

WATERCARE SERVICES LIMITED

AGENDA | Board meeting | 13/12/2016

Venue	Watercare Services Limited, 73 Remuera Road, Newmarket
Time	10:30am

Open Public Meeting

Item	Spokesperson	Action sought at governance meeting	Supporting Material
1. Apologies	Chair	<ul style="list-style-type: none"> Record Apologies 	
2. Minutes of Meeting	Chair	<ul style="list-style-type: none"> Approve Board Meeting Minutes 14 November 2016 	Minutes 14 November 2016
3. Directors' Corporate Governance Items	Chair	<ul style="list-style-type: none"> Corporate Planner and Work Plan Review Disclosure of Interests (Directors & Executive Management) 	Corporate Planner and Work Plan Disclosure of Interests
4. Chief Executive's Report and Scorecard	R Jaduram	<ul style="list-style-type: none"> Receive report 	Chief Executive's Report
5. Audit Engagement Letter	B Monk	<ul style="list-style-type: none"> For approval and signature 	Audit Engagement Letter
6. General Business	Chair		

Date of next Meeting – 26 January 2017

Location – Watercare Newmarket, 73 Remuera Road, Newmarket

MINUTES

SUBJECT	WATERCARE SERVICES BOARD MEETING
VENUE	Watercare Services Limited, 73 Remuera Road, Remuera, Auckland
DATE	14 November 2016
TIME	10:30am convened and adjourned, reconvened at 12.30pm
STATUS	Open Session

	Present:	In Attendance:	Public in Attendance:
	M Devlin (Chair) J Hoare (Deputy Chair) N Crauford C Harland T Lanigan B Green I Cronin-Knight (Board Observer)	R Jaduram (Chief Executive) M Bridge M Smith R Chenery R Fisher A Miller B Monk S Webster S Morgan S Cunis	None
1.	Apologies: <ul style="list-style-type: none"> D Thomas 		
2.	Minutes of Previous Meeting <ul style="list-style-type: none"> The Board resolved that the Minutes of the public section of the Board meeting held on 18 October 2016 at 11:00 be confirmed as correct subject to correcting the Apologies noted. Matters Arising <p>The Board sought confirmation that a response had been provided to Ms Fisher in respect of the issues she had raised. Management confirmed that a written response had been made to Ms Fisher.</p>		
3.	Directors Corporate Governance Items <ul style="list-style-type: none"> Corporate Planner and Work Plan 2016 The corporate planner and work plan was noted. <p>Management were requested to schedule the meetings for the Remuneration and Appointments Committee. Also the meetings of the Capital Projects Working Group will be scheduled ahead of Board meetings to aid reporting.</p> <ul style="list-style-type: none"> Disclosure of Interests The Reports on the Disclosures of Interest were reviewed. <p>There were no conflicts of interest in respect of matters being discussed at the Board meeting.</p>		
4.	Chief Executive's Report and Scorecard <ul style="list-style-type: none"> Health & Safety The Board noted there were no lost time injuries relating to Watercare employees during October. The rolling 12 month lost time injury frequency rate (LTIFR) is 0.25 against the stated KPI of a maximum of 1.0 per 200,000 hours. Customer Focus Marlon Bridge advised that for each of the past three months there had been 100% resolution of complaints within the target 10 working days. The rolling 12 month average of 92.9% is slightly behind the target of 95%. 		

	<p>This is because there was a delay in resolving some complex complaints in February and a spike in complaints in April. The complaints were resolved promptly but just beyond the 10 working days.</p> <ul style="list-style-type: none"> • Strategic Consents <p>Management were requested to include more detail on the key stakeholders in future reports, including Iwi who have an interest in the strategic consents being sought.</p> <ul style="list-style-type: none"> • Finance <p>Brian Monk spoke to the report. Year to date there is a favourable variance to budget of \$11.9m, partly because IGC revenue is ahead of budget due to increased building activity. Water volumes are 1.1% ahead of budget and revenue is also up. Management will review the reasons for this, the Board noting there has been significant growth in population in Auckland. Operating expenses are \$3.8m favourable to budget with favourable variances for asset operating costs, professional services and general overheads.</p> <p>The Board received assurances that all restrictions were undertaken in strict accordance with the legislation and that the restricted water supplies complied with Ministry of Health requirements.</p> <ul style="list-style-type: none"> • Communications <p>The Board noted with approval the favourable media relating to different elements of the company's business.</p> <p>Catherine Harland reported on very favourable comments received from a member of the public in respect to the Watercare Coastal Walkway at Mangere</p> <p>Marlon Bridge advised that in the event of a customer's water usage exceeding the previous month by 30%, an automated notice is generated advising customers of the increased water usage. This is followed up by a phone call to the customer.</p>
5.	<p>Audit and Risk Committee Update</p> <ul style="list-style-type: none"> • Julia Hoare, Chair of the Audit and Risk Committee, reported on the Committee meeting at the end of October. • In respect to the Holidays Act, EY have been assisting Watercare resolve the issue. EY advised that Watercare is well advanced on the issue compared to most large entities. They noted they had been instructed by Auckland Council who were able to follow the lead given by Watercare. • There had been a session on internal audit and the members of the Committee are comfortable with the approach being taken by management and that there are sufficient resources being applied. • Management are in the process of gathering data to assist the move to integrated reporting. • Redrafts of the Board charters will be available in the first quarter of 2017. • Management are negotiating the fees of the Auditors.
6.	<p>Confirmation of Board Sub-Committee Membership</p> <ul style="list-style-type: none"> • Membership of the Board sub-committees are confirmed as: <p><u>Audit and Risk Committee:</u> Julia Hoare (Chair) Margaret Devlin Catherine Harland David Thomas</p> <p><u>Capital Projects Review Group:</u> Tony Lanigan (Chair) Margaret Devlin Nicki Crauford Brendon Green</p> <p><u>Remuneration and Appointments Committee:</u> Catherine Harland (Chair) Margaret Devlin Julia Hoare David Thomas</p>

	The Chair advised that the Board Observer, Ingrid Cronin-Knight has a standing invitation to join meetings of the Committees.
7.	<p>Customer Focus</p> <ul style="list-style-type: none"> • The Board received a detailed presentation from Katherine Walker-Mead. <p>A significant number of customer focus projects have been completed. These include:</p> <ul style="list-style-type: none"> • A new customer contract • PushPay • Xero integration • Completion of the 3-year transition for non-domestic customers to a standardised tariff • Phase 2 of Voice of the Customer <ul style="list-style-type: none"> • The Net Promoter Score (NPS) has a range of minus 100 to plus 100. Watercare is currently at plus 28% with a steady improvement occurring. A typical score for other utilities is in the range of minus 12 to plus 15. • The NPS shows the service component is considerably higher than the overall experience, accordingly increased emphasis is being placed on the business processes. • Customers are at the heart of all Watercare does and the company is now surveying 4,000 customers each month compared to previously 400 customers per quarter. • A new website is in the course of development. • A solicitors' portal has been developed. • Four telephony systems have been integrated into one, saving \$500,000 per annum and providing greater functionality. • The smart metering trial at Waiuku has shown a significant number of leaks and subsequent repairs have shown a 22% reduction in water usage.
8.	<p>Technical Presentation: Technology Solutions for Non-Metropolitan Wastewater Treatment Plants</p> <ul style="list-style-type: none"> • The Board received a detailed presentation from Shayne Morgan on the technology solutions for Non-Metropolitan Wastewater Treatment Plants. • The Board received the presentation.
9.	<p>General Business</p> <ul style="list-style-type: none"> • There was no general business. • The meeting was closed at 1.30pm.

CERTIFIED AS A TRUE AND CORRECT RECORD

Margaret Devlin
Chair

WATERCARE BOARD PLANNER 2016

	2016											
	January	February	March	April	May	June	July	August	September	October	November	December
Board Meeting		3 Feb Newmarket	3 March - Workshop Newmarket 1 April Rosedale WWTP	20 April Newmarket	24 May Newmarket*	27 June Newmarket	1 August Newmarket	31 Aug Newmarket	29 Sept Newmarket	18 Oct Newmarket*	14 November Newmarket	13 December Newmarket
Health and Safety Committee Workshops			14 March Newmarket			28 June Ardmore WTP 2pm		26 August Newmarket 11am			1 November Mangere WWTP	
Health and Safety Site Visits			1 April Rosedale WWTP			28 June Ardmore WTP		26 August Hunua 4			1 November Mangere WWTP BNR Project	
Audit and Risk Committee Meeting		3 Feb Newmarket (before Board meeting)			5 May Newmarket		^1 August Newmarket (before Board meeting)	22 Aug Newmarket		28 October Newmarket		
Capital Projects Working Group		3 Feb Newmarket (after Board meeting)			23 May Newmarket			31 Aug Newmarket (after Board meeting)	23 May Newmarket		14 Nov Newmarket (after Board meeting)	
Remuneration and Appointments Committee		5 Feb Newmarket		20 April Newmarket (before Board meeting)		27 June Newmarket (before Board meeting)		24 August Newmarket 4 - 6pm		18 October Newmarket (before Board meeting)		
Statement of Intent		Approval of Draft 2016-2019 SOI	1 March Draft SOI to shareholder		Present shareholder SOI feedback at public meeting	Final 2016-2019 SOI issued to shareholder						2017/18 Letter of Expectation to be received
Shareholder Interaction			1 March - Quarterly Briefing to CCO Governance & Monitoring Committee		31 May 2016 - Replaces quarterly briefing				6 Sept - Quarterly Briefing to CCO Governance & Monitoring Committee		11 Nov Q1 report due to CCO Governance and Monitoring Committee	
Key Finance Decisions						27 June Approval of 2016/17 Budget						
Other		Qtr Statutory Compliance Reporting		Qtr Statutory Compliance Reporting			Qtr Statutory Compliance Reporting			Qtr Statutory Compliance Reporting		

* Statutory public Board meeting - deputations invited

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

WATERCARE BOARD PLANNER 2017

	2017											
	January	February	March	April	May	June	July	August	September	October	November	December
Board Meeting	26 Jan [^]	1 March Newmarket	27 March Newmarket	20 April Newmarket	30 May Newmarket*	28 June Newmarket	31 July Newmarket	29 Aug Newmarket	21 Sept Newmarket	26 Oct Newmarket*	28 November Newmarket	20 December Newmarket
Health and Safety Site Visits												
Audit and Risk Committee Meeting	26 Jan (before Board meeting)				To be confirmed		[^] 31 July Newmarket (before Board meeting)	18 Aug Newmarket			To be confirmed	
Capital Projects Working Group		To be confirmed			10 May			9 August			To be confirmed	
Remuneration and Appointments Committee	26 Jan (after Board meeting)			20 April (after Board meeting)		14 June (to be confirmed)		29 August (before Board meeting)		26 October (before Board meeting)		
Statement of Intent		Approval of Draft 2017-2020 SOI	1 March Draft SOI to shareholder		Present shareholder SOI feedback at public meeting	Final 2017-2020 SOI issued to shareholder						2018/19 Letter of Expectation to be received
Shareholder Interaction			1 March (tbc) - Quarterly Briefing to CCO Governance & Monitoring Committee		12 May 2016 - Quarterly report due				5 Sept (tbc) - Quarterly Briefing to CCO Governance & Monitoring Committee			
Key Finance Decisions						28 June Approval of 2017/18 Budget						
Other		Qtr Statutory Compliance Reporting		Qtr Statutory Compliance Reporting				Qtr Statutory Compliance Reporting			Qtr Statutory Compliance Reporting	

* Statutory public Board meeting - deputations invited
[^] Extraordinary Audit & Risk and Board Meeting to meet shareholder half year and annual report timeline

Board Work Plan 2016

	February	March	April	May	June	July	August	September	October	November	December	
Board Meeting Date	3-Feb	3-Mar (Workshop)	1-Apr	20-Apr	24-May	27-Jun	1-Aug	31-Aug	29-Sep	18-Oct	14-Nov	13-Dec
Governance	Charter Reviews										a) Review of Corporate Governance Charter and Committee Charters, b) Audit & Risk Charter Annual Review (Audit & Risk)	
	Policy Reviews			Treasury Policy Review								
	Delegations										Annual Review of Board Delegations to CE	
	Risk Reviews				Technology - Control and business systems cyber intrusion	Health and Safety - Process safety (loss of containment, fire and explosion) at major facilities	Quarterly risk report	Health and Safety - Significant operational hazards (confined spaces, working with vehicles and plant)	Service Delivery - Water sources / treatment capacity to meet water yield / 3 day peak demand	Quarterly risk report	People - Failure to attract and retain sufficient skilled and qualified resources	
	Compliance	Statutory Compliance Reporting			Statutory Compliance Reporting			Statutory Compliance Reporting		Statutory Compliance Reporting		
	Shareholder Interaction	CCO Quarterly Reporting				CCO Quarterly Reporting		CCO Quarterly Reporting				
	Board Performance											
Board Education	Board Training & Development											
	Technical Presentations					Wastewater: Digestors and Thermal Hydrolysis		Water: Waikato Water Treatment Plant and Huia Sludge Improvements	Wastewater: Energy Neutrality	Wastewater: Technology Solutions for Non-Metropolitan Wastewater Treatment Plants		
Business Strategy	Strategic Planning		Refresh Strategic Framework			2016/17 Business Plan						
	Strategic Programme Updates			Programme Update: Non-Revenue Water		Programme Update: Customer Focus	Programme Update: Business Excellence / People & Capability	Programme Update: Financial Responsibility		Programme Update: Customer Focus		
Business Planning	Key Finance Decisions	Final financial projections for draft Auckland Council 2016/2017 Annual Plan				Approve 2016/2017 budget	Approve year end accounts (Council Pack)	Approve Annual Report				
	Statement of Intent	Approve Draft 2016-19 SOI	Draft SOI submitted to Auckland Council by 1 March		Feedback on Draft SOI received from Auckland Council by 30 April	Approve final 2016-19 SOI for submission to Auckland Council		Auckland Council formally adopts draft SOI				
	Business Planning Approvals									Approve 2017 Internal Audit Plan	Approve 2017 Insurance Programme Approach	
	Major Capex Project Approvals	Details to follow										

Report to the Board of Watercare Services Limited

Subject: Disclosure of Interests

Date: 6 December 2016

Section 140 of the Companies Act 1993 requires disclosure of interests of a director to the Board.

Set out below are the disclosures of interests received as at the date of this report.

Director	Interest
Margaret Devlin	<ul style="list-style-type: none"> – Chairman, Harrison Grierson Limited – Chairman, WEL Networks – Director, City Care Limited – Director, Meteorological Services of NZ – Director, Waikato Regional Airport – Director, IT Partners Group – Independent Chair of Audit and Risk Committee, Waikato District Council
Catherine Harland	<ul style="list-style-type: none"> – Director, McHar Investments Ltd – Director, Interface Partners Ltd – Trustee, One Tree Hill Jubilee Educational Trust – Member, Auckland Regional Amenities Funding Board – Member, Water Allocation Technical Advisory Group
Tony Lanigan	<ul style="list-style-type: none"> – Director and Shareholder, A G Lanigan & Associates (2007) Limited – Director, Habitat for Humanity New Zealand Limited – Director and Shareholder, Lanigan Trustee Limited – Director and Chair, New Zealand Housing Foundation Limited – Director, Tamaki Makaurau Community Housing Limited – Member, Ministry of Health Hospital Redevelopment Partnership Group for Canterbury – Member, Ministry of Health Southern Partnership
Julia Hoare	<ul style="list-style-type: none"> – Director, AWF Madison Group Limited – Director, New Zealand Post Limited – Deputy Chairman, The A2 Milk Company Limited – Director, Port of Tauranga Limited – Member, Auckland Committee, Institute of Directors – Member, Advisory Panel to External Reporting Board – Member, Institute of Directors National Council
Nicola Crauford	<ul style="list-style-type: none"> – Director, Environmental Protection Authority – Member of Electoral Authority - Cooperative Bank Limited – Senior Consultant - WorleyParsons New Zealand Ltd – Director and Shareholder - Riposte Consulting Limited – Director and Shareholder - Martin Crauford Limited – Director, Wellington Water Limited – Director, Orion New Zealand Limited – Member, Local Government Risk Management Agency Establishment Board – Chairman, GNS Science International Limited – Deputy Chairman, Fire Services Commission

David Thomas	<ul style="list-style-type: none"> - Chairman, Ngati Whakaue Tribal Lands Inc - Chairman, Gypsum Board Manufacturers of Australasia - Shareholder / Employee, Fletcher Building Limited - Director, New Zealand Ceiling & Drywall Supplies Limited - Director, Fanalco Limited
Brendon Green	<ul style="list-style-type: none"> - Director, Kaitiaki Advisory Limited - Director, Tainui Kawhia Incorporation - Executive Director, Bay Dairy Limited - Executive Director, Advanced Biotech NZ - Executive, Te Runanganui o Ngati Hikairo - Contract with Mercury for stakeholder management of greenfield geothermal developments

RECOMMENDATION

That the report be received.

Approved by:



R Jaduram
Chief Executive

Report to the Board of Watercare Services Limited

Subject: Disclosure of Interests – Executive Management

Date: 6 December 2016

<i>Executive</i>	<i>Interest</i>
Raveen Jaduram	Trustee - Te Motu a Hiaroa (Puketutu Island) Governance Trust Steering Committee Member – Business Leaders' Health and Safety Forum Chair - Centre for Infrastructure Research at University of Auckland
Rob Fisher	Deputy Chairman - Middlemore Foundation President - Auckland University Rugby Football Club Trustee - Watercare Harbour Clean Up Trust Trustee - Te Motu a Hiaroa (Puketutu Island) Governance Trust
Brian Monk	Deputy Chairman - MIT Chairman Audit and Compliance Committee - MIT Trustee - Watercare Harbour Clean Up Trust Trustee - Te Motu a Hiaroa (Puketutu Island) Governance Trust Director – EnterpriseMIT Ltd
Steve Webster	Director – Howick Swimgym Limited
Marlon Bridge	Trustee - Te Motu a Hiaroa (Puketutu Island) Governance Trust
Martin Smith	Director – Heatley Smith Limited
Shayne Cunis	Board Member – Water New Zealand
David Hawkins	Nil
Adrienne Miller	Nil
David Sellars	Nil
Rebecca Chenery	Nil

RECOMMENDATION

That the report be received.

