Watercare Services Limited
Statement of Corporate Intent

For the period: 1 July 2011 to 30 June 2014
(updated annually)
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1.0 INTRODUCTION

This Statement of Corporate Intent (SCI) represents Watercare’s public and legislative expression of accountability to its shareholder the Auckland Council\(^1\) and establishes the agreement between the Watercare Board and the Auckland Council setting out the objectives, nature and scope of activities undertaken and performance targets by which Watercare will be measured.

The SCI recognises the important partnership that exists between Watercare and the Auckland Council, and that the success of each is dependent on the actions of the other. In particular, Watercare’s ability to successfully undertake its business and meet performance targets set out in this SCI relies on the Auckland Council providing a supportive policy and regulatory environment that enables necessary water and wastewater investments and actions to be undertaken in a timely manner.

The SCI has been prepared in accordance with Section 20 of the Local Government (Auckland Transitional Provisions) Act 2010 and covers a three year term from 1 July 2011. The document will be reviewed and updated annually in consultation with the Auckland Council.

2.0 BACKGROUND

Watercare has been the provider of bulk water and wastewater services to the Auckland region since 1991. On 1 November 2010, as a result of Auckland regional governance reforms, the company took over ownership and management of all the water and wastewater assets within the Auckland Council region and began retailing services directly to the people of Auckland. The exception was the Papakura district where retail services are managed via a franchise agreement with United Water.

The integrated Watercare now has assets worth $7.5 billion and annual revenue of $466 million.

The delivery of retail water and wastewater services increased Watercare’s visibility to customers. The new Customer Service unit which includes the customer contact centre is responsible for the majority of customer interactions and is supported by other aspects of the business including communications and operations.

The integrated company’s main services include:

- **The collection, treatment, and distribution of drinking water** from 11 dams, 26 bores and springs and four river sources. A total of 140 billion litres of water is treated annually at 20 plants and distributed over 9,000 kilometres of water pipes through 149 reservoirs and 108 pump stations to 450,000 households.

- **The collection, treatment, and disposal of wastewater** at 19 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 7,000 kilometres of sewers before treatment. The regional network includes 488 wastewater pump stations and 145,000 manholes.

- **The transfer, treatment, and disposal of trade waste**. Watercare works with approximately 1,700 customers in administering the trade waste bylaw to protect the wastewater network and assist in ensuring that wastewater treatment plant discharges meet consent-requirements. As the regulator, 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.

\(^1\) All references to the “Auckland Council” or the “Council” mean the governing body and local boards.
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 regional 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. 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.

Legislation related to the delivery of water and wastewater services

Watercare is a Council Organisation (CO) and wholly owned subsidiary of the Auckland Council. The company’s obligations to deliver water and wastewater services for Auckland, are established under Part 5 section 57(1) of the Local Government (Auckland Council) Act 2010 which stipulates 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.

3.0 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.

4.0 KEY GOALS

Watercare has six main goals and focus areas that reflect the expanded responsibilities and new challenges of the integrated company. These are:

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

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

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

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

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2 Watercare has 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.

3 Under sections 2(2) and 113(2) of the Local Government (Auckland Transitional Provisions) Act 2010, Watercare will become a council controlled organisation (CCO) on 1 July 2012.
v. **Engaged People:** To have a skilled, motivated and empowered workforce.

vi. **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 water and wastewater services to the people of Auckland.

### 5.0 CONTRIBUTION TO AUCKLAND COUNCIL OBJECTIVES

Watercare’s role as the regional provider of water and wastewater services requires ongoing collaboration with the Auckland Council and other stakeholders to ensure community-focused outcomes are achieved.

Watercare recognises Auckland Council’s vision for Auckland to be the most liveable city, characterised by its:

- cohesive, resilient communities;
- excellent transport system;
- productive, high-value economy; and
- quality urban-rural environments.

Watercare continues to work closely with planning, strategic, operational and regulatory sections of Auckland Council and has been participating in regional planning processes to ensure the infrastructure requirements of the region are well understood and appropriately integrated into regional plans. The importance of the Auckland Council Long-Term Plan to the successful delivery of regional outcomes is recognised and Watercare is committed to running its business consistent with the Auckland Council Annual Plan and the future Spatial Plan. The outcome will ensure that the current and future social economic and environmental needs of the regional community can be met in cost-effective ways.

Watercare primarily contributes to the following Auckland Council strategies:

- **Outstanding natural environment** – Watercare contributes to enhancing Auckland’s unique natural environment, including its world-class harbours, waterways and beaches through the effective transport and treatment of wastewater.

- **Strong communities** – Watercare contributes to safe communities by providing safe drinking water, promoting efficient water use, and protecting waterways and the environment.

Watercare also directly contributes to the delivery of the following council group of activities: Water supply and wastewater – Watercare is responsible for providing safe, healthy drinking water and high-quality wastewater services that are economically viable, environmentally sound, sustainable and responsive to customer needs.

### 6.0 KEY CHALLENGES AND FOCUS AREAS

#### 6.1 Introduction

Integration of regional water and wastewater services was successfully undertaken with minimal disruption to customers or services over the transition period. Now that Watercare is operating as the regional water and wastewater provider the focus has moved to continuous improvements in service delivery, developing relationships with the Auckland Council for the achievement of regional outcomes, understanding and responding to council priorities and building on the company’s reputation for success.
The following information highlights some of the challenges Watercare faces in 2011/12 and the responses being taken. These include the following issues highlighted in a letter of expectation from Auckland Council dated 15 February 2011.

