



Watercare Services Limited: Review of service performance





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Watercare Services Limited: Review of service performance

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Auditor-General's overview

The Local Government (Auckland Council) Act 2009 requires me to periodically review the service performance of Auckland Council and each of its council-controlled organisations. For the first such review, I chose to look at the work of Watercare Services Limited (Watercare).

Overall, Watercare strives to provide its customers with good customer service. In my view, it has been largely successful. However, Watercare could improve some aspects of its performance – in particular, by providing its customers with better information about how it operates and what customers can expect.

About Watercare

On 1 November 2010, Auckland's local authorities were amalgamated into a single Auckland Council. Watercare became an integrated water and wastewater service provider with responsibility for supplying all water from source to tap and for providing all wastewater services in the Auckland region. The assets and liabilities relating to the water supply and wastewater services of the Auckland region's former local authorities were transferred to Watercare.

Positive changes to date

Watercare inherited a complex set of tariff arrangements. It has been progressively standardising them to address inconsistency throughout the region. The price of water reduced in 2011/12 and was held unchanged in 2012/13. Watercare is also implementing a new standard non-domestic wastewater tariff that will take effect from 1 July 2014. I endorse the work that Watercare has done to standardise tariffs.

Other aspects of Watercare's operations are done well. It has a customer contact centre that, despite technology constraints, works well. Its staff have access to a knowledge base that is up to date, clear, and concise, and staff are well trained. Watercare's website includes its customer contract, which sets out the terms and conditions of water and wastewater supply.

Introducing monthly billing was a positive change for customers because it helps them in managing their expenses. Watercare's meter-reading process is efficient, and the system adopted has in-built quality control mechanisms to ensure that meter readings are accurately read and recorded.

Room to improve

A need to provide more relevant information to customers was a theme throughout my review. For example, estimating how much water a customer has used is a fundamental part of Watercare's billing activity. However, it provides no

information about how it does the estimating. Watercare's customer contract simply states that sometimes Watercare might have to estimate how much water a customer uses (as opposed to using an actual meter reading). This could lead a customer to think that readings are estimated only occasionally. Watercare actually uses estimated readings more often than its customer contract suggests.

Overseas water utilities often set out their approach to debt recovery so that customers know what to expect. Watercare provides no such information. Also, Watercare provides no information about its water restriction policy and practices. In my view, Watercare should provide its customers with all the information they need to understand their rights and obligations, and what they can expect from Watercare.

I also have concerns about the way that Watercare reports some of its performance measures – in particular, its customer satisfaction performance. Reporting customer satisfaction as a percentage of the target rather than the actual result might overstate Watercare's performance.

Watercare has a team dedicated to collecting outstanding customer debt. Its practices are broadly consistent with good practice guidelines. However, at least in the early stages of its debt-recovery process, Watercare adopts a "one size fits all" approach that does not consider people's individual circumstances. Other utility companies tailor their debt-recovery action, and Watercare could usefully consider such an approach.

Watercare can restrict a customer's water supply and we found that Watercare's operational staff get a good understanding of a customer's circumstances before recommending a water restriction. Watercare applies few water restrictions. However, Watercare could review the use of its correspondence about water restrictions to ensure that it does not send its water restriction reminder letter to customers who cannot have their water restricted.

I also consider that Watercare should review its water restriction policy to ensure that senior managers are given additional assurance that Watercare has met all the requirements of the Local Government Act 2002, the Health Act 1956, and its water restriction policy.

I thank Watercare's staff for their assistance as my staff carried out this review.



Lyn Provost
Controller and Auditor-General

26 May 2014

Our recommendations

We recommend that Watercare Services Limited:

- 1 better explain to customers the reasons for increases to water or wastewater tariffs;
- 2 improve the accuracy of how it reports its service performance by:
 - reporting the number of customers who are satisfied with its performance levels, rather than reporting average customer scores;
 - reporting actual performance, where appropriate, rather than reporting the percentage of a target achieved;
 - increasing the size and nature of the sample for its customer satisfaction surveys; and
 - reviewing its water affordability measure to keep the measure relevant and meaningful;
- 3 revise its invoice form to clearly and accurately state the date from which late payment penalties apply;
- 4 amend its customer contract to correctly reflect the process and frequency for estimating meter readings and tell customers how they can request an invoice based on an actual reading;
- 5 prepare a Code of Practice for dealing with customer debt, setting out its approach to debt recovery and customers' rights and obligations;
- 6 update its water restriction policy and practice such that the policy reflects current practice and specifically requires Watercare managers to confirm that any water restriction meets the requirements of the Local Government Act 2002 and the Health Act 1956.

Part 1

Introduction

- 1.1 In this Part, we set out:
- why we carried out our review;
 - what Watercare Services Limited (Watercare) is and the services it provides;
 - the scope of our review;
 - what we did not review; and
 - the structure of this report.

Why we carried out our review

- 1.2 Section 104 of the Local Government (Auckland Council) Act 2009 requires that “The Auditor-General must, from time to time, review the service performance of the Council and each of its council-controlled organisations.”
- 1.3 Although some of our reports cover the quality of services provided by organisations, a specific legislative requirement to review service performance is new.
- 1.4 The amalgamation of Auckland’s local authorities and regional council into a single Auckland Council on 1 November 2010 significantly affected the arrangements for supplying water services in the Auckland region. Watercare became an integrated water and wastewater service provider. The assets and liabilities for the water supply and wastewater services of the Auckland region’s former local councils were transferred to Watercare.
- 1.5 Given the extent of the change in arrangements and the importance of water to the Auckland region, we considered it appropriate to review Watercare’s service performance.
- 1.6 This is the first review of service performance that we have carried out under section 104 of the Local Government (Auckland Council) Act. The next one will be a review of Auckland Council’s building consent service performance.

Watercare Services Limited and the services it provides

- 1.7 Before 1 November 2010, most Auckland city and district councils received water in bulk from Watercare. Rodney and Franklin District Councils had their own water services. The councils distributed drinking water to homes and businesses in their district through their business units or subsidiary companies (local network operators). Half of the councils also collected, treated, and disposed of wastewater. Watercare treated and disposed of wastewater for Auckland, Manukau, Papakura, and Waitakere districts.

- 1.8 From 1 November 2010, Watercare became responsible for providing all drinking water and wastewater services in the Auckland region. It now provides its services to about 1.4 million people.
- 1.9 Watercare collects, treats, and distributes drinking water from 12 dams, 14 groundwater sources and springs, and three river sources. It sourced 143 billion litres of water in 2011/12, which was treated at 21 plants. This water was distributed through 8800 kilometres of water pipes, through 84 reservoirs and 90 pump stations to about 1.4 million people.
- 1.10 Watercare collects, treats, and disposes of wastewater at 20 treatment plants. The two main wastewater plants servicing most of the region are located at Mangere on the Manukau Harbour and Rosedale on the North Shore. Wastewater is conveyed through 7757 kilometres of sewers before treatment. The regional network includes 539 wastewater pump stations and 164,000 manholes.
- 1.11 Watercare transfers, treats, and disposes of trade wastes. As at 1 July 2012, Watercare had worked with 1650 customers in administering the four trade waste bylaws to protect the wastewater network and to help ensure that wastewater treatment plant discharges meet consent requirements. The way trade waste discharges are regulated will change from 1 July 2014 because Auckland Council has adopted a new bylaw that standardises the regulation of trade waste discharges.
- 1.12 Watercare also provides commercial laboratory services in support of its business. The independently accredited laboratory provides a full range of testing and sampling services for water, wastewater, and air quality. It also works with a range of industries to provide first-class laboratory analysis and sampling services.
- 1.13 These activities are supported by customer services, finance, legal services, capital programmes, human resources, information services, and maintenance services teams.
- 1.14 Watercare's total revenue in 2012/13 was just over \$480 million. However, it does not operate to make a profit and is prohibited from paying a dividend to its shareholder, Auckland Council.

The scope of our review

- 1.15 This report is about service to the public and includes:
- Watercare’s tariffs;
 - the operation of Watercare’s contact centre;
 - the introduction of monthly billing;
 - meter reading; and
 - Watercare’s customer debt management practices, including the operation of the Water Utility Consumer Assistance Trust.

What we did not review

- 1.16 Watercare is a significant and sizeable organisation. It was not possible, nor was it our goal, to cover all areas of service performance. The two main aspects we have not covered are Watercare’s asset management planning and drinking water quality.
- 1.17 Watercare has an extensive and exhaustive asset management plan for 2012-22 that covers expected capital expenditure of \$4.8 billion. Watercare’s annual report and, more recently, its new Global Reporting Initiative report provide relevant information on many supply activities. Watercare’s annual report, asset management plan, and Global Reporting Initiative report are on Watercare’s website.¹
- 1.18 The Ministry of Health reports extensively on the quality of drinking water provided by all community drinking water supply organisations, including Watercare. It also reports on their progress towards meeting the requirements of the Health Act 1956 and the *Drinking-water Standards for New Zealand*. The Ministry of Health’s most recent report is on its website.² Watercare also provides information in its annual report and Global Reporting Initiative report on water quality, including an analysis of the quality of Auckland’s drinking water and grades for its water treatment plants and networks.

1 See www.watercare.co.nz.

2 See www.health.govt.nz/publication/annual-report-drinking-water-quality-2012-2013.

Structure of this report

- 1.19 In Part 2, we discuss Watercare's tariffs for water and wastewater. We look at the tariffs Watercare inherited as well as the tariff changes Watercare has made since 1 July 2011.
- 1.20 In Part 3, we discuss the level of service provided by Watercare's customer service group. This includes aspects of Watercare's:
- communication with its customers;
 - complaints processes;
 - staff development and retention; and
 - performance reporting.
- 1.21 In Part 4, we look at Watercare's billing process. In particular, we review meter reading and estimation processes.
- 1.22 In Part 5, we look at Watercare's customer debt management processes. We compare its practices with some other comparable organisations. We also look at Watercare's water restriction policy and how Watercare has applied it, and we discuss the Water Utility Consumer Assistance Trust.

Part 2

Tariffs and implementing the non-domestic wastewater tariff

2.1 In this Part, we describe:

- Watercare's tariffs for water and wastewater from 1 July 2011; and
- Watercare's proposed introduction of a new non-domestic wastewater tariff.

2.2 Before 1 November 2010, Watercare was purely a wholesaler in the water and wastewater utility business. Watercare's customers were local councils or water retail customers, which each operated local networks and on-sold Watercare's services to households and businesses in different parts of the Auckland region.

2.3 From 1 November 2010, Watercare became a fully integrated water utility provider, with responsibility for supplying all water from source to tap and providing all wastewater services in the Auckland region.³

2.4 As part of this transition, Watercare has gradually implemented changes to the way it charges for water and wastewater, and also to its water and wastewater tariffs. These changes include a new non-domestic wastewater tariff. This new tariff will be progressively introduced from 1 July 2014, with the aim of achieving greater equity in Watercare's charging regime.

Tariffs for water and wastewater

2.5 Since becoming an integrated water utility provider, Watercare has made significant changes to the structure of its water and wastewater tariffs. Figure 1 summarises the main changes.

³ This does not include water and wastewater supplied by United Water under a franchise agreement entered into with Papakura District Council.

Figure 1
Summary – Watercare water and wastewater tariff changes, 1 June 2011 to 30 June 2013

Year	Water tariff		Wastewater tariff	
	Basis	Change	Basis	Change
2011/12	A new volumetric tariff introduced for all retail customers.	Between -0.6% and -62.9%, depending on former councils' tariffs.	Domestic – Various, depending on former councils' charging regimes. Non-domestic – Various, depending on former councils' charging regimes.	4.5%↑ 4.5%↑
2012/13	Volumetric	3.3%↑	Domestic – A new volumetric and fixed charge wastewater tariff introduced in the region. Non-domestic – Various, depending on former councils' charging regimes.	3.6%↑ 3.6%↑
2013/14	Volumetric	Zero	Domestic – Volumetric and fixed charge. Non-domestic – Various, depending on former councils' charging regimes. Preparing to introduce a new non-domestic wastewater tariff.	Zero

2.6 We describe Watercare's tariffs by financial year:

- 1 July 2011 to 30 June 2012;
- 1 July 2012 to 30 June 2013;
- 1 July 2013 to 30 June 2014; and
- 1 July 2014 to 30 June 2015.

1 July 2011 to 30 June 2012

- 2.7 Before 1 July 2011, a complicated set of water and wastewater charging regimes applied in the Auckland region. Watercare inherited that complicated set of tariff structures.
- 2.8 Figure 2 sets out the different volumetric water tariffs charged by the local councils or their council-controlled organisations (CCOs) in 2010/11. Tariffs varied considerably between the different councils.

Figure 2
Auckland region volumetric water charges, 2010/11

Former council area	Charge per 1000 litres \$ (GST-inclusive)
Auckland City	1.62
Manukau City	1.31
Rodney District – Urban	1.96
Rodney District – Rural	3.50
North Shore City	1.52
Waitakere City	1.74
Franklin District	2.00

Source: Watercare.

- 2.9 As well as volumetric charging, some local councils or their CCOs had additional charges for supplying water. For example, Auckland City Council included a fixed annual service charge.
- 2.10 Watercare inherited an even more complicated set of tariff structures for wastewater. These comprised different charging mechanisms (for example, user charges and rates) as well as a number of different charging bases (for example, metered, unmetered, fixed, land value, and a combination of these).

Rationalising water tariffs

- 2.11 From 1 July 2011, Watercare introduced a new water tariff of \$1.30 (including GST) for every 1000 litres of water, as the first significant change to its tariffs and tariff structure. The new water tariff:
- applied to all of Watercare's domestic and non-domestic customers;
 - introduced a single, region-wide charge for urban and rural residents connected to Watercare's water network;
 - replaced all the different water tariff regimes that Watercare inherited, including any fixed service charges; and
 - ensured that all customers paid a single standardised price for water.

- 2.12 The new tariff was lower than the existing water tariffs. Customers had price decreases of between 0.6% (Manukau City) and 62.9% (rural Rodney).
- 2.13 Figure 3 sets out how the new water tariff affected the price of water in the former council areas.

