



**Watercare Services Limited**

**Quarterly Report**

**Quarter ended 31 March 2016**

**CCO Governance and Monitoring Committee**

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## **Executive Summary**

Year to date revenue was \$422m. The result is \$20.1m favourable to budget primarily due to vested asset income which was favourable by \$16.5m and water & wastewater revenue which was favourable by \$3.8m.

Performance against Statement of Intent (SOI) key performance indicators remained good through the third 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

**Upper Nihotupu and Waitakere Raw Water Pipeline Tunnels:** The risks associated with the Upper Nihotupu and Waitakere Raw Water Pipeline Tunnels have been subject to numerous independent reports following the major rock fall in May 2013. Based on a number of independent reports into the hazards present in this area, it is evident that the Upper Nihotupu and Waitakere raw water pipeline tunnels and railway lines present an unsafe working environment for Watercare staff and its contractors. If access were to continue, Watercare may not be meeting its obligations under the Health and Safety at Work (General Risk and Work Place Management) Regulations 2016. A review of whether Watercare still require access to the tunnels has been completed. With the use of alternate technology Watercare can undertake an appropriate condition assessment, maintenance and renewal activities without the need to routinely enter the tunnels or use the railway lines. The Watercare Chief Executive has confirmed:

- The independent and expert reports confirm that the use of the railways are unsafe;
- Public access to the railway lines, tunnels and associated structures will not be permitted;
- Staff and other workers will not be permitted to access these sites;
- Remotely controlled gadgets such as drones and mobile CCTV units will be used to inspect raw water mains;
- Should there be damage to the raw water mains from rock fall or other causes, the raw water main will be isolated and a specific work methodology developed to enter the site to undertake repairs; and
- The access to the two railway lines and associated tunnels and structures will be closed by installing locked gates at each end and appropriate hazard warning signs placed.

**Biosolids Management:** A Biosolids Strategy framework is currently being developed. The strategy identifies short term initiatives involving both Puketutu Island and treatment plant optimisation, as well as opportunities to outsource landfill disposal where appropriate. This is the first step prior to long term advancements being made to the Mangere WWTP. The framework will drive toward key goals - to significantly reduce quantities of biosolids, better harness energy and nutrient recovery, the creation of other beneficial reuse end products, and to create a better product for working on Puketutu Island.

**Rainwater Tanks:** Rainwater tanks are a viable alternative water resources option used in cities around the world. Their effectiveness is a function of local climatic conditions, uptake rates, roof and tank size and demand characteristics. A regional assessment of their effectiveness within the context of the Auckland supply-demand balance was recently commissioned by Watercare for the purpose of comparing the potential benefits of the widespread implementation of rainwater tanks with other potential water resource schemes.

The study was focused solely on the water resources benefits of the wide scale implementation of domestic rainwater tanks in Auckland. Stormwater and other related benefits were not considered.

Importantly, this study considered the benefit of rainwater tanks at Watercare's two relevant Levels of Service, which drive the selection of water sources in Auckland:

1. The drought Level of Service, to meet the average demand for water during a drought with a severity of 1 in 100 years; and
2. The peak Level of Service, to meet demand during dry summers without applying restrictions more frequently than 1 in 20 years.

Recognising that different rainwater tank size and uses would occur, a number of variables were considered in the analysis. This included tank size, water use and the uptake rate for tanks. Scenarios of rates of uptake for new and existing properties were developed, which resulted in 23% to 66% of Auckland households having a rainwater tank installed by 2050.

Together these variables comprise the framework within which five scenarios were developed and modelled in GoldSim, a Monte Carlo based system model, using a 1000 year rainfall sequence, synthesised to model the available yield in Watercare's lake supply system.

From this modelling, the potential benefit of rainwater tanks was compared against the performance of the existing and future water resources. In a non-drought year, the available supply from rainwater tanks is reasonably high, ranging between approximately 33 ML/d and at best 133 ML/d. This performance occurs in most years as Auckland experiences relatively frequent rainfall so tanks, particularly large ones, will seldom be empty. When drought years are considered at the level of service, these values reduce significantly to between 4ML/d and 30 ML/d.

