

Statement of Intent

2017–2020



He mihi

Tuia te rangi e tū nei, tuia te papa e takoto nei.

Kia tau iho te korowai atawhai o te wāhi ngaro ki runga i a tātou katoa.

E ngā maunga whakahī, e ngā wai tākunukunu, e ngā tōpūtanga tāngata nui rawa o Tāmaki Makaurau, Tāmaki herenga waka, tēnā rā koutou katoa.

E manakohia kia piki ake o ā tātou mahi ngātahi āmuri ake nei. Anei rā te tāuaki hei tātaki i aua manako, heoi anō, inā kē te nui o ngā mahi hei kawe ake e eke ai tō mātou wawata.

*Unite thus the heavens above, unite thus the land beneath us;
we acknowledge the cloak of grief, those whom have passed on,
and we acknowledge their influence upon us.*

*To thy mountains, thy cool sequential waters, the many ethnicities and
peoples throughout Tāmaki Makaurau, warm and heartfelt greetings to you all.*

*We come together to seek a new way forward, united in our shared
responsibilities, and committed to achieving. Clearly, much is yet
to be done if we are to give credence to our vision.*

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Cover: Henry, who is in Room 3 at Bairds Mainfreight Primary School, enjoys a glass of ‘Aa’-graded drinking water straight from the tap. Every day, 1.4 million other Aucklanders do the same.

Message from the Chair

As Auckland's water and wastewater services provider, Watercare has a significant role to play in helping Auckland Council reach its vision for the city. Our Board welcomes the opportunity to work collaboratively with the Mayor and Councillors to jointly develop strategies and policies which achieve efficiencies and provide greater benefit to our customers and the ratepayers of Auckland.

This Statement of Intent (SOI) sets out Watercare's obligations and how we intend to fulfil our mission to provide safe, reliable and efficient water and wastewater services to all of Auckland. The SOI highlights the various initiatives that we are collaborating on with the Council Group and reaffirms our continued commitment to working with Council and other infrastructure providers to enable the region's sustainable growth and development.

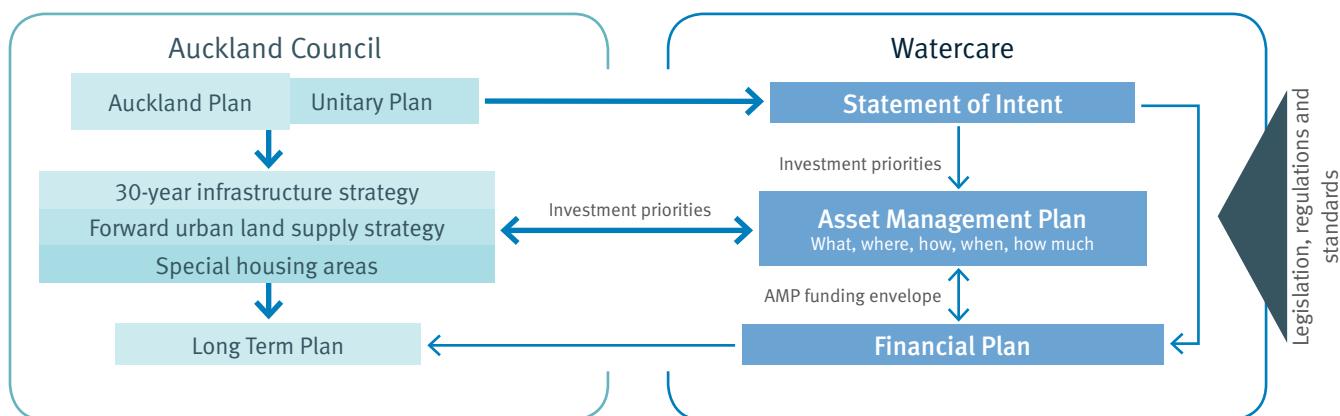
MARGARET DEVLIN

Chair

Purpose of Statement of Intent

In accordance with the Schedule 8 of the Local Government Act 2002, our annual SOI publicly states the activities and intentions of Watercare Services Limited (Watercare) for the next three years, and the objectives that those activities will contribute to.

Our SOI provides an opportunity for our shareholder to influence the direction of the company and provides a basis for the accountability of directors for performance of the organisation.



See *Our legislative framework* in Appendix B (page 18) for more information on our legal responsibilities.

Who we are

OUR VISION

Trusted by our communities for exceptional performance every day.

Better tomorrow than we are today | Pai ake apōpō atu i tēnei rā

OUR MISSION

Reliable, safe and efficient water and wastewater services.

Watercare is a utility that provides essential services to Auckland. Our water supply and wastewater services are critical to the economic, social and environmental health and well-being of our communities.

Our company has over 900 staff, with \$8.8 billion worth of assets and achieved a revenue of \$570 million in 2015/16. Each day, we supply around 354 million litres of drinking water to the people of Auckland and treat around 392 million litres of wastewater to a high standard. We also carry out significant work to upgrade and construct infrastructure in order to maintain levels of service and provide capacity for the rapidly growing population.

Watercare is a Council-controlled organisation (CCO), wholly owned by Auckland Council. Our company-specific vision drives us to continuously improve our performance day-to-day and we actively work with the Council Group to deliver on the vision set in the Council's Auckland Plan. We do this by ensuring our plans align with and give effect to Council's development and growth plans.

OUR STRATEGIC PRIORITIES

Customer focus

1. We understand our customer needs and deliver value
2. We consistently provide exceptional products and service
3. We are trusted by our customers who understand our purpose and value our service

Business excellence

4. We have a safe and engaged team
5. We are a commercially savvy business
6. We are responsible stewards of our assets
7. We continually strive for process excellence

Financial responsibility

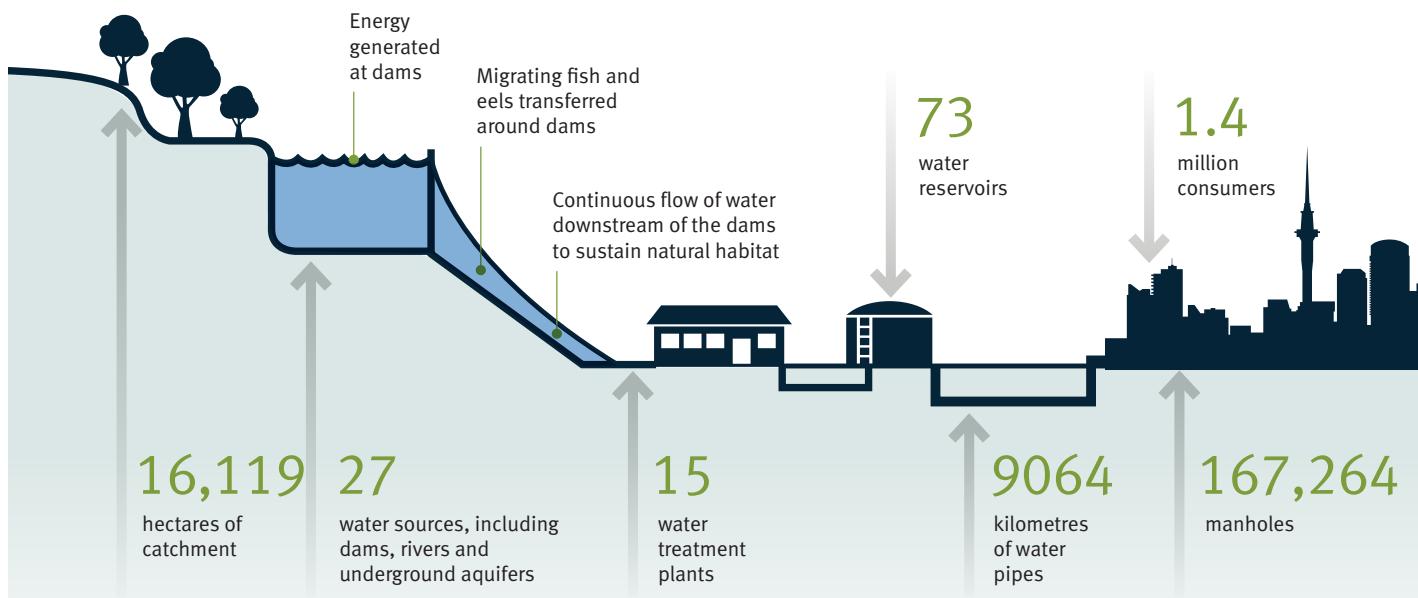
8. We are a minimum-cost service provider
9. We are financially stable over the long term