Approved by:



R Jaduram
Chief Executive

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

WATERCARE SCORECARD 2016/17																						
On budget, on time, within		Unfavourable but within parameter:		Major issue, needs attention		SOI	2016/17 Target	Amber Threshold	Red Threshold	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16
1 Safe and Reliable Water																						
1a	The extent to which the local authority's drinking water supply complies with part 4 of the drinking-water standards (bacteria compliance criteria)	☑	100%	n/a	<100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
1b	The extent to which the local authority's drinking water supply complies with part 5 of the drinking-water standards (protozoal compliance criteria)	☑	100%	n/a	<100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
1c	Percentage compliance with MoH drinking water standards		100%	n/a	<100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
1d	Percentage of metropolitan water treatment plants achieving Grade A (annual measure)		100%	n/a	<100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
1e	Percentage of metropolitan water supply reticulation achieving Grade A (annual measure)		100%	n/a	<100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
1f	Percentage of non-metropolitan water treatment plants achieving Grade A (annual measure)		50%	n/a	<45%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
1g	Percentage of non-metropolitan water supply reticulation achieving Grade A (annual measure)		50%	n/a	<25%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
1h	Percentage of unplanned water shutdowns restored within five hours (12 mth rolling average)		≥95%	93% to <95%	<93%	96%	96%	96%	96%	95%	95%	95%	95%	95%	95%	95%	95%	95%	94%	94%	94%	94%
1i	Number of unplanned water interruptions per 1000 connected properties (12 mth rolling average)		≤10	>10 to 12	>12	5.6	5.5	5.4	5.4	4.9	4.8	4.7	4.6	4.5	4.6	4.5	4.6	4.7	4.8	4.8	5.0	
1j	Unrestricted demand - metropolitan		Unrestricted	Subjective	Restrictions apply	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted
1k	Unrestricted demand - non-metropolitan		Unrestricted	Subjective	Restrictions apply	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted
2 Healthy Waterways																						
2a	Number of dry weather sewer overflows per 100km of wastewater pipe length per year (12 mth rolling average)		≤5	>5 to 7	>7	1.99	1.99	2.14	2.21	2.16	2.16	2.20	2.29	2.26	2.26	2.26	2.26	1.99	1.86			
2b	Average number of wet weather overflows per discharge location	☑	≤2 overflows per year per engineered overflow point	Low risk non-compliance	High risk non-compliance							0.69	Projected	Projected	Projected	Projected	Projected	Projected				
2c	The number of dry weather overflows from the territorial authority's sewerage system, expressed per 1000 sewerage connections to that sewerage system	☑	≤10	>10 - ≤15	>15	0.05	0.05	0.03	0.03	0.03	0.03	0.04	0.4	0.4	0.4	0.4	0.3	0.3				
2d	Compliance with the territorial authority's resource consents for discharge from its sewerage system measured by the number of: a) abatement notices b) infringement notices c) enforcement orders d) convictions received by the territorial authority in relation to those resource consents	☑	a) ≤2 b) ≤2 c) ≤2 d) ≤2	n/a	>2 (for any)	0	0	0	0	0	0	0	0	0	0	0	0	0				
2e	Number of sewer bursts and chokes per 1000 properties (12 mth rolling average)		≤10	>10 to ≤12	>12	6.70	6.60	6.50	6.30	6.40	6.40	6.00	5.80	6.10	6.40	6.60	6.80	6.90				
2f	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%				
2g	Percentage of wastewater discharged that is compliant with consent discharge requirements for non-metropolitan areas		35%	n/a	<35%	88%	88%	88%	89%	88%	88%	88%	89%	94%	90%	87%	85%					
3 Customer Satisfaction																						
3a	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	>60 - ≤90 mins	>90 mins	36 mins	37 mins	37 mins	39 mins	41 mins	42 mins	43 mins	44 mins	44 mins	43 mins	43 mins	43 mins	42 mins				
3b	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	>5 - ≤8 hours	>8 hours	1.7 hours	1.8 hours	1.9 hours	2.1 hours	2.4 hours	2.7 hours	2.8 hours	3.0 hours	3.0 hours	3.2 hours	3.2 hours	3.2 hours					
3c	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	>3 - ≤5 days	>5 days	1.9 days	2.1 days	2.1 days	2.2 days	2.6 days	2.8 days	2.9 days	3.0 days	3.0 days	2.9 days	2.9 days	2.7 days					
3d	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	>6 - ≤8 days	>8 days	3.0 days	3.1 days	3.1 days	3.2 days	3.6 days	3.9 days	4.1 days	4.8 days	4.3 days	4.3 days	4.4 days	4.2 days					
3e	Percentage of customers surveyed satisfied with Watercare's delivery of water and wastewater services	☑	≥80%	≥75% to <80%	<75%	85.1%	85.0%	84.8%	84.7%	84.9%	84.4%	84.4%	84.2%	84.3%	80.8%	80.9%	81.4%					
3f	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	☑	≤10	>10 - ≤15	>15	6.5	6.3	6.0	5.8	5.7	5.6	5.6	5.6	5.6	5.6	5.6	5.6					
3g	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	>60 - ≤90 mins	>90 mins	41 mins	42 mins	42 mins	42 mins	44 mins	44 mins	45 mins	46 mins	47 mins	47 mins	48 mins	48 mins					
3h	Attendance at sewerage overflows resulting from blockages or other faults: median response time for resolution - from the time that the territorial authority receives notification to the time that service personnel confirm resolution of the blockage or other fault	☑	≤5 hours	>5 - ≤8 hours	>8 hours	2.4 hours	2.4 hours	2.4 hours	2.5 hours	2.7 hours	2.7 hours	2.8 hours	2.9 hours	2.9 hours	2.9 hours	3.0 hours	3.0 hours					
3i	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	>50 - ≤75	>75	20.8	20.8	20.8	20.8	20.8	20.9	21.1	20.8	21.3	21.7	21.7	21.8					
3j	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	4.60	4.40	4.10	3.90	3.80	3.80	3.70	3.70	3.60	3.64	3.32	3.31					
3k	Percentage of complaints being 'closed and resolved' within 10 working days (12 mth rolling average)	☑	≥95%	≥90% to <95%	<90%	97.4%	97.1%	96.8%	97.0%	96.2%	95.6%	95.1%	93.50%	92.80%	92.20%	92.90%	92.90%					
3l	Percentage of the 19 lwi groups throughout Auckland that Watercare have entered into a Memorandum of Understanding with (target for end of FY16/17)	☑	≥60%											15.70%	15.70%	15.70%	15.70%					

4

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

WATERCARE SCORECARD 2016/17																						
On budget, on time, within		Unfavourable but within parameter:		Major issue, needs attention		SOI	2016/17 Target	Amber Threshold	Red Threshold	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16
4 Health, Safety and Wellbeing																						
4a	Lost-time injury frequency rate per million hours worked (12 month rolling average)	<input checked="" type="checkbox"/>	≤5	5 - 7	>7		3.55	2.99	3.03	3.06	3.73	3.75	2.51	1.92	1.9	1.25	1.25	1.25	1.25	1.25	1.25	1.26
4b	Percentage of total hours absent due to illness (12 mth rolling average)		≤2.5%	>2.5 to 3.5%	>3.5%		2.15%	2.16%	2.14%	2.12%	2.12%	2.11%	2.14%	2.18%	2.19%	2.15%	2.18%	2.18%	2.19%	2.19%	2.19%	1.97%
4c	Percentage of voluntary leavers relative to number of permanent staff (12 mth rolling average)	<input checked="" type="checkbox"/>	≤12%	>12 to 14%	>14%		11.72%	12.30%	12.01%	12.45%	11.92%	12.32%	12.74%	12.92%	12.15%	12.54%	12.18%	11.19%	10.66%			
4d	Total recordable injury frequency rate per million hours worked (12 month rolling average)	<input checked="" type="checkbox"/>	<30	>30 to <33	>33		17.05	15.53	15.73	15.90	18.02	16.90	14.42	23.02	23.48	22.85	18.35	16.94	14.45			
5 Financial Responsibility																						
5a	Minimum funds flow from operations to interest cover (FFO) before any price adjustment	<input checked="" type="checkbox"/>	≥2.5	2.4 to <2.5	<2.4		3.56	3.63	3.71	3.65	3.69	3.69	3.71	3.71	3.89	3.94	3.92	3.91	3.98			
5b	Percentage of household expenditure on water supply services relative to the average household income	<input checked="" type="checkbox"/>	≤1.5%	1.2 to <1.5	>1.5		0.84%	0.84%	0.85%	0.85%	0.85%	0.85%	0.86%	0.86%	0.86%	0.87%	0.87%	0.87%	0.87%	0.87%	0.87%	0.87%
5c	Water & wastewater revenue against budget YTD %		≥100%	≥98% to <100%	<98%		102%	102%	102%	102%	102%	102%	102%	102%	101%	101%	101%	101%	101%	101%	100%	100%
5d	Infrastructure growth charge revenue against budget YTD %		≥100%	≥95% to <100%	<95%		91%	94%	103%	105%	104%	102%	105%	108%	115%	125%	113%	110%	116%			
5e	Controllable costs against budget YTD %		≤100%	>100 to ≤102%	>102%		94%	95%	94%	95%	95%	95%	97%	99%	94%	97%	95%	95%	94%			
5f	Total contribution against budget YTD (\$ millions)		+	-\$0.1m to -\$2m	> -\$2m		18.62	22.06	30.99	30.11	31.35	33.40	35.65	37.55	4.80	6.84	7.88	11.86	15.86			
5g	Net surplus / deficit before tax against budget YTD (\$ millions)		+	-\$0.1m to -\$2m	> -\$2m		-20.52	4.06	-24.71	-64.68	-73.74	-73.92	-77.60	-108.02	-21.05	-23.37	-15.53	36.58	92.07			
5h	Total net borrowing against budget YTD (\$ millions)		Negative	\$0.1m to \$10m	> \$10m		-46.10	-51.30	-52.70	-72.00	-89.10	-92.70	-105.30	-92.00	10.60	14.70	9.80	6.70	4.10			
6 Fully Sustainable																						
6a	The average consumption of drinking water per day per resident (gross PCC) (12 month rolling average)	<input checked="" type="checkbox"/>	270 + / - 2.5%				272	273	272	272	272	272	273	272	272	273	273	273	273	273	272	272
6b	Per capita consumption (litres / person / day) - Residential Monthly PCC		Information only				161	165	168	169	164	158	155	153	151	152	152	152	152	152	152	152
6c	Non-Domestic Monthly Water Volume		Information only				3,134,161	3,191,872	3,174,802	3,244,017	3,305,826	3,081,359	3,137,157	2,970,236	2,910,688	2,911,727	2,906,628					
6d	Non-Revenue Water Percentage		Information only				16.7%	17.0%	16.7%	16.9%	16.7%	16.6%	16.6%	16.6%	16.8%	16.9%	17.0%					
6e	The percentage of real water loss from the local authority's networked reticulation system (rolling 12 mth average)	<input checked="" type="checkbox"/>	≤13%	>13 to 13.2%	>13.2		12.7%	13.0%	12.7%	12.8%	12.8%	12.9%	13.0%	13.0%	13.20%	13.30%	13.30%					
6f	Percentage of annual potable water transmission system losses (12 month rolling average)		No specific target - information only				1.8%	1.8%	1.7%	1.8%	1.8%	1.9%	2.0%	2.0%	2.1%	2.2%	2.2%	2.3%	1.9%			
6g	Percentage of annual potable water network losses (12 mth rolling average) - Urban as a percentage of total volume		No specific target - information only				10.5%	10.8%	10.6%	10.6%	10.6%	10.7%	10.6%	10.6%	10.7%	10.8%	10.7%	Results to be reported when actual meter readings are available				
6h	Percentage of annual potable water network losses (12 mth rolling average) - Rural as a percentage of total volume		No specific target - information only				0.42%	0.42%	0.41%	0.42%	0.40%	0.39%	0.38%	0.37%	0.36%	0.35%	0.35%					
6i	Percentage of annual potable water network losses (12 mth rolling average) - Rural as a percentage of rural volume		No specific target - information only				26.5%	26.7%	26.4%	26.5%	25.7%	25.0%	25.0%	24.9%	24.3%	24.0%	23.6%					
7 Policy Compliance																						
7a	Compliance with Treasury Policy		Within policy	Planned outside policy	Unplanned outside policy		Within policy	Within policy	Within policy	Within policy	Within policy	Within policy	Within policy	Within policy	Within policy	Within policy	Within policy	Within policy	Within policy	Within policy	Within policy	Within policy

4

Watercare Services Limited

Subject: Chief Executive Report – November 2016

Date: 6 December 2016

1. HEALTH AND SAFETY

There were no lost-time injuries related to Watercare employees during November. The rolling 12 month lost-time injury frequency rate (LTIFR) is 1.26 per million hours, below the target maximum of 5.

The total recordable injury frequency rate (TRIFR) is 14.4 per million hours.

Safety Leadership Award

The safety culture developed and promoted by the Fulton Hogan John Holland Joint Venture (FHJHJV) on the Hunua 4 project was recognised by the industry at the Site Safe awards in November with FHJHJV being awarded the Kensington Swan Safety Leadership Award. The judges commended the team for their dedication to creating a strong safety culture on the Hunua 4 Watermain project, where they fostered a zero-harm culture with a number of initiatives including individual start cards, a spotter competency programme and the establishment of the "Golden Rules".

2. CUSTOMER FOCUS

Performance against Statement of Intent measures for November was good with all customer service performance metrics above target for the month, except complaints resolution. The rolling 12 month average result for resolution of complaints within 10 working days was 93.9% against a target of 95%. Although Watercare did not meet the rolling 12 month target, 100% of complaints were resolved within 10 working days over the past three months.

Customer satisfaction in November was 83.6% for the previous 12 months. The rolling 12 month average for customer satisfaction is above the 80% target for all three areas.

Trend of complaints

Watercare continues to see a decrease in the number of complaints from customers. This is primarily due to customer calls being managed through specialist teams as Watercare no longer operates a general call centre. Customer surveys have consistently suggested that customers wish to speak to informed and knowledgeable staff who understand their issues in the context of the services provided. Resolution via specialist teams has demonstrated that customer issues are solved in a more timely and efficient manner.

The focus on addressing all complaints through root cause analysis, and the implementation of business improvements and staff training to address issues highlighted have reduced the number of complaints by more than 55% in the two prior years.



3. INFRASTRUCTURE PROGRAMME

The infrastructure capital programme has delivered year to date \$124m against a budget of \$131m. The forecast to year end is to deliver \$283m against a budget of \$302m.

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

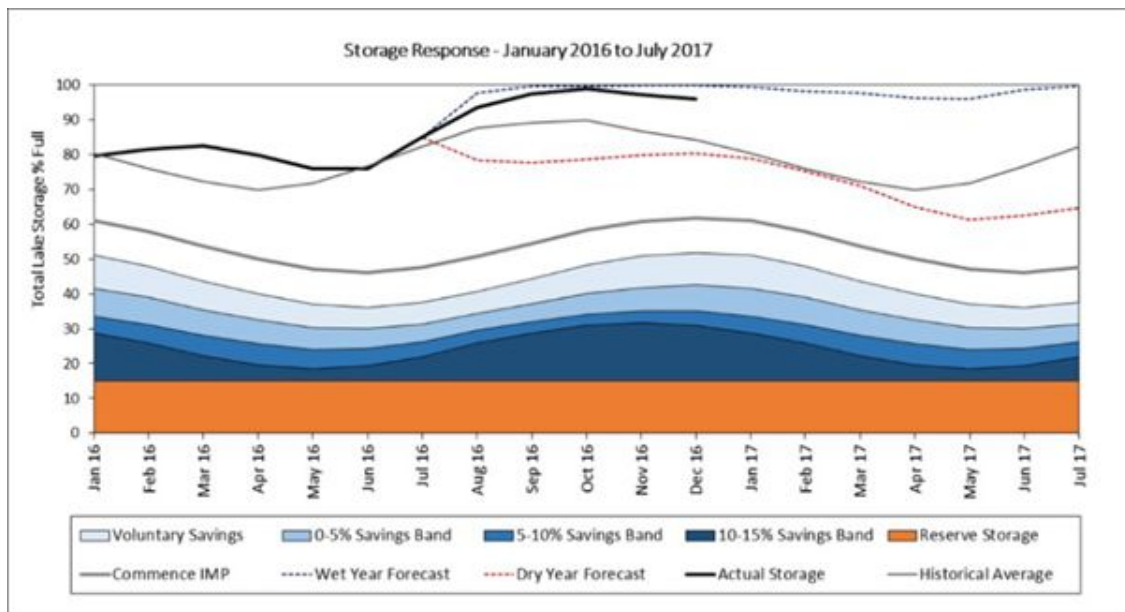
4. SERVICE DELIVERY

Rainfall and Water Resources

Rainfall in November was well above average across the Auckland region.

Waitakere Ranges	106% of average
Hunua Ranges	115% of average
Northern Non-metropolitan	121% of average
Southern Non-metropolitan	134% of average

Metropolitan Total System Storage at month end was 95.6%, which is above the historical average storage for this time of year (83.7%).



Water demand during November was slightly below budgeted levels (-0.4%), which is attributable to the above average rainfall. However, year to date water demand is above budgeted levels (2.0%), with the Franklin, Auckland City and Manukau areas having the highest levels of increased demand.

