

Watercare

Quarter 3 performance report

For the period ending 31 March 2023

This report outlines the key performance of Watercare which includes water supply, and wastewater related activities and investments

Watercare Q3 summary

Highlights, issues & risks for the quarter

Highlights

- Over January and February 2023, Auckland received two thirds of its average annual rainfall. We were able to quickly stand up four incident teams to manage the storm and cyclone events 24/7 as they unfolded as well as deploy our operational teams across Auckland to maintain our services.
- Over the course of the flooding incident, we stressed Health and Safety of our teams, including taking care when travelling at night given visibility and slips on many roads. Our leaders' messaging was clear that our people's safety was our number one concern during the incident, along with restoring service to Aucklanders.
- We were proactive with our external communications during the extreme weather and received excellent feedback from our customers and stakeholders, which is reflected in the significant uplift in our trust score. Our stakeholder team alone had over 1,500 interactions with local body and elected members during the extreme weather.
- Following the events, a separate flood response recovery team comprising leaders from various areas of the business has been set up. We are working collaboratively with Auckland Council and other utilities who are also carrying out repair work to ensure we minimise disruption to communities, and where possible, only dig once. Whilst some repairs can be made relatively quickly it is likely to take at least two years to complete the repairs and adaptation will undoubtedly feature in the recovery rebuild. Climate change adaptation has been identified as a component of the Flood Recovery programme and a project to align lessons learnt with future climate projections will also take place.
- In late February 2023 we deployed a small team to Napier to support the Cyclone Gabrielle emergency response and ensure we share our expertise.
- An increase in water and wastewater tariffs, as well as Infrastructure Growth Charges, will be effective from 1 July 2023. This will be accompanied by a proactive communications plan that clearly explains how the price path will contribute to growth, resilience, and service quality. The messaging will also highlight the related measures we are putting in place to support financially vulnerable customers.
- On 24 March 2023, the Central Interceptor's micro tunnel boring machine Domenica finished tunnelling for the first link sewer in Mt Roskill, almost a month ahead of schedule.

Issues & risks

- In Q3 we had some wastewater consent noncompliance due to storm surges and flow volumes. The appropriate parties (for example the Māngere Audit committee) have been informed.
- Our Muriwai Water Treatment Plant (WTP) has been red stickered. More than half of the 211 Residential properties that Watercare normally supplies in Muriwai were also red stickered or cannot be occupied. We have an interim solution in place to maintain water supply to remaining customers and we are working on a medium and long-term solution.
- Workloads remain high; and our people remain concerned and unsettled about water reform. We are therefore working closely with our staff around the announcements from the DIA that impact our people (e.g. new organisational structures). Consultation on job position and transition pathway commenced on 23 March 2023 and we are encouraging our people to share their views independently and directly.
- Controllable costs are on track for budget. All storm and cyclone related costs will be ringfenced for insurance and reporting purposes. We have provided Auckland Council with an initial estimate of at least \$250 million to repair our network following the flood events and an upper estimate of \$460m for repair and adaptation where necessary.

Financials (\$million)	YTD actual	YTD budget	Actual v Budget
Capital delivery	536	542	↓ 1.1%
Direct revenue	671	669	↑ 0.4%
Direct expenditure	285	258	↑ 10.3%
Net direct revenue	387	411	↓ 5.9%

Financial commentary

Capital delivery: Actual spend YTD is broadly in line with plan although, progress has been impacted due to weather related delays. Progress is now accelerating and we are expecting to exceed planned capital spend by the end of the financial year. The high end estimate is \$775m vs plan of \$714m. The impact of this improvement in capital delivery and any implications for funding is being assessed and will be provided to Council for review and approval as required.

Direct revenue: Revenue is in-line with plan overall but the detailed revenue picture is mixed. The Waikato District Council (WDC) contract is ahead of plan (noting that this is a cost recovery contract), and Water and Wastewater revenue is also above plan. This reflects the conservative assumptions made in the plan which reflected the drought conditions experienced in the previous year. This has been offset by a decline in developer Infrastructure Growth Charge (IGC) applications and therefore IGC revenue. IGC's are ~\$21m lower than budget and \$11m lower than FY22. IGC assessments YTD are 21.4% down compared to the same period last year reflecting the general reduction in developer activity.

Direct expenditure: Direct expenditure is unfavourable to plan with Lutra included in actuals but not the plan (\$7m), WDC being ahead of plan (as noted above these costs are offset by revenue), and the impact of January/February weather events (\$7m). There is also continued escalation in costs, particularly for chemicals which have increased 20% YOY.

Strategic focus area – Central Interceptor

Key commentary

As at 31 March 2023, a total of \$743 million has been spent towards the Central Interceptor (CI) against a total CI budget of \$1.268 billion. In addition, the CI programme manages \$30m of Western Isthmus Water Quality Improvement Programme (WIWQIP) works and \$180m for the Point Erin Tunnel works, subject to obtaining the necessary resource consents. Good progress has been made in the quarter with 15 of the 16 work sites now established.

The project is forecasted to be completed by June 2026 following the settlement of all Covid-19 claims. Settlement of Covid-19 claims has not resulted in an increase in project budget, and there have been no requests to the Board for additional funding to deliver the agreed scope of works. Whilst the CI programme currently remains within the approved budget, this is highly contingent on inflation in the coming years, returning to normal levels.