Fully sustainable

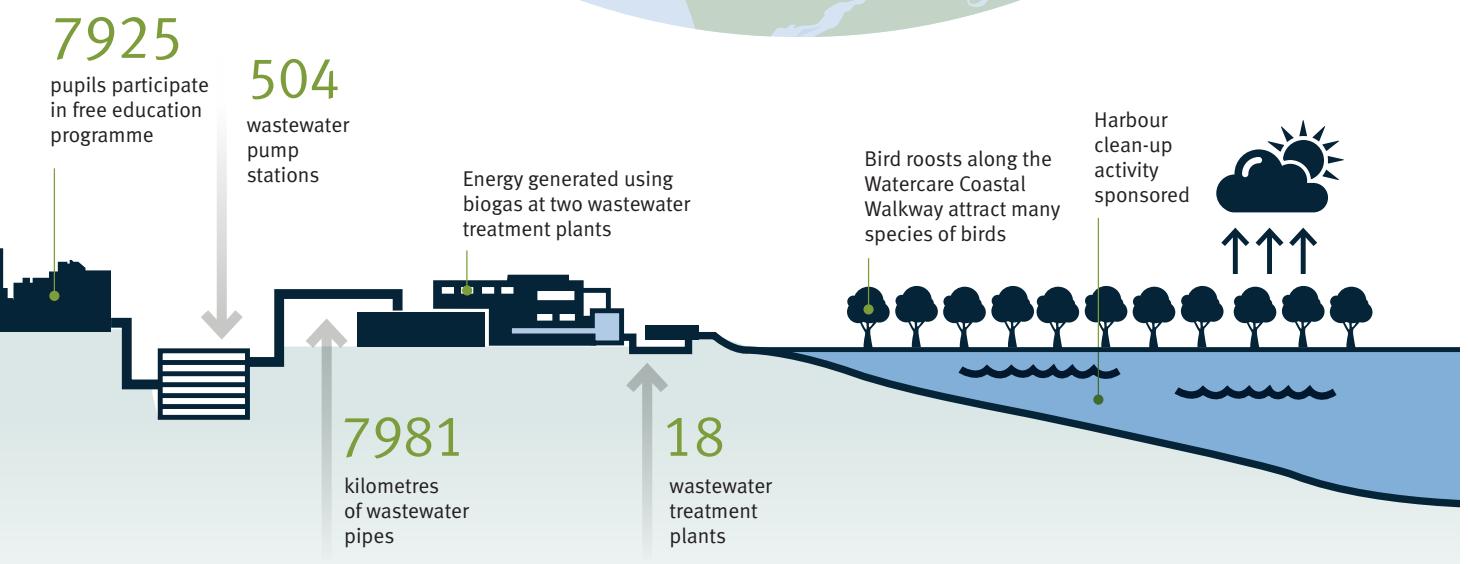
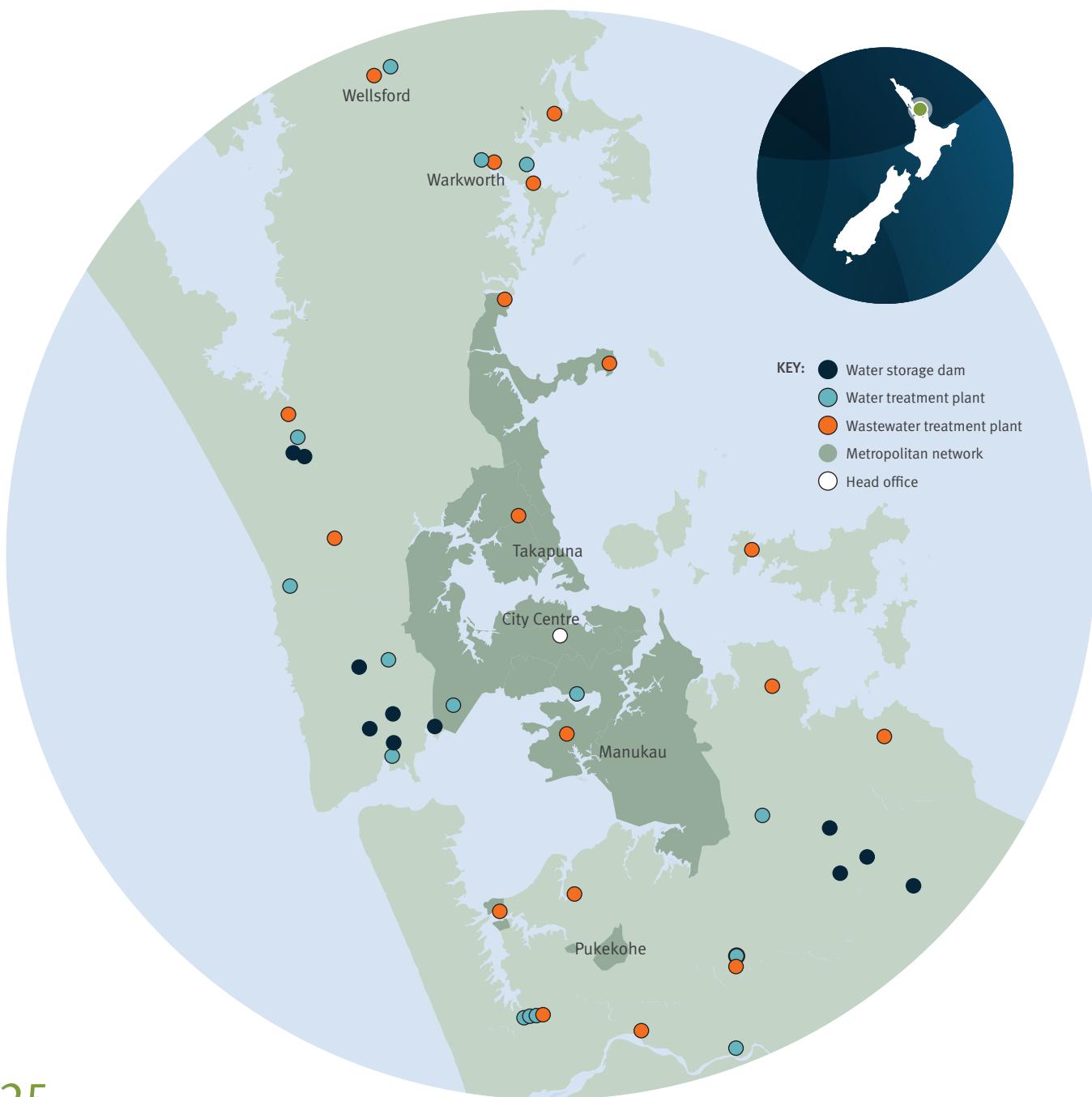
10. We are a socially responsible business
11. We protect and enhance our natural environment
12. We meet all our legal and regulatory obligations

From sky to sea

An overview of Watercare's assets and operations



Where we operate



Working together to achieve the vision for Auckland

Our company is fully committed to working with Auckland Council Group and the development community to deliver the vision, outcomes and transformational shifts set out in Council's 30-year road map, the Auckland Plan.