Huia Water Treatment Plant Capacity Restoration

The sustainable capacity of the Huia Water Treatment Plant has been increased from 65MLD to 90MLD following the installation and commissioning of the two new centrifuges in the solids handling process. The Water Treatment Plant is also capable of operating at peak flows of 110MLD. Further process works are underway to increase the sustainable capacity of the Water Treatment Plant to 110MLD and a peak capacity of 126MLD and are on programme to be completed by August 2017. This increase in capacity will allow greater resilience of the overall metropolitan water treatment plants and greater abstraction from the Huia supply lakes.

Sewer Blockages due to Fats, Oil and Grease Discharges from Industry

There were two prominent wastewater overflows as a result of sewer blockages resulting from an accumulation of fat that had been discharged from adjacent food premises. The first event occurred in Takapuna, where the overflow occurred in private property. The second event was at the Downtown Metrocentre/Civic complex, which required the centre to shutdown while the sewer was unblocked.

Short term actions implemented have centred on the Trade Waste Group visiting food premises in the Takapuna business district and the Metrocentre/Civic complex educating them on the correct disposal of fat, oil and grease. While in some cases the businesses in question are classified as a deemed activity under the Trade Waste bylaw, Watercare has the

ability to require a Trade Waste Agreement if the risk warrants it. This will require more stringent controls and reporting by the business operator. This action is currently under consideration.

Longer term actions include working with Auckland Council to discuss the tracking of liquid wastes in the Auckland region. The potential benefits to Watercare are better knowledge of where, and how, liquid wastes are disposed, which will assist in ensuring that grease traps are maintained appropriately by tracking cleanout frequency and following up on exceptions.

5. PROPOSED AUCKLAND UNITARY PLAN

The Unitary Plan became operative “in part” on the 15th of November 2016. This means that all sections that are not subject to appeals are now in effect and replace the legacy plans. The regional coastal plan component still requires final approval from the Ministry of Conservation and therefore is also not yet operative. Importantly for Watercare, all the network utility rules, except a few minor provisions under appeal by Transpower and Vector, are now operative. The High Court is fast tracking some of the key appeals that have wider implications on the plan, in particular those related to the scope of the Independent Hearing Panel to make decisions. This issues is most relevant to the zoning of the land.

6. FINANCE

Financial Performance

	Current Month			Year to Date			Full Year		
	Actual	Budget	Var	Actual	Budget	Var	Forecast	Budget	Var
Figures (\$millions)									
Revenue	48.9	46.4	2.5	244.1	233.9	10.2	584.4	578.5	5.9
Operating Expenses	16.1	17.7	1.6	84.2	89.7	5.5	209.3	215.5	6.2
Depreciation	19.3	18.8	(0.5)	94.8	94.3	(0.4)	227.8	226.9	(0.9)
Interest expense	6.4	6.7	0.4	33.5	34.1	0.6	81.5	80.7	(0.9)
Total Contribution	7.1	3.1	4.0	31.7	15.8	15.9	65.8	55.5	10.3
Non-operating costs/(income)	1.0	0.6	(0.3)	3.7	3.2	(0.5)	8.0	8.0	0.0
Financial instruments revaluation -loss/(gain)	(50.9)	-	50.9	(75.9)	-	75.9	(75.9)	-	75.9
Operating Surplus / (Deficit) Before Tax	57.1	2.5	54.6	103.8	12.6	91.2	133.6	47.5	86.1
Deferred Tax - Expense/(Credit)	16.1	0.6	(15.5)	32.6	5.8	(26.8)	47.2	21.7	(25.5)
Net Surplus / (Deficit) After Tax	41.0	1.9	39.1	71.2	6.8	64.4	86.4	25.8	60.6
FFO Ratio				3.98	3.53		3.84	3.69	
EBIIDA	30.6	27.0	3.6	148.0	135.9	12.1	351.5	343.0	8.5
EBIT	63.5	9.2	54.2	137.3	46.7	90.6	215.2	128.2	87.0
Leakage Allowance Granted	0.4	0.3	(0.1)	2.3	1.9	(0.4)	5.7	5.3	(0.4)

Month – Total Contribution of \$7.1m - favourable variance to budget of \$4.0m

Total revenue was favourable \$2.5m to budget due to favourable IGC and new developments revenue (\$2.4m) and asset revenue (\$0.5m) partly offset by lower water and wastewater revenue \$0.5m with water volumes 1.3% lower than budget. The lower than budgeted water volumes are likely due to shifts in non-domestic demand with water volumes in November lower than the same period last year. Actual November consumption data from retail meters will not be available until February.

Operating expenses were favourable to budget \$1.6m with lower asset operating costs, net labour, professional services and general overheads.

Depreciation was \$0.5m unfavourable to budget and interest expense favourable by \$0.4m.

Net surplus after tax was favourable \$39.1m due to the favourable revaluation of financial instruments of \$50.9m resulting from the increase in medium to long term swap rates in November and a favourable operating contribution variance of \$4.0m, partially offset by higher tax expense of \$15.5m.

Year to date – Total Contribution of \$31.7m - favourable variance to budget of \$15.9m

Year to date revenue is \$10.2m favourable to budget with IGC revenue favourable \$4.4m. The number of IGC charges paid year to date is higher than budget by 13% driven primarily by large subdivisions at Hobsonville, Millwater and Flatbush and by retirement village and apartment developments particularly in Albany, Pukekohe and the CBD. Vested asset income is favourable \$3.5m; new developments revenue favourable \$0.9m and other revenue favourable \$1.0m. Water and wastewater revenue is favourable \$0.4m, with water volumes 0.6% higher than budget. Volumes can be volatile from month to month largely due to weather and non-domestic usage, and it is expected that water revenue will be on budget for the full year. Wastewater is unfavourable \$0.5m.

Operating expenses are \$5.5m favourable to budget with favourable variances for asset operating costs, professional services and general overheads partially offset by unfavourable net labour due to beneath budget labour capitalisation/recoveries.

Depreciation is unfavourable \$0.4m and interest expense is favourable \$0.6m.

Net surplus after tax year to date is \$71.2m a favourable variance to budget of \$64.4m primarily due to; the favourable revaluation of financial instruments of \$75.9m resulting from the increase in medium to long term swap rates between September and November 2016 (refer section 3 forward curve graph) and the favourable total contribution variance of \$15.9m partly offset by higher tax expense of \$26.8m.

Full year Forecast – Total Contribution of \$65.8m – favourable variance of \$10.3m

Full year revenue is forecast at \$584.4m, favourable by \$5.9m largely due to higher than budgeted, vested asset revenue favourable \$3.5m. New Development revenues are expected to be favourable \$0.9m and other revenue \$1.4m. Water and wastewater revenues are at this stage forecast to be on budget for the year.

Operating expenses are expected to be favourable to budget \$6.2m with favourable variances for asset operating costs, professional services and general overheads partially offset by higher net labour due to lower labour capitalised to capital projects.

Depreciation costs are forecast to be unfavourable to budget by \$0.9m at year end.

Interest expense is expected to be unfavourable to budget at year end by \$0.8m due to lower capitalised interest than budgeted. Gross interest is expected to be \$1.3m beneath budget

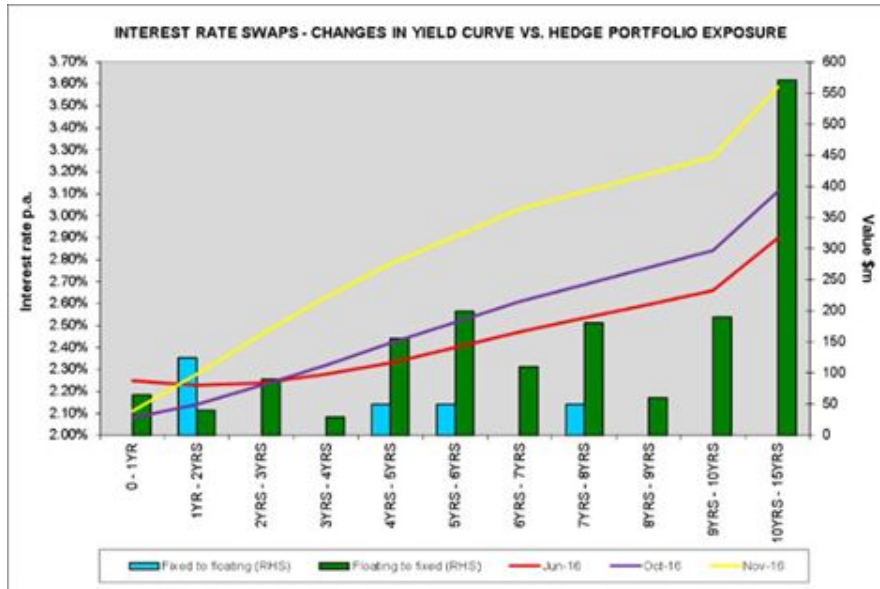
Financial Position

\$million	Actual Oct-16	Actual Nov-16	Monthly Movement	Budget Nov-16	Var from Budget
Non Current Assets	8,768.5	8,778.1	9.6	8,796.8	(18.7)
Current Assets	86.9	100.3	13.5	78.3	22.0
Total Assets	8,855.3	8,878.4	23.1	8,875.0	3.4
Other Liabilities	376.0	320.4	(55.6)	388.1	(67.7)
Deferred Tax Liability	1,014.7	1,030.8	16.1	1,013.6	17.2
Borrowings - Short Term	246.9	246.8	(0.1)	206.4	40.4
Borrowings - Long Term	1,354.0	1,375.6	21.7	1,397.7	(22.1)
Shareholders Funds	5,863.8	5,904.8	41.0	5,869.3	35.5
Total Liabilities and Shareholders Funds	8,855.3	8,878.4	23.1	8,875.0	3.4

The major movements in the Statement of Financial Position as at the 30th of November 2016 compared with 31st October 2016 were the increase in non current assets due to capital spend net of depreciation of \$9.6m, the increase in net debt of \$7.5m, the increase in deferred tax liability of \$16.1m and the downward movement on other liabilities due to the revaluation of derivative financial instruments.

Compared with budget the material variances are largely in respect of, derivative financial instruments revaluations since July 2016 and a different opening position on 1 July 2016 than that assumed when the budget was set, including a lower level of revaluation of land and buildings than expected, lower retained earnings and revaluation of financial instruments. Net debt at \$1,608m is \$4.2m above budget due to the actual opening debt position being higher than budgeted.

Treasury



Watercare remained in breach of its Treasury Policy upper limit for fixed interest rate risk as at the end of November. At \$10m on forecast debt of \$1,681m in November 2017, the size of the breach is insignificant. Watercare's strategy to deal with the out-of-policy position is to take no further action and let the situation self-rectify, which is expected to occur as at the end of December 2016.

Interest Analysis Smillion	Current Month			Year to date			Full Year		
	Actual	Budget	Var	Actual	Budget	Var	Forecast	Budget	Var
Interest as per Statement of Financial Performance	6.4	6.7	0.4	33.5	34.1	0.6	81.5	80.7	(0.9)
Capitalised Interest	0.9	0.9	0.0	3.7	4.4	0.7	10.1	12.2	2.2
Gross Interest	7.2	7.6	0.4	37.2	38.5	1.3	91.6	92.9	1.3
Less Interest Income	0.0	-	(0.0)	0.0	-	(0.0)	0.0	-	(0.0)
Net Interest	7.2	7.6	0.4	37.2	38.5	1.3	91.6	92.9	1.3

For the month of November, gross interest was favourable to budget by \$0.4m and capitalised interest was on budget, resulting in interest charged to the Statement of Financial Performance being favourable to budget. Capitalised interest has been reforecast at \$2.2m unfavourable to budget for the year, due to lower interest rates.

Capital Expenditure

Summary Capital Expenditure (Millions)	Nov-16			Year to Date			Full Year			
	Actual	Budget	Var	Actual	Budget	Var	Forecast	Budget	Var	Prior Month Forecast
Wastewater Projects										
Strategy & Planning	0.2	1.3	1.2	0.9	3.5	2.6	5.1	13.9	8.8	6.4
Infrastructure Delivery (excl Labs/MS)	17.7	18.1	0.5	79.1	79.1	(0.0)	179.6	179.4	(0.2)	179.5
Water Projects										
Strategy & Planning	3.0	0.6	(2.4)	3.7	2.3	(1.4)	5.7	8.5	2.8	3.9
Infrastructure Delivery (excl Labs/MS)	0.7	2.1	1.4	15.5	17.2	1.6	28.6	31.3	2.7	28.7
Service Delivery	5.9	6.1	0.2	22.4	26.5	4.1	59.7	63.9	4.2	58.7
Retail	1.0	1.1	0.1	4.2	5.6	1.4	12.1	11.8	(0.2)	12.7
Information Services	0.3	0.4	0.1	1.0	3.7	2.8	5.0	7.9	2.9	3.8
Other Projects	0.0	0.0	0.0	0.0	0.0	0.0	10.7	12.0	1.3	10.6
TOTAL	28.7	29.8	1.1	126.9	138.0	11.1	306.6	328.8	22.2	304.4
Includes Capitalised Interest of:										
Water Projects Capitalised Interest	0.1	0.2	0.1	0.8	1.2	0.4	1.8	2.7	0.9	1.9
Wastewater Projects Capitalised Interest	0.8	0.7	(0.1)	2.9	3.3	0.3	8.3	9.6	1.3	8.4
Total Capitalised Interest	0.9	0.9	0.0	3.7	4.4	0.7	10.1	12.2	2.2	10.3

Capital expenditure for the month was \$28.7m against a budget of \$29.8m. The full year forecast expenditure at \$306.6m is \$22.2 below budget primarily due to projects being deferred or delayed. Further explanation of the variance to budget is provided on the Capital Expenditure dashboard (appended as Appendix C).

7. BOARD CORRESPONDENCE

There was no correspondence during the month.

8. EXECUTION OF DOCUMENTS

There were 11 documents executed during November in accordance with the delegated authority provided to the Chief Executive by the Board for deeds, instruments and other documents.

These included the surrender of two water supply easements in favour of private land owners, five new water supply easements in favour of Watercare, two approvals to acquire land for Watercare, one approval for the purchase of land, and one approval to dispose of land.

There was one Capex approval totaling \$.537m 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 – November 2016		
C-12395 CR1	Orewa No.1 Watermain Renewal Opportunistic Replacement Along Wainui Road	\$536,540

There was one contract over \$100,000 approved during November 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 – November 2016		
11/11/2016	March Cato	Wairau Eastern Rising Main Replacement

9. COMMUNICATIONS

Media summary

Overflows were the focus of a number of print and online articles this month. In mid-November, Stuff and some suburban papers ran the headline 'Auckland bay's swimming in sewage and tampons'. The article focused on a Westmere resident who says she is "disgusted" by the rubbish washing up at Cox's Bay and Okahu Bay following spills from stormwater drains. Watercare issued a joint statement with Auckland Council explaining that waste can wash up on beaches from a number of different sources including littering and illegal activity, as well as through stormwater and wastewater systems. The statement explained that along with Auckland Council, Watercare has a number of initiatives in place to attempt to improve the water quality and environment of the waterways, beaches and harbour.

Also in mid-November, a number of media outlets ran articles on a wastewater overflow that affected a private property in Takapuna. Watercare staff investigated and found two issues: firstly, a telecommunications contractor had accidentally drilled a duct through a sewer pipe; and secondly, fat had built up around the duct causing a blockage. The Chief Executive was quoted extensively in the NZ Herald article, showing his concern for the affected residents as well as Watercare's operational response. "As a matter of urgency, we are undertaking work to remove the telecommunications duct, clean out the fat and repair our sewer. This will ensure there are no overflows in the future," the Chief Executive said. "I will personally be writing to them to apologise and explain why the overflows occurred." The duct has since been removed, the Chief Executive did speak and write to the property owners and a senior Watercare manager also visited and met them.

In response to the coverage on overflows resulting from fat blockages, Watercare is sending a flyer with the December bills to educate customers on the correct disposal of fats, oils and grease. A wider campaign is being prepared for March 2017.

A stunning photo of Lower Huia Dam that was taken by a drone operator appeared on the front cover of the Western Leader along with an accompanying article. Further coverage of the photo as well as video footage is expected to appear in the coming months in Local Government, Insight Engineering and Water NZ magazines.

The Onehunga Community News ran a front-page story on the Manukau Harbour's marine report card score of E. It said that opinion was divided over the cause of the contamination. The Manukau Harbour Restoration Society suggested the Mangere Wastewater Treatment Plant was responsible. However, Watercare highlighted that the plant meets its resource consent conditions even during high rainfall. The article positively referred to the research programme Watercare is funding, which will be carried out by NIWA. The Chief Executive was quoted as saying the research will provide a "sound, scientific basis for collaborative decision making in the harbour. This will ensure planning decisions and debate is based on facts and not opinions."

Rosedale Wastewater Treatment Plant's farmer – who has maintained the grounds at the plant for 43 years – was positively profiled on Stuff and Rural News as well as in the North Shore Times and North Harbour News. In December, he will be interviewed for Radio New Zealand's Country Life programme.

The Manukau Courier had positive coverage of Watercare hosting a group of engineers and technicians from the Water Authority Fiji.