Similar analysis was carried out to consider rainwater tank performance at the peak level of service by modelling the 2013 summer period. The scenarios analysed showed that between 6 ML/d and 60 ML/d of the peak day demand (late January) could be met, with the potential to meet up to a maximum of 60 ML/d over a summer period.

The study showed that even with the wide scale implementation of large rainwater tanks throughout Auckland, they are estimated to supply up to 16% of the forecast demand at the drought level of service and 35% at peak, for a capital cost of over four times that of a source able to supply 100% of the forecast demand at both levels of service.

For businesses and households having the option to connect to mains water supply, installing a rainwater tank is a sustainability or lifestyle choice. Watercare supports customers in this choice by providing information and financial incentives to water efficiency through the volumetric charging of water and wastewater. However, because rainwater tanks cannot supplement water supply at peak times, they do not contribute to the city-wide security of supply and Watercare does not fund them nor consider them as a viable option for significant future water supply.

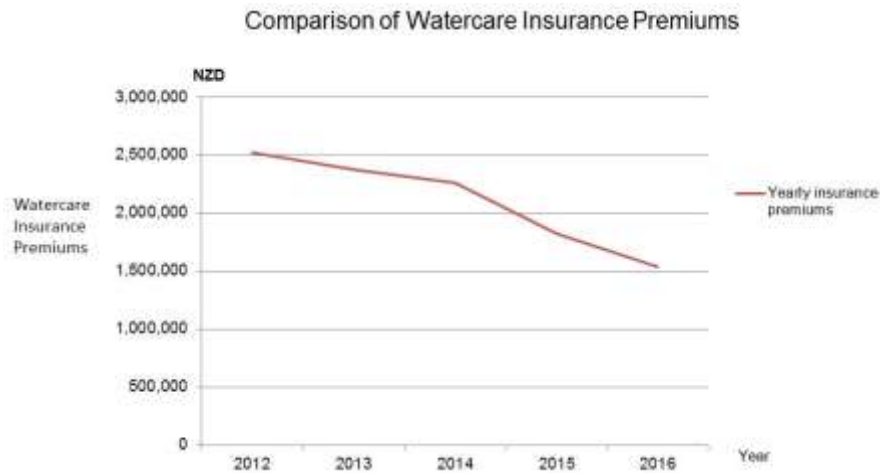
## Highlights for the last quarter

**Website Refresh:** The home page of Watercare's website has been refreshed to make it easier for customers to access 'top task' pages such as paying a bill, moving home and reporting a fault. The design reflects our move towards a more customer-centric website that places greater emphasis and priority on enabling customers to transact online.

**Round the Bays:** For the 23rd year in a row, Watercare staff volunteered their time to hand out thousands of cups of water at Round the Bays. This event continues to provide Watercare with a good opportunity to engage with the Auckland community.

**Watercare Insurance Renewal 2016:** Following a full market review of Watercare's key policies (Property and Liabilities) like for like gross premium savings of \$403,440 have been achieved compared to the 2015/2016 renewal, with enhanced cover and no additional risk. After the Supreme Court decision on fire service levies in May 2015, the cost has increased, however, despite this, net savings of \$286,930 have been achieved.

This is a continuing trend and below is a graph showing the savings profile for insurance premiums since the completion of the competitive broker tender in 2012.



## Future outlook

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

**Meter Management:** Water meters have increased potential to under-read as they age. In acknowledgement of this, Watercare has initiated a programme to proactively replace water meters as they age and before they fail.

It is programmed to replace approximately 8,000 meters before the end of the current financial year, with the programme accelerating to 20,000 meters per year in the 2016/17 financial year.

## Infrastructure Project Updates

**North Harbour 2 Watermain and Northern Interceptor:** Preliminary design is underway for the Greenhithe Bridge Causeway, inclusive of the North Harbour 2 Watermain crossing under the Greenhithe Bridge. Watercare continues to work with NZTA to ensure the most expedient and effective use of the motorway corridor.

