

# WATERCARE SERVICES LIMITED

## AGENDA | Board meeting | 27/2/2014

**Venue** Hobson Room, Jubilee Building, 545 Parnell Road, Parnell

**Time** 09.00am

### Open Public Meeting

Item	Spokesperson	Action sought at governance meeting	Supporting Material	Section Page
1. Apologies	Chair	<ul style="list-style-type: none"> <li>Record Apologies</li> </ul>		
2. Minutes of Meeting	Chair	<ul style="list-style-type: none"> <li>Approve Board Meeting Minutes</li> <li>19 December 2013</li> </ul>	Minutes 19 December 2013	1 - 3
3. Directors' Corporate Governance Items	Chair	<ul style="list-style-type: none"> <li>Corporate Planner 2014</li> <li>Review Disclosure of Interests</li> <li>Organisational Chart</li> </ul>	Corporate Planner Disclosure of Interests Organisational Chart	1 2 - 3 4
4. Chief Executive's Report	M Ford	<ul style="list-style-type: none"> <li>Note the Chief Executive's report</li> <li>Key Performance Scorecard</li> <li>Health and Safety</li> <li>Customer Services</li> <li>Infrastructure and Planning</li> <li>Operations</li> <li>Finance</li> <li>Board Correspondence</li> <li>Execution of Documents</li> <li>Working with Local Boards</li> <li>Statutory Planning</li> <li>Non Domestic Wastewater Tariff</li> <li>Trade Waste Bylaw Review</li> <li>Customer, Billing and Asset Programme</li> <li>Mandatory Non-Financial Performance Measures</li> </ul>	Chief Executive's Report	1 - 45
5. LTP Process Update	B Monk	<ul style="list-style-type: none"> <li>Note paper</li> </ul>	Paper	1 - 27
6. 2014/15 Annual Plan	B Monk	<ul style="list-style-type: none"> <li>For approval</li> </ul>	Paper	1 - 9
7. 2014-24 Draft AMP and 10 Year Financials	B Monk	<ul style="list-style-type: none"> <li>Note paper and provide feedback</li> </ul>	Paper	1 - 25
8. Draft 2014/17 Statement of Intent	R Chenery	<ul style="list-style-type: none"> <li>For approval</li> </ul>	Paper	1 - 40
9. IGC Pricing Policy	M Bridge	<ul style="list-style-type: none"> <li>Note paper and provide feedback</li> </ul>	Paper	1 - 17
10. Unaccounted For Water Update	D Worsnop	<ul style="list-style-type: none"> <li>Note paper</li> </ul>	Paper	1 - 5
11. Communications Strategy for CI / Waikato / Non Domestic Wastewater Tariff and Trade Waste Bylaw	J Redwood	<ul style="list-style-type: none"> <li>Note update and provide feedback</li> </ul>	Fact sheets	1 - 3
12. General Business	Chair			

Date of next Meeting - 1 May 2014

Location - Jubilee Building, 545 Parnell Road, Parnell

# MINUTES

SUBJECT WATERCARE SERVICES BOARD MEETING

VENUE Visitor Centre, Mangere Wastewater Treatment Plant, Island Road, Mangere

DATE 19 December 2013

TIME 09:15

STATUS Open Session

	<b>Present:</b> M Allen D Clarke (Chairman) P Drummond C Harland J Hoare S Huria T Lanigan	<b>In Attendance:</b> R Chenery R Fisher M Ford (Chief Executive) R Jaduram T Langridge B Monk T Munro D Sellars G Wood D Worsnop  C McIlroy (Auckland Council)	<b>Public in Attendance:</b> One
1.	<b>Apologies</b> <ul style="list-style-type: none"> <li>There were no apologies.</li> </ul>		
2.	<b>Minutes of Previous Meeting</b> <ul style="list-style-type: none"> <li>The Board resolved that the Minutes of the public section of the Board meeting held on 21 November 2013 at 09:00 be confirmed as correct.</li> </ul>		
3.	<b>Directors Corporate Governance Items</b> <ul style="list-style-type: none"> <li>Corporate Planner 2014  The Corporate Planner for 2014 was noted.  The programme for the meeting of 4 February is:  08:00 – 09:00 Health and Safety Committee  09:00 – 10:00 Boardroom Practice  10:00 – 11:00 Audit and Risk Committee  11:00 – 11:30 Board meeting to be followed by a meeting of the Capital Advisory Group.</li> <li>Organisational Chart  The Organisational Chart was noted.</li> </ul>		

#### Chief Executive's Report

- Customer Services

Trish Langridge advised that the Customer Service team had settled into the Newmarket premises very well.

She also advised that there had been some uplift in complaints, mainly over volumetric charging which is a likely result of people using more water on their garden over the last few dry months.

- Infrastructure and Planning

Graham Wood advised that the third tranche of Special Housing Areas would be made known in the New Year; the understanding is that the rates will be of a 'brownfields' nature and unlikely to cause any great difficulties to service.

- Operations

David Worsnop advised that the increase from 125 MLD to 150 MLD from the Waikato River would be achieved in late February 2014.

The Chief Executive said that the additional take will assist in meeting the additional demands of what is expected to be another dry summer. He reminded the Board of the additional costs associated with treating water taken from the Waikato River. These additional costs will put some pressure on the budget.

- Finance

4. Catherine Harland asked if a review of WUCAT was required. The Chief Executive said he would invite the Chairman of WUCAI to come to a Board meeting in the New Year.

The Board noted the effectiveness in revenue recovery of the ability to apply restrictions to water supplies.

- Trade Waste Bylaw Review

The Chief Executive advised that there is significant communication with customers underway on the new trade waste bylaw. This is in the form of written material but also face-to-face meetings by Marlon Bridge with large users. The Chief Executive said the process is going well and the delay of one year to implementation has proven most valuable.

- Draft Annual Plan

Brian Monk advised that year-to-date performance will be reported to the Board at the February meeting. Forward projections will also be tabled.

He said he and his team have been considering the implications of growth, legacy plan charges and Special Housing Areas on the AMP.

The AMP is being reviewed and the numbers adjusted with the objective of carrying out an effective programme of works while keeping increases in charges to as low as possible.

The Chief Executive reminded the Board of the significant reduction in the average price of water across Auckland in year one, the modest increase in charges for year two and that in the current 2013/14 year both water and wastewater charges had been held. He said the company was being run on a very lean basis to keep charges to customers as low as possible.

5.	<p><b>Customer, Billing and Asset Programme Presentation</b></p> <ul style="list-style-type: none"> <li>Trish Langridge spoke to the Board on the need to replace the Hansen system which is significantly outdated and hindering the company in its provision of Customer Services. The system is also expensive to run, being a third more costly than SAP.</li> </ul> <p>It is intended to complete an RFI for release by the end of January 2014 and then move to an RFP process.</p> <p>Tony Lanigan requested that consideration be given to using a programme used successfully by other large water companies rather than a 'bespoke' system. The Chief Executive agreed and said that was the standard practice for Watercare.</p>
6.	<p><b>Central and Northern Interceptor Presentation</b></p> <ul style="list-style-type: none"> <li>Tim Munro spoke to the presentation.</li> </ul> <p>Craig McIlroy, Auckland Council Manager for Stormwater, said a lot of joint work was being undertaken by Council Stormwater and Watercare. He said some separation of combined sewers was planned which would reduce stormwater flows to the Watercare network.</p>
7.	<p><b>Final Trade Waste Charges 2012/13</b></p> <ul style="list-style-type: none"> <li>The Board resolved that the final trade waste charges of 2012/13 be confirmed as the same level as the provisional trade waste charges invoiced for 2012/13.</li> </ul>
8.	<p><b>Auckland Council Committee Terms of Reference</b></p> <ul style="list-style-type: none"> <li>The Board noted the Terms of Reference.</li> </ul>
9.	<p><b>General Business</b></p> <ul style="list-style-type: none"> <li>There was no general business.</li> <li>The meeting closed at 10:45.</li> </ul>

CERTIFIED AS A TRUE AND CORRECT RECORD

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Chairman



# 2014 BOARD PLANNER

	January	February	March	April	May	June	July	August	September	October	November	December
<b>Board Meeting</b>	14 Feb Newmarket	27 Feb Jubilee	13 March Newmarket (Workshop)	(Easter See May)	1 May Jubilee (TBC) 29 May Jubilee*	27 June Jubilee (TBC)	31 July Newmarket (TBC)	21 Aug Newmarket (TBC)	19 Sept Newmarket (TBC)	22 Oct Jubilee**	21 Nov Newmarket (TBC)	19 Dec Newmarket (TBC)
<b>Audit + Risk Committee Meeting</b>	14 Feb Newmarket	14 Feb Newmarket			6 May Newmarket		31 July Newmarket	19 Aug Newmarket			11 Nov Newmarket	
<b>Capital Projects Working Group</b>	4 Feb Newmarket					10 Jun Newmarket			16 Sept Newmarket			
<b>Organisation Committee</b>	27 Feb Jubilee (follows Board Meeting)						31 July Newmarket (follows Board meeting)					
<b>Statement of Intent</b>	Approval of Draft 2014-2017 SOI		1 March Draft SOI to shareholder	Present shareholder SOI feedback at public meeting		Final 2014-2017 SOI issued to shareholder						Work on 2015-2018 SOI Key dates yet to be advised by Auckland Council
<b>Shareholder Interaction**</b>	26 Feb LTP re-opening session	27 Feb Quarterly report due to Council	4 March COO Governance and Monitoring Committee	TBC Quarterly report due to Council			TBC Quarterly report due to Council			TBC Quarterly report due to Council		
<b>Key Finance Decisions</b>	27 Feb Approval of 2014/15 input to Annual Plan			25 May Approval of 2014/15 Budget			21 Aug Approval of 2013/14 Annual Report					Work on 2015/25 LTP and AMP Key dates yet to be advised by Auckland Council
<b>Other</b>	Qtr Statutory Compliance Reporting			Qtr Statutory Compliance Reporting			Qtr Statutory Compliance Reporting				Qtr Statutory Compliance Reporting	

\* Statutory public Board meeting - deputations invited

^ Extraordinary Audit & Risk and Board Meeting to meet shareholder half year and annual report timeline

\*\* Auckland Council requirements for 2014 have not yet been advised.

## Report to the Board of Watercare Services Limited

**Subject:** Disclosure of Interests

**Date:** 17 February 2014

Section 140 of the Companies Act 1993 requires disclosure of interests of a director to the Board. Set out below are the disclosures of interests received as at the date of this report.

<i>Director</i>	<i>Interest</i>
David Clarke	<ul style="list-style-type: none"> <li>- Chairman, Optima Corporation Ltd</li> <li>- Chairman, TRGG Ltd – Radiology Services</li> <li>- Chairman, NZ Institute of Rural Health</li> <li>- Chairman, Skin Institute</li> <li>- Director, Hawkins Watts Ltd</li> <li>- Director, Cranleigh Merchant Bankers</li> <li>- Director, FarmIQ Systems Ltd</li> <li>- Director, Ngai Tahu Tourism Ltd</li> <li>- Director, Hynds Group Ltd</li> <li>- Trustee, South Auckland Foundation (Middlemore/CMDHB)</li> <li>- Director, Health Alliance Limited</li> <li>- Director, Jucy Group Limited</li> </ul>
Peter Drummond	<ul style="list-style-type: none"> <li>- Chairman, Appliance Connection Ltd</li> <li>- Chairman, Watercare Harbour Clean Up Trust</li> <li>- Chairman, Variety Medical Missions South Pacific</li> <li>- Chairman, Ngati Whatua o Orakei Whai Maia</li> <li>- Chairman, Variety International Childrens Charity</li> <li>- Director, NARTA New Zealand Ltd</li> <li>- Director, NARTA International PTY Ltd</li> <li>- Panel member, Fire Review, Dept Internal Affairs</li> </ul>
Catherine Harland	<ul style="list-style-type: none"> <li>- Director, McHar Investments Ltd</li> <li>- Director, Interface Partners Ltd</li> <li>- Trustee, One Tree Hill Jubilee Educational Trust</li> </ul>
Susan Huria	<ul style="list-style-type: none"> <li>- Director, Ngai Tahu Property</li> <li>- Director, Northland Port Company Ltd</li> <li>- Director and Shareholder, Huria Anders Ltd</li> <li>- Director and Shareholder, Susan Huria (2003) Associates Ltd</li> <li>- Director and Shareholder, Te Ara Tika Properties Ltd</li> <li>- Director, Vermilion Design Ltd</li> <li>- Director, Airways Corporation of New Zealand Ltd</li> <li>- Chair, Veterinary Enterprises Group Limited</li> <li>- Trustee, First Foundation</li> <li>- Member, Maori Governance Centre, University of Waikato Advisory Board</li> </ul>
Tony Lanigan	<ul style="list-style-type: none"> <li>- Director and Shareholder, A G Lanigan &amp; Associates (2007) Limited</li> <li>- Shareholder, Fletcher Building</li> </ul>

	<ul style="list-style-type: none"> <li>- Director, Habitat for Humanity New Zealand Limited</li> <li>- Director and Shareholder, Lanigan Trustee Limited</li> <li>- Director and Shareholder, Lanison and Associates Limited</li> <li>- Director and Chair, NZ Housing Foundation Limited</li> <li>- Director, Tamaki Makaurau Community Housing Limited</li> <li>- Director, NZ Transport Agency (NZTA)</li> </ul>
Mike Allen	<ul style="list-style-type: none"> <li>- Director, Coats PLC</li> <li>- Director, Guinness Peat Group</li> <li>- Director, Godfrey Hirst Limited</li> <li>- Shareholder, Innoflow</li> <li>- Director, Tower Insurance</li> <li>- Director, Tainui Group Holdings Limited</li> <li>- Director, Breakwater Consulting Limited</li> </ul>
Julia Hoare	<ul style="list-style-type: none"> <li>- Director, AWF Group Limited</li> <li>- Director, New Zealand Post Limited</li> <li>- Director, A2 Corporation Limited</li> </ul>

**RECOMMENDATION**

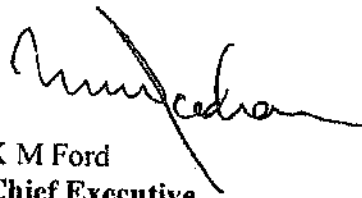
That the report be noted.

Report prepared by:

Approved by:

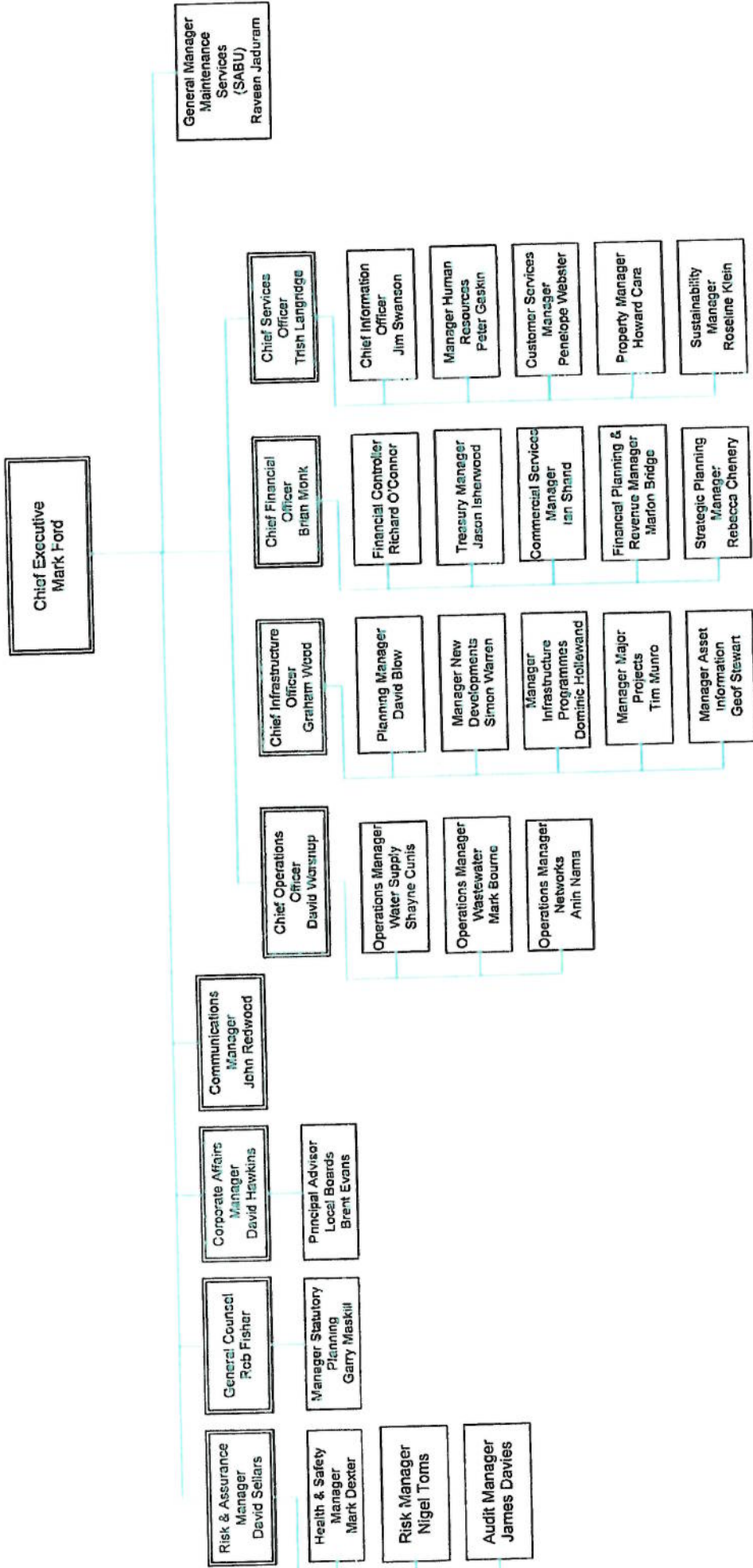


R Fisher  
General Counsel



K M Ford  
Chief Executive

# WATERCARE ORGANISATIONAL CHART TO TIER THREE



January 2014 Staffing levels (as FTE)

Permanent Employees	725.1
Fixed Term	47.2
Casuals	5.8
Total	778.1
Budgeted FTE (Jan 14)	847.7

**Watercare Services Limited**

**Subject: Chief Executive Report – January 2014**

**Date: 17 February 2014**

**1. KEY PERFORMANCE SCORECARD**

Environment		Financial	(MTD)	(YTD)	
Water Treatment – graded plants Metro	✓	Revenue	⇔	✓	
Water treatment – graded plants Rural	✓	Net surplus / deficit after tax	x <sup>1</sup>	✓	
Unaccounted for Water	x <sup>2</sup>	Total costs	⇔	⇔	
Effluent quality Metro plants	✓	Labour costs	x <sup>3</sup>	⇔	
Effluent quality Rural plants	⇔				
Dry Weather Overflows	✓	Asset Management		(MTD)	(YTD)
Prosecutions	✓	Maintenance Expenditure	✓	✓	
		Capital Expenditure	x <sup>4</sup>	✓	
Community		Social (Rolling 12 months)		(MTD)	(YTD)
Water Quality Complaints	x <sup>5</sup>	Attendance	✓	✓	
Water Resources		Customer Service		(MTD)	(YTD)
Drought Security Standard	✓	Grade of Service	✓	✓	
Unrestricted Demand (Drought Management Plan)	✓				

<sup>1</sup> Net surplus after tax is unfavourable largely due to the movement in financial instruments revaluation.

<sup>2</sup> The Statement of Intent target related to unaccounted for water has reduced from 15% to 14% for the 2013/14 year. A programme of work is underway to address leakage and the unaccounted for water result is trending towards the target of 14%.

<sup>3</sup> Labour costs are unfavourable largely due to the timing of annual leave taken.

<sup>4</sup> Capital expenditure is greater than budget for the month largely due to the timing of spend.

<sup>5</sup> The January result for water quality complaints was 5.5 complaints against a target of less than 5 complaints per 1,000 customers per year. The target was not met due to a high water turbidity event on 15 January.

## 2. HEALTH AND SAFETY

On a rolling 12 month basis:

- The lost-time injury frequency rate (LTIFR) was 1.29 against an SOI target of less than or equal to 5 for 12 months.
- Sick leave was 2.13%.
- Voluntary staff turnover was 12.62%, just outside the SOI target of 10-12%.
- The injury severity rate was 9.68 for the month of January against a target of less than 30 for 12 months.

## 3. CUSTOMER SERVICES

The Customer Services teams met all performance targets for January. The telephone grade of service target of 80% was met with 81% of calls answered within 20 seconds. The monthly target for average handling time for customer phone calls was also achieved

The target response time for correspondence was achieved (99.2%), however the target for resolution of complaints was not achieved with 91% resolved within 10 working days, against the target of 95%.

The trend in relation to the increasing number of complaints appears to relate to more accurate reporting of complaint numbers rather than an overall increase in the number of complaints. The newly established Issues Management Team logs and resolves complaints on behalf of Customer Services and other teams outside Customer Services and is providing better tracking and transparency around complaints received. It is likely that previously, many complaints were not logged as such and would not have been counted towards the customer service complaint total.

Customer Services continues to be involved with attending scenario workshops in preparation of the RFI process for the Customer Billing and Asset Programme. Preparation has commenced for the March customer mail out to all non-domestic customers in relation to the wastewater tariff changes. This mail out details the customer's most economical pricing plan and is likely to result in increased customer interactions throughout March.

A high level requirements document has been completed for the proposed improvements to customer functionality in the online Customer Self Service tool. The next step will be prioritising the elements and then seeking vendors to respond with their views on possible system solutions, costs and timelines.

## 4. INFRASTRUCTURE AND PLANNING

Capital expenditure within the Infrastructure Team continued at a monthly rate of \$20 million exceeding the monthly target by 13%. This result reflects both the good weather conditions and carefully planned construction activities during the holiday period. As a result, Infrastructure have improved year to date performance from 98% of budget last month to 100%. The monthly



expenditure for the remainder of the financial year is expected to continue broadly in line with budget and produce a year end position very close to 100% (\$287 million).

During the month the construction of Hunua No.4 continued to plan with significant progress on section 3 which will be handed over to Operations in April. In addition a third pipe laying crew commenced section 6, the section through rock at Mangere Bridge. In total 8.5 km of pipe is complete. The expansion of Waikato to 150MLD is virtually complete and will provide additional capacity from March as planned. The coming months will see the completion of the supply to Kumeu, Huapai and Riverhead and the extension of the Pukekohe main to Patumahoe and Clarks Beach.

Infrastructure also has major construction activity in the wastewater sector. Digester no.8 at Mangere has passed the water tightness test and will commence commissioning in April. Puketutu Island rehabilitation continues ahead of programme. Infrastructure continues to liaise with all the relevant Local Boards to ensure any disruption from construction is minimised and residents and stakeholders are informed. One example of this is the ongoing construction on Lagoon Drive, Panmure which has been particularly difficult but acknowledged as well managed.

A series of Stage One Capex Approvals await approval of the price path and associated Asset Management Plan by the Board. Several of these will need to be approved by the Capital Projects Working Group in March to meet the required programme.

IGC revenue continues to increase in line with construction activity and the year-end budget target will be achieved.

A Capital Expenditure Dashboard Report of all capital expenditure projects over \$2 million is shown as Appendix C.

## **5. OPERATIONS**

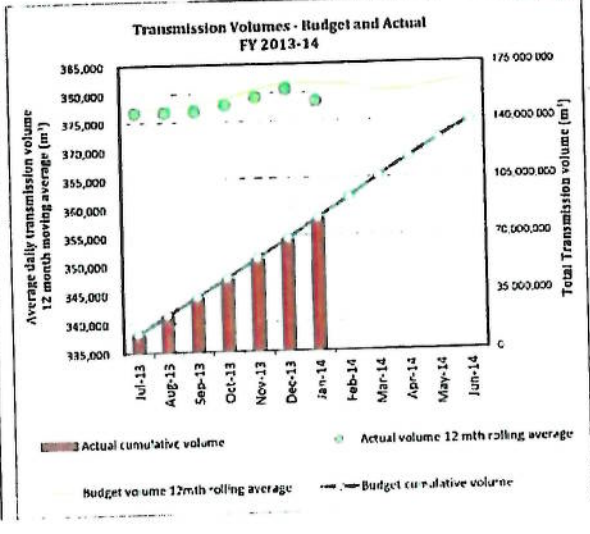
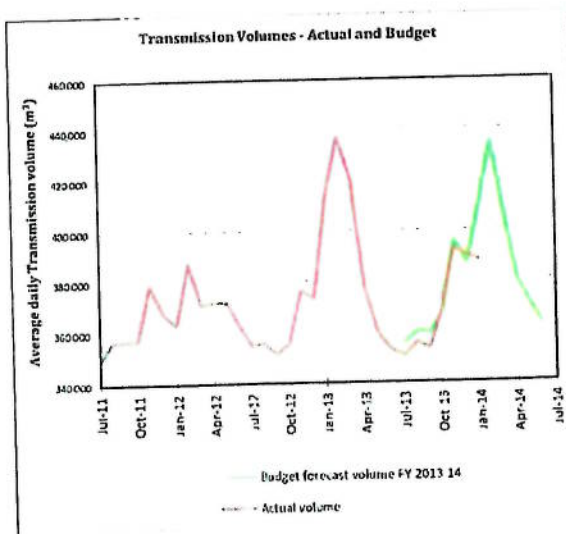
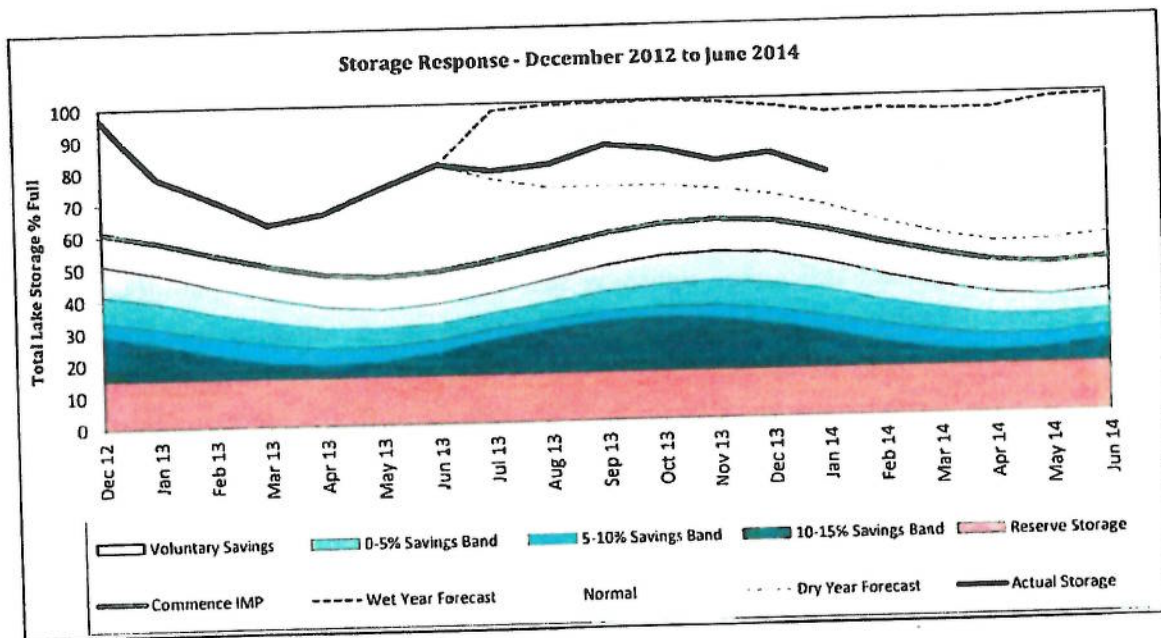
Rainfall for the month of January was below average across the Auckland region.

Metropolitan total system storage decreased in January from 82.5% to 76.2%. This is below the average storage for the end of January (83.6%), but while tracking below the budgeted normal storage response, it is above the dry weather response.

The equatorial Pacific Ocean is currently in a neutral state (neither El Niño nor La Niña), which is expected to continue for the next three months (February-April), and throughout autumn and early winter 2014, although there are signs that El Niño conditions may develop by mid-year.



February-April temperatures are likely to be average or above average for all North Island regions (including Auckland). Rainfall for the February-April period is likely to be normal or above normal in the north of the North Island (including Auckland), while soil moisture levels and river flows are likely to be normal.



Overall production from the water treatment plants was 4.5% below budget for the month, and is 0.9% below budget YTD. The low demand for the month was due to an extended period of low demand after the Christmas period. Transmission system losses for the month, adjusted for planned discharges were 2.8% and are 2.4% YTD.

## 6. FINANCE

### Financial Performance

Figures (\$millions)	Current Month			Year To Date			Full Year		
	Actual	Budget	Var	Actual	Budget	Var	Forecast	Budget	Var
Revenue	39.65	40.29	(0.63)	280.43	271.03	9.40	479.96	467.41	12.55
Operating Expenses	15.65	15.47	(0.18)	110.52	113.14	2.62	195.04	195.54	0.50
Depreciation	17.18	16.79	(0.39)	120.13	116.97	(3.16)	203.91	199.68	(4.23)
Interest expense	6.20	6.35	0.15	40.89	44.13	3.24	73.46	75.12	1.66
<b>Total Contribution</b>	<b>0.62</b>	<b>1.67</b>	<b>(1.05)</b>	<b>8.89</b>	<b>(3.21)</b>	<b>12.10</b>	<b>7.55</b>	<b>(2.93)</b>	<b>10.48</b>
Financial instruments revaluation - loss/(gain)	10.37	-	(10.37)	(28.54)	-	28.54	(28.54)	-	28.54
Non-operating costs/(income)	0.87	-	(0.87)	7.67	-	(7.67)	8.67	-	(8.67)
<b>Operating Surplus / (Deficit) Before Tax</b>	<b>(10.62)</b>	<b>1.67</b>	<b>(12.29)</b>	<b>29.76</b>	<b>(3.21)</b>	<b>32.98</b>	<b>27.42</b>	<b>(2.93)</b>	<b>30.35</b>
Deferred Tax - Expense/(Credit)	(4.43)	0.65	5.08	8.36	(0.70)	(9.06)	7.70	(0.82)	(8.52)
<b>Net Surplus / (Deficit) After Tax</b>	<b>(6.19)</b>	<b>1.02</b>	<b>(7.21)</b>	<b>21.40</b>	<b>(2.52)</b>	<b>23.92</b>	<b>19.72</b>	<b>(2.11)</b>	<b>21.83</b>
<b>FFO Ratio</b>				<b>3.15</b>	<b>3.04</b>		<b>3.08</b>	<b>3.04</b>	
Operating EBITDA	24.00	24.81	(0.81)	169.91	157.89	12.02	284.92	271.87	13.05
EBITDA (Includes Non-Operating)	12.76	24.81	(12.05)	190.79	157.89	32.89	304.80	271.87	32.92
EBIT	(4.43)	8.02	(12.45)	70.65	40.92	29.73	100.88	72.19	28.69

**Month – Total Contribution of \$0.62m - unfavourable variance to budget of \$1.05m**

Total revenue was unfavourable \$0.63m to budget. IGC revenue at \$1.75m was favourable \$0.16m. Water and wastewater revenue was \$2.39m unfavourable to budget with water volumes 5.6% unfavourable to budget. Vested asset and contribution to PP&E income was favourable \$1.52m.

Operating expenses were \$0.18m unfavourable to budget with unfavourable variances for net labour, unplanned maintenance and professional services partially offset by favourable variances for planned maintenance, energy and chemicals.

Depreciation was unfavourable to budget \$0.39m due to higher than budgeted accelerated depreciation.

Interest expense was \$0.15m favourable to budget.

**Year to date – Total Contribution of \$8.89m - favourable variance of \$12.10m**

Year to date revenue was \$9.40m favourable to budget primarily due to vested asset and contribution to PP&E income favourable \$10.22m and IGC revenue favourable \$1.78m. Water and wastewater revenue was \$2.44m unfavourable to budget.

Operating expenses were \$2.62m favourable to budget with favourable variances for planned maintenance, chemicals, energy, professional services and general overheads partially offset by unfavourable unplanned maintenance and other asset operating costs.



**Year to date – Net Surplus after Tax of \$21.40m – favourable variance of \$23.92m**

The favourable variance year to date of \$23.92m was due to the \$12.10m year to date favourable contribution plus a favourable revaluation of financial instruments of \$28.54m due to an increase in medium to long term swap rates since June 2013 partially offset by losses on disposals of fixed assets and an increase in deferred tax expense.

**Full year Forecast – Operating Contribution of \$7.55m – favourable variance of \$10.48m**

Full year revenue is forecast at \$479.96m, favourable by \$12.55m largely due to expected higher than budgeted vested asset revenue and an unbudgeted subvention payment of \$6.05m from Ports of Auckland. Water and wastewater revenue forecasts for the remainder of the year are being held at budgeted levels as we move into the high volume summer months and await the impact of summer weather on water volumes.

Operating expenses are favourable to budget \$0.50m with favourable variances for planned maintenance, energy, professional services and general overheads partially offset by unfavourable variances for other asset operating costs.

Depreciation costs are forecast \$4.23m higher at year end largely due to shortfalls in budgeted accelerated depreciation.

Interest expensed through the P&L is expected to be \$1.66m lower than budget at year end largely due to an increase in capitalised interest against budget.

### Financial Position

Million	Actual Dec-13	Actual Jan-14	Monthly Movement	Budget Jan-14	Var from Budget
Non Current Assets	8,216.6	8,217.8	1.2	8,403.2	(185.4)
Current Assets	66.9	67.6	0.7	82.9	(15.4)
<b>Total Assets</b>	<b>8,283.5</b>	<b>8,285.4</b>	<b>2.0</b>	<b>8,486.2</b>	<b>(200.8)</b>
Other Liabilities	131.9	143.9	12.0	219.6	(75.7)
Deferred Tax Liability	939.8	935.4	(4.5)	958.3	(22.9)
Borrowings - Short Term	487.5	487.9	0.4	488.8	(0.9)
Borrowings - Long Term	930.2	930.3	0.2	964.5	(34.2)
Shareholders Funds	5,794.0	5,787.8	(6.1)	5,854.9	(67.0)
<b>Total Liabilities and Shareholders Funds</b>	<b>8,283.5</b>	<b>8,285.4</b>	<b>2.0</b>	<b>8,486.2</b>	<b>(200.8)</b>

The Statement of Financial Position as at 31 January 2014 was broadly consistent with 31 December 2013 with the significant movement in other liabilities reflecting the movement in financial derivatives.

Compared with the budget the material variances are in respect of non-current assets, deferred tax and shareholders funds all of which largely reflect the revaluation of property, plant and equipment as at 30 June 2013 being lower than was assumed for the budgeted opening balance sheet as at 1 July 2013.

## Receivables

Receivables before provision for doubtful debts totalled \$36.9m at January month end compared with \$30.7m at the end of December. The Auckland Council component of total debt was \$0.55m, compared with \$0.47m at December and disputed trade waste accounts at the end of January totalled \$1.23m compared with \$1.15m at December month end. Total 60+ day debt has increased by \$137k during the month primarily due to the increase in disputed trade waste accounts.

### Total receivables – month-on-month comparison

	0-30 days <i>(previous month in italics)</i>	30-59 days <i>(previous month in italics)</i>	60 days + <i>(previous month in italics)</i>	Total <i>(previous month in italics)</i>
Receivables excluding Council group and disputed trade waste	\$29,495,998	\$2,145,491	\$3,429,312	\$35,070,801
	<i>\$22,117,250</i>	<i>\$3,492,362</i>	<i>\$3,454,929</i>	<i>\$29,064,541</i>
Auckland Council Group	\$595,487	\$79,696		\$675,183
	<i>\$540,671</i>	<i>\$77,536</i>		<i>\$618,207</i>
Disputed trade waste accounts	\$83,856	\$116,852	\$1,033,876	\$1,234,584
	<i>\$116,852</i>	<i>\$141,151</i>	<i>\$892,725</i>	<i>\$1,150,727</i>
<b>Total receivables</b>	<b>\$30,175,341</b>	<b>\$2,342,038</b>	<b>\$4,336,320</b>	<b>\$36,853,700</b>
	<i>\$22,774,773</i>	<i>\$3,711,049</i>	<i>\$4,199,596</i>	<i>\$30,685,418</i>

Receivables excluding Auckland Council and disputed trade waste accounts totalled \$35.1m for January, compared with \$29.1m at December month end. The increase in receivables primarily reflects higher current amounts being due. Additionally 60+ day debt has decreased by \$26k. The credit team expect to further reduce overdue debt by the end of February as they recover from the break in credit activity over the Christmas/New year period. The average debt per account increased from \$99 to \$109.

### Total receivables – excluding Auckland Council and disputed trade waste

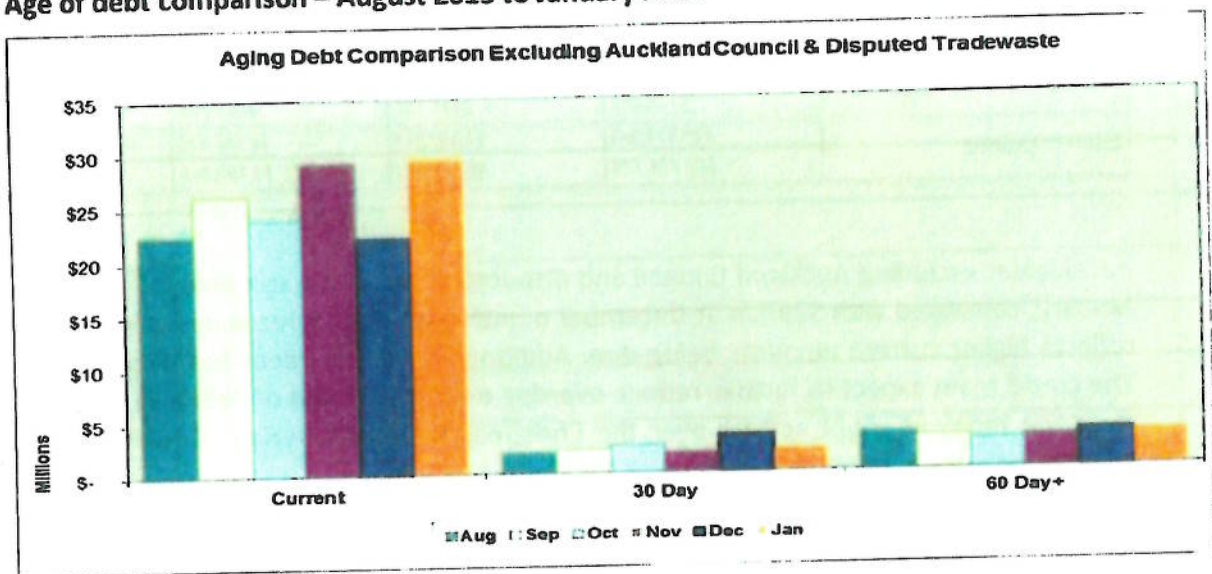
	0-30 days <i>(previous month in italics)</i>	30-59 days <i>(previous month in italics)</i>	60 days + <i>(previous month in italics)</i>	Total <i>(previous month in italics)</i>
Net Debt	\$29,495,998	\$2,145,491	\$3,429,312	\$35,070,801
	<i>\$22,117,250</i>	<i>\$3,492,362</i>	<i>\$3,454,929</i>	<i>\$29,064,541</i>
# of accounts	300,229	34,442	37,549	320,917
	<i>270,173</i>	<i>44,517</i>	<i>37,431</i>	<i>293,788</i>
Average Debt	\$98	\$62	\$91	\$109
	<i>\$82</i>	<i>\$78</i>	<i>\$92</i>	<i>\$99</i>
Percentage	84.1%	6.1%	9.8%	100.0%
	<i>76.1%</i>	<i>12.0%</i>	<i>11.9%</i>	<i>100.0%</i>

Commercial	Current month <i>(previous month in italics)</i>	30-59 days <i>(previous month in italics)</i>	60 days + <i>(previous month in italics)</i>	Total <i>(previous month in italics)</i>
Totals	\$11,113,250	\$1,033,226	\$1,057,795	\$13,204,271
	<i>\$9,032,705</i>	<i>\$2,068,314</i>	<i>\$1,103,077</i>	<i>\$12,204,096</i>
# of accounts	21,036	3,247	5,591	25,427
	<i>20,624</i>	<i>4,030</i>	<i>5,583</i>	<i>25,312</i>
Average Debt	\$528	\$318	\$189	\$519
	<i>\$438</i>	<i>\$513</i>	<i>\$198</i>	<i>\$482</i>
Percentage	84.2%	7.8%	8.0%	100.0%
	<i>74.0%</i>	<i>16.9%</i>	<i>9.0%</i>	<i>100.0%</i>

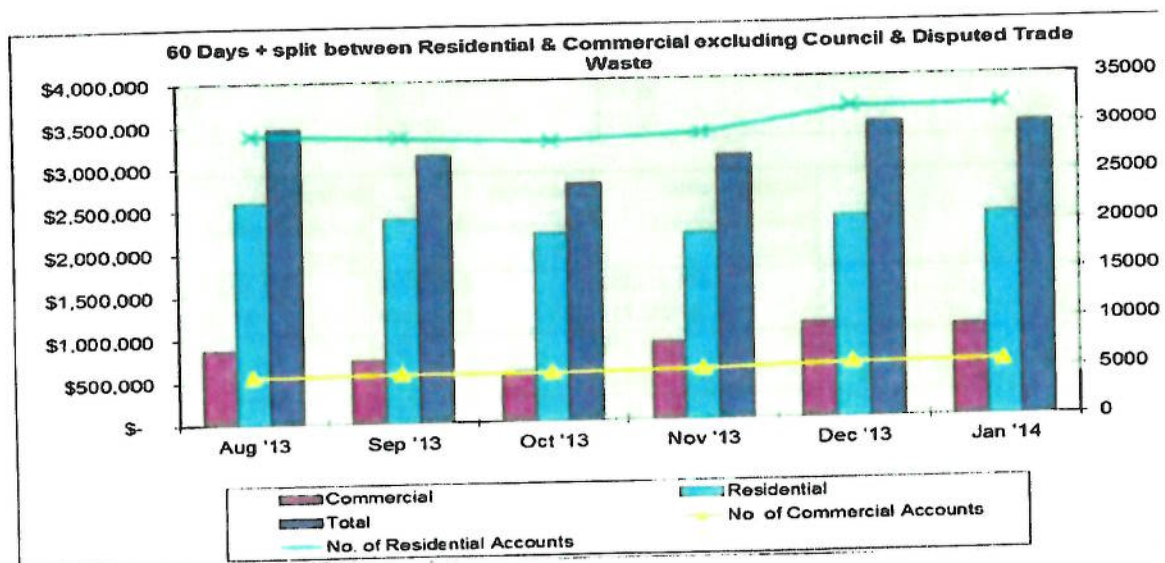
Residential	Current month <i>(previous month in italics)</i>	30-59 days <i>(previous month in italics)</i>	60 days + <i>(previous month in italics)</i>	Total <i>(previous month in italics)</i>
Totals	\$18,382,749 <i>\$13,084,545</i>	\$1,112,265 <i>\$1,424,048</i>	\$2,371,517 <i>\$2,351,852</i>	\$21,866,530 <i>\$16,860,445</i>
# of accounts	279,193 <i>249,549</i>	31,195 <i>40,487</i>	31,958 <i>31,848</i>	295,490 <i>268,476</i>
Average Debt	\$66 <i>\$52</i>	\$36 <i>\$35</i>	\$74 <i>\$74</i>	\$74 <i>\$63</i>
Percentage	84.1% <i>77.6%</i>	5.1% <i>8.4%</i>	10.8% <i>13.9%</i>	100.0% <i>100.0%</i>

The change in age of debt (excluding Council and disputed trade waste) over the last six months is shown below.

