BECOMING FUTURE FIT

ANNUAL REPORT 2019

Watercare
An Auckland Council Organisation

ABOUT THIS REPORT

This report presents an integrated view of Watercare's social, environmental and financial performance for the financial year ended 30 June 2019.

Following the principles of integrated reporting, the report describes how we create value through our business activities, focusing on what matters most to our many stakeholders and our business.

It covers our performance and our plans to keep creating the right sort of value for Aucklanders at a time of rapid population growth, climate change and our continuing mandate to be a minimum-cost, efficient service provider.

This report is also prepared in accordance with the Global Reporting Initiative (GRI) framework. The GRI is an internationally-recognised framework which encourages transparent reporting on performance and includes an established set of disclosures and performance indicators. This year, the GRI report has been prepared in accordance with the GRI Standards core option. An index of the indicators that we have reported against is included on page 109 of this report.

REPORTING SCOPE

This report covers all operations managed by Watercare. The majority of our operations and people are located in Auckland, New Zealand. We also operate two small laboratories in Queenstown and Invercargill (six staff members).

As a minimum-cost, cost-efficient service provider solely responsible for the supply of water and treatment of wastewater for Auckland, traditional reporting criteria such as competitive advantage, sources of differentiation and market positioning are not fully applicable to Watercare.

Throughout this report, we have listed the sources of information used to compile the performance indicators and any significant assumptions or estimates applied. We have made an effort to report three years of data in order to highlight trends and changes in performance.

ABOUT WATERCARE

Watercare is a lifeline utility providing water and wastewater services to 1.7 million people in Auckland. Our services are vital for life, keep people safe and help communities to flourish.

We supply reliable, high-quality drinking water to homes and businesses in the Auckland region and collect, treat and manage their wastewater in environmentally responsible ways.

We manage water and wastewater assets worth more than $10 billion and plan and build infrastructure to ensure we support growth today and into the future.

We are a council-controlled organisation (CCO), fully owned by Auckland Council. Our services and programmes are funded through user charges and borrowings. We are required by law to be a minimum-cost, cost-efficient service provider and we do not pay a dividend to our shareholder.

AUCKLAND IS GOING THROUGH SIGNIFICANT CHANGE.

We are New Zealand's largest water utility, serving more than one-third of the country and effectively managing assets worth more than $10 billion. We've got work to do and are focused. We are thinking, planning and working for today's Auckland as well as tomorrow's New Zealand. Over the next three years, we will leverage our industry expertise, demonstrate our leadership in sustainable development and continue to transform our capacity and capability to become a more agile business.

WE ARE BECOMING FUTURE FIT


Watercare
Ph: (09) 442 2222

Across our business, we're working for what Auckland needs today and for the future. As the city continues to grow we plan, work and act to be ahead of the game.

BECOMING

P.20 PEOPLE AND CULTURE

- Embedding a proactive health, safety and wellness culture
- Improving productivity by empowering our people with the right tools and technology
- Developing our skills and talent to enable an engaged workforce

P.12 NATURAL ENVIRONMENT

- Securing and protecting our water sources
- Mitigating the challenges of climate change
- Resource efficiency (including water) and waste minimisation

P.40 FINANCIAL CAPITAL AND RESOURCES

- Wise use of finances
- Ensuring intergenerational equity
- Investing for the future
- Exploring additional revenue opportunities

FUTURE FIT

Putting our customers at the centre of our world

Responsible corporate citizens

Creating value for Auckland and NZ

P.26

CUSTOMER AND STAKEHOLDER RELATIONSHIPS

P.32

ASSETS AND INFRASTRUCTURE

Planning and building for population growth

Digital transformation for process automation, predictive systems, and proactive management

Construction delivery model for better, sustainable infrastructure

P.36

INTELLECTUAL CAPITAL

Embracing change to become a digital utility of the future

Doing more with less through better processes and tools

OUR VALUE CREATION MODEL

Our vision

Trusted by our communities for exceptional performance every day.

Better tomorrow than we are today.

Our mission

Reliable, safe and efficient water and wastewater services.

OUR INPUTS

NATURAL ENVIRONMENT

Our water sources, ecosystem health and discharge points for treated wastewater

PEOPLE AND CULTURE

The competencies, capabilities and experience of our employees

CUSTOMER AND STAKEHOLDER RELATIONSHIPS

Our relationships with customers, communities, iwi, owner, regulators, government, unions, suppliers and advisors who are essential to maintaining our social licence to operate

ASSETS AND INFRASTRUCTURE

Our dams, plants, pump stations, third-party infrastructure (e.g. roading, energy) that are critical to the delivery of our services

INTELLECTUAL CAPITAL

Our technology, processes, systems, datasets, documented practice and procedures

FINANCIAL CAPITAL AND RESOURCES

Our equity, debt and cash flow provided by banks, shareholder, operations and investments

OUR ACTIVITIES

EXTRACT raw water

TREAT raw water

DISTRIBUTE Aa-grade water

COLLECT wastewater

TREAT wastewater

RETURN water safely to the environment

SUPPORTED BY

ACTIVE GOVERNANCE

RISK MANAGEMENT

THE VALUE WE CREATE

Protected and enhanced natural environment

Leading-edge resource efficiency, including water

Safe, engaged and empowered team

Customer trust and value

Industry talent and skills developed

Engaged communities and stakeholders

Health and well-being

Public health

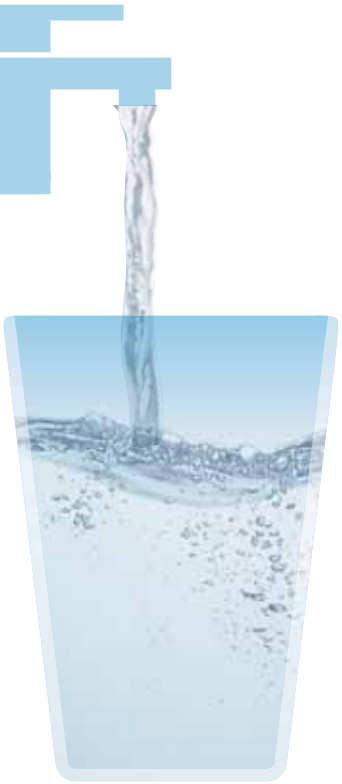
Thriving communities

Future-proofed growth and supply assurance

High-performing infrastructure

Industry-leading thinking and processes

Minimum-cost, efficient, financially-stable provider



HIGHS

Supplied safe and reliable

Aa-grade

drinking water

exceeding required Drinking Water Standards for New Zealand's criteria for water quality and supply infrastructure

0.9%

of monthly income
was spent on water bills by an average Auckland household

Two

online systems
introduced for staff learning and career development

86,500

trees planted
in the Hūnua Ranges

8GWh

energy savings achieved
through process optimisation

Established a diversity and inclusion committee

Launched our climate change strategy

Delivered a new and improved system for procurement, finance and project management

$447m

invested in infrastructure

Increased digital interactions by

19%

with customers

$176.4m

Operating surplus

▲ 45% from 2017/18

$25.3m

savings achieved
on capital expenditure and operating expenditure

LOWS

943

transactional customer complaints received

▲ 11% over 2018/19

98% of these complaints were resolved within 10 days

▼25%

less rainfall in catchments

due to extended dry weather

Digester performance issues led to odour complaints at Māngere Wastewater Treatment Plant

▲4.1%

increase in operating expenses

in 2018/19 compared to 2017/18

6.5

Lost-Time Injury Frequency Rate (LTIFR)

per million hours worked

▲ 85% over 2018/19

5 additional injuries, 3 of which were low severity

EMBRACING CHANGE

As a company, we work hard to gain and sustain the trust of the communities we serve. We do this in numerous ways – by delivering safe and reliable water and wastewater services every day and by engaging with our communities on the things that matter to them.

Delivering things that matter in ways that show we care

We are proud of the work we have done to serve our communities over the past 12 months. We have provided 138 billion litres of Aa-grade water and treated 167 billion litres of wastewater; and we have invested $447 million in upgrading and expanding our infrastructure to become future fit.

For the Warkworth community, our investment this year means they now have a secure water source and treatment plant which will support population growth and withstand extended dry periods. On the Hibiscus Coast, the upgrade of the Army Bay Wastewater Treatment Plant means the surrounding area can continue to grow and flourish without adversely affecting the health of the environment.

When carrying out infrastructure projects in our communities, we are always conscious of the impact we have on the well-being of residents, businesses and commuters. Therefore, we try to minimise the effects of construction. For example, we are using a tunnel boring machine (TBM) to install the final three sections of the Hūnua 4 Watermain because these sections run under some of the busiest roads in Auckland. Open-trenching was technically possible but we believed it was not acceptable given the significant disruption it would cause to motorists and businesses. With our TBM, this year we were able to complete the first of the three sections ahead of schedule and with minimal external effects. This major watermain – which is up to 1.9 metres in diameter – provides for population growth across Auckland and improves the resiliency of our wider water network.

Building trust through openness and transparency

To gain the trust of our communities, we have to be open and transparent in terms of the challenges we face. Earlier this year, our Māngere Wastewater Treatment Plant began emitting odours that affected the local community. These odours were caused by our digesters due to a temporary bacterial imbalance. Initially, we did not appreciate the effect this malfunction was having on local residents as we focused on our operational response. This soon changed. We began providing updates via our local stakeholder networks, mainstream and social media, and on our website. We also undertook daily odour monitoring beyond the plant's boundary to ensure we had a clear understanding of what the residents were experiencing.

Another challenge this year has been the weather. While Auckland enjoyed regular rainfall over the first six months of this financial year, the 1 January to 30 June period was the driest on record. The lack of rainfall has had an impact on our total water storage which was 59.2% at the end of June compared to a historic average of 84.2% for that time of year. In response, we have been maximising our production from the Waikato River and Onehunga aquifer sources to reduce demand on our water storage dams. From July 2019, we have also been asking Aucklanders to be mindful of their water use in case the dry weather continues.

As we address this water storage challenge over the 2019/20 financial year, we will continue to engage with our communities using a variety of channels, including social media and partnerships. In October 2018, we launched our new-look Facebook page where we share our milestones, daily operations and challenges with a broad Auckland-based audience. In January 2019, we signed a partnership agreement with Plunket to educate families about what they can flush down the toilet. Over the first two quarters of 2019/20, our partnership with Plunket will focus on providing information on reducing water usage.

Becoming future fit by responding to changing environments

For Watercare to become future fit, we need to respond to the changing environment and harness the power of digital technology. In July 2018, Watercare was one of around 60 companies that launched the Climate Change Coalition which aims to promote business leadership and collective action on the issue of climate change. Since then, we have launched our company's Climate Change Strategy which has two broad focuses: mitigation and adaptation. These are about becoming a low-carbon organisation and ensuring our infrastructure can cope with climate change. Partnerships with the Water Association of Australia (WSAA) and frameworks such as the 17 United Nations Sustainable Development Goals are important tools to support us as we become future fit.

Embracing renewable energy is one of the initiatives highlighted in our Climate Change Strategy. In May 2019, we opened our first solar array at our Pukekohe Wastewater Treatment Plant. Its 400 solar panels can generate about 170 megawatt hours of energy per year. A further three solar array installations will be commissioned over the next financial year.

Other mitigation initiatives include increasing our fleet of electric vehicles and carrying out a major tree planting programme in the Hūnua Ranges. The full-scale planting

project began in July 2018 with 86,500 trees planted that season. We expect to plant at least 300,000 trees more in 2019/20 which is a pleasing achievement. By 2048, we should have planted over three million trees.

These initiatives will help us to realise two of our long-term targets, which are to reduce greenhouse gas emissions by 45% by 2030 and to reduce our carbon emissions to NetZero by 2050.

Our Strategic Transformation Programme – which is focusing on delivering widespread business process improvements – entered its delivery phase this year. We rolled out new systems that will streamline how we manage assets, procurement, finance and projects. This coming financial year, we will introduce a new customer and billing system.

Ambitious targets are challenging us to be better tomorrow than we are today

This year, we announced an ambitious target called 40:20:20. It challenges our business to reduce carbon in construction by 40% by 2024; to reduce the cost to deliver our infrastructure programme by 20% by 2024; and to improve health, safety and wellness by 20% year on year.

We understand that to achieve 40:20:20 we have to change the way we do business and enhance our productivity. Traditionally, we have delivered infrastructure on a project-by-project basis.

This year, we have been developing a programme-delivery framework called the Enterprise Model that relates to our mid-sized projects.

It involves us working with two construction partners over a 10-year period on a $2.5 billion programme of work. By doing so, we will realise the benefits of early contractor engagement: enabling us to co-develop low-carbon designs and construction methods; secure and retain the best talent; and achieve greater productivity and efficiency. We plan to sign contracts with these construction partners in the first quarter of the 2020 financial year.

Leaving a legacy with the Central Interceptor

In March 2019, we signed a construction contract with Ghella-Abergeldie Joint Venture for the delivery of the Central Interceptor. This $1.2 billion project promises to leave a legacy for wider Auckland, local communities and our industry.

Running from Western Springs to the Māngere Wastewater Treatment Plant, this large wastewater pipe provides for growth and will also deliver cleaner waterways and beaches by significantly reducing the volume of overflows in central Auckland.

While the pipe is being built over a five-year period, we will develop close relationships with the communities along its 13-kilometre route. We will share our progress and involve them in the development of our enhancement plans, ensuring their areas are better off as a result of our project. For example, we plan to rehabilitate the Norwood Reserve in Mt Albert to become an ecologically-significant rock forest.

Fostering talent in Tāmaki Makaurau

Given the limited human resource within the industry, it is essential our business grows talent. We are doing this by working with industry partners and tertiary education providers to deliver graduate programmes as well as apprenticeship and internship opportunities.

This year, we piloted two digital solutions for career development and individual learning. These tools encourage our staff to set personal career goals and work systematically towards achieving them. From a hands-on training perspective, we were proud to open a maintenance training facility at Māngere in October 2018. It has a replica of a suburban street, enabling our new recruits to master core skills in a realistic and safe environment.

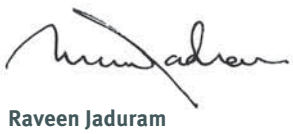
We have been encouraging our employees to increase their understanding of tikanga Māori as well as their ability to speak te reo by running the intensive 'Te Kunenga o te Ao Tikanga' course offered by Te Wānanga o Aotearoa. In this course, our people learn about the tikanga values that underpin everything that is Māori, including: whanaungatanga (our relationships with others); manaakitanga (taking care of the people around you); rangatiratanga (leadership); kaitiakitanga (guardianship of the land, water, sky); and mātauranga (sharing of knowledge). We believe that by participating in this course, our teams will have greater understanding of mana whenua and be better placed to serve the diverse people of Tāmaki Makaurau.

This year's staff survey delivered pleasing results. Our overall engagement score remained stable at 67, with the results suggesting that staff are confident in Watercare's leadership and believe our company cares about the environment. Many staff reported greater collaboration and team work this year and 76% said they enjoy working for Watercare.

The survey also identified areas for improvement: a more consistent and transparent remuneration framework; better management of change; and better alignment of objectives and performance across departments. We have recruited a remuneration specialist who will help us to, over the coming year, develop a remuneration framework that is both fair and competitive.

We would like to thank our people, management and the board for their contribution during the year. It has been a positive, exciting and challenging time which has positioned the company well for the future. We are looking forward to the next stages of the Watercare journey.

Margaret Devlin
Chair



Raveen Jaduram
Chief Executive

Watercare team work with the local community to rehabilitate a section of the Watercare Coastal Walkway in Māngere.

NATURAL ENVIRONMENT

Value –
Protected and enhanced natural environment and leading-edge resource efficiency

As a lifeline utility that provides water and wastewater services to about one-third of New Zealand's population, our business is intrinsically connected to the natural environment.

Every aspect of our operations is dependent on and impacts the natural environment so we have a responsibility to protect and enhance it.

In the past year, we have made significant strides in creating value within our natural environment and moving forward in our resource recovery journey.

We began the first year of our vegetation project in the Hūnua Ranges, planting more than 86,500 native trees and shrubs in the catchment surrounding some of our most important water sources. This came about with the purchase of forestry rights to a 1,900-hectare commercial pine forest in the ranges. We have worked with Auckland Council to amend that forestry right so that commercial forestry operations will end decades earlier than they otherwise would have. This means no more pines will be planted on the land, and the site will be progressively regenerated with native trees and plants over the next 30 years.

By regenerating the land with native trees, we will significantly reduce the slips in our catchment area. This will protect the water quality of the supply lakes and, ultimately, Auckland's water sources for decades to come.

In the same vein of protecting our water sources, we commissioned a new water treatment plant for Warkworth, with water supplied from a secure underground aquifer, instead of the at-risk Mahurangi River.

The new plant is a substantial investment and will double capacity and cater for growth in this fast-growing region. The supply is more sustainable as the bore provides a guaranteed supply, unlike the river, which ran low in previous years.

On the wastewater side, we commissioned the first set of 'containerised plants' to service local communities in Warkworth, Owhanake and Clarks Beach while the existing facilities are going through significant upgrades, due to be completed in a few years' time. The containerised plants use the sophisticated membrane bioreactor technology (MBR) to treat wastewater and are a sustainable solution since they can be disconnected and moved to another location when we are finished.

Using resources effectively and reducing our environmental footprint is a continued focus for us and innovation plays a key role in realising this objective. We undertook several technology trials at our Māngere Wastewater Treatment Plant. These included a mini reactor growing anammox bacteria that can be used in our biological treatment process to reduce the use of oxygen and carbon, and short cutting nitrogen removal in the aeration process and thereby reducing the energy

86,500 Native trees and shrubs planted in the Hūnua ranges

required. We achieved the targets we set for phase 1 of our energy efficiency and neutrality programme – saving 8GWh of energy through various process improvements across our treatment processes.

We are on a similar journey at our Rosedale Wastewater Treatment Plant where we are building a thermal hydrolysis facility that will be completed in 2022. This will allow us to sterilise the biosolids from the treatment process and create fertiliser that can be used for beneficial purposes.

We installed our first solar array at the Pukekohe Wastewater Treatment Plant. The 122kW ground-mounted array consists of 400 solar panels and is the first renewable energy project of its kind to be completed by Watercare. The panels help power a pump station, which sends wastewater piped from surrounding districts to the treatment plant, located approximately one kilometre away. The panels can generate about 170 megawatt hours of electricity per year, saving up to $20,000 annually.

Two further solar facilities have been installed at Wellsford Wastewater Treatment Plant and Redoubt Road Reservoir, Manukau. The Redoubt Road Reservoir will also feature a Tesla battery pack, so that the solar energy generated can be stored for use at night-time, and is expected to see a 75% reduction in grid use.

Weather patterns are a big variable in the consistent delivery of our services. A change in the load on our digesters at Māngere Wastewater Treatment Plant in the summer months caused an odour issue in the surrounding areas. Our team investigated and implemented controls to address the issue and we kept our customers and the community informed of the situation. We plan to add diagnostic meters to our digesters to alert us to load changes in the future.

We are also encouraging Aucklanders to use water wisely this year in case the dry weather that is affecting much of New Zealand continues.

The Hūnua and Waitākere ranges – where Watercare has nine water storage dams – received 34% and 44% less rainfall than normal respectively for the January to June period. As a consequence, the city's total water storage was 59.2% at the end of June 2019, which was 25% less than normal for that time of year.

The prolonged dry weather is also having an impact on demand. Some of Auckland's fringe suburbs as well as rural areas to the north have houses with rain tanks rather than municipal supply. These residents rely on water tanker operators to fill their tanks when they run dry and as a result, demand from water tanker filling stations has risen sharply.

We are closely monitoring the dry weather situation and we are carefully balancing our water sources by maximising production from our river and aquifer sources to reduce demand on our dams. We are considering the best options for meeting future demand as well as the best timing for any additional water sources.

CASE STUDY

Saving energy today for resilience tomorrow

Our aim is to achieve energy neutrality at our Rosedale and Māngere wastewater treatment plants, which are large energy users, by the end of 2025. This is a part of our large-scale climate change mitigation programme and will enable our operations at these plants to be self-sufficient.

Phase 1 of our energy programme was to achieve 8GWh of energy savings across Watercare by the end of 2018. We did this successfully by bringing together our people and their knowledge: a cross-functional team of process specialists, on-site engineers and the teams on the ground who believed in our mission, utilised their varied expertise and skill sets, identified opportunities and reported on progress.

Our approach was to optimise our processes to use less energy by improving the control strategies and replacing end-of-life equipment with more energy-efficient alternatives. We also installed solar and battery technology at three sites and identified opportunities at treatment plants and pump stations that consumed the most energy and were most likely to realise large cost and energy savings.

8GWh power consumption of 960 Kiwi households per year

Water supply

	2018/19	2017/18	2016/17
Water supply dams (number of operational sources over the year)	12*	12	12
River sources (number of operational sources over the year)	3	3	3
Groundwater sources (number of operational sources over the year)	13	12	12
'A'-grade water treatment plants	15	15	15
Other water treatment plants	1**	Nil	Nil
Length of treated watermains (km)	9,349	9,187	9,096
Service reservoirs	85	85	89
Pump stations	94	93	93
Annual volume produced (ex plant m^3)	159,557,593	153,784,185	149,488,237
Annual volume sold (m^3)	128,610,171	127,548,898	123,291,865

* Though Watercare maintains Hays Creek, we do not draw any water from it and treat it as out-of-service.

** Warkworth Water Treatment Plant was commissioned in December 2018 and has not yet been submitted for grading. We expect the plant to achieve an 'A' grade when we do submit it for assessment.

Volume of water by source

	2018/19		2017/18		2016/17	
	Volume (m^3)	%	Volume (m^3)	%	Volume (m^3)	%
Waitākere Dam	3,517,824	2%	3,839,835	2%	3,481,154	2%
Upper Huia Dam	4,684,808	3%	8,102,899	5%	5,895,649	4%
Upper Nihotupu Dam	5,299,609	3%	8,272,721	5%	7,278,570	5%
Lower Huia Dam	10,182,607	6%	6,611,783	4%	8,617,074	6%
Lower Nihotupu Dam	6,035,042	4%	1,329,914	1%	3,333,443	2%
Cosseys Dam	16,665,256	10%	12,388,820	8%	12,397,456	8%
Upper Mangatawhiri Dam	24,687,408	16%	29,291,746	19%	22,832,396	15%
Wairoa Dam	12,722,452	8%	12,265,389	8%	12,774,149	8%
Mangatangi Dam	41,817,529	26%	45,572,241	29%	46,103,369	31%
Waikato River	26,460,059	17%	20,210,713	13%	20,973,406	14%
Onehunga Aquifer	5,147,992	3%	4,326,071	3%	4,511,210	3%
Rural North	1,727,329	1%	1,539,685	1%	1,774,126	1%
Rural South	928,023	1%	942,431	1%	896,396	1%
Total	159,875,938	100%	154,694,248	100%	150,868,397	100%

Conservation activities

Watercare's activities involve interaction with diverse flora and fauna. We work hard to minimise the impact of our activities and, where possible, to enhance the environment. We allocate significant resources to minimising the effects our dams have on the surrounding freshwater ecologies. This includes simulating flood flows downstream from the dams and implementing a native fisheries trap-and-haul programme, where migrating fish and eels are transferred around the dams.

Name of site	Ecological attribute	Conservation activities carried out in 2018/19
Southern regional wastewater plants	–	Continued pest control (rabbits, possums, rats) at all southern wastewater treatment plants.
Hūnua Ranges and Waitākere Ranges fish trap-and-haul programme	–	Trap-and-haul programme for the upstream migration of native juvenile eels and whitebait species and downstream migration of adult migrating eels. All trap and haul programmes are operated during the respective migrating season. Trap and haul at Mangatangi Weir operated for the transfer of native torrentfish. This is the first trap in New Zealand used for this purpose. This will continue in 2020.
Northern regional wastewater plants	Native bush and wildlife habitat	Continued vegetation and noxious/pest weed control on Watercare-owned land at Army Bay, Waimauku, Helensville, Omaha, Snells/Algies, Waiwera, Warkworth and Wellsford wastewater treatment plants.
Northern regional wastewater plants	Native vegetation	We continue to actively undertake pest control (vermin) at all the Northern regional wastewater treatment plants.
Omaha Wastewater Treatment Plant	–	Approximately 10 hectares of native planting is irrigated by treated wastewater at the Omaha Wastewater Treatment Plant grounds and is flourishing.
Omaha Wastewater Treatment Plant – Treated effluent storage pond	Native vegetation	Pāteke (Brown Teal) native to New Zealand continue to seasonally swim in the storage pond. These are the rarest waterfowl on the mainland and hence are an important ecological attribute to the area.
Māngere Wastewater Treatment Plant	Habitat for fauna	We have continued to undertake extensive vegetation management and noxious weed removal on Watercare land. Significant effort was put into removing moth plant from the foreshore areas this year.
Bird roosts	Foreshore of Manukau Harbour, internationally-renowned for migratory birds	The artificial bird roosts have remained stable with minimal erosion over the past year. The Manukau Harbour and the bird roosts have continued to support more than 20% of New Zealand's total wading bird population with many migratory species including Eastern Bar-tailed Godwits, Wrybills and Southern Pied Oyster-Catchers. The roosts have also seen increasing numbers of Royal Spoonbills over the cooler months. In addition, for the eight New Zealand Dotterel breeding pairs based at the artificial roosts, there were five fledged chicks, which is above the national average of 0.5 chicks per breeding pair.
Coastal Walkway	Habitat for fauna	In 2019, Watercare staff members successfully removed over 7,200 litres of rubbish from the Watercare Coastal Walkway foreshore.
Foreshore and Coastal Walkway	Foreshore of Manukau Harbour, internationally renowned for migratory birds	Continued coordinated pest control activities with Auckland Council's Ambury Regional Park as a defence against invasive pests. The efforts included bait lines and alternate bait pulses, DOC200 traps, live traps, Pindone drops and shooting to reduce the number of pests impacting the bird roost and the Watercare Coastal Walkway. The ongoing assistance from volunteers for the trap lines and the general public in reporting changes in the foreshore has helped make the foreshore a better place.
Hūnua Ranges plantation forestry right purchase	Native bush	Planting of 86,500 native trees and shrubs, replacing land used for pine forestry. Part of an ongoing restoration project, with more planting forecast for 2019/20.
Waikato RiverCare	Riparian restoration	Riparian planting along the lower Waikato River to enhance river water quality.
Central Interceptor Project	Riparian restoration	More than 900 native seedlings planted on the banks of a tributary of the Waititoki-Meola Creek on Mt Albert Grammar School land.
Bombay Water Treatment Plant	Riparian restoration	Initial riparian planting along 800 metres of stream bank. One hundred plants established, with approximately 5,000 more to be planted.

Dams and other operational areas within Waitākere Ranges are covered by the Waitākere Ranges Area Heritage Act. The Auckland Unitary Plan also designates parts of our land as Significant Ecological areas. Some of our sites also have 'heritage protection status' e.g. Nihotupu Filter Station.

Climate change

In early 2019, we launched our first Climate Change Strategy. This sets out our future direction as we embark on a journey to operate a low-carbon company that is resilient to climate change impacts. The strategy covers specific actions that we will take immediately and establishes a pathway of monitoring and understanding between now and 2025. This is so that we can adapt to the changing climate based on evolving data and projections. The strategy also enacts Watercare's Climate Change Policy which communicates to staff and suppliers what is expected of them to contribute to our climate objectives each year.