Highlights

- The Tunnel Boring Machine (TBM) has now hit the 5km mark, with only 2.5km to go to May Road. The second self-contained-self-rescuer (SCSR) changeover station has now been established inside the tunnel.
- Link Sewer C: The Micro Tunnel Boring Machine (mTBM) Drive 4 from Miranda Reserve to Pump Station 25 is now complete. This element involved some of the longest drives and deepest soft ground pipejacking ever done in New Zealand.
- Māngere Pump Station: The first section of the valve platform wall has been poured into the shaft. Confluence Chamber works continue to progress well, settlement monitoring of the Eastern and Southwestern Interceptors is ongoing with no issues to report.
- The official launch of three E-Trucks was held on 21 March 2023 with significant media interest. These trucks are the first heavy electric tipplers in the country and produce 79% less CO₂ emissions compared to their diesel counterparts.
- Point Erin: The landowner approval application was submitted on 28 February 2023. The archaeological authority application is underway.
- In January 2023, the Central Interceptor team has been announced as recipients of a Jacobs New Zealand's Beyond Excellence Award for 'doing things right' in terms of taking responsibility for their work, caring for people, and staying focused on health and safety. The Central Interceptor team were one of six recipients – making this a special achievement. The team will receive USD\$1,000 to donate to their chosen charity – Heart Kids New Zealand.

Issues & risks

- The sourcing and retention of personnel remains critical along with the increased risk of cost escalations. There continues to be project impacts from the global supply chain, international shipping delays, and the tight labour market.
- Contractual claims resulting in cost overruns: This risk relates to an event, such as unforeseen physical conditions occurring during construction that results in a valid claim by the contractor. We continue to work with the contractor to mitigate these risks wherever possible.
- Health, safety, and wellbeing: Lifting, crane operations and working around plant and equipment remain a significant risk for the project. There was a serious close call at our Haverstock site in February 2023 when the wire rope came off the sheave wheel on the crane main block during a lift. The crane has subsequently been repaired and an investigation is underway.
- Impact on operations: The commissioning and interface with existing operational assets is being managed through proactive risk planning of all works and through developing appropriate contingency plans.
- Flooding event 27 January 2023: the event is considered force majeure under the Contract and GAJV will be lodging a claim. WSL will claim on the Contract specific insurances (deductible is \$500k). The policy is for "damage" and delay is not covered. No estimate yet for the "insurance gap".
- Modelling of escalation (construction inflation) as determined under the contract has identified a risk to the project budget. Detailed analysis of the likely impact of escalation is being completed and will be assessed through the Watercare Audit and Risk Committee before being considered by the Board.

Strategic context

The CI is a 14.7km wastewater tunnel, running from Grey Lynn to the Māngere Wastewater Treatment Plant.

The CI will increase the capacity of the wastewater network, replace aging infrastructure, and reducing wet weather overflows in the catchment area by around 80%. The extension of the tunnel to Grey Lynn will also allow Council and Watercare to work towards the goals that form part of the Western Isthmus Water Quality Improvement Programme.

Construction of the CI began in mid-2019 and is scheduled to be completed mid-2026.

It is proposed to extend the Central Interceptor tunnel a further 1.5km from Grey Lynn to Pt Erin as a more economic option than the alternative of extensive stormwater/sewage separation in the Herne Bay and St Marys Bay areas, whilst delivering on the promise to significantly reduce wet weather overflow discharges into the Waitemata by 2028.

Key programme of works	Status	Description	Key deliverables for the quarter
Finalise design for the Grey Lynn Tunnel	On track	Detailed design work for the terminal shaft of the Grey Lynn Tunnel at Tawariki Street.	The detailed design of the terminal shaft is now well underway with Jacobs leading the design process. This incorporates the Western Isthmus works in that area.
Commence physical works	On track	The Contractor is now established and activity underway at all sites except Tawariki Street. Contractor expected to deploy to Tawariki Street in April 2023. Pump station shaft, valve platform concrete pour and main shaft lift 11 completed. Valve platform permanent reinforcing installation is underway.	Keith Hay Park – Secant piles commenced for control chamber construction. May Rd Shaft B permanent lining construction ongoing (Lift #6 – concrete poured, Lift#7 – steel reinforcement completed) Frost Road, sheet piles installed for MH-05. Mt Albert War Memorial Caisson segment installation completed with all 28 rings installed.
Commence tunnelling	On track	The TBM has tunnelled 5,158m. The Drive from PS23 to Keith Hay Park: 1,046/1,848m completed to date.	TBM trailing gantries completely crossed PS23 shaft interface.
Main works into service	Delayed	As previously advised, the main works (Central Interceptor) are to go into service mid-2026, a delay from the original completion date of December 2025. This is due to the impacts of Covid-19 from March 2020 – September 2022.	This will include the Grey Lynn Tunnel extension.

Strategic focus area – Water supply investment

Key commentary

As at 31 March 2023, \$154.3 million was spent towards water supply investment against the YTD FY23 budget of \$87.35 million. This is higher than budget due to the acceleration of the Water Pipe Renewal programme, residential smart meter installations and project completion delays for Papakura Water Treatment Plant, Hays Creek Source Treatment Plant and Redoubt Water Reservoir. These delays resulted in additional spend transferring from FY22 into the FY23 financial year.

Highlights

- Our water supply situation is stable – dams are still very murky, but turbidity is lowering and our storage position is close to full.
- New drinking water standards from Taumata Arowai took force from 1 January 2023. Teams across the business, led by our water quality experts, have worked very hard to update our planning, reporting, and monitoring systems. Formal compliance reporting will be issued to Taumata Arowai from March 2023 when their systems are ready.
- Taumata Arowai is currently conducting a rapid review of our Drinking Water Safety Plans (DWSPs) and Source Water Risk Management Plans (SWRMPs). We are planning a formal audit against the plans and wider water quality compliance for around June 2023.
- The leak management programme is ongoing. Since the start of the programme approximately 15,531kms have been surveyed to date with 9,030 leaks found.