- **Focus on demand management, conservation, environmental quality and sustainability initiatives, including reducing pollution in the harbours;**
- **Review of options for wastewater treatment in outlying communities; and**
- **Approach for non-payment of accounts to be ‘working with people’ rather than punitive action, for example water restrictions.**

Other challenges for Watercare include:

- Management and consenting of the regional wastewater network in relation to the acceptable levels of wastewater overflows; and

Major focus areas for 2011/12 include:

### 6.2 Continuous Improvement in the Delivery of Customer Service

As the new water and wastewater service provider for almost 450,000 households Watercare now has a more direct relationship with the people of Auckland. The company delivers retail services which include responding to customer service requests, providing customer information on bills and accounts, providing accurate and timely bills, managing key accounts, customer debt management, and management of complaints.

Watercare acknowledges that the experience for the customer should be seamlessly integrated between Watercare and the Council ensuring a consistent approach to service delivery. Responsive and seamless customer service will be a priority for Watercare. Continuous improvement in the grade of service delivered from the contact centre will continue to be a key focus area. However, as the majority of customers do not have a personal interaction with Watercare and only engage through meter reading and invoicing, Watercare will also monitor perceptions of the wider customer base in order to maintain and grow excellent levels of service.

The impact of the global economic downturn has resulted in higher unemployment and significant hardship for some. As a socially responsible company Watercare is committed to working proactively with customers in serious financial difficulty by providing a range of fair and responsible options for debt repayment. These include the availability of a hardship scheme, including repayment options and information on water saving, which may be offered to customers suffering genuine hardship and who are willing to work with Watercare. The hardship scheme and other customer policies were developed with the oversight of the Watercare Consumer Advisory Group, an independent group of experts in social and community policy and programmes chaired by Sir Paul Reeves.

As a matter of continuous improvement, Watercare is reviewing its cost recovery policies and administration of the hardship scheme to ensure transparent, fair and equitable services continue to be delivered to customers. The approach for non-payment of accounts will be consistent with Council’s requests to focus on working with people rather than punitive action. It is anticipated these new policies will be in place by 1 July 2011.

### 6.3 Water and Wastewater Tariff Communication

A significant factor in integration has been the determination of new tariffs for water and wastewater services. Watercare recognises the importance of clear communication on water and wastewater pricing and will carefully explain changes prior to, during and after billing.

From 1 July 2011 the water price across Auckland will reduce to $1.30 per cubic metre (including GST). The Funding Plan demonstrates how these charges are calculated and changes will be clearly communicated.
On 1 July 2012 Watercare will begin to directly charge customers for wastewater services. At the same time the Auckland Council will be reviewing and amending its revenue and financing policies and conducting extensive community engagement on funding services. Watercare will follow the Auckland Council funding principles and has committed to work with Council when undertaking customer and stakeholder consultation which will be completed within the Council’s timeline for the 2012/2022 Long Term Plan. This will be particularly important where wastewater charging moves from council rates to a new tariff structure under Watercare.

6.4 Water and Wastewater Planning

*Inaugural Auckland Spatial Plan*

As a regional water and wastewater service provider Watercare is committed to working collaboratively with the Auckland Council and other stakeholders to ensure community-focused outcomes are achieved. The Three Waters Strategy developed by the councils of the Auckland region and Watercare in 2007 was an excellent example of collaborative work for regional benefit. The outcomes of this collaboration are now being used by Watercare and the Auckland Council in the development of the inaugural Auckland Spatial Plan. Watercare’s input is helping to ensure the infrastructure needs of the region are well understood and appropriately integrated to meet regional community needs, including growth, in an affordable way.

Watercare will continue to work proactively to ensure that relevant operations and planning are aligned with Auckland Council stormwater planning and operations, consents and water quality policies.

*Network Consents*

Watercare has also worked with the Auckland Council on network consents. Watercare and the council acknowledge a more cooperative process is required to deliver cost-effective solutions balanced against regional community expectations. To better inform this process, regional community consultation on overflows is proposed as part of the 2012 council long-term planning process.

*Central Interceptor Project*

Planning and concept design continues for the Central Interceptor, a sewage conveyance and storage tunnel identified through the Three Waters joint planning process as the preferred solution to address the need for additional trunk sewer capacity to central Auckland. The new Central Interceptor will collect wastewater flows from parts of central Auckland and Waitakere City and transfer them to the existing Mangere Wastewater Treatment Plant. The central interceptor will reduce wastewater overflows, provide for population growth and mitigate the risk of pipe failures. Planning work undertaken as part of this project is also helping to clarify the combination of approaches that will best manage wastewater overflows and deliver affordable outcomes that meet community expectations in an appropriate timeframe.

*Regional and National Policy Issues*

Watercare, as the regional expert on water and wastewater, will continue to make submissions on regional and national policy that affect its business. In all cases Watercare will maintain full transparency with the Auckland Council ensuring there are no-surprises on policy submissions and will continue to provide updates on active submissions in quarterly reports. Where appropriate, submissions will be coordinated with the Auckland Council.

