	-114,328	114,328	114,328				
Depreciation	11,749	6,000			11,749	6,000	-5,749	
Loss / (Gain) on Sale	-7,177	-6,000			-7,177	-6,000	1,177	
Total Indirect Expenditure	-109,756	-114,328	114,328	114,328	4,572		-4,572	
Total Direct and Indirect	583,662	586,351	295,607	299,197	879,269	885,548	6,279	
Corporate Charges								
Corporate Overhead	114,799	114,799			114,799	114,799		
RCC Rent	85,485	85,485			85,485	85,485	-	
IT and Support Services	58,254	66,810	40		58,294	66,810	8,516	
	258,538	267,094	40		258,578	267,094	8,516	
Total Expenditure	842,200	853,445	295,647	299,197	1,137,847	1,152,642	14,795	
Operating Surplus	-3,832	555	11,594	803	7,762	1,358	6,404	

Engineering Consultancy

Explanation of Material Variances
For the Year Ended 30 June 2003

	YTD Actual	YTD Budaet	YTD Variance
External Revenue	307.7	300.0	7.7 F
Greater than budgeted WCC capex work:			7.7 F

	YTD Actual	YTD Budget	YTD Variance
Internal Revenue	837.9	854.0	16.1 U
Total Strategy and Asset, (Capex + Opex projects):			1.2 U
Total other US Division departments, primarily Operations:			41.6 U
Resource Policy, (GIS Work):			17.4 F
Other miscellaneous ex-US Division departments:			9.3 F
Total Internal Revenue			16.1 U

	YTD Actual	YTD Budget	YTD Variance
Personnel Costs	712.4	711.1	1.3 U
Miscellaneous unders and overs:			1.3 u

	YTD Actual	YTD Budaet	YTD Variance
Materials, Supplies & Services	34.0	43.6	9.6 F
Miscellaneous unders and overs:			9.6 F

	YTD Actual	YTD Budaet	YTD Variance
External Contractors	3.8	3.0	0.8 U
Use of rechargeable contractor resource higher than budgeted:			0.8 U

	YTD Actual	YTD Budget	YTD Variance
Indirect Expenditure	4.6	-	4.6 U
Actual depreciation charge higher than budget:			5.7 U
Gain on sale of surplus vehicle higher than budgeted:			1.2 F
Total indirect Expenditure			4.5 u

Engineering Consultancy

Statement of Funding

For the Year Ended 30 June 2003

	30 Jun 02 \$000's	30 Jun 03 \$000's
FUNDING FROM OPERATING ACTIVITIES		
Funds were provided from:		
Operating activities	1,292.0	1,145.6
	<u>1,292.0</u>	<u>1,145.6</u>
Funds were applied to :		
Operating activities	(1,205.9)	(1,133.3)
Interest paid	-	-
	<u>(1,205.9)</u>	<u>(1,133.3)</u>
Net Funding from Operating Activities / Cash Operating Surplus	<u>86.0</u>	<u>12.3</u>
FUNDING FROM INVESTING ACTIVITIES		
Funds were provided from:		
Sale of assets	6.3	7.2
Transfer from reserves	-	-
	<u>6.3</u>	<u>7.2</u>
Funds were applied to :		
Purchase of vehicles	(22.0)	-
Purchase of office equipment	-	-
Purchase of plant and equipment	-	-
	<u>(22.0)</u>	<u>-</u>
Net Funding from Investing Activities	<u>(15.6)</u>	<u>7.2</u>
Net Increase / (Decrease) in Funds Held	<u>70.4</u>	<u>19.5</u>

Laboratory Services

Laboratory Services – Annual Review

Financial Review

For the Year Ended 30 June 2003

Manager's Commentary

The Laboratory returned an operating surplus of \$28,900 for the 2002/03 financial year. Expenditure for subcontracted work exceeded what was initially budgeted but occurred because of increased internal and external client workloads and was fully recovered.

Relocation to the re-fitted premises at 44 Oxford Terrace occurred at the end of January with little, if any, apparent disruption to normal laboratory operation. Six months on and the facility is working to expectation. It has a basic but functional layout and provides a good efficient working environment for staff. We have no regrets with respect to the shift from the Mabey Road Depot.

The routine annual Laboratory assessment to ISO 17025 was carried out by IANZ in March. The Assessor was complimentary as to what had been achieved in maintaining compliance with the Standard up to and through the relocation period.

