

WATERCARE SERVICES LIMITED

AGENDA | Board meeting | 1/4/2016

Venue	Watercare Services Limited, Rosedale Wastewater Treatment Plant
Time	11am

Open Public Meeting

Item	Spokesperson	Action sought at governance meeting	Supporting Material
1. Apologies	Chair	<ul style="list-style-type: none"> Record Apologies 	
2. Minutes of Meeting	Chair	<ul style="list-style-type: none"> Approve Board Meeting Minutes 3 February 2016 	Minutes 3 February 2016
3. Directors' Corporate Governance Items	Chair	<ul style="list-style-type: none"> Corporate Planner and Work Plan Review Disclosure of Interests (Directors & Executive Management) 	Corporate Planner and Work Plan Disclosure of Interests
4. Chief Executive's Report and Scorecard	R Jaduram	<ul style="list-style-type: none"> Receive report 	Chief Executive's Report
5. Funding for Infrastructure Growth	C Tucker	<ul style="list-style-type: none"> Receive report 	Report
6. Health and Safety	A Miller	<ul style="list-style-type: none"> Receive presentation 	Presentation (no pack content)
7. General Business	Chair		

Date of next Meeting – 20 April 2016

Location – Watercare, 73 Remuera Road, Remuera

MINUTES

SUBJECT	WATERCARE SERVICES BOARD MEETING
VENUE	Watercare Services Limited, 73 Remuera Road, Remuera, Auckland
DATE	03 February 2016
TIME	11:00
STATUS	Open Session

	Present:	In Attendance:	Public in Attendance:
	D Clarke (Chairman) N Crauford P Drummond C Harland J Hoare T Lanigan D Thomas	M Bridge R Chenery S Cunis R Fisher D Hawkins R Hughes R Jaduram B Monk D Sellars M Smith S Webster	None
1.	Apologies <ul style="list-style-type: none"> M Allen M Kingi (Board Observer) 		
2.	Minutes of Previous Meeting <ul style="list-style-type: none"> The Board resolved that the Minutes of the public section of the Board meeting held on 16 December 2015 at 10:30 be confirmed as correct. 		
3.	Directors Corporate Governance Items <ul style="list-style-type: none"> Corporate Planner 2015 The corporate planner was noted. There will be a Remuneration Committee meeting on 5 February 2016. Management are to schedule Board meetings at Rosedale, Mangere, Huia and Waikato sites. Review Disclosure of Interests The Board noted the paper. 		
4.	Chief Executive's Report and Scorecard <ul style="list-style-type: none"> Health and Safety There were no lost time injuries (LTIs) in November 2015 and the rolling 12 month LTI and rolling 12 month Total Recordable Injury Frequency Rate (TRIFR) were both well within the Statement of Intent targets. Customer Services Performance against the Statement of Intent measures for December were good, all customer service performance metrics were positively above the targets. Service Delivery <u>Wellsford Wastewater Treatment Plant Upgrade</u> Shayne Cunis spoke to the report. The ultrafiltration plant utilises membranes which were originally used with Stage 1 of the Waikato Water Treatment Plant but are no longer required at that plant. There has been a marked improvement in the quality of the treated wastewater, including clarity of the discharge. 		

	<p>Management are looking into a new wetland design being used overseas which has been successful in reducing ammonia levels. Management will consider the feasibility of modifying the wetland associated with the Helensville Wastewater Treatment Plant and, if successful, do the same at Wellsford.</p> <ul style="list-style-type: none"> • Finance <p>Brian Monk spoke to the report. As at the end of December, there had been a very good first six months of the financial year.</p> <p>Revenue is ahead of budget notwithstanding IGC income is less than budgeted. Operating expenses are some \$5.72m less than budget with savings in professional services and general overheads. That performance is expected to continue for the full financial year.</p> <ul style="list-style-type: none"> • Communications <p>The Board noted the positive coverage which has been given to Watercare in the NZ Herald and in suburban newspapers.</p> <p>The Board also noted a negative story which appeared in the Mahurangi Matters publication based on material which had been fabricated by the manager of a water filter company, a Mr Reynolds. The matter has been taken up with the publication to correct the story.</p> <ul style="list-style-type: none"> • Energy Efficiency <p>Watercare is partnering with the Energy Efficiency Conservation Authority (EECA) to assist in reaching the goal of an energy saving of 8GWh which is 5% of the total energy consumption of the company in the 2014/15 year.</p>
5.	<p>Draft Statement of Intent 2016-19</p> <ul style="list-style-type: none"> • The Board requested that Management review the Health and Safety targets. Further feedback is invited from the Board members to be received by Friday 26 February 2016.
6.	<p>General Business</p> <ul style="list-style-type: none"> • The meeting closed at 12 noon.

CERTIFIED AS A TRUE AND CORRECT RECORD

Chairman

WATERCARE BOARD PLANNER 2016

	2016											
	January	February	March	April	May	June	July	August	September	October	November	December
Board Meeting		3 Feb Newmarket	3 March - Workshop Newmarket 1 April Rosedale WWTP	20 April Newmarket	24 May Newmarket*	27 June Waikato WTP	1 August Newmarket	31 Aug Newmarket	29 Sept Newmarket	18 Oct Newmarket*	14 November Newmarket	13 December Huia WTP
Health and Safety Committee Workshops			14 March Newmarket			28 June Ardmore WTP		26 August Newmarket 11am			1 November Mangere WWTP	
Health and Safety Site Visits			1 April Rosedale WWTP			27 June Waikato WTP 28 June Ardmore WTP		26 August Hunua 4			1 November Mangere WWTP BNR Project	13 December Huia WTP
Audit and Risk Committee Meeting		3 Feb Newmarket (before Board meeting)			5 May Newmarket		^1 August Newmarket (before Board meeting)	22 Aug Newmarket			8 Nov Newmarket	
Capital Projects Working Group		3 Feb Newmarket (after Board meeting)			24 May Newmarket (after Board meeting)			31 Aug Newmarket (after Board meeting)			14 Nov Newmarket (after Board meeting)	
Remuneration and Appointments Committee		5 Feb Newmarket		20 April Newmarket (before Board meeting)		27 June Waikato (before Board meeting)		26 August Newmarket 9 - 11am		18 October Newmarket (before Board meeting)		
Statement of Intent		Approval of Draft 2016-2019 SOI	1 March Draft SOI to shareholder		Present shareholder SOI feedback at public meeting	Final 2016-2019 SOI issued to shareholder			Work on 2017-2020 Sol Key dates yet to be advised by Auckland Council			
Shareholder Interaction			1 March - Quarterly Briefing to CCO Governance & Monitoring Committee		TBC by Council - potentially workshop to replace quarterly briefing				6 Sept - Quarterly Briefing to CCO Governance & Monitoring Committee			
Key Finance Decisions						27 June Approval of 2016/17 Budget						
Other		Qtr Statutory Compliance Reporting		Qtr Statutory Compliance Reporting			Qtr Statutory Compliance Reporting			Qtr Statutory Compliance Reporting		

* Statutory public Board meeting - deputations invited

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

Board Work Plan 2016

		February	March		April	May	June	July	August	Septemeber	October	November	December
Board Meeting Date		3-Feb	3-Mar (Workshop)	1-Apr	20-Apr	24-May	27-Jun	1-Aug	31-Aug	29-Sep	18-Oct	14-Nov	13-Dec
Governance	Charter Reviews				Refresh Corporate Governance Charter	Refresh Audit & Risk Committee Charter						Audit & Risk Charter Annual Review (Audit & Risk)	
	Policy Reviews					Treasury Policy Review							
	Delegations					Annual Review of Board Delegations to CE							
	Risk Reviews					Bi-Annual Review of risk categories 1-3						Bi-Annual Review of risk categories 1-3	
	Compliance	Statutory Compliance Reporting				Statutory Compliance Reporting			Statutory Compliance Reporting			Statutory Compliance Reporting	
	Shareholder Interaction	CCO Quarterly Reporting					CCO Quarterly Reporting			CCO Quarterly Reporting			
	Board Performance								Annual Independent Board Review				
Board Training & Development	Board Training & Development												
	Technical Presentations				Wastewater: Digestors and Thermal Hydrolysis	Water: Waikato Water Treatment Plant		Wastewater: Energy Neutrality		Water: Huiia Sludge Improvements		Wastewater: Technology Solutions for Non-Metropolitan Wastewater Treatment Plants	
Business Strateg.	Strategic Planning		Refresh Strategic Framework				2016/17 Business Plan						
	Strategic Programme Updates			Programme Update: Non-Revenue Water		Programme Update: Customer Focus		Programme Update: Business Excellence / People & Capability		Programme Update: Financial Responsibility		Programme Update: Customer Focus	
Business Planning	Key Finance Decisions	a) Approve half year accounts; b) Approve high level financial projections for draft Auckland Council 2016/2017 Annual Plan				a) Approve financial projections for final 2016/17 Annual Plan; b) Approve July 2016 price changes c) 2016/17 Treasury Strategy	Approve 2016/2017 budget	Approve year end accounts (Council Pack)	Approve Annual Report				
	Statement of Intent	Approve Draft 2016-19 Sol	Draft SOI submitted to Auckland Council by 1 March		Feedback on Draft SOI received from Auckland Council by 30 April		Approve final 2016-19 SOI for submission to Auckland Council		Auckland Council formally adopts draft SOI				
	Business Planning Approvals											a) Approve 2017 Internal Audit Plan b) Approve 2017 Insurance Programme Approach	
	Major Capex Project Approvals	Details to follow											

Report to the Board of Watercare Services Limited

Subject: Disclosure of Interests

Date: 23 March 2016

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

<i>Director</i>	<i>Interest</i>
David Clarke	<ul style="list-style-type: none"> – Chairman, TRG Group Ltd – Radiology Services – Chairman, Skin Institute Limited – Director, Hynds Ltd – Chairman, Health Alliance NZ Limited – Chairman, Jucy Group Limited
Peter Drummond	<ul style="list-style-type: none"> – Chairman, Appliance Connexion Ltd – Chairman, Watercare Harbour Clean Up Trust – Chairman, Variety Medical Missions South Pacific – Director, NARTA New Zealand Ltd – Director, NARTA International PTY Ltd – Panel member , Fire Review, Dept Internal Affairs – Director – Port Marlborough New Zealand Limited – Director – Ngati Awa Group Holdings Limited
Catherine Harland	<ul style="list-style-type: none"> – Director, McHar Investments Ltd – Director, Interface Partners Ltd – Trustee, One Tree Hill Jubilee Educational Trust – Member, Auckland Regional Amenities Funding Board
Tony Lanigan	<ul style="list-style-type: none"> – Director and Shareholder, A G Lanigan & Associates (2007) Limited – Director, Habitat for Humanity New Zealand Limited – Director and Shareholder, Lanigan Trustee Limited – Director and Chair, New Zealand Housing Foundation Limited – Director, Tamaki Makaurau Community Housing Limited – Member, Ministry of Health Hospital Redevelopment Partnership Group for Canterbury – Member, Ministry of Health Southern Partnership
Mike Allen	<ul style="list-style-type: none"> – Director, Coats Group PLC – Director, Godfrey Hirst Australia and related companies – Shareholder, Innoflow – Director, Tainui Group Holdings Limited – Director, Breakwater Consulting Limited – Director, China Construction Bank (New Zealand) Limited
Julia Hoare	<ul style="list-style-type: none"> – Director, AWF Madison Group Limited – Director, New Zealand Post Limited – Deputy Chairman, The A2 Milk Company Limited – Member, Auckland Committee, Institute of Directors – Member, External Reporting Advisory Board – Member, Institute of Directors National Council – Director, Port of Tauranga Limited

Nicola Crauford	<ul style="list-style-type: none"> - Chairman, Wellington Rural Fire Authority - Director, Environmental Protection Authority - Member of Electoral Authority - Cooperative Bank Limited - Senior Consultant - WorleyParsons New Zealand Ltd - Director and Shareholder - Riposte Consulting Limited - Director and Shareholder - Crauford Robertson Consulting - Director and Shareholder - Martin Crauford Limited - Director, Wellington Water Limited - Director, Orion New Zealand Limited - Member, Local Government Risk Management Agency Establishment Board - Chairman, GNS Science International Limited
David Thomas	<ul style="list-style-type: none"> - Chairman, Ngati Whakaue Tribal Lands Inc - Council Member, Business New Zealand - Board Member, EMA (Northern) - Chairman, Gypsum Board Manufacturers of Australasia - Shareholder / Employee, Fletcher Building Limited - Director, New Zealand Ceiling & Drywall Supplies Limited

RECOMMENDATION

That the report be received.

Report prepared by:



R Fisher
Company Secretary

Approved by:



R Jaduram
Chief Executive

Report to the Board of Watercare Services Limited

Subject: Disclosure of Interests – Executive Management

Date: 23 March 2016

<i>Executive</i>	<i>Interest</i>
Raveen Jaduram	Trustee - Te Motu a Hiaroa (Puketutu Island) Governance Trust Steering Committee Member – Business Leaders' Health and Safety Forum
Rob Fisher	Deputy Chairman - Middlemore Foundation President - Auckland University Rugby Football Club Trustee - Watercare Harbour Clean Up Trust Trustee - Te Motu a Hiaroa (Puketutu Island) Governance Trust
Brian Monk	Deputy Chairman - MIT Chairman Audit and Compliance Committee - MIT Trustee - Watercare Harbour Clean Up Trust Trustee - Te Motu a Hiaroa (Puketutu Island) Governance Trust
Steve Webster	Director – Howick Swimgym Limited
Shayne Cunis	Chairman – Kelston Boys High School Board of Trustees
Marlon Bridge	Trustee - Te Motu a Hiaroa (Puketutu Island) Governance Trust
Martin Smith	Director – Heatley Smith Limited

RECOMMENDATION

That the report be noted.

Report prepared by:

Approved by:

R Chenery
Manager, Business Transformation

R Jaduram
Chief Executive

Board - Public Session - Chief Executive's Report and Scorecard

WATERCARE SCORECARD 2015/16

On budget, on time, within parameters Unfavourable but within parameters

	SOI	2015/16 Target	Amber Threshold	Red Threshold	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16
1 Safe and Reliable Water																	
1a	☑	100%	n/a	<100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
1b	☑	100%	n/a	<100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
1c		100%	n/a	<100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
1d		100%	n/a	<100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
1e		100%	n/a	<100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
1f		50%	n/a	<45%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
1g		50%	n/a	<25%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
1h		≥95%	93% to <95%	<93%	97%	97%	97%	97%	96%	96%	96%	96%	96%	96%	96%	96%	96%
1i		≤10	>10 to 12	>12	7.5	7.2	7.0	6.8	6.6	6.6	6.4	6.2	5.9	5.6	5.5	5.4	5.4
1j		Unrestricted	Subjective	Restrictions apply	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted
1k		Unrestricted	Subjective	Restrictions apply	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted
2 Healthy Waterways																	
2a		≤5	>5 to 7	>7	2.10	2.05	2.02	1.94	1.86	1.80	1.90	1.91	1.81	1.99	2.14	2.11	2.31
2b	☑	≤2 overflows per year per engineered overflow point	Low risk non-compliance	High risk non-compliance													
2c	☑	≤10	>10 - ≤15	>15						0.03	0.03	0.04	0.03	0.05	0.05	0.03	0.03
2d	☑	a) ≤2 b) ≤2 c) ≤2 d) ≤2	n/a	>2 (for any)						0	0	0	0	0	0	0	0
2e		≤10	>10 to ≤12	>12	8.20	7.90	7.70	7.70	7.30	7.10	7.00	7.00	6.60	6.70	6.60	6.50	6.30
2f		100%	98 to <100%	<98%					99.22%	100%	100%	100%	100%	100%	100%	100%	100%
2g		35%	n/a	<35%					77%	84%	84%	88%	87%	88%	88%	88%	89%
3 Customer Satisfaction																	
3a	☑	≤60 mins	>60 - ≤90 mins	>90 mins						33 mins	34 mins	35 mins	35 mins	36 mins	37 mins	37 mins	39 mins
3b	☑	≤5 hours	>5 - ≤8 hours	>8 hours						1.5 hours	1.5 hours	1.6 hours	1.6 hours	1.7 hours	1.8 hours	1.9 hours	2.1 hours
3c	☑	≤3 days	>3 - ≤5 days	>5 days						1.2 days	1.2 days	1.3 days	1.8 days	1.9 days	2.1 days	2.1 days	2.2 days
3d	☑	≤6 days	>6 - ≤8 days	>8 days						2.2 days	2.3 days	2.7 days	2.9 days	3.0 days	3.1 days	3.1 days	3.2 days
3e	☑	≥80%	≥75% to <80%	<75%	86.1%	83.5%	87.6%	84.4%	88.2%	84.6%	87.0%	86.0%	85.3%	85.1%	85.0%	84.8%	84.7%
3f	☑	≤10	>10 - ≤15	>15						7	7	6.9	6.7	6.5	6.3	6.0	5.8
3g	☑	≤60 mins	>60 - ≤90 mins	>90 mins						40 mins	40 mins	41 mins	41 mins	41 mins	42 mins	42 mins	42 mins
3h	☑	≤5 hours	>5 - ≤8 hours	>8 hours						2.3 hours	2.3 hours	2.3 hours	2.4 hours	2.4 hours	2.4 hours	2.4 hours	2.5 hours
3i	☑	≤50	>50 - ≤75	>75						20.7	20.7	20.7	20.7	20.8	20.8	20.8	20.8
3j		≤5	>5 to ≤5.5	>5.5	4.80	4.80	4.80	4.80	4.70	4.70	4.60	4.90	4.70	4.60	4.40	4.10	3.90
3k	☑	≥95%	≥90% to <95%	<90%	96.8%	97.6%	98.1%	98.5%	98.5%	98.3%	98.9%	98.2%	97.4%	97.4%	97.1%	96.8%	97.0%