Auckland's vision: The world's most liveable city						
Outcomes: what the vision means in 2040						
Transformational shifts: to achieve the vision						
A fair, safe and healthy Auckland	A green Auckland	An Auckland of prosperity and opportunity	A well-connected and accessible Auckland	A beautiful Auckland, loved by its people	A culturally rich and creative Auckland	A Māori identity that is Auckland's point of difference with the world
How Watercare is contributing to the transformational shifts						
Secondary	Primary	Secondary	Primary	Secondary	Secondary	Secondary
<ul style="list-style-type: none"> By reliably delivering 'Aa'* grade water to all customers, including young people 	<ul style="list-style-type: none"> By collecting and treating wastewater effectively By actively promoting water-efficient behaviours to consumers By working to reduce water demand through operational improvements By encouraging pupils to take an active interest in their local environment through our education programme 	<ul style="list-style-type: none"> By ensuring we work with Auckland Transport to align infrastructure projects wherever possible, to minimise impact on traffic 	<ul style="list-style-type: none"> By reliably delivering 'Aa' grade water to all customers By enabling growth through the timely delivery of infrastructure in areas identified by Council 	<ul style="list-style-type: none"> By being efficient in order to ensure that household expenditure on water and wastewater services continues to represent less than 1.5% of the average household income By ensuring customers experiencing financial hardship can access support through the Watercare-funded Water Utility Consumer Assistance Trust By investing in critical water and wastewater infrastructure and shaping Auckland 	<ul style="list-style-type: none"> By actively fostering and maintaining relationships with local Māori. See page 9 for information on the Mana Whenua Kaitiaki Forum By providing technical advice related to water supply and septic tanks in marae and the development of Māori scholarships 	

* The Ministry of Health checks many different aspects of the water before it is given a two-letter grading. The first letter represents the quality of the water leaving the treatment plants. The second letter represents the quality of water received at homes and businesses. An 'Aa' grade means the drinking water is of the highest quality.

Working together with the Council Group

1. Watercare is actively participating in the ‘value for money’ review being undertaken by Council as required by S17A of the Local Government Act 2002.
2. The company actively participates in group procurement initiatives. We recently led electricity procurement and have participated in a number of IS initiatives and insurance brokerage services. We are currently involved in group procurement for security, uniforms and PPE, and mobile, voice and data contracts.
3. Watercare has recently acquired the company which undertook forestry operations on Council-owned land in the Hunuas, in the catchment of the water storage reservoirs. Watercare is working closely with Council officers on plans to progressively restore the land back to native forest. Around 200,000 natives will be planted over the next two years.
4. We regularly contribute to the Council’s “Consenting Made Easy” project.
5. Watercare is working in collaboration with Auckland Transport and other utilities on the upgrading of infrastructure in Franklin Road, Freemans Bay and will continue with that practice.
6. We worked collaboratively with Auckland Council and Auckland Transport in developing the bid for the Housing Infrastructure Fund (HIF) and will continue to do so.
7. In 2016 Watercare announced the funding of a major ecological health initiative in partnership with NIWA. The programme will establish a coupled hydrodynamic and water quality model for the Manukau Harbour. The model is a collective resource and harbour stakeholders and local organisations, Council and the Local Board are encouraged to participate and provide expertise and funding.
8. Watercare will continue to collaborate with Auckland Council on submissions relating to bills, policy statements, regional plans and similar documents and consult with the Council before making own submissions in cases where Watercare has a specialist need to submit. Recent examples are:
 - Submission in 2016 to the Local Government and Environment Committee on the Local Government Act 2002 Amendment Bill (no. 2)
 - Submission to Ministry for the Environment on “Managing Microbeads in Personal Care Products”
 - Submission to Water NZ’s “Beneficial Use of Organic Waste Products on Land”
 - Submission to the Urban Development Authority Discussion document where MBIE requested a separate submission from Watercare
 - Submission on the “Clean Water Package 2017”
 - The Draft Waikato Plan
 - Waikato Regional Council’s “Healthy Rivers” proposed Plan Change No.1 and the “Let’s Talk Water” discussion paper in 2016.
9. Watercare will continue to collaborate with Local Boards in the manner set out on page 11 of this document.
10. **Watercare will actively support the desired outcomes of the Safe Swim monitoring programme when making infrastructure investment decisions, and work with council to achieve the outcomes of this programme.**
11. **Through the Western Isthmus Water Quality Improvement Programme, Watercare will continue to work collaboratively to achieve agreed three waters outcomes with council, and which meet the wider requirements of the Auckland Council group on behalf of its communities now and into the future.**
12. Watercare will participate in a collaborative process with the council group to update its strategic planning and meet requirements of the National Policy Statements for Urban Development Capacity and Freshwater Management. Watercare will reflect agreed changes in its own strategic planning and Asset Management Plan. Strategies and plans to be reviewed include:
 - a) Update of the Auckland Plan
 - b) Update of the 30-year Infrastructure Strategy
 - c) Development of a three waters strategy
 - d) Development of Watershed Plans
 - e) Development of the Smart Growth Portal, and commitment to sharing data across the group to improve council’s analytical capability for addressing growth, environmental, and infrastructure issues.
13. Notifying council of substantive changes made to Watercare’s Asset Management Plan outside of the annual updates provided.



Glen Eden resident Shelley Scarlett with her son Ben. Shelley registered for Watercare's free water efficiency programme last year. After undergoing a water audit at her house and armed with customised advice to reduce waste, Shelley is well on her way to becoming a waterwise consumer.

Managing demand in a growing city

Today, Watercare services about 1.4 million people living in Auckland. Over the next 30 years the population will grow significantly. Statistics New Zealand has projected medium population growth of 700,000 and high population growth of one million people for Auckland. We have adopted the medium population forecast for our planning purposes.

Our challenge is to meet the demands of that growth without compromising our mission to deliver reliable, safe and efficient water. Watercare is addressing this challenge with an asset management strategy and a demand management plan that is reviewed annually and updated every three years.

Over the next decade Watercare will invest \$4.9 billion to build new infrastructure and renew ageing assets.

The asset management strategy details the projects that have been planned and sequenced for the next 10 years to ensure our water network continues to have sufficient capacity to meet demand and provide resilience. The timely construction of treated water storage reservoirs will ensure we continue to meet the public health grading requirement to have 24 hours of storage as a contingency to disruption within supply zones.

To meet the city's anticipated growth, we have lodged an application with Waikato Regional Council to access additional water from the Waikato River. We are also investigating new water sources for the Helensville, Parakai and Warkworth communities.

Watercare has also been working with customers to reduce per-person demand through a range of initiatives:

- As part of our Be Waterwise programme, we offer a free advice line and water audit service for residential customers in partnership with EcoMatters Trust. This helps customers understand their water usage and the ways they can reduce wastage of water and improve the water efficiency of their household.
- As part of the Be Waterwise initiative for non-domestic customers, businesses participate in a programme to understand how water is managed in their organisation and the five critical actions to achieve water efficiency.
- Watercare engages with Aucklanders by participating in home and garden shows to provide information on water efficiency and promote waterwise behaviours.