Issues & risks

- Our Muriwai Water Treatment Plant (WTP) has been red stickered and cannot be accessed. We have a project team set up to investigate medium and long term water supply solutions for this area. In the meantime, we have set up a temporary solution to ensure our remaining customers in Muriwai have drinking water through their taps.
- Cyclone Gabrielle resulted in access issues for network compliance points in the Rodney zones, with samples unable to be taken. This was discussed with Taumata Arowai at the time and will not be reported as non-compliance, but instead as “compliance not able to be achieved”.
- Under the new drinking water standards, we maintained full compliance for our water treatment plants and microbial standards in January and February. However, we did have two non-complying zones in January/February. The water quality team is working to rectify these issues and evaluate future risks. The non-compliances were:
 - In January, residual disinfection compliance in the Hilltop zone in Pukekohe where 58% compliance was achieved compared to the required 85% compliance. Under previous regulations, residual disinfection was not a compliance reporting requirement. This is not a reflection of a change in water quality, but a change in compliance requirements. Proactive network flushing has been implemented in the short term to improve turnover, whilst medium to long term solutions are identified.
 - In February, due to the impact of Cyclone Gabrielle on raw water quality, the Helensville zone did not fully achieve residual disinfection and Trihalomethanes (THMs) compliance. 75% compliance was achieved compared to the required 85% compliance. Due to the storms, the raw water quality at Helensville deteriorated significantly with organic carbon levels increasing and while treatment was not compromised higher levels of carbon entered the distribution system. The presence of carbon reduces the level of FAC which is likely to have contributed to the lower FAC present in the distribution system. Chlorine disinfection is important at the treatment plant to kill bacteria and viruses that may be present in the raw water and the conditions of disinfection (chlorine concentration, pH and contact time) are carefully monitored to ensure that water leaving the plant is safe. Residual chlorine, the chlorine that is measured within the distribution system, is maintained to prevent any nuisance organisms from growing in the pipework as this can lead to a deterioration in aesthetics such as unpleasant taste or odour. Despite there having been non-compliant samples, at no point was there an increased risk to public health.

Strategic context

Watercare provides safe, reliable drinking water to 1.7m people.

The company collects, treats and distributes water from 27 water sources including the Waikato River, 12 dams, and underground aquifers.

We operate 18 water treatment plants (WTPs), 87 service reservoirs, 84 pump stations and over 9,584km of water pipes.

Key programme of works	Status	Description	Key deliverables for the quarter
North Harbour No.2 Watermain	On track	This pipe will service growth in north Auckland. It also provides an alternative route for conveying water from the west to the north and will provide security and resilience. The expected completion date for this project is 30 June 2030.	Route alignment alternatives are being considered over the next three months to minimise disruption and align with transport project initiatives, such as future motorway crossings with subsequent submission of business case in approximately September 2023. Investigations to support the pipeline under the Greenhithe Bridge are due to commence in mid 2023.
Huia Water Treatment Plant replacement	On track	The plant is nearing the end of its operational life. It needs to be replaced to continue the supply of high-quality water to a growing Auckland. The plant supplies around 20% of Auckland's water from our western supply dams.	<p>Court assisted mediation with appellants began in September 2022. The mediation was constructive and preliminary agreements were established with each appellant. The mediation focused on the undertaking of additional works to improve the likelihood of reaching a position that would be acceptable/beneficial to both parties. Watercare has developed options for internal consideration prior to a proposed, subsequent mediation session.</p> <p>Technical work on Kauri dieback has been completed and will also be considered at the proposed mediation session.</p> <p>Further mediation has been deferred until May 2023.</p> <p>This project is on track based on current consent delivery timeframes, assuming that an Environment Court hearing is the ultimate outcome.</p>
Nihotupu No.1 and Huia No.1 watermain replacement	On track	This project involves two critical watermains nearing the end of their design lives, which are being replaced. The expected completion date for this project is 30 September 2024.	<p><u>Titirangi update</u> – Works have been completed on Atkinson Road and the pipe laying team are working along Daffodil St, with a target completion date of Sept 2023. The Line Valve chamber at 66 Atkinson Rd has been installed and the team is working on the pipe bridge across Waikumete Stream.</p> <p><u>Golf Rd update</u> – Physical works are completed. Preparation underway for the connection works began 28 March 2023.</p> <p><u>Scout Ave</u> – First section of work has been completed at the Mt Albert end of Scout Ave. Crew has disestablished from site and will not return until August 2023.</p>

Strategic focus area – Wastewater investment

Key commentary

As at 31 March 2023, \$381.9 million was spent towards wastewater investment against the YTD FY23 budget of \$438.8 million.

