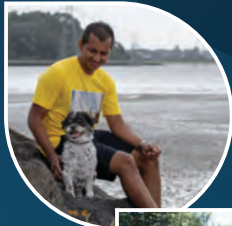

Statement of Intent 2019 to 2022



He mihi

Tuia te rangi e tū nei, tuia te papa e takoto nei.

Kia mihi te mano tini kua mene ki ngā Hawaiki katoa, rātou te tutūtanga o te puehu, te whiunga o te kupu i ngā wā takatū ai rātou. Waiho ake rātou ki a rātou, tātou te urupā o rātou mā, ngā waihotanga mai e hāpai nei i ō rātou wawata, tūmanako hoki.

E ngā maunga whakahi, e ngā wai tākunukunu, e ngā tōpūtanga tāngata nui rawa o Tāmaki Makaurau, Tāmaki herenga waka, tēnā rā koutou katoa.

E manakohia kia piki ake o ā tātou mahi ngātahi āmuri ake nei. Anei rā te tāuaki hei tātaki i aua manako, heoi anō, inā kē te nui o ngā mahi hei kawae ake e eke ai tō mātou wawata.

Unite thus the heavens above; unite thus the land beneath us. Let us acknowledge the many who have assembled in the homelands, they who raised the dust, who whipped up a storm of words when restless. The dead have passed on and we, the repositories of their memory, remain to carry forth their hopes and aspirations.

To thy mountains, thy cool sequential waters, the many ethnicities and peoples throughout Tāmaki Makaurau, warm and heartfelt greetings to you all.

We come together to seek a new way forward, united in our shared responsibilities, and committed to achieving. Clearly, much is yet to be done if we are to give credence to our vision.

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Message from the Chair

“Our work is vital for life, keeps people safe, and helps our communities to flourish.”

Watercare Services Limited (Watercare) delivers 100% ‘Aa’-grade drinking water¹, day in, day out, to our customers. Drinking water appears. Wastewater disappears. We provide these core services while meeting the challenge of a changing natural and business environment, driving efficiencies, ensuring staff arrive home safe every day and addressing evolving residential and business customer expectations.

Our strategic priorities for 2019-2022

In relation to the four Watercare strategic priorities listed in the Mayor’s Letter of Expectations:

- We will continue to work collaboratively with Council, who will lead the development of the Council’s group position and response to any proposals to central government’s Three Waters review (refer to page 12 and 22 for more details).
- We are continuing to investigate commercial arrangements and other funding sources which are in the best interests of the Council group, without compromising service delivery for Aucklanders or the delivery of priorities for the Auckland region (refer to page 13).
- We intend to stay on schedule and on budget for the delivery of the Central Interceptor (refer to page 14)
- We will continue to participate in any work involving the Crown and Council regarding alternative funding options (refer to page 13).
- The Western Isthmus Water Quality Improvement Programme is a key priority for us. We will continue to proactively engage with Healthy Waters and the wider community on this very important initiative (refer to pages 12, 17, 21 and 19).

Programme delivery, including implementation of the Auckland Plan 2050

Watercare’s challenge is to meet the demands of the growth occurring, and planned, for Auckland without compromising quality, efficiency nor the environment. Our Asset Management Plan (AMP) provides input to, and is consistent with, the Auckland Plan 2050 and Auckland Council’s Long Term Plan 2018-2028. Our AMP details \$5.76 billion in projects that have been planned and sequenced for the next 10 years to ensure the water and wastewater networks continue to have sufficient capacity and resilience to meet growing demand.

We will continue to collaborate with the Council Group, Government developers and the public. This is to ensure both Council and the Government’s growth objectives can be met.

Community and stakeholder engagement remain a priority

Our projects are often significant and can be disruptive to neighbours. Proactive, open and transparent community and stakeholder engagement is ‘business as usual’ for Watercare. The Central Interceptor and Western Isthmus projects are no exception and early engagement with our neighbours and the community is already well underway. Further examples of the work we are undertaking in this area is detailed on page 21.

Climate change

Watercare will continue to work with the Council group and other stakeholders to combat climate change and its impact, including reducing or capturing carbon emissions. Initiatives underway already are energy efficiency and energy neutrality. We are also transitioning land from commercial to native forestry in the Hūnua Ranges, where millions of native plants will be planted over the next 30 years. We recently finalised our Climate Change Strategy, which sets out the future direction for Watercare as we embark on our journey to operate a low-carbon organisation that is resilient to climate impacts. This strategy encompasses the adaptation and mitigation measures that we will take and sets ambitious targets for the future. The climate change targets that we set will be identified and reported on via annual reports.

¹ The Ministry of Health checks many different aspects of the water before it is given a two-letter grading. The first letter represents the quality of the water leaving the treatment plants. The second letter represents the quality of water received at homes and businesses. An ‘Aa’ grade means the drinking water is of a high quality.

Working with tangata whenua (Māori)

As a result of the spiritual significance of water to Māori, Watercare has long acknowledged the need for effective engagement and dialogue with Māori. Over many years, we have developed an extensive working relationship with mana whenua in the Auckland and Waikato regions, to continue to promote and foster kaitiakitanga (guardianship) outcomes for water.

Watercare will continue its work with the Te Toa Takitini executive leadership group to lead and influence better outcomes with Māori for Tāmaki Makaurau/Auckland by focusing on the four Māori Outcomes Priorities agreed in the 10 year Budget 2018-2028. These four outcomes are Marae development, Kaitiakitanga outcomes (Particularly water), Reo Māori outcomes and Māori Business, Tourism and Employment.

Working with Auckland Council

As Auckland's water and wastewater services provider, Watercare continues to work closely with Auckland Council to ensure that the city's vision is achieved. Our board welcomes the opportunity to work collaboratively with the Mayor and Councillors to develop joint strategies and policies which achieve efficiencies and provide greater benefit to our customers and the ratepayers of Auckland.

This Statement of Intent (SOI) sets out Watercare's response to the Mayor's Letter of Expectation, our obligations and how we intend to fulfil our mission to provide safe, reliable and efficient water and wastewater services to all of Auckland. Our SOI highlights the various initiatives on which we are collaborating with the Council group and reaffirms our continued commitment to working with Council and other infrastructure providers to enable the region's sustainable growth and development.

MARGARET DEVLIN

Chair

Where we operate

Watercare operates water and wastewater services from Wellsford to Pukekohe, and also provides water and wastewater services to communities in Tuakau and Pokeno in the North Waikato.

INSIGHT: Watercare to provide services to Waikato District Council (WDC) via a contract of service

Watercare to provide services to Waikato District Council (WDC) via a contract of service

Watercare has worked closely with WDC since 2010, when we began providing wastewater services to Tuakau and Pokeno. From 2015, we have also provided drinking water to both of those communities under contract to WDC.

From 1 October 2019, Watercare will operate Waikato District's waters services for a period of up to 29 years. WDC will continue to own all of the assets, while Watercare will operate and maintain the infrastructure above and below the ground.

There will be a twenty one month transition period from 1 October 2019 to 20 June 2021. During the transition period WDC will continue billing, faults and leak services as they do now until these services can transfer over to Watercare. In addition, Watercare will use this period to develop the asset management plan for submission and approval by the WDC Waters Governance Board.

We have every intention to enter into the contract unless factors outside of our control prevent us from doing so.

Watercare plans to make a reasonable return under the contract so we can assure our Auckland customers they will not be cross-subsidising services to Waikato. We will also make sure our service to Aucklanders is not compromised while we provide the services to Waikato district customers.

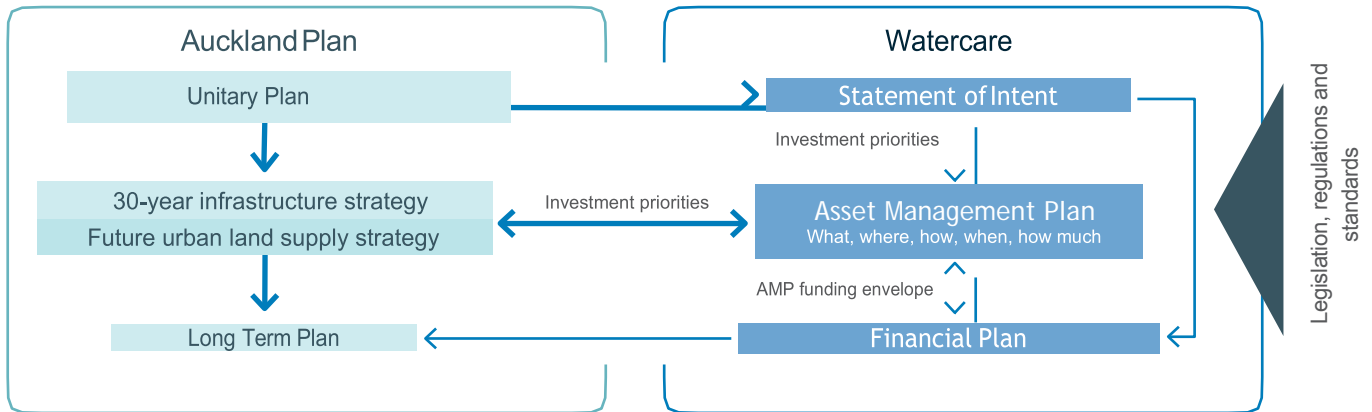
Watercare will keep Auckland Council informed throughout this contract through our Quarterly Reports.



Purpose of our Statement of Intent

In accordance with Schedule 8 of the Local Government Act 2002, our annual SOI publicly states the activities and intentions of Watercare for the next three years, together with the objectives and outcomes which will be delivered.

Our SOI provides an opportunity for our shareholder to influence the direction of the company and provides a basis for the accountability of directors for performance of the organisation.



See *Our Legislative Framework* in Appendix B for more information on our legal responsibilities.



Who we are

Our vision

Trusted by our communities for exceptional performance every day.

Better tomorrow than we are today | Pai ake apōpō atu i tēnei rā

Our mission

Reliable, safe and efficient water and wastewater services.

Our brand statement

Our work is vital for life, keeps people safe, and helps communities to flourish.

Watercare is a lifeline utility that provides essential services to Auckland. Our mission – to deliver reliable, safe and efficient drinking water supply and wastewater services – is critical to the economic, social and environmental health and well-being of our communities.