Figure 3
Comparison with former councils' water prices

Former council area	Old price for 1000 litres, pre-July 2011 (GST-inclusive)	Watercare price for 1000 litres, post-July 2011 (GST-inclusive)	Percentage change
Rodney District – Rural	\$3.50	\$1.30	-62.9%
Rodney District – Urban	\$1.96		-33.7%
North Shore City	\$1.52		-14.5%
Waitakere City	\$1.74		-25.2%
Auckland City (ex-Metrowater)	\$1.62		-19.7%
Manukau City (ex-Manukau Water)	\$1.31		-0.6%
Franklin District	\$2.00		-35.0%

Source: Watercare.

- 2.14 The new water tariff of \$1.30 for 1000 litres of water reduced the price of water for all areas. Watercare told us that it was able to reduce the tariff for water because of regional cost efficiencies available through integration. Watercare calculated that these efficiencies were more than \$100 million in 2011.
- 2.15 However, in at least one instance, Watercare's specific communication of the effect of its price changes differed from the information contained in its *Annual Report 2011*.
- 2.16 For example, Watercare made a presentation to Auckland Council's Business Advisory Panel on 3 December 2012. This presentation included information about the effect of the water tariff changes. Here, Watercare reported that the decrease for Auckland was 28% (compared to 19.7% in its annual report), 46% for urban Rodney (33.7% in its annual report), and 72% for rural Rodney (62.9% in its annual report).
- 2.17 We asked Watercare to explain these differences.
- 2.18 Watercare told us that the different figures arose from Watercare including the volumetric charge plus any fixed service charges applying to the supply of water in the figures presented to the Council. Accordingly, there were valid reasons for the figures differing.

- 2.19 Nevertheless, the extent of the effect of the tariff changes might have been difficult for customers to understand. Watercare would better enable its customers to properly understand and assess the extent of the changes if it were to ensure that its public communications about changing water tariffs are consistent.

Rationalising wastewater tariffs

- 2.20 The charging regime for the provision of wastewater services for 2011/12 was complex because of the different tariff regimes and billing arrangements in place.
- 2.21 Tariffs for Watercare's wastewater services were determined by the previous tariff regimes set by the former councils and their CCOs. There were 44 different tariff regimes in total. This meant that the different tariff-charging regimes continued to apply to the areas of the former councils.
- 2.22 Different billing arrangements applied to the different areas. For example, for the previous Franklin District Council, North Shore City Council, Rodney District Council, and Waitakere City Council areas, wastewater charges were collected by Auckland Council as part of property rates and transferred to Watercare. Watercare billed its Manukau City Council and Auckland City Council customers directly. It was not until 2012/13 that Watercare began directly charging all of its customers for wastewater services.
- 2.23 For 2011/12, all wastewater tariffs were increased by 4.5%, regardless of how the former councils determined their individual tariffs. At the time of the increase, Watercare said that it was significantly lower than increases forecast by the former councils.

1 July 2012 to 30 June 2013

- 2.24 From 1 July 2012, Watercare increased the water tariff by 3.3% to \$1.343 for every 1000 litres. This increase applied to all of Watercare's domestic and non-domestic customers. Watercare did not publicly explain the reasons for the tariff increase.
- 2.25 The 2012/13 year saw Watercare's second significant change to its tariffs and tariff structure, when it introduced a standard wastewater tariff for its domestic wastewater customers. The new tariff addressed inconsistent charging in the former council areas.
- 2.26 Watercare began a project in July 2011 to standardise its domestic and non-domestic wastewater tariffs throughout Auckland. In early 2012, Watercare consulted on its proposed domestic and non-domestic wastewater tariffs as part of Auckland Council's *Draft Long-term Plan 2012-2022*.

- 2.27 Watercare proposed:
- a single wastewater tariff for domestic customers – an annual fixed charge of \$190, plus a volumetric charge of \$2.28 for every 1000 litres of wastewater; and
 - a single wastewater tariff for non-domestic customers – an annual fixed charge of \$313, plus a volumetric charge of \$3.64 for every 1000 litres of wastewater.
- 2.28 Although the domestic wastewater tariff was approved through this process and came into effect on 1 July 2012, confirming the non-domestic tariff was deferred until Watercare carried out further consultation. We discuss the introduction of the non-domestic wastewater tariff in paragraphs 2.47-2.60.
- 2.29 As well as changing the structure of its tariff for domestic wastewater, Watercare built in an overall increase in wastewater tariffs, calculated to produce 3.6% more wastewater revenue from domestic customers in 2012/13 than in 2011/12. However, depending on the way individual domestic customers were charged for wastewater in 2011/12, their 2012/13 wastewater tariff might have increased or decreased.
- 2.30 Non-domestic wastewater customers continued to be charged on the basis applied in previous years, with a 3.6% increase. As with other tariff increases, Watercare did not publicly explain the reasons for the tariff increase.

1 July 2013 to 30 June 2014

- 2.31 For 2013/14, Watercare did not increase water or wastewater tariffs. Watercare said that it was able to make a “zero price increase” possible through a combination of savings and efficiency.⁴

1 July 2014 to 30 June 2015

- 2.32 For 2014/15, Watercare proposes to introduce a new non-domestic wastewater tariff comprising a volumetric and fixed charge. We discuss this in paragraphs 2.47-2.60. At the time of writing, Watercare had not yet set its domestic wastewater tariff.

Providing better information to customers about tariffs

- 2.33 Watercare sets out its various charges in two brochures: *Residential water and wastewater charges* and *Non-residential water and wastewater charges*. It also provides some information about the affordability of its water supply services in its annual report. However, we consider that Watercare could significantly improve the information it provides about its tariffs to help customers understand them.

4 Watercare press release, 8 May 2013.

- 2.34 For example, Watercare could provide information that would allow customers to see what is happening to Watercare's tariffs and their bills over a number of years. It could include:
- trend information showing increases/decreases in Watercare's tariffs; and
 - trend information showing the annual average bill for a customer, based on different water usages and different customer profiles.
- 2.35 Doing so would provide customers with important information on Watercare's tariffs, their trends, and how they compare with other integrated water suppliers. This information could be provided in Watercare's annual report or a stand-alone "tariff report".
- 2.36 Watercare includes a water affordability measure in its annual report. The measure shows the percentage of spending on water supply services relative to the average household income. It aims to show that Watercare's charges for its services are affordable, while providing enough income for Watercare to both effectively deliver its current services and provide for infrastructure developments in the future.
- 2.37 For 2012/13, the target percentage of spending was 1.5% of the average household income. Watercare achieved 0.86%, which is well below the target. Watercare notes that the percentage increased from 0.72% in the previous year, because it included wastewater charges for those customers who were formerly billed for this through council rates.
- 2.38 Watercare has expanded the reporting in its Global Reporting Initiative report to cover the six previous local council areas, to demonstrate affordability for a range of communities in the Auckland region.
- 2.39 We consider that a water affordability measure is useful. However, it is unclear how Watercare developed the measure and whether the target of 1.5% is the right one.
- 2.40 In our view, Watercare could usefully review its water affordability measure to ensure that it is relevant and meaningful. It might also be useful to customers for Watercare to set out how any affordability measure has been determined. This is currently not clear.
- 2.41 Finally, although Watercare notifies its customers about tariff increases, it does not provide reasons for the increases. We consider that Watercare should explain why tariffs are being increased so that its customers can understand the reasons for the increases.

A new non-domestic wastewater tariff

- 2.42 Historically, charging for wastewater varied significantly throughout the Auckland region.
- 2.43 Watercare developed a proposal for a single wastewater tariff as part of Auckland Council's draft long-term (2012-22) planning process. After consulting the public as part of this process, Auckland Council and Watercare agreed to introduce a single wastewater tariff for domestic customers from 1 July 2012, but to defer implementing a single wastewater tariff for non-domestic customers until further consultation could be carried out.

Watercare's consultation was comprehensive

- 2.44 Watercare consulted its non-domestic customers between November 2012 and March 2013, to ensure that they had the opportunity to fully participate in the review of the non-domestic wastewater tariff. Watercare did this in response to concerns expressed by customers during the long-term planning consultation process and the resulting recommendation from Auckland Council to consult with all of its non-domestic customers.
- 2.45 Watercare's extended consultation included the following activities:
- An online customer survey invited customers to provide feedback to Watercare. Watercare received 824 responses to this survey.
 - Watercare sent two individual letters to all non-domestic wastewater customers, advising them of the review, the process, and the options. The letters invited them to provide feedback through the online surveys, to attend 10 "town hall" public meetings throughout the region to discuss any issues they might have, and to provide a written submission to Watercare.
 - Watercare placed advertisements in newspapers, advising customers of the public meetings.
 - Watercare held 44 one-to-one customer meetings – mainly with customers who use a significant amount of water, but also with industry and business groups – to explain tariff proposals and to seek feedback.
 - Watercare asked business associations to inform their members about the review.
 - Watercare provided a detailed projection of the financial implications of the four tariff proposals to all the customers that it visited and to other customers who requested details on how the proposals might affect their business.
 - All customers were invited to provide a formal written submission on the tariff proposals and to attend and present their submission in person to a hearings panel appointed by the Board of Watercare. Watercare received 465 submissions.

- 2.46 Auckland Council officers said that “Watercare conducted a comprehensive analysis and consultation process”. We also consider that the consultation process was comprehensive.

The new non-domestic wastewater tariff

- 2.47 After the extended consultation, Watercare’s Board approved the proposed new tariff for non-domestic wastewater on 2 May 2013 and Auckland Council endorsed it on 9 May 2013.
- 2.48 The new tariff structure consists of four pricing plans, each suited to a different level of wastewater discharge. Figure 4 sets out the new tariff, which is a combination of fixed and volumetric charges.

Figure 4
New non-domestic wastewater tariff

Pricing plan	Annual fixed charge for each water meter (GST-inclusive)	Volumetric charge for every kL (GST-inclusive)	Suited to approximate annual wastewater volume
A – low-user plan	\$197	\$4.44	under 1320 kL
B – moderate-user plan	\$500	\$4.21	1320 kL to 10,000 kL
C – high-user plan	\$7,000	\$3.56	10,000 kL to 88,310 kL
D – industry plan	\$75,000	\$2.79	over 88,310 kL

Source: Watercare.

- 2.49 The new tariff structure, applicable from 1 July 2014, is not intended to generate additional revenue. Rather, by standardising the wastewater tariff, Watercare seeks to remove anomalies and bring greater fairness to its wastewater charging.
- 2.50 Watercare has 22,291 non-domestic wastewater customers. Of these, we understand that:
- 10,277 customers will pay less – 9.8% of customers will have a decrease of more than \$1,400 (including one who will pay \$1.1 million less), with 17.9% of customers having decreases of 40% or more.
 - 12,014 customers will pay more – 8.1% of customers will have increases of more than \$1,400, with 18% facing increases of more than 43%.

Implementing the new tariff

- 2.51 The new tariff will be implemented over a three-year transition period:
- **Year 1:** 1 July 2013 to 30 June 2014. There was to be no change to the existing tariff. This was to allow time for customers to prepare for the new tariff.
 - **Year 2:** 1 July 2014 to 30 June 2015. A non-domestic customer’s tariff will be based on two-thirds of their existing tariff and one-third of their new tariff.

- **Year 3:** 1 July 2015 to 30 June 2016. A non-domestic customer's tariff will be based on one-third of their existing tariff and two-thirds of their new tariff.
- 2.52 From 1 July 2016, a non-domestic customer's tariff will be based on their new tariff.
- 2.53 The transition period will help those non-domestic customers whose charges will increase after the tariff's introduction, but will delay the cost savings for customers who will benefit from the new tariff structure.
- 2.54 Implementing the new tariff could cause confusion when customers receive their first bills under the new structure. These bills will be based on a combination of tariffs. It is important that Watercare's invoices clearly set out the different amounts charged for wastewater services and the basis of those charges.
- 2.55 In our view, Watercare could help customers' understanding by including some relevant information with each invoice, explaining the implementation of the different pricing plans and the transition process.

Watercare is working with customers to ensure a smooth transition

- 2.56 Watercare is currently working with its non-domestic customers to ensure that the new tariff structure is implemented smoothly.
- 2.57 Two matters are particularly important. First, the volumetric charge is applied to the percentage of water that a customer uses. Watercare estimates this to be 95% of water consumed, but it can be less when the nature of a customer's business generates less wastewater.
- 2.58 Watercare has written to customers seeking details of the nature of their business, which Watercare will use, with other customer and sector information, to determine a customer's wastewater percentage. If a customer disagrees with their wastewater percentage, they can request a wastewater audit (which the customer will have to pay for).
- 2.59 Secondly, customers must choose the pricing plan that best applies to them. We understand that Watercare provided customers with a recommended wastewater pricing plan in February 2014. This will be based on information that Watercare has requested about the customer's historical consumption.
- 2.60 If a customer wishes to opt for a different pricing plan than the plan recommended, they will be able to request that an alternative plan be assigned.

Recommendation 1

We recommend that Watercare Services Limited better explain to customers the reasons for increases to water or wastewater tariffs.

Part 3

Customer service

3.1 In this Part, we discuss aspects of Watercare's customer service. We cover:

- the customer service team;
- communication with customers;
- self-service options;
- how complaints are handled;
- continuous improvement;
- staff development;
- external reporting about customer service performance; and
- Internal processes for reporting about customer service.

Customer service team

3.2 Watercare's customer service team is often the first point of contact for all of Watercare's customers. Watercare's customer service team has 61.5 full-time equivalent staff. There are two main teams in the customer service team:

- the contact centre team; and
- the issue management team.