### Age of debt comparison – August 2013 to January 2014

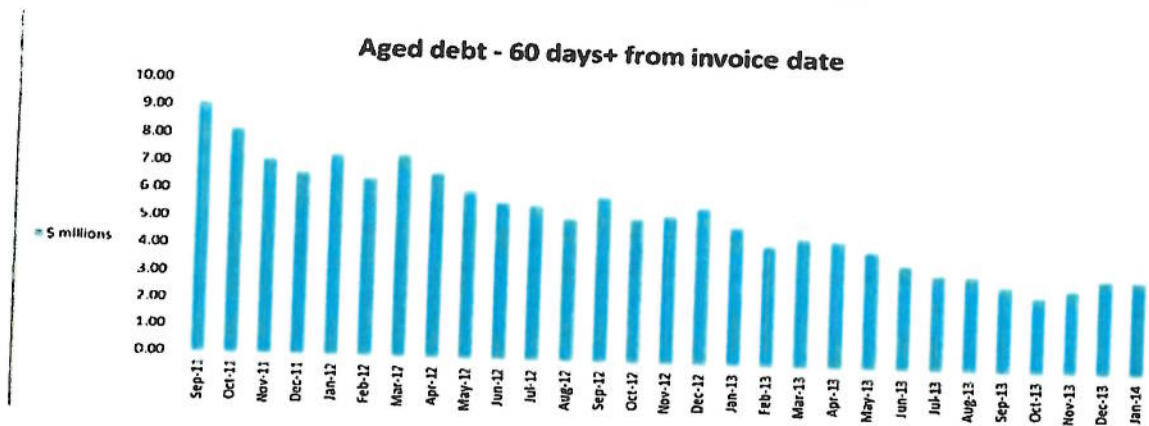


The split of 60 days+ receivables between residential and commercial is shown below:

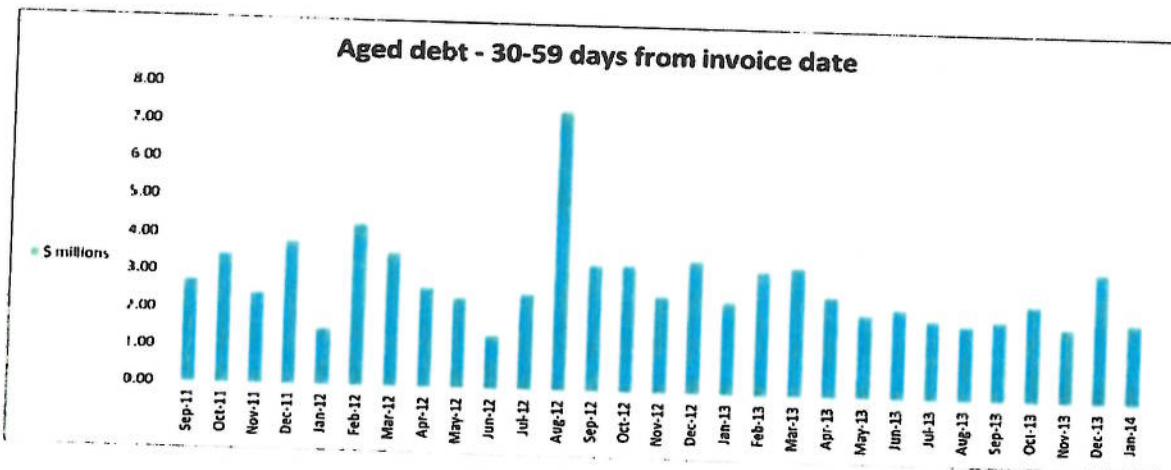




The trends of 30-59 days debt and 60 days+ debt are shown below:



The spike in 30-59 day debt in August 2012 reflects the change in billing cycles for all customers to monthly billing.



### Water Utility Consumer Assistance Trust (WUCAT)

At the end of January 303 customers had completed the budget review process and had their financial situation reviewed by the Trustees. These customers had \$285k of hardship relief approved by the Trust. As a result \$199k of debt has been written off due to customers successfully completing their payment plans.

### Restrictions

During January 3,167 reminder notices were sent to customers warning that water restriction may be actioned if payment was not received. During January, 10 cards were sent to customers warning of possible restriction of their water supply in 48 hours. As a result 5 new water restrictions were actioned during January and 2 of these restrictions were removed immediately due to payment being received.

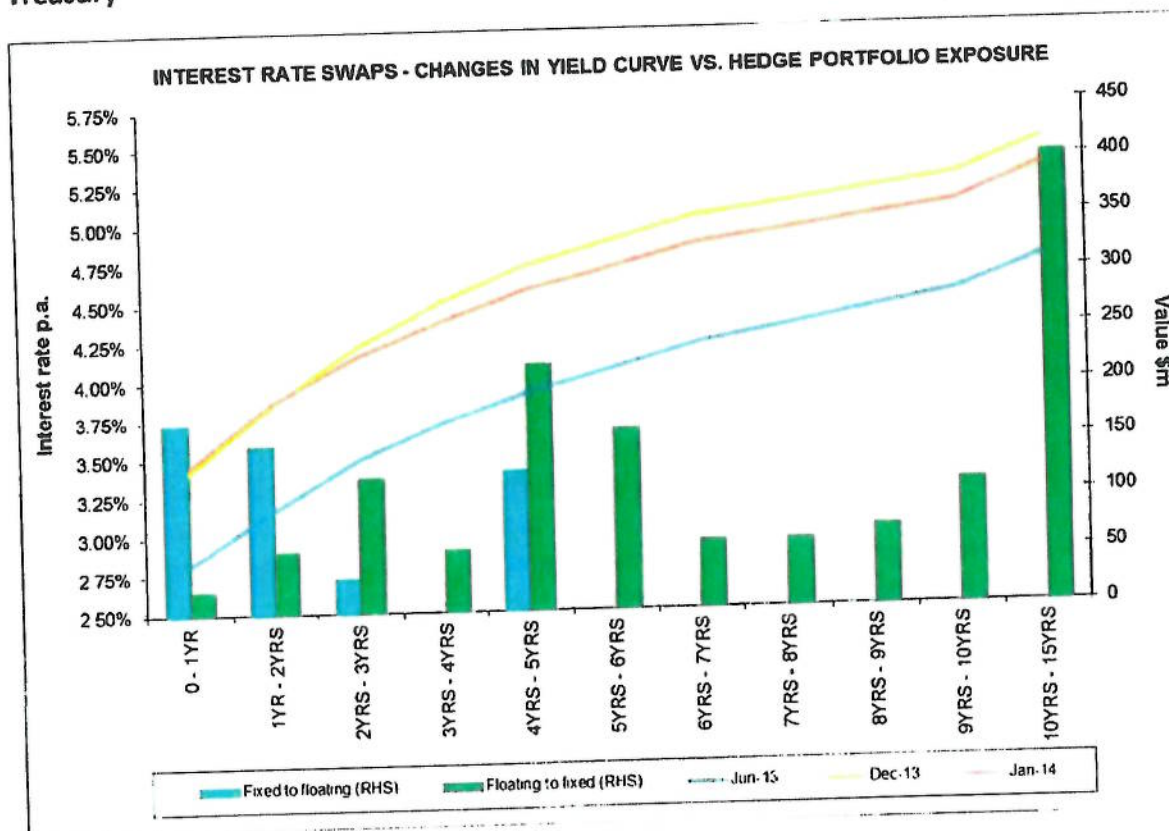
The table below summarises the restrictions carried out by Watercare Services Limited.

Watercare - Restriction Summary			
	Commercial	Residential	Total
Inherited 1 Nov 2010	0	4	4
Restricted	23	19	42
Derestricted	-18	-12	-30
Restrictions Remaining	5	11	16

The following restrictions remain in place:

- Three water restrictions inherited from Manukau Water remain in place on residential properties at the owners request due to unfixed leaks at the properties.
- A further three residential restrictions remain in place on vacant properties. Communications are ongoing with the customers and if the properties are tenanted in future resolution will be required.
- A further five residential restrictions remain in place and communication continues with these customers.
- Five commercial properties remain restricted at the end of January and communication continues with these customers.

## Treasury





Interest Analysis (\$million)	Current Month			Year to Date			Full Year		
	Actual	Budget	Var	Actual	Budget	Var	Forecast	Budget	Var
Interest as per Statement of Financial Performance	6.20	6.35	0.15	40.89	44.13	3.24	73.46	75.12	1.66
Capitalised Interest	1.19	0.90	(0.29)	8.63	6.58	(2.04)	13.51	11.82	(1.69)
Gross Interest	7.39	7.25	(0.14)	49.52	50.72	1.20	86.97	86.94	(0.03)
Less Interest Income	0.00	0.00	0.00	0.02	0.00	(0.01)	0.02	-	(0.02)
Net Interest	7.39	7.25	(0.14)	49.50	50.72	1.21	86.95	86.94	(0.01)

For the month net interest was unfavourable \$0.14m with budget. The interest charge to the Statement of Performance was below budget by \$0.15m as a result of higher than budget capitalised interest of \$0.29m.

### Capital Expenditure

Total capital expenditure for the month was \$21.9m against a budget of \$21.1m.

Summary Capital Expenditure (\$millions)	Month Jan 14			Year to Date			Full Year		
	Actual	Budget	Var	Actual	Budget	Var	Forecast	Budget	Var
Infrastructure Wastewater Projects	9.3	8.8	0.5	67.3	74.9	7.6	144.8	140.2	4.6
Infrastructure Water Projects	8.6	8.1	0.5	73.8	66.4	7.4	131.8	131.6	0.2
Operations	1.2	1.8	0.6	8.1	10.3	2.2	13.7	18.4	4.7
Maintenance Services	0.2	0.4	0.2	1.2	1.9	0.7	3.0	4.0	1.0
Information Services	0.5	0.8	0.3	3.2	5.6	2.4	8.3	9.9	1.6
Other Projects	2.1	1.2	0.9	12.7	17.6	4.9	23.9	26.6	2.7
<b>TOTAL</b>	<b>21.9</b>	<b>21.1</b>	<b>0.8</b>	<b>166.3</b>	<b>176.7</b>	<b>10.4</b>	<b>325.5</b>	<b>330.7</b>	<b>5.2</b>
Includes Capitalised Interest of:									
Water Projects Capitalised Interest	0.7	0.5	0.2	5.1	3.8	1.3	7.2	5.8	1.4
Wastewater Projects Capitalised Interest	0.5	0.3	0.2	3.5	2.6	0.9	6.1	5.7	0.4
Other Capitalised Interest	0.0	0.0	0.0	0.0	0.2	0.2	0.2	0.4	0.2
<b>Total Capitalised Interest</b>	<b>1.2</b>	<b>0.8</b>	<b>0.4</b>	<b>8.6</b>	<b>6.6</b>	<b>2.0</b>	<b>13.5</b>	<b>11.9</b>	<b>1.6</b>

## 7. BOARD CORRESPONDENCE

There was no Board correspondence received during the month of January 2014.

## 8. EXECUTION OF DOCUMENTS

There were no documents executed by the Chief Executive during the month of January 2014.

There were nine approvals totalling \$25.569m signed in accordance with the delegated authority provided to the Chief Executive by the Board in relation to capex approvals below a threshold of \$15m.

Summary of Capital Projects approved by Chief Executive - January 2014		
C-10277a	Reconstruction of the Eastern Interceptor - Stage 2 - Extension	\$724,000
C-10734-30	Purchase of Pool vehicles for Water Supply	\$132,000
C-11234c	Blackbridge Pump Station (DPS037) and Rising Main Upgrade Stage 2B	\$69,000
C-11235c	Otara Pump Station Pipework Replacement Stage 2B	\$782,000
C-11423a	Rosedale WWTP Cogeneration Facility Upgrade - Stage 2	\$5,425,000
C-11665-02	East Tamaki No. 3 Watermain - 400m between Murphys Rd & Flat Bush School Rd - extension	\$907,000
C-11769r	Orewa West Trunk Wastewater Infrastructure	\$14,875,000
C-12206	Watermain renewal - Glengarry Road, Glen Eden	\$455,710
C-12217	MSN Motor Vehicles - FY 14/15	\$2,200,000

## 9. WORKING WITH LOCAL BOARDS

During the past month Local Boards along the Central Interceptor route were provided with information on the resource consent hearings, including the granting of consents, key findings of the commissioners and the subsequent appeals process. These have been followed up with briefings to the Local Boards who have requested further information, including Manurewa, Waitemata and Mangere. A special meeting has been organised with the Mangere Local Board to provide members with more detailed information in response to ongoing public enquiries.

A regular Watercare briefing was held with the Franklin Local Board on local projects and issues. Howick Local Board's transport portfolio holders received a briefing on the Panmure wastewater project in Lagoon Drive and Pakuranga Road. Watercare also joined Auckland Council Planners and Stormwater staff in a briefing to the Puketapapa Local Board on Three Kings Quarry development proposals. A separate briefing and introduction session was held with the Chairman of the Papakura Local Board.

As part of usual no-surprises approach, Orakei and Waitemata Local Boards received information on local wastewater overflows and Waitakere and Henderson Massey Local Boards received information on algae issues affecting western water supplies.

At the Local Boards invitation Watercare has been attending some of the Local Board community events as part of their Local Board Plan community engagements.

Watercare also continues to work proactively with Parks Sports and Recreation Staff and the Local Boards on the implementation of the revised approvals process under the Reserves Act for water and wastewater related infrastructure in Gazetted Reserves. Good progress is being made on a number of local projects that pass through local parks.

## **10. STATUTORY PLANNING**

### **Auckland Proposed Unitary Plan**

Watercare has completed a detailed review and analysis of the key sections of the Plan to determine the implications for Watercare. The main areas of concern of the proposed plan are the sections on: freshwater allocation and takes, overlays (in particular natural resource, historic heritage, and cultural heritage), and the Mana Whenua provisions. The review indicated that these sections pose significant challenges for Watercare and that they have the potential to result in significant costs and delays for projects and operations. The review also indicated that even in areas where Watercare is supportive of the policy direction of the Plan, there are a significant number of matters that are problematic or create uncertainty which in turn imposes regulatory risk and could lead to delays and escalation of costs for projects. Delays impact on Watercare's ability to provide service to the public.

Council initiated a process of working directly with CCOs on the provisions of the Plan prior to the submission deadline. Sessions have been held during the past three months for Auckland Transport and Watercare to discuss issues of specific interest. These sessions have been very productive, providing an opportunity for discussion regarding a range of specific matters. Watercare had reached agreement on proposed amended wording or agreement in principle of the direction of the wording on several key topics of particular concern to Watercare. While significant progress has been made on a number of sections of the Plan, there is a range of other provisions that have not been discussed with Council because of the need to prioritise the time available to focus on the most significant.

Watercare, together with the other organisations, has raised concerns with the Mana Whenua provisions, but the Council staff indicated that they were not in a position to discuss those provisions as the matter resides with the elected representatives.

Two "escalation" sessions were held for Watercare and other CCOs to present on remaining significant policy concerns, one with senior Council staff and one with the Unitary Plan Committee of the Auckland Council. Auckland Council has indicated that where wording has been agreed, this wording will be put forward as part of the Auckland Council submission.

Watercare is also collaborating with the members of the Auckland Utilities Operators Group (AUOG) on matters of collective interest to network utilities and intends to participate where appropriate in AUOG's submission on the draft Plan. AUOG has prepared a draft submission based on input from all members. Watercare is reviewing the draft and providing comments for the final version.

## Auckland Council Operative Plan Changes

There are two main plan changes of significant interest to Watercare: Clevedon and Kingseat.

- **Clevedon:** Watercare has appealed the decision version of the plan change in respect of an activity status date that is set out in the plan. The plan provides that in 2017 the application for subdivision consent will change from a prohibited activity to a non-complying activity. Watercare has agreed in principle to revised wording with Council but this is subject to agreement by the other appellants. *Watercare has not been involved in further discussion on this Plan Change to date since the beginning of the year.*
- **Kingseat:** Some parties have appealed the Kingseat decision. As highlighted previously, there is now interest from several parties to expand the urban area to include their landholdings. Watercare is seeking direction from Council as to whether Council supports the inclusion of these landholdings in the Kingseat township as this has significant implications for the wastewater servicing strategy (i.e., whether the area to be serviced is a population of 5000 or up to 20,000). Watercare provided Council with a short summary of the water and wastewater issues to support Council's analysis. *A Court assisted mediation on the plan change was held on 30 January 2014. Watercare followed up on its commitment to meet with Ngati Tamaoho in respect of their concerns about wastewater servicing issues.*
- There are three additional Plan Changes that have emerged as being of interest to Watercare. Two of these are private plan changes.
  - **Snells-Algies:** There are two private plan changes in this area seeking to rezone land that is out of Watercare's service area. Watercare cannot legally service this area until the wastewater treatment plant resource consent renewal application has been granted by Council and Watercare replaces the ocean outfall pipe. This pipe is in extremely poor condition and is at risk of failure. A programme is in place to replace this pipe, but it is likely to take five years. Watercare has made submissions on both of these private plan changes. *There has been no further activity on these plan changes.*
  - **Puhinui Gateway:** This is a private plan change to rezone a tract of land outside the current Metropolitan Urban Limit (MUL) for industrial purposes. This area is currently outside of Watercare's service area. There are significant issues associated with providing water supply and wastewater services. Update: Council has now agreed to a request from Watercare, as well as Auckland Airport, NZTA, and Auckland Transport, to undertake a comprehensive master planning process to understand the full infrastructure requirements for the remaining land area between the MUL and the coast.



## **Settlement of Claims in the Hunua Ranges**

The Crown is currently engaging with Iwi entities on the settlement of claims relating to the Hunua Ranges.

We are assessing the land blocks to which the claims relate to determine if any Watercare infrastructure is involved. Our initial view is that the Watercare infrastructure is located on regional parkland and not on the Crown land which is the subject of the settlement claims.

## **Mana Whenua Forum**

The next quarterly meeting of the forum is scheduled for 10 April 2014. The quarterly meeting of the Kaitiaki Managers will be held on 13 February 2014. The agenda for that meeting covers:

1. Waikato River Water Take Presentation
2. Marae Drinking Water
3. Regional Kaitiaki Plan
  - a. - Heritage
  - b. - Unitary Plan
4. Auckland Regional Public Health Service

## **Waikato River Take**

Watercare's application including the AEE Report has been prepared and lodged with the Waikato Regional Council prior to the Christmas. Consultation with Waikato Tainui, Huakina Development Trust and other marae is continuing.

## **11. NON-DOMESTIC WASTEWATER TARIFF**

Preparations continue for the implementation of the non-domestic wastewater tariff on 1 July 2014. A further communication to non-domestic customers is planned for early March 2014. This communication will recommend an optimal wastewater pricing plan per meter and will prompt customers to accept the recommended wastewater pricing plan or select an alternative plan.

Internal preparations for the implementation of the new tariff are continuing, with the current focus being user acceptance testing of the billing solution, development of new business processes and training for front-line staff ahead of the release of the March communication.

## **12. TRADE WASTE BYLAW REVIEW**

The new trade waste bylaw will come in to effect at the same time as the new non-domestic wastewater tariff, on 1 July 2014. The new bylaw specifies two groups of customers, 'deemed' and 'conditional'. Those customers classified as 'conditional' under the new bylaw, will require a Trade Waste Agreement in order to continue to discharge trade waste. Watercare representatives are working with these customers to ensure that Trade Waste Agreements are in place before the new bylaw comes in to effect.

### 13. Customer Billing and Asset Programme

Work has continued since Christmas to gather requirements for the Customer, Billing and Asset systems. The focus has been on understanding what requirements we are likely to have of a system going forward, rather than what we do currently. In addition we have started a piece of work on understanding our information management risks and needs as poor information management and data integrity will be one of the biggest risks to this project succeeding. Early work on this will reduce the risk considerably.

Key tasks and timeline over the next six months

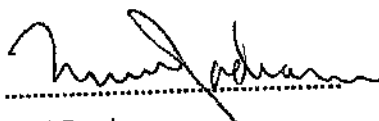
- The RFI will be completed and released early March
- The assessment of information practices and data integrity with a recommended way forward will be completed early March
- The RFI responses will be evaluated and a short list of vendors will be selected for RFP by mid April
- A business case to include the high level design, approximate costs and benefits will be completed by mid April
- The RFP document will be completed and released early May if business case accepted.
- Decisions made about the way forward will be taken end of June, early July 2014.

### 14. MANDATORY NON-FINANCIAL PERFORMANCE MEASURES

In 2010, the Local Government Act 2002 was amended to require the Secretary for Local Government to make rules specifying non-financial performance measures for local authorities to use when reporting to their communities. The aim was to help the public to contribute to discussions on future levels of service for their communities and to participate more easily in their local authority's decision-making processes.

Following the public consultation the rules were finalised, the new rules come into force on 30 July 2014. Local authorities will be required to incorporate the performance measures in the development of their new 2015-2025 long-term plans. The performance measures will therefore be reported against for the first time in the 2015/2016 annual reports.

Further guidance from the Department of Internal Affairs regarding interpretation of the new performance measures is expected by the end of March. At that time a detailed comparison of Watercare's existing performance measures against the new mandatory performance measures will be undertaken with a view to determining what changes (if any) are required to integrate the new mandatory measures.



K M Ford  
CHIEF EXECUTIVE

PP

# **WATERCARE SERVICES LIMITED**

## **Management Report**

**Jan-14**

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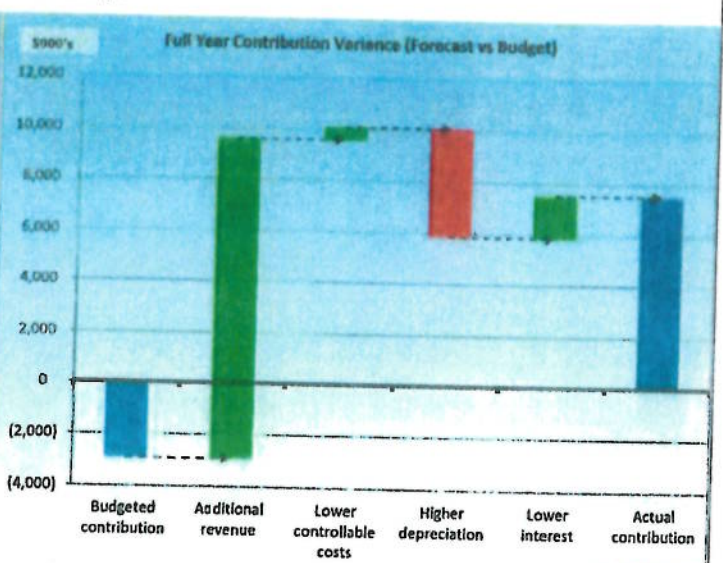
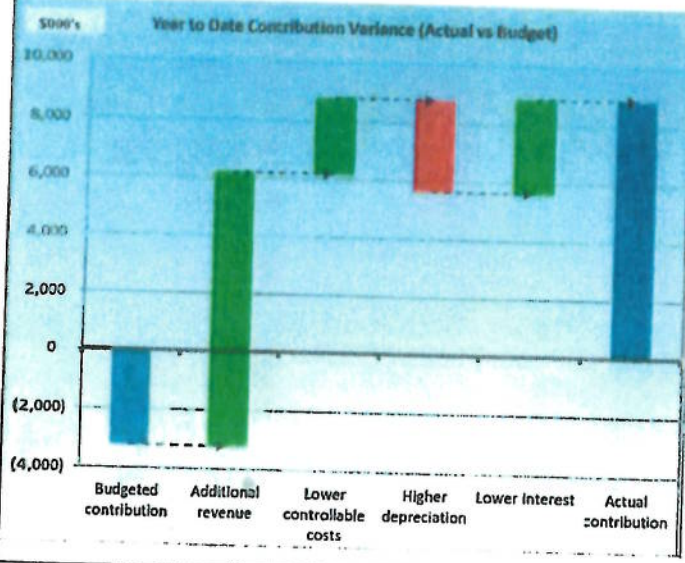
# WATERCARE SERVICES LIMITED STATEMENT OF FINANCIAL PERFORMANCE

Jan-14  
(S000's)

	Current Month				Year to Date				Full Year			
	Actual	Budget	Variance	Result	Actual	Budget	Variance	Result	Forecast	Budget	Variance	Result
Wastewater Revenue	22,267	23,851	(1,584)	⊖	156,217	157,047	(830)	↔	208,999	269,728	(810)	↔
Water Revenue	11,613	12,421	(808)	⊖	77,400	79,016	(1,612)	↔	134,475	136,088	(1,612)	↔
Tradewaste Revenue	4,320	1,364	(44)	⊖	7,411	7,655	(244)	⊖	13,138	13,382	(244)	↔
Laboratory Revenue	461	513	(51)	⊖	3,190	3,849	(659)	⊖	6,146	6,795	(649)	⊖
Infrastructure Growth Charge Revenue	3,740	1,583	163	⊕	16,367	14,583	1,783	⊕	25,455	25,055	400	↔
Other Revenue	2,243	555	1,689	⊕	19,889	8,581	10,959	⊕	31,848	16,366	15,482	⊕
<b>Total Revenue</b>	<b>39,651</b>	<b>40,286</b>	<b>(634)</b>	<b>⊖</b>	<b>289,428</b>	<b>271,911</b>	<b>9,397</b>	<b>⊕</b>	<b>479,960</b>	<b>467,414</b>	<b>12,546</b>	<b>⊕</b>
Labour	5,302	4,647	(655)	⊖	36,230	38,349	2,100	⊕	65,325	67,459	2,135	⊕
Contract Labour	312	192	(120)	⊖	2,894	1,540	(1,353)	⊖	4,527	2,336	(2,191)	⊖
Oncosts	268	277	9	⊕	1,780	1,899	111	⊕	3,193	3,286	94	⊕
Labour Recoveries	(2,427)	(2,469)	(42)	↔	(17,777)	(18,789)	(1,003)	⊖	(32,234)	(32,442)	(209)	↔
<b>Net Labour</b>	<b>3,445</b>	<b>2,648</b>	<b>(797)</b>	<b>⊖</b>	<b>28,126</b>	<b>21,899</b>	<b>(6,227)</b>	<b>⊖</b>	<b>40,811</b>	<b>40,639</b>	<b>(172)</b>	<b>↔</b>
Materials & Cost of Sales	160	173	13	⊕	1,149	1,273	124	⊕	2,055	2,211	156	⊕
Planned Maintenance	681	1,299	347	⊕	7,807	10,059	2,752	⊕	13,293	17,069	1,777	⊕
Unplanned Maintenance	2,412	2,206	(206)	⊖	16,065	15,445	(620)	⊖	26,835	26,569	(267)	↔
Asset Operating Costs - Chemicals	711	1,101	390	⊕	5,907	6,418	511	⊕	10,870	11,020	150	↔
Asset Operating Costs - Energy	1,227	1,522	295	⊕	9,694	10,493	799	⊕	16,899	17,765	766	⊕
Operating Costs - Other	1,886	3,637	(49)	↔	20,472	25,735	(1,736)	⊖	48,669	43,965	(4,704)	⊖
Depreciation and Amortisation	17,181	16,793	(390)	↔	120,115	116,973	(3,162)	⊖	203,912	199,682	(4,230)	↔
<b>Asset Operating Costs</b>	<b>26,176</b>	<b>26,358</b>	<b>188</b>	<b>↔</b>	<b>188,760</b>	<b>183,123</b>	<b>(5,637)</b>	<b>↔</b>	<b>322,559</b>	<b>316,070</b>	<b>(6,489)</b>	<b>↔</b>
Communications	105	138	34	⊕	798	970	172	⊕	1,361	1,671	310	⊕
Professional Services	1,732	1,036	(236)	⊖	6,736	7,812	1,276	⊕	12,780	13,938	1,148	⊕
Interest	6,190	6,349	151	↔	40,801	44,135	3,244	⊕	73,464	75,121	1,657	↔
General Overheads	1,074	1,715	41	↔	10,413	11,925	1,492	⊕	19,176	20,694	1,318	⊕
<b>Overheads</b>	<b>9,101</b>	<b>9,239</b>	<b>(138)</b>	<b>↔</b>	<b>58,658</b>	<b>64,842</b>	<b>6,184</b>	<b>⊕</b>	<b>106,791</b>	<b>111,424</b>	<b>4,633</b>	<b>⊕</b>
<b>Total Expenses</b>	<b>39,034</b>	<b>38,416</b>	<b>(618)</b>	<b>↔</b>	<b>271,541</b>	<b>274,245</b>	<b>2,704</b>	<b>↔</b>	<b>472,415</b>	<b>470,445</b>	<b>(2,071)</b>	<b>↔</b>
<b>Total Contribution</b>	<b>617</b>	<b>1,670</b>	<b>(1,053)</b>	<b>⊖</b>	<b>8,887</b>	<b>(3,215)</b>	<b>12,102</b>	<b>⊕</b>	<b>7,545</b>	<b>(2,930)</b>	<b>10,475</b>	<b>⊕</b>
<b>Gain/Loss on Disposal of Fixed Assets &amp; other Costs</b>	<b>867</b>	<b>-</b>	<b>(867)</b>	<b>⊖</b>	<b>7,066</b>	<b>-</b>	<b>(7,066)</b>	<b>⊖</b>	<b>8,696</b>	<b>-</b>	<b>(8,696)</b>	<b>⊖</b>
Financial Instruments Revaluation (Gain)/Loss	19,374	-	(10,374)	⊖	(28,540)	-	28,540	⊕	(28,540)	-	28,540	⊕
Non Operating costs	11,241	-	(11,241)	⊖	(29,874)	-	29,874	⊕	(19,874)	-	19,874	⊕
<b>Net Surplus (Deficit) before Tax</b>	<b>(10,624)</b>	<b>1,670</b>	<b>(12,294)</b>	<b>⊖</b>	<b>29,761</b>	<b>(1,215)</b>	<b>32,976</b>	<b>⊕</b>	<b>27,419</b>	<b>(2,930)</b>	<b>30,350</b>	<b>⊕</b>
Income Tax Expense/(benefit)	-	-	-	-	-	-	-	-	-	-	-	-
Deferred Tax	(4,439)	654	5,093	⊕	3,360	(697)	(9,057)	⊖	7,702	(818)	8,520	⊕
<b>Net Surplus (Deficit) after Tax</b>	<b>(6,195)</b>	<b>1,016</b>	<b>(7,210)</b>	<b>⊖</b>	<b>21,401</b>	<b>(2,518)</b>	<b>21,919</b>	<b>⊕</b>	<b>19,717</b>	<b>(2,112)</b>	<b>21,829</b>	<b>⊕</b>

**Key: Financial performance result**

- ⊕ Favourable variance - actual income > 2.5% above budget and actual expenditure < 2.5% below budget
- ⊖ Unfavourable variance - actual income < 2.5% below budget and actual expenditure > 2.5% above budget
- ↔ Neutral - actual income and actual expenditure is within 2.5% of budget







# WATERCARE SERVICES LIMITED STATEMENT OF CASH FLOWS

Jan-14

(\$000's)

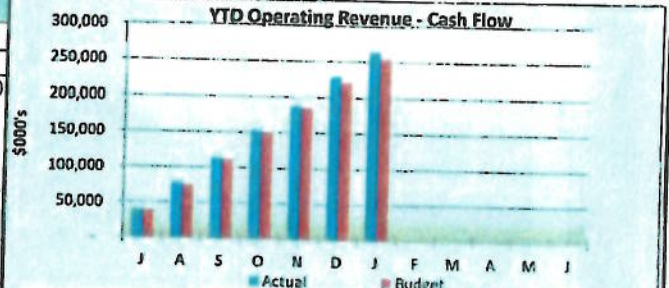
NZ \$000s	Current Month				Year to Date				Full Year Budget
	Actual	Budget	Variance	Result	Actual	Budget	Variance	Result	
<b>Operating Cash flow:</b>									
Operating Revenue	34,859	34,114	745	↔	262,925	255,375	7,550	✓	460,706
Operating Costs	(14,244)	(19,863)	5,619	✓	(98,546)	(121,305)	22,759	✓	(181,877)
Interest Paid	(3,457)	(3,694)	237	✓	(37,952)	(41,751)	3,799	✓	(75,121)
<b>OPERATING CASH FLOW</b>	<b>17,158</b>	<b>10,557</b>	<b>6,601</b>	<b>✓</b>	<b>126,427</b>	<b>92,319</b>	<b>34,108</b>	<b>✓</b>	<b>203,708</b>
<b>Investing Cash flow:</b>									
Capital Expenditure	(18,458)	(26,645)	8,187	✓	(188,020)	(189,962)	1,942	↔	(318,062)
Capitalised Interest (CAPI)	(1,188)	(896)	(292)	✗	(8,627)	(6,583)	(2,044)	✗	(11,824)
<b>INVESTING CASH FLOW</b>	<b>(19,646)</b>	<b>(27,541)</b>	<b>7,895</b>	<b>✓</b>	<b>(196,647)</b>	<b>(196,545)</b>	<b>(102)</b>	<b>↔</b>	<b>(329,886)</b>
<b>Financing Cash flow:</b>									
Bonds/Term Debt Issued/(Repaid)	(20)	-	(20)	✗	(139)	-	(139)	✗	-
Short Term Advances/(Repaid)	500	500	-	↔	(20,500)	(26,929)	6,429	✓	35,000
Commercial Paper Issued/(Repaid)	(55)	-	(55)	✗	9,761	10,762	(1,001)	✗	5,000
Auckland Council Borrowings/(Repaid)	20	16,484	(16,464)	✗	81,081	120,393	(39,312)	✗	86,178
<b>FINANCING CASH FLOW</b>	<b>445</b>	<b>16,984</b>	<b>(16,539)</b>	<b>✗</b>	<b>70,203</b>	<b>104,226</b>	<b>(34,023)</b>	<b>✗</b>	<b>126,178</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(2,043)</b>	<b>-</b>	<b>(2,043)</b>	<b>✗</b>	<b>(17)</b>	<b>-</b>	<b>(17)</b>	<b>✗</b>	<b>-</b>
Opening Cash Balance/(Overdraft)	1,989	-	1,989	✓	(37)	-	(37)	✗	-
<b>Ending Cash Balance/(Overdraft)</b>	<b>(54)</b>	<b>-</b>	<b>(54)</b>	<b>✗</b>	<b>(54)</b>	<b>-</b>	<b>(54)</b>	<b>✗</b>	<b>-</b>

**Key: Financial performance result**

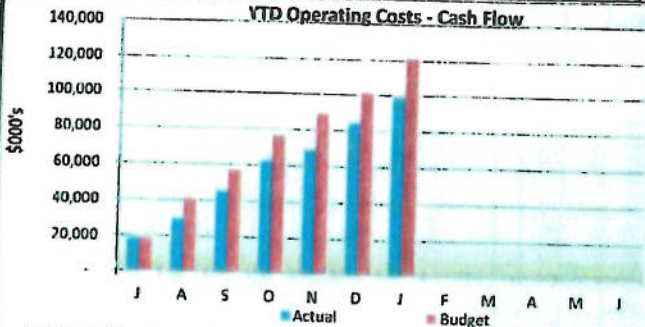
- ✓ Favourable variance - actual income > 2.5% above budget and actual expenditure < 2.5% below budget
- ✗ Unfavourable variance - actual income < 2.5% below budget and actual expenditure > 2.5% above budget
- ↔ Neutral - actual income and actual expenditure is within 2.5% of budget

**Reconciliation Operating Cashflow (\$000's)**

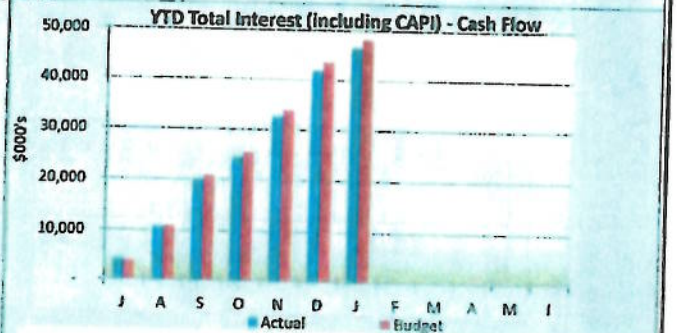
	Month		Year to Date		Full Year Budget
	Actual	Budget	Actual	Budget	
Net Surplus (Deficit) After Tax	(6,195)	1,016	21,401	(2,518)	(2,112)
Add back non cash items:					
Depreciation and amortisation	17,183	16,793	120,135	116,973	199,682
Financial instruments revaluation	10,374	-	(28,540)	-	-
Vested assets revenue	(1,288)	-	(13,888)	(2,950)	(5,800)
Contributions for PP&F	-	-	-	(950)	(2,000)
Other non-operating exp/(inc)	867	-	7,666	-	-
Income Tax Expense/(Benefit)	(4,429)	654	8,360	(697)	(818)
Movements in Working Capital	645	(7,906)	11,294	(17,539)	14,756
<b>OPERATING CASH FLOW</b>	<b>17,158</b>	<b>10,557</b>	<b>126,427</b>	<b>92,319</b>	<b>203,708</b>



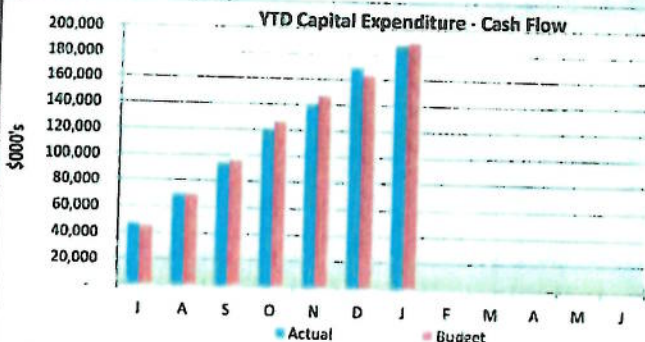
YTD collection levels primarily driven by improved December month vs budget.



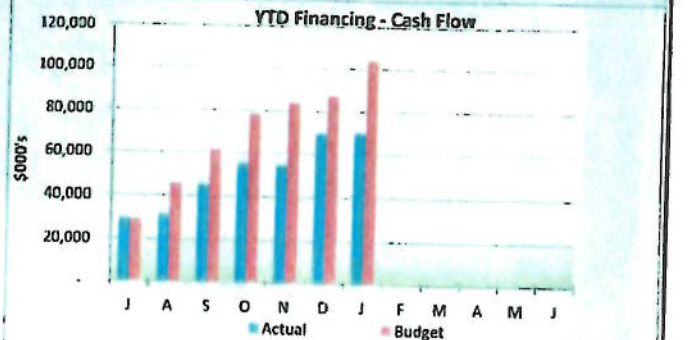
YTD favourable variance reflects actual timing of payment to suppliers' different to budget and unbudgeted lease inducement payment received for 73 Remuera Road.



YTD savings in interest cost payments made is due to lower than budgeted borrowing levels.



YTD capital expenditure cash flow in line with expected budget levels.



YTD beneath budget due to lower operating costs and higher operating revenue cash flow.