A new Ion Chromatograph Analyser was purchased and installed in March to replace the aged model that had provided exemplary service to the Laboratory since 1990. It is delivering the goods and has proved to be a worthwhile investment. It has the potential to do more.

The Laboratory Manager's car was replaced in December; gone is the 1997 Astina and boy-racer image now replaced with an example of quiet, sedate Korean efficiency.

The new Total Organic Carbon Analyser purchased and installed in February has been dogged with persistent niggles that have frustrated our attempts to achieve satisfactory reproducibility at low TOC concentration levels. We trust the supplier has now resolved the issue and we can make progress. Incidentally, the Total Nitrogen Analyser Module acquired in conjunction with the same instrument is working well.

We gained two smaller contracts during June both of which will continue into the new financial year; one with Exide Technologies and the other with Kapiti Coast District Council. More significant was our successful tender for the three-year Porirua City Council Water Testing Programme through to 2006.

We still await the official outcome of the Resource Investigations tender for the Regional Freshwater and Groundwater Monitoring Programmes for 2003 – 2006, as this copy goes to print. Our tender was submitted in May and the contract was due to commence on 1 July.

*Laboratory Services*Statement of Financial Performance
For the Year Ended 30 June 2003

30 Jun 02 Actual \$000's		30 Jun 03 Actual \$000's	30 Jun 03 Budget \$000's	YTD Variance \$000's		Full Year Mar F'cast \$000's	Full Year Budget \$000's
45.0	External Revenue	52.5	40.0	12.5	F	45.0	40.0
726.8	Internal Revenue	764.5	719.5	45.0	F	755.0	719.5
771.9	Total Revenue	817.0	759.5	57.5	F	800.0	759.5
372.5	Personnel Costs	366.2	380.5	14.4	F	370.0	380.5
90.9	Materials, Supplies & Services	125.3	115.6	9.7	u	120.0	115.6
19.0	Travel & Transport	23.6	17.6	6.1	U	25.0	17.6
64.3	Contractors & Consultants	85.0	37.5	47.5	u	60.0	37.5
51.4	Internal Contractors	47.2	51.3	4.2	F	49.1	51.3
598.1	Total Direct Expenditure	647.3	602.5	44.8	U	624.1	602.5
39.7	Depreciation	49.6	68.2	18.6	F	50.0	68.2
-	Loss / (Gain) on Sale	(3.7)	(5.0)	1.3	u	(3.7)	(5.0)
39.7	Total Indirect Expenditure	45.9	63.2	17.3	F	46.3	63.2
63.8	Net Corporate Overhead	69.5	69.5	-		69.5	69.5
44.3	Corporate Rent / Internal Charges	25.5	23.9	1.6	U	35.9	23.9
108.1	Total Corporate Costs	95.0	93.4	1.6	U	105.4	93.4
745.8	Total Expenditure	788.2	759.0	29.1	u	775.8	759.0
26.0	Surplus I (Deficit)	28.9	0.5	28.4	F	24.2	0.5
Asset Acquisition & Disposal Summary							
24.5	Acquisitions	173.0	120.5	52.5	U	192.5	120.5
-	Disposals	(3.7)	(10.0)	6.3	U	(3.7)	(10.0)
24.5		169.3	110.5	58.8	U	188.8	110.5

Laboratory Services

Explanation of Material Variances
For the Year Ended 30 June 2003

	YTD Actual	YTD Budget	YTD Variance
External Revenue	52.5	40.0	12.5 F
Work for external clients higher than budget:			12.5 F
Internal Revenue	764.5	719.5	45.0 F
Total work for Environment Division behind budget:	201.5	229.5	28.0 U
Unbudgeted work from Landcare / Wairarapa Divisions:	11.1		11.1 F
Higher than anticipated work for Utility Services depts:	551.9	490.0	61.9 F
Total Internal Revenue	764.5	719.5	45.0 F
Personnel Costs	366.2	380.5	14.3 F
Miscellaneous unders and overs:			14.3 F
Materials, Supplies & Services	125.3	115.6	9.7 U
More chemicals than budgeted used in jobs:			6.1 U
Miscellaneous unders and overs:			3.6 U
Total Materials, Supplies & Services			9.7 u
External Contractors & Consultants	85.0	37.5	47.5 U
Consultant costs for out sourced test work higher than budget:			46.9 U
Miscellaneous unders and overs:			0.6 U
Total External Contractors & Consultants			47.5 u
Indirect Expenditure	45.9	63.2	17.3 F
Actual depreciation charge lower than budget:			18.6 F
Realised gain on sale of surplus vehicle lower than budget:			1.3 u
Total Indirect Expenditure			17.3 F