Watercare is currently updating the Auckland Regional Water Demand Management Plan which will outline our strategy for managing demand over the next three years (2017 – 2020). The plan will propose strategies to manage demand based on the type of consumer (e.g. domestic, commercial, industrial etc.) as well as specific initiatives such as smart-metering, consumer education, and water efficiency services to support the demand management plan.

The plan will include:

- a strategy and a three-year programme for reducing non-revenue water
- specific water-efficiency initiatives for our large water users
- a review of the water efficiency gains achieved through our customer programmes over the past three years, including the deferral of new infrastructure since 2004 (the baseline year for per capita reduction)
- benchmarking against international water utilities.

INSIGHT

Enabling growth

We acknowledge that when planning for growth, size and location matter. Watercare has been working closely with the Council Group to identify areas where there is sufficient capacity to support growth in the short term. We have also been aligning the planning of new or upgraded infrastructure to meet Council's spatial development priorities and give effect to the Long Term Plan. We have been collaborating on the development of Council's Future Urban Land Supply Strategy (FULSS) revision, particularly around the sequencing of the land release.

Linear infrastructure, such as water and wastewater pipes, can have long lead times for construction. Out of sequence development requires interim or temporary service provision, which generally leads to inefficient provision of the services and increased costs for the community, most of whom do not benefit from individual development. The alignment of service provision with the FULSS, and vice versa, allows Watercare to plan, consent and construct bulk services efficiently to enable Council's growth requirements. That means our infrastructure will enable growth in the areas identified for development by Council. We also ensure our decision making is influenced by Council's local place making and urban regeneration priorities.

Watercare funds all of its operating costs and capital projects through water and wastewater service charges, infrastructure

growth charges and borrowings. That means we self-fund what we deliver and do not receive rates money from Auckland Council. Our financial position enables us to fulfil the \$4.9 billion commitment we have made to the Auckland community in our Asset Management Plan. Watercare's funding envelope has been aligned for the provision of service identified in the FULSS.

The map below sets out the major projects we will undertake over the next three years in order to: increase the capacity of our networks to support future growth; improve the levels of service for customers; and renew ageing assets.

There are a number of initiatives underway to identify the water and wastewater infrastructure requirements to support the FULSS land release sequencing. Concept plans have already been prepared for greenfield areas including the Redhills, Whenuapai and Drury/Opaheke areas to align with the live zoning, structure planning and imminent structure planning, respectively. Efforts are ongoing to prepare more detailed concept plans for the Pukekohe and Warkworth areas to align with the FULSS. These initiatives will build on and connect to the enabling infrastructure shown below. Together these projects will ensure the continued safety and reliability of our services as well as deliver environmental improvements.



Enabling growth

	Major water projects	Description	Work to be carried out over the next three years
1	Hunua 4 watermain	Construction of a 32-kilometre-long watermain that will run from Manukau to central Auckland	Construction of the sections from Redoubt Road in Manukau City to Market Road in Epsom are now complete. The contract has been let for the construction from Market Road to the Khyber Pass Reservoir. Ninety percent of the construction will be tunnelled, therefore avoiding significant congestion down Manukau Road and through to the Khyber Pass Reservoir. Completion December 2020.
2	North Harbour Watermain Duplication	Construction of the North Harbour no.2 Watermain which will run for 33 kilometres from Titirangi to Albany	Duplication of watermain over Upper Waitemata Harbour at Greenhithe to be completed in 2018/19. The section from Upper Harbour to Albany to be constructed over the next three years, with the remainder to be completed progressively by 2026.
3	Pukekohe East Reservoirs	Construction of two additional water storage reservoirs to maintain security of supply and cater to growth	Consent has been granted. Design and construction to progress with completion in June 2021.
4	Waikato Water Treatment Plant Expansion	Expansion of the capacity of the existing water treatment plant to cater for additional demand arising from growth	Complete the upgrade from 150 MLD to 175 MLD by December 2018.
5	Waikato Water Treatment Plant	Provision of additional water abstraction, treatment and conveyance capacity from the Waikato River to cater for additional demand arising from growth	Consent for an additional take from the Waikato River filed with Waikato Regional Council in December 2013. The application is in a queue awaiting public notification. Not expected before mid-2017.
6	Nihotupu No.1 and Huia No. 1 Watermains replacement	Replacement of two critical water mains which are nearing the end of their design lives	Construction to commence in 2018 and expected to be complete by December 2021.
7	Huia Water Treatment Plant Upgrade	Replacement of the Huia Water Treatment Plant which is reaching the end of its design life and the provision of improved treatment processes which will maintain supply and improve levels of service	Consent process to be completed and detailed design commenced during this period.
	Major wastewater projects		
8	Central Interceptor	Construction of a new wastewater conveyance and storage pipeline to service central Auckland as well as the isthmus, east and south	Design is 95 percent complete. Procurement to be undertaken and completed, contract let and construction planned to commence in 2019 and completed by December 2025.
9	Northern Interceptor: Hobsonville to Rosedale Phase	Construction of a new wastewater pipeline which will divert flows from Mangere Wastewater Treatment Plant to Rosedale Wastewater Treatment Plant	Construction to be tendered and delivered with project to be completed by December 2020.
10	Northern Interceptor: Westgate to Hobsonville Phase	Construction of the second stage of Northern Interceptor to divert wastewater flows from Swanson, Massey and Glen Eden catchments to the Rosedale Wastewater Treatment Plant. This project is dependent on the delivery of the Northern Interceptor from Hobsonville to Rosedale	Obtaining the necessary consents and land owner approvals during this period with completion by 2025.
11	Rosedale Wastewater Treatment Plant Upgrade	Provision of additional treatment capacity to cater for population growth on the North Shore and treat diverted wastewater flows from West Auckland, which are currently served by the Mangere Wastewater Treatment Plant	Design and construction to be completed by December 2019.
12	Pukekohe Wastewater Treatment Plant Upgrade	Construction of additional trunk network and treatment capacity to cater for population growth in the Pukekohe Wastewater Treatment Plant catchment	Application for discharge to Waikato River to be filed shortly with consenting, design and construction completed by September 2020.
13	Mangere Wastewater Treatment Plant Biological Nutrient Removal	Provision of additional biological nutrient removal capacity to cater for projected growth in population	The BNR plant will be complete and commissioned by December 2018.
14	Puketutu Island	Restoration of Puketutu Island using treated biosolids from the adjacent Mangere Wastewater Treatment Plant	Continue the monofill operation to rehabilitate Puketutu Island.
15	Warkworth-Snells-Algies Wastewater services	Construction of a new wastewater treatment plant, new wastewater pipeline, pump stations and ocean outfall at Snells Beach	Strategic consents have been obtained. Design and construction to progress with completion by June 2020.

Ensuring resilience of water systems

The “Tasman Tempest” brought extreme rainfall across the region from 7-12 March 2017 and had a significant impact on the operation of the Ardmore Water Treatment Plant. This was due to the very significant volumes of clay sediment that washed into three of the water storage reservoirs in the Hunua Ranges.

The performance of the Waikato Water Treatment Plant was also affected by the very high level of organics in the Waikato River from upstream activities.

Watercare made a call for voluntary water savings from Aucklanders and they took heed and reduced their water use. This, together with increased production at other water treatment plants and system changes within the water distribution network, meant Watercare was able to continue delivering ‘Aa’ grade water to all of its residential, commercial and industrial customers, thereby demonstrating the resilience of our water supply system despite the effects of extreme weather on Auckland’s largest and second largest water treatment plants.

