

Quarterly Performance Report

Watercare

2022/2023 Quarter 4

For the 3 months ended 30 June 2023

Council-Controlled Body Organisation (CCO)

Direction and Oversight Committee



Q4 – At a glance

Executive Summary

Whilst 2023 has been very wet, causing us operational challenges in the community, resulting in missing our SOI for attendance at sewage overflows, the rain has meant that our dams have remained nearly 100% full. The floods in January and cyclone in February has seen us undertaking repair works that were unexpected. However, we are taking the opportunity to ensure that adaptation to our changing climate is incorporated into our response, future planning, and development.

In terms of infrastructure, we finished FY23 having met our capital expenditure plan for the year as we head into FY24 with a capital budget in excess of \$1b.

Water reform continues to be the hot topic particularly for our kaimahi. We are working hard to ensure transition pathways are clear for all of our people.

With a continued focus on service delivery, we have divested the South Island Labs and the 67% shareholding in Lutra Limited.

Financial Performance

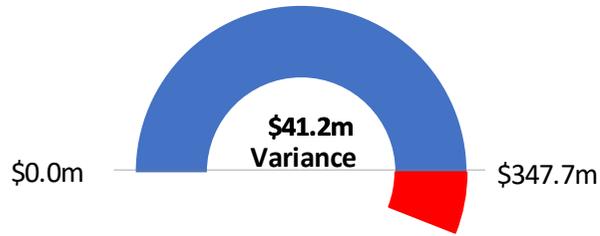
Capital delivery: The full year capital expenditure for the year was \$814m (including Kainga Ora Shovel Ready Projects spend of \$38.3m), \$100m ahead of annual plan of \$714m. Some delays due to weather events were offset by acceleration of the Water & Wastewater Network Renewal. Cost escalations across the programme and project completion delays, particularly for the Papakura Water Treatment Plant and Redoubt Water Reservoir, has resulted in additional spend transferring from the FY22 into the FY23 financial year. The Central Interceptor Project continues to progress well with full year spend, including the Grey Lynn tunnel, in line with the annual plan.

Direct revenue: Revenue is in line with budget 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. IGCs are \$19m lower than plan, \$61m lower than FY22. FY23 IGC assessments were 24.1% down compared to the FY22 reflecting the general reduction in developer activity.

Direct expenditure: Direct expenditure is unfavourable in part due to higher unplanned maintenance costs caused by the weather events of January/February 2023 (\$9.1m). There has also been continued escalation in costs particularly in chemicals which are 10% higher year-on-year. The costs for the Waikato District Council arrangement were \$10m higher than budgeted, although these costs are covered by income received- Lutra costs of \$8m was included in the actual cost position but not recognised in the plan.

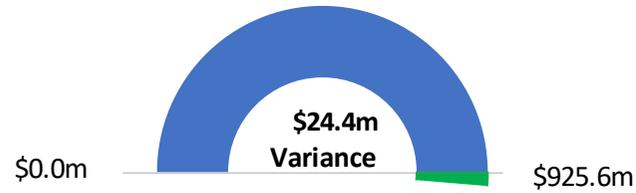
Note: for more details on financials, please refer to Financials section.

YTD Operating Expenditure



Actual YTD	Budget YTD	Budget Remaining
\$388.9m	\$347.7m	

YTD Operating Revenue



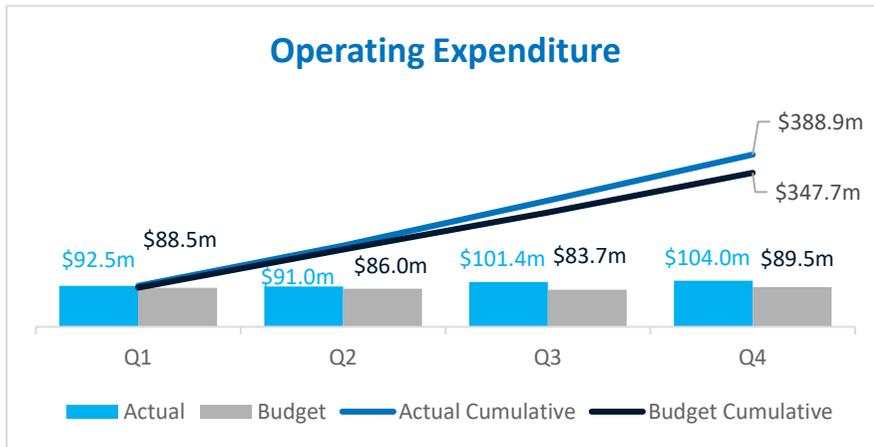
Actual YTD	Budget YTD	Budget Remaining
\$949.9m	\$925.6m	