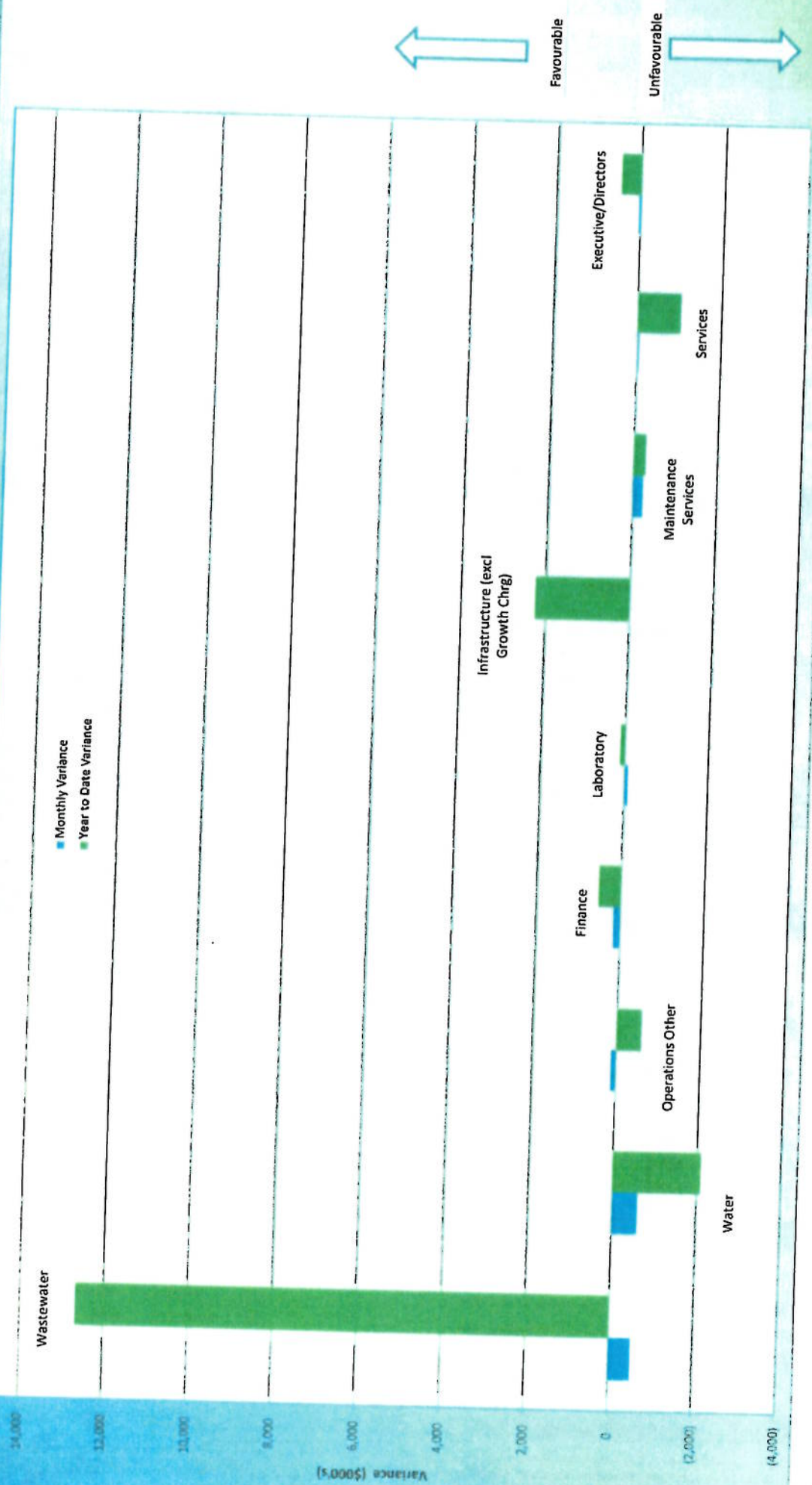


WATERCARE SERVICES LIMITED  
STATEMENT OF FINANCIAL PERFORMANCE BY BUSINESS UNIT

	Full Year												
	Current Month						Year to Date						
	Actual		Budget		Actual		Budget		Actual		Budget		
Water	Wastewater	Water	Wastewater	Water	Wastewater	Water	Wastewater	Water	Wastewater	Water	Wastewater		
Wastewater Revenue	11,613	12,421	23,851	23,851	136,217	157,047	157,047	157,047	157,047	1,368,888	1,368,888	269,728	269,728
Water Revenue	1,408	1,364	1,364	1,364	7,403	7,403	7,403	7,403	7,403	13,382	13,382	13,382	13,382
Tradewaste Revenue	149	166	347	347	3,100	3,100	3,100	3,100	3,100	2,194	4,601	4,601	6,795
Laboratory Revenue	1,613	918	665	1,583	18,167	18,167	18,167	18,167	18,167	14,532	10,523	10,523	25,055
Infrastructure Growth Charge Revenue	1,335	366	189	555	10,360	10,360	10,360	10,360	10,360	8,714	7,652	7,652	16,166
Other Revenue	1,335	366	189	555	10,360	10,360	10,360	10,360	10,360	8,714	7,652	7,652	16,166
<b>Total Revenue</b>	<b>15,333</b>	<b>15,615</b>	<b>26,346</b>	<b>26,346</b>	<b>186,334</b>	<b>186,334</b>	<b>186,334</b>	<b>186,334</b>	<b>186,334</b>	<b>305,887</b>	<b>305,887</b>	<b>305,887</b>	<b>305,887</b>
Labour	1,987	1,797	2,850	4,647	33,273	33,273	33,273	33,273	33,273	43,579	41,636	41,636	67,459
Contract Labour	102	60	132	192	1,346	2,394	2,394	2,394	2,394	1,027	1,024	1,024	2,336
Overcosts	302	166	171	277	1,708	1,708	1,708	1,708	1,708	1,255	2,012	2,012	3,286
Labour Recoveries	(870)	(1,077)	(1,575)	(1,894)	(11,366)	(11,366)	(11,366)	(11,366)	(11,366)	(11,749)	(120,693)	(120,693)	(32,442)
<b>Net Labour</b>	<b>1,312</b>	<b>816</b>	<b>1,378</b>	<b>2,046</b>	<b>14,259</b>	<b>14,259</b>	<b>14,259</b>	<b>14,259</b>	<b>14,259</b>	<b>16,844</b>	<b>24,396</b>	<b>24,396</b>	<b>40,659</b>
Materials & Cost of Sales	52	108	113	151	376	1,148	1,148	1,148	1,148	713	1,199	1,199	2,211
Planned Maintenance	384	477	867	1,299	4,601	7,307	7,307	7,307	7,307	6,449	10,620	10,620	17,069
Unplanned Maintenance	1,340	1,271	1,183	2,206	7,054	16,065	16,065	16,065	16,065	12,163	19,406	19,406	26,589
Asset Operating Costs - Chemicals	364	458	643	1,101	1,956	5,907	5,907	5,907	5,907	3,863	7,157	7,157	11,020
Asset Operating Costs - Energy	389	338	969	1,522	7,142	6,684	6,684	6,684	6,684	4,872	12,893	12,893	17,765
Operating Costs - Other	1,101	2,005	2,277	3,637	10,754	18,718	18,718	18,718	18,718	16,748	27,217	27,217	43,965
Depreciation and Amortisation	7,734	8,489	9,143	16,793	63,908	120,133	120,133	120,133	120,133	86,983	112,699	112,699	199,682
<b>Total Asset Operating Costs</b>	<b>13,390</b>	<b>14,778</b>	<b>17,332</b>	<b>26,538</b>	<b>108,309</b>	<b>188,586</b>	<b>188,586</b>	<b>188,586</b>	<b>188,586</b>	<b>184,952</b>	<b>234,674</b>	<b>234,674</b>	<b>316,674</b>
Communications	47	89	89	138	406	708	708	708	708	596	1,075	1,075	1,671
Professional Services	89	395	641	1,036	3,529	6,576	6,576	6,576	6,576	5,515	8,423	8,423	13,938
Interest	231	547	6,045	6,349	40,348	40,348	40,348	40,348	40,348	5,444	69,677	69,677	75,121
General Overheads	371	1,086	1,086	1,715	10,403	10,403	10,403	10,403	10,403	7,664	13,030	13,030	20,694
<b>Overheads</b>	<b>1,448</b>	<b>2,117</b>	<b>2,861</b>	<b>4,599</b>	<b>24,686</b>	<b>46,036</b>	<b>46,036</b>	<b>46,036</b>	<b>46,036</b>	<b>30,239</b>	<b>92,218</b>	<b>92,218</b>	<b>111,424</b>
<b>Total Expenditure</b>	<b>14,214</b>	<b>14,570</b>	<b>24,930</b>	<b>33,678</b>	<b>159,622</b>	<b>271,241</b>	<b>271,241</b>	<b>271,241</b>	<b>271,241</b>	<b>167,656</b>	<b>303,284</b>	<b>303,284</b>	<b>476,145</b>
<b>Total Contribution</b>	<b>1,119</b>	<b>1,045</b>	<b>1,416</b>	<b>2,668</b>	<b>26,712</b>	<b>9,093</b>	<b>9,093</b>	<b>9,093</b>	<b>9,093</b>	<b>138,231</b>	<b>62,603</b>	<b>62,603</b>	<b>(70,258)</b>

# WATERCARE SERVICES LIMITED DIVISIONAL CONTRIBUTION VARIANCE

Jan-14



← Favourable      Unfavourable →



**WATERCARE SERVICES LIMITED**  
**STATEMENT OF FINANCIAL POSITION**

Jan-14

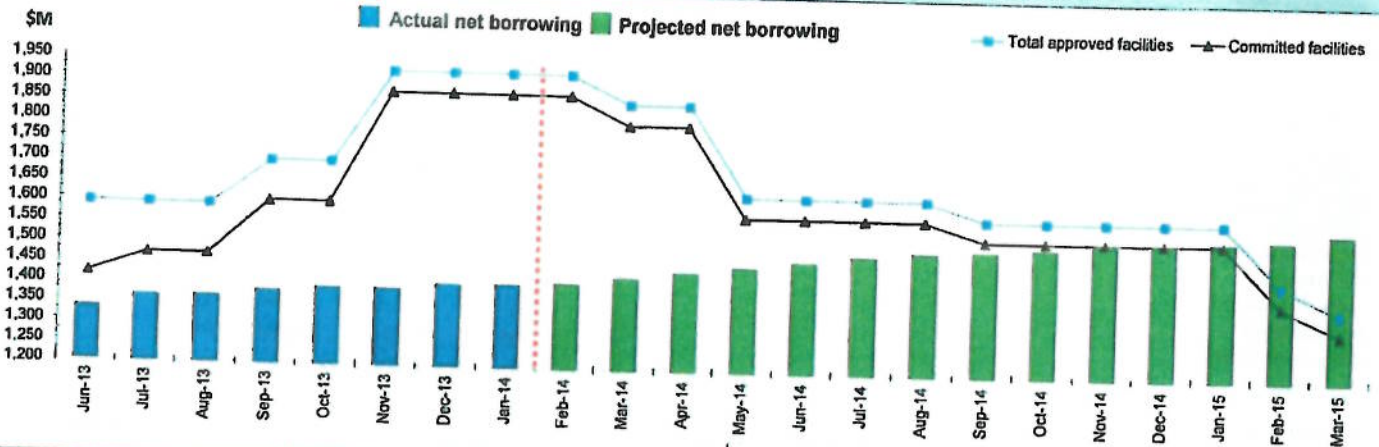
(\$000's)

June 2013 Actual	December Actual		January		
			Actual	Budget	Variance
		<b>Non-Current Assets</b>			
7,678,869	7,796,947	Property, Plant and Equipment	7,854,170	8,013,046	(158,876)
438,568	465,776	Construction/Work-in-progress	428,590	457,309	(28,719)
(132,668)	(125,289)	Less: Provision for Depreciation	(141,258)	(151,265)	10,008
<b>8,084,769</b>	<b>8,137,434</b>	<b>Total Property, Plant and Equipment</b>	<b>8,141,502</b>	<b>8,319,090</b>	<b>(177,588)</b>
43,054	39,421	Intangible Assets	38,761	40,537	(1,776)
24,855	24,530	Prepaid Expenses	24,493	22,334	2,159
3,338	4,247	Inventories	4,277	4,422	(145)
10,819	10,947	Derivative Financial Instruments	8,786	16,830	(8,044)
<b>8,166,836</b>	<b>8,216,579</b>	<b>Total Non-Current Assets</b>	<b>8,217,819</b>	<b>8,403,211</b>	<b>(185,393)</b>
		<b>Current Assets</b>			
-	1,989	Cash and Cash Equivalents	-	-	-
39,247	31,967	Trade and Other Receivables	38,514	54,283	(15,768)
20,832	25,260	Unbilled Revenue Accrual	21,852	23,054	(1,202)
4,220	3,097	Prepaid Expenses	3,047	3,330	(284)
4,005	3,154	Inventories	3,056	1,874	1,182
3,645	1,426	Derivative Financial Instruments	1,094	407	688
<b>71,549</b>	<b>66,894</b>	<b>Total Current Assets</b>	<b>67,564</b>	<b>82,947</b>	<b>(15,384)</b>
<b>8,238,785</b>	<b>8,283,473</b>	<b>Total Assets</b>	<b>8,285,382</b>	<b>8,486,159</b>	<b>(200,777)</b>
		<b>Financed by:</b>			
		<b>Non-Current Liabilities</b>			
150,000	150,000	Bonds (16/02/15)	150,000	150,000	-
30,000	30,000	Bonds (18/05/16)	30,000	30,000	-
75,000	75,000	Bonds (26/10/18)	75,000	75,000	-
51,183	51,058	Bonds (26/10/18)	51,036	51,036	0
150,000	150,000	Term Loan (13/10/16)	150,000	150,000	-
35,000	14,000	Bank Revolving Credit Facility	14,500	35,000	(20,500)
418,734	460,100	Auckland Council Loan	459,764	473,466	(13,702)
<b>909,917</b>	<b>930,158</b>	<b>Total debt non-current</b>	<b>930,301</b>	<b>964,502</b>	<b>(34,201)</b>
8,580	13,440	Other Accrued Expenses	13,402	8,450	4,952
1,171	1,169	Provision for Staff Benefits	1,169	1,570	(402)
83,909	43,668	Derivative Financial Instruments	51,619	120,431	(68,812)
927,052	939,841	Deferred Tax Liability	935,411	958,291	(22,880)
<b>1,939,628</b>	<b>1,928,275</b>	<b>Total Non-Current Liabilities</b>	<b>1,931,902</b>	<b>2,053,246</b>	<b>(121,344)</b>
		<b>Current Liabilities</b>			
37	-	Bank Overdraft	54	-	54
139,032	148,848	Commercial Paper	148,793	149,794	(1,001)
220,239	220,245	Bonds (15/05/14)	220,246	220,246	0
78,754	118,449	Auckland Council Loan	118,805	118,805	0
<b>438,062</b>	<b>487,542</b>	<b>Total debt current</b>	<b>487,898</b>	<b>488,844</b>	<b>(947)</b>
28,116	16,529	Trade and Other Payables	17,547	19,891	(2,344)
10,641	11,103	Interest Accrued	13,898	16,297	(2,399)
55,205	39,097	Other Accrued Expenses	39,594	44,874	(5,279)
5,720	5,329	Provision for Staff Benefits	5,215	4,157	1,057
2,983	1,335	Other Provisions	1,331	2,983	(1,652)
990	277	Derivative Financial Instruments	155	990	(835)
<b>531,717</b>	<b>561,161</b>	<b>Total Current Liabilities</b>	<b>565,639</b>	<b>578,036</b>	<b>(12,398)</b>
		<b>Equity</b>			
260,693	260,693	Authorised & Issued Capital	260,693	260,693	-
3,779,111	3,779,111	Capital Contribution Reserve	3,779,111	3,779,111	-
1,620,746	1,646,539	Revaluation Reserve	1,646,415	1,736,330	(89,915)
65,580	80,097	Retained Earnings	80,221	81,260	(1,039)
40,310	27,596	Current Year Earnings after Tax	21,401	(2,518)	23,919
<b>5,766,440</b>	<b>5,794,037</b>	<b>Total Shareholders' Funds</b>	<b>5,787,842</b>	<b>5,854,876</b>	<b>(67,035)</b>
<b>8,238,785</b>	<b>8,283,473</b>	<b>Total Shareholders' Funds and Liabilities</b>	<b>8,285,382</b>	<b>8,486,159</b>	<b>(200,777)</b>



# TREASURY RISKS AND INTEREST RATE PERFORMANCE

Jan-14



## Interest rates

	Actual YTD	Benchmark YTD	Year end forecast
Weighted averages (excl. fees and margins)	5.23%	4.71%	5.19%
Weighted averages (incl. fees and margins)	6.34%	N/A	6.26%

## Debt (\$m)

	Actual	Budget	Variance
Short-term borrowings	487.8	488.8	(1.0)
Long-term borrowings	930.3	964.5	(34.2)
<b>Total gross debt</b>	<b>1,418.1</b>	<b>1,453.3</b>	<b>(35.2)</b>
Less cash & deposits	-	-	-
<b>Total net borrowing</b>	<b>1,418.1</b>	<b>1,453.3</b>	<b>(35.2)</b>

## Committed facilities

- Westpac Term Loan facility \$150 million
- ANZ CP Standby facility \$100 million
- BNZ CP Standby facility \$100 million
- Westpac Revolving Credit facility \$60 million
- Medium term notes \$525 million
- Auckland Council \$937 million

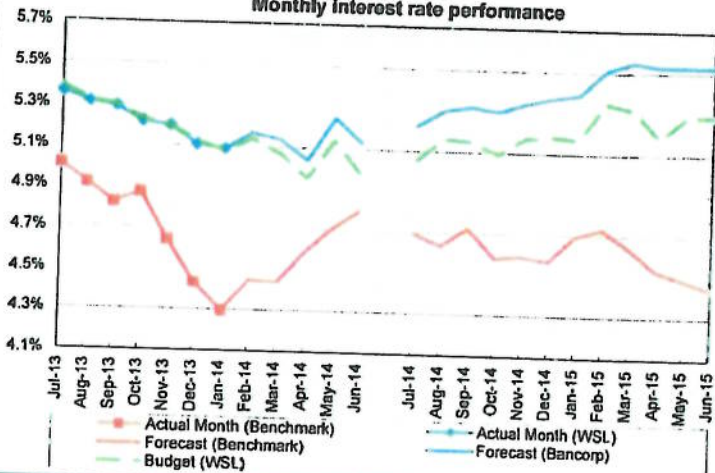
**Total committed facilities as at 31 January \$1,872 million**

## Additional approved facilities

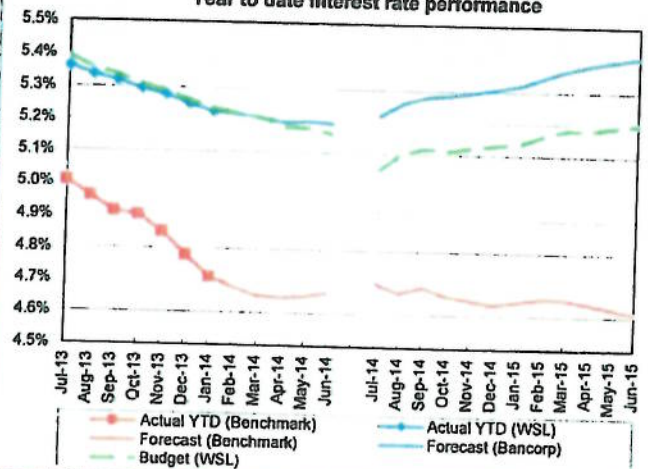
- Approved CP issuance, over and above CP Standby facility \$50 million

**Total approved facilities as at 31 January \$1,922 million**

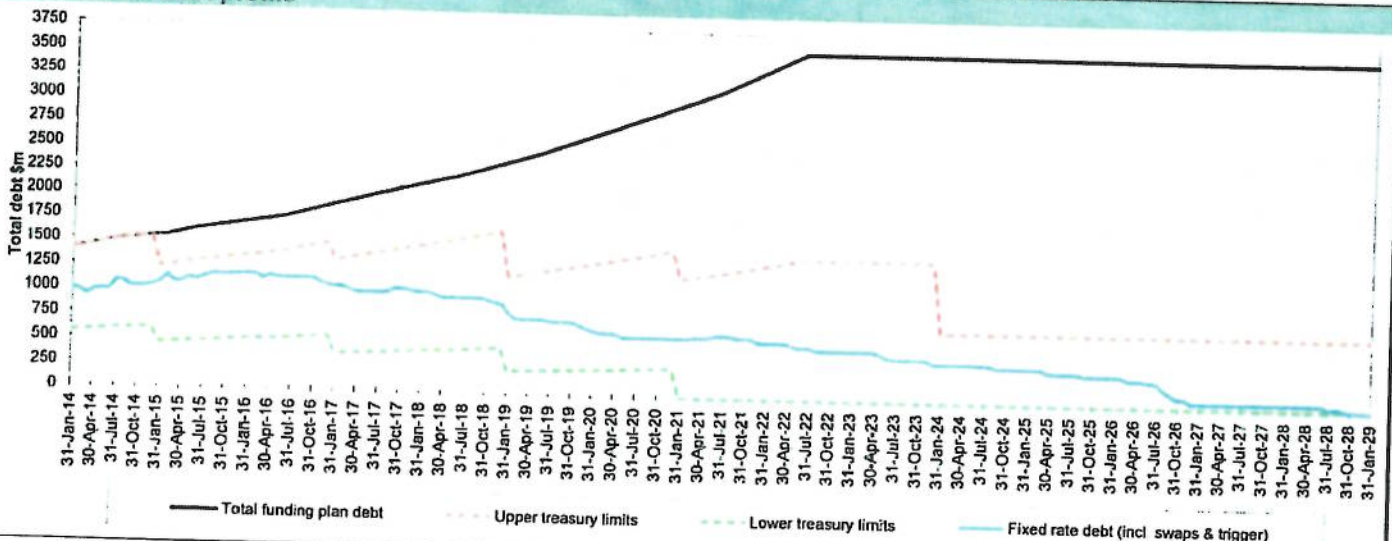
## Monthly interest rate performance



## Year to date interest rate performance



## Forecast total debt profile





**COUNTERPARTY EXPOSURES, DEBT CONCENTRATION & COVENANT COMPLIANCE**

Jan-14

Counterparty exposures	S&P credit rating Short / long term	Face value	Credit exposures	Limit	Limit OK / exceeded	
		\$000	\$000	\$000		
<b>Obligations of registered banks</b>		740,927	118,443	200,000	Limit OK	
ANZ Bank	A1+ / AA-	641,118	122,212	200,000	Limit OK	
Bank of New Zealand	A1+ / AA-	115,000	16,200	200,000	Limit OK	
ASB Institutional	A1+ / AA-	310,306	95,731	200,000	Limit OK	
Westpac Institutional Bank	A1+ / AA-	1,807,351	352,585	N/A		

Note: Credit exposures are direct exposures plus 3% of the face value of interest rate contracts per annum & 10% of foreign currency contracts.

Debt concentration		\$000							Total
Committed debt facilities	Maturity	0-12 months	12-24 months	24-36 months	36-48 months	48-60 months	> 60 months		
ANZ CP Standby facility	1/07/15		100,000					100,000	
Westpac Revolving Credit facility	30/11/15		60,000					60,000	
Westpac Term Loan facility	13/10/16			150,000				150,000	
BNZ CP Standby facility	1/07/17				100,000			100,000	
Medium-term notes	Various	220,000	150,000	30,000		125,000		525,000	
Auckland Council	Various	116,803	102,439	74,668	83,368	2,243	557,242	936,763	
<b>Total committed debt facilities</b>		336,803	412,439	254,668	183,368	127,243	557,242	1,871,763	
Approved CP issuance, over and above CP Standby							50,000	50,000	
<b>Total committed and approved debt facilities</b>		336,803	412,439	254,668	183,368	127,243	607,242	1,921,763	
<b>Treasury policy - total committed debt facilities</b>		<= 500,000	<= 500,000	<= 500,000	<= 500,000	<= 500,000			
Treasury policy compliance									
Drawn bank facilities	Maturity	0-6 months	6-12 months	12-18 months	18-24 months	24-30 months	> 30 months	Total	
ANZ CP Standby facility (\$100m)	1/07/15							0	
Westpac Revolving Credit facility (\$60m)	30/11/15				14,500			14,500	
Westpac Term Loan facility (\$150m)	13/10/16						150,000	150,000	
BNZ CP Standby facility (\$100m)	1/07/17				14,500		150,000	164,500	
<b>Treasury policy for bank facilities</b>		<= 250,000	<= 250,000	<= 250,000	<= 250,000	<= 250,000	<= 250,000		
Treasury policy compliance									
Other facilities	Maturity	0-6 months	6-12 months	12-18 months	18-24 months	24-30 months	> 30 months	Total	
BNZ overdraft	On demand	2,000						2,000	
<b>Counterparty exposure in relation to borrowing facilities</b>		Westpac	BNZ	ANZ					
Term loan facility		150,000							
Revolving credit facility		60,000							
CP standby facility			100,000	100,000					
<b>Treasury policy</b>		<= 500,000	<= 500,000	<= 500,000					
Treasury policy compliance									

**Compliance with financial covenants and ratios under the Negative Pledge Deed and Guarantee Facility Deed**

Covenant / ratio	Benchmark/target measure	Outcome	Compliance
Security interests / total tangible assets - maximum	5%	0.00%	
Total liabilities / total tangible assets - maximum	60%	30.29%	
Total liabilities (including contingent) / total tangible assets - maximum	65%	30.29%	
Shareholders funds - minimum (\$000)	500,000	5,787,842	
EBITDA : funding costs ratio - minimum	1.75	3.81	
Funds from operations : interest cover ratio - minimum	2.00	3.15	
Total tangible assets of borrowing group / total tangible assets - minimum	90%	100.00%	
Loans, guarantees etc to related companies / total tangible assets - maximum	5%	0.00%	
External debt maturing in less than 5 years - minimum	50%	100.00%	

# FOREIGN EXCHANGE & COMMERCIAL PAPER

Jan-14

## Foreign currency exposures (NZ\$000) including hedging for chemical purchases

Total exposure to be hedged  
Foreign exchange hedging  
  
Percentage cover  
Treasury policy  
Treasury policy compliance

	USD	EUR	AUD	Total
Total exposure to be hedged	1,233	261	858	2,351
Foreign exchange hedging	1,233	261	858	2,351
Percentage cover	100%	100%	100%	100%
Treasury policy	100%	100%	100%	100%
Treasury policy compliance				

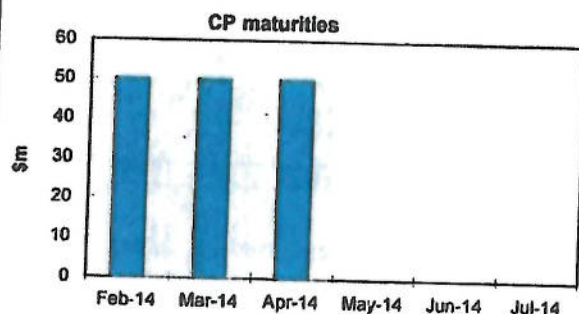
## Hedging for chemical purchases (US\$000)

Chemicals forward foreign exchange hedging  
Treasury policy  
Treasury policy compliance

	Jun-14	Dec-14	Jun-15	Dec-15	Total
Chemicals forward foreign exchange hedging	750	250			1,000
Treasury policy					<= 5,000
Treasury policy compliance					

## Commercial paper maturities

Issue #	\$000	BKBM	Interest rate	Bid cover (x)	Term (days)	Maturity date
258	7,000	2.696%	2.896%	1.00	184	12-Feb-14
262	43,000	2.670%	2.810%	2.35	92	25-Feb-14
263	50,000	2.720%	2.861%	1.64	95	24-Mar-14
264	50,000	2.870%	3.010%	2.10	99	30-Apr-14
	150,000		2.898%			



Note: BKBM is the banks' mid-rate for bills of an appropriate term on the day of issue of the CP.

## Outstanding CP

Uncommitted short-term debt

	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Beyond Jul-14	Total
Outstanding CP	50,000	50,000	50,000	0	0	0	0	150,000
Uncommitted short-term debt	50,000	50,000	50,000	0	0	0	0	150,000

Treasury policy for maximum amount of CP outstanding

Treasury policy compliance

<= 250,000

## Undrawn committed standby facilities

Undrawn committed standby facility - CP facility

50% of CP and other short-term debt repayable within 60 days

Treasury policy: Undrawn standby facilities >= 50% of outstanding CP and other uncommitted short-term debt repayable within 60 days

Treasury policy compliance

	1 month	1-2 months	2-3 months	3-4 months	4-5 months	5-6 months	6-7 months	> 7 months
Undrawn committed standby facility - CP facility	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000
50% of CP and other short-term debt repayable within 60 days	50,000	50,000	25,000	0	0			
Treasury policy: Undrawn standby facilities >= 50% of outstanding CP and other uncommitted short-term debt repayable within 60 days								
Treasury policy compliance								





# WATERCARE SERVICES LIMITED

Management Report

Jan-14

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### Section B

### Page

<b>1</b>	<b>Results by Area (non-financial)</b>	
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	● Wastewater Treatment - Mangere	B2
	● Wastewater Treatment - Rosedale	B3
	● Managed Assets	
	- Unplanned Maintenance	B4
	- Inventory Management	B5
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	● Public Perception	B8
<b>2</b>	<b>Statistics</b>	
	● Monthly Statistics Update	B9
	● Networks Statistics	B10
	● Customer Services Statistics	B11

*Confidential*

Water Quality

Transgressions of Maximum Acceptable Values - Annual Compliance 2014 (Financial Year to Date)

WTPs	Compliance to Month	Year to Date Compliance	Transgressions
E.coli	21/21	21/21	0
Protozoa	21/21	21/21	0
Priority 2 Determinands*	5/5	5/5	0

\* Priority 2 Determinands are those of public health significance that are present at concentrations that exceed 50% of the Maximum Acceptable Value. Fluoride has been assigned to Ardmore, Hula, Waitakere, Waikato and Pukekohe WTPs as it is added to the treatment process. Nitrate is assigned as a P2 to the Pukekohe WTP

Water Supply Zone	Compliance to Month	Year to Date Compliance	Transgressions
E.coli	41/41	40/41	1
Priority 2 Determinands*	6/7	6/7	3
Turbidity	41/41	38/41	3

\* Priority 2 Determinands are those of public health significance that are present at concentrations that exceed 50% of the Maximum Acceptable Value. Trihalomethanes have been assigned to Te Henga, Oratia, Helensville/Parakai, Warkworth and Wellsford. Nitrate has been assigned to Bombay. Fluoride and Boron are assigned to Clarks/Waiarau as it is naturally occurring in the groundwater

A routine sample for Trihalomethanes (THMs) from 10 Fordyce Rd in the Helensville Grading Zone taken on 23/01/14 breached the Maximum Allowable Value. The result was 1.143mg/L compared to the MAV of 1.0mg/L. The Drinking Water Assessment Unit was notified. Reports have been issued to the Drinking Water Assessment Unit for the Robertson Road, Waipareira Avenue and Ormiston Road turbidity exceedances in November and December.

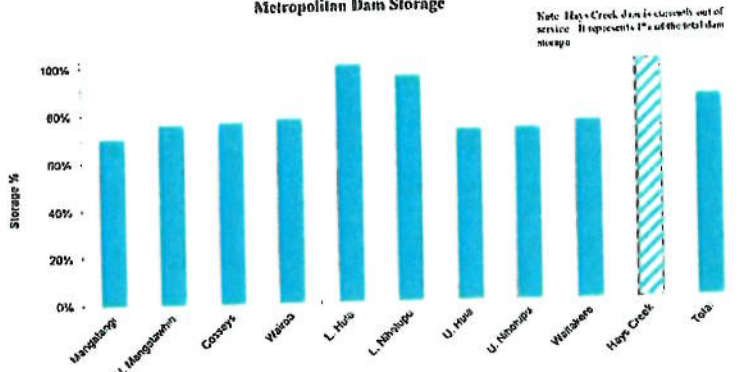
E.coli was detected at a sample point in Devonport in the North Shore Grading Zone on 23/11/2013. The Drinking Water Assessment Unit was notified and three days of consecutive sampling conducted as per the DWSNZ requirements for both events. All follow-up samples were compliant with the DWSNZ. DNA analysis confirms the E.coli strains detected as being E.coli. The strains were very similar indicating they were possibly derived from the same animal or bird and unlikely to be from sewage contamination.

Unplanned Loss of Supply at Bulk Meters

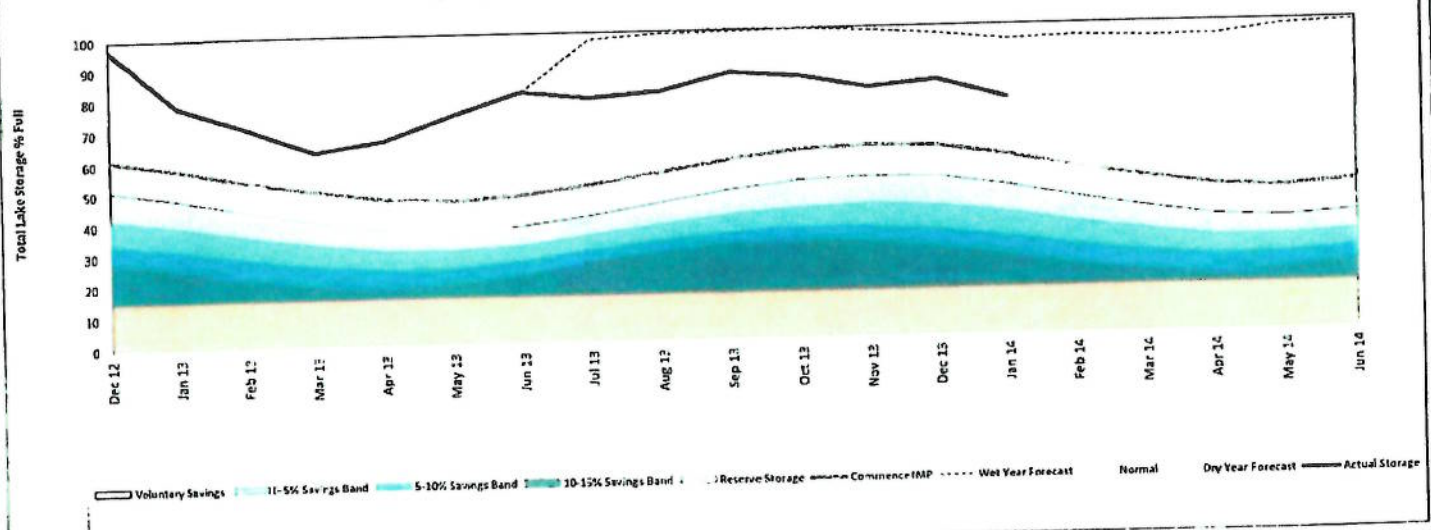
Month	Number	Hours	Rolling 12 month Actual
M	0	0	0
J	0	0	0
J	0	0	0
A	0	0	0
S	0	0	0
O	0	0	0
N	0	0	0
D	0	0	0
J	0	0	0
F	0	0	0
M	0	0	0
A	0	0	0

Note: There has been no unplanned loss of supply at Bulk Meters for the last 12 months.

Metropolitan Dam Storage



Storage Response - December 2012 to June 2014





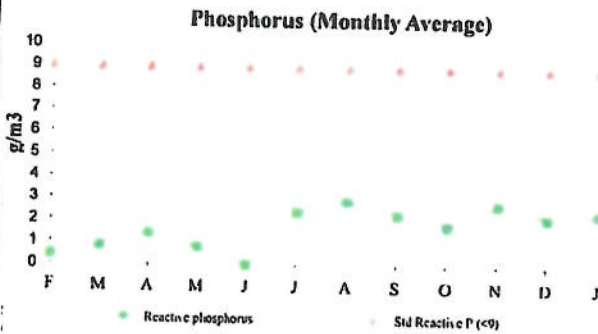
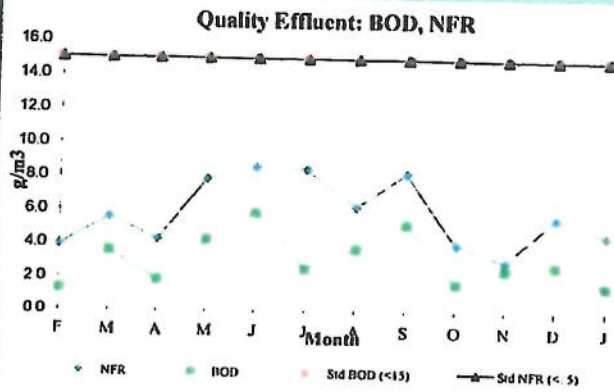
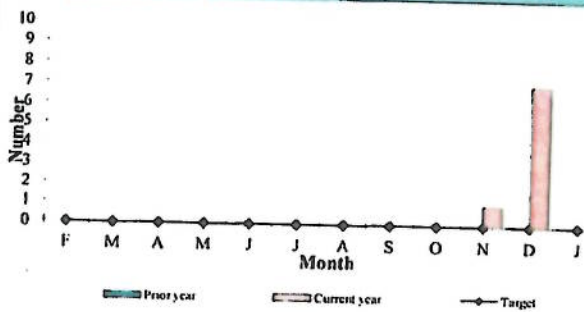


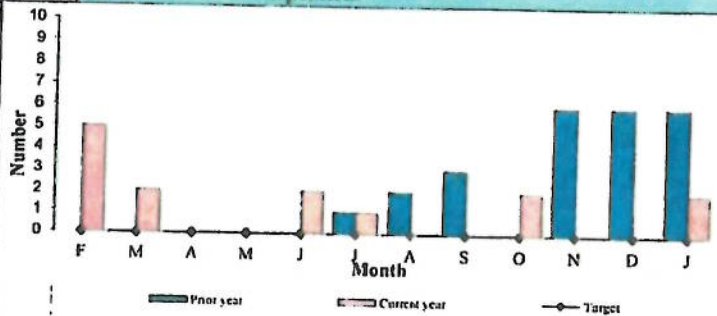
Table 2 Compliance	Consent compliance	Jan-14	Table 2 Standard
<b>Plant load</b>			
<b>Monthly average</b>			
BOD (g/m3)		1.7	< 15
NFR (g/m3)		4.7	< 15
<b>Nutrients (g/m3)</b>			
<b>Monthly Mean</b>			
Reactive phosphorus		2.4	< 9
Total nitrogen (Apr-Nov)		N/A	< 35
Total nitrogen (Dec-Mar)		8.2	< 9.5
<b>Disinfection</b>			
% duration receiving 35 milliWatt-sec/cm <sup>1</sup> of UV dose		100.00%	>= 99%
<b>Monthly mean (% saturation)</b>			
Dissolved oxygen		105.60%	> 80%
<b>Breaches of resource consent conditions</b>		0	0

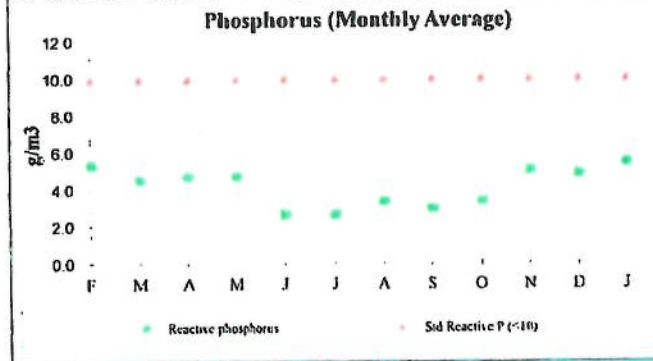
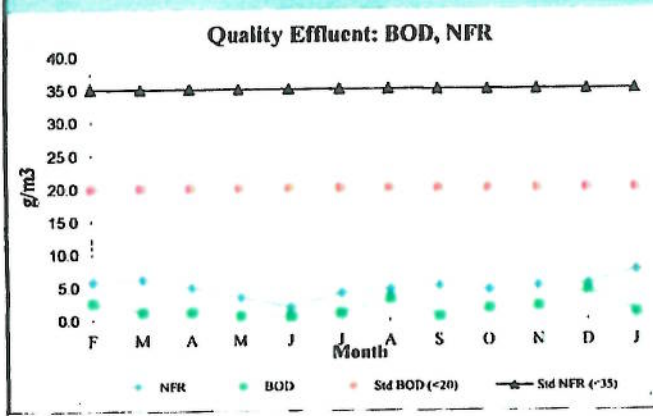
**Comment:**

**Midge Complaints**

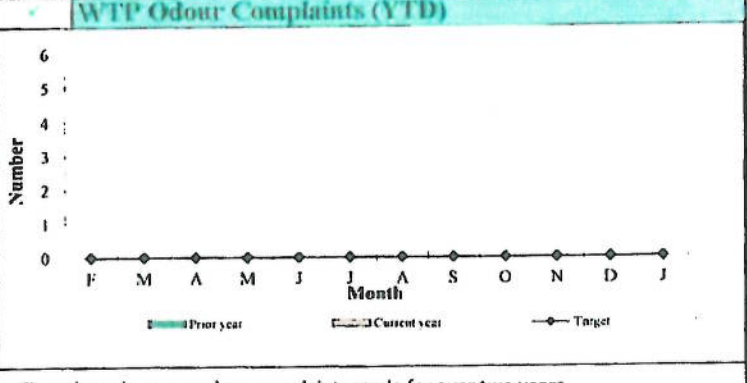
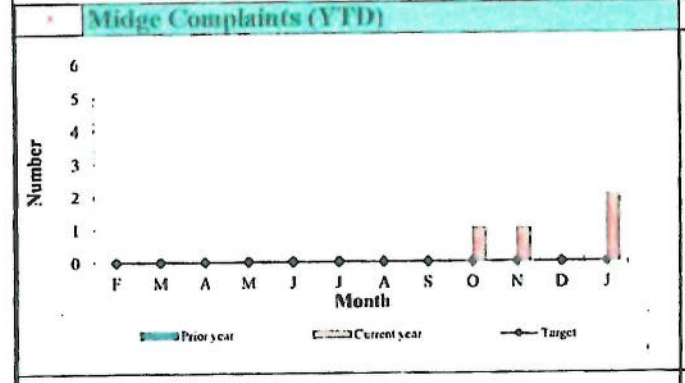


**WTP Odour Complaints**





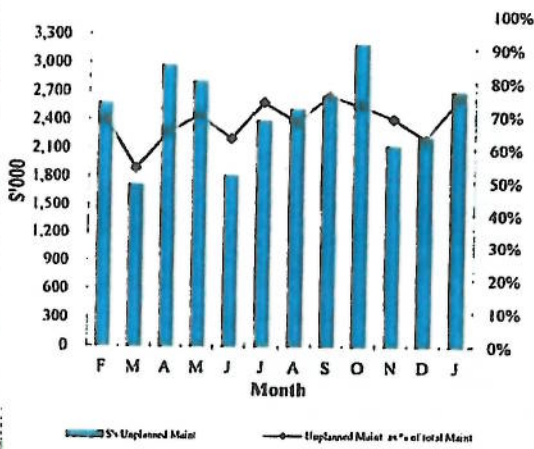
Compliance	Consent compliance	Jan-14	Table 2 Standard
<b>Plant load</b>			
Monthly average BOD (g/m3)		1.1	< 20
NFR (g/m3)		7.4	< 35
<b>Nutrients (g/m3)</b>			
Monthly Mean			
Reactive phosphorus		5.4	< 10
Total nitrogen		8.8	< 30
Ammonia		0.4	< 10
<b>Bacteriological</b>			
Monthly median			
Enterococci (#/100ml)		33	< 100
Faecal Coliforms (#/100ml)		150.0	< 1000
<b>Bacteriological</b>			
Monthly 95% Percentile			
Enterococci (#/100ml)		186	< 1000
Faecal Coliforms (#/100ml)		386	< 10000
<b>Bacteriological</b>			
95 Percentile over three discrete months			
Enterococci (#/100ml)		186	< 1000
Faecal Coliforms (#/100ml)		386	< 10000



There have been no odour complaints made for over two years



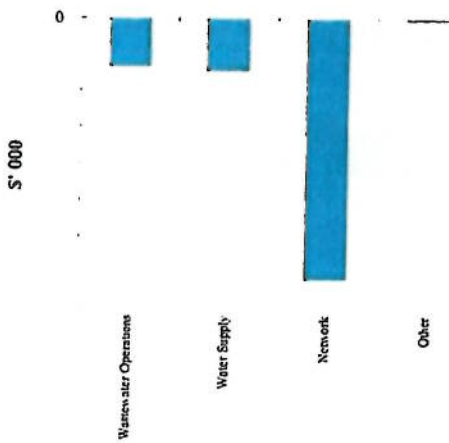
**Unplanned Maintenance**



	Result	Month			Year to Date		
		Actual	Budget	Var	Actual	Budget	Var
Unplanned Maintenance	•	2,702	2,205	(497)	17,810	15,436	(2,374)
% of Total Maintenance	•	75%	63%	-12%	71%	61%	-10%