Customer communications

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

Month	Activity	Status
November	Mid-November to mid-December: Domestic and non-domestic customers are receiving the summer issue of Tapped In. The primary focus will be on how Watercare treats Auckland's drinking water to a high standard. Adverts on plumbosolvency ran in the suburban newspapers and in Auckland Council's Our Auckland publication. This is a MoH requirement. Further information on plumbosolvency was made available on the website. A new payment channel called Pushpay is being communicated to selected customers by email. Information on Pushpay is also being added to the bill and website.	Underway Complete Underway
December	Domestic customers will receive a bill insert on how to correctly dispose of fats, oils and grease during the holidays.	Currently under design

	The letter that welcomes new domestic customers to Watercare is being transformed. The information will now be presented in a more customer-centric and visually-appealing format that is similar to <i>Tapped In</i> . It will provide information on the easiest way to transact with Watercare as well as the value Watercare deliver to their household and the community.	Currently under design
January	Domestic customers will receive a bill insert on Watercare's support of Round the Bays.	Currently under design
February	Domestic and non-domestic customers will receive a bill insert on a new payment channel called Pushpay. Residents in Franklin will receive a Franklin Matters newsletter about Watercare's investment in the area, Watercare's I&I investigations and Pushpay.	Planned Currently under design
March	Domestic and non-domestic customers will receive the autumn issue of <i>Tapped In</i> . The primary focus will be on educating customers on how to avoid blockages in their pipes by correctly disposing of wet wipe products and fat, oil and grease. Focusing on the consequences of blockages on private property – cost to fix the issue, damage to property and risk to health. Secondary focus on tree roots – reminder to people not to plant trees over sewer lines This will coincide with a media campaign focusing on how to avoid blockages in pipes as well as public tours of the Mangere Wastewater Treatment Plant.	Planned

Stakeholder communications

Completed:

- Public tours of Rosedale and Ardmore treatment plants were held on 19 and 26 November respectively, attracting over 180 visitors. Post-event feedback was very positive. Upper Harbour Local Board Member Uzra Balouch emailed following the Rosedale tour to say: *"I just wanted to thank you and the Watercare team for a very informative tour of the plant. I was very impressed by Vasan and Daniel's knowledge and the time they took to answer our questions. What an outstanding job you all do for us. Thank you."* Local resident Alex Spence brought her young daughters to see the Ardmore plant. She emailed to say: *"It was so good for the girls to see what goes into making clean drinking water. You take it for granted when it comes out of the tap but*

when you see what goes in to making it drinkable, it's so impressive." Local media outlets have been sent media releases and photos to extend the impact of the tours beyond the events themselves.

Underway:

- The Watercare education programme continued to be delivered in schools. Pupils from Bairds Mainfreight Primary School in Otara featured on the front page of Tapped In, summer edition. Coverage of the programme is expected in the Western Leader in early December.
- Mt Hobson watermain upgrades
 - Affected residents on Mt Hobson lane visited and spoken to.
 - Engagement strategy discussed with appointed contractors.
- Franklin Road wastewater network upgrade
 - Last Community Liaison Group meetings for 2016 held 23 November.
 - Works on Franklin Road have stopped in preparation for the Christmas lights – work has moved to Collingwood Street. Work starts again on 9 January.
- Glen Eden wastewater storage tank
 - Contractor stakeholder team working well – includes weekly project meeting with Watercare.
 - Councillor Ross Clow visited the site with Watercare's Chief Executive.
 - Traffic management continues to be reviewed in response to feedback from the community.
- Fred Thomas Drive pump station
 - Alternative parking has been arranged for affected businesses.
 - An information flyer is currently being drafted as an update for stakeholders.
- Wynyard Quarter
 - Dawn blessing held for the pump station site.
 - The rising main project along Halsey Street has been restarted. Consultation with directly affected stakeholders is underway.
- Huia WTP
 - A community liaison group meeting is planned for 6 December at the Huia Treatment Plant.
 - Information on the purchase of land at Parker Road has been shared with adjacent property owners, Local Board members and Councillors.
 - Watercare has engaged with existing tenants who will stay on.
- Trunk Sewer 8
 - Project briefing and site walk over held
 - Engagement strategy discussed with potential contractors – planning in process for public information sessions early 2017.

Coming up:

- Ponsonby Reservoir Upgrade – Works proposed to start after Christmas – letters to be sent to affected residents and businesses.
- Network Discharge consent – engagement with local boards and key stakeholders planned.

Internal communications

Completed:

- Energy Week, a company-wide campaign to engage and inform staff about Watercare's energy efficiency programme was held in November. The event saw us partnering with organisations like Auckland Transport, EECA, New Zealand Green Building Council to promote initiatives such as electric vehicles, travel-wise commute to work, energy-efficiency at home and work.

Underway:

- Communications planning for the rollout of Microsoft Office 365 and Mitel telephony is underway.
- Communications planning for the launch of H&S Toolkit is underway.

10. WORKING WITH LOCAL BOARDS

The local board chairs and members have now begun focusing on general business including the development of the new local board plans. A letter of congratulations and introduction was sent to the local board chairs from the Chief Executive along with information on Watercare and a summary of future investment identified in the water and wastewater asset management plan. A copy of Watercare's local board Engagement Plan was also included. This plan outlines the way in which we work proactively with local boards and our commitment to provide information in the interest of no surprises.

Over the past month local board members were sent an invitation to the Rosedale and Ardmore treatment plant open days and several took up the option providing excellent feedback on the knowledge and enthusiasm of staff involved.

Watercare joined Auckland Transport, Waiheke local board members, Iwi and other stakeholders for a visioning strategy related to the Matiatia gateway. Maungakiekie Tamaki local board members also joined local Iwi, Auckland Transport and Watercare staff for a dawn blessing focused on Van Dammes lagoon where Watercare undertook work to strengthen the Eastern Interceptor.

Several local boards in the central area received notification of network overflow incidents. Watercare and Auckland Council staff cooperated in the response which in several incidents involved improper fat disposal from eateries in Takapuna.

The Chair of the Rodney local board was provided with briefing notes in preparation for a local meeting in Wellsford where water and wastewater issues are topical. Updates on other projects such as the Western water supply strategy updates and purchase of land at Parker Road were shared with the Waitakere Ranges local board in the interests of no surprises.

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

11. STATEMENT OF INTENT 2016-2019

Auckland Council confirmed in November that Watercare's Statement of Intent for 2016 to 2019 has been accepted.

12. WORKING WITH NEW ZEALAND POLICE AND ESR

The New Zealand Police and the Institute of Environmental Science and Research Limited (ESR) are undertaking a nationwide scientific review of drug residuals in treated effluent. Watercare's Rosedale Wastewater Treatment Plant will be involved in the review.



R Jaduram

CHIEF EXECUTIVE

WATERCARE SERVICES LIMITED

Nov-16

4

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 operating 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 operating and investing cash flow

● **Depreciation** - depreciation is above budget due to higher accelerated depreciation on assets identified for disposal.

● **Net borrowings** - net debt is \$4.2m above budget due to an opening difference in the forecast June balance sheet debt against the actual June balance (actual was \$15.3m higher than forecast). Normalised for the opening balance differences net debt is \$11.1m under budget.

Key to Treasury policy compliance

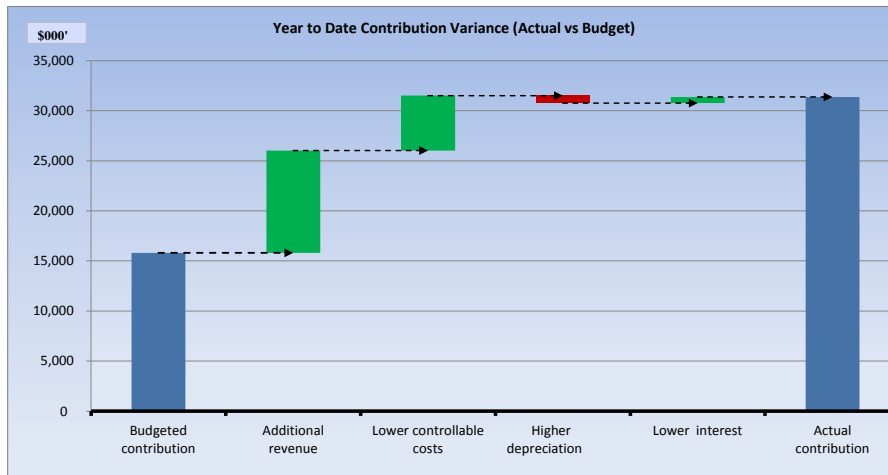
- Full compliance
- The downward revision to forecast debt saw a consequential proportional decrease in the Treasury Policy fixed interest limits. As the fixed interest rate hedging profile was built up when forecast debt was much higher, the lower forecast debt caused the profile to exceed the upper limit for fixed interest rate risk between one and three years. Since the initial breach, action has been taken to bring Watercare's fixed rate profile closer to the upper policy limit.

The size of the breach is relatively small when compared to total forecast debt (peaking at \$10 million on \$1,681 million of debt). The out-of-policy position is expected to self-rectify as at the end of December 2016.

WATERCARE SERVICES LIMITED												Nov-16
STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE												(\$000's)
	Current Month				Year to Date				Full Year			
	Actual	Budget	Variance	Result	Actual	Budget	Variance	Result	Forecast	Budget	Variance	Result
Wastewater revenue	25,830	26,319	(489)	✘	128,789	129,278	(489)	✘	316,027	316,025	1	✔
Water revenue	12,287	12,355	(68)	✘	60,620	59,717	903	✔	147,682	147,682	-	↔
Infrastructure growth charge revenue	6,297	4,171	2,126	✔	31,567	27,181	4,387	✔	70,282	70,282	-	↔
Other revenue	2,231	1,874	357	✔	11,235	9,366	1,869	✔	26,889	24,543	2,346	✔
Revenue from exchange transactions	46,644	44,719	1,926	✔	232,211	225,542	6,669	✔	560,880	558,533	2,347	✔
Vested assets revenue	2,206	1,667	540	✔	11,881	8,333	3,548	✔	23,548	20,000	3,548	✔
Revenue from non-exchange transactions	2,206	1,667	540	✔	11,881	8,333	3,548	✔	23,548	20,000	3,548	✔
Total revenue	48,851	46,385	2,466	✔	244,093	233,876	10,217	✔	584,428	578,533	5,895	✔
Labour	6,604	6,721	117	✔	32,751	32,886	134	✔	81,218	81,489	271	✔
Contract labour	198	217	19	✔	998	1,277	280	✔	2,654	2,717	63	✔
Oncosts	275	302	27	✔	971	1,477	505	✔	3,137	3,653	515	✔
Labour recoveries	(3,214)	(3,275)	(61)	✘	(14,498)	(15,970)	(1,471)	✘	(37,549)	(39,186)	(1,636)	✘
Net labour	3,863	3,965	102	✔	20,222	19,670	(552)	✘	49,460	48,673	(787)	✘
Materials & cost of sales	179	182	3	✔	834	905	70	✔	2,104	2,196	92	✔
Planned maintenance	1,394	1,509	115	✔	6,808	7,392	584	✔	16,867	17,348	480	✔
Unplanned maintenance	2,323	2,623	300	✔	13,436	13,206	(230)	✘	31,443	31,505	63	✔
Asset operating costs - chemicals	893	917	25	✔	4,192	4,445	253	✔	10,471	11,202	730	✔
Asset operating costs - energy	1,110	1,202	92	✔	7,027	7,286	258	✔	17,169	18,175	1,006	✔
Operating costs - other	3,122	3,575	453	✔	14,544	17,932	3,388	✔	39,829	42,015	2,186	✔
Depreciation and amortisation	19,278	18,801	(476)	✘	94,755	94,308	(447)	✘	227,789	226,852	(938)	✘
Asset operating costs	28,119	28,628	509	✔	140,764	144,569	3,806	✔	343,568	347,096	3,528	✔
Communications	153	181	28	✔	801	904	102	✔	1,965	2,082	117	✔
Professional services	943	1,123	180	✔	5,167	5,628	462	✔	11,875	12,992	1,117	✔
Interest	6,354	6,732	378	✔	33,481	34,097	616	✔	81,515	80,663	(852)	✘
General overheads	2,103	2,432	329	✔	11,157	12,294	1,138	✔	28,166	29,311	1,146	✔
Overheads	9,553	10,469	915	✔	50,605	52,923	2,318	✔	123,521	125,048	1,527	✔
Total expenses	41,715	43,244	1,529	✔	212,426	218,067	5,642	✔	518,652	523,013	4,360	✔
Total contribution/(loss)	7,136	3,141	3,994	✔	31,667	15,808	15,859	✔	65,776	55,520	10,255	✔
Gain/loss on disposal of fixed assets and other costs	956	636	(320)	✘	3,729	3,181	(548)	✘	8,000	8,000	-	↔
Gain/loss on revaluation of financial instruments	(50,924)	-	50,924	✔	(75,864)	-	75,864	✔	(75,864)	-	75,864	✔
Non operating costs/(revenue)	(49,968)	636	50,604	✔	(72,135)	3,181	75,317	✔	(67,865)	8,000	75,864	✔
Net surplus/(deficit) before tax	57,104	2,505	54,598	✔	103,802	12,627	91,175	✔	133,641	47,520	86,120	✔
Income Tax Expense/(benefit)	-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax	16,150	649	(15,501)	✘	32,601	5,815	(26,787)	✘	47,214	21,698	25,516	✔
Net surplus/(deficit) after tax	40,954	1,856	39,098	✔	71,201	6,813	64,388	✔	86,427	25,822	60,604	✔

Key: Financial performance result

- ✔ Favourable variance - actual income on or above budget and actual expenditure on or below budget
- ✘ Unfavourable variance - actual income below budget and actual expenditure above budget



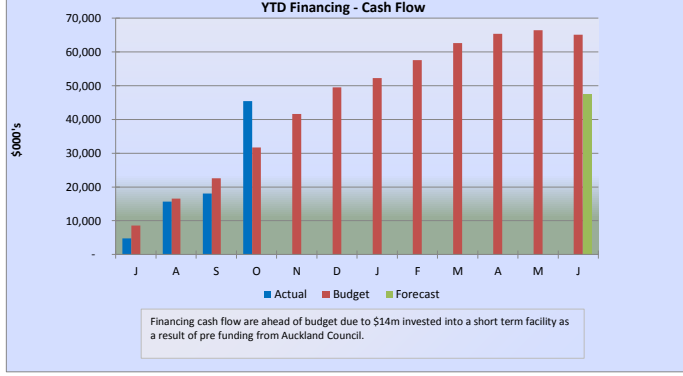
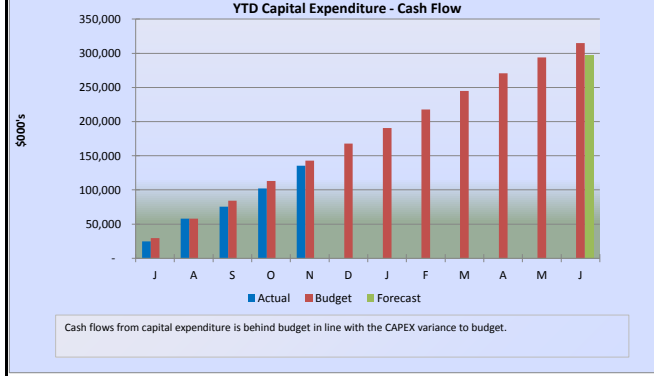
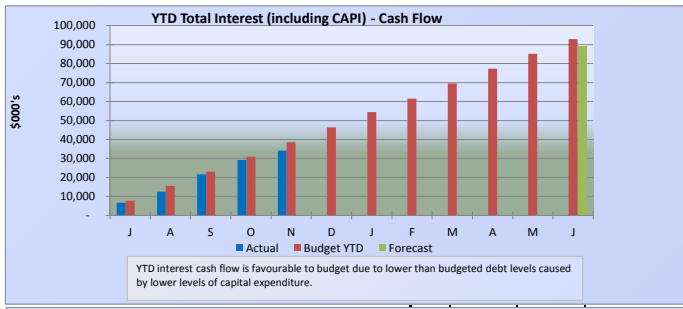
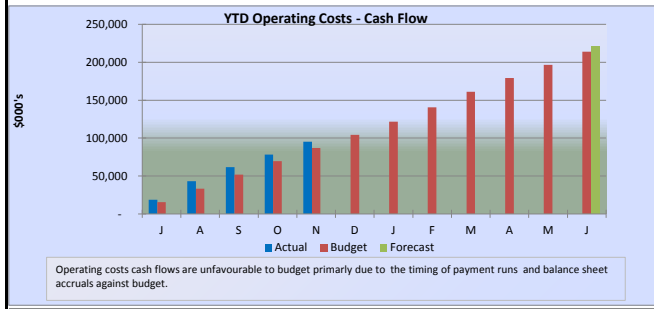
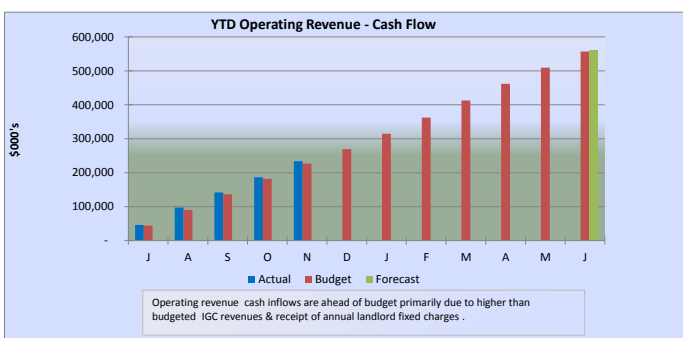
WATERCARE SERVICES LIMITED
STATEMENT OF CASH FLOWS

Nov-16
(\$000's)