YTD Capital Expenditure

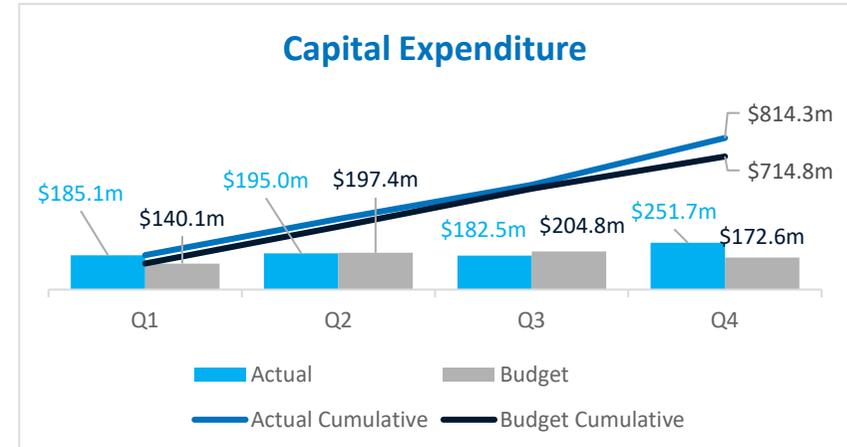


Actual YTD	Budget YTD	Budget Remaining
\$814.3m	\$714.8m	

Operating Expenditure



Capital Expenditure





Highlights

We head into FY24 with very high dam storage, consistently above 95%, as a result of the very wet start to 2023. This provides an opportunity to move one of the Waikato River treatment plants into standby mode, generating significant savings for the new financial year. The Waikato 50 plant will be maintained in a state of readiness so it can return to service if needed – for example, if we experience another drought.

We hosted the 2023 developer forum during May 2023 which brought together Auckland’s developer community with subject matter experts from Watercare. We shared our Asset Management Plan, our process improvements and other topics that were relevant to the community. This was an excellent opportunity to build relationships and educate our customers and partners on how we operate.

We divested our Invercargill and Queenstown-based labs to Eurofins, a large global laboratory services provider. This sale is aligned to our Board’s strategic direction to focus on what is core to our business. Eurofins officially took over full responsibility for our South Island staff, customers, and all operations on 17 April 2023. Our customers were also informed of the sale to ensure that the transition was seamless.

We led the sale of Lutra Limited, to Volaris Group. The sale of Lutra (including Watercare’s 67% shareholding) is aligned to our Board’s strategic direction to focus on what is core to our business. Volaris officially took over full responsibility on 1 June 2023.

We successfully negotiated an extension on our Newmarket office lease until 2034. Jon Lamonte, Wai Tāmaki ke Te Hiku CEO, has confirmed that Wai Tāmaki ki Te Hiku will take over the lease.



Issues

Work continues on the flood recovery, with the focus on more permanent repairs and adaptation. We continue to work with Aon to refine our claim as actual costs come through.

Water reform continues to be the hot topic particularly for our people. We are working hard to ensure transition pathways are clear for all of our people. At the same time, additional resources are being seconded to the reform team (DIA) to ensure Wai Tāmaki ki Te Hiku is prepared for a 1 July 2024 start date. We are being re-imbursed for any seconded resources.

Key Performance Measures

Watercare has a total of 32 SOI measures, of which 14 are LTP measures.

For the 3 months to 30 June 2023, 22 of the 32 measures are tracked monthly. Eight measures are yearly measures, and two measures are quarterly measures.

In Q4, of the 32 measures, 23 measures were achieved, and eight measures were not achieved. We are calculating the year end results for a remaining measure (i.e., target on GHG emissions) but expect to meet this measure.

For all performance measures, please refer to Performance measure section.

Strategic alignment and key policies

Climate change and sustainability

Watercare continued to experience impacts as a result of the floods and cyclone at the start of the year. With 193 issues identified, a Flood Recovery Programme team has been established to manage an effective return to service for our customers. We know that more extreme weather events will occur in the future. We have therefore drafted a flood response adaptation framework to ensure that we review and improve our resilience to these events through the recovery projects. The framework assesses the level of response that is both possible and required on each project. This will range from immediate actions like moving control panels above the flood line to longer term planning assessments on the location and need for certain assets. The framework will include reporting that will be integrated into future flood recovery programme reports.

Our analysis shows that Auckland has experienced the volume of rain that would be expected in a calendar year up by the end of June 2023. For the year ahead there is uncertainty on what weather we will face but a move to The El Niño Southern Oscillation suggests that we will have higher than average temperatures. The long-term climate forecasts suggest that New Zealand will revert towards a drier climate regime over the next nine months.

End of year reporting for greenhouse gas (GHG) performance is underway. The data and approach is subject to external verification and this will be shared in SOI reporting. The current data trend reflects a challenging year, largely impacted by the extreme weather events which has led to increased process emissions and energy consumption. Concurrent to preparing for the audit the Sustainability team are implementing new GHG reporting software. This will significantly improve the timeliness of reporting and enable ongoing improvements both to data quality and the insights that can be ascertained and shared with the business.

During FY23 we have sold 150 tonnes of EMERGE® fertiliser, our local, renewable, sustainable phosphorus rich fertiliser recovered from wastewater treatment processes. As well as bulk sales to farmers and sports turf, a niche retail market has emerged. Negotiations are progressing to stock the product across 84 retail stores nationwide. The Resource Recovery team are continuing to develop other 'waste' products into marketable products from both water and wastewater processes. They are also exploring new markets that are interested in these renewable and sustainable products. The current stage of the biosolids strategy is using these products to build trust with mana whenua, communities and consumers and move past any 'ick' factor from wastewater derived products. In the future, these products will become more common.

The Watercare team have recently introduced a Sustainability Champion Award. This taonga has been blessed to reflect the commitment of individuals and teams that take proactive actions to help achieve our sustainability aspirations. The award was presented to Darren Cadman for his exceptional work in implementing new recycling and waste reduction initiatives at our Laboratory. The award will be passed around the organisation based on nominations for exceptional work. This award reflects a recent update to the company plan where sustainability values, along with Te Ao Māori values are embedded in everything we do.