6.5 Major Capital Programmes

The Asset Management Plan (AMP) represents Watercare’s tactical plan for managing the company’s infrastructure cost-effectively to achieve long-term goals. Projects are prioritised based on strategic need and key capital investment objectives. The major projects for 2011/12 are:
• Progressing major construction of the new Hunua No. 4 water main and associated works. The Hunua No. 4 water main will provide additional capacity from the southern supply zone to meet growth requirements in the north and reduce the risks associated with reliance on the existing water supply network.
• Construction of the Waikato Water Treatment Plant capacity upgrade.
• Water supply main replacement, rehabilitation and upgrade.
• Undertaking statutory planning and notification phases for the Central Interceptor, a sewage conveyance and storage tunnel, which will address the need for additional trunk sewer capacity to central Auckland.
• Construction of new wastewater sewers and pump stations to supply growth areas in Takanini and Northern Waitakere.
• Construction of the Concourse wastewater storage tank to mitigate wastewater overflows from the western pump station.
• Upgrade of the North Shore trunk sewer and new wastewater trunk assets.
• Extending the metropolitan wastewater network to the Kumeu, Huapai and Riverhead area.
• Extending the Waikato treated water supply network to the Pukekohe area.

Watercare will continue to focus on the timely delivery of infrastructure projects within budget and will continue to review and prioritise programmes of work based on company risk, asset information, regional priorities and feedback from the Auckland Council.

6.6 Management of Rural Plants
On 1 November 2010 Watercare assumed responsibility for the operation of 16 water treatment plants and 17 wastewater treatment plants in non-metropolitan (rural) areas. Unfortunately a number of these plants have been taken over with significant problems that compromise regulatory compliance and the quality of water and wastewater services. Early estimates are that $100 million of expenditure is required to resolve rural drinking water issues and $50 million to resolve rural wastewater compliance issues. This represents a significant funding challenge for Watercare. A future strategy is being developed for the rural plants identifying the work required to ensure they are able to deliver high-quality drinking water and wastewater services expected by customers in the Auckland region while also complying with resource consents. The initial focus has been on the drinking water quality at some plants and Watercare has already committed $13.08 million to improve water quality and supply to the Pukekohe area by mid 2013. Watercare will continue to work cooperatively with the Auckland Council and Department of Health regarding the operation, management and compliance of these plants.

As part of these investigations Watercare has highlighted the quality of rural drinking water as a significant issue and is assessing a program of work to prioritise and increase security of supply and water quality to non-metropolitan areas. The special interest of the rural local boards is acknowledged and Watercare will continue to keep local boards informed of progress on these matters.

6.7 Demand Management
Demand management is required to avoid premature investment in treatment and network infrastructure, demonstrate the efficient use of water resources and provide an advocacy role for customers in managing their water use wisely. Watercare is committed to undertaking demand management as part of an integrated programme of works focused on the delivery of both sustainable and affordable water services and will work collaboratively with the Auckland Council and other stakeholders to ensure water efficiency outcomes can be achieved. Programmes to date have focused on practical interventions such as work with Housing New Zealand and network leak management.
There is a range of demand management options available including regulation, pricing, policy, water loss and pressure management, customer education including schools and technological solutions such as water efficient appliances.

Watercare, through a Regional Water Efficiency and Demand Management Plan, will implement a comprehensive programme to reduce gross per capita consumption to a sustainable level by 2024.

The plan is currently being prepared as required by the 2010 SCI and is likely to include a mix of the following:

- Continuation of Watercare’s school education programme;
- Work with large users to implement water use efficiency including Auckland Council, Housing New Zealand and high use schools;
- Maintaining a focus on non-revenue water losses such as bursts and leaks;
- Promotion of water efficient devices and technologies;
- Targeting peak summer demand and outdoor water use;
- Reducing non-revenue water losses and implementing pressure management; and
- Working with local and national government to develop standards, policy and regulation for efficient water use.

Watercare will continue to focus on demand management initiatives as part of its wider strategic and business approach to sustainability. The focus will continue to be on practical interventions that help reduce water demand while also considering the financial implications of different initiatives in delivering water efficiency outcomes.

Outcomes of the Regional Water Conservation and Demand Management Plan will be used to help inform the development of the 2012 SCI, including specific performance measures and targets. A new Sustainability Manager will also lead the implementation of practical demand management initiatives.

### 6.8 Fiscal Outlook and Management of Costs

New growth related infrastructure and the maintenance and replacement of aging assets are all required to maintain service standards and meet increasingly stringent regulation. In order to fund large long-life projects such as the Hunua No. 4 and the Central Interceptor, Watercare raises funds through borrowing thereby spreading the cost and creating intergenerational equity. However, repayments and interest also impact on the price of services delivered and the company must carefully manage its treasury policy to ensure these costs are minimised. A benefit of the recent economic downturn has been the reduction in interest rates. In some cases Watercare has been able to take advantage of lower rates when managing debt helping to reduce costs. The economic downturn has also offered opportunities to secure construction contracts at more favourable rates due to increased competition. Such opportunities help to reduce capital project costs and are taken advantage of where possible. These and other opportunities and efficiencies from integration have helped contribute to the lower water price for 2011/12. However, a major challenge in future will be managing costs to ensure price remains affordable, particularly as the economy recovers and interest rates and demand for services increase.

The skills and capabilities of Watercare people and their innovative approach to existing and new challenges will remain crucial to the success of the company and the ongoing delivery of cost effective services. Initiatives such as Project Improve will continue to be used to capture and implement new ideas and innovation.
## 7.0 KEY PERFORMANCE INDICATORS

The following table sets out Watercare’s Key Performance Indicators, with targets demonstrating how they align with the Mayor’s vision and strategies for Auckland.

