

# WATERCARE SERVICES LIMITED

## AGENDA | Board meeting | 26/6/2015

Venue Watercare, 73 Remuera Road, Newmarket

Time 11am

### Open Public Meeting

Item	Spokesperson	Action sought at governance meeting	Supporting Material
1. Apologies	Chair	<ul style="list-style-type: none"> <li>Record Apologies</li> </ul>	
2. <a href="#">Minutes of Meeting</a>	Chair	<ul style="list-style-type: none"> <li>Approve Board Meeting Minutes               <ul style="list-style-type: none"> <li>29 May 2015</li> </ul> </li> </ul>	Minutes 29 May 2015
3. Directors' Corporate Governance Items	Chair	<ul style="list-style-type: none"> <li><a href="#">Corporate Planner 2015</a></li> <li><a href="#">Review Disclosure of Interests</a></li> <li><a href="#">Organisation Chart</a></li> </ul>	Corporate Planner Disclosure of Interests Organisation Chart
4. <a href="#">Chief Executive's Report and Scorecard</a>	R Jaduram	<ul style="list-style-type: none"> <li>Note the Chief Executive's report               <ul style="list-style-type: none"> <li>Customer Services</li> <li>Infrastructure and Planning</li> <li>Service Delivery</li> <li>Finance</li> <li>Board Correspondence</li> <li>Execution of Documents</li> <li>Communications</li> <li>Working with Local Boards</li> <li>Statutory Planning</li> <li>Long Term Plan 2015-2025</li> </ul> </li> </ul>	Chief Executive's Report
5. <a href="#">2015/16 Budget</a>	B Monk	<ul style="list-style-type: none"> <li>For approval</li> </ul>	Paper
6. Customer Focus Business Plan	M Bridge	<ul style="list-style-type: none"> <li>Note presentation</li> </ul>	Presentation (No pack content)
7. General Business	Chair		

Date of next Meeting – 31 July 2015

Location – Watercare Services, 73 Remuera Road, Newmarket

# MINUTES

SUBJECT	WATERCARE SERVICES BOARD MEETING
VENUE	Boardroom Level 2, Watercare Services Limited, 73 Remuera Road, Remuera, Auckland
DATE	29 May 2015
TIME	10:30
STATUS	Open Session

	<b>Present:</b>	<b>In Attendance:</b>	<b>Public in Attendance:</b>
	M Allen D Clarke (Chairman) N Crauford C Harland J Hoare T Lanigan D Thomas	M Bridge R Chenery S Cunis R Fisher D Hawkins R Jaduram B Monk T Munro B Taplin J van Brink S Vitas S Webster	5 Members of the public
1.	<b>Apologies</b> <ul style="list-style-type: none"> <li>P Drummond</li> </ul>		
2.	<b>Minutes of Previous Meeting</b> <ul style="list-style-type: none"> <li>The Board <b>resolved</b> that the Minutes of the public section of the Board meeting held on 30 April 2015 be confirmed as correct.</li> </ul>		
3.	<b>Directors Corporate Governance Items</b> <ul style="list-style-type: none"> <li>Corporate Planner 2015 The Corporate Planner for 2015 was noted. The Board was advised that the August meeting would be held at the Ardmore WTP and the November meeting at the Rosedale WWTP.</li> <li>Disclosure of Interests The Disclosure of Interests was noted.</li> <li>Organisation Chart The organisation chart was noted.</li> </ul>		
4.	<b>Chief Executive's Report and Scorecard</b> <ul style="list-style-type: none"> <li>Service Delivery The Board noted the position of water levels in the water storage lakes which are below the average storage levels for the end of April. Abstraction from the Waikato River and Onehunga aquifer continue to be maximised to reduce drawdown in the storage lakes. The Board was advised of a trial, using smart meters, to be undertaken at Waiuku which is a good size for a pilot trial. There are also high unaccounted water losses occurring at Waiuku and it is hoped that the pilot trial will assist in sorting that issue also.</li> </ul>		

	<ul style="list-style-type: none"> <li>Finance</li> </ul> <p>Brian Monk spoke to the paper. He said that the recent trends continue with water and wastewater revenues close to budget; IGC revenue is ahead of budget due to increased construction activity; costs are down across the business; interest costs are lower; and debt levels are less than budget.</p> <p>He sees those trends continuing until financial year end.</p> <ul style="list-style-type: none"> <li>Communications</li> </ul> <p>The Watercare publications "Tapped In" and "Your Source" are to be provided to Board members by electronic means.</p>
5.	<p><b>2015 – 2018 Statement of Intent</b></p> <ul style="list-style-type: none"> <li>Rebecca Chenery spoke to the paper and reminded the Board of the process which had been followed to date.</li> </ul> <p>The Board made a number of amendments to the draft document and approved the SOI and the proposed approach to the shareholders comments on the 2015-16 SOI subject to the amendments recommended in the paper and those raised at the meeting.</p>
6.	<p><b>Strategic Direction for Providing Services to Support Urban Growth</b></p> <ul style="list-style-type: none"> <li>John van Brink spoke to the paper which had been amended following comments made by the Board at the April meeting.</li> </ul> <p>In particular, the Board's attention was drawn to new Section 4 dealing with IGCs and that the amendments give greater clarity to the development community.</p> <p>The Chair noted, with approval, the assistance being given by Watercare to Special Housing Areas. The Board resolved to reconfirm the importance and urgency for the strategic direction for providing services to support growth within the rural urban boundary.</p>
7.	<p><b>Proposed Water Supply and Wastewater Network Bylaw 2015</b></p> <ul style="list-style-type: none"> <li>The Board received a presentation from Jim Gladwin and another from Penny Bright in respect to the proposed new bylaw.</li> </ul> <p>Rob Fisher then spoke to the paper reminding the Board that the new bylaw was to replace the eight legacy bylaws which Watercare inherited from the former Councils. These bylaws were often contradictory and were outdated.</p> <p>The proposed new bylaw is a vital tool to enable Watercare to protect the important public water and wastewater assets.</p> <p>Catherine Harland was the Chairperson of the joint Auckland Council/Watercare Hearings Panel. She addressed the extensive pre-consultation which had been undertaken with Local Boards, iwi and the general public. Consultation followed the special consultative procedures of Auckland Council. The matter was publicly notified and 14 submissions were received from private persons and large corporations representing a range of views. Mr Fisher explained each of the nine resolutions following which the Board resolved to:</p> <ol style="list-style-type: none"> <li>Note that the joint Watercare-Auckland Council Hearings Panel had heard submissions and deliberated on the Proposed Water Supply and Wastewater Network Bylaw 2015 and the proposal to revoke the legacy water supply and wastewater bylaws (with the exception of the onsite wastewater disposal provisions);</li> <li>Receive and accept the Hearings Panel's recommended amendments to the Proposed Water Supply and Wastewater Network Bylaw 2015, subject to the Hearings Panel Chair's suggested corrections to clause 4(b) and the definition of "water supply" in clause 5, as set out in the report to the Board;</li> <li>Receive and accept the Hearings Panel's recommendation that the legacy water supply and wastewater bylaws be revoked with effect from 1 July 2015 (with the exception of the onsite wastewater disposal provisions);</li> </ol>

	<p>D. Amend clause 14(2)(a) of the Proposed Water Supply and Wastewater Network Bylaw 2015 by adding, for greater clarity, the words “as a resource consent authority or building consent authority” after the words “council approval”;</p> <p>E. Confirm the Proposed Water Supply and Wastewater Network Bylaw 2015 as modified and set out in Attachment A of the report to the Board;</p> <p>F. Recommend to Auckland Council that it adopt the Proposed Water Supply and Wastewater Network Bylaw 2015 as modified and set out in Attachment A of the report to the Board, subject to the further amendment in resolution D above.</p> <p>G. Recommend to Auckland Council that it revoke the legacy water supply and wastewater bylaws of Auckland's former city and district councils (with the exception of the onsite wastewater disposal provisions);</p> <p>H. Give notice of its decisions to the Governing Body of Auckland Council, and to that end approves the Chairman writing to the Mayor of Auckland to communicate resolutions A to G above;</p> <p>I. Thank the members of the Hearings Panel, submitters and stakeholders for their contribution.</p> <p>The Board commended the work of Catherine Harland as Chair of the Hearings Panel, Mr Drummond for his membership of the panel as well as the management team of Ilze Gotelli, Daniel Newman and Jared Boow.</p>
<p>8.</p>	<p><b>General Business</b></p> <ul style="list-style-type: none"> <li>• The public section of the meeting closed at 11:30.</li> </ul>

CERTIFIED AS A TRUE AND CORRECT RECORD

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Chairman

**WATERCARE BOARD PLANNER 2015**

	2015											
	January	February	March	April	May	June	July	August	September	October	November	December
<b>Board Meeting</b>		4 Feb Newmarket  26 Feb - Workshop Newmarket	19 March Mangere	30 April Newmarket	29 May Newmarket*	26 June Newmarket	31 July Newmarket	20 Aug Ardmore	25 Sept Newmarket	29 Oct Newmarket*	19 Nov Rosedale	16 Dec Newmarket
<b>Health &amp; Safety Committee Meeting</b>			19 March Mangere	30 April Newmarket	29 May Newmarket	26 June Newmarket	31 July Newmarket	20 Aug Ardmore	25 Sept Newmarket	29 Oct Newmarket*	19 Nov Rosedale	16 Dec Newmarket
<b>Health &amp; Safety Committee Workshops</b>		26 Feb Newmarket		2 April Newmarket	6 May Newmarket	4 June Newmarket	2 July Newmarket	6 Aug Newmarket	3 Sept Newmarket	1 Oct Newmarket	5 Nov Newmarket	3 Dec Newmarket
<b>Audit + Risk Committee Meeting</b>		14 Feb Newmarket			6 May Newmarket		31 July Newmarket	17 Aug Newmarket			10 Nov Newmarket	
<b>Capital Projects Working Group</b>		4 Feb Newmarket		30 April			15 July Newmarket			21 October Newmarket		
<b>Remuneration Committee</b>		26 Feb Newmarket						31 August Newmarket			19 Nov Rosedale	
<b>Statement of Intent</b>		Approval of Draft 2015-2018 SOI	1 March Draft SOI to shareholder		Present shareholder SOI feedback at public meeting	Final 2015- 2018 SOI issued to shareholder			Work on 2016-2019 Sol Key dates yet to be advised by Auckland Council			
<b>Shareholder Interaction</b>			3 March CCO Governance & Monitoring Committee		12 May CCO Governance & Monitoring Committee (Q3)			4 August CCO Governance & Monitoring Committee (Tentative)(Q4)				
<b>Key Finance Decisions</b>						26 June Approval of 2015/16 Budget						
<b>Other</b>		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

## Report to the Board of Watercare Services Limited

**Subject:** Disclosure of Interests

**Date:** 11 June 2015

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"> <li>– Chairman, TRGG Ltd – Radiology Services</li> <li>– Chairman, Skin Institute</li> <li>– Director, Hawkins Watts Ltd</li> <li>– Director, FarmIQ Systems Ltd</li> <li>– Director, Hynds Group Ltd</li> <li>– Chairman, Health Alliance Limited</li> <li>– Chairman, Jucy Group Limited</li> </ul>
Peter Drummond	<ul style="list-style-type: none"> <li>– Chairman, Appliance Connection Ltd</li> <li>– Chairman, Watercare Harbour Clean Up Trust</li> <li>– Chairman, Variety Medical Missions South Pacific</li> <li>– Chairman, Ngati Whatua o Orakei Whai Maia</li> <li>– Director, NARTA New Zealand Ltd</li> <li>– Director, NARTA International PTY Ltd</li> <li>– Panel member , Fire Review, Dept Internal Affairs</li> <li>– Director – Ports of Marlborough Limited</li> <li>– Director – Ngati Awa Group Holdings Limited</li> </ul>
Catherine Harland	<ul style="list-style-type: none"> <li>– Director, McHar Investments Ltd</li> <li>– Director, Interface Partners Ltd</li> <li>– Trustee, One Tree Hill Jubilee Educational Trust</li> <li>– Member, Auckland Regional Amenities Funding Board</li> </ul>
Tony Lanigan	<ul style="list-style-type: none"> <li>– Director and Shareholder, A G Lanigan &amp; Associates (2007) Limited</li> <li>– Shareholder, Fletcher Building</li> <li>– Director, Habitat for Humanity New Zealand Limited</li> <li>– Director and Shareholder, Lanigan Trustee Limited</li> <li>– Director and Shareholder, Lanison and Associates Limited</li> <li>– Director and Chair, NZ Housing Foundation Limited</li> <li>– Director, Tamaki Makaurau Community Housing Limited</li> <li>– Director, NZ Transport Agency (NZTA)</li> <li>– Member, Ministry of Health Hospital Redevelopment Partnership Group for Canterbury</li> </ul>
Mike Allen	<ul style="list-style-type: none"> <li>– Director, Coats Group PLC</li> <li>– Director, Godfrey Hirst Australia and related companies</li> <li>– Shareholder, Innoflow</li> <li>– Director, Tainui Group Holdings Limited</li> <li>– Director, Breakwater Consulting Limited</li> </ul>
Julia Hoare	<ul style="list-style-type: none"> <li>– Director, AWF Group Limited</li> <li>– Director, New Zealand Post Limited</li> <li>– Director, The A2 Milk Company Limited</li> <li>– Member, Auckland Committee, Institute of Directors</li> <li>– Member, Advisory Panel to External Reporting Board</li> </ul>

Nicola Crauford	<ul style="list-style-type: none"> <li>- Chair, Wellington Rural Fire Authority</li> <li>- Director, Environmental Protection Authority</li> <li>- Member of Electoral Authority - Cooperative Bank Limited</li> <li>- Senior Consultant - WorleyParsons New Zealand Ltd</li> <li>- Director and Shareholder - Riposte Consulting Limited</li> <li>- Director and Shareholder - Crauford Robertson Consulting</li> <li>- Director and Shareholder - Martin Crauford Limited</li> <li>- Director, Wellington Water Limited</li> <li>- Director, Orion New Zealand Limited</li> </ul>
David Thomas	<ul style="list-style-type: none"> <li>- Chairman, Ngati Whakauae Tribal Lands Inc</li> <li>- Council Member, Business New Zealand</li> <li>- Board Member, EMA (Northern)</li> <li>- Chairman, Gypsum Board Manufacturers of Australasia</li> <li>- Shareholder / Employee – Fletcher Building Limited</li> </ul>

## RECOMMENDATION

That the report be noted.

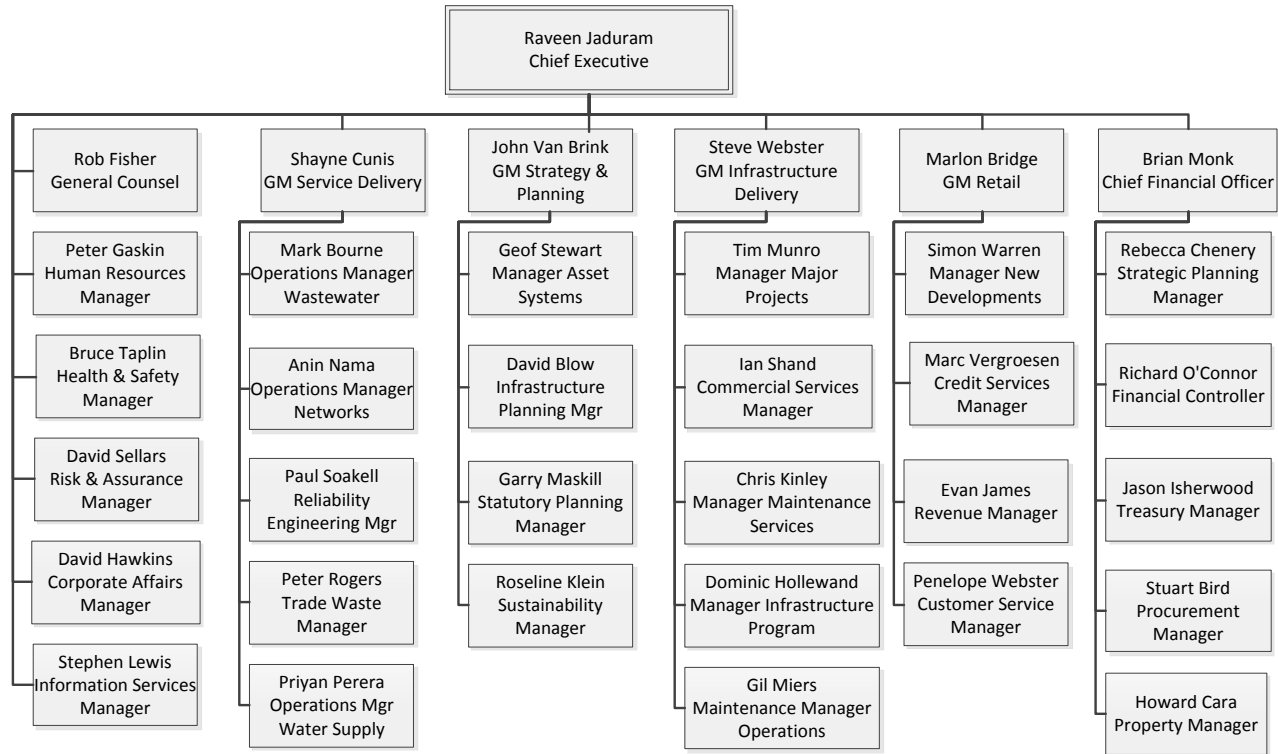
Report prepared by:

Approved by:

R Fisher  
General Counsel

R Jaduram  
Chief Executive

ORGANISATION STRUCTURE – MAY 2015





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

## WATERCARE SCORECARD 2014/15

On budget, on time, within parameters
Unfavourable but within parameters
Major issue, needs attention