Highlights

- In February we marked the completion of our \$128m upgrade at the Pukekohe Wastewater Treatment Plant with a dawn blessing. This was a major milestone that was celebrated with our mana whenua partners and the wider community. The upgrades double the treatment capacity of the plant and significantly improve the quality of the treated wastewater, which ultimately improves the water quality in Parker Lane Stream – a tributary of the Waikato River where the plant discharges to.
- In December 2022, mana whenua and public consultation started on the 6 yearly Wastewater Network Strategy review, part of the 35 year comprehensive Wastewater Network Discharge Consent (WNDC), which applies to wet weather discharges from the network. Over 150 pieces of feedback were received via numerous engagement channels. Eleven 1:1 engagements were held with special interest groups along with 11 Local Board workshops. The objective was to listen and learn from our community about what matters to them with regards wastewater and their thoughts on the strategy. Feedback will help identify areas to strengthen the strategy, improve literacy around wastewater issues, and improve future engagement and community participation. Note, wastewater treatment plants are not part of the WNDC, as they have their own consents.
- Our servicing plans provide long-term, location based strategies that provide options to direct investment in water and wastewater infrastructure. We have started engaging with Local Boards, partnering with mana whenua, and are preparing to engage with the communities in Helensville and Beachlands to talk about the future of water and wastewater services in these areas. Te mana o te wai is at the core of the servicing strategy and we are seeking to understand what the community care about and how we can develop a strategy, where the options take into consideration what matters to the community while demonstrating the respect of partnership with mana whenua.

Issues & risks

- Consent non-compliance remained high due to the after-effects of the extreme weather. In January 2023, the non-compliances included technical non-compliances for the network discharge consents, which occurred because we could not meet reporting timelines due to the magnitude of the event and the number of associated overflows. Cyclone Gabrielle had an impact on the Waikato water treatment plant due to poor river water quality and compounded issues at regional wastewater plants, such as Army Bay and Omaha.
- Despite site-wide flooding, the Rosedale wastewater treatment plant remained compliant throughout the event, as did Pukekohe. However, flows were too great to remain in compliance at Māngere, Army Bay, and some smaller regional plants. Some issues persisted into early February 2023, so non-compliance for February 2023 will again be higher than otherwise expected.
- Waikato Regional Council issued an abatement notice to Waikato District Council in January for the Raglan Wastewater Treatment Plant – essentially reinforcing the current planned replacement by July 2024. Additionally, an old wooden water storage tank in Raglan, disused for the last two years but retaining 17% of the 1,250m³ capacity to retain the structural integrity for as long as possible, finally failed in mid January. The Waikato team have been involved in clearing the debris from the farm site. A response has been provided to the Waikato Regional Council, including the completion of the plant upgrade.
- Helensville wastewater treatment plant, which was the subject of a previous abatement notice, has been subject to a further delay in commissioning due to flood and cyclone related issues but should be completed by the end of April 2023. Auckland Council and mana whenua have been kept informed of progress.

Strategic context

Watercare provides safe, reliable wastewater services to 1.7m people.

We treat wastewater to a high standard 24/7. The two main wastewater treatment plants servicing Auckland are at Māngere on the Manukau Harbour and Rosedale on the North Shore.

We have over 8,000km of wastewater pipes, 514 wastewater pump stations and 18 wastewater treatment plants (WWTPs).

Key programme of works	Status	Description	Key deliverables for the quarter
Northern Interceptor	On track	This pipe will divert flows, which would otherwise go to Māngere, to Rosedale. It will replace aged infrastructure, increase capacity of the network and reduce wet weather overflows.	Pipelaying is complete for the Stage 1 contract. Stage 2 design is in progress for completion is complete and works are going through the procurement process.
Pukekohe Wastewater Treatment Plant upgrade	On track	The upgrade will provide capacity for population growth in the Pukekohe, Buckland, Tuakau and Pokeno catchment areas.	Site was officially opened with a dawn blessing ceremony on 3 March 2023 and is operating.
Sub-regional wastewater servicing – North East	Delayed	This upgrade will cater for population growth in Warkworth and Snells Beach and will produce high quality wastewater for discharge.	<u>Transfer Pipeline</u> : Construction is underway, and completion is scheduled for March 2025. <u>Pump Station</u> : Construction underway, completion due by November 2023. <u>WWTP</u> : Construction underway with completion expected in mid-2024. <u>Warkworth Local Network</u> : Delays have been experienced and are associated with the infrastructure that will transfer wastewater from the growth areas in Warkworth, to the Lucy Moore Wastewater Pump Station following community engagement. Watercare is currently re-confirming the alignment of key components of this system prior to progressing these works.
Sub-regional wastewater servicing – South West	On track	This programme of works will provide wastewater services for the communities of Kingseat, Clarks Beach, Glenbrook Beach and Waiuku.	Designation, consenting and procurement of the new WWTP site are being progressed. Work on the concept design of the WWTP and the associated network is also commencing. There are significant risks to the project due the land procurement, designation, and consenting processes. Several risk mitigations actions and activities are in-flight to minimise potential project delivery delays.
Western Isthmus Water Quality Improvement Programme (Pending agreement of proposed amendment including Point Erin Tunnel)	On track	This programme of works will provide improved beach water quality from reduced wastewater overflows. A recent amendment to the programme includes an extension of the Central Interceptor to Point Erin in lieu of some unaffordable short-term separation initiatives. This is being discussed with key stakeholders and the public.	A review has shown an extension of the Central Interceptor (CI) to Point Erin will achieve the same, if not better, water quality outcomes than the original proposal. It will also be achieved within the 2028 committed timeframe and is more affordable. The focus over the last quarter has been on the consenting and approvals aspects of the CI (Point Erin Tunnel) Extension and the Herne Bay Branch No. 5 Sewer. The Pt Erin Tunnel Consents have been lodged and positive progress has been made on the Herne Bay Branch No.5 works. Watercare continue to work very closely with both the St Marys and Herne Bay Community Liaison Groups to progress these two projects. Work on the broader collector sewer systems and stormwater separation activities associated with WIWQIP have commenced over the last quarter. A programme level view has been developed and the projects within the programme will be optimised and delivery approaches developed, over the next quarter.
Whenuapai Redhills	On track	Comprises three packages of work to provide wastewater capacity in Whenuapai.	Resource Consent applications and Designation for the wastewater scheme have been lodged. Landowner approval and right of entry agreements are in place across the majority of the scheme. The Detailed Design phase is now complete for two packages. The third package is in various stages of design across the four transmission gravity pipelines. Tendering is underway on one package with the second of three packages to be tendered in the coming quarter.