Climate related disclosure programme work has continued to progress in preparation for both FY23 reporting and the mandatory FY24 disclosure. In Q4, the risk prioritisation has been completed which provides a list of 25 risks for further detailed assessment (selected from an original long list of 89 risks identified). Watercare continues to work closely with the Council family on this programme of work.

Achieving outcomes for Māori

During Q4, Watercare launched its new reo and tikanga Māori learning modules for staff. Aligned to *Kia Ora te Reo (Te Reo Māori)* and *Kia Ora te Ahurea (Māori Identity and Culture)*, the two modules Kōnehunehu – which focuses on reo, and Kōpatapata – which focuses on tikanga. Both modules include a series of interactive activities and videos designed to provide staff with a basic understanding and introduction to Māori language and protocols. By the end of June, 155 kaimahi had completed the modules. Additional events celebrating Matariki were also held as part of the launch.

Under *Kia Ora te Rangatahi (Realising Rangatahi Potential)* and *Kia Hāngai te Kaunihera (An Empowered Organisation)*, Watercare also launched its Koiora Leadership Programme. As part of our commitment to support leadership development for kaimahi Māori, 18 staff from across the business are part of this cohort. The programme is delivered and facilitated by Māori-owned consultants Indigenous Growth Limited, who have previously worked with Air NZ, Sky City and NZ Post. Participants will attend five wānanga over six months including a noho marae in Waikato to learn historical kōrero about the Waikato Awa. In partnership with Tupu Toa, we have also confirmed six intern placements for 2023.

As part of *Kia Ora te Umanga (Māori Business, Tourism and Employment)*, our total Māori business spend for FY23 was \$22.84–m (\$9.01m Direct, \$13.836m Indirect). This is up from \$13.26m in FY22. This is an increase in reported spend with Māori businesses of \$9.58m (72% increase in actual dollars spent). All physical works partner suppliers are now reporting their Māori business spend. We have 83 active Māori suppliers out of a total of 1,952 active suppliers (4% of active suppliers).

Affordable Water Services Reform

The Government intends to pass all legislation to give effect to the Affordable Water Services reform by 31 August 2023.

The final report of the Governance and Administration Committee on the Water Services Entities Amendment Bill was presented on the 27 July 2023. The important items to note include:

- The amendment enables the creation of 10 entities rather than the 4, but the boundaries of Entity A, Wai Tāmaki ki Te Hiku, remain unchanged.
- Wai Tāmaki ki Te Hiku’s establishment remains unchanged at 1 July 2024.
- There are provisions for Shared Services arrangements between entities in order to make a 10 entity model more efficient.
- The composition of Wai Tāmaki ki Te Hiku’s Regional representation group is recommended to be:
 - four Auckland Council representatives
 - four mana whenua representatives of Tāmaki Makaurau
 - one representative each from Far North District Council, Kaipara District Council, and Whangārei District Council
 - three mana whenua representatives of Te Tai Tokerau

The final report of the Finance and Expenditure Committee on the Water Service Legislation Bill was presented on the 8 June 2023. Important items to note include:

Group Performance Reporting

- The Committee recommended more than 300 changes to the Water Services Legislation Bill based on the approximately 469 submissions received in writing and 84 submissions heard.
- A District Court order will be required for land access to private land for new construction if agreement cannot be reached with the landowner. Access for maintenance is possible without a District Court order or landowner agreement provided there is an imminent risk to health, the environment, or property.
- Amendments clarify that Water Services Entities (WSEs) could be subject to information disclosure regulation from 1 July 2024 at the earliest, quality regulation from 1 July 2027, and price quality regulation from 1 July 2030 (although Price Quality could be brought forward to Wai Tāmaki ki Te Hiku as early as 1 July 2027).
- New requirement for WSE to have development codes to be responsive to growth and urban development in their areas.
- Consumer protection regime, including permitting consumer advocacy groups to refer complaints on behalf of consumers, a cap of a \$50,000 limit on consumer claims, and the ability of WSEs to appeal decisions of the consumer dispute resolution service provider.

The DIA's National Transition Unit has confirmed through the workforce engagement that Watercare kaimahi working in the Waikato on the Waikato District Council Contract will transfer to Wai Tāmaki ki Te Hiku until their local entity is stood up.

The Establishment Board for Wai Tāmaki ki Te Hiku was appointed on 1 August 2023. The Board of three includes two Watercare Board members, Hinerangi Raumati Tu'ua and Brendon Green. Both resigned from the Watercare Board on 31 July 2023 to take up the new appointment.

Waikato District Council (WDC)

All results in FY23 were achieved, excluding notification of incidents and stormwater complaints. The severe storm events in January/February 2023 heavily impacted stormwater complaints.

The performance of the Waikato team to manage recent weather events and mitigate damage and health and safety risks has been recognised by the Water Governance Board.

All health and safety measures continue to be achieved.

All drinking water quality assurance reports demonstrated compliance.

Progress on other SOI priorities

- Whilst we did not deliver on all of our SOI measures, we have made great headway on others – for example we spent \$23m with Māori owned businesses with 83 active suppliers.
- The Total recordable injury frequency rate is significantly above target. We are working towards a human centred safety culture, which in practice means celebrating champions and good HSW behaviours; sharing learnings and best practices; and hands on, meaningful training.
- Attendance at, and number of, sewerage overflows both exceeded targets as a result of significant rain and storm events. The year has been wet beyond just the severe storms of January and February 2023.