Board - Public Session - Chief Executive's Report and Scorecard

WATERCARE SCORECARD 2015/16

		On budget, on time, within parameters	Unfavourable but within parameters																
		SOI	2015/16 Target	Amber Threshold	Red Threshold	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	
3i	Percentage attendance at the quarterly meetings of the Mana Whenua Kaitiaki Forum	☑	100%			100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	
4 Health, Safety and Wellbeing																			
4a	Lost-time injury frequency rate per million hours worked (12 month rolling average)	☑	≤5	5 - 7	>7	7.20	5.34	4.47	5.31	6.42	6.4	5.8	5.23	4.63	3.55	2.99	3.03	3.06	
4b	Percentage of total hours absent due to illness (12 mth rolling average)		≤2.5%	>2.5 to 3.5%	>3.5%	2.08%	2.08%	2.07%	2.07%	2.09%	2.10%	2.09%	2.15%	2.14%	2.15%	2.16%	2.14%	212.00%	
4c	Percentage of voluntary leavers relative to number of permanent staff (12 mth rolling average)	☑	≤12%	>12 to 14%	>14%	10.68%	11.00%	11.19%	11.14%	10.84%	11.16%	10.86%	11.45%	11.28%	11.72%	12.30%	12.01%	12.45%	
4d	Total recordable injury frequency rate per million hours worked (12 month rolling average)	☑	<30	>30 to <33	>33	19.79	17.20	18.33	19.45	19.84	18.65	19.13	16.86	16.80	17.05	15.53	15.73	15.90	
5 Financial Responsibility																			
5a	Minimum funds flow from operations to interest cover (FFO) before any price adjustment	☑	≥2.5	2.4 to <2.5	<2.4	3.38	3.45	3.40	3.34	3.32	3.69	3.51	3.62	3.62	3.56	3.63	3.71	3.65	
5b	Percentage of household expenditure on water supply services relative to the average household income	☑	≤1.5%	1.2 to <1.5	>1.5	0.91%	0.92%	0.92%	0.92%	0.87%	0.87%	0.87%	0.87%	0.87%	0.88%	0.88%	0.88%	0.88%	
5c	Water & wastewater revenue against budget YTD %		≥100%	≥98% to <100%	<98%	100%	100%	100%	100%	100%	101%	101%	101%	102%	102%	102%	102%	102%	
5d	Infrastructure growth charge revenue against budget YTD %		≥100%	≥95% to <100%	<95%	156%	156%	149%	146%	147%	102%	108%	114%	102%	91%	94%	103%	105%	
5e	Controllable costs against budget YTD %		≤100%	>100 to ≤102%	>102%	98%	98%	99%	101%	101%	94%	95%	93%	93%	94%	95%	94%	95%	
5f	Total contribution against budget YTD (\$ millions)		+	-\$0.1m to -\$2m	> -\$2m	27.94	26.76	24.98	22.53	26.13	3.09	8.30	13.72	17.74	18.62	22.06	30.99	30.11	
5g	Net surplus / deficit before tax against budget YTD (\$ millions)		+	-\$0.1m to -\$2m	> -\$2m	-74.28	-76.19	-67.08	-63.05	-66.59	-21.81	-16.16	-27.62	-21.55	-20.52	4.06	-24.71	-64.68	
5h	Total net borrowing against budget YTD (\$ millions)		Negative	\$0.1m to \$10m	> \$10m	-49.30	-71.70	-71.20	-86.10	-79.40	-22.40	-15.20	-21.90	-40.20	-46.10	-51.30	-52.70	-72.00	
6 Fully Sustainable																			
6a	The average consumption of drinking water per day per resident (gross PCC) (12 month rolling average)	☑	272 +/- 2.5%			273	273	273	273	271	271	271	271	271	272	273	272	272	
6b	Per capita consumption (litres / person / day) - Residential Monthly PCC		Information only			170	163	155	151	149	148	148	151	156	161	165		Reporting lag - data sourced from meter readings	
6c	Non-Domestic Monthly Water Volume		Information only			3,079,838	3,344,422	2,864,637	2,910,993	2,913,178	2,845,386	2,863,774	2,846,259	3,117,438	3,134,161	3,191,872		Reporting lag - data sourced from meter readings	
6d	Non-Revenue Water Percentage		Information only								16.72%	16.80%	16.81%	16.76%	16.74%	17.00%	16.74%	16.93%	
6e	The percentage of real water loss from the local authority's networked reticulation system (rolling 12 mth average)	☑	≤13%	>13 to 13.2%	>13.2	13.66%	13.66%	13.50%	13.31%	12.95%	12.89%	13.00%	13.10%	13.04%	13.06%	13.40%	13.10%	13.20%	
6f	Percentage of annual potable water transmission system losses (12 month rolling average)		No specific target - information only								1.70%	1.89%	1.89%	1.89%	1.86%	1.87%	1.77%	1.85%	
6g	Percentage of annual potable water network losses (12 mth rolling average) - Urban as a percentage of total volume		No specific target - information only			13.49%	13.54%	13.38%	13.21%	12.85%	12.59%	12.73%	12.81%	12.82%	12.64%	12.97%	12.70%	12.80%	
6h	Percentage of annual potable water network losses (12 mth rolling average) - Rural as a percentage of total volume		No specific target - information only								0.44%	0.44%	0.43%	0.42%	0.42%	0.43%	0.43%	0.42%	
6i	Percentage of annual potable water network losses (12 mth rolling average) - Rural as a percentage of rural volume		No specific target - information only			23.92%	20.85%	20.35%	19.51%	19.06%	27.75%	27.67%	27.16%	26.62%	26.49%	27.01%	26.95%	26.90%	
7 Policy Compliance																			
7a	Compliance with Treasury Policy		Within policy	Planned outside policy	Unplanned outside policy	Within policy	Within policy	Within policy	Within policy	Within policy	Within policy	Within policy	Within policy	Within policy	Within policy	Within policy	Within policy	Within policy	

4

Watercare Services Limited

Subject: Chief Executive Report – February 2016

Date: 23 March 2016

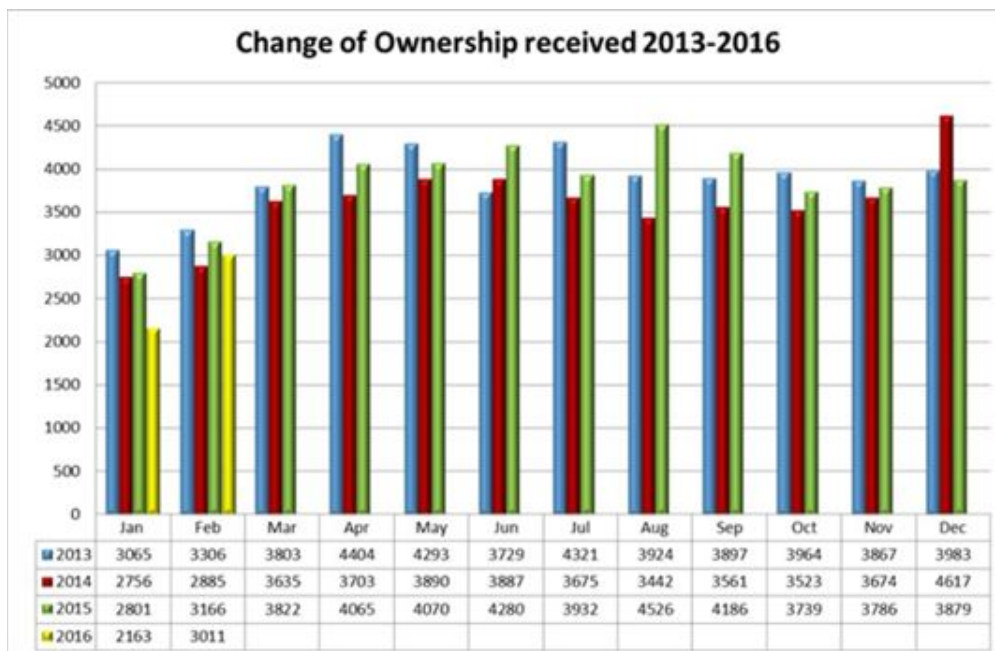
1. HEALTH AND SAFETY

There were no LTIs in the quarter to 29 February 2016. The rolling 12 month measure LTIFR has reduced to 0.61 (stated target max 1.0) per 200,000 hours. This equates to 3.05 per million hours. TRIFR is 2.94 per 200,000 hours (14.7 per million hours).

2. CUSTOMER SERVICES

Performance against Statement of Intent measures for February was good with all customer service performance metrics above target for the month. The rolling 12 month average result for resolution of complaints within 10 working days was 97% against a target of 95%. Customer satisfaction in February was in line with the 12 month average with satisfaction at 86% for fault management, 82% for the maintenance field crews and 86% for billing and general enquires. The rolling 12 month average for customer satisfaction is above the 80% target for all three areas.

The trend for number of changes of ownership (related to property sales) processed by Watercare has been declining since September 2015. While the volumes are often higher when compared to same time previous year, January 2016 saw the lowest volume processed since July 2011.



Website Refresh

The home page of the website is being refreshed to bring it in line with our new branding and 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 customer-centric website that places greater emphasis and priority on enabling customers to transact online. This is a short-term improvement ahead of launch of the new website later this calendar year.

3. INFRASTRUCTURE PROGRAMME

The infrastructure capital programme has delivered year to date \$165m against a budget of \$237m. The forecast to year end is to deliver \$274m against a budget of \$375m, this has decreased \$10m from the December full year forecast.

The main contributors to the reduction in forecast are \$3.7m of projects with their priorities under further review, \$2.2m of deferred spend this year on the Central Interceptor Project (property purchase, consultant and stakeholder), and \$2.2m on the Mount Hobson Pipe Replacement (late landowner approval has moved construction to the summer 2016/17).

There is a saving in the order of \$2.5m by substituting the material type for the Pukekohe trunk sewer from PE to glass-reinforced pipe (GRP).

A Capital Expenditure Dashboard Report of all capital expenditure projects over \$15million is shown in Appendix C.

4. STATUTORY PLANNING

Proposed Auckland Unitary Plan

The last set of hearings are now underway, focusing on the submissions on rezonings and precincts. These are scheduled to finish at the end of April, but may now extend into May. There has been significant public opposition to Council's proposed "out-of-scope" residential upzoning, leading to the Governing Body decide to withdraw these proposed rezoning. This decision does not apply to the properties that Watercare sought to be rezoned, including the Mangere Wastewater Treatment Plant land. Watercare has inputted into the Council's evidence but is not providing stand-alone evidence as part of the Council case for this topic. Once the hearings are complete, the Independent Hearing Panel will have until July to make its recommendation to Auckland Council.

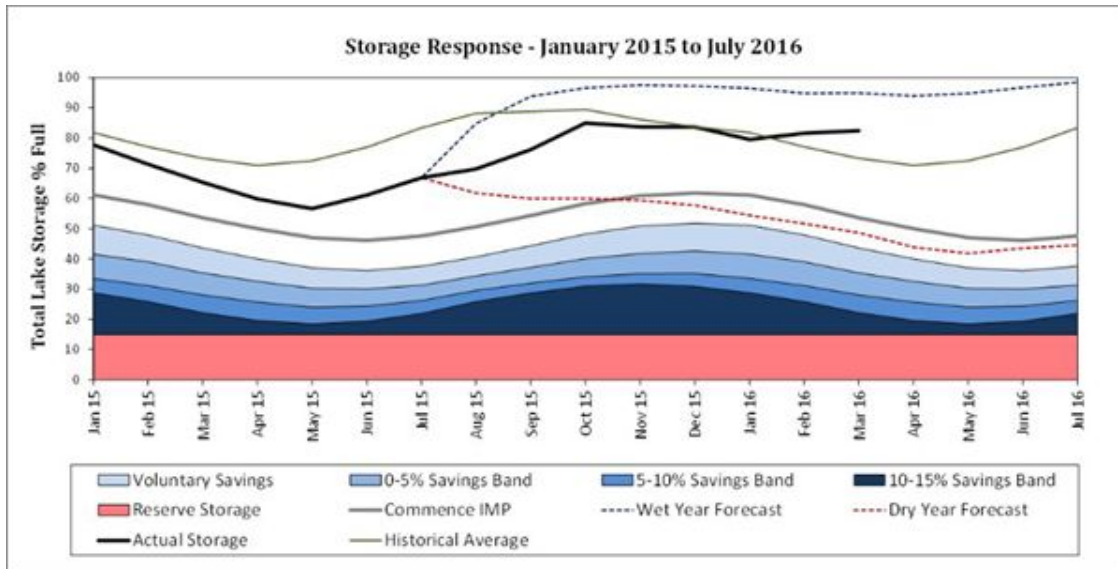
5. SERVICE DELIVERY

Rainfall and Water Resources

In February, above average rainfall was experienced in all catchments:

Waitakere Ranges	144% of average
Hunua Ranges	164% of average
Northern Non-metropolitan	176% of average
Southern Non-metropolitan	158% of average

Metropolitan total system storage increased to 82.4% over February, as a result of this above average rainfall coupled with the operating strategy adopted. This is now above the historical average storage for this time of year (77.1%).



Weather forecasts for March 2016 indicate rainfall is expected to be normal or above normal, temperature above average and soil moisture content to be near normal. Longer term, for March – May 2016, temperatures are most likely to be above average, with rainfall most likely to be normal or below normal.

Strong El Niño conditions continue in the Tropical Pacific. International guidance indicates that El Niño will continue over the next three months, but will weaken towards neutral conditions by the end of autumn.

Based on this information, and the current storage levels, the Waikato WTP will continue to be operated at higher flows to conserve stored water levels during March. If storage levels remain elevated at month end, then a reduction in output will occur to minimise the risk of the lakes spilling during winter.

Albany Highway Watermain Failure

The Glenvar No. 1 watermain was significantly damaged along Albany Highway by Fulton Hogan, who were doing road works. This is the watermain that resulted in a prolonged and widespread outage in Albany when it failed in 2015. Due to the mitigation works implemented post that event to improve system resilience, there was no disruption of service to customers when the watermain was isolated to repair the recent damage. Further, the repairs did not have to be completed immediately. The earlier mitigation works allowed the work site to be made safe immediately and repairs completed without incident the next day.



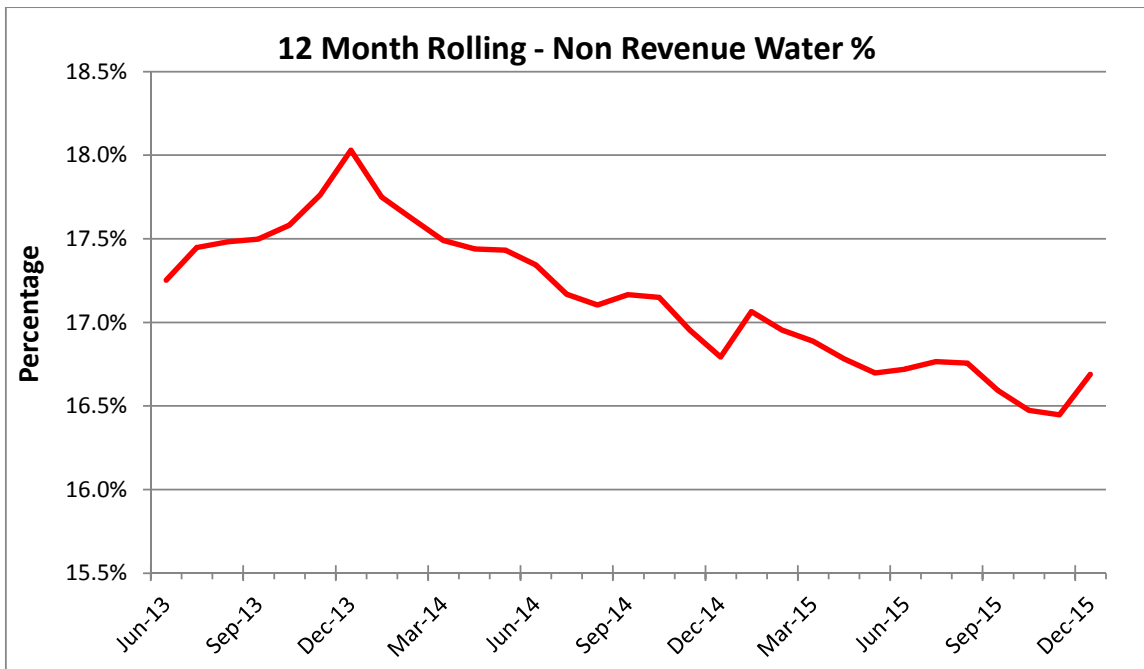
Damaged Glenvar No.1 Watermain

Biosolids Management Update

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. An RFP is currently being prepared to seek formal pricing from commercial landfill operators and is expected to go to the market late March 2016. An Expression of Interest is also being prepared to seek market participation from external parties who may be interested in alternative arrangements (non-landfill solutions).