Watercare is a Council-controlled organisation (CCO), wholly owned by Auckland Council.

To deliver our vision and mission, we have prioritised four strategic areas of focus.

Customer focus: To fulfil our vision of providing exceptional service, we strive to understand our customers and stakeholders and engage with them in a meaningful way.

Business excellence: For Watercare, the drivers underpinning business excellence are the recruitment and retention of the right people, ensuring their health and well-being, and the implementation of smart processes and fit-for-purpose technology.

Financial responsibility: Every dollar Watercare spends has an impact on the price our customers pay for services. We are obliged to be an efficient, minimum-cost provider with due consideration for long-term asset investment.

Fully sustainable: Watercare's business is intrinsically linked to the natural environment and significantly impacts the communities in which we operate. Integrating sustainability into everything we do is key to our role as a trusted community and iwi partner.

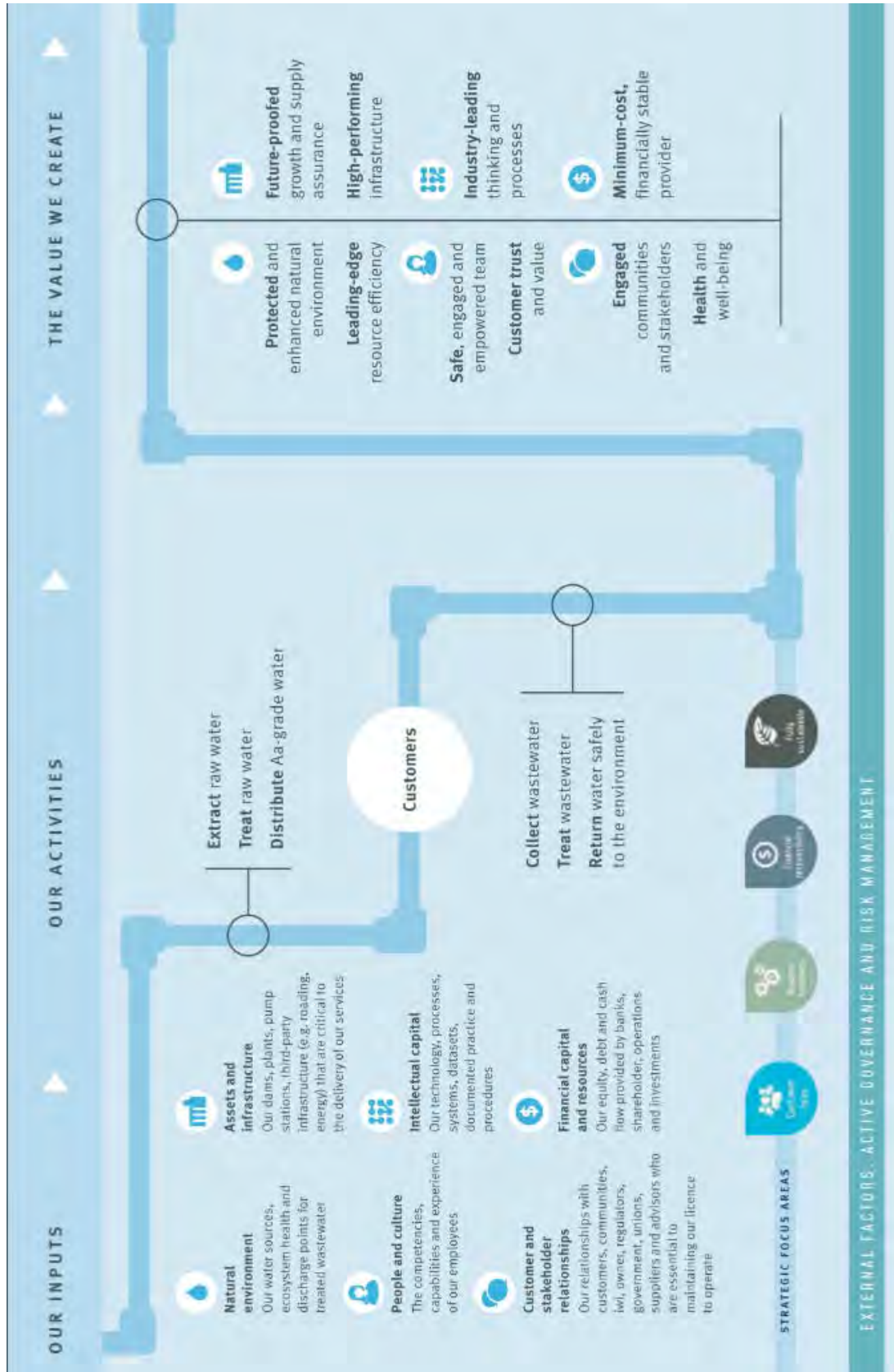


I care, we care, Watercare

We continue to invest heavily in our people, their training and their safety at work. Health and safety in and around our worksites is paramount to us and always has been. The concept, "I care, we care, Watercare" is embedded throughout our organisation; and recently, our health and safety strategy has been extended to include an additional focus on the physical and mental wellness of our people. We want all of our people to be safe, healthy and engaged at work, and for them to go home safely to their families each night. We monitor our people's health and safety using traditional health and safety metrics such as the Lost Time Injury Frequency Rate (LTIFR) and Total Recordable Injuries Frequency Rate (TRIFR), absence levels and turnover. We also conduct regular pulse surveys to measure our people's level of work satisfaction and engagement.


How we create value – our value creation model

Our value creation model shows our six capital inputs, and the activities we agree create value for our people, customers, shareholder, stakeholders and our communities.



Working together to achieve the vision for Auckland

We are fully committed to working with the Auckland Council group to implement the Auckland Plan 2050, including the Development Strategy, relevant performance measures and any associated guidance. The table below sets out the Auckland Plan outcomes, and how Watercare contributes to these outcomes.

| Auckland Plan outcomes | Degree of contribution | How Watercare contributes |
|--|------------------------|--|
| <p>Māori identity and wellbeing</p>  <p>Investing more in youth to help advance Māori well-being</p> | Primary | <ul style="list-style-type: none"> • By actively fostering and maintaining relationships with local Māori, including via the Mana Whenua Kaitiaki Forum • By providing technical advice related to water supply and septic tanks in marae • By realising rangatahi (our youth's) potential and promoting scholarships for Māori • By integrating Māori identifiers including a focus on te reo Māori |
| <p>Homes and places</p>  <p>Ensuring healthy, affordable housing for all Aucklanders today and in the future</p> | Primary | <ul style="list-style-type: none"> • By collaborating with the wider Council group to support areas of growth identified by Council, including nodes and development areas • By aligning major infrastructure development for future urban areas with the Council's Future Urban Land Supply Strategy (FULSS) • By proactively engaging with Housing New Zealand and HLC to plan, fund and deliver water and wastewater infrastructure to support their major urban transformation programmes - in particular, Northcote, Mt Roskill, Māngere, Tāmaki and Oranga • By reliably and efficiently delivering high-quality 'Aa'-grade water to all our customers • By reliably collecting and treating wastewater and returning it safely to the environment • By ensuring customers experiencing financial hardship can access support through the Watercare-funded Water Utility Consumer Assistance Trust |
| <p>Environment and cultural heritage</p>  <p>Using growth as an opportunity to protect and enhance our environment</p> | Primary | <ul style="list-style-type: none"> • By working with Auckland Council on the Auckland's Waters Strategy to achieve the Auckland Plan 2050's objectives of adapting to a changing water future • By planning and providing resilient infrastructure that is adaptive to future changes including climate change • By collecting and treating wastewater effectively, and managing the effects on receiving environments • By actively promoting water-efficient technologies and behaviours to consumers and homebuilders • By working to reduce water demand through operational improvements • By working with Auckland Council on the Watercare Heritage Assessment Project to determine approaches for protecting and promoting historic heritage |
| <p>Belonging and participation</p>  <p>Ensuring Auckland is inclusive and that all Aucklanders can participate fully</p> | Secondary | <ul style="list-style-type: none"> • By reliably delivering 'Aa'-grade water to all our customers • By reliably collecting and treating wastewater and returning it safely to the environment • By holding open days at our water and wastewater plants • By providing a free water education programme to schools |
| <p>Transport and access</p>  <p>Improving transport choices so we can move easily around Auckland</p> | Secondary | <ul style="list-style-type: none"> • By ensuring Watercare works with Council, Auckland Transport, NZTA and other utilities to align infrastructure projects wherever possible, to minimise effects on traffic and neighbourhoods |
| <p>Opportunity and prosperity</p>  <p>Equipping people for future jobs</p> | Secondary | <ul style="list-style-type: none"> • By providing a pipeline of employment opportunities • By building a resilient workforce in the water and wastewater industry |

Climate change

We believe that climate change is one of the largest challenges which we face as a country and a business. We are committed to taking responsibility to play an active role in dealing with this issue.

We have recently finalised our Climate Change Strategy, which sets out the future direction for Watercare as we embark on our journey to operate a low-carbon organisation that is resilient to climate impacts. This strategy covers specific actions that we will take immediately. It also establishes a pathway of monitoring and understanding, between now and 2025, so that we can adapt to the changing climate based on evolving data and projections.

We are aligned with the most recent science, to keep global warming within 1.5 degrees Celsius, and our targets reflect that. We will continue to work with Auckland Council to ensure our strategy complements the targets, activities and approach being established in the Auckland Climate Action Plan.

The projected impacts of climate change are captured in Watercare's enterprise risks, and are therefore reflected in our current and future planning and operational requirements.



Tiny buds of Mānuka growing in the Hūnua Ranges

In late 2016, we adopted an Energy Policy that commits Watercare to being net-zero carbon by 2050. This 2050 target mirrors that proposed by the Zero Carbon Bill.

In October 2017, Watercare committed to the Climate Leaders Coalition. This means that we take climate change seriously in our business, including: i) we measure our greenhouse gas emissions and publicly report on them, ii) we set a public emissions reduction target (and we have since updated this target to keep within 1.5 degrees of warming), and iii) we work with our suppliers to reduce their greenhouse gas emissions. Watercare also believes the transition to a low-emissions economy is an opportunity to improve New Zealand's prosperity by: i) supporting the Paris Agreement and New Zealand's commitment to it, and ii) supporting the introduction of a climate commission and carbon budgets enshrined in law.