Focus	Performance Measure	SOI	2014/15 Target	Amber Threshold	Red Threshold	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	
<b>1</b>	<b>Safe and Reliable Water</b>																		
1a	Percentage compliance with MOH drinking water standards for graded plants (annual measure)	☑	100%	n/a	<100%	Projected result for 2014/15 = 100%													
1b	Percentage of metropolitan water treatment plants achieving Grade A (annual measure)	☑	100%	n/a	<100%	Projected result for 2014/15 = 100%													
1c	Percentage of metropolitan water supply reticulation achieving Grade A (annual measure)	☑	100%	n/a	<100%	Projected result for 2014/15 = 100%													
1d	Percentage of non-metropolitan water treatment plants achieving Grade A (annual measure)	☑	50%***	n/a	<45%	Projected result for 2014/15 = 50%													
1e	Percentage of non-metropolitan water supply reticulation achieving Grade A (annual measure)	☑	(2013/14 Target = 45%)	n/a	<25%	Projected result for 2014/15 = 70%													
1f	Percentage of unplanned water shutdowns restored within five hours (12 mth rolling average)	☑	≥95%	93% to <95%	<93%	98%	96%	98%	98%	97%	97%	97%	97%	97%	97%	97%	97%	97%	97%
1g	Number of unplanned water interruptions per 1000 connected properties (12 mth rolling average)	☑	≤10	>10 to 12	>12	8.1	8	7.9	7.8	7.9	7.8	7.7	7.6	7.5	7.6	7.1	6.9	6.7	
1i	Unrestricted demand - metropolitan		Unrestricted	Subjective	Restrictions apply	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted
1j	Unrestricted demand - non-metropolitan		Unrestricted	Subjective	Restrictions apply	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted
<b>2</b>	<b>Healthy Waterways</b>																		
2a	Number of dry weather sewer overflows per 100km of wastewater pipe length per year (12 mth rolling average)	☑	≤5	>5 to 7	>7	1.80	1.83	1.94	1.88	1.93	2.04	2.00	2.06	2.16	2.10	2.05	2.02	1.94	
2b	Average number of wet weather overflows per discharge location	☑	WW network discharge consent lodged and operational	n/a	Consent not lodged and operational	Consent lodged in September 2013 and granted in June 2014													
2c	Number of sewer bursts and chokes per 1000 properties (12 mth rolling average)	☑	≤10	>10 to 12	>12	8.50	8.80	8.50	8.40	8.50	8.50	8.40	8.30	8.20	8.20	7.90	7.70	7.70	
2d	Percentage of wastewater discharged that is compliant with consent discharge requirements for metropolitan areas	☑	100%	98 to <100%	<98%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
2e	Percentage of wastewater discharged that is compliant with consent discharge requirements for non-metropolitan areas	☑	35%	n/a	<35%	64%	64%	65%	65%	65%	65%	65%	65%	65%	65%	65%	65%	65%	65%
2f	Number of successful RMA prosecutions against Watercare	☑	0	≥1	Subsequent prosecutions for same or similar offences	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>3</b>	<b>Customer Satisfaction</b>																		
3a	Percentage of customers surveyed satisfied with Watercare's delivery of water and wastewater services (12 mth rolling average)	☑	≥80%	≥75% to <80%	<75%	88.0%	89.7%	88.7%	88.4%	85.8%	88.1%	88.8%	87.0%	88.3%	86.1%	83.5%	87.6%	84.4%	
3b	Percentage of calls answered within 20 seconds (12 mth rolling average)	☑	≥80%	≥75% to <80%	<75%	82.7%	82.3%	81.8%	82.1%	93.6%	82.6%	82.1%	82.2%	82.1%	83.4%	85.1%	85.1%	85.8%	
3c	Number of water quality complaints (taste, odour, appearance) per 1,000 water supply connections (12 mth rolling average)	☑	≤5	>5 to 5.5	>5.5	6.1	5.9	5.9	5.9	6.0	5.9	5.8	5.7	5.3	4.80	4.80	4.80	4.80	
3d	Percentage of complaints being 'closed and resolved' within 10 working days (12 mth rolling average)	☑	≥90%	≥90% to <95%	<90%	94.2%	94.2%	94.3%	94.8%	95.0%	95.0%	95.0%	96.3%	96.6%	96.8%	97.6%	98.1%	98.5%	
3e	Abandonment rate and call volume (12 mth rolling average)	☑	≤3%	>3% to ≤3.5%	>3.5%	1.9%	2.0%	2.1%	2.1%	2.0%	2.0%	2.1%	2.1%	2.1%	2.0%	1.8%	1.6%	1.5%	
3f	Customer correspondence and resolution within 10 working days (12 mth rolling average)	☑	≥95%	≥90% to <95%	<90%	99.5%	99.5%	99.5%	99.7%	99.7%	99.7%	99.7%	99.8%	99.8%	99.8%	99.8%	99.8%	99.8%	99.8%
3g	Customer experience survey - Maintenance (12 mth rolling average)	☑	≥80%	≥75% to <80%	<75%	82.1%	87.6%	86.4%	84.5%	81.1%	82.9%	84.0%	85.9%	86.0%	81.2%	83.6%	83.6%	76.7%	
<b>4</b>	<b>Health, Safety and Wellbeing</b>																		
4a	Last-time injury frequency rate per million hours worked (12 mth rolling average)	☑	≤5	5 - 7	>7	6.36	6.33	5.65	5.60	6.21	6.79	7.9	8.5	7.9	7.2	5.34	4.47	5.31	
4b	Level of ACC workplace management practices accreditation	☑	Tertiary	Primary Accreditation	Lose Accreditation	Tertiary	Tertiary	Tertiary	Tertiary	Tertiary	Tertiary	Tertiary	Expired - re-audit underway	Expired - re-audit underway	Expired - re-audit underway	Tertiary	Tertiary	Tertiary	
4c	Percentage of total hours absent due to illness (12 mth rolling average)	☑	≤2.5%	>2.5 to ≤3%	>3.5%	2.16%	2.13%	2.13%	2.81%	2.12%	2.10%	2.07%	2.06%	2.09%	2.11%	2.12%	2.11%	2.09%	
4d	Percentage of voluntary leavers relative to number of permanent staff (12 mth rolling average)	☑	≤12%	>12 to 14%	>14%	12.60%	12.50%	12.48%	12.54%	12.08%	11.61%	11.15%	10.28%	11.00%	11.84%	11.12%	12.48%	12.54%	
4e	Total recordable injury frequency rate	☑	<30	>30 to <33	>33	12.09	11.40	13.19	11.20	13.05	16.68	18.30	18.78	15.11	19.79	17.20	18.33	19.45	
<b>5</b>	<b>Financial</b>																		
5a	Minimum funds flow from operations to interest cover (FFO) before any price adjustment	☑	≥2.5	2.4 to <2.5	<2.4	3.19	3.30	3.34	3.31	3.46	3.38	3.32	3.35	3.40	3.38	3.45	3.40	3.34	
5b	Percentage of household expenditure on water supply services relative to the average household income	☑	≤1.5%	1.2 to <1.5	>1.5	0.90%	0.90%	0.90%	0.90%	0.90%	0.90%	0.90%	0.90%	0.91%	0.91%	0.92%	0.92%	0.92%	
5c	Water & wastewater revenue against budget YTD %	☑	≥100%	≥98% to <100%	<98%	98%	99%	100%	101%	101%	101%	100%	99%	100%	100%	100%	100%	100%	
5d	Infrastructure growth charge revenue against budget YTD %	☑	≥100%	≥95% to <100%	<95%	122%	132%	164%	156%	206%	189%	167%	173%	164%	156%	156%	149%	146%	
5e	Other revenue against budget YTD %	☑	≥100%	≥95% to <100%	<95%	200%	233%	149%	131%	138%	138%	248%	264%	264%	250%	176%	174%	179%	
5f	Controllable costs against budget YTD %	☑	≤100%	>100 to ≤102%	>102%	99%	100%	98%	96%	98%	99%	98%	99%	99%	98%	98%	99%	101%	
5g	Total contribution against budget YTD (\$ millions)	☑	+	-\$0.1m to -\$2m	> -\$2m	18.80	29.30	3.60	7.30	15.87	18.18	18.48	22.37	26.79	27.94	26.76	24.98	22.53	
5h	Net surplus / deficit before tax against budget YTD (\$ millions)	☑	+	-\$0.1m to -\$2m	> -\$2m	-3.30	-7.30	-1.40	-14.70	-4.63	-22.12	-28.00	-43.59	-90.04	-74.28	-76.19	-67.08	-63.05	
5i	Total net borrowing against budget YTD (\$ millions)	☑	-	\$0.1m to \$10m	> \$10m	-37.20	-28.30	-8.10	-19.50	-20.60	-20.40	-25.50	-29.70	-34.80	-49.30	-71.70	-71.20	-86.10	
5j	Total 60 days+ debtors (\$ millions)	☑	≤\$3m	>\$3m to ≤3.5	> \$3.5m	2.62	2.07	1.67	1.56	1.34	1.43	1.82	2.03	1.77	1.71	1.72	1.72	1.74	
<b>6</b>	<b>Effective Asset Management</b>																		
6a	Percentage of actual capital expenditure relative to budget YTD	☑	≥85% to ≤100%	≥80% to <85%	<80%	96%	100%	68%	91%	84%	84%	86%	84%	85%	83%	84%	82%	83%	
<b>7</b>	<b>Sustainable Environment</b>																		
7a	Per capita consumption (litres / person / day) (12 mth rolling average) - Overall	☑	278+/-5%*** (2013/14 target = 280+/-5%)	283 to 290	>290	271	270	270	270	270	269	267	266	273	273	273	273	273	
7a1	Per capita consumption (litres / person / day) - Residential Monthly PCC	☑	No specific target - information only			148	145	140	140	141	144	156	163	170	170	163			Sourced from metering data, reporting lag as a result of actual readings occurring every 2nd month
7a2	Non-Domestic Monthly Water Volume	☑	No specific target - information only			2,899,451	2,773,596	2,837,670	2,801,523	2,701,694	2,880,481	2,858,163	2,892,951	2,898,831	3,079,838	3,344,422			Sourced from metering data, reporting lag as a result of actual readings occurring every 2nd month
7b	Percentage of annual potable water network losses (12 mth rolling average) - Overall	☑	≤13%*** (2013/14 target = ≤14%)	>13 to 13.2%	>13.2	14.15%	14.00%	13.97%	13.40%	13.30%	13.45%	13.58%	13.66%	13.89%	13.66%	13.66%	13.50%	13.31%	
7b1	Percentage of annual potable water network losses (12 mth rolling average) - Rural	☑	No specific target - information only			27.59%	27.47%	27.26%	26.40%	26.36%	25.92%	25.22%	25.19%	24.95%	23.92%	20.85%	20.35%	19.51%	
7b2	Percentage of annual potable water network losses (12 mth rolling average) - Urban	☑	No specific target - information only			13.70%	13.64%	13.51%	13.44%	13.50%	13.42%	13.17%	13.40%	13.67%	13.49%	13.54%	13.38%	13.21%	
<b>8</b>	<b>Policy Compliance</b>																		
8a	Treasury Policy - Committed facilities (liquidity risk)		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	Within policy
8b	Treasury Policy - Fixed interest rate risk		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	Within policy
8c	Treasury Policy - Credit risk		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	Within policy
8d	Treasury Policy - Funding risk		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	Within policy
8e	Treasury Policy - Foreign exchange risk		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	Within policy

\*\*\* Target has changed from 1 July 2014 (14/15 Statement of Intent)

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

2015/25 LTP Measures		2015/16 Target	Amber Threshold	Red Threshold	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15
9a	The extent to which the local authority's drinking water supply complies with part 4 of the drinking-water standards (bacteria compliance criteria)	100%															
9b	The extent to which the local authority's drinking water supply complies with part 5 of the drinking-water standards (protozoal compliance criteria)	100%															
9c	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	14.15%	14.00%	13.97%	13.40%	13.30%	13.45%	13.58%	13.66%	13.89%	13.66%	13.66%	13.50%	13.31%
9d	Median response time for attendance for urgent call-outs: from the time that the local authority receives notification to the time that service personnel reach the site.	≤60 mins															
9e	Median response time for resolution of urgent calls-outs: from the time that the local authority receives notification to the time that service personnel confirm resolution of the fault or interruption.	≤5 hours (300 mins)															
9f	Median response time for attendance for non-urgent call-outs: from the time that the local authority receives notification to the time that service personnel reach the site	≤3 days (72 hrs)															
9g	Median response time for resolution of non-urgent call-outs: from the time that the local authority receives notification to the time that service personnel confirm resolution of the fault or interruption	≤6 days (144 hrs)															
9h	The total number of complaints received by the local authority about any of the following: a) drinking water clarity b) drinking water taste c) drinking water odour d) drinking water pressure or flow e) continuity of supply f) the local authority's response to any of these issues expressed per 1000 connections to the local authority's networked reticulation system	≤10															
9i	The average consumption of drinking water per day per resident within the territorial authority district (rolling 12 mth average)	2014/15 target = 278 +/- 5%**	283 to 290	>290	271	270	270	270	270	269	267	266	273	273	273	273	273
9j	The number of dry weather overflows from the territorial authority's sewerage system, expressed per 1000 sewerage connections to that sewerage system	≤10															
9k	Compliance with the territorial authority's resource consents for discharge from its sewerage system measured by the number of: a) abatement notices b) infringement notices c) enforcement orders d) convictions received by the territorial authority in relation to those resource consents	a) ≤2 b) ≤2 c) ≤2 d) 0															
9l	Attendance at sewerage overflows resulting from blockages or other faults: median response time for attendance - from the time that the territorial authority receives notification to the time that service personnel reach the site	≤60 mins															
9m	Attendance at sewerage overflows resulting from blockages or other faults: median response time for resolution - from the time that the territorial authority receives notification to the time that service personnel confirm resolution of the blockage or other fault	≤5 hrs (300 mins)															
9n	The total number of complaints received by the territorial authority about any of the following: a) sewerage odour b) sewerage system faults c) sewerage system blockages d) the territorial authority's response to issues with its sewerage system expressed per 1000 connections to the territorial authority's sewerage system	≤50															

## Watercare Services Limited

**Subject: Chief Executive Report – May 2015**

**Date: 10 June 2015**

### 1. CUSTOMER SERVICES

May's performance against Statement of Intent (SOI) measures was good. However, one aspect of the customer satisfaction measure was below the target. The customer survey for the month showed reduced satisfaction with the service received from the maintenance teams when responding to faults (77% against a target of 80%). Customer Satisfaction with other services exceeded the 80% target.

All complaints were resolved within 10 working days, exceeding the 95% target.

### 2. INFRASTRUCTURE AND PLANNING

The capital programme is forecast to be 9% under budget at year end, primarily as a result of timing. Highlights for the month include the practical completion for all construction works and chlorination plants in the North Franklin region plus the completion of construction works and commencement of commissioning of the Ardmore sludge handling upgrade.

The capital investment forecast for year end has reduced by \$3.6m (water projects \$0.8m, wastewater projects \$2.8m).

Watercare's staff continued to engage with Auckland Council on Special Housing Areas, the Unitary Plan and the Long Term Plan.

There was increased engagement with developers and planners to support and enable priority for housing growth.

A Capital Expenditure Dashboard Report of all capital expenditure projects over \$2million is shown in Appendix C.

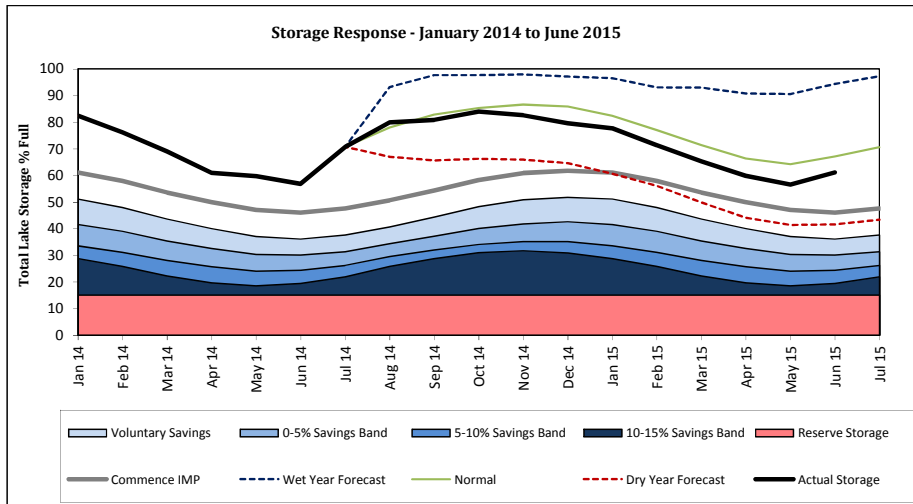
### 3. SERVICE DELIVERY

#### Rainfall and Water Resources

The Auckland region experienced above average rainfall in May:

Waitakere Ranges	136% of average
Hunua Ranges	144% of average
Northern Non-metropolitan	111% of average
Southern Non-metropolitan	126% of average

Metropolitan total system storage increased in May from 56.6% to 61.1%, slightly below the average storage for the end of May (64.2%). Abstraction from the Waikato River and Onehunga Aquifer will be maximised for the remainder of June. Storage levels are expected to be above 65% by the 1<sup>st</sup> of July at which stage the abstractions from Waikato and Onehunga will be reduced.



Weather forecasts for June 2015 indicate rainfall is expected to be normal or below normal, and temperature near average. Longer term, for June – August 2015, temperatures are most likely to be above average, with rainfall most likely to be normal or below normal. Heavy rain at the start of June has resulted in storage levels reaching 66.9% as of 8 June 2015.

**Real Water Losses**

The 12 month rolling average for real losses is 13.31% against a Statement of Intent Target of 13%. This assumes a meter inaccuracy of 3%. However, recent results of studies and analysis by the University of Auckland suggests that the aggregate assumed meter inaccuracy for Watercare is at least at the level of the international benchmark of 5%. Using this increased meter inaccuracy assumption reduces the 12 month rolling average for real losses to less than 12%.



## 4. FINANCE

### Financial Performance

	Current Month			Year to Date			Full Year		
	Actual	Budget	Var	Actual	Budget	Var	Forecast	Budget	Var
<b>Figures (\$millions)</b>									
Revenue	42.96	41.31	1.65	475.72	459.76	15.97	517.63	499.58	18.04
Operating Expenses	20.40	16.24	(4.16)	188.27	185.77	(2.50)	206.18	201.59	(4.58)
Depreciation	18.68	17.80	(0.89)	189.78	192.93	3.15	209.58	210.44	0.86
Interest expense	6.23	7.18	0.95	67.76	73.67	5.92	74.15	80.57	6.43
<b>Total Contribution</b>	<b>(2.35)</b>	<b>0.09</b>	<b>(2.45)</b>	<b>29.92</b>	<b>7.39</b>	<b>22.53</b>	<b>27.73</b>	<b>6.98</b>	<b>20.75</b>
Non-operating costs/(income)	0.03	0.57	0.54	4.03	6.43	2.40	4.60	7.00	2.40
Financial instruments revaluation - loss/(gain)	(4.97)	-	4.97	88.94	-	(88.94)	88.94	-	(88.94)
<b>Operating Surplus / (Deficit) Before Tax</b>	<b>2.59</b>	<b>(0.48)</b>	<b>3.07</b>	<b>(63.05)</b>	<b>0.96</b>	<b>(64.02)</b>	<b>(65.82)</b>	<b>(0.02)</b>	<b>(65.79)</b>
Deferred Tax - Expense/(Credit)	3.95	(0.74)	(4.69)	(6.19)	5.47	11.67	(2.52)	4.51	7.03
<b>Net Surplus / (Deficit) After Tax</b>	<b>(1.36)</b>	<b>0.26</b>	<b>(1.62)</b>	<b>(56.86)</b>	<b>(4.51)</b>	<b>(52.35)</b>	<b>(63.30)</b>	<b>(4.54)</b>	<b>(58.76)</b>
<b>FFO Ratio</b>				3.34	2.96		3.33	2.94	
<b>Operating EBITDAF</b>	22.56	25.07	(2.51)	287.45	273.99	13.46	311.45	297.99	13.46
<b>EBITDA</b>	27.51	24.50	3.01	194.48	267.56	(73.08)	217.91	290.99	(73.08)
<b>EBIT</b>	8.82	6.70	2.12	4.70	74.64	(69.93)	8.33	80.55	(72.22)

#### Month – Total Contribution of \$(2.35) m - unfavourable variance to budget of \$2.45m

Total revenue was favourable \$1.65m to budget largely due to IGC revenue favourable by \$0.53m, timing of receipt of vested asset income (\$0.58m) and higher than budgeted water volumes. Water and wastewater revenues were favourable \$0.30m.

Operating expenses were unfavourable \$4.16m to budget with unfavourable variances for labour, planned maintenance, unplanned maintenance, chemical costs, asset operating costs and professional services.

Depreciation was unfavourable to budget \$0.89m due to accelerated depreciation on resource consents.

Interest expense was \$0.95m favourable to budget.

#### Year to date – Total Contribution of \$29.92m - favourable variance of \$22.53m

Year to date revenue is \$15.97m favourable to budget primarily due to IGC revenue favourable \$14.04m, vested asset income favourable \$3.39m. Water and wastewater revenue is unfavourable \$1.23m to budget with year to date water volumes 0.38% under budget.

Operating expenses are \$2.50m unfavourable to budget with unfavourable variances for unplanned maintenance, other asset operating costs and professional services partially offset by energy, general overheads and planned maintenance.

Depreciation is favourable \$3.15m to budget.

Interest expense is \$5.92m favourable to budget.

#### Year to date – Net Deficit after Tax of \$56.86m – unfavourable variance of \$52.35m

The unfavourable variance year to date of \$52.35m is primarily due to an unfavourable revaluation of financial instruments of \$88.94m resulting from the substantial decrease in medium to long term swap rates since June 2014 partially offset by the \$22.53m year to date favourable operating contribution.

