



**Watercare Services Limited**

**Quarterly Report**

**Quarter ended 31 December 2015**

**CCO Governance and Monitoring Committee**

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## Executive Summary

Year to date revenue was \$278m. The result is \$13.9m favourable to budget primarily due to vested asset income which was favourable by \$10.1m, water and wastewater revenue which was favourable by \$5.1m and partially offset by IGC revenue which was unfavourable by \$1.6m.

Increased pumping from the Waikato River has seen metropolitan lake storage levels remaining within the normal range for this time of year.

Performance against Statement of Intent (SOI) key performance indicators remained good through the second quarter.

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

**Water Management:** Despite forecasts for a dry summer, increased pumping from the Waikato River has seen metropolitan lake storage levels remain within the normal range for this time of year.

**Customer Focus:** Over the past quarter Watercare has implemented a number of customer-focused initiatives. A 'voice of the customer' programme now allows customers to provide real-time feedback regarding their interactions with Watercare. In addition, Watercare has introduced improved offerings for transactional interactions. This includes the introduction of Pushpay (payment channel), integration with Xero and development of a digital portal for solicitors.

**Inflow and Infiltration Programme:** Inflow and Infiltration (I&I) is the term used when stormwater enters the public wastewater network, either through defective or broken pipes, through surface runoff or from illegal stormwater connections. By reducing the level of I & I into the wastewater network, the number of wet weather overflows is also greatly reduced, ultimately producing a better environmental outcome as well as freeing up wastewater system capacity to cater for growth.

Watercare is working to identify properties that are contributing to the level of I&I, and then working with the home owner and Auckland Council to resolve the issues. Work has commenced in Papatoetoe, St Heliers and Clarks Beach.

## Highlights for the last quarter

**Water and Wastewater Treatment Plant Tours:** In November, around 170 Aucklanders enjoyed tours of either the Ardmore Water Treatment Plant or the Rosedale Wastewater Treatment Plant. These guided tours provided an opportunity for residents to see inside and understand more about the water and wastewater treatment facilities.

**Customer Feedback Programme:** During the last quarter Watercare launched a direct customer feedback service, 'voice of the customer'. The service provides customers with the opportunity to submit timely feedback about their interactions with Watercare and will serve to highlight improvement opportunities as well as reinforcing positive customer experiences.

### Wellsford Wastewater Treatment Plant Upgrade

The Wellsford Ultrafiltration (UF) plant produced its first batch of treated wastewater, as shown below. The UF plant will enable the plant to meet compliance in all parameters except for ammonia, and is part of the programme of works to achieve compliance with the resource consent conditions for the discharge. Further options to provide short-term improvements in ammonia levels are being investigated. The UF plant utilises the membranes originally from the Stage 1 Waikato Water Treatment Plant which had been used as an interim solution for the discoloured water at Pukekohe. Final commissioning works will be completed in January 2016.



**Wastewater at Wellsford, pre and post membrane filtration.**

## Future outlook

**Smart Meter Installation:** The deployment of smart meter devices in the Waiuku area will be largely complete by the end of the third quarter. The purpose of the smart meter trial is to test the business and customer benefits of smart metering. At the conclusion of the trial, the results and insights will be used to develop a smart metering strategy for Watercare.

**Energy Efficiency:** Watercare is amongst New Zealand's 50 largest electricity users, with an overall consumption of 167 gigawatt hours (GWh). Mangere and Rosedale wastewater treatment plants account for half of the electricity used by Watercare. Servicing a growing city has resulted in energy consumption increasing year on year. Watercare recognises this as an area for improvement and is focused on becoming an industry-leader in energy efficiency and reduction of greenhouse gas emissions. To this end a programme of work is now underway to achieve an energy saving of 8GWh (5% of 2014/15 overall energy consumption) across all Watercare sites within the next three years. Included in this is a drive towards achieving energy-neutral sites at Mangere and Rosedale Wastewater Treatment Plants. Achievement of energy-neutral operations at Mangere and Rosedale WWTP's would see a reduction in electricity consumption in the order of 37GWh within 10 years.

Watercare is partnering with the Energy Efficiency Conservation Authority (EECA) to reach these ambitious goals.

**Statement of Intent:** Work is underway on the development of Watercare's 2016-2019 Statement of Intent.

## Infrastructure Project Updates

**North Harbour 2 Watermain and Northern Interceptor:** The consents lodged by Watercare for the project sections for the Greenhithe Bridge Watermain Duplication and Causeway and the Northern Interceptor, Stage 1 (wastewater) have been granted.

**Hunua 4 Watermain:** Watercare continues to work with stakeholders and affected parties to minimise the disruption caused by the Hunua 4 Watermain Project. The trenching across Greenlane Road during late December 2015 and early January 2016 has been successfully completed two weeks ahead of schedule, resulting in a reduced timeframe of disruption to this main arterial road. The project is continuing with open trenching along the eastern side of Cornwall Park, then moving towards Market Road and Campbell Road.

**Mangere BNR:** This project has been awarded and is underway. Watercare is expanding the processing facilities at the Mangere Wastewater Treatment Plant by building an additional Biological Nutrient Removal (BNR) facility.

The project also includes the construction of a new road linking Ascot Road and Puketutu Island, and an embankment to the south of the new facility. The embankment and associated landscaping will enhance the appearance of the plant, minimise any impact the expansion will have on our neighbours, and provide a pathway between the Watercare Coastal Walkway and the Greenwood Road Park.