**Hunua 4 Watermain:** Watercare continues to work with stakeholders and affected parties to minimise the disruption caused by the Hunua 4 Watermain Project. Recent works in Campbell Road have progressed smoothly with closure of one side of the road. Significant advertising aimed at informing motorists of the lane closure has successfully diverted a proportion of traffic from the construction area minimising the impact of the construction activities.

**Mangere BNR:** This project is progressing to schedule. 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 Q3 Actual	FY16 Q3 Budget	Variance
<b>Operational</b>			
Revenue	422	402	20
AC funding	-	-	-
Expenditure excluding depreciation	208	218	10
Depreciation and amortisation	161	163	2
Capital Expenditure	200	289	89
Net borrowings - AC	1,084	1,174	90
Net borrowings - External	461	460	(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 \$422m. The result is \$20.1m favourable to budget primarily due to vested asset income which was favourable by \$16.5m and water & wastewater revenue which was favourable by \$3.8m.

### Expenditure

Operating expenses were \$208m, \$10m favourable to budget with favourable variances for asset operating costs, professional services and general overheads. This was partially offset with higher maintenance costs. Interest expense was \$0.9m favourable to budget largely due to lower debt than budgeted.

### Depreciation

Depreciation and amortisation was \$2m favourable to budget.

### Capital expenditure

Capital expenditure was under budget by \$89m. 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 \$89m below budget largely due to lower capital expenditure.

**Water Utility Consumer Assistance Trust (WUCAT)** (Note: All figures supplied by WUCAT.)

The following table summarizes the results of the Trust since it started in 2011/12:

<b>WUCAT Summary</b>			
<b>Financial year</b>	<b>Trust approved applications (includes WSL additional write offs)</b>		<b>\$000's</b>
Jun-12	33	\$	29
Jun-13	172	\$	196
Jun-14	123	\$	114
Jun-15	150	\$	149
(YTD) Jun-16	84	\$	69
<b>Total</b>	<b>562</b>	<b>\$</b>	<b>556</b>

When the Trust approves hardship relief, it enters into an understanding with the customer as to how the customer will “earn” the relief. Often this might be that the customer agrees to pay their monthly bill for (say) six months, at the end of which all outstanding debt or arrears at the date the arrangement was entered into is agreed to be written off.

Most customers satisfy their obligation and the old debt is written off. Some customers, however, do not meet their obligations and therefore no write off occurs. At any point in time there will be a number of customers in the process of satisfying their side of the arrangement.

<b>Summary of WUCAT Arrangement Approvals</b>			
<b>No. of Arrangements Entered Into</b>	<b>No. of Arrangements Fully Satisfied</b>	<b>No. of Arrangements Still Being Met</b>	<b>No. of Arrangements Lapsed Unfulfilled</b>
562	435	55	72
<b>Amount of Relief Approved</b> \$	<b>Amount of Relief Fully Earned</b> \$	<b>Relief Yet to be Fully Earned</b> \$	<b>Relief Voided due to Lapsed Unfulfilled Arrangement</b> \$
\$556k	\$453k	\$57k	\$49k

The results of the last 3 WUCAT meetings have seen 27 applicants successfully complete the budget process and have \$22k of hardship relief approved by the Trust.

<b>WUCAT Summary last 3 meetings</b>			
<b>Month</b>	<b>Trust approved applications</b>		<b>\$000's</b>
Jan-16	0	\$	-
Feb-16	12	\$	10.98
Mar-16	15	\$	11.06
<b>Total</b>	<b>27</b>	<b>\$</b>	<b>22</b>



## Restrictions

The status of restrictions as at 31 March 2016 was as follows:

Restriction Summary Year-ending	Commercial		Residential		Total	
	Restriction	De-restriction	Restriction	De-restriction	Restriction	De-restriction
30-Jun-12	1		5		6	0
30-Jun-13	13	11	6	4	19	15
30-Jun-14	20	20	17	14	37	34
30-Jun-15	31	30	53	39	84	69
(YTD) 30-Jun-16	4	5	14	13	18	18
<b>Total</b>	<b>69</b>	<b>66</b>	<b>95</b>	<b>70</b>	<b>164</b>	<b>136</b>
<b>Restrictions currently</b>	<b>3</b>		<b>25</b>		<b>28</b>	