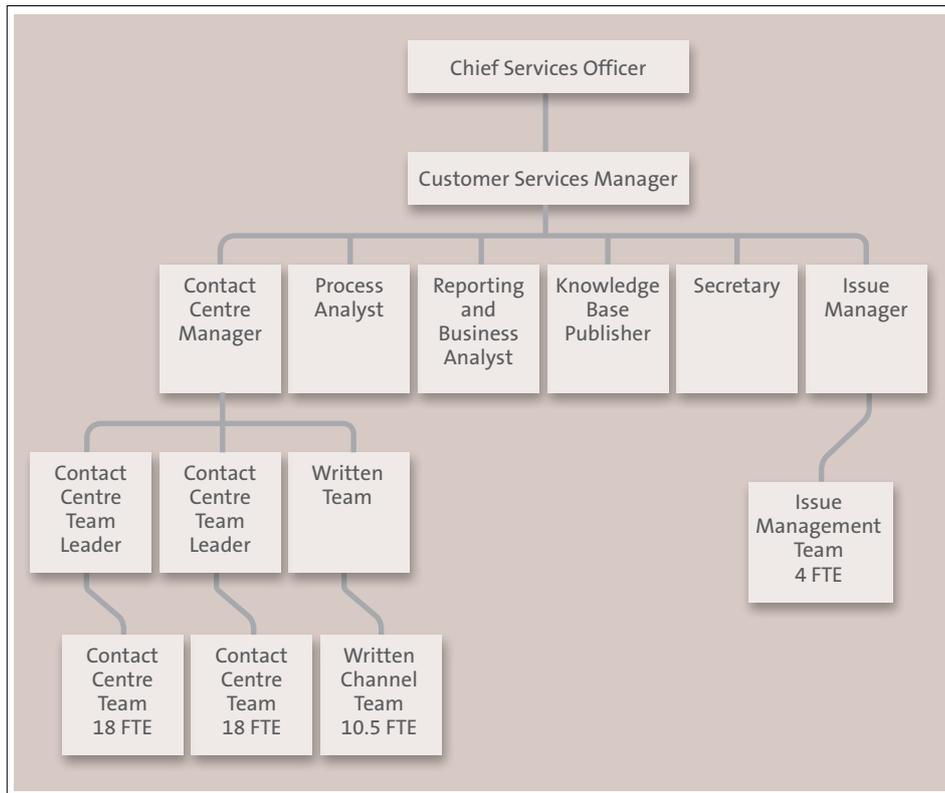
3.3 Figure 5 shows the structure of Watercare's customer service team.

3.4 Customer contact centres are important for helping shape the relationship between organisations and their customers. This relationship is essential to providing good customer service.

3.5 Watercare's contact centre receives about 2000 telephone calls, emails, and letters every day, from an estimated customer base of 1.4 million people. During 2012/13, the contact centre answered an average of about 39,000 telephone calls each month.

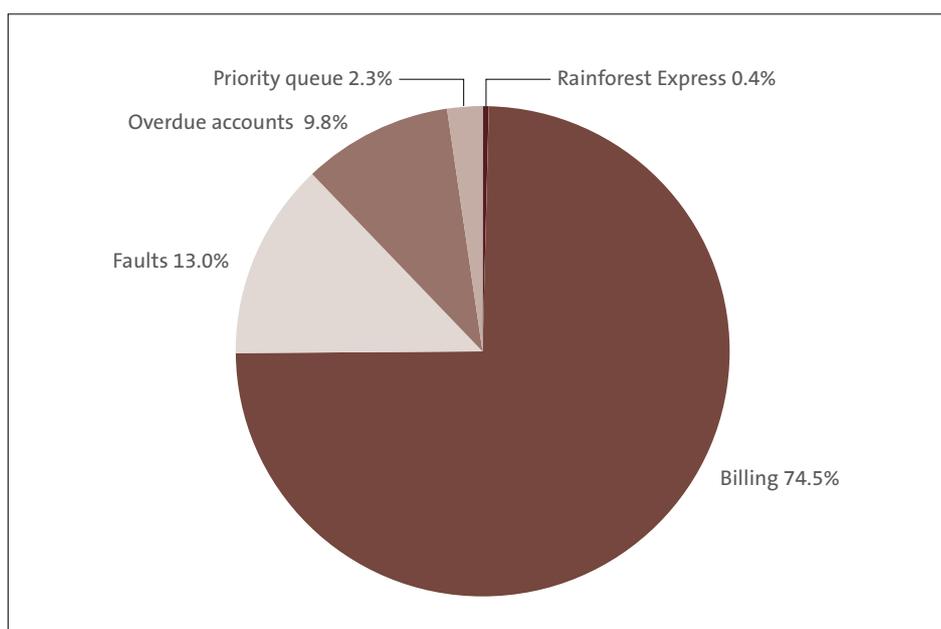
3.6 Most of the calls made to Watercare from its customers during 2012/13 were about billing (see Figure 6).

Figure 5
Structure of Watercare’s customer service team



Source: Watercare.

Figure 6
Calls made to Watercare's contact centre by call queue name, 2012/13



Source: Watercare.

3.7 Watercare has identified that the current challenges for its customer service are:

- governance of customer service as an organisation-wide capability;
- inefficient end-to-end customer processes;
- inadequate technology support; and
- inconsistent customer experiences.

3.8 Watercare is preparing and implementing a comprehensive three-year business change programme to review and improve its service processes and capability.

Communication with customers

3.9 Watercare has some good systems and information tools to help it provide customers with accurate advice and information. Watercare is aware that it needs to make changes to further improve its communication with customers.

3.10 We expected Watercare to have effective systems to help it communicate with customers to help them access Watercare's services. Successful customer service requires that customer service staff provide consistent and accurate information that meets customers' needs.

- 3.11 Watercare has redesigned its internal staff knowledge base to help improve service communications. Knowledge bases can give staff timely access to information to help them assist customers. Knowledge bases can also fill gaps in institutional knowledge when experienced staff leave.
- 3.12 In our view, Watercare's knowledge base is easily accessible, up to date, clear, and concise. It helps all Watercare staff to respond to customer queries. Watercare has a sound and transparent process for updating this knowledge base. It also has processes to find out how staff use the knowledge base, which should help it make improvements to the knowledge base.
- 3.13 When they communicate with customers, Watercare contact centre staff do not generally rely on standard scripts, although scripts are available on Watercare's knowledge base if needed. For example, Watercare needs to comply with standards for credit card payments so there are scripts for dealing with these. Although we consider the use of scripts to be good practice, not using scripts can mean that Watercare contact centre staff are more flexible in their interactions with customers and more responsive to customers' individual circumstances.
- 3.14 Watercare has identified that there is inconsistency in its communications with customers. To address this, Watercare is working on improving capability by refocusing and redesigning its customer communication processes as part of a business change programme.
- 3.15 In our view, Watercare has a good variety of relevant channels to inform staff of any changes to Watercare's services or other relevant changes. These channels include a bulletin board on the knowledge base, emails, and team meetings.
- 3.16 Watercare's asset and billing system (known as Hansen) is outdated and needs to be replaced. Watercare has plans to address this as part of its business change programme.
- 3.17 Watercare initially thought of Hansen as a short-term solution. However, Watercare staff told us that work to replace Hansen was delayed because of other work programme commitments. Watercare's new Customer, Billing and Asset Programme is now under way, with the objective of replacing Hansen as soon as possible. We saw that Hansen can be impractical and inflexible for contact centre staff to work with when dealing with customers.

Self-service options

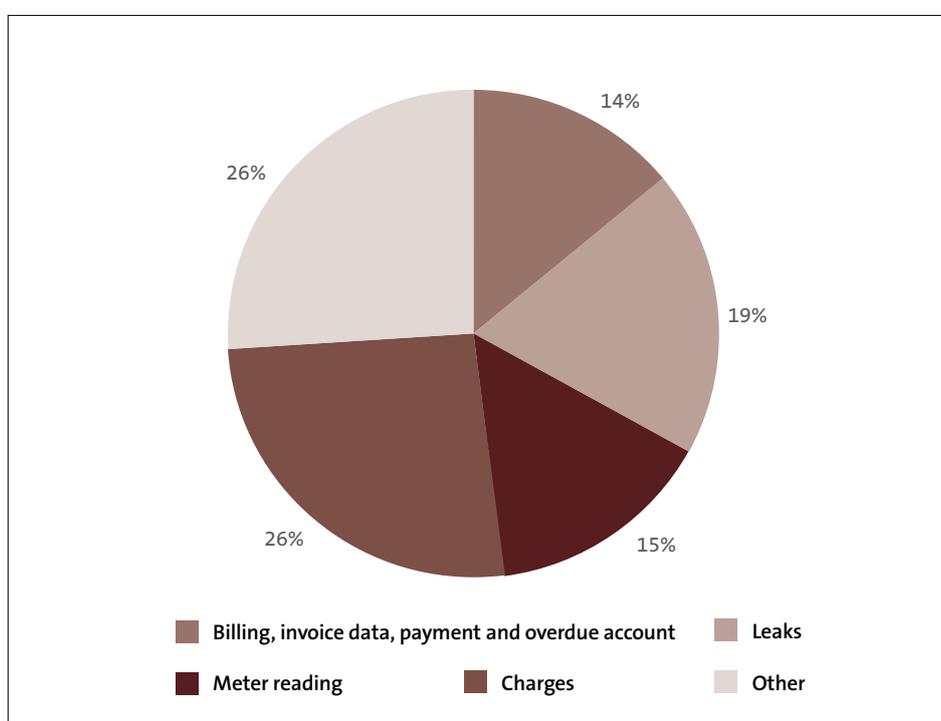
- 3.18 Customer contact centres are increasingly likely to be the main point of incoming and outgoing communications in a typical water utility in the future. However, less of this communication will be voice-based. Watercare has expanded its self-service options to reflect this.
- 3.19 Watercare's current self-service options began in June 2012 with the aim of giving customers more choice in how they interact with Watercare. Watercare's self-service involves increasing ways for customers to pay online (credit card and direct debit) and increased access to account information. Watercare tested its self-service options before making them available to customers, and staff received training in preparation for this.
- 3.20 We consider that Watercare's self-service options are a good initiative. Self-service options should help make it easier for customers to engage with Watercare in the manner they choose.
- 3.21 There is scope for the uptake of Watercare's self-service options to improve. Watercare told us that about 10% of its customers have signed up to self-service since it began. About 10% of those customers have since deregistered.
- 3.22 Staff told us that, to increase the use of self-service options, Watercare has plans to publicise these options more widely and make them more attractive to customers.
- 3.23 Staff also told us that Watercare is aiming to improve its self-service customer communication options. For example, Watercare wants to be able to send text messages with billing information in the future. Watercare expects that it will achieve this when it replaces Hansen.

Handling of complaints

- 3.24 To ensure that they handle complaints well, organisations should:
- make it easy to complain;
 - recruit and train necessary staff;
 - keep customers informed;
 - keep clear records;
 - deal with complaints quickly and fairly;
 - aim to resolve complaints satisfactorily; and
 - monitor the complaints-handling process.

3.25 Figure 7 shows the kinds of complaints that Watercare receives. Most of these complaints are about charges, billing or invoice information, and leaks.

Figure 7
Complaints received by Watercare, 2012/13



Source: Watercare.

3.26 In our view, Watercare makes it relatively easy for its customers to make a complaint. Watercare clearly indicates on its website where to find its complaints-handling procedure and how that procedure works. Watercare's complaints policy involves three steps:

- The customer contacts Watercare and receives a response within 10 working days.
- If that does not resolve the issue, mediation or arbitration can be used.
- If further resolution is required, more formal proceedings can be initiated.

3.27 Watercare does not ensure that the entire process is free – its telephone number is not an 0800 number. This could mean that customers who do not have landlines could find it difficult to make a complaint. However, Watercare does have other ways for customers to contact it.

- 3.28 Watercare’s customer contract also states that Watercare will “usually” share any costs involved in any mediation or arbitration. In our view, Watercare could helpfully clarify when this would apply, to make it as easy as possible for customers to complain.
- 3.29 We consider that Watercare has enough channels through which customers can make a formal complaint. The channels through which a customer can make a complaint are in person, in writing, by fax, by email, by telephone, or through Watercare’s website.
- 3.30 Watercare is improving the way that it deals with issues and complaints and has set up an issues team (see paragraph 3.2). Watercare wants to deal with complaints more quickly and decisively and before they escalate. This new approach is part of a wider framework for managing customer issues and complaints within Watercare.
- 3.31 Watercare created this new approach because of frequent contact from the same customers. In 2012/13, 40% of complaints needed escalation. This meant that a complaint was handled a second time because the customer was not happy with the first answer and wanted to discuss their concern with a manager.
- 3.32 The main aims of the issues team are:
- delivering quality;
 - providing efficiency; and
 - continuous improvement.
- 3.33 Watercare told us that this team does not deal with all complaints. Rather, complaints dealt with through the new approach are recurring and historical complaints.

Continuous improvement

- 3.34 Watercare engages in continuous improvement to improve the services it provides. However, Watercare is still in the early stages of implementing its complaints analysis process.
- 3.35 We expected Watercare to use the information it gains from handling complaints to improve its service performance. Information about complaints can highlight service failings that need to be remedied and reveal problems and trends that management can act on.
- 3.36 Watercare recognises that recording and analysing customer feedback is critical to assess how well the company is performing and to identify areas for improvement.

- 3.37 Watercare has recently begun to analyse complaints through its new issues team. This analysis is still in its early stages and is currently limited by Watercare's technological capabilities.
- 3.38 Despite this, we consider that Watercare generally engages in continuous-improvement practices. There are several examples of where Watercare has initiated reviews or changed its service delivery to better cater to its customers' needs and expectations:
- Feedback from customers indicated that they did not understand some aspects of Watercare's contact centre's authorisation processes. In response, Watercare is reviewing and updating its authentication and validation processes to clarify them for both contact centre staff and customers.
 - Watercare's internal and external processes for customers on dialysis are also currently under review to ensure that they are appropriately updated.
 - Customer feedback indicated that Watercare should enhance its electronic billing format. Watercare was already carrying out work on an enhanced electronic billing system for visually impaired customers. Watercare also consulted with the Royal New Zealand Foundation of the Blind to better understand the needs and requirements of its visually impaired customers. This new billing template is now available to any Watercare customer who opts to receive their monthly invoice through the electronic billing method.
 - User feedback led to Watercare altering its position on wastewater charges for people who use rain tanks. Historically, customers could not attach water meters to their rain tank and Watercare charged them a fixed annual fee for wastewater usage. Customers can now attach a water meter to their rain tank. This means they pay for the amount of wastewater they discharge, based on the volume of water that flows through their water meter.