Watercare has identified a range of options to further strengthen the resilience of the Ardmore and Waikato plants. At Ardmore, these include sludge dewatering and thickening improvements, Ultra Violet treatment for Protozoal Compliance, installation of a pilot process simulator which will enable faster assessment of process changes, new filter manager software, enhanced solids removal from clarifiers, and for the Waikato WTP, installation of UV peroxide post membrane filtration.

We will undertake feasibility studies for these options, with a view to presenting business cases on the selected improvement initiatives to the Watercare Board in 2017.

Watercare, in collaboration with Auckland Council as landowner, will shortly commence the planting of over 200,000 native plants in the catchments above the water storage facilities, replacing the existing pine trees which are used for harvesting.

In May 2017, Watercare will select a site for the replacement of the Huia Water Treatment Plant which will provide an additional peak capacity of 14 Million Litres Day (MLD) over the existing production capacity.

An application for a second take of water from the Waikato River was lodged with Waikato Regional Council in December 2013 and is expected to come up for hearing in 2018.

Construction of the final section of Hunua No 4 watermain is planned to commence in June 2018 and be completed by June 2020. This 31-km-long watermain from Ardmore to Khyber Pass will ensure security of supply and cater for growth for Auckland.

Resource consents have been granted for the construction of North Harbour 2 Watermain and two reservoirs at Pukekohe East. Once complete, these projects will ensure security of supply and cater for growth on the North Shore and in the Franklin region, respectively.

Emergency demand management

Watercare has a comprehensive Water Conservation Plan that designates actions at various trigger levels should a major incident occur that requires a demand reduction.

Climate change resilience

NIWA has provided a climate scientist to work with Watercare on secondelement. The objective of the secondelement is to highlight the linkages between weather and climate variability and water demand, water supply and water quality. This will assist in jointly developing a plan for new prediction tools in the future.

Watercare is currently preparing a climate change strategy, and continues to incorporate climate change considerations in its decisions. We are committed to work with the Auckland Council Group to ensure alignment of objectives and programmes with this climate change strategy.

Engaging with our communities

As Auckland's main provider of water and wastewater services, what we do directly and indirectly affects the quality of life for all Aucklanders, all visitors and, by extension, the economic, social and environmental well-being of New Zealand as a whole. Recognising this, we engage with our stakeholders through a wide range of forums. We will continue to reinforce Watercare's identity as a 'Council organisation' in our branding, signage and marketing collateral.

Customers

We engage by:

- Making information available through our website, direct mail, newsletters and by phone
- Consulting with customers on topics that affect them to ensure their needs are understood and considered
- Analysing complaint types and looking at what we can do better or differently to reduce issues and complaints
- Collecting feedback through regular customer experience surveys and using the feedback to drive business improvements
- Conducting annual customer focus groups and an online survey.

Tangata whenua (Māori)

We engage by:

- Promoting and supporting Mana Whenua relationships. From 1 July 2016 the Mana Whenua Kaitiaki Forum (MWKF) expanded its role to integrated decision-making on matters significant to Māori across the Auckland Council Group. We will maintain our relationship with MWKF through quarterly meetings with the Mana Whenua Kaitiaki Managers' Group – Water Sector – and will expand this sector's work by facilitating group meetings with other stakeholders working in this area
- Developing, working and maintaining relationships with Mana Whenua affected by Watercare operations and initiatives
- Increasing the understanding of Māori values and cultural impact throughout Watercare
- Providing technical advice related to water supply and septic tanks and the development of Māori scholarships
- Supporting Auckland Council's work on development of a te reo framework
- Making efforts to build a strong relationship with the Waikato Tainui Board and executive management team. The relationship commenced when Watercare first applied to take water from the Waikato River to assist in meeting Auckland's need for water. With the projected growth for Auckland, a second application to take water has been lodged. Watercare is working closely with Waikato Tainui to ensure that the health and wellbeing of the Waikato River is not adversely affected
- Watercare is committed to completing a Māori Responsiveness Plan in 2017/18. Watercare meets bi-monthly with representatives of the 19 mandated Mana Whenua entities.

Local residents and community groups that neighbour our worksites

We engage by:

- Using a variety of channels to ensure there are no surprises regarding potentially disruptive works. Information is communicated via various channels, including: flyers, newsletters, door-to-door communication, advertisements, signage, radio broadcasts, local resident and business association information meetings, community open days, and direct mail
- Sharing relevant information with communities during the planning of new infrastructure upgrades to minimise delays during statutory approval processes.

Local Boards

We engage by:

- Building enduring relationships with Local Board chairs and representatives
- Continuing involvement in the development of Local Board plans to ensure that Local Boards have the best information available while their plans are in the formative stages
- Sharing information on Watercare-related matters ahead of infrastructure projects so there are no surprises
- Developing standard operating procedures for landowner approvals and working closely with the Local Boards to ensure multiple community objectives and good open space outcomes can be met
- Collaborating with the Local Boards along the route of the Central Interceptor project has resulted in good outcomes. Watercare's design engineers undertook some redesign and were able to remove the tunnel shaft and vent conceived for Kiwi Esplanade. This outcome was, in part, due to the long-term proactive relationship between Watercare and the Mangere-Otahuhu Local Board
- Engaging with Local Boards by responding to their feedback and preparing information newsletters addressing specific local issues. For example, newsletters for Te Atatu, Glen Innes and Mellons Bay communities were distributed in response to local wastewater issues. Local Board members helped to reinforce the key messages and shared the information via their community networks
- Providing opportunities for displaying artwork on Watercare's assets such as the new 'Magma' mural on Watercare's Khyber reservoirs. This was the result of collaboration between the local business association, Watercare and the Waitamata Local Board
- Collaborating with Local Boards and community for gathering input into future projects such as the Warkworth/Snells Wastewater Treatment Plant, Clarks Beach/Waiuku Wastewater Treatment Plant, Pukekohe Wastewater Treatment Plant and the Huia Water Treatment Plant.

Infrastructure providers

We engage by:

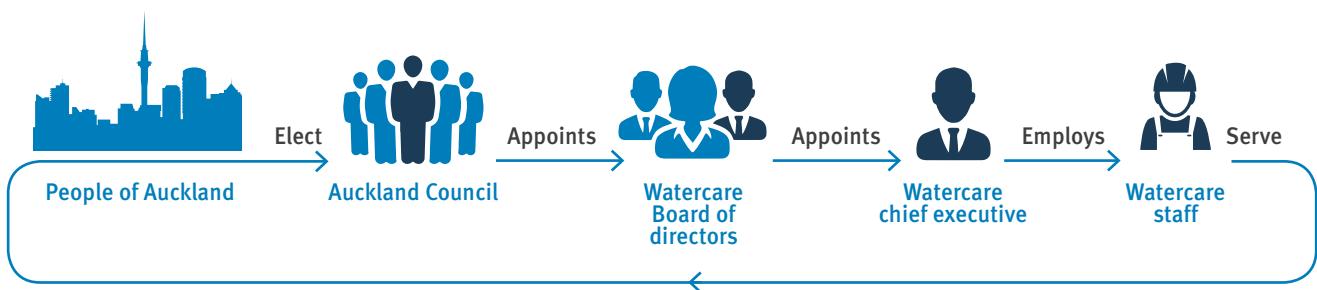
- Participating in the Auckland Infrastructure and Procurement Group forums and working groups
- Continuing to work closely at technical and managerial levels with Auckland Transport, the Auckland Motorway Alliance, New Zealand Transport Authority (NZTA) and other infrastructure providers to plan and deliver complex infrastructure solutions in the road and motorway corridors
- Co-ordinating planned major works with Auckland Transport teams to ensure ‘best for Auckland’ outcomes

- Working closely with industry experts and attending regular sessions with Civil Contractors New Zealand and the Association of Consulting Engineers New Zealand to ensure safe, practicable and sustainable outcomes
- Recognising the importance of integrated planning to achieve the efficiencies expected envisioned by Auckland Council, Watercare is committed to working closely with Auckland Council and Healthy Waters on the Three Waters review which is expected to inform the 2018 Long Term Plan process.
- Working with the Council Group on the Housing Infrastructure Fund (HIF) bid to central government and the Central Auckland Network Optimisation Project (CANOPY).