Laboratory Services

Statement of Funding

For the Year Ended 30 June 2003

	30 Jun 02 \$000's	30 Jun 03 \$000's
FUNDING FROM OPERATING ACTIVITIES		
Funds were provided from:		
Operating activities	771.9	817.0
	<u>771.9</u>	<u>817.0</u>
Funds were applied to :		
Operating activities	(706.2)	(742.3)
	<u>(706.2)</u>	<u>(742.3)</u>
Net Funding from Operating Activities / Cash Operating Surplus	<u>65.7</u>	<u>74.7</u>
FUNDING FROM INVESTING ACTIVITIES		
Funds were provided from:		
Sale of assets		3.7
Transfer from reserves		60.0
		<u>63.7</u>
Funds were applied to :		
Purchase of vehicles	(13.0)	(25.0)
Purchase of furniture & fittings	(11.5)	-
Purchase of plant and equipment		(148.0)
Purchase of computer equipment		
Purchase of structures		
Transfers to Reserves	(60.0)	
	<u>(84.5)</u>	<u>(173.0)</u>
Net Funding from Investing Activities	<u>(84.5)</u>	<u>(109.3)</u>
Net Increase I (Decrease) in Funds Held	<u>(18.8)</u>	<u>(34.6)</u>

Support Services

*Support Services*Statement of Financial Performance
For the Year Ended 30 June 2003

30 Jun 02 Actual \$000's	30 Jun 03 Actual \$000's	30 Jun 03 Budget \$000's	YTD Variance \$000's	Full Year Mar F'cast \$000's	Full Year Budget \$000's
1,733.5 Wholesale Water Levy	942.7	942.7	0.0 u	942.7	942.7
0.7 External Revenue	0.1		0.1 F	0.3	
962.3 Internal Revenue	904.9	891.0	13.9 F	905.7	891.0
2,696.5 Total Revenue	1,847.6	1,833.7	13.9 F	1,848.7	1,833.7
589.0 Personnel Costs	518.8	569.6	50.8 F	525.0	569.6
37.1 Materials, Supplies & Services	33.7	55.9	22.1 F	40.0	55.9
21.9 Travel & Transport	8.9	17.0	8.1 F	10.0	17.0
4.6 Contractors & Consultants	6.5	30.0	23.5 F	15.0	30.0
6.3 Internal Contractors	2.0		2.0 u	3.5	
658.9 Total Direct Expenditure	570.0	672.5	102.5 F	593.5	672.5
9.5 Depreciation	11.0	26.0	15.0 F	11.0	26.0
- Loss / (Gain) on Sale	(2.0)	-	2.0 F	(3.5)	-
9.5 Total Indirect Expenditure	9.0	26.0	17.0 F	7.5	26.0
64.0 Net Corporate Overhead	73.5	73.5	-	73.5	73.5
514.8 Corporate Rent / Internal Charges	498.1	499.0	0.9 F	499.0	499.0
578.9 Total Corporate Costs	571.6	572.5	0.9 F	572.5	572.5
1,247.3 Total Expenditure	1,150.6	1,271.0	120.4 F	1,173.5	1,271.0
1,449.1 Surplus / (Deficit)	697.0	562.7	134.3 F	675.2	562.7
Asset Acquisition & Disposal Summary					
4.3 Acquisitions	37.2	60.0	22.8 F	37.2	60.0
- Disposals	(21.6)	-	21.6 F	(21.6)	-
4.3	15.6	60.0	44.4 F	15.6	60.0

Support Services

Explanation of Material Variances
For the Year Ended 30 June 2003

	YTD Actual	YTD Budaet	YTD Variance
Total Revenue	1,847.6	1,833.7	13.9 F
Unbudgeted recovery from Transport JV /Wind Energy projects:			<u>13.9 F</u>

	YTD Actual	YTD Budget	YTD Variance
Personnel Costs	518.8	569.6	50.8 F
Primarily due to changes in staffing level and experience.			<u>50.8 F</u>