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

<table>
<thead>
<tr>
<th>Mayor’s Vision</th>
<th>Watercare Vision: Outstanding and Affordable Water Services for the People of Auckland.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>What Watercare does</td>
</tr>
<tr>
<td>Safe and Reliable Water Supply: Management of water resources to provide a safe and reliable water supply.</td>
<td>Percentage compliance with the Ministry of Health’s drinking water standards for graded plants</td>
</tr>
<tr>
<td></td>
<td>Achievement of Ministry of Health’s drinking water treatment plant (A-E) and reticulation (a-e) grading</td>
</tr>
<tr>
<td></td>
<td>All non-metropolitan plants and networks are either ungraded or do not achieve Aa grading</td>
</tr>
<tr>
<td></td>
<td>Percentage of unplanned water shutdowns restored within five hours</td>
</tr>
<tr>
<td></td>
<td>Regional unaccounted for water losses</td>
</tr>
<tr>
<td></td>
<td>Frequency of planned water interruptions per 1000 connections</td>
</tr>
</tbody>
</table>

* The Indicator of recent performance represent a consolidation of levels of service and measures of the previous Auckland local authorities, pre-integration.
### Healthy Waterways:
*Management of wastewater discharges to maintain or improve the health of the environment.*

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Value</th>
<th>Standard</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of dry weather sewer overflows per 100km of wastewater pipe length each year&lt;sup&gt;4&lt;/sup&gt;</td>
<td>0.5-18</td>
<td>≤ 15</td>
</tr>
<tr>
<td>Compliance with treatment plant discharge consents (excludes minor or technical non-compliance)</td>
<td>100% Metropolitan</td>
<td>100% Metropolitan</td>
</tr>
<tr>
<td></td>
<td>40% non-metropolitan</td>
<td>65% non-metropolitan (Note: only 8 of 20 rural plants inherited by Watercare on 1 November 2011 were compliant)</td>
</tr>
<tr>
<td>No successful Resource Management Act prosecutions against Watercare</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Frequency of sewer breaks and chokes (unplanned interruptions) per 1000 properties</td>
<td>5-16</td>
<td>&lt; 10</td>
</tr>
<tr>
<td>Percentage of urgent wastewater blockages responded to within agreed standards (one to two hours)</td>
<td>96-98</td>
<td>98</td>
</tr>
</tbody>
</table>

### Sound Financial Management:
*Management of the company to meet business objectives at the lowest cost.*

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Value</th>
<th>Standard</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum funds flow from operations to interest cover (FFO) before any price adjustments</td>
<td>2.93</td>
<td>≥2.5 times</td>
</tr>
<tr>
<td>Compliance with the Auckland Council) Guarantee of Watercare’s debt - when used</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Annual (2011/12) average increase in total price of water services per property consistent with the current capital programme</td>
<td>New measure</td>
<td>minus 14%</td>
</tr>
<tr>
<td>Annual (2011/12) average increase in total price of wastewater services per property consistent with the current capital programme</td>
<td>New measure</td>
<td>plus 4.5%</td>
</tr>
</tbody>
</table>

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<sup>4</sup> Dry weather sewer overflows result from events such as blockages or extended power outages and provide an indication of the wastewater network integrity and performance. These should not be confused with wet weather overflow standards which typically form part of catchment based network discharge consents and relate to overflows as a result of stormwater infiltration.
<table>
<thead>
<tr>
<th>Effective Asset Management: Managing assets to ensure the use of existing assets is maximised while optimising the scope, timing and costs of new investments.</th>
<th>Percentage of capital projects with robust business cases</th>
<th>100%</th>
<th>100%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual Capital Expenditure relative to budget</td>
<td>87% (2010)</td>
<td>&gt;80%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Engaged People: Developing a skilled, motivated and empowered workforce.</th>
<th>Lost-time injury frequency rate less than or equal to 5</th>
<th>3.52</th>
<th>≤5</th>
</tr>
</thead>
<tbody>
<tr>
<td>To achieve tertiary level ACC workplace management practices accreditation.</td>
<td>Tertiary Level Achieved</td>
<td>Tertiary Level</td>
<td></td>
</tr>
<tr>
<td>Staff wellness - % of total hours absent due to illness</td>
<td>1.77</td>
<td>&lt;2.5%</td>
<td></td>
</tr>
<tr>
<td>Ratio of external to internal appointments</td>
<td>2.4 : 1 (Watercare 2010)</td>
<td>&lt;1.6 : 1</td>
<td></td>
</tr>
<tr>
<td>Annual Staff Turnover – voluntary leavers as a percentage of permanent staff (Target range 10-12%)</td>
<td>5.4% (Watercare 2010)</td>
<td>Target range (10-12%)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Satisfied Customers and Stakeholders: Providing customers and stakeholders with great service and great value.</th>
<th>Percentage of customers surveyed satisfied with overall water and wastewater services</th>
<th>75-99%</th>
<th>80%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grade of service – 80% of calls answered.</td>
<td>New measure</td>
<td>&lt;20 seconds</td>
<td></td>
</tr>
<tr>
<td>Household bill relative to the average household income</td>
<td>&lt;2% (Metrowater)</td>
<td>≤1.5%</td>
<td></td>
</tr>
<tr>
<td>Number of water quality complaints (taste, odour, appearance) per 1,000 connections</td>
<td>3.7-5.5</td>
<td>&lt;5</td>
<td></td>
</tr>
<tr>
<td>Percentage of complaints and enquiries being “closed” within 10 working days</td>
<td>66-100%</td>
<td>95%</td>
<td></td>
</tr>
<tr>
<td>Auckland Council briefings on progress and performance</td>
<td>6 monthly</td>
<td>Quarterly briefings</td>
<td></td>
</tr>
</tbody>
</table>
Watercare is currently collating baseline information and responses for the integrated company, which includes information on the status of some inherited assets such as the rural plants. The 2012/13 SCI will consider this information further and include forecast targets for the following three years.