#### Full year Forecast – Operating Contribution of \$27.7m – favourable variance of \$20.8m

Full year revenue is now forecast at \$517.6m, favourable by \$18.0 largely due to expected higher than budgeted IGC revenue favourable \$14.0m and vested asset revenue favourable \$3.4m. Water and wastewater revenue forecasts are being held at budgeted levels for the remaining month.

Operating expenses are forecast to be unfavourable \$4.6m with budget with unfavourable variances for labour, unplanned maintenance, professional services and other asset operating costs partially offset by planned maintenance and general overheads.

Depreciation costs are expected to be favourable \$0.9m at year end due to forecast lower accelerated depreciation than budgeted.

Interest expensed through the P&L is expected to be \$6.4m beneath budget at year end.

### Financial Position

\$million	Actual Apr-15	Actual May-15	Monthly Movement	Budget May-15	Var from Budget
Non Current Assets	8,373.4	8,384.0	10.6	8,407.5	(23.4)
Current Assets	73.2	73.0	(0.3)	66.8	6.1
<b>Total Assets</b>	<b>8,446.7</b>	<b>8,457.0</b>	<b>10.4</b>	<b>8,474.3</b>	<b>(17.3)</b>
Other Liabilities	261.0	271.1	10.1	173.7	97.3
Deferred Tax Liability	955.1	959.0	3.8	945.2	13.8
Borrowings - Short Term	187.5	217.4	29.8	187.7	29.6
Borrowings - Long Term	1,315.5	1,283.3	(32.2)	1,403.6	(120.3)
Shareholders Funds	5,727.6	5,726.2	(1.3)	5,764.0	(37.8)
<b>Total Liabilities and Shareholders Funds</b>	<b>8,446.7</b>	<b>8,457.0</b>	<b>10.4</b>	<b>8,474.3</b>	<b>(17.3)</b>

The major movements in the Statement of Financial Position as at 31 May 2015 compared with 30 April 2015 were the increase in non-current assets reflecting capital expenditure net of depreciation in the month, a decrease in borrowings (\$2.4m) and a decrease in other liabilities (\$10.1m).

Compared with budget the material variances are largely in respect of derivative financial instruments (Other liabilities), non-current assets and debt. Net debt at \$1,501m is \$90.7m beneath budget.

### Receivables

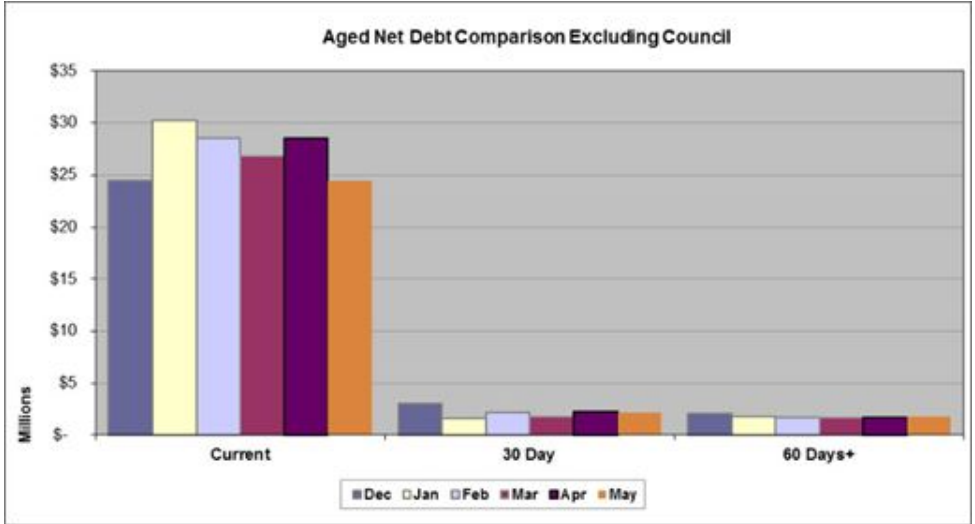
Receivables before provision for doubtful debts totalled \$28.9m at May month end compared with \$33.2m at the end of April. The Auckland Council component of total debt was \$0.53m compared with \$0.68m at April. Total 60+ day debt has increased by \$17k during the month.

### Total receivables – month-on-month comparison

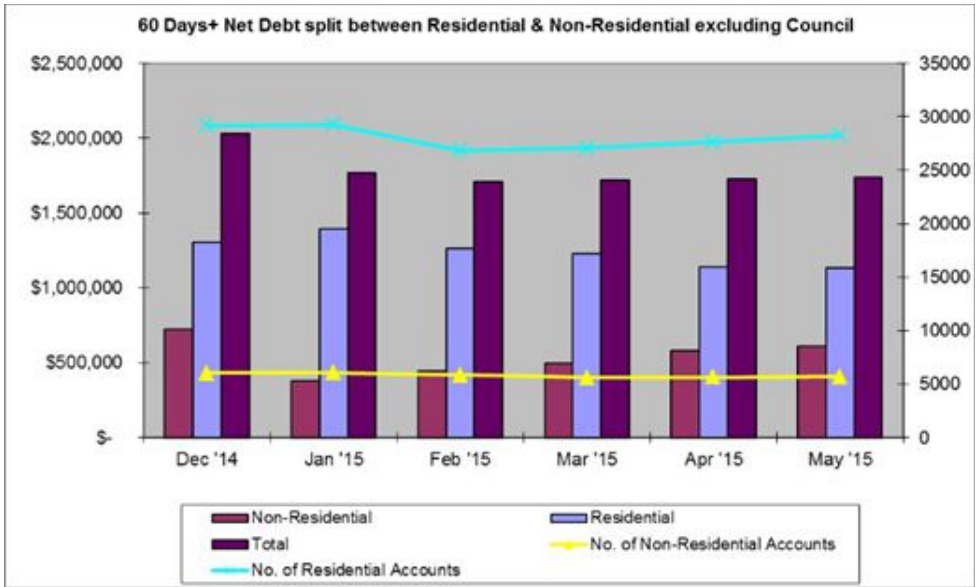
<u>Net Debt</u>	0-30 days <i>(previous month in italics)</i>	30-59 days <i>(previous month in italics)</i>	60 days + <i>(previous month in italics)</i>	Total <i>(previous month in italics)</i>
Receivables excluding Council & IGC	<b>\$24,502,358</b> <i>\$28,528,894</i>	<b>\$2,154,938</b> <i>\$2,272,166</i>	<b>\$1,740,634</b> <i>\$1,723,737</i>	<b>\$28,397,929</b> <i>\$32,524,797</i>
Auckland Council Group	<b>\$457,147</b> <i>\$486,311</i>	<b>\$28,344</b> <i>\$74,239</i>	<b>\$41,383</b> <i>\$122,676</i>	<b>\$526,874</b> <i>\$683,227</i>
<b>Total receivables</b>	<b>\$24,959,504</b> <i>\$29,015,205</i>	<b>\$2,183,282</b> <i>\$2,346,405</i>	<b>\$1,782,017</b> <i>\$1,846,414</i>	<b>\$28,924,803</b> <i>\$33,208,024</i>

The change in age of debt (excluding Auckland Council) over the last six months is shown below.

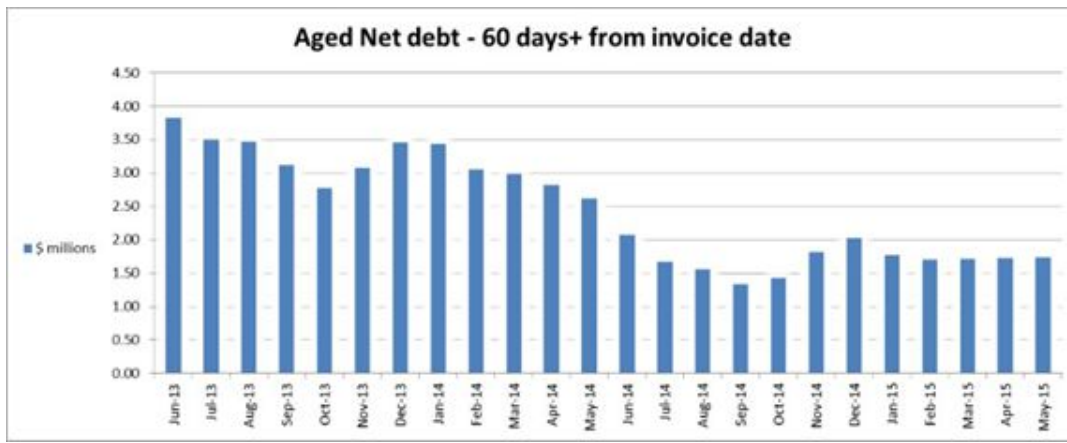
**Age of debt comparison – November 2014 to May 2015**



The split of 60 days+ receivables between residential and commercial is shown below:



The trends of 60 days is shown below:



**Water Utility Consumer Assistance Trust (WUCAT)**

The following tables summarise the results of the Trust:

**May 2015**

WUCAT Summary		
Financial year	Board approved applications (includes WSL additional write offs)	\$000's
Jun-12	33	\$ 29
Jun-13	172	\$ 196
Jun-14	123	\$ 114
(YTD) Jun-15	141	\$ 139
<b>Total</b>	<b>469</b>	<b>\$ 478</b>

WUCAT Summary last 3 meetings		
Month	Board approved applications	\$000's
Mar-15	12	\$ 13.50
Apr-15	13	\$ 9.44
May-15	2	\$ 1.01
<b>Total</b>	<b>27</b>	<b>\$ 24</b>

469 applicants have successfully completed the budget adviser review process and these applicants have had \$481k of hardship relief approved by the Trust. This has resulted in \$386k actually being written-off as payment plans have been completed. For various reasons 39 applicants did not fully complete their agreed payment plans and they have foregone \$38k of approved hardship relief. A further 35 applicants continue with their payment arrangements with \$57k of approved hardship write-offs to be granted when they successfully complete their plan.

The results of the last 3 WUCAT meetings are that 27 applicants have successfully completed the budget process and had \$24k of hardship relief approved by the Trust.

**Restrictions**

During May 816 reminder notices were sent to customers warning that water restriction may be actioned if payment was not received and 12 cards were sent to customers warning of possible restriction of their water supply in 48 hours. As a result, five new water restrictions were actioned during May and 11 restrictions were removed as payment was received.

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
31/05/2015 YTD	31	30	52	37	83	67
<b>Total</b>	<b>65</b>	<b>61</b>	<b>80</b>	<b>55</b>	<b>145</b>	<b>116</b>
<b>Restrictions currently</b>	<b>4</b>		<b>25</b>		<b>29</b>	

The following restrictions remain in place:

- Four residential restrictions remain in place on vacant properties. Communications are ongoing with the customers and if the properties are tenanted in future resolution will be required.
- A further 21 residential restrictions remain in place on occupied properties and communication continues with these customers.
- Four commercial properties remain restricted at the end of April and communication continues with these customers. One of these commercial properties is currently vacant.

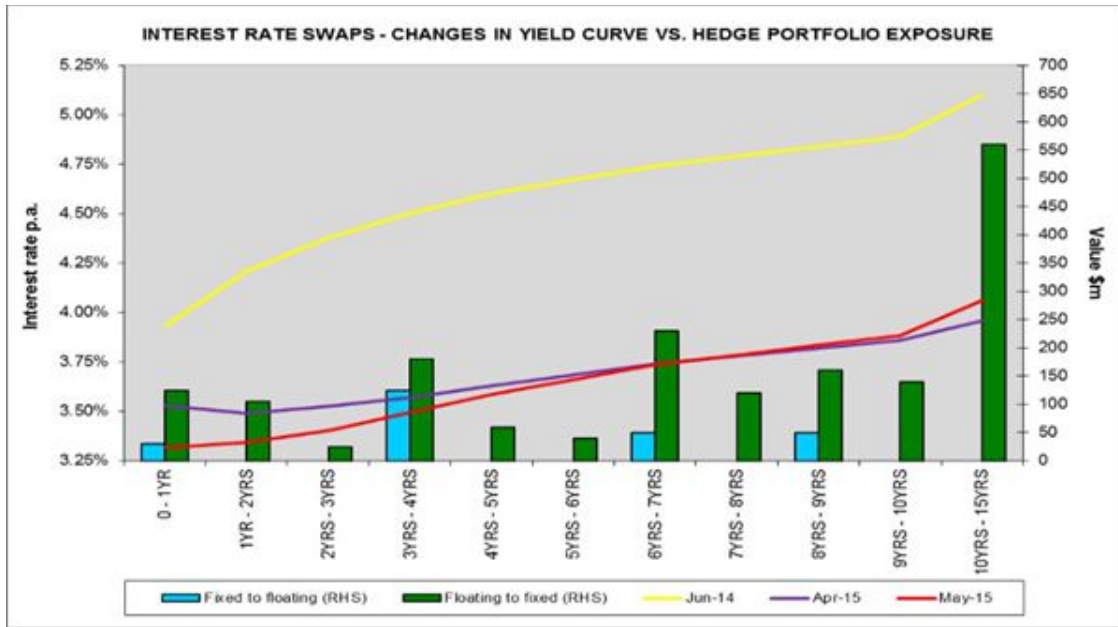
#### **Water Pressure Group Customers**

Watercare holds charging orders over all of the water pressure group properties, securing our rights if these customers attempt to refinance or sell their properties. New judgements will be sought in the near future to ensure the full amounts outstanding are covered by charging orders.

Six Water Pressure Group members continue to refuse to settle their account or enter into a payment arrangement. These properties remain restricted. There are 5 other properties that have not been restricted as the occupants meet the definition of vulnerable customers. During May, one WPG customer was restricted again as new invoices remained unpaid, full payment was made and the properties were derestricted. Firmer legal action is being considered to encourage the owners of these properties to pay their bills. The next logical step is to enforce the existing judgements through a financial assessment hearing where the court examines the debtor's ability to pay and makes a court order directing future payments. One Water Pressure Group customer who had 2 accounts, has fully settled their amount outstanding and are no longer part of the group. Their charging orders have been fully discharged.

At the end of May Water Pressure Group members owed \$300k to Watercare.

#### **Treasury**



Interest Analysis \$million	Current Month			Year to date			Full Year		
	Actual	Budget	Var	Actual	Budget	Var	Forecast	Budget	Var
Interest as per Statement of Financial Performance	6.23	7.18	0.95	67.76	73.67	5.92	74.15	80.57	6.42
Capitalised Interest	1.13	1.18	0.06	12.82	13.79	0.97	13.90	15.01	1.11
Gross Interest	7.36	8.36	1.00	80.58	87.47	6.89	88.04	95.58	7.54
Less Interest Income	0.01	0.00	(0.01)	0.27	0.00	(0.27)	0.34	-	(0.34)
<b>Net Interest</b>	<b>7.35</b>	<b>8.36</b>	<b>1.01</b>	<b>80.31</b>	<b>87.46</b>	<b>7.15</b>	<b>87.70</b>	<b>95.58</b>	<b>7.88</b>

For the month and year to date net interest is favourable to budget \$1.01m and \$7.15m respectively; largely due to lower debt than budgeted.

### Capital Expenditure

Capital expenditure for the month was \$27.6m against a budget of \$27.6m.

Summary Capital Expenditure (\$millions)	Month May 2015			Year to Date			Full Year	
	Actual	Budget	Var	Actual	Budget	Var	Forecast	Budget
Infrastructure Wastewater Projects	11.1	13.2	2.1	110.1	131.8	21.7	123.7	146.1
Infrastructure Water Projects	10.5	9.5	(1.0)	110.7	115.9	5.2	123.3	125.7
Operations	4.9	2.7	(2.2)	19.1	27.9	8.8	21.7	30.5
Maintenance Services	0.1	0.3	0.2	1.8	2.7	0.9	2.1	2.7
Information Services	0.4	0.9	0.5	3.2	11.1	7.9	4.8	12.0
Other Projects	0.6	1.0	0.4	6.0	11.3	5.3	7.5	12.2
<b>TOTAL</b>	<b>27.6</b>	<b>27.6</b>	<b>(0.0)</b>	<b>250.9</b>	<b>300.7</b>	<b>49.8</b>	<b>283.1</b>	<b>329.2</b>
Includes:								
Water Projects Capitalised Interest	0.6	0.7	0.1	7.2	8.3	1.1	7.7	9.0
Wastewater Projects Capitalised Interest	0.6	0.5	(0.1)	5.6	5.5	(0.1)	6.2	6.0
<b>Total Capitalised Interest</b>	<b>1.1</b>	<b>1.2</b>	<b>0.1</b>	<b>12.8</b>	<b>13.8</b>	<b>1.0</b>	<b>13.9</b>	<b>15.0</b>

## 5. BOARD CORRESPONDENCE

One piece of Board correspondence was received during the month. A letter was received from the Mayor outlining his expectation that all CCO's engage with the Council's advisory panels in a constructive manner. A copy of the Mayor's letter along with Watercare's response is attached as Appendix E.

## 6. EXECUTION OF DOCUMENTS

There were twelve documents executed during May in accordance with the delegated authority provided to the Chief Executive by the Board in relation to deeds, instruments and other documents. These included approval of five easements, three telecommunications licences, two options to acquire land, one licence to occupy and approval of a notice of desire to acquire land.

There were six capex approvals totaling \$9.146m 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 – May 2015		
C-12048b	Blackbridge Local Network Upgrade - Stage 2a extension	\$324,000
C-12106-01	St Heliers Bay Wastewater Network Upgrade - Extension	\$3,113,000
C-12505	Puketutu Biosolids Facility Cell Wall Construction	\$3,204,340
C-12509	Waiuku Water Meter Replacement and Smart Metering Programme	\$1,980,000
C-12572	MSN - 6th Water Reactive Team Vehicles	\$525,000

There were five contracts over \$100,000 awarded during May 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 – May 2015		
1/05/2015	Drill Force	\$ 1,890,127
29/05/2015	March Cato Limited	\$ 4,378,784
4/05/2015	Stockman General Contractors Ltd	\$ 555,365
8/05/2015	Windsor Engineering Group Ltd	\$ 324,000
12/05/2015	AECOM NZ Ltd	\$ 118,315

## 7. COMMUNICATIONS

### Media summary

This month, a media release regarding the water and wastewater price rises that will come into effect on 1 July generated coverage on both the Herald and Stuff websites as well as in the local newspapers. On the whole, the coverage was balanced and featured the key messages from the media release.

Two further media releases, one regarding maintaining the bird roosts along the Manukau Harbour foreshore and the other regarding the Watercare education programme, gained favourable coverage in the Manukau Courier and Pohutukawa Coast Times respectively.

Watercare was contacted by both One News and the Western Leader regarding a wastewater overflow affecting a stream near Konini School. After One News visited the site and received Watercare's response, they decided not to run the story. However, the Western Leader chose to run a negative story, despite Watercare's response clearly outlining that we had responded within an hour, cleaned the area and subsequent testing had found no traces of contamination resulting from the overflow. The issue with Konini School continues and is involving the local board and council.

### Customer communications

The *Tapped In* newsletter continued to be distributed to both domestic and non-domestic customers in May. It will be followed by an insert to domestic customers on the price increases.

Advertisements were placed in the local papers encouraging people to flush their taps. These plumbosolvency notices are required by the Ministry of Health in order to meet the drinking water standards.

### **Stakeholder communications**

Pupils from six schools as far afield as Maraetai and Albany took part in the Watercare Education Programme. A teacher from May Road School in Mt Roskill contacted the education coordinator afterwards to comment on how engaged and motivated the children were following the lessons. A pupil at Maraetai Beach School said he was 'blown away' to learn just how many people rely on the water supply. "It's crazy how much water is used every day," he said.

### **Internal communication**

In line with the communications programme, this month staff received weekly emails from the Chief Executive as well as the newsletters *Your Source* and *Home Safe*. *Home Safe* focused on the correct use of PPE and was also distributed to contractors.

## **8. WORKING WITH LOCAL BOARDS**

During May, Local Board members were notified of the increase in Watercare charges prior to the public announcement.