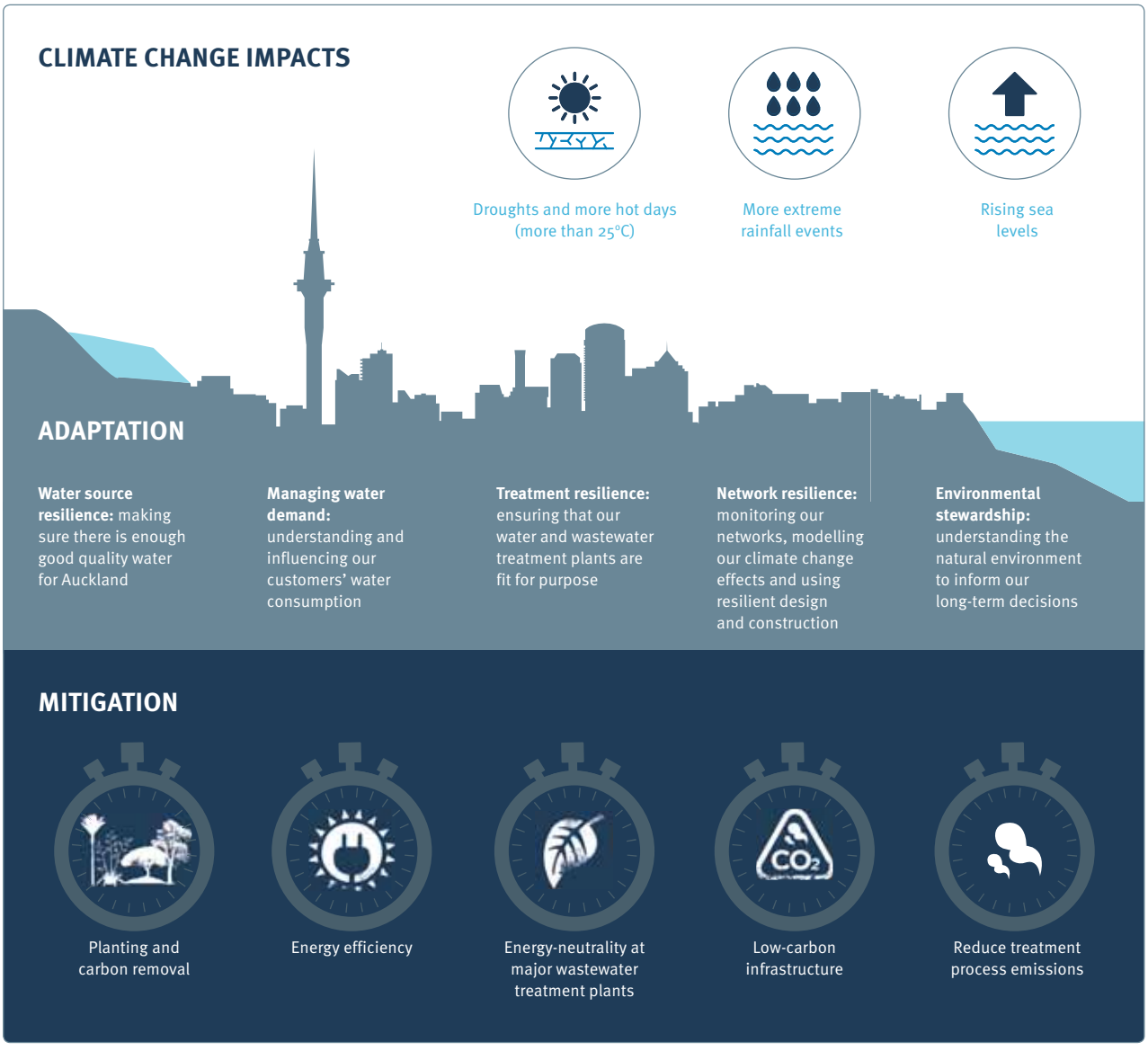
Climate change is one of the largest challenges that we face as an organisation. Its effects can include temperature increases, drought, increased frequency of severe storm events and rising sea levels. Every aspect of our operations is potentially impacted by these effects right from the planning and design of our infrastructure, to the way raw water is sourced and treated, or how wastewater is processed and discharged.

The strategy establishes two ambitious targets for emissions reductions from our operations which align with keeping the global temperature increase within 1.5 degrees Celsius.

- Net Zero emissions by 2050
- Reduce operational greenhouse gas emissions by 45% by the year 2030.

We realise that we cannot solve this challenge on our own and we will need to work with other organisations to achieve our goals and inform our thinking. To become future fit we will collaborate across the Auckland Council family, enable our employees to develop solutions and work together with suppliers and customers.

We have developed a work plan that consists of 14 portfolios across both adaptation and mitigation. Some of these and the direct impact of climate change on our operations are described below.



Greenhouse gas emissions

In the early 2000s, we significantly upgraded the Māngere Wastewater Treatment Plant. This enabled us to replace the open-air oxidation ponds and sludge lagoons with land-based treatment, enabling the capture of methane and nitrous oxide emissions and making biogas generation possible. This resulted in a long-term decrease in greenhouse gas emissions by approximately 80% compared to the 1990 baseline which is aligned with the Auckland Council Low Carbon Action Plan.

In 2013/14, we established an improved reporting framework which included a number of external emissions that should also be accounted for under our footprint (scope 3 emission sources). Since then we have decreased our emissions by 12%.

During the most recent reporting period a data issue was discovered in the reporting of biosolids in 2017 and 2018 as well as the volume of wastewater treated in 2018 when calculating our emissions. The biosolids had been recorded as wet tonnes instead of dry tonnes in 2017 and 2018. This has been resolved and as a result significantly reduced the emissions level from what was reported in those years.

Recalculated emission for 2016/17 – 36,711 tCO_2e (previously reported as 38,890 tCO_2e)

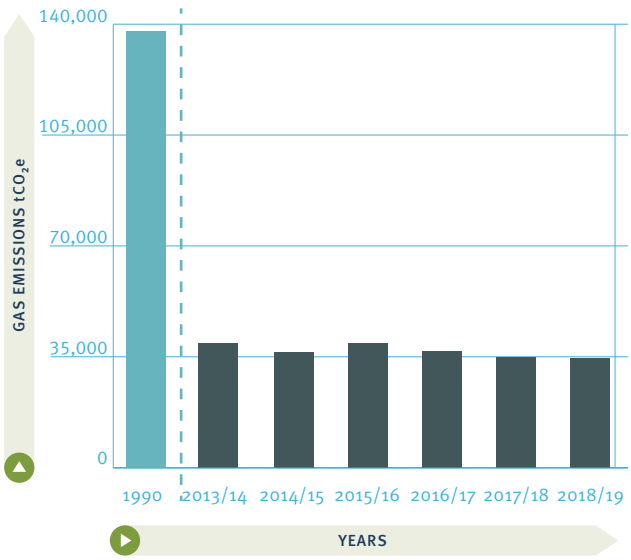
Recalculated emission for 2017/18 – 34,819 tCO_2e (previously reported as 36,404 tCO_2e)

Emissions for 2018/19 – 34,628 tCO_2e

There has been a slight reduction in emissions this year compared to last year. Our three major emission sources remain:

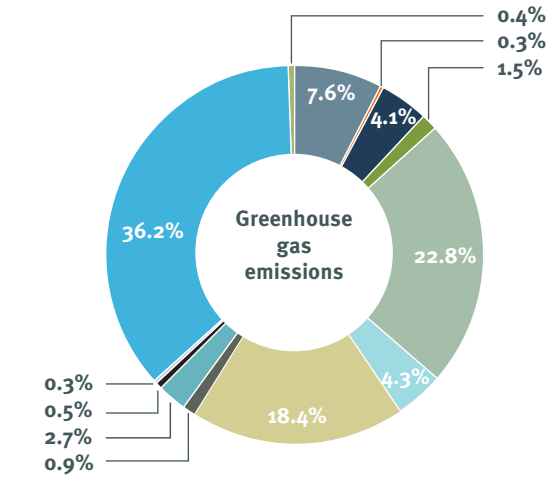
1) Electricity used in treatment plants and networks for both water and wastewater
2) Nitrous oxide and methane from wastewater
3) Consumption of lime used for water treatment and wastewater sludge treatment.

Greenhouse gas emissions since 1990 and over the last six years



We have a large energy improvement and energy neutrality programme underway that includes our foray into solar energy generation. We first introduced electric vehicles (EVs) in our fleet two years ago and have more EVs scheduled to arrive in late 2019.

As Auckland continues to grow and we supply to an increased population base, our emissions are projected to also grow in a linear fashion. Our challenge is to separate the two and reduce our emissions by 45% by 2030.



Natural gas use	7.6%	Transmission and distribution loss natural gas	0.9%
Biogas consumption	0.3%	Transmission and distribution loss electricity	2.7%
Fuel use in corporate vehicles	4.1%	Waste to landfill	0.5%
On-site fuel use	1.5%	Air travel	0.3%
Wastewater treatment	22.8%	Electricity use	36.2%
Fugitive emissions from network	4.3%	Other †	0.4%
Lime	18.4%		

† Refrigeration, private mileage and taxi use equal to 0.4%

Note 1 Watercare's carbon footprint has been calculated in accordance with the "Greenhouse Gas Protocol) (WRI, 2004), including all six Kyoto Greenhouse gases and the operational control method. Per protocol, it excludes biogenic CO_2 emissions from the burning of biogas which totalled 32,902.

Note 2 Emissions factors are sourced from Ministry for Environment 2015, 2019 and IPCC 2006. Wastewater emissions include additional industry calculations.

Reusing waste from treatment processes

We aim to reuse as much material as possible from our water and wastewater treatment plants. Watercare uses biosolids from the Māngere Wastewater Treatment Plant to rehabilitate Puketutu Island, which was formerly a quarry. We also maintain dedicated placement sites for solids removed during the water treatment process. In 2018/19, Watercare was able to reuse 76% of the solids from our water treatment process and 81% of the solids from our wastewater treatment process.

Operational waste from:	2018/19	2017/18	2016/17
Water treatment * (m^3)	12,472	12,494	13,277
Wastewater treatment ** (t)	137,976	138,885	142,195

* sludge
** biosolids, grits and screenings

Energy use and internal generation

Watercare co-generates electricity from biogas at both the Māngere and Rosedale wastewater treatment plants. As well as the financial and environmental benefits, co-generation also improves operational flexibility and resilience. Our water supply arm is an electricity supplier too, with turbines located in the four Hūnua dams generating hydroelectric power.

This year, we used 179,639MWh of electricity, an increase of 7.9% compared to 2017/18. We generated 26.7% of our total energy use internally, compared to 26.6% last year.

We have had significantly less rainfall this year, which has affected our total water storage. This means that we have pumped more water from the Waikato Treatment Plant which consumes more energy than gravity-fed supply from our lakes.

The energy improvement programme is well underway with a successful phase 1 where we achieved 8GWh of energy savings at the end of 2018. We have set a new 8GWh target for 2022. Feasibility work on energy neutrality projects is continuing and work is also underway to maximise Watercare's generation potential and reduce operational costs. These are likely to increase as a result of population growth, sustained use of the Waikato Water Treatment Plant and emerging demand pressures in the electricity supply market.

Work is also underway to deploy a 1MW solar array at Rosedale Wastewater Treatment Plant that will reduce grid consumption at the site by 900MWh per annum (23%).

Total energy consumption

	2018/19			
	Total	Unit	Total GJ	%
Grid electricity purchased	128,440.7	MWh	462,387	
Electricity – self generation renewable (solar, hydro, biogas)	46,364.2	MWh	166,911	
Electricity – self generation non-renewable (natural gas, diesel)	4,834.4	MWh	17,404	
Transport – petrol, premium, diesel	712,298.56	litres	27,001	
Transport – BOC Gas	864	kg	42	
Other – Natural gas	1618	GJ	1,618	
Total			675,363	
Renewable sources			566,413	84%
Non-renewable sources			108,950	16%

Internal generation

	2018/19	
	MWh	%
Electricity generated through water supply (hydro)	1,413	0.79%
Electricity generated through wastewater treatment (biogas) – Māngere	39,298	21.88%
Electricity generated through wastewater treatment (biogas) – Rosedale	7,196	4.01%
Electricity generated from solar	84	0.05%
Electricity generated from non-renewable sources	4,834.40	2.69%
Total internally sourced electricity	47,990	26.71%
Total purchased electricity	128,441	71.50%
Electricity exported to the grid (solar, hydro, biogas)	-1,625.90	- 0.91%
Total electricity consumed	179,639	

Liquid fuel use by corporate vehicles and standby generators at plants

	2018/19
	litres
Fuel card petrol (regular)	106,317.66
Fuel card petrol (premium)	5,832.50
Fuel card diesel	429,591.40
Mini-tankers diesel	170,557.00
Total liquid fuel consumption	712,298.56

The electricity and fuel use displayed here forms the total energy use by Watercare, excluding the energy involved in staff travel. Kilometres travelled by staff are reported in Watercare's greenhouse gas emissions table on page 17.

Metal content in biosolids at wastewater treatment plants

Biosolids from wastewater treatment plants can have a high metal content due to stormwater run-off from the streets and waste from industrial users. The table below displays the metal content of biosolids from the Māngere and Rosedale treatment plants, which produce most of Watercare's biosolids.

The metal content has continued to decrease this year to 2.36 tonnes from last year's 2.39 tonnes, as a result of effective controls and continued monitoring of industrial discharges by our trade waste team.

	2018/19		2017/18		2016/17	
Substance	Concentration (mg/kg)	Disposed weight (tonnes)	Concentration (mg/kg)	Disposed weight (tonnes)	Concentration (mg/kg)	Disposed weight (tonnes)
Arsenic	5.09	0.18	5.20	0.19	5.20	0.17
Cadmium	0.73	0.03	0.81	0.03	1.10	0.04
Chromium	43.35	1.55	41.19	1.49	52.76	1.70
Lead	16.24	0.58	18.52	0.67	19.81	0.64
Mercury	0.48	0.02	0.56	0.02	0.46	0.01
TOTAL	65.90	2.36	66.28	2.39	79.32	2.56

Resource consents

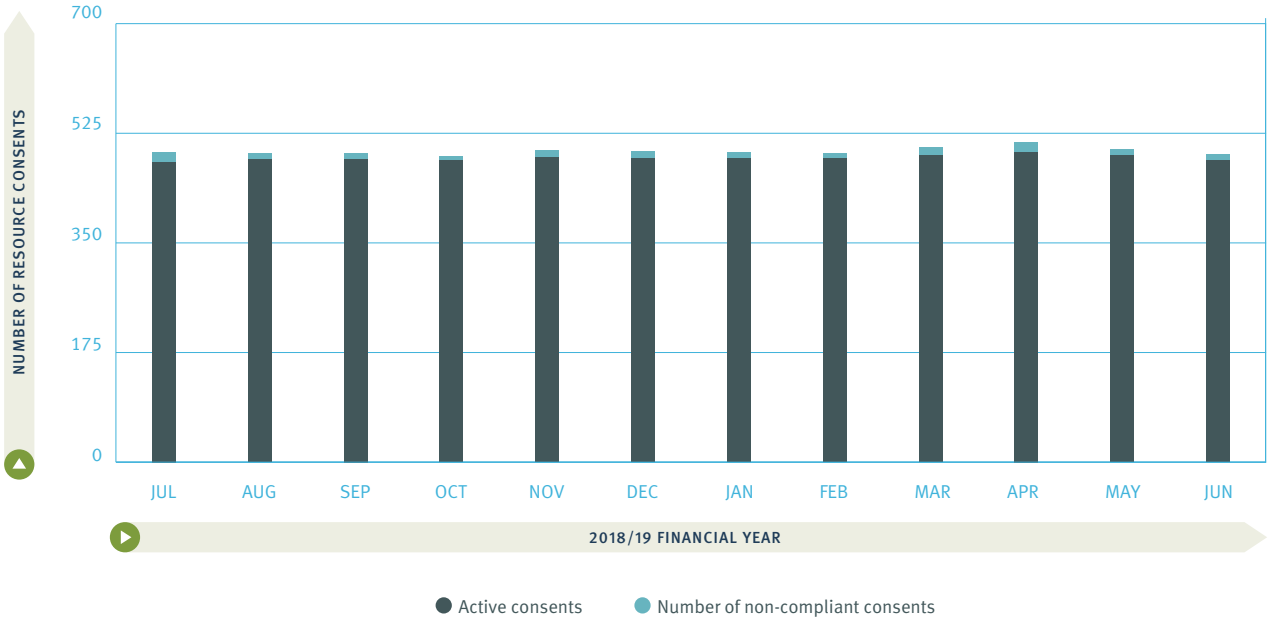
As at 30 June 2018, Watercare had 482 active consents across our network and treatment facilities, and averaged 484 active consents over the 2018/19 year. Our average rate of compliance with these consent conditions was 97.8%.

Our non-compliances are typically associated with treatment plants that are currently being upgraded or have upgrades planned. Where there have been repeat occurrences, we have plans in place for resolution – either through design, consenting, construction or commissioning.

Most of the non-compliances related to the smaller regional wastewater treatment plants. With the exception of the digester imbalance and subsequent odour issues around the Māngere Wastewater Treatment Plant, our major wastewater treatment plants (Rosedale and Māngere) were compliant for the year. The digester imbalance at Māngere resulted in more complaints than normal, but the frequency of complaints has reduced since the problem was resolved. We investigated all non-compliances, and are confident that we have not caused any long-term adverse effects on the environment.

We report all non-compliances to Auckland Council, and they took no formal enforcement actions during the year.

Resource consent conditions



PEOPLE AND CULTURE

Value –
Safe, engaged and empowered teams; customer trust and value

Watercare's core purpose, the Watercare 'Why', is to provide essential water and wastewater services, protect public health and help communities to flourish.

The way we fulfil this purpose, the 'how', is through the collective strength of our people – by utilising their collective knowledge and experience through collaboration.

The past year has been one of significant change and it has been rewarding to see our new organisational structure taking shape and the level of collaboration between teams and functions growing day by day.

The key drivers for the rearrangement of our teams was to enable more collaboration and sharing of information between functions, ultimately increasing our responsiveness to customers, and the empowerment of our people to take ownership of and solve problems.

This has manifested in different ways: our two main areas of service, water and wastewater, have come together, creating a single point of contact for a customer if something goes wrong.

Our operations and infrastructure delivery teams have been learning how each of them approach their work and achieve their goals, facilitating a better interface between two of our most important functions.

In the past year, our Strategic Transformation Programme introduced our people to the agile principles of working: teamwork, embracing change, delivering frequently and measuring progress. Since then, teams have been applying these principles on other projects beyond the digital space.

The 40:20:20 programme, for example, has seen people from infrastructure, operations, finance, sustainability, planning and design come together as a taskforce to identify a programme of initiatives to build better, more sustainable and cost-effective infrastructure for Auckland.

We piloted Surf and Immerse, two online solutions for career development and individual learning. These tools put our workforce's development in their hands, empowering them to work towards a goal that they have set, at their pace.

We also streamlined and automated some of our processes through MyPlace, an online knowledge base that provides information, resources and schedules workflows. This replaced the previous paper-based manual processes and freed up our people to focus on their core jobs.

One of the highlights of the year included the opening of our maintenance training facility at Māngere. The facility has been designed to closely replicate what our maintenance crew encounter when working in the street. It is complete with a live water reticulation network, mini wastewater network, a residential façade and typical streetscape.

17,000+ kilometres of pipes maintained by our field crew

Our in-house maintenance team and contractors are responsible for maintaining more than 17,000 kilometres of water and wastewater pipes in Auckland, fixing leaks, clearing blockages and cleaning up the mess.

It is work that is vital for the health of our communities, and sometimes, working in streets with traffic hazards and underground power services, can be risky. So, having a purpose-built training facility, where new recruits can master the core skills of the job without disrupting services to our customers, is a wonderful addition.

We are moving away from looking at health and safety purely from a numbers and incidents perspective to focusing on our people's overall well-being. The health and safety team has brought on board a dedicated wellness lead to develop a wellness programme and support our people with workshops, early intervention, recovery and resilience building.

We also established our first-ever diversity and inclusion committee at Watercare. This committee is an opportunity to bring to life the spirit of Watercare and provide representation to the many cultures and communities within our company. A diverse and inclusive workplace also helps us to serve a diverse Auckland effectively.

One of the challenges we face in the industry is the competition for talent. It is projected that there will be more than $50 billion invested in the infrastructure industry over the next 10 years. As we will be competing with the private sector for the same pool of talent, we need to ensure that we are a sought-after place to work while fulfilling our responsibilities as a minimum-cost service provider.

To achieve this, we need to build our brand as an employer and industry leader and partner with organisations that will enable us to grow our talent pool.

We are joining Fulton Hogan and GHD for Project New Grad. This three-year development programme gives civil engineering graduates the chance to work across the contractor, consultancy and local government industries, spending a year with each of the partners and building their experience with a variety of work.

We have also partnered with University of Auckland to build a work-ready pool of graduates by sharing with them scenarios from our business and focusing their efforts on solving these. Two of our executives participated in the university's 'Shadow the Leader' programme where the students were exposed to real-world issues faced by leaders today.

Our focus for the next year is to strengthen our position as a performance-oriented organisation. We want to transform from a technically excellent company celebrating individual capabilities to one that is known for having high-performing teams that work together to take ownership and exceed expectations.

CASE STUDY

Embedding a culture of continuous learning

Globally, the changing nature of our work means the way we perform this work has evolved too. Technical and technological abilities are a critical component of any job today.

At Watercare, our workforce is a mix of office-based and field-based staff and their learning needs vary from person to person. But one theme remains constant: our teams want to take charge of their own learning and development and future-proof their skills.

To enable this, we launched two online tools at the end of the 2018/19 financial year – Immerse and Surf.

Immerse offers our people access to a wide range of learning and training opportunities online. Included is access to a learning suite with a range of courses that staff can explore and work through at their own pace.

Our learning and development team is adding more learning modules to the platform every day. Immerse is also being used to train our people on the new processes and systems being introduced as part of the Strategic Transformation Programme.

Encouragingly, the pilot group of staff who trialled the tool found it easy to use, flexible and tailored to their needs.

"Interactive and encouraging", "online resources made it easier to learn" and "easy to follow and very informative" make up some of the initial feedback received.

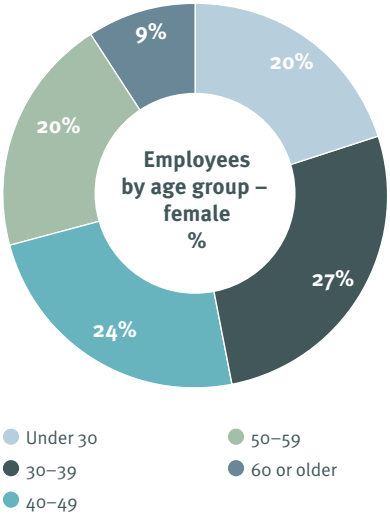
Surf, a career development platform, enables staff to identify the aspects of a meaningful career for them and charts their path from their current role to their aspirations for the future.

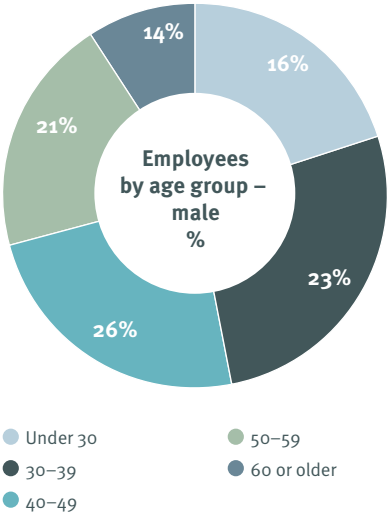
Both tools empower our people to manage their development in their chosen direction and at their own pace.

> **Since its launch in May 2019, 200+ people have accessed Immerse, Surf and LinkedIn Learning.**

Workforce employment breakdown

The number of staff has increased (4.7%) from 940 in 2017/18 to 984 in 2018/19. Most of our employees work in the Auckland region. Watercare also operates laboratory testing services in Queenstown and Invercargill, where six staff are employed. Collective employment agreements (CEAs) are employment agreements negotiated with one or more unions on behalf of those staff who belong to that union. Individual employment agreements (IEAs) remain the most common type of employment agreements. The majority of employees employed on CEAs are males who undertake operational or maintenance functions within the business.





New hires by gender and age

Gender breakdown	2018/19	%	2017/18	2016/17
Male	132	65%	115	149
Female	70	35%	85	84
TOTAL	202		200	233

Age group:	2018/19	%	2017/18	2016/17
Under 30	77	38%	99	99
30–39	63	31%	54	60
40–49	44	22%	31	44
50–59	13	6%	11	25
60 or older	5	3%	5	5
TOTAL	202		200	233

	2018/19			2017/18			2016/17		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Individual Employment Agreements (IEAs)	433	283	716	436	263	699	475	277	752
Collective Employment Agreements (CEAs)	195	15	210	173	12	185	136	2	138
Part-time headcount	9	17	26	5	19	24	2	17	19
Fixed-term Individual Agreements (IEAs).›1yr	3	8	11	9	19	28	5	7	12
Fixed-term Individual Agreements.(IEAs) ‹1yr	13	8	21	3	1	4	7	5	12
Total fixed-term and permanent employees:	653	331	984	626	314	940	625	308	933
Casual employees	8	15	23	5	10	15	14	11	25

Staff engagement

We use AskYourTeam (AYT) surveys for measuring staff engagement. AYT is a comprehensive tool that measures key factors which influence organisational success such as people, strategy, engagement and stakeholders. This tool allows us to identify specific areas for improvement and test more frequently to determine progress against objectives. The survey identified some areas for improvement in 2019/20, including developing a remuneration framework that is appropriate for the market and aligning goals and objectives across departments.

	2018/19	2017/18	2016/17
Survey response rate (%)	74%	72%	75%
Staff engagement score	67	67	65

Investment in employees

Watercare's benefits policy offers all permanent employees the same benefits, regardless of whether they are employed on a full-time or part-time basis. All permanent employees of Watercare are provided with life insurance equivalent to double the amount of their annualised salary, and income protection insurance which would cover 80% of their salary if they were affected by an incident or illness that left them unable to work for a period of time. We also provide discounted membership for health insurance, banking, N3 staff discount scheme, discounted car parking and incentive schemes for senior staff.

Training per staff member

Our staff received an average of 16 hours training in 2018/19, excluding time spent on employee orientation. This is a decrease of 42% compared to 2017/18. The organisation-wide restructure impacted the normal training needs of teams as the new structure was evolving and roles and capabilities were still being defined. We expect the introduction of the new online learning management system to improve this result next year.

	2018/19	2017/18	2016/17
Average staff numbers over the year	945	920	917
Average hours of training for permanent employees	16	28	23
Total training spend ($)	$1,092,397.00	$1,354,830.00	$1,338,368.33
Ratio ($ per average staff numbers)	$1,156	$1,473	$1,460

Performance review process

We schedule performance reviews annually for employees. These were conducted in August 2018 for 66% of those who were eligible.

Parental leave

Watercare offers an additional eight weeks of paid parental leave beyond that provided as part of the government-funded parental leave, and two weeks of paid parental leave for partners. In 2018/19, 64% of employees who took parental leave returned to work, with the rest still on parental leave. The decision to return to work following the completion of their parental leave is solely up to the staff member and is dependent on their individual personal circumstances.

Number who have taken parental leave:	2018/19	2017/18	2016/17
Male	24	22	16
Female	15	16	15
TOTAL	39	38	31

Number due to come back from parental leave each year:	2018/19	2017/18	2016/17
Male	NA	NA	NA
Female	11	11	7
TOTAL	11	11	7

Number having come back from parental leave:	2018/19	2017/18	2016/17
Male			
Female	7	9	5
TOTAL	7	9	5
% returning after parental leave	64%	82%	87%

* Watercare provides parental leave for male employees also but we do not consider it as a break from employment. Therefore, they are not recorded in the table capturing returners.

Staff turnover

Voluntary turnover

Voluntary turnover for 2018/19 was 13%, a decrease from 13.8% in 2017/18.

Involuntary turnover

Involuntary turnover includes retirements, deaths, abandonment of employment and negotiated or managed exits. In 2018/19, there were 53 instances of involuntary turnover, the increase being a result of the organisational restructure that happened in 2018.

	2018/19		2017/18		2016/17	
	Voluntary	Involuntary	Voluntary	Involuntary	Voluntary	Involuntary
Male	63	41	80	19	64	28
Female	36	12	48	8	45	3
Total %	13.0%	3.82%	13.75%	2.90%	12.10%	3.44%
Age group:						
Under 30	30	3	40	1	41	4
30–39	38	8	46	6	34	11
40–49	16	9	23	2	19	3
50–59	13	17	15	7	14	7
60 or older	2	16	4	11	1	6

Staff and salary ratio

A diverse workforce is essential to represent and serve the diverse communities of Auckland and promoting diversity in all aspects, including gender, is a continued focus for us.

- Staff ratio is the proportion of female employees employed in a category of role (our four broad categories are executive and senior management, management, technical, operational and support).

- Salary ratio is calculated by using the average salaries of male and female employees in each of the broad categories below and the difference between the average is displayed as a percentage.

Within each of the four categories, we have a very wide range of roles and responsibilities.

The individuals employed within each of the four categories range from new hires in newly formed roles, to people who have been with the company for 30+ years and bring a wealth of experience and institutional knowledge. Therefore, a like-to-like comparison is rarely possible and this is a main reason why the salary ratio is below 100%.

Our remuneration structure and salaries are based on the skills, knowledge and experience required to perform a role. In 2018/19, we implemented a broad adjustment to salaries to ensure we were in step with the market and people doing similar jobs were paid fairly irrespective of their gender.

However, we have further work to do across all areas of diversity and inclusion. We have recruited a remuneration specialist to ensure that our people processes, including the way we recruit new staff, and how we set salaries, is transparent, inclusive and fair. In conjunction with Diversity Works and our newly-formed Diversity and Inclusion Committee, we will be developing more specific and meaningful diversity measures to ensure we resolve any inconsistencies in this area.