	YTD Actual	YTD Budaet	YTD Variance
Materials, Supplies & Services	33.7	55.9	22.2 F
Miscellaneous unders and overs:			<u>22.2 F</u>

	YTD Actual	YTD Budget	YTD Variance
Travel & Transport	8.9	17.0	8.1 F
Travel, accommodation and transport lower than budget:			7.8 F
Vehicle costs over budget:			<u>0.3 F</u>
Total Travel & Transport			8.1 F

	YTD Actual	YTD Budaet	YTD Variance
External Contractors & Consultants	6.5	30.0	23.5 F
General consultants expenditure less than budget:			<u>23.5 F</u>

	M D Actual	YTD Budaet	YTD Variance
Internal Contractors	2.0	-	2.0 U
Unbudgeted costs arising from:			
Divisional staff secondments onto Corporate project initiatives;			<u>2.0 u</u>
Total Internal Consultants			2.0 u

	YTD Actual	YTD Budaet	YTD Variance
Indirect Expenditure	9.0	26.0	17.0 F
Actual depreciation lower than budgeted:			15.0 F
Unbudgeted gain on sale of vehicle:			<u>2.0 F</u>
Total Indirect Expenditure			17.0 F

Plantation Forestry

Plantation Forestry – Annual Review

For the Year Ended 30 June 2003

Manager's Commentary**Harvesting**

Harvesting in the Puketiro Forest was discontinued in early May because of the collapse of the pruned market. Pruned log prices fell from \$175/t to around \$140/t with no guarantee that the mills would purchase the likely volumes that would have been produced. At one stage only one mill in the lower North Island was purchasing albeit at a 'give-away' price. The timing of this was unfortunate as there was only one setting remaining to complete the Harris South block and the weather remained reasonable for a further 6 weeks.

The harvest crew moved to the Reservoir Ridge block where a ground based crew had pre-prepared a number of skids and the associated roading. This block does not include any pruned trees and with the domestic sawlog grades price holding up the consequences of an early move were not anticipated to be too great. However this view did not allow for the ever-strengthening \$NZ. Effectively while the price at destination went up in \$US and shipping costs came down, the \$NZ exchange rate absorbed the benefit and then some. Average returns deteriorated from \$26.03/t in April to \$10.30/t in June. Whilst some was due to lower log grades and volumes the major contributor was the foreign exchange impact.

The increasing value of the \$NZ has impacted on quarterly export prices since September 2002 as set out below.

	Sept '02	Dec '02	Mar '03	Jun '03	% Change
53 grade	\$76.71	\$61.65	\$58.66	\$51.42	32.97
57 grade	\$70.66	\$60.12	\$56.44	No sale	20.12
58 grade	\$57.91	\$47.03	\$46.73	\$38.26	33.93

The Maymorn Forest harvest reported in the March 2003 review document turned out extremely well. A net profit of around \$25,000 was anticipated and \$46,370 was achieved. This project was initiated by Consolidated Forest Harvesting and showed what a little innovation can make possible. This project would not have "flown" under standard contract rules.

Financial

Log production for the period was 15,186 tonnes for \$963,964 gross and \$305,339 net. Although this exceeds budget by 4,291 tonnes and \$177,264 respectively, had September prices prevailed, the same harvest quality would have generated revenue of \$464,731. The average return eased to \$25.98 for the year to date and \$20.00 for the quarter. This reduction is due to the lower grades and the foreign exchange impact.

The significant over expenditure on Contractors in the financial year is associated with the additional actual volume logged against budget (56,729t v 43,580t), and ongoing road maintenance requirements.

At year-end, despite the effect of the reduction in export prices, the cumulative deficit against budget only deteriorated from \$45,200 at 31 March 2003 to \$58,400 and an overall loss of \$282,900 at 30 June 2003.

This result makes the loss of revenue due to the strength of the \$NZ even more painful as without it we may have seen a profit!

*Plantation Forestry – Annual Review*For the Year Ended 30 June 2003

Roading

When operations in Puketiro Forest were suspended the whole route was graded to ensure water would run off the road and not pond. To date there has been no perceptible damage to the road. Included in the accounts is the work on the road through the Curtis Flat block carried out in April. CFH would not countersign the invoice for payment until additional work was done to bring the section of road up to standard.

The balance of the quarter four roading costs was related to the completion of road and skid construction at Reservoir Ridge and about \$15,000 worth of work to open up access to the Maymorn Forest harvest area.