Other statement of intent focus areas

Water Services Reform Programme

- The Minister for Local Government Kieran McAnulty announced a “reset” of water reform in mid April 2023. The reset means there are now going to be 10 rather than 4 entities. However, Entity A, comprising Auckland to the north, remains unchanged following the reset.
- The Water Services Legislation Bill is before Parliament’s Finance and Expenditure Committee which is now considering submissions from the public, councils and others. The committee is due to report back to the House by 25 May 2023.
- The CE, Dave Chambers, and Mark Bourne, Chief Operations Officer, were invited to present to the Finance and Expenditure Committee in March 2023. This was in relation to Water Services Legislation Bill (“Bill 2”) and Water Services Economic Efficiency and Consumer Protection Bill (“Bill 3”).
- Prior to the central government’s re-set, four chief executives were appointed for the four new water services entities:
 - Entity A: Jon Lamonte
 - Entity B: Vaughan Payne
 - Entity C: Colin Crampton
 - Entity D: Michael Brewster
- The DIA is now consulting directly with staff through the “Staff Room”, which is a secure website. It will progressively hold an increasing level of detail and information for staff who will be transitioning to the Water Services Entities. Feedback is being sought from staff on the high-level organisational design and their proposed transition pathway.

Lutra Limited (Watercare owns 67% of Lutra)

- The ID footprint continued to expand with ID now servicing much of the connected population in New Zealand.
- A significant long term collaborative contract was won for Dunedin City Council Water and Wastewater capital programs. This is an exciting development.
- Health and Safety training hours remain lower than planned, with many staff being sick with covid during training sessions.
- Team Mood score averaging 6.3/10 mirrors the challenging economic and political operating environment. The target is 6.6.
- Revenue year to date in February 2023 is \$1.3m below target mainly due to a reduction in engineering consulting. This is partly a reflection of sick leave and vacancies not being filled.
- Watercare is considering possible options in relation to the Lutra investment including a possible shareholding sale. Any decision will be made in the best interests of Lutra, its staff, customers and shareholders.

Progress on other SOI priorities

- The Total recordable injury frequency rate remains above target and has increased in recent months.
- Lead indicator KPIs such as leadership walks also do not appear to be working. We are therefore establishing an entity wide Health and Safety meeting to discuss lead indicators focus on improving our health, safety and wellbeing outcomes.
- Attendance at, and number of, sewerage overflows both exceeded targets as a result of significant rain and storm events. We expect the number of overflows to continue to be above target as this is an annual rolling average and weather continues to be wetter than normal.
- Some workforce targets such as gender and contractor ratios are not achieving target. However, these are a challenge to address in the current reform environment.
- We are driving Māori spend during March to ensure we achieve this KPI. However, many of these programmes of work take time to bed-in.
- Our unaudited GHG results at the end of Q3 suggest that we are likely to miss the FY23 target by ~10,500 tCO₂e (~12%). This is a result of increased fuel consumption by our field service operators responding to storm related faults, increased wastewater volumes being treated due to the extreme weather events, and a change in energy production at Māngere WWTP to reduce electricity purchase. We are reviewing our co-generation operating philosophy and the high inflows into the wastewater treatment plants to better understand the trade-offs between operating procedures, energy production, natural gas use, budget efficiency and meeting our targets for GHG emissions.
- Our March 2023 engagement survey results is 7.2. While this is an improvement from the November 2022 survey, we are more encouraged by the response rate and qualitative feedback from our people. About 76% of our people participated in the survey and we received close to 1,000 comments. This tells us that our people are very engaged in what we do and have a view on how we can do it better; despite the imminent changes and uncertainty associated with reform. From the comments, things that are working well include a supportive, flexible workplace and supportive managers.

Waikato District Council (WDC)

- All contractual performance measures are achieved YTD.
- All health and safety measures continue to be achieved.
- All drinking water quality assurance rule reports demonstrated compliance.
- The programme manager has been supporting the infrastructure delivery of stormwater and production capital projects.
- An abatement notice was received for the Raglan wastewater treatment plant. The project funding to replace the plant was approved in December and is in the design phase with completion set for 1 July 2025.
- The Port Waikato area was significantly impacted by heavy rainfall and landslides during the cyclone. A lesson learned from the event concerned the fragility of the power supply to the area. The inspection and maintenance of the area are underway to realign the scheduled maintenance.
- The Ngaruawahia UV installation has been completed improving water quality and treatment resilience.
- The Huntly and Raglan wastewater treatment plant discharges were bypassed during the recent storm and cyclone. WDC, WRC and the community were notified.