Visitors look at the toys collected during the solid screening and removal process over the years, at the Rosedale Wastewater Treatment Plant. Around 60 people were given a guided tour of the Rosedale plant by Watercare staff in November 2016.

Managing and measuring our performance



Watercare's Board is ultimately responsible for all decision-making by the company. Its Directors and our management team are committed to ensuring the company applies best-practice governance policies and procedures. It has three subcommittees: Audit and Risk; Capital Projects Working Group; Remuneration and Appointments. Regular Health and Safety management meetings are held and reporting on these matters goes to the full Board.

Watercare ensures we fulfil the public meetings stipulation of the Local Government (Auckland Council) Act 2009 which requires Auckland Council CCOs to hold two public meetings a year and the timing for these is set out below. However, Watercare's Board has adopted that as a minimum requirement, so all Board Meetings have an open, public session. Dates and times are publicly notified in advance with agendas and minutes made available on our website.

Watercare works diligently to meet our legal obligations and act in accordance with the CCO governance manual, which sits alongside this SOI and forms part of the annual binding agreement between Council and Watercare. We are committed to participating in the design and implementation of group-wide policies as well as to working collaboratively in relation to 'out of sequence' future urban development.

See *Our legislative framework* in Appendix B (page 18) for more information on our legal responsibilities.

Date	Purpose	Form of public notification
30 May 2017	Consider shareholder comments on draft SOI	Public notice
26 October 2017	Consider performance against SOI targets	Public notice
May 2018	Consider shareholder comments on draft SOI	Public notice

Managing risk

We have an established risk management policy and framework, which follows the guidance of the ISO 3100 risk management standard. Risks are identified and evaluated using likelihood and consequence scores and ranked. The highest ranked and significant emerging risks are reviewed by senior management and the Board via management and Board-level reporting.

The Internal Audit function produces an annual plan that is approved by our Audit and Risk Committee with quarterly reporting by management against the plan for the committee.

The Audit and Risk Committee maintains oversight of progress and must be satisfied that recommendations arising from Internal Audit's work are fully addressed by management.

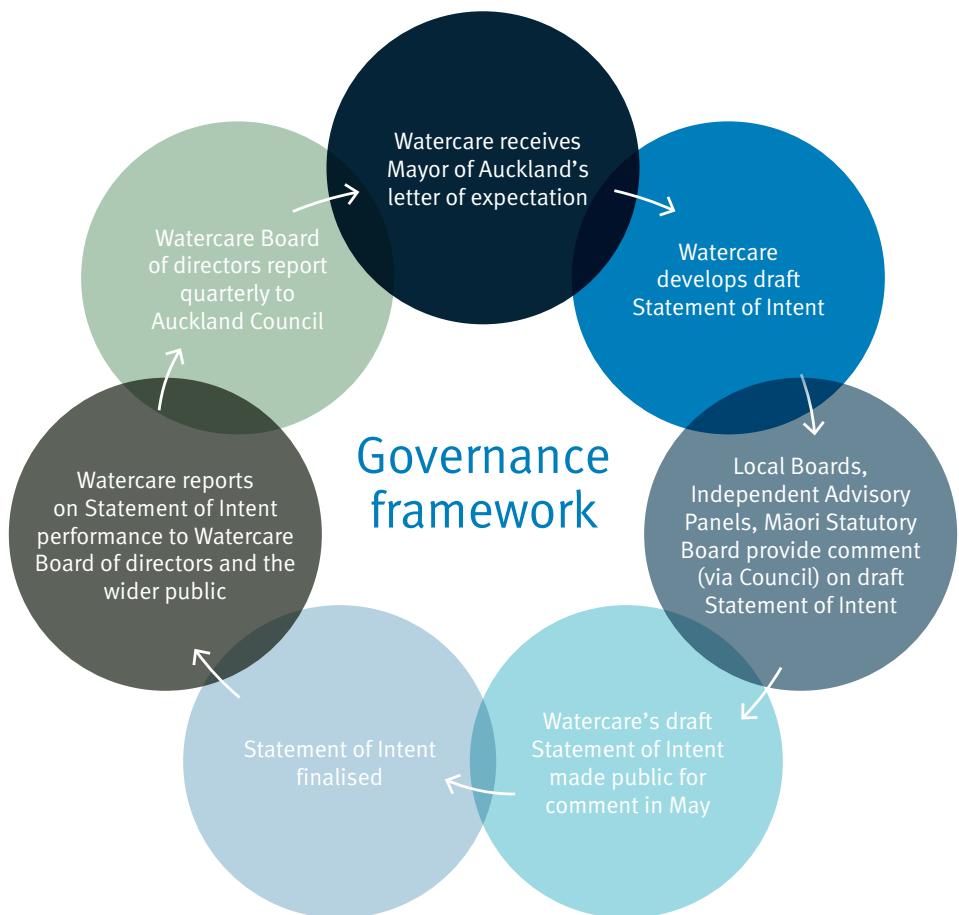
Measuring our performance

We have an agreed set of performance measures and targets which form the basis for accountability to delivering on Council's strategic direction, priorities and targets. These are reported on a quarterly basis in accordance with the CCO governance manual.

The measures and targets include the Department of Internal Affairs-mandated measures and those that were agreed with Council as part of the Long Term Plan 2015–2025. Watercare is benchmarking our performance and metrics with Australian water companies of similar scale. Our performance measures are included in the Appendix C (page 19).

While Watercare is meeting some of the targets at present, Auckland is expecting an extended period of unprecedented growth which may significantly impact our performance in the future. For example, one of the performance measures for wastewater is the median response time for attendance and resolution of urgent call-outs. This is already seeing an impact in the form of longer travel times caused by increased traffic.

Watercare is committed to contributing to the development of new metrics and indicators which will measure our impact and align with the refreshed Auckland Plan and the Long Term Plan 2018–2028.



Continuous improvement delivers value for customers

Watercare continues to introduce initiatives to increase our engagement with customers.

We are seeking to understand their needs and be responsive to them. We believe all staff at Watercare have a role to play in ensuring positive customer experiences.

Over the past two years, the overall volume of customer complaints reduced by 55 per cent. This was due to specialised teams implementing a first-call resolution approach to customer enquiries. Staff were encouraged to make decisions and take action in order to reduce the volume of repeat phone calls and escalated complaints.

Watercare's Voice of Customer (VoC), a programme that enables continuous, real-time feedback from customers relating to our processes and people, was also rolled out to our infrastructure projects. VoC enables the community to give constructive feedback on how we and our contractors are doing and how we could improve when delivering projects.