Additional costs were incurred opening up the original walking track to the Birchville Dam after the present track was utilised as a forestry route. Although this was completed in early May, I note that walkers still have to use the forestry road in July as the walkway has not been metalled.

Silviculture

All silviculture has been completed other than the part of a stand in Pakuratahi West where tree growth was insufficient and this stand will be reprogrammed at a later date.

The closure of the Deerstalkers Rifle Range to allow the pruning of the trees in the safety template went off without any problems and was completed on schedule. Further closures have been planned at the same time of the year for the next 3 years.

Water Catchment Issues

A decision was made to defer any progress on the planned 1080 drop in the Hutt catchment while the power crisis was in place. From the date of the toxic drop until it can be demonstrated that all bait has degraded the Te Marua plant has to operate on lake water. It is anticipated that 100mm of rain will be needed in the catchment to achieve the necessary degradation of the bait. The likely period on lake water is 30 days although this period can be extended by increasing the draw-off from Waterloo and Wainuiomata if necessary.

At year-end 2.7km of the planned 4.5km fence on the boundary of the Wainuiomata catchment had been completed.

Two successful tours into the Wainuiomata catchment were conducted during the quarter although the June tour was not full with only 28 people out of a potential 60 places. A party of Entomologists was escorted into the catchment.

Four hunters and three trampers were intercepted trespassing within the Wainuiomata/Orongorongo catchment. There are also still regular instances of trespass and vandalism at the entrances to these catchments.

Prohunt and balloted hunters have shot thirteen deer, 49 goats and 13 pigs in the catchments.

Log Harvest	Actual Volume (tonnes)	Budget Volume (tonnes)	Actual Revenue \$000's	Budget Revenue \$000's
1 July to 30 September 2002	10,815	10,895	744,058	786,700
1 October to 31 December 2002	14,624	10,895	1,195,346	786,800
1 January to 31 March 2003	16,104	10,895	1,142,801	786,700
1 April to 30 June 2003	15,186	10,895	963,964	786,700
Total Year 2002103	56,729	43,580	4,046,169	3,146,900
1 July to 30 September 2001	18,119	8,192	1,015,785	592,900
1 October to 31 December 2001	3,171	8,192	179,795	592,800
1 January to 31 March 2002	9,422	8,192	716,445	580,000
1 April 20 30 June 2002	9,740	8,192	892,057	586,400
Total Year 2001102	40,452	32,768	2,804,082	2,352,100
Silviculture Payments	2001102 Actual (Note 1)	2002103 Actual (Note 2)	2002103 Budget (Note 3)	
July	11,445	7,951	7,616	
August	15,435	4,690	7,616	
September	15,842	14,245	7,616	
October	7,678	25,290	7,616	
November	7,484	15,316	7,616	
December	8,321	10,024	7,616	
January	-	-	7,616	
February	3,238	10,080	7,616	
March	3,248	5,208	7,616	
April	9,712		7,616	
May	8,547	7,840	7,616	
June	2,345	14,504	7,616	
Q4	20,604	22,344	22,848	
YTD	93,295	115,148	91,392	

Note 1: Includes some 2001/02 payments that were accrued. The values stated are on a "cash" basis.

Note 2: Includes some 2002/03 payments that were accrued. The values stated are on a "cash" basis.

Note 3: The 2002/03 Budget figures represent a silviculture contract value for the full year of \$91,400.

Plantation Forestry

Explanation of Material Variances

For the Year Ended 30 June 2003

	YTD Actual	YTD Budget	YTD Variance
External Revenue	4,095.0	3,147.3	947.7 F
Returns from the Puketiro harvest contract were ahead of budget, primarily due to actual harvest volumes being higher than budgeted:			899.3 F
Unbudgeted Kaitoke Landfill royalty payment:			46.0 F
Miscellaneous unders and overs:			2.4 F
Total External Revenue			947.7 F

	YTD Actual	YTD Budget	YTD Variance
Personnel Costs	214.2	220.7	6.5 F
Miscellaneous unders and overs:			6.5 F

	YTD Actual	YTD Budget	YTD Variance
Materials, Supplies & Services	83.5	127.3	43.8 F
No chemicals purchases were required during the year:			15.0 F
Actual rates charges less than budget:			19.0 F
Miscellaneous unders and overs:			9.8 F
Total Materials, Supplies & Services			43.8 F

