

Watercare Services Limited

Quarterly Report

Quarter ended 30 September 2015

CCO Governance and Monitoring Committee

Table of Contents

• Executive Summary.....	3
• Strategic issues and focus areas.....	4
• Highlights for the last quarter.....	4
• Future outlook.....	5
• Infrastructure Project Updates.....	5
• Financial Performance.....	7
• Performance measures	9
• Contribution to Māori outcomes.....	12
• Key Local Board issues	13
• Risk Management.....	13
• Disclosures	14

• Executive Summary

Year to date revenue was \$137m, \$8m favourable to budget primarily due to favourable vested asset income and IGC revenue. Water and wastewater revenue is \$1.4m favourable to budget with year to date water volumes 0.73% above budget.

Operating expenses were \$68m, \$5m favourable to budget with favourable variances for professional services, labour and other operating costs and overheads. Interest expense was \$0.7m favourable to budget largely due to lower debt than budgeted.

Metropolitan lake storage levels reached 85% at the end of September. This was below the average storage for the end of September (89.4%). At the time of writing, metropolitan lake storage levels had reduced to 82%. For October – December 2015, temperatures are most likely to be near or below average, with rainfall most likely to be near or below normal. The storage levels are below average due to the lower than normal rainfall in the Hunua catchments. The Waikato River water source has been utilised extensively to allow lake levels to remain high in anticipation of a drier summer.

Performance against Statement of Intent (SOI) key performance indicators was good through the first quarter. There have been no lost time injuries during the first quarter and the rolling 12 month averaging is expected to fall within target in the coming months.

Watercare continues to meet and work closely with Local Boards, community groups and associations to provide project updates and notifications regarding significant operational activity and approvals for works in local parks that require Local Board approval.

There have been no substantial changes to the risks to Watercare operations. The Internal Audit function produces an annual plan which is approved by Watercare's Audit and Risk Committee and there is quarterly reporting by management against the plan for the Committee. The Audit and Risk Committee maintains oversight of progress by management in implementing the recommendations arising from Internal Audit's work. The Committee is satisfied that all matters raised are being addressed by management.

The Watercare Executive Management Team regularly gives consideration as to the possibility of events that would trigger a requirement for continuous disclosure. There were no such events during the reporting period.

Strategic issues and focus areas

Lake levels: Metropolitan lake storage levels reached 85% at the end of September. This was below the average storage for the end of September (89.4%). At the time of writing, metropolitan lake storage levels had reduced to 82%. For October – December 2015, temperatures are most likely to be near or below average, with rainfall most likely to be near or below normal. While lake levels are below average for this time of year, Watercare remains in a good position for the summer of 2016. Appropriate consumer information on wise use of water and demand management will be published over the summer months.

Waiuku Arsenic Levels: Levels of arsenic were detected in one of Waiuku's three water sources. The levels detected were at slightly above the 50% of the Drinking Water Standards for New Zealand (DWSNZ) Maximum Acceptable Value (MAV) of 0.01mg/L. This resulted in the Medical Officer of Health assigning Arsenic as a Priority 2 Determinand for that source. This requires an increase in monitoring frequency, from annual to monthly.

The origin of the arsenic is from weathering of sub-surface rocks into the groundwater, and there are a number of water supplies in New Zealand that have this assigned as a P2 Determinand. At the current levels detected, this does not create a risk of non-compliance with DWSNZ or pose a health issue to the customers.

Arsenic can be removed by the addition of a coagulant to form a solid and then removal removed through filtering. The current programme is to have a pilot plant operating before Christmas, and this is likely to reduce the level of Arsenic in the treated water to below 50% of the MAV.

1080 application in the Hunua Ranges: The Cosseys and Mangatangi dams were isolated from supply to progress the final stage of Auckland Council's application of 1080 in the Hunua Ranges Regional Park. Toxic bait was applied within these catchments. All water quality tests post application confirmed that 1080 was not present in the water. The Medical Officer of Health approved the return of these dams to service, which was undertaken on 21 September 2015, which brought the operation to a close.

This enabled the security measures that were implemented at major water treatment plants and service reservoirs over the course of the operation to be returned to normal.