Waiheke Local Board members received a briefing on planning proposals for local wastewater upgrades. The Local Board actively participated and provided constructive feedback. The Local Board Chairman thanked Watercare for taking the time to proactively engage with the local board early in the process.

Information on the Central Interceptor geotechnical investigations in the Manukau Harbour was shared with affected local boards prior to a public media release. Representative members of the same boards were also identified to help work with Watercare and Parks staff on aspects of the detailed design where construction impacts local parks.

Derek Battersby from the Whau Local Board joined Watercare Staff at the Manawa Wetland Reserve in New Lynn where work on a new generator has recently been completed. The visit formed the basis of a media release in the Western Leader explaining the purpose of the generator.

Most local board activity over the month was in response to questions raised by members and advisory staff. Information on the timing of major Watercare infrastructure projects including the Central Interceptor and Northern Interceptor was shared with the Waitemata Local Board. Hibiscus and Bays local board members were notified in advance of a temporary closure to the Murrays Bay coastal walkway as maintenance was carried out on the wastewater pipe. Questions were also raised about loose manhole covers on the North Shore and local network upgrades in Howick.

Following the successful Hunua 4 construction site visit by Councillor Krum and representatives of the Maungakiekie Tamaki Local Board, a similar visit has been planned for Albert Eden Local Board members and ward Councillors. The visit will follow the distribution of a comprehensive project flyer to residents along the remainder of the route through to Manukau Road and will offer elected officials a chance to see how the project is constructed and effects managed.

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

**9. STATUTORY PLANNING**

**Auckland Proposed Unitary Plan**

Hearings by the Independent Hearing Panel on the Regional and District Plan provisions of the Proposed Auckland Unitary Plan are now well underway. The mediations and hearings for the majority of the topics will be completed by the end of the year. The key areas of focus for Watercare are water (discharge and water allocation), network utility rules, trees and vegetation, and earthworks. We have achieved improvements in the provisions of a number of topics as they relate to Watercare’s activities. These provisions have been presented by Council to the Panel for their consideration.

**Proposed Water Supply and Wastewater Bylaw**

In May, the Watercare Board resolved to accept the recommendations of the Hearing Panel on the Proposed Water Supply and Wastewater Network Bylaw (subject to one minor change) and to recommend to the Auckland Council Governing Body that it adopt the proposed bylaw and revoke the legacy bylaws. The new bylaw will take effect from 1 July 2015.

**Auckland Council Operative Plan Changes**

There is currently one plan change of significant interest to Watercare:

- **Kingseat:** The Environment Court has issued the final consent order approving the proposed changes. This plan change is now complete.

Watercare has also made submissions on three private plan changes: Snells-Algies, Three Kings, and Tamaki Campus. There are no new developments to report on these plan changes.

**Maori Engagement**

The next meeting of the Mana Whenua Forum is on 9 July 2015.

Watercare sends a schedule of its proposed projects to the 19 Iwi of Tamaki Makaurau for them to register their interest to engage with Watercare as Kaitiaki with cultural interests. Watercare’s monthly list generally includes around 90 applications.

**10. LONG TERM PLAN 2015-2025**

Watercare is continuing to work with Auckland Council on the Long Term Plan (LTP). The adoption of the final LTP by the Governing Body is scheduled for 25 June 2015.

.....  
R Jaduram  
CHIEF EXECUTIVE

# WATERCARE SERVICES LIMITED

May-15

## 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

**Commentary on unfavourable variances**



Unfavourable variance largely due to the write-off of work-in-progress and an increase in unplanned maintenance.

# **WATERCARE SERVICES LIMITED**

## **Management Report**

**May-15**

**4**

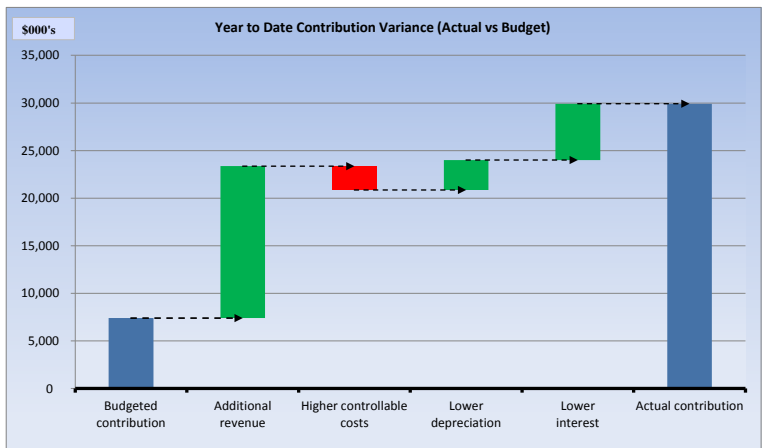
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● Statement of Financial Performance	A1
● Statement of Cash Flows	A2
● Statement of Financial Position	A4
<b>2 Treasury Management</b>	
● Treasury Risks & Interest Rate Performance	A5
● Counterparty Exposures, Debt Concentration & Covenant Compliance	A6
● Foreign Exchange & Commercial Paper Maturity	A7

WATERCARE SERVICES LIMITED												
STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE												May-15
(\$000's)												
	Current Month				Year to Date				Full Year			
	Actual	Budget	Variance	Result	Actual	Budget	Variance	Result	Forecast	Budget	Variance	Result
Wastewater revenue	24,350	24,150	200	✓	266,132	266,418	(286)	✗	289,291	289,578	(287)	✗
Water revenue	11,351	11,285	66	✓	125,842	126,356	(514)	✗	136,545	137,059	(514)	✗
Infrastructure growth charge revenue	3,729	3,200	529	✓	44,836	30,800	14,036	✓	48,136	34,100	14,036	✓
Other revenue	1,566	1,290	276	✓	20,311	20,968	(657)	✗	23,667	22,244	1,423	✓
Revenue from exchange transactions	40,996	39,925	1,071	✓	457,121	444,542	12,579	✓	497,640	482,981	14,658	✓
Vested assets revenue	1,967	1,383	583	✓	18,603	15,217	3,386	✓	19,986	16,600	3,386	✓
Revenue from non-exchange transactions	1,967	1,383	583	✓	18,603	15,217	3,386	✓	19,986	16,600	3,386	✓
<b>Total revenue</b>	<b>42,962</b>	<b>41,308</b>	<b>1,654</b>	<b>✓</b>	<b>475,724</b>	<b>459,758</b>	<b>15,965</b>	<b>✓</b>	<b>517,626</b>	<b>499,581</b>	<b>18,045</b>	<b>✓</b>
Labour	6,435	6,142	(293)	✗	64,778	65,422	644	✓	71,019	71,622	604	✓
Contract labour	276	267	(9)	✗	3,892	4,075	183	✓	4,122	4,341	219	✓
Oncosts	269	309	40	✓	2,807	3,366	559	✓	3,083	3,674	592	✓
Labour recoveries	(2,780)	(3,099)	(319)	✗	(31,113)	(32,716)	(1,603)	✗	(33,994)	(35,778)	(1,784)	✗
Net labour	4,200	3,619	(581)	✗	40,364	40,146	(217)	✗	44,230	43,860	(370)	✗
Materials & cost of sales	202	174	(29)	✗	2,111	1,904	(207)	✗	2,312	2,074	(238)	✗
Planned maintenance	1,753	1,052	(701)	✗	13,442	15,416	1,974	✓	14,924	16,275	1,351	✓
Unplanned maintenance	3,236	2,452	(784)	✗	31,958	28,674	(3,285)	✗	33,918	31,105	(2,812)	✗
Asset operating costs - chemicals	1,128	915	(213)	✗	10,058	10,214	156	✓	10,820	11,099	278	✓
Asset operating costs - energy	1,598	1,662	64	✓	15,203	15,530	327	✓	16,791	17,143	352	✓
Operating costs - other	3,647	3,126	(522)	✗	37,851	35,676	(2,175)	✗	41,191	38,652	(2,538)	✗
Depreciation and amortisation	18,685	17,798	(887)	✗	189,778	192,925	3,147	✓	209,575	210,440	865	✓
Asset operating costs	30,047	27,004	(3,044)	✗	298,291	298,435	145	✓	327,220	324,714	(2,506)	✗
Communications	125	134	9	✓	1,442	1,492	49	✓	1,614	1,625	10	✓
Professional services	2,351	936	(1,415)	✗	11,744	11,304	(441)	✗	14,093	12,149	(1,944)	✗
Interest	6,232	7,181	949	✓	67,755	73,671	5,916	✓	74,148	80,573	6,425	✓
General overheads	2,159	2,167	8	✓	24,097	25,414	1,318	✓	26,281	27,610	1,329	✓
Overheads	10,867	10,418	(449)	✗	105,039	111,881	6,842	✓	116,136	121,957	5,820	✓
<b>Total expenses</b>	<b>45,316</b>	<b>41,215</b>	<b>(4,103)</b>	<b>✗</b>	<b>445,804</b>	<b>452,366</b>	<b>6,562</b>	<b>✓</b>	<b>489,899</b>	<b>492,605</b>	<b>2,707</b>	<b>✓</b>
<b>Total contribution/(loss)</b>	<b>(2,354)</b>	<b>93</b>	<b>(2,447)</b>	<b>✗</b>	<b>29,920</b>	<b>7,392</b>	<b>22,527</b>	<b>✓</b>	<b>27,727</b>	<b>6,976</b>	<b>20,751</b>	<b>✓</b>
Gain/loss on disposal of fixed assets & other costs	30	573	542	✓	4,032	6,428	2,395	✓	4,605	7,000	2,395	✓
Gain/loss on revaluation of financial instruments	(4,973)	-	4,973	✓	88,940	-	(88,940)	✗	88,940	-	(88,940)	✗
Non operating (costs)/revenue	(4,943)	573	5,515	✓	92,972	6,428	(86,544)	✗	93,544	7,000	(86,544)	✗
<b>Net surplus/(deficit) before tax</b>	<b>2,589</b>	<b>(479)</b>	<b>3,068</b>	<b>✓</b>	<b>(63,052)</b>	<b>965</b>	<b>(64,017)</b>	<b>✗</b>	<b>(65,817)</b>	<b>(24)</b>	<b>(65,793)</b>	<b>✗</b>
Deferred tax	3,948	(741)	(4,689)	✗	(6,193)	5,474	11,667	✓	(2,522)	4,512	(7,034)	✗
<b>Net surplus/(deficit) after tax</b>	<b>(1,359)</b>	<b>262</b>	<b>(1,621)</b>	<b>✗</b>	<b>(56,859)</b>	<b>(4,509)</b>	<b>(52,350)</b>	<b>✗</b>	<b>(63,295)</b>	<b>(4,536)</b>	<b>(58,759)</b>	<b>✗</b>

**Key: Financial performance result**

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





**WATERCARE SERVICES LIMITED**  
**STATEMENT OF CASH FLOWS**  
May-15

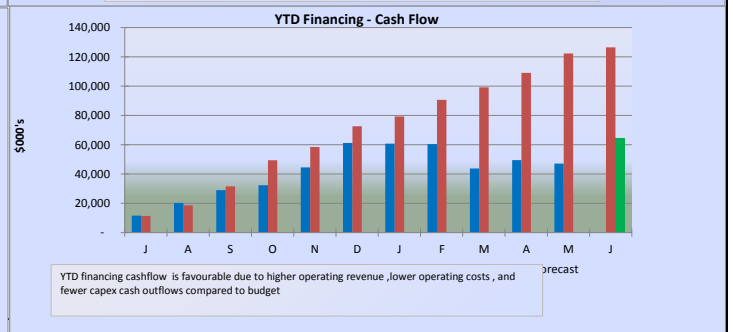
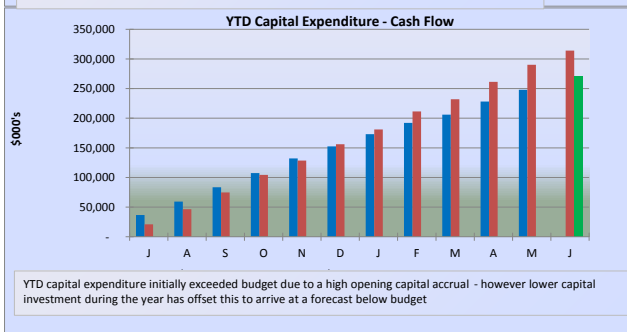
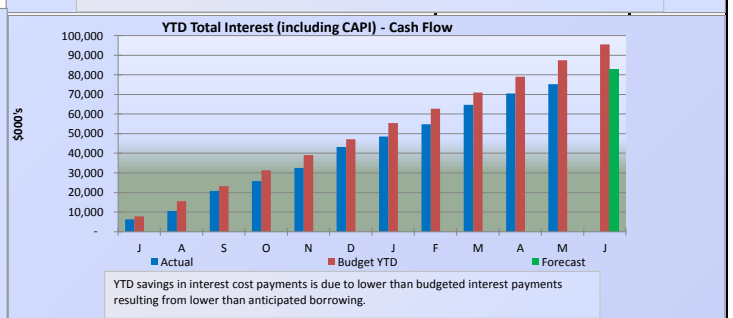
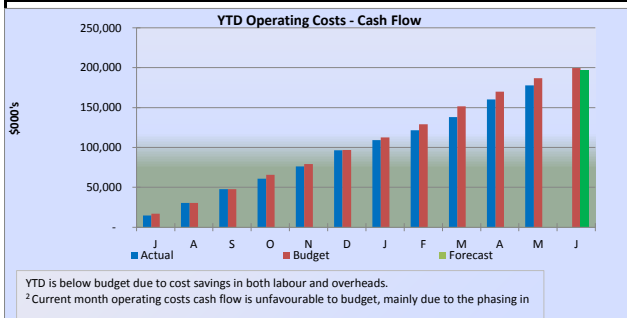
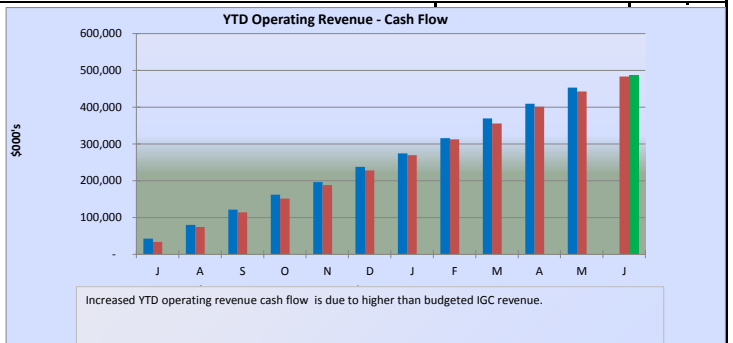
(\$000's)

NZ \$000s	Current Month				Year to Date				Full Year			
	Actual	Budget	Variance	Result	Actual	Budget	Variance	Result	Forecast	Budget	Variance	Result
<b>Operating Cash flow:</b>												
Operating Revenue	43,903	40,882	3,021	✓	453,093	442,026	11,067	✓	485,129	482,908	2,220	✓
Operating Costs	(17,646)	(16,937)	(709)	✗	(177,690)	(186,730)	9,040	✓	(196,130)	(201,687)	5,557	✓
Interest Paid	(3,717)	(7,181)	3,463	✓	(62,476)	(73,671)	11,196	✓	(68,868)	(80,573)	11,705	✓
<b>OPERATING CASH FLOW</b>	<b>22,540</b>	<b>16,764</b>	<b>5,776</b>	<b>✓</b>	<b>212,927</b>	<b>181,624</b>	<b>31,303</b>	<b>✓</b>	<b>220,131</b>	<b>200,648</b>	<b>19,483</b>	<b>✓</b>
<b>Investing Cash flow:</b>												
Capital Expenditure	(19,789)	(28,771)	8,982	✓	(248,000)	(290,139)	42,139	✓	(271,134)	(314,079)	42,944	✓
Capitalised Interest (CAPI)	(1,128)	(1,182)	54	✓	(12,823)	(13,795)	972	✓	(13,897)	(15,012)	1,115	✓
<b>INVESTING CASH FLOW</b>	<b>(20,917)</b>	<b>(29,953)</b>	<b>9,036</b>	<b>✓</b>	<b>(260,823)</b>	<b>(303,934)</b>	<b>43,111</b>	<b>✓</b>	<b>(285,031)</b>	<b>(329,091)</b>	<b>44,060</b>	<b>✓</b>
<b>Financing Cash flow:</b>												
Bonds/Term Debt Issued/(Repaid)	-	-	-		(150,000)	(150,000)	-	✓	(150,000)	(150,000)	-	✓
Short Term Advances/(Repaid)	(2,000)	(2,000)	-	✓	(1,000)	(1,000)	-	✓	(1,000)	(1,000)	-	✓
Commercial Paper Issued/(Repaid)	7	-	7	✓	14,829	14,829	-	✓	14,829	14,829	-	✓
Auckland Council Borrowings/(Repaid)	(335)	15,190	(15,525)	✓	183,309	258,481	(75,172)	✓	200,975	264,613	(63,638)	✓
<b>FINANCING CASH FLOW</b>	<b>(2,328)</b>	<b>13,190</b>	<b>(15,518)</b>	<b>✓</b>	<b>47,138</b>	<b>122,310</b>	<b>(75,172)</b>	<b>✓</b>	<b>64,804</b>	<b>128,442</b>	<b>(63,638)</b>	<b>✓</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(705)</b>	<b>-</b>	<b>(705)</b>	<b>✗</b>	<b>(758)</b>	<b>-</b>	<b>(758)</b>	<b>✗</b>	<b>(97)</b>	<b>-</b>	<b>(97)</b>	<b>✗</b>
Opening Cash Balance/(Overdraft)	44	-	44	✓	97	-	97	✓	97	-	97	✓
<b>Ending Cash Balance/(Overdraft)</b>	<b>(661)</b>	<b>-</b>	<b>(661)</b>	<b>✗</b>	<b>(661)</b>	<b>-</b>	<b>(661)</b>	<b>✗</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>✓</b>

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

**Reconciliation Operating Cashflow (\$000's)**

	Current Month		Year to Date			Full Year	
	Actual	Budget	Actual	Budget	Forecast	Budget	
Net Surplus (Deficit) After Tax	-	-	-	-	-	-	-
Add back non cash items:							
Depreciation and amortisation	30,047	27,004	298,291	298,435	327,220	324,714	
Financial instruments revaluation	(4,943)	573	92,972	6,428	88,940	-	
Vested assets revenue	(1,967)	(1,383)	(18,603)	(15,217)	(19,986)	(16,600)	
Other non-operating exp/(inc)	(4,973)	-	88,940	-	88,940	7,000	
Income Tax Expense/(Benefit)	(1,359)	262	(56,859)	(4,509)	(63,295)	4,512	
Movements in Working Capital	5,735	(9,691)	(191,812)	(103,513)	(201,687)	(118,978)	
<b>OPERATING CASH FLOW</b>	<b>22,540</b>	<b>16,764</b>	<b>212,927</b>	<b>181,624</b>	<b>220,131</b>	<b>200,648</b>	