Non Revenue Water Update

Non Revenue Water (NRW) is the difference between the volume of water produced from the water treatment plants (WTP) and the volume sold to the consumer. The NRW percentage has trended down over the past 2 years, as shown in the chart below.



NRW is comprised of two components. 75% of NRW relates to real losses i.e. water lost from the system due to leakage / overflows. The remaining 25% relates to meter inaccuracies, unbilled consumption, stolen water and operational discharges. The NRW programme focuses on the two components with the objective of achieving an overall reduction in NRW levels.

Updates on the work to date follows:

Methodology reviews

To improve the accuracy of reporting, the methodology used to calculate NRW is being refined. Due to the uncertainties around estimating retail sales in the absence of actual customer meter reads, NRW will in future be reported as a lag measurement. This lag is two months. A review is also underway of current international practises to best report NRW and ensure that the most appropriate tools are available to manage NRW going forward.

Leak Detection

Leak detection activities continue, and are primarily the reason for the NRW reduction thus far. New technologies are also being trailed, such as the use of remote sensing platforms, in an effort to identify leaks in a more timely fashion.

Meter Management

A number of metering projects are underway to refine the apparent losses measurement component of NRW.

Installation of smart meters at Waiuku is progressing, with the fitting of smart meters to existing mechanical meters scheduled for completion at the end of March 2016. The replacement of meters will then commence. This work has already provided valuable insight into the issue of leakage at the meter.

Greater focus has been placed on the 6,000 meters that have recorded no water usage in the current financial year – these meters are being prioritised and investigated.

A programme has been developed to replace customer meters that have an increased potential to under-read as they age. It is programmed to replace approximately 8,000 meters before the end of the financial year, with the programme accelerating to 20,000 meters per year in the 2016/17 Financial Year.

A proactive programme is being devised to investigate unbilled/illegal use. This is initially focusing on sports and recreation sites that have the potential for large irrigation usage.

Operational Usage

A review of all internal operational usage is in progress. Further new policies are in development to ensure the efficient use of water for operational activities and (e.g. hydrant use) and to better educate the public around unauthorised use.

6. 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 rockfall 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 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. 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 rockfall 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.

7. FINANCE

Financial Performance

Figures (\$millions)	Current Month			Year to Date			Full Year		
	Actual	Budget	Var	Actual	Budget	Var	Forecast	Budget	Var
Revenue	41.61	42.37	(0.76)	371.42	351.35	20.07	554.72	537.17	17.55
Operating Expenses	17.95	18.05	0.11	133.00	140.57	7.58	207.45	212.77	5.32
Depreciation	17.48	17.70	0.21	142.55	144.22	1.67	216.82	217.12	0.30
Interest expense	6.22	5.77	(0.45)	51.13	51.92	0.79	78.21	78.21	(0.01)
Total Contribution	(0.04)	0.85	(0.89)	44.74	14.63	30.11	52.24	29.07	23.17
Non-operating costs/(income)	0.35	0.43	0.08	6.43	2.04	(4.39)	8.02	3.00	(5.02)
Financial instruments revaluation - loss/(gain)	39.16	-	(39.16)	90.40	-	(90.40)	90.40	-	(90.40)
Operating Surplus / (Deficit) Before Tax	(39.56)	0.42	(39.98)	(52.09)	12.59	(64.68)	(46.18)	26.07	(72.25)
Deferred Tax - Expense/(Credit)	(16.31)	(0.26)	16.05	(12.13)	10.70	22.82	(2.76)	21.49	24.25
Net Surplus / (Deficit) After Tax	(23.25)	0.68	(23.93)	(39.96)	1.89	(41.86)	(43.42)	4.58	(48.01)
FFO Ratio				3.65	3.22		3.57	3.25	
Operating EBITDAF	23.66	24.32	(0.66)	238.43	210.77	27.65	347.27	324.40	22.87
EBITDA	(15.86)	23.89	(39.74)	141.60	208.73	(67.14)	248.85	321.40	(72.55)
EBIT	(33.34)	6.19	(39.53)	(0.96)	64.51	(65.47)	32.03	104.28	(72.25)

Month – Total Contribution of \$(0.04)m - unfavourable variance to budget of \$0.89m

Total revenue was unfavourable by \$0.76m to budget due to unfavourable subvention income from Auckland Council of \$2.7m partially offset by favourable IGC revenue of \$0.9m, and water and wastewater revenue favourable by \$0.7m.

Operating expenses were favourable by \$0.11m to budget with a favourable variance for professional services partially offset by an unfavourable variances for net labour due to beneath budget recovery of labour costs from capex projects and asset operating costs.

Depreciation was favourable by \$0.21m to budget.

Interest expense was by \$0.45m unfavourable to budget largely due to lower capitalised interest than budgeted.

Year to date – Total Contribution of \$44.74m - favourable variance of \$30.11m

Year to date revenue is \$20.07m favourable to budget primarily due to vested asset income favourable by \$15.3m and IGC revenue favourable by \$1.79m. Water and wastewater revenue was favourable by \$5.07m and year to date water volumes are 1.09% over budget.

Operating expenses are \$7.58m favourable to budget with favourable variances for asset operating costs, professional services and general overheads partially offset by an unfavourable variance for net labour.

Depreciation is favourable \$1.67m to budget.

Interest expense is \$0.79m favourable to budget.

Year to Date – Net Deficit after Tax of \$39.96m – unfavourable variance of \$41.86m

The unfavourable variance of \$39.96m is primarily due to the unfavourable revaluation of financial instruments of \$90.4m resulting from the decrease in medium to long term swap rates since June 2015 partially offset by a favourable operating contribution \$30.11m.

Full year Forecast – Operating Contribution of \$52.24m – favourable variance of \$23.17m

Full year revenue is forecast at \$554.7m, favourable by \$17.6m largely due to expected higher than budgeted vested asset revenue favourable \$15.3m. Water revenue forecast is being held at budgeted levels. The wastewater revenue is forecast to achieve budget in the second half of the year on top of the above budget performance the first half of the year.

Operating expenses are favourable to budget \$5.3m with favourable variances for professional services and general overheads partially offset by asset operating costs and net labour.

Depreciation costs are forecast to be consistent with budget at year end.

Interest expensed through the P&L is expected to be consistent with budget at year end; due to reduced interest cost largely due to lower debt than budgeted offset by lower capitalised interest than budgeted.

Financial Position

Smillion	Actual Jan-16	Actual Feb-16	Monthly Movement	Budget Feb-16	Var from Budget
Non Current Assets	8,654.9	8,660.3	5.4	8,731.8	(71.4)
Current Assets	90.5	85.8	(4.7)	79.1	6.8
Total Assets	8,745.4	8,746.2	0.9	8,810.8	(64.7)
Other Liabilities	315.2	362.1	47.0	289.3	72.8
Deferred Tax Liability	1,015.3	999.0	(16.4)	1,030.5	(31.5)
Borrowings - Short Term	405.9	405.9	0.0	358.3	47.6
Borrowings - Long Term	1,151.1	1,144.5	(6.7)	1,264.1	(119.7)
Shareholders Funds	5,857.9	5,834.7	(23.1)	5,868.6	(33.9)
Total Liabilities and Shareholders Funds	8,745.4	8,746.2	0.9	8,810.8	(64.7)

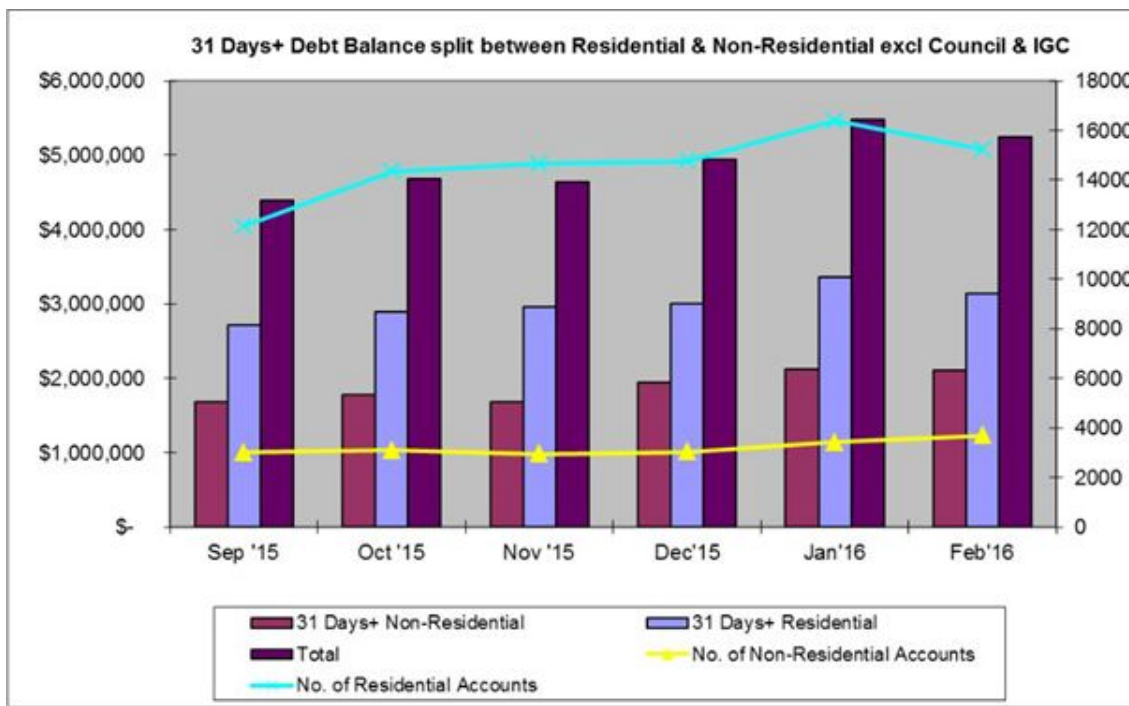
The major movement in the Statement of Financial Position as at 29 February 2016 compared with 31 January 2016 was the decrease in debt, increase in non-current assets reflecting capital expenditure net of depreciation in the month and the movement in derivative financial instruments (Other liabilities).

Compared with budget the material variances are largely in respect of the property, plant and equipment, deferred tax, derivative financial instruments (Other liabilities) and debt. In addition to the impact of beneath budget capex spend the variances primarily reflect a different opening position on 1 July 2015 than that assumed when the budget was set, including a lower level of revaluation of property, plant and equipment than expected. Net debt at \$1,550m is \$72.0m beneath budget.

Aged Receivables

The 31 days+ debt balance at the end of February was \$5.2m, \$0.3m lower than December 2015.

The split of 31 days+ receivables between residential and commercial is shown below:



Water Utility Consumer Assistance Trust (WUCAT)

The following tables summarise the results of the Trust:

Feb-16

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	69	\$	58
Total	547	\$	545

WUCAT Summary last 3 meetings			
Month	Trust approved applications		\$000's
Dec-15	7	\$	5.06
Jan-16	0	\$	5.06
Feb-16	12	\$	10.98
Total	19	\$	21

A total of 547 applicants have successfully completed the budget advisor review process and these applicants have had \$545k of hardship relief approved by the Trust. This has resulted in \$447k 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 \$60k of approved hardship write-offs to be granted once they successfully complete their plan.

The results of the last three WUCAT meetings have seen 19 applicants successfully complete the budget process and have \$21k of hardship relief approved by the Trust.

Restrictions

There were no new water restrictions actioned during February. Two restrictions were removed during the period. The table below summarises the restrictions carried out by Watercare Services Limited.

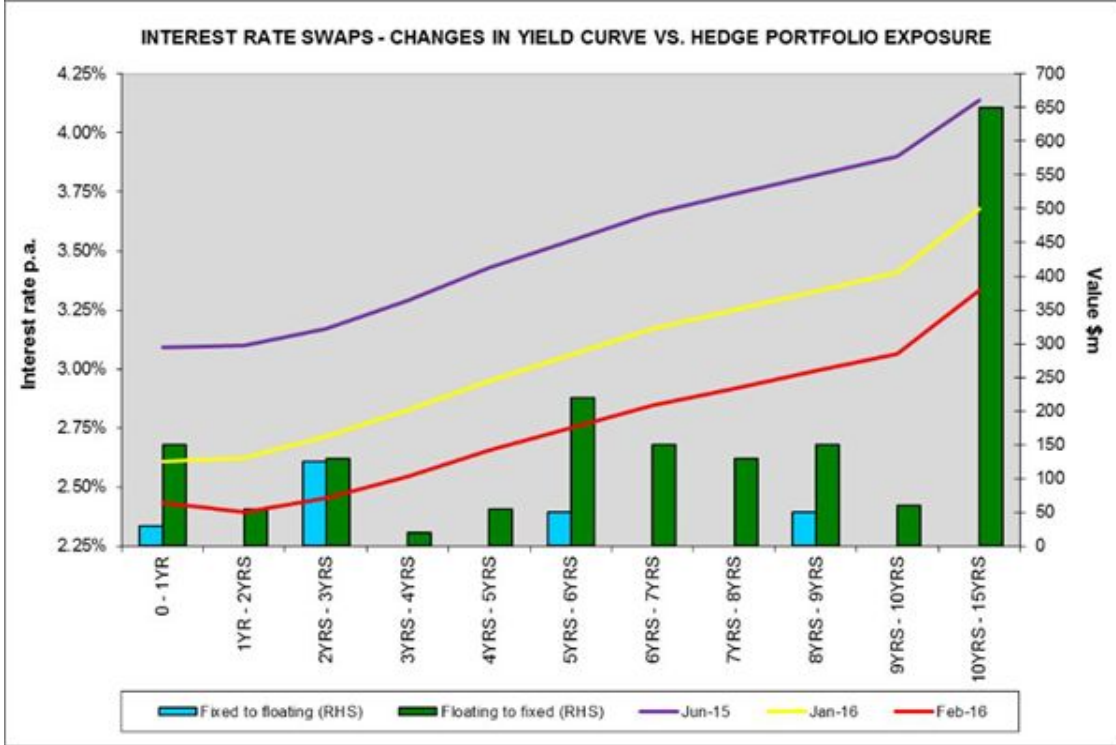
Restriction Summary Year-ending	Commercial		Residential		Total	
	Restriction	De-restriction	Restriction	De-restriction	Restriction	De-restriction
30-Jun-12	1		5		6	0
30-Jun-13	13	11	6	4	19	15
30-Jun-14	20	20	17	14	37	34
30-Jun-15	31	30	53	39	84	69
(YTD) 30-Jun-16	4	5	14	13	18	18
Total	69	66	95	70	164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

The following restrictions remain in place:

- Six residential restrictions remain in place on vacant properties. Communications are ongoing with these customers and if the properties are tenanted in future, a resolution will be required.

- A further 19 residential restrictions remain in place on occupied properties and communication continues with these customers.
- Three commercial properties remain restricted at the end of February and communication continues with these customers.

Treasury



Interest Analysis Smillion	Current Month			Year to date			Full Year		
	Actual	Budget	Var	Actual	Budget	Var	Forecast	Budget	Var
Interest as per Statement of Financial Performance	6.22	5.77	(0.45)	51.13	51.92	0.79	78.21	78.21	(0.00)
Capitalised Interest	0.87	1.65	0.78	8.19	11.45	3.26	11.96	18.50	6.54
Gross Interest	7.09	7.42	0.33	59.33	63.38	4.05	90.18	96.71	6.53
Less Interest Income	0.00	-	(0.00)	0.02	-	(0.02)	0.02	-	(0.02)
Net Interest	7.09	7.42	0.34	59.31	63.38	4.07	90.16	96.71	6.55

For the month net interest is favourable to budget \$0.34m; largely due to lower debt than budgeted.