- Our NPS score is below target, which reflects our challenging operating environment during the reform transition process.
- Our economic level of leakage was reported as missing target for June. However, the result excludes 30,000 smart meters which is skewing the volumes. This is being urgently addressed and final results will be reported in Q1/FY24 and via our annual report.
- Some workforce measures such as gender and contractor ratios, as well as Employee NPS are not achieving target. However, these are a challenge to address in the current water reform environment.
- Our GHG performance has been challenging mainly due to an increase in natural gas consumption at Māngere as a way to reduce electricity consumption. We are also facing resourcing challenges to deliver our decarbonisation programmes. Our final GHG SOI measure remains unaudited and final results will be reported in Q1/FY24 and via our annual report. It is possible that we may meet the SOI measure for FY23 once all auditing is complete.

Strategic focus area – Water supply investment

As at 30 June 2023, \$217.0 million was spent towards water supply investment against the YTD FY23 budget of \$118.54 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.

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.

Highlights

- Auckland's water supply catchments received 140% to 150% of normal rainfall over the three month period to 30 June 2023.
- Formal compliance reporting to Taumata Arowai has continued with reporting systems operational. In June 2023, we achieved 100% compliance with the new Taumata Arowai drinking water standards. Watercare's internal audit team is currently preparing for internal audits of our Drinking Water Safety Plans.
- Under the new drinking water standards, in April, May and June 2023, we maintained microbiological and chemical compliance for our water treatment plants and Distribution Zones.
- Full compliance with the Drinking Water Quality Assurance Rules was achieved for Cyanobacteria and Cyanotoxins compliance.
- We have received the Annual Certificate on the Performance of our dams for 2022 prepared by our independent surveillance and dams safety consultant Dam Safety Intelligence. Dam Safety Intelligence's assessment concurs that Watercare has maintained an appropriate Dam Safety Management System during 2022 that is consistent with the NZ Dam Safety Guidelines (2015).
- The leak management programme is ongoing. Since the start of the programme approximately 17,800 kms have been surveyed to date with 11,000 leaks found.

Issues and Risks

- On 9 May 2023, a Level 3 incident was declared, caused by a heavy rain and severe thunderstorm warning, triggering an incident management response. The following day, after a risk assessment, it was determined that the gusts expected later that afternoon would remain below the threshold and pose a low risk. Furthermore, there were no imminent factors on the horizon that could elevate the risk profile beyond the normal level. Our efforts are now focused on learning lessons from the incident and incorporating them into future strategies.

- Residual disinfection compliance was also achieved for all distribution zones except in May 2023, when the compliance was achieved for 95% of our distribution zone¹. Taumata Arowai was notified of this at the time. 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.

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 optioneering completed with a preferred alignment progressed for concept design that is due to be finalised by August 2023. Target business case approval in September 2023. Investigations to support the pipeline under the Greenhithe Bridge are due to commence by end 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.	The second Environment Court assisted mediation was held in July. All parties agreed to a revised set of conditions and side agreements with the parties were drafted. These have been refined and have been returned to the appellants for their final agreement. If they agree to the wording then the EC will likely sign a consent order, if not then the matter will proceed to a hearing. Project procurement study has concluded with the chosen method taken forward. Basis of Design works have been completed, principals/user requirements and concept design works are underway.
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.	Titirangi update – Works have been completed on Daffodil St and have started on Konini Rd, with a target completion date of end of October 2023. The Line Valve chamber and pipe bridge at 66 Atkinson Rd has been completed. Golf Rd update – Physical works are completed and the line has been connected. Scout Ave – First section of work has been completed at the Mt Albert end of Scout Ave. The crew are re-establishing at the Duke St end on 31/07/23 and will take approximately 10 months to work their way back to the Mt Albert end of Scout Ave .

¹ Residual disinfection – 85% of free available chlorine samples in a month must be >0.20mg/L in each distribution network zone, with no results <0.1mg/L. The Oratia zone did not achieve the 85% target with 75% achieved in the month. Due to the storm event on 9 May 2023 (Watercare Level 3 Incident) the Laboratory was unable to collect samples from the Muriwai zone due to flooding.

Strategic focus area – Wastewater investment

As at 30 June 2023, \$559 million was spent towards wastewater investment against the YTD FY23 budget of \$595.5 million.

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).

Highlights

For the first time in more than three years, the Helensville wastewater treatment plant was compliant for May 2023. The plant will remain in technical noncompliance until early mid-2024 as some of the metrics use rolling annual statistics. However, the upgrades have had a significant impact on treatment efficacy at that plant

Consent non-compliance during June 2023 was 24, up from 18 in May, and 22 in April, principally due to one-off non-compliances at two water treatment plants (three consents) and a reporting error that led to under-reporting technical non-compliance for design and construction projects in May 2023.

Full non-compliance for the wastewater treatment plants continued to decrease, restricted to Clarks Beach and Army Bay in June 2023.

Issues and Risks

Waikato Regional Council issued an abatement notice to Waikato District Council in January 2023 for the Raglan Wastewater Treatment Plant— essentially reinforcing the current planned replacement by July 2024. A response has been provided to the Waikato Regional Council, including the completion of the plant upgrade. Based on the response from Waikato Regional Council, the abatement notice will remain in place until the new plant is completed, scheduled for 2025.