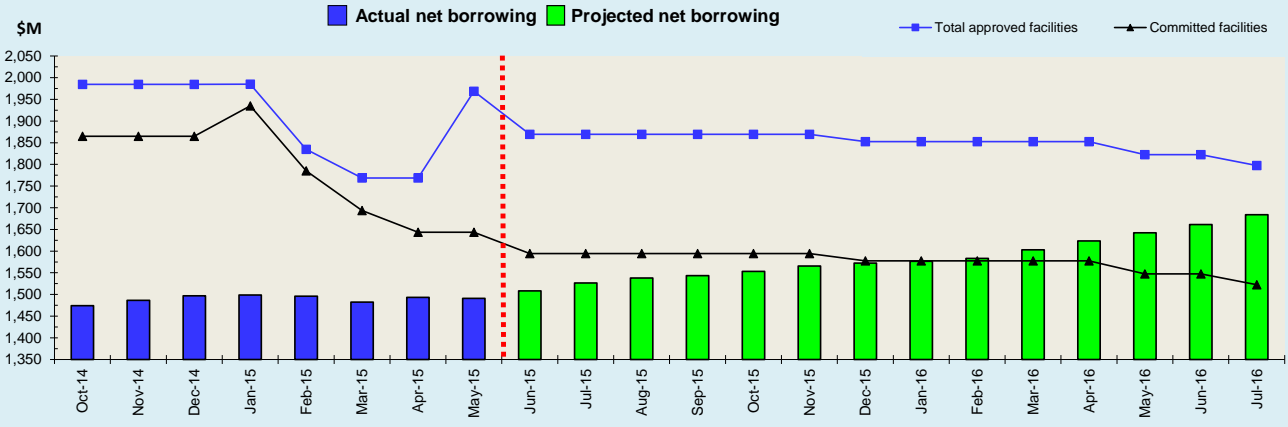


WATERCARE SERVICES LIMITED								May-15
STATEMENT OF FINANCIAL POSITION								(\$000's)
June 2014 Actual	April Actual		May			June 2015		
			Actual	Budget	Variance	Forecast	Budget	Variance
		<b>Current assets</b>						
97	44	Cash and cash equivalents	-	-	-	-	-	-
48,186	44,345	Trade and other receivables from exchange transactions	41,799	41,710	89	45,799	42,760	3,038
19,452	20,364	Unbilled revenue accrual	20,768	19,392	1,376	19,451	18,459	992
4,146	3,827	Prepaid expenses	3,329	970	2,359	3,322	698	2,624
3,836	4,475	Inventories	4,539	3,684	855	4,539	3,684	855
556	193	Derivative financial instruments	2,526	1,084	1,442	2,526	1,084	1,442
76,273	73,249	<b>Total current assets</b>	72,961	66,840	6,121	75,637	66,685	8,952
		<b>Non-current assets</b>						
7,988,872	8,251,404	Property, plant and equipment	8,271,529	8,274,623	(3,094)	8,243,674	8,425,067	(181,393)
453,301	411,875	Construction/work-in-progress	420,521	460,005	(39,484)	423,740	462,776	(39,036)
(210,329)	(369,223)	Provision for depreciation	(385,297)	(405,281)	19,984	(29,700)	(49,978)	20,278
8,231,844	8,294,056	<b>Total property, plant and equipment</b>	8,306,753	8,329,346	(22,593)	8,637,714	8,837,865	(200,151)
39,784	42,262	Intangible assets	42,229	44,402	(2,173)	41,386	44,837	(3,452)
24,208	23,791	Prepaid expenses	23,754	23,852	(98)	23,717	23,815	(98)
4,123	3,504	Inventories	3,504	4,211	(707)	3,504	4,211	(707)
5,698	9,795	Derivative financial instruments	7,794	5,664	2,130	7,794	5,664	2,130
8,305,657	8,373,408	<b>Total non-current assets</b>	8,384,034	8,407,476	(23,442)	8,714,115	8,916,392	(202,278)
8,381,930	8,446,657	<b>Total assets</b>	8,456,995	8,474,316	(17,321)	8,789,751	8,983,077	(193,326)
		<b>Current liabilities</b>						
-	-	Bank overdraft	661	-	661	-	-	-
133,811	148,632	Commercial paper	148,640	119,036	29,605	148,640	119,036	29,605
150,000	-	Bonds (16/02/15)	-	-	-	-	-	-
250	262	Bonds (18/05/16)	30,263	30,237	26	30,263	30,264	(1)
136,395	38,613	Auckland council loan	38,450	38,450	-	38,450	18,918	19,532
420,456	187,507	<b>Total debt current</b>	218,014	187,723	30,291	217,353	168,218	49,136
28,427	13,764	Trade and other payables for exchange transactions	16,222	28,505	(12,283)	19,807	31,323	(11,515)
12,681	12,557	Interest accrued	15,045	15,059	(14)	15,045	13,805	1,239
55,903	44,660	Other accrued expenses	51,351	47,266	4,085	50,491	55,121	(4,630)
6,382	6,372	Provision for staff benefits	7,079	5,653	1,426	4,932	5,483	(551)
928	3,500	Other provisions	5,020	1,152	3,868	7,079	1,152	5,927
150	700	Derivative financial instruments	19,441	194	19,247	19,441	194	19,247
524,927	269,061	<b>Total current liabilities</b>	332,172	285,552	46,620	334,148	275,295	58,853
		<b>Non-current liabilities</b>						
30,000	30,000	Bonds (26/10/18)	30,000	30,000	-	30,000	30,000	-
75,000	75,000	Bonds (26/10/18)	75,000	75,000	-	75,000	75,000	-
50,932	50,715	Bonds (26/10/18)	20,689	20,715	(26)	20,689	50,716	(30,027)
150,000	150,000	Term loan (13/10/16)	150,000	150,000	-	150,000	150,000	-
5,000	6,000	Bank revolving credit facility	4,000	35,000	(31,000)	4,000	-	4,000
722,339	1,003,765	Auckland council loan	1,003,593	1,092,913	(89,320)	1,021,239	1,119,602	(98,363)
1,033,271	1,315,481	<b>Total debt non-current</b>	1,283,283	1,403,628	(120,346)	1,300,929	1,425,318	(124,390)
13,120	17,645	Other accrued expenses	17,586	12,468	5,118	17,586	12,408	5,178
-	-	Provisions - non current	280	-	280	-	-	-
1,201	1,186	Provision for staff benefits	1,186	872	314	1,443	847	596
63,490	160,587	Derivative financial instruments	137,203	62,576	74,627	137,203	62,576	74,627
963,808	955,090	Deferred tax liability	959,038	945,203	13,835	1,051,167	1,085,179	(34,012)
2,074,891	2,449,990	<b>Total non-current liabilities</b>	2,398,576	2,424,747	(26,171)	2,508,328	2,586,328	(78,001)
2,599,818	2,719,051	<b>Total liabilities</b>	2,730,748	2,710,299	20,449	2,842,476	2,861,623	(19,148)
		<b>Equity</b>						
260,693	260,693	Issued capital	260,693	260,693	-	260,693	260,693	-
1,666,754	1,666,062	Revaluation reserve	1,666,062	1,641,392	24,670	1,893,526	1,998,856	(105,330)
3,864,079	3,856,351	Retained earnings	3,856,351	3,866,441	(10,091)	3,856,351	3,866,441	(10,090)
(9,413)	(55,500)	Current year earnings after tax	(56,859)	(4,509)	(52,350)	(63,295)	(4,536)	(58,759)
5,782,113	5,727,606	<b>Total equity</b>	5,726,247	5,764,017	(37,770)	5,947,275	6,121,454	(174,179)
8,381,930	8,446,657	<b>Total equity and liabilities</b>	8,456,995	8,474,316	(17,321)	8,789,751	8,983,077	(193,326)

TREASURY RISKS AND INTEREST RATE PERFORMANCE

May-15

4



Interest rates

	Actual YTD	Benchmark YTD	Year end forecast
Weighted averages (excl. fees and margins)	4.97%	4.88%	4.98%
Weighted averages (incl. fees and margins)	6.22%	N/A	6.22%

Debt (\$m)

	Actual	Budget	Variance
Short-term borrowings	218.0	187.7	30.3
Long-term borrowings	1,283.3	1,399.7	(116.4)
<b>Total gross debt</b>	<b>1,501.3</b>	<b>1,587.4</b>	<b>(86.1)</b>
Less cash & deposits	-	-	-
<b>Total net borrowing</b>	<b>1,501.3</b>	<b>1,587.4</b>	<b>(86.1)</b>

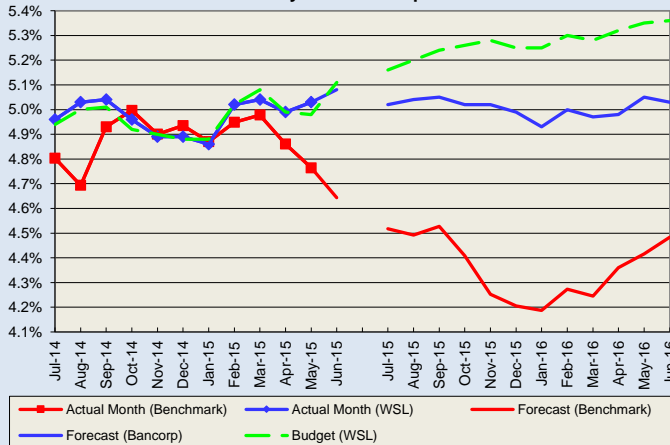
Committed facilities

- 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	\$1,104 million
<b>Total committed facilities as at 31 May</b>	<b>\$1,644 million</b>

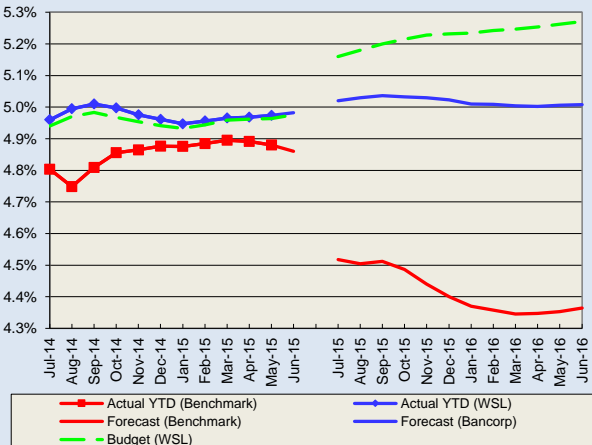
Additional approved facilities

- Approved new funding from Auckland Council	\$250 million
- Approved CP issuance, over and above CP Standby facility	\$75 million
<b>Total approved facilities as at 31 May</b>	<b>\$1,969 million</b>

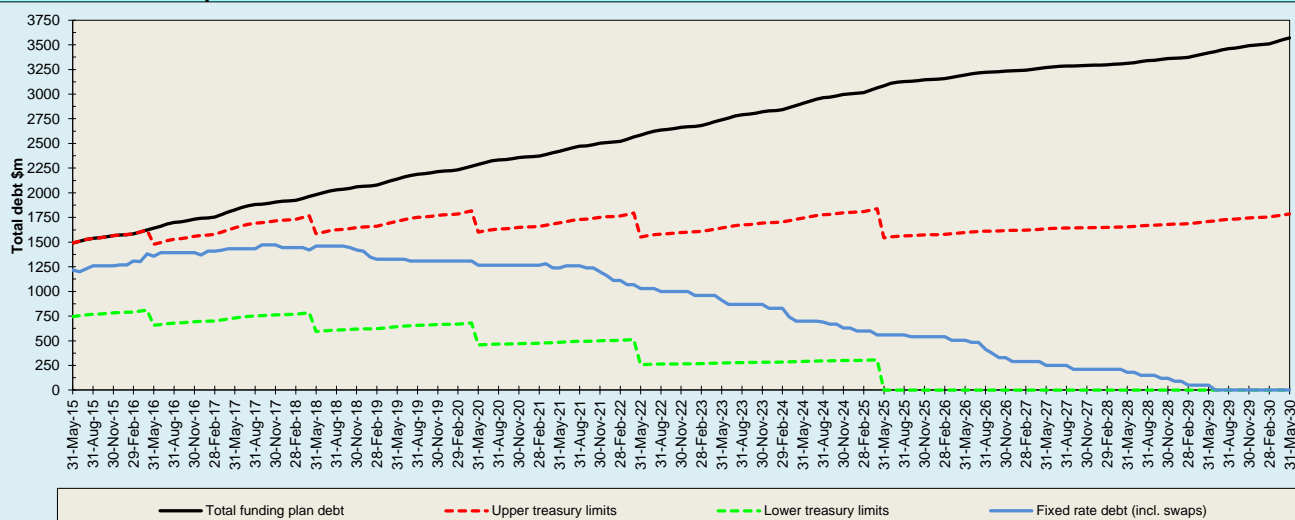
Monthly interest rate performance



Year to date interest rate performance



Forecast total debt profile



**COUNTERPARTY EXPOSURES, DEBT CONCENTRATION & COVENANT COMPLIANCE** **May-15**

Counterparty exposures	S&P credit rating Short / long term	Face value	Credit exposures	Limit	Limit OK / exceeded	
		\$000	\$000	\$000		
<b>Obligations of registered banks</b>						
ANZ Bank	A1+ / AA-	700,903	3,897	100,000	Limit OK	✓
Bank of New Zealand	A1+ / AA-	631,643	14,846	100,000	Limit OK	✓
Commonwealth Bank of Australia	A1+ / AA-	115,000	2,220	100,000	Limit OK	✓
Kiwibank	A1 / A+	0	0	75,000	Limit OK	✓
Westpac Institutional Bank	A1+ / AA-	555,295	454	100,000	Limit OK	✓
		<b>2,002,841</b>	<b>21,416</b>			

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).

**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	36,060	79,668	78,368	82,243	200,000	627,243	1,103,582
<b>Total committed debt facilities</b>		<b>66,060</b>	<b>229,668</b>	<b>253,368</b>	<b>267,243</b>	<b>200,000</b>	<b>627,243</b>	<b>1,643,582</b>
Approved new funding from Auckland Council							250,000	250,000
Approved CP issuance, over and above CP Standby							75,000	75,000
<b>Total committed and approved debt facilities</b>		<b>66,060</b>	<b>229,668</b>	<b>253,368</b>	<b>267,243</b>	<b>200,000</b>	<b>952,243</b>	<b>1,968,582</b>
<b>Treasury policy - total committed debt facilities</b>		<b>&lt;= 500,000</b>	<b>&lt;= 500,000</b>	<b>&lt;= 500,000</b>	<b>&lt;= 500,000</b>	<b>&lt;= 500,000</b>		
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						4,000	4,000
		0	0	150,000	0	0	4,000	154,000
<b>Treasury policy for drawn bank facilities</b>		<b>&lt;= 250,000</b>	<b>&lt;= 250,000</b>	<b>&lt;= 250,000</b>	<b>&lt;= 250,000</b>	<b>&lt;= 250,000</b>	<b>&lt;= 250,000</b>	
Treasury policy compliance		✓	✓	✓	✓	✓	✓	
<b>Other facilities</b>								
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				
	<b>210,000</b>	<b>175,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	
<b>Treasury policy</b>	<b>&lt;= 500,000</b>	<b>&lt;= 500,000</b>	<b>&lt;= 500,000</b>	<b>&lt;= 500,000</b>	<b>&lt;= 500,000</b>	
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%	32.40%	✓
Total liabilities (including contingent) / total tangible assets - maximum	65%	32.40%	✓
Shareholders funds - minimum (\$000)	500,000	5,726,246	✓
EBITDA : funding costs ratio - minimum	1.75	3.97	✓
Funds from operations : interest cover ratio - minimum	2.00	3.34	✓
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%	✓

<b>FOREIGN EXCHANGE, COMMERCIAL PAPER &amp; ELECTRICITY HEDGING</b>							<b>May-15</b>				
<b>Foreign currency exposures (NZ\$000) including hedging for chemical purchases</b>							<b>USD</b>	<b>AUD</b>	<b>Total</b>		
Total exposure to be hedged							2,278	563	2,841		
Foreign exchange hedging							2,278	563	2,841		
Percentage cover							100%	100%	100%		
<b>Treasury policy</b>							<b>100%</b>	<b>100%</b>	<b>100%</b>		
Treasury policy compliance							✓	✓	✓		
<b>Hedging for chemical purchases (US\$000)</b>					<b>Jun-15</b>	<b>Sep-15</b>	<b>Mar-16</b>	<b>Sep-16</b>	<b>Total</b>		
Chemicals forward foreign exchange hedging					500	500			1,000		
<b>Treasury policy</b>									<b>&lt;= 5,000</b>		
Treasury policy compliance									✓		
<b>Commercial paper maturities</b>											
<b>Issue #</b>	<b>\$000</b>	<b>BKBM</b>	<b>Interest rate</b>	<b>Bid cover (x)</b>	<b>Term (days)</b>	<b>Maturity date</b>					
278	50,000	3.630%	3.730%	2.74	91	22-Jun-15					
279	50,000	3.640%	3.700%	3.87	91	30-Jul-15					
280	50,000	3.490%	3.538%	3.62	92	25-Aug-15					
<b>150,000</b>		<b>3.656%</b>									
<p style="text-align: center;"><i>Note: BKBM is the banks' mid-rate for bank bills of a similar term on the CP issue date.</i></p>											
				<b>Jun-15</b>	<b>Jul-15</b>	<b>Aug-15</b>	<b>Sep-15</b>	<b>Oct-15</b>	<b>Nov-15</b>	<b>Beyond Nov-15</b>	<b>Total</b>
Outstanding CP				50,000	50,000	50,000	0	0	0	0	150,000
Uncommitted short-term debt							0	0	0	0	0
				<b>50,000</b>	<b>50,000</b>	<b>50,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>150,000</b>
<b>Treasury policy for maximum amount of CP outstanding</b>											
Treasury policy compliance											
<b>&lt;= 250,000</b>											
✓											
<b>Undrawn committed standby facilities</b>											
			<b>1 month</b>	<b>1-2 months</b>	<b>2-3 months</b>	<b>3-4 months</b>	<b>4-5 months</b>	<b>5-6 months</b>	<b>6-7 months</b>	<b>&gt; 7 months</b>	
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			
<b>Treasury policy:</b> Undrawn standby facilities >= 50% of outstanding CP and other uncommitted short-term debt repayable within 60 days											
<b>Treasury policy compliance</b>			✓	✓	✓	✓	✓	✓			
<b>Electricity hedging (NZ\$000)</b>											
		<b>0-6 months</b>	<b>6-12 months</b>	<b>12-18 months</b>	<b>18-24 months</b>	<b>24-30 months</b>	<b>30-36 months</b>	<b>36-42 months</b>	<b>42-48 months</b>		
Contract maturity											
Contract length											
<b>Total value of outstanding contracts</b>			<b>0</b>								
<b>Treasury policy for maximum value of outstanding contracts</b>			<b>&lt;= 10,000</b>								
Treasury policy compliance			✓								
										Page A7	

# WATERCARE SERVICES LIMITED

## Management Report

Feb-15

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<p><b>2 Statistics</b></p> <ul style="list-style-type: none"> <li>● Monthly Statistics Update</li> <li>● Networks Statistics</li> <li>● Customer Services Statistics</li> <li>● Performance Against Statement of Intent Measures</li> <li>● Public Perception</li> </ul>	<p>B9</p> <p>Removed - replaced by scorecard</p> <p>Removed - replaced by scorecard</p> <p>Removed - replaced by scorecard</p> <p>Removed - replaced by scorecard</p>

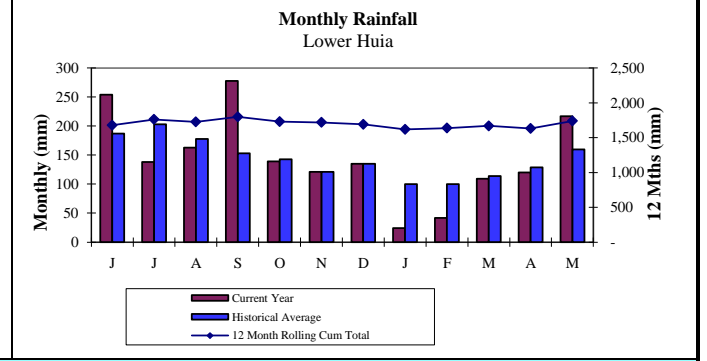
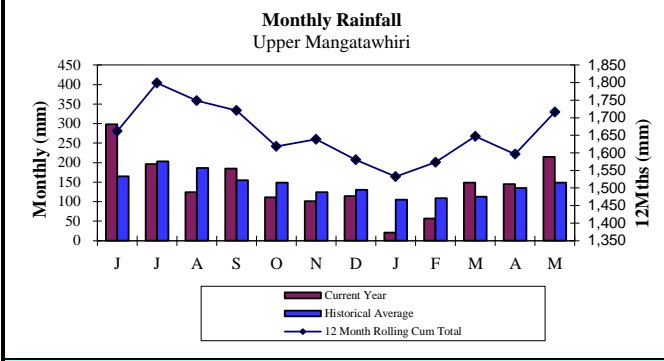
*Confidential*