Other strategic focus areas update

Contribution towards Māori Outcomes

- Watercare was a key sponsor for the hugely successful Te Matatini Herenga Waka Herenga Tāngata kapa haka festival held recently in Tāmaki Makaurau. This is New Zealand's largest cultural festival and the pinnacle event for Māori performing arts. Held every two years, the four-day celebration is one of the most highly anticipated events for performers, their whānau and Kapa Haka fans. Aligned to initiatives under Kia Ora te Reo (Te Reo Māori), Kia Ora te Ahurea (Māori Identity and Culture) and Kia Ora te Whānau (Whānau and Tamariki Wellbeing), the Central Interceptor team provided administration support to Te Matatini's organising committee, installation and provisioning of 20 x water refill stations, branded water vessels for fans and assistance within the Matapākihi Business Lounge. As a significant event within Te Ao Māori, it was an opportunity to promote and advocate Watercare's sustainability messaging "He Taonga te Wai". Watercare staff also supported Waipuna ā rangi (Entity A iwi secretariat) and helped staff their information kiosk during the festival.
- Under Kia Ora te Rangatahi (Realising Rangatahi Potential), Watercare's summer interns undertook a cultural induction with Ngāti Whātua Ōrākei. Activities included waka ama at Okahu Bay, a site visit to the Ngāti Whātua Ōrākei's plant nursery at Pourewa and historical stories. Members of Te Rua Whetū (Watercare's Māori Outcomes and Relationship team) also attended the whakatau for the new chief executives of both Watercare (Dave Chambers) and Entity A (Jon Lamonte). Planning is now underway to coordinate hui with iwi and hapū groups in Te Tai Tokerau for the Entity A Chief Executive.
- A water reform hui was held in March with staff from the Independent Māori Statutory Board (IMSB). Aligned to mana outcomes Kia Ora te Hononga (Effective Māori Participation) and Kia Hāngai te Kaunihera (An Empowered Organisation), staff from the Iwi Māori Directorate (National Transition Unit - Te Tari Taiwhenua) and Te Rua Whetū, provided an update on the reform programme of work and engagement to date with iwi Māori in entity A.

Climate change & sustainability

- The recent extreme weather reminds us that the impacts of climate change are here now. Immediate analysis has shown that 2-day maximum rainfall over certain areas was about 30% more intense than it might have been had human greenhouse gas emissions not warmed the climate by 1.2°C. This also means a rainfall event of this magnitude is now about four times more likely to happen than it was when the world was 1.2°C cooler than it is today.
- The 2022 winter has been calculated as the warmest and wettest on record. This has resulted in challenges for Watercare, especially for the wastewater side of the business. From a climate perspective this has led to increased wastewater process emissions which will impact our annual target as it is a rolling 12 month target.
- The solar programme is moving ahead and a full assessment of opportunities at Ardmore WTP has been completed. We expect to start procurement in the coming months. The aim of this project is to make Ardmore energy neutral during the day (and potentially throughout the night with battery storage) saving us cost and carbon, whilst also adding resilience.
- Watercare is trialling a new soil amendment product from water treatment sludge (rich in activated carbon). Preliminary results are encouraging and field trials will commence in April. This is in addition to our EMERGE® fertilizer product, which was a finalist at the 2022 Field Days Innovation Awards.
- Ongoing low carbon trials are happening in infrastructure projects. Recently fly ash was used to replace 25% cement content in the Redoubt Road Reservoir project, saving 200 t CO₂e.
- The CI project took delivery of three e-Trucks in March 2023.
- There have not been many significant deliverables in the quarter but progress has been made in the following key project areas:
 - Climate related disclosure risk identification and assessment in preparation for FY23 reporting and FY24 disclosure
 - Decarbonisation roadmap with a particular focus on N₂O reduction trials from wastewater
 - Solar PV project assessment
 - Internal assessments of embodied carbon from infrastructure projects.

Watercare Q3 financials



Direct operating performance

(\$ million)	Notes	FY 22	FY 23 Quarter 3 YTD			FY 23
		Actual	Actual	Budget	Variance	Budget
Net direct revenue		525.7	386.5	410.6	(24.1)	577.88
Direct revenue	A	902.8	671.4	668.8	2.6	925.6
Fees & user charges		559.8	456.6	430.6	26.0	584.9
Operating grants and subsidies		-	-	-	-	-
Other direct revenue		343	214.8	238.3	(23.4)	340.7
Direct expenditure	B	392.2	284.9	258.2	(26.7)	347.7
Employee benefits		114.9	73.6	91.7	18.1	77.8
Grants, contributions & sponsorship		0.4	0.4	0.3	(0.1)	-
Other direct expenditure		276.9	210.9	166.2	(44.6)	269.9
Other key operating lines						
AC operating funding						
AC capital funding		-	-	-	-	-
Government Grant		15.1	23.4	28.8	-	38.3
Vested assets		59.5	55.1	49.4	(5.7)	65.5
Depreciation		281.3	236.5	207.3	(29.2)	273.3
Net interest expense		94.9	90.8	87.6	(3.2)	115.6



Financial Commentary

- A. Direct revenue:** Revenue is in-line with plan overall but the detailed revenue picture is mixed. The Waikato District Council (WDC) contract is significantly ahead of plan (noting that this is a cost recovery contract), and Water and Wastewater revenue is also above plan. This reflects the conservative assumptions made in the plan which reflected the drought conditions experienced in the previous year. This has been offset by a decline in developer Infrastructure Growth Charge (IGC) applications and therefore IGC revenue. IGC's are ~\$21m lower than budget, \$11m lower than FY22. IGC assessments YTD are 21.4% down compared to the same period last year reflecting the general reduction in developer activity.
- B. Direct expenditure:** Direct expenditure is unfavourable in part due to higher unplanned maintenance costs caused by the weather events of January/February (\$7m). There has also been continued escalation in costs particularly in chemicals which are 20% higher YOY. The costs for the Waikato District Council arrangement were \$7m higher than budgeted, although these costs are covered by income received (cost recovery). Lutra costs of \$7m was included in the actual cost position but not recognised in the plan.
- C. Depreciation:** The significant variance to budget relates to the final valuation of our assets being significantly higher than that modelled for depreciation in the budget.