Capital Expenditure

Summary Capital Expenditure (Smillions)	Month February 2016			Year to Date			Full Year			
	Actual	Budget	Var	Actual	Budget	Var	Forecast	Budget	Var	Prior Month Forecast
Wastewater Projects										
Strategy & Planning	0.1	3.3	3.2	3.0	8.9	5.8	4.3	16.7	12.4	6.1
Infrastructure Delivery (excl Labs/MS)	10.8	18.5	7.8	87.5	122.0	34.5	145.4	191.0	45.5	153.3
Water Projects										
Strategy & Planning	0.3	1.3	1.1	1.9	6.0	4.2	3.6	15.5	11.9	3.5
Infrastructure Delivery (excl Labs/MS)	5.4	9.2	3.9	54.8	61.4	6.6	82.7	90.5	7.7	84.7
Service Delivery	2.1	4.8	2.7	15.1	32.4	17.3	33.0	52.6	19.5	33.7
Retail	0.5	0.5	(0.0)	4.1	5.6	1.5	6.7	8.1	1.5	6.7
Information Services	0.4	0.4	(0.1)	4.2	6.0	1.8	7.9	7.4	(0.6)	7.1
Other Projects	0.6	0.9	0.2	4.6	11.1	6.5	9.2	15.0	5.8	9.9
TOTAL	20.2	38.9	18.7	175.3	253.3	78.0	292.9	396.7	103.8	305.0
Includes Capitalised Interest of:										
Water Projects Capitalised Interest	0.4	0.7	0.3	3.9	5.1	1.2	5.4	8.2	2.8	5.4
Wastewater Projects Capitalised Interest	0.5	1.0	0.5	4.3	6.4	2.0	6.6	10.3	3.8	6.7
Total Capitalised Interest	0.9	1.7	0.8	8.2	11.5	3.3	12.0	18.5	6.5	12.1

Capital expenditure for the month was \$20.2m against a budget of \$38.9m and full year forecast of \$292.9m has decreased by \$12.1m from prior month full year forecast. The forecast for the full year is \$103.8m beneath budget. The main contributors to this variance, as discussed in the February Board meeting, are as a result of a review of projects to ensure strategic asset needs are being met, project savings achieved, delays in project commencement partially offset by projects ahead of budgeted timetable and a reduction in capitalised interest as a result of the reduced capital spend.

8. BOARD CORRESPONDENCE

There was one piece of Board correspondence during February; a letter from Panuku Developments Auckland regarding discharges of wastewater from the combined sewerage system at St Mary's Bay.

9. EXECUTION OF DOCUMENTS

There were six documents executed during February in accordance with the delegated authority provided to the Chief Executive by the Board in relation to deeds, instruments and other documents. These included three approvals to register easements, one Public Works Act 1981 Notice to acquire land, the surrender of an interest and a strategy paper to purchase land.

There were three capex approval totaling \$19.107m signed in accordance with the delegated authority provided to the Chief Executive by the Board in relation to capex approvals below a threshold of \$15m.

Summary of Capital Projects approved by Chief Executive – February 2016		
C-11470a	Upper Glen Eden Storage Tank and Branch Sewer Upgrades Capital Expenditure approval	\$130,000
C-12488-03	Waikato WTP 175 MLD Expansion - Work Package 3	\$15,225,000
C-12686	Huia WTP 110 MLD Capacity Restoration Upgrade	\$3,752,906

There were two contracts over \$100,000 was awarded during February in accordance with the delegated authority provided to the Chief Executive by the Board in relation to capex and opex contract approvals.

Summary of Contract Awards – February 2016		
3/2/16	Wells Instrument Electrical Limited	Mangere WWTP Solid Stream - Biosolids area Electrical Upgrade
21/2/16	GEA Westfalia	Centrifuge Supply, Supervision of Installation and Commissioning

10. COMMUNICATIONS

Media summary

Watercare received a significant volume of media coverage between mid-January and mid-March. Much of this coverage was proactively generated by Watercare. For example, a media release on our new target for the Mangere and Rosedale treatment plants to become electricity neutral by 2025 resulted in stories in the New Zealand Herald, on www.stuff.co.nz, and in most of the suburban newspapers. It also sparked tweets on social media and drew the attention of Gary Taylor, CE of the Environmental Defence Society, who wrote to Raveen Jaduram offering his congratulations.

A number of staff were positively profiled in suburban newspapers over this period. Our northern networks manager Suzanne Naylor featured in the Western Leader, talking to reporter Rose Rees-Owen about her role and how she contributes to the safe and reliable delivery of water services to Aucklanders. The item highlighted career development opportunities at Watercare for young female engineers. Our education coordinator, Sally Smith, featured in two east Auckland newspapers regarding lessons she delivered to pupils at Bucklands Beach Primary School. Meanwhile, our operations technician Chris Garton featured in two local papers: once for his work to detect odours at the Mangere plant, and once for an art project he ran at Mangere Bridge School to teach children about the Manukau Harbour environment.

Our approach to fostering and maintaining media relationships by being responsive, timely and open is resulting in coverage of issues is becoming more balanced. For example, Watercare's decision to reduce its target fluoride levels from 0.85ppm to 0.7ppm received widespread coverage in national and local newspapers as well as by social media. The topic was raised by the anti-fluoride lobby group Fluoride Free NZ who said the public should have been formally notified about the reduction. However, despite the lobby-group efforts, coverage was favourable. Our key message was consistently communicated: the reduction was made to align Auckland with international best practice levels.

In early March, a couple from Epsom received widespread national and local coverage regarding a cockroach infestation affecting their property. The source of the infestation was said to be a wastewater network opening at the junction of Mountain Rd and Albury Ave. We responded by saying we had received two complaints from the couple, both dating back to 2013, and on both occasions we flushed the wastewater pipes and Auckland Council's environmental health team arranged for the cockroach extermination. We arranged a further flushing when we received the initial media enquiry.

Watercare was mentioned in widespread coverage regarding Auckland Council's \$1.2 billion IT spend. However, as Watercare's expenditure was significantly lower than council's, we were not approached for comment.

Customer Communications Programme

The table below outlines the indicative customer communications programme. This programme is dynamic and will be adapted as appropriate to align to the new strategic priorities and respond to current issues/areas of interest.

Month	Activity	Status
Mid-Jan to mid-Feb	Domestic customers received a flyer on our involvement with Round the Bays.	Distribution complete
Mid-Feb to mid-March	Domestic and non-domestic customers received the autumn issue of <i>Tapped In</i> which focused on leaks. Work was also undertaken to ensure the end-to-end leak process is clearly communicated to customers.	Distribution complete
April	Domestic customers will receive a flyer on how we make bill payment easy. It will include information on the Water Utility Consumer Assistance Trust. We are currently working with the Trust to improve their collateral.	Planned
May	Depending on when the pricing for 2016/17 is confirmed, domestic and non-domestic customers will receive information on the price rise.	Planned
June	Domestic and non-domestic customers will receive the winter issue of <i>Tapped In</i> which will focus on we are meeting the needs of our communities and the environment, both now and into the future.	Planned

Within the customer area, work is being undertaken to improve customers' e-billing experience through the creation of a more engaging and interactive email template that aligns with our external branding. In addition, work is being undertaken to create welcome packs for new customers that have useful transactional, contractual and company information.

Stakeholder communications

The following activities were completed during the period:

- Community drop-in sessions were held in Warkworth and Snells Algies for the public to come and find out more about the future wastewater servicing options for the area.
- Coordinated communications are underway for the pending Hunua 4 works in Campbell Road (21 March to 31 August), One tree Hill. This includes newspaper and radio advertising, motorway Gantry signboards and local sign boards. All information is supported by Watercare web content including maps and diversions.
- A community liaison group meeting was held in February to further discuss the process that will be undertaken in order to identify a location for the new Huia Water Treatment Plant.
- A video on a day in the life of Bernice Chiam, a principle design engineer, will be played during the board meeting.

The following activities are planned or underway:

- Public and stakeholder tours of the Mangere Wastewater Treatment Plant will be held on 8, 9 and 10 April. These tours will follow the same format as the Rosedale and Ardmore tours in 2015 however they will run across three days as we anticipate a high level of interest. Venues have been booked for public information drop-in sessions for the North Harbour No. 2 and Northern Interceptor designation process.
- Planning is underway for public information drop-in sessions for the south west wastewater servicing project.
- Work is underway to produce a book illustrating the water treatment and distribution process, from dam to tap.
- Our education programme continues to be positively received by both schools and media. With terms one and two fully booked, the education coordinator is now scheduling school visits for terms three and four.

Internal communications

The following activities were completed during the period:

- Round the Bays was held on 6 March. The number of staff, family and friends participating in the event (either as water stop volunteers or as runners/walkers) set a new record: 490. The event ran smoothly and without incident.
- In early March, the Chief Executive briefed staff face-to-face on the progress Watercare made in 2015 and what is in store for 2016. He used the opportunity to distribute his H&S commitment cards which gives staff the authority to stop any activity that is unable to be carried out safely. The Chief Executive also continues to send staff weekly emails on business updates, changes and achievements.
- Staff received the *Your Source* newsletter in February and March. The lead story in February was on Jennifer Mayo, a backflow and metering data analyst, who had demonstrated excellence in customer service. In March, it was on the 'Mangere Mountain Warriors', a group from the treatment plant who have formed a lunchtime workout group.

The following activities are underway:

- The new intranet will be launched in late April.
- Homesafe, the informational H&S poster, will be distributed to staff in March. It will focus on the benefits of the flu vaccine.

11. WORKING WITH LOCAL BOARDS

During February and March 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 have also been invited to attend Watercare's tours of the Mangere wastewater treatment plant.

A full schedule of local board interactions over the month is attached as Appendix D.

12. MAORI ENGAGEMENT

Since late 2013 the Mana Whenua Kaitiaki Forum has been considering expanding its mandate so that it provides senior level engagement between Mana Whenua entities and the whole council leadership. At present the primary relationship is between Watercare and Mana Whenua entities.

Auckland Council has commissioned a business case to set out the rationale of the proposal. The Forum resolved at its 28 January meeting to propose an *Integrated Structure* that provides a Forum 'top table' comprising representatives of the Mana Whenua entities, plus three work groups. The Forum would agree a work programme with the council family leadership and this would be funded by the council family.

It is understood that the Auckland Council Executive Leadership Group will consider the proposal in February 2016.

If the proposal is accepted by Auckland Council, Watercare's participation with the Forum would be similar with respect to water activities, however the Forum would also be involved in cross Council activities. As such our direct relationship with the Forum members will be shared. Whilst Watercare is currently a Forum member, if the proposal is accepted, we would no longer be a Forum member and our meeting attendance would be dictated by the meeting agenda.

13. HUMAN RESOURCES UPDATE

A number people-related improvement initiatives are planned and underway. Updates on activities to date are below:

- Employee Assistance Program (EAP) – we have refreshed the program and relaunched it with supporting booklets and information packs provided to managers. Management continues to focus on increasing visibility of EAP services and uptake by Watercare staff.
- Update of Human Resources policies – a review of our policies is underway utilising employment specialists as required. The objective is to produce fewer but more 'plain English' based policies, and a Watercare specific "The Way We Work" style booklet to bring together a number of messages for staff on behaviour and our values. It will also cover some matters which are currently conveyed in formal Human Resources policies. The document will be user friendly and will support induction and recruitment processes.
- A Flexible Working Hours policy has been released which affords the opportunity to start later or leave earlier within some core hours (9am – 4pm), while working an 8 hour day.
- Mariner 7 trial – we are trialling an on-line staff performance management system which would allow us to move to a more modern, consistent and effective basis for staff performance appraisals. The trial will be undertaken over the next 3 months.

- Staff survey scoping – initial discussions have been held with survey provider IBM Kenexa. The 2016 survey will build on prior years, focusing on questions which provide feedback on progress against issues previously raised by staff. The survey will be run in late May.

Recruitment will begin shortly for a People and Performance Manager to head the Human Resources function, reporting to the General Manager Corporate Services.

A breakdown of training hours by gender for the six months to 31 December 2015 was provided at February Board meeting. A further update will be presented at the May Board meeting.

14. SUMMARY OF WATERCARE'S SUBMISSION ON THE RESOURCE LEGISLATION AMENDMENT BILL 2015

Watercare made a submission on the Resource Legislation Amendment Bill 2015 on 14 March. This Bill, which contains around 40 proposals, was introduced to Parliament on 26 November 2015 and represents the second phase of the Government's resource management reform programme. A major concern identified by Watercare, and consistent with Auckland Council, was that this Bill can be viewed as ad hoc and premature and, as a result, should be deferred until a full review, and possible reform, of New Zealand's planning system is performed. The Productivity Commission's inquiry "Better urban planning" and the proposed "NPS for Urban Development" are part of this review. The major driver of this Bill is to better enable residential development, however there is insignificant recognition in the Bill of associated infrastructure needed to support such growth. The Bill also recommends many other changes in an effort to speed up the planning and consenting processes but this increases risks to Watercare such as reverse sensitivity. Stronger national direction, via the granting of wide-ranging powers for the Minister, is indicated by the introduction of "National Planning Templates" and a "Streamlined Planning Process". Proposed Iwi Participation Agreements (IPA) and a "Collaborative Planning Process" are also introduced. Watercare also took the opportunity to request the need for prioritised water allocation for human drinking water and sanitation proposes and longer resource consent terms.

15. PRODUCTIVITY COMMISSION'S "BETTER URBAN PLANNING" INQUIRY

Watercare has submitted on this 'blue skies' issues paper. Essentially this inquiry represents an opportunity to take a new approach to urban planning, starting from first principles. Submissions received will help form the Commission's final report to the Government on 30 November 2016. We have emphasised the importance to properly align urban planning with infrastructure planning and that national direction is needed to give priority to the allocation of water for human drinking and sanitation purposes.

16. MINISTRY FOR THE ENVIRONMENT'S "NEXT STEPS FOR FRESH WATER – CONSULTATION DOCUMENT"

Watercare will make a submission on the 'Next Steps for Fresh Water' consultation document. The document mainly results from the latest round of recommendations made by the Land & Water Forum. Proposals made by MfE within this document are quite wide-ranging. More amendments to the NPS for Freshwater Management 2014 are suggested, including possible criteria for 'significant

infrastructure' exceptions being made. Issues around water transferability and the possible use of allocation technical efficiency standards are raised. An additional process to involve iwi in water issues and natural resource management is also suggested. Submissions close 22 April.



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R Jaduram
CHIEF EXECUTIVE

WATERCARE SERVICES LIMITED
Management Report

Feb-16

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1	Financial Results	
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WATERCARE SERVICES LIMITED

Feb-16

Key Financial Indicators

Financial performance	YTD	Page Ref
Total Revenue	●	A1
Operating Costs	●	A1
Interest expense	●	A1
Depreciation	●	A1
Net Contribution	●	A1
Financial position		
Net Borrowings	●	A4
Cashflow		
Operating cashflow	●	A2
Investing cashflow	●	A2
Treasury policy	Compliance	Page Ref
Committed facilities (liquidity risk)	●	A5
Fixed interest rate risk	●	A5
Credit risk	●	A6
Funding risk	●	A6, A7
Foreign exchange risk	●	A7

Key to Financial performance, Financial position and cashflow measures

Favourable variance - actual result on or above budget for total revenue, net contribution, operating cash flow and actual result below budget for operating expenses, interest, depreciation, net borrowings and investing cash flow



Unfavourable variance - actual result below budget for total revenue, net contribution, operating cash flow and actual result above budget for operating expenses, interest, depreciation, net borrowings and investing cash flow

Key to Treasury policy compliance

Full compliance



Non compliance

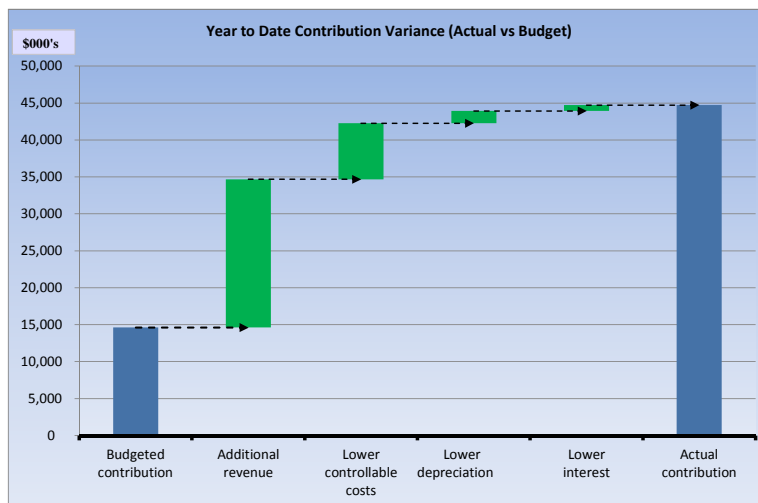
WATERCARE SERVICES LIMITED
STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE

Feb-16
 (\$000's)