In addition, Watercare is committed to the United Nations Sustainable Development Goals (SDGs) and is a signatory to the Water Services Association of Australia's (WSAA) pledge signed by major Australian and New Zealand water utilities in 2017, advocating for the SDGs as a plan of action for people, planet and prosperity. Watercare has made the commitment to support and promote the 17 SDGs including Goal 13, which is to "take urgent action to combat climate change and its impacts".

Climate change impacts Watercare on an environmental and social level.
Key areas are represented by these five United Nations Sustainable Development Goals:



We are using the Integrated Reporting framework and its six capitals to embed sustainable thinking, including in relation to climate change, in everything we do, and to progress our contribution to the SDGs. Business processes now include integrated thinking, and business units plan to start mapping and measuring their contribution to the SDGs.



Watercare's adaptation work plan will focus on the delivery of nine short term portfolios by 2025 with the overarching aim of improving monitoring protocols and establishing a greater understanding of existing asset resilience to future threats. These are characterised into three value streams – (1) Informed decision making; (2) Assets; and (3) External dependencies. Desired future states within these portfolios have been established to provide a direction of travel and numerous individual actions are being mapped in the short term.

The fourth value stream (4) Mitigation, focusses on delivery of five portfolios to meet the Net Zero emission by 2050 and the 45 percent reduction by 2030 targets.

During 2019 a work plan will establish priority functions and future timelines. This comprises three stages:

- Stage 1: Establish framework and identify teams
- Stage 2: Initiate priority activities that are required as building blocks
- Stage 3: Integration of climate change considerations, tools and processes to adopt a 'business as usual' (BAU) approach.

Our 14 programmes of Climate Change work are categorised into four value streams:

1st value stream: Informed Decision Making

1. **Climate Modelling:** Update climate change modelling to include wider Watercare servicing areas not currently included in the NIWA models. Ensure that the existing models are constantly updated as new information comes to light. Proactively use climate change modelling during the planning phase of infrastructure to ensure future resilience.
2. **Understanding impact of climate change of demand patterns:** Update the tools that Watercare uses to understand demand patterns to include the future impacts of climate change.
3. **Understanding water source resilience:** Create an improved understanding of the quality and volume of water currently available in Watercare catchments. Includes updating baseline storage in dams whose volumes have been affected by sedimentation build-up following recent storm events and modelling platforms to utilise changes in current and future rain patterns.
4. **Understanding our effects and responsibilities on the environment:** Investigate the required environmental monitoring to inform future decision making such as groundwater modelling at Puketutu Island.
5. **Emergency preparedness:** Continued assessment of individual asset and site vulnerability to power and communication outages and the effect of road closures due to extreme events.

2nd value stream: Assets

6. **Understanding treatment resilience:** Continue to research and investigate water treatment technologies to manage raw water quality risk. These include ultrasonic units for algae reduction, powdered activated dosing (Huia WTP) and ultraviolet disinfection retrofit at Ardmore water treatment plant. Investigate improvements in monitoring of wastewater flows to understand impacts on flow and load variability.
7. **Understanding network resilience:** Understand the impact of a changing climate on our network. Focus areas include temperature increase impacts on chlorine decay in water networks, investigation of the possible flotation risks of transmission assets and flow gauging and modelling of the wastewater networks.

3rd value stream: External Dependencies

8. **Portfolio 8: Development and land use:** Continuing engagement with Auckland Council and developers to understand future climate change vulnerabilities where growth is occurring. Keeping up to date and liaising with central Government on policies and guidance on climate adaptation.
9. **Portfolio 9: Partnerships with utilities:** Continue to foster partnerships with utilities, including those providing lifeline services so that we can continue to operate during emergencies and take a multi-agency approach to planning for the long-term.

4th value stream: Mitigation

During the 2020 financial year, road maps will be created for each portfolio of emission reduction.

10. **Planting and carbon removals:** The Hūnua ranges re-vegetation project is to enhance slope stability and drought resilience through planting of natives and drought resilient plants. Ongoing development of this project will include an understanding of the carbon sequestration potential and those of other forestry assets.
11. **Energy efficiency and generation:** Watercare will be working towards an energy savings target of 8GWh by 2022. An active programme is in place to drive an improvement in business practice, including the selection of energy efficient options in new projects and optimisation of current assets.
12. **Energy neutrality at major waste water treatment plants:** Continue progress on initiatives that support the target of energy neutrality at Māngere and Rosedale waste water treatment plants by 2025.
13. **Treatment process emissions:** Establish a better understanding of process emission measurement techniques and collaborate on opportunities for reduction with other water utilities.
14. **Low carbon infrastructure:** Initiate a process of reviewing and rethinking design standards, facility plans, servicing strategies and business cases to include a lens that consistently considers carbon emission impact in infrastructure. A baseline of current carbon emissions in infrastructure projects will be established to support the 40% reduction target by 2025.

Working together with the Council group

Natural environment



Value being created:

- *Protected and enhanced natural environment*
- *Leading edge resource efficiency*

1. As set out on pages 9-11, climate change impacts, now and in the future, are already key considerations in Watercare's planning process. Our Climate Change Strategy is a critical tool to ensure that we contribute to enabling the Auckland region to reduce its emissions and be resilient to the effects of climate change. Watercare will thoroughly look at its long-term business model, operational and strategic risks and vulnerabilities, planning and assumptions. We are working with Auckland Council on the development of its Auckland Climate Action Plan (ACAP) to ensure an alignment between target setting, mitigation activities and sharing learnings on a consistent and effective approach to climate change. This collaboration will help make sure consistency is achieved between the ACAP and Watercare's Climate Change Strategy. Once the ACAP has been agreed, Watercare will include an appropriate climate change based performance measure in the next SOI.
2. We will continue to be supportive of, and to collaborate with, Auckland Council and Auckland Transport to lead the development of the 10-year project outcomes for the Western Isthmus Water Quality Improvement Programme, including construction of Watercare's Grey Lynn Wastewater Tunnel.
3. We engaged NIWA to deliver a hydrodynamic and water quality model for the Manukau Harbour. This is a large research programme and will provide one of the first 3D models of this kind worldwide. The final model will be delivered at the end of 2019. Watercare has designed this work with collaboration in mind, giving co-ownership of the models to the Council. The project management involves Watercare, Healthy Waters, iwi and the Research and Evaluation Unit (RIMU), part of Auckland Council's Auckland Plan, Strategy and Research department. All partners are very satisfied with this united approach. The solid relationship established from this collaborative work is enabling further discussions on improving the quality and efficiency of environmental monitoring in the Manukau Harbour.
4. In 2017, Watercare acquired the forestry rights over Council-owned land in the Hūnua Ranges, in the catchment of the water storage reservoirs. We are working closely with Council officers on plans to progressively rehabilitate approximately 2,000 hectares of land back to native forest over a two- to three-decade programme. A forest management plan will be developed with mana whenua involvement, and regeneration trials are being undertaken.
5. Watercare will participate in a collaborative process with the Council group to update its strategic planning and meet the requirements of the national policy statements on urban development capacity and freshwater management.

Customer and stakeholder relationships



Value being created:

- *Engaged communities and stakeholders*
- *Health and wellbeing*

1. Watercare commits to continuing to work collaboratively and share information with Councillors and Council, including adherence with the no-surprises protocols set out in the Governance Manual for substantive CCOs.
2. We will continue to support the 'value for money' reviews being undertaken by Council as required by Section 17A of the Local Government Act 2002. We continue to actively participate in these reviews, and support Council's objectives. Watercare will implement recommendations from the reviews as appropriate to Watercare. In addition, we are committed to participating in all future reviews.
3. Watercare will continue to collaborate with Healthy Waters and Auckland Transport to develop the Auckland's Waters Strategy.
4. We will continue to collaborate with Local Boards in the manner set out on page 19 of this document.
5. Watercare will continue to collaborate with Council and the wider Council group to improve Māori outcomes to mana whenua and mātāwaka (kinship group) in Auckland in the manner set out on page 20. For example, we are working closely with Council on an ongoing basis as it prioritises the Te Toa Takitini and collaborates with Te Waka Angamua ki Uta.
6. We will continue to prioritise positive and proactive dialogue and engagement with the community in order to lift trust levels amongst our community and stakeholders. This type of engagement is a key part of all significant projects, including the Central Interceptor and the Western Isthmus Water Quality Improvement Programme (refer to item 2 in Natural environment).
7. Watercare will continue to collaborate with Council to refine the Council group's position and response to any proposals from central government's Three Waters review.
8. Watercare will continue to collaborate with Auckland Council on submissions relating to bills, policy statements, regional plans and similar documents and consult with the Council before making its own submissions in cases where Watercare has a specialist need to submit. Recent examples are:
 - Joint submission to MBIE's "Urban Development Authorities (UDA's) – Discussion Document"
 - Waikato District Council's District Plan Review
 - Waikato Regional Council's Plan Change Number 1, Variation 1, and Further Submissions to Plan Change 1
 - Ministry for the Environment's "Our Climate, Your Say: Consultation on the Zero Carbon Bill – Discussion Document"
 - Ministry for the Environment's "Improvements to the New Zealand Emissions Trading Scheme" and Forestry New Zealand's "A Better ETS for Forestry".

People and culture



Value being created:

- *Safe, engaged and empowered teams*
- *Customer trust and value*

1. Watercare will continue to regularly participate in the Council's Consenting Made Easy programme.

Financial capital and resources



Value being created:

- *We are a minimum-cost, financially stable provider*

1. Watercare will continue to investigate commercial arrangements and other funding sources to either achieve savings, or develop alternative revenue sources, where this is in the best interests of the Council. For example, a contract with Waikato District Council will generate additional revenue. This, in turn, has a positive effect on the Council's debt to revenue ratio. Such arrangements must not compromise service delivery for Aucklanders or the delivery of Auckland's priorities.
2. We will continue to participate in any work involving the Crown and Council regarding alternative funding options.
3. Watercare will continue to actively participate in Council group procurement activities, including the development of the Group Procurement Strategy, Group Digital Roadmap Framework and the Supplier Code of Conduct.
4. Watercare will continue to work with Council and the other CCOs to maximise the savings and benefits in relation to its combined insurance programme.