	2018/19				2017/18		2016/17	
	Male	Female	Staff ratio	Salary ratio	Staff ratio	Salary ratio	Staff ratio	Salary ratio
Executive and senior management	7	2	22%	81%	18%	84%	20%	90%
Management	29	6	17%	92%	29%	84%	17%	83%
Technical	291	116	29%	94%	27%	90%	22%	92%
Operational and support	309	191	38%	90%	41%	92%	48%	86%

Data does not include the chief executive, as it is the sole role in the band, nor staff employed in operational roles under CEAs who are paid on a different grading system relative to the terms of their particular employment agreement.

Health, safety and wellness

	2018/19	2017/18	2017/16
Lost-time injury frequency rate (LTIFR) – number of lost time injuries per year per million hours worked	6.5	3.5	2.4
Total recordable injury frequency rate (TRIFR) per million hours worked	12.4	8.2	13.2

Over the past few years, we have focused on getting our people to report incidents, near-misses and observations more rigorously. Our focus over the next year will be to use technology to analyse trends and patterns so we can develop lead indicators for health and safety performance, instead of lag indicators such as LTIFR and TRIFR which provide a high-level view of health and safety incidents after they have occurred. Shifting our focus to lead indicators will ensure we invest effort and resources into proactive and preventive health and safety initiatives.

Health and safety committees

Watercare has established health, safety and well-being committees, and holds meetings across the company that are in accordance with the Health and Safety at Work Act 2015. Union representatives and members participate in the HS&W committees as well, since their collective employment agreements cover many aspects of health and safety. Nominated HS&W representatives have been trained by the Employers and Manufacturers Association.

Absenteeism

Watercare recorded an unplanned absenteeism rate of 3.6%, which is a slight decrease over last year's result of 3.9%. We provide an occupational health service to all staff, including: medical consultation, influenza immunisation, mandatory vaccinations for those working in certain environments, skin checks and rehabilitation programmes. Employee assistance services such as counselling are available to all staff, either through the company or from self-referral.

ACC workplace management practices accreditation

The ACC Workplace Safety Management Practices (WSMP) programme has been disbanded and replaced by the Accredited Employers Programme (AEP) for workplace and non-workplace injuries. Watercare joined this programme, which is administered by Gallagher Bassett, in June 2019.

CUSTOMER AND STAKEHOLDER RELATIONSHIPS

Value –
Engaged, safe communities; a thriving economy

As New Zealand's water supply and treatment standards come under increased scrutiny, the fact that Aucklanders enjoy a safe, reliable supply of high-quality water is a source of pride for us.

But our commitment to quality does not end with providing a great product. It also extends to providing great service, whether it is fixing a leak, clearing a blockage, sorting out a bill query or partnering with the community for effective outcomes.

The past year has seen us improving our responsiveness to customers. We launched a more refined customer feedback system resulting in doubling the number of survey responses we normally receive from customers. After every interaction with us, whether it is talking to a customer champion on the telephone, getting a response to an email, transacting online or interacting with our maintenance crew, we ask customers to rate their experience. More importantly, we act on their feedback.

We now proactively reach out to our not-so-happy customers and address the root causes of their dissatisfaction. This is why we were able to improve our Net Promoter Score (NPS) by more than 10 points over the last year. At 43, our NPS is still not where we believe it could be and we will continue working to be better tomorrow than we are today.

Our maintenance crews, the face of Watercare in the community, also attract exceptionally positive feedback from our customers. A common theme is that our crews are very knowledgeable, professional, polite and caring. The establishment of our training centre, simulating a live network and residential façade that enables training in technical and people skills, has greatly influenced this feedback. The training centre was recognised for its originality at the Water NZ 2018 conference with an award for innovation in safety.

We continued to streamline the way we transact with our customers. We ended the year with just more than half of our customers receiving their monthly bill electronically, which is not only more cost-effective but also more sustainable. Recognising that our customers have a range of ways they prefer to pay their bills, we are proud to be the first company in New Zealand to offer as many payment options as we do. In 2018/19, we added Apple Pay, Alipay, WeChat and UnionPay to our list.

When customers have difficulty paying, we assist them with flexible payment terms. In some instances, we work with the Water Utilities Consumer Assistance Trust (established by Watercare in 2012) to work out a payment plan that these customers can fulfil or by writing off portions of debt and also providing budgeting assistance in tandem with Work and Income, Citizens Advice Bureau and other organisations.

$120,000

in assistance to customers facing hardship

In 2018/19, we forgave $120,000 worth of debt incurred by people facing financial hardship.

One of our main commitments is managing demand and promoting waterwise behaviours in our customers. We continued our partnership with EcoMatters to deliver our free Be Waterwise programme to Aucklanders. As part of this we conducted 136 home audits and provided 266 water-saving products. The objective of our Water Efficiency Strategy is to reduce Aucklanders' average rate of consumption by 15%, by 2025 compared to consumption levels in 2004.

Managing demand to meet the 15% target is an ongoing challenge due to the rapid growth in Auckland's population and industry as well as the business' competing priorities and our legislative mandate to be a minimum-cost, self-funded, lifeline utility.

As part of our ongoing commitment to educate our customers and the wider community about the value of water, we continued our free water education programme to schools. Our education coordinator visited 31 schools around Auckland and delivered 290 lessons on water and the environment.

We also partnered with Plunket to promote awareness about the proper disposal of wet wipes by families. Wet wipes are often marketed as flushable but do not break down when flushed down the toilet and as a result, they frequently cause blockages in our wastewater network. Our campaign reached families across the Plunket network and was covered in newspapers and on TV.

In addition, we also established our social media profile on Facebook and LinkedIn. By sharing our activities and projects with the wider public, we are providing our communities a glimpse of what we do behind the scenes to ensure they enjoy water and wastewater services 24/7. Ultimately this helps to build trust in Watercare and our services.

We acknowledge that our operations and construction activities have an impact on the community. We make every effort to engage with the communities affected before, during and after our construction programmes. This year, we organised open days, site blessings and environmental offsetting initiatives on several projects including the Central Interceptor wastewater tunnel, Northern Interceptor, North Harbour No.2 Watermain, Pukekohe East Reservoirs, Redhills expansion, Clevedon water and wastewater servicing, and Hūnua 4 Watermain. We also collaborated with other infrastructure providers on projects (NZTA, AT, Vector) so we could deliver programmes more effectively and minimise the disruption to community.

We also continued our focus on enhancing our relationship with iwi groups. Kanohi ki te kanohi, rangatira ki te rangatira (face to face, leader to leader) hui (meetings) and kōrero (discussions) have been hugely important in building early engagement, transparency and collaboration with mana whenua.

CASE STUDY

Working with the community to ensure security of supply for Auckland

Two years of open-minded and frank conversations with the community has helped to shape the plans for a new water treatment plant and two storage reservoirs in Waima (Titirangi).

The proposed plant will replace the existing Huia Water Treatment Plant. The land for the new plant, which we own, is designated for water supply purposes. It is part of the Waitākere Ranges and is considered a 'significant ecological area'. We commissioned an extensive ecological survey that identified which areas were of most significance in terms of structure, composition and function, as well as mapping the vegetation types, waterways and habitats.

We set up a community liaison group in 2017 to work with as we developed the proposal for the plant. The group is made up of representatives from a wide range of organisations: Waima and Woodlands Park Residents and Ratepayers, Waima Restoration Protection Society, Titirangi Protection Group, Waitākere Ranges Protection Society, Titirangi Residents and Ratepayers Association, Auckland Botanical Society, Tree Council, and Forest and Bird Waitākere Branch. They have had access to independent ecological and statutory planning advisors, funded by us.

The project team met regularly with the group to discuss ways to optimise the layout and minimise adverse effects.

The group's unwavering focus on protecting kauri trees and their constructive feedback on our proposal led us to review the location for the reservoirs. We concluded that we could build the second reservoir on the existing plant site in around 10 years' time. This decision has saved a stand of large kauri.

The Community Liaison Group has also helped to shape our environmental compensation package as well as our social mitigation initiatives that will help to offset any adverse effects. These include funding for pest and weed control in Waima; improving traffic and pedestrian safety by upgrading the intersection of Woodlands Park Road and Scenic Drive; and carrying out remedial work on the historical Nihotupu Filter Station in order to give it new life as an office, an exhibition space or both.

We have lodged the resource consent application with Auckland Council to remove vegetation and carry out earthworks on the sites. We have also asked for the application to be publicly notified to allow for further community involvement.

> **The Huia Water Treatment Plant currently supplies 20% of Auckland's water demand.**

Safe, high-quality water

Water treatment plants

Water treated at all of our water treatment plants, both metropolitan and non-metropolitan, fully complied with the Drinking Water Standards for New Zealand (DWSNZ). All metropolitan and non-metropolitan water treatment plants were graded and each achieved an 'A' grade.

Water supply reticulation

All metropolitan and non-metropolitan distribution networks were graded and each achieved an 'a' grade.

Reliable service

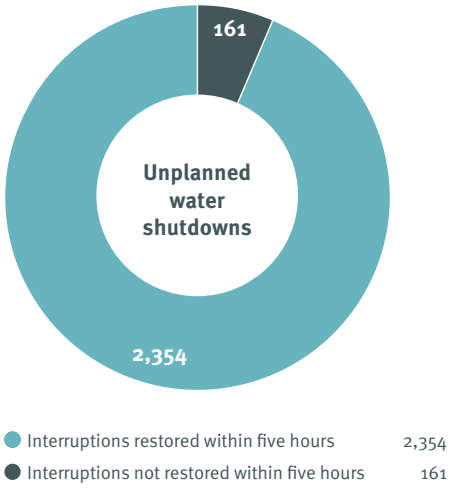
Unplanned water interruptions per 1000 connections

The Auckland region covered a total of 439,000 water supply connections in 2018/19. As a measure of reliability of service, we monitor the number of times the water supply to our customers is interrupted.

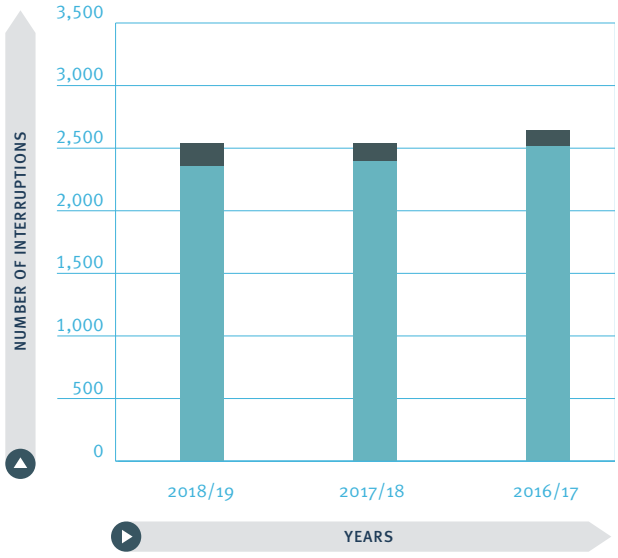
We aim to ensure that there are 10 or fewer interruptions per 1000 connections during the year. The result for the 2018/19 year was 5.7 for the Auckland region.

Unplanned water interruptions restored within five hours

In order to minimise the impact on our customers, Watercare aims to ensure at least 95% of all unplanned water interruptions are restored within 5 hours. The result for the year was 94% for the Auckland region, compared to 92.7% for 2017/18.



Unplanned water shutdowns restored within five hours



Responsiveness

Grade of service: Calls answered within 20 seconds

Grade of service is a call centre industry performance measure, aimed at ensuring calls are answered within 20 seconds. In 2018/19, 81.51% of calls were answered within 20 seconds, compared to 87.6% in 2017/18.

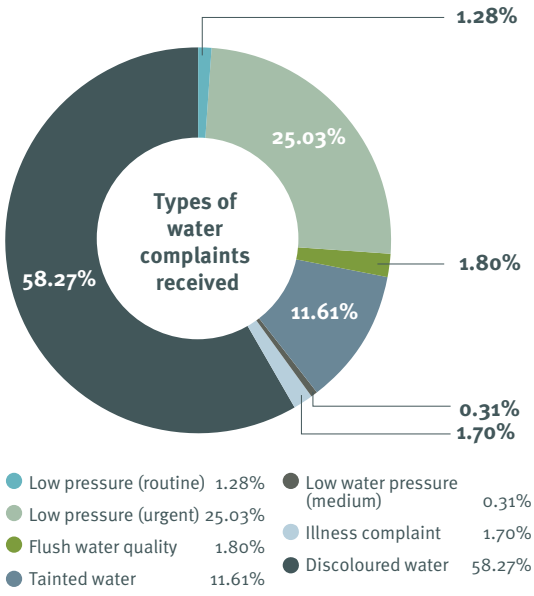
Attending and resolving faults

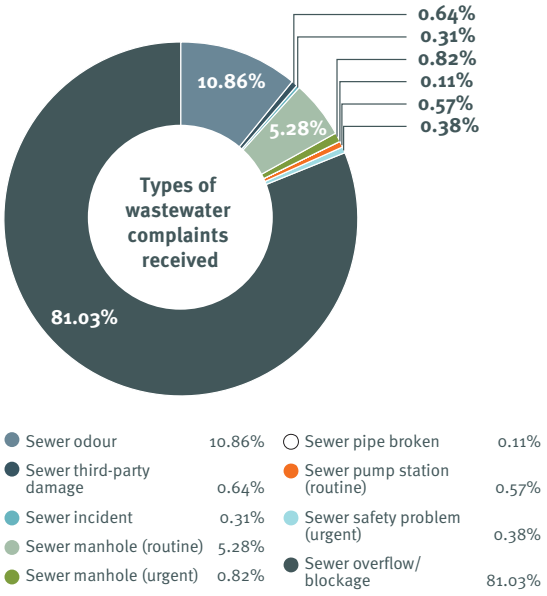
Type of fault	Description	Target	Achieved
Urgent faults on the water network	Median time taken by our crews to attend to the call-outs	≤60 mins	50 mins
	Median time taken by our crews to resolve the fault	≤5 hours	2.8 hours
Non-urgent faults on the water network	Median time taken by our crews to attend to the call-outs	≤5 days	1.3 days
	Median time taken by our crews to resolve the fault	≤6 days	2.1 days
Faults on the wastewater network	Median time taken by our crews to attend to the overflows caused by blockages or other faults	≤60 mins	43 mins
	Median time taken by our crews to resolve the overflows caused by blockages or other faults	≤5 hours	2.8 hours

Complaints

In 2018/19, a total of 943 complaints were received and of these complaints, 98% (922) were resolved within the stipulated 10-day period, against a target of 95% or more.

For the purpose of this measure, a 'complaint' relates to transactional complaints such as price increases, account maintenance, employee behaviour, payments and refunds. It excludes calls received about drinking water quality and wastewater issues as these are reported separately below.





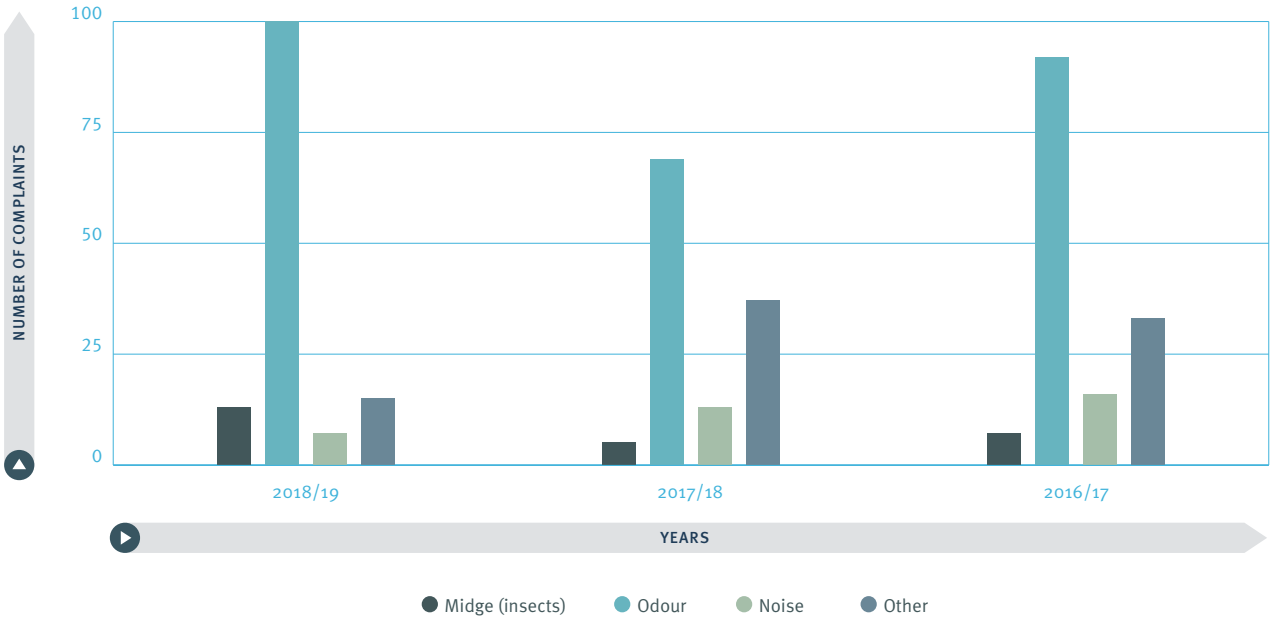
Midge, odour and noise management at operational sites

We record and strive to address all complaints about the effect of our activities on the environment and on the communities living nearby, particularly those related to midges, odour and noise.

Midges are small flies that thrive in water bodies in still and hot conditions. We are planning to trial the chemical-free method of midge control, which was successful at our Māngere Wastewater Treatment Plant, at Rosedale Wastewater Treatment Plant.

Odour complaints increased primarily due to the imbalance of the digesters at Māngere, our largest wastewater treatment plant. 'Other' includes complaints relating to maintenance of our structures such as rubbish in car parks, graffiti, fencing and access.

Midge, odour and noise complaints



Affordability

In 2018/19, an average Auckland household (comprising three people) spent less than 1% (0.83%) of its monthly income on water and wastewater charges.

Account Area	Cost of water and wastewater services per household per month 2018/19	2018/19 % of average weekly income earnings	Cost of water and wastewater services per household per month 2017/18	2017/18 % of average weekly income earnings	Cost of water and wastewater services per household per month 2016/17	2016/17 % of average weekly income earnings
Franklin	$66.61	0.68%	$63.48	0.69%	$61.08	0.70%
Manukau	$90.13	0.92%	$87.01	0.95%	$83.70	0.95%
Auckland City	$87.32	0.89%	$84.43	0.92%	$81.00	0.92%
North Shore	$76.57	0.78%	$74.12	0.81%	$71.43	0.82%
Rodney	$63.40	0.65%	$60.41	0.66%	$58.30	0.67%
Waitākere	$70.24	0.72%	$67.72	0.74%	$65.18	0.74%
Average	**$81.00**	**0.83%**	**$78.22**	**0.85%**	**$75.33**	**0.86%**

* Average income for Auckland based on Statistics NZ data.

Customer satisfaction and loyalty

We measure customer satisfaction using a Net Promoter Score (NPS) which surveys customer experience across all channels including billing, payments, faults and website.

NPS is commonly used by utility companies as a measure of customer loyalty. We use it to measure how satisfied our customers are with Watercare across all their interactions, whether it is in person, by phone, email or on our website.

While our NPS of 43 is a great improvement on previous years, we will continue to raise the bar in our pursuit of winning the confidence and trust of all our customers. We will continue to invest time and effort to understand the root causes of the things that frustrate our customers and actively drive improvements in our processes and behaviours by adopting a more empathetic and resolution-driven approach.

A new, streamlined billing system will be introduced in the latter part of 2019, and this is expected to reduce the number of contacts and queries from customers.

Encouraging water efficiency

In 2018/19, the gross per capita consumption of water was 270.7 litres per person per day.

Our target for 2018/19 was to maintain consumption within the 266 litres per person per day (+/- 2.5%) band, to meet the overall demand management target of reducing demand by 15% by 2025, based on 2004 levels.

The demand for water from Aucklanders was higher than expected in 2018/19 as Auckland experienced unusually warm and dry summer and winter periods. Aucklanders used a record-breaking 544 million litres of water on 13 February 2019 (40 million litres more than the previous record in December 2017).

Contributing to the high demand is the fact that consumers that depend on rainwater tanks needed to purchase more water from tanker operators during the warm and dry periods of the year. This means that the water sold to tanker operators, which is supplied by our metropolitan network, is then distributed to consumers that are not connected to our metropolitan network.

This year we used Statistics NZ's 2018 medium population projections which include consumers living in commercial rest homes, hotels and hospitals and other similar dwellings. We then deducted the percentage of the population that is not connected to our water supply network using our 2018 water connection data.

The water efficiency programme continued to engage with Aucklanders in various ways including social media, customer newsletters, public events like home and garden shows and in-house water audits as part of the Be Waterwise programme offered in partnership with EcoMatters.

Investment in community programmes

Watercare is active within the Auckland community in many ways. We offer a free education programme to primary schools and provide free water at the annual Round the Bays fun-run.

Our company sponsors the Watercare Harbour Clean-Up Trust, which works to remove litter from Auckland's harbours and inner gulf islands, and promotes the concept of clean, clear, rubbish-free waterways. We also sponsor Trees for Survival and Waikato RiverCare, two conservation programmes in the Hūnua Ranges and Waikato River respectively. Watercare funds the Water Utility Consumer Assistance Trust, which helps domestic customers facing financial difficulties to manage their water costs.

We also have two engineering scholarships that acknowledge the company's late chief executive Mark Ford for his outstanding contribution to the industry. Students who are studying engineering at the University of Auckland are able to apply for these scholarships which are valued at $5000 each. One of the scholarships is dedicated to students of Māori descent.

Programme	2019	2018	2017
Watercare Education Programme	$11,507	$35,057	$8,448
Watercare Utility Consumer Assistance Trust	$120,000	$80,000	$100,000
Trees for Survival	$3,450	$3,450	$3,450
Watercare Harbour Clean-Up Trust	$325,000	$306,250	$325,000
Waikato RiverCare	$50,000	$50,000	$10,000
Mark Ford Ngā Tapuwae Scholarship	$10,000	$10,000	$10,000
TOTAL	$519,957	$484,757	$456,898

ASSETS AND INFRASTRUCTURE

Value –
Future-proofed growth and supply assurance; high-performing assets

Auckland is growing at an unprecedented pace. Around 1.7 million people currently live in Auckland. Over the next 35 years this number could grow by another 800,000 people to reach 2.5 million; this means another 320,000 dwellings and another 270,000 jobs.

Growth on this scale is significant, and requires us to ensure we have a clear understanding of where and when investment in planning and infrastructure will be made.

Over the next 10 years, we plan to invest $5.5 billion in water and wastewater infrastructure for Auckland. Forty-eight per cent of this investment will be directed to increase capacity to support future growth, 38% will go towards renewing and replacing existing assets and 14% towards improving the level of service for our customers.

To help us prepare for this level of growth, a number of projects were completed in the last 12 months that will enable us to maintain or improve service and cater for growth in Auckland.

We awarded the contract for construction of the Central Interceptor wastewater tunnel. The Central Interceptor 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. This project will improve the health of our city's waterways by reducing wet-weather overflows and provide for population growth.

We progressed work on replacing a wastewater pump station and building a wastewater storage and conveyance pipe in Glen Innes that will improve the area's waterways and cater for intensification in the east-Auckland suburb. The new pipe and pump station are expected to be operational in 2020.

We successfully completed upgrades to the Army Bay Wastewater Treatment Plant in the Whangaparāoa Peninsula which means the plant will continue to treat wastewater to a very high standard and can manage growth from across Orewa, Silverdale and Whangaparāoa.

We began the upgrades to the Pukekohe Wastewater Treatment Plant. This plant treats wastewater from Pukekohe, Buckland, Tuakau, Pokeno and Patumahoe and these upgrades will cater for future growth in this fast-expanding region. They will also reduce wet-weather overflows and improve the quality of water discharged into the local Parker Lane stream and the Waikato River.

$5.5b infrastructure investment over the next 10 years

On the water side, we submitted a resource consent application to Auckland Council for replacing an ageing water treatment plant and building two storage reservoirs in Waima, West Auckland.

The existing Huia Water Treatment Plant was built in 1928 and supplies up to 20% of Auckland's water needs. It is reaching the end of its operational life. The proposed treatment plant will replace it and the reservoirs will increase the volume of water stored locally, improving the resilience of the wider water network and accommodating daily demand fluctuations.

We began construction of a reservoir at Pukekohe East. It will store up to 50 million litres of water and will increase security of supply and provide greater resilience for Auckland.

We began laying the last section of our 31 kilometre Hūnua 4 watermain mainly through tunnelling, to avoid disruption to communities and businesses in the area. This will carry treated water from our Redoubt Road Reservoirs to our Khyber Reservoirs, ensuring security of supply to communities across Auckland.

While we continue to think and plan ahead, we are also challenging and improving the way we deliver infrastructure. We are one of the few companies in New Zealand that have a confirmed infrastructure programme for 10 years and we want to leverage the scale and scope of this programme to deliver more sustainable infrastructure in a safe and efficient way.

To this end, we are moving in a bold, new direction with an ambitious 40:20:20 target to achieve wins in sustainability, safety and costs. The 40:20:20 objectives are to reduce carbon in construction, or 'build carbon', by 40% across Watercare by 2024; to reduce the cost to deliver our infrastructure programme by 20% by 2024 and to improve health, safety and wellness by 20% year on year.

Our approach will include a focus on standard product designs, budgeting for carbon emissions, reviewing supply and build elements of infrastructure and reimagining the way we engage. This will require new thinking and challenging the way we work to find safer, more sustainable and efficient solutions.

We will move to an integrated programme for delivering infrastructure. The way we work now is to find contractors to do work on a project-by-project basis. But the way for the future is to partner with two construction companies and our designers to deliver our programme of works. This will facilitate cost efficiencies, standardisation and innovation.

It means working with fewer contractors, getting them involved far earlier and working together much more closely to deliver our 40:20:20 targets. We have gone to the market with a request for proposal to partner with us and will finalise the companies by the end of 2019.

CASE STUDY

Delivering future-fit infrastructure

The Army Bay Wastewater Treatment Plant is our third-largest wastewater treatment plant and currently services the Hibiscus Coast and Orewa area, which has a population of around 46,000 now and is projected to increase to a population of 188,500 by 2053.

One of the projects we successfully commissioned this year is the $31-million upgrade to the plant that included improvements to an existing pump station, and replacement of an outfall pipe, which extends 1.2 kilometres into the Tiri Channel. These improvements mean the plant will continue to treat wastewater to a very high standard and can manage the growth from across Orewa, Silverdale and Whangaparāoa.

The location of the construction works was within a sensitive ecological environment, adjacent to Shakespear Regional Park and significant care was taken to isolate construction sites and protect local wildlife, including kiwi and lizards.

The outfall pipe was laid using the direct pipe method of micro-tunnelling, which was a first for New Zealand. A section of the pipe, about 900 metres long, was assembled in Kaiaua, towed along the coast and floated into place on the seabed. The project was delivered on time and within budget – a successful outcome, especially given the complex nature of the micro-tunnelling and the installation of the outfall pipe.

The project was recognised for excellence at the Auckland Civil Contractors New Zealand (CCNZ) Awards 2019 and is a finalist entry at the CCNZ National Excellence Awards 2019.

> **The new pipeline at Army Bay Wastewater Plant has four times the capacity of the old one**

High-performing infrastructure

Unplanned wastewater interruptions

The number of unplanned wastewater network interruptions caused by bursts and chokes is a measure of the integrity of the system. We aim to have fewer than 10 for every 1000 properties. The result for the year was 8.3 for the Auckland region.

Dry-weather overflows

Dry-weather overflows are generally caused by incorrect disposal of fats, oils and grease down the wastewater network which leads to blockages in the pipes and causes wastewater overflows.

The number of wastewater overflows from our retail network during dry weather is a measure of the network's capability to meet current demand. The result for the year was 0.59 dry-weather overflows per 1000 connections, which is well under the target of 10 or fewer.

Wet-weather overflows

Wet-weather overflows are caused by heavy rain and are a mixture of stormwater (rainwater run-off from roofs and roads) and wastewater. In heavy rain, the stormwater that drains from the average roof is equivalent to the wastewater flows from more than 40 households.

The number of wet-weather overflows for the transmission network (bulk mains) per number of discharge locations was 1.2, which is within the target of two or fewer overflows.

We have a number of projects underway or close to completion that will add capacity to the wastewater network, protect the environment from overflows and cater for growth. These include: the Central Interceptor wastewater tunnel, Grey Lynn Tunnel, Franklin Road wastewater and stormwater separation and Glen Innes wastewater upgrades.