	YTD Actual	YTD Budget	YTD Variance
External Contractors	3,025.6	2,019.8	1,005.8 U
Higher than anticipated roading maintenance costs to facilitate the ongoing Puketiro harvest, especially during the winter period:			235.0 U
Higher than budgeted variable harvest costs correlating to the increased revenue returns:			820.8 U
Total Contractors			1,055.8 U

	YTD Actual	YTD Budget	YTD Variance
Internal Contractors	62.1	59.5	2.6 U
Miscellaneous unders and overs:			2.6 U

	YTD Actual	YTD Budget	YTD Variance
Indirect Expenditure	893.6	845.1	48.5 U
Actual depreciation more than budget:			36.2 U
Financial costs slightly more than budget:			16.2 U
Gain on sale of vehicle higher than budgeted:			3.9 F
Total Indirect Expenditure			48.5 U

Plantation Forestry – Annual Review

For the Year Ended 30 June 2003

Log Harvest	Actual Volume (tonnes)	Budget Volume (tonnes)	Actual Revenue \$000's	Budget Revenue \$000's
1 July to 30 September 2002	10,815	10,895	744,058	786,700
1 October to 31 December 2002	14,624	10,895	1,195,346	786,800
1 January to 31 March 2003	16,104	10,895	1,142,801	786,700
1 April to 30 June 2003	15,186	10,895	963,964	786,700
Total Year 2002103	<u>56,729</u>	<u>43,580</u>	<u>4,046,169</u>	<u>3,146,900</u>
1 July to 30 September 2001	18,119	8,192	1,015,785	592,900
1 October to 31 December 2001	3,171	8,192	179,795	592,800
1 January to 31 March 2002	9,422	8,192	716,445	580,000
1 April to 30 June 2002	9,740	8,192	892,057	586,400
Total Year 2001102	<u>40,452</u>	<u>32,768</u>	<u>2,804,082</u>	<u>2,352,100</u>
Silviculture Payments	2001102 Actual (Note 1)	2002103 Actual (Note 2)	2002103 Budget (Note 3)	
July	11,445	7,951	7,616	
August	15,435	4,690	7,616	
September	15,842	14,245	7,616	
October	7,678	25,290	7,616	
November	7,484	15,316	7,616	
December	8,321	10,024	7,616	
January			7,616	
February	3,238	10,080	7,616	
March	3,248	5,208	7,616	
April	9,712		7,616	
May	8,547	7,840	7,616	
June	2,345	14,504	7,616	
Q4	<u>20,604</u>	<u>22,344</u>	<u>22,848</u>	
YTD	<u>93,295</u>	<u>115,148</u>	<u>91,392</u>	

Note 1: Includes some 2001102 payments that were accrued. The values stated are on a "cash" basis.

Note 2: Includes some 2002/03 payments that were accrued. The values stated are on a "cash" basis.

Note 3: The 2002103 Budget figures represent a silviculture contract value for the full year of \$91,400.

Plantation Forestry

Statement of Financial Performance for Financial / Admin, Logging & Maintenance
For the Year Ended 30 June 2003

	<i>Fin'l & Admin</i> (\$000's)	<i>Logging</i> (\$000's)	<i>Maintenance</i> (\$000's)	<i>Total</i> (\$000's)
Total Revenue	54.9	4,046.2		4,101.1
Personnel Costs	140.1	50.4	23.7	214.2
Materials, Supplies & Services	56.9	16.4	10.2	83.5
Travel & Transport	20.6			20.6
Contractors & Consultants	36.4	2,556.2	433.0	3,025.6
Internal Contractors	76.7	1.4		78.1
Total Direct Expenditure	330.7	2,624.4	466.9	3,422.0
Financial Costs (excl. FEL)	487.7			487.7
FEL Costs	355.5			355.5
Depreciation	58.9			58.9
Loss / (Gain) on Sale	(8.4)			(8.4)
Corporate Overhead	68.3			68.3
Total Indirect Expenditure	962.0			962.0
Total Expenditure	1,292.7	2,624.4	466.9	4,384.0
Operating Surplus / (Deficit)	(1,237.a)	1,421.a	(466.9)	(282.9)