Intellectual capital



Value being created:

- *Industry led thinking and processes*

1. We will continue to actively support the desired outcomes of the Safeswim monitoring programme when making infrastructure investment decisions, and to work with Council to achieve the outcomes of this programme.

Assets and infrastructure



Value being created:

- *Future proofed growth and supply assurance*
- *High performing infrastructure*

1. Watercare will reflect agreed changes in its own strategic planning and Asset Management Plan (AMP). Specific strategies and plans where we are working with Auckland Council include:
 - Refresh of the Auckland Plan
 - Development of the Auckland's Waters Strategy
 - Development of watershed plans
 - Developing Council's approach to implementing the National Policy Statement for Freshwater Management.
2. We will continue to notify Council of any substantive changes made to our AMP outside of the annual updates provided.

INSIGHT: Central Interceptor wastewater project to start construction in mid-2019

The Central Interceptor wastewater tunnel is a critical project that will deliver far-reaching benefits for the people of Auckland. This extensive wastewater project will reduce wet-weather overflow volumes into the Waitematā Harbour by up to 80%. At the same time, the tunnel will provide increased capacity to store and carry the wastewater of Auckland's fast-growing population.

The tunnel will run for 13 kilometres from Western Springs to a new pump station at the Māngere Wastewater Treatment Plant. At 4.5 metres in diameter, it will be Auckland's largest wastewater tunnel and the biggest wastewater project ever undertaken in New Zealand.

Chief Executive Raveen Jaduram says the Central Interceptor is a big step forward for Auckland: "This project will improve the health of our city's waterways by reducing wet-weather overflows and provide for population growth. Not only that, its construction will create employment and opportunities for the region."

Lying at depths of between 22 and 110 metres below the ground's surface, the tunnel and its linking sewers will be supported by 17 shafts along the route. The shafts collect and transfer wastewater into the tunnel, and at the end of the tunnel, a major pump station will direct all flows to the Māngere Wastewater Treatment Plant.

The Ghella-Abergeldie joint venture will construct the tunnel. This joint venture combines more than 30 years of tunnelling expertise in New Zealand with over 150 years of Italian and international tunnelling experience and the ability to ensure the utmost skill and competence in the delivery of this landmark project.

Ghella has successfully completed numerous projects of this scale worldwide. These include the Legacy Way tunnel project in Brisbane which achieved world records in tunnel-boring machine excavations. Currently, Ghella is working on some of the biggest tunnelling projects around the world, including the Follo Line in Oslo, the Sydney Metro and the Riachuelo sewage system in Buenos Aires.

Shayne Cunis, executive programme director for the Central Interceptor, is pleased with the disciplined procurement approach.

"Our intention has always been to stick to our plan. We do what we say and the people of Auckland can take comfort that Watercare is delivering on its promises of improving Auckland's infrastructure."

Construction will commence in mid-2019. The first stages of work are site establishment and the construction of the shafts. Tunnelling is scheduled to commence in late 2020 with project completion scheduled for 2025.

VALUE BEING CREATED:

- Protected and enhanced natural environment
- High-performing infrastructure
- Industry-leading thinking and processes



Enabling growth

Location, scale and timing of new development matters when planning for growth. Watercare works closely with the Council group to identify areas where there is capacity to support growth in the short to medium term. We also align our longer term planning of new or upgraded infrastructure to meet Council's spatial development priorities and give effect to the Long Term Plan and Council's Future Urban Land Supply Strategy (FULSS).

The planning and construction of water and wastewater infrastructure can have long lead times.

The alignment of service provision with the FULSS, and vice versa, allows Watercare to plan, consent and construct bulk water and wastewater infrastructure efficiently to enable Council's growth requirements.

Summary of key water and wastewater projects

The resilience of Watercare's water and wastewater supply systems was demonstrated during a number of extreme weather events over the past few years. Watercare will continue to build on our strong foundations with a series of planned upgrades and replacements for our water and wastewater supply network over the next three years.

This will help Auckland achieve the Auckland Plan 2050's objective of adapting to a changing water future.

That means our infrastructure will enable growth in the areas identified for development by Council.

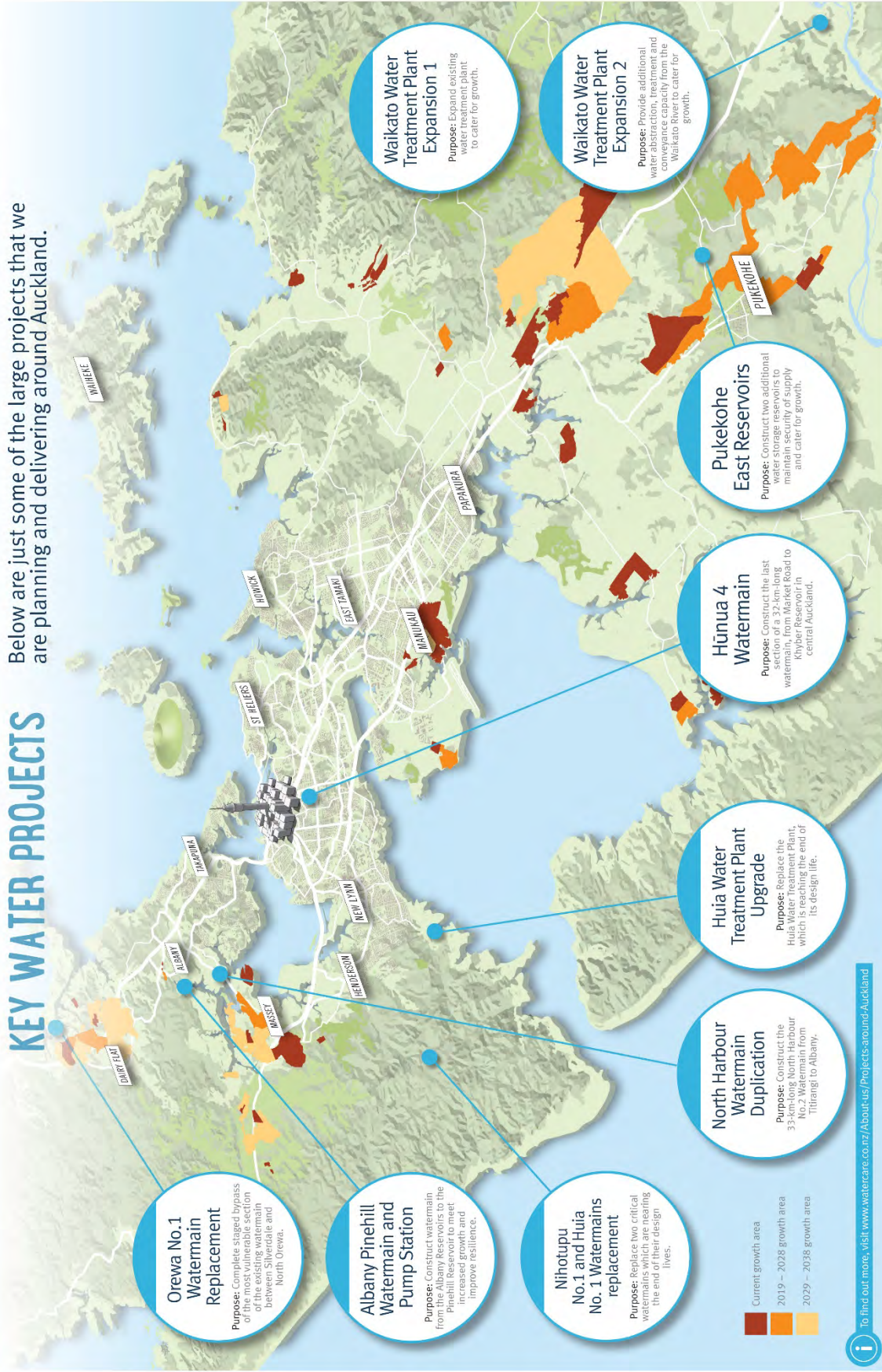
We also ensure our infrastructure development is aligned with Council's local place making and urban regeneration priorities. Watercare acknowledges Council's request for the CCOs to actively participate in the integrated governance of urban regeneration priority areas, and we are committed to work with Council in this regard. In particular, we are working proactively with the wider Council group and the Government to enable regeneration of existing urban areas with a significant social housing component.

Veolia Water in Papakura, like Watercare throughout the rest of Auckland, responds to growth areas identified by Auckland Council. Accordingly, we will require Veolia Water, within the terms of the agreement between the parties, to ensure it is providing the necessary water and wastewater infrastructure to meet growth.

| | Major water projects | Description | Work to be carried out over the next three years |
|---|---|--|--|
| 1 | Hūnua 4 Watermain | Construction of the last section of a 32-kilometre-long watermain that will run from Market Road to Khyber Reservoir in central Auckland | The contract has been let for construction from Market Road to the Khyber Pass Reservoir. Ninety per cent of the construction will be tunnelled, thereby avoiding significant congestion down Manukau Road and through to the Khyber Pass Reservoir. Completion due early 2021. |
| 2 | North Harbour Watermain Duplication | Construction of the North Harbour No. 2 Watermain, which will run for 33 kilometres from Titirangi to Albany | Duplication of the watermain over Upper Waitemata Harbour to be completed in 2020. The section from Upper Harbour to Albany to be constructed over the next three years, with the remainder to be completed progressively by 2026. |
| 3 | Pukekohe East Reservoirs | Construction of two additional water storage reservoirs to maintain security of supply and cater for growth | First reservoir in construction and expected to be completed by 2021. |
| 4 | Waikato Water Treatment Plant Expansion 1 | Expansion of the capacity of the existing water treatment plant to cater for additional demand arising from growth | Increase of maximum water treatment plant production capacity from 150 MLD to 175 MLD has been completed. Chemical systems capacity upgrades to be completed by 2020. |
| 5 | Waikato Water Treatment Plant Expansion 2 | Provision of additional water abstraction, treatment and conveyance capacity from the Waikato River to cater for additional demand arising from growth | A consent has been lodged for an additional take from the Waikato River and awaits processing by Waikato Regional Council. Technical work is being updated and work on the Assessment of Environment Effects has been put on hold pending further consultation with Waikato Tauiui. The preparation of a Cultural Impact Assessment is required. Based on feedback from Waikato Regional Council, the application is likely to be processed in 2019. |
| 6 | Nihotupu No.1 and Huia No. 1 Watermains replacement | Replacement of two critical watermains which are nearing the end of their design lives | Construction expected to be completed by early 2022. |
| 7 | Huia Water Treatment Plant Upgrade | Replacement of the Huia Water Treatment Plant which is reaching the end of its design life and the provision of improved treatment processes that will maintain supply and improve levels of service | Consent process to be completed and detailed design commenced during this period. |
| 8 | Orewa No.1 Watermain Replacement | Completion of a staged bypass of the most vulnerable section of the existing watermain that runs between Silverdale and North Orewa | The northern 4.3km of this watermain will be constructed through the Millwater development, across Orewa River, and connect to the Maire Road Reservoir. The southern 0.3km will be constructed through Silverdale and will facilitate commissioning of the entire 7km replacement between Silverdale and the Maire Road Reservoir. |
| 9 | Albany Pinehill Watermain and Pump Station | Construction of a watermain from the Albany Reservoirs to the Pinehill Reservoir to meet increased growth and to improve the resilience of the supply to the area of the North Shore supplied by the Pinehill Reservoir. The project also delivers a replacement chlorine booster to treat the inflow to the reservoirs. | Works in construction and expected to be completed by early 2020. |

KEY WATER PROJECTS

Below are just some of the large projects that we are planning and delivering around Auckland.