8.0 GOVERNANCE

8.1 Shareholder

Watercare is a wholly-owned subsidiary of the Auckland Council.

8.2 Board of Directors

Watercare has an independent board of directors. The Local Government (Auckland Transitional Provisions) Act 2010 stipulates that no person who is a governing member of Auckland Council, a member of a local board, or an employee of the Council may hold office as a director of Watercare.

Watercare’s constitution requires the directors to manage the company in line with the annual SCI. Through the SCI, the directors are accountable to the owner, who is in turn accountable to residents and ratepayers of the Auckland region.

The directors determine the overall direction of the company in light of the objectives set out in the SCI and the statutory requirements for the company in the Local Government Act. The Board will also ensure that Watercare acts consistently with the principles of the Treaty of Waitangi and meets all legislative requirements. The directors make major decisions, including decisions on major new capital investment and on major 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 will ensure that it holds Board meetings that are open to members of the public consistent with the guidelines for public meetings provided by the Mayor. Watercare will also meet 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:

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Board Meeting</th>
</tr>
</thead>
<tbody>
<tr>
<td>• 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.</td>
<td>26 May 2011</td>
</tr>
<tr>
<td>• 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.</td>
<td>20 October 2011</td>
</tr>
</tbody>
</table>

The Board meetings will be notified by way of a public notice in the New Zealand Herald.

9.0 RELATIONSHIP MANAGEMENT

9.1 Relationship with the Auckland Council

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 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 SCI and the relevant legislation. Watercare will give effect to the Long Term Plan and act consistently with other plans and policies of the Auckland Council.

Watercare’s ability to successfully undertake its business and achieve SCI 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.

9.2 Relationship with the Local Boards

Watercare recognises the important role of local boards in local representation and decision making and has been proactively working to build new relationships based on transparent communication of its activities. Watercare has a Principal Advisor Local Boards who helps to facilitate the relationship and maintain information flows. To date Watercare has attended a 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.

Watercare is also committed to working with local boards and will take into consideration 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 through the Annual Plan and local board planning processes or passed on by members of the public.

Watercare will also liaise with local boards as part of statutory consenting processes where major works are planned that are likely to have a significant effect on residents and services.

9.3 Relationship with Tangata Whenua

Watercare has always had a close relationship with Māori recognising the importance of water to tangata whenua and acting in accordance with the purpose and principles of the Treaty of Waitangi. The company also undertakes consultation on company decisions that are likely to impact on Māori views and values.

Watercare retains the services of its Māori Advisory Group which plays an important role in the company’s understanding of Māori values and the implications and potential impacts of its decisions. Local mana whenua are also consulted directly as part of the process for gaining consents for Watercare projects.

In December 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 honour this relationship without prejudice to consultation with other iwi or hapu.

Independent Māori Statutory Board (IMSB)

The role of the Auckland Council’s IMSB in advising the Auckland Council is acknowledged. Watercare will take account of the IMSB’s schedule of issues of significance and any statutory Treaty provisions that are relevant to its activities and engage with the IMSB on these matters as appropriate.

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5 The IMSB is independent from both 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.
9.4 Relationships with Other Stakeholders

Stakeholder and community engagement is crucial to the success of Watercare’s projects and work programmes. The company has an excellent record of public communication and consultation with large programmes of work such as Project Manukau, Project Hobson, the Puketutu Island Biosolids Rehabilitation Project and the Hunua No. 4 Watermain Project.

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 may also contribute to the development of relevant national policy such as the National Infrastructure Plan and a National Policy Statement for Freshwater Management.

The relationship and cooperation with other CCOs is also important, particularly Auckland Transport to minimise disruption to local communities. A recent example of cooperation was the joint road works and pipe laying as part of the Manukau Harbour crossing section of the Hunua No. 4 watermain thereby minimising 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.

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.

Engagement with 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, youth advisory panel and the social policy forum. 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 advisory panels on issues of particular interest.

10.0 ACCOUNTABILITY AND REPORTING TO THE AUCKLAND COUNCIL

10.1 Statement of Corporate Intent

The Draft SCI will be provided to the Auckland Council on or before 1 March each year and the final SCI by 30 June each year within the timeframes required by the Local Government (Auckland Transitional Provisions) Act 2010.

10.2 Asset Management Plan (AMP)

The requirement for Watercare to produce an AMP is contained in section 18(e) of the Local Government (Auckland Transitional Provisions) Act 2010, which will apply until 30 June 2012 (after which time Watercare will become a CCO and be subject to the requirements in Part 5 of the Local Government Act 2002).