Key programme of works	Status	Description	Key deliverables for the quarter
Northern Interceptor	On track	<p>The objective of this programme is to address existing wastewater overflows and capacity constraints in the western catchment by delivering flows from the Māngere WWTP to Rosedale WWTP.</p> <p>The programme is made up of several stages of works. Stage 1 includes wastewater conveyance from Hobsonville PS to Rosedale WWTP. Stage 2 consists of a wastewater tunnel provision from Whenuapai to Hobsonville PS. A separate project exists to complete the tie-in works at Rosedale WWTP.</p>	<p>Physical works are complete for stage 1 contract (Hobsonville PS to Rosedale WWTP).</p> <p>Stage 2 – Whenuapai to Hobsonville PS tunnel detailed design is complete and consent is about to be lodged for physical works.</p> <p>Final section of Northern Interceptor tie-in at the Rosedale WWTP is currently in design & investigation phase. A designer and contractor have been appointed for design and early contractor involvement (ECI) respectively.</p>
Pukekohe Wastewater Treatment Plant upgrade	Completed	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. No further update.
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.	<p>Transfer Pipeline: Construction is underway, and completion is scheduled for March 2025.</p> <p>Pump Station: Construction underway, completion due by November 2023.</p> <p>WWTP: Construction underway with completion expected in May 2025.</p> <p>Warkworth Local Network: 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.</p>
Sub-regional wastewater servicing – South West	Delayed	This programme of works will provide wastewater services for the communities of Kingseat, Clarks Beach, Glenbrook Beach and Waiuku.	Designation application for the WWTP to be lodged mid/late August. Design of the WWTP and the associated conveyance network progressing.
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. The programme includes an extension of the Central Interceptor to Point Erin.	<p>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.</p> <p>The Pt Erin Tunnel and Herne Bay Branch No.5 Consents have been lodged. Watercare continue to work very closely with both the St Marys and Herne Bay Community Liaison Groups to progress these two projects. Currently reviewing the tunnel boring machine sizing and procurement.</p> <p>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.</p>

Key programme of works	Status	Description	Key deliverables for the quarter
Whenuapai Redhills	On track	Comprises three packages of work to provide wastewater capacity in Whenuapai.	Risk of delays as Resource Consent applications and Designation for the wastewater scheme may need to be notified, and Council is challenging location. 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. Approach to tunnelling procurement and pricing as a programme of works is under review.

Central Interceptor

As at 30 June 2023, a total of \$826m 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 Q4 with all 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. Whilst the CI programme currently remains within the approved budget, this is contingent on construction inflation.

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.

Highlights

The Tunnel Boring Machine (TBM) has now hit the 6.7km mark, with only 0.8km to go to May Road. This will complete the Southern section of the main tunnel.

Preparations for the arrival of the TBM at May Road are continuing, along with establishing the facilities to enable tunnel operations to be relocated here later in 2023.

Māngere Pump Station: The first concrete pour has been completed on the dry well shaft roof. Confluence Chamber works continue to progress well, and bored piling has commenced with three out of 13 bored piles (23%) completed. Settlement monitoring of the Eastern and Southwestern Interceptors is ongoing with no issues to report.

Point Erin: The landowner approval application was submitted on 28 February 2023. A hearing is scheduled for 4 September 2023, at which the Council planner is recommending the consent be “granted”. We understand that Auckland Council Parks is not supportive of the application and therefore the consent may need to be decided by the Duty Commissioners. We are hoping to receive consent by the end of September 2023.

Issues and Risks

The sourcing and retention of personnel: This risk remains critical.

Cost escalation due to the sustained level of inflation being experienced: Modelling of escalation indicates a risk to the project budget. The Watercare Board and Audit and Risk Committee is being kept up-to-date with developments in this regard, and Watercare will advise Council should there be any impact on the project budget.

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.

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.

Auckland Anniversary Weekend Storms: This extreme weather event is considered force majeure under the Contract and GAJV will be lodging a claim. Watercare will claim on the Contract specific insurances (deductible is \$500k). The policy is for “damage” and delay is not covered. The current estimate of the insurance “gap” for the two events is \$3.5m.

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. Pump station shaft, main header pipe 1 installed with valve installation underway. 50% of the pump plinth constructed. Pump pipework duck feet installed and aligned.	Keith Hay Park – Six chamber excavations ongoing, 90% of excavations completed to date. May Road Shaft A first five (out of 23) GRP modules encased in concrete. May Road Shaft B permanent lining construction ongoing lift 19 out of 22 completed. Tawariki Street shaft secant piling (temporary works) commenced. Four out of 64 piles completed. Haycock Avenue all nine Glass Reinforced Plastic modules installed and grouted. Norgrove Ave shaft capping beam and flood wall construction completed. The Rising Main odour bed 3 ready for commissioning. Water Reuse Plant ready to export non-potable grade water to the TBM.
Commence tunnelling	On track	The TBM has tunnelled 6,659m. The Drive from PS23 to Keith Hay completed.	TBM successfully passed beneath Keith Hay Park shaft. Rings with blue Corrosion Protection Lining installed at tunnel interface.

Key programme of works	Status	Description	Key deliverables for the quarter
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.