Plantation Forestry

Statement of Financial Position

As at 30 June 2003

30 Jun 02 \$000's	EQUITY	30 Jun 03 \$000's
1,793.0	Retained Earnings	1,358.9
59.8	Asset Revaluation Reserve	57.2
50.0	Departmental Reserve	53.7
<u>1,902.8</u>	Total Equity	<u>1,469.8</u>
Represented By:		
ASSETS		
Current Assets		
0.4	Receivables	29.3
28.5	Accrued Revenue	19.9
109.1	Treasury Receivables	52.6
<u>138.0</u>	Total Current Assets	<u>101.8</u>
Investments		
50.0	Reserve Investments	53.7
9,661.3	Investment in Plantation Forests	9,815.0
<u>9,711.3</u>	Total Investments	<u>9,868.7</u>
83.8	Capital Work In Progress	476.0
Fixed Assets		
3,457.1	Cost or Valuation	3,408.2
(284.6)	less: Accumulated Depreciation	(264.6)
<u>3,172.5</u>	Total Fixed Assets	<u>3,143.6</u>
<u>13,105.6</u>	Total Assets	<u>13,590.1</u>
LIABILITIES		
Current Liabilities		
96.1	Creditors	51.1
41.9	Employee Provisions	50.8
<u>137.9</u>	Total Current Liabilities	<u>101.9</u>
11,064.8	Public Debt	12,018.4
<u>11,202.8</u>	Total Liabilities	<u>12,120.3</u>
<u>1,902.8</u>	Net Assets	<u>1,469.8</u>

Plantation Forestry

Statement of Funding

For the Year Ended 30 June 2003

	30 Jun 02 \$000's	30 Jun 03 \$000's
FUNDING FROM OPERATING ACTIVITIES		
Funds were provided from:		
Operating activities	2,905.6	4,097.3
Interest received	3.8	3.7
	<u>2,909.4</u>	<u>4,101.1</u>
Funds were applied to :		
Operating activities	(2,716.3)	(3,490.3)
Interest paid	(459.7)	(487.7)
Interest paid on Forestry Encouragement Loans	(334.0)	(355.5)
	<u>(3,510.0)</u>	<u>(4,333.5)</u>
Net Funding from Operating Activities / Cash Operating Surplus	<u>(600.6)</u>	<u>(232.4)</u>
FUNDING FROM INVESTING ACTIVITIES		
Funds were provided from:		
Sale of assets	12.4	11.0
Transfer from reserves	24.8	
	<u>37.3</u>	<u>11.0</u>
Funds were applied to :		
Purchase of vehicles	(32.4)	(32.5)
Purchase of office equipment		
Capital projects	(102.0)	(392.2)
Investment additions (Silviculture costs)	(191.0)	(153.7)
Transfer to reserves (incl interest)	(3.8)	(3.7)
	<u>(329.3)</u>	<u>(582.1)</u>
Net Funding from Investing Activities	<u>(292.0)</u>	<u>(571.1)</u>
FUNDING FROM FINANCING ACTIVITIES		
Funds were provided from:		
New loans	1,255.2	1,530.7
	<u>1,255.2</u>	<u>1,530.7</u>
Funds were applied to :		
Debt repayment	(362.6)	(577.1)
	<u>(362.6)</u>	<u>(577.1)</u>
Net Funding from Financing Activities	<u>892.6</u>	<u>953.6</u>
Net Increase / (Decrease) in Funds Held	<u>0.0</u>	<u>150.0</u>

Plantation Forestry

Statement of Financial Performance

For the Year Ended 30 June 2003 & Projected Qtr 2003/04 End Position

	Mar YTD Actual (\$000's)	Qtr 4 Actual (\$000's)	2002/03 Actual (\$000's)	2002103 Forecast (\$000's)	2002/03 Budget (\$000's)	Qtr 1 2003/04 Forecast (\$000's)
Gross Harvest Revenue	3,082	964	4,046	4,000	3,147	721
Harvest Costs	(1,865)	(658)	(2,523)	(2,400)	(1,845)	(539)
Net Return from Harvesting	1,217	306	1,523	1,600	1,302	182
Roading Maintenance	(375)	(58)	(433)	(390)	(198)	(24)
Contribution after Roothing Costs	842	248	1,090	1,210	1,104	158
Miscellaneous Revenue	26	29		48	4	27
Financial Costs	(627)	(216)	(8::)	(840)	(827)	(214)
Other Operating Costs	(454)	(131)	(585)	(536)	(506)	(122)
Operating Surplus I (Deficit)	(213)	(70)	(283)	(118)	(225)	(151)
Depreciation	44	15	59	60	23	15
Loss / (Gain) on Sale	(9)		(9)	(9)	(5)	
<u>Capital Expenditure.</u>						
New Roothing Construction	(272)	(120)	(392)	(320)	(70)	(24)
Vehicle Replacement	(22)		(22)	(22)	(18)	
Other Items (Reserve Interest)	(2)	(1)	(3)	(3)	(3)	
Silviculture Costs (Capitalised)	(126)	(28)	(154)	(152)	(201)	(26)
Cash Deficit (ex-dividend)	(600)	(204)	(804)	(564)	(499)	(186)
Adjusted Debt Balance	11,665	11,869	11,869	11,629	11,755	12,055