Highlights for the last quarter

Public Health Grading of Water Supplies: Auckland Regional Public Health Services completed grading of all water treatment plants and water distributions networks. All Water Treatment Plants achieved an 'A' grade and all water distributions networks achieved an 'a' grade. This means that the Statement of Intent measure to have 100% of the water system graded 'Aa' has been achieved 5 years before the target of 2020.

Lower Huia Raw Watermain Reinstatement: A temporary pipeline across the slip site at Huia Dam Road has been installed. This allows abstraction of up to 30MLD and ensures that the water from the lake can be now used.

Works on the permanent solution, including the installation of the bridge and pipeline is on programme to be completed by August 2016.

Future outlook

Water and Wastewater Treatment Plant Tours: Public tours of Ardmore Water Treatment Plant and Rosedale Wastewater Treatment Plant are planned for early November.

Customer Feedback Programme: During Q2 Watercare will be launching a direct customer feedback service. This 'voice of the customer' programme will provide customers with the opportunity to submit timely feedback about their interactions with Watercare and will provide insights

• Infrastructure Project Updates

North Harbour 2 Watermain and Northern Interceptor consents: Watercare has lodged parallel resource consent applications for the following project sections:

- Greenhithe Bridge Watermain Duplication and Causeway; and
- Northern Interceptor, Stage 1 (wastewater).

The applications include a substantial reclamation of land in the Coastal Marine Area resulting in the need for public notification. The consents have been lodged and to date, have received minimal feedback. Watercare will continue with consultation with known affected parties up until the date of an anticipated public hearing late in 2015.

Hunua 4 Watermain: Watercare continues to work with stakeholders and affected parties to minimise the disruption caused by the Hunua 4 watermain project. Section 10 of the project

commences in November. This section of the project will see open trenching along streets on the eastern side of Cornwall Park. Additionally, during December there will be a partial closure of Greenlane Road.

• Financial Performance

\$'m	FY16 Q1 Actual	FY16 Q1 Budget	Variance
Operational			
Revenue	137	129	8
AC funding	-	-	-
Expenditure excluding depreciation	68	73	5
Depreciation	52	54	2
Capital Expenditure	65	94	29
Net borrowings - AC	1,062	1,087	25
Net borrowings - External	479	478	(1)

*RAG Status:

- Green - Performance on target or better
- Amber - Target may not be met, corrective action taken
- Red - Target may not be met, action required

Revenue

Year to date revenue was \$137m, \$8m favourable to budget primarily due to favourable vested asset income and IGC revenue. Water and wastewater revenue is \$1.4m favourable to budget with year to date water volumes 0.73% above budget.

Expenditure

Operating expenses were \$68m, \$5m favourable to budget with favourable variances for professional services, labour and other operating costs and overheads. Interest expense was \$0.7m favourable to budget largely due to lower debt than budgeted.

Depreciation

Depreciation was \$1.5m favourable to budget.

Capital expenditure

Capital expenditure was under budget by \$29m due primarily to delays in the original planned commencement dates of several projects.

Borrowings

Overall net borrowings were \$24m below budget largely due to lower capital expenditure.

Water Utility Consumer Assistance Trust (WUCAT)

The following tables summarise the results of the Trust:

WUCAT Summary		
Financial year	Trust approved applications (includes WSL additional write offs)	\$000's
Jun-12	33	\$ 29
Jun-13	172	\$ 196
Jun-14	123	\$ 114
(YTD) Jun-15	184	\$ 172
Total	512	\$ 510

WUCAT Summary last 3 meetings		
Month	Trust approved applications	\$000's
Jul-15	13	\$ 7.93
Aug-15	12	\$ 7.76
Sep-15	9	\$ 7.18
Total	34	\$ 23

512 applicants have successfully completed the budget advisor review process and these applicants have had \$510k of hardship relief approved by the Trust. This has resulted in \$418k being written-off as payment plans have been completed. For various reasons, 39 applicants did not fully complete their agreed payment plans. These applicants have foregone \$38k of approved hardship relief. A further 35 applicants continue with their payment arrangements, with a further \$54k of approved hardship write-offs to be granted once they successfully complete their plan.

The results of the last 3 WUCAT meetings have seen 34 applicants successfully complete the budget process and have \$23k of hardship relief approved by the Trust.