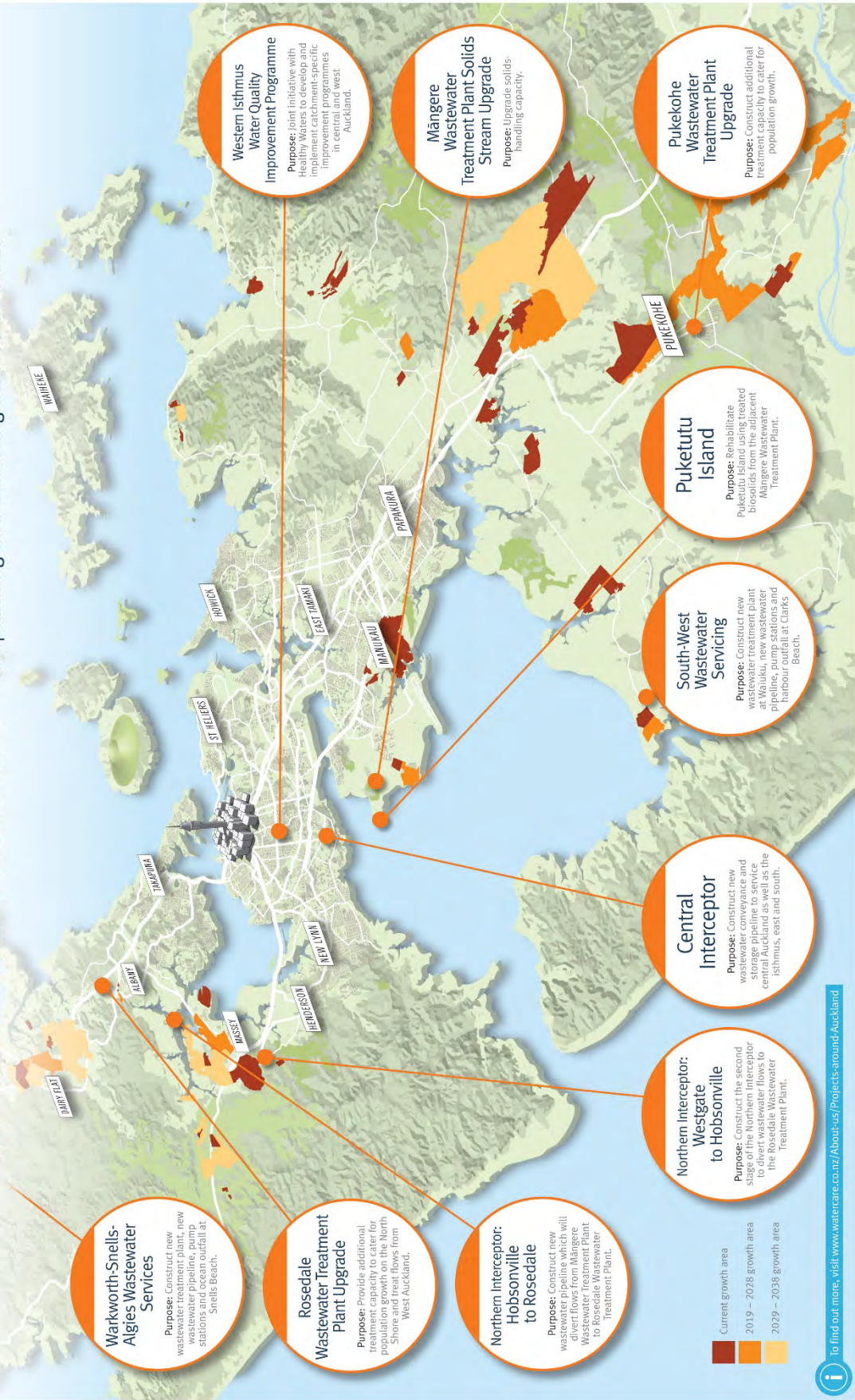
To find out more, visit www.watercare.co.nz/About-us/Projects-around-Auckland

Summary of key wastewater projects

| | Major wastewater projects | Description | Work to be carried out over the next three years |
|----|--|---|---|
| 1 | Central Interceptor | Construction of a new wastewater conveyance and storage pipeline to service central Auckland as well as the isthmus, east and south | Design is complete. Procurement is in progress with the contract to be let in early 2019. Construction is planned to commence in 2019 and be completed by December 2025. |
| 2 | Northern Interceptor: Hobsonville to Rosedale | Construction of a new wastewater pipeline which will divert flows from the Māngere Wastewater Treatment Plant to Rosedale Wastewater Treatment Plant | Construction to be completed by early 2021. |
| 3 | Northern Interceptor: Westgate to Hobsonville | Construction of the second stage of the Northern Interceptor to divert wastewater flows from Whenuapai, Redhills, Kumeu, Huapai and Riverhead catchments to the Rosedale Wastewater Treatment Plant. This project is dependent on the delivery of the Northern Interceptor from Hobsonville to Rosedale | Obtaining the necessary consents and land owner approvals during this period with completion due by 2025. |
| 4 | Rosedale Wastewater Treatment Plant Upgrade | Provision of additional treatment capacity to cater for population growth on the North Shore and treat diverted wastewater flows from West Auckland, which are currently served by the Māngere Wastewater Treatment Plant | Design and construction to be completed by early 2020. |
| 5 | Pukekohe Wastewater Treatment Plant Upgrade | Construction of additional treatment capacity to cater for population growth in the Pukekohe Wastewater Treatment Plant catchment | Application for discharge to the Waikato River has been granted. Enabling works completed in 2018. Design is complete and construction to be completed in stages by 2021, in line with growth expectations. |
| 6 | Māngere Wastewater Treatment Plant Solids Stream Upgrade | Upgrade of solids handling capacity of the Māngere Wastewater Treatment Plant | Work is delivered in packages. Five have been completed. The upgrade of the biosolids conveyors to be completed in stages until 2020. |
| 7 | Puketutu Island/ Te Motu a Hiaroa | Rehabilitation of Puketutu Island using treated biosolids from the adjacent Māngere Wastewater Treatment Plant | Continue the monofill operation to rehabilitate Puketutu Island. |
| 8 | Warkworth-Snells-Algies Wastewater Services | Construction of a new wastewater treatment plant, new wastewater pipeline, pump stations and ocean outfall at Snells Beach | Design has commenced and construction is targeted for completion by 2022. |
| 9 | South West Wastewater Servicing | Construction of a new wastewater treatment plant at Waiuku, new wastewater pipeline, pump stations and harbour outfall at Clarks Beach | Consent has been obtained. Design has commenced with construction completion expected by 2025. |
| 10 | Western Isthmus Water Quality Improvement Programme | Joint initiative with Healthy Waters to develop and implement catchment specific improvement programmes in the priority catchments of Westmere, Avondale, Freemans Bay, Grey Lynn, Herne Bay, Meola, Motions, Oakley, Pt Chevalier, St Marys Bay and Waterview | Planning is underway with the target completion date of 2028. |

KEY WASTEWATER PROJECTS

Below are just some of the large projects that we are planning and delivering across Auckland.



To find out more, visit www.watercare.co.nz/About-us/Projects-around-Auckland

Engaging with the diverse communities of Auckland

Watercare provides lifeline services to Auckland. Our water and wastewater services are critical to the economic, social and environmental health and well-being of our communities. Recognising this, we engage with our stakeholders and the diverse communities of Auckland through a wide range of forums in order to build trust and maintain transparency and openness.

Customers

We engage by:

- Making information available via a number of channels and in different ways, including written, face-to-face, open days, digital and via social media
- Consulting with customers on topics that affect them to ensure their needs are understood and considered
- Engaging with developers, early in their planning process, to determine infrastructure requirements to cater for the water and wastewater needs of new developments
- Holding forums for developers, their consultants and contractors to inform them of our plans for infrastructure development
- Collecting feedback through various channels, including from our customer feedback system and through our regular customer experience surveys
- Delivering experiences that make things easier for our customers; then we measure how well we are servicing the needs of our customers via our Voice of the Customer surveys and our Net Promoter Score (NPS), which is a SOI performance measure
- Analysing feedback from our customers and using it to drive business improvements, and to look at what we can do better or differently to reduce issues and complaints
- Conducting annual customer focus groups on specific issues
- Running a free water education programme in schools

Local Boards

We engage by:

- Building enduring relationships with Local Board Chairs and representatives by providing timely and accurate responses to their information needs
- Sharing information on Watercare-related matters including infrastructure planning and construction projects in the interests of no surprises
- Collaborating with Auckland Council to share information and promote the Western Isthmus Water Quality Improvement Programme via Local Boards
- Collaborating with Auckland Council to share information about the Safeswim programme via Local Boards
- Working with Local Boards to educate the community on causes of wastewater overflows (fats, wet wipes etc.) and actions they can take to prevent them
- Using innovative new ways to help share information via Local Board community networks. Some Local Boards have featured in short information videos uploaded to YouTube, which can also be shared via the Local Board Facebook pages.
- Working with Local Boards to promote the inflow and infiltration programme aimed at removing stormwater from the local wastewater network. Local Boards in problem areas are helping to promote the programme, including smoke testing, which can help identify and resolve private drainage issues, thereby reducing potential for wet-weather overflows.
- Collaborating with Local Boards and the community to gather input into future projects such as the Huia Water Treatment Plant, consent renewals for the Army Bay Wastewater Treatment Plant and planning for the Western Isthmus Water Quality Improvement Programme.
- Forming Community Liaison Groups (CLGs) in the manner set out on page 21.