Staff development

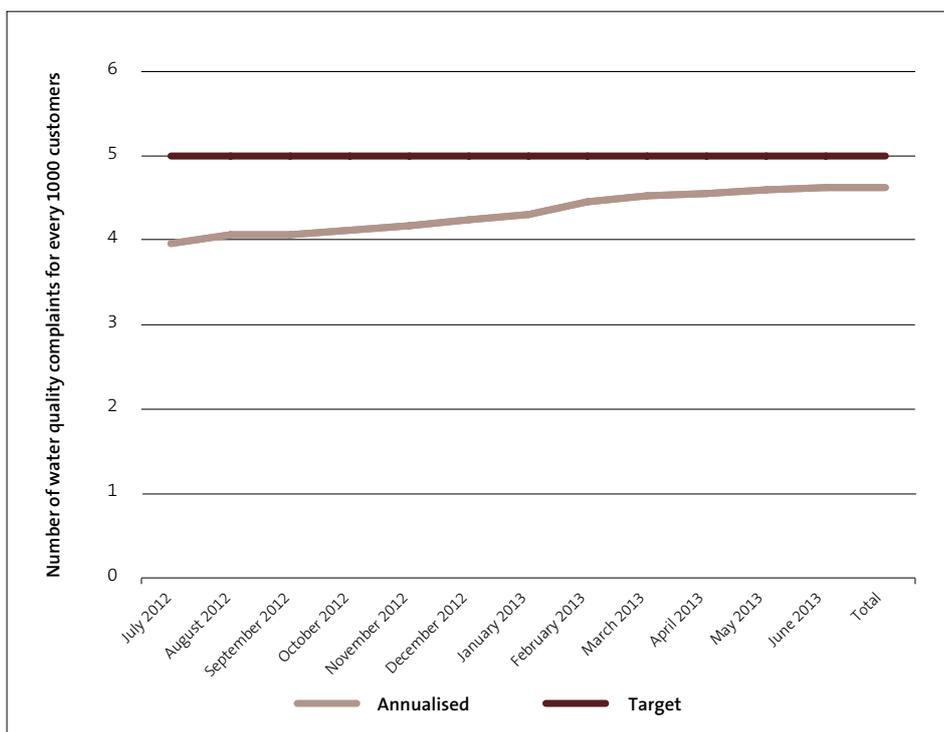
- 3.39 To best cater to its customers' needs, Watercare needs skilled staff. Given this, we looked at how well Watercare manages its customer service capability. As part of its change programme, Watercare is aiming to improve the skills of its frontline staff.
- 3.40 Watercare has redesigned its internal staff knowledge base to better enable customer service staff to access information and to improve the customer experience. The knowledge base has also replaced all printed training manuals to ensure that all training material is as up to date as possible.

- 3.41 We consider that Watercare has a good focus on staff development. Watercare staff told us that there is an extensive staff development programme at the Watercare contact centre. Staff also told us that Watercare has been adjusting its induction process to ensure that it is fit for purpose, particularly in relation to changes, such as the move to monthly billing.
- 3.42 Watercare is taking further steps to improve the skills of frontline staff through training to ensure that their knowledge is up to date and consistent. Contact centre staff have recently received refresher training on faults, billing, and meter reading.

External reporting about performance

- 3.43 External reporting serves the interests of public accountability. It also provides a way of showing how an organisation is meeting its commitment to service. Internal reporting against performance measures and standards can help staff to focus on key performance areas.
- 3.44 Watercare's customer service commitments intend to give customers a clear understanding of the service that they can expect from Watercare. Given this, we expected Watercare to meet its customer service performance targets.
- 3.45 Overall, we consider that Watercare performed well against most of its customer service performance targets for 2012/13.
- 3.46 Watercare exceeded its internal performance target for its abandonment rate – that is, the percentage of callers who hang up before a contact centre staff member answers. Watercare has an abandonment rate of 2.7% for 2012/13. This is below its internal key performance indicator threshold of 3%.
- 3.47 Watercare also demonstrated a high level of performance against its targets for complaints and inquiries. Watercare has a performance target to resolve 95% of all inquiries and complaints within 10 days. In 2012/13, Watercare received 41,236 inquiries. Of these, 5.2% (2142) were complaints. Watercare exceeded its performance targets for both inquiries and complaints, with 99.3% of inquiries resolved within 10 days and 97.2% of complaints resolved within 10 days.
- 3.48 As well as service complaints, Watercare receives feedback and complaints about water quality. In 2012/13, Watercare received 1891 water quality complaints. This equated to 4.6 complaints for every 1000 customers, which is below Watercare's target of 5.0.

Figure 8
Water quality complaints against target, 2012/13



Source: Watercare.

- 3.49 Watercare aims to keep unplanned water supply interruptions to a minimum. It has an annual target of fewer than 10 interruptions for every 1000 households. In 2012/13, there were 2141 interruptions to the north and south of the region. This was an average of 7.7 interruptions for every 1000 households in those areas. Data on the central area is not reported for 2012/13 because of changes to the maintenance contract at the start of the year.
- 3.50 Watercare aims to restore service within five hours in 95% of all unplanned shutdowns. During 2012/13, service was restored within five hours in 96.7% of unplanned shutdowns.
- 3.51 Watercare narrowly missed its grade-of-service performance target for 2012/13. “Grade of service” is an industry best-practice performance measure aimed at measuring how easy it is for callers to have their calls answered. During 2012/13, the grade of service target of 80% of calls answered within 20 seconds was not met. Watercare told us that this was because of an increased number

of calls about the unified tariffs and the move to monthly billing, which was implemented on 1 July 2012. Watercare's overall performance was 79.7%.

3.52 Although we recognise that call-handling efficiency is important, we consider that call quality should be prioritised. Therefore, although Watercare did not meet its internal performance target for its average call-handling time for 2012/13, we do not consider that this is critical to overall service performance. Watercare's internal target for average call-handling time is 270 seconds. Watercare's actual average call-handling time in 2012/13 was 298.1 seconds. Watercare staff told us that they agree that quality – rather than timeliness – in call-handling should be prioritised.

3.53 Further information about Watercare's service performance can be found in Watercare's annual report.

Accuracy and clarity of performance reporting

3.54 It is important that Watercare is accountable for its performance. Watercare provides external reporting in its annual report and new Global Reporting Initiative report.

3.55 We consider that Watercare generally measures its service performance well. However, there is one significant instance where Watercare could improve its measuring system to best reflect what it has achieved. This example also connects with other aspects of Watercare's performance reporting that could be improved.

3.56 A key performance measure for Watercare is customer satisfaction with water and wastewater services. We consider that this measure does not accurately portray customer satisfaction for four main reasons:

- Watercare measures the average overall score of all customers surveyed, rather than the number of satisfied customers.
- Watercare does not report its "headline performance". Rather, Watercare reports its performance as the percentage of the target achieved.
- Watercare surveys customers about faults calls only, which make up a small proportion of all calls that the contact centre receives.
- Watercare highlights its overall score for its customer satisfaction focus area as the total score of the percentages achieved against each target in the customer satisfaction section.

Measuring customer satisfaction

- 3.57 For 2011/12, Watercare's measure of customer satisfaction was based on the percentage of satisfied customers. A customer was regarded as being satisfied when, in Watercare's customer satisfaction survey, they scored Watercare at least a 7 out of 9. This is reflected in Watercare's *Annual Report 2012* (see Figure 9).
- 3.58 For 2012/13, Watercare measured customer satisfaction by the average overall score of all customers surveyed rather than the actual percentage of customers surveyed.⁵
- 3.59 For example, the overall average score of all customers surveyed for 2012/13 was 7.3 out of 9. This equates to a score of 81.4%, which means that Watercare's performance target of 80% was exceeded. This is set out in Watercare's *Annual Report 2013* (see Figure 10).
- 3.60 However, if Watercare had reported its performance based on the number of customers who were satisfied, rather than the surveyed customers' average scores, the result would be lower. Our analysis shows that 78.3% of Watercare's surveyed customers scored 7 or more in 2012/13 and would be described by Watercare as satisfied with Watercare's performance.
- 3.61 In our view, Watercare's currently methodology could provide an inaccurate picture of customer satisfaction rates. We consider that Watercare should review its methodology to provides an accurate picture of customer satisfaction rates. Watercare told us that its research company believes there is nothing wrong with the methodology it uses.

Reporting performance as a percentage of the target achieved

- 3.62 It is important that Watercare clearly reflects its performance in its accountability documents so that a customer can easily understand how well Watercare is performing.
- 3.63 Watercare uses "performance rulers" in its annual report to report performance. These are likely to confuse a reader. For example:
- If Watercare scores more than its performance target, it reports its performance as greater than 100%.
 - If Watercare meets its target, it reports its performance as 100% when its actual performance might not be 100%.
 - If Watercare scores less than its target, this is represented as a percentage of the target met.

⁵ Watercare also used this method for its 2010/11 reporting.

Figure 9
Customer satisfaction rate against service target, 2011/12

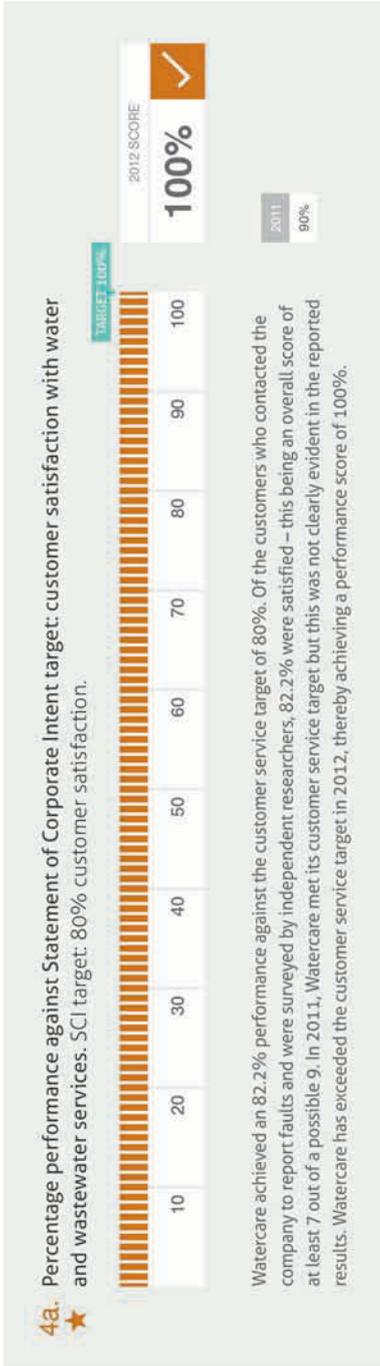


Figure 10
Customer satisfaction rate against service target, 2012/13



- 3.64 We have illustrated some of these practices in the examples shown here.
- 3.65 The first example shows that Watercare had a target of resolving 95% of complaints within 10 days and resolved 97.2% of complaints within 10 days. That is a good result. However, Watercare shows that it exceeded a 100% performance standard (see Figure 11).
- 3.66 In our view, Watercare should report the 97.2% figure as its “headline” performance.
- 3.67 Another example relates to Watercare’s grade-of-service measure. Watercare’s target grade of service was 80% and actual performance was 79.7%. This means Watercare did not meet its target. However, Watercare recorded that it had achieved a performance standard of 99%, based on it achieving 99% of its target (see Figure 12).
- 3.68 In our view, this way of representing service performance against performance targets does not accurately reflect Watercare’s performance. It does not clearly show whether Watercare has met its commitment to service. Although the detailed information presented is accurate, the headlines could be considered misleading.
- 3.69 We consider that Watercare should more clearly reflect what it has achieved against its performance targets. In particular, we consider that Watercare should highlight its actual performance levels.

Surveying customers only about faults calls

- 3.70 Watercare could usefully consider expanding the range of customers it surveys for its customer satisfaction performance measure, to more meaningfully measure customer satisfaction with its service.
- 3.71 In our view, Watercare does not sample a wide enough range of customers to meaningfully reflect customer satisfaction. Watercare measures customer satisfaction with water and wastewater services in relation to faults calls only. Faults calls made up only about 13% of the total number of calls that Watercare received in 2012/13.
- 3.72 We suggest that Watercare increase its engagement with its customers on their satisfaction with customer service and with Watercare in general.

Figure 11
An example of Watercare’s performance reporting from its Annual Report 2013

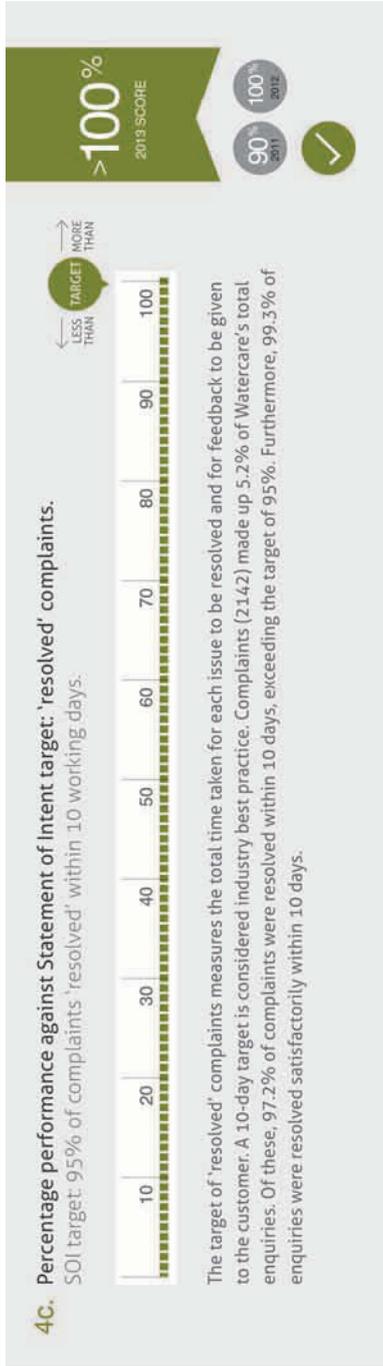
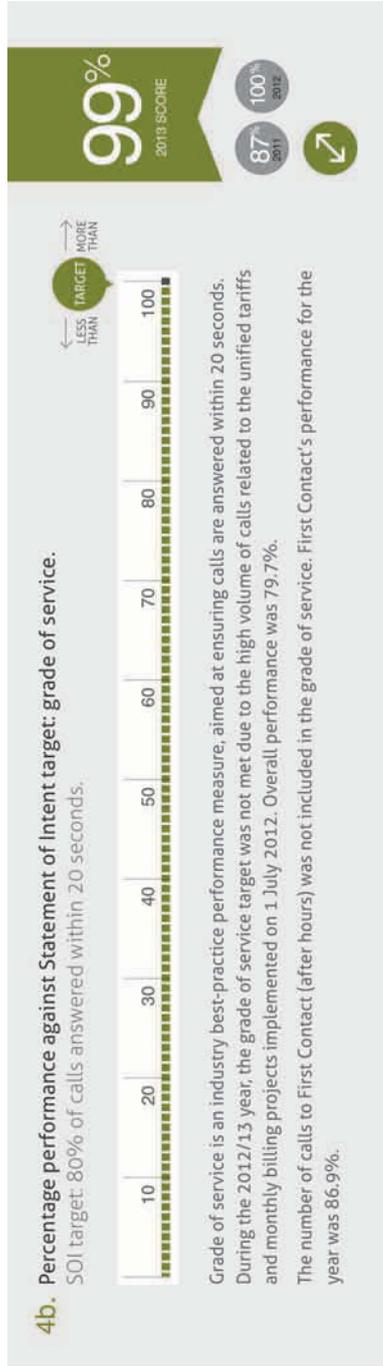


Figure 12
An example of Watercare’s performance reporting from its Annual Report 2013



Watercare's overall customer satisfaction score

- 3.73 Watercare presents its overall score for customer satisfaction as 99%. Watercare determines this figure by adding up the percentages of the targets it achieved for each of the four performance measures in its customer satisfaction focus area and averaging this number.
- 3.74 In practice, this means that Watercare has added three performance percentages of greater than 100% and one instance of percentage performance of 99%. Watercare has then divided that number by four to equal roughly 99%. We have already questioned the relevance of these performance percentages. We consider that an overall score for customer satisfaction that is worked out by using these percentages serves only to create further confusion and unreliability.