**Management Report**  
*Monthly Statistics Update*

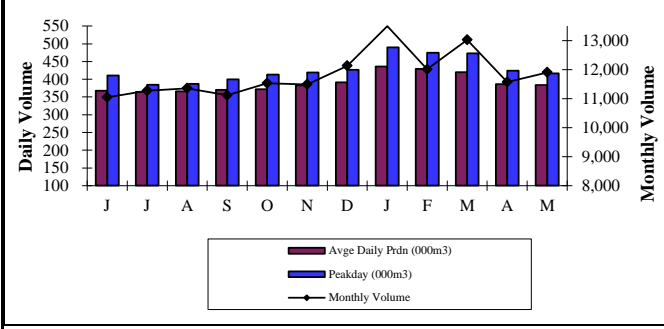
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**Rainfall**

Rainfall	Current Month	12 Mth Cumulative Rolling	Rainfall	Current Month	12 Mth Cumulative Rolling
<b>Actual - Upper Mangatawhiri</b>	215 mm	1716 mm	<b>Actual - Lower Huia</b>	217 mm	1740 mm

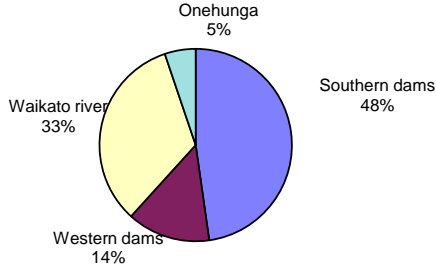


**Water Production - Metropolitan Supply**



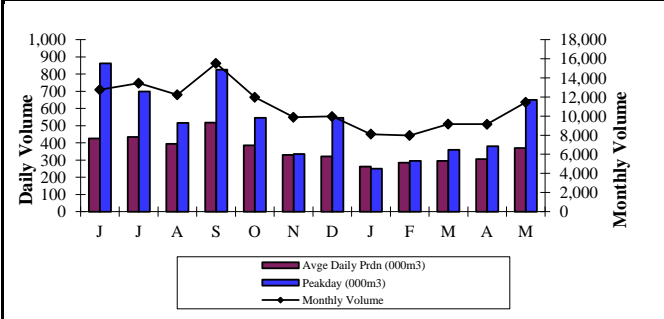
	Current Month	12 Month Rolling Ave
<b>Monthly Volume (000m<sup>3</sup>)</b>	11,903	11,829
<b>Average Daily Production</b>	384	389
<b>Peak Day</b>	417	427

**Treated water volumes for the month**



Treated water volumes (000m <sup>3</sup> )	Current Month		Year to Date	
	Volume	%	Volume	%
Southern dams	5,684	48%	71,613	55%
Western dams	1,664	14%	24,337	19%
Waikato river	3,936	33%	29,784	23%
Onehunga aquifer	619	5%	5,177	4%
<b>Total</b>	<b>11,903</b>	<b>100%</b>	<b>130,912</b>	<b>100%</b>

**Wastewater Treatment - Metropolitan Treatment**



	Current Month	12 Month Cumulative Ave
<b>Monthly Volume (000m<sup>3</sup>)</b>	11,441	10,967
<b>Average Daily Production</b>	369	360
<b>Peak Day Mangere</b>	650	522

Local Board Interaction (as at 8 June 2015)

Local Board	Chair	Deputy Chair	Apr-15	May-15	June-15
Albert - Eden	Peter Haynes	Glenda Fryer	'Be Waterwise for Businesses and Organisations' booklet sent to Local Board (8 Apr). Update to Local Board on start time for Geotechnical Investigations in Roy Clements Treeway (13 Apr).	Notification of price increase of 2.5% from 1 July 2015 (13 May). Contact Chair regarding a nominated member of the Local Board to work with Watercare and Parks staff on the Central Interceptor detailed design work in Parks (29 May).	Site visit to Hunua 4 Watermain project, including Cr's Fletcher and Casey (17 June).
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)	'Be Waterwise for Businesses and Organisations' booklet sent to Local Board (8 Apr). Site visit with Parks re Local Board development of the Greville Reserve including art work on Watercare's reservoir (21 April).	Response to escalated complaint regarding loose manhole cover – identified as a Chorus asset (8 May). Notification of price increase of 2.5% from 1 July 2015 (13 May).	Responded to escalation regarding overflow from fat blockage. Local media release prepared with quote from the Local Board Chair (3 June).
Franklin	Andy Baker	Jill Naysmith	'Be Waterwise for Businesses and Organisations' booklet sent to Local Board (8 Apr) Information on Patumahoe wastewater pond decommissioning sent to local board and Cr Cashmore (8 April). Information on old Pukekohe water treatment plant sent in response to Local Board member question (9 April). Heads up on official opening for water reservoir and reserve at Clarks Beach (15 Apr).	Notification of price increase of 2.5% from 1 July 2015 (13 May).	Local Board half day workshop at Watercare (20 June). Rural Franklin Water Supply Celebration (11 June).
Great Barrier	Izzy Fordham	Susan Daly		Notification of price increase of 2.5% from 1 July 2015 (13 May).	
Henderson - Massey	Vanessa Neeson	Shane Henderson	'Be Waterwise for Businesses and Organisations' booklet sent to Local Board (8 Apr). Notification of watermain break in Glendene (9 Apr).	Notification of price increase of 2.5% from 1 July 2015 (13 May).	
Hibiscus and Bays	Julia Parfitt	Greg Sayers	Meeting with Local Board and parks representatives regarding Mairangi Bay Rising Main and landowner approval for drilling equipment (7 Apr). Local Board business meeting deputation re proposed works in Mairangi Bay park (15 April).	Notification of Murrays Bay wastewater pipeline walkway closure for repairs (12 May). Notification of price increase of 2.5% from 1 July 2015 (13 May).	Local Board Workshop (24 June).
Howick	David Collings	Adele White	'Be Waterwise for Businesses and Organisations' booklet sent to Local Board (8 Apr)	Information on local wastewater upgrades in Howick (1 April). Notification of price increase of 2.5% from 1 July 2015 (13 May).	
Kaipatiki	Kay McIntyre	Ann Hartley	'Be Waterwise for Businesses and Organisations' booklet sent to Local Board (8 Apr). Information on emergency water shutdown in Birkdale (13 Apr). Notice to	Information sent in response to question on works in View Road (12 May). Notification of price increase of 2.5% from	



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

Local Board	Chair	Deputy Chair	Apr-15	May-15	June-15
			vacate the North Shore Resource Centre (14 April)	1 July 2015 (13 May).	
<b>Mangere - Otahuhu</b>	Lydia Sosene	Carrol Elliott	Information on Westney Road Project, including flyer (1 April). 'Be Waterwise for Businesses and Organisations' booklet sent to Local Board (8 Apr). Information provided in response to query regarding foreshore erosion from Te Kawerau and Makaurau Marae (20 April).	Notification of price increase of 2.5% from 1 July 2015 (13 May). Information and media release sent on Central Interceptor Geotechnical Investigations on the Manukau Harbour (14 May). Contact Chair regarding a nominated member of the Local Board to work with Watercare and Parks staff on the Central Interceptor detailed design work in Parks (29 May).	
<b>Manurewa</b>	Angela Dalton	Simeon Brown	'Be Waterwise for Businesses and Organisations' booklet sent to Local Board (8 Apr). Information provided on question related to use of self-sufficient devises (21 April)	Response to escalated complaint from member of the public regarding reinstatement works (6 May). Notification of price increase of 2.5% from 1 July 2015 (13 May). Information sent to Chair in response to question on Iwi Liaison regarding the Manukau Harbour (29 May)	
<b>Maungakiekie - Tamaki</b>	Simon Randall	Chris Makoare	'Be Waterwise for Businesses and Organisations' booklet sent to Local Board (8 Apr). Site visit to Hunua 4 Watermain project, including Cr Krum (29 April).	Notification of price increase of 2.5% from 1 July 2015 (13 May). Information and media release sent on Central Interceptor Geotechnical Investigations on the Manukau Harbour (14 May).	Briefing with members on servicing proposed growth in Onehunga (5 June). Local Board Workshop (23 June)
<b>Orakei</b>	Desley Simpson	Kit Parkinson, Colin Davis (Watercare Rep)	'Be Waterwise for Businesses and Organisations' booklet sent to Local Board (8 Apr). Update on works at Madills Farm and surrounding streets (9 April). Notification of upcoming works in Karaka Bay and Riddell Road (16 Apr).	Notification of price increase of 2.5% from 1 July 2015 (13 May).	
<b>Otara - Papatoetoe</b>	Fa'anānā Efeso (Efeso) Collins	Ross Robertson	'Be Waterwise for Businesses and Organisations' booklet sent to Local Board (8 Apr)	Notification of price increase of 2.5% from 1 July 2015 (13 May).	
<b>Papakura</b>	Bill McEntee	Michael Turner	'Be Waterwise for Businesses and Organisations' booklet sent to Local Board (8 Apr)	Notification of price increase of 2.5% from 1 July 2015 (13 May).	
<b>Puketapapa</b>	Julie Fairey	Harry Doig	Local Board Briefing (1 April). 'Be Waterwise for Businesses and Organisations' booklet sent to Local Board (8 Apr). Notification of pending geotechnical investigations for the Central Interceptor in local Parks (17 April).	Response to questions raised on the settlement of appeals to the Consent Applications for the Central Interceptor Project (6 May). Notification of price increase of 2.5% from 1 July 2015 (13 May). Information and media release sent on Central Interceptor Geotechnical Investigations on the Manukau Harbour (14 May). Contact Chair regarding a nominated member of the Local Board to	

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

Local Board	Chair	Deputy Chair	Apr-15	May-15	June-15
				work with Watercare and Parks staff on the Central Interceptor detailed design work in Parks (29 May).	
<b>Rodney</b>	Brenda Steele	Stephen Garner	'Be Waterwise for Businesses and Organisations' booklet sent to Local Board (8 Apr).	Notification of price increase of 2.5% from 1 July 2015 (13 May).	
<b>Upper Harbour</b>	Lisa Whyte (5 May 2015 to end of the 2013-2016 term)	Brian Neeson (5 May 2015 to end of the 2013-2016 term)	'Be Waterwise for Businesses and Organisations' booklet sent to Local Board (8 Apr). Progress meeting regarding landowner approvals for works in Parks associated with the Northern Interceptor (16 April)	Responded to enquiry regarding odour in area of Paremoremo from a private network (4 May). Notification of price increase of 2.5% from 1 July 2015 (13 May).	Local Board Workshop (2 June).
<b>Waiheke</b>	Paul Walden	Shirin Brown	'Be Waterwise for Businesses and Organisations' booklet sent to Local Board (8 Apr). Information on new connections (17 April).	Local Board Briefing re wastewater plant upgrade (1 May). Chairman thanked Watercare for engaging with the Local Board in advance. Notification of price increase of 2.5% from 1 July 2015 (13 May).	
<b>Waitakere Ranges</b>	Sandra Coney	Denise Yates	'Be Waterwise for Businesses and Organisations' booklet sent to Local Board (8 Apr).	Notification of price increase of 2.5% from 1 July 2015 (13 May).	
<b>Waitemata</b>	Shale Chambers	Pippa Coom	'Be Waterwise for Businesses and Organisations' booklet sent to Local Board (8 Apr).	Information on Watercare works in Cos Bay (12 May). Notification of price increase of 2.5% from 1 July 2015 (13 May). Follow up information on timing of Watercare projects (21 May).	
<b>Whau</b>	Catherine Farmer	Susan Zhu	'Be Waterwise for Businesses and Organisations' booklet sent to Local Board (8 Apr).	Notification of price increase of 2.5% from 1 July 2015 (13 May).	
<b>Manukau Harbour Forum</b>	Jill Naysmith		Harbour water quality briefing planned for 8 June.	Information and media release sent on Central Interceptor Geotechnical Investigations on the Manukau Harbour (14 May).	Presentation: Mangere Wastewater Treatment Plant Upgrades and improvements in the Health of the Manukau Harbour (8 June).

11 May 2015

David Clarke  
Watercare  
Private Bag 92521  
Wellesley Street  
**AUCKLAND 1141**

Dear David

#### **ENGAGEMENT WITH ADVISORY PANELS**

As Mayor, I have the statutory responsibility to ensure effective engagement between Auckland Council and the people of Auckland, and to establish processes and mechanisms to undertake this.

In line with this, council has established a number of panels to provide strategic advice on issues of significance to their communities and to advise on effective engagement by council with those communities.

In recent meetings with panels I have had feedback that several CCOs have been less than forthcoming in engaging with the panels.

It is my expectation that all CCOs engage with these panels constructively, in good faith, and in a way that allows the panels to fulfil their purposes. I ask that you please ensure that your organisation is engaging effectively with these panels.

Yours sincerely



Len Brown  
**MAYOR OF AUCKLAND**



**Watercare Services Limited**

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Auckland 1141

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[www.watercare.co.nz](http://www.watercare.co.nz)

20 May 2015

Mayor Len Brown  
Auckland Council  
Private Bag 92300  
**AUCKLAND 1142**

Dear Len

**Engagement with Advisory Panels**

Thank you for your letter of 11 May 2015, expressing your desire that CCOs be forthcoming and engage constructively with the advisory panels that Council has established.

I am pleased to advise you that Raveen Jaduram, our Chief Executive, has written to all the chairs of the eight advisory panels and provided a personal point of contact should they have any issues that they need to engage with Watercare on. Similarly, he has advised them that we would approach them should we need their input and engagement.

This is in keeping with our enabling approach and commitment to constructively get things done.

Yours sincerely

David Clarke  
**Chairman**

## Report to the Board of Watercare Services Limited

**Subject:** FY2016 Draft Budget

**Date:** 12 June 2015

### 1. Introduction

The draft FY2016 bottom up budget has been prepared using the financials supplied to Auckland Council for its Long Term Plan process in April as a basis for comparison. It has been subject to review by the Chief Executive and Chief Financial Officer applying the principles of a top down review aimed at aligning the revenue, operating cost and capital expenditure outcomes input to Auckland Council's Long Term Plan.

In the tables that follow, comparison of the draft budget is made against the latest FY2015 forecast (May 2015) and the consolidated high level Long Term Plan numbers supplied to Auckland Council.

The draft FY2016 budget is consistent with the FY2016 Long Term Plan submitted to Auckland Council in April 2016. The off-setting variances between Net Labour and Total Asset costs are largely due to the increase of labour recoveries for recoverable staff that are charged to Maintenance costs and to a difference in how labour recoveries are treated for the Long Term Plan compared to the budget.

The draft budget net contribution is consistent with the Long Term Plan at \$29.07m. Capital expenditure of \$396.8m (including capitalised interest of \$18.5m) in the draft budget compares with \$400.1m in the Long Term Plan. Funds from Operations (FFO) ratio of 3.25 is projected compared with 3.25 in the Long Term Plan.

### 2. Financial Performance

	FY 2016 Draft Budget	FY 2015 Forecast	Variance to FY2015 forecast	Long Term Plan	Variance to Long Term Plan
<b>Total Revenue</b>	<b>537.17</b>	<b>517.63</b>	<b>19.54</b>	<b>537.17</b>	<b>0.00</b>
<b>Net Labour</b>	<b>45.03</b>	<b>44.23</b>	<b>0.80</b>	<b>55.02</b>	<b>(9.98)</b>
<b>Total Materials &amp; Cost of Sales</b>	<b>2.11</b>	<b>2.31</b>	<b>(0.21)</b>	<b>2.16</b>	<b>(0.06)</b>
Planned Maintenance	16.00	14.92	1.08		
Unplanned Maintenance	32.54	33.92	(1.38)		
Chemicals	10.65	10.82	(0.17)		
Energy	17.80	16.79	1.01		
Depreciation	217.12	209.58	7.55	217.12	(0.00)
Operating Costs	42.86	41.19	1.66		
<b>Total Asset Costs</b>	<b>336.97</b>	<b>327.22</b>	<b>9.75</b>	<b>327.35</b>	<b>9.62</b>
Communications	2.02	1.61	0.40		
Professional Services	14.64	14.09	0.54		
Interest	78.21	73.98	4.22	78.21	(0.00)
Rent & Rates	7.58	6.96	0.63		
General Overheads	21.53	19.32	2.21		
<b>Net Overheads</b>	<b>123.98</b>	<b>115.97</b>	<b>8.01</b>	<b>123.56</b>	<b>0.42</b>
<b>Total Expenses</b>	<b>508.10</b>	<b>489.73</b>	<b>18.36</b>	<b>508.10</b>	<b>(0.00)</b>
<b>Net Contribution</b>	<b>29.07</b>	<b>27.89</b>	<b>1.18</b>	<b>29.07</b>	<b>0.00</b>
Financial Instruments Revaln (Gain)/Loss	-	88.94	(88.94)	-	-
(Profit)/Loss on Disp of FA & Restructure Costs	3.00	4.60	(1.60)	3.00	-
<b>Non Operating Cost/(Revenues)</b>	<b>(3.00)</b>	<b>(93.54)</b>	<b>90.54</b>	<b>(3.00)</b>	<b>-</b>
<b>Net Surplus/(Deficit) before Tax</b>	<b>26.07</b>	<b>(65.65)</b>	<b>91.73</b>	<b>26.07</b>	<b>0.00</b>
Income Tax Expense/(Benefit)	21.49	6.20	15.28	21.49	(0.00)
<b>Net Surplus/(Deficit) after Tax</b>	<b>4.58</b>	<b>(59.45)</b>	<b>64.03</b>	<b>4.58</b>	<b>0.00</b>

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Detailed Statement of Financial Performance is attached in **Appendix 1**.

## 2.1 Key Assumptions

- 2.5% price increase for water and wastewater.
- Metropolitan infrastructure growth charges increased from \$10,500 to \$10,760 (excluding GST).
- An operating cost adjustment of 1.0% has been assumed where applicable.
- A wage increase of 3.5% has been applied.
- Plant & equipment valuation uplift in asset values of 4.7% at 30 June 2015.

## 2.2 Summary

### Business Change

The draft budget for FY2016 reflects the recent change to the company's organisational structure with no other material changes in operating conditions.

### Revenue

The draft budget revenue is consistent with the Long Term Plan at \$537.17m and reflects the inclusion of vested asset income of \$10.34m, a subvention receipt from Auckland Council tax group of \$8.8m, a 2.5% price increase on Water and Wastewater and the assumption that the weather for FY2016 will reflect a normal weather pattern.

### Controllable Costs

Although there are variations in individual line items the draft budget for controllable costs is consistent with the total Long Term Plan at \$212.77m. Further analysis of controllable costs is provided in section 4.

### Net surplus (deficit) before depreciation

The draft budget net deficit before depreciation is consistent with the Long Term Plan at \$243.19m.

### Depreciation

The draft budget for depreciation is consistent with the Long Term Plan at \$217.12m.

### Taxation

The draft budget for taxation expense is consistent with the Long Term Plan at \$21.49m.

### Funds from operations interest cover ratio

The budgeted FFO interest cover ratio for FY2016 of 3.25 times is consistent with the Long Term Plan of 3.25 times and above the company minimum target ratio of 2.5 times.