	Current Month				Year to Date				Full Year			
	Actual	Budget	Variance	Result	Actual	Budget	Variance	Result	Forecast	Budget	Variance	Result
Wastewater revenue	25,082	24,540	542	✓	204,661	199,829	4,832	✓	305,118	300,286	4,832	✓
Water revenue	12,225	12,107	118	✓	95,285	95,044	240	✓	142,856	142,982	(125)	✗
Infrastructure growth charge revenue	4,479	3,627	852	✓	35,878	34,088	1,790	✓	57,520	57,520	0	✓
Other revenue	(1,112)	1,234	(2,346)	✗	13,692	15,494	(1,802)	✗	23,875	26,044	(2,169)	✗
Revenue from exchange transactions	40,674	41,508	(834)	✗	349,515	344,455	5,060	✓	529,370	526,832	2,538	✓
Vested assets revenue	934	861	72	✓	21,905	6,892	15,013	✓	25,351	10,338	15,013	✓
Revenue from non-exchange transactions	934	861	72	✓	21,905	6,892	15,013	✓	25,351	10,338	15,013	✓
Total revenue	41,608	42,370	(761)	✗	371,421	351,347	20,074	✓	554,721	537,170	17,551	✓
Labour	6,122	6,693	571	✓	47,747	51,154	3,407	✓	74,507	78,478	3,971	✓
Contract labour	215	192	(23)	✗	1,390	1,499	109	✓	2,194	2,274	81	✓
Oncosts	264	317	53	✓	2,076	2,460	384	✓	3,322	3,718	396	✓
Labour recoveries	(2,400)	(3,237)	(837)	✓	(20,931)	(25,758)	(4,827)	✗	(33,705)	(39,436)	(5,731)	✗
Net labour	4,202	3,965	(237)	✗	30,281	29,355	(926)	✗	46,318	45,035	(1,283)	✗
Materials & cost of sales	168	169	1	✓	1,407	1,400	(6)	✗	2,096	2,106	9	✓
Planned maintenance	1,093	1,313	220	✓	9,005	10,161	1,156	✓	16,208	16,002	(206)	✗
Unplanned maintenance	3,626	2,833	(793)	✗	24,282	21,840	(2,443)	✗	35,503	32,542	(2,961)	✗
Asset operating costs - chemicals	852	1,016	164	✓	7,051	6,908	(143)	✗	11,156	10,653	(503)	✗
Asset operating costs - energy	1,450	1,365	(85)	✗	11,540	11,298	(242)	✗	18,242	17,801	(441)	✗
Operating costs - other	3,558	3,610	52	✓	24,246	28,378	4,132	✓	39,150	42,855	3,706	✓
Depreciation and amortisation	17,485	17,698	213	✓	142,554	144,220	1,666	✓	216,821	217,122	301	✓
Asset operating costs	28,064	27,835	(230)	✗	218,678	222,804	4,127	✓	337,080	336,975	(105)	✗
Communications	129	167	38	✓	1,158	1,365	207	✓	1,811	2,019	208	✓
Professional services	654	1,282	628	✓	5,730	10,189	4,459	✓	9,100	14,637	5,538	✓
Interest	6,217	5,771	(446)	✗	51,134	51,923	789	✓	78,213	78,207	(6)	✗
General overheads	2,214	2,333	120	✓	18,295	19,680	1,385	✓	27,864	29,117	1,253	✓
Overheads	9,214	9,553	339	✓	76,318	83,157	6,839	✓	116,988	123,980	6,992	✓
Total expenses	41,649	41,523	(126)	✗	326,684	336,717	10,033	✓	502,481	508,096	5,614	✓
Total contribution/(loss)	(41)	847	(888)	✗	44,737	14,630	30,107	✓	52,239	29,074	23,165	✓
Gain/loss on disposal of fixed assets and other costs	355	430	75	✓	6,432	2,040	(4,392)	✗	8,024	3,000	(5,024)	✗
Gain/loss on revaluation of financial instruments	39,163	-	(39,163)	✗	90,396	-	(90,396)	✗	90,396	-	(90,396)	✗
Non operating (costs)/revenue	39,517	430	(39,087)	✗	96,828	2,040	(94,788)	✗	98,420	3,000	(95,420)	✗
Net surplus/(deficit) before tax	(39,558)	417	(39,975)	✗	(52,091)	12,590	(64,681)	✗	(46,180)	26,074	(72,254)	✗
Income Tax Expense/(benefit)	-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax	(16,312)	(264)	16,047	✓	(12,127)	10,697	22,825	✓	(2,756)	21,490	(24,246)	✗
Net surplus/(deficit) after tax	(23,247)	681	(23,928)	✗	(39,963)	1,893	(41,856)	✗	(43,424)	4,584	(48,009)	✗

Key: Financial performance result

- ✓ Favourable variance - actual income on or above budget and actual expenditure on or below budget
- ✗ Unfavourable variance - actual income below budget and actual expenditure above budget

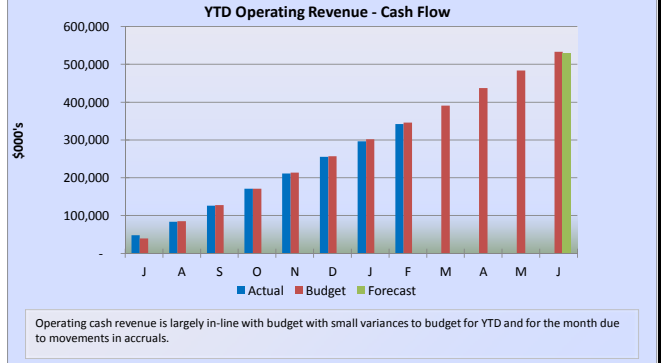


WATERCARE SERVICES LIMITED
STATEMENT OF CASH FLOWS

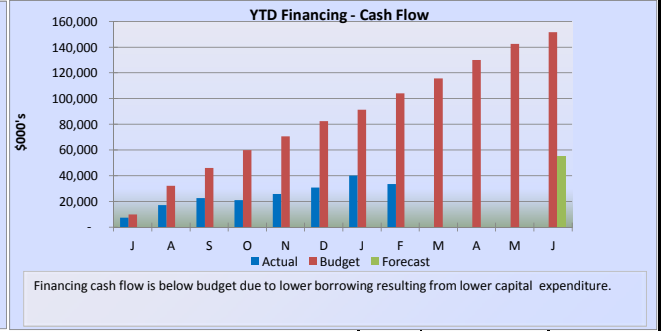
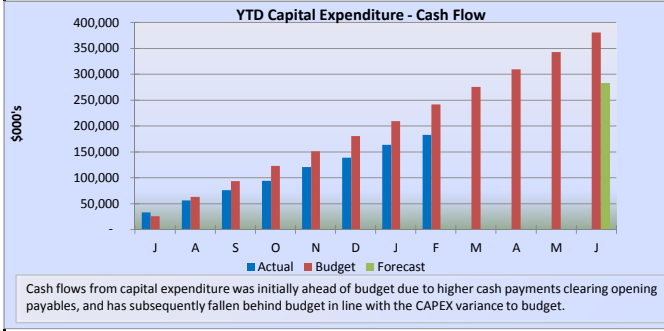
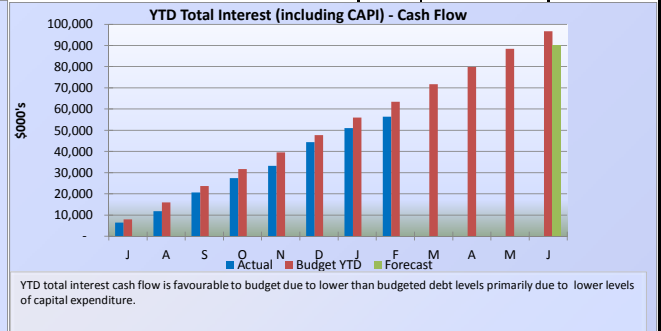
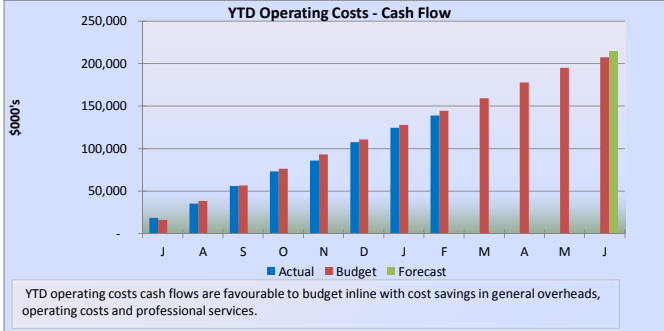
Feb-16

(\$000's)												
NZ \$000s	Current Month				Year to Date				Full Year			
	Actual	Budget	Variance	Result	Actual	Budget	Variance	Result	Forecast	Budget	Variance	Result
Operating Cash flow:												
Operating Revenue	45,655	43,988	1,667	✓	341,972	345,646	(3,674)	✗	529,659	533,286	(3,626)	✗
Operating Costs	(14,412)	(16,631)	2,219	✓	(138,768)	(144,433)	5,665	✓	#####	#####	(7,203)	✗
Interest Paid	(4,567)	(5,771)	1,204	✓	(48,255)	(51,923)	3,668	✓	(78,384)	(78,207)	(177)	✗
OPERATING CASH FLOW	26,676	21,586	5,090	✓	154,949	149,290	5,659	✓	236,738	247,745	(11,006)	✗
Investing Cash flow:												
Capital Expenditure	(19,200)	(32,643)	13,443	✓	(182,860)	(241,933)	59,073	✓	#####	#####	98,437	✓
Capitalised Interest (CAPI)	(875)	(1,652)	777	✓	(8,192)	(11,453)	3,261	✓	(11,963)	(18,501)	6,538	✓
INVESTING CASH FLOW	(20,075)	(34,295)	14,220	✓	(191,052)	(253,386)	62,334	✓	#####	#####	104,975	✓
Financing Cash flow:												
Short Term Advances/(Repaid)	(6,500)	(6,500)	-	✓	11,500	11,500	-	✓	11,500	11,500	-	✓
Commercial Paper Issued/(Repaid)	56	56	-	✓	301	301	-	✓	301	301	-	✓
Auckland Council Borrowings/(Repaid)	(172)	19,153	(19,325)	✓	21,770	92,296	(70,526)	✓	42,968	139,728	(96,760)	✓
FINANCING CASH FLOW	(6,616)	12,709	(19,325)	✓	33,571	(70,526)	104,097	✓	54,769	151,529	(96,760)	✓
Net Increase (Decrease) in Cash and Cash Equivalents	(15)	-	(15)	✗	(2,532)	-	(2,532)	✗	(2,792)	-	(2,792)	✗
Opening Cash Balance/(Overdraft)	275	-	275	✓	2,792	-	2,792	✓	2,792	-	2,792	✓
Ending Cash Balance/(Overdraft)	260	-	260	✓	260	-	260	✓	-	-	-	✓

Key: Financial performance result
 ✓ Favourable variance - actual income above budget or actual expenditure below budget
 ✗ Unfavourable variance - actual income below budget or actual expenditure above budget

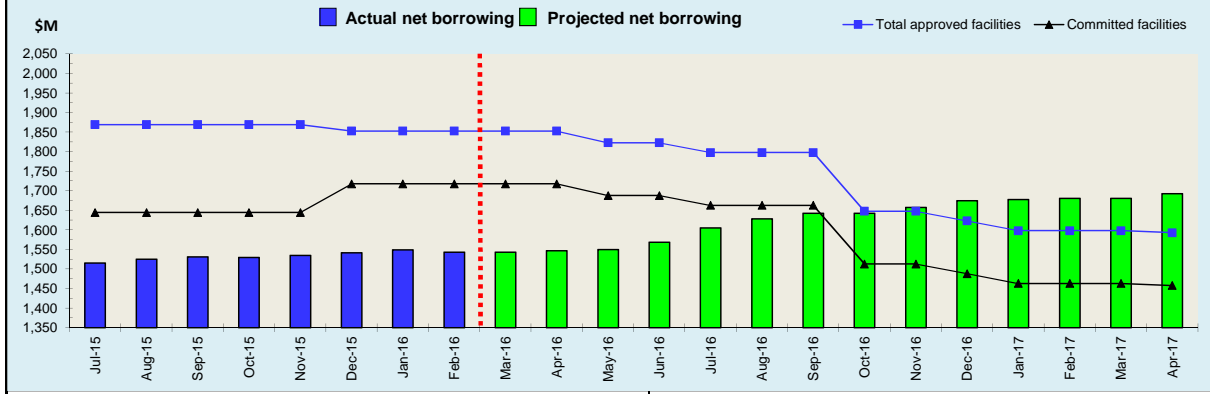


Reconciliation Operating Cashflow (\$000's)					
	Current Month		Year to Date		
	Actual	Budget	Actual	Budget	Variance
Net Surplus (Deficit) After Tax	(23,247)	681	(39,963)	1,893	(41,856)
Add back non cash items:					
Depreciation and amortisation	17,485	17,698	142,554	144,220	(1,666)
Financial instruments revaluation	39,163	-	90,396	-	90,396
Vested assets revenue	(934)	(861)	(21,905)	(6,892)	(15,013)
Other non-operating exp/(inc)	355	430	6,046	2,040	4,006
Income Tax Expense/(Benefit)	(16,312)	(264)	(12,127)	10,697	(22,825)
Movements in Working Capital	10,165	3,903	(10,051)	(2,668)	(7,383)
OPERATING CASH FLOW	26,676	21,586	154,949	149,290	5,659



WATERCARE SERVICES LIMITED							Feb-16	
STATEMENT OF FINANCIAL POSITION							(\$000's)	
June 2015 Actual	January Actual		February			June 2016		
			Actual	Budget	Variance	Forecast	Budget	Variance
		Current assets						
2,792	275	Cash and cash equivalents	260	-	260	-	-	-
47,826	56,868	Trade and other receivables from exchange transactions	52,097	49,707	2,391	48,000	51,198	(3,198)
19,524	23,260	Unbilled revenue accrual	23,312	20,824	2,488	19,576	20,044	(468)
3,000	3,369	Prepaid expenses	2,961	1,492	1,469	2,384	2,307	77
4,058	5,397	Inventories	5,728	4,539	1,189	5,728	4,539	1,189
2,310	1,360	Derivative financial instruments	1,489	2,526	(1,037)	1,489	2,526	(1,037)
79,511	90,529	Total current assets	85,848	79,087	6,761	77,177	80,614	(3,437)
		Non-current assets						
8,172,155	8,287,187	Property, plant and equipment	8,301,480	8,375,105	(73,625)	8,409,207	8,607,480	(198,274)
383,539	436,404	Construction/work-in-progress	443,192	448,474	(5,282)	454,956	462,687	(7,731)
(27,673)	(146,733)	Provision for depreciation	(163,936)	(169,967)	6,032	(235,826)	(240,925)	5,098
8,528,021	8,576,858	Total property, plant and equipment	8,580,736	8,653,612	(72,876)	8,628,337	8,829,243	(200,907)
40,184	37,535	Intangible assets	36,940	43,418	(6,478)	37,140	42,838	(5,697)
23,692	23,431	Prepaid expenses	23,394	23,422	(28)	23,246	23,274	(28)
3,884	4,422	Inventories	4,439	3,504	935	4,439	3,504	935
9,086	12,650	Derivative financial instruments	14,825	7,794	7,031	14,825	7,794	7,031
8,604,867	8,654,896	Total non-current assets	8,660,334	8,731,750	(71,416)	8,707,987	8,906,653	(198,666)
8,684,378	8,745,425	Total assets	8,746,182	8,810,837	(64,655)	8,785,164	8,987,267	(202,103)
		Current liabilities						
-	-	Bank Overdraft	-	-	-	-	-	-
148,693	148,938	Commercial paper	148,994	148,640	353	148,994	148,640	353
30,264	30,272	Bonds (18/05/16)	30,272	30,272	-	30,272	30,263	9
-	150,000	Term loan	150,000	150,000	-	150,000	150,000	-
18,918	76,641	Auckland council loan	76,634	29,356	47,278	76,634	29,328	47,306
197,875	405,851	Total debt current	405,900	358,268	47,632	405,900	358,231	47,668
19,407	13,270	Trade and other payables for exchange transactions	16,563	22,694	(6,131)	18,898	25,228	(6,330)
10,380	13,500	Interest accrued	15,072	14,893	179	12,072	15,216	(3,143)
58,862	44,855	Other accrued expenses	47,075	49,241	(2,166)	59,139	50,316	8,823
6,926	6,299	Provision for staff benefits	6,509	5,613	896	6,509	4,953	1,556
5,170	3,806	Other provisions	2,056	5,572	(3,516)	1,704	9,149	(7,445)
22,179	28,419	Derivative financial instruments	30,318	19,441	10,877	30,318	19,441	10,877
320,799	516,000	Total current liabilities	523,493	475,721	47,772	534,540	482,533	52,006
		Non-current liabilities						
75,000	75,000	Bonds (26/10/18)	75,000	75,000	-	75,000	75,000	-
50,667	50,505	Bonds (26/10/18)	50,484	50,681	(197)	50,484	50,689	(205)
150,000	-	Term loan (13/10/16)	-	-	-	-	-	-
-	18,000	Bank revolving credit facility	11,500	8,500	3,000	11,500	21,500	(10,000)
1,043,422	1,007,640	Auckland council loan	1,007,475	1,129,930	(122,455)	1,028,594	1,164,392	(135,798)
1,319,089	1,151,145	Total debt non-current	1,144,459	1,264,111	(119,652)	1,165,577	1,311,581	(146,003)
18,700	17,292	Other accrued expenses	17,232	29,423	(12,190)	18,231	29,683	(11,452)
3,484	3,577	Other Provisions	3,577	3,577	-	3,485	-	3,485
1,267	1,296	Provision for staff benefits	1,296	1,647	(351)	1,296	1,751	(455)
135,247	182,855	Derivative financial instruments	222,422	137,203	85,219	222,422	137,203	85,219
1,011,130	1,015,312	Deferred tax liability	999,001	1,030,540	(31,539)	1,008,372	1,072,657	(64,285)
2,488,917	2,371,477	Total non-current liabilities	2,387,987	2,466,500	(78,513)	2,419,383	2,552,875	(133,490)
2,809,715	2,887,477	Total liabilities	2,911,480	2,942,221	(30,741)	2,953,923	3,035,408	(81,484)
		Equity						
260,693	260,693	Issued capital	260,693	260,693	-	260,693	260,693	-
1,812,971	1,813,045	Revaluation reserve	1,814,421	1,812,974	1,447	1,814,421	1,893,526	(79,105)
3,856,351	3,800,927	Retained earnings	3,799,551	3,793,056	6,495	3,799,551	3,793,056	6,495
(55,352)	(16,717)	Current year earnings after tax	(39,963)	1,893	(41,856)	(43,424)	4,584	(48,009)
5,874,663	5,857,948	Total equity	5,834,702	5,868,616	(33,914)	5,831,241	5,951,859	(120,619)
8,684,378	8,745,425	Total equity and liabilities	8,746,182	8,810,837	(64,655)	8,785,164	8,987,267	(202,103)