Local residents and community groups that neighbour our worksites

We engage by:

- Using a variety of channels to ensure there are no surprises regarding potentially disruptive works. Information is communicated via various channels, including: flyers, newsletters, door-to-door communication, advertisements, signage, radio broadcasts, local resident and business association information meetings, community open days and direct mail
- Providing opportunities for the community to have input into decision-making during the planning of new infrastructure with a view to minimising delays in statutory approval processes under the Resource Management Act 1991
- Ensuring our staff and sites can be easily identified by continuing to align our branding, signage and marketing collateral to the Council group's brand guidelines as appropriate and where cost effective.



Members of the public at the Waikato Water Treatment Plant Open Day

Tangata whenua (Māori)

We engage by:

- Promoting and supporting mana whenua relationships. The Watercare Mana Whenua Kaitiaki Forum's (MWKF) role includes integrated decision-making on matters significant to Māori across the Auckland Council group. Watercare maintains its relationship at an operational level with MWKF through bi-monthly meetings with the Mana Whenua Kaitiaki Managers' Group – Water Sector – and continues to expand this sector's work by facilitating group meetings with other stakeholders working in this area. The Auckland's Waters Strategy is a prime example of this. Watercare will work with Auckland Council to optimise the governance for engaging with mana whenua across the Council group
- Developing, working and maintaining relationships with mana whenua affected by Watercare operations and initiatives to ensure effective Māori participation, an empowered organisation and strong Māori communities
- Increasing Watercare's capability and understanding of Māori values and cultural impact
- Providing technical advice related to water supply and septic tanks to promote the health of marae, Papakāinga and Māori housing
- Realising rangatahi's potential, including proactively promoting the Mark Ford Scholarship to Māori
- Promoting te reo Māori outcomes
- Strengthening our relationship with Waikato Tainui by working with their representatives and executive management team. This relationship commenced when Watercare first applied to take water from the Waikato River to assist in meeting Auckland's need for water. With the projected growth for Auckland, a second application to take water has been lodged. Watercare is working closely with Waikato Tainui to ensure that the health and well-being of the Waikato River remains paramount
- Implementing Watercare's Māori Responsiveness Plan
- Regularly meeting with representatives of the 19 mandated mana whenua entities. In this regard, Watercare is also committed to working on the Council Group's Te Hōanga initiative to make the engagement process with all 19 mana whenua entities more effective and efficient.
- Committing to the refined priorities of Te Toa Takitini, the specific project/programme contributions and any related performance measures. These are reported on through Watercare's quarterly reports.
- Continuing to participate and implement the findings of the current Tiriti o Waitangi Audit.
- Working with the Tūpuna Maunga of Tāmaki Makaurau Authority in relation to Watercare infrastructure on Maunga.

Infrastructure providers

We engage by:

- Participating in the Auckland Infrastructure and Procurement Group forums and working groups
- Co-ordinating planned major works with Auckland Transport and other infrastructure providers, such as New Zealand Transport Agency (NZTA) and Vector, to ensure 'best for Auckland' outcomes
- Continuing to work closely at technical and managerial levels with Auckland Transport, the Auckland Motorway Alliance, NZTA and other infrastructure providers to plan and deliver complex infrastructure solutions in the road and motorway corridors
- Working closely with industry experts and attending regular sessions with Civil Contractors New Zealand and the Association of Consulting Engineers New Zealand to ensure safe, practicable and sustainable outcomes
- Recognising the importance of integrated planning to achieve the efficiencies expected and envisioned by Auckland Council, Watercare continues to be committed to working closely with Auckland Council on the Auckland's Waters Strategy
- Collaborating with the Council group on the Western Isthmus Water Quality Improvement Programme



(L-R) Watercare Chair Margaret Devlin, Mayor Phil Goff, Jack Ruck and Vern Rosieur both of Ngāti Manuhiri at the official opening of the new Warkworth Water Treatment Plant. A powerful moment from the opening was the unveiling of a pouwhenua that stands at the entrance to the plant and depicts Waawaia, the Taniwha of Te Awa Waihe. This signifies the relationship between the land, environment and Ngāti Manuhiri who are Mana Whenua for Puhinui (Warkworth).

INSIGHT: Best-practice stakeholder engagement to build trust

Stakeholder engagement for Watercare is embedded into our everyday operations, whether it is the delivery of service, the construction of new infrastructure or transacting with our customers. Our value creation model recognises that our relationships with our stakeholders - customers, communities, iwi, Council, Councillors, other CCOs, central government, unions, suppliers and advisors - are essential to maintaining our social licence to operate and build trust and confidence in Watercare and the wider Council group.

We proactively identify our stakeholders work to understand their needs and requirements. We work to ensure that we maintain open lines of communication and adhere to a 'no-surprises' policy. This is critical to us achieving our vision of being trusted by our communities.

Building social equity also provides us with resilience should we encounter unexpected challenges during a project. We do this through a number of ways including public open days at our plants, regular meetings with community groups and Local Boards, as well as by informal celebratory barbecues to thank communities for their patience while we undertake projects within their area. We provide a free water education programme to schools and about 7,000 students benefit from this every year.

Throughout the Auckland region, we have facilitated the formation of a number of Community Liaison Groups (CLG), including CLGs for the Huia Water Treatment Plant Replacement Project, the Pukekohe Wastewater Treatment Plant upgrade and the Western Isthmus Water Quality Improvement Programme. We also have a well-established CLG in Manukau to cover our Manukau/Puketutu Island activities. These CLGs help us to be aware of local issues and concerns and are an effective platform through which ongoing relationships can be maintained.

Since 2011 our Environmental Advisory Group (EAG) has advised, supported and challenged management's approach to sustainability and environmental matters. The EAG provides a robust external sounding board for our work and supports us in our vision to be "trusted by our communities for exceptional performance everyday". The EAG is independent and comprises seven individuals with interest and expertise in either water, wastewater or both.

Alongside this work, we hold regular industry briefings for our suppliers, contractors and consultants. These briefings provide an opportunity to engage with the wider industry and share our strategy and future programme of works with our suppliers.

We also actively promote and support mana whenua relationships, including via the Mana Whenua Kaitiaki Forum, and continue to expand this sector's work by facilitating group meetings with other stakeholders working in this area. Consultation with interested mana whenua is regarded as "business as usual" and an integral part of Watercare's planning and operational procedures. Successful iwi engagement for such projects is not measured by the actual spend but by the relationships formed and mutual outcomes that such partnership achieves. Iwi have supported projects such as the South West wastewater and Pukekohe treated wastewater discharges.

We engage with our customers through a range of channels: phone, mail, email, our website and social media. Our quarterly newsletter, *Tapped In*, allows us to proactively engage with our customers and share updates on our programmes and initiatives. Through our Strategic Transformation Programme, we are working on new ways to leverage technology to better interact with our customers and simplify their transactions. We work hard to deliver experiences that make it easy for our customers to interact with us.

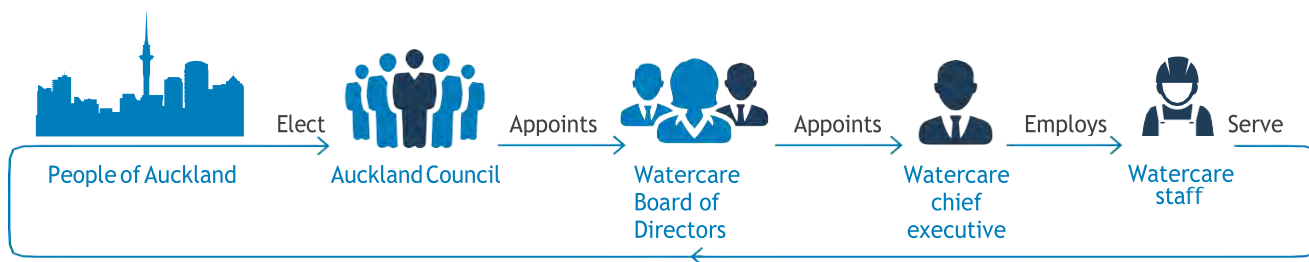
VALUE BEING CREATED:

- Customer trust and value
- Engaged communities and stakeholders



Students from Viscount School in Māngere spent several weeks researching local flora and fauna. Their posters were turned into information panels for Watercare's Coastal Walkway in Māngere.

Managing and measuring our performance



Watercare’s board is ultimately responsible for all decision-making by the company. The directors and the management team are committed to ensuring the company applies best-practice governance policies and procedures. As at 1 March 2019, there are four subcommittees being: 1) Audit and Risk, 2) People, Remuneration and Appointments, 3) a subcommittee to oversee the Strategic Transformation Programme, and 4) a subcommittee to oversee the Asset Management Plan, and all major capital expenditure projects over \$100 million including the Central Interceptor.

Our board undergoes board performance reviews bi-annually, in line with the Council adopted process.

Watercare ensures we fulfil the public meetings stipulation of the Local Government (Auckland Council) Act 2009 which requires Auckland Council’s CCOs to hold two public meetings a year and the timing for these is set out below. Dates and times are publicly notified in advance with agendas and minutes made available on our website.

| Date | Purpose | Form of public notification |
|-----------------|--|-----------------------------|
| 28 May 2019 | Consider Shareholder comments on draft SOI | Public notice |
| 29 October 2019 | Consider performance against SOI targets | Public notice |
| May 2020 | Consider Shareholder comments on draft SOI | Public notice |

Watercare works diligently to meet our legal obligations and act in accordance with the Governance Manual for substantive CCOs, which sits alongside this SOI and forms part of the annual binding agreement between Council and Watercare. Page 15 of the CCO Governance Manual includes the procedures when CCOs subscribes for, purchase or otherwise acquire shares in any company or other organisation, as required under Schedule 8, Clause 9(1)(i) of the Local Government Act 2002.

