

19 November 2014

John Strahl
Chair
Wellington Water Limited
Level 1, 85 The Esplanade
Petone
Lower Hutt

Dear John

EXPECTATIONS FOR 2015/16 FINANCIAL YEAR

The purpose of this letter is to outline our expectations of Wellington Water as you prepare for the 2015/16 financial year.

The current year has been a very busy one with the introduction of a new outcome based business model, the Greater Wellington Regional Council becoming a shareholder and transferring its bulk water staff, and the introduction of the Wellington Water Committee.

As Chair of the new Wellington Water Committee I wish to communicate the 2015/16 expectations for Wellington Water as determined by the Wellington Water Committee on behalf of the five shareholding local authorities.

Our expectations are split into three areas, customer requirements, company performance and the work programme as follows:

Customer requirements

Communication with the Shareholder

In order for Wellington Water to fulfil the requirement of the Trusted Advisor it needs to grow and maintain strong relationships both individually and collectively with the client councils. The aim of the company is to ensure all parties can work seamlessly on 3 waters issues and priorities.

We know Wellington Water is working hard in reorganising the legacy organisations into one high performing organisation and our expectation is that over time efficiencies and effectiveness will improve and we would like to see measures put in place to monitor and report on how this is progressing during 2015/16 and beyond.

We expect a no surprises policy, keeping us up to date with strategic initiatives and the

direction the company is taking. Please inform us as soon as practicable of any issues that are likely to have any political or other ramifications for the committee and/or client councils.

We wish to maintain at least quarterly shareholder representative meetings to assess progress from the beginning of the year, forecasts to the end of the current year, update on strategic direction, capital expenditure plans, debt position if any, and forecast position.

Reporting timeframes

- **Wellington Water Committee**

All reporting to the Wellington Water Committee will be received by the committee's administrating body seven days prior to the meeting date. Any presentation materials required for meetings need to be provided at least two working days prior to the meeting.

- **Budgets and Plans**

To meet client council planning times, underlying draft budgets for the following year are required by 31 August in the preceding year. These budgets are for both Wellington Water and for the client council budgets that Wellington Water is integral in preparing. To meet this budget timetable the underlying asset management plans will need up dating and agreeing by the client councils by 30 June the year before the start of the period covered by the SOI.

The formal draft SOI is due by 28 February, and it is our expectation that it will not only provide the financial forecasts for the next 3 years but also detailed explanation of the underlying plans driving the changes from year to year and a performance framework to manage the company by.

The final SOI is due by 31 May and must incorporate any changes we request, after receiving the draft SOI. We would not, as a general expectation, anticipate major changes between the draft and final SOI.

- **Client Council requirements**

Each client council will provide an annual Council approved timetable to ensure the individual on-going council reporting needs are met.

Wellington Water Financial position and projections

It is a Board role to decide on the appropriate priorities for the company; however, as shareholder we wish to provide you with our expectations in relation to these.

We expect that both the Wellington Water budget and the associated client council budgets will be met and any variations or expected variations are discussed early with the shareholder representatives. The overall objective is to meet the agreed work programme(s) within budget.

Creating Wellington Water as a shared services entity in the Wellington region also has the aim of delivering better value for money to shareholders. Over the next financial year we require you to set up a reporting framework to monitor the value the organisation has created and contributed to the Wellington Region.

Health and Safety Issues

The introduction of the new Health and Safety Legislation will bring new demands on the business. We expect Wellington Water to meet the new requirements and be a leader in Health and Safety matters as a public good company. The company should aim for a Zero Harm environment.

Environmental Issues

Wellington Water in its management of the three waters for the client councils should aim to minimise its impact on the environment and must operate in a sustainable manner.

Expectations for the 2015/16 work programme

Strengthen Response to Growth

All Client Councils are focused on promoting growth and thus require Wellington Water to be structured and to be proactive to support growth. This approach will also apply to any arrangements associated with the Wellington housing accord.

Regional Resilience

Our expectation is that during 2015/16 a consolidated condition assessment of all the client councils three waters assets is undertaken to assess the overall status of the region's assets and to help prioritise where investment is needed.

Regional Advice

Shareholders have accepted the company strategy of delivering regional value. You are currently consulting with all councils and the Committee on some seven issues. It is our expectation that a minimum of two of these issues will be resolved during the 2015/16 financial year. Appropriate support must also be given to the Porirua Whaitua process.

As is outlined in the the Shareholders Agreement for Wellington Water Ltd this Letter of Expectation requests Wellington Water to include in its Statement of Intent appropriate restrictions on activities set out in Part 2 of Schedule 2 (Attached as Appendix 1).

Could you now please prepare your draft Statement of Intent and provide it to us no later than the end of February 2015 so it can be considered at the Water Committee meeting of 5 March 2015.

Yours sincerely

David Bassett
Chair, Wellington Water Committee

Appendix 1: Part 2 of Schedule 2 of the Shareholders Agreement for Wellington Water Ltd

Appendix 1

Part 2 - Matters to be restricted in the Statement of Intent

The Shareholders agree that the Letter of Expectation will request that the Company ensures its Statement of Intent includes appropriate restrictions on the following matters:

- making a loan or borrowing money, except for any borrowings in the ordinary course of business of no more than \$1,000,000 in total;
- granting security over the assets of the Company, or granting an indemnity or guarantee other than in the ordinary course of business;
- making a material change in the nature of the Company's business or engaging in business activities outside the ordinary course of business;
- entering a new customer service level agreement, except in the form already agreed by the Shareholders;
- entering into a partnership or joint venture, except in the ordinary course of business;
- acquiring a new business or shares in another company;
- starting or settling any legal or arbitration proceedings, except in the ordinary course of business; and
- transferring or disposing of real or intellectual property with a value of over \$200,000.