Internal processes for reporting about performance

- 3.75 In our view, Watercare has good processes for internal reporting against its performance measures. There are daily, weekly, and monthly customer service reports, which include contact centre performance measures and issues that Watercare circulates up to a senior management level. We consider these satisfactory. They cover risks and issues, and Watercare consistently reports these issues throughout the different reporting levels.
- 3.76 Watercare has confidence in the reliability of the information in the customer service reports. We found no issues of accuracy other than the measurement of customer satisfaction performance and subsequent reporting of this.

Comparing service levels with international standards

- 3.77 We expected Watercare to find opportunities to learn from comparable organisations or processes to seek continuous improvement. There are no formally accepted standards for designated customer service levels in this area. However, Watercare's customer service performance targets are largely consistent with those of other utility companies:
- Watercare's target for the grade of service level compares well to international indications of grade of service level targets, which are that 80% of calls are answered within 20-30 seconds.
 - The target that Watercare has set for customer satisfaction also compares well with international standards. (We have already noted that Watercare could increase its sample size when measuring customer satisfaction).
 - Because of a significant variation across jurisdictions, and a trend of moving away from this measure, we could not reach a conclusion on average call handling service levels. Many organisations highlight quality, rather than quantity.

- Watercare’s call abandonment service level compares well against international standards, which range from about 5% to 8%.
- Watercare’s customer service levels for inquiries and complaints are in line with international benchmarks for a response within 10 days.

Recommendation 2

We recommend that Watercare Services Limited improve the accuracy of how it reports its service performance by:

- reporting the number of customers who are satisfied with its performance levels, rather than reporting average customer scores;
 - reporting actual performance, where appropriate, rather than reporting the percentage of a target achieved;
 - increasing the size and nature of the sample for its customer satisfaction surveys; and
 - reviewing its water affordability measure to keep the measure relevant and meaningful.
-

Part 4

Billing and meter reading

4.1 Customers are entitled to expect timely, accurate, and easy-to-understand invoices from Watercare. In this Part, we look at:

- the content and format of Watercare’s invoice;
- Watercare’s billing cycle;
- Watercare’s meter-reading process;
- Watercare’s estimation process; and
- Watercare’s billing process and billing accuracy.

Content and format of invoices

4.2 From a customer’s perspective, it is important that Watercare’s invoice contains relevant information and is easy to understand. We expected Watercare’s invoices to contain relevant customer information.

4.3 The Essential Services Commission (the Commission) is the independent economic regulator of essential services, including water supply, in Victoria, Australia. The Commission has developed the Customer Services Code for Urban Water Businesses (July 2013) (the Code), which specifies the standards and conditions of service that water businesses must comply with in providing urban water services to customers. The Code sets out all those matters that a bill issued by a water business must contain.

4.4 We consider that the criteria set out in the Code are appropriate to benchmark Watercare’s invoices against.

4.5 According to the Commission, a bill issued by a water business must contain the following information:

1. the date of issue;
2. the customer’s billing address and account number;
3. the address of the property to which the charges in the bill relate;
4. the date on which the meter was read or, if the reading is an estimation, a clear statement that the reading is an estimation;
5. the amount that the customer is required to pay;
6. the date by which the customer is required to pay;
7. the ways in which the customer can pay the bill;
8. information about help that is available if the customer is experiencing difficulties paying;
9. details of the water business’s inquiry facility, including a 24-hour emergency telephone service number;

10. reference to interpreter services offered by the water business;
 11. any outstanding credit or debit from previous bills;
 12. the total of any payments made by the customer since the last bill was issued;
 13. information on concessions available and any concession to which the customer might be entitled;
 14. the average daily rate of water or recycled water use at the property for the current billing period; and
 15. if a water business intends to charge interest on outstanding amounts, a clear statement of the rate of interest and from what future date it is to be applied.
- 4.6 Also, a bill should display a graphical illustration of the customer's current water usage for each billing period over the past 12 months and a comparison of the customer's usage with the same period from the previous year.
- 4.7 We have reviewed Watercare's invoice for domestic customers against the criteria established by the Commission. We consider that it contains most of the requirements set out in the Code. However, we note the following issues.
- 4.8 Watercare's invoice inaccurately indicates when customers might be charged a late payment fee. Watercare's invoice says:
- Any balance unpaid after the due date might incur a late payment charge of \$7.00 or 1% of the overdue balance, for each month or part of a month, whichever is greater.*
- 4.9 This suggests that Watercare can impose a late payment charge for amounts outstanding from the due date. That is incorrect. Watercare's customer terms provide that late payment penalties are imposed on unpaid amounts from 24 days after the due date. Watercare needs to amend its invoice to accurately indicate the date from which late payment penalties will be applied.
- 4.10 Watercare's invoice includes some technical terminology that might make the bill difficult for customers to understand. In our view, the invoice could be improved through better use of plain language and everyday terms. For example, Watercare uses the term "volumetric charges" to describe charges based on water usage. Watercare could replace the phrase "volumetric charges" with the term "usage charges", which would make the invoice easier to understand. Some other water bills we reviewed – such as Sydney Water's bill – use the term "usage charge" to describe charges that depend on the amount of water that a customer has used.
- 4.11 Watercare's invoice provides only some information about how a customer's charges are calculated. For example, it contains details of the charge for every unit of water and wastewater as well as the \$190 fixed charge for wastewater.

Watercare currently charges domestic customers \$2.28 for every 1000 litres of wastewater. Watercare determines that the wastewater volume for each household is 78.5% of the water volume, as measured by a customer's water meter.

- 4.12 Watercare assumes that, on average, 78.5% of water that enters the home goes down the drain through showers, baths, washing machines, dishwashers, toilets, and sinks. However, the invoice contains no information about how Watercare determined the figure of 78.5%, which customers might find confusing.
- 4.13 In our view, Watercare could usefully consider explaining how it determines the 78.5% wastewater figure, if there is enough space on the invoice to do so. Watercare includes this information in its price brochure.
- 4.14 Watercare's invoice currently includes useful information about a customer's water usage history. However, some of the information used to benchmark the customer's daily water consumption might be out of date. For example, the invoice includes the customer's usage history for the past four months and shows how their daily water consumption compares with a household with a similar number of inhabitants. We consider that this information is extremely valuable in informing a customer about their water usage – but it is based on household consumption from a 2008 BRANZ⁶ Water Use in Auckland Household Study, which might be out of date.
- 4.15 We understand that Watercare is working with BRANZ to update this information.
- 4.16 In our view, Watercare could also usefully consider whether its invoice should refer its customers to any interpreter services offered by Watercare or a third party.

Recommendation 3

We recommend that Watercare Services Limited revise its invoice form to clearly and accurately state the date from which late payment penalties apply.

Billing cycle

- 4.17 Before 1 July 2012, Watercare billed customers every three or six months, depending on the billing cycles of the former councils supplying water. From 1 July 2012, Watercare began billing customers monthly.
- 4.18 Watercare said that one of the reasons it moved to monthly billing was because customer feedback had indicated that this would allow customers to better manage their budgets. An independent customer survey found that 84% of Watercare's customers preferred to receive a monthly invoice.

⁶ BRANZ is an independent research, testing, consulting, and information company that provides resources to the building industry.

- 4.19 We acknowledge that, from a business perspective, there are advantages for Watercare in monthly billing, including better cash flow and the ability to better manage debtors.
- 4.20 Internationally, it is recognised that monthly billing can help customers, because they are able to budget better for more frequent smaller amounts.

Estimation

- 4.21 Although Watercare bills its customers monthly, not every invoice is based on a meter reading. Every second month, a customer's invoice will be based on an estimation of their water usage.
- 4.22 Accordingly, we expected Watercare to be clear both on its website and in its customer contract that, every second month, a customer's water invoice will be based on an estimated meter reading.
- 4.23 Watercare's website has clear statements that, every second month, a customer's invoice will be based on an estimation of their water usage, rather than an actual reading. The customer contract is not so clear.
- 4.24 Watercare's customer contract simply states: "Sometimes we may have to estimate how much water you consume and charge you accordingly." The contract does not state that, every second month, a customer's invoice will be based on an estimation of their water usage. We consider that it should. A reader might be left with the impression that meter readings will be estimated only occasionally, rather than this being a fundamental part of Watercare's billing process.
- 4.25 We understand that Watercare is amending its customer contract to better reflect the estimation process.

How meters are read

- 4.26 Water meters measure the amount of water that a household or business uses. They are usually located towards the front of the property, near the left or right boundary. In flats or apartments, there might be only one meter for all of the dwellings in a building.
- 4.27 From a customer's perspective, it is important that meters are read accurately, because the readings form the basis of actual invoices issued and underpin Watercare's estimation process.
- 4.28 Watercare uses traditional analogue metering, which is currently the most widely used metering technology. These meters need to be read by a visual inspection, which indicates the amount of water used over the designated reading period.

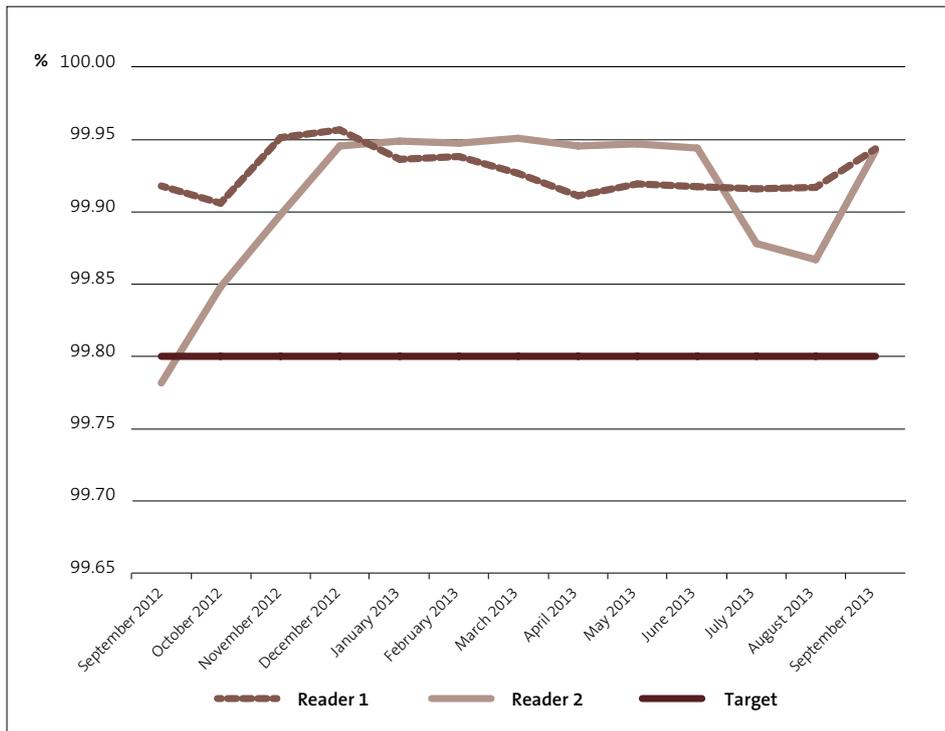
- 4.29 Each property has its meter(s) read every two months. Watercare uses two companies to read meters:
- DataCol Group (DataCol) reads meters in the areas previously covered by Auckland, Franklin, Manukau, and Waitakere councils; and
 - Arthur D Riley and Co Limited reads meters in the former North Shore and Rodney council areas.
- 4.30 To observe the meter-reading process, we accompanied a DataCol meter reader on his route. Meter readers all carry a small hand-held device (PDA) to record readings. The PDAs show all of the meters that require reading along the meter reader's allocated route. It also shows extra details, such as addresses, notes about where the meter is situated on each property, and previous readings.
- 4.31 The PDA produces an alert for the meter reader when any reading appears to be too low or too high. These alerts are system-generated, based on historical consumption. They require the reading to be entered a second time, as a check that the meter has been read correctly.
- 4.32 The PDA will start showing messages when there are five readings remaining on a route. When all the meters on a route are read, a tick appears next to the route identification number. If this does not appear, the meter reader needs to call DataCol's head office to investigate why. Every nine readings are automatically uploaded into the DataCol system.
- 4.33 During our review, we had the opportunity to observe the meter-reading process and technology in practice. We consider that Watercare's meter reading is efficient and that the system has inbuilt quality-control mechanisms to ensure that meter readers read the meters and record the meter readings accurately.

Performance standards for meter readings

- 4.34 Meter misreads are inevitable. We wanted to know whether Watercare has any performance standards in place for the two meter-reading companies and, if so, how it monitors these standards.
- 4.35 Watercare has service level agreements with both of the meter-reading companies. These require that meter readings are 99.8% accurate. This means that there is a contractual requirement for 998 readings out of 1000 to be accurate.
- 4.36 We asked how Watercare monitored the performance of the meter-reading companies. Each month, Watercare records and reports mis-reads to its meter-reading companies. Watercare staff identify meter-reading errors through a variety of ways, such as during a meter-reading review, by feedback from maintenance crew or other staff visiting a property, or by customer feedback.

- 4.37 Watercare sends a list of possible errors to the meter-reading company so that it can review them. At the end of each month, Watercare generates a list of all reported errors. It discusses these with the meter-reading company, and a list of errors is agreed.
- 4.38 Figure 13 shows the percentage of accurate readings relative to the total number of readings recorded by two meter readers. It shows that, in September 2013, their meter-reading accuracy was 99.94% against a target of 99.8%. In other words, their error rate was only 0.06%.