Notes:-

- 1) Actual debt balance at 30 June 2002 = \$11,065k. (Ex. 2001/02 annual dividend of \$150.0k).
- 2) Budgeted debt balance at 30 June 2002 = \$11,110k. (Incl. 2001/02 annual dividend of \$150.0k).
- 3) Actual debt balance at 31 March 2003 = \$11,665k. (Ex. 2002/03 YTD dividend of \$112.5k)
- 4) Actual debt balance at 30 June 2003 = \$11,869k. (Ex. 2002/03 YTD dividend of \$150.0k).
- 5) Forecast debt balance at 30 June 2003 = \$11,629k. (Ex. 2002/03 annual dividend of \$150.0k).
- 6) Budgeted debt balance at 30 June 2003 = \$11,755k. (Incl 2002/03 annual dividend of \$150.0k)
- 7) Forecast debt balance at 30 September 2003 = \$12,055k. (Ex. 2002/03 annual dividend of \$150.0k & 2003/04 YTD dividend of \$37.5k)

Cash Contribution From Forestry Activities Only:

	Mar MD Actual (\$000's)	Qtr 4 Actual (\$000's)	2002103 Actual (\$000's)	2002103 Forecast (\$000's)	2002/03 Budget (\$000's)	Qtr 1 2003/04 Forecast (\$000's)
Gross Harvest Revenue	3,082	964	4,046	4,000	3,147	721
Harvest Costs	(1,865)	(658)	(2,523)	(2,400)	(1,845)	(539)
Net Return from Harvesting	1,217	306	1,523	1,600	1,302	182
Roading Maintenance	(375)	(58)	(433)	(390)	(198)	(24)
Contribution after Roothing Costs	842	248	1,090	1,210	1,104	158
New Roothing Capex	(272)	(120)	(392)	(320)	(70)	(24)
Silviculture Costs (Capitalised)	(126)	(28)	(154)	(152)	(201)	(26)
Total Cash Contribution	444	100	544	738	833	108

Log Harvest Analysis 2002/2003							
	Mill/Port Price \$	Cartage \$	Harvest costs \$	Rayonier Comm \$	Other \$	Net Return \$	Tonnage
JULY	269,147	44,697	84,012	22,786	0	117,652	4,239
AUGUST	207,197	40,860	76,219	17,956	0	72,162	3,005
SEPTEMBER	267,714	51,603	94,451	23,415	0	98,245	3,571
1st Quarter	744,058	137,160	254,682	64,157	0	288,059	10,815
OCTOBER	528,254	101,146	153,624	41,599	0	231,885	6,134
NOVEMBER	320,055	56,436	96,022	26,812	0	140,785	3,755
DECEMBER	347,037	66,160	122,333	28,949		129,595	4,735
2nd Quarter	1,195,346	223,742	371,979	97,360	0	502,265	14,624
Half Year	1,939,404	360,902	626,661	161,517	0	790,324	25,439
JANUARY	306,943	61,832	118,205	26,927		99,979	4,696
FEBRUARY	408,603	71,532	146,035	34,705		156,331	5,720
MARCH	427,255	74,599	147,072	34,797		170,787	5,688
3rd Quarter	1,142,801	207,963	411,312	96,429	0	427,097	16,104
APRIL	420,618	74,953	153,004	37,160		155,501	5,973
MAY	296,038	54,617	123,876	25,105		92,440	4,684
JUNE	247,308	45,372	121,500	23,038		57,398	4,529
4th Quarter	963,964	174,942	398,380	85,303	0	305,339	15,186
TOTAL YTD	4,046,169	743,807	1,436,353	343,249	0	1,522,760	56,729