Unplanned maintenance as a % of Total Maintenance is unfavourable to budget mainly due to timing of various unplanned work in Mangere, higher than budget volume of work in Networks South and Central area and timing of various maintenance work in Ardmore

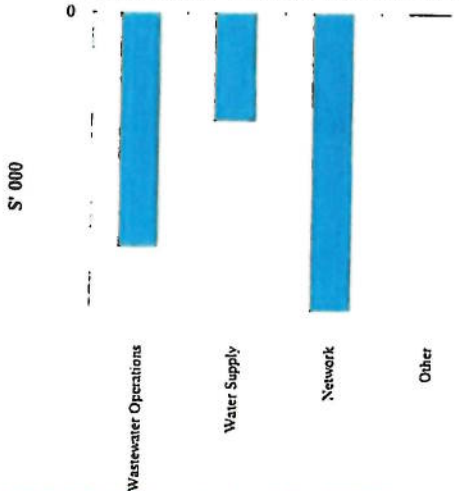
**Unplanned Maintenance Variance - Month**



	Result	Month		
		Actual	Budget	Variance
Wastewater Operations	•	533	467	(66)
Water Supply	•	236	165	(71)
Network	•	1,933	1,573	(350)
Other	•	0	0	(0)

Wastewater Operations: Higher than budgeted unplanned maintenance at Mangere  
 Water Operations: Over budget due to work in Ardmore  
 Networks: Over budget due to high volume of work in Southern and Central area

**Unplanned Maintenance Variance - YTD**

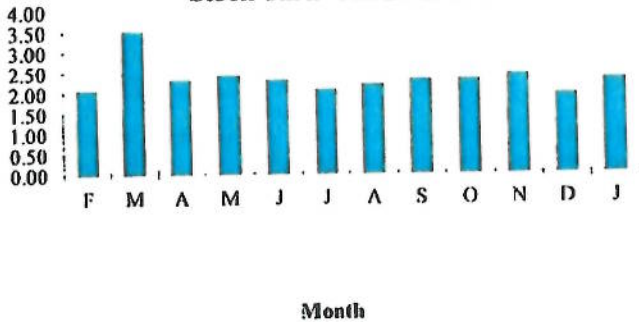


	Result	Year to Date		
		Actual	Budget	Variance
Wastewater Operations	•	4,301	3,433	(869)
Water Supply	•	1,595	1,196	(399)
Network	•	11,913	10,808	(1,105)
Other	•	1	-0	(2)

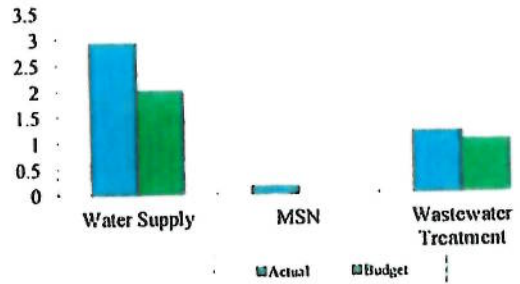
Wastewater Operations: Over budget due to work at Mangere  
 Water Operations: Over budget mainly due to Southern higher than budgeted failures  
 Networks: Over budget due to high volume of jobs in Central & Northern

✓ Inventory Management

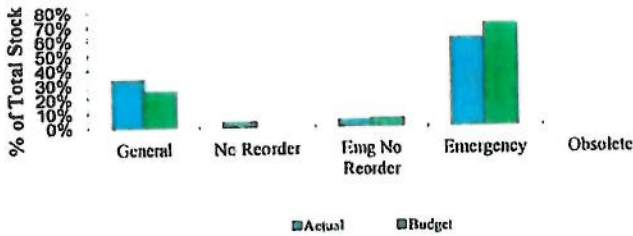
Stock Turn - All Divisions



Stock Turn by Division



Analysis of Stock



The total closing value for Jan 14 was \$6.7m

Definitions:

- General - Non category specific item
- No Reorder - Will not trigger Material Requisition Plan
- Emergency - Stock which is held in case of breakdowns
- Emergency No Reorder - As above but will not be reordered once exhausted
- Obsolete - Stock that is no longer required by the business



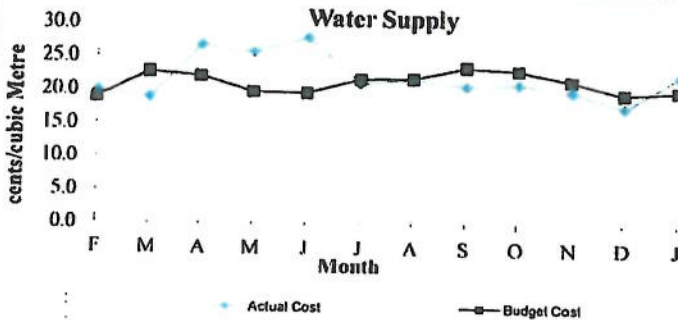
# Management Report

## Cost Minimisation

WATERCARE SERVICES LIMITED

Jan-14

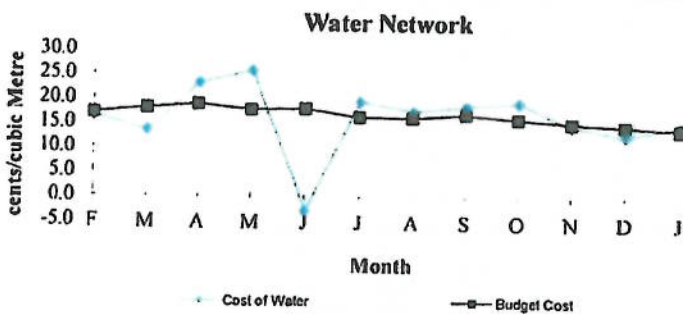
### Water Supply



This Month			YTD Cumulative average		
Actual	Budget	Variance	Actual	Budget	Variance
22.6	20.3	(2.4)	20.7	21.7	1.0

**Comment:**  
This month unit cost is unfavourable to budget due to low water volume.

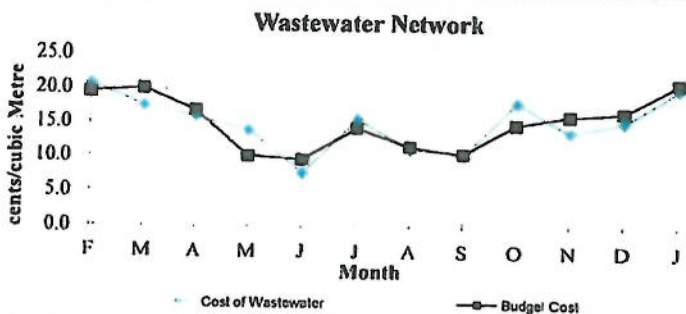
### Water Networks



This Month			YTD Cumulative average		
Actual	Budget	Variance	Actual	Budget	Variance
15.0	14.2	(0.8)	16.7	15.7	(1.0)

**Comment:**  
This month there is an unfavourable variance - due to higher than budgeted variable spend in unplanned maintenance and lower volumes.

### Wastewater Networks



This Month			YTD Cumulative average		
Actual	Budget	Variance	Actual	Budget	Variance
20.2	21.1	0.8	14.4	14.4	0.0

**Comment:**  
The reticulation cost of wastewater is lower than budget due to lower unplanned maintenance costs.

### Wastewater



This Month			YTD Cumulative average		
Actual	Budget	Variance	Actual	Budget	Variance
48.5	50.5	2.0	37.1	38.4	1.2

**Comment:**  
This month cost is lower than budget due to lower maintenance costs.



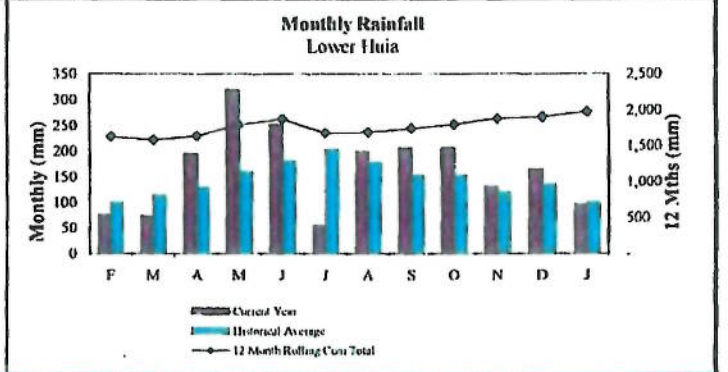
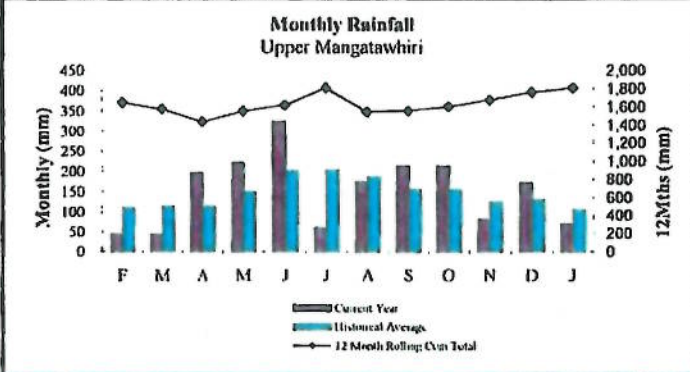
Headline	Source	Date	HN Sentence	Positive	Neutral	Negative
Elder resigning from WEL	Waikato Times	9 Jan 2014	WEL Networks chief executive Sir Julian Elder has resigned and will step down as the head of the Waikato lines company at the end of the month. Prior to working with WEL, Elder spent two years as chief engineer at Watercare Services in Auckland.		✓	
Questions raise questions	Gulf News	9 Jan 2014	Letter to the editor: There were some points in Mirrina supporters' letters last week that need to be countered. On sewerage at Matapia: Here is an excerpt from Auckland Water Care which is responsible for the waste water/septic etc on Waikato. This from their website. The wastewater treatment plant that services the area highlighted in red on the map below is overloaded. No further connections from residential, commercial and industrial developments to the wastewater treatment plant are permitted until further notice.		✓	
Cleaner snappod dumping warple	New Zealand Herald	10 Jan 2014	caught dumping dirty water from the floor of one of the country's most highly rated "green" buildings into the Waitemata Harbour... This should be emptied in an appropriate container and disposed of at a waste facility, or through the wastewater system, with the agreement of Watercare Services.		✓	
Polluted beaches	Manukau Courier	14 Jan 2014	Letter to the editor: In light of the proposal for Watercare, under the umbrella of the Auckland Council, to further pollute the Manukau Harbour with the overflow of sewage and wastewater from the Waitemata Harbour it is important that the Manukau Council takes up the cudgels in this regard to see if we can collectively stop the further influx of sewage into our harbour.			✓
Rosedale's biogas energy showcased	North Shore Times	14 Jan 2014	A lesser known aspect of Watercare's Rosedale treatment prompted a visit by Chilean government officials. Rather than wastewater treatment systems, the officials were interested in how Watercare uses solids removed in the treatment processes to produce biogas.	✓		
Artist's work going global	Central Leader	15 Jan 2014	The artist behind the beloved Grumpy Cat on a prominent Auckland water tower is gaining global recognition for a series of new works. Three Kings resident Paul Walsh featured anonymously in the Central Leader in May when the large kitty he painted on Big King reservoir was covered over by Watercare contractors - much to the disappointment of regular park-goers.			✓
Fluoride debate prompts closer look at what's in our water	Mahurangi Matters	15 Jan 2014	Warkworth appears unlikely to get fluoride in its drinking water any time soon... Watercare's northern water supply manager, Tuan Hawke, proudly notes that Warkworth's drinking water has recently retained its A-grade rating.	✓		
Sewage would be trucked away	Gulf News	16 Jan 2014	Letter to the editor: Your correspondent (Questions raise questions) obviously wants to have the last, if misleading, word on these issues... Regarding sewage disposal, this has nothing to do with the existing situation, as spotted out in the Water Care report. As I said previously, sewage will be stored on site and trucked away as required.		✓	
Lego team find solution to clean water	Papakura Courier	22 Jan 2014	... The Clevedon student says they decided to create something to filter out fine ash from water because there would be a great demand for clean water if there was an eruption. After research and interviews with people from relevant institutions such as Watercare, GNS Science and Waikato University, the boys worked on creating a suitable filter, Bailey says.		✓	
Beach cleaners wanted for SeaWeek scrub-up	Waikato Marketplace	22 Jan 2014	Residents are being invited to muck in during a week-long Waikato-wide beach clean-up... She says the organisation has arranged ocean-based assistance from Waikato Coastguard and the Watercare Harbour Clean Up Trust.	✓		
Date to continue in part-time roles	Northern Advocate	22 Jan 2014	Colin Dale will continue to serve as a Kaipara district commissioner while working as the acting chief executive officer for the Far North District Council... Mr Dale is also an advisor to Watercare Services and governor of the Auckland Sport and Recreation Reference Group.		✓	
Radio	RadioLIVE	23 Jan 2014, 12:04pm	Auckland Council spokesman Marcus Hermann has stated that the council is working with Stormwater and Watercare Services Limited to establish why high levels of bacteria have been found at Judges Bay.		✓	
Team Roar finds answer to disaster	Manukau Courier	23 Jan 2014	something to filter out fine ash from water because there would be a great demand for clean water if there was an eruption. After research and interviews with people from relevant institutions such as Watercare, GNS Science and Waikato University, the boys worked on creating a suitable filter, Bailey says.		✓	
Beach cleanup again this summer	Gulf News	23 Jan 2014	... Ocean based assistance from Waikato Coastguard and Watercare Harbour Clean Up Trust is already offered and the highly successful Sustainable Coastlines will be bringing over school groups from Auckland, implementing education programs and hosting an opening bash to launch the event.	✓		
A disaster	Manukau Courier	24 Jan 2014	... Surely the community would prefer to see some action rather than just words. A positive move forward would include finding another way to manage the overflow from the Waitemata Harbour instead of Watercare increasing the amount of waste it puts into our harbour.			✓
Boys roar into robot challenge	North Shore Times Advertiser	24 Jan 2014	... The Clevedon student says they decided to create something to filter out fine ash from water because there would be a great demand for clean water if there was an eruption. After research and interviews with people from relevant institutions such as Watercare, GNS Science and Waikato University, the boys worked on creating a suitable filter, Bailey says.			✓
Highlights of a harbour city	Weekend Herald	25 Jan 2014	... Stand up paddle boarding. Have a Go session for newcomers. Donate a gold coin and Flux will donate money raised to the Watercare Harbour Clean-Up Trust.		✓	
TV	ONE	28 Jan 2014, 6:26am	The Auckland Council's Watercare has applied to take 200,000 cubic metres of water out of the Waikato River daily, in order to meet the water demands of Auckland's burgeoning population over the next three decades.		✓	
TV	ONE	28 Jan 2014, 7:49am	Reporter Brooke Dobson discussed estimates that Auckland could run out of water in 35 years and efforts by Watercare to secure more water from the Waikato River.		✓	
TV	ONE	28 Jan 2014, 8:15am	Reporter Brooke Dobson states that the Auckland Council organisation Watercare has applied to take 200,000 additional cubic litres out of the Waikato River per day, as the Auckland region's population is predicted to increase by 800,000 people over the next three decades. Watercare representatives say they have heard no objections to the resource consent application.		✓	

Headline	Source	Date	Full Sentence	Positive	Neutral	Negative
Weekly samples taken to monitor water safety	East & Bays Courier	29 Jan 2014	...The water quality monitoring programme Safeswim was set up in 1989 and runs for 21 weeks annually from the first week of November till the end of March... The samples are analysed at Watercare and results are sent back to Safeswim within 24 hours.		✓	
Redo	Newstalk ZB	30 Jan 2014, 0 02am	Federated Farmers is concerned that Auckland water supplier Watercare has applied to use more water from the Waikato.			✓
Auckland bid for water should be resisted	Waikato Times	30 Jan 2014	OPINION: Waikato residents should be showing a keen interest in Auckland water-supply managers' proposals to take more water from the Waikato River to meet the needs of a growing population over the next three decades. Just a fortnight ago, the Waikato Regional Council was urging care when using water to avoid subjecting locals to more severe mandatory conservation measures.			✓
Concerns over pipeline	Manukau Courier	30 Jan 2014	Community groups are seeking help to stop the \$950 million central interceptor project. The Manukau Harbour Restoration Society, Onehunga Enhancement Society and Mangere Bridge Residents and Ratepayers group have lodged a joint appeal to the Environment Court over the 13km pipeline.			✓
Weekly samples taken to monitor water safety	Western Leader	30 Jan 2014	...The water quality monitoring programme Safeswim was set up in 1989 and runs for 21 weeks annually from the first week of November till the end of March... The samples are analysed at Watercare and results are sent back to Safeswim within 24 hours.		✓	
Alarm at Auckland request for water	Franklin County News	30 Jan 2014	...Watercare, which is owned by the Auckland Council, has applied to take 200,000 cubic metres of water a day - roughly equivalent to 60 Olympic swimming pools - from the Waikato River to meet the region's public demand over the next three decades... But the proposal has alarmed a number of Waikato River users, who fear the plan has the potential to put unsustainable pressure on the resource and, at worst, stunt Waikato's growth.			✓
Water grab needs fending off	Waikato Times	30 Jan 2014	...Watercare's proposal raises the prospect of the river's "allocatable flow" (the percentage of water that can be allocated to users while ensuring the water body is not harmed) being exceeded. Allocations for lower-priority use face reduction. Irrigation is among the uses with a lower priority.			✓
Tapping rainwater	New Zealand Herald	30 Jan 2014	Myopic Watercare has gone too far with its unimaginative proposal to tap further into the Waikato catchment... If every household, except apartment dwellers or the elderly, was encouraged to harvest rainwater, there would be no need for Watercare to rob from the Waikato River to prop up Auckland.			✓
The year that was: Part 2	Gulf News	30 Jan 2014	...Waikato's wastewater costs drop dramatically after a review by Watercare.	✓		
Water take should not be taken for granted	Scoop.co.nz (http://www.scoop.co.nz/stories/PA1401/S00217/water-take-should-not-be-taken-for-granted.htm)	30 Jan 2014	Increased demand for water from the Waikato river should not be taken for granted," said Hauraki-Waikato MP Nanette Mahuta. "It is evident if at Watercare are seeking to increase its take by a further 200,000 cubic meters a day on top of the 150,000 they already secure for Auckland City.			✓
Groups appeal in sewage scheme	Central Leader	31 Jan 2014	central interceptor project. The Manukau Harbour Restoration Society, Onehunga Enhancement Society and Mangere Bridge Residents and Ratepayers Group have lodged a joint appeal to the Environment Court over the 13 kilometre pipeline.			✓
Water quality	Manukau Courier	31 Jan 2014	David Worsnop, letter to the editor. By focusing on the volume of treated wastewater discharged into the Manukau Harbour, rather than its composition, your correspondent Judy Goldsworthy (Manukau Courier, January 24) gives a misleading impression of the impact Watercare's activities have on the local environment and completely ignores the considerable improvements to the harbour's water quality achieved during the past decade.	✓		
Local body brouhaha	North and South	1 Feb 2014 (published in January)	...As for the county's council executives, Brown last year defended salaries of nearly \$800,000 for council chief Doug McKay and Watercare CEO Mark Ford.		✓	
Totals				6	23	29

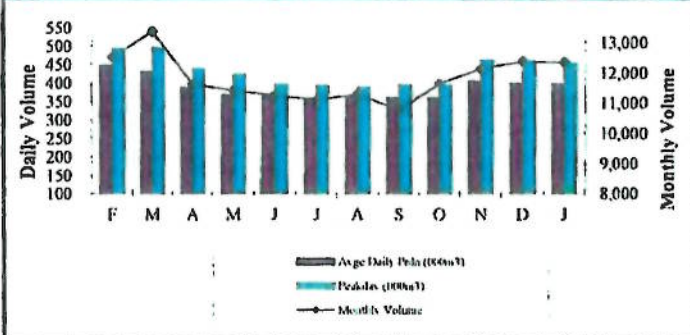


Rainfall

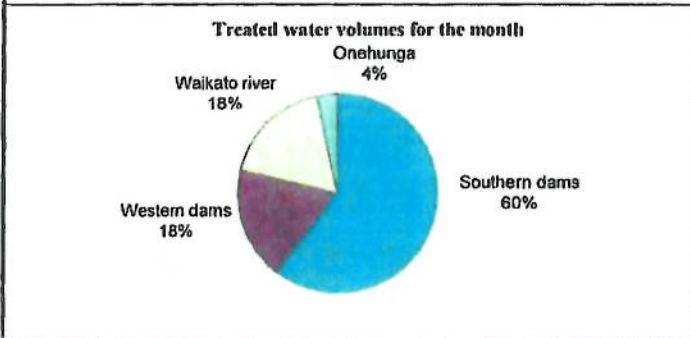
Rainfall	Current Month	12 Mth Cumulative Rolling	Rainfall	Current Month	12 Mth Cumulative Rolling
Actual - Upper Mangatawhiri	69 mm	1810 mm	Actual - Lower Huia	96 mm	1974 mm



Water Production - Metropolitan Supply

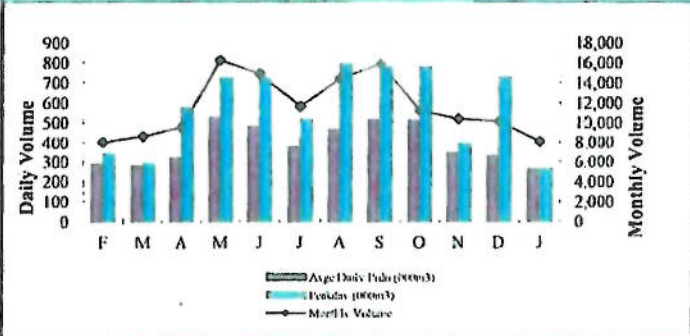


	Current Month	12 Month Rolling Ave
Monthly Volume (000m³)	12,351	11,820
Average Daily Production	398	387
Peak Day	453	433



Treated water volumes (000m³)	Current Month	Year to Date	
Southern dams	7,461 (60%)	60,452	64%
Western dams	2,270 (18%)	19,461	21%
Waikato river	2,171 (18%)	11,412	12%
Onehunga aquifer	449 (4%)	2,679	3%
<b>Total</b>	<b>12,351 (100%)</b>	<b>94,003</b>	<b>100%</b>

Wastewater Treatment - Metropolitan Treatment



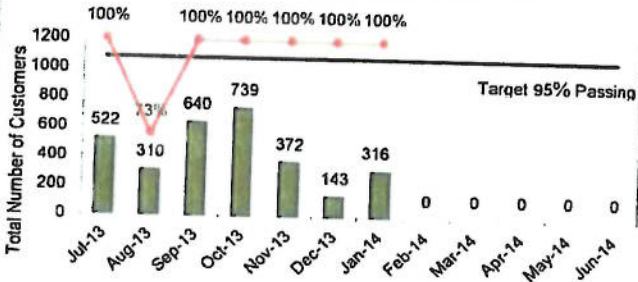
	Current Month	12 Month Cumulative Ave
Monthly Volume (000m³)	8,080	11,580
Average Daily Production	261	390
Peak Day Mangere	263	572



# Management Report Network Statistics

WATERCARE SERVICES LIMITED Jan-14

## 3 Days Notice of Planned Shut Down

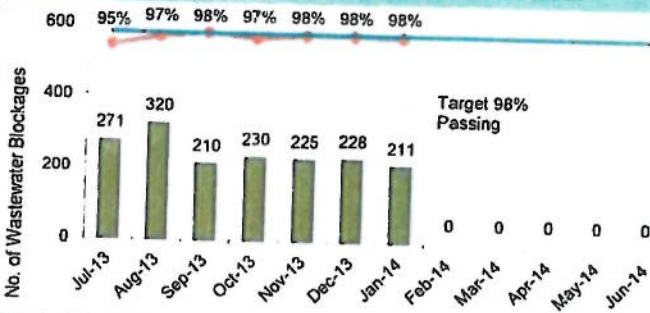


Strategic Performance Objective 23 b

Maintain good customer relationships - 100% of customers received at least 3 days notice of planned shutdowns

Comments: Target achieved

## Response to Wastewater Blockages within One Hour

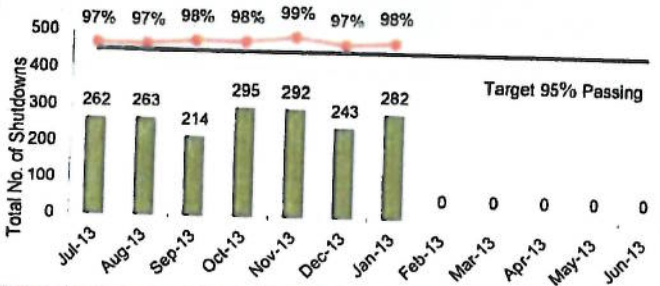


Strategic Performance Objective 25 b

Restore Service Capacity - 98% of Wastewater Blockages Responded to within one to two hours

Comments: Achieved at 98%

## Unplanned Water Shutdowns Restored within 5 hours

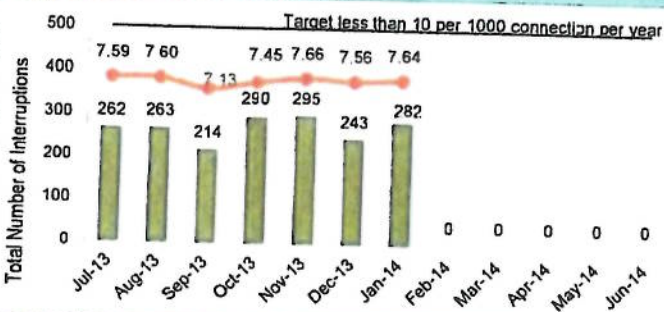


Strategic Performance Objective 25 a

Restore Service Capacity - 95% of unplanned water shutdowns were restored within 5 hours

Comments: Achieved at 98%

## Water Interruption Frequency

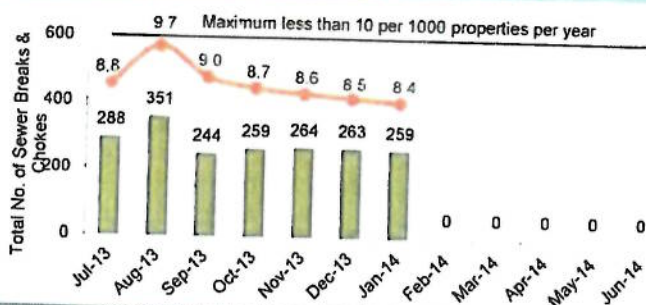


Strategic Performance Objective 24 a

Maintain Service Capacity - 10.0 water interruptions per 1000 connections per year

Comments: Achieved at 7.6 interruptions

## Sewer Breaks and Chokes Interruption Frequency

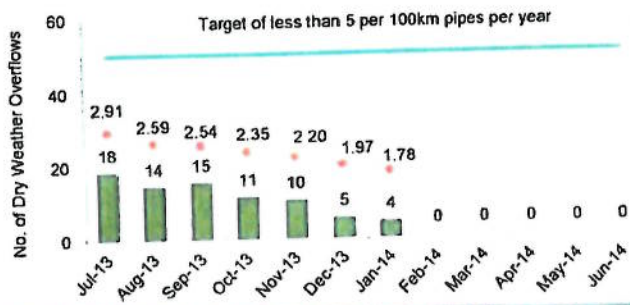


Strategic Performance Objective 24 b

Maintain Service Capacity - frequency of sewer breaks and chokes (unplanned interruptions) at 10.0 per 1000 properties per year

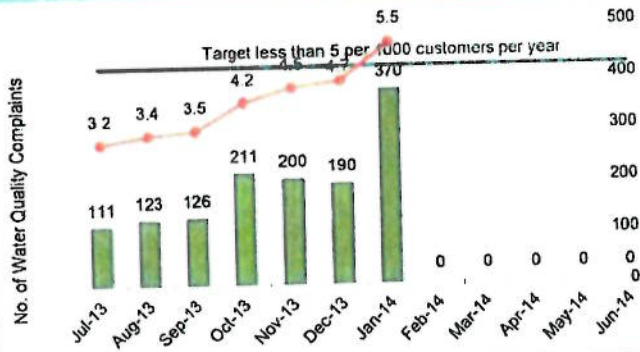
Comments: Achieved at 8.4 breaks

Operations - Number of Dry Weather Overflows



Key Performance Scorecard  
 Dry Weather Overflows not to exceed 5 per 100km of pipes  
 Comments: Target met

Water Quality Complaints



Water Quality Complaints not to exceed 5 per 1,000 customers per year  
 Comments: Target not met  
 .Due to a single event in Massey resulting in our 100 calls

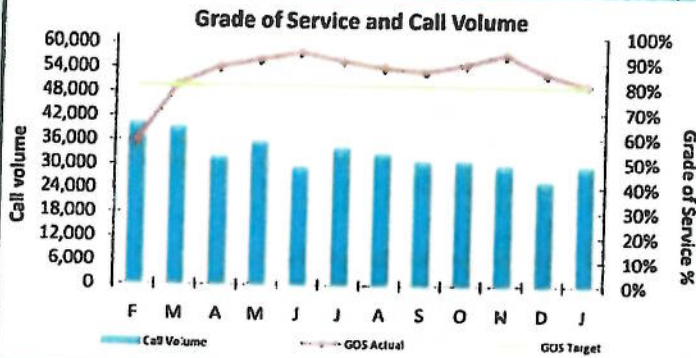


# Management Report Customer Service

January-2014

81.0%

## Grade of Service and Call Volumes



Grade of Service					
Target	Actual	Variance	12 Months	Variance	Calls
80.0%	81.0%	1.0%	84.6%	4.6%	30,566

**Comments:**  
This target was achieved. The GOS target has been achieved for eleven consecutive months.

Please note: Call volumes exclude First Contact figures.

**Key:**

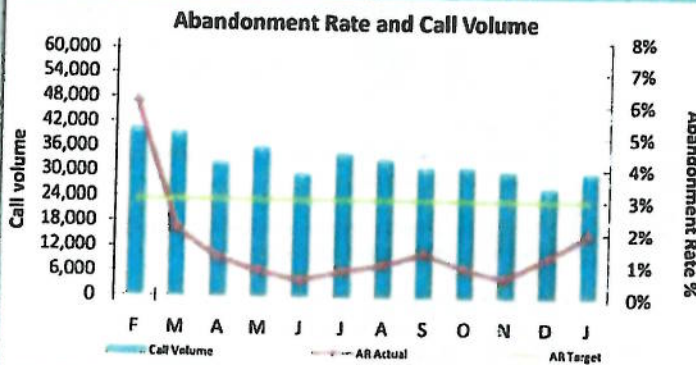
GOS: Grade Of Service

12 Months: Rolling 12 months | Calls: Call Volume

Formula: Calls answered within 20 seconds / (Offered Calls - Abandoned Calls within 10 seconds)

3.0%

## Abandonment Rate and Call Volumes



Abandonment Rate					
Target	Actual	Variance	12 Months	Variance	Calls
3.0%	3.0%	1.0%	3.8%	1.4%	30,566

**Comments:**  
Both the month and rolling 12 month targets were achieved. The abandonment rate increased by 0.8% compared to the previous month.

Please note: Call volumes exclude First Contact figures.

**Key:**

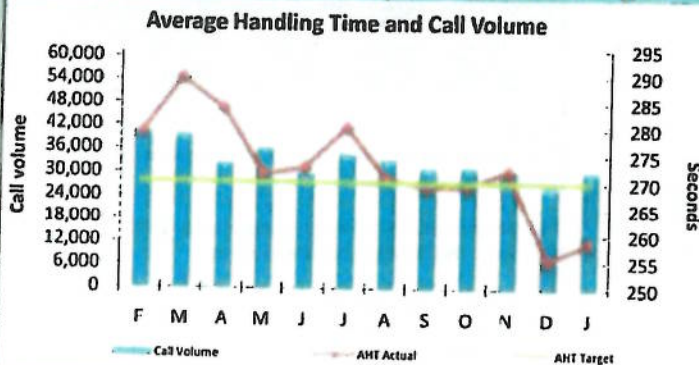
AR: Abandonment Rate

12 Months: Rolling 12 months | Calls: Call Volume

Formula: Abandoned Calls / Offered Calls

258.6

## Average Handling Time (AHT) and Call Volumes



Average Handling Time					
Target	Actual	Variance	12 Months	Variance	Calls
270.0	258.6	11.4	273.5	3.5	30,566

**Comments:**  
The average handle time target was achieved. The average handle time has been achieved for two consecutive months.

Please note: Call volumes exclude First Contact figures.

**Key:**

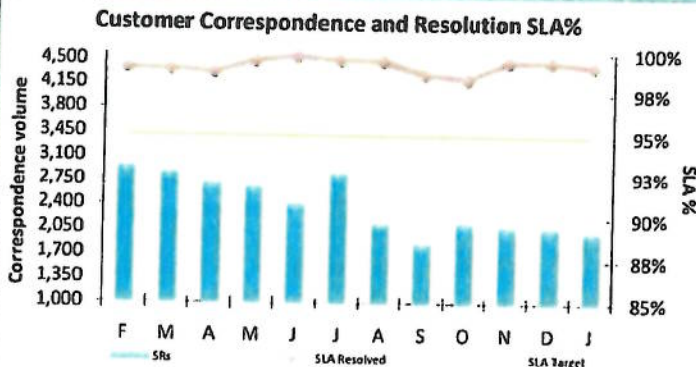
AHT: Average Handling Time

12 Months: Rolling 12 months | Calls: Call Volume

Formula: Agent talk Duration (secs) / Answered Calls

99.2%

## Customer Correspondence and Resolution within 10 days



Correspondence SLA					
Target	Actual	Variance	12 Months	Variance	SRs
95.0%	99.2%	4.2%	93.7%	4.2%	2,079

**Comments:**  
Both the month and rolling 12 month targets were exceeded.

**Key:**

SLA: Service Level Agreement

CO: Correspondence | SRs: Service Requests

Formula: (CO SRs resolved in time + CO SRs unresolved in time) / Number of SRs



# Management Report

## Customer Service

January-2014

91.0%

### Customer Complaints and Resolution within 10 days



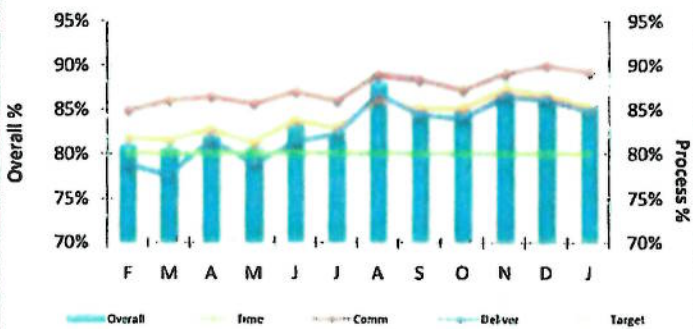
Complaints SLA					
Target	Actual	Variance	12 Months	Variance	SRs
95.0%	91.0%	4.0%	95.7%	0.7%	155

**Comments:**  
The monthly target was not achieved, however the rolling 12 was met. The number of complaints decreased by 27% compare to the previous month.

**Key:**  
SLA: Service Level Agreement  
CP: Complaint | SRs: Service Requests  
Formula: (CP SRs resolved in time + CP SRs unresolved in time) / Number of SRs

85.6%

### Customer Experience Survey - Contact Centre



By Category			Overall		
Time	Comm	Deliver	Overall	Target	Variance
85.3%	89.7%	84.8%	85.6%	80.0%	5.6%

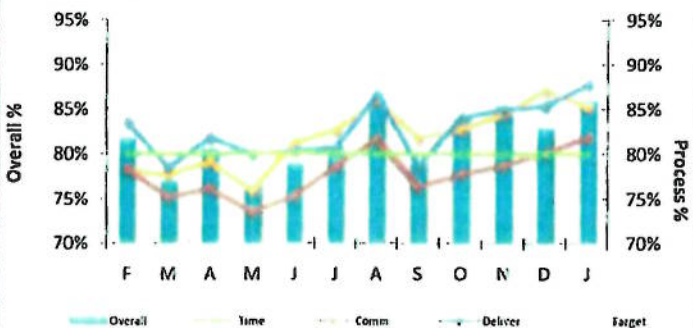
**Comments:**  
This target was achieved. All three segments achieved the target of 80% or more.

Results provided by research conducted by TNS. This is for fault related calls only.

**Key:**  
Time: Don't waste my time  
Comm: Communicate with me  
Deliver: Deliver to me

86.0%

### Customer Experience Survey - Maintenance



By Category			Overall		
Time	Comm	Deliver	Overall	Target	Variance
85.2%	81.8%	87.7%	86.0%	80.0%	6.0%

**Comments:**  
This target was achieved. All three segments achieved the target of 80% or more.

Results provided by research conducted by TNS. This is for fault related maintenance only.

**Key:**  
Time: Don't waste my time  
Comm: Communicate with me  
Deliver: Deliver to me



(\$000)

Water Projects (>\$2m)

C-10049P	Hunua No 4 Programme
C-11610	North Harbour Watermain Duplication
C-10951	KHR Water Transmission
C-11232P	North Franklin Programme
C-10103	Ardmore rapid restart & sludge handling
C-11980	Waikato Expansion to 150MLD
C-10133	Maungawhau Security of Supply
C-10369	Domairi No. 2 Watermain
C-11981	Riverhead Reservoir
C-11681	Albany Second Reservoir
C-10370	Mt Hobson Upgrade
C-11781	Sanderson Rd Water Treatment Plant
C-11798	Orakei Watermain Replacement
C-11074	Upper Huta Standpipe Replacement
C-11792	St Helens No.1 Watermain Duplication

R McIntosh	275,696	62,859	51,732	
A Spittal	240,327	2,487	3,600	133
J. Robson	18,349	7,820	6,996	1,039
S. Grace	22,888	2,714	10,241	1,527
G. McKenzie	67,225	3,812	3,820	
T Barry	11,502	7,790	6,700	
T. Cammell	12,818	87		
D. Moore	10,130	4,651	1,879	
D. Moore	9,365	1,651	0	
J. Eardley	8,500	1,656	1,051	1
D. Moore	8,180	770	908	160
S. Grace	4,481	773	1,338	500
D. Moore	4,800	1,130	2,503	
J. Eardley	2,040	1,478	2,496	1,618
J. Bronnan	2,080	416	690	273

Water Projects >\$2m  
Other Water Projects

343,372	90,772	98,087	
286,576	16,494	27,043	5,551
	3,294	5,849	
<b>6,698,352</b>	<b>125,631</b>	<b>125,920</b>	<b>270</b>

C-12112 1000 Water Capitalised Interest

Wastewater Projects (>\$2m)

C-10006	Central Interceptor Feasibility Design
C-10017	Biosolids Puketutu Rehabilitation
C-11436	Northern Interceptor - Stage 1
C-11077	Mangere WWTP BNR Capacity
C-11983	Rosedale WWTP Expansion Project
C-10015	Northern Waikato WW Servicing
C-11827	Pukekohe Trunk Sewer Upgrade
C-11207	Howick Diversion
C-12001	Snel's Algies WWTP ocean outfall
C-11421	Barrys Pt WW Pump Station & Storage Tank
C-10978	Pi England Storage Tank & Br Sewer
C-10147	Mangere WWTP Degrater 8
C-11470	Glen Eden Storage & Pipe Upgrade
C-10524	Northern Trunk Sewer TS30
C-11281	Army Bay WWTP Outfall Upgrade
C-10088	Pakuranga Rising Main DP5028
C-10925	Kohimarama Storage Tank & Branch Sewer
C-10922	Wauroa (HSP805) Rising Main Replacement
C-11472	Bedmouth WW PS Mangeroi Bay Upgrade
C-11556	Supply & Install of Manh'o Safety Grn
C-11067	North Shore PS09 rising main
C-10952	Helensville WWTP Upgrade
C-11488	Manukau North Future Upgrades
C-11539	Easton Interceptor Rehab Pigm - Stg 1
C-10709	N400.01 WW Network Consents Project
C-11769	Orewa West Wastewater Network
C-11467	Tamaki South East Extension
C-11451	Western Interceptor Rehabilitation
C-11290	Orakei Main Sewer Rehabilitation MH21-19
C-10923	Upgrade of North Shore TSD
C-11216	Easton Interceptor Pipe Bridge #1 Repl
C-11270	Korwyn Ave Renewal and Upgrade
C-11009	South Lynn Br Sewer (MH9-MH21) & Local
C-11711	Mangere WWTP Cogeneration Replacement
C-11423	Rosedale WWTP Cogeneration Upgrade
C-11474	Sunnymook Road Sewer Upgrade
C-11338	Blackbridge Pump Station 37 Upgrade
C-11569	New Gravity Sewer Miranda Reservo
C-11613	Branch 1 Rehabilitation on B01023 to B01025
C-11691	Mangere WWTP Rehab Pigm Sed Tns 11 & 12
C-10277	Add Local Wastewater Network Renewals
C-11455	Reconstruction of Easton Interceptor
C-11070	Pump Station CI Pipework Replacement
	Army Bay WWTP Sludge Tank

Wastewater Projects >\$2m  
Other Wastewater Projects

1,817,984	103,953	106,616	7,217
	21,840	29,421	
	6,693	6,690	
<b>1,824,124</b>	<b>132,486</b>	<b>134,431</b>	<b>7,217</b>

C-12113 1000 Wastewater Capitalised Interest

Other Infrastructure Projects

C-10126	Networks Controls Upgrade
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Other Infrastructure Projects

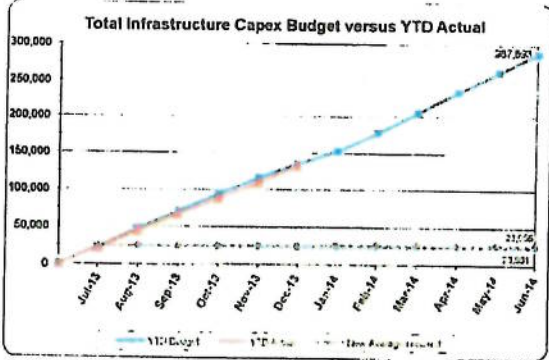
M. Heil	18,808	1,500	3,590	528
	453,269	30,811	25,043	
<b>3,202,740</b>	<b>293,368</b>	<b>287,893</b>	<b>15,471</b>	

TOTAL INFRASTRUCTURE

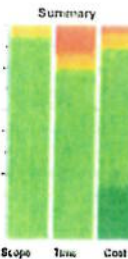
Other Not Infrastructure, including Capital Interest

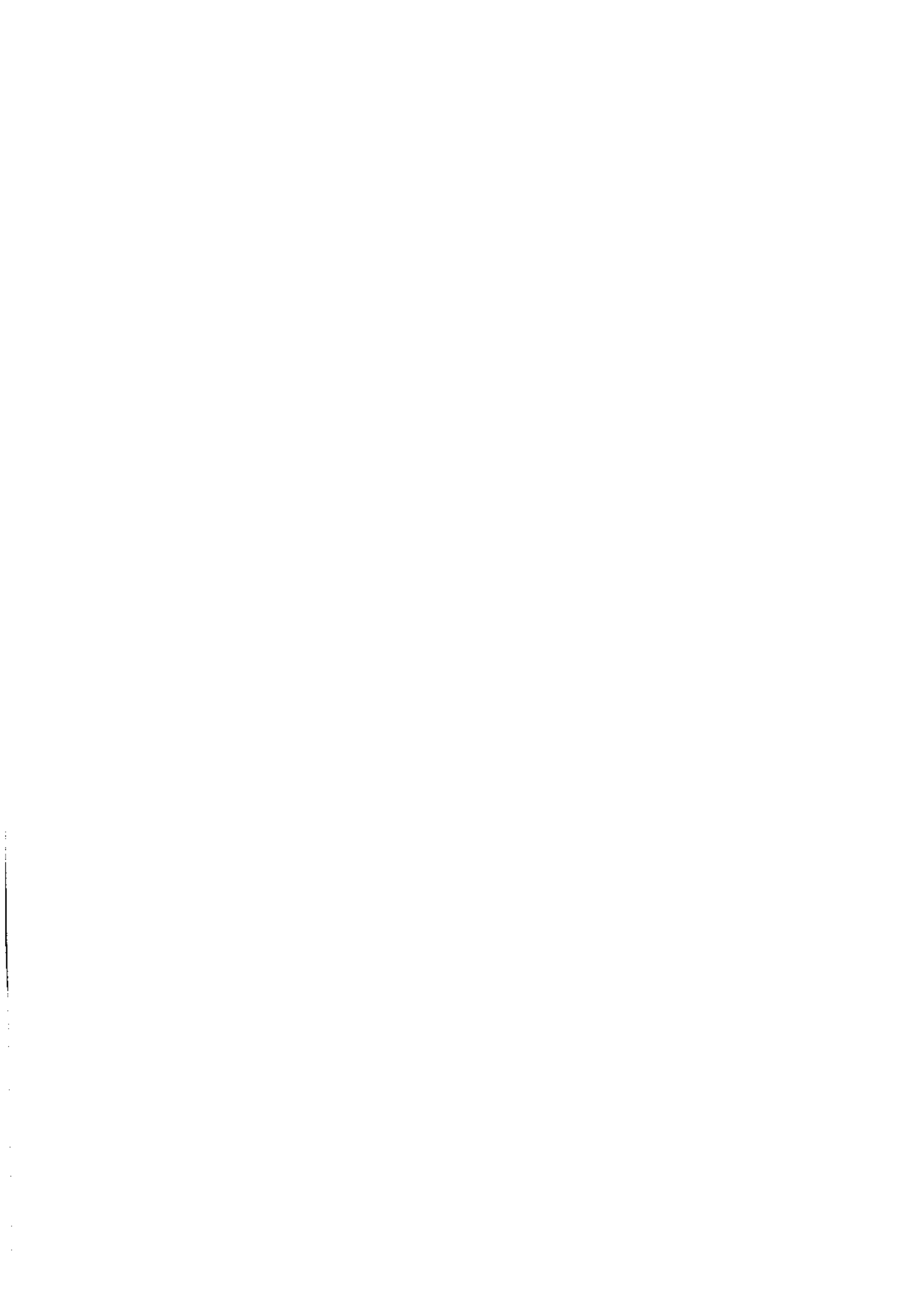
TOTAL ALL

128,137	52,329	42,774	10,547
<b>5,152,478</b>	<b>328,693</b>	<b>331,644</b>	<b>6,072</b>



WSL Capex Summary	Month		Year to Date	
	Actual	% of Budget	Budget	Variance
Total Water projects	8,110	70,296	63,820	
Total Wastewater proj	6,628	62,216	71,131	8,916
Total Projects and Prn	16,742	132,512	135,951	2,439
Total ECS Projects	1,637	6,424	6,465	41
Total New Developer	269	3,494	3,193	301
Total Infrastructure pr	18,677	142,526	145,719	3,187
Total Operations	1,198	8,146	16,522	2,178
Total Facilities Manag	171	1,215	1,948	733
Shared Services	467	4,760	16,376	16,071
Laboratory	28	632	2,283	1,623
Trade Waste	0	2	86	86
Total All Capex	21,898	168,890	176,764	10,172







## Report to the Board of Watercare Services Limited

**Subject:** Auckland Council LTP 2015-24

**Date:** 18 February 2014

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### 1. BACKGROUND

Every three years Auckland Council approves a Long Term Plan (LTP) which covers a ten year forward period. The LTP is a group-wide plan and is audited by Audit New Zealand on behalf of the Auditor General. Watercare is expected to fully participate in the LTP process and provide financials, performance measures and text for inclusion in the LTP. A draft of the LTP is distributed for consultation and following consultation (and submission hearings), a final LTP is adopted.