TREASURY RISKS AND INTEREST RATE PERFORMANCE Feb-16



Interest rates			
	Actual YTD	Benchmark YTD	Year end forecast
Weighted averages (excl. fees and margins)	4.92%	4.30%	4.90%
Weighted averages (incl. fees and margins)	6.00%	N/A	5.97%

Debt (\$M)			
	Actual	Budget	Variance
Short-term borrowings	405.9	358.3	47.6
Long-term borrowings	1,144.5	1,264.1	(119.7)
Total gross debt	1,550.4	1,622.4	(72.0)
Less cash & deposits	-	-	-
Total net borrowing	1,550.4	1,622.4	(72.0)

Committed facilities

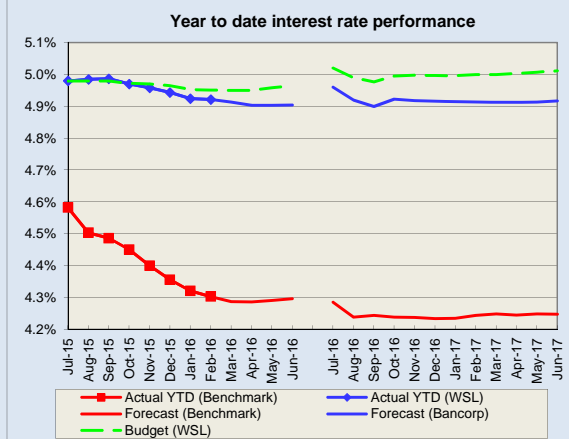
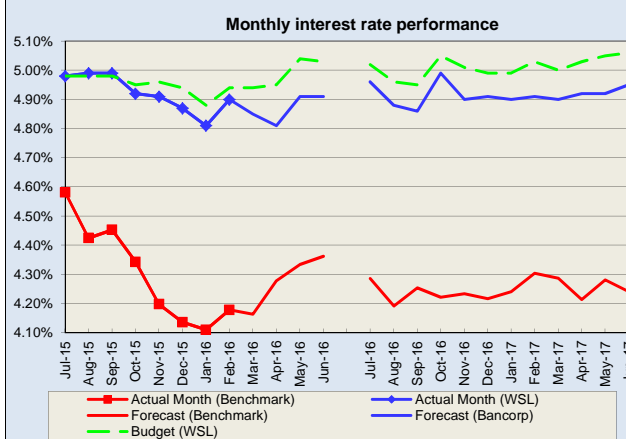
- Westpac Term Loan facility \$150 million
- BNZ CP Standby facility \$175 million
- Westpac Revolving Credit facility \$60 million
- Medium term notes \$155 million
- Auckland Council \$1,178 million

Total committed facilities as at 29 February \$1,718 million

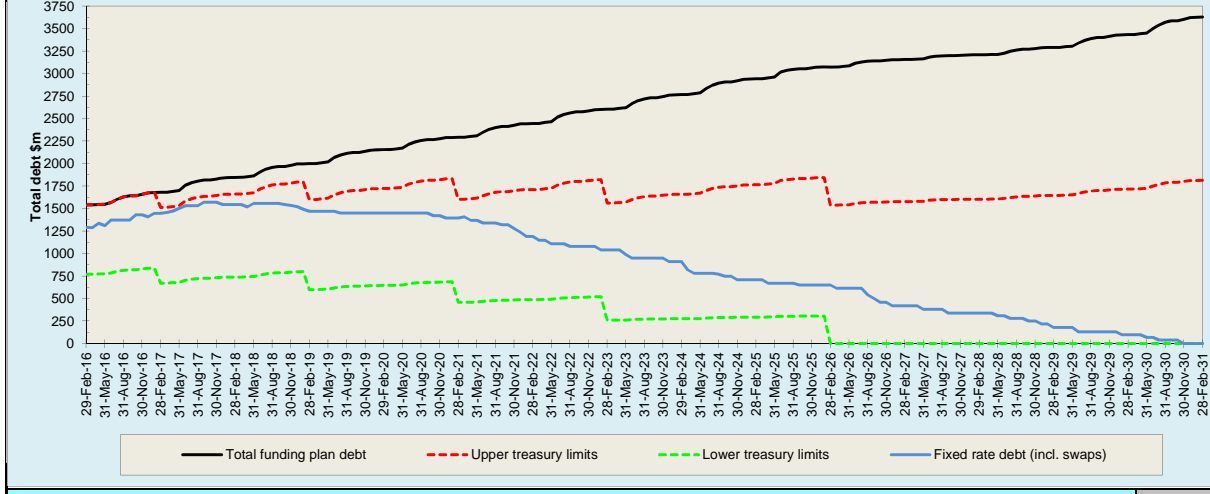
Additional approved facilities

- Approved new funding from Auckland Council \$60 million
- Approved CP issuance, over and above CP Standby facility \$75 million

Total approved facilities as at 29 February \$1,853 million



Forecast total debt profile



COUNTERPARTY EXPOSURES, DEBT CONCENTRATION & COVENANT COMPLIANCE						Feb-16		
Counterparty exposures	S&P credit rating Short / long term	Face value \$000	Credit exposures \$000	Limit \$000	Limit OK / exceeded			
Obligations of registered banks								
ANZ Bank	A1+ / AA-	705,000	3,781	100,000	Limit OK	✓		
Bank of New Zealand	A1+ / AA-	616,000	21,346	100,000	Limit OK	✓		
Commonwealth Bank of Australia	A1+ / AA-	115,000	1,354	100,000	Limit OK	✓		
Kiwibank	A1 / A+	25,000	177	75,000	Limit OK	✓		
Westpac Institutional Bank	A1+ / AA-	565,299	30	100,000	Limit OK	✓		
		2,026,299	26,689					
<i>Note: Credit exposures are the aggregate of direct exposures, 10% of the 'face' value of forward foreign exchange contracts, 15% of the 'face' value of electricity hedging contracts, and the sum of the MTM value of interest rate derivative contracts plus a 3% 'risk' factor (if this produces a positive value).</i>								
Debt concentration \$000								
Committed debt facilities	Maturity	0-12 months	12-24 months	24-36 months	36-48 months	48-60 months	> 60 months	Total
Westpac Term Loan facility	13/10/16	150,000						150,000
BNZ CP Standby facility	1/07/17		175,000					175,000
Westpac Revolving Credit facility	30/11/18			60,000				60,000
Medium-term notes	Various	30,000		125,000				155,000
Auckland Council	Various	74,668	83,368	2,243	230,000	52,243	735,000	1,177,522
Total committed debt facilities		254,668	258,368	187,243	230,000	52,243	735,000	1,717,522
Approved new funding from Auckland Council							60,000	60,000
Approved CP issuance, over and above CP Standby							75,000	75,000
Total committed and approved debt facilities		254,668	258,368	187,243	230,000	52,243	870,000	1,852,522
Treasury policy - total committed debt facilities		<= 500,000	<= 500,000	<= 500,000	<= 500,000	<= 500,000		
Treasury policy compliance		✓	✓	✓	✓	✓		
Drawn bank facilities	Maturity	0-6 months	6-12 months	12-18 months	18-24 months	24-30 months	> 30 months	Total
Westpac Term Loan facility (\$150m)	13/10/16		150,000					150,000
BNZ CP Standby facility (\$175m)	1/07/17							0
Westpac Revolving Credit facility (\$60m)	30/11/18						11,500	11,500
		0	150,000	0	0	0	11,500	161,500
Treasury policy for drawn bank facilities		<= 250,000	<= 250,000	<= 250,000	<= 250,000	<= 250,000	<= 250,000	
Treasury policy compliance		✓	✓	✓	✓	✓	✓	
Other facilities								
BNZ overdraft	On demand	2,000						2,000
		2,000	0	0	0	0	0	2,000
Counterparty exposure in relation to borrowing facilities		Westpac	BNZ	ANZ	CBA	Kiwibank		
Term loan facility		150,000						
Revolving credit facility		60,000						
CP standby facility			175,000					
		210,000	175,000	0	0	0		
Treasury policy		<= 500,000	<= 500,000	<= 500,000	<= 500,000	<= 500,000		
Treasury policy compliance		✓	✓	✓	✓	✓		
Compliance with financial covenants and ratios under the Negative Pledge Deed and Guarantee Facility Deed								
Covenant / ratio	Benchmark/target measure		Outcome		Compliance			
Security interests / total tangible assets - maximum	5%		0.00%		✓			
Total liabilities / total tangible assets - maximum	60%		33.43%		✓			
Total liabilities (including contingent) / total tangible assets - maximum	65%		33.43%		✓			
Shareholders funds - minimum (\$000)	500,000		5,834,702		✓			
EBITDA : funding costs ratio - minimum	1.75		4.23		✓			
Funds from operations : interest cover ratio - minimum	2.00		3.65		✓			
Total tangible assets of borrowing group / total tangible assets - minimum	90%		100.00%		✓			
Loans, guarantees etc to related companies / total tangible assets - maximum	5%		0.00%		✓			
External debt maturing in less than 5 years - minimum	50%		100.00%		✓			
								Page A6

FOREIGN EXCHANGE, COMMERCIAL PAPER & ELECTRICITY HEDGING							Feb-16					
Foreign currency exposures (NZ\$000) including hedging for chemical purchases							USD	EUR	Total			
Total exposure to be hedged							707	337	1,044			
Foreign exchange hedging							707	337	1,044			
Percentage cover							100%	100%	100%			
Treasury policy							100%	100%	100%			
Treasury policy compliance							✓	✓	✓			
Hedging for chemical purchases (US\$000)					Mar-16	Sep-16	Mar-17	Sep-17	Total			
Chemicals forward foreign exchange hedging					250				250			
Treasury policy									<= 5,000			
Treasury policy compliance									✓			
Commercial paper maturities												
Issue #	\$000	BKBM	Interest rate	Bid cover (x)	Term (days)	Maturity date						
287	50,000	2.820%	2.910%	2.00	91	9-Mar-16						
288	50,000	2.700%	2.695%	2.48	91	29-Apr-16						
289	50,000	2.575%	2.550%	3.00	90	25-May-16						
	150,000		2.718%									
<p>Note: BKBM is the banks' mid-rate for bank bills of a similar term on the CP issue date.</p>												
					Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Beyond Aug-16	Total
Outstanding CP					50,000	50,000	50,000	0	0	0	0	150,000
Uncommitted short-term debt												0
					50,000	50,000	50,000	0	0	0	0	150,000
Treasury policy for maximum amount of CP outstanding											<= 250,000	
Treasury policy compliance											✓	
Undrawn committed standby facilities				1 month	1-2 months	2-3 months	3-4 months	4-5 months	5-6 months	> 6 months		
Undrawn committed standby facility - CP facility				175,000	175,000	175,000	175,000	175,000	175,000	175,000	175,000	
50% of CP and other short-term debt repayable within 60 days				50,000	50,000	25,000	0	0	0	0	0	
Treasury policy: Undrawn standby facilities >= 50% of outstanding CP and other uncommitted short-term debt repayable within 60 days												
Treasury policy compliance				✓	✓	✓	✓	✓	✓			
Electricity hedging (NZ\$000)				0-6 months	6-12 months	12-18 months	18-24 months	24-30 months	30-36 months	36-42 months	42-48 months	
Contract maturity												
Contract length												
Total value of outstanding contracts				0								
Treasury policy for maximum value of outstanding contracts				<= 10,000								
Treasury policy compliance				✓								

WATERCARE SERVICES LIMITED

Management Report

Feb-16

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Management Report
Monthly Statistics Update

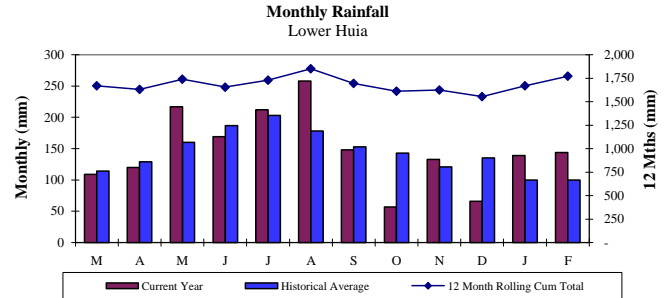
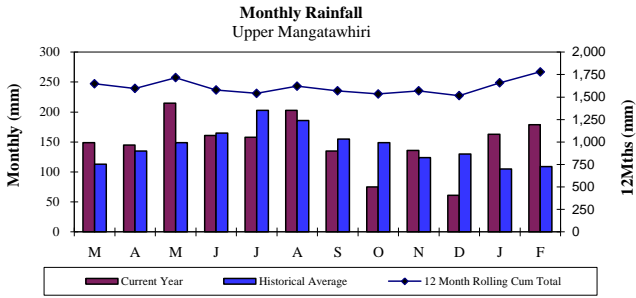
WATERCARE SERVICES LIMITED

Feb-16

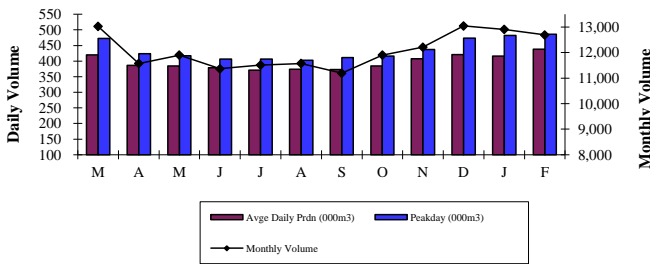
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Rainfall

Rainfall	Current Month	12 Mth Cumulative Rolling	Rainfall	Current Month	12 Mth Cumulative Rolling
Actual - Upper Mangatawhiri	179 mm	1780 mm	Actual - Lower Huia	144 mm	1772 mm



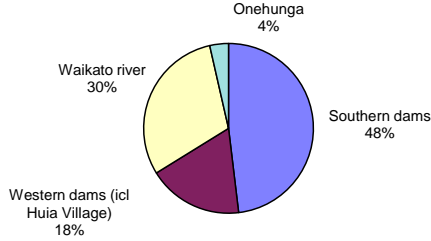
Water Production - Metropolitan Supply



Treated water volumes (000m ³)	Current Month	12 Month Rolling Ave
Monthly Volume	12,691	12,691
Average Daily Production	438	12,075
Peak Day	486	486 ¹