Effective asset management

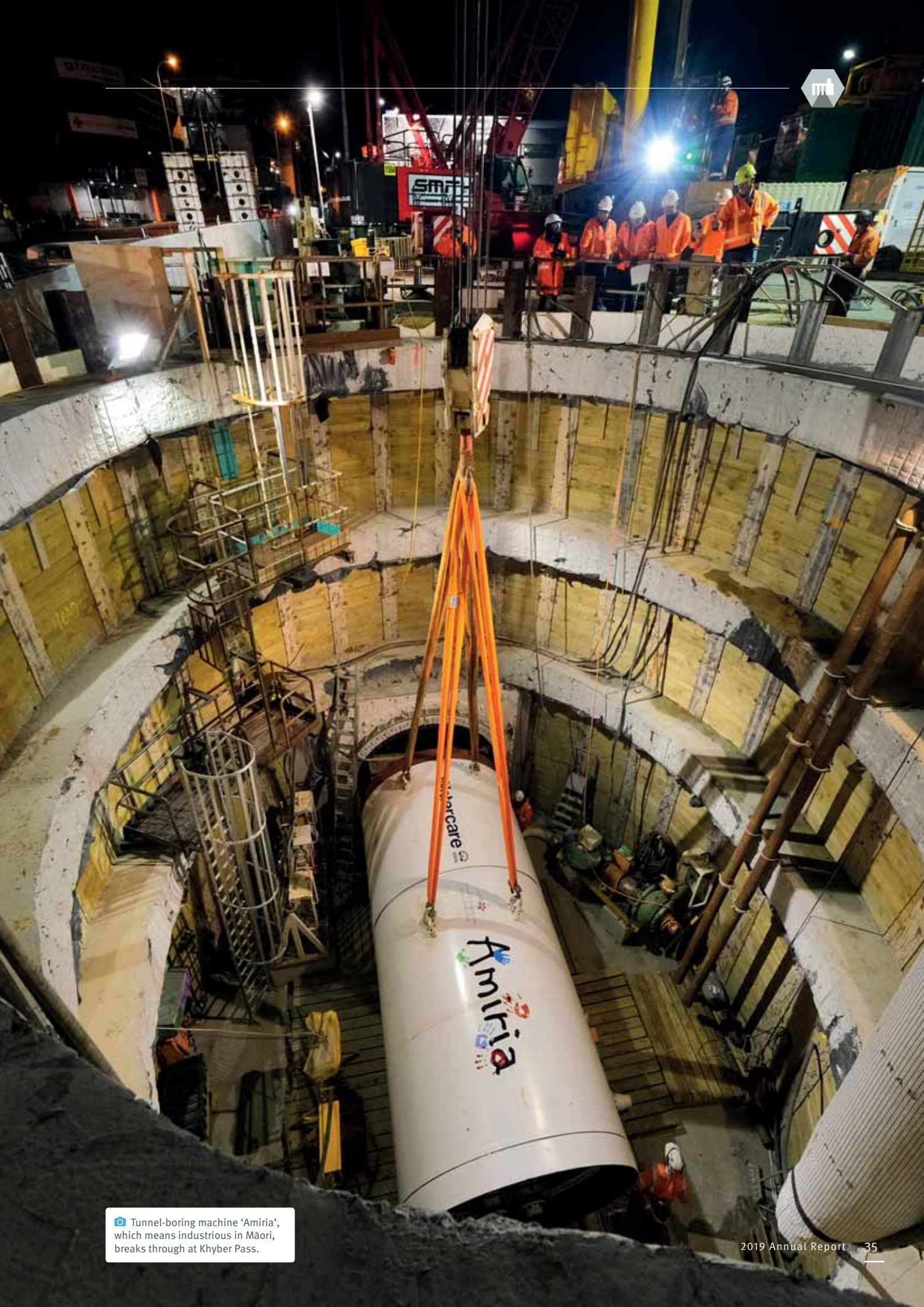
Water loss

Water loss is the difference between the volume of water produced and the volume of water sold, allowing for a percentage of water produced for operational and fire-fighting purposes.

Watercare did not meet this target, with water loss over (13.1%) the specified target (13%).

Unbilled water use falls into three categories: operational usage (pipeline flushing, fire-fighting etc.); meter under-recording; and unauthorised usage. While leaks are one of the sources of water loss, we have evidence that water is being taken from our network illegally, through hydrants. A taskforce has been established to further investigate unauthorised usage and take all necessary steps to address this issue.

We continue to focus on improving the accuracy of measuring total volume of water produced, as detailed in our 2017/18 Annual Report. We are continuing to improve the accuracy of our bulk supply points (BSP) and other opportunities to improve granularity of water supply data. We plan to establish district metered areas, which are discrete areas of a water distribution network. This will allow us to measure water consumption at a suburb level and enable more accurate total volume of water analysis, and better identification of unbilled uses.



Tunnel-boring machine 'Amiria', which means industrious in Māori, breaks through at Khyber Pass.

INTELLECTUAL CAPITAL

Value –
Industry-leading thinking and processes

As New Zealand's largest water company, it is fair to say that we are leading the industry in technical excellence – our treatment processes are some of the most advanced in the world and our customers can rest easy knowing that they receive reliable, high-quality water at the turn of their taps.

So our efforts over the past 12 months have focused on transforming us into a utility of the future – a utility that leverages data and digital technology to do more with less and to better serve our customers and communities.

In August 2018, a group of our people came together and developed a tool that allows us to easily see our high-priority water and wastewater incidents in real-time. This allows us to identify where an incident is, what caused it, whether or not it has happened before, as well as an update on whether our crews have arrived on site and are remedying the situation.

This is the first of several such digital tools that will bring together data from discrete parts of our operations to provide real-time insights which will help us to be more responsive to our customers.

Next year will see us building the capability to predict asset failure and take action before it happens so customers will not be impacted.

Our customers want to do business with us at their convenience and, ideally, online. In 2018/19, digital interactions with customers increased by 19% compared to the year before. We will continue to enhance our offerings for self-service including introducing a digital assistant functionality that will provide real-time help to customers who are using our website.

We automated two more transactional processes through a new 'bot' – robotic process automation that helps to perform high-volume, repetitive and rule-based tasks, freeing up our people to take on more meaningful work.

As a company, we made a brave decision when we decided to implement our Strategic Transformation Programme using an agile approach. We could see it had the potential to deliver outputs more quickly, efficiently and closely aligned to business needs but we were also aware that other companies had struggled with it.

Over the past 12 months we have proved that agile works and it works well.

19% more digital interactions with customers

We successfully trialled a new billing system in half the time it would have taken otherwise; we delivered an asset management system that was developed in consultation with the people that would be using it. We also delivered a new procurement, finance and project management system that streamlines processes and provides a more integrated view of our capital delivery programme. Later this year, we will be delivering a full-scale billing solution that provides a comprehensive view of our customers and their transactions.

Our mission over the next 12 months will be to save every employee one hour a week through efficient systems and processes which will improve productivity and job satisfaction and reduce operational costs. We plan to achieve this by automating processes and providing access to technology and systems that work for everyone, where and when they need it.

As we increasingly adopt digital solutions, we are also conscious of the security risks that they come with. Earlier this year, we were the target of a sustained cyber-attack with thousands of attempts to access our internal networks. Putting our incident management plan into action, we were able to respond quickly and thwart the attack – keeping company, customer and staff information safe.

Our approach to cybersecurity will continue to combine strong systems and procedures as well as the ongoing education of our people.

CASE STUDY

Becoming a digital utility

Watercare owns and manages more than ten billion dollars' worth of assets. These include our water and wastewater infrastructure such as plants, pipes, pump stations and reservoirs.

A new tool developed by our people, for our people, is helping them to manage these water and wastewater facilities and assets more efficiently.

As part of our company-wide digital transformation, we have introduced an enterprise asset management tool with our people in mind so they can make informed decisions with confidence.

Using design thinking principles and an agile approach, we have brought together technology and the 'lived' experience of our teams to deliver a tool that schedules, executes and processes all maintenance activities and provides better analysis of the asset data captured by our teams.

We developed a prototype of this tool in 2018 which was then trialled by the team supporting and maintaining our Huia Water Treatment Plant. We made enhancements based on continuous feedback from the team and then deployed an updated version to the next group of users.

Teams that have used the tool say that they like the ease of creating jobs and the greater visibility of maintenance information and activities across the business.

> **100** operational staff are currently using this tool to capture asset data and carry out maintenance, with another roll-out planned for the next group of staff.

As New Zealand's largest water company, we pride ourselves on being industry leaders, demonstrating excellence and innovation across many areas in the water and infrastructure industry. Below are some of the awards our people have received in 2018/19.

Award	Winners
Engineering New Zealand's Auckland Branch Centennial Awards	**Brendon Harkness** was recognised with a highly commended award for his excellence in humanitarian service.
Water New Zealand Awards	**Laurence Jenner** and **Lupe Suniula** won the Paper of the Year Award – for their paper on "Innovative energy opportunities for water utilities".
	Olivia Philpott won Young Author of the Year for her paper on "Responding to challenges facing the delivery of water and wastewater due to climate change".
	Sven Harlos won Project Award of the Year for the expansion of the **Māngere Wastewater Treatment Plant**.
	Sharon Danks won Operations Excellence of the Year award for Triangle Road Pump Station Commissioning.
	Octavio Perez Garcia won Presentation of the Year Award for his paper titled "A Utilities Guide to Starting up Anammox".
	Health & Safety Innovation Award was won by the **Maintenance Services Network team** for their technical training centre at Māngere: • **Richie Rameka** • **Tony Higgins** • **Mike Grindlay** • **Chris Kinley**
Project Management Institute NZ Awards	Project of the Year – Watercare for **Māngere Wastewater Treatment Plant Expansion**
	Sven Harlos, project manager
Energy Efficiency and Conservation Authority (EECA) Business Awards	**Roseline Klein** was recognised for her leadership in energy efficiency and emissions reductions by EECA.
Procurement Excellence Awards	**Anna Mogridge, Stuart Bird** and **Kelvin Stuart** won the award for Successful Procurement Change of the Year.
Public Relations Institute of NZ (PRINZ) Awards - Special Project/Short-Term campaign	**Communications team (Rachel Hughes, Brent Evans, Maxine Clayton, Anusha Vishnampet, Janie Smith** and **Mel Verran**) won the PRINZ Award for "Save 20" campaign during the Tasman Tempest weather event.
Civil Contractors New Zealand (CCNZ) Excellence Awards	The Wairau Road Rising Wastewater Main project (medium category award for projects costing more than $5million): **Mahinda Attanayake,** project manager.
	The Waikato Water Treatment Plant expansion won the Large Category award for projects costing less than $20 million: **Axel Dumont**, project manager.
	The biological nutrient removal (BNR) facility at the Māngere Wastewater Treatment Plant won the Large Category award for projects costing more than $20m: **Sven Harlos**, project manager.
Australasian Reporting Awards	Our 2018 Annual Report, managed by **Julian Stewart, Anusha Vishnampet** and **Roseline Klein,** won the Best Sustainability Reporting Award (Public and NFP Sector).
	Watercare also won its 14th consecutive Gold Award at the Australasian Reporting Awards.
Copyright Education Licensing Awards – Finalist	**Sally Smith** was a finalist in the 2018 Education Awards – Best Primary Resource for her excellent illustrated book "Sam and Flo's Amazing Watery Adventure".
Institute of Public Works Engineering Australasia Excellence Awards (IPWEA)	**The BNR expansion** project managed by **Sven Harlos** won the award for Best Public Works of more than $5 million at the IPWEA Awards.
Sustainable Business Network Awards	**Olivia Philpott** received a commendation for the 'Millennial on a mission' award at the Sustainable Business Network Awards for her work on climate change mitigation.
Project Excellence Awards 2018 sponsored by Auckland Council	Four awards won by the **BNR upgrades/Sven Harlos:** 1. Physical Works Award 2. Project Excellence Supreme Awards 3. Project of the Year "Collaboration" Award 4. People Leader Award for Sven Harlos
New Zealand Trade & Industrial Waters Forum Bob McWilliams Memorial Award for excellence and passion	**Annette Hemingway**

Integrated approach delivers effective infrastructure and industry recognition

The $140 million biological nutrient removal (BNR) upgrades to our Māngere Wastewater Treatment Plant have been recognised with thirteen industry awards, including the ones listed in the previous page, for excellence in project management, sustainability, innovation and risk management.

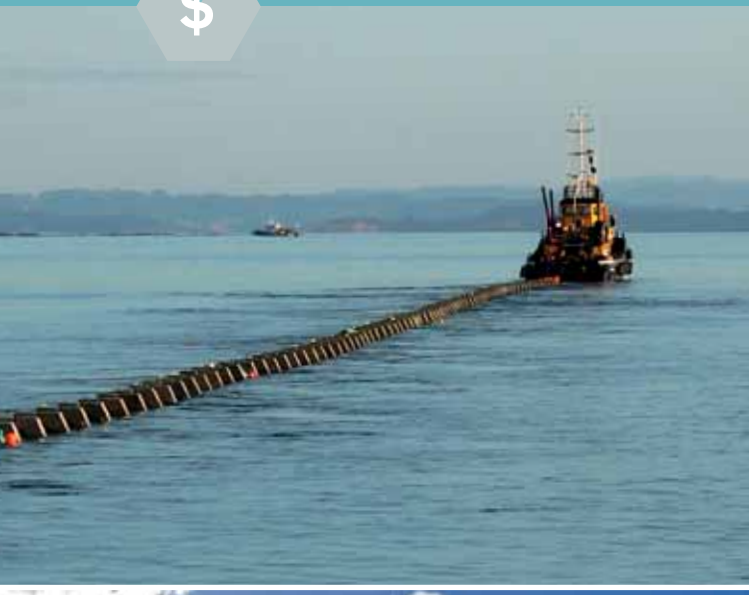
The upgrades were the largest wastewater works in Australasia at that time and are a great example of an integrated approach to delivering effective infrastructure.

The process design and layout of the plant was led by Watercare and our design partners while the geotechnical and structural design was driven by our contractors. This hybrid approach proved to be successful, delivering cost efficiencies and reliable, safe-to-operate infrastructure.

The BNR upgrades to our Māngere Wastewater Treatment Plant allow it to treat the wastewater of another 250,000 Aucklanders.

FINANCIAL CAPITAL AND RESOURCES

Value –
Minimum-cost, cost-efficient, financially stable



Water is a universal resource, essential for thriving communities and cities. As a public-sector company delivering lifeline services for the Auckland region, we take our financial responsibilities seriously.

We are mandated by legislation to be a minimum-cost and cost-efficient service provider. But keeping costs low is only one part of our fiscal obligations. We are also ensuring that we invest in providing safe and reliable services not just today but for decades to come.

The past year saw a significant increase in our capital expenditure, to $447 million from $340 million in 2017/18. Work commenced or was completed on many of our capital projects including the Pukekohe Trunk Sewer Upgrade ($45 million), Army Bay Wastewater Treatment Plant Outfall Upgrade ($31 million) and the new Warkworth Wells Water Treatment Plant and network improvements ($30 million). Construction has also commenced on the 13-kilometre Central Interceptor wastewater tunnel, Hūnua 4 Watermain, North Harbour Watermain and the Northern Interceptor.

Despite our capital expenditure being at an all-time high, our debt has risen by only $84 million, to $1.7 billion. This is primarily due to a lower annual capex spend against budget, our lower than budgeted interest charge, strong operating surplus and efficient management of cash flow to repay debt.

In 2018/19, we continued to exceed our revenue target. For this year, our revenue was $715 million, exceeding a target of $651 million, due to higher levels of demand from customers and increased residential development across the region.

The impact of weather on our operations, and consequently on unforeseen operational costs, was a challenge. To keep up with demand, the ongoing dry weather and rainfall deficit has meant more production from the Waikato Water Treatment Plant instead of our water storage dams in the Hūnua Ranges. Water from the Waikato River has to be pumped using electricity and, as a result, costs more to supply than the gravity-fed water from our storage dams.

The dry weather also impacted the functioning of the digesters at our Māngere Wastewater Treatment Plant. The digesters experienced a temporary bacterial imbalance and while they were nursed back to health, sludge had to be transported to landfill at a cost of $1.2 million.

$447m

Invested in infrastructure in 2018/19

We continued to proactively explore opportunities for efficiencies across the business and achieved just under $7.7 million in efficiency gains. Efficiency for us means delivering best value for money and doing more with less. Some of the initiatives in this area include in-sourcing of our after-hours contact centre to bring the function back within the business. This has optimised the use of our people and improved the way we prioritise faults and assign crews for dealing with them, saving us $0.3 million in the process.

Further efficiency savings of $1.9 million were achieved in the procurement of chemicals, including lime and polymers. In addition, a saving of $0.2 million was also achieved with a change to a dual-sourcing strategy for the purchase of chemicals where our suppliers will compete yearly on price and best value.

We have invested significantly in our enterprise-wide Strategic Transformation Programme to deliver better tools and systems for our business. The next few years will see us reaping the benefits of this investment through better use of our staff, increased productivity and more efficient processes and systems.

Another area that will deliver efficiency gains for us over the coming years is the enterprise model for infrastructure programme delivery which will see us partnering with two construction companies to deliver our 10-year infrastructure programme. This model will deliver benefits through standardisation of designs, secure the pipeline of work and promote innovation. We aim to leverage the scale and scope of our programme to achieve 20% savings through cost efficiencies.

We are also looking to use our industry expertise to expand our business. We have signed a contract with Waikato District Council to provide water and wastewater services to the region. We are also in discussions with a number of large organisations about managing their water and wastewater systems. Increasing compliance regimes are driving active conversations in this space and we are confident that we can lend our expertise in supporting businesses regionally and nationally.

CASE STUDY

Managing debt today while investing for tomorrow

Auckland is growing at a rapid pace and this is reflected in the increasing demand for water and wastewater services.

Over the next decade we expect to invest $5.5 billion in capital projects to meet this demand and to maintain or improve levels of service to existing customers.

The way we pay for this infrastructure is through a combination of revenue from water and wastewater charges, Infrastructure Growth Charges, and external borrowing.

The long life of our assets means any new infrastructure is likely to serve several generations of Aucklanders. Balancing these funding sources and managing our debt ensures that future generations are not unduly burdened by the cost of growth or constrained by under-investment in essential infrastructure.

In July 2018, we dis-established our treasury function and began utilising Auckland Council's centralised treasury team. This enabled us to borrow at a lower cost of funds and saved us $7.4 million in interest costs during the 2019 financial year. This is particularly significant as our capital investment in 2018/19 is the highest it has ever been at $447 million.

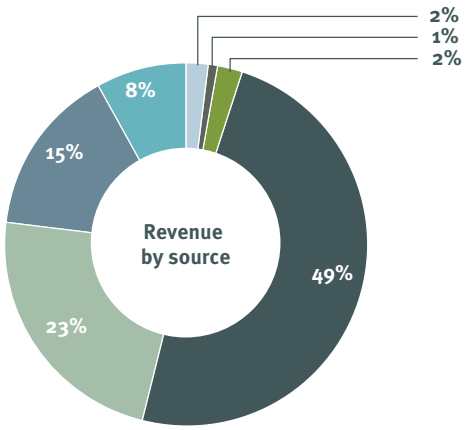
By carefully managing our debt levels, we are ensuring that our services remain affordable to the communities we serve and are strengthening our shareholder Auckland Council's financial position.

> **Since the integration of councils on 1 November 2010, we have invested $2.5 billion in the development of new infrastructure for Auckland, yet have extended debt by only $463 million.**

Financial responsibility

1. Revenue

Total revenue at $715.2 million in 2018/19 compared favourably with $641.6 million in 2017/18. Water and wastewater revenues of $515.6 million were $25.1 million ahead of 2017/18 (a 5.1% increase) with $13.3 million of the increase due to the 2.5% price increase on 1 July 2018 and $11.8 million largely as a result of an overall volume increase. Infrastructure Growth Charge revenue totalled $103.8 million compared to $89.1 million in 2017/18 only recovering 37% of the $278 million capital expenditure on growth projects in the year. Other key elements of revenue included $62.2 million for the cost of physical assets funding by external parties and vested to Watercare ownership, and $3.8 million of revenue recognised in respect of the sale of Watercare tax losses within the Auckland Council Group.

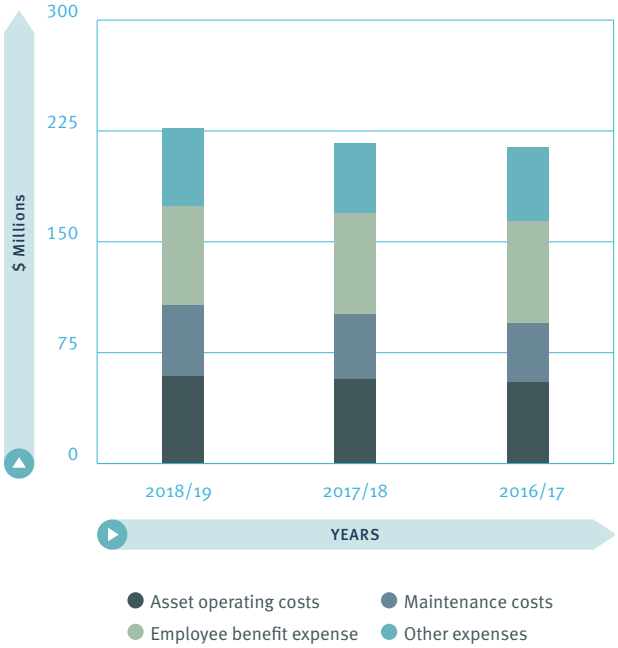


New meters and service connections	2%	Water revenue	23%
Laboratory services	1%	Infrastructure Growth Charge	15%
Other	2%	Vested assets	8%
Wastewater revenue	49%		

2. Operating expenses

Operating expenses of $226.5 million were $7.6 million higher than budget for the year. This was primarily due to an increase in unplanned maintenance expenditure.

Operating expenses increased 4.1% in 2018/19 compared to 2017/18 and have grown an average of 2.6% per annum over the past four years. The increase in maintenance costs is due to unplanned maintenance.



3. Finance costs

Total finance costs of $86.2 million were incurred during the year, of which $19.7 million was treated as a capital cost on large-scale, long-term capital projects. The remainder of $66.5 million was expensed to the statement of revenue and expense.

The overall average interest rate was 5.26% compared with 5.94% in 2017/18.

4. Operating surplus from trading operations

An operating surplus from trading operations of $176.4 million was achieved in 2018/19, with revenue $64.1 million ahead of budget, and total expenses $10.1 million lower than budget. The surplus will be reinvested in the business and used to repay debt as required.

5. Net surplus for the year

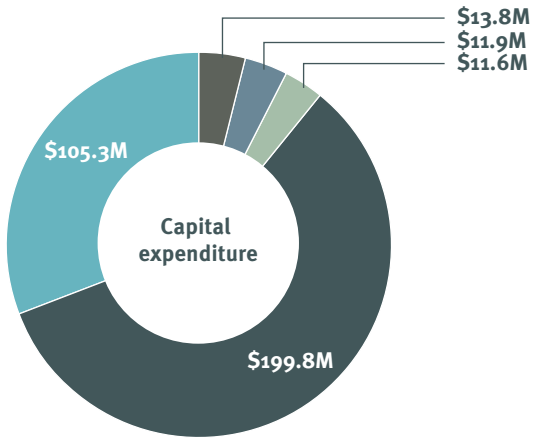
The reported operating surplus from trading operations was prior to a non-cash adjustment for the loss on disposal of property, plant and equipment and restructuring costs of $13,216 million.

Net surplus after tax was $107.6 million for the year ending 30 June 2019.

6. Net new debt

In 2018/19 $83.9 million of net new debt was entered into by Watercare. Consistent with our agreement with Auckland Council's centralised treasury, all new debt is provided by Auckland Council to maximise efficiency from group borrowings.

Debt is used to fund capital expenditure that is directed at improving the quality of services provided by Watercare and also a share of the capital expenditure required to service the effects of population and construction growth in Auckland.



New meters and service connection	$13.8M
Other projects	$11.9M
Corporate	$11.6M
Wastewater projects	$199.8M
Water projects	$105.3M

7. Total assets

Total Watercare assets grew from $10.09 billion to $10.39 billion in 2018/19. The increase related to the cost of new infrastructure asset spending being capitalised during the year.

8. Customer debt

Our primary performance measure for the management of debtors is the value of payments outstanding for 31 days or more from due date. This year, the outstanding customer debt was $7,501,517, a decrease of 6% compared to 2017/18.

The average amount of outstanding debt was $383 this year compared to $287 in 2017/18.

		% of total
Debit balances 31+ days (end of June 2019)	$7,501,517	12.9%
# of accounts with 31+ days debt	19,595	6.4%
Average debt (31+ days)	$383	

Excluding council group and Infrastructure Growth Charges

9. Supply chain and savings

Watercare's supply chain team has focused on the development and implementation of the new finance and purchase to pay system (LN). Watercare has also participated in a number of group sourcing initiatives with Auckland Council, Auckland Transport and other CCOs to the benefit of our company.

In 2018/19, opex savings of $1.9 million were achieved, mainly in the procurement of waste chemicals, including lime and polymers. Capex cost avoidance savings of $23.4 million was also achieved across a number of projects.

Top 15 suppliers

No.	Supplier	Value
1	Fulton Hogan Ltd	$60,900,145
2	Downer New Zealand Limited	$32,672,646
3	McConnell Dowell Constructors Ltd	$28,016,347
4	McConnell Dowell – Heb Joint Venture	$27,122,922
5	Ghella Ltd & Abergeldie Complex Infrastructure	$26,086,957
6	Brian Perry Civil	$22,251,887
7	City Care Limited	$21,335,876
8	The Fletcher Construction Company Ltd	$18,912,188
9	Pipeline & Civil Limited	$16,429,656
10	Aon New Zealand	$12,260,482
11	Steelpipe Limited	$10,262,036
12	Ixom Operations Pty Ltd	$9,827,792
13	March Cato Ltd	$9,262,697
14	Trustpower Limited	$8,997,796
15	Beca Limited	$7,414,823
	Total	$311,754,250

OUR BOARD

From left: Nicola Crauford, Brendon Green, David Thomas, Margaret Devlin, Colin Magee (board intern), Catherine Harland, Julia Hoare, Rob Fisher (company secretary).

Margaret Devlin

BA (HONS) BUSINESS STUDIES, FINANCE AND ECONOMICS, CFInstD

Chair

Margaret Devlin is a professional director with extensive experience in governance and executive management, primarily in the water and infrastructure sectors in New Zealand and the United Kingdom. She has served as a director for a range of entities with a particular focus on audit and risk. She is currently chair of Harrison Grierson, Lyttelton port and Women in Infrastructure Network and a director of Meteorological Services of NZ.

Margaret is a Chartered Fellow of the NZ Institute of Directors.

General disclosure of interests:
Chair, Harrison Grierson Limited; Director, Meteorological Services of NZ Limited; Director, Waikato Regional Airport; Chair, Titanium Park (wholly-owned subsidiary of Waikato Regional Airport); Director, IT Partners Group; Director, Aurora Energy; Independent Chair, Audit and Risk Committee, Waikato District Council; Chair, Women in Infrastructure Network; Member, Waikato branch of Institute of Directors; Councillor, WINTEC; Councillor and Member of the Audit and Risk Committee of Waikato University; Director and Chair, Lyttelton Port Company Limited; Chartered Fellow, Institute of Directors; Director, Infrastructure New Zealand; Member, National Infrastructure Advisory Board.

Julia Hoare

BCOM, FCA, MInstD

Deputy Chair, Chair of the Audit and Risk Committee

Julia Hoare brings a comprehensive range of commercial, financial, tax, regulatory and sustainability expertise to Watercare which she developed over the course of 20 years as a partner with PwC. She retired from the PwC partnership on 31 December 2012 to pursue a full-time corporate governance career.

Julia is a Fellow of the New Zealand Institute of Chartered Accountants and is the vice president of the Institute of Directors National Council.

General disclosure of interests:
Director, AWF Madison Group Limited; Director, New Zealand Post Limited; Deputy Chair, The a2 Milk Company Limited; Director, The a2 Milk Company (New Zealand) Limited; Director, Port of Tauranga Limited; Chair, Auckland Committee, Institute of Directors; Member, Advisory Panel to External Reporting Board; Vice President, Institute of Directors National Council; Director, Auckland International Airport Limited.

Rob Fisher

ONZM, LLB, DIP TP

Company Secretary

Rob Fisher is a barrister who has specialised in resource management, public law and local government law. As a litigator, he appeared frequently before the Environment Court, the High Court and the Court of Appeal. In a 40-year legal career, he has provided advice and expertise to both private and public bodies, especially in the consenting of large infrastructure projects. Rob was the 2010 Barrister of the Year in the New Zealand Law Awards and was made an Officer of the New Zealand Order of Merit in the 2011 Queen's Birthday Honours.

Hon. Dame Annette King

DNZM, BA

Chair of the Strategic Transformation Programme Committee

Former MP, Dame Annette King brings 30 years of governance, community and public health experience to Watercare.

During her time in Parliament, Annette held several key ministerial portfolios – Health, Transport, Justice, Police and State Services – and was a member of the Finance and Expenditure, Health, and Local Government and Environment Select Committees. Annette continues as patron for a number of community organisations.