NZ \$000s	Current Month				Year To Date				Full Year			
	Actual	Budget	Variance	Result	Actual	Budget	Variance	Result	Forecast	Budget	Variance	Result
Operating Cash flow:												
Operating Revenue	47,465	45,020	2,445	✓	234,071	226,748	7,323	✓	560,056	556,737	3,319	✓
Operating Costs	(17,067)	(17,511)	444	✓	(95,311)	(87,091)	(8,220)	✗	(221,086)	(213,925)	(7,161)	✗
Interest Paid	(4,093)	(6,732)	2,640	✓	(30,424)	(34,097)	3,673	✓	(79,278)	(80,663)	1,385	✓
OPERATING CASH FLOW	26,305	20,777	5,529	✓	108,336	105,560	2,776	✓	259,692	262,149	(2,457)	✗
Investing Cash flow:												
Capital Expenditure	(32,925)	(29,831)	(3,094)	✗	(135,267)	(142,752)	7,485	✓	(296,543)	(315,057)	18,514	✓
Capitalised Interest	(863)	(892)	29	✓	(3,735)	(4,430)	695	✓	(10,080)	(12,243)	2,163	✓
INVESTING CASH FLOW	(33,788)	(30,723)	(3,065)	✗	(139,002)	(147,182)	8,180	✓	(306,624)	(327,300)	20,676	✓
Financing Cash flow:												
Bonds/Term Debt Issued/(Repaid)	-	-	-	✓	(150,000)	(150,000)	-	✓	(150,000)	(150,000)	-	✓
Short Term Advances/(Repaid)	(28,000)	(28,000)	-	✓	(19,000)	(19,000)	-	✓	(19,000)	(19,000)	-	✓
Commercial Paper Issued/(Repaid)	33	33	-	✓	(9,805)	(9,805)	-	✓	(9,805)	(9,805)	-	✓
Auckland Council Borrowings/(Repaid)	49,842	37,914	11,928	✓	224,209	220,427	3,782	✓	226,321	243,956	(17,635)	✓
FINANCING CASH FLOW	21,875	9,947	11,928	✓	45,404	41,622	3,782	✓	47,516	65,151	(17,635)	✓
Net Increase (Decrease) in Cash and Cash Equivalents	14,392	-	14,392	✓	14,737	-	14,737	✓	584	-	584	✓
Opening Cash Balance/(Overdraft)	(239)	-	(239)	✗	(584)	-	(584)	✗	(584)	-	(584)	✗
Ending Cash Balance/(Overdraft)	14,153	-	14,153	✓	14,153	-	14,153	✓	-	-	-	✓

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

Reconciliation Operating Cashflow (\$000's)					
	Current Month		Year To Date		
	Actual	Budget	Actual	Budget	Variance
Net Surplus (Deficit) After Tax	40,954	1,856	71,201	6,813	64,388
Add back non cash items:					
Depreciation and amortisation	19,278	18,801	94,755	94,308	447
Financial instruments revaluation	(50,924)	-	(75,864)	-	(75,864)
Vested assets revenue	(2,206)	(1,667)	(11,759)	(8,333)	(3,426)
Other non-operating exp/(inc)	956	636	3,539	3,181	358
Income Tax Expense/(Benefit)	16,150	649	32,601	5,815	26,787
Movements in Working Capital	2,098	501	(6,137)	3,777	(9,913)
OPERATING CASH FLOW	26,305	20,777	108,336	105,560	2,776

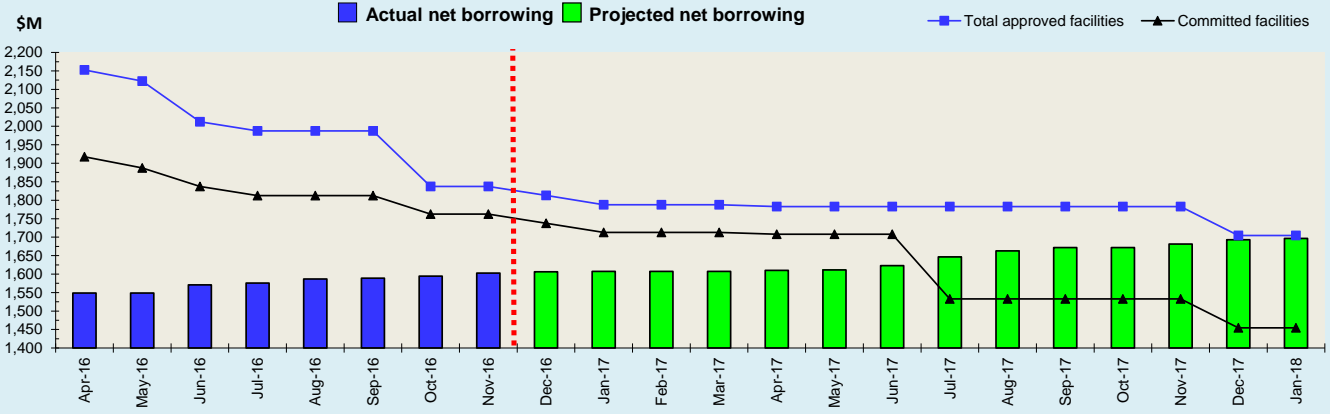


		WATERCARE SERVICES LIMITED							Nov-16
		STATEMENT OF FINANCIAL POSITION							(\$000's)
June 2016 Actual	October 2016 Actual		November			June 2017			
			Actual	Budget	Variance	Forecast	Budget	Variance	
		Current assets							
-	-	Cash and cash equivalents	153	-	153	-	-	-	
-	-	Short term deposits	14,000	-	14,000	-	-	-	
47,137	46,700	Trade and other receivables from exchange transactions	45,251	45,500	(249)	49,237	49,500	(263)	
20,871	22,309	Unbilled revenue accrual	22,755	20,819	1,936	21,454	19,822	1,632	
3,332	4,152	Prepaid expenses	4,416	2,417	1,999	3,453	3,415	39	
5,895	8,684	Inventories	8,908	5,736	3,172	8,908	5,818	3,090	
3,206	5,010	Derivative financial instruments	4,824	3,793	1,031	4,824	3,793	1,030	
80,440	86,855	Total current assets	100,307	78,265	22,042	87,876	82,348	5,528	
		Non-current assets							
8,430,699	8,629,568	Property, plant and equipment	8,641,931	8,592,045	49,886	8,807,362	8,827,174	(19,811)	
454,247	362,707	Construction/work-in-progress	380,346	447,226	(66,880)	397,905	455,852	(57,946)	
(230,843)	(302,720)	Provision for depreciation	(320,690)	(327,053)	6,363	(449,404)	(60,603)	(388,801)	
8,654,103	8,689,554	Total property, plant and equipment	8,701,587	8,712,217	(10,630)	8,755,864	9,222,422	(466,558)	
42,714	40,343	Intangible assets	39,764	44,342	(4,578)	40,344	44,659	(4,315)	
23,244	23,095	Prepaid expenses	23,058	23,245	(187)	22,799	23,245	(446)	
4,373	4,125	Inventories	4,217	4,356	(139)	4,217	4,356	(139)	
15,138	11,354	Derivative financial instruments	9,472	12,590	(3,118)	9,472	12,590	(3,118)	
8,739,572	8,768,471	Total non-current assets	8,778,098	8,796,750	(18,652)	8,832,695	9,307,272	(474,576)	
8,820,012	8,855,326	Total assets	8,878,404	8,875,015	3,389	8,920,571	9,389,620	(469,048)	
		Current liabilities							
582	239	Bank Overdraft	-	-	-	-	-	-	
149,067	139,229	Commercial paper	139,262	149,071	(9,809)	139,262	149,071	(9,809)	
-	282	Bonds	284	279	5	284	279	5	
150,000	-	Term loan	-	-	-	-	-	-	
81,883	107,129	Auckland council loan	107,260	57,013	50,247	107,260	57,013	50,247	
381,532	246,879	Total debt current	246,805	206,363	40,442	246,805	206,363	40,443	
17,047	16,671	Trade and other payables for exchange transactions	12,826	17,099	(4,273)	16,700	20,399	(3,698)	
10,614	11,433	Interest accrued	13,667	11,255	2,412	12,847	11,337	1,510	
52,582	44,252	Other accrued expenses	43,959	59,747	(15,788)	51,582	59,747	(8,165)	
8,314	8,303	Provision for staff benefits	8,268	7,463	805	8,268	7,463	805	
906	906	Other provisions	166	545	(379)	166	545	(379)	
33,276	34,971	Derivative financial instruments	34,618	31,189	3,429	34,618	31,189	3,429	
504,271	363,415	Total current liabilities	360,308	333,660	26,648	370,986	337,042	33,945	
		Non-current liabilities							
75,000	75,000	Bonds (26/10/18)	75,000	75,000	-	75,000	75,000	-	
50,389	50,297	Bonds (26/10/18)	50,269	50,297	(28)	50,269	50,365	(96)	
19,000	28,000	Bank revolving credit facility	-	28,000	(28,000)	-	-	-	
1,051,816	1,200,660	Auckland council loan	1,250,371	1,244,397	5,974	1,252,344	1,295,859	(43,515)	
1,196,205	1,353,957	Total debt non-current	1,375,640	1,397,694	(22,054)	1,377,612	1,421,224	(43,611)	
14,301	14,586	Other accrued expenses	14,622	18,165	(3,543)	14,301	18,165	(3,864)	
3,470	3,520	Other Provisions	3,520	3,520	-	3,520	3,520	-	
1,291	1,291	Provision for staff benefits	1,291	1,532	(241)	1,291	1,532	(241)	
268,697	240,082	Derivative financial instruments	187,444	237,552	(50,108)	187,444	237,552	(50,108)	
998,200	1,014,652	Deferred tax liability	1,030,802	1,013,621	17,181	1,045,415	1,156,289	(110,874)	
2,482,165	2,628,087	Total non-current liabilities	2,613,319	2,672,085	(58,766)	2,629,583	2,838,282	(208,698)	
2,986,436	2,991,502	Total liabilities	2,973,627	3,005,745	(32,118)	3,000,568	3,175,324	(174,753)	
		Equity							
260,693	260,693	Issued capital	260,693	260,693	-	260,693	260,693	-	
1,839,927	1,839,433	Revaluation reserve	1,838,572	1,851,332	(12,760)	1,838,572	2,177,348	(338,776)	
3,800,122	3,733,451	Retained earnings	3,734,311	3,750,433	(16,122)	3,734,311	3,750,433	(16,122)	
(67,166)	30,247	Current year earnings after tax	71,201	6,813	64,388	86,427	25,822	60,604	
5,833,576	5,863,824	Total equity	5,904,777	5,869,270	35,507	5,920,003	6,214,296	(294,294)	
8,820,012	8,855,326	Total equity and liabilities	8,878,404	8,875,015	3,389	8,920,571	9,389,620	(469,048)	

TREASURY RISKS AND INTEREST RATE PERFORMANCE

Nov-16

4



Interest rates

	Actual YTD	Benchmark YTD	Year end forecast
Weighted averages (excl. fees and margins)	4.79%	4.16%	4.78%
Weighted averages (incl. fees and margins)	5.80%	N/A	5.83%

Debt (\$m)

	Actual	Budget	Variance
Short-term borrowings	246.8	206.4	40.4
Long-term borrowings	1,375.6	1,397.7	(22.1)
Total gross debt	1,622.4	1,604.1	18.3
Bank overdraft / (cash & deposits)	(14.2)	-	(14.2)
Total net borrowing	1,608.2	1,604.1	4.1

Committed facilities

- BNZ CP Standby facility \$175 million
- Westpac Revolving Credit facility \$60 million
- Medium term notes \$125 million
- Auckland Council \$1,403 million

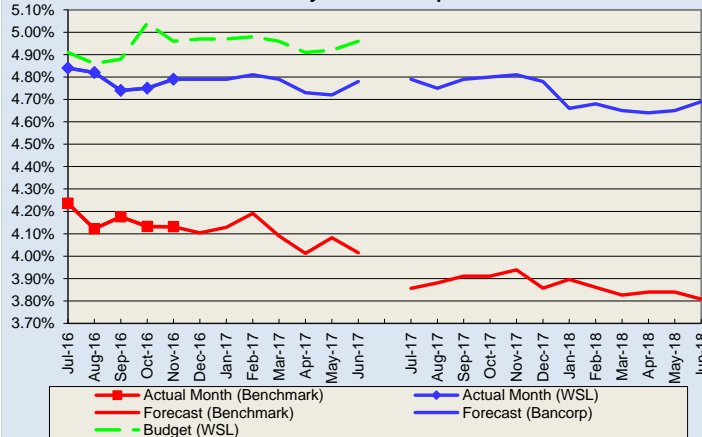
Total committed facilities as at 30 November \$1,763 million

Additional approved facilities

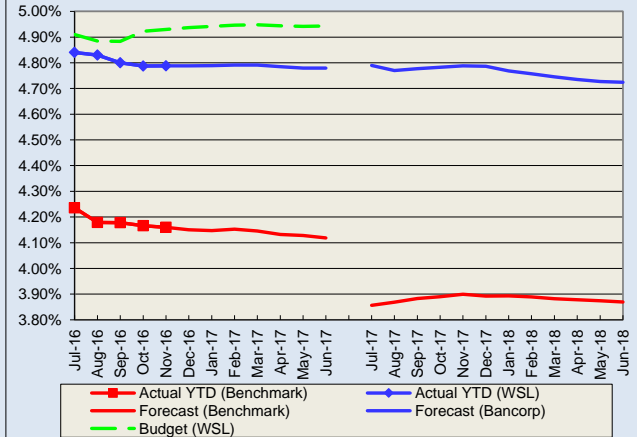
- Approved CP issuance, over and above CP Standby facility \$75 million

Total approved facilities as at 30 November \$1,838 million

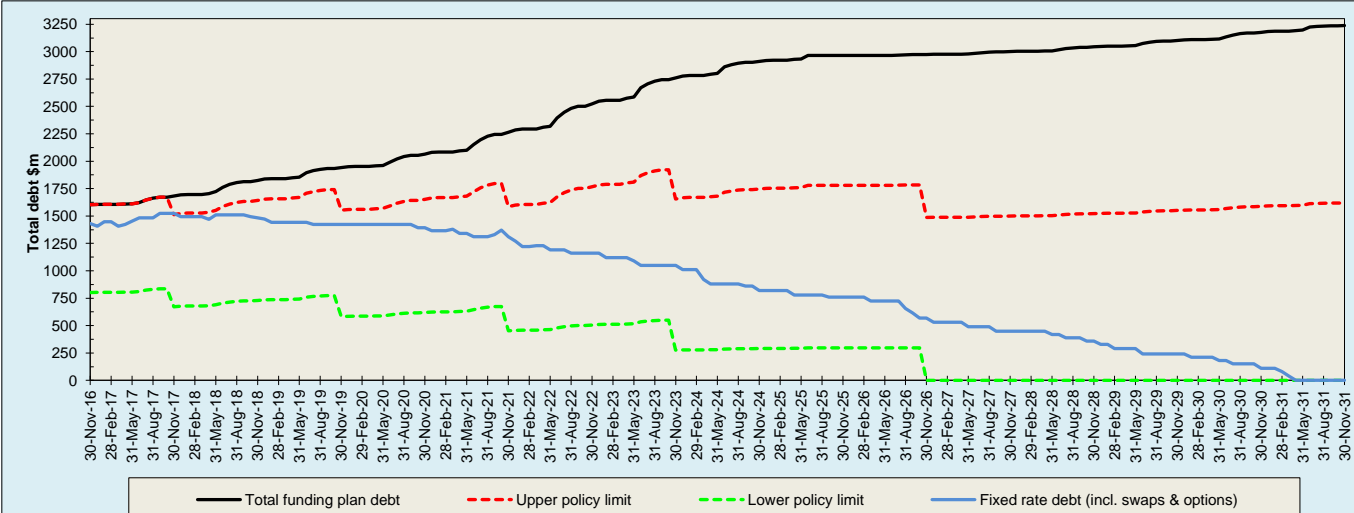
Monthly interest rate performance



Year to date interest rate performance



Forecast total debt profile



COUNTERPARTY EXPOSURES, DEBT CONCENTRATION & COVENANT COMPLIANCE						Nov-16		
Counterparty exposures		S&P credit rating Short / long term	Face value \$000	Credit exposures \$000	Limit \$000	Limit OK / exceeded		
Obligations of registered banks								
ANZ Bank	A1+ / AA-	594,000	14,000	100,000	Limit OK	✓		
Bank of New Zealand	A1+ / AA-	655,515	17,292	100,000	Limit OK	✓		
Commonwealth Bank of Australia	A1+ / AA-	90,000	852	100,000	Limit OK	✓		
Kiwibank	A1 / A+	75,000	774	75,000	Limit OK	✓		
Westpac Institutional Bank	A1+ / AA-	565,000	0	100,000	Limit OK	✓		
		1,979,515	32,918					
<i>Note: Credit exposures are the aggregate of direct exposures, 10% of the 'face' value of forward foreign exchange contracts, 15% of the 'face' value of electricity hedging contracts, and the sum of the MTM value of interest rate derivative contracts plus a 3% 'risk' factor (if this produces a positive value).</i>								
Debt concentration		\$000						
Committed debt facilities	Maturity	0-12 months	12-24 months	24-36 months	36-48 months	48-60 months	> 60 months	Total
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	26/10/18		125,000					125,000
Auckland Council	Various	104,668	78,368	82,243	200,000	132,243	805,000	1,402,522
Total committed debt facilities		279,668	263,368	82,243	200,000	132,243	805,000	1,762,522
Treasury policy - total committed debt facilities		<= 500,000	<= 500,000	<= 500,000	<= 500,000	<= 500,000		
Treasury policy compliance		✓	✓	✓	✓	✓		
Approved CP issuance, over and above CP Standby							75,000	75,000
Total committed and approved debt facilities		279,668	263,368	82,243	200,000	132,243	880,000	1,837,522
Drawn bank facilities	Maturity	0-6 months	6-12 months	12-18 months	18-24 months	24-30 months	> 30 months	Total
BNZ CP Standby facility (\$175m)	1/07/17							0
Westpac Revolving Credit facility (\$60m)	30/11/18							0
		0	0	0	0	0	0	0
Treasury policy for drawn bank facilities		<= 250,000	<= 250,000	<= 250,000	<= 250,000	<= 250,000	<= 250,000	
Treasury policy compliance		✓	✓	✓	✓	✓	✓	
Other facilities								
BNZ overdraft	On demand	2,000						2,000
		2,000	0	0	0	0	0	2,000
Counterparty exposure in relation to borrowing facilities		Westpac	BNZ	ANZ	CBA	Kiwibank		
Revolving credit facility		60,000						
CP standby facility			175,000					
		60,000	175,000	0	0	0		
Treasury policy		<= 500,000	<= 500,000	<= 500,000	<= 500,000	<= 500,000		
Treasury policy compliance		✓	✓	✓	✓	✓		
Compliance with financial covenants and ratios under the Negative Pledge Deed and Guarantee Facility Deed								
Covenant / ratio	Benchmark/target measure		Outcome		Compliance			
Security interests / total tangible assets - maximum	5%		0.00%		✓			
Total liabilities / total tangible assets - maximum	60%		33.64%		✓			
Total liabilities (including contingent) / total tangible assets - maximum	65%		33.64%		✓			
Shareholders funds - minimum (\$000)	500,000		5,904,777		✓			
EBITDA : funding costs ratio - minimum	1.75		4.42		✓			
Funds from operations : interest cover ratio - minimum	2.00		3.98		✓			
Total tangible assets of borrowing group / total tangible assets - minimum	90%		100.00%		✓			
Loans, guarantees etc to related companies / total tangible assets - maximum	5%		0.00%		✓			
External debt maturing in less than 5 years - minimum	50%		100.00%		✓			
								Page A6