### 3. Revenue

Revenue \$'m	FY 2016 Draft Budget	FY 2015 Forecast	Variance to FY2015 forecast	Long Term Plan	Budget vs Long Term Plan Variance
Water Sales - Retail	140.91	134.61	6.30		
Water Leakage	(1.33)	(1.39)	0.06		
<b>Retail Water Revenue</b>	<b>139.58</b>	<b>133.22</b>	<b>6.36</b>		
Water Wholesale	3.40	3.33	0.07		
<b>Total Water Revenue</b>	<b>142.98</b>	<b>136.54</b>	<b>6.44</b>	<b>142.98</b>	<b>(0.00)</b>
Wastewater Sales- Volumetric	206.28	194.10	12.19		
Wastewater Sales- Fixed	87.51	87.72	(0.21)		
Wastewater Leakage	(3.02)	(2.80)	(0.22)		
<b>Retail Wastewater Revenue</b>	<b>290.77</b>	<b>279.01</b>	<b>11.76</b>		
Total Trade Waste Revenue	1.71	3.60	(1.89)		
Wastewater Wholesale	7.80	6.68	1.12		
<b>Total Wastewater Revenue</b>	<b>300.29</b>	<b>289.29</b>	<b>10.99</b>	<b>300.29</b>	<b>0.00</b>
IGC Revenue	57.52	48.14	9.38	57.52	(0.00)
Other Income	36.38	43.65	(7.27)	36.38	0.00
<b>Total Other Revenue</b>	<b>93.90</b>	<b>91.79</b>	<b>2.11</b>	<b>93.90</b>	<b>0.00</b>
<b>Total Revenue</b>	<b>537.17</b>	<b>517.63</b>	<b>19.54</b>	<b>537.17</b>	<b>0.00</b>

#### 3.1 Water Supply Revenue

##### Water Volumes

The FY2016 volumes have been based on a normal weather pattern, a small 2.6% growth in the customer base partially offset by reduced customer per capita consumption of 0.5%. A retail volume of 115.0 million m<sup>3</sup> is budgeted reflecting allowance for non-revenue water and leak remissions.

##### Water Revenue

Water supply revenue is segmented into retail and wholesale.

Retail water usage charges are increased by 2.5% from FY2015 and will be charged volumetrically at \$1.409 per 1,000 litres (GST inclusive).

Water leak remission credits (\$1.33m) are budgeted based on average annual leak remission credits issued by Watercare.

Wholesale revenue is budgeted at \$3.40m.

#### 3.2 Wastewater Service Revenue

Wastewater service revenue is segmented into retail, wholesale and tradewaste.

Retail wastewater charges of \$290.77m are a combination of fixed and volumetric charges billed by Watercare. FY2016 is the second year of transition non-domestic customers who will be charged 67% of the new tariff and 33% of the tariff previously applicable.

Domestic accounts will be charged for wastewater using a unified tariff of \$200.00 fixed charge per year and \$2.394 per m<sup>3</sup> of wastewater (GST inclusive), a 2.5% increase from FY2015.

Wholesale revenue is budgeted at \$7.80m.



Wastewater leak remission credits (\$3.02m) are budgeted based on average annual leak remission credits issued by Watercare.

Tradewaste revenue at \$1.71m reflects the revenue expected from those customers who will continue to be charged for trade waste under transitional consents.

### 3.3 IGC Revenue

Infrastructure Growth Charges (IGC's) apply to all new connections to Watercare's water and wastewater networks, except where a water and wastewater development contribution has been previously paid to Auckland Council for the same purpose, and to existing non-residential customers that materially increase demand on the water and wastewater systems. Total budgeted IGC Revenue of \$57.52m is based on the new metropolitan rate of \$10,760 (excl GST) and approx. 8,382 connections. The revenue projection includes assumptions for income from Waikato District Council and large commercial development HUE's which are forecast for next year. Some of connections do not generate IGC revenue due to previous payment of development contributions and some being small area apartments generate only a proportion of the metropolitan rate.

### 3.4 Other Revenue

Other revenue of \$36.38m has been budgeted. The major components of this are:

- Vested assets of \$10.34m from developers, a decrease of \$9.65m from the FY2015 forecast level;
- Subvention receipt from Auckland Council for tax losses of \$8.80m;
- External Laboratory revenue of \$6.22m;
- Late payments penalties budget of \$1.13m;
- New water meters of \$4.67m;
- New development connections, inspections and approvals of \$1.75m;
- Other inspections and approvals of \$1.08m; and
- Various other sundry revenues of \$2.39m.

## 4. Expenditure

### 4.1 Employee Benefit Costs (Net Labour)

Net Labour			
\$000s	FY2016	FY2015	FY2015
	DRAFT BUDGET	FORECAST	BUDGET
Labour	78,478	71,019	71,622
Contract Labour	2,274	4,122	4,341
On costs	3,718	3,083	3,674
Labour Recoveries	(39,436)	(33,994)	(35,778)
<b>Total</b>	<b>45,035</b>	<b>44,230</b>	<b>43,860</b>

Direct labour costs of \$78.5m are based on 955 FTE's, an increase of 77 FTE's over the FY2015 budgeted organisational structure. The increase in FTE's is largely driven by an increase in Maintenance Services (47) to reduce the volume of their outsourced work. These costs are currently classified as operating costs in the FY2015 forecast. Growth in Asset Planning staff (10) is the result of a decision to in-source resources for planning asset growth. This increase in planning direct labour is offset by a reduction in spend on professional services. Additional positions in New Connections (8) and Laboratories are funded by increased revenue in these businesses.



The movement in FY2016 draft budget Labour Recoveries compared to FY2015 forecast is primarily due to the increase of recoverable staff in Maintenance Services.

#### 4.2 Maintenance Costs and Operating Costs Overview

The unplanned maintenance budget has been based on trends of expenditure over the past five years. The costs are heavily dominated by the Networks group, whose assets are based predominantly on a “run to failure” programme.

The water and wastewater treatment plants and transmission systems are generally maintained on a rigorous planned maintenance programme rather than run to failure as the consequences of failure are more significant.

Maintenance Services Networks (MSN) is charging \$16.5m to Operations for maintenance of the Central Auckland Network for FY2016. Of this, approximately \$3.6m is for capital works. The overall charging and level of capital works is similar to costs for FY2015 reflecting a similar volume and mix of jobs in FY2015. MSN are working on business development with the aim of more efficient business and information systems leading to lower costs in the future.

#### 4.3 Planned Maintenance Costs

Business Area \$000s	FY2016	FY2015	FY2015
	DRAFT BUDGET	FORECAST	BUDGET
Water Supply	4,293	4,609	4,842
Wastewater	7,983	7,128	7,656
Networks	3,332	2,652	3,326
Laboratories	392	388	361
Other	2	147	91
<b>Total</b>	<b>16,002</b>	<b>14,924</b>	<b>16,275</b>

The net increase in planned maintenance spend is driven by periodic major maintenance not scheduled in FY2015 (i.e. maintenance that occurs on a frequency greater than annually) and to a lesser extent developing more robust planned maintenance programmes.

Key drivers of the increase are:

Mangere Primary tanks	\$830k - Overhaul on Primary Tanks 9 & 10 deferred to FY2016 due to late delivery of another project in Mangere WWTP conflicting with the maintenance schedule.
Rosedale WWTP	\$300k - Overhaul on Digester 3 at Rosedale been deferred until post plant upgrade as risks considered too great.
Pinehill reservoir	\$800k - Roof replacement.

#### 4.4 Unplanned Maintenance Costs

Unplanned Maintenance			
Business Area \$000s	FY2016	FY2015	FY2015
	DRAFT BUDGET	FORECAST	BUDGET
Water Supply	2,653	2,665	2,020
Wastewater	6,749	6,473	6,015
Networks	22,958	24,466	22,912
Laboratories	182	214	159
Other		101	
<b>Total</b>	<b>32,542</b>	<b>33,918</b>	<b>31,105</b>

The unplanned maintenance budget has been based on trends of expenditure over the past five years, corrected for assets that have significantly contributed to expenditure but have subsequently been retired from service or upgraded.

The Networks unplanned maintenance decrease is largely due to reduced costs as a result of in-sourcing maintenance on the Northern treatment plants and the new Northern networks contract starting 1 July 2015.

#### 4.5 Chemicals

Chemicals			
Business Area \$000s	FY2016	FY2015	FY2015
	DRAFT BUDGET	FORECAST	BUDGET
Water Supply	3,953	4,303	4,253
Wastewater	6,993	7,168	7,518
Networks	246	18	246
Other	(540)	(669)	(919)
<b>Total</b>	<b>10,653</b>	<b>10,820</b>	<b>11,099</b>

Chemical costs are budgeted at \$10.7m and include chemicals such as lime, polymer and ferric chloride. Chemical prices are subject to long term contracts with agreed upon price increases which have been factored into the budget. Consumption is based on a normalised weather pattern.

- Water – Consumption of chemicals is reduced largely as a result of a planned reduction in production from the Waikato WTP (\$0.7m).
- Wastewater – Consumption is held at the same levels as the FY2015 forecast.
- Other – Reflects expected pricing reductions.

#### 4.6 Energy

Energy			
Business Area \$000s	FY2016	FY2015	FY2015
	DRAFT BUDGET	FORECAST	BUDGET
Water Supply	4,951	5,094	4,429
Wastewater	10,953	9,327	10,208
Networks	1,538	2,048	2,123
Laboratories	180	188	224
Other	179	134	159
<b>Total</b>	<b>17,801</b>	<b>16,791</b>	<b>17,143</b>

The Energy budgets are prepared by the Energy and Control System department based on historic energy consumption for given flows, with a provision for additional assets that have commenced operation. The increase in budgeted costs against forecast is primarily driven by:

- Increase in fixed line electricity supply charges.
- Downtime on a generator in Rosedale due to project work in FY2016 which will increase energy usage during the year.

The budget assumes at least three engines are operating at Mangere Wastewater Treatment Plant (which converts methane gas to energy) to reduce exposure to imported electricity and lower costs.

#### 4.7 Operating costs

Operating costs			
Business Area \$000s	FY2016	FY2015	FY2015
	DRAFT BUDGET	FORECAST	BUDGET
Water Supply	7,273	7,367	7,109
Wastewater	13,661	13,098	13,223
Networks	12,405	12,026	13,236
Operations Shared Services	1,100	849	932
<b>Total Service Delivery</b>	<b>34,440</b>	<b>33,340</b>	<b>34,500</b>
Laboratories	191	181	171
Maintenance Services	567	3,875	360
Infrastructure	461	735	439
Corporate Services	3,035	2,900	3,040
Information Services	67	7	69
Other	4,095	153	74
<b>Total</b>	<b>42,855</b>	<b>41,191</b>	<b>38,652</b>

##### Service Delivery

- Service Delivery operating costs are mainly driven by costs associated with operating plants, sampling & testing, solids handling, desludging, cleaning, investigations and external maintenance contracts for the network assets.
- Service Delivery operating costs are consistent with the FY2015 budget and \$1.1m unfavourable to the latest FY2015 forecast. The major movement is the WWTP pond

desludging programme of \$0.6m. Other increases in costs relate to security, cleaning and flushing programmes and the desludging programmes at the reservoirs.

#### Maintenance Services

- Maintenance services decrease of \$3.3m against FY2015 forecast is largely due to a reduction in spend with external maintenance contractors as a result of contract services being brought in-house with a resulting increase in FTE's and vehicle costs in the FY2016 budget.

#### Corporate Services

- Corporate Services is broadly consistent with FY2015 forecast and FY2015 budget. The major component of spend is contractor meter reading (\$3.0m).

#### Other

- The increase of the FY2016 budget by \$3.9m compared to forecast is largely due to a budget for strategic initiatives of \$4.0m.

### 4.8 Laboratory Costs

Laboratory costs			
Business Area \$000s	FY2016	FY2015	FY2015
	DRAFT BUDGET	FORECAST	BUDGET
Water Supply	2,690	3,199	2,709
Wastewater	2,358	2,692	2,590
Networks	942	844	930
Operations shared services	811	609	435
<b>Total</b>	<b>6,839</b>	<b>7,476</b>	<b>6,669</b>

Laboratory costs are planned to decrease against forecast largely due to a volume reduction in internal sampling through improved practices and control over forest spraying.

### 4.9 Net Overheads

Overheads			
\$000s	FY2016	FY2015	FY2015
	DRAFT BUDGET	FORECAST	BUDGET
Communications	2,019	1,614	1,625
Professional Services	14,637	14,093	12,149
Interest	78,207	73,984	80,573
Rent & Rates	7,585	6,959	6,578
General Overheads	21,533	19,322	21,032
<b>Total</b>	<b>123,981</b>	<b>115,972</b>	<b>121,957</b>

Communication costs include all landline, fixed and mobile data communication costs and reporting to regulatory bodies including our shareholder and is unfavourable to the FY2015 forecast and FY2015 budget largely due to an increase in services. All data and voice networks utilise multiple providers to provide resilience through diversity.

Professional services budget of \$14.6m is mainly comprised of:

- Strategy & Planning Delivery budget of \$4.8m - reflects the investigations and studies to be undertaken to determine the optimum capital investments to renew or upgrade existing assets.

- Asset Planning main programmes of spend relate to growth, renewal and upgrade investigations of \$1.3m, rural water supply of \$0.4m, network discharge consents of \$0.4m, network investigations of \$0.3m, water treatment upgrade investigations of \$0.4m, wastewater treatment upgrade investigations of \$0.4m and water and wastewater treatment transmission investigations of \$0.5m.
  - Statutory planning budget of \$0.8m includes provision for the Rural Wastewater Treatment Plant Consents renewal, review of the Environmental Management System, Council hearings, participation in the Environment Court hearings, input into Central and Local Government policy development and input into the Auckland Unitary Plan.
  - Sustainability programmes of \$0.2m include provision for support of demand management including Ecomatters, water audits and leak reduction programmes.
- Infrastructure Delivery budget of \$0.4m reflects the investigations and studies undertaken to determine the optimum capital investments to renew or upgrade existing assets. Laboratory includes general contractual advice, annual client survey for accreditation and a review of the costing processes.
  - Service Delivery budget of \$2.4m is dominated by dam safety and plant optimisation studies to improve efficiency. The balance of the programme is generally related to specific operational statutory or process improvements.
  - Finance budget spend of \$0.8m in includes consultant and legal support including business development, Veolia contract reporting and Treasury related costs including Standard and Poor's credit rating, Bancorp fees and general treasury advice.
  - Executive budget of \$5.7m includes \$4.1m for strategic initiatives, \$0.8m for Information Services programmes, \$0.1m for Communications related programmes for stakeholder engagement and other community involvement. Additionally provision of \$0.6m is made to assist with implementing the internal audit plan, risk and HS&E programmes and general legal counsel costs.
  - Retail budget of \$0.6m is mainly comprised of \$0.2m for customer satisfaction surveys, \$0.2m for customer engagement and improvement projects and \$0.1m for customer collection costs.

Rent and rates budget of \$7.6 million is an increase of \$0.6 million on the FY2015 forecast and \$1.0m increase on the FY2015 budget. The increase against forecast is primarily due to the increase in rates charged by Auckland Council.

The increase in general overheads of \$2.2m compared to the FY2015 forecast of \$19.3m can be attributed to the following major items:

- General maintenance of \$1.6m being building related maintenance; an increase over FY2015 forecast of \$0.5m.
- Printing, Courier & Postage of \$3.7m an increase of \$0.5m as a result of price increases and growth.
- Staff training of \$1.7m at an average of \$1,800 per FTE has increased by \$0.7m on the FY2015 forecast.
- Insurance of \$1.7m is \$0.6m less than the FY2015 forecast due to savings achieved in the latest insurance renewal.
- Included in general overheads is funding for the Watercare Harbour Cleanup Trust of \$0.25m.

#### 4.10 Depreciation

Depreciation			
Business Area \$000s	FY2016	FY2015	FY2015
	DRAFT BUDGET	FORECAST	BUDGET
Water Supply	43,357	45,620	47,629
Wastewater	58,744	58,008	55,068
Networks	103,558	94,187	96,922
Other	11,464	11,760	10,821
<b>Total</b>	<b>217,122</b>	<b>209,575</b>	<b>210,440</b>

As with previous years, depreciation is calculated by rolling forward the Hansen and SAP fixed asset registers for the next twelve month period and estimating depreciation on assets that are budgeted to be capitalised during FY2016 and the remainder of FY2015. An additional allowance is made for accelerated depreciation on assets which are identified for disposal as a result of new capex projects. Additionally the budget includes an estimated depreciation increase resulting from the asset revaluation at 30 June 2015. Based on this methodology depreciation for the FY2016 year is estimated at \$217.1m.

#### 4.11 Interest Expense

Interest			
\$000s	FY2016	FY2015	FY2015
	DRAFT BUDGET	FORECAST	BUDGET
Gross Interest	96,708	86,882	95,585
Less:			
Capitalised Interest	(18,501)	(12,898)	(15,012)
<b>Total</b>	<b>78,207</b>	<b>73,984</b>	<b>80,573</b>

Projected interest expense for FY2015 is \$78.2m. The budget assumed interest rate (including margins and fees) is 6.03% compared with 6.14% in the FY2015 budget.

Capitalised interest of \$18.5m has been applied to the projects identified by the business as qualifying during the budget period. Qualifying projects are those with a construction period lasting longer than 12 months and at a cost of over \$1m.

## 5. Capital Expenditure

Capital Expenditure	FY2016 Draft Budget	FY2015 Forecast	Long Term Plan / AMP
<b>Infrastructure</b>			
Water	105.6	114.1	139.0
Wastewater	206.6	126.8	197.7
Shared Services	13.0	3.9	10.0
<b>Total Infrastructure</b>	<b>325.3</b>	<b>244.8</b>	<b>346.7</b>
<b>Operations</b>			
Water	30.8	12.9	19.0
Wastewater	5.8	6.0	2.9
Shared Services	0.0	1.0	0.0
<b>Total Operations</b>	<b>36.6</b>	<b>19.9</b>	<b>21.9</b>
<b>Shared Services</b>			
Finance	0.5	1.0	1.9
Consents	2.9	1.6	1.7
Information Services	7.4	6.5	7.1
Laboratory	1.0	1.1	2.0
Maintenance Services	4.7	1.9	0.3
<b>Total Shared Services</b>	<b>16.5</b>	<b>12.1</b>	<b>13.0</b>
<b>Total (Excl Capitalised interest)</b>	<b>378.3</b>	<b>276.8</b>	<b>381.6</b>
Capitalised interest	18.5	14.0	18.5
<b>Grand Total</b>	<b>396.8</b>	<b>290.8</b>	<b>400.1</b>

The FY2016 draft budget for capital expenditure of \$396.8m is below the Long Term Plan by \$3.3m and higher than the current year forecast by \$106.1m.

### 5.1 Infrastructure

The FY2016 draft budget capital expenditure programme reflects a significant increase from FY2015. Increased project performance will continue to be supported by process and delivery method changes within the unit.

Listed below are the major capital projects in the FY2016 draft budget over \$3m.