General disclosure of interests:
Chair, Life Flight Trust Wellington; Interim Chair, Earthquake Commission (EQC).

* Annette retired from the board on 31 December 2018.

Catherine Harland

BA, PGDIPBUS, MBA, CFInstD, JP

Chair of the People, Remuneration and Appointments Committee

Catherine Harland is a consultant with a background in research and public policy in local and central government. She has worked for MartinJenkins, The New Zealand Institute and Auckland University of Technology's Institute of Public Policy. Catherine was an elected local government member for 15 years and involved in various community groups including five years as Chair of the Auckland Observatory and Planetarium Trust Board.

Catherine is a Chartered Fellow of the Institute of Directors.

General disclosure of interests:
Director, McHar Investments Limited; Director, Interface Partners Limited; Trustee, One Tree Hill Jubilee Educational Trust; Member, Auckland Regional Amenities Funding Board; Member, Urban Planning Pillar Critical Friends; Committee member, Broadway Park Owners' Society Incorporated; Independent Chair, Aircraft Noise Community Consultative Group.

David Thomas

BCA (HONS)

David Thomas has over 35 years' experience in the building industry, and has led key business units within Fletcher Building for the last 26 years. He is currently the General Manager of Winstone Wallboards Ltd. David was on the founding Board of the South Auckland Crown Health Enterprise and represented Fletcher Challenge Ltd on the Board of Māori Development Corporation.

General disclosure of interests:
Chair, Ngāti Whakaue Tribal Lands Incorporated; Chair, Gypsum Board Manufacturers of Australasia; Shareholder/Employee – Fletcher Building Limited; Director, New Zealand Ceiling & Drywall Supplies Limited; Chair, Altus NZ Limited, Director, Winstone Wallboards Ltd.

Nicola Crauford

BSC (HONS), PHD, FENGNZ, CPENG, FAICD, CFInstD

Chair of the Asset Management Plan (AMP) and Major Capex Committee (AMCC)

Dr Nicki Crauford is a professional company director with extensive experience in infrastructure including executive roles in oil and gas and the electricity sectors in New Zealand and the United Kingdom. She is currently Chair of GNS Science and a director of Orion New Zealand and the Environmental Protection Authority. She is a former director of Genesis Energy, Wellington Water and Fire and Emergency New Zealand.

Nicki is a Chartered Professional Engineer, a Fellow of Engineering New Zealand and the Australian Institute of Company Directors and a Chartered Fellow of the Institute of Directors.

General disclosure of interests:
Chair, GNS Science Limited; Director, Orion New Zealand Limited; Director, Environmental Protection Authority (EPA); Member of Electoral Authority – Cooperative Bank Limited; Specialist Advisor, WorleyParsons New Zealand Limited; Director and Shareholder, Riposte Consulting Limited; Independent Chair, Joint Governance Board, Chorus and Visionstream UFB Connect; Member, EPA Decision Making Committee, OMV Great South Basin marine discharge consent application.

Brendon Green

BE CHEM AND PROCESS (HONS), PGDIP IN DAIRY SCIENCE AND TECHNOLOGY

Brendon Green brings extensive project development experience, primarily from the energy and Māori sectors. Brendon's career includes technical-commercial roles with NZ Dairy Board, Contact Energy, General Electric (Mexico and in the US) and Mercury (formerly Mighty River Power). His experience includes the development of power stations (thermal, geothermal, wind and landfill), and establishing joint ventures with Māori entities.

Brendon brings over a decade of governance experience from past and present roles that include being the past Chair of Tirohia Landfill Generation joint venture. Brendon founded Kaitiaki Advisory Limited that specialises in resource development with a focus around energy, water, minerals and dairy.

General disclosure of interests:
Director – Kaitiaki Advisory Limited, Electruck, Bay Dairy Limited, Peak2Peak Limited, Tainui Kawhia Incorporation, Advanced Biotech NZ. Economic Portfolio Executive for Te Runanganui o Ngāti Hikairo, appointed Waikato Tainui representative for Runanga Manukau Institute of Technology – Te Whakakitenga o Waikato representative.

* These disclosures were recorded as of 30 June 2019.

OUR EXECUTIVE TEAM

From left: Steve Webster, Shane Morgan, Rebecca Chenery, Jason Glennon, Raveen Jaduram, Amanda Singleton, Marlon Bridge, Shayne Cunis, David Hawkins

Raveen Jaduram

BE (HONS), ME, FENGNZ

Chief Executive Officer

Raveen Jaduram has been chief executive of Watercare since 2014. He has held chief executive roles in private and public sectors in Australia and New Zealand. Raveen is a dedicated infrastructure leader, passionate about water and sustainability. He is currently on the board of Committee for Auckland.

Amanda Singleton

BA COMMUNICATIONS

Chief Customer Officer

A passionate customer advocate, Amanda is responsible for building a customer-centric culture and overseeing all the customer touch points in the business. She has extensive experience, nationally and internationally, as a transformational corporate leader.

Rebecca Chenery

BBUS, DIP.MGMT

Chief Digital Officer

Rebecca Chenery has been with Watercare since 2010 and was appointed to the role of chief digital officer in January 2018. She has many years of experience in programme management and business transformation projects across the information services, telecommunications and water industries in New Zealand and overseas. Rebecca is responsible for leading all technology aspects of the business along with Watercare's business transformation programme.

Marlon Bridge

BCOM, DIPCOM, CA

Chief Financial Officer

Marlon Bridge is a chartered accountant with over 25 years' experience in senior private and public sector roles. He has previous water utility experience as chief financial officer of Manukau Water Limited and chief customer officer for Watercare. He was appointed to the role of chief financial officer in July 2018, and holds responsibility for Watercare's financial stability and commercial focus. Marlon oversees the financial planning and analysis, supply chain, property, legal, internal audit, risk and resilience functions.

Steve Webster

DIP CM, BE (HONS), NZCE (CIVIL)

Chief Infrastructure Officer

Steve Webster is a civil engineer with more than 20 years' experience in senior leadership roles, predominantly in the infrastructure sectors in New Zealand and Australia, delivering projects and maintenance services to government, local authority and private asset owners. He was appointed Watercare's general manager – infrastructure delivery in May 2015 and appointed chief infrastructure officer in January 2018. Steve is responsible for Watercare's delivery of infrastructure projects from servicing strategies through planning to construction and for supporting external developer services to enable growth in Auckland.

David Hawkins

MPP, TTC, JP

Chief Corporate Affairs Officer

David Hawkins' responsibilities include government, community relations and communications. He has a background in sales and marketing management for New Zealand and global brands, and has a strong commitment to local government and community engagement. David has previously served as an Auckland regional councillor and is a former mayor of the Papakura District.

Jason Glennon

Chief People Officer

Jason Glennon has worked across a number of industries, including construction and fast-moving consumer goods. He has held a number of senior roles in human resources at Fonterra, Fletcher and Carter Holt Harvey.

Jason was appointed Watercare's chief people officer in January 2018. He has oversight of all people-related activities in the business and is responsible for creating a high-performing company culture.

Shane Morgan

ME (CIVIL AND RESOURCE ENGINEERING), BE (ENGINEERING SCIENCE)

Chief Operations Officer

Shane Morgan is an executive leader and water industry professional leading a team of 300+ in the delivery of water and wastewater services. His role encompasses everything from strategy, planning, design and construction, through to commissioning and operations and a commitment to embedding a customer-centric environment that is responsive, agile and operationally excellent.

He has worked with some of the largest and most progressive Australian and New Zealand entities, leading change in diverse workplaces and developing high-performing teams and systems that are ground-breaking, sustainable and will deliver inter-generational value.

Shayne Cunis

BE CIVIL (HONS), FENGNZ, CMENGNZ

Executive Programme Director Central Interceptor

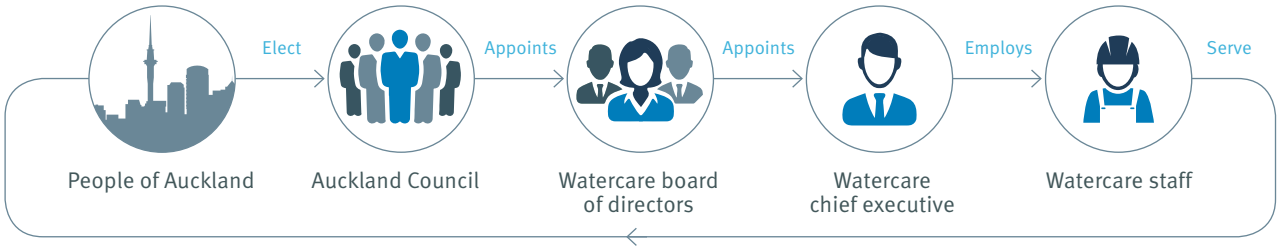
Shayne Cunis is a chartered professional engineer and Fellow of Engineering NZ with more than 20 years' experience in the Auckland water supply industry. He was appointed the executive programme director for Central Interceptor in January 2018 and reports to the chief executive.

Shayne has previously held senior operational management and executive roles at Watercare and has served on the board of Water New Zealand.

He is an international board member of the Water Research Foundation, which is the leading not-for-profit research cooperative that advances the science of water to protect public health and the environment.

GOVERNANCE

Watercare, a council-controlled organisation (CCO) is a wholly owned subsidiary of Auckland Council (the shareholder). The board of directors (the board) and management are committed to ensuring that we apply best-practice governance policies and procedures. The board is ultimately responsible for all decision-making by the company.

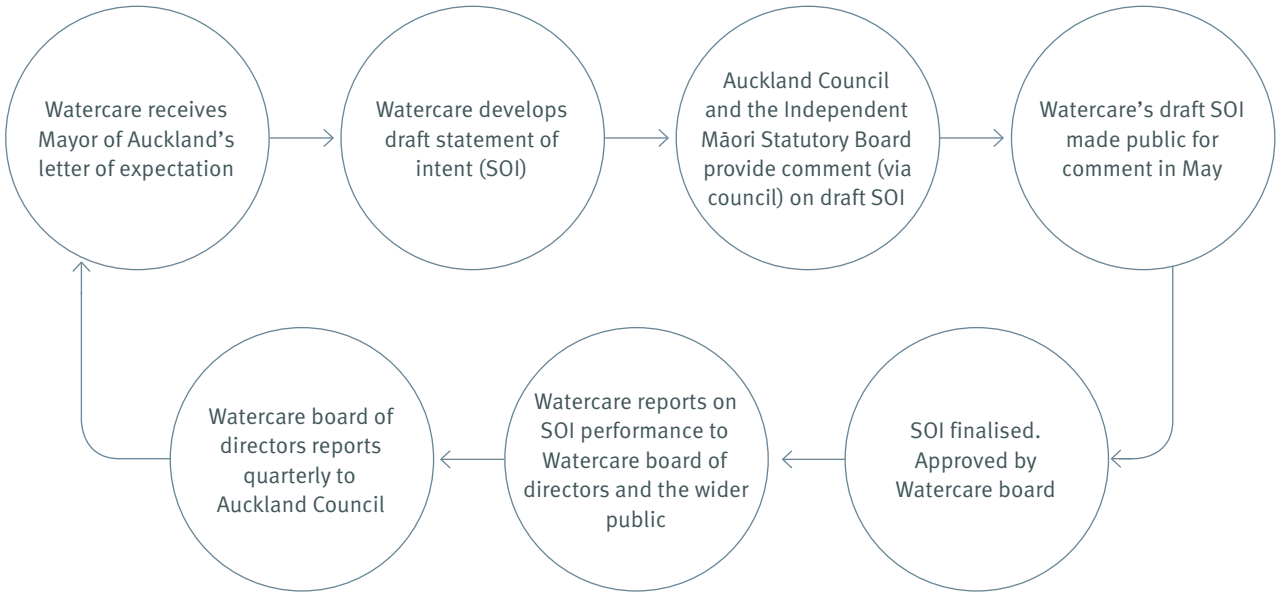


Our legislative framework

Watercare is a limited liability company registered under the Companies Act 1993, and a local government organisation under the Local Government Act 2002. Full details of the legislative framework we operate under can be found on our website.

Our governance framework

Every year, Watercare consults with its shareholder, Auckland Council, to develop a statement of intent (SOI) covering the next three years. The SOI identifies the relationship between Watercare's activity and the delivery of those outcomes sought by the Mayor of Auckland and those specified within the Auckland Plan. Auckland Council, the Independent Māori Statutory Board and the general public are invited to comment on the final draft, before it is adopted by the board. The 2018–2021 SOI is available on our website.



Performance

We have an agreed set of performance measures and targets which form the basis of our accountability for delivering on the shareholder's strategic direction, priorities and targets. This annual report records our performance against both non-financial and financial performance measures included in the SOI.

The board is independently reviewed every two to three years.

Setting standards of conduct for staff

We demand the highest standards of behaviour from our staff. Policies governing the conduct of employees are published on our intranet including the Good Employer Policy, the Discrimination, Bullying and Harassment Policy, Sensitive Expenditure Policy, Gifts and Inducement Policy and Conflict of Interest Policy.

Our projects are subject to internal probity reviews, and external probity auditors are appointed to provide additional assurance on selected projects.

Regular independent reviews

Watercare subjects its planning, operations and reporting to regular independent review. We are committed to a culture of continuous improvement and seek independent feedback from specialist advisors to achieve this objective.

Board structure and functions

The board meets at regular intervals throughout the year. The public are welcome to attend all public sessions of board meetings.

As at 30 June 2019, the board had four committees. All directors are welcome to attend any committee meetings, but only committee members have voting rights Committees provide advice and oversight and do not have delegated authority.

- **Audit and Risk Committee**, chaired by Julia Hoare, helps the board fulfil its financial reporting responsibilities and provides assurance regarding compliance with internal controls, policies and procedures. The committee also helps the board exercise due care, diligence and effective overview of risk management and external reporting. Health, safety and wellness matters are the responsibility of the full board and are excluded from the duties of the Audit and Risk Committee.
- **People, Remuneration and Appointments Committee (PRAC)**, chaired by Catherine Harland, helps the board fulfil its wider human resources responsibilities to the company. The committee provides advice to the board on organisational capability and design, and human resource strategies, and annually reviews the chief executive's performance and remuneration framework.
- **Strategic Transformation Programme Committee (STPC)**, chaired by Brendon Green, helps the board exercise due care, diligence and effective oversight of all matters relating to the delivery of Watercare's Strategic Transformation Programme.
- **Asset Management Plan (AMP) and Major Capex Committee (AMCC)**, chaired by Nicola Crauford, helps the board exercise due care, diligence and effective oversight of all matters relating to Watercare's AMP and major projects involving capital expenditure over $100 million.

Board member attendance 2018/19	Board	Audit and Risk	PRAC	AMCC	STPC
Number of meetings	10	5	4	4	3
Margaret Devlin	9	4+	3	1	0*
Julia Hoare	9	5	0*	4	0*
Nicola Crauford	10	0*	0*	4	3
Brendon Green	10	5	2*	1*	3
Catherine Harland	10	4*	4	4	3*
David Thomas	8	4	4	0*	0*
Hon. Dame Annette King (retired 31.12.18)	5	1*	2	0*	2

\+ Board Chair attends in an ex-officio capacity.

* Not a committee member.

Integrity

Corporate governance charter

This charter defines the duties and obligations of the board and board members covering fiduciary duty, duty of care, diligence, legal and statutory duties, and conflicts of interest. It incorporates the principles of the Institute of Directors of New Zealand's Code of Practice for directors, relevant sections of New Zealand Exchange Limited's Corporate Governance Best Practice Code, and the former Securities Commission's nine principles of corporate governance.

Whistleblowing

We have a specific policy to receive and deal with information about any serious wrongdoing within the company, as required by the Protected Disclosures Act 2000. PwC provides a Whistleblowing Disclosure Service so staff and others may confidentially and anonymously report matters of serious misconduct.

Complaints disclosure

Any complaints against the company are recorded. Targets have been set for the response to and resolution of complaints. Our level of service is reported in the annual report, to the shareholder quarterly, to the board monthly, and to the public at board meetings, as well as via our website.

Disclosures of interest

A register of directors and senior management's interests is maintained by Watercare and is updated as and when necessary. Directors and management's interests are a standard agenda item at every board meeting. Any disclosure of interest is recorded in the meeting minutes and the relevant participant refrains from taking part in the discussion or voting on any related resolution.

Transparency and accountability

Our financial statements, the statement of intent (SOI) and our long-term plans must be audited by the Auditor-General. The Auditor-General has appointed Andrew Burgess, using the staff and resources of Deloitte Limited, 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 Limited must satisfy the independence requirements of the Auditor-General and External Reporting Board.

Watercare is committed to transparent performance reporting. Recognising this, we publish:

- An annual statement of intent (SOI)
- A long-term asset management plan (AMP)
- An annual report that reports performance against the SOI and non-mandatory measures, following the Global Reporting Initiative (GRI) guidelines
- An overview of current water storage levels and other information (published weekly on our website)
- Special reports and project newsletters for interested parties.

As a council-controlled organisation, Watercare is subject to the Local Government Official Information and Meetings Act 1987, which provides to the public official information held by local authorities. The average response time this year was 3.8 days.

ENTERPRISE RISK MANAGEMENT

Watercare maintains a board-approved Risk Management Policy, the intent of which is to direct the risk management function. This policy focuses risk management onto those risks that are material to the achievement of the organisation's principal objectives.

Watercare applies a risk management framework consistent with ISO 31000: 2018 Risk Management Guidelines to ensure that risks throughout the business are managed consistently.

This risk management framework defines the management policies, procedures and practices to be applied to the risk management tasks of identifying, analysing, evaluating, treating and continuing to monitor risk to provide enterprise-level information.

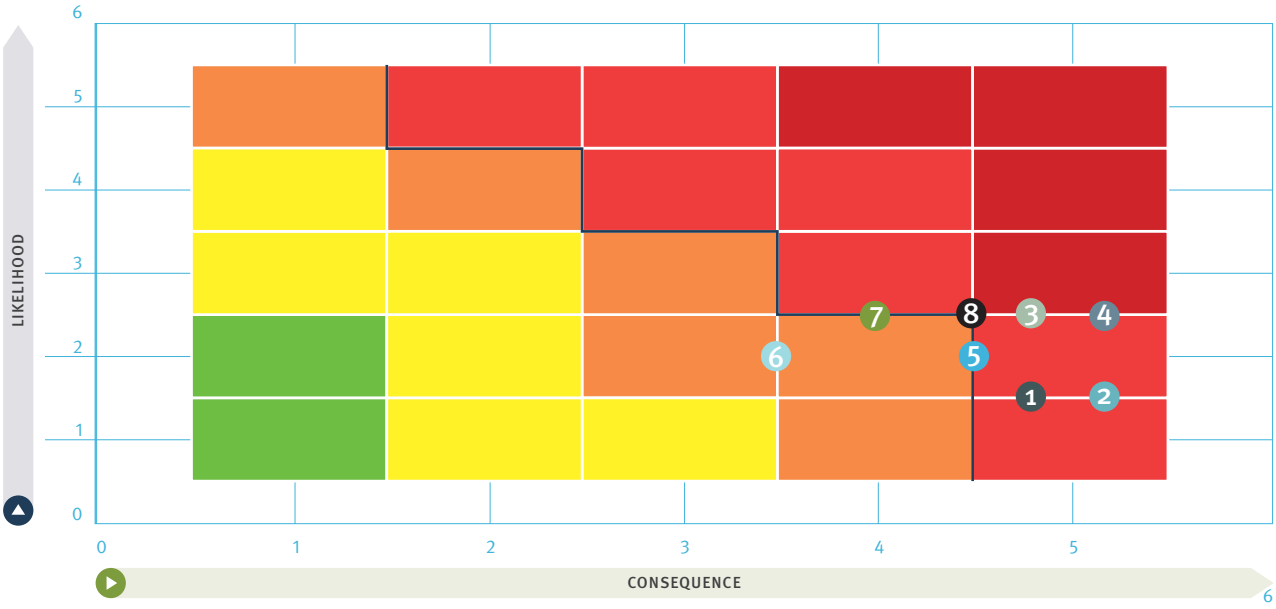
As part of the risk management framework, we have established a Risk and Resilience Steering Committee, which meets quarterly to monitor emerging risk and risk mitigation actions and strategies. The committee comprises the chief executive, senior management and the head of risk and resilience.

Regular monitoring, review and reporting of risks is an important component of the Watercare Risk Management Framework, as it ensures new risks and changes to existing risks are identified and managed, and that risk treatment plans are developed and implemented.

Several significant risks are monitored by the board at least quarterly, or as required. In addition, the Audit and Risk Committee receives detailed updates on these risks.

Watercare's enterprise risks primarily reflect the dependencies that the organisation has to deliver its services and these are outlined on the heat map below and table on the next page.

Enterprise risk heatmap



- 1. Significant operational hazards related to Watercare staff operation / contractor / third-party-led operations
- 2. Failure to treat wastewater to the required standard and convey wastewater flows
- 3. Insufficient treated water supply to meet demand
- 4. Treasury – liquidity / capital funding risk
- 5. Cybersecurity for business and control systems
- 6. Failure to meet developer service commitments
- 7. Successful completion of the Watercare Strategic Transformation Programme (STP)
- 8. Major project cost overrun

Enterprise risk description	Potential consequence	Integrated reporting capitals	Key controls and mitigation strategies
Significant hazards related to Watercare staff operations/ contractor/third-party-led operations *Health and safety (H&S) incidents resulting from the actions of Watercare staff, contractors and/or third parties inside and outside Watercare sites*	Staff, contractors and/or third parties may face serious harm	• Financial capital and resources • Natural environment • People and culture • Community and stakeholder relationships	• Developing Watercare's standards for work involving significant safety hazards • Training staff to industry standards • Ongoing monitoring of relevant lead and lag H&S indicators • Continuing programme of inspections and audits • Selection of contractors based on meeting Watercare's H&S requirements • Partner with contractors to ensure management of significant H&S hazards • Review and monitor contractors' H&S plans and performance
Failure to treat wastewater to the required standard and convey wastewater flows *(including the impact of stormwater overflows in wet-weather events and longer-term climate change)* *This risk relates to environmental impacts and failure to meet consent conditions with a flow-on effect to stakeholder support and confidence*	Environmental impacts or failure to meet consent conditions that affect stakeholders	• Financial capital and resources • Natural environment • People and culture • Community and stakeholder relationships	• Non-metro WWTP upgrade programme • Major WWTP AMP renewal and upgrade programme • Transmission and network upgrades to convey required stormwater and wastewater flows and avoid overflows • Network upgrades to address capacity constraints • Network Inflow and Infiltration (I&I) investigations
Insufficient treated water supply to meet demand *This could be caused by extended dry weather, the loss of a major storage dam, continued delays in the application for additional raw water from the Waikato River, failure to obtain regional consents for the new Huia Water Treatment Plant or the loss of water treatment capacity which could arise from climate change (including extreme weather events)*	Inability to supply sufficient treated water to meet Auckland's demand	• Financial capital and resources • Natural environment • People and culture • Community and stakeholder relationships	• Risk mitigation is inherent in the design of the water systems, from source to treatment • Formation of a Water Task Force to address issues associated with continuing dry weather • Increasing the use of the Waikato River source in continuing dry conditions • Integrated sources management model for water abstraction • A Drought Management Plan
Treasury – liquidity/capital funding risk *Auckland Council nears/reaches its debt limits (debt-to-revenue ratios) resulting in group constraints on future planned capital project funding*		• Assets and infrastructure • Financial capital and resources • Community and stakeholder relationships	• Group debt position reviewed • A slowdown in group capital expenditure has improved short-term headroom • Watercare will ensure that its capital programme is optimised in terms of project need, timing and cost • Agreement with Auckland Council regarding our projected capital expenditure so it can be factored into council's plans and requirements

Enterprise risk description	Potential consequence	Integrated reporting capitals	Key controls and mitigation strategies
Cybersecurity for business and control systems *Malicious acts compromising Watercare's corporate network or its operating (SCADA) control systems, as the cyber threat environment continues to grow*	Corporate network and/or operating control (SCADA) systems are compromised, affecting operations	• Assets and infrastructure • Financial capital and resources • Natural environment • People and culture • Community and stakeholder relationships • Intellectual capital	• Comprehensive cybersecurity policies in place • Specialist cybersecurity and detection tools deployed • Independent experts used to recommend an enhanced cybersecurity roadmap • Dedicated cybersecurity function with ongoing education of staff
Failure to meet developer service commitments *Failure of delivery of major Watercare infrastructure projects in the timeframes recommended to/expected by developers*	Failure to meet developer service commitments	• Assets and infrastructure • Financial capital and resources • Natural environment • People and culture • Community and stakeholder relationships	• Proactive developer relationship engagement • Consenting Made Easy (CME) to improve response times • Improving transparency/working closely with developers on delivery of growth-related capital projects
Successful completion of the Watercare Strategic Transformation Programme (STP) *The benefits which STP seeks to deliver may not be realised and planned stakeholder experiences, cost and process efficiencies may not be achieved*	Planned benefits of Watercare's Strategic Transformation Programme not realised	• Assets and infrastructure • Financial capital and resources • Natural environment • People and culture • Community and stakeholder relationships • Intellectual capital	• A benefits realisation workstream will continue for the duration of the programme • The benefits framework has been implemented • Continuing monitoring of lead indicators of benefits realisation • Continuing customer, partner and employee engagement to co-design and gather feedback on functionality
Major project cost overrun *Actual cost of delivery is higher than anticipated*	The funding requirement is outside the Asset Management Plan (AMP) envelope	• Assets and infrastructure • Financial capital and resources • People and culture • Community and stakeholder relationships • Intellectual	• Develop procurement strategies that minimise capital and whole-of-life costs of new assets • Monitor and closely manage project delivery time and costs • The Central Interceptor project has been let within budget • Enterprise Model including the appointment of tier two construction partners for delivery of capital works

MATERIALITY AND STAKEHOLDER INCLUSIVENESS

Reporting on what's important to our stakeholders and our business is the basis for this integrated annual report. It is structured around the material customer, business, environmental, social and governance topics that stakeholders and Watercare identified as most relevant.

These are the key issues that have a material impact on the long-term success of our business and our wider operating environment and they broadly remain the same as reported in our 2018 Annual Report, with the addition of climate change. Climate change is material to Watercare as it has a huge potential to impact our operations and services and has significantly influenced our decision-making in 2018/19.

Watercare is accountable to a wide range of stakeholders, which comprise the entities or individuals that can affect or be affected by the organisation's activities. We have a structured process of engagement with many of our stakeholders. Media enquiries, complaints and other public interaction have also helped us to understand stakeholders' expectations. The issues that were considered important by our stakeholders during the year are set out on the next page.

Key issues

- Safe, clean, reliable drinking water
- Health, safety and well-being of our people
- Responsible infrastructure stewardship
- Effective wastewater management
- Long-term financial stability
- Infrastructure planning for future growth
- Climate change

Visitors tour our Waikato Water Treatment plant, which draws and treats water from the Waikato River.

ISSUES IMPORTANT TO OUR STAKEHOLDERS

Auckland Council

- Climate change
- Promoting Māori outcomes
- Water and wastewater investment
- Progress on Central Interceptor
- Western Isthmus Water Quality Improvement Programme
- Investigating commercial opportunities and funding in the best interests of council

Regulators

- Involvement and contribution to Department of Internal Affairs' review of Three Waters.
- Maintaining compliance with service standards

Environmental groups

- Early involvement in Watercare's programmes
- Watercare's climate change strategy and action
- Environmental management of the Central Interceptor project
- Hūnua revegetation programme

Residential and commercial customers

- Responsiveness to issues (billing, faults)
- Affordability of services
- Water efficiency (for businesses) in order to reduce their operational costs

Developers

- Delivery of the Auckland Housing Programme and wider support to the Government's major urban transformation programmes in the region
- Coordinating and delivering infrastructure to service new growth areas in Auckland
- Upgrading the local water and wastewater network to cater for growth in existing areas

Tangata Whenua (Māori)

- Healthy waters (Te Mauri o Te Wai)
- Climate change
- Wastewater discharge consents and projects that require engagement with Mana Whenua such as the Central Interceptor and the South West Wastewater Servicing Strategy.