Watercare must, at least four months before the end of each financial year, prepare and supply to the Auckland Council an indicative AMP for the next financial year that describes the projected condition of its significant assets at the commencement of that year and outlines the rationale for and nature, extent, and estimated costs of its proposed activities in respect of:

- The maintenance and repair of existing assets;
- The renewal of existing assets;
- The upgrading or extension of the performance or capacity of existing assets; and
- The acquisition and construction of new assets.

The AMP will include an assessment of the costs and benefits of significant proposed projects and their alternatives, including the impact of demand
management and efficient pricing, and the commercial and operational risks of not proceeding with the project, deferring it or bringing it forward.

Section 18(g) of the Local Government (Auckland Transitional Provisions) Act 2010 also provides that in preparing its draft SCI, Watercare must consider any written submissions made by the Auckland Council on the AMP. Watercare must also include in the draft SCI, a summary of its proposals for the matters dealt with in the Asset Management Plan.

10.3 Funding Plan

Watercare is required to produce a Funding Plan under section 18(f) of the Local Government (Auckland Transitional Provisions) Act 2010, which will apply until 30 June 2012 after which time Watercare will become a CCO and be subject to the requirements in Part 5 of the Local Government Act 2002. In accordance with the legislation Watercare will prepare and supply to the Auckland Council a Funding Plan at least four months before the end of each financial year after undertaking a comparative assessment of different funding options. The indicative funding plan for the next financial year will identify the nature and scope of the activities proposed to be undertaken (including, but not limited to, operational requirements, renewals, and significant new projects) and planned funding requirements and funding sources, showing:

(i) how the prices and charges proposed in the plan have been calculated;
(ii) a summary of the results of the comparative assessment of different funding options;
(iii) an appropriate debt to equity ratio; and
(iv) how any surplus from the previous financial year is proposed to be applied, or any deficit from the previous financial year is proposed to be managed.

Watercare must also consider any written submissions made by the Auckland Council on the Funding Plan. Watercare must also include in the draft SCI, a summary of its proposals for the matters dealt with in the Funding Plan.

Watercare will also consult with Auckland Council about the price of water and wastewater within the Council’s timeline for the draft 2012/2022 Long Term Plan.

10.4 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 of which have now passed to Auckland Council under the Local Government (Tamaki Makaurau Reorganisation) Act 2009. The guarantee allows Watercare to utilise Auckland Council’s stronger credit rating to raise a larger quantum of debt funding at lower interest rates and therefore deliver lower price increases than otherwise would have been possible.

Watercare will, as part of its treasury function, work with the Auckland Council to ensure that where appropriate the guarantee facility is fully utilised to ensure the costs to customers (collectively) are minimised.

10.5 Management Reports

Management reports will be provided within one month of the end of the September and March quarters and within two months of the end of the December and June quarters, 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.
• A commentary upon significant matters that occurred in the previous quarter including comments on financial results and significant matters expected in the next quarter.
• 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.
• Reasons for and impacts of variance from the capital expenditure programme which was identified in the Asset Management Plan.
• A commentary on customer service performance.
• A commentary on significant capital projects in progress.
• A commentary on material changes, if any, in capital expenditure from that reported in the AMP.
• A report on the achievement of the SCI performance targets.
• Any reasonable request for information.

The statutory obligations to provide shareholders with a half-year and a full year report on operations under Section 22 of the Local Government (Auckland Transitional Provisions) Act 2010 will be met by the management reports for the December and June quarters respectively.

10.6 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 within three months of the end of the financial year in accordance with the Local Government (Auckland Transitional Provisions) Act 2010 and will meet the reporting requirements of the Companies Act and the Financial Reporting Act. The annual report will also comply with New Zealand international financial reporting standards and will include any other information the directors consider appropriate.

10.7 Meetings with the Auckland Council

Watercare will meet with the Auckland Council governing body or relevant council committee to formally present its quarterly reports which will include the six month and full year report.

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.

10.8 Confidentiality

Watercare is committed to transparent and open reporting. However, due to the commercial nature of the company business which includes commercial negotiations, contracts and tenders there may be 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 Auckland Council informed consistent with the no-surprises approach.

When sharing confidential information with Auckland Council 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.
11.0 OTHER INFORMATION

11.1 Shareholder Funds

<table>
<thead>
<tr>
<th></th>
<th>2010/11</th>
<th>2011/12</th>
<th>2012/13</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consolidated Shareholder Funds to</td>
<td>72%</td>
<td>71%</td>
<td>70%</td>
</tr>
<tr>
<td>Total Assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consolidated Shareholder Funds to</td>
<td>55%</td>
<td>53%</td>
<td>52%</td>
</tr>
<tr>
<td>Total Assets (historic cost)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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.
3. The ratio of Consolidated Shareholder Funds excluding the revaluation reserve to Total Assets less the revaluation reserve is referred to as the historic cost basis.

11.2 Accounting Policies

Watercare’s financial statements are prepared in accordance with the New Zealand International Financial Reporting Standards.

11.3 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 developed a Pricing Adjustment Mechanism that allows for prices to customers to be reduced in circumstances where in aggregate, the company’s performance in the year is significantly better than anticipated. The pricing adjustment in these exceptional circumstances will be made in the year it occurs.

11.4 Procedures for the Acquisition of Shares

The Directors of Watercare will consider any share investment proposals.
Any decision to invest in or divest shares in another company or to enter into a joint venture relationship or participation arrangement through equity or operating agreements will be made by the Directors in accordance with Watercare’s constitution. The shareholder will be consulted in the event that an investment or divestment of this nature will create a significant increase in risk exposure or would be likely to excite public interest.