We are committed to participating in the design and implementation of group-wide policies. Watercare is also supportive of the development of Council group foundation principles and standards (where required). We are currently working with Council to review the SOI process.

Watercare is also committed to working collaboratively in relation to ‘out of sequence’ future urban development.

See *Our Legislative Framework* in Appendix B for more information on our legal responsibilities.

Managing risk

We have an established risk management policy and framework, which follows the guidance of the ISO 31000 risk management standard. Risks are identified and evaluated using likelihood and consequence scores and ranked. The highest-ranked and significant emerging risks are regularly reviewed by senior Management and the board via management and board-level reporting.

As part of the risk management framework, Watercare Management have a Risk Management Steering Committee to monitor emerging risk and risk-mitigating actions and strategies.

The internal audit function produces an annual plan that is approved by our Audit and Risk Committee with quarterly reporting by management against the plan to the committee. The Audit and Risk Committee maintains oversight of progress and must be satisfied that recommendations arising from internal audit’s work are fully addressed by management.

Watercare also provides Council’s Audit and Risk Committee with a quarterly report outlining our risk management framework, approach, processes and an overview of the top risks with associated mitigation actions.

A detailed assessment of the current risk position for two key risks that are likely to be front of mind to Councillors is also included in these reports.

Measuring our performance

We have an agreed set of performance measures and targets which form the basis for accountability to delivering on Council’s strategic direction, priorities and targets. These are reported on a quarterly basis in accordance with the governance manual for substantive CCOs.

The measures and targets include the mandated measures of the Department of Internal Affairs and those that were agreed with Council as part of the Long Term Plan 2018–2028. Our performance measures are included in Appendix C. Watercare will, with Auckland Council, identify additional effective, appropriate and meaningful measures that will arise from the Government’s Three Waters review across New Zealand. This includes working on identifying appropriate climate change measures and targets.

The SOI performance measures also include a Net Promoter Score, which measures how well we are doing with our customers.

Driving efficient, transparent and stable financial management

We understand and appreciate that our customers expect us to be financially responsible as every dollar we spend has an impact on the price they pay for water and wastewater services.

Watercare funds and finances all of its operating costs and capital projects through water and wastewater service charges, infrastructure growth charges and borrowings. That means we self-fund what we deliver and do not receive rates money from Auckland Council. Our financial position enables us to fulfil the \$5.76 billion commitment we have made to the Auckland community in our Asset Management Plan (AMP). Watercare's funding envelope has been aligned for the provision of service identified in the FULSS.

Our financial management is underpinned by robust plans and policies, supported by a comprehensive risk and audit programme.

To be financially stable over the long term, we take the following into consideration when managing our capital investment programme: risk, future demand, debt levels, interest costs and inter-generational equity.

Our AMP defines Watercare's best engineering and business judgment of the capital investment required to maintain the integrity of our infrastructure base over a 20-year period.

It helps us to decide what, where, how, when and how much we invest to build and maintain our water and wastewater assets.

Watercare will continue to collaborate with Council and other members of the Council group to closer integrate its planning to assist in addressing infrastructure challenges for Auckland.

Watercare will also continue to contribute to the development of the Asset Management Coordination Group. This has led to the creation of common summary Asset Management Plans being published and examination of the ways in which our asset management frameworks may be aligned.

Watercare will also consider participating in the 2020 Water Services Association of Australia Asset Management Benchmarking process.

We have implemented efficiency initiatives across major areas of expenditure, including a network efficiency programme and a capital delivery optimisation programme.

The network efficiency programme is focused on reducing the cost of operating and maintaining our retail network while maintaining the appropriate level of service.

The capital delivery optimisation programme includes the introduction of a revised capital projects delivery business model and a target to deliver five per cent savings through more efficient capital spend.

The following summary of financials supports the delivery of the strategic objectives and performance targets for Watercare.

Operating budget

| Operating budgets (\$million) | 2017/2018 Actual | 2018/19 Revised LTP* | 2019/20 Annual Plan | 2020/21 Revised LTP* | 2021/22 Revised LTP* |
|--|---------------------|----------------------------|------------------------|-------------------------|-------------------------|
| Revenue | 522.3 | 536.3 | 561.9 | 586.1 | 615.5 |
| Fees and charges | 490.5 | 509.0 | 533.2 | 556.3 | 581.8 |
| Grants and subsidies | - | - | - | - | - |
| Other revenue | 31.8 | 27.3 | 28.7 | 29.8 | 33.7 |
| Direct expenditure | 217.6 | 219.9 | 228.1 | 235.7 | 244.4 |
| Employee related costs | 73.0 | 75.2 | 77.9 | 80.5 | 83.3 |
| Grants, contributions, sponsorship | 0.1 | 0.7 | 0.7 | 0.7 | 0.7 |
| Other expenditure | 144.5 | 144.0 | 149.5 | 154.5 | 160.4 |
| Net direct expenditure (income) | (304.7) | (316.4) | (333.8) | (350.4) | (371.1) |
| Funding from Auckland Council | - | - | - | - | - |
| Revenue from vested assets | (30.2) | (31.0) | (20.8) | (21.5) | (22.2) |
| Other non-operating income | - | - | - | - | - |
| Net finance expense | 82.1 | 74.5 | 84.3 | 85.5 | 86.3 |
| Depreciation and amortisation | 220.0 | 248.8 | 252.4 | 256.5 | 287.8 |
| Net losses (gains) | 29.3 | 8.0 | 8.0 | 8.0 | 8.0 |
| Income tax | 38.1 | 43.2 | 44.2 | 49.0 | 53.4 |
| NET EXPENDITURE (INCOME) | 34.6 | 27.1 | 34.3 | 27.1 | 42.2 |

* The revised budget in the financial tables represents the LTP budget adjusted for approved changes.

Net direct expenditure by area

| Expenditure (\$million) | 2017/2018 Actual | 2018/19 Revised LTP | 2019/20 Annual Plan | 2020/21 Revised LTP | 2021/22 Revised LTP |
|--|---------------------|---------------------------|------------------------|------------------------|------------------------|
| Net direct expenditure (income) | (304.7) | (316.4) | (333.8) | (350.4) | (371.1) |
| Wastewater Service | (217.8) | (229.1) | (242.5) | (255.1) | (270.9) |
| Water Supply | (86.9) | (87.3) | (91.3) | (95.3) | (100.2) |

Our commitment

Watercare supports the Council's drive for greater transparency in budgeting, operating expenditure and reporting and is committed to:

- Demonstrating value for money across all expenditure
- Continuing to work with Council to align its capital investment programme with Council's 10-year budget
- Benchmarking front-line and back-office expenditure, including regularly publishing results on Watercare's website
- Exploring alternative operating revenue streams wherever possible
- Keeping a strong focus on managing sensitive expenditure lines
- Communicating clearly and in plain English with all of our customers and stakeholders.

Watercare recognises challenges the Council faces in relation to funding and commits to continuing to work with Council in this regard. We also keep Council informed, via our quarterly reports, of any significant operational challenges we may happen to face in the future.

Watercare commits to optimise efficiency and value and remove unnecessary duplication. We will continue to work closely with Auckland Council staff on providing consistent and transparent financial and performance information.

We also commit to consider, where appropriate, different approaches to core systems and business processes, shared back-office delivery and alignment with the Council group's investment.

Capital expenditure

For detailed capital expenditure list, please refer to Appendix A.

| Expenditure (\$million) | 2017/2018 Actual | 2018/19 Revised LTP | 2019/20 Annual Plan | 2020/21 Revised LTP | 2021/22 Revised LTP |
|---|---------------------|---------------------------|------------------------|------------------------|------------------------|
| - to meet additional demand | 169.5 | 260.4 | 381.1 | 327.8 | 320.8 |
| - to improve the level of service | 34.1 | 55.7 | 76.3 | 69.1 | 71.1 |
| - to replace existing assets | 127.3 | 108.8 | 160.8 | 139.2 | 144.9 |
| Total capital expenditure excluding capitalised interest | 330.9 | 424.9 | 618.2 | 536.1 | 536.8 |
| Capitalised interest | - | 15.7 | 17.7 | 29.5 | 36.3 |
| Total capital expenditure including capitalised interest | 330.9 | 440.6 | 635.9 | 565.6 | 573.1 |
| Sources of capital funding | | | | | |
| Infrastructure growth charge | 89.1 | 95.8 | 101.1 | 103.2 | 107.6 |
| Debt | 5.5 | 102.9 | 285.3 | 197.5 | 180.7 |
| Asset sales | 13.7 | - | - | - | - |
| Operating surplus (Net direct income less finance expense) | 222.6 | 241.9 | 249.5 | 264.9 | 284.8 |

Specific expenditure towards Māori outcomes

| Initiatives (\$thousand) | 2017/2018 Actual | 2018/19 Revised LTP | 2019/20 Annual Plan | 2020/21 Revised LTP | 2021/22 Revised LTP |
|--------------------------------------|---------------------|---------------------------|------------------------|------------------------|------------------------|
| Iwi engagement on Watercare projects | 1,214 | 1,240 | 1,290 | 1,320 | 1,350 |

Other Financial Information

| | | | | | |
|--------------------------|--|---------------------------|------------------------|------------------------|------------------------|
| Current value of assets | The current value of Watercare's assets as 30 June 2018 was \$10.1 billion based on the net asset value of the Watercare group as disclosed in the audited financial statements. | | | | |
| Financial reporting | Watercare's financial reporting to Auckland Council will be in accordance with the requirements of the CCO Governance Manual. | | | | |
| | 2017/2018 Actual | 2018/19 Revised LTP | 2019/20 Annual Plan | 2020/21 Revised LTP | 2021/22 Revised LTP |
| Asset sales (\$million) | 13.7 | - | - | - | - |
| Shareholder equity ratio | 70% | 68% | 66% | 66% | 65% |