Watercare Q3 performance measures

Key performance indicators	Previous	FY 23 Quarter 3		Status	Commentary
	year	YTD Actual	FY Target		
<p>Note: Watercare has a total of 32[#] SOI measures, of which 14 are LTP measures. For the 3 months to 31 March 2023, 22 of the 32 measures are tracked monthly. Eight measures are yearly measures, and two measures are quarterly measures. In Q3, of the 22 measures that are tracked monthly, 18 of the measures were achieved, four were not achieved.</p> <p><i>#Leakage Target for Economic Level of Leakage has now been established and as such two of the lines have been consolidated namely, Leakage Target and Leakage Performance.</i></p>					
LTP/SOI performance measures					
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) 1 b) 0 c) 0 d) 0	a) 0 b) 0 c) 0 d) 0	a) ≤2 b) ≤2 c) ≤2 d) 0	Achieved	
The average consumption of drinking water per day per resident within the territorial authority district (*litres plus/minus 2.5%) (12-month rolling average)	243.9	243.33	258 litres (+/- 2.5%)	Achieved	
The extent to which the local authority's drinking water supply complies with part 4 of the drinking-water standards (bacteria compliance criteria) (12 month rolling-average).	100%	100%	100%	Achieved	This is a DIA measure and Watercare continues to meet this measure. NB: In terms of water quality, New Zealand's new drinking water standards, overseen by Taumata Arowai, commenced on 1 January 2023 and Watercare started formal compliance reporting to Taumata Arowai.
The extent to which the local authority's drinking water supply complies with part 5 of the drinking-water standards (protozoal compliance criteria) (12 month rolling-average).	100%	100%	100%	Achieved	This is a DIA measure and Watercare continues to meet this measure. NB: In terms of water quality, New Zealand's new drinking water standards, overseen by Taumata Arowai, commenced on 1 January 2023 and Watercare started formal compliance reporting to Taumata Arowai.

Median response time for attendance for urgent call-outs (drinking water): from the time that the local authority receives notification to the time that service personnel reach the site (minutes).	59 mins	44 mins	≤ 60 mins	Achieved	
Median response time for resolution of urgent calls-outs (drinking water): from the time that the local authority receives notification to the time that service personnel confirm resolution of the fault or interruption (hours).	3.1 hours	3.35 hours	≤ 5 hours	Achieved	
Median response time for attendance for non-urgent call-outs (drinking water): from the time that the local authority receives notification to the time that service personnel reach the site	1.1 day	0.95 day	≤ 5 days	Achieved	
Median response time for resolution of non-urgent call-outs (drinking water): from the time that the local authority receives notification to the time that service personnel confirm resolution of the fault or interruption (days).	1.9 day	1.37 day	≤ 6 days	Achieved	
The total number of complaints received by the local authority about any of the following: a) drinking water clarity b) drinking water taste c) drinking water odour d) drinking water pressure or flow e) continuity of supply f) the local authority's response to any of these issues expressed per 1000 connections to the local authority's networked reticulation system (12-month rolling average).	8.8	7.84	≤ 10	Achieved	Complaints reduced due to the significant volume of proactive communications sent to customers during the storm event.
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 (minutes).	63 mins	64 mins	≤ 60 mins	Not achieved	Target has not been achieved and is unlikely to be met by year end. The January/February weather events significantly impacted the 12-month rolling average. Resources continue to remain stretched due to our people working on permanent repairs following the January/February 2023 weather event, our people taking leave and days in lieu that they could not take during January/February. Additionally, the weather continues to be wetter than normal.

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 (hours).	3.7 hours	3.4 hours	≤ 5 hours	Achieved	
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 (12-month rolling average).	27.1	24.67	≤ 50	Achieved	Complaints have remained steady due to the significant volume of proactive communications sent to customers during the storm event.
The percentage of real water loss from the local authority's networked reticulation system (12-month rolling average).	11.4%	10.87% (November figure)	≤13%	Achieved	The water losses in this measure are calculated by deducting the volume of water sold and unbilled water usage (or non-revenue water) from the total volume of water produced. Due to meter readings being completed on a four monthly cycle, non-revenue water loss reporting is delayed.
The number of dry weather overflows from the territorial authority's sewerage system, expressed per 1000 sewerage connections to that sewerage system (12-month rolling average).	1.1	0.97	≤ 5	Achieved	
Other SOI performance measures					
Average number of wet weather overflows per engineered overflow point per discharge location (12-month rolling average).	1.1	5.6	≤ 2 overflows per year	Not achieved	Target has not been achieved. Rolling average significantly impacted by January and February 2023 weather events. Results will continue to exceed target for the rest of the year due to significant volume of overflows experienced in the storms.