Performance Measures

Department of Internal Affairs measures

Performance Measure	Previous Quarter	FY 23 Quarter 4			
		Target	Actual	Status	Commentary
<p>Compliance with the territorial authority's resource consents for discharge from its sewerage system measured by the number of:</p> <p>a) abatement notices</p> <p>b) infringement notices</p> <p>c) enforcement orders</p> <p>d) convictions</p> <p>received by the territorial authority in relation to those resource consents.</p>	<p>a) 0</p> <p>b) 0</p> <p>c) 0</p> <p>d) 0</p>	<p>a) ≤2</p> <p>b) ≤2</p> <p>c) ≤2</p> <p>d) 0</p>	<p>a) 0</p> <p>b) 0</p> <p>c) 0</p> <p>d) 0</p>	Achieved	
<p>The average consumption of drinking water per day per resident within the territorial authority district (*litres plus/minus 2.5%) (12-month rolling average)</p>	243.33	258 litres (+/- 2.5%)	241.33	Achieved	
<p>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).</p>	100%	100%	100%	Achieved (provisionally)	<p>We reported against two regulatory frameworks for this reporting period. From 1 July 2022 – 31 December 2022 we measured compliance against Parts 4 and 5 of the Drinking Water Standards 2005, (revised 2018) with a target of 100% bacterial and protozoal compliance. From 1 January 2023, new Drinking Water Quality Assurance Rules (DWQAR) introduced by Taumata Arowai took effect. Compliance against these new rules (for January to June 2023) is also independently assessed and verified by Wai Comply.</p> <p>The new drinking rules require monthly reporting for bacterial and protozoal compliance. Where there were instances of potential non-compliance, we disclosed it to Taumata Arowai and investigated these instances. After investigation, we confirmed that compliance against protozoal and bacterial requirements was maintained and there were no risks to public health. Wai Comply is expected to provide the final report for the period 1 July 2022 to 30 June 2023 in September 2023.</p>
<p>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).</p>	100%	100%	100%	Achieved (provisionally)	<p>We reported against two regulatory frameworks for this reporting period. From 1 July 2022 – 31December 2022 we measured compliance against Parts 4 and 5 of the Drinking Water Standards 2005, (revised 2018) with a target of 100% bacterial and protozoal compliance. From 1</p>

Performance Measure	Previous Quarter	FY 23 Quarter 4			
		Target	Actual	Status	Commentary
					<p>January 2023, new Drinking Water Quality Assurance Rules (DWQAR) introduced by Taumata Arowai took effect. Compliance against these new rules (for January to June 2023) is also independently assessed and verified by Wai Comply.</p> <p>The new drinking rules require monthly reporting for bacterial and protozoal compliance. Where there were instances of potential non-compliance, we disclosed it to Taumata Arowai and investigated these instances. After investigation, we confirmed that compliance against protozoal and bacterial requirements was maintained and there were no risks to public health. Wai Comply is expected to provide the final report for the period 1 July 2022 to 30 June 2023 in September 2023.</p>
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).	44 mins	≤ 60 mins	45 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).	3.35 hours	≤ 5 hours	3.7 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 (days).	0.95 day	≤ 5 days	1 day	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). (12 month rolling-average).	1.37 day	≤ 6 days	1.7 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	7.84	≤ 10	7.5	Achieved	Complaints reduced due to the significant volume of proactive communications sent to customers during the storm event.

Performance Measure	Previous Quarter	FY 23 Quarter 4			
		Target	Actual	Status	Commentary
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).					
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).	64 mins	≤ 60 mins	78 mins (performance excluding the storms would be 69)	Not achieved	The January/February weather events significantly impacted the 12-month rolling average. Provisioning of permanent repairs to weather event damage, and deferred leave and overtime compensation continue to put pressure on resources. Our performance excluding the storms would be 69.
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).	3.4 hours	≤ 5 hours	3.8 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).	24.67	≤ 50	24.4	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).	10.87% (November figure)	≤13%	11.6% (March 2023 figure)	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. Non-revenue water includes leaks (real water losses), water used for firefighting and operational use like flushing. Portions of our non-revenue water are also attributed to meter inaccuracy at our bulk supply points

Performance Measure	Previous Quarter	FY 23 Quarter 4			
		Target	Actual	Status	Commentary
					and theft. However, leaks are the biggest contributor to our non-revenue water figures. The performance remains stable compared to last year due to our consistent effort in leakage management.
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).	0.97	≤ 5	0.7	Achieved	

Organisational performance measures

Performance Measure	Previous Quarter	FY 23 Quarter 4			
		Target	Actual	Status	Commentary
Average number of wet weather overflows per engineered overflow point per discharge location (12-month rolling average).	5.6	≤ 2 overflows per year	4.7 (performance excluding the storms would be 2.86)	Not achieved	The number of wet-weather overflows for the transmission network (bulk mains) per number of discharge locations was 4.7, which is more than the target of two or fewer overflows. Performance for this measure was significantly impacted by the January/February 2023 extreme weather events. Results have exceeded the target this year due to significant volume of overflows experienced during the storms events and wetter than normal conditions. Our performance excluding the storms would be 2.86.
Employee net promoter score (eNPS).	6 (March 2023 survey results)	≥20	10 (May 2023 survey results)	Not achieved	Our May 2023 eNPS was 10, up very slightly from March's pulse survey and last November's full survey. This score is mid-range for the utilities sector so there is clearly an opportunity to improve our engagement. This is a continuous improvement process, particularly how we listen, act and communicate with our people.
Gender workforce ratio in fixed term and/or permanent roles, including leadership positions (Tier 3 and above).	F: 38.51% M: 61.49%	40% men 40% women 20% any	43% men, 37% women, 20% any gender (20%	Not achieved	It is important to note that the way we report on this measure has changed. We have moved from a static percentage increase in female employees measured at the end of the year to an aspirational gender split ratio (40% male employees, 40% female employees, 20% any