#### Water

The major capital programmes for water are:

Project	Project Description	2016 Draft Budget
Hunua No 4 Trunk Water Main	This project involves the construction of a 30km trunk water main between the Redoubt Road Reservoir and Epsom in the city. The new water main, which will be between 1.6 and 1.9 metres in diameter, will help improve the security of on-going water supply as the region continues to grow and the existing infrastructure ages.	49.5
North Harbour Watermain Duplication	This project involves the construction of a 30km trunk water main between the Redoubt Road Reservoir and Epsom in the city. The new water main, which will be between 1.6 and 1.9 metres in diameter, will help improve the security of on-going water supply as the region continues to grow and the existing infrastructure ages.	7.3
Huia No 1 Watermain Replacement	This project is to replace the existing 760mm diameter main with a new 810mm watermain. The existing watermain was constructed in 1950 and transports water from the Huia Water Treatment Plant into Khyber Service Reservoir.	4.4

## Wastewater

The major capital programmes for wastewater are:

Project	Project Description	2016 Draft Budget
Mangere WWTP BNR Capacity	The project is to upgrade the biological nutrient removal (BNR) capacity of the Mangere Waste Water Treatment Plant. The upgrade will ensure regulatory compliance with the discharge consent.	51.5
Central Interceptor Feasibility Design	The central interceptor storage and conveyance tunnel is required as mitigation for asset failure risks associated with the Hillsborough Tunnel and the Manukau Siphon on the western interceptor. The Central Interceptor project will also free up capacity for growth in the central and western areas of Watercare's network and reduce the need for costly sewer separation achieving a significant reduction in wastewater overflows.	14.5
Mangere WWTP Solids Stream Upgrade	The project will facilitate growth, provide operational efficiency, and provide redundancy within the solids stream of the Mangere WWTP, while complying with the resource consent requirements for disposal of biosolids to Puketutu Island.	12.0
Puketutu Island Rehabilitation	The Puketutu Island biosolids rehabilitation project involves the rehabilitation of a quarry on the island with treated biosolids from the Mangere Wastewater Treatment Plant. At the same time, parts of the Island will gradually be released for public benefit as a regional park. The Puketutu Island biosolids project represents a long-term cost effective solution for biosolids disposal while also achieving additional public benefits in the form of a park.	10.0
Wynyard Quarter Wastewater Pump Station	This project is to construct a new pump stations, storage tank and rising main to service the Wynyard Quarter redevelopment.	7.5
Fred Thomas Drive WW PS & Storage Tank	This project is required to reduce the current number of sewer overflows. The project will replace the current Takapuna south pumping stations and provide additional storage. In addition, it will cater for future growth in the Takapuna business district.	7.0
Upgrade Pukekohe WWTP	This project is to upgrade the capacity of the Pukekohe WWTP which is projected to reach its treatment capacity in 2018 due to significantly accelerated growth driven by the formation of Special Housing Areas (SHAs) in Pukekohe	5.4
Glen Eden Storage & Pipe Upgrade	This project involves the construct of a new storage tank and the upgrade the Glen Eden branch sewer. The new tank and pipe upgrade will provide additional capacity in the Glen Eden catchment and mitigate wastewater overflows from the network.	4.8
Pukekohe Trunk Sewer Upgrade	This project is to upgrade the Pukekohe trunk sewer to cater for the predicted growth in Pukekohe, Patumahoe, Bucklands and also Tuakau and Pokeno within the Waikato District. The upgrade will also reduce the current number of overflows.	4.8
Manukau North Future Upgrades	This project is to create new local pipelines and upgrade existing local pipelines as part of improvement works to the Manukau North Wastewater network. The network improvements are required to meet wastewater network containment standards, resolve known overflow issues and provide for future growth in Manukau North.	4.7
Northern Interceptor - Stage 1	This project to construct the first phase of the Northern Interceptor to allow wastewater flows to be diverted from the Northern Strategic Growth Area (NorSGA) and South Rodney (Kumeu/Huapai/Riverhead), to the Rosedale Wastewater Treatment Plant.	4.4
St Heliers network Upgrade	This project is to upgrade 120m of existing sewer and the construction of a new 800m sewer in the St Heliers wastewater network. This work will mitigate uncontrolled overflows and provide for growth in the area.	3.6
Wairau (HSPS05) Rising Main Replacement	This project is for the construction of Wairau Pump Station Rising Main. The project involves the installation of a new one metre diameter, 1.3 kilometre wastewater rising main to replace the existing eastern rising main.	3.5
Pakuranga Pipe Work Replacement PS 28	This project is to replace the cast iron pipework at the Pakuranga Pump Station which was built in 1962. The pipework has been assessed as being in poor condition with high risk of failure.	3.4
Rosedale WWTP Cogeneration Upgrade	This project is to replace the cogeneration engine and upgrade the cogeneration facility at the Rosedale Wastewater Treatment Plant (WWTP). The cogeneration facility at the Rosedale WWTP has consistently operated to produce the majority of the site's power and during off-peak periods, the generator at times produces more power than the site can use. The existing engine has now reached the end of its operational life and requires replacement.	3.3
DTMAN-Electrical Masterplan Stage 1	This project is set out to expand the current power reticulation system at the Mangere Wastewater Treatment Plant to allow for supply to future process expansions.	3.0

### 5.2 Service Delivery

Service Delivery capital expenditure draft budget of \$36.6m is above Long Term Plan by \$13.6m. The budget includes \$12m for the Waikato expansion upgrade to 175MLD.

- **Water**

The Water Supply capital expenditure is for unplanned renewal work for assets that fail or are uneconomic to repair under maintenance. The major programmes within this budget include unplanned water main renewals (\$3.0m) and meter planned and unplanned replacements across the region (\$7.0m).

- **Wastewater**

The major capital programmes include Pond 2 Landfill development, Northern & Southern Plants replacement, replacement UV lamps and allowance for Wastewater unplanned replacements across the region.

### 5.3 Information Systems

The capital expenditure draft budget of \$7.4m for Information Systems is mainly comprised of:



- **Information Systems**  
Capital expenditure draft budget of \$3.1m mainly comprised of asset upgrades/replacement, licenses and Enterprise Data Warehouse implementation.
- **Infrastructure Delivery**  
Capital expenditure draft budget of \$3.1m for the implementation of scheduling and field force management to support Maintenance Services operations

A more detailed summary of capital expenditure is attached as **Appendix 4**.

## 6. Statement of Financial Position and Cash flow

**Appendices 3 and 4** detail the draft budgeted Statement of Financial Position and Cash Flow respectively.

Specific items to note are as follows:

### Fixed Assets

- Property Plant and Equipment is budgeted to be revalued at 30 June 2015. The uplift in asset values is assumed to be 4.7% which increases the value of Property, Plant and Equipment with the offset increasing asset revaluation reserve and deferred tax liability at June 2015. The increase in Property Plant and Equipment to 30 June 2016 reflects the capital spend partially offset by depreciation for FY2016.

### Working Capital

- Accounts receivable are budgeted to remain broadly at 2015 levels and in-line with the increase in tariffs.
- Inventory remains at 2015 levels reflecting no new business requirements.
- Creditors are assumed to increase in line with the overall increase in operational and capital expenditure with adjustment for the phasing of the budgeted spend.
- Due to the debt position of the company cash on hand at the end of every month is assumed to be nil.

### Debt and cash flow

Opening debt is forecast to be \$1.518 billion at 1 July 2015. The budget assumes an increase in debt of \$151.5 million to the end of FY2016 financial year.

The increased debt funds the difference between:

- The net cash inflow of \$247.7 million for operating activities (receipts from customers less payments to employees and suppliers including interest expense).
- The net cash outflow of \$399.3 million for investing activities (payments to suppliers for capital expenditure and capitalised interest).

**7. Recommendation**

That the capital expenditure budget including capitalised interest of \$396.8m and operating budget of a net surplus before tax of \$26.07m for the year ended 30 June 2016 be approved.

Report prepared by:

Recommended by:

Approved for submission by:

.....  
**D S G Whittaker**  
**Finance Manager**

.....  
**B T Monk**  
**Chief Financial Officer**

.....  
**R Jaduram**  
**Chief Executive**

## Statement of Financial performance

## Appendix 1

	FY 2016 Draft Budget	FY 2015 Forecast	Variance to FY2015 forecast	Long Term Plan	Variance to Long Term Plan
<b>Water Revenue</b>	<b>142.98</b>	<b>136.54</b>	<b>6.44</b>	<b>142.98</b>	<b>(0.00)</b>
<b>Wastewater Revenue</b>	<b>298.57</b>	<b>286.36</b>	<b>12.21</b>	<b>298.24</b>	<b>0.34</b>
<b>Tradewaste Revenue</b>	<b>1.71</b>	<b>2.93</b>	<b>(1.21)</b>	<b>2.05</b>	<b>(0.34)</b>
<b>IGC Revenue</b>	<b>57.52</b>	<b>48.14</b>	<b>9.38</b>	<b>57.52</b>	<b>(0.00)</b>
<b>Other Revenue</b>	<b>12.33</b>	<b>11.57</b>	<b>0.76</b>	<b>19.83</b>	<b>(7.50)</b>
<b>Laboratory Revenue</b>	<b>6.22</b>	<b>5.56</b>	<b>0.65</b>	<b>6.21</b>	<b>0.00</b>
<b>New Developments Revenue</b>	<b>7.50</b>	<b>6.53</b>	<b>0.97</b>	<b>-</b>	<b>7.50</b>
<b>Vested Assets &amp; Contribution Income</b>	<b>10.34</b>	<b>19.99</b>	<b>(9.65)</b>	<b>10.34</b>	<b>(0.00)</b>
<b>Total Revenue</b>	<b>537.17</b>	<b>517.63</b>	<b>19.54</b>	<b>537.17</b>	<b>0.00</b>
<b>Net Labour</b>	<b>45.03</b>	<b>44.23</b>	<b>0.80</b>	<b>55.02</b>	<b>(9.98)</b>
<b>Total Materials &amp; Cost of Sales</b>	<b>2.11</b>	<b>2.31</b>	<b>(0.21)</b>	<b>2.16</b>	<b>(0.06)</b>
Planned Maintenance	16.00	14.92	1.08		
Unplanned Maintenance	32.54	33.92	(1.38)		
Chemicals	10.65	10.82	(0.17)		
Energy	17.80	16.79	1.01		
Depreciation	217.12	209.58	7.55	217.12	(0.00)
Operating Costs	42.86	41.19	1.66		
<b>Total Asset Costs</b>	<b>336.97</b>	<b>327.22</b>	<b>9.75</b>	<b>327.35</b>	<b>9.62</b>
Communications	2.02	1.61	0.40		
Professional Services	14.64	14.09	0.54		
Interest	78.21	73.98	4.22	78.21	(0.00)
Rent & Rates	7.58	6.96	0.63		
General Overheads	21.53	19.32	2.21		
<b>Net Overheads</b>	<b>123.98</b>	<b>115.97</b>	<b>8.01</b>	<b>123.56</b>	<b>0.42</b>
<b>Total Expenses</b>	<b>508.10</b>	<b>489.73</b>	<b>18.36</b>	<b>508.10</b>	<b>(0.00)</b>
<b>Net Contribution</b>	<b>29.07</b>	<b>27.89</b>	<b>1.18</b>	<b>29.07</b>	<b>0.00</b>
Financial Instruments Revaln (Gain)/Loss	-	88.94	(88.94)	-	-
(Profit)/Loss on Disp of FA & Restructure Costs	3.00	4.60	(1.60)	3.00	-
<b>Non Operating Cost/(Revenues)</b>	<b>(3.00)</b>	<b>(93.54)</b>	<b>90.54</b>	<b>(3.00)</b>	<b>-</b>
<b>Net Surplus/(Deficit) before Tax</b>	<b>26.07</b>	<b>(65.65)</b>	<b>91.73</b>	<b>26.07</b>	<b>0.00</b>
Income Tax Expense/(Benefit)	21.49	6.20	15.28	21.49	(0.00)
<b>Net Surplus/(Deficit) after Tax</b>	<b>4.58</b>	<b>(59.45)</b>	<b>64.03</b>	<b>4.58</b>	<b>0.00</b>

Operating Surplus Water                   \$15.6m  
Operating Surplus Wastewater           \$10.5m

## Cash Flow

## Appendix 2

Statement of Cash Flows v1 (\$,000)	BUDGET JULY-JUN 2016	LONG TERM PLAN JULY-JUN 2016
<b>Cash Flows from Operating Activities</b>		
Cash was Provided from:		
Receipts from Customers	541,931	537,168
Interest Received	0	0
	541,931	537,168
Cash was Applied to:		
Payments to Employees and Suppliers	(215,232)	(210,951)
Interest Paid	(78,207)	(78,208)
GST Received/(Paid) from/(to) IRD	(747)	0
	(294,186)	(289,158)
<b>Net Cash Flows from/(used in) Operating Activities</b>	<b>247,745</b>	<b>248,010</b>
<b>Cash Flows from Investing Activities</b>		
Cash was Applied to:		
Purchase of Fixed Assets	(380,773)	(381,627)
Capitalised Interest	(18,501)	(18,500)
	(399,274)	(400,128)
<b>Net Cash Flows (used in) Investing Activities</b>	<b>(399,274)</b>	<b>(400,128)</b>
<b>Cash Flows from Financing Activities</b>		
Cash was Provided from (Applied to) :		
Proceeds from New Debt	151,529	152,118
	151,529	152,118
<b>Net Cash Flows from Financing Activities</b>	<b>151,529</b>	<b>152,118</b>
Net Increase/(Decrease) in Cash Held	0	0
Plus Opening Cash Brought Forward	0	0
<b>Ending Cash Carried Forward</b>	<b>0</b>	<b>0</b>

## Balance Sheet

Appendix 3

Statement of Financial Position (\$,000)	ACTUAL May 2015	FORECAST June 2015	BUDGET June 2016	LONG TERM PLAN June 2016
<b>Fixed Assets</b>				
Property Plant and Equipment	8,271,529	8,243,674	8,475,599	
less Provision for Depreciation	(385,297)	(29,700)	(240,925)	
<b>Net Book Value</b>	<b>7,886,232</b>	<b>8,213,974</b>	<b>8,234,675</b>	
Construction/Work-in-progress	420,521	423,740	462,687	
<b>Total Property, Plant and Equipment</b>	<b>8,306,753</b>	<b>8,637,714</b>	<b>8,697,362</b>	<b>8,816,075</b>
Intangible Assets (net)	42,229	41,386	42,838	
Inventories NC	3,504	3,504	3,504	
Derivative Financial Instruments NC	7,794	7,794	7,794	
Prepayments	23,754	23,717	23,274	
<b>Total Non-Current Assets</b>	<b>77,281</b>	<b>76,401</b>	<b>77,410</b>	<b>73,149</b>
<b>Current Assets</b>				
Receivables	41,799	45,799	51,903	
Derivative Financial Instruments	2,526	2,526	2,526	
Unbilled Revenue accrual	20,768	19,451	20,044	
Prepaid Expenses	3,329	3,322	2,307	
Inventories	4,539	4,539	4,539	
Cash and Short Term Deposits	0	0	0	
<b>Total Current Assets</b>	<b>72,961</b>	<b>75,637</b>	<b>81,319</b>	<b>83,040</b>
<b>Total Assets</b>	<b>8,456,995</b>	<b>8,789,751</b>	<b>8,856,091</b>	<b>8,972,264</b>
<b>Financed by:</b>				
<b>Share Capital</b>				
Authorised & Issued Capital	260,693	260,693	260,693	
Revaluation Reserve	1,666,062	1,893,526	1,893,526	
Retained Earnings	3,856,351	3,856,351	3,793,056	
Current Year Earnings after Tax	(56,859)	(63,295)	4,584	
<b>Total Shareholders' Funds</b>	<b>5,726,247</b>	<b>5,947,275</b>	<b>5,951,858</b>	<b>6,010,699</b>
<b>Term Liabilities</b>				
Medium Term Notes and Bank Loans NC	275,689	275,689	245,689	
Auckland Council Loan NC	1,003,593	1,021,239	1,215,890	
Bank Revolving Credit Facility	4,000	4,000	0	
Deferred Tax Liability	959,038	1,051,167	1,072,657	
Derivative Financial Instruments NCL	137,203	137,203	137,203	
Provision for Staff Benefits NC	1,186	1,443	1,751	
Other Accrued Expenses NC	17,866	17,586	16,869	
<b>Net Term Liabilities</b>	<b>2,398,576</b>	<b>2,508,328</b>	<b>2,557,604</b>	<b>2,426,337</b>
<b>Current Liabilities</b>				
Bank Overdraft	661	0	0	
Commercial Paper	148,640	148,640	148,640	
Medium Term Notes and Bank Loans	30,263	30,263	30,263	
Bank Revolving Credit Facility	0	0	0	
Auckland Council Loan	38,450	38,450	29,328	
Payables	16,222	19,807	39,140	
Derivative Financial Instruments C	19,441	19,441	19,441	
Provision for Staff Benefits	7,079	4,932	4,953	
Other Provisions	5,020	7,079	9,149	
Interest Accrued	15,045	15,045	15,216	
Other Accrued Expenses	51,351	50,491	50,500	
<b>Total Current Liabilities</b>	<b>332,172</b>	<b>334,148</b>	<b>346,629</b>	<b>535,228</b>
<b>Total Shareholders' Funds and Liabilities</b>	<b>8,456,995</b>	<b>8,789,751</b>	<b>8,856,091</b>	<b>8,972,264</b>
<b>Total Debt</b>	<b>1,501,297</b>	<b>1,518,282</b>	<b>1,669,811</b>	<b>1,682,541</b>

## Capital Expenditure

## Appendix 4

Capital Expenditure Projects (Excluding capitalised interest)	FY2016 Draft Budget
Description	\$m
<b>Water</b>	
Hunua No 4 Trunk Water Main	49.5
North Harbour Watermain Duplication	7.3
New Connections 2016	6.2
Huia No 1 Watermain Replacement	4.4
Local water networks renewal programme	3.0
Mt Hobson Upgrade	2.4
Water project under \$2m	32.9
<b>Total Infrastructure - Water</b>	<b>105.6</b>
<b>Wastewater</b>	
Mangere WWTP BNR Capacity	51.5
Central Interceptor Feasibility Design	14.5
Mangere WWTP Solids Stream Upgrade	12.0
Puketutu Island Rehabilitation	10.0
Wynyard Quarter Wastewater Pump Station	7.5
Fred Thomas Drive WW PS & Storage Tank	7.0
N100.101 Local Sewer Renewals 2016	5.7
T200.FDC1 Upgrade Pukekohe WWTP	5.4
Glen Eden Storage & Pipe Upgrade	4.8
Pukekohe Trunk Sewer Upgrade	4.8
Manukau North Future Upgrades	4.7
Northern Interceptor - Stage 1	4.4
St Heliers network Upgrade	3.6
Wairau (HSPS05) Rising Main Replacement	3.5
Pakuranga Pipe Work Replacement PS 28 (	3.4
Rosedale WWTP Cogeneration Upgrade	3.3
DTMAN-Electrical Masterplan Stage 1	3.0
Rosedale WWTP Expansion Project	3.0
North Shore PS09 rising main	3.0
Upgrade of North Shore TS8	2.8
Kohimarama Storage Tank & Branch Sewer	2.7
Snells Algies WWTP Ocean Outfall	2.7
Orewa West Wastewater Network	2.5
Siphon Replacements	2.0
Wastewater projects under \$2m	39.0
<b>Total Infrastructure - Wastewater</b>	<b>206.6</b>
<b>Shared Services</b>	
Control Network Security Upgrade	3.6
Networks Controls Upgrade	3.5
W100.200 Planned Renewals - Metro-2016	3.0
Shared Services projects under \$2m	3.0
<b>Total Infrastructure - Shared Services</b>	<b>13.0</b>
<b>TOTAL INFRASTRUCTURE</b>	<b>325.3</b>

Capital Expenditure (continued)

Appendix 4

Capital Expenditure Projects (Excluding capitalised interest)	FY2016 Draft Budget
<b>Description</b>	<b>\$m</b>
<b>Operations</b>	
<b>Water</b>	
Waikato 175MLD Expansion Stage Ultimate	12.0
W100.235 Meter Planned Replacement 2016	5.0
W100.201 UP Watermains Renew - Metro 2016	3.0
W100.235 Meter Unplanned Replacement 2016	2.0
Water projects under \$2m	8.8
<b>Total Operations - Water</b>	<b>30.8</b>
<b>Wastewater</b>	
Wastewater projects under \$2m	5.8
<b>Total Operations - Wastewater</b>	<b>5.8</b>
<b>Operations Shared Services</b>	<b>0.0</b>
<b>Total Operations</b>	<b>36.6</b>
<b>Shared Services</b>	
<b>Information Services</b>	
MS Field Service Management Mobility	3.1
Information Services projects under \$2m	4.3
<b>Total Information Services</b>	<b>7.4</b>
Maintenance Services	4.7
Consents	2.9
Laboratory	1.0
Finance	0.5
<b>Total Shared Services</b>	<b>16.5</b>
<b>Total (Excl Capitalised interest)</b>	<b>378.3</b>