Figure 13
Watercare’s meter-reading accuracy, September 2012 to September 2013



Source: Watercare.

- 4.39 During our 2012/13 annual audit, we selected 20 meter-reading samples and requested that Watercare provide the data that it receives from DataCol. We checked the readings shown in Watercare’s data to confirm that they matched the readings that we observed onsite. They all did. We also checked the invoices sent to the customers to confirm that the readings shown on the invoices all matched the readings we had obtained. Again, they all did.

How water usage is estimated

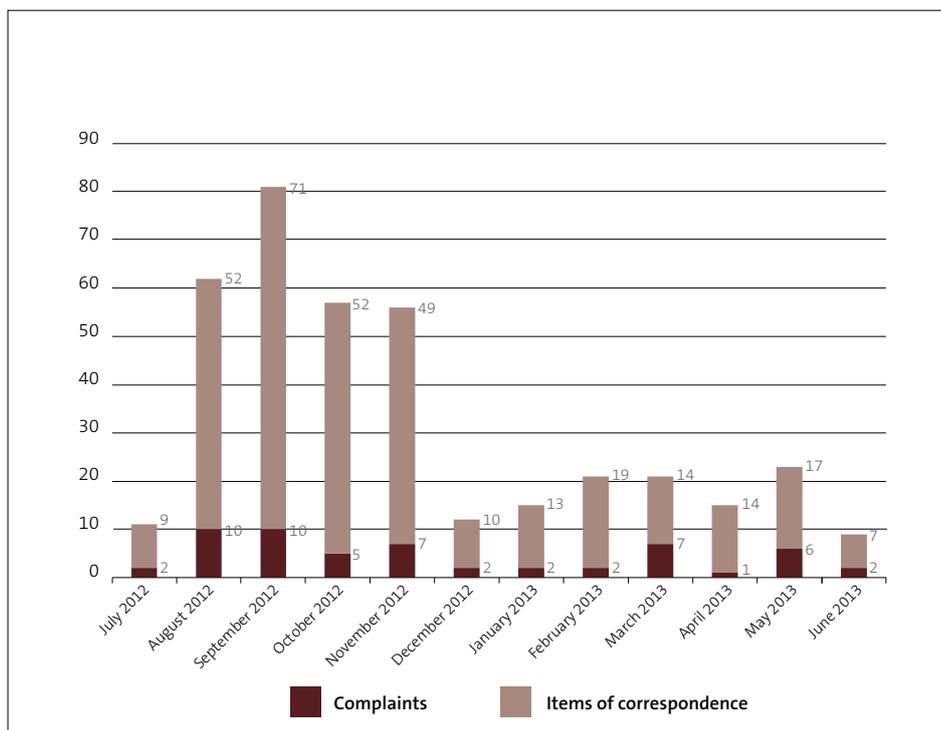
- 4.40 We wanted to know how Watercare estimates its customers' meter readings.
- 4.41 In most circumstances, an estimation is generated automatically by Watercare's billing system. It is calculated as the average daily usage between the two previous actual readings multiplied by the number of days in the billing period.
- 4.42 For example, a customer had actual meter readings of 808 kL on 16 August 2013 and 841 kL on 16 October 2013. This gives an average daily consumption of 0.55 kL between the two actual readings (that is, $33 \text{ kL} \div 60 \text{ days}$).⁷ If the next billing period covers a 30-day period from 16 October to 15 November, Watercare would estimate the customer's meter reading as 857, based on an assumed water consumption of 16 kL (that is, $0.55 \text{ kL} \times 30 \text{ days} = 16.5 \text{ kL}$, rounded down to 16 kL), and would invoice accordingly.
- 4.43 Watercare uses a number of other internal processes to ensure that its estimates are accurate. For example, the Revenue Team reviews all meter readings and estimations before invoices are sent to customers. This is called the Usage Review Overlay, which is done every day.

Accuracy of Watercare's estimation process

- 4.44 From a customer service performance perspective, it is important that invoices based on estimated meter readings are very close to actual usage for the month estimated, so that a customer is not under- or overbilled to any significant extent.
- 4.45 Estimations, by their very nature, will be inaccurate to some extent. But we consider that their accuracy might be usefully assessed by looking at:
- the complaints and correspondence that Watercare receives about estimated meter readings; and
 - the number of negative water volume invoices that Watercare issues.
- 4.46 Figure 14 sets out the number of complaints and/or correspondence items about estimated meter readings that Watercare received between July 2012 and June 2013.

⁷ There are 61 days from 16 August 2013 to 16 October 2013. However, Watercare does not count the final day when it does this calculation, and would therefore use 60 days to estimate the meter reading in this example.

Figure 14
Complaints and correspondence received by Watercare about estimated meter readings, 2012/13



Source: Watercare.

- 4.47 As we expected, the number of estimation complaints increased after the introduction from 1 July 2012 of monthly billing, which uses estimated meter readings every second month. However, complaints and correspondence about estimation have reduced since then. This provides some evidence that Watercare’s estimations are improving.
- 4.48 We also reviewed the number of “negative water volume” invoices that Watercare issued each month (see Figure 15). Usually, a negative water volume invoice is issued because the previous invoice was for more than the customer’s actual usage (possibly because of an incorrect meter-reading or an incorrect estimation). The negative water volume invoice corrects matters.
- 4.49 A normal invoice for water usage is called a “positive water volume” invoice. A “zero water volume” bill is an invoice that does not include a charge for water usage – it might, for example, include only a fixed wastewater charge.

Figure 15
Negative volume water invoices issued by Watercare, January 2013 to June 2013

Number of invoices issued	January 2013	February 2013	March 2013	April 2013	May 2013	June 2013
Positive water volume	367,695	369,815	370,144	373,310	385,827	346,314
Zero water volume	5966	5853	5670	5676	7133	7209
Negative water volume	5276	6128	6126	6556	10,633	11,309
Negative water volume as percentage of all invoices	1.4%	1.6%	1.6%	1.7%	2.6%	3.1%

Source: Watercare.

- 4.50 The number of negative water volume invoices increased from 1.4% of all invoices issued in January 2013 to 3.1% of invoices issued in June 2013. This indicates a steadily increasing trend in the extent of overbilling.

Estimating the water usage

- 4.51 There are some circumstances where estimation might not accurately measure a customer's water consumption – for example:
- where a customer dramatically changes their pattern of water consumption; or
 - where a new house owner has a different consumption pattern than a previous owner.
- 4.52 Watercare states, on its website, that customers can contact it if they feel that the estimated meter reading is not correct. Watercare can easily rebill the customer based on an actual meter reading that they provide.
- 4.53 We understand that Watercare will determine, case by case, whether to rebill a customer. However, Watercare provides no public information on when it will do this. In our view, it would be more helpful if Watercare specifically set out its rebilling policy on its website.
- 4.54 Estimation is fundamental to Watercare's billing process. In most instances, one out of every two invoices issued will be based on an estimated reading.

- 4.55 In our view, Watercare should provide its customers with more information about the estimation process, which might allow them to better understand the invoices they receive. In particular, Watercare could:
- change its customer contract to say that a customer’s bill will be based on an estimated meter reading every second month;
 - set out on its website how Watercare makes an estimate; and
 - provide clearer information on its website about when a customer can request that they be billed based on an actual reading rather than an estimate.

Recommendation 4

We recommend that Watercare Services Limited amend its customer contract to correctly reflect the process and frequency for estimating meter readings and tell customers how they can request an invoice based on an actual reading.

Part 5

Managing and recovering customer debt

5.1 In this Part, we look at Watercare’s payment and customer debt management policies and processes, including:

- collection time frames;
- reducing customer debt;
- managing customer debt;
- water restrictions; and
- the Water Utility Consumer Assistance Trust.

Collection time frames

5.2 Watercare’s credit process aims to increase pressure on customers to pay as the overdue debt to Watercare gets older. This includes two credit reminder/warning letters and a late payment penalty 24 days after due date.

5.3 The credit process can be summarised as follows:

- an invoice is issued with a due date for payment (which is 21 days from the invoice date);
- the first collection letter is sent 17 days after the due date for payment;
- a second collection letter is sent (including a notification that overdue accounts greater than \$150 will result in a water restriction) 24 days after due date;
- a late payment charge is imposed 24 days after the due date;
- a 48-hour restriction notice card (saying that water will be restricted) is sent 38 days after the due date;⁸ and
- a water restriction is able to be imposed 40 days after the due date for payment (61 days after the invoice date).

5.4 The credit process culminates in the ability to restrict the water supply to a property 61 days after the overdue invoice date or 40 days after the due date. We discuss water restrictions later in this Part.

5.5 We wanted to determine how reasonable Watercare’s debt-collection time frames are. To do this, we compared Watercare’s time frames with two local network operators who previously supplied water to Auckland customers, before Watercare started its new role in 2010. Figure 16 shows details of our comparison.

⁸ This is the earliest that a 48-hour restriction notice card can be sent. In practice, it will be sent later, because Watercare communicates extensively with a customer before deciding to apply a water restriction.

Figure 16
Debt-collection actions – comparison with former local network operators

	Days from invoice date		
	Watercare	Metrowater	Manukau Water
Due date for payment	21	28	21
Invoice reminder/collection letter	In next invoice	35	36
Collection letter 1	38	42	45
Collection letter 2	45	49	50
48-hour restriction notice	59	54	None
Water restriction	61	56	61

- 5.6 Watercare’s due date for payment is the same as Manukau Water but seven days earlier than Metrowater. Watercare sends its two main collection letters slightly earlier than both Metrowater and Manukau Water had done. Watercare’s restriction notice and time when it can take specific restriction action are slightly later. In our view, there is no substantial difference between the time frames.
- 5.7 Watercare told us that it considered its collection time frames to be similar to at least one other significant utility provider. We decided to compare Watercare’s collection time frames with some other utility providers in New Zealand. Figure 17 sets out the results of our comparison.

Figure 17
Debt-collection actions – comparison with other utility providers

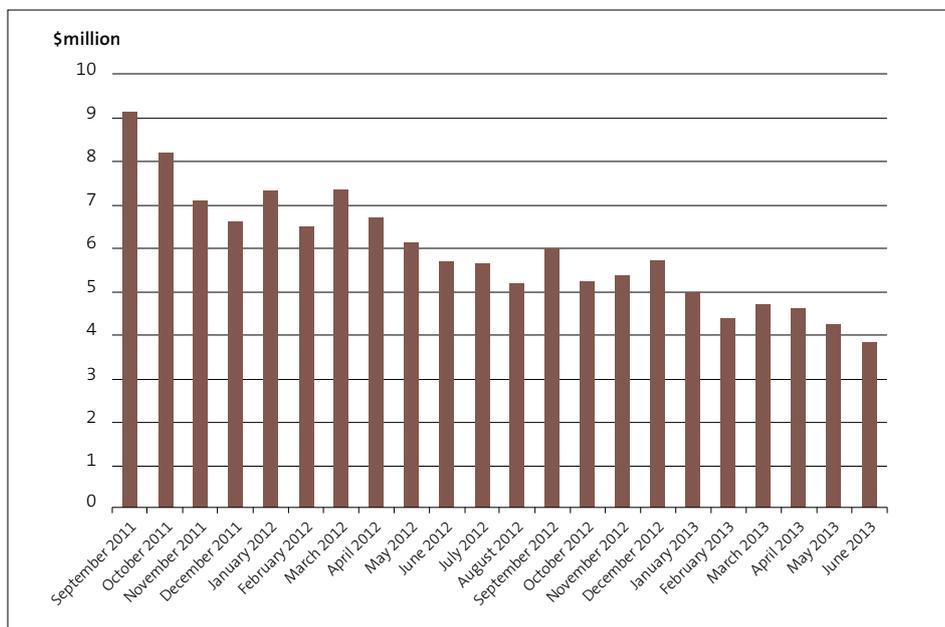
	Days from invoice date			
	Watercare	Provider A	Provider B	Provider C
Due date for payment	21	21	14	14
Invoice reminder/collection letter	In next invoice	28	28	17
Collection letter 1/first reminder	38	35	35	22
Collection letter 2	45	44-46	42	None
Disconnection notice/letter	59	53-55	52	25

- 5.8 Figure 17 shows that Watercare’s due date for payment is later than two of the other utility providers but the same as a third provider.
- 5.9 Based on this data, we consider that Watercare’s collection time frames compare favourably to other New Zealand utility providers.

Reducing customer debt

- 5.10 Watercare has a credit management team of 21, which includes seven temporary staff. This team includes:
- a manager;
 - an administrative team leader;
 - 16 staff on the telephone actively pursuing debt; and
 - three administrative staff, who complete reports, liaise with debt collection agencies, process customer refunds and write-offs, and recover debt.
- 5.11 The team previously had a customer liaison officer who met customers with significant outstanding debt issues in person to discuss their accounts and seek resolution. That position's responsibilities have now been amalgamated into an existing position.
- 5.12 A key measure of outstanding debt is debt that remains unpaid for more than 60 days after the due date (this is known as aged debt).
- 5.13 Watercare's credit function has been successful in reducing debt. For example, aged debt had reduced from just over \$9.0 million in September 2011 to just under \$3.8 million as at 20 June 2013 (see Figure 18). It had further reduced to below \$3.0 million at the end of October 2013. Watercare's credit management team has a focus on further reducing this amount, and Watercare's aged debt level continues to decline.

Figure 18
Watercare's aged debt, September 2011 to June 2013



Source: Watercare.

Managing customer debt

- 5.14 All customers must pay for the water that they receive, and Watercare decides how to collect the payments due in the most cost-effective way. However, we wanted to know how well Watercare dealt with customer debt.
- 5.15 To do this, we benchmarked Watercare's performance against the five principles that Ofwat (the economic regulator of the water and sewage industry in England and Wales) considers that water companies should apply when dealing with household water customers who are in debt. The principles can be found in Ofwat's March 2007 publication, *Dealing with household customers in debt – Guidelines* (the Guidelines).
- 5.16 Ofwat's five principles are:
- 1 Water companies should be proactive in attempting to contact customers who fall into debt as early as possible and at all stages of the debt management process.
 - 2 Water companies should provide a reasonable range of payment frequencies and methods.
 - 3 All correspondence sent to customers should be written in plain language, be courteous and non-threatening, and clearly set out the action a water company will take if a customer fails to make payment, along with the possible consequences for the customer.
 - 4 When agreeing payment arrangements with customers, the customer's circumstances should be taken into account wherever possible.
 - 5 Customers whose accounts are managed by debt-recovery agents should receive the same level of service and care as those whose accounts remain with a water company.