Local boards

- Information on infrastructure projects ahead of works and updates on progress and delays
- Timely information on local network issues so there are 'no surprises'

Local residents and community groups that neighbour our worksites

- Opportunities for consultation on projects before work begins
- Accurate and timely information on projects' progress
- Consideration of the social and environmental impacts of our projects e.g. traffic management and access to property

Infrastructure providers

- Coordinated approach to infrastructure projects to minimise disruption to the community
- Opportunities to collaborate and deliver infrastructure effectively

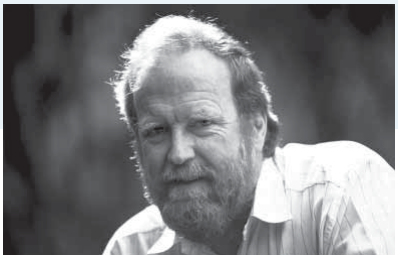
Suppliers and contractors

- Access to information on planned and upcoming projects
- Opportunities for innovation and collaboration

Staff

- Better alignment between departments on strategy and activities
- Competitive pay

ENVIRONMENTAL ADVISORY GROUP



The Environmental Advisory Group (EAG) is an independent group of individuals with interest and expertise in water and wastewater-related topics. We advise, support and challenge Watercare's approach to sustainability generally and environmental matters in particular. We also help to anticipate emerging issues and inform strategy development. We express community concerns and press Watercare to exercise environmental leadership within the water industry.

Working with Watercare during the year, the group has been pleased to see that sustainability considerations have become progressively more integrated into the company's planning and operations, including the implementation of a revised personnel structure to achieve that. We consider this is essential for an organisation such as Watercare, with not only a potentially large environmental footprint but also one facing major impacts and costs as a result of climate change.

EAG continued to engage with Watercare as it completed its Climate Change Strategy. This is anticipated to evolve in response to ongoing monitoring and other external changes. We are impressed with Watercare's approach to this important strategy, which sets the overall context in which both planning and operational decisions are made and implemented, and support its proposed actions. Using holistic assessment methods in the strategy's implementation and review will avoid the risk of siloed decision-making with its potential for inconsistent outcomes – for example, significant impacts on other significant values (such as an ecological area) for minimal gain on climate-related aspects. A summary of this strategy is on the Watercare website and should greatly assist public understanding of the practical effects of climate change for Watercare and provide a good exemplar for others to consider in determining climate change implications and how to address them.

Watercare's Hūnua revegetation project is one where the group has provided considerable input during the year as it encompasses multiple major environmental issues. In addressing important operational issues (2017 "Tasman Tempest" erosion and how to protect the catchment from a repeat event) there are also opportunities for optimising carbon sequestration, biodiversity in one of Auckland's largest natural areas, and Kauri dieback mitigation. Biosecurity risks and public use and access are also very important.

Other major topics engaged with during the past year include:

- Water security and current weather projections
- Incorporation of climate change and other environmental outcomes into infrastructure delivery
- Watercare's submissions on the Zero Carbon Bill and other Government initiatives
- Central Interceptor Sustainability Rating.

Paul Walbran
Chairman
Environmental Advisory Group

EAG members and areas of interest:

Paul Walbran, Chairman
Water quality, harbour health, heritage

Betsy Kettle
Zero Waste, Water Sensitive Urban Design

Daniel Hikuroa
Mātauranga, mauri, waterscapes, water futures

Elizabeth Walker
Wetlands, water, community infrastructure, Aotearoa plants

Georgina Hart
Environmental management, business sustainability, water quality, restoration and conservation, climate change

Judy Bischoff
Water, energy efficiency, soils, waste, permaculture

Madeleine Wright
Environmental litigation, national policy development

MANA WHENUA KAITIAKI FORUM

Tapatahi tonu ana ngā ture kua heke mai i te wāhi ngaro ki a tātou te ira tangata mō āke tonu ake. Me mihi rā ki te whenua me tangi hoki mō te hunga kua okioki. Rātou ki a rātou, tātou kua mahue nei ki muri, tēnei te tuku ake i te reo maioha atu ki a koutou katoa – kāti ake.

Tiakina te mauri – pupuri i te mauri kaitiaki. Mena ka tau te mauri i te taiao ka tau te oranga o te ira tangata; when the life force of the environment is in balance, the well-being of mankind is assured.

The Mana Whenua Kaitiaki Forum – Manager's Group has continued with a busy year, principally at a project level, to align the mātauranga values from a mana whenua world-view to those values expressed within the integrated delivery of activities associated with the business of Watercare. A direct acknowledgement is stated to the executive leadership from within Watercare for the support directed towards this forum that enables the continuation of the committed effort within the partnered relationship.

Key points of focus over this past year have centred on:

- The collaborative effort with Healthy Waters on the Auckland Waters Strategy with particular coverage of te mauri o te wai
- Water Sensitive Design Strategy for the Western Isthmus joint programme led by Watercare in association with Healthy Waters as well as Tonkin & Taylor
- Central Interceptor project with management plans for cultural aspects, archaeology as well as the whole-of-project sustainability with the Ghella-Abergeldie joint-venture partnership with a further eleven plans
- The vagaries of a changing global climate should not be ignored at this level of kaitiakitanga – constant reminders should be tailored around an order of priority that accentuates our collective ability to apply the practices from a mana whenua basis.

Mana whenua have also continued their direct involvement with Watercare around the multiple projects across the region. Many of those activities are not covered in this annual report. The forum has endured the workload with an average representation of nine to eleven entities from across the Tamaki region. Despite those attendance numbers the invitation is a permanent one for all nineteen entities to attend and engage. A key and direct question must then be around the relevance of the forum.

Numerous issues have been raised through proactive discussions and dialogue between the two parties of this relationship-based partnership around the application of diligent kaitiakitanga in this Watercare context. Although the bulk of Watercare's activities are project-based, this 2018/19 annual period has also seen the engagement of the forum across a vast range of project-type activities.

This past period has also been a milestone year around the exchange of information outside of the bi-monthly meetings of the forum in our quest to promote Kaitiaki outcomes through this partnership arrangement with Watercare across the region. The testimony of a collegial approach that extends to a willingness to work with other parties within and outside the council environment is a hallmark of an indicator that promotes true social, environmental as well as economic uplift for one and all concerned. Kia tau tonu te mauri, kāti ki konei.

Tame te Rangi
Chair
Mana Whenua Kaitiaki Forum

Mana Whenua Kaitiaki Forum:

Makaurau Marae Māori Trust
Ngā Maunga Whakahii o Kaipara Trust
Ngai Tai Ki Tāmaki Tribal Trust
Ngāti Manuhiri Settlement Trust
Ngāti Maru Rūnanga Incorporated
Ngāti Rēhua – Ngāti Wai ki Aotea Trust
Ngāti Tamaoho Trust
Ngāti Paoa Iwi Trust
Ngāti Tamaterā Settlement Trust
Ngāti Wai Trust Board
Ngāti Whanaunga Incorporated
Ngāti Whātua Ōrākei Trust
Te Ākitai Waiohua Iwi Authority
Te Ara Rangatū o Te Iwi o Ngāti Te Ata Waiohua
Te Kawerau Iwi Tribal Authority
Te Patukirikiri Incorporated
Te Rūnanga o Ngāti Whātua
Te Uri o Hau Settlement Trust
Te Whakakitenga o Waikato Incorporated

OUR FINANCIALS

These financial statements and the statement of service performance for Watercare Services Limited were approved and authorised for release for the year ended 30 June 2019.

Contents

Historical financial summary and key statistics

AS AT 30 JUNE

	2015	2016	2017	2018	2019
	$000	$000	$000	$000	$000
Financial Performance					
Total revenue	520,407	570,429	631,009	641,586	715,177
Operating expenses	204,572	209,894	213,480	217,625	226,484
Depreciation and amortisation	208,739	216,250	228,124	219,979	245,822
Finance costs	73,992	77,684	80,768	82,110	66,489
Total expenses	487,303	503,828	522,372	519,714	538,795
Operating surplus from trading operations	33,104	66,601	108,637	121,872	176,382
Net loss on disposal of and provision for redundant property, plant and equipment, and restructuring costs	(11,052)	(10,968)	(9,334)	(8,488)	(13,216)
Net (loss) / gain on revaluation of derivative financial instruments	(88,644)	(137,600)	87,546	(20,808)	–
Operating surplus / (deficit) before tax	(66,592)	(81,967)	186,849	92,576	163,166
Income tax (expense) / benefit	11,236	14,780	(62,163)	(38,145)	(55,547)
Net surplus / (deficit) after tax	(55,356)	(67,187)	124,686	54,431	107,619
Financial Position					
Current assets	79,692	80,857	82,621	94,761	120,528
Non-current assets	8,605,062	8,739,757	8,862,924	9,992,051	10,271,797
Total assets	8,684,754	8,820,614	8,945,545	10,086,812	10,392,325
Current liabilities	320,837	504,561	360,715	482,209	175,330
Non-current liabilities	2,488,916	2,482,163	2,626,254	2,855,681	3,142,756
Total liabilities	2,809,753	2,986,724	2,986,969	3,337,890	3,318,086
Total equity	5,875,001	5,833,890	5,958,576	6,748,922	7,074,239
Cash Flow					
Net cash inflows – operating activities	224,712	247,754	275,508	316,761	420,964
Net cash outflows – investing activities	(285,494)	(311,593)	(302,111)	(326,223)	(387,861)
Net cash inflows – financing activities	63,487	60,456	27,563	8,425	(30,553)
Net change in cash flows	2,705	(3,383)	960	(1,037)	2,550
Key Statistics					
Property, plant and equipment	8,528,217	8,654,122	8,777,049	9,913,765	10,163,169
Capital expenditure	286,913	296,101	301,632	342,426	448,005
Net debt	1,513,996	1,577,571	1,603,895	1,613,065	1,696,942
Increase in net debt	60,532	63,575	26,324	9,170	83,877
Increase in net debt to capex	22%	21%	9%	3%	19%
EBITDA to interest expense ratio	4.00	4.23	4.41	4.78	6.39
Funds flow from operations to interest ratio	3.40	3.70	3.94	4.19	4.93
Funds flow from operations to average net debt	20%	21%	22%	24%	26%
Number (headcount) of permanent employees	817	861	909	908	984

	2019	2018	2019		
	ACTUAL $000	ACTUAL $000	BUDGET $000	VARIANCE TO BUDGET	RESULT
Revenue	715,177	641,586	651,040	64,137	✓
Operating expenses	(226,484)	(217,625)	(218,922)	(7,562)	✗
Depreciation and amortisation	(245,822)	(219,979)	(252,300)	6,478	✓
Finance costs	(66,489)	(82,110)	(77,674)	11,185	✓
Total expenses	(538,795)	(519,714)	(548,896)	10,101	✓
Operating surplus from trading operations	176,382	121,872	102,144	74,238	✓
Net loss on disposal of and provision for redundant property, plant and equipment, and restructuring costs	(13,216)	(8,488)	(8,000)	(5,216)	✗
Net (loss) / gain on revaluation of derivative financial instruments	–	(20,808)	–	–	–
Operating surplus before tax	163,166	92,576	94,144	69,022	✓
Income tax expense	(55,547)	(38,145)	(38,549)	(16,998)	✗
Net surplus for the year	107,619	54,431	55,595	52,024	✓
Gain on revaluation of property, plant and equipment	–	735,915	–	–	–
Total comprehensive revenue and expense for the year, net of tax	107,619	790,346	55,595	52,024	✓

Key points

- Watercare's total revenue of $715.2 million exceeded the budget by $64.1 million. A hot summer and excess demand was largely responsible for the $7.6 million increase in water and wastewater revenue, whilst non-cash vested asset revenue contributed $42.1 million to this favourable variance. The infrastructure growth charge added $8.0 million revenue, reflecting the increased growth in the Auckland region.
- Operating costs were $7.6 million higher than budget. This was primarily due to Maintenance costs being $6.7 million being higher than budget due to unforeseen unplanned maintenance required on infrastructure assets and additional costs associated with higher than budgeted production demand.
- Finance costs were $11.2 million lower than budget due to lower spend on capital expenditure projects and a lower cost of funds than what was budgeted.
- Depreciation and amortisation was $6.5 million lower than budget. This was due to the budget assuming higher depreciation from asset capitalisations during the year.
- The company reports an operating surplus of $176.4 million compared with a budgeted operating surplus of $102.1 million, a favourable variance of $74.3 million. Both business units are reporting an operating surplus from trading operations being $46.3 million for water and $130.1 million for wastewater.
- The reported operating surplus from trading operations was prior to a non-cash loss on disposal of property, plant and equipment and restructuring costs of $13.2 million. This was $5.2 million higher than budget primarily due to the increase in new developments, where existing retail assets were disposed and replaced with vested assets.
- The resulting net surplus after tax of $107.6 million was compared with a budgeted net surplus of $55.6 million. (2018: net surplus after tax of $54.4 million).
- Total assets of the company have increased from $10.1 billion to $10.4 billion during the last year, reflecting the company's continued investment in new infrastructure assets.
- Net debt increased by $83.9 million during the year. Debt is used to fund capital expenditure that is directed at improving the quality of services provided by Watercare and service the effects of population and construction growth in Auckland.

Financial Statements

We have ensured that the financial statements fairly reflect the financial position of the company as at 30 June 2019 and its financial performance and cash flows for the year ended on that date.

We have ensured that the accounting policies used by the company comply with the applicable public benefit entity (PBE) accounting standards.

We believe that proper accounting records have been kept, enabling the financial position of the company to be determined, and that the financial statements comply fully with the Financial Reporting Act 2013 and the Companies Act 1993.

We consider adequate steps have been taken to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Statement of Service Performance

We are responsible for establishing a Statement of Intent, which sets targets and other measures by which the company's performance can be judged in relation to its objectives.

We consider the results reported in the statement of service performance fairly reflect the achievements for the year ended 30 June 2019.

These financial statements and the statement of service performance for Watercare Services Limited for the year ended 30 June 2019 were approved and authorised for release on 30 August 2019.

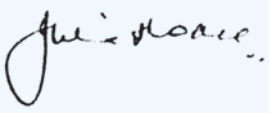
For and on behalf of management:

R P Jaduram
Chief Executive

M A Bridge
Chief Financial Officer

For and on behalf of the Board of Directors:

M P Devlin
Chair



J C Hoare
Deputy Chair

Deloitte.

TO THE READERS OF WATERCARE SERVICES LIMITED GROUP'S FINANCIAL STATEMENTS AND STATEMENT OF SERVICE PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2019

The Auditor-General is the auditor of Watercare Services Limited (the Group). The Auditor-General has appointed me, Andrew Burgess, using the staff and resources of Deloitte Limited, to carry out the audit of the financial statements and the statement of service performance of the Group on his behalf.

Opinion

We have audited:

- the financial statements of the Group on pages 64 to 103 that comprise the Statement of Financial Position as at 30 June 2019, the Statement of Comprehensive Revenue and Expense, Statement of Changes in Equity and Statement of Cash Flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the statement of service performance of the Group on pages 104 to 106

In our opinion:

- the financial statements of the Group on pages 64 to 103:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2019; and
    - its financial performance and cash flows for the year then ended; and
  - comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Standards; and
- the statement of service performance of the Group on pages 104 to 106 presents fairly, in all material respects, the Group's actual performance compared against the performance targets and other measures by which performance was judged in relation to the Group's objectives for the year ended 30 June 2019.

Our audit was completed on 30 August 2019. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements and the statement of service performance, and we explain our independence.

Basis for our opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Board of Directors for the financial statements and the statement of service performance

The Board of Directors is responsible on behalf of the Group for preparing financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand. The Board of Directors is also responsible for preparing the statement of service performance for the Group.

The Board of Directors is responsible for such internal control as it determines is necessary to enable it to prepare financial statements and statement of service performance that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the statement of service performance, the Board of Directors is responsible on behalf of the Group for assessing the Group's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the Board of Directors intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors' responsibilities arise from the Local Government Act 2002.

Responsibilities of the auditor for the audit of the financial statements and the statement of service performance

Our objectives are to obtain reasonable assurance about whether the financial statements and the statement of service performance, as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of these financial statements and the statement of service performance.

For the budget information reported in the financial statements and the statement of service performance, our procedures were limited to checking that the information agreed to the Group's statement of intent.

We did not evaluate the security and controls over the electronic publication of the financial statements and the statement of service performance.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the statement of service performance, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We evaluate the appropriateness of the reported statement of service performance within the Group's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the statement of service performance or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements and the statement of service performance, including the disclosures, and whether the financial statements and the statement of service performance represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

Other Information

The Board of Directors is responsible for the other information. The other information comprises the information included in the Annual Report that accompanies the financial statements and the audit report.

Our opinion on the financial statements and the statement of service performance does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements and the statement of service performance, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the statement of service performance or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independence

We are independent of the Group in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board.

In addition to the audit, we have carried out engagements in the areas of taxation services, cyber and security risk advisory, probity services and limited assurance on selected non-financial information which are compatible with those independence requirements. In addition to these assignments, principals and employees of our firm deal with the Group on normal terms within the ordinary course of trading activities of the Group. These assignments and trading activities have not impaired our independence as auditor of the Group.

Other than the audit, the above assignments and trading activities, we have no relationship with, or interests in, the Group

Andrew Burgess

Deloitte Limited
On behalf of the Auditor-General
Auckland, New Zealand

Statement of comprehensive revenue and expense

FOR THE YEAR ENDED 30 JUNE 2019

	NOTES	2019 ACTUAL $000	2018 ACTUAL $000	2019 BUDGET $000
Revenue	NOTE 12, PAGE 89	715,177	641,586	651,040
Total revenue		715,177	641,586	651,040
Operating expenses				
Asset operating costs		(59,172)	(56,914)	(60,573)
Maintenance costs		(47,983)	(43,979)	(41,234)
Employee benefit expenses		(66,814)	(68,430)	(73,157)
Other expenses		(52,515)	(48,302)	(43,958)
Total operating expenses	NOTE 13, PAGE 91	(226,484)	(217,625)	(218,922)
Depreciation	NOTE 4, PAGE 74	(240,089)	(212,656)	(248,052)
Amortisation	NOTE 7, PAGE 80	(5,733)	(7,323)	(4,248)
Finance costs	NOTE 9, PAGE 83	(66,489)	(82,110)	(77,674)
Total expenses		(538,795)	(519,714)	(548,896)
Operating surplus from trading operations		176,382	121,872	102,144
Net loss on disposal of property, plant and equipment, and restructuring costs		(13,216)	(8,488)	(8,000)
Net (loss) / gain on revaluation of derivative financial instruments	NOTE 11, PAGE 89	–	(20,808)	–
Operating surplus before tax		163,166	92,576	94,144
Income tax expense	NOTE 15, PAGE 93	(55,547)	(38,145)	(38,549)
Net surplus for the year		107,619	54,431	55,595
Other comprehensive revenue and expense net of tax				
Gain on revaluation of property, plant and equipment	NOTE 6, PAGE 79	–	735,915	–
Other comprehensive revenue and expense for the year, net of tax		–	735,915	–
Total comprehensive revenue and expense for the year attributable to owners of the parent, net of tax		107,619	790,346	55,595

The financial statements should be read in conjunction with the notes on pages 68 to 102 inclusive.

Statement of financial position

AS AT 30 JUNE 2019

	NOTES	2019 ACTUAL $000	2018 ACTUAL $000	2019 BUDGET $000
Assets				
Current				
Cash and cash equivalents		2,058	126	–
Trade and other receivables from exchange transactions	NOTE 17, PAGE 95	82,128	71,843	68,283
Inventories	NOTE 18, PAGE 95	18,547	10,898	9,991
Prepaid expenses	NOTE 20, PAGE 96	14,611	2,778	1,954
Derivative financial instruments	NOTE 10, PAGE 83	–	9,116	–
Other financial assets	NOTE 21, PAGE 97	3,184	–	–
Total current assets		120,528	94,761	80,228
Non-current				
Property, plant and equipment	NOTE 4, PAGE 74	10,163,169	9,913,765	9,810,430
Intangible assets	NOTE 7, PAGE 80	46,447	43,289	83,067
Inventories	NOTE 18, PAGE 95	8,158	11,153	7,143
Prepaid expenses	NOTE 20, PAGE 96	28,698	23,844	22,552
Other financial assets	NOTE 21, PAGE 97	25,325	–	–
Total non-current assets		10,271,797	9,992,051	9,923,192
Total assets		10,392,325	10,086,812	10,003,420
Liabilities				
Current				
Bank overdraft		–	618	–
Borrowings	NOTE 8, PAGE 81	–	143,088	394
Derivative financial instruments	NOTE 10, PAGE 83	–	226,008	–
Trade and other payables for exchange transactions	NOTE 19, PAGE 96	18,017	16,637	19,930
Accrued expenses	NOTE 22, PAGE 97	146,358	84,783	74,847
Provisions	NOTE 23, PAGE 98	10,955	11,075	8,799
Total current liabilities		175,330	482,209	103,970
Non-current				
Borrowings	NOTE 8, PAGE 81	1,699,000	1,469,485	1,758,526
Deferred tax liability	NOTE 16, PAGE 94	1,418,091	1,362,544	1,336,139
Trade and other payables for exchange transactions	NOTE 19, PAGE 96	2,210	1,579	–
Accrued expenses	NOTE 22, PAGE 97	14,486	14,842	14,109
Provisions	NOTE 23, PAGE 98	8,969	7,231	7,718
Total non-current liabilities		3,142,756	2,855,681	3,116,492
Total liabilities		3,318,086	3,337,890	3,220,462
Equity attributable to owners of the parent				
Retained earnings		4,248,443	3,917,524	4,184,684
Revaluation reserves	NOTE 6, PAGE 79	2,565,103	2,570,705	2,337,581
Issued capital	NOTE 24, PAGE 99	260,693	260,693	260,693
Total equity		7,074,239	6,748,922	6,782,958
Total equity and liabilities		10,392,325	10,086,812	10,003,420

The financial statements should be read in conjunction with the notes on pages 68 to 102 inclusive.

Statement of cash flows

FOR THE YEAR ENDED 30 JUNE 2019

	NOTES	2019 ACTUAL $000	2018 ACTUAL $000	2019 BUDGET $000
Operating activities				
Cash was provided from:				
Receipts from customers		649,931	610,372	624,982
Dividends received		123	113	110
Interest received		488	10	–
Subvention receipt	NOTE 15, PAGE 93	5,920	6,671	6,174
		656,462	617,166	631,266
Cash was applied to:				
Employees and suppliers		(231,928)	(218,015)	(217,683)
Finance costs paid		(3,570)	(82,390)	(2,827)
		(235,498)	(300,405)	(220,510)
Net cash inflows – operating activities	NOTE 14, PAGE 92	420,964	316,761	410,756
Investing activities				
Cash was provided from:				
Sale of property, plant and equipment, and intangibles		8,063	9,115	–
		8,063	9,115	–
Cash was applied to:				
Purchase and construction of property, plant and equipment, and intangibles		(395,924)	(323,855)	(461,018)
Interest capitalised on construction of property, plant and equipment, and intangibles		–	(11,483)	–
		(395,924)	(335,338)	(461,018)
Net cash outflows – investing activities		(387,861)	(326,223)	(461,018)
Financing activities				
Cash was provided from:				
Proceeds from Auckland Council loans – related party	NOTE 24, PAGE 99	625,854	250,000	197,779
		625,854	250,000	197,779
Cash was applied to:				
Repay commercial paper (net)		–	(149,236)	–
Repay revolving credit facility (net)		(16,500)	(11,500)	(16,500)
Issued term loans		(30,000)	–	–
Repay medium-term notes issue		(125,000)	–	(125,000)
Repay loans from Auckland Council – related party		(484,907)	(80,839)	(6,017)
		(656,407)	(241,575)	(147,517)
Net cash (outflows) / inflows – financing activities		(30,553)	8,425	50,262
Net change in cash flows		2,550	(1,037)	–
Cash and cash equivalents / (overdraft) at the beginning of the year		(492)	545	–
Cash and cash equivalents / (overdraft) at the end of the year		2,058	(492)	–
Cash and cash equivalents comprises:				
Bank balances / (overdraft)		2,058	(492)	–
		2,058	(492)	–

The financial statements should be read in conjunction with the notes on pages 68 to 102 inclusive.

Statement of changes in equity

FOR THE YEAR ENDED 30 JUNE 2019

	NOTES	RETAINED EARNINGS $000	REVALUATION RESERVES $000	ISSUED CAPITAL $000	TOTAL $000
Balance at 1 July 2017		3,867,688	1,830,195	260,693	5,958,576
Comprehensive revenue and expense					
Net surplus for the year		54,431	–	–	54,431
Other comprehensive revenue and expense					
Novation of interest rate swaps and options to Auckland Council		–	–	–	–
Close out of interest rate swaps novated to Auckland Council		–	–	–	–
Gain on revaluation of property, plant and equipment	NOTE 6, PAGE 79	–	735,915	–	735,915
Transfer between reserves on disposal of property, plant and equipment	NOTE 6, PAGE 79	(4,595)	4,595	–	–
Total comprehensive revenue and expense for the year, net of tax		49,836	740,510	–	790,346
Balance at 30 June 2018		3,917,524	2,570,705	260,693	6,748,922

	NOTES	RETAINED EARNINGS $000	REVALUATION RESERVES $000	ISSUED CAPITAL $000	TOTAL $000
Balance at 1 July 2018		3,917,524	2,570,705	260,693	6,748,922
Comprehensive revenue and expense					
Net surplus for the year		107,619	–	–	107,619
Other comprehensive revenue and expense					
Novation of interest rate swaps and options to Auckland Council	NOTE 10, PAGE 83	216,892	–	–	216,892
Close out of interest rate swaps novated to Auckland Council	NOTE 24, PAGE 99	806	–	–	806
Gain on revaluation of property, plant and equipment	NOTE 6, PAGE 79	–	–	–	–
Transfer between reserves on disposal of property, plant and equipment	NOTE 6, PAGE 79	5,602	(5,602)	–	–
Total comprehensive revenue and expense for the year, net of tax		330,919	(5,602)	–	325,317
Balance at 30 June 2019		4,248,443	2,565,103	260,693	7,074,239

The financial statements should be read in conjunction with the notes on pages 68 to 102 inclusive.

1. Reporting entity and basis of preparation

Reporting entity

These financial statements are for Watercare Services Limited (Watercare), incorporated and domiciled in New Zealand and a council-controlled organisation (CCO) wholly owned by Auckland Council, as defined in the Local Government Act 2002. The consolidated financial statements of the group are for the economic entity of Watercare and its subsidiaries. The group's registered office and principal place of business is at 73 Remuera Road, Remuera, Auckland 1050, New Zealand.

Watercare's primary objective is to manage its operations efficiently with a view to providing water and wastewater services at a minimum cost to the Auckland region (except Papakura district, which has been franchised to Veolia Water Services (ANZ) Pty Limited), and bulk wastewater services to parts of the Waikato region. Watercare, by legislation, must manage its operations efficiently to keep overall costs to its customers at minimum levels and is restricted from paying dividends to its shareholder. Any financial return is reinvested back into the business or used to repay debt.

Watercare's operations are governed by the Local Government Act 2002 and it is audited under the Public Audit Act 2001. Watercare is a public sector public benefit entity (PBE) as defined under the External Reporting Board (XRB) Standard A1.

Basis of preparation

Watercare is a company registered under the Companies Act 1993. The financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 2013, the Local Government Acts 1974 and 2002, the Local Government (Auckland Council) Act 2009 and the Companies Act 1993.

These consolidated financial statements have been prepared on a historical cost basis, except for land and buildings, certain infrastructural assets and financial instruments, which are measured at fair value, as disclosed in the notes to the financial statements. These financial statements are presented in New Zealand dollars. All values are rounded to the nearest thousand dollars ($000), unless otherwise stated. All items in the financial statements are stated exclusive of Goods and Services Tax (GST), except for receivables and payables, which include GST. The net amount of GST recoverable from or payable to Inland Revenue is included as part of receivables or payables in the statement of financial position.

These consolidated financial statements have been prepared on a going concern basis, and the accounting policies have been applied consistently throughout the period. The accounting policies that materially affect the measurement of comprehensive revenue and expense, financial position and cash flows are stated within the respective notes in these financial statements.

Statement of compliance

The group applies New Zealand PBE accounting standards (PBE standards). The consolidated financial statements and accounting policies comply with the specific recognition, measurement and disclosure requirements of the PBE standards and New Zealand Generally Accepted Accounting Practice (NZ GAAP) and Authoritative Notices that apply to entities applying PBE standards.

Budget figures

The budget figures presented are as approved by the board on 25 June 2018. The budget figures were prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted by Watercare in preparing these financial statements. The budget figures included in the financial statements are for the controlling entity (Watercare) and therefore exclude the budget for its subsidiaries. The budgets of the subsidiaries are immaterial to the consolidated group.

Critical accounting estimates and judgments

The group is required to make judgments, estimates and assumptions about carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and judgments are based on historical experience and other relevant factors. Actual results may differ from the estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised in the period in which the estimate is revised or in the current and/or future period(s) which the revisions affect. Refer to the notes below for a discussion of estimates and judgments in applying the accounting policies.

- Revaluation of property, plant and equipment, note 4, page 74
- Unbilled revenue estimate, note 12, page 89
- Provisions, note 23, page 98

Implementation of new and amended standards

Early adoption of PBE International Financial Reporting Standard (IFRS) 9 Financial instruments

The group has early-adopted all of the requirements of PBE IFRS 9 Financial instruments as of 1 July 2018. PBE IFRS 9 supersedes part of PBE International Public Sector Accounting Standard (IPSAS) 29 Financial Instruments: Recognition and Measurement.