### 2. PROCESS

The LTP process is developed and managed by Auckland Council. The process is commencing on 26 February 2014 with a Scene Setting Workshop; the audience for this workshop is the Auckland Council Governing Body, all Local Board members, IMSB, CCO Chairs and Chief Executives and the LTP Steering Group. David Clarke and Brian Monk are attending on behalf of Watercare.

A copy of Watercare's input to this day is attached as Appendix 1. Also attached are the following:

- Appendix 2 - Mayor's Letter re workshop on 26 February 2014
- Appendix 3 - Agenda for 26 February 2014
- Appendix 4 - Key Phases and CCO Planning Timeline
- Appendix 5 - LTP 2015-25 – Key Process Milestones (Draft)

Within Watercare, Rebecca Chenery will lead the project management of our involvement in the LTP and act as a single point of contact with guidance from Brian Monk. Rebecca will develop a Watercare timeline for the project once key dates have been confirmed by Auckland Council. Watercare input to the LTP will be audited by Deloitte.

A new feature of the LTP is the requirement for Auckland Council to include a 30 year Infrastructure Strategy covering inter alia water supply and sewerage and sewage disposal. Appendix 6 attached backgrounds Auckland Council's current thinking on the Infrastructure Strategy.

### 3. RECOMMENDATION

That the report be noted.

Report prepared and recommended by:

Approved for submission by:

.....  
B T Monk  
Chief Financial Officer

.....  
K M Ford  
Chief Executive



# LTP Business Briefing

Watercare Services Limited



# Watercare's Vision

## Outstanding and affordable water services for all Auckland

- **Safe and Reliable Water**
  - Compliance with all relevant quality standards; Minimal interruptions to supply; Ability to meet future demand. Key initiatives: Huia and Ardmore upgrades, Waikato expansion
- **Healthy Waterways**
  - Compliance with all consent conditions; Continuous improvements to wastewater network and treatment facilities. Key initiatives: Central & Northern Interceptors, Mangere upgrades
- **Environmentally Sustainable Operations**
  - Demand management initiatives; Increased recycling, co-generation and greenhouse gas reductions; Land and water rehabilitation programmes. Key initiatives: Eco-Matters partnership, Mangere co-gen, Puketutu
- **A Safe & Secure Workplace**
  - Rigorous approach to health & safety a key part of recruiting, developing and retaining a diverse and highly capable workforce. Key initiatives: Ongoing training and development support
- **Satisfied Customers and Stakeholders**
  - Regular reports to Council; Comprehensive engagement with customers, local boards, tangata whenua and other community groups. Key initiatives: Local Board liaison, Mana Whenua Kaitiaki Forum
- **Sound Financial Management**
  - Self-funding; Minimum cost provider; Focused and timely investment. Key initiatives: Cost savings from integration passed on to customers, monthly billing, borrowing from Auckland Council, integrated procurement
- **Effective Asset Management**
  - Cater for growth, optimise existing assets, minimise waste. Key initiatives: Central Interceptor, Hunua 4, Nth Harbour 2

# Council's Vision: Our Contribution

The Auckland Plan sets out Council's vision for Auckland

## To Be the World's Most Liveable City

and lists seven supporting desired outcomes, of which Watercare directly contributes to three:

- **A fair, safe and healthy Auckland**, where people value the excellent services and facilities available
- **A green Auckland**, where our waterways and coastlines are clean and full of life
- **A beautiful Auckland** that is loved by its people, where Auckland communities take pride in their surroundings and work together to create places they value

# Council's Vision: Our Contribution

Watercare also contributes directly to several of the strategic directions that form the pathways to these desired outcomes:

- **Plan, deliver and maintain quality infrastructure to make Auckland liveable and resilient**
  - Improve rural services to reflect we are one city; identify new sources of supply to meet anticipated demand
- **Enable Māori aspirations through recognition of the Treaty of Waitangi and customary rights**
  - Continued partnership with tangata whenua, in particular via the Mana Whenua Kaitiaki Forum
- **Acknowledge that nature and its people are inseparable**
  - Recognition of water as a taonga, and of our role as stewards of the environment
- **Contribute to tackling climate change and increasing energy resilience**
  - Continuous improvement in energy efficiency, water demand management, and network optimisation



# Aligning With Council's Planning

**Our role is to help realise Council's long-term strategic intent. To do this effectively, we need:**

1. An understanding of Council's strategic overview
2. Funding to match the infrastructure requirements that deliver the SOI performance measure targets
3. A stable, supportive and collaborative regulatory and policy environment

# 1. A Shared Understanding

**Our commitment to our customers:** Outstanding and Affordable Water Services for All Aucklanders; and **our statutory responsibility:** To Manage our Operations Efficiently so as to Keep Costs to a Minimum, are **aligned with Council's goals and objectives.**

**Clear process** from Letter of Expectation to Statement of Intent to reporting against Statement of Intent **aids alignment**

**Mutual involvement in long-term planning process**, regular reports both formal and informal, and co-operation on initiatives such as the Special Housing Areas mean this **alignment is achieved at an operational, as well as a strategic level**

SHAs demonstrate **potential for improvement on previous regime** (compare with Kingseat, Clevedon)

The **key document / plan** that reflects the implementation of a shared understanding is the **Watercare Asset Management Plan**

CCO Monitoring Unit a useful point of contact. A **very good relationship that continues to grow**; and a channel for communication with other arms of Council.

## 2. Funding

Watercare is **self-funding**: we receive no income from rates, and are prevented by law from paying a dividend. All revenue is used to fund our existing operations and to develop new infrastructure that will meet Auckland's expected future needs. Since integration Watercare has achieved over \$104m in annual cost savings.

Revenue and financing policy are **aligned with Auckland Council guiding principles covering equity, transparency, sustainability, efficiency, effectiveness**

Primary revenue streams comprise water and wastewater revenue and infrastructure growth charges (IGC's) which cover a portion of new growth-based capital expenditure

**The long-term price path and debt projections provides funding of the required** Asset Management Plan, but will require refinement as the Council prioritises its integrated delivery of outcomes



## 2. Funding (2)

- IGCs cover less than one-third of the growth component of new investment; reviewing IGC principles and pricing methodology
- No ability to raise equity
- **Debt an appropriate funding mechanism** for assets with a long lifespan. Watercare's treasury structure allows access to benefits available to Council (lower interest rate) while maintaining the independence necessary to ensure tight focus on our financial objectives
- Strong emphasis on **FFO ratio, debt, and gearing**

# 3. Regulatory & Policy Environment

Good interaction at staff level; regular contact between resource planning team and Council regulators, and Parks and Stormwater teams

Integrated Consents Group and Infrastructure Committee valuable

Opportunities to provide input into Council plans and into preparatory work around by-laws and other regulations – albeit with varying levels of success

Consenting process swifter and less costly than under previous regime; opportunities to streamline further

# Case Study: Central Interceptor

A new sewer tunnel between Western Springs and the Mangere Wastewater Treatment Plant

Approximately 13 kilometres in length; will lie between 22 and 110 metres below ground level, and cross the Manukau Harbour at a depth of approximately 30 metres below the seabed

- **Environmentally Sustainable**
  - Reduces risk to Manukau Harbour posed by existing aging infrastructure
  - Will significantly reduce wet-weather overflows within catchment
- **Cost-effective**
  - Provides estimated cost savings of at least \$500 million over its main alternative solution
- **Resilient**
  - Provides a total storage capacity of approximately 200,000m<sup>3</sup>
  - Allows for future dredging of the Manukau
- **Timely**
  - Existing infrastructure reaching end of its useful life
  - Ties in with Northern Interceptor
- **Focused**
  - Caters for growth and development across the isthmus



# Case Study: Waikato River

Consent application to increase allowable take from Waikato River from 150,000 litres per day to 350,000 litres per day

- **Environmentally Sustainable**
  - Significantly lower environmental impact than alternative sources
  - Negligible impact on river health (independently assessed)
- **Cost-effective**
  - Cheapest available source, optimises use of existing treatment plant
- **Resilient**
  - Maintains a diversity of sources
  - Drought proof
- **Timely**
  - Aligned with Council's growth forecasts
- **Focused**
  - Incorporates demand reduction targets
  - Ensures ability to meet anticipated demand

## 5 Facts About Watercare

Watercare is committed to providing the best possible service to all Aucklanders. Since assuming responsibility for retail supply, we have introduced a single water tariff, reducing the unit price paid by all consumers across the region, and standardised the household wastewater tariff. We are also making good progress on replacing the 44 existing commercial wastewater charging regimes with a simpler, region-wide system, and on ensuring rural services meet the same standards as the metropolitan network provides.

Each day, Watercare supplies some 330 million litres of water to the Auckland region, and treats about 408 million litres of wastewater to a high standard. We operate 12 dams, 20 wastewater treatment plants, 21 water treatment plants, 84 reservoirs and 16,000 kilometres of pipework.

Watercare is self-funding: we receive no income from rates, and are prevented by law from paying a dividend. All revenue is used to fund our existing operations and to develop new infrastructure that will meet Auckland's expected future needs.

The upgrade to Watercare's Mangere wastewater treatment plant between 1998 and 2003 not only enabled the restoration of coastal tidal flats and the rehabilitation of some 13 kilometres of coastline, it also reduced pathogens in the treated wastewater 10,000 fold, raising water quality in the Manukau Harbour to its highest level since the 1930s.

Watercare's active encouragement of demand management initiatives, combined with the introduction of volumetric charging, has made Aucklanders the most efficient water users in the country. Total per capita consumption (274 litres per person per day) is lower than in any other New Zealand city.

## Watercare Service Delivery Initiatives

1. Building a Customer Focussed Organisation – Continued focus on initiatives that build on the progress made since integration and deliver further customer service improvements.
  - a. Customer, Billing and Asset Programme – A strategic initiative to transform the customer, billing and asset systems used to support our customers. This programme will deliver enhanced customer interaction channels, faster and more efficient billing and improved asset management capabilities. Watercare bills its 450,000 customers on a monthly basis, generating over 20,000 bills per day. The timely processing of accurate data from the meter through the rating and billing processes is critical to Watercare’s ongoing ability to be responsive to customer needs.
  - b. Revised Customer Contract – An initiative to develop a new customer contract which will replace the existing customer contract (“Working With You”). The new customer contract will:
    - establish the tone for our relationship with customers
    - provide more clarity and meaningful information on our processes
    - use language that is more easily understood and a format that is more customer-friendly
    - live online in an easy-to-print version and save in-house printing costs
    - reiterate our vision to provide outstanding and affordable water services for all the people of Auckland
  - c. Water Efficiency Initiatives for Business Customers - Development of a high user programme and toolbox to assist business customers with strategies and tools for becoming more water efficient. This initiative aligns with the implementation of the new non-domestic wastewater tariff and contributes to demand management.
  - d. Update BRANZ Water Research – An update to the 2008 BRANZ research on water use in Auckland’s households to reconfirm wastewater discharge percentage data and average water use per person.
2. Skilled and Engaged Staff – Watercare recognises that trained, knowledgeable and engaged staff are key to delivering great customer service. The annual staff engagement survey provides a good opportunity to measure progress, and to focus efforts on those areas that need improvement as well as reinforcing those areas that are working well.
3. Non-Domestic Wastewater Tariff - Implementation of the new non-domestic wastewater tariff which will replace the 44 legacy non-domestic wastewater charging regimes, remove current charging anomalies and bring greater fairness to the region.
4. Trade Waste Bylaw - Implementation of the new Auckland Trade Waste Bylaw which comes in to effect on 1 July 2014 and standardises the regulation of trade waste discharges across the Auckland region. The new bylaw replaces Auckland’s four legacy trade waste bylaws and seeks to protect all people, the environment and the public wastewater system from adverse effects of harmful discharges to the environment, and encourage waste minimisation and cleaner production.
5. Increasing Efficiency and Reducing Wastage – Continued commitment to ‘affordability’, driving initiatives that improve efficiency and reduce wastage.
  - a. Chemical Optimisation Project – This initiative seeks to optimise the use of chemicals and reduce total chemical costs by improving chemical selection and dosing rates. In addition Watercare is undertaking an initiative to review chemical costs and implement a strategy to ensure best prices through improved planning and supplier relationships.
  - b. Water Losses – Continued drive to reduce potable water network losses through a sustained and substantial programme of detailed network analysis, detection and remediation. The move to monthly billing has allowed customers to more closely monitor their water usage and subsequently



enables them to detect leaks earlier. Watercare will continue to work with customers on the timely resolution of leaks to further limit water losses.

14 February 2014

Dear Colleagues

LTP 2015-25

As you will be aware, we are embarking on the process of the next Long-term Plan now, in order to allow time for a more in-depth review of our activities and associated costs.

This is our most significant opportunity so far to consider our priorities over the longer term and align our budgets with the directions of the Auckland Plan. We will need to make some difficult choices, both the Governing Body and the Local Boards, in order to achieve our long term goals while continuing to manage our finances in a prudent way.

While it does seem very early to be starting work on a plan that will not be finally adopted until June 2015, you will see from the attached high-level timeline, that there is significant work that needs to be completed by the staff of the council and CCOs over the next 6 months in particular. It is also timely for the Local Boards who are now working on their 3 year Local Board plans to be putting these in the context of the challenges ahead and the overall ten year budget of the council. Those Local Board plans will then come back to us in time to inform the governing body decision making on the draft LTP later in the year.

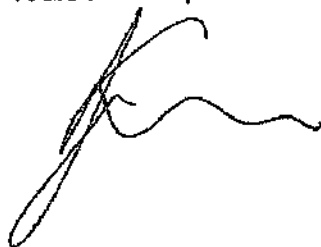
We are kicking off this LTP with a "scene setting" day on 26 February. You have all been invited to participate in this and I strongly encourage you to come along. The purpose of the day is to start thinking about the big challenges facing Auckland, what we are currently delivering and where that will take us.

The day has been divided into two sections. In the morning some external speakers will talk about some macro issues – the changing demographics of Auckland, building a more prosperous economy and city shaping for a globally competitive city. The afternoon session will give a high level "stocktake" of our current activities and some of the strategic issues facing us.

This should be a thought provoking day which will allow us to then move into the next stage of the process when we start to grapple with some of the choices we need to make for the next 10 years.

I look forward to seeing you there.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Len Brown', written in a cursive style.

Len Brown  
**MAYOR OF AUCKLAND**



## APPENDIX 3

### AGENDA: Auckland Council Long Term Plan – Scene Setting Workshop 26 February 2014

**Audience:** Governing Body, all Local Board members, IMSB, CCO Chairs and Chief Executives, LTP Steering Group

**Venue:** Upper NZI Rooms, Aotea Centre, Auckland

TIME	AGENDA
9:30am	Tea and coffee on arrival
9:40 – 9:45am	<b>Karakia / Mihi - Bobby Newson</b>
9:45 – 9:55am	<b>MC (Rod Oram): Welcome</b>
9:55am – 10:15am	<b>Mayoral Address</b>
10:15 – 11:00am	<p><b>'A Global perspective on a Liveable City': Gordon Price</b>            Gordon was elected for six consecutive terms as a Councillor during Vancouver city's transformative years, and is now the director of the City Program at Simon Fraser University. Gordon speaks on urban issues and the development of Vancouver in cities around the world, and is also a regular lecturer on transportation and land use for the City of Portland, Oregon and Portland State University. He sits on the Boards of the International Centre for Sustainable Cities.</p> <p><i>Key Themes:</i> A global perspective on competing to be a "liveable" city. Reflections on the strategic choices required to effectively and efficiently transform a city to compete on the global stage. Global trends in the urban and transportation spaces and what this might mean for New Zealand and Auckland.</p>
11:00 – 11:15am	<p><b>Audience feedback session:</b>            Which Transformational Shifts should Auckland Council focus on in order to win the global competition to be the World's Most Liveable City?</p>
11:15 – 11:30am	<i>Morning tea</i>
11:30 – 12:00pm	<p><b>Demographic Trends: Natalie Jackson</b>            Natalie Jackson is the Professor of Demography and Director of the National Institute of Demographic and Economic Analysis at the University of Waikato</p> <p><i>Key themes:</i> Auckland's people – what our community will look like in the future. Specific focus on the different drivers and patterns of population ageing unfolding across and within New Zealand and Auckland specifically, and the consequences of demographic trends for our economy and society including what local government will need to plan for and provide in the future.</p>
12:00 – 12:30	<p><b>Investing in Auckland: Arthur Grimes</b>            Arthur Grimes is the Adjunct Professor at the University of Auckland, Former Chair of the Reserve Bank of New Zealand, Chair of Hugo Group</p>

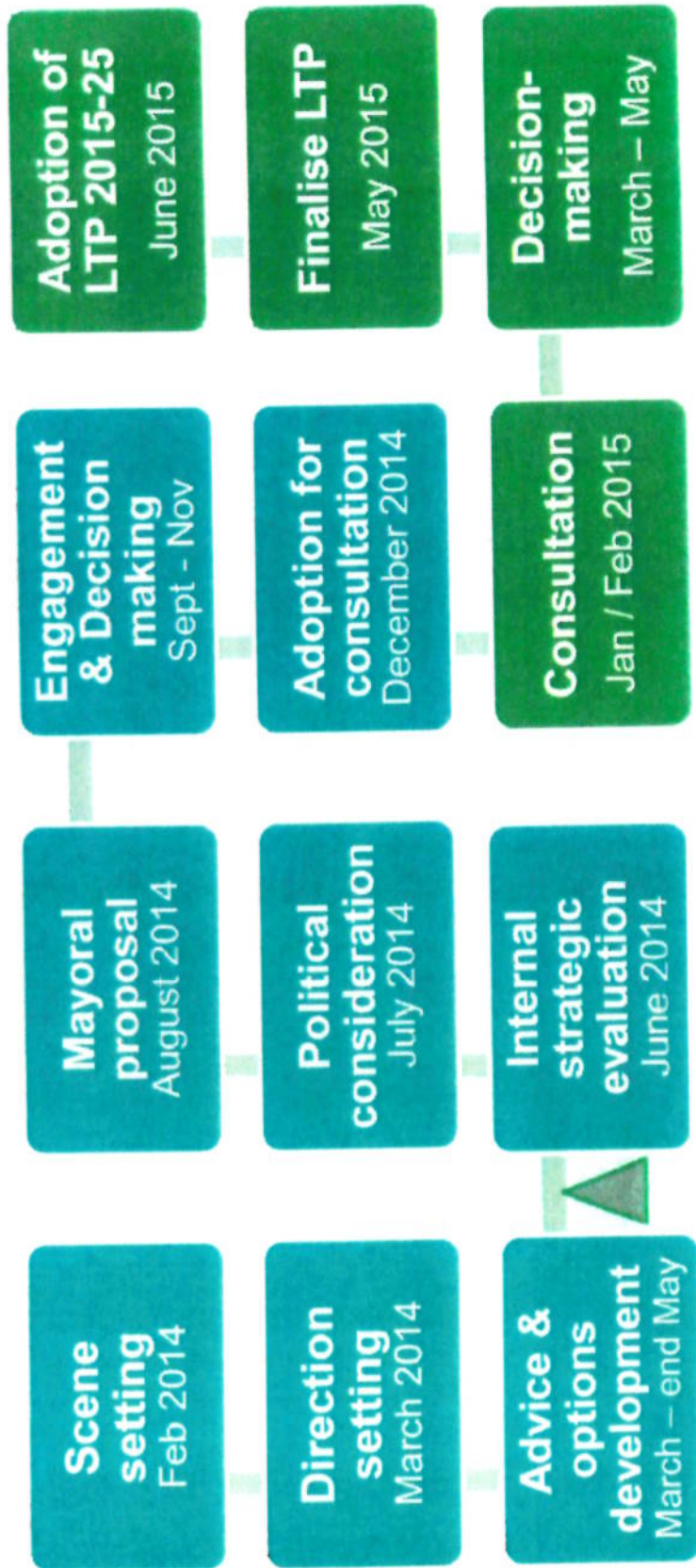
TIME	AGENDA
	<p><i>Key themes.</i> Investing in Auckland: the process of building a more prosperous, competitive and more attractive city; choices around growth, infrastructure and affordability</p>
12:30 - 12:45pm	<p><b>Audience feedback session:</b> Given what we've heard about national trends, what are the strategic debates that should be taking place throughout the course of the LTP process?</p>
12:45 - 1:45pm	<p><b>LUNCH</b> <i>Lunch will be in the Limelight Room.</i></p>
1:45 - 2:05pm	<p><b>Auckland Council's Financial Strategy:</b> a presentation by Andrew McKenzie (Chief Financial Officer, Auckland Council)</p> <p><i>Key themes:</i> Sustainable financial management, financial constraints, strategic choices and trade-offs, affordability</p>
2:05 - 3:05pm	<p><b>Auckland Council Business Briefings: Part One*</b> 20 minutes presentations/question time on the following themes.</p> <p>Presenters will comment on their current business plan and its key drivers; the extent to which their current plan contributes to the delivery of the Auckland Plan; significant trends that might impact on the delivery of their current plan; opportunities, threats or challenges for this part of the business including obstacles to delivering the Auckland Plan.</p> <ol style="list-style-type: none"> <li>1. Water Supply and Wastewater by Brian Monk (Chief Financial Officer, Brian Monk)</li> <li>2. Transport, by David Warburton (Chief Executive, Auckland Transport)</li> <li>3. Parks, Community &amp; Lifestyle, by Dean Kimpton (Chief Operating Officer, Auckland Council)</li> </ol>
3:05 - 3:20pm	<p><b>Audience feedback session:</b> What are the 2 - 3 most relevant challenges and opportunities in these parts of the business?</p>
3:20 - 3:50pm	<p><b>Afternoon Tea</b></p>
3:50 - 5pm	<p><b>Auckland Council Business Briefings: Part Two*</b> 20 minutes presentations/question time on the following themes:</p> <ol style="list-style-type: none"> <li>1. Economic and Cultural Development, by Brett O'Riley (Chief Executive Officer, Auckland Tourism Events &amp; Economic Development) and Robert Domm (Chief Executive, Regional Facilities Auckland)</li> <li>2. Environmental Management and Regulation, by Dean Kimpton</li> <li>3. City Development, by Roger Blakeley (Chief Planning Officer, Auckland Council)</li> <li>4. Governance, by Grant Taylor (Governance Director Auckland Council) [10 minutes only]</li> </ol>

TIME	AGENDA
5pm – 5:20pm	<b>Audience feedback session:</b> Given all that we've heard, what are the 'game-changers' for Auckland? What should be our 2 – 3 priority areas to drive the implementation of the Auckland Plan over the next 10 years? What can we afford not to do?
5:20 – 5:30pm	<b>Closing remarks from Rod Oram</b>
5:30pm	<b>Close with a karakia followed by drinks and networking</b>

*\* The order/sequence of the afternoon Business Briefings is subject to change*



# Key phases

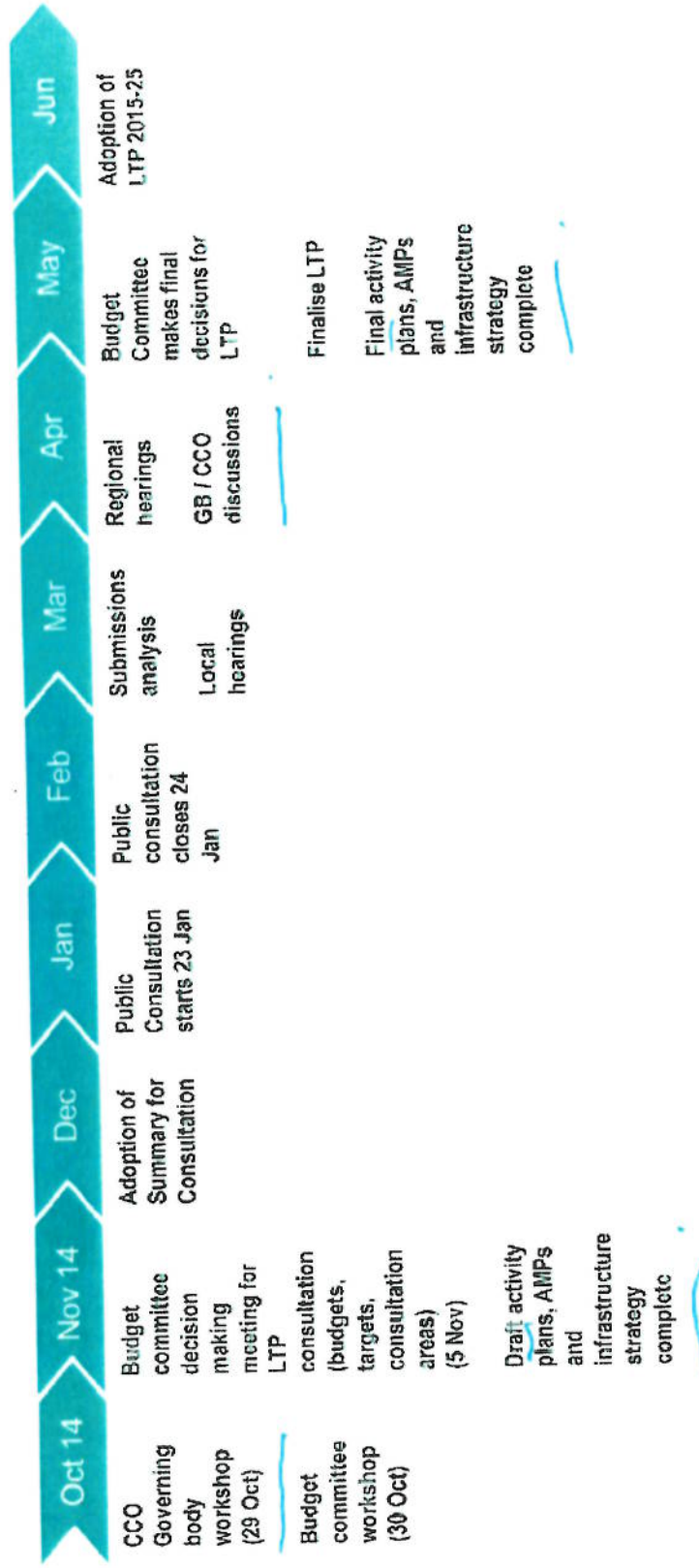


 Proposed new local board funding policy agreed for consultation, along with draft local board plans

# CCO Planning timeline (AP, LTP, SOI)



# CCO LTP 2015-2025 timeline cont.





## LTP 2015-2025 – Key process milestones

Milestone	Definition	Delivery Date
<b>Set up (Jan 2014)</b>		
Planning complete	Project set-up and detailed planning complete	31 Jan
Process communicated	Communicate process to elected members, IMSB and CCO Chairs / CEs	31 Jan
<b>Scene setting (Feb 2014)</b>		
Strategic Advisory team operational	Strategic Advisory team established, briefed and ready to engage with business	24 Jan
Guidance distributed	Guidance provided to the business on requirements for the scene setting phase	30 Jan
Political workshop	Scene setting workshop for elected members, IMSB and CCO CEs / Chairs	26 Feb
Staff workshop	Scene setting workshop for staff supporting the LTP	27 Feb
Debrief	Internal debrief following scene setting workshops	28 Feb
Budget refresh close off	Council parent changes due by 7 Feb CCOs changes due by 7 March	7 Feb 2014 7 Mar 2014
<b>Direction setting (Mar 2014)</b>		
Direction set	Direction for the LTP is provided by the Mayor	5 Mar
<b>Advice and options development (Mar – May 2014)</b>		
Guidance distributed	Guidance provided to the business on work required for the options and advice phase in order to respond to the direction set by the Mayor.	6 Mar
Options and advice developed	Departments and CCOs undertake critical review of the business and develop options / advice to deliver on the mayor's direction.  Advice is prepared for each 'theme', with the support of a strategic advisor. Ownership for the advice sits with senior managers  Activity and asset planning work underway to support options development.	7 Mar – 30 May
<b>Internal strategic evaluation (June)</b>		
Internal evaluation of advice	Evaluation team undertakes a review of options and advice developed by the business	2 - 20 June
Cross business advice developed	Cross business advice is developed for political consideration – rolling timetable to deliver advice in time for local board workshops and GB committee meetings (below)	23 June – 31 July

<b>Political consideration of advice</b>		
Local boards consider advice	Local boards will hold workshops to consider the options and advice developed by officers	14 July – 1 Aug
GB Committees consider advice	Economic Development Committee (1 Jul) Environment, Climate Change & Natural Heritage Committee (9 July) Infrastructure committee (23 July) Arts, Culture and Events committee (30 July) Parks, Recreation & Sports committee (5 Aug) Community Development & Safety committee (13 Aug)	1 July – 13 Aug
Political feedback provided	Feedback is provided by local board and GB Committee on the options and advice presented in order to inform the Mayoral proposal	14 Aug
<b>Mayoral proposal</b>		
Decision-making on LBFP and LTP performance measures	Budget Committee meeting to consider Local Board Funding policy and proposed performance measures (Budget Committee workshop on 6 August)	14 Aug
Mayoral proposal	The Mayor will outline his proposal for the draft LTP at the August Governing Body meeting	28 Aug
<b>Engagement and decision-making</b>		
Prioritisation models available	Guidance and prioritisation models distributed to local boards (reflecting new LBFP)	8 Sept
Local board workshops and meetings	Local board workshops held to discuss draft LTP budgets/decisions and final LBP budgets. Local board meetings for draft LTP and LBPs	15 Sept – 17 Oct
Budget Committee workshops	Budget Committee workshops – Four half day workshops over 6 weeks. Will cover budgets, consultation topics, performance measures and targets, proposed financial policies, etc.	3 Sept 9 Sept 24 Sept 15 Oct
GB / LB engagement	Governing body discussions with local boards	20, 22, 24 Oct
GB / CCO engagement	GB discussions with CCOs	29 Oct
Final LTP decisions	Budget Committee meets to make final decisions for consultation / draft LTP (Workshop on 30 October)	5 Nov
<b>Adoption for consultation</b>		
Documents updated	Consultation document, draft LTP (including infrastructure strategy), asset plans updated and finalised	6 Nov – 5 Dec
Local Board adoption	Local boards adopt local consultation material	1-12 Dec
Governing Body Adoption	Budget Committee workshop on (if required) Governing body meets to adopt consultation document and draft LTP (workshop on 9 and 17 Dec)	18 Dec

Audit of draft LTP	• Audit undertaken of draft LTP and consultation document	TBC
<b>Consultation and engagement (Jan / Feb 2015)</b>		
Public consultation	• Consultation document and supporting information made available to the public • Submissions open 23 January and close on 24 February 2014	23 Jan - 24 Feb 2015
Submissions analysis	• Analysis of submissions	25 Feb – 20 March 2015
Budget refresh close off	• Council parent changes due by 13 February • CCOs changes due by 6 March	13 Feb 2015 6 Mar 2015
Hearings	• Local hearings • Regional hearings	23 – 2 April 7 – 17 April 2015
Budget update to Budget committee	Budget Committee workshop on (if required) 31 March Budget Committee meeting.	2 April 2015
Local board workshops and decision meetings	Local boards engage with officers and consider budgets, priorities, performance targets and advocacy following consultation	7 – 24 April 2015
LB – GB discussions	Governing Body holds discussions with local boards prior to final decision-making	28 April – 30 April 2015 TBC
CCO – GB discussions	Governing Body holds discussions with CCOs prior to final decision making	1 May 2015 TBC
<b>Decision-making and finalising LTP (May 2015)</b>		
Final decisions are made	Budget Committee meets to make final LTP decisions. (Workshop held on 5 May)	7 May 2015
Update LBAs and LTP	• Financial statement updated if required • Local board agreements updated • LTP finalised, including infrastructure strategy • Asset management plans and other supporting documents also finalised	4 – 20 May 2015
<b>Adoption of LTP 2015-2025 (June 2015)</b>		
Adoption	• Local boards adopt Local Board Agreements • Governing Body adopts final LTP including final Local Board Agreements (workshop on 23 June)	9 – 19 Jun 25 Jun 2015
Audit	Audit of final LTP	TBC
<b>Post adoption</b>		
Document production & distribution	LTP available online, at local libraries, council offices and other locations as agreed. Mail out to key stakeholders.	By 30 July 2015
Project Wrap up	• Submission responses sent • Post implementation review completed	August 2015



# Memo

11 February 2014

To: CCO CFO Forum

From: Tim Hegarty – Principal Infrastructure Planner, Spatial and Infrastructure Strategy

**Subject: New 30 year Infrastructure Strategy for the Long Term Plan**

## Background

The proposed amendments to the Local Government Act have introduced the requirement for Council's to produce 30 year infrastructure strategies as part of their Long Term Plan development. This current bill sets out a number of minimum requirements for these strategies, while the Department of Internal Affairs has also produced a "mock-up" version of such a strategy.

The minimum requirements of the Strategy (as identified in section 101(6) of the Bill) are:

1. Water supply
2. Sewerage and sewage disposal
3. Stormwater drainage
4. Flood protection
5. Footpaths and Roads
6. Any other assets that the local authority, in its discretion, wishes to include in the strategy (such as public and active transport, public open space, and community facilities).

With regard to these infrastructure categories, the strategy would require Auckland Council to detail the following (as per section 101(3)):

1. Planning for maintenance, growth, and possible increases or decreases in levels of service provided;
2. Managing, mitigating, or improving public health and environmental outcomes;
3. Managing the risks to, and resilience of, infrastructure assets from natural disasters, and
4. Managing the financial provision for risks to infrastructure assets from natural disasters.

This work will rely on base information taken from standard asset management planning. However, unlike the current LTP and AMPs, the infrastructure strategy has a planning horizon of 30 years and necessarily has a broader "strategic" focus.

In addition, while smaller authorities may have smaller scale investments in those asset classes primarily excluded from the proposed amendments, Auckland Council has planned greater investment in:

- Public and Active Transport – including cycleways ✓
- Community Facilities – including libraries, sports centres, and swimming pools ✓
- Open Space – including regional parks. ✓

The scale of investment in these assets classes and the strategic aspirations associated with them (e.g. through the Auckland Plan) provides a strong rationale for their inclusion within the infrastructure strategy.

#### A Strategic Land-Use and Infrastructure Tool

It is recognised that the Strategy is an opportunity to improve the integration between land use and financial planning, given the heavy demands of land use planning on infrastructure delivery and funding. A collaborative process between the planning and finance divisions of Council with the wider Council CCO family will be critical to delivery of the Strategy.

#### Delivering the Strategy

The production of the infrastructure strategy will utilise individuals across Council and the CCOs in conjunction with the other aspects of the Long Term Plan. Furthermore, the strategy has a strong financial planning element that will be reflected in the project's organisation. Input from CCOs and asset managers will also occur at key stages in the development of the Infrastructure Strategy. The overall development of the Strategy will be an iterative process, recognising the various interconnections with other sections of the Long Term Plan and the various decision making processes involved.

# Report to the Board of Watercare Services Limited

**Subject:** 2014/15 Financials for Auckland Council 2014/15 Annual Plan

**Date:** 14 February 2014

## 1. INTRODUCTION

In October 2013 Watercare provided to Auckland Council financial projections for 2014/15 for inclusion in Auckland Council's draft 2014/15 Annual Plan. These financials were unchanged from the 2014/15 financial projections included in Watercare's 2013 SOI and longer term financials provided to Auckland Council in March 2013. Updated financials for inclusion in Auckland Council's final 2014/15 Annual Plan need to be provided to Auckland Council by 7 March 2014. Financials are also required for inclusion in Watercare's Draft 2014-17 SOI which is due to be submitted to Auckland Council on 28 February 2014 and which is the subject of a separate report on the agenda of the meeting.

## 2. PURPOSE

The purpose of this paper is to seek Board approval to the headline 2014/15 financial projections that form the basis of the financials included in Auckland Council's final 2014/15 Annual Plan and also the financials for inclusion in Watercare's Draft 2014/17 SOI. These approvals include the projected 2014/15 price increases for water, wastewater and the IGCs.

## 3. UPDATE ON 2013/14 PERFORMANCE

After seven months of actual 2013/14 performance, the organisation's operating profit performance is ahead of budget, debt is \$35.2m beneath budget, capex is at 94% of budget and the YTD FFO ratio is 3.15. Individual line items in the Statement of Financial Performance do indicate some variances of note and in particular beneath budget water and wastewater revenue in January may prove difficult to recover in the remaining months of the year.

### 3.1 Revenue

YTD revenue totals \$280.4m as compared with budgeted \$271.0m as per the table below:

REVENUE	July - January YTD			2013/14	
	Actual	Budget	Variance	Budget	Forecast
Water	77.4	79.0	1.6	136.1	134.5
Wastewater	163.6	164.7	1.1	283.1	282.0
Infrastructure Growth Charges	16.4	14.6	(1.8)	25.1	25.5
Vested Assets	14.1	3.9	(10.2)	7.8	16.7
Tax Receipt	0.0	0.0	0.0	0.0	6.1
Other	8.9	8.8	(0.1)	15.4	15.2
<b>TOTAL</b>	<b>280.4</b>	<b>271.0</b>	<b>(9.4)</b>	<b>467.4</b>	<b>480.0</b>

Water and wastewater revenue fell 5.6% behind budget in January with daily volumes less than both November and December levels. Budgeted volumes for February and March are set higher again than January. The forecast for the year has been reduced by the January YTD shortfall. IGC revenue has been ahead of budget throughout the year to date as a result of the South Auckland penitentiary payment of \$2.69m in July 2013. Forecast IGC revenue for the year is \$0.4m above budget. Vested asset



revenue (non-cash) largely reflects assets transferred from Auckland Council at no cost. The YTD gain resulting from some large transfers in November is likely to remain and the forecast for the year is therefore \$8.9m above budget. Sale of tax losses to Ports of Auckland is now forecast for March 2014. This was previously unbudgeted. Other revenue which includes the laboratory, new connections activity, late payment charges, is on budget YTD and expected to stay on budget for the full year.