Performance Measure	Previous Quarter	FY 23 Quarter 4			
		Target	Actual	Status	Commentary
		gender	men for 2022/23)		gender) that allows for workforce movement over the year. However, gender diversity is an area of ongoing focus for us. We have analysed our recruitment processes and identified that attracting female candidates to our talent pipeline is where we need to focus our efforts. We are looking at targeted ways to attract a broader range of candidates for Watercare roles. One of our strategies included conducting focus groups with a diverse range of employees to identify why our people chose to work for us and why they continue to do so. This will inform our external outreach going forward.
Employees in fixed term and/or permanent roles, including leadership positions (Tier 3 and above) identify as Māori.	4.63%	6%	4.38%	Not achieved	Challenges in the current reform environment, means this target was not met by year end. Watercare is a diverse workplace, committed to reflecting the diversity of the community it serves across all functions and levels. We are looking at attraction and retention strategies that target a broader range of candidates for Watercare roles. One of our strategies included conducting focus groups with a diverse range of employees to identify why our people chose to work for us and why they continue to do so. This will inform our programme going forward.
Total recordable injury frequency rate (TRIFR) per million hours worked (12-month rolling average).	19.58	<10	21.96	Not achieved	Measure is a 12-month rolling average. We are focussing on understanding the effectiveness of critical risk controls and have refreshed our HSW commitment. We are working 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 good HSW behaviours; sharing learnings and best practices; and hands on, meaningful training.
Safety improvement plans.	100%	100% of teams with a HSW Improvement Plan	100%	Achieved	Improvement plans are in place for all sites and business units.
Culture and Leadership.	20%	100% of Tier 1 to Tier 4	30%	Not achieved	As previously advised, this KPI is not effective. We are therefore establishing an entity wide monthly H&S meeting to discuss lead

Performance Measure	Previous Quarter	FY 23 Quarter 4			
		Target	Actual	Status	Commentary
		who have completed at least 10 leadership walks per year			indicators, with a focus on improving our health, safety and wellbeing outcomes.
Leakage performance – litres/connection/day (l/c/d).	105.72 (November 2022 figure)	107.9 l/c/d being the Economic level of leakage (ELL)	111.2 l/c	Achieved	<p>Watercare has set an aspirational target for economic level of leakage (ELL) at 107.9 l/c/d. For the 2022/23 year, our target was to begin reporting our ELL every month, For 2022/23, our ELL was 111.2 l/c/d. We have adopted ELL as a performance measure to track our progress in achieving the aspirational target.</p> <p>The ELL is the point at which the cost of producing water is equivalent to the cost of the efforts to keep leakage at those levels through a combination of leakage repairs, managing water pressure and renewal of water mains.</p>
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.	N/A	N/A	N/A	<p>Achieved</p> <p>On track to achieve</p>	<p>In early 2023, Watercare forwarded submission points that supported the adoption of more diverse water sources in the development of its Resource Management and Water Services Reform submission points. We are awaiting updated versions of the bills to see whether the submission points were incorporated.</p> <p>Our CI project has a pilot wastewater reuse plant for beneficial use. The plant came into service in FY23. The plant is providing water for construction purposes to the contractor constructing the Central Interceptor tunnel. In the future, water from the plant will be used to test the new pump station being built at Māngere.</p> <p>We also have a number of other workstreams underway to promote the adoption of alternative sources of water, i.e.:</p> <ul style="list-style-type: none"> • We sell non potable water to the construction and mobile contractor industry • We are testing grey water in the home with Fletchers construction • We educate and encourage the use of rain tanks for outdoor use • We work with third parties to enable non potable water for irrigation, i.e. at parks and sports facilities.

Performance Measure	Previous Quarter	FY 23 Quarter 4			
		Target	Actual	Status	Commentary
Debt to revenue ratio.	2.68	≤3.61	3.3	Achieved	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.
Percentage of household expenditure on water supply services relative to average household income.	0.83%	≤ 1.5%	0.83%	Achieved	
Formal engagement with mana whenua of Tāmaki Makaurau.	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 (updated measure).	100%	Achieved	6 of 10 priority outcomes identified within Kia Ora Tāmaki Makaurau. Initiatives under the following areas are being progressed: 1) Kia Ora te Hononga, 2) Kia Ora te Ahurea, 3) Kia Ora te Rangatahi, 4) Kia Hāngai te Kaunihera, 5) Kia Ora te Reo and 6) Kia Ora te Umanga. Te Rua Whetu have now completed their secondment with the NTU. However, the team are now providing support for Wai Tāmaki ki Te Hiku and leading engagement with iwi and mana whenua in Te Tai Tokerau (Far North).
Ratio of procurement sourced through Māori owned businesses.	1.91%	2%	2.22%	Achieved	Total Māori business spend for FY was \$22.84m. (\$9.01m Direct, \$13.836m Indirect) This is up from \$13.26m in FY22. This is an increase in reported spend with Māori businesses of \$9.58m (72% increase in actual dollars spent). All physical works partner suppliers are now reporting their Māori business spend. We have 83 active Māori suppliers out of a total of 1,952 active suppliers.