11.5 Events Requiring Shareholder Approval

Shareholder approval will be obtained prior to Watercare entering any business activity that significantly changes 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.
It is also noted that from 1 July 2012, Watercare as a CCO, will need to comply with the Substantive CCO Accountability Policy which sets out the Council’s expectations of how substantive CCOs will contribute to its objectives, planning and reporting obligations and management of strategic assets.
It is recognised that the following factors should be considered when identifying the decisions for which prior consultation with the Council is required:

- Decisions potentially having a moderate adverse effect on a large number of residents and ratepayers;
- Decisions potentially having a large adverse effect on a small number of residents and ratepayers;
- Decisions which have a history of generating wide public interest;
- Decisions which affect Watercare’s ability to deliver on the current and future social, economic and cultural wellbeing of the region;
- Decisions which will affect Watercare’s ability to meet any statutory responsibility;
- Decisions which will impact on any intended service levels for a CO activity (except if the impact is minor or has been agreed to by the Council through the SCI process); and
- Decisions which will commit the Council to future provision of funding which has not been agreed.

11.6 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.

11.7 Infrastructure Growth Charges for Customers who Generate Additional Demand for Water and Wastewater Infrastructure

Requirements for Watercare charging infrastructure growth charges include the following principles:

a. The distribution of benefits between the community as a whole, any identifiable part of the community, and individuals; and

b. The extent to which actions or inaction of particular groups or individuals contribute to the need to undertake the activity.

Watercare will not require an infrastructure growth charge where the Auckland Council (and its predecessor Councils) has already received a development contribution for provision of infrastructure, nor where a financial contribution has been levied as a condition of any resource consent for the same purpose.

11.8 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 prohibits Watercare from being privatised. Legislative restrictions also prevent the Auckland Council from selling their shares and prevent Watercare from paying dividends to the council.

The book value of the shareholders’ investment at the time of integration, 1 November 2010, was $5.23 billion, which includes a capital contribution reserve of $3.8 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.
11.9 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.6

11.10 Auckland Council Feedback on the Asset Management Plan and Funding Plan

Under the Local Government (Auckland Transitional Provisions) Act 2010, Watercare is required to consider any written submissions made by the Shareholder on the AMP and the Funding Plan within 40 working days of receipt.

Watercare’s AMP and Funding Plan were received by the Auckland Council at the CCO Strategy and Review Sub-Committee meeting on 21 April 2011. Council staff comments and Watercare management responses were also included. Feedback was received on 28 April 2011 and there were no specific recommendations from the Committee.

Key matters raised, including a response from Watercare, are provided below. Where relevant, this information will be considered in the preparation of planning documents for 2012/13.

ASSET MANAGEMENT PLAN FEEDBACK

<table>
<thead>
<tr>
<th>No.</th>
<th>Council Comment</th>
<th>Watercare Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>After the requirement to produce an AMP for Auckland Council completes in 30 June 2012, Watercare will need to form a new process with Council to ensure that the Watercare AMP can be shown to give effect to the Auckland Plan, as per the Letter of Expectation of February 2011.</td>
<td>While the statutory requirement for providing an AMP will finish, Watercare will continue to work cooperatively with relevant Council Departments to ensure that the Watercare AMP can give effect to the Auckland Plan.</td>
</tr>
<tr>
<td>2</td>
<td>Once a draft of the Auckland Plan is provided, Council would appreciate a discussion about growth priority for both water and wastewater in existing service areas against growth areas.</td>
<td>Watercare will continue to work with the Council to achieve relevant goals for growth within the Auckland Plan.</td>
</tr>
<tr>
<td>3</td>
<td>Commentary on how network amalgamation has affected this AMP and how it will affect it in future would be helpful.</td>
<td>Noted.</td>
</tr>
<tr>
<td>4</td>
<td>What steps are Watercare taking to ensure that Capex spend is more accurate, appreciating that this is a common problem across New Zealand public utilities.</td>
<td>The capital expenditure forecasts within the Asset Management Plan are Watercare’s best professional estimate of the out-turn costs to plan, consent, design, construct and commission infrastructure projects. These estimates are based on the initial scope of the project (concept solution) and generic unit rate costs that may apply. For each project, the forecasts are expressed as a series of annual expenditures indicating when a project is anticipated to start and finish. The degree of precision for annual expenditure forecasts varies depending on the stage of the project’s</td>
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6 Note: From 1 July 2012 the process for disposal of assets will be affected by the Accountability Policy for Council-Controlled Organisations.
development lifecycle. As we gather more information by undertaking detailed investigations of solution options, the scope and cost estimates become more refined.

To ensure that the Capital forecasts are as accurate as possible, Watercare undertakes project investigations as early as practicable in order to gain the necessary knowledge to feed into the AMP planning process. Investigations may be staged, in which case knowledge is gained in stages and forecasts are revised as information becomes available.

5 The AMP will assist Auckland Council greatly if it included a map with all major works listed. The spatial integration of Puketutu upgrade into a park and surrounding biodiversity corridor is a useful illustration.

High level maps of water and wastewater projects across the Auckland Region have been provided to Council and will be considered in the next AMP.

6 Auckland Council would appreciate opportunities to enhance urban design and landscape design outcomes, as outlined in the LOE of February 2011 seeking agreement to an urban design process for relevant capital works.

Noted.