PBE IFRS 9 includes two areas of change that are related to the group:

- classification and measurement of financial instruments; and
- a single, forward-looking, 'expected credit loss' impairment model

Classification and measurement of financial instruments

The group classifies its financial instruments in the following categories:

- at fair value through surplus or deficit (FVTSD);
- at fair value through other comprehensive revenue and expenditure (FVTOCRE); or
- at amortised cost.

The group determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the group's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading (including all equity derivative instruments) are classified as FVTSD. For other equity instruments, on the day of acquisition the group can make an irrevocable election (on an instrument-by-instrument basis) to designate them as FVTOCRE.

Financial liabilities are measured at amortised cost, unless they are required to be measured at FVTSD (such as instruments held for trading or derivatives) or the group has opted to measure them at FVTSD.

The group completed a detailed assessment of its financial assets and liabilities as at 1 July 2018.

The requirements of PBE IPSAS 29 for classification and measurement of financial liabilities were carried forward in PBE IFRS 9, so the group's accounting policy with respect to financial liabilities is unchanged. There was no material impact arising as a result of remeasurement of financial assets that have been classified differently under PBE IFRS 9. The group has elected not to restate the comparatives to comply with PBE IFRS 9.

New impairment model

PBE IFRS 9 prescribes an 'expected credit loss' model instead of a previous incurred loss model, so it is no longer necessary for a trigger event to have occurred before recognising credit losses. NZ IFRS 9 requires the group to base the measurement of expected credit losses on forward-looking information, as well as current and historic information. The group has applied the simplified approach to all receivables which requires the recognition of lifetime expected credit losses at all times. The cumulative impact of the change has not been adjusted through opening accumulated funds, as the financial effects are not material. Refer to note 17 page 95 for further information.

PBE Standards on Interests in Other Entities

The New Zealand Accounting Standards Board (NZASB) issued the following five standards in January 2017 and these will be effective for the reporting period beginning 1 January 2019. These standards are collectively referred to as PBE Standards on Interests in Other Entities and comprise:

- PBE IPSAS 34 Separate Financial Statements
- PBE IPSAS 35 Consolidated Financial Statements
- PBE IPSAS 36 Investment in Associates and Joint Ventures
- PBE IPSAS 37 Joint Arrangements
- PBE IPSAS 38 Disclosure of Interests in Other Entities.

Management's preliminary assessment shows no material impact is expected.

Impairment of Revalued Assets (Amendments to PBE IPSAS 21 and 26)

The above-stated amendments were issued in April 2017 and will be effective for the reporting period beginning 1 January 2019. The group does not intend to early-adopt the above amendments. The transition to the revised standards is not expected to result in material adjustments to the financial statements for the following year.

All other standards, interpretations and amendments approved but not yet effective in the current year are either not applicable to the group or are not expected to have a material impact on the financial statements and, therefore, have not been disclosed.

2. Explanation of major variances to budget

Commentary is provided for variances to budget greater than $5.0 million or 10%, or where relevant.

Statement of comprehensive revenue and expense – extract

	2019 ACTUAL $000	2019 BUDGET $000	VARIANCE $000	VARIANCE %
Revenue	715,177	651,040	64,137	9.9%
Maintenance costs	47,983	41,234	(6,749)	(16.4%)
Employee benefit expenses	66,814	73,157	6,343	8.7%
Other expenses	52,515	43,958	(8,557)	(19.5%)
Depreciation	240,089	248,052	7,963	3.2%
Finance costs	66,489	77,674	11,185	14.4%
Net loss on disposal of property, plant and equipment, and restructuring costs	13,216	8,000	(5,216)	(65.2%)

- Revenue was $64.1 million, or 9.9%, higher than budget. This was primarily due to non-cash vested assets revenue being $42.1 million higher than budget due to the timing of new developments around the Auckland region. In addition, the Infrastructure Growth Charge (IGC) revenue was higher than budget and is also attributed to the increase in development activity in the Auckland region. Water and wastewater revenue were higher due to higher usage volumes.
- Maintenance costs were $6.7 million over budget. This was mainly due to unforeseen unplanned maintenance required on infrastructure assets and the costs associated with higher water usage.
- Employee benefit expenses were $6.3 million lower than budget due to operating with a lower headcount throughout the year than budgeted.
- Other expenses were $8.6 million over budget due the group's $7.7 million efficiency target being held within other expenses. During the budget setting process the efficiency target was unable to be allocated across specific cost lines so it was held centrally within other expenses.
- Depreciation was $8.0 million lower than budget. The budget assumed a higher depreciation from asset capitalisations during the year.
- Finance costs were lower than budget by $11.2 million, or 14.4%, due to lower spend on capital expenditure projects during the year and a lower annual cost of funds than what was budgeted.
- Loss on disposal was $5.2 million higher than budget. This was mainly due to the increase in new developments, where existing retail assets are disposed and replaced with vested assets.

Statement of financial position – extract

	2019 ACTUAL $000	2019 BUDGET $000	VARIANCE $000	VARIANCE %
Total current assets	120,528	80,228	40,300	50.2%
Total non-current assets	10,271,797	9,923,192	348,605	3.5%
Total current liabilities	175,330	103,970	(71,360)	(68.6%)
Total non-current liabilities	3,142,756	3,116,492	(26,264)	(0.8%)
Total equity	7,074,239	6,782,958	291,281	4.3%

- Current assets were $40.3 million higher than budget. This was primarily due to an increase in trade receivables in line with increased revenue, inventory for capital projects and prepaid expenses relating to capital project advances and licensing fees.
- Non-current assets were $348.6 million higher than budget. This was mainly due to a higher 2018 asset revaluation than budgeted for property, plant and equipment and also as a result of the non-current loan receivable which was not in the budget (refer to note 21, page 97).
- Current liabilities were $71.4 million higher than budget and non-current liabilities were $26.3 million higher than budget, driven mainly from accrued expenses which include multiple large capital projects that are in progress and yet to be invoiced.
- Equity is higher than budget at year-end, primarily due to the higher total comprehensive revenue and expense for the year and also as a result of higher opening revaluation reserve than budgeted.

2. Explanation of major variances to budget (continued)

Statement of cash flows – extract

All of the company's cash flow from operations was available for either capital expenditure or debt repayment. Borrowings were lower than budget, reflecting better operating cash flows and lower capital expenditure during the year.

	2019 ACTUAL $000	2019 BUDGET $000	VARIANCE $000	VARIANCE %
Net cash inflows – operating activities	420,964	410,756	10,208	2.5%
Net cash outflows – investing activities	(387,861)	(461,018)	73,157	15.9%
Net cash (outflows) / inflows – financing activities	(30,553)	50,262	(80,815)	(160.8%)

- Net operating cash inflows were $10.2 million higher than budget, primarily due to higher receipts from customers during the year. (Refer to note 14 on page 92 for the reconciliation of net surplus after tax to operating cash flows.)
- The net cash outflow from investing activities was 15.9% lower than budget due to lower spend on capital expenditure projects during the year.
- The net cash outflows from financing activities were $80.8 million over budget. This was the result of lower borrowings required due to higher operating cash inflows and lower capital expenditure outflows.

3. Business unit reporting

Business unit comprehensive revenue and expense, financial position and cash flows for water and wastewater activities of Watercare are presented below. Revenues and expenses (except those directly attributable to debt) are apportioned to each unit on a direct basis plus an allocation of non-specific and overhead costs proportional to each unit's actual revenues at balance date. The costs directly attributable to debt, such as finance costs and gain or loss on revaluation of derivative financial instruments, have been allocated in proportion to the debt as at balance date in water and wastewater activities. Where possible, other assets and liabilities are apportioned to each unit on a direct basis and non-specific assets and liabilities are allocated proportional to each unit's actual revenues at balance date. There are no material transactions between the two business units.

Business unit comprehensive revenue and expense

	WATER 2019 $000	WASTEWATER 2019 $000	TOTAL 2019 $000	WATER 2018 $000	WASTEWATER 2018 $000	TOTAL 2018 $000
Revenue						
Water and wastewater	162,856	352,743	515,599	157,792	332,745	490,537
Other revenue	92,488	107,090	199,578	70,720	80,329	151,049
Total revenue	255,344	459,833	715,177	228,512	413,074	641,586
Operating expenses						
Asset operating costs	(20,657)	(38,515)	(59,172)	(19,583)	(37,331)	(56,914)
Maintenance costs	(24,059)	(23,924)	(47,983)	(22,805)	(21,174)	(43,979)
Employee benefit expenses	(23,049)	(43,765)	(66,814)	(24,081)	(44,349)	(68,430)
Other expenses	(17,247)	(35,268)	(52,515)	(16,467)	(31,835)	(48,302)
Total operating expenses	(85,012)	(141,472)	(226,484)	(82,936)	(134,689)	(217,625)
Depreciation	(111,271)	(128,818)	(240,089)	(98,251)	(114,405)	(212,656)
Amortisation	(1,528)	(4,205)	(5,733)	(2,053)	(5,270)	(7,323)
Finance costs	(11,226)	(55,263)	(66,489)	(12,930)	(69,180)	(82,110)
Total expenses	(209,037)	(329,758)	(538,795)	(196,170)	(323,544)	(519,714)
Operating surplus from trading operations	46,307	130,075	176,382	32,342	89,530	121,872
Net loss on disposal of property, plant and equipment, and restructuring costs	(7,363)	(5,853)	(13,216)	(4,211)	(4,277)	(8,488)
Net (loss) / gain on revaluation of derivative financial instruments	–	–	–	(3,526)	(17,282)	(20,808)
Operating surplus before tax	38,944	124,222	163,166	24,605	67,971	92,576
Income tax expense	(13,258)	(42,289)	(55,547)	(10,503)	(27,642)	(38,145)
Net surplus for the year	25,686	81,933	107,619	14,102	40,329	54,431
Other comprehensive revenue and expense net of tax						
Gain on revaluation of property, plant and equipment	–	–	–	326,458	409,457	735,915
Other comprehensive revenue and expense for the year, net of tax	–	–	–	326,458	409,457	735,915
Total comprehensive revenue and expense for the year attributable to owners of the parent, net of tax	25,686	81,933	107,619	340,560	449,786	790,346

3. Business unit reporting (continued)

Business unit financial position

	WATER 2019 $000	WASTEWATER 2019 $000	TOTAL 2019 $000	WATER 2018 $000	WASTEWATER 2018 $000	TOTAL 2018 $000
Assets						
Current						
Current assets	48,336	72,192	120,528	37,854	56,907	94,761
Total current assets	48,336	72,192	120,528	37,854	56,907	94,761
Non-current						
Property, plant and equipment	4,301,597	5,861,572	10,163,169	4,283,273	5,630,492	9,913,765
Intangible assets	11,279	35,168	46,447	10,477	32,812	43,289
Inventories	4,475	3,683	8,158	4,280	6,873	11,153
Prepaid expenses	–	28,698	28,698	–	23,844	23,844
Other financial assets	–	25,325	25,325	–	–	–
Total non-current assets	4,317,351	5,954,446	10,271,797	4,298,030	5,694,021	9,992,051
Total assets	4,365,687	6,026,638	10,392,325	4,335,884	5,750,928	10,086,812
Liabilities						
Current						
Current liabilities	40,701	134,629	175,330	92,151	390,058	482,209
Total current liabilities	40,701	134,629	175,330	92,151	390,058	482,209
Non-current						
Borrowings	262,904	1,436,096	1,699,000	185,286	1,284,199	1,469,485
Deferred tax liability	447,701	970,390	1,418,091	438,039	924,505	1,362,544
Trade and other payables for exchange transactions	356	1,854	2,210	456	1,123	1,579
Accrued expenses	8,513	5,973	14,486	8,798	6,044	14,842
Provisions	546	8,423	8,969	552	6,679	7,231
Total non-current liabilities	720,020	2,422,736	3,142,756	633,131	2,222,550	2,855,681
Total liabilities	760,721	2,557,365	3,318,086	725,282	2,612,608	3,337,890
Equity attributable to owners of the parent	3,604,966	3,469,273	7,074,239	3,610,602	3,138,320	6,748,922
Total equity and liabilities	4,365,687	6,026,638	10,392,325	4,335,884	5,750,928	10,086,812

Business unit cash flows

	WATER 2019 $000	WASTEWATER 2019 $000	TOTAL 2019 $000	WATER 2018 $000	WASTEWATER 2018 $000	TOTAL 2018 $000
Net cash inflows – operating activities	141,556	279,408	420,964	121,693	195,068	316,761
Net cash outflows – investing activities	(113,107)	(274,754)	(387,861)	(62,709)	(263,514)	(326,223)
Net cash (outflows) / inflows – financing activities	(27,988)	(2,565)	(30,553)	(59,163)	67,588	8,425
Net change in cash flows	461	2,089	2,550	(179)	(858)	(1,037)

4. Property, plant and equipment

Property, plant and equipment (PPE) is initially measured at cost. The cost of PPE may include the initial purchase price plus directly attributable material, labour, finance costs, and other overheads incurred for bringing the assets to the location and condition necessary for their intended use. Assets under construction are recorded as capital work in progress and include operational and intangible assets under construction. Finance costs incurred during the course of construction that are attributable to a project are capitalised, using the finance rate applicable to the funding. Costs cease to be capitalised as soon as an asset is ready for productive use. The cost of assets purchased with foreign currencies is initially recorded using the exchange rate on the date of the transaction. Any foreign exchange gain or loss arising from the differences in exchange rates between the transaction date and the settlement date is recognised as revenue or expense in the period in which they arise.

			ESTIMATED REMAINING USEFUL LIVES IN YEARS	
ASSET CLASS	CATEGORY	SUBSEQUENT MEASUREMENT BASIS	2019	2018
Land	Operational asset	Land at fair value that reflects current market value and forestry assets at fair value less costs to sell	–	–
Buildings	Operational asset	Highly specialised buildings at fair value which is deemed to be depreciated replacement cost, less accumulated depreciation Other buildings at fair value that reflects current market value, less accumulated depreciation	up to 100	up to 80
Pipelines	Infrastructure asset	Fair value which is deemed to be depreciated replacement cost, less accumulated depreciation	up to 166	up to 166
Tanks, tunnels, roads and reservoirs	Infrastructure asset	Fair value which is deemed to be depreciated replacement cost, less accumulated depreciation	up to 96	up to 98
Dams	Infrastructure asset	Fair value which is deemed to be depreciated replacement cost, less accumulated depreciation	up to 196	up to 200
Landfill	Infrastructure asset	Cost less accumulated depreciation and impairment losses	up to 35	up to 35
Machinery	Infrastructure asset	Fair value which is deemed to be depreciated replacement cost, less accumulated depreciation	up to 196	up to 200
Motor vehicles	Operational asset	Cost less accumulated depreciation and impairment losses	up to 20	up to 22
Office equipment	Operational asset	Cost less accumulated depreciation and impairment losses	up to 27	up to 28
Capital work in progress	Infrastructure assets mainly	Cost less accumulated impairment losses	–	–

Forestry assets owned by Watercare are included within the land asset class. Changes in fair value less costs to sell relating to forestry assets and gains and losses on disposal of PPE are recognised in the statement of comprehensive revenue and expense for the period in which they arise.

Any PPE relating to the revalued asset classes that has been acquired after the most recent valuation is carried at cost less accumulated depreciation until the next revaluation.

Reclassification

The reclassification of assets between categories results from the ongoing project to improve asset data quality. The predominant reason for reclassification was to split broadly categorised assets into their component assets. It was not practical to reclassify the prior year's comparatives, due to the size of the asset register.

Revaluation

All PPE, except for landfill, motor vehicles, office equipment and capital work in progress, are revalued after initial recognition.
Also refer to note 6, page 79 Revaluation reserves.

Revaluations are carried out on a class-of-asset basis at least every three years. During the off-cycle years for revaluation, the carrying values of previously revalued assets are assessed to ensure that they do not differ materially from fair value. If there is evidence supporting a material difference, then the off-cycle asset classes are revalued.

4. Property, plant and equipment (continued)

Revaluation assumptions

The most recent valuation for land and buildings was completed at 30 June 2018 by Beca Valuations Limited (Beca). The land valuation was based on relevant market prices using a comparable sales approach. Buildings were valued using two methods: for highly specialised buildings, which are rarely traded in the marketplace, the valuation was based on the depreciated replacement cost and for other buildings, the valuation was based on relevant market prices using a comparable sales approach. For the 2019 financial year, the movement in the fair value of land and buildings since 30 June 2018 was assessed at balance date using indices deemed suitable by management. The assessment indicated an increase of 0.5% in land value and 2.5% in buildings value at balance date, which was not considered material by management and accordingly the land and buildings assets were not revalued during the year. A revaluation of operational land and buildings will be completed in the 2021 financial year, in line with group policy of having revaluations carried out at least every three years.

The most recent valuation for all infrastructure assets was completed at 30 June 2018 by Beca. By the nature of Watercare's business the infrastructure assets are of a specialised nature, which are rarely traded in the marketplace; therefore, fair value is assessed by the optimised depreciated replacement cost (ODRC) approach. ODRC uses the assessment of replacement cost of an asset with a new or a modern equivalent asset and applies optimisation and depreciation to adjust for age, condition, performance and remaining useful life.

The revaluation process involves physical inspection of selected assets at various water and wastewater treatment plants and associated plants to note aspects such as condition, utilisation, replacement timing and asset optimisation to determine an assessed remaining useful life. If the assessed remaining useful lives are not accurate, the annual depreciation charge may be either higher or lower in the statement of comprehensive revenue and expense. To minimise the estimation risk of assets' useful lives, the group continually assesses the condition of infrastructural assets and their remaining useful lives. Physical inspections and condition assessments are also used by Watercare to ensure that the condition of major assets is understood and the carrying value of an asset reflects its actual condition.

The assumptions used in determining the depreciated replacement cost of infrastructure assets were:

- Construction costs based on recent contract-based construction work and the unit rates reflect the costs of replacing assets.
- The useful lives of assets are calculated as the lesser of their physical lives or at the point where the assets are to be replaced for economic reasons.
- The capital goods price index (CGPI) was used where indexation is appropriate (at the time of valuation, the CGPI was available to the March 2018 quarter and an estimate was made for the June 2018 quarter).
- Capitalised interest was applied to qualifying asset types in accordance with the estimated construction period and applicable cost of debt.

The movement in fair value of infrastructure assets since 30 June 2018 was assessed at balance date using indices deemed suitable by management. The assessment indicated an increase in infrastructure asset value of 3.47%, which was not considered material by management and accordingly the infrastructure assets were not revalued during the year. A revaluation of infrastructure assets will be completed in the 2021 financial year, in line with group policy of having revaluations carried out at least every three years.

Depreciation

Depreciation is provided on a straight-line basis on all PPE, other than for landfills, freehold land and work in progress, at rates calculated to allocate their cost or revalued amounts over their estimated useful lives. PPE are depreciated to a nil residual value. Landfill assets are amortised on a usage basis over the expected life of the landfill.

4. Property, plant and equipment (continued)

	LAND $000	BUILDINGS $000	PIPELINES $000	TANKS, TUNNELS, ROADS AND RESERVOIRS $000	DAMS $000	LANDFILL $000	MACHINERY $000	MOTOR VEHICLES $000	OFFICE EQUIPMENT $000	CAPITAL WORK IN PROGRESS $000	TOTAL $000
Balance at 1 July 2017											
Cost or valuation	192,900	89,238	6,388,533	699,859	235,604	57,251	1,035,214	18,347	29,919	473,328	9,220,193
Accumulated depreciation	–	(2,179)	(284,901)	(22,499)	(3,977)	(6,671)	(97,856)	(7,808)	(17,253)	–	(443,144)
Net book value	192,900	87,059	6,103,632	677,360	231,627	50,580	937,358	10,539	12,666	473,328	8,777,049
Year ended 30 June 2018											
Additions to work in progress	–	–	–	–	–	–	–	–	–	342,426	342,426
Additions to PPE	–	118	28,889	131	–	–	1,063	–	–	–	30,201
Transfers from work in progress	7,784	4,858	87,904	9,258	394	4,106	232,654	2,446	6,887	(361,424)	(5,133)
Disposals	(3,750)	–	(8,876)	(521)	–	–	(2,130)	(116)	(176)	–	(15,569)
Revaluation	56,989	9,506	873,501	131	41,449	–	18,365	–	–	–	999,941
Impairment	–	–	–	–	–	–	–	–	(22)	(2,472)	(2,494)
Transfer from / (to) other classes	–	(101)	–	–	–	–	(974)	–	1,075	–	–
Depreciation	–	(2,288)	(136,558)	(11,481)	(2,024)	(1,995)	(51,659)	(2,339)	(4,312)	–	(212,656)
Closing carrying amount	253,923	99,152	6,948,492	674,878	271,446	52,691	1,134,677	10,530	16,118	451,858	9,913,765
Balance at 30 June 2018											
Cost or valuation	253,923	99,192	6,949,495	675,019	271,446	61,357	1,142,887	20,078	34,761	451,858	9,960,016
Accumulated depreciation	–	(40)	(1,003)	(141)	–	(8,666)	(8,210)	(9,548)	(18,643)	–	(46,251)
Carrying amount	253,923	99,152	6,948,492	674,878	271,446	52,691	1,134,677	10,530	16,118	451,858	9,913,765
Year ended 30 June 2019											
Additions to work in progress	–	–	–	–	–	–	–	–	–	448,005	448,005
Additions to PPE	–	–	62,104	2	–	1,194	53	–	–	–	63,353
Transfers from work in progress	3,903	25,786	99,303	16,428	318	31,794	87,936	2,248	4,621	(281,047)	(8,710)
Disposals	(1,689)	(96)	(8,621)	(41)	–	–	(1,551)	(119)	(17)	–	(12,134)
Revaluation	–	–	–	–	–	–	–	–	–	–	–
Impairment	–	–	–	–	–	–	–	–	(147)	(644)	(791)
Transfer from / (to) other classes	–	12	2,693	–	–	–	(2,705)	–	(230)	–	(230)
Depreciation	–	(2,457)	(152,156)	(13,629)	(2,481)	(2,185)	(60,742)	(2,240)	(4,199)	–	(240,089)
Closing carrying amount	256,137	122,397	6,951,815	677,638	269,283	83,494	1,157,668	10,419	16,146	618,172	10,163,169
Balance at 30 June 2019											
Cost or valuation	256,137	124,893	7,104,386	691,392	271,764	94,346	1,226,008	20,966	37,279	618,172	10,445,343
Accumulated depreciation	–	(2,496)	(152,571)	(13,754)	(2,481)	(10,852)	(68,340)	(10,547)	(21,133)	–	(282,174)
Carrying amount	256,137	122,397	6,951,815	677,638	269,283	83,494	1,157,668	10,419	16,146	618,172	10,163,169

4. Property, plant and equipment (continued)

Service concession assets – included in the previous page

Service concession assets are infrastructure assets owned by Watercare and operated by Veolia Water Services (ANZ) Pty Limited (Veolia) for the provision of water and wastewater services in the Papakura district. The franchise agreement stipulates the services Veolia must provide, to whom it must provide them and regulates the price. Veolia is responsible for upgrading and maintaining the entire network in Papakura so that at the end of the contract period (initial term of 30 years ending on 30 June 2027 with a 20-year right of renewal), the network shall be in a better overall condition than that which existed at the time the contract was commenced in 1997. At the commencement of the contract, a franchise fee was paid in exchange for the rights to operate the assets as detailed in note 22, page 97. Watercare retains ownership of the infrastructure assets franchised to Veolia.

Where Watercare recognises an asset for the upgrades made by Veolia to the existing service concession assets, where material Watercare also recognises a liability at the same amount as the asset. The liability so recognised is reduced over the remaining period of the service concession arrangement.

	PIPELINES $000	MACHINERY $000	TOTAL $000
Balance at 1 July 2017			
Cost or valuation	163,738	4,868	168,606
Accumulated depreciation	(7,026)	(347)	(7,373)
Carrying amount	156,712	4,521	161,233
Year ended 30 June 2018			
Additions to PPE	1,976	–	1,976
Disposals	(5)	–	(5)
Revaluation	22,794	221	23,015
Depreciation	(47)	–	(47)
Closing carrying amount	181,430	4,742	186,172
Balance at 30 June 2018			
Cost or valuation	181,477	4,742	186,219
Accumulated depreciation	(47)	–	(47)
Carrying amount	181,430	4,742	186,172
Year ended 30 June 2019			
Additions to PPE	18,753	–	18,753
Disposals	(683)	(244)	(927)
Revaluation	–	–	–
Depreciation	(4,347)	(176)	(4,523)
Closing carrying amount	195,153	4,322	199,475
Balance at 30 June 2019			
Cost or valuation	199,543	4,498	204,041
Accumulated depreciation	(4,390)	(176)	(4,566)
Carrying amount	195,153	4,322	199,475

4. Property, plant and equipment (continued)

Capital work in progress (WIP)

WORK IN PROGRESS RELATES TO THE FOLLOWING PROJECTS:	2019 $000	2018 $000
Water treatment plant	42,874	42,639
Wastewater treatment plant	144,391	124,187
Wastewater pump station and sewer	200,760	139,95
Watermains, pump stations and reservoirs	142,275	87,019
Dams and raw water transmission pipelines	2,081	2,100
Other	85,79	55,960
Total work in progress	618,172	451,858

5. Impairment of property, plant and equipment, and intangible assets

Non-financial assets other than revalued assets, primarily consisting of landfill, motor vehicles, office equipment, work in progress and intangibles, are separated into cash-generating and non-cash-generating assets and are annually assessed for impairment.

Cash-generating assets

Assets are considered cash generating where their primary objective is to generate a commercial return. At each reporting date, the group assesses whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of the cash-generating unit's (CGU) fair value less costs to sell and its value in use. Where the carrying amount of the CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets. At each reporting date, the group assesses whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the group estimates the asset's recoverable service amount. An asset's recoverable service amount is the higher of the non-cash-generating asset's fair value less costs to sell and its value in use. Where the carrying amount of the non-cash-generating asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Value in use is determined using an approach based on either a depreciated replacement cost approach, a restoration cost approach, or a service units approach. The most appropriate approach used to measure value in use depends on the nature of the impairment and availability of information.

The total impairment loss for both cash-generating and non-cash-generating assets is recognised in the surplus or deficit. Any reversal of an impairment loss is recognised in the surplus or deficit.

6. Revaluation reserves

The group maintains a revaluation reserve for each class of assets. The changes in the value of each class of PPE as a result of revaluations are recorded in other comprehensive revenue and expense and accumulated in a revaluation reserve. Any revaluation increase is credited to the asset class revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously charged as an expense in determining the surplus or deficit for the year. Any accumulated depreciation at the date of the revaluation is transferred to the gross carrying amount of the asset and the asset cost is restated to the revalued amount. When revalued assets are disposed of, the amounts included in other reserves are transferred to retained earnings.

	LAND $000	BUILDINGS $000	PIPELINES $000	TANKS, TUNNELS, ROADS AND RESERVOIRS $000	DAMS $000	MACHINERY $000	TOTAL $000
Balance at 1 July 2017	88,202	24,732	1,168,207	325,255	100,856	122,943	1,830,195
Revaluation during the year – net of deferred tax	56,989	6,844	628,921	94	29,844	13,223	735,915
Transfer from / (to) other classes	–	735	–	–	–	(735)	–
Transferred to retained earnings on disposal of property, plant and equipment (net of tax)	(2,842)	(21)	1,701	1,565	–	4,192	4,595
Balance at 30 June 2018	142,349	32,290	1,798,829	326,914	130,700	139,623	2,570,705

	LAND $000	BUILDINGS $000	PIPELINES $000	TANKS, TUNNELS, ROADS AND RESERVOIRS $000	DAMS $000	MACHINERY $000	TOTAL $000
Balance at 1 July 2018	142,349	32,290	1,798,829	326,914	130,700	139,623	2,570,705
Revaluation during the year – net of deferred tax	–	–	–	–	–	–	–
Transfer (to) / from other classes	–	(6)	62	21	–	(77)	–
Transferred to retained earnings on disposal of property, plant and equipment (net of tax)	(877)	(69)	(4,270)	18	–	(404)	(5,602)
Balance at 30 June 2019	141,472	32,215	1,794,621	326,953	130,700	139,142	2,565,103

7. Intangible assets

Measurement

Intangible assets are initially recorded at cost.

ASSET CLASS	SUBSEQUENT MEASUREMENT BASIS	ESTIMATED REMAINING USEFUL LIVES IN YEARS 2019	2018
Network models	Cost less accumulated amortisation and impairment losses	up to 12	up to 10
Computer software	Cost less accumulated amortisation and impairment losses	up to 7	up to 10
Resource consents	Cost less accumulated amortisation and impairment losses	up to 35	up to 35

Amortisation

Amortisation is provided on a straight-line basis on all intangibles, other than easements, at rates calculated to allocate their cost over their estimated useful lives. Intangibles are amortised to a nil residual value. Easements have an indefinite useful life and are not amortised but are, instead, tested for impairment annually.