## Performance measures

Measure	2015/16 Target	Jan 2016	Feb 2016	Mar 2016
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	0.03	0.03
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	37 mins	39 mins	41 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	1.9 hours	2.1 hours	2.4 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	2.1 days	2.2 days	2.6 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	3.1 days	3.2 days	3.6 days
Percentage of customers surveyed satisfied with Watercare's delivery of water and wastewater services	≥80%	84.8%	84.7%	84.9%
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	6.0	5.8	5.7
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	42 mins	42 mins	44 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	2.5 hours	2.7 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	20.8	20.8	20.8
Percentage of complaints being 'closed and resolved' within 10 working days (12 mth rolling average)	≥95%	96.8%	97.0%	96.2%
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	3.03	3.06	3.73
Percentage of voluntary leavers relative to number of permanent staff (12 mth rolling average)	≤12%	12.01%	12.45%	11.92%
Total recordable injury frequency rate per million hours worked (12 month rolling average)	<30	15.73	15.90	18.02
Minimum funds flow from operations to interest cover (FFO) before any price adjustment	≥2.5	3.71	3.65	3.69
Percentage of household expenditure on water supply services relative to the average household income	≤1.5%	0.88%	0.88%	0.88%
The average consumption of drinking water per day per resident (gross PCC) (12 month rolling average)	272 + / - 2.5%	272	272	272

The percentage of real water loss from the local authority's networked reticulation system (rolling 12 mth average)	≤13%	13.10%	13.20%	12.99%
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## Contribution to Māori outcomes

Watercare continues to engage with Te Waka Angamua on the development of a Maori Responsiveness Plan (MRP). Watercare has worked extensively with Maori to identify ways to establish and improve:

- Our relationship at a governance level.
- Our relationship with iwi environmental managers across the 19 iwi entities of Auckland.
- The process we have in place for engaging with iwi on our resource consents
- Education and training of Watercare staff in Maori protocols and language
- Marae water and wastewater facilities - pilot project
- Maori economic development where relevant

The plan will incorporate the areas above as well as additional opportunities where Watercare can further improve Maori responsiveness.

Initiative - Water Supply and Wastewater	How it contributes to Māori outcomes	Progress	Q3 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>Forum continues to meet regularly</p>	<p>\$32.5k</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>\$81.1k</p>

## **Key Local Board issues**

During the quarter Local Boards were notified of pending works in their areas. This included the Hunua 4 watermain construction moving into Campbell Road and the start of work on the Fred Thomas Drive Pump Station.

Briefings were given to the Kaipatiki Local Board, the Tamaki Estuary Environment Forum and the Warkworth Community Liaison Group. A comprehensive project outline for the Glen Innes wastewater upgrades was sent to the Chairman of the Maungakiekie Tamaki Local Board in preparation for the land owner approval process. A letter was also sent to the Chairman of the Waiheke Local Board in response to questions raised on wastewater servicing for the island. Waitemata Local Board received information in response to questions on long-term wastewater servicing commitments, including the waterfront interceptor.

As part of the Warkworth Snells Algies wastewater servicing project, Rodney Local Board members joined Watercare staff for a visit of the treatment plants, including a boat trip to view the discharge locations. Local Board members also attended the public drop-in sessions to find out more about the options for future wastewater servicing.

Local Board members were also been invited to attend Watercare's tours of the Mangere wastewater treatment plant.

Project specific workshops on the Central Interceptor and the North Harbour No. 2 and Northern Interceptor Designations were also held with the Albert Eden and Henderson Massey Local Boards respectively. Watercare joined Auckland Council stormwater staff to provide information to the Maungakiekie Tamaki Local Board on works that will help improve the Omaru Creek Catchment.

## **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.