Employee net promoter score (eNPS).	23	6 (March 2023 survey results)	≥20	Quarterly measure	Our eNPS was 6, up from 4 in November 2022 (this is on a scale of –100 to +100). Also note that our employee engagement score increased slightly from 7.1 in November 2022 to 7.2 in March 2023 (on a scale of 1-10).
Gender workforce ratio in fixed term and/or permanent roles, including leadership positions (Tier 3 and above).	F: 38.76% M: 61.24%	F: 38.51% M: 61.49%	40% men 40% women 20% any gender	Yearly target	We have increased female representation by 4% since 2020/21, however, we are unlikely to meet the target by year end. Indeed, meeting these targets is a challenge in the current reform environment. Analysis shows we have high female representation in our early careers' programs e.g., 42% Grads, 70% interns. We have also implemented several positive initiatives such as Gender Tick accreditation, Ata Woman's Network, and improved policies and benefits for women.
Employees in fixed term and/or permanent roles, including leadership positions (Tier 3 and above) identify as Māori.	New measure	4.63%	6%	Yearly target	Expected recruitment and turnover over the next three months, and challenges in the current reform environment, means this target is unlikely to be met by year end.
Total recordable injury frequency rate (TRIFR) per million hours worked (12-month rolling average).	14.32	19.58	<10	Not achieved	Target has not been achieved and is unlikely to be achieved by year end as it is a rolling average. We are focussing on understanding the effectiveness of critical risk controls and have refreshed our HSW commitment and we are towards a human-centred safety culture based on the following principles: people make mistakes; blame fixes nothing; context drives behaviour; learning is vital; response matters. In practice, this means: celebrating champions and goods HSW behaviours; sharing learnings and best practices; and hands on, meaningful training.
Safety improvement plans.	New measure	100%	100% of teams with a HSW Improvement Plan	Yearly target	Improvement plans are in place for all sites and business units.
Culture and Leadership.	New measure	20%	100% of Tier 1 to Tier 4 who have completed at least 10 leadership walks per year	Yearly target	This target will not be achieved by year end. This KPI does not appear to be effective. We are therefore establishing an entity wide monthly H&S meeting to discuss lead indicators, with a focus on improving our health, safety and wellbeing outcomes.

Leakage performance – litres/connection/day (l/c/d).	New measure	105.72 (November 2022 figure)	107.9 l/c/d being the Economic level of leakage (ELL)	Yearly target	The leakage performance reported is for November 2022. The water losses in this measure are calculated by deducting the volume of water sold and unbilled water usage (or non-revenue water) from the total volume of water produced. Due to meter readings being completed on a four monthly cycle, non-revenue water loss reporting is delayed.
We are sourcing water from a diversity of sources; and we are preparing for, and promoting, the adoption of alternative sources of human drinking water in the future.	New measure	N/A	N/A	Yearly target	
Debt to revenue ratio.	2.80	2.68	≤3.61	Achieved	Whilst the debt to revenue ratio is within our SOI target, cash headroom is tight and is being managed daily. The scale and acceleration of our capital project delivery and the lower than expected IGC revenue are impacting our working capital position. The impact of this improvement in capital delivery and any implications for funding is being assessed and will be provided to Council for review and approval as required.
Percentage of household expenditure on water supply services relative to average household income.	0.80%	0.83%	≤ 1.5%	Achieved	
Formal engagement with mana whenua of Tāmaki Makaurau.	95%	100%	Partnering with mana whenua of Tāmaki Makaurau to achieve outcomes for Māori Each year, at least five priority outcomes within our Achieving Māori Outcomes Plan are being progressed with mana whenua	Yearly target	6 of 10 priority outcomes identified within Kia Ora Tāmaki Makaurau. Initiatives under the following areas are being progressed: 1) Kia Ora te Marae, 2) Kia Ora te Ahurea, 3) Kia Ora te Rangatahi, 4) Kia Ora te Taiao, 5) Kia Ora te Reo and 6) Kia Ora te Umanga. Given Te Rua Whetu’s secondment to the DIA to assist with three waters reform it is unlikely the number of initiatives will increase until such time as Te Rua Whetu have increased resources and capacity to support delivery of Māori outcome priorities. This should hopefully occur in Q4.

			(updated measure).		
Ratio of procurement sourced through Māori owned businesses.	1.48%	1.91%	2%	Not achieved	Target has not been achieved. Total Māori business spend FY to date is \$14.26m (\$7.30m Direct, \$6.96m Indirect). Citycare is the only Works partner supplier not reporting indirect Māori business spend. This has been escalated in Citycare and it is expected that spend (if any) will be reported by the end of the FY.
Integration/Adoption of Te Reo and Tikanga Māori within Watercare.	New measure	100%	Ensure all Tier 1-4 job titles include Te Reo Māori translation; and hold a Watercare Tikanga Māori experience for all staff	Yearly target	Te Reo Māori translations for all Tier 1 - 4 job titles have been completed.
Percentage of customer complaints resolved within ten days of notification.	98.90%	99.02%	≥95%	Achieved	
Customer Net Satisfaction Score (Previously Net Promoter Score). (12-month rolling average)	54%	46%	≥45%	Achieved	
Community trust score. (12-month rolling average)	57%	59%	≥55%	Achieved	
We will implement Mitigation measures in line with our emissions reduction targets. We will report annual greenhouse gas emissions from Scope 1 and Scope 2 emissions (operational mitigation) in line with our emission reduction pathway to meet 50% reduction by 2030.*	New measure	74,407 (Q3 result)	<88,400 tonnes CO ₂ e	Quarterly measure	Our unaudited GHG results at the end of Q3 suggest that we are likely to miss the FY23 target by ~10500 tCO ₂ e (~12%). This is a result of increased fuel consumption by our field service operators responding to storm related faults, increased wastewater volumes being treated due to the extreme weather events, and a change in energy production at Māngere WWTP to reduce electricity purchase. We are reviewing our co-generation operating philosophy and the high inflows into the wastewater treatment plants to better understand the trade-offs between operating procedures, energy production, natural gas use, budget efficiency and meeting our targets for GHG emissions.

**Note: these targets exclude emissions from Puketutu island as our current measurement methodology does not provide enough accuracy for a performance target. Actions to directly monitor emissions from this source as well as reduce them are being delivered and future SOI's will include these numbers.*