## Financial Performance

\$'m	FY16 Q2 Actual	FY16 Q2 Budget	Variance
<b>Operational</b>			
Revenue	278	264	14
AC funding	-	-	-
Expenditure excluding depreciation	138	145	7
Depreciation	107	108	1
Capital Expenditure	133	184	51
Net borrowings - AC	1,084	1,138	54
Net borrowings - External	465	463	(2)

\*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 \$278m. The result is \$13.9m favourable to budget primarily due to vested asset income which was favourable by \$10.1m, water and wastewater revenue which was favourable by \$5.1m and partially offset by IGC revenue which was unfavourable by \$1.6m.

### Expenditure

Operating expenses were \$138m, \$7m favourable to budget with favourable variances for asset operating costs, professional services and general overheads. Interest expense was \$1.2m favourable to budget largely due to lower debt than budgeted.

### Depreciation

Depreciation was \$1m favourable to budget.

### Capital expenditure

Capital expenditure was under budget by \$51m. A number of infrastructure programmes (scope and timing) are currently under review to ensure alignment with the requirements of the Unitary Plan and Special Housing Areas.

## Borrowings

Overall net borrowings were \$52m 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
Jun-15	150	\$	149
(YTD) Jun-16	57	\$	47
<b>Total</b>	<b>535</b>	<b>\$</b>	<b>534</b>

WUCAT Summary last 3 meetings			
Month	Trust approved applications		\$000's
Oct-15	12	\$	11.23
Nov-15	4	\$	7.10
Dec-15	7	\$	5.06
<b>Total</b>	<b>23</b>	<b>\$</b>	<b>23</b>

535 applicants have successfully completed the budget advisor review process and these applicants have had \$534k of hardship relief approved by the Trust. This has resulted in \$434k being written-off as payment plans have been completed. For various reasons, 44 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 \$62k of approved hardship write-offs to be granted once they successfully complete their plan.

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

## Restrictions

The status of water restrictions at 31 December 2015 is summarised below:

	Commercial	Residential	Total
Restricted since 1 Nov 2010	69	95	164
Derestricted since 1 Nov 2010	-65	-69	-134
<b>Restrictions in place</b>	<b>4</b>	<b>26</b>	<b>30</b>

## Performance measures

	2015/16 Target	Oct-15	Nov-15	Dec-15
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	Annual measure	Annual measure	Annual measure
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	0.05	0.05
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	35 mins	36 mins	37 mins
Median response time for resolution of 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	≤ 5 hours	1.6 hours	1.7 hours	1.8 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	1.8 days	1.9 days	2.1 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	2.9 days	3.0 days	3.1 days
Percentage of customers surveyed satisfied with Watercare's delivery of water and wastewater services	≥80%	85.3%	85.1%	85.0%
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	≤ 10	6.7	6.5	6.3



expressed per 1000 connections to the local authority's networked reticulation system				
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	41 mins	41 mins	42 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	2.4 hours	2.4 hours	2.4 hours
The total number of complaints received by the territorial authority about any of the following:a) sewerage odourb) sewerage system faultsc) sewerage system blockagesd) the territorial authority's response to issues with its sewerage systemexpressed per 1000 connections to the territorial authority's sewerage system	≤ 50	20.7	20.8	20.8
Percentage of complaints being 'closed and resolved' within 10 working days (12 mth rolling average)	≥95%	97.4%	97.4%	97.1%
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	4.63	3.55	3
Percentage of voluntary leavers relative to number of permanent staff (12 mth rolling average)	≤12%	11.28%	11.72%	12.30%
Total recordable injury frequency rate per million hours worked (12 month rolling average)	<30	16.80	17.05	15.53
Minimum funds flow from operations to interest cover (FFO) before any price adjustment	≥2.5	3.62	3.56	3.63
Percentage of household expenditure on water supply services relative to the average household income	≤1.5%	0.87%	0.88%	0.88%
The average consumption of drinking water per day per resident (gross PCC) (12 month rolling average)	272 + / - 2.5%	271	272	273
The percentage of real water loss from the local authority's networked reticulation system (rolling 12 mth average)	≤13%	13.04%	13.06%	13.40%

## 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 in November 2015.

Initiative - Water Supply and Wastewater	How it contributes to Māori outcomes	Progress	Q2 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/oritanga – equal opportunity and citizenship</p>	<p>The Kaitiaki Managers Group meeting was held on 12 November and the next Kaitiaki Forum meeting is scheduled for late January 2016</p>	<p>\$42.5k</p>
<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>	<p>\$350.9k</p>

## Key Local Board issues

Local Board workshop briefings were held with the Franklin and Albert Eden Local Boards on the South-West Wastewater Servicing project and updates to the Central Interceptor project respectively. Watercare also joined the Manukau Harbour Forum, Auckland Council and Mana Whenua for a joint meeting on sharing information about the Manukau Harbour. A new edition of Mangere matters was shared with the Local Boards around the harbour. Landowner approval is currently being sought from the Waitemata Local Board for placement of a pipeline in Victoria Park to service development in the Wynyard quarter.

Over December Watercare joined Auckland Council parks staff at a Waitemata Local Board business meeting where landowner approval was granted for wastewater works along the edge of Victoria Park enabling planned development of Wynyard quarter to continue. A business meeting of the Mangere Otahuhu Local Board was also attended where the naming of the access road to the Mangere Wastewater Treatment Plant and Puketutu Island was discussed. Watercare is to report back to the local board for a final decision in February.

Workshop briefings were held with Hibiscus and Bays and Upper Harbour Local Boards on Watercare’s education programme and the East Coast watermain project respectively. Watercare also attended the Kaipatiki Local Board Infrastructure committee workshop.

## **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.