FOREIGN EXCHANGE, COMMERCIAL PAPER & ELECTRICITY HEDGING							Nov-16					
Foreign currency exposures (NZ\$000) including hedging for chemical purchases							USD	EUR	Total			
Total exposure to be hedged							120.5	246.7	367.2			
Foreign exchange hedging							120.5	246.7	367.2			
Percentage cover							100%	100%	100%			
Treasury policy							100%	100%	100%			
Treasury policy compliance							✓	✓	✓			
Hedging for chemical purchases (US\$000)					Mar-17	Sep-17	Mar-18	Sep-18	Total			
Chemicals forward foreign exchange hedging									0			
Treasury policy									0			
Treasury policy compliance									<= 5,000			
									✓			
Commercial paper maturities												
Issue #	\$000	BKBM	Interest rate	Bid cover (x)	Term (days)	Maturity date	CP maturities					
296	50,000	2.242%	2.250%	2.31	89	12-Dec-16						
297	40,000	2.135%	2.176%	0.89	92	31-Jan-17						
298	50,000	2.030%	2.087%	1.63	87	20-Feb-17						
140,000			2.170%									
<i>Note: BKBM is the banks' mid-rate for bank bills of a similar term on the CP issue date.</i>												
					Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Beyond May-17	Total
Outstanding CP				50,000	40,000	50,000	0	0	0	0	0	140,000
Uncommitted short-term debt												0
				50,000	40,000	50,000	0	0	0	0	0	140,000
Treasury policy for maximum amount of CP outstanding											<= 250,000	
Treasury policy compliance												✓
Undrawn committed standby facilities				1 month	1-2 months	2-3 months	3-4 months	4-5 months	5-6 months	> 6 months		
Undrawn committed standby facility - CP facility				175,000	175,000	175,000	175,000	175,000	175,000	175,000	175,000	
50% of CP and other short-term debt repayable within 60 days				45,000	45,000	25,000	0	0	0	0	0	
Treasury policy: Undrawn standby facilities >= 50% of outstanding CP and other uncommitted short-term debt repayable within 60 days												
Treasury policy compliance				✓	✓	✓	✓	✓	✓	✓		
Electricity hedging (NZ\$000)				0-6 months	6-12 months	12-18 months	18-24 months	24-30 months	30-36 months	36-42 months	42-48 months	
Contract maturity												
Contract length												
Total value of outstanding contracts				0								
Treasury policy for maximum value of outstanding contracts				<= 10,000								
Treasury policy compliance				✓								
											Page A7	

WATERCARE SERVICES LIMITED

Management Report

Nov-16

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Confidential

Management Report
Monthly Statistics Update

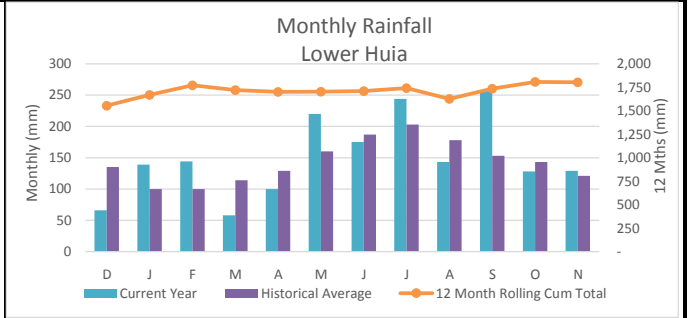
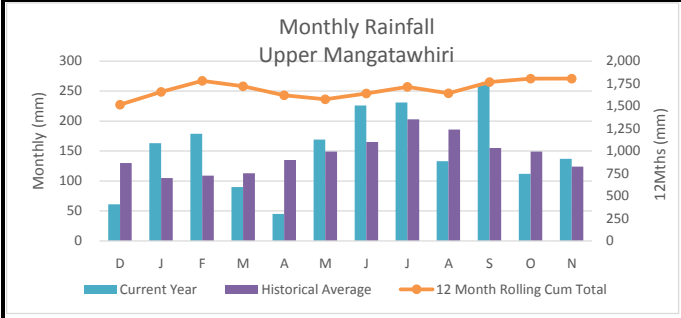
WATERCARE SERVICES LIMITED

Nov-16

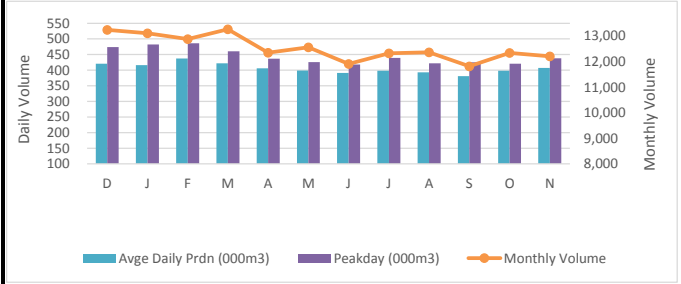
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Rainfall

Rainfall	Current Month	12 Mth Cumulative Rolling	Rainfall	Current Month	12 Mth Cumulative Rolling
Actual - Upper Mangatawhiri	137 mm	1806 mm	Actual - Lower Huia	129 mm	1803 mm

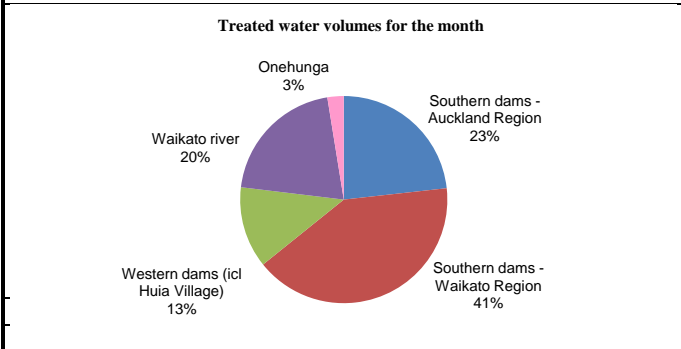


Water Production - Total Supply



Treated water volumes (000m ³)	Current Month	12 Month Rolling Ave
Monthly Volume	12,208	12,534
- Metro	11,993	12,346
- Non-metro	215 ¹	188
Average Daily Production	407	411
Peak Day	438	486 ²

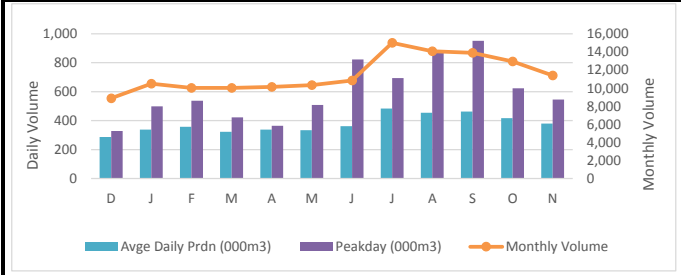
1. Non-metro plants are: Wellsford, Warkworth, Snells/Algies, Helensville, Muriwai, Huia Village, Cornwall Road, Victoria Road, Waiuku, Bombay.
2. Max peak day in past 12 months



Treated water volumes (000m ³)	Current Month		Year to Date			
	Actual	%	Budget	Actual	%	Budget
Southern dams - Auckland Region	2,788	23%	1,192	10,462	17%	5,808
Southern dams - Waikato Region	4,914	40%	5,390	29,872	48%	23,743
Western dams	1,522	12%	2,251	11,233	18%	11,042
Waikato river	2,464	20%	2,387	7,999	13%	15,739
Onehunga aquifer	305	3%	560	1,306	2%	2,964
Rodney	112	0.9%	103	546	0.9%	517
Franklin	69	0.6%	81	341	0.6%	409
Total	12,174	100%	11,965	61,759	100%	60,222

Lake levels at month end was 95.5%

Wastewater Treatment - Metropolitan Treatment



	Current Month	12 Month Rolling Ave
Monthly Volume (000m³)	11,395	11,499
Average Daily Production	380	378
Peak Day	546	952 ²

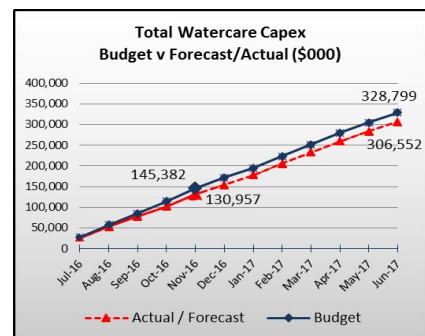
2. Max peak day in past 12 months

WATERCARE PUBLIC REPORT

CAPITAL EXPENDITURE



TOTAL WATERCARE EXPENDITURE	Year to Date		Annual Performance	
	Actual	Budget	Actual + Forecast	Budget
Strategy & Planning	4,579	5,815	10,816	22,667
Infrastructure Delivery	93,102	94,034	202,300	202,775
Service Delivery	22,444	26,522	59,730	63,936
Retail	4,242	5,634	12,056	11,808
Information Services	955	3,726	5,005	7,943
Other	1,900	5,221	6,565	7,428
Capitalised Interest	3,735	4,430	10,081	12,243
Watercare Total	130,957	145,382	306,552	328,799



Project / Programme Infrastructure Related Projects (Phase: Design / Execution)	Project	Annual Performance		Status	
	Current Forecast	Forecast	Budget	Time	Cost
Water Projects >\$15 Million					
Hunua No 4 Programme	375,900	13,526	12,427		
North Harbour Watermain Duplication	54,300	3,077	4,651		
Waikato 175MLD Expansion Stage Ultimate	31,505	14,765	16,240		
Ardmore WTP Treated Water Resilience	27,600	2,908	3,840		
Albany Pinehill WM & PS	14,251	1,654	2,258		
Wastewater Projects >\$15 Million					
Central Interceptor Feasibility Design	60,880	9,882	7,654		
Mangere WWTP BNR Capacity	141,019	47,694	48,000		
Northern Interceptor - Stage 1	108,000	2,322	3,541		
Pukekohe WWTP Upgrade	65,795	1,478	2,040		
Rosedale WWTP Expansion Project	62,494	(455)	3,966		
Mangere WWTP Solids Stream Upgrade	53,388	12,870	12,900		
Pukekohe Trunk Sewer Upgrade	47,267	28,422	27,854		
Army Bay WWTP Outfall Upgrade	38,619	3,518	3,824		
Wairau Wastewater Pump Station	21,398	276	1,250		
Snells Algies WWTP Ocean Outfall	3,995	346	22		
East Coast Bays Link Sewer Upgrade Prjct	27,200	3,066	0		
Puketutu Island Rehabilitation	29,385	7,335	10,000		
Glendowie Branch Sewer Upgrade	28,775	1,017	805		
Fred Thomas Drive WW PS & Storage Tank	27,721	14,057	10,310		
Glen Eden Storage & Pipe Upgrade	16,870	10,048	10,131		
Shared Services >\$15 Million					
Networks Controls Upgrade	19,897	3,459	3,900		
Capex Programme (Design / Execution)					
>\$15 Million	1,256,259	181,264	185,613		
>\$2 Million <\$15 Million	90,273	30,573	32,652		
<\$2 Million	57,212	15,653	17,105		
TOTAL	1,403,744	227,491	235,370		

Watercare Services Ltd
Financial Summary 2016-17
Report Period November 2016
Infrastructure Related Projects: Strategy & Planning / Infrastructure Delivery / Service Delivery

Traffic light Key:

On target / No adverse Service Delivery impact

Short to medium term issues that may impact on outcomes or targets / Minor Service Delivery Impacts

Medium to long term issues that are impacting on outcomes or targets / Risk of significant Service Delivery Impact

Underspend on the capex variance (-10%)

Appendix D

Local Board Interaction (As at 25 Nov 2016)

Local Board	Chair	Deputy Chair	Sept -16	Oct 16 <i>(Local Govt. elections October 16)</i>	Nov 16
Albert - Eden	Peter Haynes	Glenda Fryer	Tapped in – Spring Edition (1 Sept)		Letter of congratulation and supporting material sent to current Local Board Chair from Watercare Chief Executive - Electronic copy send to Local Board services staff (10 Nov).
Devonport - Takapuna	Grant Gillon (26 October 2016 to 22 April 2018) George Wood (23 April 2018 to the end of the 2016-2019 political term)	George Wood (26 October 2016 to 22 April 2018) Grant Gillon (23 April 2018 to the end of the 2016-2019 political term)	Tapped in – Spring Edition (1 Sept). Update on Fred Thomas laydown area (12 Sept).	Local Board sent link to article on Fred Thomas Drive Pump Station (2 Oct).	Notification of public plant tours (3 Nov). Letter of congratulation and supporting material sent to current Local Board Chair from Watercare Chief Executive - Electronic copy send to Local Board services staff (10 Nov). Notification of wastewater overflow in Takapuna and media response (16 Nov)
Franklin	Angela Fulljames	Andy Baker	Tapped in – Spring Edition (1 Sept). Notification of water outage in Pukekohe (14 Sept). Met Malcolm Bell to discuss use of Watercare land at treatment plan in Beachlands (Discussions with local board regarding land Watercare access, mountain bike and Pony Club (21 Oct)	Notification of public plant tours (3 Nov). Resolution of escalated discoloured water issue (9 Nov). Letter of congratulation and supporting material sent to current Local Board Chair from Watercare Chief Executive - Electronic copy send to Local Board services staff (10 Nov). Update on Sth West Wastewater servicing (21 Nov).
Great Barrier	Izzy Fordham	Luke Coles	Tapped in – Spring Edition (1 Sept)		Copy of book, the Story of the Hauraki Gulf send to Chair.
Henderson - Massey	Shane Henderson	Peter Chan	Tapped in – Spring Edition (1 Sept). Notification of works in Gt North Road (2 Oct).	Information on North Harbour No. 2 route and proposed removal of a Pin Oak Tree (31 Oct).	Letter of congratulation and supporting material sent to current Local Board Chair from Watercare Chief Executive - Electronic copy send to Local Board services staff (10 Nov).
Hibiscus and Bays	Julia Parfitt	Janet Fitzgerald	Tapped in – Spring Edition (1 Sept). Information on walkway signage sent to Parks Committee members (7 Sept). Log watermain break from Local Board Chair (20 Sept).	Resolution of Torbay Sailing Club redevelopment water supply issue in prep for 2016 world youth sailing championship (21 Oct).	Notification of public plant tours (3 Nov). Letter of congratulation and supporting material sent to current Local Board Chair from Watercare Chief Executive - Electronic copy send to Local Board services staff (10 Nov).
Howick	David Collings	Katrina Bungard	Tapped in – Spring Edition (1 Sept)	Information provided on Howick wastewater diversion for next Local Board Plan (31 Oct)	Notification of public plant tours (3 Nov). Letter of congratulation and supporting material sent to current Local Board Chair from Watercare Chief Executive - Electronic copy send to Local Board services staff (10

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

Local Board	Chair	Deputy Chair	Sept -16	Oct 16 <i>(Local Govt. elections October 16)</i>	Nov 16
					Nov).
Kaipatiki	Danielle Grant (2 Nov 2016 to 28 Feb 2018) John Gillon (1 March 2018 to the end of the 2016-2019 political term)	John Gillon (2 Nov 2016 to 28 Feb 2018) Danielle Grant (1 March 2018 to the end of the 2016-2019 political term)	Tapped in – Spring Edition (1 Sept) Notice of maintenance works at Island Bay (12 Sept)		Notification of public plant tours (3 Nov). Letter of congratulation and supporting material sent to current Local Board Chair from Watercare Chief Executive - Electronic copy send to Local Board services staff (10 Nov).
Mangere - Otahuhu	Lydia Sosene	Walter Togiamua	Tapped in – Spring Edition (1 Sept). Information on opening of Mark Ford Drive and Closure of Island Rd (26 Sept)		Shared information within Watercare on the proposed Norana pathway – Mangere (8 Nov). Letter of congratulation and supporting material sent to current Local Board Chair from Watercare Chief Executive - Electronic copy send to Local Board services staff (10 Nov).
Manurewa	Angela Dalton	Rangi McLean	Tapped in – Spring Edition (1 Sept)		Notification of public plant tours (3 Nov). Letter of congratulation and supporting material sent to current Local Board Chair from Watercare Chief Executive - Electronic copy send to Local Board services staff (10 Nov).
Maungakiekie - Tamaki	Josephine Bartley - until 22 April 2018, to be replaced by Chris Makoare on 23 April 2018.	Don Allan - until 29 October 2017. Debbie Burrows - 30 October 2017 to 28 October 2018. Bernie Driver – 29 October 2018 until end of the term.	Tapped in – Spring Edition (1 Sept)		Notification of public plant tours (3 Nov); Letter of congratulation and supporting material sent to current Local Board Chair from Watercare Chief Executive - Electronic copy send to Local Board services staff (10 Nov). Site blessing at Van Dammes Lagoon with At and Local Board (15 Nov).
Orakei	Colin Davis - After 18 months Kit Parkinson will Chair.	Kit Parkinson - After 18 months Carmel Claridge will be Deputy Chair	Tapped in – Spring Edition (1 Sept)		Letter of congratulation and supporting material sent to current Local Board Chair from Watercare Chief Executive - Electronic copy send to Local Board services staff (10 Nov). Notification of works on Mt Hobson watermains and reservoirs (11 Nov)
Otara - Papatoetoe	Lotu Fuli	Ross Robertson	Tapped in – Spring Edition (1 Sept)		Notification of public plant tours (3 Nov). Letter of congratulation and supporting material sent to current Local Board Chair from Watercare Chief Executive - Electronic copy send to Local Board services staff (10 Nov).
Papakura	Brent Catchpole	Felicity Auva'a	Tapped in – Spring Edition (1 Sept)		Notification of public plant tours (3 Nov). Letter of congratulation and supporting material sent to current Local Board Chair