1. Max peak day in past 12 months

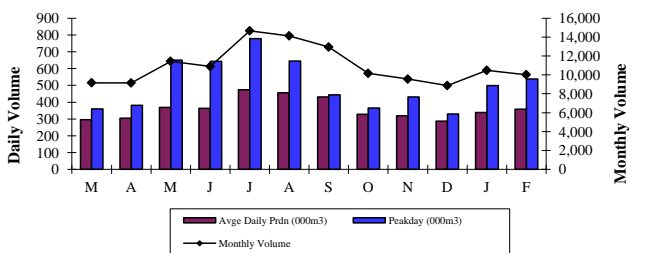
Treated water volumes for the month



Treated water volumes (000m ³)	Current Month		Year to Date		
	Actual	% Budget	Actual	% Budget	Budget
Southern dams	6,104	48%	45,214	47%	65,008
Western dams	2,295	18%	19,682	20%	18,778
Waikato river	3,839	30%	27,611	28%	9,778
Onehunga aquifer	452	4%	4,523	5%	2,557
Total	12,691	100%	97,030	100%	96,121

By utilising the Waikato river and Onehunga above budget, total dam storage level achieved at 83%

Wastewater Treatment - Metropolitan Treatment



	Current Month	12 Month Rolling Ave
Monthly Volume (000m ³)	10,016	10,957
Average Daily Production	358	360
Peak Day	538	779 ²

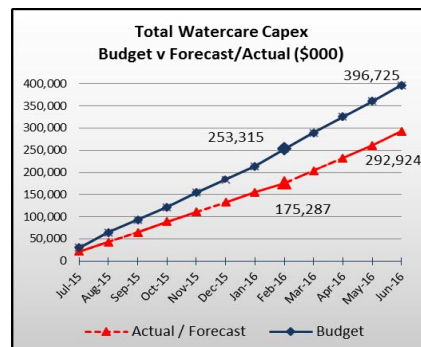
2. Max peak day in past 12 months

WATERCARE PUBLIC REPORT

CAPITAL EXPENDITURE



TOTAL WATERCARE EXPENDITURE	Year to Date		Annual Performance	
	Actual	Budget	Actual + Forecast	Budget
Strategy & Planning	4,904	14,894	7,898	32,209
Infrastructure Delivery	137,134	178,616	220,872	271,721
Service Delivery	15,089	32,361	33,026	52,569
Retail	4,089	5,605	6,670	8,150
Information Services	4,226	5,985	7,934	7,380
Other	1,653	4,401	4,560	6,195
Capitalised Interest	8,192	11,453	11,963	18,501
Watercare Total	175,287	253,315	292,924	396,725



Project / Programme Infrastructure Related Projects (Phase: Design / Execution)	Project Performance		Annual Performance		Status	
	Capex Outturn Estimate	Current Forecast	Forecast	Budget	Time	Cost

Water Projects >\$15 Million

Hunua No 4 Programme	385,372	386,627	57,430	50,514		
North Harbour Watermain Duplication	240,000	239,992	4,789	7,265		
Waikato 175MLD Expansion Stage Ultimate	48,880	48,838	10,000	12,000		
Huia No 1 Watermain Replacement	42,103	42,080	1,166	4,423		
Ardmore WTP Treated Water Resilience	32,120	31,864	494	1,503		

Wastewater Projects >\$15 Million

Central Interceptor Feasibility Design	960,470	960,470	10,080	14,471		
Northern Interceptor - Stage 1	148,200	148,184	1,906	4,414		
Mangere WWTP BNR Capacity	141,040	141,040	52,044	51,500		
Mangere WWTP Solids Stream Upgrade	74,800	51,600	11,697	11,960		
Rosedale WWTP Expansion Project	63,954	63,771	1,449	2,985		
Pukekohe WWTP Upgrade	59,000	59,000	3,581	5,422		
Pukekohe Trunk Sewer Upgrade	53,000	52,601	6,749	4,755		
Puketutu Island Rehabilitation	29,385	29,724	1,430	10,000		
Fred Thomas Drive WW PS & Storage Tank	27,721	27,721	4,033	6,976		
Army Bay WWTP Outfall Upgrade	27,500	27,475	961	758		
Glendowie Branch Sewer Upgrade	28,775	28,745	685	880		

Shared Services >\$15 Million

Networks Controls Upgrade	19,944	20,073	2,706	3,500		
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Capex Programme (Design / Execution)

>\$15 Million	2,382,264	2,359,803	171,201	193,325
>\$2 Million <\$15 Million	135,175	139,942	22,451	40,398
<\$2 Million	67,192	86,689	27,584	33,394
TOTAL	2,584,631	2,586,434	221,236	267,117

Watercare Services Ltd
Financial Summary 2015-16
Report Period February 2016
Infrastructure Related Projects: Strategy & Planning / Infrastructure Delivery / Service Delivery

Traffic light Key:

On target / No adverse Service Delivery impact
Short to medium term issues that may impact on outcomes or targets / Minor Service Delivery Impacts
Medium to long term issues that are impacting on outcomes or targets / Risk of significant Service Delivery Impact
Underspend on the capex variance (-10%)
No approved capex or the project is "in-service" indicating the issue is not critical

Local Board Interaction (As at 18 March 2016)

Local Board	Chair	Deputy Chair	January-16	February -16	March-16
Albert - Eden	Peter Haynes	Glenda Fryer	Invite for Mangere Wastewater Treatment Plant Open Day event (26 Jan). Information on reservoir roof replacement and opening date (28 Jan 16). Escalation of wastewater overflow issue – resolved (29 Jan)		Notification of pending H4 works in Campbell Road (8 Mar). Response to Chairman re opening of Dog Walking area in Owiraka (10 Mar).
Devonport - Takapuna	Joseph Bergen Watercare Rep (5 May 2015 to end of the 2013-2016 term)	Grant Gillion (5 May 2015 to end of the 2013-2016 term)	Notification of wastewater overflow at Milford (11 Jan). Media opportunity re Fred Thomas Drive Pump Station (22 Jan)	Notice of start of works at Fred Thomas Drive (18 Feb).	
Franklin	Andy Baker	Jill Naysmith	Invite for Mangere Wastewater Treatment Plant Open Day event (26 Jan)	Information in response to customer complaint on the fixed wastewater charge (16 Feb).	
Great Barrier	Izzy Fordham	Susan Daly			
Henderson - Massey	Vanessa Neeson	Shane Henderson	Information re geotech investigations in Lowtherst Reserve for Northern Interceptor project (13 Jan). Invite for Mangere Wastewater Treatment Plant Open Day event (26 Jan)		
Hibiscus and Bays	Julia Parfitt	Greg Sayers		Update on works at Orewa Reserve (26 Feb)	Follow up on works at Orewa Reserve (3 Mar)
Howick	David Collings	Adele White	Invite for Mangere Wastewater Treatment Plant Open Day event (26 Jan)	Flyer on the Howick Wastewater Pump Station Upgrade (18 Feb)	Notification of pending H4 works in Campbell Road (8 Mar). Tamaki Estuary Environment Forum presentation with Watercare and Stormwater (9 Mar)
Kaipatiki	Kay McIntyre	Ann Hartley	Notice of local watermain upgrades in Waipa Street (22 Jan)		Respond to escalated customer complaint re road works (10 Mar). Local Board Infrastructure Committee briefing (16 Mar)
Mangere - Otahuhu	Lydia Sosene	Carrol Elliott	Invite for Mangere Wastewater Treatment Plant Open Day event (26 Jan)	Discussions with local board over name for new access road to Mangere Wastewater Treatment Plant (15 Feb)	Notification of pending H4 works in Campbell Road (8 Mar)
Manurewa	Angela Dalton	Simeon Brown	Invite for Mangere Wastewater Treatment Plant Open Day event (26 Jan)		
Maungakiekie - Tamaki	Simon Randall	Chris Makoare	Invite for Mangere Wastewater Treatment Plant Open Day event (26 Jan)	Attendance at Local Board meeting on SHA's (18 Feb)	Letter on proposed wastewater works in Glen Innes sent to Simon Randall (4 Mar). Notification of pending H4 works in Campbell Road (8 Mar). Tamaki Estuary Environment Forum presentation with Watercare and Stormwater (9 Mar).

Board - Public Session - Chief Executive's Report and Scorecard

Local Board	Chair	Deputy Chair	January-16	February -16	March-16
Orakei	Desley Simpson	Kit Parkinson, Colin Davis (Watercare Rep)	Invite for Mangere Wastewater Treatment Plant Open Day event (26 Jan)		Notification of pending H4 works in Campbell Road (8 Mar)
Otara - Papatoetoe	Fa'anānā Efeso (Efeso) Collins	Ross Robertson	Invite for Mangere Wastewater Treatment Plant Open Day event (26 Jan)		
Papakura	Bill McEntee	Michael Turner	Invite for Mangere Wastewater Treatment Plant Open Day event (26 Jan)		
Puketapapa	Julie Fairey	Harry Doig	Invite for Mangere Wastewater Treatment Plant Open Day event (26 Jan)		Notification of pending H4 works in Campbell Road (8 Mar)
Rodney	Brenda Steele	Stephen Garner	Notice of works in Snells Beach (11 Jan). Information on the Sanderson Road bore and servicing future growth in the Warkworth area (11 Jan). Notice of Glycophosphate detection in Mahurangi River water supply (22 Jan).	Information on Kumeu wastewater treatment (9 Feb). North East wastewater servicing – newsletter 2 (10 Feb). Notification of Warkworth Community Liaison meeting (26 Feb)	Community Liaison Briefing in Warkworth (2 Mar). Local Board boat trip and open evenings on Warkworth Snells Algies wastewater servicing (16 Mar, 18 Mar)
Upper Harbour	Lisa Whyte (5 May 2015 to end of the 2013-2016 term)	Brian Neeson (5 May 2015 to end of the 2013-2016 term)		Notification of watermain break in Albany (9 Feb). Information on Northern Interceptor project to Lisa Whyte (16 Feb)	
Waiheke	Paul Walden	Shirin Brown		Letter to Chairman Paul Weldon on wastewater services on Waiheke Island (12 Feb)	
Waitakere Ranges	Sandra Coney	Denise Yates	Information on rail tunnels in the Waitakere ranges plus update on Glen Eden wastewater and Huia Water Treatment Projects (19 Jan). Invite for Mangere Wastewater Treatment Plant Open Day event (26 Jan). Information on maintenance of the Waitakere tunnels and affects on wildlife (29 Jan)		
Waitemata	Shale Chambers	Pippa Coom	Invite for Mangere Wastewater Treatment Plant Open Day event (26 Jan)		Information provided for Annual Plan - local board Watercare advocacy issues (8 Mar). Notification of pending H4 works in Campbell Road (8 Mar)
Whau	Catherine Farmer	Susan Zhu	Notice of local watermain upgrades in Brains Rd (22 Jan). Invite for Mangere Wastewater Treatment Plant Open Day event (26 Jan)	Derek Battersby regarding local residents water issue (16 Feb)	
Manukau Harbour Forum	Jill Naysmith		Invite for Mangere Wastewater Treatment Plant Open Day event (26 Jan).		

Report to the Board of Watercare Services Limited

Subject: Funding for Infrastructure Growth

Date: 23 March 2016

1. Purpose

The purpose of this paper is to

- 1) provide an outline of funding for growth related infrastructure via Infrastructure Growth Charges (IGCs), the retail tariff and contributions from developers, and
- 2) approve an objection process for IGCs.

A comprehensive guide to IGCs is being prepared for use within the business and will be provided to the Board for information once completed.

2. Background

Auckland's population is growing fast, requiring new housing, commercial, industrial and social development, thereby increasing the demand on Watercare's water and wastewater networks and requiring the construction of new bulk and local infrastructure.

The Infrastructure Growth Charge (IGC) is a contribution towards the capital investment made in bulk infrastructure to provide services to additional customers and existing non-domestic customers who increase their demand on services. "Bulk infrastructure" is the large regional infrastructure such as treatment facilities and transmission pipelines, for example the Biological Nutrient Removal plant, Hunua 4 and the Central Interceptor.

The IGC is charged at the time an approval for a connection is made. The IGC is not to be confused with a connection fee which covers the direct cost of connecting private pipes to the local water network through a water meter, which is currently between \$577 and \$1,110 for a domestic meter depending on size. Payment of the IGC is required before connection is made, but special arrangements can be reached for progressive payments on staged developments.

Developers build and pay for local growth infrastructure (then vested to Watercare) to where Watercare has service available. Developers who undertake subdivisions and sell sections do not generally pay the IGCs (the purchaser does after an approval for a connection is made) unless they are the same entity that constructs the buildings and requires water and/or wastewater connections.

In some circumstances, developers are required to fund bulk infrastructure in order for their development to proceed (see section 9 below).

3. Capital Investment

Watercare prepares an Asset Management Plan (AMP) on a three-yearly cycle to inform Auckland Council's preparation of its Long Term Plan (LTP). The AMP is reviewed internally each year which also allows Watercare to adjust its works programme to reflect Auckland Council's revised growth forecasts and priorities over time and to achieve the following objectives:

- to ensure the provision of necessary water and wastewater infrastructure to meet growth in the region in accordance with Council's plans
- to maximise the use of existing infrastructure assets
- to ensure that level of service requirements are met at the least overall cost to customers collectively

Watercare plans and builds what is in the AMP.

If an Infrastructure Funding Agreement has been agreed with developers (see section 9 below) and where Watercare partially funds the infrastructure costs for development, the capital investment and corresponding contributions from developers are included in the AMP.

4. Growth, Level of Service and Renewals

The programmes of work in the AMP are categorised broadly by the following strategic drivers:

- **Growth (expansion):** Increased capacity to cater for increased population and demand.
- **Level of Service (regulatory and environment):** Intended to ensure Watercare complies with legislative and regulatory operating conditions, increase operational efficiency, and improve the quality of service Watercare provides to the region.
- **Renewals (replacement and rehabilitation).** Intended to maintain existing levels of service, and are derived from the age profiles of the assets and maintenance histories, as well as on-going condition assessment and risk analysis work.

Most programmes/projects have multiple drivers. The AMP identifies the percentage split of the cost for each AMP programme or project by strategic driver. To assess the growth component of a programme, there is a need to estimate a "what would happen if there was no growth?" scenario with the difference in cost being the growth component.

Total capital investment for the ten years 2017-26 in the 2016 AMP approved by the Board on 3 March 2016 is apportioned as follows.

Driver	2016 AMP (real 2016 \$) 10 years 2017-26	%
Growth – bulk	1,744	42%
Growth – local	161	4%
Level of Service	428	10%
Renewals	1,785	44%
Total	4,118	100%

5. Bulk v Local Infrastructure

Bulk infrastructure broadly includes treatment capability and transmission networks for water and wastewater collectively which link the local water or wastewater networks within the subdivision that customers in turn connect to. Further detail is provided in Appendix 1.

6. Funding Policy

Watercare is obliged under section 57 of the Local Government (Auckland Council) Act 2009 to:

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.

Watercare's income is directly from its customers. It therefore needs to ensure its overall customer charges, including IGCs, are sufficient to fund its expenditure and debt repayment. Watercare's funding policy provides to recover all operational expenditure and the renewals component of capital expenditure through its annual operating revenue from water and wastewater consumption charges. Capital expenditure for growth and level of service improvement is funded by debt. Debt related to bulk growth infrastructure is partly funded by IGC revenue and the remaining debt repayment is funded through future revenue from water and wastewater charges after recovering all operational expenditure and renewal capital expenditure.

Local growth infrastructure in greenfields areas is built and paid for by developers. Developer built infrastructure is constructed to Watercare's standards and vested to Watercare.

Capital Investment	Bulk	Local
Growth	Funded by debt. Partially recovered by IGC. Partially recovered by retail tariff.	Greenfields funded and constructed by Developers. Assets vest in Watercare. Brownfields funded by debt. Recovered by retail tariff.
Level of Service	Funded by debt. Recovered by retail tariff.	Funded by debt. Recovered by retail tariff.
Renewal	Funded by revenue. Recovered by retail tariff.	Funded by revenue. Recovered by retail tariff.

7. Growth Community v Existing Community

The "growth community" means additional water and wastewater connections or the increase in the demand for water and wastewater services for existing non-domestic

properties during a year; quantified by the number of development unit equivalents (DUE) for the purpose of the IGC rate calculation. The growth community in any year becomes part of the “existing community” in the following year.

8. Charging Principles

Watercare attempts to achieve an equitable recognition of overarching charging principals in respect of IGCs.

- **Alignment of costs with benefits.**
Where a service benefits a particular person or group, or where a particular person or group have caused the cost to be incurred, the corresponding person or group should pay the cost of that service.
- **Affordability for users.**
Watercare is legally required to manage its business efficiently in order to keep costs to customers collectively at minimum levels. This means Watercare must balance the need to incur and recover the costs of providing its services with the need to minimise charges for those services.
- **Horizontal equity.**
Customers across Auckland should pay similar amounts for the same service by standardising the charging frameworks across the region as much as is reasonable.
- **Minimising Change.**
A transition period may assist customers in dealing with an increase in charges as a result of the integration/harmonisation of the policies of the former pre-integration councils (but may also delay cost savings for customers who will benefit).