Principle 1 – be proactive in attempting to contact customers

- 5.17 The Guidelines highlight the balance needed between contacting the customer to ensure that they know that payment is a priority and avoiding sending unnecessary reminders. Frequent reminders could constitute undue pressure on the customer.
- 5.18 The Guidelines expect water companies to provide at least two prompts (including the bill) for the customer to contact the water company. The customer should be contacted before any debt-recovery action is started. "Good practice" would be to allow a minimum of 14 days after the bill's due date before sending a reminder. Also, water companies should keep records showing how many times they have tried to telephone or visit individual customers (whether attempts were

successful or not), and the dates of reminders and notices, along with any actions taken as a result.

- 5.19 Watercare’s first late payment reminder is sent with the next monthly invoice, which would be about nine days after the due date for payment of the previous month’s invoice. This is earlier than the “good practice” recommended in the Guidelines. However, Watercare considers that using the next month’s invoice as the first reminder is the most efficient and cost-effective way to handle the issue, and that sending everyone who is a few days late paying an invoice a separate letter 14 days after the due date is expensive and makes more of an issue than is needed. We agree.
- 5.20 We also expected Watercare to:
- use a variety of ways to contact customers (for example, telephone calls, text messages, and emails) and keep records of contacts made with customers; and
 - tailor its debt-recovery action to particular groups.
- 5.21 The credit management team mainly contacts customers by telephone. In August 2013, the team made 10,844 outbound calls and received 3766 calls. On average, each Watercare credit controller handled 44 calls every day (both inbound and outbound).
- 5.22 Watercare uses email as its main other method for corresponding with customers. Some other utility providers use text messages as part of their core debt-recovery processes – for example, as part of their reminder processes.
- 5.23 In terms of customer segmentation, the Guidelines suggest that water customers should be segmented, to tailor debt-recovery action to particular debtor groups. We reviewed some other utility providers and found that they segment customers into separate bands, depending on their historical and ongoing payment behaviour. Each band has separate credit action consequences. This allows for a more flexible approach to those who have a “one-off” payment issue and, conversely, a more managed and stringent approach to those who are regularly incurring debt.
- 5.24 Watercare adopts a “one size fits all” approach in the early part of the debt-recovery process. It sends the same reminder letters in the same time frames, regardless of a customer’s profile. Watercare adopts this approach because of its technology limitations, which do not allow it to adapt debt-recovery actions to a customer’s payment profile. It also considers that customer segmentation is an unrealistic and unnecessary requirement.

Principle 2 – provide a reasonable range of payment frequencies and methods

- 5.25 We expected Watercare to provide a reasonable range of payment frequencies and methods to all customers. The available options should also be properly and widely advertised so that customers can select the arrangement that best suits their needs.
- 5.26 Watercare offers a good range of payment options, including direct debit, credit card, internet and telephone banking, cheque, and payment through any Post Shop or Bank of New Zealand branch, where an invoice can be paid by cash, cheque, or EFTPOS.
- 5.27 These payment options are listed on the back of the Watercare's first invoice, all subsequent follow-up debt-collection letters, and on Watercare's website.
- 5.28 Watercare also allows a customer to pay a fixed amount each week, fortnight, or month. If an amount is still owing when the customer receives their invoice, then the customer can adjust their next payment to cover the shortfall by the due date.

Principle 3 – correspondence should be in plain language, courteous, and non-threatening

- 5.29 We expected all correspondence Watercare sends to customers to be written in plain language, courteous, and non-threatening. It should clearly set out the action that Watercare will take if the customer fails to make payment or contact Watercare, along with the possible consequences for the customer.
- 5.30 Like most utility providers, Watercare uses standard letters and notices to advise customers that they have failed to pay an invoice on time. We reviewed these letters and notices and found them generally straightforward, easy to understand, and non-threatening.

Principle 4 – when agreeing payment arrangements, take the customer's circumstances into account

- 5.31 The Guidelines highlight that a payment arrangement that considers a customer's circumstances, including their ability to pay, is likely to be effective in securing regular payments and future bill payments. Such an approach is more sustainable than one that aims to recover more money more quickly through instalments.
- 5.32 It is also important that organisations make reasonable inquiries about and consider the customer's ability to pay when setting up instalment arrangements.

- 5.33 Watercare’s credit management team works with customers to agree payment arrangements that will allow customers to reduce their debt over time. For example, Watercare’s usual practice is to enter into a payment arrangement with a customer while requiring the customer to keep up to date with ongoing water bills.
- 5.34 Watercare’s contact centre staff, who are not part of the credit management team, have the authority to make a payment arrangement of up to \$500 with a customer over a four-week payment time frame. However, if a customer wants to enter into an arrangement for longer than this, it can be approved by the credit manager before being referred formally to the credit management team.
- 5.35 Watercare has established the Water Utility Consumer Assistance Trust (the Trust) to provide assistance to customers who are in financial difficulty. We discuss the Trust in more detail in paragraphs 5.84-5.107.
- 5.36 However, we consider that Watercare’s credit management policy might limit Watercare’s ability to take into account a customer’s circumstances when agreeing payment arrangements. In particular, Watercare’s credit management policy states that:
- In many circumstances customers will not be able to pay the full amount owing to Watercare immediately. The credit services team are able to accept payment arrangements up to a maximum term of 3 months. If the customer cannot meet a payment arrangement within the 3 month term they will be directed to apply to the Water Utility Consumer Assistance Trust (WUCAT). All payment arrangements should be confirmed with the customer in writing.*
- 5.37 Watercare does not want to be “drip-fed” payments over an extended period. However, the three-month policy might unduly limit Watercare’s ability to consider a customer’s ability to pay. We note that the manager of the credit management team can extend payment arrangements for more than three months, but this is not specifically stated in the policy.
- 5.38 The short payment period might force Watercare customers into entering payment arrangements that they are unable to meet. We found some evidence that this might be occurring, which we discuss in paragraphs 5.95-5.100.
- 5.39 We have been unable to determine the length of payment arrangements that overseas water companies or other New Zealand utility providers are prepared to enter into to recover outstanding debt. We note that Ofwat considers that it might not be possible to eliminate, within one year, the debt of a customer who has had payment difficulties for some time.

Principle 5 – customers whose accounts are managed by debt recovery agents should receive the same level of service and care as those whose accounts remain with a water company

- 5.40 Watercare has arrangements with two debt collection agencies to collect debts on its behalf – Debtworks New Zealand Limited and Accounts Enforcement Limited (AEL). We wanted to know how Watercare determined which customers it would refer to collection agencies. We expected Watercare to refer only the most difficult customers and that its referral processes would be robust.
- 5.41 We reviewed some files and consider that Watercare does attempt to collect outstanding debts before referring a customer to a debt collection agency. For example, one customer got into debt in June 2012 and was referred to a debt collection agency on 23 September 2013. During that time, Watercare made 22 calls to the customer to resolve the situation.
- 5.42 Also, before a customer is referred to a collection agency, a designated staff member reviews the customer's file to ensure that the customer should be referred.
- 5.43 That staff member will look at the amount of contact made with the customer and take a general view on whether the customer should be referred. If the staff member has any doubts, they would refer the matter back to the credit management team.
- 5.44 We also expected Watercare to have good processes to ensure that the collection agencies were subject to Watercare's standards of service and care. Watercare has contracts with each of its collection agencies that set out the required service levels.
- 5.45 The contracts require collection agencies to act in a professional manner and to perform their duties with reasonable skill and diligence. Debt collectors are required to ensure that their contact with Watercare's customers and responses to all customer queries or questions are of a professional standard.
- 5.46 We asked Watercare how it knows that its debt collection agencies meet the required levels of service. The collection agencies maintain a complaints register, and Watercare told us that complaints are escalated to the manager of the credit management team.

Code of Practice for customer debt

- 5.47 It is important that customers are aware of their obligations to pay their invoice and what to do if they have any problems paying on time.
- 5.48 We reviewed information that Watercare provides to customers – for example, its invoice, reminder and debt-recovery letters, customer contract, and website. Watercare provides good information about payment options, contact numbers for customer inquiries (including contact numbers for customers having difficulty paying invoices), as well as pricing. However, Watercare provides little information on the processes it will follow if a customer falls behind in paying an invoice. A customer is required to contact Watercare to find this information.
- 5.49 In our view, Watercare should develop a Code of Practice (or similar document) to fully inform customers of its approach to debt recovery and what it expects of its customers. Licensed water companies in England and Wales have such codes on debt recovery.
- 5.50 Such a code would explain how Watercare can help customers who have difficulty paying their invoices and what will happen if a customer does not pay on time. The document could consolidate information that Watercare provides in several different ways. The document could include:
- Watercare’s approach to debt recovery and what it expects of its customers;
 - Watercare’s billing arrangements, including meter-reading and estimation process;
 - payment options for customers having difficulty making payments;
 - Watercare’s debt-recovery time frames;
 - the steps Watercare will take if a customer does not pay an invoice; and
 - information about the Trust.
- 5.51 Such a document could be placed on Watercare’s website. Also, Watercare could send it to customers who contact Watercare expressing concern about their ability to pay. It could also be given to new customers.

Recommendation 5

We recommend that Watercare prepare a Code of Practice for dealing with customer debt, setting out its approach to debt recovery and customers’ rights and obligations.

Water restrictions

- 5.52 Under normal circumstances, a customer will receive a water flow of about one litre of water every second. When Watercare imposes a water restriction, it restricts the water flow at a property to one litre every minute.
- 5.53 The method of restriction will depend on the property. Either a restrictor is placed inside the pipe to reduce flow or a can is placed over the toby and padlocked. A tap test is also conducted at the property after the restriction to ensure that the water flow is at least one litre every minute.

Number of water restrictions

- 5.54 We wanted to know how often Watercare imposed water restrictions on its customers. Since 1 November 2010, Watercare has applied 23 restrictions – nine to domestic properties and 14 to non-domestic properties (see Figure 19).

Figure 19
Water restriction summary, as at 30 August 2013

Number of	Domestic	Non-domestic	Total
inherited restrictions*	4	0	4
restrictions made	9	14	23
restrictions removed	6	12	18
restrictions remaining	7	2	9

Source: Watercare.

* Inherited from Manukau Water on 1 November 2010.

- 5.55 The frequency with which Watercare has applied water restrictions has been increasing. As Figure 20 shows, Watercare applied no restrictions in 2011, five in 2012, and 18 in 2013 (up to August 2013). Watercare has applied six more restrictions in September 2013, bringing the 2013 total to 24 (up to September 2013).

Figure 20
Water restrictions for every calendar year (up to August 2013)

	2010	2011	2012	2013	Total
All restrictions	4*	0	5	18	27

Source: Watercare.

* Inherited from Manukau Water on 1 November 2010.

Watercare's legal basis for applying water restrictions

- 5.56 Section 193 of the Local Government Act 2002 and section 69S of the Health Act 1956 allow Watercare to restrict a customer's water supply.
- 5.57 Broadly, the Local Government Act provides that the water supply to a person's land or building may be restricted in any manner that Watercare thinks fit when a person:
- wastes water;
 - fails to comply with a relevant bylaw;
 - fails or refuses to do anything undertaken or agreed to in respect of the water supply (including payment for use); or
 - refuses to allow entry of an enforcement officer.
- 5.58 Under the Local Government Act, restricting the water supply must not create unsanitary conditions.
- 5.59 Section 69S of the Health Act provides that, where the water supply provides drinking water, the supplier may restrict supply if the relevant customer has unpaid accounts for any previous supply of drinking water. However, the supplier must continue to provide an adequate supply of drinking water.
- 5.60 Section 69G of the Health Act defines "adequate supply" as being the minimum quantity of drinking water that is required by the occupants of a property, on an ongoing basis, for their ordinary domestic and food preparation use and sanitary needs.
- 5.61 The requirements under the Local Government Act and the Health Act are cumulative. That is, Watercare must ensure that it supplies enough water to ensure that there is an adequate supply of drinking water and sufficient water to ensure that the water restriction does not create unsanitary conditions.
- 5.62 Watercare's customer contract gives effect to these Acts by providing that Watercare might restrict its water supply to a customer.

Watercare's water restriction policy

- 5.63 Watercare has a formal water restriction policy that sets out the circumstances when a water restriction can be imposed.
- 5.64 The main points to note from the policy are:
- water restrictions are part of Watercare's overall debt management strategy;
 - a restriction can be imposed only from 61 days after the invoice date (at the earliest);

- a restriction will not be imposed when a property has children under the age of five, elderly residents, residents with health concerns (potential or current), a shared meter, or a customer who is registered with the Trust;
- verbal communication with the customer must have been made before a restriction is imposed;
- all restrictions must be approved by the Chief Financial Officer, the Chief Services Officer, and the Chief Executive;
- no restrictions will be imposed in the 14 days leading up to Christmas; and
- Watercare operates an “if in doubt, do not restrict” policy.

5.65 Figure 21 sets out Watercare’s restriction process.

5.66 From our file reviews and our conversations with the credit management team, it was clear that they get an excellent understanding of the customer’s situation and circumstances before recommending a water restriction.

5.67 In our view, Watercare applies water restrictions only as a last resort. This is illustrated by the limited number of water restrictions that Watercare applies (see paragraphs 5.54-5.55).