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

Local Board	Chair	Deputy Chair	Sept -16	Oct 16 <i>(Local Govt. elections October 16)</i>	Nov 16
					from Watercare Chief Executive - Electronic copy send to Local Board services staff (10 Nov).
Puketapapa	Harry Doig	Julie Fairey	Tapped in – Spring Edition (1 Sept). Information provided in response to questions on the Central Interceptor project (27 Sept)		Notification of public plant tours (3 Nov). Letter of congratulation and supporting material sent to current Local Board Chair from Watercare Chief Executive - Electronic copy send to Local Board services staff (10 Nov).
Rodney	Beth Houlbrooke	Phelan Pirrie	Tapped in – Spring Edition (1 Sept). Local Board briefing re Omaha wastewater discharge and proposed easement over golf course (6 Sept).	Flyer regarding Wellsford wastewater consent renewal process and public drop-in session in Wellsford (5 Oct).	Respond to escalation related to IGC and Helensville Laundromat (9 Nov). Letter of congratulation and supporting material sent to current Local Board Chair from Watercare Chief Executive - Electronic copy send to Local Board services staff (10 Nov). Information for the Chair on Wellsford water and wastewater servicing in preparation for a local meeting (15 Nov). Information on alternative pipeline route for Snells Algies wastewater upgrades in preparation for public deputation (21 Nov).
Upper Harbour	Lisa Whyte (31 October 2016 to 1 June 2018) Margaret Miles (2 June 2018 to the end of the 2016-2019 political term)	Margaret Miles 31 October 2016 to 1 June 2018) Lisa Whyte (2 June to the end of the 2016-2019 political term)	Tapped in – Spring Edition (1 Sept)		Notification of public plant tours (3 Nov). Letter of congratulation and supporting material sent to current Local Board Chair from Watercare Chief Executive - Electronic copy send to Local Board services staff (10 Nov). Local Board member Uzra Balouch joined plant tour at Rosedale (20 Nov)
Waiheke	Paul Walden (26 October 2016 to Sunday, 22 April 2018) Cath Handley (23 April 2018 to the end of the 2016-2019 political term)	Cath Handley (26 October 2016 to Sunday, 22 April 2018) Paul Walden (23 April 2018 to the end of the 2016-2019 political term)	Tapped in – Spring Edition (1 Sept). Respond to issue on Waiheke Wastewater Servicing (2 Sept)		Letter of congratulation and supporting material sent to current Local Board Chair from Watercare Chief Executive - Electronic copy send to Local Board services staff (10 Nov). Matiatia visioning workshop – Watercare joined AT, the Local Board and other stakeholders for a half day workshop (10 Nov).
Waitakere Ranges	Greg Presland	Saffron Toms	Tapped in – Spring Edition (1 Sept). Update on the Glen Eden wastewater project (20 Sept).	Flyer update on the Glen Eden wastewater upgrades (5 Oct).	Shared imagery of Western Dams taken by aerial drone operator (8 Nov). Letter of congratulation and supporting material sent to current Local Board Chair from Watercare Chief Executive - Electronic copy send to Local Board services staff (10 Nov). Update on Parker Rd property purchase (25 Nov)

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

Local Board	Chair	Deputy Chair	Sept -16	Oct 16 <i>(Local Govt. elections October 16)</i>	Nov 16
Waitemata	Pippa Coom	Shale Chambers	Tapped in – Spring Edition (1 Sept). Information on Central and Waterfront Interceptor (12 Sept).		Update on the Wynyard Quarter wastewater servicing works (1 Nov). Invitation to dawn blessing of pump station in Wynyard quarter (7 Nov). Letter of congratulation and supporting material sent to current Local Board Chair from Watercare Chief Executive - Electronic copy send to Local Board services staff (10 Nov). Liaison regarding art work on Khyber Reservoir (23 Nov). Notification of wastewater overflow to Civic building and media enquiry (24 Nov). Information in preparation for Local Board plan (24 Nov.)
Whau	Tracey Mulholland	Susan Zhu	Tapped in – Spring Edition (1 Sept)		Letter of congratulation and supporting material sent to current Local Board Chair from Watercare Chief Executive - Electronic copy send to Local Board services staff (10 Nov).
Manukau Harbour Forum			Tapped in – Spring Edition (1 Sept)		

Report to the Board of Watercare Services Limited

Subject: Auditor Engagement

Date: 5 December 2016

1. BACKGROUND

The Auditor-General proposes that Deloitte continue as Watercare’s external auditor for the next three financial years. Deloitte have provided a proposal for the terms of the engagement which has been reviewed by Watercare. The proposal sets out the proposed fees and key staff members to be used in completing the audit. The audit fee has been kept largely flat with jointly targeted efficiencies of \$14,000 per annum having now been agreed between Watercare and Deloitte. The proposed efficiencies reflect the strong working relationship between Deloitte and Watercare.

2. APPENDICES

- Deloitte’s proposal to conduct Watercare’s audit for the next three financial years.
- Audit Engagement letter for the Financial year ending 30 June 2017.

3. RECOMMENDATION

That the Board accept the proposal that Deloitte be appointed as Watercare’s auditor for the Financial years ending 30 June 2017, 30 June 2018 and 30 June 2019 and approve the audit engagement letter for the financial year ending 30 June 17.

Prepared by:

Reviewed and recommended by:

Approved for submission by:

.....
Richard O’Connor
Financial Controller

.....
Brian Monk
Chief Financial Officer

.....
Raveen Jaduram
Chief Executive



Deloitte
Deloitte Centre
80 Queen Street
Auckland 1010

Private Bag 115033
Shortland Street
Auckland 1140
New Zealand

Tel: +64 9 303 0700
Fax: +64 9 303 0701
www.deloitte.co.nz

21 November 2016

Ref.: EN/CCO/2-0143

Julia Hoare
Chairman of the Audit and Risk Committee
Watercare Services Limited
Private Bag 92521, Wellesley Street
Auckland 1141

Copy: Director Auditor Appointments
Office of the Auditor-General
PO Box 3928
Wellington

Dear Julia

Proposal to conduct the audit of Watercare Service Limited and subsidiaries on behalf of the Auditor-General for the 2017, 2018 and 2019 financial years

1 Introduction

The Auditor-General proposes to appoint me to carry out the audit of your organisation for the next three years. As required by the Office of the Auditor-General (OAG), I set out below information relating to the audit for the three financial years ending 30 June 2017, 2018 and 2019. The purpose of this proposal is to provide information on:

- the statutory basis for the audit and how audit fees are set;
- the entities covered by this proposal;
- key members of the audit team;
- the hours we plan to spend on the audit and reasons for any change in hours;
- our proposed fees for the audit for the financial years ending 30 June 2017, 2018 and 2019 and reasons for any change;
- assumptions relating to the proposed audit fees, including what we expect of your organisation;
- what the OAG overhead charge provides;
- certification required by the Auditor-General; and
- our commitment to conduct the audit in accordance with the Auditor-General's Auditing Standards.

2 Statutory basis for the audit and how audit fees are set

The audit of your organisation is carried out under Section 15 of the Public Audit Act 2001, which states that "the Auditor-General must from time to time audit the financial statements, accounts, and other information that a public entity is required to have audited".



21 November 2016
Watercare Services Limited
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Fees for audits of public entities are set by the Auditor-General under section 42 of the Public Audit Act 2001. However, your Board of Directors and I have the opportunity to reach agreement first and recommend those fees for approval. The Auditor-General, with assistance from the OAG, will set audit fees directly only if we fail to reach agreement.

Our proposed audit fees are set out in this letter and include an estimate of the reasonable cost of disbursements (including travel and accommodation where necessary).

3 Entities covered by this proposal

This proposal covers the audit of Watercare Services Limited and Auckland City Water Limited.

Separate proposals are provided for the audits of the Watercare Harbour Clean-Up Trust and the Water Utility Consumer Assistance Trust, even though they are part of the group, due to their separate governing bodies.

4 Key members of the audit team

Appointed Auditor	Andrew Burgess
Quality Control Reviewer	Bruno Dente (2017/2018) Jason Stachurski (2019)
Audit Managers	Kate Leung (maternity leave until June 2017)/ Bennie Greyling/Jinshan Lim

5 Estimated audit hours

We estimate that the following hours will be required to carry out the audits (compared to budgeted and actual data from the previous financial year):

Audit team member	2016 Budget	2016 Actual*	2017*	2018*	2019*
Appointed Auditor	180	140	150	140	150
Review Partner / Director	15	15	15	15	15
Audit Manager	350	350	380	350	380
Other CA qualified staff	400	410	450	400	450
Non CA qualified staff	1,271	1,193	1,300	1,250	1,300
Other specialists [<i>Taxation and IT</i>]	450	343	350	350	350
Total audit hours	2,666	2,451	2,645	2,505	2,645

* Includes fees for both Watercare Services Limited and Auckland City Water Limited (Auckland City Water Limited was not included in the previous proposal as it did not require an audit at that stage).



5.1 Reasons for changes in audit hours

The major reasons for the changes in hours for your organisation's audit are:

Reasons for increased or decreased audit hours compared to previous period budgeted hours:	2017	2018	2019
Previous period budgeted hours	2,666	2,645	2,505
Additional work due to PPE asset revaluation*	140	(140)	140
Rebase audit hours**	(161)		
Total increase (decrease) in audit hours	(21)	(140)	140
Total estimated audit hours	2,645	2,505	2,645

* PPE is revalued every 2 years, fees and hours will only be incurred if relevant.

** When submitting the previous proposal for the 2014 to 2016 audits, audit hours were anticipated to be higher than was previously budgeted due to challenges relating to the quality of data in the fixed asset registers (based on actual hours and experiences in the 2013 audit). In 2014/2015 significant efforts were made to cleanse the data and accordingly the additional work effort required to analyse data has reduced. The entity has significant capex program increases (eg central interceptor tunnel) in the coming periods that will require appropriate audit procedures

6 Proposed audit fees

Our proposed fees for the next three audits (compared to budgeted and actual data from the previous financial year) are:

Structure of audit fees	2016 budget	2016 actual*	2017*	2018*	2019*
	\$	\$	\$	\$	\$
Net audit fee (excluding OAG overhead and disbursements)	522,805	525,305	561,400*	522,500	558,000*
OAG overhead charge	37,000	37,320	38,000	38,700	39,500
Total audit fee (excluding disbursements)	559,805	562,625	599,400	561,200	597,500
Estimated Disbursements	2,650	2,650	2,800	2,850	2,900
Total billable audit fees and charges	562,455	565,275	602,200	564,050	600,400
GST	84,368	84,791	90,330	84,607	90,060
Total (including GST)	646,823	650,066	692,530	648,657	690,460

* Includes fees for both Watercare Services Limited and Auckland City Water Limited (Auckland City Water Limited was not included in the previous proposal as it did not require an audit at that stage).

*2017 and 2019 include an allowance for PPE revaluation extra work of \$37000 (previously \$37,750) which is only charged if a revaluation is undertaken.

Note that, as discussed under 5.1 above, when the budgeted audit hours were increased in 2013, the audit fee was not adjusted to the same extent due to undertakings by management to make improvements that would result in efficiencies. In addition, for the budgeted fee for 2014, there was an agreed reduction from the previous fee for expected efficiencies. The agreed



improvements made have resulted in efficiencies and accordingly the budgeted hours have been adjusted to reflect this without further reducing the proposed fees.

The audit fees allow for the audit team to carry out specific tasks identified in the OAG Sector Brief and for the OAG overhead charge. We have also estimated the reasonable cost of disbursements (including travel and accommodation where necessary). Disbursement costs are indicative only and will be charged on an actual and reasonable basis.

6.1 Reasons for changes in audit fees

The main changes in cost components for future audits are:

Reasons for increased or decreased audit fees compared to previous period <u>actual</u> fees (excluding disbursements and OAG overhead charge).	2017	2018	2019
Previously actual/budget net audit fee excluding OAG overhead and disbursements	525,305	523,400	522,500
Predicted staff salary cost movements (2.5% inflation allowance)	13,095	13,100	13,000
Jointly targeted efficiencies	(14,000)	(14,000)	(14,000)
Subtotal	524,400	522,500	521,500
PPE revaluation(will only be charged in years when revaluations completed)	37,000	-	37,000
Net Audit Fee (excluding OAG overhead and disbursements)	561,400	522,500	558,000

7 Assumptions relating to our audit fee

Our proposed audit fees are based on the following assumptions that:

- You will provide to us in a timely manner the complete information required by us to conduct the audit.
- Your staff will provide us with an appropriate level of assistance.
- Your organisation's annual report and financial statements (including Statements of Service Performance) will be subject to appropriate levels of quality review before being submitted to us for audit.
- Your organisation's financial statements will include all relevant disclosures.
- We will review up to two sets of draft annual reports, one printer's proof copy of the annual report, and one copy of the electronic version of the annual report (for publication on your website).
- There are no significant changes to the structure and/or scale of operations of the entities covered by this proposal (other than as already advised to us).
- There are no significant changes to mandatory accounting standards or the financial reporting framework that require additional work.
- There are no significant changes to mandatory auditing standards that require additional work other than items specifically identified in the tables above.



- There are no significant changes to the agreed audit arrangements (set out in an annual letter we will send you) that change the scope of, or disbursements related to, this audit.
- The revaluation of PPE occurs only once every two years.

If the scope and/or amount of work changes significantly, we will discuss the issues with you and the OAG at the time.

8 What the OAG overhead charge provides

Parliament has indicated that it expects the full cost of annual audits under the Public Audit Act (including an OAG overhead charge) to be funded by public entities.

The OAG overhead charge partially funds a range of work that supports auditors and entities, including:

- development and maintenance of auditing standards;
- technical support for auditors on specific accounting and auditing issues;
- ongoing auditor training on specific public sector issues;
- preparation of sector briefs to ensure a consistent approach to annual audits;
- development and maintenance of strategic audit plans; and
- carrying out quality assurance reviews of all auditors, and their audits and staff on a regular (generally, three-year) cycle.

Appointed Auditors are required to return the OAG overhead charge portion of the audit fee, to the OAG.

9 Certifications required by the Auditor-General

We certify that:

- the undertakings, methodology, and quality control procedures that we have declared to the OAG continue to apply;
- our professional indemnity insurance policy covers this engagement; and
- the audit will be conducted in accordance with the terms and conditions of engagement set out in the audit engagement agreement and schedules.

10 Conclusion

As the Appointed Auditor, I am committed to providing you and the Auditor-General with the highest level of professional service. I intend to work with you, the OAG, and the Auditor-General in a partnership environment to resolve any issues that may arise.

If you require any further information, please do not hesitate to contact me.



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Watercare Services Limited
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Please counter-sign this letter (below) to confirm that you, and the governing body of your organisation, agree with its contents. This letter will then form the basis for a recommendation to the Auditor-General on the audit fee that should be set. The schedules of audit hours and fees will also be incorporated into my audit engagement agreement with the Auditor-General to carry out the audit of your organisation as the agent of the Auditor-General.

Yours sincerely

Andrew Burgess
Partner
for Deloitte Limited
Appointed on behalf of the Auditor-General

I accept the audit fees for the audit of the three financial years as stated above.

Full name: _____ Position: _____
Authorised signature: _____ Date: _____
Entity name: _____

Actions to take when agreement has been reached:

- 1 Make a copy of this signed proposal and keep it for your file.
- 2 Send the original to: Andrew Burgess
Deloitte
Private Bag 115033
Shortland Street
Auckland 1140



Deloitte
Deloitte Centre
80 Queen Street
Auckland 1010

Private Bag 115033
Shortland Street
Auckland 1140
New Zealand

Tel: +64 9 303 0700
Fax: +64 9 303 0701
www.deloitte.co.nz

21 November 2016

Julia Hoare
The Chairperson
Audit and Risk Committee
Watercare Services Limited
Private Bag 92 521
Wellesley Street
Auckland

Dear Julia

AUDIT ENGAGEMENT LETTER

This audit engagement letter is sent to you on behalf of the Auditor-General, who is the auditor of all "public entities", including Watercare Services Limited under section 14 of the Public Audit Act 2001 (the Act). The Auditor-General has appointed me, Andrew Burgess, using the staff and resources of Deloitte, under section 32 and 33 of the Act, to carry out the annual audits of the Watercare Services Limited's financial statements and performance information. We will be carrying out these annual audits on the Auditor-General's behalf, for the years ending 30 June 2017 to 30 June 2019.

This letter outlines:

- the terms of the audit engagement and the nature, and limitations, of the annual audit; and
- the respective responsibilities of the Board of Directors and me, as the Appointed Auditor, for the financial statements and performance information.

The objectives of the annual audit are:

- to provide an independent opinion on the Company and subsidiaries financial statements and performance information;
- to provide an independent opinion on whether the Board of Directors and kept proper accounting records in accordance with the Financial Reporting Act 1993; and
- to report on other matters relevant to the Company and subsidiaries' financial and other management systems that come to our attention, need improvement or are significant (for example, non-compliance with statutory obligations or a lack of probity).

We will carry out the audit in accordance with the Auditing Standards issued by the Auditor-General, which incorporate the International Standards on Auditing (New Zealand) (the Auditing Standards). They require that we comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the Company and subsidiaries' financial statements and performance information are free from material misstatements.