Full year forecast revenue is \$480.0m compared with the budgeted \$467.4m.

### 3.2 Operating Costs

YTD operating costs total \$110.5m as compared with budgeted \$113.1m as per the table below:

OPERATING COSTS	July - January YTD			2013/14	
	Actual	Budget	Variance	Budget	Forecast
Asset Operating Costs	46.2	43.9	(2.3)	75.0	78.6
Maintenance Costs	23.4	25.5	2.1	43.6	42.1
Employee Benefits	23.2	23.0	(0.1)	40.6	40.8
Other Operating Costs	17.8	20.7	2.9	36.3	33.5
<b>TOTAL</b>	<b>110.5</b>	<b>113.1</b>	<b>2.6</b>	<b>195.5</b>	<b>195.0</b>

Asset operating and maintenance costs YTD are a net \$0.2m unfavourable to budget with the variance between the costs primarily due to the account classification of charges. IS operating costs YTD are over budget largely offset by Operations underspend to date against budget. Asset operating and maintenance costs are forecast a net \$2.1m over budget for the full year mainly due to IS operating costs forecast over budget and the forecast increase of operations spend in the later part of the year. Other operating costs, YTD and forecast, are below budget mainly due to lower professional services and general overheads.

### 3.3 Depreciation

YTD depreciation totals \$120.1m compared with budgeted \$117.0m. During the year we have continued to identify depreciation rates on specific assets that require acceleration due to the capital programme. Tightened capex procedures will result in a reduction in the level of "unknown" accelerations, however total depreciation for the year is now expected to be \$203.9m compared with the budgeted \$199.7m.

### 3.4 Interest

YTD interest expense in the Statement of Financial Performance totals \$40.9m compared with the budgeted \$44.1m. The saving is a combination of lower debt levels during the first seven months than planned, slightly lower rates and a higher share of interest costs being capitalised via the capital programme. For the full year interest expense is now forecast at \$73.5m compared with the budgeted \$75.1m.

### 3.5 Operating Surplus Before Tax

YTD operating surplus before tax totals \$29.8m compared with the budgeted deficit of \$3.2m. For the full year an operating surplus before tax of \$27.4m is now forecast compared with the budgeted deficit of \$2.9m.

### 3.6 Non-Operating Costs

The principal areas of non-operating costs are the revaluation of financial instruments and loss on disposal of assets – both non-cash items; neither being budgeted. A YTD gain of \$28.5m on the financial instrument revaluation results from an overall increase in interest rates during 2013/14 and the YTD actual is projected as the full year forecast.

A loss on disposal of assets over the first seven months reflects ongoing work on the fixed asset data integrity and relates to the write off of the book value of assets no longer in service. An ongoing lower level of write off is projected for the remainder of the year.

### 3.7 Net Surplus After Taxation

Net surplus after tax totals \$21.4m YTD compared to the budgeted deficit of \$2.5m. The full year forecast is \$19.7m compared to the budgeted deficit of \$2.1m.

### 3.8 Capital Expenditure (excluding capitalised interest)

Total capital expenditure YTD is \$166.3m compared with the budgeted \$176.7m. Within this, infrastructure spend totals \$141.1m, being 100% of budget. For the full year total capital expenditure is expected to reach 93% of budget at \$325.5m.

### 3.9 Debt and FFO Ratio

Although debt has been beneath budget since the beginning of the year, it is expected that by year end debt will be close to that originally budgeted (\$1,482m). An FFO of 3.08 is now projected for the year.

## 4. 2014/15 PROJECTIONS – STATEMENT OF FINANCIAL PERFORMANCE

Statement of Financial Performance projections for 2013/14 and 2014/15 compared with 2012/13 actuals are as follows:

2014/15 PROJECTIONS STATEMENT OF FINANCIAL PERFORMANCE	2012/13		2013/14		2014/15	
	Actual	Budget	Latest Forecast	Draft annual Plan	Original Final Annual Plan	
<b>REVENUE</b>						
Water	135.0	136.1	134.5	141.5	138.5	
Wastewater	286.0	283.1	282.0	295.2	292.0	
Infrastructure Growth Charges	20.7	25.1	25.5	36.5	34.1	
Vested Assets	20.9	7.8	16.7	5.0	6.0	
Tax Receipt	0.0	0.0	6.1	0.0	8.4	
Other	20.0	15.4	15.2	15.0	15.5	
<b>TOTAL REVENUE</b>	<b>482.6</b>	<b>467.4</b>	<b>480.0</b>	<b>493.1</b>	<b>494.4</b>	
<b>OPERATING COSTS</b>						
Asset Operating Costs	78.7	75.0	78.6	82.5	77.2	
Maintenance Costs	43.5	43.6	42.1	45.5	44.4	
Employee Benefits	37.1	40.6	40.8	41.4	43.0	
Other Operating Costs	32.5	36.3	33.5	31.9	37.0	
<b>DEPRECIATION</b>	<b>185.0</b>	<b>199.7</b>	<b>203.9</b>	<b>210.1</b>	<b>210.7</b>	
<b>FINANCE COSTS</b>	<b>71.6</b>	<b>75.1</b>	<b>73.5</b>	<b>81.7</b>	<b>79.5</b>	
<b>TOTAL OPERATING EXPENDITURE</b>	<b>448.5</b>	<b>470.3</b>	<b>472.4</b>	<b>493.1</b>	<b>491.7</b>	
<b>OPERATING SURPLUS (DEFICIT) BEFORE TAX</b>	<b>34.1</b>	<b>(2.9)</b>	<b>7.5</b>	<b>(0.0)</b>	<b>2.7</b>	
<b>NON OPERATING INCOME/(COSTS)</b>	<b>29.4</b>	<b>0.0</b>	<b>19.9</b>	<b>0.0</b>	<b>0.0</b>	
<b>TAX</b>	<b>23.2</b>	<b>(0.0)</b>	<b>7.7</b>	<b>(0.0)</b>	<b>(0.0)</b>	
<b>NET SURPLUS (DEFICIT) AFTER TAX</b>	<b>40.3</b>	<b>(2.9)</b>	<b>19.7</b>	<b>(0.0)</b>	<b>(0.0)</b>	



Economic assumptions applied to 2014/15 are as follows:

Inflation	- Opex	1.50%
	- Capex	3.50%
Interest Rate		6.14%
Connected Population Growth		1.98%
Water Demand Growth		1.43%

#### 4.1 Revenue

The proposed 2014/15 annual plan revenue totals \$494.4m as compared with the 2013/14 forecast of \$480.0m.

##### 4.1.1 Price Increases

The 2014/15 revenue projections for water and wastewater include a proposed price increase of 2.4%. This compares with 3.5% for water and 3.75% for wastewater included in previous financials for 2014/15. A 1% variation in price increase impacts \$4.2m on revenue in the year. The urban IGC is projected to increase from \$8,500 (excluding GST) to \$10,500 (excluding GST) in line with previous projections. Rural IGCs are projected to increase by 2.4%. A review of IGC pricing policy is planned as part of Watercare's process for inputting to the Auckland Council Long Term Plan 2015-25.

##### 4.1.2 Water Revenue

Water revenue is projected to increase to \$138.5m in comparison with the 2013/14 forecast of \$134.5m. This is comprised of the 2.40% increase in price, 1.4% in water demand growth partially offset by a net 0.9% reflecting an adjustment for weather and an expected reduction in water demand due to the introduction of Non-Domestic Wastewater tariff.

##### 4.1.3 Wastewater Revenue

Wastewater revenue is projected to increase to \$292.0m in comparison with the 2013/14 forecast of \$282.0m. This is comprised of the 2.40% increase in price, 1.4% in water demand growth partially offset by a net 0.3% reflecting an adjustment for weather and an expected reduction in water demand due to the introduction of Non-Domestic Wastewater tariff.

##### 4.1.4 IGC Revenue

IGC revenue is projected to increase to \$34.1m in comparison with the 2013/14 forecast of \$25.5m. This reflects the increased price outlined in 4.1.1 and an estimated new connection volume of 5,000 HEU's – Noting that some of these HUE's will be at prior period prices.

##### 4.1.5 Vested Asset Revenue

The revenue plan for 2014/15 includes vested asset income of \$6.0m in comparison to the 2013/14 forecast of \$16.7m. The 2013/14 vested asset income includes a large one-off receipt for the Long Bay development of \$9.2m.

#### 4.1.6 Tax Receipt

The revenue plan for 2014/15 includes the sale of tax losses to Ports of Auckland of \$8.4m in comparison to the 2013/14 forecast of \$6.1m.

#### 4.1.7 Other Revenue

Other revenue for 2014/15 at \$15.5m is consistent with the 2013/14 forecast at \$15.2m.

### 4.2 Expenditure

The proposed annual plan operating costs total \$491.7m as compared with the 2013/14 forecast of \$472.4m.

#### 4.2.1 Asset Operating Costs

Asset operating costs are projected for 2014/15 at \$77.2m in comparison with the 2013/14 forecast at \$78.6m. The reduction in projected operating cost is primarily due to savings in energy from a negotiated reduced contract price, a reclassification of IS operating costs to overheads, which are included in Other Operating Costs, partially offset by inflation, growth and reduced energy requirements in 2013/14 due to the current wetter than normal summer reducing the draw on the Waikato river.

#### 4.2.2 Maintenance Costs

Maintenance costs are projected for 2014/15 at \$44.4m in comparison with the 2013/14 forecast at \$42.1m. The 2014/15 projected increase is due to inflation at 1.5%, growth at 1.4% and a planned increase in maintenance at 2.6%. The increase is primarily a spike in planned major maintenance comprised of digester and reactor overhauls at Mangere together with a digester overhaul at Rosedale water treatment plant.

#### 4.2.3 Employee Benefits

Employee benefits are projected for 2014/15 at \$43.0m in comparison with the 2013/14 forecast at \$40.8m. The 2014/15 projected increase is due to a projected payroll increase of 3.0%, growth at 1.4% partially offset by an increase in labour recoveries for employees charged to capital projects.

#### 4.2.4 Other Operating Costs

Other operating costs are projected for 2014/15 at \$37.0m in comparison with the 2013/14 forecast at \$33.5m. The 2014/15 projected increase is primarily due to inflation at 1.5%, growth at 1.4% and a reclassification of IS operating costs from Asset Operating costs partially offset by Onehunga one-off costs in 2013/14.

#### 4.2.5 Depreciation

Depreciation is projected for 2014/15 at \$210.7m in comparison with the 2013/14 forecast at \$203.9m.



#### 4.2.6 Finance Costs

Finance Cost	2012/13	2013/14		2014/15	
	Actual	Budget	Latest Forecast	Draft Annual Plan	Proposed Final Annual Plan
Gross Interest	80.1	86.9	87.0	95.5	95.5
Capitalised Interest	(8.5)	(11.8)	(13.5)	(13.8)	(16.0)
<b>Finance Cost</b>	<b>71.6</b>	<b>75.1</b>	<b>73.5</b>	<b>81.7</b>	<b>79.5</b>

Finance costs are projected for 2014/15 at \$79.5m in comparison with the 2013/14 forecast at \$73.5m. The increase in gross interest is primarily due to increase of projected average debt of \$1,554m for 2014/15 compared to forecast \$1,418m for 2013/14. Average interest rates are projected to increase from 6.11% for 2013/14 6.14% in 2014/15. Capitalised interest is projected to increase due to the number of projects which meet the capitalised interest policy criteria.

#### 4.3 Operating Surplus Before Tax

Operating surplus before tax is projected for 2014/15 at \$2.7m in comparison with the 2013/14 forecast at \$7.5m.

#### 4.4 Net Surplus/(Deficit) After Tax

Net deficit after tax is projected for 2014/15 at \$0.2m in comparison with the 2013/14 forecast net surplus after tax at \$19.7m. The 2013/14 forecast includes a gain of \$28.5m on the financial instrument revaluation as a result of an overall increase in interest rates during 2013/14 partially offset by a forecast loss on disposal of assets of \$8.7m.

### 5. CAPITAL EXPENDITURE

Capital Expenditure	2012/13	2013/14		2014/15	
	Actual	Budget	Latest Forecast	Draft Annual Plan	Proposed Final Annual Plan
Capital Expenditure	280.8	318.9	312.0	345.3	323.4
Capitalised Interest	8.5	11.8	13.5	13.8	16.0
<b>Net Capitalised Expenditure</b>	<b>289.3</b>	<b>330.7</b>	<b>325.5</b>	<b>359.1</b>	<b>339.4</b>

Capital expenditure excluding capitalised interest of \$16.0m for 2014/15 is proposed at \$323.4m. This compares with \$348.4m in the approved 2012 AMP. Charts depicting movement in capital expenditure projections by water, wastewater and shared services and also by business driver are attached in Appendix 1:

A further breakdown of projects with greater than \$2m spend in 2014/15 is attached as Appendix 2.

### 6. DEBT

Debt is projected for 2014/15 at \$1,620m an increase of \$132m from 2013/14 forecasted debt of \$1,488m.

**7. FFO**

The projected FFO for 2014/15 is 3.01 compared with the forecast for 2013/14 of 3.08.

**8. RECOMMENDATION**

It is recommended that the Board approve the proposed 2014/15 financials contained in this report, including the proposed price increases, for submission to Auckland Council for inclusion in its 2014/15 Annual Plan and also for inclusion in the draft 2014-17 Watercare SOI. It is also recommended that the 2015/16 and 2016/17 financial projections contained in the financials approved in February 2013 be included in the draft 2014-17 Watercare SOI, noting that these projections may change as a result of further discussion on the longer term financials of Watercare.

Report prepared by:

Recommended by:

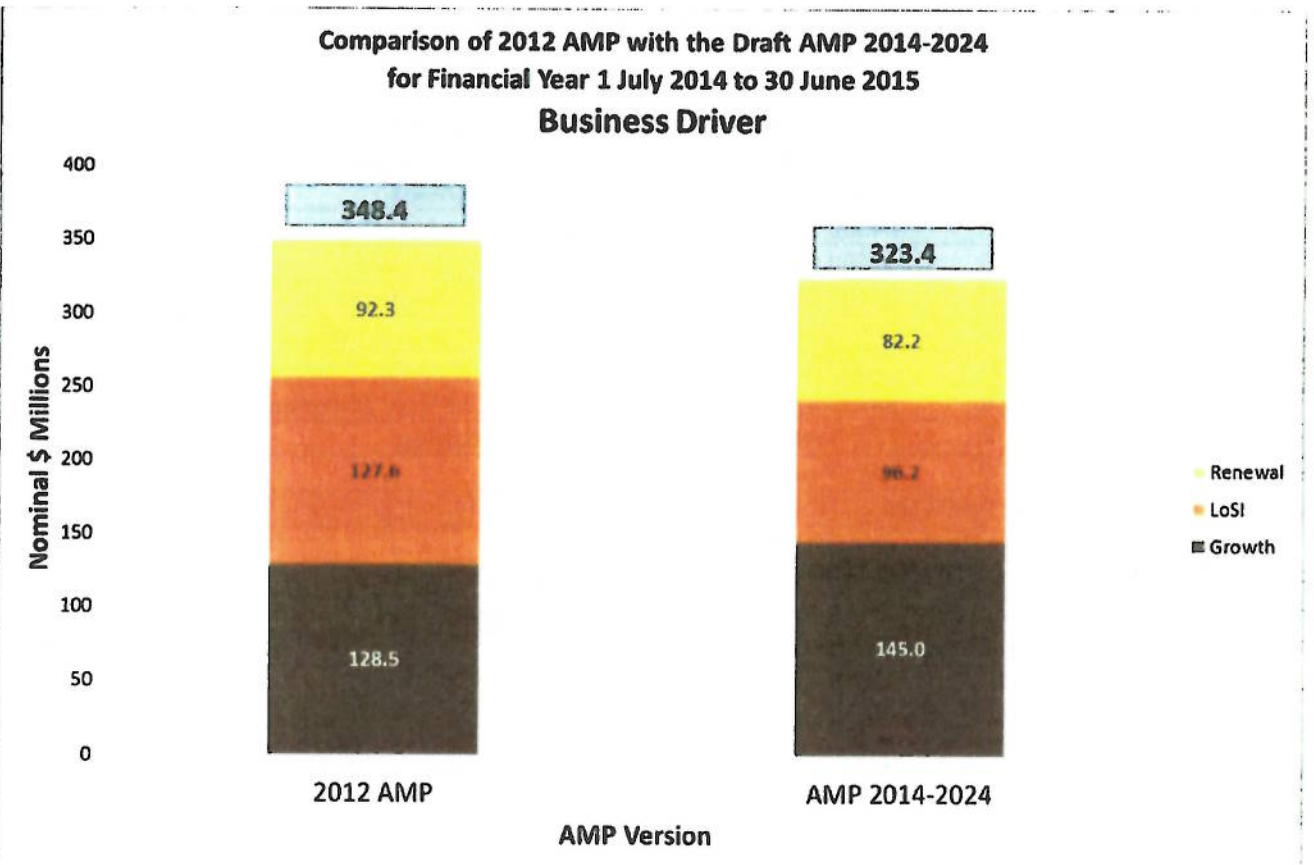
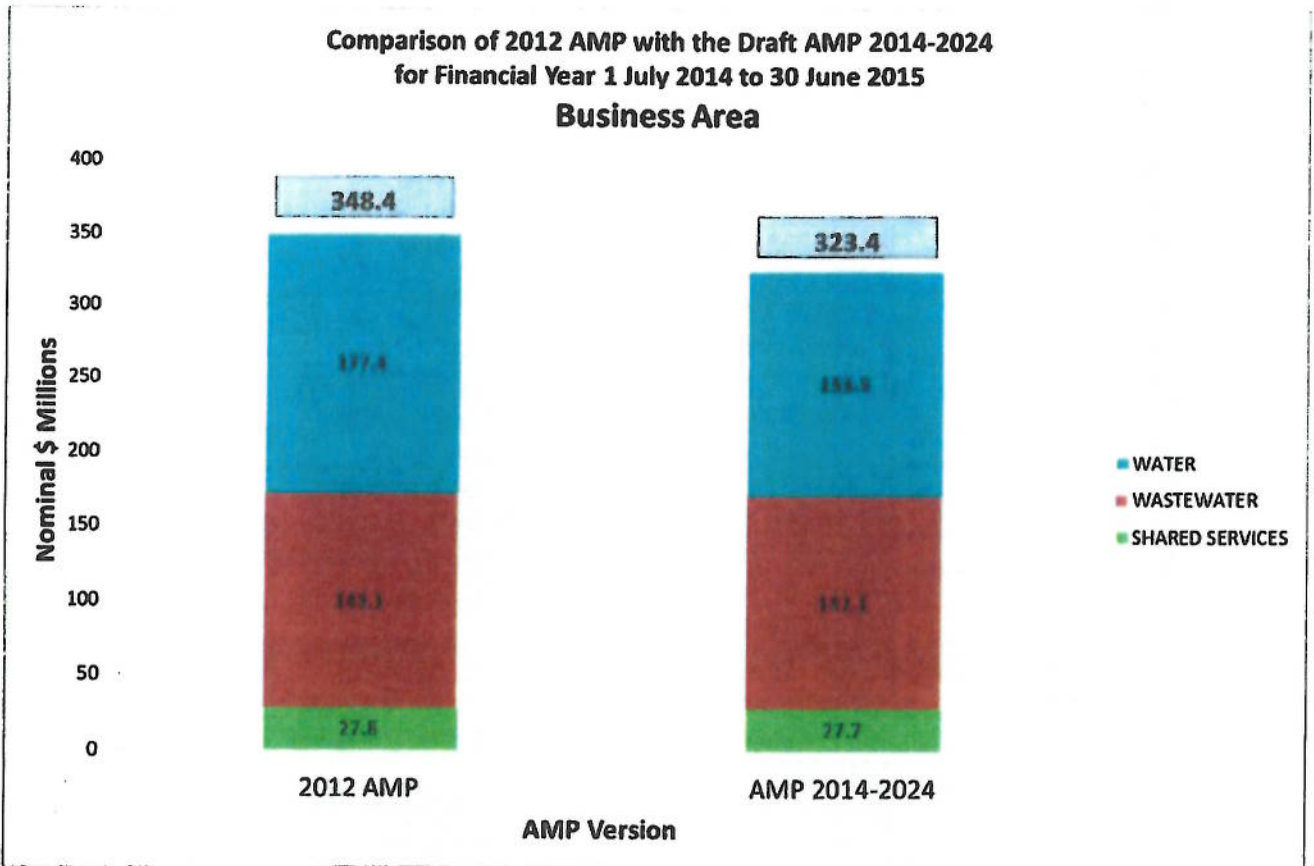
Approved for submission by:

  
.....  
D Whittaker  
Finance Manager

  
.....  
B Monk  
Chief Financial Officer

  
.....  
KM Ford  
Chief Executive

**Appendix 1: Capital Expenditure, comparison of AMP's**





**Appendix 2: Projects greater than \$2m**

Business Area	AMP Project Code Name	FY 2014/15
WATER	W500.01 Hunua No. 4 Water Supply Scheme	49.49
WATER	W300.09 New Watermains - North Harbour Duplication	20.06
WATER	W300.40 Helensville Watermain	13.35
WATER	W100.201 Unplanned Local Mains Renewal - Metro	5.04
WATER	W200.225 Level of Service Improvements	4.35
WATER	W300.36 Boost Pumping - Pinehill from Albany Res	3.32
WATER	W100.232 Meters Planned Replacements	3.11
WATER	F200.71 Huia WTP Upgrade	2.85
WATER	W300.37 Albany Reservoir	2.65
WATER	F300.02 Waikato - Stage 3 Expansion	2.59
WATER	F300.RDC3 Warkworth Water Treatment Upgrade	2.56
WATER	W300.23 Kumeu / Huapai Water Supply System	2.36
WATER	W100.235 Meters Unplanned Replacements	2.23
WATER	W300.08 New Watermains - Domain Watermain	2.15
WATER	W300.300 Network Expansion - Watermains - Metropol	2.07
WATER	W300.301 Network Expansion- Service Connect Metropol	2.06
WATER	W200.153 St Heliers No. 1 Watermain Duplication	2.04
WATER	Other projects less than \$2m	31.26
<b>TOTAL WATER</b>		<b>183.62</b>
WASTEWATER	T300.02 Bio Nitrogen Removal - Reactor Clarifiers	13.34
WASTEWATER	N300.08 Manukau Eastern Suburbs Area Servicing	10.66
WASTEWATER	N200.300 Storage Tanks	10.56
WASTEWATER	N300.16 North Shore Trunk Sewer Upgrades - East	10.35
WASTEWATER	T200.18 Biosolids - Puketutu Rehabilitation	9.32
WASTEWATER	N300.100 Local Sewer Upgrades & Extensions	9.32
WASTEWATER	N600.01 Central Interceptor - Spine	7.85
WASTEWATER	N300.15 Waitakere Southern Area Servicing	6.73
WASTEWATER	N100.01 Trunk Rising Main Rep (Mangere)	5.18
WASTEWATER	N300.18 North Shore Trunk Sewer Upgrades - West	5.18
WASTEWATER	N100.600 Trunk Rising Main Planned Rep (Other)	4.14
WASTEWATER	N300.17 Pukekohe Trunk Sewer Upgrades	4.04
WASTEWATER	N300.06 Tamaki South East Area Servicing	3.62
WASTEWATER	N100.02 Trunk Sewer Planned Rep (Mangere)	3.11
WASTEWATER	N100.101 Local Sewer Planned Replacements	2.59
WASTEWATER	T300.07 Mangere WWTP Solids Stream Upgrade	2.43
WASTEWATER	T200.FDC1 Upgrade Pukekohe Wastewater Treatmt Plt	2.07
WASTEWATER	N100.03 Trunk Pump Station Planned Rep (Mangere)	2.07
WASTEWATER	T100.04 Primary Feed Channel Recoating	2.07
WASTEWATER	Other projects less than \$2m	27.54
<b>TOTAL WASTEWATER</b>		<b>142.14</b>
SHARED SERVICES	B200.01 Information Systems	11.01
SHARED SERVICES	B100.11 Networks Control System Upgrade	5.18
SHARED SERVICES	B100.10 ECS Shared Replacements	4.45
SHARED SERVICES	B100.02 Laboratory	3.23
SHARED SERVICES	Other projects less than \$2m	3.86
<b>TOTAL SHARED SERVICES</b>		<b>27.74</b>
<b>TOTAL CAPITAL EXPENDITURE (EXCLUDING CAPITALISED INTEREST)</b>		<b>323.40</b>

# Report to the Board of Watercare Services Limited

**Subject:** Draft Statement of Intent 2014-2017

**Date:** 20 February 2014

---

## 1. INTRODUCTION

Watercare is required, under Section 64 of the Local Government Act 2002 (the Act), to produce a Statement of Intent (SOI) for a period of three years, the purpose of which is to provide:

- A public statement of its activities, intentions and objectives;
- An opportunity for the shareholder to influence the direction of the organisation; and
- An accountability basis of the directors for the shareholder.

Schedule 8 of the Act sets out the required contents of the SOI and requires that a draft is to be presented to the shareholder by 1 March each year.

Not only does the SOI set out the intended strategic direction for Watercare, but some of the operational performance measures in the SOI form part of the performance measures that are included in the Council's long term plan (LTP).

The SOI and associated performance measures as well as annual performance reporting are all subject to audit by the Auditor General.

## 2. AUCKLAND COUNCIL REQUIREMENTS AND TIMETABLE FOR COMPLETION

The SOI process begins with the Mayor's Letter of Expectation which was received by Watercare in December 2013.

An initial draft 2014/17 SOI was tabled at the Board meeting on 4 February. Feedback provided at that meeting has now been incorporated into the updated draft which is attached as Appendix B. The approved draft 2014/17 SOI must be submitted to Auckland Council by 1 March 2014.

After receiving the Watercare draft 2014/17 SOI, the Council will consult with the Local Boards and the Independent Maori Statutory Board (IMSB). Council is then scheduled to hold discussions with Watercare about any proposed changes and report back to Watercare by 30 April 2014.

Watercare is required to provide an opportunity for the public to comment on the 2014/17 SOI (29 May 2014 Board meeting) and deliver to the Council its approved draft 2014/17 SOI by 30 June 2014.

The approved SOI will then be formally adopted by the Auckland Council Governance and Monitoring Committee in August 2014.

## 3. FINANCIALS

The draft 2014/17 SOI attached in Appendix B does not include the required financial information. Financials will be added to the draft SOI following Board approval of the high level budget for 2014/15 and interim financials for 2015/16 and 2016/17 at the 27 February Board meeting and prior to the approved draft SOI being submitted to Auckland Council.

**4. ATTACHMENTS**

Appendix A – Mayor’s Letter of Expectation

Appendix B – Draft 2014/17 SOI

**5. RECOMMENDATION**

1. That the Watercare Board of Directors note the report.
2. That the Watercare Board of Directors approve the submission of the draft 2014/17 SOI to the Auckland Council.

Report prepared by:

Recommended by:

Recommended by:



.....  
Rebecca Chenery  
Strategic Planning  
Manager

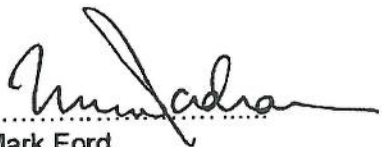


.....  
Brian Monk  
Chief Financial Officer



.....  
Rob Fisher  
General Counsel

Approved for  
submission by:



.....  
Mark Ford  
Chief Executive

11



11 December 2013

Mr David Clarke  
Chair  
Watercare Services Limited

BY EMAIL: [DavidC@cranleighmb.com](mailto:DavidC@cranleighmb.com)

Tēnā koe David,

**RE: Letter of Expectation 2014/2015**

The Auckland Council continues to value the important contribution Watercare makes towards the vision of Auckland becoming the world's most liveable city, through the delivery of the Auckland Plan. This letter of expectation is intended to provide direction on issues that are important to Auckland Council, and to assist in the development of Watercare's 2014-2017 Statement of Intent (SOI).

**Roles and responsibility**

Auckland Council's role is to set the strategy and determine the outcomes Watercare delivers. We expect for these set outcomes, you use your expertise to deliver an effective customer focused service and provide value for money to Aucklanders.

We also expect all Watercare's plans to address the contribution to the strategic direction and broad outcomes set in the Auckland Plan and Unitary Plan. All Watercare plans and policies that impact on the implementation of council direction will be brought to council for endorsement.

There are many other activities of council where we expect Watercare to implement our strategies, policies and plans, for example, the Weed Management Policy and the Waste Minimisation Plan. Council will be mindful to include Watercare in the development of these so that operational impacts and costs can be well understood and incorporated. This will of course require you to resource this engagement effectively.

**Focus on delivery and implementation**

The importance of working together across the council group continues to be important. We must work together to share information, and actively identify opportunities to leverage Auckland-wide services and investment, whether delivered by the council group, government or business. The work we have been doing together on integrated consenting is a very good example of what can be achieved.

We also expect a greater level of cost effectiveness, value for money, and financial prudence in your development of solutions and decision making processes.

'Dramatically accelerating the prospects of Auckland's children and young people' is one of the transformational shifts to achieve the vision of the Auckland Plan. Therefore, we also expect consideration of children and young people as a key part in the delivery of your objectives.

#### **Information to council and the public**

We expect the provision of timely and quality information to council to ensure a high degree of accountability for the services provided to Aucklanders. Our current reporting timelines do not allow for timely discussions on all issues and performance. Therefore, we intend to improve the process and opportunities to engage and look forward to Watercare's support in improving the provision of timely information to council.

In addition, we expect improved flow of relevant information to councillors and the public on matters of significance. This includes responses to local communities on issues of importance to them.

#### **Contribution to Māori outcomes**

Having tangible initiatives that support Māori outcomes is critical for Watercare. Over the last few years, in conjunction with the independent Māori Statutory Board, we have been requesting increased visibility from our CCOs on the contribution to Māori through specific initiatives, engagement and business performance. In general, the level of information about the work Watercare undertakes with iwi is not as visible or transparent as it should be and we want to see a marked improvement through the Statement of Intent and quarterly reporting.

In addition, the Māori Responsiveness Framework was affirmed by the Governing Body in December 2012. We expect CCOs to outline how they will implement the framework in their SOIs.

#### **Long-term Plan 2015-2025**

The LTP provides information about what we plan to do each year for the next 10 years to achieve our vision outlined in the Auckland Plan. The LTP also provides an opportunity to set our financial priorities, such as the level of rate increases, debt, capital expenditure and funding for services provided.

Detailed work on the LTP commences in January 2014, and we expect Watercare's strong support and collaboration through the process.

#### **Sustainability**

In order to achieve Auckland's vision of a liveable city, we must also be a sustainable one. Our short-term decisions must enhance our long term prospects, and build our resilience to changing local and global conditions including the effects of climate change

that may impact on economic, environmental, social and cultural wellbeing. Achieving this will contribute to a more prosperous, low carbon economy and the enhancement of our environment and overall well-being.

It is our expectation that sustainability is a priority for Watercare; both in terms of the services provided and in the management of day-to-day operations, assets and decision-making including procurement. It is also our expectation that Watercare will work with council in the development and delivery of well-defined sustainability actions that help achieve the outcomes and targets of the Auckland Plan including the aspirational target to reduce GHG emissions by 40% by 2040 based on 1990 levels. We expect Watercare to monitor and report progress on the delivery of sustainability outcomes and to provide leadership in driving continuous improvement through decision-making.

#### **Continuing to work with local boards**

The local boards play an important role in communicating and advocating community preferences and needs. As a result, we would like to re-iterate that Watercare's local board engagement plan meets the requirements outlined in the shareholder's expectation guide (SEG). Engagement with local boards means more than regular reporting – it means two-way dialogue and a commitment to considering local board priorities and objectives, and responding promptly and appropriately on issues raised by local boards. Please continue to resource this work effectively.

#### **Key focus areas for 2014/2015 for Watercare**

- Continued support and collaboration on council planning initiatives, especially the Water Strategy and the Special Housing Areas
- Identification of and reporting on the delivery of any improvements to the quality of urban design outcomes
- Focus on appropriate debt levels and capital expenditure
- Ensure price increases are aligned to council expectation and rate increases
- Plan to manage chief executive succession.

#### **SOI continuous improvement**

As an organisation, we are continuously looking to improve and streamline our processes. The SOI process is no different. Through the development of the draft SOIs, we expect all CCOs to work with council officers to ensure SOIs are succinct, performance measures are robust, non-essential information is excluded and duplication of content with other policies applicable to CCOs is limited.

We would also like to take the opportunity to re-iterate the purpose of the SOI:

- a) state publicly the activities and intentions of a council-controlled organisation for the year and the objectives to which those activities will contribute; and
- b) provide an opportunity for shareholders to influence the direction of the organisation; and
- c) provide a basis for the accountability of the directors to their shareholders for the performance of the organisation.



I look forward to receiving the draft SOI by 1 March 2014.

Nāku noa, nā



**Len Brown**  
**MAYOR OF AUCKLAND**

- cc. Penny Hulse, Chair, CCD Governance and Monitoring Committee
- cc. Doug McKay, Chief Executive Auckland Council
- cc. Mark Ford, Chief Executive, Watercare Services Limited

# Watercare

An Auckland Council Organisation



*Water Supply Operations Manager Shayne Cunis takes pupils from Kelston Boys High School on a tour of Huia Water Treatment Plant in West Auckland*

2014-2017

Draft Statement of Intent

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# Introduction

**Matariki tāpuapua  
Puanga kai rau e  
Tihewa Mauriora**

*Plowden, harbinger of growth  
Ngāi, symbol of the harvest  
Let there be life*

**Me mihi ki te whenua, me tangi hoki mō  
rātou kua okioki**

*We greet the land beneath us, we grieve for those who  
have gone before us, and we acknowledge their  
influence upon us.*

**E ngā mana, e reo, e ngā huihuinga tāngata  
puta noa Tāmaki Makaurau Tāmaki Whānui  
hoki tēnā koutou i raro i te pikinga ake o  
Matariki o Puanga hoki. E manakohia nei kia  
pērā ano hoki te pikinga ake o ā tātou mahi  
ngātahi āmuri ake nei. Anei rā te tauāki hei  
tātaki i aua manako. Kāti ake.**

*To you the leaders, you the spokepeople, and to all the  
people throughout Tāmaki Makaurau, warm and  
heartfelt greetings in this time of Matariki.*

*As the New Year dawns, we come together to seek a  
new way forward, united in our shared responsibilities,  
and committed to achieving our collective vision.*

Each day, Watercare Services Limited (Watercare) supplies some 330 million litres of water to the Auckland region, and treats about 408 million litres of wastewater to a high standard.

Watercare is a council-controlled organisation, owned by the people of Auckland and governed by a board selected by and responsible to the Auckland Council.

This Statement of Intent (SOI) sets out Watercare's obligations and commitments, how it intends to meet those, and the measures by which its shareholder, the Auckland Council, can assess the company's success.

This SOI recognises the important relationship that exists between Watercare and the Auckland Council, and that the success of each is dependent on the actions of the other. Auckland Council requires Watercare to give effect to its strategic intent and facilitate the region's sustainable growth and development, Watercare relies on the Auckland Council providing a policy and regulatory environment that enables the development and operation of the infrastructure necessary to achieve this.

# Strategic Direction

## Vision

"Outstanding and affordable water services for all the people of Auckland."

"Outstanding" means Watercare will provide safe drinking water, promote efficient water use, and protect waterways and the environment through the effective transport and treatment of wastewater. "Affordable" water services means that Watercare will run an efficient business and keep the overall costs of services to customers (collectively) at minimum levels.

## Key Goals

Watercare has seven main goals and focus areas that reflect the responsibilities and challenges of the company. These are:

**Safe and Reliable Water Supply:** To manage water resources to provide a safe and reliable water supply.

**Healthy Waterways:** To manage wastewater discharges to maintain or improve the health of the environment.

**Sound Financial Management:** To meet business objectives at the lowest cost.

**Effective Asset Management:** To maximise the use of existing assets while optimising the scope, timing and costs of new investments.

**Stable Workforce:** To have a skilled, motivated and empowered workforce.

**Sustainable Environment:** To conserve the resources of today for future generations.

**Satisfied Customers and Stakeholders:** To provide great service and great value.

These goals represent the main focus areas of Watercare's business activities. Success in all these areas combined is required to deliver high quality and sustainable services to the people of Auckland.

## Contribution to Auckland Council Goals

The supply of outstanding and affordable water services directly contributes to the Mayor's vision of Auckland becoming the world's most liveable city.

Of the seven desired outcomes set out in the Auckland Plan, Watercare directly contributes to:

- A fair, safe and healthy Auckland, where people value the excellent services and facilities available
- A green Auckland, where our waterways and coastlines are clean and full of life
- A beautiful Auckland that is loved by its people, where Auckland communities take pride in their surroundings and work together to create places they value

The Auckland Plan sets out 13 strategic directions that will help Auckland achieve the Mayor's vision. Watercare contributes directly to several of these strategic directions. That is to:

- Plan, deliver and maintain quality infrastructure to make Auckland liveable and resilient.
- Enable Māori aspirations through recognition of the Treaty of Waitangi and customary rights
- Acknowledge that nature and its people are inseparable
- Contribute to tackling climate change and increasing energy resilience

*Watercare supports the aims of the Implementation and Funding Framework through the alignment of Watercare's proposed Asset Management Plan (AMP) and Financial Plan with the Auckland Council Long Term Plan (LTP)*

Watercare supports the key enablers of the Auckland Plan and the Unitary Plan and, in particular, moving to a quality compact urban form.

Watercare also supports the environmental principles within the Auckland Plan attached as Table 7.1, Appendix A, pg29.

## Company Obligation

From 1 July 2012 Watercare became a CCO<sup>1</sup>. The company's obligations to deliver water and wastewater services for Auckland, are set out in Part 5 section 57(1) of the Local Government (Auckland Council) Act 2009 which stipulates amongst others, that an Auckland water organisation:

- (a) must manage its operations efficiently with a view to keeping the overall costs of water supply and wastewater services to its customers (collectively) at the minimum levels consistent with the effective conduct of its undertakings and the maintenance of the long-term integrity of its assets; and
- (b) must not pay any dividend or distribute any surplus in any way, directly or indirectly, to any owner or shareholder; and
- (c) is not required to comply with section 68(b) of the Local Government Act 2002; and
- (d) must have regard for public safety (for example, the safety of children in urban areas) in relation to its structures.

The SOI has been prepared in accordance with Schedule 8 of the Local Government Act 2002 and covers a three-year term from 1 July 2011 to 30 June 2014.

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<sup>1</sup> Under sections 2(2) and 113(2) of the Local Government (Auckland Transitional Provisions) Act 2010



## Nature and Scope of Activities

As at 1 July 2013, Watercare managed assets which are valued at \$8.2 billion and received total revenue of \$482 million for the year ending 30 June 2013.

The company's main services include:

- **The collection, treatment, and distribution of drinking water** from 12 dams, 14 groundwater sources and springs and three river sources. A total of 144 billion litres of water was sourced in 2012/13 and treated at 19 plants and distributed through 8,921 kilometers of water pipes through 84 reservoirs and 90 pump stations to 1.4 million people customers.
- **The collection, treatment, and disposal of wastewater** at 18 treatment plants. The two main wastewater plants servicing the majority of the region are located at Mangere on the Manukau Harbour and Rosedale on the North Shore. Wastewater is conveyed through 7,757 kilometers of sewers before treatment. The regional network includes 539 wastewater pump stations and 164,000 manholes.
- **The transfer, treatment, and disposal of trade wastes.** At 1 July 2014, Watercare worked with 22,000 non-domestic customers in administering the Auckland Trade Waste Bylaw 2013 to protect the wastewater network and assist in ensuring that wastewater treatment plant discharges meet consent-requirements. Watercare is also responsible for enforcing trade waste compliance.
- **The provision of commercial laboratory services** in support of the business. The independently accredited laboratory provides a full range of testing and sampling services for water, wastewater, biota and air quality and also works with a wide customer base across a range of industries to provide first-class laboratory analysis and sampling services.
- **The provision of planned and reactive maintenance services** in the Central network area. Strong maintenance capability allows Watercare to retain institutional knowledge, especially for critical infrastructure, build capability in areas such as leak detection, inflow/infiltration and management of major

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maintainance projects) and reduce overall costs while maintaining the performance of Watercare's assets.

- **The timely and efficient resolution of customer and stakeholder enquiries.** Watercare's dedicated in-house call centre acts as a first point of contact for enquiries from both customers and other stakeholders. The customer self-service online channel provides the opportunity for customer to manage their own information at a time and place that are convenient for them.

These activities are supported by **integrated customer services, finance, legal services, capital programmes, human resources and information services and maintenance services.**

Watercare's responsibilities for the supply of drinking water and treatment and disposal of wastewater mean the company is a major contributor to the health, prosperity, and well-being of the Auckland wide community. The company has a sound record as a good corporate citizen, committed to the delivery of high quality cost-effective services.

As a local government-owned utility, Watercare is obliged to provide a high level of transparency in reporting<sup>2</sup>. In line with the focus on sustainability, the company has been recognised for its commitment to transparent and accountable reporting, and as an integrated provider of water and wastewater services these commitments will continue.

## Approach to Governance

### Shareholder

Watercare is a CCO of the Auckland Council. The Auckland Council is the company's shareholder.

### Board of Directors

Watercare has an independent board of directors. Watercare's constitution requires the directors to manage the company in line with the annual SOI. Through the SOI, the directors are accountable to the shareholder, who is in turn accountable to residents and ratepayers of the Auckland region.

<sup>2</sup> Watercare has regularly received awards in both New Zealand and Australasia for the quality and transparency of company reporting from the New Zealand Institute of Chartered Accountants and the Association of Chartered Certified Accountants.

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The directors determine the overall direction of the company in light of the objectives set out in the SOI and the statutory requirements for the company under the Local Government Act 2002 and the Companies Act 1993. The directors make major decisions, including decisions on large new capital investment and on significant business initiatives, in line with those objectives.

The directors are responsible for monitoring the performance of the company, and for monitoring the performance of the chief executive who has responsibility for managing the company on a day-to-day basis.