9. Contribution from Developers

Developers build and pay for local growth infrastructure, i.e, reticulation within the development site and connecting infrastructure from the development site to where Watercare has infrastructure available. Developer built local infrastructure is usually vested to Watercare as the developer requires Watercare to operate the services to the customer.

To this point in the development process, developers have not made a contribution to bulk growth infrastructure. If they become the same entity that constructs the buildings in the development and that requires water and/or wastewater connections, they will also pay IGCs.

There are situations where developers are required to fund bulk infrastructure (not in the AMP within 20 years), or pay the cost of bringing a project forward in advance of AMP timing, as shown by the service category diagram below, in which case an Infrastructure Funding Agreement would be entered into.

Bulk Infrastructure Funding

	Service Category	In Watercare's AMP (consistent with Council land release strategy).	Not in Watercare's AMP (out of sequence).
Brownfield Development	Service Category 1 – brownfield. Developments within existing area of service		
	Existing capacity	House Constructor pays IGCs	House Constructor pays IGCs
	Upgrades required	<ul style="list-style-type: none"> Watercare to fund via AMP If upgrades required in advance of AMP timing, Land Developer to pay cost of bringing project forward House constructor pays IGCs 	<ul style="list-style-type: none"> Land Developer to fund upgrade House Constructor pay IGCs
	Service Category 2 – greenfield. Developments contiguous with existing area of service		
Greenfield Development	Existing capacity	House Constructor pays IGCs	House Constructor pays IGCs
	Upgrades required	<ul style="list-style-type: none"> Watercare to fund via AMP Timing to be determined based on priorities If upgrades required in advance of AMP timing, Land Developer to pay cost of bringing project forward House constructor pays IGCs 	<ul style="list-style-type: none"> Land Developer to fund upgrade House Constructor pay IGCs
	Service Category 3 – greenfield. Developments not contiguous with existing area of service.	Not applicable	<ul style="list-style-type: none"> Developer to fund full cost of new infrastructure House Constructor pay IGCs
	Service Category 4 – Outside of the RUB	Not applicable	No service provided

10. First Mover

Potential development areas are often owned by multiple owners with different intentions around development timing. Watercare’s preference is to encourage developers to work together to share infrastructure costs incurred and provide a “best infrastructure solution”. But developers are not always in agreement or prefer to wait until another developer or Watercare has already committed to building the infrastructure required to service the wider catchment. This sometimes means that the developer who moves first has to pay for the infrastructure that is required for its development. If Watercare determines that it requires a larger capacity than is required for the first development, Watercare may fund the increased capacity at marginal rates. The first developer is never disadvantaged as it pays for no more than the capacity it requires. Subsequent developers who may have opted out of the initial investment will be required to pay Watercare for any capacity that Watercare requires of the first development.

Watercare’s approach is to evaluate risk to Watercare for each situation on a case by case basis, taking into account factors such as;

- ultimate development potential in the catchment,
- number of owners,
- willingness or intentions of other owners to develop and when,
- size of the first mover’s development relative to total development potential,
- infrastructure cost, and
- service category of the area being developed.

Watercare will need to make a judgement about capital investment it is willing to make based on the best available information at the time. Building an ultimate solution at the start, or requiring the first developer to pay only a share of the cost, needs to be balanced against the prospect of potential development not eventuating and existing customers having to fund excess capacity that has been built, with the operational issues that arise such as septicity in sewers. Inevitably, some developers will end up paying more than others, which may have been possible to mitigate, but only with the benefit of hindsight. They have, however, chosen to move first and gain the first mover advantage.

11. Metropolitan and Non-metropolitan IGC rates

The IGC rate varies depending on whether the capital investment is on the Metropolitan Network or a Non-Metropolitan Network which are generally standalone in rural areas and inherited from former councils.

The Metropolitan IGC is set for the growth community:

- who are supplied by Watercare's contiguous water supply system; and
- who are serviced by Watercare's wastewater treatment plants at Mangere, Rosedale, Army Bay or Pukekohe, being the four major wastewater treatment plants for Auckland.

There are individual IGC rates for each non-metropolitan network which service communities not part of the Metropolitan IGC. Some of these may be receiving water from Watercare's contiguous network but not serviced by one of the four major wastewater treatment plants, in which case the applicable IGC rate becomes a hybrid of the metropolitan IGC rate and the rate applicable for the relevant wastewater network. Some communities are serviced by only a Watercare water network or a wastewater network. Water and/or wastewater components of a non-metropolitan IGC will only be charged to a customer when a customer connects to the relevant water and/or wastewater network.

For the time being, the IGC rates for the non-metropolitan networks are based on legacy development contribution rates charged by former councils which were consulted on under their Long Term Council Community Plan process.

12. The Method for Calculating the Metropolitan IGC

To calculate the Metropolitan IGC charge, Watercare uses the following steps:

1. The average bulk growth capex per development unit equivalent (DUE)¹ is determined, by dividing total bulk growth capex (in today's dollars) over a 15 year-period (4 past, current, 10 years forecast) by the number of DUEs over the same period. This is the amount which has to be recovered from a DUE.
2. The NPV of interest (debt funding) and depreciation recovered by future water and wastewater tariff revenue for a DUE over average asset life is determined,

¹ A Development Unit Equivalent (DUE) is the equivalency factor between the full IGC rate and the IGC rate applying to the development unit. For example, a development unit which is a residential unit less than 65m² and charged two thirds the IGC rate is taken to be two thirds of a DUE.

based on existing charges. This is the amount which will be recovered from each growth DUE over time (in today's dollars) thus ensuring that the new customer isn't charged twice for the same asset over its life.

3. The difference between the average bulk growth capex per DUE and the NPV of future tariff revenue (covering debt funding and depreciation) per DUE is determined. This is the notional amount which needs to be collected from each growth DUE as an IGC if all bulk growth capex is to be recovered from new customers. This places new customers on an equal footing with existing customers, with both groups contributing equally to recovery of operating costs, depreciation, interest and debt repayment through a common tariff.
4. The actual metropolitan IGC rate is currently less than the notional IGC rate as Watercare seeks to gradually increase the level of the IGC to something close to the full rate.

The steps are summarised in the following table. The values for FY16 (metropolitan IGC) are sourced from the Watercare inputs supporting the Auckland Council 2017 Annual Plan update, March 2016.

Step			FY16 metropolitan (exclg GST)
1	Average metropolitan bulk growth capex per DUE over 15 years	\$G	\$22,456
2	NPV of interest and depreciation collected through water and wastewater tariff per DUE over average asset life	\$V	\$6,777
3	Average bulk growth capex less collected through tariff (Notional IGC rate)	$\$N = \$G - \$V$	\$15,679
4	Actual Metropolitan IGC rate	$\$IGC < \N	\$10,760

13. Percentage recovered from the Growth Community

The extent to which bulk growth costs are recovered from growth customers can be expressed in several ways, as illustrated in the table below.

Percentage calculations			FY16 metropolitan
A	IGC collected as % of average bulk growth capex per DUE over 15 years	$\$IGC / \G	48%
B	Total contribution collected from growth customer over asset life as % of average bulk growth capex per DUE	$(\$IGC + \$V) / \$G$	78%
C	IGC collected as % of the net of average bulk growth capex less collected through tariff (notional IGC rate) Watercare uses this calculation.	$\$IGC / \N	69%

Watercare uses calculation C, being the IGC collected as a percentage of the net of average bulk capex less the amount to be collected through future tariff, or actual IGC rate divided by notional IGC rate. The notional IGC rate is a single representation of a number of variables which are subjective by the nature of cost and demand forecasts and allocation of capex to

growth. Expressing the actual IGC rate as a percentage of the notional IGC rate (calculation C) binds all the subjective elements into one calculation.

The initial level of IGC was set around the average amount of development contributions collected by former pre-amalgamation councils. This level was considerably less than Watercare's calculation of what the IGC amount should be to recover the full costs of growth. Watercare expects to recover around 69% of the notional IGC rate from customers who are new in FY16. Over time, the level of IGC is expected to increase to something closer to the full costs for later entrants as shown in the following table.

Year	Notional metropolitan IGC rate (\$N)	Forecast metropolitan IGC rate ² (\$IGC)	Forecast IGC rate as % of Notional IGC rate (\$IGC / \$N)
FY16	\$15,679	\$10,760	69%
FY17	\$15,827	\$11,030	70%
FY18	\$15,064	\$11,360	75%
FY19	\$14,995	\$11,690	78%
FY20	\$15,051	\$12,040	80%
FY21	\$15,212	\$12,430	82%
FY22	\$14,391	\$12,840	89%
FY23	\$13,698	\$13,290	97%
FY24	\$13,352	\$13,290	100%
FY25	\$14,384	\$13,290	92%
FY26	\$13,655	\$13,290	97%

Over the 10 year forecast period 2017-26, total revenue from IGCs (\$1,002m nominal) as a percentage of total bulk growth capex (\$1,955m nominal), which is broadly representative of percentage calculation A in the table above, is 51%, a higher percentage than the FY16 calculation reflecting the increasing IGC rate over time to recover something closer to full costs.

14. The New Zealand Productivity Commission

The New Zealand Productivity Commission produced a report titled "Using Land for housing" in September 2015 in which it made three specific recommendations relevant to Watercare's IGC (in italics below). Management's proposed approach, in reference to the charging principles in section 8 above, follows for each recommendation.

- ***R10.1. Watercare should revise its approach to the Infrastructure Growth Charge so that the full costs are recovered.***

Alignment of costs with benefits and minimising change:

Over time, the level of IGC is expected to increase to something closer to the full costs to minimise the effect of recovering the entire shortfall in any one year as shown in the table above.

² The Forecast Metropolitan IGC rates are sourced from the Watercare inputs supporting the Auckland Council 2017 Annual Plan update, March 2016.

- ***R10.2. Watercare should change its approach to calculating Infrastructure Growth Charges, to better reflect the underlying economic costs of supply in different locations and for different types of dwelling.***

Horizontal equity and affordability for users:

Watercare has chosen to standardise water and wastewater tariffs across the region and has taken the same approach for IGCs in the metropolitan area. Rather than differentiating unique IGC amounts for individual pieces of new infrastructure across different parts of metropolitan Auckland or by different type of dwelling, a single metropolitan rate has been set, making the method of calculation simpler and more predictable for developers. This is deliberately an averaging approach, contemplating that Watercare has an ongoing growth investment need. Increased disaggregation would be more complex and hence more time consuming and costly to administer, reducing overall affordability for users.

Alignment of costs with benefits:

The IGC pays only for bulk growth infrastructure, not for local infrastructure. Local infrastructure is paid for by developers who pass their costs onto section buyers, so there is a direct nexus between cost and benefit for local infrastructure. Bulk infrastructure includes treatment capability and the larger transmission networks for water and wastewater collectively which link the local water or wastewater networks that customers connect to. Bulk infrastructure, by its very nature, services very large areas and a diverse range of customer types and sizes. Treatment infrastructure, at the end of transmission pipes, benefits all customers connected to it regardless of the distance from a customer's connection, so all customer's benefit equally. The transmission network is needed regardless of where the treatment plant is located for Watercare to be able to provide its services of supplying water and collecting wastewater.

Further, the large metropolitan water and wastewater transmission networks each tend to be contiguous systems where flows can be redirected around the network for security and efficiency of supply so the distance the water or wastewater travels between a connection and a treatment plant can vary on any day. In the case of water, several treatment plants are linked so there is intermingling of water from different treatment plants. In the case of wastewater, the planned Northern Interceptor will allow flows to be switched to either the Mangere or Rosedale wastewater plants, whichever has spare capacity. The distance between a customer connection and a treatment plant, simply as a result of where a treatment plant is located, is not a fair driver for allocating costs of the transmission networks because if the distance that the water supplied or wastewater discharged has travelled may vary and cannot be determined.

The NPV of interest and depreciation that a DUE pays through water and wastewater charges over the average life of an asset is taken as a contribution towards the bulk growth capex per DUE when determining the metropolitan IGC rate. Water consumption is a fairer way to allocate the underlying economic cost of supply than dwelling type. The volumetric components of the water and wastewater tariffs will ensure that, for example, a small dwelling with high water use will make a larger contribution towards bulk growth capex than a large dwelling with low water consumption.

There are individual IGC rates for each non-metropolitan network. Currently, the rates stem from legacy council development contribution rates for water and wastewater.

- ***R10.3. Watercare’s Infrastructure Growth Charge should be subject to the same appeal processes as development contributions.***

Management is considering that Watercare voluntarily set up an independent group of reviewers who would operate in much the same way as the independent commissioners operate in the case of development contributions under the Local Government Act 2002 (see section 15 below).

15. Oversight of IGCs

The Board at its meeting on 29 October 2015 considered the Productivity Commission report referred to in the preceding section and the minutes said:

“The Board noted with approval the suggested use of a voluntary independent appeal process once the further work on IGCs is completed.”

The process will be modelled on that set out in the Local Government Act 2002 which applies to Development Contributions (“DCs”). There are differences between DCs and IGCs, not least that DCs are the subject of legislation and IGCs are a contractual charge.

Nevertheless, in the view of management, the essential elements are so similar that a similar objection process is warranted.

Those similarities are:

- Both DCs (when taken in cash) and IGCs must be expended on network infrastructure; and
- Both DCs and IGCs are mechanisms for funding only growth related capital expenditure.

The Proposed Process

An objection cannot be used to challenge the content of the IGC policy, for example, a developer cannot challenge the methodology used to calculate the IGCs, nor the policy of categories of service. Nor can a DC policy be challenged.

The only grounds for objection will be where Watercare has:

- Failed to properly take into account features of the development, that on their own or cumulatively with other developments, would substantially reduce the impact of the development on growth
- Required an IGC where either a DC or Financial Contribution has already been charged by a legacy Council for the same development.
- Incorrectly applied the IGC policy to the objectors development

(Note those are statutory grounds of objection set out in the Local Government Act 2002 with suitable amendments).

Objections will have to be lodged with Watercare within say 15 working days after notice of the IGC has been given.

The objection will be determined by one or more, up to 3, Independent Commissioners selected by Watercare from a register of Commissioners, appointed by the Minister of Local Government and other experienced persons.

Among the register of DC Commissioners, are people well versed in RMA and growth issues who could be approached to join the Watercare panel. Former Board members who are well versed in the issues of growth, could also be approached to join the panel.

The procedure for determining objections is set out in Section 13A of the Local Government Act and this is also generally appropriate for use in determining objections to IGCs. The Commissioners can decide to deal with the objection based on the papers or to hold a hearing. Watercare will provide secretarial and administrative support to the Commissioners. The process in many ways is similar to the process Watercare set up to receive and hear objections to the non-domestic wastewater tariff and the Watercare water and wastewater bylaw.

The Commissioners in determining the objection must consider the grounds on which the objection is made; the purpose for which IGCs are charged; the categories of service; and the IGC principles. The Commissioners may not amend the Watercare policies.

Decisions of the Commissioners will be binding on the parties with no right of appeal, although objectors can lodge a complaint with the Ombudsman.

Since the Local Government Act was amended to provide a process to object to DC, there have been very few objections heard by Commissioners.

The major developers in the main accept that growth has to be paid for and understand that Watercare has not been recovering the full costs of growth. In practice, management discuss IGCs with developers now and from time to time adjustments to the IGC charged are made. It is expected that practice will continue and the objection process will not have to be used to any significant degree.

Nevertheless, management consider that the objection process proposed is warranted in the interests of fairness and transparency.

16. Recommendation

It is recommended that:

1. the Board receives this report
2. management proceed to set up an independent group of Commissioners to hear formal objections to IGCs following the process as set out in section 15 above. A formal charter for the Commissioners will be put in place before appointments to the panel are made.

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Appendix 1.

Bulk v Local Infrastructure

Bulk infrastructure broadly includes treatment capability and transmission networks for water and wastewater collectively which link the local water or wastewater networks that customers connect to.

Bulk water infrastructure means any interconnected system from the raw water source to the bulk supply point (BSP - a metered connection between the bulk water infrastructure and the local water network). This includes all raw water source assets, water treatment plants, transmission watermains, monitoring stations, transmission pumping stations and reservoirs, BSPs and any other infrastructure within any such interconnected system.

Bulk wastewater infrastructure means any interconnected system of wastewater transmission mains (commonly referred to as Interceptors and Branch Sewers), manholes, measuring stations, pumping stations, rising mains, storage tanks, and other structures used for the conveyance of wastewater to a wastewater treatment plant or to an outfall main, including wastewater treatment plants, outfall main and any other works connected within any such system.

Local water network means any watermain or interconnected system of watermains used to carry water to individual properties downstream from a BSP or direct from a Water Treatment Plant where there is no transmission watermain and includes network pumping stations and reservoirs and other equipment which form part.

Local wastewater network means any wastewater main or interconnected system of wastewater mains used to carry wastewater from individual properties to a wastewater transmission main or direct to a wastewater treatment plant where there is no wastewater transmission main and includes any pumping stations, rising mains and manholes which form part.