Appendix A

Detailed capital expenditure list

| Expenditure (\$million) | 2017/2018 Actual | 2018/19 Revised LTP* | 2019/20 Annual Plan | 2020/21 Revised LTP* | 2021/22 Revised LTP* |
|---|---------------------|----------------------------|------------------------|----------------------------|----------------------------|
| Capital Expenditure (excluding capitalised interest) | 330.9 | 424.9 | 618.3 | 536.1 | 536.9 |
| Wastewater | | | | | |
| Central Interceptor | 5.9 | 17.4 | 137.0 | 188.6 | 173.6 |
| Collection System | 63.9 | 70.6 | 37.9 | 36.2 | 19.3 |
| Northern Interceptor | 4.8 | 14.8 | 76.5 | 31.4 | 32.6 |
| Shared Services Plant & Equip | 6.4 | 7.6 | 7.1 | 3.0 | 4.3 |
| Shared Services Process Improvement | 10.8 | 16.9 | 14.5 | 3.7 | 4.0 |
| Southern Interceptor Augmentation | 3.3 | 3.9 | 3.0 | 6.3 | - |
| South-West Wastewater Servicing | 0.1 | 4.3 | 10.3 | 50.9 | 68.6 |
| Warkworth-Snells-Algies Wastewater Servicing | 6.4 | 8.1 | 77.9 | 44.7 | 26.9 |
| Wastewater ECS | 2.0 | 5.4 | 3.5 | 1.4 | 0.9 |
| Wastewater Treatment | 100.4 | 122.5 | 56.8 | 47.1 | 48.0 |
| Western Isthmus Programme | 0.1 | 2.0 | 19.2 | 17.5 | 34.5 |
| WWTP Regulatory Compliance | 2.2 | 0.4 | 1.7 | 1.4 | - |
| Capex efficiency | - | (15.6) | (20.3) | (21.6) | (20.6) |
| Water supply | | | | | |
| Dam Rehabilitation | 0.3 | 0.7 | 0.7 | 0.7 | 0.7 |
| Huia Water Treatment Plant Upgrades | 1.5 | - | - | 5.6 | 11.5 |
| Hūnua No. 4 Water Supply Scheme | 7.0 | 16.8 | 45.8 | - | - |
| North Harbour 2 Watermain | 3.5 | 12.6 | 10.4 | 20.3 | 20.4 |
| Shared Services Plant & Equip | 4.3 | 3.9 | 3.7 | 1.5 | 2.2 |
| Shared Services Process Improvement | 5.6 | 11.9 | 4.2 | 2.0 | 2.0 |
| Treated Water Network | 70.4 | 94.7 | 113.5 | 90.9 | 109.1 |
| Waikato WTP Augmentation | 5.9 | 2.1 | 10.8 | - | - |
| Water ECS | 0.7 | 1.0 | 0.9 | 0.9 | 1.4 |
| Water Source and Headworks | - | 0.5 | 2.2 | 4.6 | - |
| Water Sources Regulatory Compliance | 0.5 | 0.3 | 0.5 | 0.5 | - |
| Water Treatment Plant | 24.9 | 31.3 | 10.1 | 5.1 | 5.0 |
| Capex efficiency | - | (9.2) | (9.7) | (6.6) | (7.6) |

* The revised budget represents the LTP budget adjusted for approved changes.

Appendix B

Our legislative framework

Watercare is a limited liability company registered under the Companies Act 1993, and a local government organisation under the Local Government Act 2002. Watercare is subject to regulation governing planning, health and environmental matters.

We became a substantive Council-controlled organisation (CCO) on 1 July 2012.

The principal regulators include Auckland Council, Waikato Regional Council and the Ministry of Health. We provide these and other regulatory bodies with information on the impacts of existing policy and regulation on our activities. We also contribute and respond to the development of relevant statutory and regulatory changes affecting water, wastewater and the lifeline utility sector.

The legislative framework enabling and governing our operations as the provider of water and wastewater services in Auckland is found largely in six Acts and amendments:

- Local Government Act 2002
- Local Government (Tāmaki Makaurau Reorganisation) Act 2009
- Local Government (Auckland Council) Act 2009
- Local Government (Auckland Transitional Provisions) Act 2010
- Companies Act 1993
- Health Act 1956 and the Health (Drinking-Water) Amendment Act 2007

As a CCO, we have, in carrying out our activities and functions, principal objectives under Section 59 of the Local Government Act 2002, including to:

- Achieve the objectives of Auckland Council, both commercial and non-commercial, as specified in this Statement of Intent
- Be a good employer (as defined in clause 36 of Schedule 7 of the Local Government Act 2002)
- Exhibit a sense of social and environmental responsibility by having regard to the interests of the community in which we operate and by endeavouring to accommodate or encourage these interests when we are able to do so.

Our obligations to deliver water and wastewater services for Auckland are established under Part 5, Section 57(1), of the Local Government (Auckland Council) Act 2009, which stipulates that an Auckland water organisation:

- Must manage its operations efficiently with a view to keeping the overall costs of water supply and wastewater services to its customers (collectively) at the minimum levels, consistent with the effective conduct of its undertakings and the maintenance of the long-term integrity of its assets
- Must not pay any dividend or distribute any surplus in any way, directly or indirectly, to any owner or shareholder
- Is not required to comply with Section 68(b) of the Local Government Act 2002 (avoiding the requirement to pay a dividend)
- Must have regard for public safety (for example, the safety of children in urban areas) in relation to its structures.

















Also under the legislative framework:

- We must give effect to the relevant aspects of the Council's Long Term Plan, act consistently with other specified plans and strategies of the Council and ensure compliance at all times with Section 57, Section 58 of the Local Government (Auckland Council) Act 2009
- At least two board meetings a year are required to be held in public one before 30 June to consider the Council's comments on the draft Statement of Intent (SOI) for the upcoming financial year, and one after 1 July to consider our performance under the SOI for the previous financial year. In practice, all of our board meetings are open to the members of the public (with our constitution and Section 7 of the Local Government Official Information and Meetings Act 1987 permitting certain private matters to be dealt with in private).
- Our financial statements, the SOI and specified long-term plans must be audited by the Auditor-General, or by an auditor acting on behalf of the Auditor-General.

The Auditor-General is the auditor of Watercare's financial statements. The Auditor-General has appointed Andrew Burgess, using the staff and resources of Deloitte, to undertake the external audit work on behalf of the Auditor-General, in accordance with the Auditor-General's Audit Standards, which incorporate New Zealand Auditing Standards. Deloitte must satisfy the independence requirements of the Auditor-General and External Reporting Board.

Appendix C

Our performance measures (* Non-Long Term Plan measures)

| Link to Watercare's integrated capitals | Measure | 2017/18 Actual | 2018/19 Target | 2019/20 | 2020/21 | 2021/22 |
|---|---|------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
|  | The extent to which Watercare's drinking water supply complies with Part 4 of the Drinking Water Standards New Zealand (bacteria compliance criteria) | 100% | 100% | 100% | 100% | 100% |
|  | The extent to which Watercare's drinking water supply complies with Part 5 of the Drinking Water Standards New Zealand (protozoal compliance criteria) | 100% | 100% | 100% | 100% | 100% |
|  | Median response time for attendance for urgent call-outs: from the time that Watercare receives notification to the time that service personnel reach the site | 54 mins | ≤60 mins | ≤60 mins | ≤60 mins | ≤60 mins |
|  | Median response time for resolution of urgent call-outs: from the time that Watercare receives notification to the time that service personnel confirm resolution of the fault or interruption | 3 hours | ≤5 hours | ≤5 hours | ≤5 hours | ≤5 hours |
|  | Median response time for attendance for non-urgent call-outs: from the time that Watercare receives notification to the time that service personnel reach the site | 3 day | ≤5 days | ≤5 days | ≤5 days | ≤5 days |
|  | Median response time for resolution of non-urgent call-outs: from the time that Watercare receives notification to the time that service personnel confirm resolution of the fault or interruption | 3 days | ≤6 days | ≤6 days | ≤6 days | ≤6 days |
|  | The total number of complaints received by Watercare about any of the following: a) drinking water clarity b) drinking water taste c) drinking water odour d) drinking water pressure or flow e) continuity of supply f) Watercare's response to any of these issues expressed per 1000 connections to the local authority's networked reticulation system | 4 | ≤10 | ≤10 | ≤10 | ≤10 |
|  | Net promoter score – strive to achieve a score ≥33 (12-month rolling average)* | N/A | 30 | 33 | 36 | 36 |
|  | The number of dry-weather overflows from Watercare's sewerage system, expressed per 1000 sewerage connections to that sewerage system | 0.3 | ≤10 | ≤5 | ≤5 | ≤5 |
|  | Attendance at sewerage overflows resulting from blockages or other faults: median response time for attendance – from the time that Watercare receives notification to the time that service personnel reach the site | 48 mins | ≤60 mins | ≤60 mins | ≤60 mins | ≤60 mins |
|  | Attendance at sewerage overflows resulting from blockages or other faults: median response time for resolution – from the time that Watercare receives notification to the time that service personnel confirm resolution of the blockage or other fault | 3 hours | ≤5 hours | ≤5 hours | ≤5 hours | ≤5 hours |
|  | The total number of complaints received by Watercare about any of the following: a) sewerage odour b) sewerage system faults c) sewerage system blockages d) Watercare's response to issues with its sewerage system expressed per 1000 connections to the Watercare's sewerage system | 19 | ≤50 | ≤50 | ≤50 | ≤50 |
|  | Average number of wet-weather overflows per engineered overflow point per discharge location in the transmission system (12-month rolling average)* | 1.7 | ≤2 overflows per year | ≤2 overflows per year | ≤2 overflows per year | ≤2 overflows per year |
|  | Compliance with the Watercare's resource consents for discharge from its sewerage system measured by the number of: a) abatement notices b) infringement notices c) enforcement orders d) convictions received by Watercare in relation to those resource consents | a) 0 b) 0 c) 0 d) 0 | a) ≤2 b) ≤2 c) ≤2 d) 0 | a) ≤2 b) ≤2 c) ≤2 d) 0 | a) ≤2 b) ≤2 c) ≤2 d) 0 | a) ≤2 b) ≤2 c) ≤2 d) 0 |
|  | The percentage of real water loss from Watercare's networked reticulation system (12-month rolling average) | 13.1% | ≤13% | ≤13% | ≤13% | ≤13% |
|  | The average consumption of drinking water per day per resident within the territorial authority district (12-month rolling average) | 278 | 266 +/- 2.5% | 264 +/- 2.5% | 262 +/- 2.5% | 260 +/- 2.5% |

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