Our focus over the next three years is to strengthen Watercare's capability to provide interactive, digital

solutions for our customers including real-time usage information, an enhanced website and self-service experience, and real-time service outage information.



Payment services advisor Isobelle Sione fields a customer call. Watercare responds to as many as 2000 phone calls, letters and emails every day.

INSIGHT

Driving efficient, transparent and stable financial management

We understand and appreciate that our customers expect us to be financially responsible as every dollar we spend has an impact on the price they pay for water and wastewater services.

Our financial management is underpinned by robust plans and policies, supported by a comprehensive risk and audit programme.

Since we became a vertically integrated supplier of water and wastewater services on 1 November 2010, we have achieved on average \$107 million in annual savings, and operated with significantly fewer staff than the previous Councils and Local Network Operators at time of integration. We have standardised water and wastewater charges for both domestic and non-domestic customers, making them more transparent and

easier to understand. Today, most customers are paying less for water than they were paying in 2010.

Since integration, we have undertaken capital works of around \$1.5 billion and only increased the level of debt by \$350 million.

Watercare has implemented efficiency initiatives across major areas of expenditure, including a network efficiency programme and a capital delivery optimisation programme. The network efficiency programme is focussed on reducing the cost of operating and maintaining our retail network while maintaining the appropriate level of service. The capital delivery optimisation programme includes the introduction of a revised capital projects delivery business model and a target to deliver five per cent savings in capital spend.

The following summary of financials supports the delivery of the strategic objectives and performance targets for Watercare.

Operating budget

Operating budgets (\$million)	Budget 2016/17	Annual Plan 2017/18	Projection 2018/19	Projection 2019/20
Revenue	487.9	510.9	534.0	561.5
Fees and charges	463.7	485.2	507.2	531.3
Grants and subsidies	-	-	-	-
Other revenue	24.2	25.7	26.8	30.2
Direct expenditure	215.6	213.6	218.9	227.2
Employee benefits	75.7	73.7	75.2	78.0
Grants, contributions, sponsorship	0.3	0.6	0.6	0.6
Other expenditure	139.6	139.3	143.1	148.6
Net direct expenditure (income)	(272.3)	(297.3)	(315.1)	(334.3)
Funding from Auckland Council	-	-	-	-
Revenue from vested assets	(20.0)	(20.0)	(20.0)	(20.8)
Other non-operating income	-	-	-	-
Net finance expense	80.3	82.1	88.5	91.7
Depreciation and amortisation	226.9	230.0	252.3	255.5
Net losses (gains)	8.0	8.0	8.0	8.0
Income tax	20.7	26.6	26.9	36.8
NET EXPENDITURE (INCOME)	43.6	29.4	40.6	36.9

Net direct expenditure by area

Expenditure (\$million)	Budget 2016/17	Annual Plan 2017/18	Projection 2018/19	Projection 2019/20
Net direct expenditure (income)	(272.3)	(297.3)	(315.1)	(334.3)
Wastewater Service	(203.0)	(215.3)	(228.2)	(242.6)
Water Supply	(69.3)	(82.0)	(86.9)	(91.7)

Our commitment

Watercare supports the Council's drive to greater transparency in budgeting and reporting and is committed to:

- benchmarking frontline and back-office expenditure, including regularly publishing results on the company's website
- holding administrative and corporate spending at or below 2016/17 levels

- exploring alternative operating revenue streams wherever possible
- collaborating with, and at times leading, Council-group shared services and procurement activity
- actively co-operating with any service delivery reviews (Section 17A, Local Government Act) relating to Watercare
- Communicating clearly and in plain-English with all of our customers and stakeholders.

Capital expenditure

For detailed capital expenditure list, please refer to Appendix A

Expenditure (\$million)	Budget 2016/17	Annual Plan 2017/18	Projection 2018/19	Projection 2019/20
Total capital expenditure excluding capitalised interest	325.5	358.5	472.5	550.6
Capitalised interest	11.1	12.7	14.0	22.2
Total capital expenditure including capitalised interest	336.6	371.2	486.5	572.8
Sources of capital funding	336.6	371.2	486.5	572.8
Infrastructure growth charge	70.3	86.5	95.8	101.1
Debt	74.3	69.5	164.1	229.2
Asset sales	-	-	-	-
Operating surplus (Net direct income less finance expense)	192.0	215.2	226.6	242.5

Specific expenditure towards Māori outcomes

Initiatives (\$thousand)	Budget 2016/17	Annual Plan 2017/18	Projection 2018/19	Projection 2019/20
Iwi engagement on Watercare projects	1,199	1,190	1,240	1,290

Other financial information

Current value of assets	The current value of Watercare's assets as 30 June 2016 was \$8.8 billion based on the net asset value of the Watercare group as disclosed in the audited financial statements.
Accounting policies	Watercare's accounting policies are consistent with those of the Auckland Council group policies with nominated exceptions (e.g. interest capitalisation).
Financial reporting	Watercare's financial reporting to the council will be in accordance with the requirements of the COO Manual
Asset sales (\$million)	-
Shareholder equity ratio	67%
	67%
	65%
	64%

Appendix A

Detailed capital expenditure list

Expenditure (\$million)	Budget 2016/17	Annual Plan 2017/18	Projection 2018/19	Projection 2019/20
Operating Expenditure	325.5	358.5	472.5	550.6
Wastewater				
Central Interceptor	10.7	2.0	33.5	90.0
Collection System Expansion	81.2	41.4	25.9	33.8
Collection System Improvement	8.3	17.4	10.9	3.1
Collection System Replacement	17.3	18.9	8.2	5.6
Northern Interceptor	4.5	4.6	29.0	47.0
Other projects < \$250k	0.4	0.1	0.0	0.0
Shared Services Plant & Equip Replacement	7.6	22.3	12.6	10.1
Shared Services Process Improvement	8.0	7.9	9.4	1.6
Southern Interceptor	-	5.0	1.6	5.3
South-West Wastewater Servicing	-	1.4	4.3	10.2
Warkworth & Snells-Algies Wastewater Servicing	-	17.7	86.6	47.0
Wastewater Treatment Expansion	70.9	48.1	65.5	37.7
Wastewater Treatment Improvement	15.6	29.8	34.0	46.7
Wastewater Treatment Rehab/Replacement	8.1	3.8	3.8	11.5
Waterfront Interceptor	-	-	-	-
WWTP Regulatory Compliance	3.5	2.6	0.4	1.7
Capex efficiency	(11.8)	-	(16.3)	(17.6)
Water supply				
Dam Rehabilitation	1.7	0.6	0.7	0.7
Hunua No. 4 Water Supply Scheme	23.1	3.4	30.9	30.7
Huia Water Treatment Plant Upgrades	-	1.0	4.2	10.9
North Harbour 2 Watermain	-	5.5	28.0	30.0
Other projects < \$250k	0.9	0.1	-	-
Raw Water Network Rehab/Replacement	0.5	-	-	-
Shared Services Plant & Equip Replacement	4.4	10.7	9.6	4.8
Shared Services Process Improvement	2.7	-	-	-
Treated Water Network Expansion	18.9	30.5	37.9	73.6
Treated Water Network Improvement	3.0	3.0	3.0	3.8
Treated Water Network Rehab/Replacement	15.9	30.2	28.1	53.4
Waikato Augmentation and Second Pipeline	19.7	13.1	12.5	-
Water Shared ECS Improvement	0.5	-	-	-
Water Shared ECS Rehab/Replacement	1.3	3.5	1.0	0.9
Water Sources Improvement	0.5	-	-	-
Water Sources Expansion	-	-	0.5	2.2
Water Sources Regulatory Compliance	-	1.1	0.3	0.5
Water Treatment Plant Expansion	1.0	11.4	3.2	5.4
Water Treatment Plant Improvement	9.9	19.8	9.9	9.9
Water Treatment Plant Regulatory Compliance	-	-	-	-
Water Treatment Plant Rehab/Replacement	2.4	1.5	2.0	1.7
Capex efficiency	(5.3)	-	(8.6)	(11.4)

Appendix B

Our legislative framework

Watercare is a limited liability company registered under the Companies Act 1993, and a local government organisation under the Local Government Act 2002. Watercare is subject to regulation governing planning, health and environmental matters.