7 Watercare should state if there are further upgrades planned to this supply beyond 2013. A graph of the price per litre per supply option would be helpful e.g. dam and other storage options priced against Waikato supply extensions.

This work was first raised in the 2009 AMP. A full presentation on options for the future water supply for Auckland will be presented to Council.

8 Seeking minor town centre or landscaping improvements in coordination with Auckland Transport upgrades will ensure maximised positive impact from these investments.

Opportunities for collaboration with Auckland Transport continue to be sought to minimise public disruption and achieve good public outcomes.

9 It would be particularly helpful to map programmes for visual identification, by local board area.

Noted.

FUNDING PLAN FEEDBACK

<table>
<thead>
<tr>
<th>No.</th>
<th>Council Comment</th>
<th>Watercare Response</th>
</tr>
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<tbody>
<tr>
<td>10</td>
<td>A summary explanation of how Watercare came to the $1.13 price would be appreciated.</td>
<td>When tasked with deriving a single price for water in the Metropolitan area to apply from 1 July 2011, a goal was established to match or better any of the existing 2010/11 water prices within the area. The price of $1.13 achieved that goal. Cost and revenue modelling was undertaken that anticipated the 2011/12 financials of the new integrated Watercare based on best estimates at that time. Revenue targets for water, wastewater, trade waste and infrastructure growth charges were set</td>
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at levels that, whilst not fully covering costs including depreciation, were considered to be prudent. The water revenue requirement divided by expected water volumes supported the price of $1.13.

<p>| 11 | An explanation for partial debt funding of depreciation rather than 100% would be appreciated. | Funding of depreciation needs to be considered in the context of a range of financial parameters including product pricing, FFO ratio, gearing, capital expenditure projections and accounting gains and losses. The balancing of these parameters should drive any outcome with regard to fully funding depreciation rather than a blanket requirement to fully fund depreciation. Instead of viewing the unfunded portion of depreciation as being debt funded, a more appropriate view is to give consideration to the portion of new capex being funded by debt. |
| 12 | Watercare should explain whether there is a program for all of Auckland to be subject onto volumetric wastewater charges? | There is no assumption yet that wastewater charges will all be volumetric. Work to date has been to determine the pricing strategy for wastewater for 2011/12 (i.e. current wastewater methodologies plus 4.5%). Work on 2012/13 wastewater pricing options will commence in April 2011. |
| 13 | Watercare should explain whether it will continue to make 2.5 a target or is the target always greater than 2.5? A fuller explanation would be appreciated. | The level of 2.5 is considered a minimum. The level planned for is a consequence of balancing a number of elements including primarily, acceptable levels of price increase, accounting loss and gearing. |
| 14 | Watercare should comment on the impact amalgamation has had on gearing since 1 November 2010? | Watercare’s gearing as at 31 October 2010 was 26.7% and following the amalgamation, using current best estimates of asset transfer values, gearing was 18.8%. |
| 15 | Watercare should provide more detail on what effect this will have on the Watercare FFO. | Revenue reductions will decrease the FFO ratio while revenue increases will increase the FFO ratio. An extra $10m of revenue increase FFO from 2.92 to 3.05. A $10m reduction of revenue decreases FFO from 2.97 to 2.80. A 5% increase in water price increases FFO from 2.92 to 3.01. A 5% decrease in water price decreases FFO from 2.92 to 2.84. No increase in the wastewater price, compared with the planned 4.5% increase, would reduce FFO from 2.92 to 2.79. |
| 16 | Council would appreciate discussions as early as possible re the wastewater tariff consultation scheduled for August | Acknowledged. |</p>
<table>
<thead>
<tr>
<th></th>
<th>17 Watercare should comment on what percentage of Watercare assets have depreciation funded by debt rather than income (other than Papakura), and what is the rationale for this?</th>
<th>In terms of new capex, 22% is planned to be funded by debt in 2011/12. In terms of depreciation on existing assets, 8% of the annual depreciation is unfunded which could be interpreted as being the share of assets having depreciation funded by debt. Again, the rationale reflects a balance of the key drivers, price increase, FFO ratio, gearing and accounting losses.</th>
</tr>
</thead>
<tbody>
<tr>
<td>18 Watercare should comment on whether 7% remains the best rate possible, with the Council debt guarantee.</td>
<td>Yes, the interest rate assumption is reasonably certain given that 88% of the 2011/12 debt cost is fixed rather than floating.</td>
<td></td>
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</table>
| 19 Council appreciates that the price of water was set by 1 November 2010 so there were effectively no options to calculate. Since that time full integration has occurred and Council would appreciate a fuller explanation of:  
(i) how the prices and charges proposed in the plan have been calculated  
(ii) a summary of the results of the comparative assessment of different funding options  
(iii) an appropriate debt to equity ratio  
(iv) how any surplus from the previous financial year is proposed to be applied, or any deficit from the previous financial year is proposed to be managed | (i) Prices and charges proposed have been based on the revenue requirement that satisfies the FFO ratio, gearing and accounting loss parameters considered by the Board of Watercare to be prudent and appropriate.  
(ii) Four alternative pricing scenarios and resultant key outcomes are detailed in the Appendix of the Funding Plan.  
(iii) The gearing ratio in the proposed Funding Plan is set at 19.4% - Refer Section 8.2 of the Funding Plan.  
(iv) The surplus from the 2009/10 financial year has been applied to reduce debt – Refer Section 8.3 of the Funding Plan. |