Watercare holds board meetings that are open to members of the public consistent with the guidelines for public meetings provided by the Mayor. Watercare also meets the public meeting requirements for CCOs pursuant to Section 96 of the Local Government (Auckland Council) Act 2009 which requires two public meetings to be open to members of the public as follows:

Purpose	Board Meeting
One meeting must be held before 30 June each year for the purpose of considering comments from shareholders on the organisation's draft statement of intent for the following financial year.	<b>29 May 2014</b>
The other meeting must be held after 1 July each year for the purpose of considering the organisation's performance under its statement of intent in the previous financial year.	<b>22 October 2014</b>

All board meetings are notified by way of a public notice in The New Zealand Herald and posted on the Watercare website.

Watercare is subject to Parts 1 to 6 of the Local Government Official Information and Meetings Act 1987. The company respects the underlying principles of, and complies fully with, the Act.

However, due to the commercial nature of the company business, which includes commercial negotiations, contracts and tenders, there are occasions where certain information cannot be disclosed in public, particularly during the course of negotiations. Where such information is materially significant, Watercare will keep the shareholder informed, consistent with the no-surprises approach.

When sharing confidential information with the shareholder where it is required to be heard in a confidential session, Watercare will provide a separate report and clearly state the reason for confidentiality under the Local Government Official Information and Meetings Act 1987.

The directors acknowledge that they are subject to an annual performance review in accordance with the Council's Appointment and Remuneration Policy.

Being a good employer is a principal objective of Watercare under section 59 of the Local Government Act 2002.

Watercare will act in accordance with relevant statutory provisions referring to the Treaty of Waitangi.

As Watercare Services Limited is a company under the Companies Act 1993, the board is bound by the duties and obligations under that Act.

In particular, the board will adhere to the duty of directors, as set out under s131 of that Act, to act in good faith and in the best interests of the company, however the Directors may act in the best interests of the shareholder when it is not in the best interests of the company.

The board of the company has all the powers necessary for managing, directing and supervising the management of the business and affairs of the company as set out under s128 of that Act.



The board operates under a governance charter that defines the duties and obligations of the board and board members covering fiduciary duty, duty of care, diligence, legal and statutory duties and conflicts of interest. It incorporates the principles of the New Zealand Institute of Directors' Code of Practice for Directors, relevant sections of the New Zealand Exchange Limited (NZX) Corporate Governance Best Practice Code and the Securities Commission's nine principles of corporate governance.

## Engagement with the Shareholder

### Relationship with the Governing Body

Watercare is committed to working closely with the Auckland Council for the achievement of regional outcomes. Watercare will respect Auckland Council's roles and responsibilities and make sure that there is a mutual sharing of information by adopting a no-surprises approach. Watercare will ensure that Auckland Council is kept informed well in advance of anything considered potentially contentious in the public arena, whether the issue is inside or outside issues outlined in the SOI and the relevant legislation. Watercare will give effect to the Auckland Plan and to the LTP, and act consistently with other plans and policies of the Auckland Council such as the Shareholder's Accountability Policy and the Shareholder Expectation Guide.

Watercare is committed to working closely with Auckland Council on provisions in the Unitary Plan that provide for the efficient operation of Watercare's network and new infrastructure to provide for growth and support intensification.

Watercare's ability to successfully undertake its business and achieve SOI outcomes relies on the support and cooperation of the Auckland Council in providing a policy and regulatory environment that enables the timely and successful delivery of water and wastewater investments and actions.

### Quarterly Reports

Management reports will be provided within six weeks of the end of the September and March quarters as required by the shareholder and within eight weeks of the end of the December and June quarters as required under s66 of the Local Government Act 2002, including:

The unaudited Statement of Financial Position as at the end of the preceding quarter, and the Statement of Financial Performance,

Statement of Cash Flows and a Capital Expenditure Summary for the year to date and the preceding quarter. These statements will include comparative budget data and variances.

The return on equity for the preceding quarter and year to date.

Particulars of any assets sold during the preceding quarter where the aggregate value of associated assets exceeds \$1 million.

A commentary on customer service performance.

A commentary on significant capital projects in progress.

A commentary on material changes, if any, in capital expenditure.

A report on the achievement of the SOI performance targets.

Any reasonable request for information.

## Annual Report

Watercare will produce an Annual Report that covers sustainability performance together with the audited financial and service performance statements.

The annual report will be provided to the shareholder within three months of the end of the financial year in accordance with s67 of the Local Government Act 2002 and will meet the reporting requirements of the Companies Act 1993 and the Financial Reporting Act 1993. The annual report will also comply with New Zealand international financial reporting standards and will include any other information the directors consider appropriate.

## Meetings with the Auckland Council

Watercare will meet with the Auckland Council CCO Governance and Monitoring Committee to formally present its quarterly reports, which will include the six month and full year reports, and the Auckland Council Infrastructure Committee as required.

Watercare will also provide additional information as required consistent with a no-surprises approach to ensure the Auckland Council is kept informed in a timely manner of significant events which relate to the company and which may affect the Auckland Council.

While Watercare is accountable to the Governing Body as shareholder, it also has a relationship with local boards who share the decision-making responsibilities of the Auckland Council.

Watercare recognises the important role of local boards in local representation and decision making and has been proactively building relationships based on transparent communication of its activities. Watercare's Principal Advisor Local Boards facilitates the relationship and maintains information flows.

Watercare attends a significant number of local board meetings and workshops ensuring a no surprises approach on local issues and projects, particularly where they may affect members of the public and local constituents. Engagement plans have been revised, agreed and are in place with the local boards to help facilitate the working relationship.

Watercare takes account of objectives and activities outlined in local board plans and agreements, to the extent that Watercare is responsible for their delivery. Watercare will also continue to provide a timely response to questions from local boards such as those raised during the local board planning processes or passed on by members of the public.

Watercare consults with local boards as part of statutory consenting processes where major works are planned that have the potential to have a significant effect on residents and services.

### Relationship with Associated Units of Council

Watercare recognises the need for a close working relationship with the shareholder, engaging actively on the development of the Water Strategic Action Plan and the Unitary Plan to encourage an environment that enables the operation, maintenance, upgrade and construction of water and wastewater infrastructure. Watercare will also continue working closely with the House Project Office on the development of Special Housing Areas under the Housing Accord. Watercare is also committed to working collaboratively with the council's regulatory and finance groups to ensure that the council group as a whole achieves effective and efficient outcomes for the people of Auckland. Watercare works closely with the Stormwater unit of Council, particularly in the older central areas of Auckland which are serviced by a combined wastewater/storm water network.

Watercare is also committed to participating in coordinating planning studies with many other parts of Council, to ensure that the study outcomes and

associated implementation represents the best practicable option from an environmental and whole community perspective.

### Information to be Provided to Shareholder

In addition to reporting on key performance indicators, Watercare will also regularly report on other aspects of compliance, governance and accountability. This includes major projects as part of the quarterly shareholder reporting process.

### Events Requiring Shareholder Approval

Shareholder approval will be obtained prior to Watercare entering any business activity that is significantly different, change or is outside the nature and scope of Watercare's current activities. Watercare will follow Auckland Council's Board Appointment and Remuneration Policy, when making appointments to any subsidiaries and will communicate with the Council about proposed appointments in advance.

### Accountability Policy

The company is required to give effect to the relevant aspects of the LTP including the Accountability Policy and the management of strategic assets. Strategic assets are assets that are elements of the water and wastewater networks that are integral to the functioning of the whole, assets such as the:

- Mangere Wastewater Treatment Plant
- Rosedale Wastewater Treatment Plant
- Army Bay Wastewater Treatment Plant
- Ardmore Water Treatment Plant
- Waikato Water Treatment Plant
- Hunua and Waitakere dams

The Council has approved the LTP 2012-22 which includes the Watercare AMP.

### Engagement with other stakeholders



### Activities for which the Company Seeks Compensation from any Local Authority

Watercare maintains commercial arrangements with the Waikato District Council for functions, duties or services that the company is required to undertake.

These include the supply of bulk wastewater services for properties in the Waikato District which dispose of wastewater to the Watercare owned and operated Tuakau Wastewater Treatment Plant in the Auckland Region.

Any negotiations with a local authority for commercial arrangements for the delivery of services will be undertaken without prejudice to Watercare's rights at law to impose reasonable charges for the supply of its services.

### Tangata Whenua

Watercare has always had a close relationship with Māori, recognising the importance of natural resources to mana whenua and acting in accordance with relevant statutory provisions and Treaty of Waitangi principles. The company undertakes ongoing consultation on company activities that are likely to impact on Māori views and values.

In November 2009, Watercare established a memorandum of relationship with Waikato Tainui recognising the importance of the relationship to the achievement of outcomes such as Project Manukau, the Waikato River water take and the Puketutu Island Biosolids Rehabilitation Project. Watercare will continue to honor this relationship without prejudice to consultation with other iwi or hapu.

Watercare has engaged with 19 iwi groups throughout Auckland to establish the Mana Whenua Kaitiaki Forum. The emergence of the Kaitiaki Forum resulted from a collective desire for proactive engagement between iwi and Watercare in order to build strong and enduring relationships and to enhance business efficiencies. In order to foster this relationship, Watercare worked with Chairs and other representatives of each iwi to develop the Mana Whenua/Watercare "Relationship Agreement". This Agreement has been designed to provide a new vehicle through which Watercare and mana whenua can work collaboratively. The primary purpose is to ensure iwi are involved in Watercare's projects at an early stage of the process and have the opportunity to contribute in creative and innovative ways to water and wastewater plans and projects throughout Auckland.

The Forum does not override existing relationships and Watercare will continue to maintain one to one relationships with individual iwi groups.

Thirteen of the 19 Auckland Iwi including Waikato-Tainui have signed the Relationship Agreement and are attending the quarterly Mana Whenua Kaitiaki Forum meetings. Other Iwi have recently advised of their intention to join the forum in the near future.

The principles of the Agreement are firmly based on Watercare's commitment to operate in a manner that enhances environmental, social, and economic values, whilst maintaining cultural integrity.

The Agreement principles are:

**Relationship Building** - Building understanding and enhancing the relationship between Mana Whenua and Watercare

**Integrity** - Ensuring cultural integrity and respect

**Opportunities** - Identifying opportunities of mutual interest and benefit

**Best Practice** - Advising on best practices for meeting Watercare's cultural, environmental, social and economic responsibilities

**Efficiency** - Establishing efficient, collective processes for building the relationship and engagement.

In 2013 the Chairman of the Forum delivered the first Annual Report of the Forum to the Watercare Board. The report covered the Forum's work program for 2012-13 which was focused on direction setting and outlined the program for 2013-14.

### Independent Maori Statutory Board (IMSB)

The IMSB is both independent from Auckland Council and Mana Whenua groups. Its purpose is to assist the Council to make decisions, perform functions and exercise powers by:

- promoting cultural, economic, environmental and social issues of significance for Mana Whenua groups and Mataawaka of Tamaki Makaurau; and
- ensuring that the Council acts in accordance with statutory provisions referring to the Treaty of Waitangi.

Watercare acknowledges the role of Independent Māori Statutory Board and will take into account the schedule of issues of significance and any Treaty of Waitangi provisions that are relevant to its activities and where appropriate engage with the board on these matters. *Watercare was grateful for the participation of Board member Glenn Wilcox as a member of the panel dealing with the standardisation of trade waste bylaws across Auckland.*

### Auckland Council Advisory Panels

In addition to the IMSB, Auckland Council has a number of advisory panels including the Pacific People's Advisory Panel, Ethnic Advisory Panel, Business Advisory Panel, Rural Advisory Panel, and the Youth Advisory Panel. These groups provide Council with feedback from different perspectives and on the most appropriate ways to engage with Pacific and ethnic people. Where appropriate, Watercare will inform, and consult with these advisory panels where there are issues of particular interest to the advisory panels.

### Other Council-Controlled Organisations

The relationship and cooperation with other CCOs is also important, particularly Auckland Transport. Watercare works closely with Auckland Transport to minimise disruption to local communities. An example of cooperation has been the joint road works and pipe laying as part of the East Tamaki Number 3 watermain installation, where works were coordinated to reduce costs and minimise disruption to the public.

Watercare will continue to undertake this proactive, responsive and transparent communication with stakeholders and members of the public likely to be affected by company activities.

### Central Government

Effective engagement with relevant central government organisations will be important to the successful delivery of water and wastewater services to Auckland. In particular, Watercare will work closely with Housing New Zealand, a significant property owner in Auckland, regarding water demand management. Watercare actively contributed to the Air, Land and Water Forum established by the Government.

Watercare has a strong relationship with the New Zealand Transport Agency and will continue to work closely with them to co-ordinate activities wherever possible and minimise disruption to the public.

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Where relevant, Watercare may contribute to the development of relevant national policies such as the National Infrastructure Plan and national initiatives which indicate operational efficiencies may be gained.

Any such contribution to national policy development will be discussed with Council beforehand.

#### Watercare Utility Consumer Assistance Trust

Watercare recognises that while monthly billing is aiding family budgeting, some customers still struggle to manage their household costs. For this reason, Watercare will continue to fund the Watercare Utility Consumer Assistance Trust. This trust, which was established by Watercare in 2011, has the ability to grant remissions to residential customers who meet its eligibility criteria and are deemed to be struggling to manage their water costs.

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#### Other Stakeholders

Stakeholder and community engagement is crucial to the success of Watercare's projects and work programmes. The company has a good record of public communication and consultation with large programmes of work such as Project Manukau, Project Hobson, the Puketutu Island Biosolids Rehabilitation Project, the Central Interceptor and the Hunua 4 Watermain Project.

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Watercare recognises that it has a role to play in educating children and young people about water, our environment and sustainability. In recognition of this responsibility, Watercare offers a flexible and student-centred education programme that fosters interest in and awareness of water-related environmental issues, bringing science to life and showing students how water quality and ecology directly affect their lives.

Watercare also has a proactive and constructive working relationship with regulators such as the Auckland Regional Public Health Service which is



important to the delivery of safe drinking water and meeting required standards. Watercare will also continue to work closely with the New Zealand Fire Service towards achievement of the Code of Practice for Fire Fighting Water Supplies.

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## Organisational Health, Safety and Capability

Watercare is committed to building and maintaining an enduring and resilient organisation and will adhere to s36 of Schedule 7 of the Local Government Act 2002, which provides that a local authority must operate a personnel policy that complies with the principle of being a good employer. The company continues to drive a culture where health and safety is at the forefront of its operational management and where the public may be impacted by its infrastructure and works. Watercare's commitment to health and safety is reinforced in its governance of the function which includes comprehensive reporting, and informing a specialist health and safety sub-committee of the Board.

### Staff engagement survey

Watercare carried out an annual staff engagement survey in March 2013 as required by Auckland Council. This was the first time a survey was done of this type and the results were in line with expectations. The organisation is in good health and staff are proud to work for Watercare. This survey will be repeated again in March 2014.

## Financial and Accounting Policies

### Financial Plan

Watercare was required to produce a Funding Plan under Section 18 of the Local Government Auckland Transitional Provisions Act 2010. Although no longer a legislative requirement, Watercare will provide the shareholder with forward financial plans and information to satisfy the legislated requirements relating to the Annual Plan and the Long Term Plan obligations of the shareholder in respect of Watercare.

## **Auckland Council Debt Guarantee**

In July 2008, Watercare established a debt guarantee facility with Auckland City Council, backed by the other shareholding councils. The obligations under this facility have now passed to Auckland Council under the Local Government (Tamaki Makaurau Reorganisation) Act 2009. Auckland Council is currently able to borrow and on-lend to Watercare at lower rates than Watercare is able to achieve by borrowing in its own name. Therefore Watercare will source its medium/long term debt funding requirements for the financial year ending 30 June 2015 through Auckland Council. In order to maintain flexibility in debt funding and pricing advantages as per its Treasury Policy, Watercare will review this arrangement prior to the commencement of the 2015/16 financial year and each subsequent year going forward.

Existing debt covered by the debt guarantee facility will retain the Council guarantee benefit until maturity. The facility will be retained but only used in future for specific funding requirements as agreed by Auckland Council.

Watercare will continue to raise Commercial Paper in its own name.

## **Tax Losses**

Watercare has tax losses which are unlikely to be required to offset its taxable income in the foreseeable future. Under current legislation, these tax losses are available for offset against the taxable income of one or more companies wholly owned by Auckland Council. Watercare has agreed with Auckland Council a basis under which its tax losses are able to be utilised in compliance with applicable legislation, and on a consistent basis, by other wholly owned subsidiaries of Auckland Council.

## Shareholder Funds

	\$million	2014/15	2015/16	2016/17
Shareholder Funds		6,269	6,267	
Total Assets		9,274	9,394	(a) / (b) (to be inserted)
<b>Ratio of Consolidated Shareholder Funds to Total Assets</b>		<b>0.68</b>	<b>0.67</b>	(a) / (b) (to be inserted)

Note:

1. Consolidated Shareholder Funds are defined as Issued and Paid Up Capital, Revaluation Reserve and Retained Earnings.
2. Total Assets are defined as Net Book Value of Current Assets, Investments and Fixed Assets as disclosed in the Company's Statement of Financial Position.

## Accounting Policies

Watercare's financial statements are prepared in accordance with the New Zealand International Financial Reporting Standards. Watercare's accounting policies are consistent with the shareholder's accounting policies with nominated exceptions e.g. interest capitalisation.

## Application of Surplus Funds

Watercare is prohibited by legislation from paying a dividend.

Watercare annually reviews any water and wastewater surpluses and considers if the return of such surpluses to the customers is commercially prudent.

Watercare has increased water and wastewater prices by <TBC%> for the 2014/15 financial year.

## Directors' Estimate of the Commercial Value of the Shareholder Investment

The inclusion of an estimate of commercial value is a statutory requirement.

However, the Local Government Act 2002 prohibits ~~the Auckland Council from divesting its ownership or other interest in Watercare as the provider of water services, except to another local government organisation~~ from being

Legislative restrictions also prevent the Auckland Council from selling its shares and prevent Watercare from paying dividends to the council.

The book value of the shareholder's investment at 30 June 2013 was \$5.77 billion, which includes a capital contribution reserve of \$3.78 billion based on the accounts maintained by Watercare in accordance with the stated accounting policies. The directors may from time to time requisition an independent valuation of the shareholder investment.

## Disposal of Assets

The Company will consult with the shareholder prior to the disposal of any part of its undertakings, which, in any one-year, exceed in aggregate 5% of the current book value of its assets and in line with the Auckland Council Accountability Policy for council controlled organisations.



# Key Performance Indicators

The following non-financial and financial information sets out Watercare's Key Performance Indicators, with non-financial targets demonstrating how they align with the Mayor's vision and strategies for Auckland.

## Non-financial performance

Watercare has adopted a set of key non-financial performance measures (refer to Appendix B).

The performance target for greenhouse gas emissions adopted in the Auckland Plan differs from that of the Draft Auckland Plan. Watercare is required to reduce greenhouse gas emissions by 10-20% by 2020 based upon 1990 levels and acknowledges the long-term target of a 50% reduction by 2050 based upon 1990 levels.

Watercare has achieved a 76% overall reduction in greenhouse gas emissions since 1990 and is working towards reducing levels further over future years.

In addition, Watercare generates over 29% of its total energy requirements annually through its gas turbine electricity generators at Mangere Wastewater Treatment Plant helping Watercare to be a minimum cost service provider. Watercare also generates electricity from small turbines on the water discharge from storage dams and designs its pipelines to use gravity as much as possible to reduce the need for pumps and associated power requirements.

## Financial Performance

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## Appendix A – Environmental Principles

(Table 7.1 is reproduced from page 176 of the Auckland Plan)

<p><b>Table 7.1 Environmental Principles*</b>            Auckland's environment must be healthy and resilient in order to support life and lifestyles.            To ensure this we must recognise that:</p>	
<ol style="list-style-type: none"> <li>1. The environment supports us – we recognise the natural resources provided by our environment have limits, and must be protected and restored to ensure our future well-being.</li> <li>2. We need to consider environmental values in all that we do – the interaction between the environment and people is understood and considered in our everyday behaviour and choices.</li> <li>3. Everything is connected – human activities affect air, sea, land and freshwater systems. Understanding the connections between environments in the way we manage them is critical.</li> <li>4. Biodiversity is everywhere – our flora and fauna, and their habitats, occur both in public and private spaces, and in urban, rural, freshwater and coastal areas. To maintain biodiversity values we must all work together.</li> <li>5. Natural hazards can affect our well-being – we need to ensure that Auckland and its people are resilient to the effects of natural hazards.</li> </ol>	<p>We are environmental stewards – future generations will depend on how well we manage the natural environment.</p>

Appendix B - Performance Measures: Statement of Intent 2014 - 2017

INDICATOR	DRAFT MEASURE	Performance Over Time (Year Period)			Other	Impact	Assessing Part Chapters	Outcomes
		2014-2015	2015-2016	2016-2017				
Potable Water Quality	Percentage compliance with MōtD drinking water standards for graded plants (excluding minor or technical non-compliance)	100%	100%	100%	Safe and reliable drinking water	Improved public health	Chapter 1	Improve the education, health and safety of Aucklanders, with a focus on those most in need
	Percentage of metropolitan water treatment plants achieving Grade A	100%	100%	100%	Safe and reliable drinking water	Improved public health	Chapter 1	Improve the education, health and safety of Aucklanders, with a focus on those most in need
	Percentage of metropolitan water supply reticulation achieving Grade a	100%	100%	100%	Safe and reliable drinking water	Improved public health	Chapter 1	Improve the education, health and safety of Aucklanders, with a focus on those most in need
	Percentage of non-metropolitan water treatment plants achieving Grade A	50%	50%	50%	Safe and reliable drinking water	Improved public health	Chapter 1	Improve the education, health and safety of Aucklanders, with a focus on those most in need
	Percentage of non-metropolitan water supply reticulation achieving Grade a	50%	50%	50%	Safe and reliable drinking water	Improved public health	Chapter 1	Improve the education, health and safety of Aucklanders, with a focus on those most in need
	Percentage of non-metropolitan water supply reticulation achieving Grade a	2020: 100%	2020: 100%	2020: 100%	Safe and reliable drinking water	Improved public health	Chapter 9	Support rural settlements, living and communities
	Percentage of non-metropolitan water supply reticulation achieving Grade a	50%	50%	50%	Safe and reliable drinking water	Improved public health	Chapter 1	Improve the education, health and safety of Aucklanders, with a focus on those most in need
	Percentage of non-metropolitan water supply reticulation achieving Grade a	2020: 100%	2020: 100%	2020: 100%	Safe and reliable drinking water	Improved public health	Chapter 9	Support rural settlements, living and communities
Continuity of Supply	Percentage of unplanned water shutdowns restored within five hours	>95%	>95%	>95%	Safe and reliable drinking water	Improved public health	Chapter 1	Improve the education, health and safety of Aucklanders, with a focus on those most in need
	Percentage of unplanned water shutdowns restored within five hours	>95%	>95%	>95%	Safe and reliable drinking water	Improved public health	Chapter 1	Improve the education, health and safety of Aucklanders, with a focus on those most in need
	Number of unplanned water interruptions per 1000 connected properties	<10	<10	<10	Safe and reliable drinking water	Improved public health	Chapter 1	Improve the education, health and safety of Aucklanders, with a focus on those most in need
<b>Healthy Waterways</b>								
Wastewater Network Performance	Number of dry weather sewer overflows per 100km of wastewater pipe length per year	≤5	≤5	≤5	Reduced wastewater discharges to environment	Healthier environment	Chapter 1 Chapter 7 Chapter 12	Improve the education, health and safety of Aucklanders, with a focus on those most in need
	Average number of wet weather overflows per discharge location in priority receiving environments in areas serviced by the separated networks.	The Auckland-wide Wastewater Network Discharge Consent application lodged and consent operational.			Reduced wastewater discharges to environment	Healthier environment	Chapter 7 Chapter 5 Chapter 7	Sustainably manage natural resources
					Reduced wastewater discharges to environment	Healthier environment	Chapter 7	Optimise, integrate, and align utility provision and planning
					Reduce wet weather overflows to an average of no more than 2 events per discharge location per annum, where the stormwater and wastewater system are separated by 2040 (with priority given to dealing beaches and other sensitive receiving environments by 2030)	Healthier environment	Chapter 7	Prioritise and optimise our recreation and sport facilities and public open space use and the capability of recreation and sport organisations.
					Reduce wet weather overflows to an average of no more than 2 events per discharge location per annum, where the stormwater and wastewater system are separated by 2040 (with priority given to dealing beaches and other sensitive receiving environments by 2030)	Healthier environment	Chapter 7	Treasure our coastline, harbours, islands and marine areas
					Reduce wet weather overflows to an average of no more than 2 events per discharge location per annum, where the stormwater and wastewater system are separated by 2040 (with priority given to dealing beaches and other sensitive receiving environments by 2030)	Healthier environment	Chapter 7	Sustainably manage natural resources

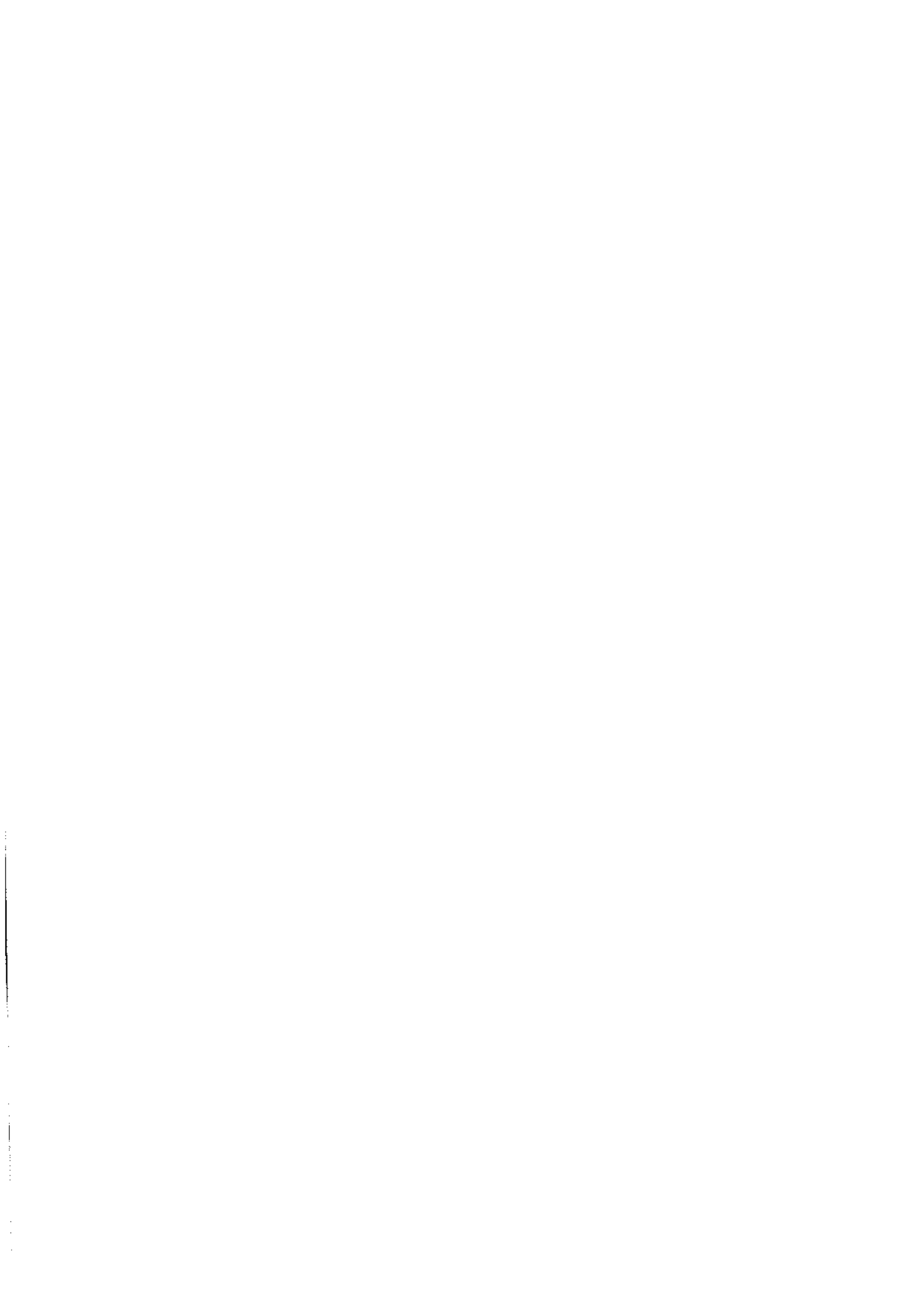
INDICATOR	DRAFT MEASURE	Performance Over Three Year Period			Notes	Outcome	Key Performance Indicators	
		2015/2016	2016/2017	2017/2018				
Wastewater Treatment Plant Compliance	Percentage of wastewater discharged that is compliant with consent discharge requirements (excluding minor or technical non-compliance) for Metropolitan areas	100%	100%	100%	Reduced adverse effects on environment in urban areas	Healthier environment	Chapter 5 Chapter 7 Chapter 7 Chapter 7	Prioritise and optimise our recreation and sport facilities and public open space use and the capability of recreation and sport organisations. Treasure our coastline, harbours, islands and marine areas Sustainable manage natural resources
	Percentage of wastewater discharged that is compliant with consent discharge requirements (excluding minor or technical non-compliance) for non-Metropolitan areas	35%	65%	65%	Reduced adverse effects on environment in rural areas	Healthier rural and coastal environment	Chapter 7 Chapter 7 Chapter 9 Chapter 7	Treasure our coastline, harbours, islands and marine areas Sustainably manage natural resources Create a sustainable balance between environmental protection, rural production and activities connected to rural environment Treasure our coastline, harbours, islands and marine areas Sustainably manage natural resources
RMA Compliance	Number of successful RMA prosecutions against Watercare	0	0	0	Reduced adverse effects on environment	Healthier environment	Chapter 7 Chapter 7	Treasure our coastline, harbours, islands and marine areas Sustainably manage natural resources
<b>Health, Safety and Well-being</b>								
Last-time injury	Last-time injury frequency rate per million hours worked	≤5	≤5	≤5	Not applicable	Not applicable	Not applicable	Not applicable
Staffing	Level of ACC workplace management practices accreditation	Tertiary	Tertiary	Tertiary	Not applicable	Not applicable	Not applicable	Not applicable
	Percentage of total hours absent due to illness	≤2.5%	≤2.5%	≤2.5%	Not applicable	Not applicable	Not applicable	Not applicable
	Percentage of voluntary leavers relative to number of permanent staff	≤12%	≤12%	≤12%	Not applicable	Not applicable	Not applicable	Not applicable
<b>Customer Satisfaction</b>								
Customer Satisfaction	Percentage of customers surveyed satisfied with Watercare's delivery of water and wastewater services	80%	80%	80%	Satisfied customers	Better quality water services	Chapter 1 Chapter 6	Improve the education, health and safety of Aucklanders, with a focus on those most in need Grow a business-friendly and well-functioning city



INDICATOR	DRAFT MEASURE	Performance Over Three Year Period			Output	Impact	Customer Type		Customer Type		Customer Type	Customer Type
		2019/20	2020/21	2021/22			Target	Target				
Wastewater Treatment Plant Compliance	Percentage of wastewater discharged that is compliant with consent discharge requirements (excluding minor or technical non-compliance) for Metropolitan areas	100%	100%	100%	Reduced adverse effects on environment in urban areas	Healthier environment				Chapter 5	Chapter 7	Optimise, integrate, and align utility provision and planning Prioritise and optimise our recreation and sport facilities and public open space use and the capability of recreation and sport organisations. Treasure our coastline, harbours, islands and marine areas
	Percentage of wastewater discharged that is compliant with consent discharge requirements (excluding minor or technical non-compliance) for non-Metropolitan areas	35%	65%	65%	Reduced adverse effects on environment in rural areas	Healthier rural and coastal environment				Chapter 7	Chapter 7	Treasure our coastline, harbours, islands and marine areas Sustainably manage natural resources
	Percentage of wastewater discharged that is compliant with consent discharge requirements (excluding minor or technical non-compliance) for non-Metropolitan areas		2020: 100%	2020: 100%						Chapter 9		Create a sustainable balance between environmental protection, rural production and activities connected to rural environment Treasure our coastline, harbours, islands and marine areas Sustainably manage natural resources
RMA Compliance	Number of successful RMA prosecutions against Watercare	0	0	0	Reduced adverse effects on environment	Healthier environment				Chapter 7	Chapter 7	Treasure our coastline, harbours, islands and marine areas Sustainably manage natural resources
<b>Health, Safety and Wellbeing</b>												
Lost-time injury	Lost-time injury frequency rate per million hours worked	≤5	≤5	≤5	Not applicable	Not applicable				Not applicable	Not applicable	Not applicable
Staffing	Level of ACC workplace management practices accreditation	Tertiary	Tertiary	Tertiary	Not applicable	Not applicable				Not applicable	Not applicable	Not applicable
	Percentage of total hours absent due to illness	≤2.5%	≤2.5%	≤2.5%	Not applicable	Not applicable				Not applicable	Not applicable	Not applicable
	Percentage of voluntary leavers relative to number of permanent staff	≤12%	≤12%	≤12%	Not applicable	Not applicable				Not applicable	Not applicable	Not applicable
<b>Customer Satisfaction</b>												
Customer Satisfaction	Percentage of customers surveyed satisfied with Watercare's delivery of water and wastewater services	80%	80%	80%	Satisfied customers	Better quality water services				Chapter 1	Chapter 6	Improve the education, health and safety of Aucklanders, with a focus on those most in need Grow a business-friendly and well-functioning city



INDICATOR		DRAFT MEASURE		TARGET		TARGET		TARGET		DRAFT MEASURE		TARGET	
Water Conservation	Percentage of calls answered within 20 seconds	80%	80%	80%	80%	Satisfied customers	Better quality water services	Chapter 1	Chapter 1	Improve the education, health and safety of Aucklanders, with a focus on those most in need			
	Number of water quality complaints (taste, odour, appearance) per 1,000 water supply connections	<5	<5	<5	<5	Safe and reliable drinking water	Improved public health	Chapter 1	Chapter 6	Grow a business-friendly and well-functioning city			
	Percentage of complaints and being "resolved and closed" within 10 working days	95%	95%	95%	95%	Satisfied customers	Better quality water services	Chapter 1	Chapter 6	Improve the education, health and safety of Aucklanders, with a focus on those most in need			
Water Losses	Per capita consumption (litres/person/day)	278 ±5%	275 ±5%	275 ±5%	275 ±5%	Reduced demand on water resources	More sustainable use of natural resources	Chapter 7	Chapter 7	Sustainably manage natural resources			
	Target for 2025 = 255 l/person/day Baseline in 2004 = 288 l/person/day	13%	13%	13%	13%	Reduced demand on water resources	More sustainable use of natural resources	Chapter 7	Chapter 8	Mitigate climate change			
	Percentage of annual potable water network losses* measured as total network volume *This is defined as "real" losses, which includes losses from the wholesale and retail distribution systems.	>85%	>85%	>85%	>85%	Better water infrastructure	Better quality water services	Chapter 1	Chapter 12	Optimise, integrate, and align utility provision and planning			
<b>Effective Asset Management</b>													
Affordability	Percentage of actual capital expenditure relative to budget	>85%	>85%	>85%	>85%	Better water infrastructure	Better quality water services	Chapter 1	Chapter 1	Improve the education, health and safety of Aucklanders, with a focus on those most in need			
	Minimum funds flow from operations to interest cover (FFO) before any price adjustment	≥2.5	≥2.5	≥2.5	≥2.5	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable			
	Percentage of expenditure on water supply services relative to the average household income	<1.5%	<1.5%	<1.5%	<1.5%	Affordable water services	Improved public health	Chapter 1	Chapter 1	Improve the education, health and safety of Aucklanders, with a focus on those most in need			



# Report to the Board of Watercare Services Limited

**Subject:** Funding of Growth Capital Spend via Infrastructure Growth Charge

**Date:** 27 February 2014

## 1. Proposal

It is proposed that an updated set of Infrastructure Growth Charge ("IGC") Principles and methodology for calculating the required IGC to fund Growth Capital Spend be implemented for:

- new connections to the Metropolitan network,
- new connections to the network serviced by stand-alone Rural treatment plants; and
- schemes to service unserved areas outside of the Watercare published Asset Management Plan.

Proposed changes would feature as an element of Watercare's input into the Auckland Council 2015/25 LTP process.

## 2. Purpose

The purpose of this paper is to seek Board feedback to the proposal so that further development of the proposal can be considered.

## 3. Background

In March 2011 the Board approved the general principles under which an IGC is charged. Since that time Auckland Council has issued the Auckland Plan and the draft Unitary Plan along with establishing the Auckland Housing Accord and associated Special Housing Areas, all of which provide for significant future growth within the Auckland region. The Auckland Council medium forecast for population growth from 2015 to 2025, upon which the Watercare AMP is based, sees an additional 110,000 dwellings<sup>1</sup> being added to Auckland.

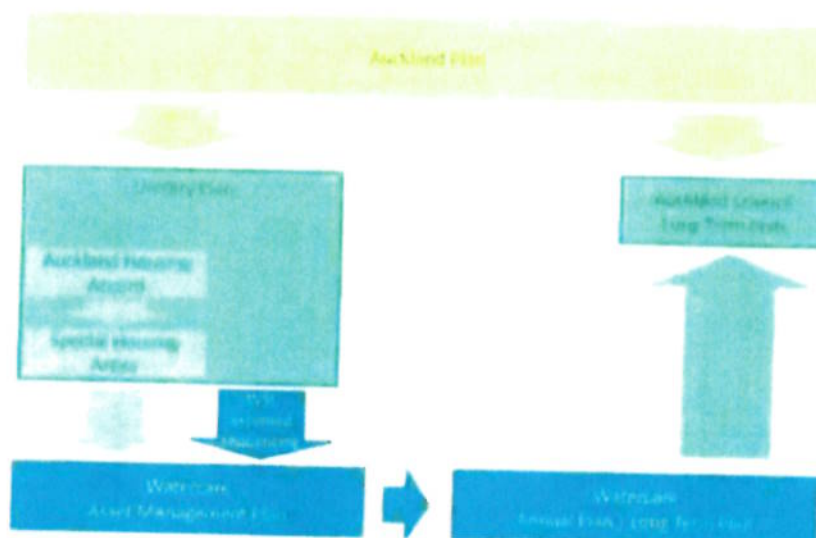


Fig 1 – Driver of growth from Auckland Council Plans

<sup>1</sup> Not all forecast new dwellings are within Watercare current or planned service areas. Refer to the AMP for details of serviced growth.





The funding required for the Water and Wastewater infrastructure needed to service this growth has resulted in a review of both the IGC principles and the methodology which establishes the level of IGC unit rates required to contribute to this capital expenditure

#### 4. Applying IGCs to fund Growth Assets

Traditionally IGCs (and Council Development Contributions from the former LNOs) have been seen as a tool for recovering the cost of constructing growth assets from new customers. IGC revenue budgets were set to recover a % of current or near term historical capital spend, the IGC was then derived based on expected number of new connections in the financial year. Refer to Fig 2 below:

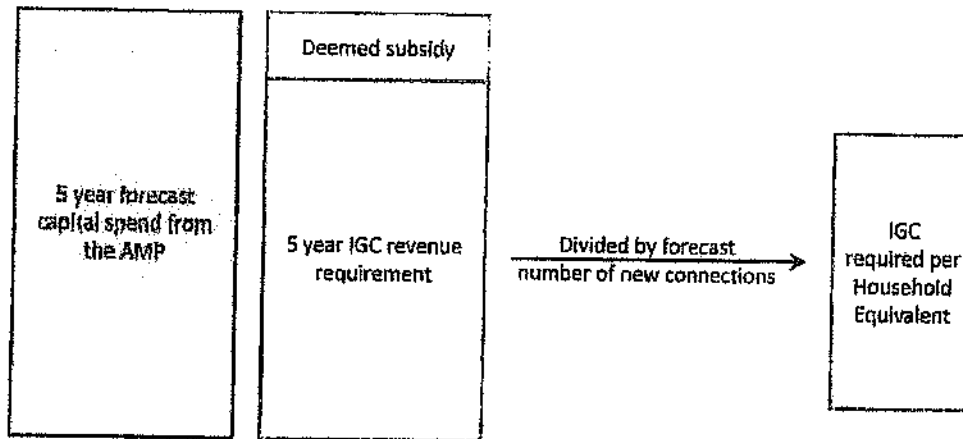


Fig 2 – Historical approach to calculating IGCs

It is proposed that a longer term view encompassing whole of life costs be adopted. This includes a revised methodology which is based on a growth capital spend per new dwelling using a 15 year timeline (5 year historical data and 10 year plan data) to derive a representative capital spend on growth projects and a forecast of new connections over the same 15 year period.

We then calculate the asset costs over the asset lifetime, the components of which are depreciation and interest expense on debt. We compare this cost plus operating costs to the tariff collected from an average customer under our existing pricing regime. The difference is a funding shortfall and in order for the growth customer to fully fund their associated costs this must be funded through an IGC. A pictorial view is included in Fig 3 below.

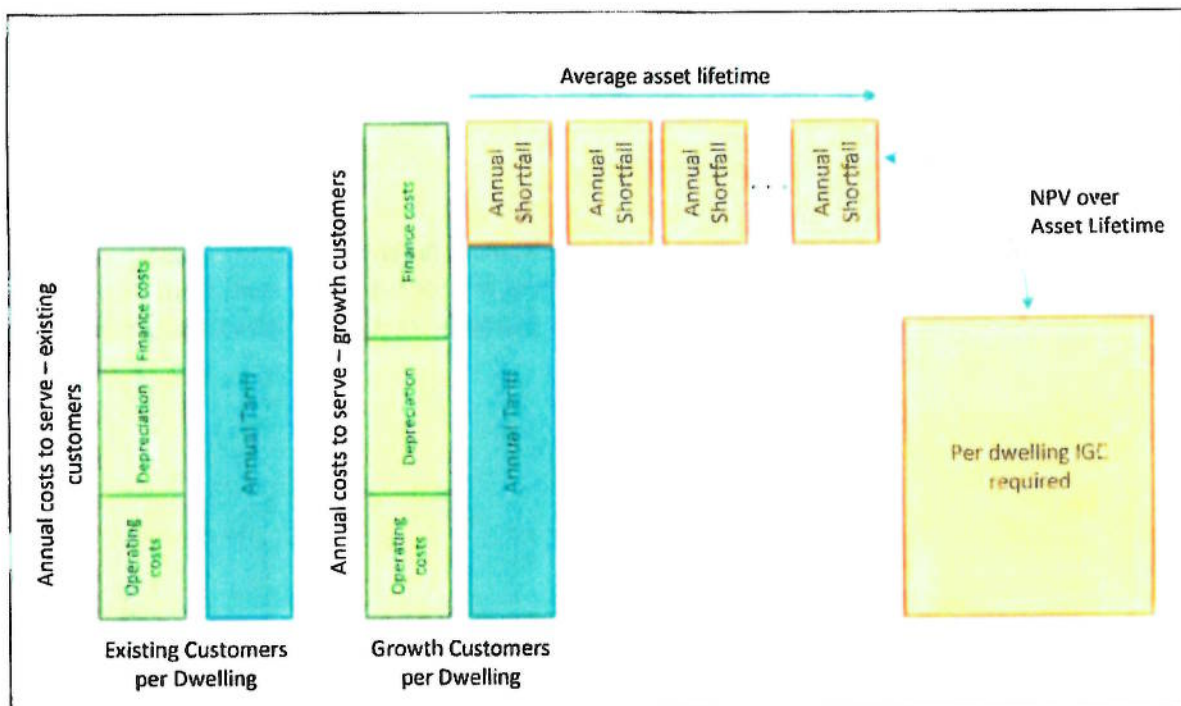


Fig 3 – Proposed funding cost of growth capex

This provides equity between growth and existing customers.