Restrictions

The status of water restrictions at 30 September 2015 is summarised below:

	Commercial	Residential	Total
Restricted since 1 Nov 2010	64	90	154
Derestricted since 1 Nov 2010	-61	-62	-123
Restrictions in place	3	32	35

Performance measures

Key performance measures

	2015/16 Target	Jul-15	Aug-15	Sep-15
Safe and Reliable Water				
The extent to which the local authority's drinking water supply complies with part 4 of the drinking-water standards (bacteria compliance criteria)	100%	100%	100%	100%
The extent to which the local authority's drinking water supply complies with part 5 of the drinking-water standards (protozoal compliance criteria)	100%	100%	100%	100%
Average number of wet weather overflows per discharge location	≤ 2 overflows per year per engineered overflow point	Projected	Projected	Projected
The number of dry weather overflows from the territorial authority's sewerage system, expressed per 1000 sewerage connections to that sewerage system	≤ 10	0.03	0.03	0.04
Compliance with the territorial authority's resource consents for discharge from its sewerage system measured by the number of: a) abatement notices b) infringement notices c) enforcement orders d) convictions received by the territorial authority in relation to those resource consents	a) ≤ 2 b) ≤ 2 c) ≤ 2 d) ≤ 2	0	0	0
Median response time for attendance for urgent call-outs: from the time that the local authority receives notification to the time that service personnel reach the site.	≤ 60 mins	33 mins	34 mins	35 mins
Median response time for resolution of urgent calls-outs: from the time that the local authority receives notification to the time that service personnel confirm resolution of the fault or interruption	≤ 5 hours	1.5 hours	1.5 hours	1.6 hours
Median response time for attendance for non-urgent call-outs: from the time that the local authority receives notification to the time that service personnel reach the site	≤ 3 days	1.2 days	1.2 days	1.3 days
Median response time for resolution of non-urgent call-outs: from the time that the local authority receives notification to the time that service personnel confirm resolution of the fault or interruption	≤ 6 days	2.2 days	2.3 days	2.7 days

Percentage of customers surveyed satisfied with Watercare's delivery of water and wastewater services	≥80%	84.6%	87.0%	86.0%
The total number of complaints received by the local authority about any of the following: a) drinking water clarity b) drinking water taste c) drinking water odour d) drinking water pressure or flow e) continuity of supply f) the local authority's response to any of these issues expressed per 1000 connections to the local authority's networked reticulation system	≤ 10	7	7	6.9
Attendance at sewerage overflows resulting from blockages or other faults: median response time for attendance - from the time that the territorial authority receives notification to the time that service personnel reach the site	≤ 60 mins	40 mins	40 mins	41 mins
Attendance at sewerage overflows resulting from blockages or other faults: median response time for resolution - from the time that the territorial authority receives notification to the time that service personnel confirm resolution of the blockage or other fault	≤ 5 hours	2.3 hours	2.3 hours	2.3 hours
The total number of complaints received by the territorial authority about any of the following: a) sewerage odour b) sewerage system faults c) sewerage system blockages d) the territorial authority's response to issues with its sewerage system expressed per 1000 connections to the territorial authority's sewerage system	≤ 50	20.7	20.7	20.7
Percentage of complaints being 'closed and resolved' within 10 working days (12 mth rolling average)	≥95%	98.3%	98.9%	98.2%
Percentage attendance at the quarterly meetings of the Mana Whenua Kaitiaki Forum	100%	100%	100%	100%
Lost-time injury frequency rate per million hours worked (12 month rolling average)	≤5	6.4	5.8	5.23
Percentage of voluntary leavers relative to number of permanent staff (12 mth rolling average)	≤12%	11.16%	10.86%	11.45%
Total recordable injury frequency rate per million hours worked (12 month rolling average)	<30	18.65	19.13	16.86
Minimum funds flow from operations to interest cover (FFO) before any price adjustment	≥2.5	3.69	3.51	3.62
Percentage of household expenditure on water supply services relative to the average household income	≤1.5%	0.87%	0.87%	0.87%

The average consumption of drinking water per day per resident (gross PCC) (12 month rolling average)	272 + / - 2.5%	271	271	271
The percentage of real water loss from the local authority's networked reticulation system (rolling 12 mth average)	≤13%	12.89%	13.00%	13.10%

Contribution to Māori outcomes

Watercare implements its programme for Maori outcomes through the Mana Whenua Kaitiaki Forum and relationship processes established with individual Iwi. Twelve Mana Whenua entities have signed the Mana Whenua Kaitiaki Forum Relationship Agreement. Some Mana Whenua entities that have not signed the Relationship Agreement have also attended meetings as signing the Relationship Agreement is not a prerequisite for attending. Watercare engages with all Mana Whenua entities individually as well as through the Forum, in some cases on a regularly scheduled basis and in other cases, as need arises. The most recent meeting of the Mana Whenua Kaitiaki Forum was held on 8 October 2015.