The principal regulators include Auckland Council, Waikato Regional Council and the Ministry of Health. We provide these and other regulatory bodies with information on the impacts of existing policy and regulation on our activities. We also contribute and respond to the development of relevant statutory and regulatory changes affecting water, wastewater and the lifeline utility sector.

The legislative framework enabling and governing our operations as the provider of water and wastewater services in Auckland is found largely in six Acts and amendments:

- Local Government Act 2002
- Local Government (Tāmaki Makaurau Reorganisation) Act 2009
- Local Government (Auckland Council) Act 2009
- Local Government (Auckland Transitional Provisions) Act 2010
- Companies Act 1993
- Health Act 1956 and the Health (Drinking-Water) Amendment Act 2007.

Our obligations to deliver water and wastewater services for Auckland are established under Part 5, Section 57(1), of the Local Government (Auckland Council) Act 2009, which stipulates that an Auckland water organisation:

- Must manage its operations efficiently with a view to keeping the overall costs of water supply and wastewater services to its customers (collectively) at the minimum levels, consistent with the effective conduct of its undertakings and the maintenance of the long-term integrity of its assets

- Must not pay any dividend or distribute any surplus in any way, directly or indirectly, to any owner or shareholder
- Is not required to comply with Section 68(b) of the Local Government Act 2002 (avoiding the requirement to pay a dividend)
- Must have regard for public safety (for example, the safety of children in urban areas) in relation to its structures.

Also under the legislative framework:

- We became a substantive Council-controlled organisation (CCO) on 1 July 2012.
- We must give effect to the relevant aspects of the Council's Long Term Plan (LTP), act consistently with other specified plans and strategies of the Council and ensure compliance at all times with Section 57, Section 58 of the Local Government (Auckland Council) Act 2009.
- At least two Board meetings a year are required to be held in public: one before 30 June to consider the Council's comments on the draft Statement of Intent (SOI) for the upcoming financial year, and one after 1 July to consider our performance under the SOI for the previous financial year. In practice, all Board meetings have a session open to the public.
- Our financial statements, the SOI and specified long-term plans must be audited by the Auditor-General, or by an auditor acting on behalf of the Auditor-General.

The Auditor-General is the auditor of Watercare's financial statements. The Auditor-General has appointed Andrew Burgess, using the staff and resources of Deloitte, to undertake the external audit work on behalf of the Auditor-General, in accordance with the Auditor-General's Audit Standards, which incorporate New Zealand Auditing Standards. Deloitte must satisfy the independence requirements of the Auditor-General and External Reporting Board.

Appendix C

Our performance measures

Service Level Statement	Measure	2015/16 Actual	2016/17 Target	2017/18	2018/19	2019/20
Provide uninterrupted access to safe, clean and drinkable water.	The extent to which Watercare's drinking water supply complies with Part 4 of the Drinking Water Standards New Zealand (bacteria compliance criteria)	100%	100%	100%	100%	100%
	The extent to which Watercare's drinking water supply complies with Part 5 of the Drinking Water Standards New Zealand (protozoal compliance criteria)	100%	100%	100%	100%	100%
	Median response time for attendance for urgent call-outs: from the time that Watercare receives notification to the time that service personnel reach the site	44 mins	≤60 mins	≤60 mins	≤60 mins	≤60 mins
	Median response time for resolution of urgent calls-outs: from the time that Watercare receives notification to the time that service personnel confirm resolution of the fault or interruption	3.1 hours	≤5 hours	≤5 hours	≤5 hours	≤5 hours
	Median response time for attendance for non-urgent call-outs: from the time that Watercare receives notification to the time that service personnel reach the site	3 days	≤3 days	≤3 days	≤3 days	≤3 days
	Median response time for resolution of non-urgent call-outs: from the time that Watercare receives notification to the time that service personnel confirm resolution of the fault or interruption	4.3 days	≤6 days	≤6 days	≤6 days	≤6 days
	The total number of complaints received by Watercare 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; and f) Watercare's response to any of these issues; expressed per 1000 connections to the local authority's networked reticulation system	5.6	≤10	≤10	≤10	≤10
	The percentage of real water loss from Watercare's networked reticulation system	12.94%	≤13%	≤13%	≤13%	≤13%
	The average consumption of drinking water per day per resident	272.05	270 +/- 2.5%	268	266	264
Provide reliable wastewater services and manage discharges to maintain or improve the health of the environment	The number of dry-weather overflows from Watercare's sewerage system, expresed per 1000 sewerage connections to that sewerage system	0.45	≤10	≤10	≤10	≤10
	Compliance with the Watercare'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 Watercare in relation to those resource consents	a) 0 b) 0 c) 0 d) 0	a) ≤2 b) ≤2 c) ≤2 d) 0			
	Attendance at sewerage overflows resulting from blockages or other faults: median response time for attendance – from the time that Watercare receives notification to the time that service personnel reach the site	46 mins	≤60 mins	≤60 mins	≤60 mins	≤60 mins
	Attendance at sewerage overflows resulting from blockages or other faults: median response time for resolution – from the time that Watercare receives notification to the time that service personnel confirm resolution of the blockage or other fault	2.9 hours	≤5 hours	≤5 hours	≤5 hours	≤5 hours
	The total number of complaints received by Watercare about any of the following: a) sewerage odour; b) sewerage system faults; c) sewerage system blockages; and d) Watercare's response to issues with its sewerage system; expressed per 1000 connections to the Watercare's sewerage system	20.8	≤50	≤50	≤50	≤50
	Average number of wet-weather overflows per engineered overflow point per discharge location in the transmission system	0.69	≤2 over-flows per year			

Our performance measures *continued*

Service Level Statement	Measure	2015/16 Actual	2016/17 Target	2017/18	2018/19	2019/20
Health, Safety and Well-being	Lost-time injury frequency rate per million hours worked	1.92	≤5	≤5	≤5	≤5
	Total recordable injury frequency rate per million hours worked	23.02	≤20	≤20	≤20	≤20
	Percentage of voluntary leavers relative to number of permanent staff	12.9%	≤12%	≤12%	≤12%	≤12%
Customer Satisfaction	Percentage of customers surveyed satisfied with Watercare's delivery of water and wastewater services	83.7%	≥80%	≥80%	≥80%	≥80%
	Percentage of complaints 'resolved and closed' within 10 working days	93.5%	≥95%	≥95%	≥95%	≥95%
	Percentage of the 19 Iwi groups throughout Auckland that Watercare have entered into a Memorandum of Understanding with	New measure	60%	75%	85%	85%
Financial	Minimum funds flow from operations to interest cover (FFO) before any price adjustment	3.71	≥2.5	≥2.5	≥2.5	≥2.5
	Percentage of household expenditure on water supply services relative to the average household income	0.86%	≤1.5%	≤1.5%	≤1.5%	≤1.5%

Watercare Services Limited

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