#### 4.1. Calculating Growth Funding Requirement

The total growth funding requirement is made up of two parts:

- the previous 5 years of actual growth capital spend
- the planned growth capital spend for the current year and the following 9 years (the equivalent of the 10 year AMP period).

This provides a 15 year calculation of growth capital spend on which to base the forward IGC unit rate requirement. The AMP is formally reviewed and approved by the Board every 3 years allowing a calibration of future growth spend to allow for variance between actual growth and previously forecast growth. This will provide a more predictable and less variable price path for the IGC unit rate in the future.

Growth capital spend is identified in the AMP. The level of growth capital spend will be independently reviewed for robustness as some engineering judgement is required to identify growth components of projects which deliver a combination of growth, renewal and level of service outcomes. As projects are approved a revised assessment will be made of the portion allocated to growth.

#### 5. Metropolitan and Rural IGCs

It is proposed to implement an IGC based on two service areas, Metropolitan and other existing or planned service areas (Rural). Growth areas have been distinguished for 2 reasons

1. The cost of servicing growth in the metropolitan area is significantly less per dwelling than in smaller rural areas.

2. The ability to provide a price signal to large non domestic customers who otherwise may request service from a small rural network/treatment plant. Watercare's ability to discourage the taking of excess capacity at a rural plant by a single large customer would be diminished without the ability to differentiate on price.

A Metropolitan IGC would be set and apply for the metropolitan growth community:

- Who are supplied by Watercare's contiguous water supply system; and
- Who are serviced by Watercare's wastewater treatment plants at Mangere, Rosedale, Army Bay or Pukekohe.

This is consistent with the existing definition of a Metropolitan IGC apart from the inclusion of the Pukekohe WWTP. Pukekohe was previously not serviced by the contiguous water supply.

Where a Metropolitan IGC does not apply a Rural IGC would apply, if the provision of services to support that growth:

- is available within existing Watercare infrastructure; or
- is allowed for in the currently approved and published Watercare Asset Management Plan

Where only water or wastewater service is supplied to a Rural Community the Rural IGC will be apportioned to only charge for the service provided in the published AMP.

## **6. Unserviced Growth**

Where a development is not part of the Metropolitan or Rural growth communities (as defined in 5 above) a separate IGC will be set by Watercare for that specific development such that 100% of the cost of growth capex is recovered from the associated growth community.

Such an IGC allows for funding of unplanned infrastructure to facilitate growth outside of the AMP where Watercare is required, or chooses, to provide a service.

It is envisaged that where a scheme outside of the AMP requires ongoing subsidisation in terms of operating costs the IGC will be set to recover the costs of capital spend only ignoring future operating subsidies but accounting for predicted timing of development.

This is a model which was applied to the construction of a Wastewater treatment plant to service the Clevedon Plan change.

The advantage of separating unserviced areas from Rural (as defined in 4 above), for the purposes of calculating an IGC is that any development of land in a serviced area will not be adversely impacted by unplanned activity in costly unserviced areas.

## **7. Developer provided wastewater services**

Where the developer believes the resulting IGC cost for an unserviced area is prohibitive they may elect to build and operate their own water and/or wastewater service for the proposed development.

There is no statutory requirement for Watercare to provide bulk services, however under s58(1) of the Local Government (Auckland Council) Act 2009, Watercare must "give effect" to the Long Term Plan ("LTP"). In practice we are providing such services for Council led plan changes, including land rezoned by the Unitary Plan.

Watercare has taken a broad interpretation of its responsibilities to provide services. If the Council granted a plan change to rezone land for urban development and Watercare refused to provide bulk services, this would frustrate Council's intention in making land available for development. So, Watercare is proposing to provide water and wastewater services to Clevedon and Kingseat which were rezoned under Council led plan changes, despite Watercare not being involved in the early planning.

In respect to private plan changes where landowners are seeking rezoning of land for urban development or a resource consent to allow development, Watercare is under no statutory obligation to provide services. However, once a private plan change is approved, there is no distinction between a public plan change and a private plan change.

The legal advice is that the adoption by Council of a plan change re-zoning an area for urban expansion is not sufficient to trigger the obligation in s58. Watercare is not required by s58 to fund and provide bulk services for new development unless the Council specifically directed, in writing, WSL to make that provision.

Such a direction may run counter to the obligations under s57 to act efficiently and keep costs to a minimum to customers collectively. Legal advice received is to the effect that the obligations under s57 "trump" those under s58.

## **8. IGC Principles**

Collecting funds via an IGC will ensure that investments to meet growth will continue to be paid for by those that increase demand on the system, rather than place the burden of increasing costs on existing customers. This funding principle is in line with customer research and feedback, which consistently shows that those who create demand should pay for it.

A draft set of principles are attached as Appendix 1. There are no significant changes proposed to the principles since the Board last endorsed them in March 2011 apart from the implementation of the methodology detailed above and the inclusion of Pukekohe WWTP within the definition of the Metropolitan IGC area. Previous principles and proposed changes are detailed in Appendix 2.

## **9. Impact on Watercare ten Year Financials**

The proposed methodology and principles would provide a more certain and realistic price path for IGCs over the period of the Auckland Council LTP. When the 3 year LTP cycle comes around the methodology will naturally recalibrate IGCs to allow for differences in forecast and actual growth spend and new customers.

There will need to be consideration during the LTP consultation process as to how the transition occurs, particularly for a change to one Rural IGC.



Full modelling of the impacts on IGC rates will be provided as part of the LTP process.

**8. Impact on Customer Contract**

The customer contract and customer charter will be updated to reflect the approved principles set out in section 6 above following their approval.

**9. Review of Approach**

The methodology for calculation of IGCs as outlined below has been reviewed by PwC, A copy of their review report is attached as Appendix 4.

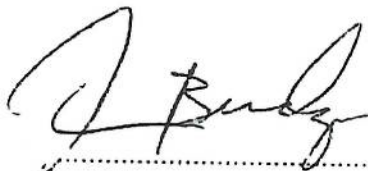
**10. Developer Provided Assets**

Refer to Appendix 5 for details of the process to manage developer provided assets.

**11. Recommendation**

That the report be noted and feedback provided.

Report prepared and recommended by:



M Bridge  
Commercial Manager

Reviewed and recommended by:



B Monk  
Chief Financial Officer

Approved for submission by:



KM Ford  
Chief Executive

## Appendix 1 - IGC Principles to take effect 1 July 2015

Principle	Explanation
<p>1 An IGC will be set by Watercare as follows:</p> <ul style="list-style-type: none"> <li>- To recover the cost of the growth assets from the associated growth community taking into account the value contributed from future water and wastewater charges paid by that community.</li> <li>- The IGC will be set such that it funds the difference between the future revenue collected from the growth community and the costs of the growth assets.</li> </ul>	<p>Refer to section 3 above – this is the basis of the methodology for attributing growth capital expenditure to the community and calculating the level of IGC required to fund that capital expenditure.</p> <p>The growth customer will pay for the cost of the growth capital spend required to deliver the service required over the life of the asset except where there is identified and approved operational subsidisation for small developments.</p>
<p>2 The Metropolitan IGC will be set for the metropolitan growth community</p> <ul style="list-style-type: none"> <li>- Who are supplied by Watercare's contiguous water supply system; and</li> <li>- Who are serviced by Watercare's wastewater treatment plants at Mangere, Rosedale, Army Bay or Pukekohe.</li> </ul>	<p>Definition of when the Metropolitan IGC applies.</p>
<p>3 Where a Metropolitan IGC does not apply a Rural IGC will apply, if the provision of services to support that growth</p> <ul style="list-style-type: none"> <li>- is available within existing Watercare infrastructure; or</li> <li>- is allowed for in the currently approved and published Watercare Asset Management Plan ("AMP")</li> </ul>	<p>Definition of when the Rural IGC will apply. Predominantly this will be in existing serviced rural locations or in growth areas identified in the Auckland Council Unitary Plan and allowed for in Watercare's AMP.</p>
<p>Where only water or wastewater service is supplied to a Rural Community the Rural IGC will be apportioned accordingly to only charge for the service provided in the published AMP.</p>	<p>Allows for funding of unplanned infrastructure to facilitate growth outside of the Asset Management Plan where Watercare is required, or chooses, to provide a service.</p>
<p>4 Where a development is not part of the Metropolitan or Rural growth communities (as defined in 3 and 4 above) a separate IGC will be set by Watercare for that development such that the cost of growth capex is recovered from the associated growth community taking into account the current value of future water and wastewater charges paid by that community and the operating cost of the scheme.</p>	<p>It is envisaged that where a scheme outside of the AMP requires ongoing subsidisation in terms of operating costs the IGC will be set to recover the costs of capital spend only ignoring future operating subsidies but accounting for predicted timing of development.</p>



	Principle	Explanation
5	<p>An IGC will be payable at the time that water and/or wastewater infrastructure is available for use on the site. Available for use is defined as the earlier of:</p> <ul style="list-style-type: none"> <li>- the site has a physical connection to water supply</li> <li>- the issuing of a building consent for a new residential or commercial building</li> </ul> <p>When a site connects to water services and wastewater is within 30 metres of the site then the wastewater service will be deemed to be available.</p>	<p>Definition of when an IGC is payable. In most cases the IGC will be payable by the person who is developing the site, thus an IGC is not a cost of land development.</p> <p>Where both water and wastewater services are available a full IGC is payable regardless of whether the developer chooses to connect to the service.</p>
6	<p>For residential customers – one IGC is charged for each new residential dwelling. A dwelling is defined as a separately habitable space:</p> <ul style="list-style-type: none"> <li>- That is capable of separate legal ownership, (i.e. a separate legal title) ; or</li> <li>- With a separate connection to either water or wastewater services; or</li> <li>- That is a minor dwelling as defined under the relevant Council District or Unitary Plan.</li> </ul> <p>Where the dwelling is connected to water supply with a meter greater than 25mm Watercare reserves the right to treat this as non residential for IGC purposes.</p>	<p>Defines a residential customer. All residential customers (as defined) are charged the standard IGC.</p> <p>Apartment complexes and retirement villages connected via one metre may be treated as non residential for the purposes of IGC calculations. Refer to Appendix 3 for guidelines on estimating dwelling equivalents for Apartment complexes, student accommodation and retirement villages.</p>
7	<p>Dwellings in the metropolitan area of less than 65 sqm will be charged an IGC at two thirds of the standard metropolitan IGC.</p>	<p>Historically dwellings of less than 65 sqm received a discounted IGC. The cost of this discount is a 7% increase to the base metropolitan IGC (assuming 20% of metropolitan connections qualify for the discount).</p>
8	<p>For non-residential IGC customers</p> <ul style="list-style-type: none"> <li>- IGCs shall be based on the forecast water demand divided by 600 litres per day.</li> <li>- IGCs for non-residential customers may be adjusted where their water demand is substantially larger than their wastewater demand.</li> </ul>	<p>Establishes the basis for calculating an IGC for non residential customers. Unchanged from existing practice.</p> <p>See principle 6 above a customer may be non residential for IGC purposes but domestic for billing purposes (eg residential apartment complex billed on a single meter).</p>



	Principle	Explanation
	<ul style="list-style-type: none"> <li>- Watercare may charge an additional IGC to existing non-residential customers who increase their demand for services.</li> <li>- The IGC for major non-residential connections with a staged development shall be assessed for each stage and reviewed annually.</li> </ul>	
9	For operational reasons Watercare may provide a developer or a group of customers a special IGC.	Allows for a special IGC to be set where Watercare wishes to encourage development to assist with operational cost reduction, eg increasing flow in a network.



## Appendix 2 - Overview of changes to principles

	2011 Principle	Change to Revised Principles 2014
1	The IGC shall be calculated each year as part of the Asset Management Plan and Funding Plan cycle.	Maintained
2	All new customers that increase their demand for water and/or wastewater services shall be charged an IGC.	Clarified as only applies to non residential IGC customers.
3	All existing non-residential customers that increase their demand for water and/or wastewater services shall be charged an IGC.	Maintained
4	<p>A uniform IGC rate shall be applied to all development within the metropolitan area supplied with water from Watercare's contiguous water supply system and/or those areas serviced by the Mangere, Rosedale or Army Bay wastewater treatment plants.</p> <p>The developer may also be liable for additional capital cost to service an area beyond the existing network or where an upgrade not identified in the Asset Management Plan is required to service the new development.</p>	Addition of customers connected to Pukekohe WWTP added to definition of Metropolitan area.
5	The IGC rate to be applied to all development connecting to a non-metropolitan scheme shall be based on the actual or forecast capital expenditure for that scheme.	<p>Standard Rural IGC based on growth capital spend for all non metropolitan plants.</p> <p>Any scheme outside of the AMP will have an IGC set such that the capital spend required is fully funded over the asset lifetime.</p>
6	<p>The IGC shall cover both water and wastewater where these services are provided. Some non-metropolitan areas currently only have either a water or wastewater service. The IGC for those areas covers the one service provided. The IGC for the second service would be applied when that service became available and customers requested a connection to that service.</p> <p>The IGC for non-residential customers may be adjusted where their water demand is substantially larger than their wastewater demand.</p>	<p>Inherent in the IGC calculation and the AMP capex assumptions.</p> <p>Maintained.</p>
7	The IGC for residential developments shall be based on a household equivalent unit	An IGC is charged for each new residential unit regardless of forecast

2011 Principle	Change to Revised Principles 2014
with a water consumption of up to 600 litres per day. An IGC is charged for each new residential unit.	use. A dwelling is defined as a separately habitable space: - Capable of separate legal ownership, (i.e. a separate legal title) ; or - With a separate connection to either water or wastewater services. - Where the dwelling is connected to water supply with a meter greater than 25mm Watercare reserves the right to treat this as non residential for IGC purposes.
8 Residential units with a floor area less than 65m <sup>2</sup> shall be charged two thirds of the IGC rate.	Maintained
9 The IGC for non-residential developments shall be based on the forecast water demand divided by the household equivalent unit of 600 litres per day. Multiple household equivalent units shall be rounded to the nearest whole number. The minimum IGC is one household equivalent unit.	Maintained.
10 The IGC for mixed use developments would be calculated separately and added together.	Maintained.
11 The IGC shall be charged at the time of water and/or wastewater connection approval.  Existing non-residential customers that increase their demand for water and wastewater services shall be charged when their demand increases.	Clarified to reflect current practice.  Maintained
12 Existing non-residential customers that relocate within their current service area may be charged the retail network component only where there is deemed to be no net increase in demand on the bulk infrastructure.	No longer applies – no differentiation between retail and bulk components as Watercare operates all infrastructure.
13 The IGC for major non-residential customers with a staged development shall be assessed for each stage and reviewed annually.	Maintained



**Appendix 3 – Guidelines for establishing consumption of residential apartments, student accommodation and retirement villages**

Where a number of dwellings are connected to the water supply with a single meter Watercare reserves the right to treat this as non residential for IGC purposes. The following is a guideline on how to estimate usage in circumstances such as apartment complexes, retirement villages and student accommodation or similar.

An assessment should be made for each dwelling within the development and summed to give the total dwelling equivalents.

All floor areas are net of common areas and external decks but inclusive of external walls of the dwelling.

Number of Dwelling Equivalents Number of bedrooms	Floor area maximum of			
	Up to 40 sqm	40 to 65 sqm	65 to 100 sqm	More than 100 sqm
Studio apartments	0.33	0.5	0.67	1.0
One bedroom	0.5	0.5	0.67	
Two bedrooms	0.5	0.67	0.67	
Three or more bedrooms	1.0			

In addition to dwellings the following should be considered:

- An allowance for common facilities e.g. pools and gym areas which may impact on water usage.
- All non domestic tenancies within the development will be separately metered from domestic tenancies.



*Draft for discussion*

*Strictly confidential*

Marlon Bridge  
Watercare Services Limited  
Private Bag 92 521  
Wellesley Street  
Auckland 1141

31 January 2014

***Review of proposed method for calculating Watercare's infrastructure growth charges***

Dear Marlon,

***Introduction***

We have had a number of discussions with you and others about Watercare's proposed method for calculating infrastructure growth charges (IGCs) in the future. Most recently, we provided you with a report, dated 15 January 2014, which outlined our thoughts on the proposed method.<sup>1</sup> This included a suggestion for an alternative, simpler, method of implementing Watercare's proposed approach.

Watercare provided us with a spreadsheet entitled "Calculation of existing HUEs 20131213.xlsx" on 30 January 2014. This spreadsheet is an amended and extended version of a spreadsheet which PwC initially prepared for the purposes of discussion. Watercare advised us that this spreadsheet calculates an IGC amount for Watercare for FY14 using the alternative method we suggested in our January report.

We have reviewed the method used in the spreadsheet to calculate the IGC amount.

***General view***

In general, and notwithstanding the caveats noted in the next section, we consider that the method and values used in the spreadsheet to calculate the IGC are reasonable. It therefore follows that the charge stemming from these calculations is reasonable.

---

<sup>1</sup> PwC (15 January 2014), *Watercare's Infrastructure Growth Charges – a review of the approach to, and method of, adjusted IGCs for future rates payments*, report prepared for Watercare.





## ***Discussion***

### **What we have reviewed**

This spreadsheet includes calculations other than those used to determine the IGC amount. For the purposes of this note, we have only reviewed the methods which affect the IGC calculation. That is, we have only reviewed the calculations, and values, which affect the IGC amount calculated in cell M22 of the 'PWC calc' sheet.

A number of inputs to this calculation are either hard-coded or linked to other Watercare spreadsheets. We have not reviewed these input values.

### **The method used in the spreadsheet**

The spreadsheet calculates the IGC amount using the following broad steps:

- The current annual cost per HUE of the existing community is determined.
- It is considered that all households in both the existing and growth communities will pay an annual ongoing charge equal to the annual cost per HUE of the existing community.
- The annual cost per HUE of the growth community is determined.
- The 'incremental cost' of the growth community is determined by subtracting the annual charge from the annual cost of the growth community.
- The IGC is calculated as the NPV of a series of annual amounts equal to the incremental cost over the expected life of the growth community assets.

In general, we consider that the above approach is reasonable. It is consistent with what we suggested in our January report.

### **Noted items**

However, we note that the following input values may need to be considered further:

- Growth capex – The spreadsheet describes the value used as the sum of growth capex from FY14-23 consistent with Watercare's most recent Funding Plan. The use of multiple years is reasonable, and helps smooth the charges over time. We note that (given how the value is used) this value should be calculated as the sum of real FY14 values, undiscounted. It is unclear whether this is how the value is determined.
- Interest rate – This should be based on a long-term interest rate. We have not been able to review the method for determining the interest rate. We note that the value used is higher than that used in an earlier spreadsheet; however a reasonable estimate for a long-term interest rate could potentially be higher still.
- Number of domestic HUEs – This value is set equal to the number of domestic households. This method does not explicitly account for Watercare's policy to assign HUEs of less than one



to small apartments. Watercare should consider making an adjustment to the calculation to account for this policy.

Lastly, we note that the calculation of the number of existing community HUEs (in the 'HUEs' sheet) could be undertaken using a smaller number of inputs (and still get the same answer). In particular, the calculation could be undertaken using only (i) the proportions of water load between domestic and non-domestic, and (ii) the number of domestic HUEs.

Yours sincerely

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## *Appendix A : Restrictions*

This letter has been prepared for Watercare Services Limited (Watercare) to advise on how Watercare calculates its Infrastructure Growth Charges. This letter has been prepared solely for this purpose and should not be relied upon for any other purpose. We accept no liability to any party should it used for any purpose other than that for which it was prepared.

This letter has been prepared solely for use by Watercare and may not be copied or distributed to third parties without our prior written consent.

To the fullest extent permitted by law, PwC accepts no duty of care to any third party in connection with the provision of this letter and/or any related information or explanation (together, the "Information"). Accordingly, regardless of the form of action, whether in contract, tort (including without limitation, negligence) or otherwise, and to the extent permitted by applicable law, PwC accepts no liability of any kind to any third party and disclaims all responsibility for the consequences of any third party acting or refraining to act in reliance on the Information.

We have not independently verified the accuracy of information provided to us, and have not conducted any form of audit in respect of Watercare. Accordingly, we express no opinion on the reliability, accuracy, or completeness of the information provided to us and upon which we have relied.

The statements and opinions expressed herein have been made in good faith, and on the basis that all information relied upon is true and accurate in all material respects, and not misleading by reason of omission or otherwise.

The statements and opinions expressed in this letter are based on information available as at the date of the letter.

We reserve the right, but will be under no obligation, to review or amend our letter, if any additional information, which was in existence on the date of this letter, was not brought to our attention, or subsequently comes to light.

This letter is issued pursuant to the terms and conditions set out in our work statement dated 9 May 2013, and the PwC Umbrella Terms of Engagement with Watercare dated February 2011.

## **Appendix 5 - Developer Provided Assets and Vested Asset Standards**

Assets that are constructed as part of a new development are controlled through the resource consent process which includes engineering design sign off. Engineering design approval for water and wastewater assets is carried out by Auckland Council as part of the resource consent process.

Watercare has a service level agreement with the Auckland Council resource consent group. Where a proposed development is for four or more dwellings, Watercare carries out a peer review check of the proposed water and wastewater engineering design. Watercare also employs three Asset Inspection technicians who attend pre construction meetings for new developments, continue to monitor development as it takes place and provide final inspection sign off of assets constructed. This approach ensures that the assets are constructed as approved under the resource consent.

The standards that the assets are built to are currently set out in District Plans which are still operative until the new Unitary Plan comes into effect. There are six district plans resulting in six different sets of standards. Watercare introduced a revised set of standards in July 2011 intended to reduce confusion and provide a consistent and appropriate quality of asset for Watercare. The new Watercare standard includes some changes introduced through local government legislation at integration, public safety of Watercare assets for instance. Auckland Council has not adopted the new standard for use as the six district plans (legislation under the RMA) are still active.

In addition, Watercare has recently worked with Auckland Council Stormwater and Auckland Transport to produce a combined Code of Practice (CoP) that brings together all of the Council family of standards in one place. Watercare continues to impress upon Auckland Council consent group the importance of using the new standards.

It should be noted that any resource consent that is submitted under the new Housing Accord follows the consent process as laid out in the draft Unitary Plan. The Housing Project Office has agreed to use the Watercare standards now which will be used following the introduction of the Unitary Plan.

Assets that are constructed through new development that meet their consent conditions receive approval by Auckland Council through a 224c certificate. As built drawings are signed off by Auckland Council and a schedule of assets is prepared which includes valuation of the assets.

The as built information is checked against the schedule by Watercare and if correctly matching the assets are created in Watercare's GIS system and from that point the asset is considered to be owned by Watercare.

Once the assets are owned by Watercare the vested asset is recognised in the financial accounts. The value of the asset and the corresponding vested asset income is obtained from the developer provided cost information. Should this cost be different to the Watercare equivalent unit rates the next revaluation will result in a valuation change and an adjustment to the asset revaluation reserve.



# Report to the Board of Watercare Services Limited

**Subject:** Update on Non-Revenue Water and Network Leakage programme

**Date:** 21 February 2014

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## 1. Purpose

The purpose of this report is to provide an update on the progress towards the non-revenue water and real losses reduction programme.

## 2. Introduction

In February 2013, a number of initiatives to understand and manage water losses commenced. These are progressing well.

There are many components that contribute to the total water loss as shown in Figure 1. Within this, there are two areas that will provide significant benefit. The first is reducing leakage from the network, which assists towards the deferral of growth projects. The second is generating additional revenue from unbilled/illegal usage and replacing meters that have a high degree of inaccuracy.

An active leak detection programme, involving acoustic ground survey of approximately 4000km (approx. 50% of the retail network) of watermains has been successfully completed and has located numerous network leaks. However, in some areas, new leaks are created following the repair of the initial leak due to the fragile condition and material type of the watermain. This has highlighted that proactive watermain renewals are required to support the leak repair programme to achieve sustainable benefits. Our work has also shown that network leakage may not necessarily be the only component towards achieving a reduction in non-revenue water and real losses. Our initial work suggests there are a greater number of properties than expected which are un-metered or illegally using water. Also, recent testing of a small sample of old meters suggests that our older meter fleet may be under recording consumption between 5 - 10%.

## 3. Overview of the Total Water Mass Balance

Watercare adopted a water mass balance approach, with specific emphasis on calculating non-revenue water and real losses. The mass balance approach is shown in Figure 1. It identifies the total water produced, incorporating the transmission network losses. Water is then categorised into water consumed that generates revenue and an unbillable component, known as non-revenue water. The non-revenue water is further defined into the following four categories:

1. Authorised use that is not billable i.e. fire fighting, operational flushing
2. Meter under-recording i.e. inaccuracy inherent in all meters
3. Unauthorised consumption i.e. illegal usage
4. Real losses i.e. water leaking from the network reticulation

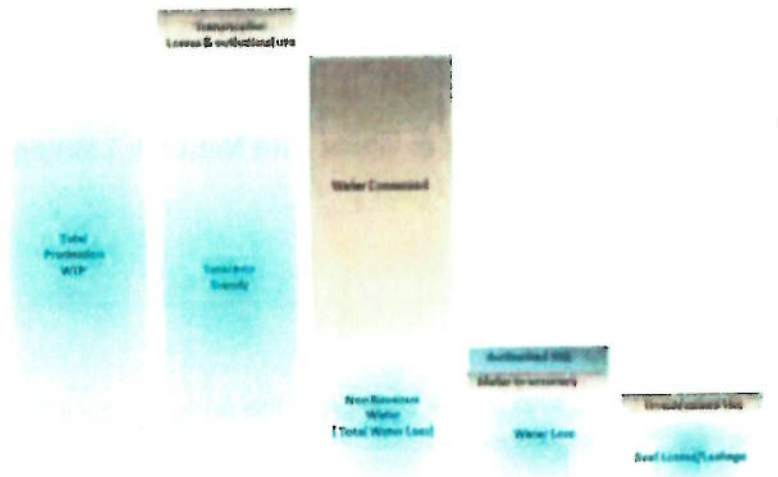


Figure 1

#### 4. Statement of Intent (SOI) Water Losses Definition

The SOI focus is on network losses and states, "the percentage of annual potable water network losses, where losses are defined as real losses from the wholesale and retail distribution systems".

To accurately calculate real losses, it's important that the factors that influence this calculation are accurately accounted for; otherwise the real losses from the network will not be truly reflected and may result in unproductive focus and expenditure.

While the SOI has a focus on network real losses, internally our focus will be on reducing our volume of non-revenue water. By doing this, it will drive initiatives that will gain additional revenue at the same time reducing real losses.

The SOI real losses target for the 2013/14 year is 14% and 13% for the 2014/15 year. It is proposed to retain the 2014/15 target as there currently is no reason to substantiate change.

Currently real loss from July 2013 to November 2013 is 14.28%. (2012/13 was 14.8%)

Given the overall importance of non-revenue water, Management has placed a greater focus on this as it currently sits at 17.3%.

#### 5. Review of Allowable Assumptions

A number of assumptions are incorporated into the calculation when quantifying non-revenue water and real losses. The assumptions take into account water that is used, but not billed. The following assumptions are incorporated into the calculation:

- Meter under recording.** Currently an under recording allowance of 3%, based on the NZ Water Benchmarking of water losses in New Zealand publication is used. Recent testing by Watercare of a small sample from our meter fleet, including analysis by the University of Auckland together with data from International water companies, suggest meters that are >15 years under record consumption between 5 – 10%. Watercare has 50% of its meter fleet >15 years.

- **Unauthorised use.** Currently 0.1% is used, based on the NZ Water Benchmarking of water losses in New Zealand publication, though the publication goes on to state this factor may not be realistic in practice. Work carried out by our Revenue Assurance Team, together with International experience, suggests an allowance between 0.3 – 0.5% is more realistic.
- **Fire fighting and operational usage.** Currently 0.5% is used, which is consistent with our analysis.
- **Papakura sales.** We have interpreted the SOI target to only include areas within the direct control of Watercare, which excludes the retail losses from within the Veolia franchise area of Papakura.

Discussions are underway with Deloitte on adjusting the allowable factors within our calculation. If necessary, it is proposed that an independent review by PricewaterhouseCoopers (PWC) is carried out, to substantiate any changes to the assumptions used in the calculation.

## 6. Summary of Current Activities

Watercare has an effective response and repair process with its network maintenance contractors, where all reported burst and leaks are promptly addressed. In addition to this, the following activities are underway:

- **Leak detection.** Approximately 4000km (50% of the water network) has been ground surveyed in the last year. This has identified approximately 3000 leaks, of which 1400 large to medium leaks have been repaired within the current year's budget and 1600 small leaks (not currently visible on the surface) are being monitored. It is proposed that these leaks are repaired in the new financial year, when funding is available, as they will eventually turn into burst or visible leaks, requiring repair. Also, these un-repaired leaks may pose a public health risk by allowing ingress when the network is depressurised.
- **Meter under recording.** An accuracy testing programme is underway with 800 meters replaced and tested to date. The analysis from the testing programme will feed into our meter under recording assumption and will determine a cost effective meter replacement programme, generating additional sales revenue.
- **Minimum night flow testing.** Minimum night flow testing is where small areas are created and all water going into the area is controlled and all major industrial water users monitored. A mass balance then determines whether the area has a high network leakage or illegal usage. A number of areas have been completed and the results indicate that network leakage is not the main factor.
- **Unbilled/illegal usage.** Currently only a small amount of work is currently carried out to identify unbilled and illegal usage. So far in this financial year, approximately \$440k has been identified and billed. In the 2012/13 year approximately \$450k was identified and billed. Identifying unbilled or illegal usage is an arduous process involving property by property analysis; however, once illegal use is identified and billed it generates on-going sales revenue.

## 7. Summary of Future Focus Activities

It is proposed that an on-going targeted leak detection and repair programme continue as good practice. In addition to this, the following activities are proposed:

- **Pressure Management trial.** Analysis by international water companies suggest that leakage and break rates decrease when pressure is reduced. To verify this, it is proposed to trial a small area to see the before and after benefits and impacts of a pressure reduction programme.
- **Minimum Night Flow Testing (MNF).** This is proven to be a cost effective method in establishing whether leakage or illegal usage is the main issue in a given area. While it is labour intensive and incurs cost to enable small areas to be isolated requiring ground crew over a period of 4-5 hours, it is proposed that the programme continue until district metered areas are established over time.
- **District Meter Areas (DMA).** DMA's are areas that are monitored by installing pressure and flow loggers, which provide data similar to that of MNF tests. While less labour intensive, it requires an initial capital investment in establishing the areas and installing monitors that will provide continuous data over a longer time period. A report in 2011 prepared for Watercare identified establishing DMA areas across the region at a cost of \$40m. The full implementation of this report is not proposed, however, it is proposed to create a number of small DMA's as a trial to establish the cost benefits of the programme. This will determine whether there is a business case to continue with other areas.
- **Unbilled/illegal usage and change in usage.** While this is the most difficult to achieve, it provides the greatest return as any unbilled or illegal usage identified can be backdated as well as providing on-going revenue. An additional internal resource to accelerate the work will be proposed in the 2014/15 budget.
- **Meter replacement programme.** It is proposed to replace meters that are >15 years old. A business case is currently being developed.

## 8. Cost of Repairing Leaks

With the average cost of repairing a leak at \$800, it's arguable in the short term whether it is economic to repair small leaks as the cost to repair outweighs cost of the water lost. However, the accumulated volume of losses of all the small leaks in the long term may assist towards the deferral of growth projects. Initial work shows that a 1% reduction in leakage will defer growth projects by approximately 1 year; conversely, not continuing with an active leak detection and repair programme, may bring this forward.

## 9. 2014/15 Funding

An operational and capital budget for reducing non-revenue water and network losses is being developed for consideration in the 2014/15 budget.



## 10. Conclusion

While the SOI has a focus on network real losses, internally our focus will be on reducing the non-leakage components within the non-revenue water volume. This will drive initiatives to gain additional revenue. There are a number of components which impact on the calculation of real losses and these are being progressed. An active leak detection and repair programme will continue, however, with the fragile state of the water network in some areas, a proactive watermain renewals programme will need to be established. To ensure this programme is carried out effectively, MNF will be conducted to establish whether leaks or illegal use is the main contributor of water losses.

## 11. Recommendation

It is recommended that Board note the report.

Report prepared by:

Recommended by:

Approved for submission by:

  
A Nama  
Operations Manager  
Networks

D Worsnop  
Chief Operations Officer

  
PT K M Ford  
Chief Executive

# The Central Interceptor (CI)

December 2013

## What it is

A new sewer tunnel between Western Springs and the Mangere Wastewater Treatment Plant (WWTP). The tunnel will be approximately 13 kilometres in length and will lie between 22 and 110 metres below ground level. It will cross the Manukau Harbour at a depth of approximately 30 metres below the seabed. The tunnel provides a **total storage capacity of approximately 200,000m<sup>3</sup>**, and provides **estimated cost savings of at least \$500 million** over its main alternative solution.

## Why it's needed

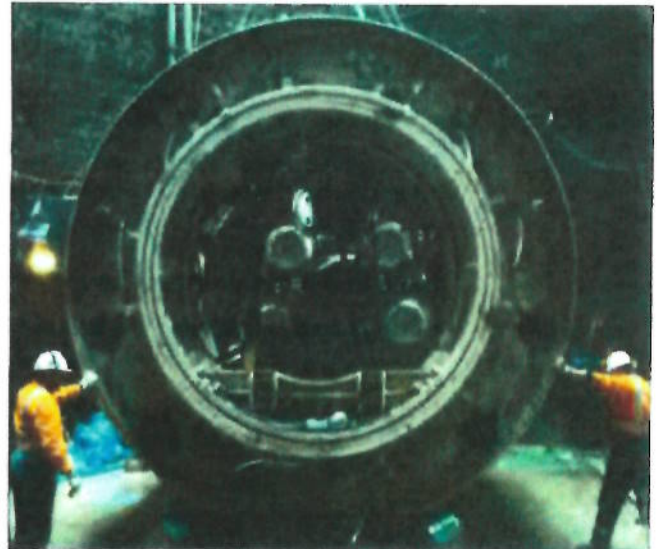
- To duplicate the lower section of the regionally critical Western Interceptor, particularly the Hillsborough Tunnel and Manukau Siphon
- To provide additional sewer network capacity for growth and development across the Auckland Isthmus
- To reduce wastewater flows in to local streams and harbours.

## When

An Auckland Council-appointed Hearing Panel granted Watercare's application for resource consents for the CI in November 2013. Construction is scheduled to begin in 2017; completion is expected in 2023.

## Reduced environmental risk for the Manukau Harbour

The lower section of the Hillsborough Tunnel and Manukau Siphon is estimated to have a residual life of between 15 and 25 years. A consequence of failure could be a continuous wastewater discharge into the Manukau Harbour for an unknown period of time from over 200,000 customers, including the majority of industrial flows presently treated at the Mangere Wastewater Treatment Plant.



The Central Interceptor will be constructed using a tunnel boring machine (TBM). The machine pictured was used on Watercare's Project Hobson.

## Improved environmental outcomes

The overall wastewater network currently overflows to the Waitemata Harbour at more than 200 points and to the north-eastern part of the Manukau Harbour at 14 points. The CI is expected to reduce the annual average wastewater overflow volume by 80 percent.

## Changes in volumes to Mangere WWTP

The completion of the CI will increase the volume of mixed stormwater and wastewater arriving at the Mangere plant by an estimated two percent. The increase in volume of treated effluent entering the Manukau Harbour will have no measurable effect on water quality and will be within the consented limits.







## Mangere Pump Station and Emergency Pressure Relief Structure

The CI includes a new pump station at the Mangere WWTP to pump wastewater from the tunnel to the plant. The pump station is an essential component of the project, required to control the delivery of flow from the tunnel into the plant. The pump station will be designed so that the rate of pumping enables the plant to operate within flow limits set by its existing resource consents.

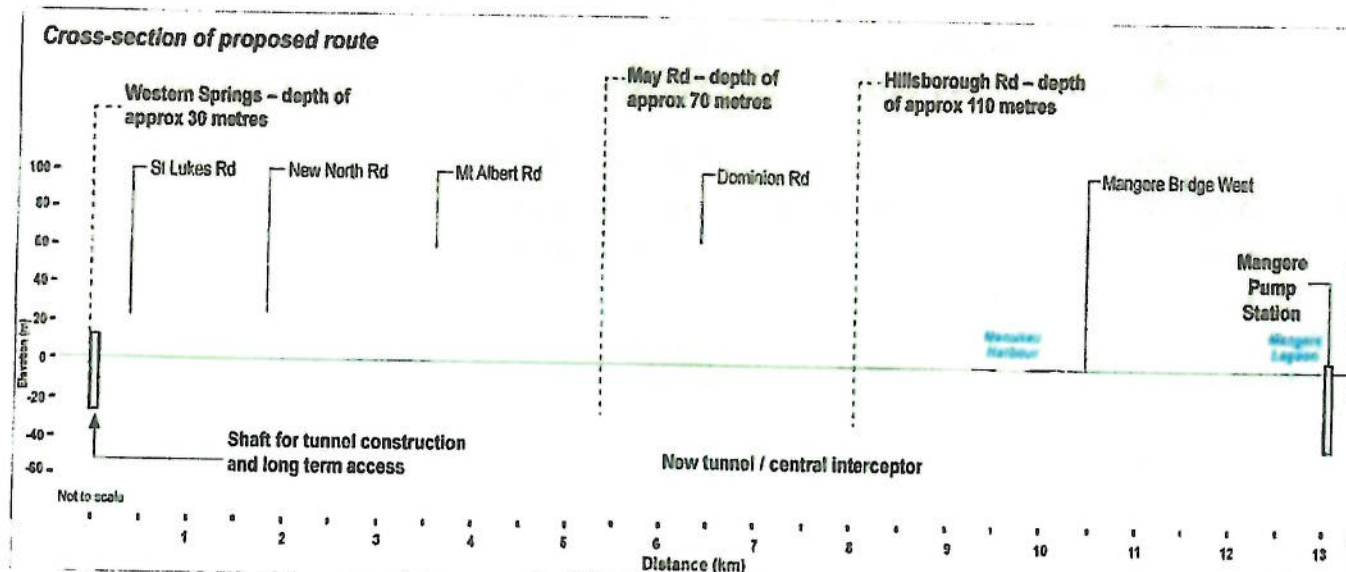
The Emergency Pressure Relief outfall structure at the Mangere Pump Station is designed to discharge only in the low probability event of a prolonged outage of this pump station due to a significant mechanical failure or power outage combined with a significant storm event (i.e. when storage capacity in the tunnel is fully used up before the pump station can be brought back into service). It would be unlikely to activate more than once every 50 years for a 1 year storm event.

### The Commissioners found that:

- There are no practicable alternatives for discharge mechanisms / locations.
- The probability of a discharge is very low.
- Ecological effects on the Manukau Harbour are likely to be localised and short-term with no adverse cumulative effects.
- Amenity and visual effects on the Manukau Harbour will be localised and short-term.
- The EPR mechanism is essential and represents best practice as a last-ditch fail-safe option.

### Proposed alternative solutions

- Local storage tanks are a key element of Watercare's existing wastewater network, and continue to be a useful solution for mitigating local overflows. However, given the number and size of tanks that would be required to duplicate the benefits of the Central Interceptor, they are not a realistic replacement for this project.
- Continued separation is not cost effective and typically does not achieve targeted results.
- Combined sewer separation results in much more substantial environmental and community effects during construction, including the need to implement new sewers and private home connections using an open trench construction method, and can lead to an actual increase in pollution discharged to the environment.



# Waikato River Take Consent Application – Key Facts

February 2014



- One of Watercare's current supply sources is the Waikato River where it holds an existing resource consent authorising the net take of up to 150,000 m<sup>3</sup>/day of water. Watercare is proposing to take an additional 200,000 m<sup>3</sup>/day of water from the Waikato River.
- Other options considered include new dams in the Riverhead Forest and at Lower Mangatawhiri (neither of which is sufficient, either alone or in combination, to meet the predicted demand, and both of which would entail significant environmental impacts) and a desalination plant (which was ruled out on cost and environmental considerations).
- The effects of the proposed take on the river as it flows past Watercare's treatment plant will be: A water level change of between 15 mm and 22 mm, compared with a typical water depth of approximately 6 m and a daily tidal variation of approximately 0.5 m; A change in mean velocity of between 0.004 m/s and 0.002 m/s compared with a mean velocity in these conditions of approximately 0.5 m/s.
- Independent experts have assessed that the predicted changes will have no significant effect on water temperature, and changes in dissolved oxygen levels will be largely undetectable to wildlife or river users.
- Watercare's Waikato treatment plant is in the fifth sub-region of the Waikato River catchment (between Mercer Bridge and the River mouth, as defined in the Waikato Regional Plan); its operation has no effect on the upstream flow.
- Consultation has been undertaken with bordering local authorities, Waikato-Tainui, mana whenua, key users of the Waikato River such as power companies and agricultural and horticultural users, and other potentially affected and/or interested parties including environmental groups. Watercare is committed to maintaining open dialogue with key stakeholders throughout the consenting process.
- Watercare has set a water savings target of reducing per capita consumption to 15% below 2004 levels by 2025. Records to date show that Watercare is on target to achieve these savings. Auckland already outperforms other cities in New Zealand and overseas in conserving water.

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