Your responsibilities

Our audit will be carried out on the basis that the Governing body acknowledges that it has responsibility for:

- preparing the financial statements and performance information in accordance with legal requirements and financial reporting standards;
- having such internal control as you determine is necessary to enable you to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error; and



- providing us with:
 - access to all information of which the Company is aware that is relevant to preparing the financial statements and performance information such as records, documentation, and other matters;
 - additional information that we may request from the Company for the purpose of the audit;
 - unrestricted access to Board of Directors members and employees that we consider necessary; and
 - written confirmation concerning representations made to us in connection with the audit.

The Board of Director's responsibilities extend to all resources, activities, and entities under its control. We expect that the Board of Directors will ensure:

- the resources, activities and entities under its control have been operating effectively and efficiently;
- it has complied with its statutory obligations including laws, regulations, and contractual requirements;
- it has carried out its decisions and actions with due regard to minimising waste;
- it has met Parliament's and the public's expectations of appropriate standards of behaviour in the public sector in that it has carried out its decisions and actions with due regard to probity; and
- its decisions and actions have been taken with due regard to financial prudence.

We expect the Board of Directors and/or the individuals within the Company with delegated authority to immediately inform us of any suspected fraud, where there is a reasonable basis that suspected fraud has occurred regardless of the amount involved. Suspected fraud also includes instances of bribery and/or corruption.

The Board of Directors should have documented policies and procedures to support its responsibilities. It should also regularly monitor performance against its objectives.

The Board of Directors has certain responsibilities relating to the preparation of the financial statements and performance information and in respect of financial management and accountability matters. These specific responsibilities are set out in Annex 1. We assume that members of the Board of Director's are familiar with those responsibilities and, where necessary, have obtained advice about them.

Our responsibilities

Carrying out the audit

We are responsible for forming an independent opinion on whether the financial statements and performance information of the Company and its subsidiaries:

- comply with generally accepted accounting practice; and
- presents fairly, in all material respects its position and performance.

An audit involves obtaining evidence about the amounts and disclosures in the financial statements and performance information. How we obtain this information depends on our judgement, including our assessment of the risks of material misstatement of the financial statements and performance information, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements and performance information.

We do not examine every transaction, nor do we guarantee complete accuracy of the financial statements and performance information. Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with the Auditing Standards.



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During the audit, we consider internal control relevant to the Company's preparation of the financial statements and performance information, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls.

Please note that the audit does not relieve the Board of Directors of its responsibilities. The Auditor-General expects members of the Board of Directors to be familiar with those responsibilities and, where necessary, to have obtained advice about them.

However, we will communicate to you in writing any significant deficiencies in internal control relevant to the audit of the financial statements and performance information that we have identified during the audit.

During the audit, the audit team will maintain an alertness for issues of:

- effectiveness and efficiency – in particular, how the Board of Directors and the Company have carried out their activities;
- non-compliance with laws, regulations, and contractual requirements;
- waste – in particular, whether the Board of Directors obtained and applied the resources of the Company in an economical manner, and whether any resources are being wasted;
- a lack of probity – in particular, whether the Board of Directors and the Company have met Parliament's and the public's expectations of appropriate standards of behaviour in the public sector; and
- a lack of financial prudence.

Our independence

It is essential that the audit team and Deloitte remain both economically and attitudinally independent of the Company and its subsidiaries (including management and the Board of Directors). This involves being, and appearing to be, free of any interest that might be regarded, whatever its actual effect, as being incompatible with integrity, objectivity, and independence.

To protect our independence, specific limitations are placed on us in accepting engagements with the Company and its subsidiaries other than the annual audit. We may accept certain types of other engagements, subject to the requirements of the Auditing Standards. Any such other engagements must be the subject of a separate written arrangement between the Board of Directors and myself or Deloitte.

Reporting

We will issue an audit report that will be attached to the financial statements and performance information. This report contains an opinion that provides readers with reasonable assurance on whether the financial statements and performance information have been prepared in accordance with legal requirements, are free from material misstatements, and comply with financial reporting standards. It may also contain comment on matters such as compliance with statutory obligations, and other matters that we consider may be of interest to the readers of the audit report.

We will also issue a management letter that will be sent to the Board of Directors. This letter communicates any matters that come to our attention during the audit that, in our opinion, are relevant to the Board of Directors (for example, internal control weaknesses, probity matters, or compliance with statutory obligations).

Please note that the Auditor-General may publically refer to matters that are identified in the annual audit in keeping with section 21 of the Public Audit Act 2001.

Fees

The fee will be charge in accordance with the Audit Proposal Letter as agreed between Watercare Services Limited, the Office of the Auditor-General and Deloitte.



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The fees for the current year are detailed below:

Audit of the financial statements of the Company for the year ended 30 June 2017	\$561,400
OAG overhead charge	\$38,000
Disbursement	\$2,800
Total Fees	<u>\$602,200</u>

This estimate is exclusive of GST and out-of-pocket disbursements and relates to the issuance of the audit opinion. It assumes that you will provide us with financial statements that comply with the applicable financial reporting framework as specified in this letter. It has also been prepared on the assumptions that there will be no significant problems encountered which require additional audit time and that the Entity and Group will adhere to its own annual accounts timetable. Any additional time incurred, if these assumptions are not met, or alternatively, any reduction in costs from efficiencies made, will be passed on in our final fee

We proposed to bill the above fees as follow:

April 2017	\$50,000
May 2017	\$100,000
June 2017	\$100,000
July 2017	\$211,400
August 2017	<u>\$100,000</u>
Total Fees	<u>\$561,400</u>

Disbursements and OAG contribution will be billed as incurred.

Next steps

Please acknowledge receipt of this letter and the terms of the audit engagement by signing the enclosed copy of the letter in the space provided and returning it to me. The terms will remain effective until a new Audit Engagement Letter is issued.

Annex 2 contains some additional "other" responsibilities for the audit.

If you have any questions about the audit generally, or have any concerns about the quality of the audit, you should contact me as soon as possible. If after contacting me you still have concerns, you should contact the Director of Auditor Appointments at the Office of the Auditor-General on (04) 917 1500.

If you require any further information, or wish to discuss the terms of the audit engagement further before replying, please do not hesitate to contact me.

Yours faithfully

Andrew Burgess
Partner
for Deloitte Limited
On behalf of the Auditor-General



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I acknowledge the terms of this engagement and that I have the required authority on behalf of the Board of Directors.

Signature:

Name:

Title: Date:



Annex 1 – Respective specific responsibilities of the Board of Directors and the Appointed Auditor

Responsibilities for the financial statements and performance information	
<i>Responsibilities of the Board of Directors</i>	<i>Responsibilities of the Appointed Auditor</i>
<p>You are required by legislation to prepare financial statements and, where appropriate, other accountability statements that comply with generally accepted accounting practice in New Zealand and that present fairly, in all material respects the activities of the public entity during the year, and its financial position at the end of the year.</p> <p>You must also ensure that any accompanying information in the annual report is consistent with that reported in the audited financial statements and performance information.</p> <p>You are required by legislation to prepare the financial statements and performance information and provide that information to us before the statutory reporting deadline. It is normal practice for you to set your own timetable to comply with statutory reporting deadlines.</p>	<p>We are responsible for carrying out an annual audit, on behalf of the Auditor-General, and to form an opinion on whether the public entity's financial statements and performance information have been prepared in accordance with legal requirements, comply with generally accepted accounting practice in New Zealand and presents fairly, in all material respects the position and performance of the public entity.</p> <p>We will also read other accompanying information to the financial statements and performance information to identify whether there are material inconsistencies with the audited financial statements and performance information.</p> <p>Materiality is one of the main factors affecting our judgement on the areas to be tested and on the timing, nature, and extent of the tests and procedures performed during the audit. In planning and performing the annual audit, we aim to obtain reasonable assurance that the financial statements and performance information do not have material misstatements caused by either fraud or error. Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence a reader's overall understanding of the financial statements and performance information.</p> <p>If we find material misstatements that are not corrected, they will be referred to in the audit opinion. The Auditor-General's preference is for you to correct any material misstatements and avoid the need for them to be referred to in the audit opinion.</p> <p>An audit also involves evaluating:</p> <ul style="list-style-type: none"> - the appropriateness of accounting policies used and whether they have been consistently applied; - the reasonableness of the significant accounting estimates and judgements made by those charged with governance; - the appropriateness of the content and measures in any non-financial accountability statements; - the adequacy of the disclosures in the financial statements and performance information; and



Responsibilities for the financial statements and performance information	
	<ul style="list-style-type: none"> - the overall presentation of the financial statements and performance information. <p>We will ask you for written confirmation of representations made about the financial statements and performance information. In particular, we will seek confirmation that:</p> <ul style="list-style-type: none"> - the adoption of the going concern assumption is appropriate; - all material transactions have been recorded and are reflected in the financial statements and performance information; - all instances of non-compliance or suspected non-compliance with laws and regulations have been disclosed to us; and - uncorrected misstatements noted during the audit are immaterial to the financial statements and performance information. <p>Any representation made does not in any way reduce our responsibility to perform appropriate audit procedures and enquiries.</p>

Responsibilities for the accounting records	
<i>Responsibilities of the Board of Directors</i>	<i>Responsibilities of the Appointed Auditor</i>
<p>You are responsible for maintaining accounting and other records that:</p> <ul style="list-style-type: none"> - correctly record and explain the transactions of the public entity; - enable you to monitor the resources, activities, and entities under its control; - enable the public entity's financial position to be determined with reasonable accuracy at any time; - enable you to prepare financial statements and performance information that comply with legislation (and that allow the financial statements and performance information to be readily and properly audited); and - are in keeping with the requirements of the Commissioner of Inland Revenue. 	<p>We will perform sufficient tests to obtain reasonable assurance as to whether the underlying records are reliable and adequate as a basis for preparing the financial statements and performance information.</p> <p>If, in our opinion, the records are not reliable or accurate enough to enable the preparation of the financial statements and performance information and the necessary evidence cannot be obtained by other means, we will need to consider the effect on the audit opinion.</p>

Responsibilities for accounting and internal control systems	
<i>Responsibilities of the Board of Directors</i>	<i>Responsibilities of the Appointed Auditor</i>
<p>You are responsible for establishing and maintaining accounting and internal control systems (appropriate to the size of the public entity), supported by written policies and procedures, designed to provide reasonable assurance as to the integrity and reliability of financial and, where applicable, and performance information.</p>	<p>The annual audit is not designed to identify all significant weaknesses in your accounting and internal control systems. We will review the accounting and internal control systems only to the extent required to express an opinion on the financial statements and performance information.</p> <p>We will report to you separately, any significant weaknesses in the accounting and internal</p>



	control systems that come to our notice and that we consider may be relevant to you. Any such report will provide constructive recommendations to assist you to address those weaknesses.
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Responsibilities for preventing and detecting fraud and error	
<i>Responsibilities of the Board of Directors</i>	<i>Responsibilities of the Appointed Auditor</i>
<p>The responsibility for the prevention and detection of fraud and error rests with you through the implementation and continued operation of adequate internal control systems (appropriate to the size of the public entity) supported by written policies and procedures.</p> <p>We expect you to formally address the matter of fraud, and formulate an appropriate policy on how to minimise it and (if it occurs) how it will be dealt with. Fraud also includes bribery and corruption.</p> <p>We expect you to consider reporting all instances of actual, suspected or alleged fraud to the appropriate law enforcement agency, which will decide whether proceedings for a criminal offence should be instituted. We expect you to immediately inform us of any suspected fraud where you, and/or any individuals within the Company or its subsidiaries with delegated authority have a reasonable basis that suspected fraud has occurred, regardless of the amount involved.</p>	<p>We design our audit to obtain reasonable, but not absolute, assurance of detecting fraud or error that would have a material effect on the financial statements and performance information. We will review the accounting and internal control systems only to the extent required for them to express an opinion on the financial statements and performance information, but we will:</p> <ul style="list-style-type: none"> - assess the effectiveness of internal control systems and procedures for preventing and detecting fraud and error; and - report to you the significant weaknesses in internal control systems and procedures for monitoring the prevention and detection of fraud and error that come to our notice and that we consider could be relevant to you. <p>We are required to immediately advise the Office of the Auditor-General of all instances of actual, suspected or alleged fraud.</p> <p>As part of the audit, you will be asked for written confirmation that you have disclosed all known instances of actual, suspected or alleged fraud to us.</p> <p>If we become aware of the possible existence of fraud, whether through applying audit procedures, advice from you, or management, or by any other means, we will communicate this to you with the expectation that you will consider whether it is appropriate to report the fraud to the appropriate law enforcement agency. In the event that you do not report the fraud to the appropriate law enforcement agency, the Auditor-General will consider doing so, if it is appropriate for the purposes of protecting the interests of the public.</p>

Responsibilities for compliance with laws and regulations	
<i>Responsibilities of the Board of Directors</i>	<i>Responsibilities of the Appointed Auditor</i>
<p>You are responsible for ensuring that the public entity has systems, policies, and procedures (appropriate to the size of the public entity) to ensure that all applicable legislative, regulatory, and contractual requirements that apply to the activities and functions of the public entity are complied with. Such systems, policies, and procedures should be documented.</p>	<p>We will assess whether you have systems, policies, and procedures to ensure compliance with those legislative, regulatory, and contractual requirements that are relevant to the audit. We will either perform specific audit tests to assess whether you have complied with statutory requirements that are relevant to the audit or will maintain an awareness for possible non-compliance that may be relevant to the audit.</p>



	<p>The way in which we will report instances of non-compliance that come to our attention will depend on considerations of materiality or significance. We will report to you and to the Auditor-General all material and significant instances of non-compliance.</p> <p>We will also report to you any significant weaknesses that we observe in internal control systems, policies, and procedures for monitoring compliance with laws, regulations, and contractual requirements that we consider may be relevant.</p>
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Responsibilities to establish and maintain appropriate standards of conduct and personal integrity	
<i>Responsibilities of the Board of Directors</i>	<i>Responsibilities of the Appointed Auditor</i>
<p>You should at all times take all practicable steps to ensure that your members and employees maintain high standards of conduct and personal integrity. You should document your expected standards of conduct and personal integrity in a "Code of Conduct" and, where applicable, support the "Code of Conduct" with policies and procedures.</p> <p>The expected standards of conduct and personal integrity should be determined by reference to accepted "Codes of Conduct" that apply to the public sector.</p>	<p>We will have regard to whether you maintain high standards of conduct and personal integrity. Specifically, we will be alert for significant instances where members and employees of the public entity may not have acted in accordance with the standards of conduct and personal integrity expected of them.</p> <p>The way in which we will report instances that come to our attention will depend on significance. We will report to you and to the Auditor-General all significant departures from expected standards of conduct and personal integrity.</p> <p>The Auditor-General, on receiving a report from us, may, at their discretion and with consideration of its significance, decide to conduct a performance audit of, or an inquiry into, the matters raised. The performance audit or inquiry will be subject to specific terms of reference, in consultation with you. Alternatively, the Auditor-General may decide to publicly report the matter without carrying out a performance audit or inquiry.</p>

Responsibilities for conflicts of interest and related parties	
<i>Responsibilities of the Board of Directors</i>	<i>Responsibilities of the Appointed Auditor</i>
<p>You should have policies and procedures to ensure that your members and employees carry out their duties free from bias.</p> <p>You should maintain a full and complete record of related parties and their interests. It is your responsibility to record and disclose related-party transactions in the financial statements and performance information in accordance with generally accepted accounting practice.</p>	<p>To help determine whether your members and employees have carried out their duties free from bias, we will review information provided by you that identifies related parties, and will be alert for other material related-party transactions. We will check that you have complied with any statutory requirements for conflicts of interest and whether these transactions have been properly recorded and disclosed in the financial statements and performance information.</p>



Responsibilities for publishing the audited financial statements on a website	
<i>Responsibilities of the Board of Directors</i>	<i>Responsibilities of the Appointed Auditor</i>
<p>You are responsible for the electronic presentation of the financial statements and performance information on the public entity's website. This includes ensuring that there are enough security and controls over information on the website to maintain the integrity of the data presented.</p> <p>If you intend to publish or reproduce the financial statements and performance information, together with the audit report, on a website, you must, before publication, provide us with a draft version of the documents to read and must obtain our approval to include the audit report with the information you intend publishing on the website.</p> <p>If the audit report is reproduced in any medium, you should present the complete financial statements, including notes and accounting policies as well as any other accountability statements.</p> <p>If you intend to post any new material not previously read by us, you must advise us before posting the new material.</p>	<p>We will perform procedures to satisfy ourselves that the information you intend including on your website is consistent with the audited financial statements and performance information, and that the audit report will not be inappropriately associated with any information that has not been audited.</p> <p>Examining the controls over the electronic presentation of audited financial statements and performance information, and the associated audit report, on your website is beyond the scope of the annual audit.</p> <p>We will review the material on initial posting, and on notification from you that new material has been posted on the website. We do not carry out ongoing monitoring of the material on your website.</p>



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Watercare Services Limited
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Annex 2 – Other responsibilities

To meet the reporting deadlines, we are dependent on receiving the public entity's financial statements and performance information ready for audit and in enough time to enable the audit to be completed. "Ready for audit" means that the financial statements and performance information have been prepared in accordance with legal requirements, comply with generally accepted accounting practice and present fairly, in all material respects the activities and position of the public entity, and are supported by proper accounting records and complete evidential documentation.

We will ensure that the annual audit is completed by the reporting deadline or, if that is not practicable because of the non-receipt or condition of the financial statements and performance information, or for some other reason beyond our control, as soon as possible after that.

The work papers that we produce in carrying out the audit are the property of the Auditor-General. Workpapers are confidential to the Auditor-General and subject to the disclosure provisions in section 30 of the Public Audit Act 2001.

The Auditor-General and Audit Service Providers take seriously their responsibility to provide a safe working environment for audit staff. Under the Health and Safety at Work Act 2015 we need to make arrangements with you to keep our audit staff safe while they are working at your premises. We expect you to provide a work environment for our audit staff that is without risks to their health and safety. This includes providing adequate lighting and ventilation, suitable desks and chairs, and safety equipment, where required. We also expect you to provide them with all information or training necessary to protect them from any risks they may be exposed to at your