Performance Measure	Previous Quarter	FY 23 Quarter 4			
		Target	Actual	Status	Commentary
Integration/Adoption of Te Reo and Tikanga Māori within Watercare.	100%	Ensure all Tier 1-4 job titles include Te Reo Māori translation; and hold a Watercare Tikanga Māori experience for all staff	100%	Achieved	Te Reo Māori translations for all Tier 1 - 4 job titles are complete.
Percentage of customer complaints resolved within ten days of notification.	99.02%	≥95%	99.2%	Achieved	
Customer Net Satisfaction Score (Previously Net Promoter Score). (12-month rolling average)	46%	≥45%	43	Not achieved	Severe weather events combined with high staff attrition and the recruitment freeze resulted in Watercare missing its Customer Net Satisfaction (CNS) target for FY23. With time needed to recruit and train new staff, use of the chatbot and proactive notification enabled us to sustain levels of service despite extreme weather events and high vacancy rates. Maintaining our service levels in this environment has been a challenge.
Community trust score. (12-month rolling average)	59	≥55	60	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.*	74,407 (Q3 result)	<88,400 tonnes CO2e	84,617 tonnes CO2e (Unaudited at the time of writing this report.)	Awaiting final audited results. Mid-audit indicates target should be achieved.	Our (unaudited) greenhouse gas (GHG) results suggest that we have achieved the FY23 target by 3,385 tCO2e (4.3%) We continue to improve the reporting approach and respond to changes in both the science and approach of GHG reporting. For these FY23 figures we have adopted the guidance from the IPCC AR6 report which changed the global warming potential figures for methane and nitrous oxide. These have decreased due to revised estimates of the lifetimes and indirect chemical effects which has resulted in a decrease in emissions in some areas for Watercare.

Performance Measure	Previous Quarter	FY 23 Quarter 4			
		Target	Actual	Status	Commentary
					In FY23, we progressed longer term actions in line with the Decarbonisation Roadmap and achieving the goals of 50% reduction by 2030. The main focus has been on getting a better understanding of wastewater process emissions and a CAPEX for direct measurement has subsequently been approved. Other highlights have included investigations into the emissions associated with Puketutu Island which will be audited this year and also options for the use of biogas at our two largest wastewater treatment plants.

**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.*

Financials – overview

 Direct operating performance						
(\$ million)	Notes	FY 22	FY 23 Quarter 4 YTD			FY 23
		Actual	Actual	Budget	Variance	Budget
Net direct revenue		525.7	531.0	539.6	(8.6)	539.6
Direct revenue	A	902.7	919.0	887.3	31.7	887.3
Fees & user charges		559.8	612.6	586.9	25.7	586.9
Operating grants and subsidies		-	-	-	-	-
Other direct revenue		342.9	306.4	300.4	6.0	300.4
Direct expenditure	B	392.2	388.0	347.7	(40.3)	347.7
Employee benefits		114.9	93.8	77.8	(16.0)	77.8
Grants, contributions & sponsorship		0.4	0.4	0.0	(0.4)	0.0
Other direct expenditure		276.9	293.8	269.9	(23.9)	269.9
Other key operating lines						
AC operating funding						
AC capital funding		-	-	-	-	-
Government Grant		15.1	30.8	38.3	(7.5)	38.3
Vested assets		59.5	76.6	65.5	11.1	65.5
Non-direct expenditure		0.0	0.9	0.0	(0.9)	0.0
Depreciation and amortisation	C	281.3	317.2	273.3	(43.9)	273.3
Net interest expense		94.9	120.8	115.6	(5.2)	115.6

A. Direct revenue: Revenue is in line with budget 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 \$19m lower than plan, \$61m lower than FY22. FY23 IGC assessments were 24.1% down compared to FY22 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 (\$9.1m). There has also been continued escalation in costs particularly in chemicals which are 10% higher year on year. The costs for the Waikato District Council arrangement were \$10m higher than budgeted, although these costs are covered by income received (cost recovery). Lutra costs of \$8m 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.

Appendix – 1

Financials – breakdown by key revenue, expenditure categories

Direct revenue(\$m)	Prior year	Quarter 4 YTD		Var	Full year
	Actual	Actual	Budget		Budget
Fees & user charges					
<i>Water revenue</i>	173.8	187.1	187.2	(0.1)	187.2
<i>Wastewater revenue</i>	386.0	425.5	399.7	25.8	399.7
Grants and subsidies					
<i>Grant from KO</i>	15.1	30.8	38.3	(7.5)	38.3
<i>Any other grant from third parties</i>					
Other direct revenue					
<i>Infrastructure Growth Charges</i>	240.5	179.6	198.5	(18.9)	198.5
<i>Insurance proceeds for storm recovery</i>					
<i>Other key other revenue</i>	102.4	126.8	101.9	24.9	101.9

Direct expenditure(\$m)	Prior year	Quarter 4 YTD		Var	Full year
	Actual	Actual	Budget		Budget
Staff cost					
<i>Salaries and wages</i>	128.9	132.9	131.9	(1.0)	131.9
<i>Contractors</i>	8.6	17.3	10.2	(7.1)	10.2
<i>Other staff costs</i>	11.4	9.7	10.6	0.9	10.6
<i>Labour recoveries</i>	(34.0)	(66.1)	(74.9)	(8.8)	(74.9)
Other direct expenditure					
<i>Maintenance costs</i>	70.5	84.1	67.1	(17.0)	67.1
<i>Other operating costs</i>	206.4	210.6	202.8	7.8	202.8
<i>Other expenses</i>					