Initiative - Water Supply and Wastewater	How it contributes to Māori outcomes	Progress	Q1 Spend
<p>Mana Whenua Kaitiaki Forum</p> <p>Māori knowledge and world views are respected and its validity and value acknowledged</p>	<p>M03 Rangatiratanga – self determination</p> <p>Mo4 Te Tiriti o Waitangi – the Treaty of Waitangi</p> <p>M05 Mana tangata/oritetanga – equal opportunity and citizenship</p>	<p>The Mana Whenua Kaitiaki Forum (MWKF) met on 9 July 2015. The main items on the agenda were:</p> <ol style="list-style-type: none"> 1. Updates on Waikato River Projects 2. Wai Ora Wai Maori 3. Further development of the MWKF 4. Watercare wastewater network strategy 5. Mangere Wastewater Treatment Plant 	\$27.5k
<p>Iwi Engagement on Watercare Projects</p> <p>Robust engagement framework for Iwi Authority resource management staff to be actively involved in the planning and operational performance of water and wastewater infrastructure</p>	<p>M07 Matauranga Māori – Māori knowledge and wisdom</p>	<p>A schedule of Watercare's projects is sent to the 19 Mana Whenua entities of Auckland for them to identify their interest in being involved at an early stage in the planning process.</p> <p>There are currently about 90 projects on the schedule and Mana Whenua entities are involved in most of them.</p> <p>This includes technical / specialist advice as part of operations and infrastructure projects.</p>	\$221k

- **Key Local Board issues**

Watercare attended a public meeting at Taipari Strand in Te Atatu along with representatives of the Henderson Massey Local Board. A follow up workshop was held with the local board to discuss Watercare's response to growth pressures.

Local Board representatives along the Central Interceptor route affected by drop shafts in local parks were invited to inspect a working model at the new Fluid Dynamics Laboratory of Auckland University Engineering School. Several members have taken up the offer.

Watercare also joined Otara Local Board member Steven Grey at the Placemaking Otara Waterways Project Steering Group meeting and will present to the next steering group on works planned for this area.

Local Board workshop briefings were held with the Hibiscus and Bays, Mangere Otahuhu, Otara and Waitakere Ranges Local Boards on a number of Watercare projects.

Auckland Transport, Parks and Watercare also joined the Waitemata Local Board for a workshop on the proposal to place a wastewater pipe along the eastern edge of Victoria Park in the city to service further development in the Wynyard quarter. Watercare is due to present the proposal to a business meeting of the local board in November where a decision will be made on the granting of land owner approval. Landowner approval was also obtained from Franklin Local Board for works in Hill Road Reserve.

General information was provided to local board chairs and members in the interests of no surprises and in response to a range of question on issues including, growth, developer enquiries and project updates. Further details of interaction are provided in the attached tables.

- **Risk Management**

Watercare has an established risk management policy and framework which follows the guidance of the ISO 31000 risk management standard. Risks are therefore identified and evaluated using likelihood and consequence scores, and ranked. The highest ranked and significant emerging risks are reviewed by senior management and the Board via management and Board level reporting.

There have been no substantial changes to Watercare's risk in the past quarter. The Internal Audit function produces an annual plan which is approved by Watercare's Audit and Risk Committee and there is quarterly reporting by management against the plan for the Committee.

The Audit and Risk Committee maintains oversight of progress by management in implementing the recommendations arising from Internal Audit's work. The Committee is satisfied that all matters raised are being addressed by management.

- **Disclosures**

The Watercare Executive Management Team regularly gives consideration as to the possibility of events that would trigger a requirement for disclosure. There were no such events during the reporting period.