Water restriction reminder letters

5.68 As part of Watercare’s standard debt-collection process it sends a water restriction reminder letter 24 days after the due date to all customers who have an overdue account greater than \$150. The letter has on its top right-hand corner the word “Restriction Notice” and includes a statement that: “Your water supply may be restricted if the account remains unpaid.”⁹

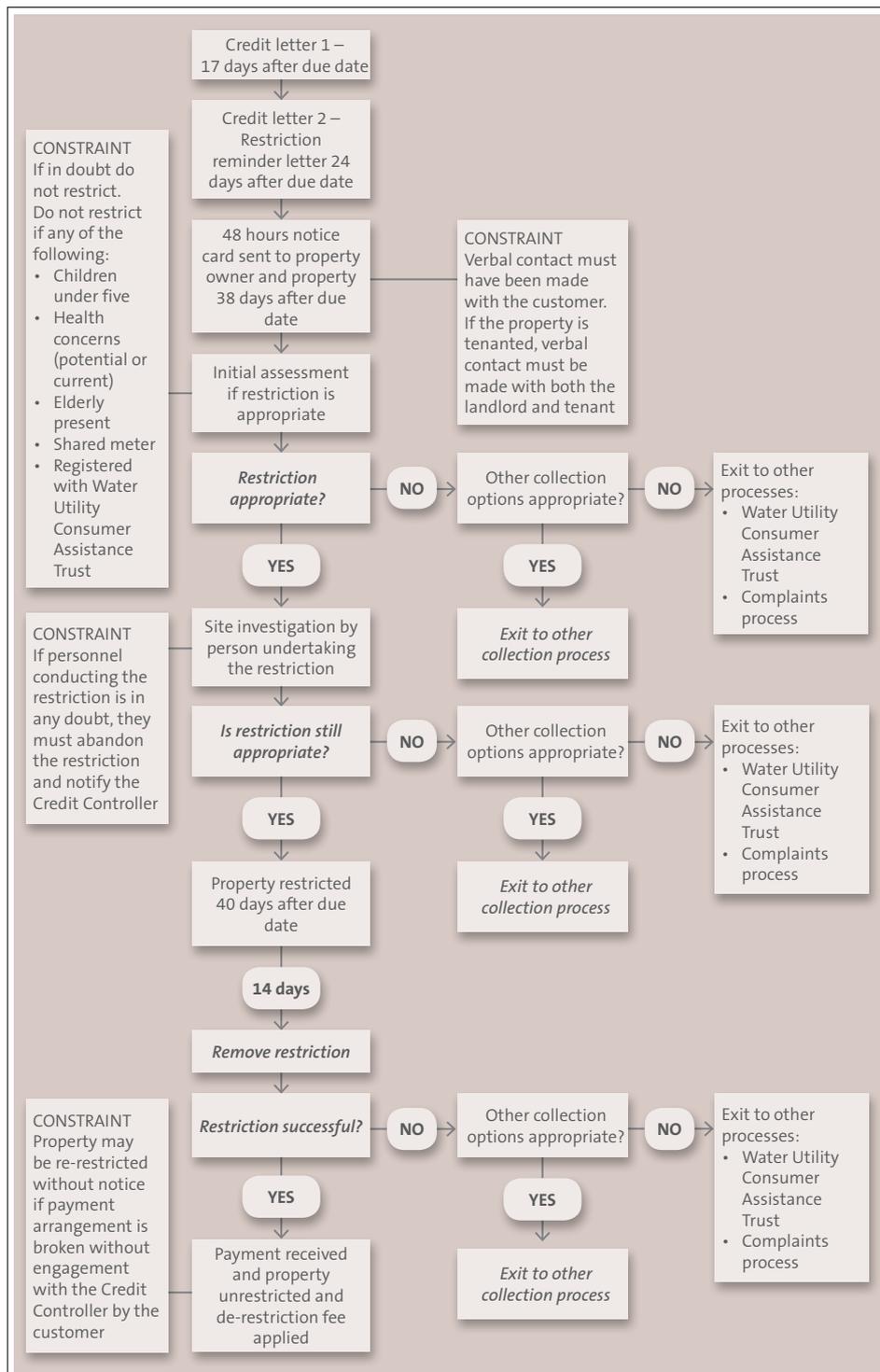
5.69 For customers whose overdue account is \$150 or less, Watercare sends a customer standard reminder letter.

5.70 Watercare sent out 20,998 water restriction reminder letters in the 12 months to 30 June 2013. We have some concerns about this letter.

5.71 In particular, Watercare’s debt management system automatically sends the letter out when a customer’s account is more than \$150 and it is unpaid 24 days after the due date. This means that customers who otherwise have a good credit history or, more importantly, customers who Watercare has explicitly exempted from water restrictions (such as elderly customers and customers with children under five years old) might still receive Watercare’s water restriction reminder letter.

⁹ This correspondence is different from Watercare’s 48-hour restriction notice card, which Watercare sends after it has made a decision to restrict water. That notice gives the customer a final chance to agree payment arrangements with Watercare to avoid a water restriction being imposed.

Figure 21
Watercare’s water restriction process



Source: Watercare.

- 5.72 In our view, Watercare should not send this letter to customers who could never be subject to a water restriction. Accordingly, we consider that Watercare needs to review the use of its water restriction reminder letter. Ideally, the letter should be sent only to customers to whom the restriction policy applies. We understand that technology constraints may mean that Watercare cannot currently do this. If so, then Watercare could consider:
- increasing the outstanding amount threshold of \$150 that causes a water restriction reminder letter to be sent; and/or
 - segmenting its customer groups and tailoring its debt-recovery action to particular debtor groups.
- 5.73 Watercare's water restriction policy provides that a water restriction will provide a customer with a daily water flow of 1440 litres. The policy states that:
- a daily flow of 1440 litres will meet the Health Act requirements because World Health Organisation guidelines provide that 90 litres of water for one person is an appropriate daily water supply; and
 - a daily flow of 1440 litres will not create any adverse health outcomes or unsanitary conditions.
- 5.74 The policy reflects the intention that Watercare would hold regular meetings with the Auckland Environmental Health Organisation and provide a list of all restricted properties to the Organisation. The Organisation would conduct random visits to restricted properties to further ensure that Watercare is not creating any health risks.
- 5.75 Watercare has supplied us with the relevant World Health Organisation guidelines, which state that 90 litres of water for one person is an appropriate daily water supply. At the time of our review, Watercare had not held any meetings with the Auckland Environmental Health Organisation. However, Watercare has recently updated its restriction policy to provide for supplying restriction information to the Auckland Environmental Health Organisation each quarter, for its review and monitoring.
- 5.76 Watercare's restriction policy requires that all restrictions be approved by its Chief Financial Officer, Chief Services Officer, and Chief Executive Officer.
- 5.77 To obtain a restriction authorisation, Watercare's credit management team prepare a Water Restriction Approval form documenting the customer's history and confirming that the procedures required before a restriction can be imposed have been completed. These include:
- confirmation that the customer has received a first and second reminder notice;

- confirmation that the customer has been called or emailed;
- all log notes of customer contact;
- confirmation that Watercare has issued a final reminder notice and a 48-hour restriction notice card;
- whether any of the policy exemptions apply (see paragraph 5.64); and
- any other relevant comments.

5.78 Senior managers will review the Water Restriction Approval form (and any attached information, including log notes) and discuss the particular case where appropriate. Watercare will then decide what action should be taken, which might include:

- putting the case on hold, pending further review;
- referring the customer to the hardship advisor;
- referring the customer to a collection agency; or
- proceeding with a water restriction.

5.79 However, we have concerns about the current approval process.

5.80 We expected that managers approving a water restriction would have to confirm that the requirements of the Local Government Act and the Health Act had been complied with. Such a confirmation would provide Watercare with the appropriate assurance that all restrictions complied with the law. However, Watercare's approval process requires no such confirmation.

5.81 Management might not always be provided with all the relevant information about a customer. For example, the approval form provides no information about whether the customer is registered with the Trust or has a shared meter, which would prohibit a restriction.

Need to review the water restriction policy and approval processes

5.82 Watercare's operational staff get an excellent understanding of a customer's situation before recommending a water restriction, and few water restrictions are applied. However, Watercare's practices are not always consistent with its policy.

5.83 In our view, Watercare should review its water restriction policy and practices to require managers approving a water restriction to confirm in the Water Restriction Approval form that the requirements of the Local Government Act and the Health Act have been met.

Recommendation 6

We recommend that Watercare Services Limited update its water restriction policy and practice such that the policy reflects current practice and specifically requires Watercare managers to confirm that any water restriction meets the requirements of the Local Government Act 2002 and the Health Act 1956.

Water Utility Consumer Assistance Trust

- 5.84 International guidelines highlight that water utilities need to strike a balance between recovering debt, in the interest of all customers, and dealing sensitively with those customers who find themselves in financial difficulty. To achieve these aims, many water utilities provide financial assistance to customers in financial difficulty.
- 5.85 To provide assistance to domestic customers who could not afford to pay their bills, Watercare set up the Trust in October 2011. The Trust is charitable and has five trustees. Watercare can appoint two of the trustees, and the other three trustees represent community organisations.
- 5.86 The Trust is entirely funded by Watercare. The Trust's major budget items are the amount of debt remissions or customer write-offs approved by the Trust and the costs of a full-time administrator.
- 5.87 The Trust is governed by a Trust Deed. There is a funding agreement between Watercare and the Trust and an accompanying operating policy. The operating policy was prepared by Watercare, in consultation with the Trust, and it covers:
- eligibility;
 - financial hardship eligibility;
 - the hardship assistance application process;
 - monitoring; and
 - the type of customer support or relief that the Trust can provide.
- 5.88 The Trust's application process is comprehensive. The main steps are:
- The customer makes an application by completing an application form (Form 1).
 - The Trust's administrator assesses the application to determine whether the applicant meets the eligibility criteria.
 - When an applicant is assessed as meeting the criteria, they have 21 days to gather relevant documents and meet with an approved budget advisor to fill out a further application form (Form 2) with the assistance of that budget advisor.

- The budget advisor makes a recommendation to the Trust's administrator, who reports this to the Trust at its monthly meeting.
- The Trust considers the application and determines the appropriate customer support.
- Having completed the payment arrangement, the customer might then receive a write-off of part, or all, of the amount that they owe.

- 5.89 The application process is exhaustive and reflects the policy intent that the Trust will provide support only when a customer is prepared to work with Watercare and a budget advisor to clear outstanding debts and continue to pay the invoices from Watercare.
- 5.90 According to the Trust's records, the Trust and Watercare have sent out more than 900 application forms since the Trust began. They have received about 630 applications (Form 1). Of the 630 applications, 274 applications (Form 2) have gone on to be reviewed by the Trust. Of these applications, 266 have been approved, five have been declined, and three have been set aside for further information and consideration.
- 5.91 The approved debt remission for those approved applications totalled \$256,000, with Watercare writing off \$145,000.
- 5.92 From our perspective, the most important number is the significant drop-off between the number of customers making the initial hardship application (630) and those making the second application (274).
- 5.93 The Trust and Watercare are aware of the reasons for the drop-off in applications, including the settlement of accounts without the Trust's assistance or customers not wanting to undergo, for whatever reasons, the required financial evaluation by a budget advisor.
- 5.94 The drop-off in customer applications is considerable. It could mean that there are a significant number of Watercare customers who might be eligible for funding support but who are not receiving it. Watercare continues to work with these customers, but could take further action to reduce this drop-off.

Understanding a customer's ability to pay

- 5.95 It is important that Watercare makes reasonable inquiries about a customer's ability to pay when setting up instalment arrangements or referring a customer to the Trust. It is also important that Watercare considers a customer's ability to pay when determining payment arrangements.

- 5.96 There is some evidence to suggest that Watercare could improve its initial assessment of a customer's ability to pay.
- 5.97 When a customer contacts Watercare to advise that they are unable to pay their bill, Watercare has several options. One is that it and the customer can agree on a payment plan. Another is that it can refer the customer to the Trust.
- 5.98 We saw examples where Watercare had set up payment plans with customers who were subsequently unable to maintain these payments and were consequently referred to the Trust.
- 5.99 For example, we reviewed the applications made to the Trust in its October 2013 meeting. Of the 15 applications considered at that meeting, nine of the customers concerned had previously entered into payment arrangements with Watercare.
- 5.100 We are concerned that some customers were not referred to the Trust early enough. In our view, Watercare needs to improve its understanding of a customer's ability to pay.

Reporting the achievements of the Trust

- 5.101 The Trust plays an important part in Watercare's customer "care and management". We expected Watercare to provide clear, concise, and accurate reporting on the Trust's activities. That is currently not the case, and it is difficult to get a clear understanding of the Trust's activities.
- 5.102 For example, Watercare's Annual Report 2013 records that:
During the last year, 189 customers registered with the Trust and, of these, 178 were eligible to receive hardship relief.
- 5.103 This can be contrasted with the information provided in Watercare's 2012/13 Global Reporting Initiative report, which states that "Over the last year, 301 customers registered with the Trust and, of these, 134 had hardship relief approved."
- 5.104 Watercare maintains a separate database of all customers who have applied for hardship, which is updated and reconciled monthly against the Trust's information. Care will have to be taken to ensure that consistency and accuracy is maintained between both information systems.
- 5.105 In our view, Watercare needs to ensure that its reporting is clear, consistent, and accurate, including the following information:
- the number of applications received by the Trust (Form 1);
 - the number of applications considered by the Trust (Form 2);

- the number of applications accepted and the number rejected;
- the amount of relief provided;
- the amount of debt written off; and
- the number of applicants who have ceased being assisted by the Trust because of non-compliance with a payment arrangement.

Referring customers to the Trust

- 5.106 Watercare has a good range of channels to alert and refer customers to the Trust. Customers can be alerted to the Trust through:
- Watercare's credit management team;
 - Watercare's customer contact centre;
 - Watercare's invoice;
 - overdue account reminder letters;
 - the Watercare and Trust websites;
 - budget advisory services;
 - Work and Income; and
 - Citizens' Advice Bureau offices.
- 5.107 There has been a move towards more active promotion of the Trust, which should lead to improved uptake of the Trust's services. For example, the Trust has now established relationships with local advice agencies, voluntary organisations, and Work and Income.

Publications by the Auditor-General

Other publications issued by the Auditor-General recently have been:

- Local government: Results of the 2012/13 audits
- Reflections from our audits: *Our future needs – is the public sector ready?*
- Health sector: Results of the 2012/13 audits
- Schools: Results of the 2013 audits
- New Zealand Customs: Managing Trade Assurance capability risks
- Draft annual plan 2014/15
- Central government: Results of the 2012/13 audits (Volume 2)
- Additional work on Solid Energy New Zealand Limited
- Inquiry into property investments by Delta Utility Services Limited at Luggate and Jacks Point
- The Auditor-General's Auditing Standards 2014
- The Treasury: Learning from managing the Crown Retail Deposit Guarantee Scheme
- Department of Internal Affairs and grants administration
- Maintaining a future focus in governing Crown-owned companies
- Delivering scheduled services to patients
- Continuing to improve how you report on your TEI's service performance
- Department of Corrections: Managing offenders to reduce reoffending
- Public entities in the social sector: Our audit work
- Immigration New Zealand: Supporting new migrants to settle and work

Website

All these reports, and many of our earlier reports, are available in HTML and PDF format on our website – www.oag.govt.nz. Most of them can also be obtained in hard copy on request – reports@oag.govt.nz.

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