CARRYING AMOUNT	NETWORK MODELS $000	COMPUTER SOFTWARE $000	RESOURCE CONSENTS $000	EASEMENTS $000	TOTAL $000
Balance at 1 July 2017					
Cost	5,299	56,297	38,244	1,188	101,028
Accumulated amortisation	(2,287)	(44,000)	(9,177)	–	(55,464)
Carrying amount	3,012	12,297	29,067	1,188	45,564
Year ended 30 June 2018					
Transferred from work in progress	739	1,269	2,908	215	5,131
Impairment	(17)	(66)	–	–	(83)
Amortisation	(690)	(5,143)	(1,490)	–	(7,323)
Closing carrying amount	3,044	8,357	30,485	1,403	43,289
Balance at 30 June 2018					
Cost	5,742	55,287	41,152	1,403	103,584
Accumulated amortisation	(2,698)	(46,930)	(10,667)	–	(60,295)
Carrying amount	3,044	8,357	30,485	1,403	43,289
Year ended 30 June 2019					
Transferred from work in progress	256	6,479	1,951	24	8,710
Impairment	–	(49)	–	–	(49)
Transfer from/(to) other classes	–	230	–	–	230
Amortisation	(694)	(3,565)	(1,474)	–	(5,733)
Closing carrying amount	2,606	11,452	30,962	1,427	46,447
Balance at 30 June 2019					
Cost or valuation	5,998	61,639	43,103	1,427	112,167
Accumulated amortisation	(3,392)	(50,187)	(12,141)	–	(65,720)
Carrying amount	2,606	11,452	30,962	1,427	46,447

8. Borrowings

Borrowings are recorded at fair value, excluding transaction costs. Borrowings are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective interest basis. Fees and expenses for establishing new borrowings are amortised over the term of those borrowings using the effective interest method. Accrued interest is presented separately within accruals.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

From 1 July 2018 Watercare and its parent, Auckland Council, entered into a service level agreement (SLA) for the provision of treasury services and an inter-company loan agreement for existing loans at 30 June 2018. The terms of both agreements commenced 1 July 2018 and are in place until 30 June 2021. Auckland Council treasury met all of their obligations under the terms of the SLA during the 2019 financial year.

The key objective of the centralised treasury function is to achieve cost savings and efficiencies. Under the agreement, Auckland Council now provides all of Watercare's financing needs to meet both the debt projections included in Watercare's latest annual Statement of Intent and the debt projections for Watercare included in the Council's Long-Term Plan 2018-2028, as modified by any subsequent Annual Plan. The treasury function also provides risk management of the weighted average interest rate; liquidity and funding risk management; treasury reporting; and foreign exchange transacting. The agreement relinquishes Watercare from maintaining its own treasury policy for liquidity and financial risk management.

On 1 July 2018, all the existing external borrowings, except medium-term notes, were refinanced by Auckland Council and all external interest rate swaps and the interest rate 'collar' option were novated to Auckland Council. Auckland Council will effectively take responsibility for contractual cash flow payments through the novation of these derivative financial instruments. The medium-term notes were repaid on maturity in October 2018 and no further notes were issued.

Covenants

From 1 July 2018 financing is made available through Auckland Council to meet both the debt projections included Watercare's agreed Statement of Intent and in the Council's Long-Term Plan 2018-2028, as modified by any subsequent Annual Plan.

Prior to 1 July 2018, all borrowings were unsecured. Providers of bank loans and holders of medium-term notes and short-term commercial paper received the benefit of a negative pledge undertaking from the group. This undertaking limited the extent to which the group could give security to lenders and required the group to ensure that the following financial ratios were achieved at all times:

- Total liabilities were not to exceed 60% of total tangible assets.
- Total liabilities plus total contingent liabilities were not to exceed 65% of total tangible assets.
- Shareholder's funds were not less than $500 million.
- Earnings before interest, tax, depreciation and amortisation was greater than 1.75 times interest expense.
- Total tangible assets of the group were to be greater than 90% of total tangible assets of the borrowing group.

All of these ratios were met for the year ended 30 June 2018, when the group had an agreement with Auckland Council, under which Auckland Council guaranteed repayment of the group's external borrowings and obligations relating to interest rate swaps.

	2019			2018		
	FACE VALUE $000	UNAMORTISED COST $000	CARRYING VALUE $000	FACE VALUE $000	UNAMORTISED COST $000	CARRYING VALUE $000
Current						
Related party term loan (unsecured)	–	–	–	1,491	–	1,491
Medium-term notes (unsecured)	–	–	–	125,000	97	125,097
Bank loan (unsecured)	–	–	–	16,500	–	16,500
Total current borrowings	–	–	–	142,991	97	143,088
Non-current						
Related party term loan (unsecured)	1,699,000	–	1,699,000	1,469,485	–	1,469,485
Total non-current borrowings	1,699,000	–	1,699,000	1,469,485	–	1,469,485
Total borrowings	1,699,000	–	1,699,000	1,612,476	97	1,612,573

8. Borrowings (continued)

INTEREST RATES AT BALANCE DATE:	NOTE	2019 %	2018 %
Related-party term loan			
Weighted average		5.26	3.18
Average including interest rate swaps	NOTE 10, PAGE 84	5.26	6.19
Medium-term notes			
Weighted average		–	5.49
Weighted average including interest rate swaps		–	3.41
Bank loan			
Weighted average		–	2.51
Weighted average including interest rate swaps		–	2.51
Total debt			
Weighted average		5.26	3.35
Weighted average including interest rate swaps		5.26	5.94

The group had the following undrawn committed facilities available:

	2019 $000	2018 $000
Bank overdraft facility; expires on cancellation	2,000	1,377
Revolving advances (expired 1 July 2018)	–	43,500
Commercial paper stand-by facility (expired 1 July 2018)	–	150,000
Total undrawn committed facilities	2,000	194,877

From 1 July 2018 financing is made available through Auckland Council, in line with the service level agreement for the provision of treasury services, with the bank overdraft facility retained for liquidity.

Prior to 1 July 2018 the commercial paper issued by the group was represented by multiple tranches that spread funding risk. As each tranche matured, the group replaced it with a new issue, if required. The provider of the commercial paper stand-by facility acted as a lender of last resort, should the group be unable to reissue new commercial paper as it matures. The group's treasury policy requires that sufficient stand-by facilities be maintained to meet 50% of outstanding commercial paper and other uncommitted short-term debt repayable within 60 days. The group complied with this requirement during the year ended 30 June 2018.

9. Finance costs

Finance costs consist of interest and other costs that are incurred in connection with the borrowing of funds. Finance costs directly attributable to the acquisition, construction or production of a qualifying asset that necessarily takes more than 12 months to become ready for its intended use or sale are capitalised as part of the cost of that asset. During the year, an average interest rate of 5.36% (2018: 3.37%) was used to determine the amount of capitalised interest. All other finance costs are expensed in the period in which they occur.

	2019 $000	2018 $000
Interest on bank overdraft and borrowings, paid and payable	86,178	93,593
Capitalised interest on construction of property, plant and equipment, and intangibles	(19,689)	(11,483)
Net finance costs	66,489	82,110

10. Financial instruments and risk management

Risk management objectives and policies

The group's management monitors and manages financial risks relating to the operations of the group through internal risk reports, which analyse exposures by the degree and magnitude of risks. The main types of risk are market risk, credit risk and liquidity risk.

RISK	EXPOSURE ARISING FROM	MEASUREMENT	MANAGEMENT
Market risk – interest rate	Long-term borrowings at variable rates	Sensitivity analysis	**2019:** Fixed interest rate agreement with Auckland Council **2018:** Interest rate swaps and interest rate options
Market risk – foreign exchange	Future commercial transactions denominated in foreign currency	Sensitivity analysis	Forward foreign exchange contracts and foreign exchange options
Credit risk	Cash and cash equivalents, trade receivables from exchange transactions and derivatives	Credit ratings	Credit limits, performance guarantees and third-party bonds
Liquidity risk	Maturing liabilities and timing mismatches between revenue and expenses	Rolling cash flow forecasts	**2019:** To remain within the debt projections in the agreement with Auckland Council **2018:** Availability of committed credit lines and borrowing facilities

The group's risk management is carried out by management in accordance with policies approved by the Board of Directors. Management identifies, evaluates and hedges financial risks in conjunction with the group's business units. The board provides written principles for overall risk management as well as policies covering specific risk areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivatives and non-derivatives, and investment of excess liquidity. Compliance with policies and exposure limits is reviewed by the board on a regular basis. The group does not apply hedge accounting.

Market risk

The group is exposed to market risks such as interest rate risk, foreign exchange risk and certain other price risks. The group manages its market risk by regularly assessing the impact of changes in market interest rates and foreign currency rates on the group's portfolio.

10. Financial instruments and risk management (continued)

Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The group is exposed to interest rate risk when it borrows funds at floating interest rates.

From 1 July 2018 the group is no longer exposed to interest rate risk as this is now managed by Auckland Council. The group has a fixed interest rate agreement with Auckland Council. Also refer to note 8, page 81.

Prior to 1 July 2018 the risk was managed by the group through monitoring market interest rates and reviewing the impact of these on interest rate exposures. The group's borrowings comprised both fixed rates and floating rates of interest. It is the group's policy to ensure that a proportion of interest rate exposure is maintained on a fixed-rate basis. To achieve this, the group entered into contracts that allowed some of its floating interest rate exposure to be swapped to fixed rates, and vice versa. As interest rates change, these derivative financial instruments were revalued to fair value and the change in fair value is recorded in the surplus or deficit. The group's exposure to market interest rates related primarily to the group's debt obligations, which are disclosed in note 8, page 81. The notional amounts and fixed interest rates in place at balance date to manage interest rate risk were as follows:

	2019		2018	
INTEREST RATE SWAPS	FIXED INTEREST RATE %	NOTIONAL AMOUNT $000	FIXED INTEREST RATE %	NOTIONAL AMOUNT $000
Receivable maturities (fixed to floating):				
Within one year*	–	–	5.80	225,000
Payable maturities (floating to fixed):				
Within one year*	–	–	5.12	1,600,000

	2019			2018		
INTEREST RATE 'COLLAR' OPTION	CAP RATE %	FLOOR RATE %	NOTIONAL AMOUNT $000	CAP RATE %	FLOOR RATE %	NOTIONAL AMOUNT $000
Within one year*	–	–	–	5.25	4.35	50,000

* All interest rate swaps and the interest rate 'collar' option was novated to Auckland Council on 1 July 2018.

Interest rate sensitivity

The following sensitivity analysis is based on the group's interest rate risk exposures at balance date.

At 30 June 2019 there is no interest rate risk as interest rates are fixed.

At 30 June 2018, if interest rates had moved as illustrated in the table below with all other variables held constant, the post-tax surplus or deficit and equity would have been affected as follows:

	2019		2018	
SENSITIVITY TO POSSIBLE MOVEMENTS:	POST-TAX SURPLUS HIGHER / (LOWER) $000	EQUITY HIGHER / (LOWER) $000	POST-TAX SURPLUS HIGHER / (LOWER) $000	EQUITY HIGHER / (LOWER) $000
Interest paid				
1% (100 basis points) higher for the year	–	–	(803)	(803)
1% (100 basis points) lower for the year	–	–	803	803
Revaluation of derivative financial instruments				
1% (100 basis points) higher at year-end	–	–	67,625	67,625
1% (100 basis points) lower at year-end	–	–	(73,969)	(73,969)

10. Financial instruments and risk management (continued)

Foreign exchange risk

Foreign exchange risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. Most of the group's transactions are carried out in New Zealand dollars.

From time to time the group is exposed to foreign exchange risk on foreign currency transactions related to the purchase of equipment, parts and chemicals. Where amounts exceed NZ$300,000 (2018: NZ$250,000), the group manages this risk with forward foreign exchange contracts or options.

The group had no forward foreign exchange contracts at 30 June 2019 and 30 June 2018.

Foreign exchange sensitivity

The group had no exposure to foreign exchange risk at 30 June 2019 and 30 June 2018.

Credit risk

Credit risk is the risk that a counterparty will default on its contractual obligations, resulting in financial loss to the group. Financial instruments that potentially subject the group to credit risk consist mainly of cash and cash equivalents, derivative assets held for risk management, and trade and other receivables.

From 1 July 2018 the group's financing is made available through a guarantee letter from Auckland Council, which has credit ratings of AA from Standard & Poor's and Aa2 from Moody's. The group's cash and cash equivalents are placed with a major trading bank with an AA- long-term credit rating assigned by Standard & Poor's and A1 from Moody's.

Prior to 1 July 2018 the group's cash and cash equivalents and derivatives were placed with major trading banks or other parties with a minimum A- long-term credit rating assigned by Standard & Poor's, or its Moody's equivalent.

Debtors and other receivables arise from the group's statutory functions. Therefore, there are no procedures in place to monitor the creditworthiness of debtors and other receivables with regard to credit evaluations or external credit rating. However, there is no concentration of credit risk in respect of receivables, as the company has a large number of customers. The ageing of trade receivables from exchange transactions at balance date was as follows:

	2019			2018		
	CARRYING AMOUNT $000	PROVISION FOR DOUBTFUL DEBTS $000	NET CARRYING AMOUNT $000	CARRYING AMOUNT $000	PROVISION FOR DOUBTFUL DEBTS $000	NET CARRYING AMOUNT $000
Not past due	31,976	(37)	31,939	33,285	–	33,285
Past due 1 to 30 days	11,017	(134)	10,883	4,392	(49)	4,343
Past due 30 to 60 days	1,842	(100)	1,742	1,805	(94)	1,711
Past due more than 60 days	6,582	(1,553)	5,029	6,175	(1,481)	4,694
Total	51,417	(1,824)	49,593	45,657	(1,624)	44,033

MOVEMENT IN THE PROVISION FOR DOUBTFUL DEBTS	2019 $000	2018 $000
Balance at 1 July	1,624	956
Additions during the year	430	797
Bad debts written off	(230)	(129)
Balance at 30 June	1,824	1,624

During year ended 30 June 2019, the group is also exposed to credit risk through a $30 million loan provided to a third party. The group has mitigated this risk by contractually securing the loan with bank bonds, which in the event of a default the group has the right to call on the bonds and have the loan repaid in full. Refer to note 21, page 97, for further information.

10. Financial instruments and risk management (continued)

Liquidity risk

Liquidity risk is the risk that the group is unable to meet its financial obligations.

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has an appropriate liquidity risk-management framework for the management of the group's short-, medium- and long-term funding and liquidity-management requirements. The group manages liquidity risk by maintaining adequate reserves and banking facilities, monitoring forecast and actual cash flows, and by matching these with the maturity profile of financial liabilities.

From 1 July 2018 the group's objective is to remain within the terms of the agreement for the provision of treasury services by Auckland Council, ensuring that the group's financing needs stay within agreed forward limits as prescribed in the approved Council's Long-Term Plan 2018-2028, as modified by any subsequent Annual Plan. This is a key requirement of the guarantee letter from Auckland Council.

Prior to 1 July 2018 the group's objective was to maintain a balance between continuity of funding through long-term borrowings, sourced mainly from Auckland Council but also comprising medium-term notes and term loans, and the flexibility provided by a bank overdraft, revolving credit facility and commercial paper. The liquidity risk associated with the commercial paper is mitigated by a stand-by facility of $150 million in 2018.

The following tables detail the gross undiscounted cash flows of the financial liabilities on the basis of their earliest possible contractual maturity (including interest payments where applicable). Cash flows for financial liabilities without fixed amounts or timing restrictions are based on the conditions existing at balance date.

Gross contractual maturity analysis

	CURRENT		NON-CURRENT			
2019	0–6 MONTHS $000	7–12 MONTHS $000	1–2 YEARS $000	2–3 YEARS $000	GROSS NOMINAL CASH OUTFLOW $000	CARRYING AMOUNT $000
Financial liabilities						
Bank overdraft	–	–	–	–	–	–
Trade and other payables for exchange transactions	20,227	–	–	–	20,227	20,227
Accrued expenses*	117,938	–	–	–	117,938	117,938
Interest rate swaps**	–	–	–	–	–	–
Interest rate 'collar' option**	–	–	–	–	–	–
Borrowings	–	–	–	1,699,000	1,699,000	1,699,000
Total	138,165	–	–	1,699,000	1,837,165	1,837,165

	CURRENT		NON-CURRENT			
2018	0–6 MONTHS $000	7–12 MONTHS $000	1–2 YEARS $000	2–3 YEARS $000	GROSS NOMINAL CASH OUTFLOW $000	CARRYING AMOUNT $000
Financial liabilities						
Bank overdraft	623	–	–	–	623	618
Trade and other payables for exchange transactions	15,772	865	1,579	–	18,216	18,216
Accrued expenses*	62,864	–	–	–	62,864	62,864
Interest rate swaps**	–	–	–	–	–	221,476
Interest rate 'collar' option**	–	–	–	–	–	4,532
Borrowings	143,751	–	–	1,602,135	1,745,886	1,612,573
Total	223,010	865	1,579	1,602,135	1,827,589	1,920,279

* Excludes current and non-current revenue received in advance of $42.9 million (2018: $36.8 million) as it was not categorised as a financial liability; refer to note 22, page 97.

** All interest rate swaps and interest rate 'collar' option were novated to Auckland Council effective 1 July 2018.

10. Financial instruments and risk management (continued)

From 1 July 2018 the group remained within the terms of the agreement with Auckland Council.

Prior to 1 July 2018 the group monitored rolling forecasts of liquidity reserves on the basis of expected cash flow. At 30 June 2018 the group had $194.9 million of unused credit facilities (commercial paper stand-by facility, overdraft facility and revolving credit facility) available for immediate use.

Fair values

The calculation of fair value for each category of financial assets and liabilities is explained below.

Financial assets at amortised cost (2018: Loans and receivables)

As a result of the short-term nature of trade receivables, their carrying amount was considered a reasonable approximation of fair value less provision for impairment.

The loan provided at nil market interest rate was initially recognised at the present value of the expected future cash flow, discounted at the current market rate of return for a similar financial instrument. After initial recognition, the loan is measured at amortised cost using the effective interest method.

Financial liabilities at amortised cost

Because of the short-term nature of trade payables and accrued expenses, their carrying amounts were considered a reasonable approximation of fair value.

The fair value of loans and borrowings was calculated based on the present value of contractual principal and interest cash flows, discounted at the market rate of interest in the reporting period.

Fair value through profit and loss

From 1 July 2018 the group does not have any financial assets or liabilities which fall under this category.

Prior to 1 July 2018, interest rate swaps and interest rate options were measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates. Forward foreign exchange contracts were measured using observable market forward exchange rates. The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to those used in the previous reporting period. No reclassification of financial assets was made during the year ended 30 June 2018.

Fair value hierarchy

The fair value hierarchy classifies financial assets and liabilities into three levels, as explained below, based on the significance of inputs used in measuring the fair value of the financial assets and liabilities.

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in which the financial asset or liability has been classified was determined based on the lowest level of significant input to the fair value measurement.

From 1 July 2018 the group did not have any financial assets or liabilities that were measured at fair value in the statement of financial position. At 30 June 2019 there are no derivative financial instruments.

Prior to 1 July 2018, the only financial assets and liabilities that were measured at fair value in the statement of financial position were derivative financial instruments. The valuation for derivative financial instruments was based on the level 2 fair value hierarchy. The derivative financial instruments that the group held at balance date comprised interest rate swaps, interest rate options and forward foreign exchange contracts. Watercare's derivative transactions under the International Swaps and Derivative Association (ISDA) Master Agreement did not meet the criteria for offsetting in the balance sheet, such as a default on the bank loans or other credit events. As Watercare did not have a legally enforceable right of set-off, these amounts were not offset in the balance sheet. At 30 June 2018, fair values were assessed using a range of market interest rates of between 2.06% and 3.28% derived from the interest rate swap curve.

10. Financial instruments and risk management (continued)

Financial assets and liabilities

	2019		2018	
	CARRYING AMOUNT $000	FAIR VALUE $000	CARRYING AMOUNT $000	FAIR VALUE $000
Financial assets – current				
Amortised cost (2018: Loans and receivables)				
Cash and cash equivalents	2,058	2,058	126	126
Trade and other receivables from exchange transactions	82,128	82,128	71,843	71,843
Other financial assets	3,184	3,184	–	–
Fair value through surplus or deficit				
Derivative financial instruments**	–	–	9,116	9,116
Financial assets – non-current				
Amortised cost (2018: Loans and receivables)				
Other financial assets	25,325	25,325	–	–
Total financial assets	112,695	112,695	81,085	81,085
Financial liabilities – current				
Amortised cost				
Trade and other payables for exchange transactions	18,017	18,017	16,637	16,637
Accrued expenses*	117,938	117,938	62,864	62,864
Bank overdraft (unsecured)	–	–	618	618
Related party term loan (unsecured)	–	–	1,491	1,491
Medium-term notes (unsecured)	–	–	125,097	127,773
Bank loan (unsecured)	–	–	16,500	16,501
Fair value through surplus or deficit				
Derivative financial instruments **	–	–	226,008	226,008
Financial liabilities – non-current				
Amortised cost				
Trade and other payables for exchange transactions	2,210	2,210	1,579	1,579
Related party term loan (unsecured)	1,699,000	1,699,000	1,469,485	1,476,028
Total financial liabilities	1,837,165	1,837,165	1,920,279	1,929,499

* Excludes current and non-current revenue received in advance of $42.9 million (2018: $36.8 million) as it was not categorised as a financial liability; refer to note 22, page 97.

** Derivative financial instruments comprising interest rate swaps and the interest rate 'collar' option totalling $217 million were novated to Auckland Council effective 1 July 2018

Capital management

The capital structure of the group consists of equity attributable to the owners of the parent, comprising issued capital, reserves and retained earnings as disclosed on page 67, and debt including borrowings and covenants compliance as disclosed in note 8, page 81.

The group's policy is to maintain a strong capital base so as to maintain debt investor, creditor and market confidence and to sustain the future development of the business. In ensuring that the group has sufficient solvency to satisfy all its operational needs, management closely monitors the ratio between the funds it receives from operations and its finance costs.

The group continues to focus on the maintenance of the long-term integrity of its assets while keeping the overall costs to its customers at minimum levels. There has been no change in the group's overall strategy for capital management during the years ended 30 June 2019 and 30 June 2018.

11. Revaluation of derivative financial instruments

	2019 $000	2018 $000
Interest rate swaps contracts loss / (gain)	–	20,808
Net revaluation loss / (gain)	–	20,808

Interest rate swaps have been novated to Auckland Council effective 1 July 2018.

12. Revenue

Revenue is classified as exchange or non-exchange revenue based on whether it arises from an exchange or a non-exchange transaction. In an exchange transaction, assets or services are received, or liabilities are extinguished, directly in exchange for an approximately equal value. In a non-exchange transaction, value is either received or given from / to another entity without directly exchanging an approximately equal value. The group's significant items of revenue are as follows:

Revenue from exchange transactions

Water and wastewater revenue

Water revenue comprises the amounts received and receivable at balance date for water supplied to customers in the ordinary course of business. Wastewater revenue is a combination of a fixed charge and a volumetric charge for a percentage of water used. Water and wastewater revenue includes estimated unbilled amounts for unread meters at balance date. As meter reading is cyclical, management must apply judgment when estimating the daily average water consumption of customers between meter readings. Unbilled revenues from the last billed reading date to the end of the month are recognised as revenue during the month water and wastewater services are provided.

Revenue from rendering of services

Revenue from rendering of services is recognised at the fair value of the amounts received or receivable as the services are delivered, or to reflect the percentage completion of the related services, where delivered over time.

Interest income

Interest income is recognised using the effective interest method.

Dividend income

Dividend income is recognised on the date when the group's right to receive payment is established.

Infrastructure Growth Charge revenue

Infrastructure Growth Charge revenue received is recognised when payment is received for approved connections.

12. Revenue (continued)

Revenue from non-exchange transactions

All non-exchange revenue earned by Watercare is from transfers.

Vested assets revenue

Vested assets revenue arises when developers are required under consent conditions to build infrastructure assets in the development area and vest them to Watercare upon completion of construction. Vested assets revenue is recognised at the fair value of the assets received, being the values provided by the developers, at the date of transfer to Watercare. Vested assets received are recorded as additions to property, plant and equipment and are not classified as capital expenditure.

	NOTE	2019 $000	2018 $000
Revenue from exchange transactions			
Revenue from sale of goods			
Water revenue – gross		164,936	159,845
Water leak remission		(2,080)	(2,053)
Water revenue – net of leak remissions		162,856	157,792
Revenue from sale of services			
Wastewater revenue – gross		358,228	337,829
Wastewater leak remission		(5,485)	(5,084)
Wastewater revenue – net of leak remissions		352,743	332,745
Total water and wastewater revenue – net of leak remissions		515,599	490,537
New meters and service connections		14,987	11,972
Laboratory revenue		7,091	6,249
Total revenue from sale of goods and services		537,677	508,758
Infrastructure Growth Charge revenue		103,754	89,148
Dividend income		114	113
Subvention income	NOTE 15, PAGE 93	3,778	7,049
Interest income		11	10
Other revenue		7,684	6,307
Total other revenue from exchange transactions		115,341	102,627
Total revenue from exchange transactions		653,018	611,385
Revenue from non-exchange transactions			
Vested assets revenue		62,159	30,201
Total revenue from non-exchange transactions		62,159	30,201
Total revenue		715,177	641,586

13. Operating expenses

	NOTES	2019 $000	2018 $000
Operating expenses include:			
Auditor's remuneration			
• annual audit and review of the financial statements – Deloitte		577	619
• audit of financial statements – Office of the Auditor-General (OAG) contribution		40	39
• other services – Deloitte		510	466
Directors and trustees' fees	NOTE 28, PAGE 101 & 102	467	486
Environmentally significant costs			
• chemicals		11,743	11,513
• energy		18,689	17,891
Cost of consumables and spare parts consumed	NOTE 18, PAGE 95	18,960	15,952
Operating leases and rent		6,447	6,707
Increase in provision for doubtful debts	NOTE 10, PAGE 83	430	797
Bad debts written off	NOTE 10, PAGE 83	230	129
Salaries and wages			
• paid to employees		86,250	85,501
• capitalised on construction of property, plant and equipment		(22,836)	(20,621)
• included in employee benefit expenses		63,414	64,880

Auditor's remuneration for other services relates to cyber-security advice including incident response support, central interceptor and enterprise model probity services. Prior year fees for other services provided by the auditors relate to a review of ERP systems, cyber-security advice including planning and implementation, cyber strategy and framework advisory, central interceptor supplier procurement and tax advisory.

14. Reconciliation of operating cash flows

	2019 $000	2018 $000
Reconciliation of net surplus after tax to net cash flows from operating activities		
Net surplus for the year	107,619	54,431
Non-cash and non-operating items:		
Depreciation and amortisation	245,822	219,979
Net loss on disposal of and provision for redundant property, plant and equipment	12,393	7,031
Vested assets revenue	(62,159)	(30,201)
Capitalised interest on borrowings and assets	66,012	–
Net loss / (gain) on revaluation of derivative financial instruments	–	20,808
Medium-term notes interest paid (non-operating)	(3,553)	–
Medium-term notes premium amortisation and time value of money charges	(97)	(292)
Deferred tax	55,547	38,145
Movements in working capital:		
(Increase) / decrease in assets:		
Inventories	(176)	1,633
Trade and other receivables from exchange transactions	3,396	7,322
Prepaid expenses	(7,373)	(744)
Increase / (decrease) in liabilities:		
Trade and other payables for exchange transactions	1,021	(1,711)
Accrued expenses	2,362	(1,064)
Provisions	150	1,424
Net cash inflows from operating activities	420,964	316,761

15. Income tax expense

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or loss for the year. Current and deferred tax relating to items in other comprehensive revenue and expense is recognised against the respective items in other comprehensive revenue and expense. Current tax for current and prior years is recognised as a liability (or asset) to the extent it is unpaid (or refundable).

Sale of tax losses

Watercare and Auckland Council tax group, a related party, enter into an arrangement each year for tax loss offset and subvention. The agreement outlines an estimated maximum of tax losses to be sold by Watercare to Auckland Council tax group for that income year. Actual amounts of tax loss offset and subvention are determined post balance date when the respective income tax calculations are completed by the parties. Under the agreement, subvention income of 45 cents per dollar of the tax impact of the losses sold is receivable by Watercare from Auckland Council tax group.

Tax loss offset

For the income year ended 30 June 2019, Watercare agreed to a maximum of tax losses to be sold to Auckland Council tax group of $35.0 million (2018: $52.0 million), of which $4.4 million (2018: $6.5 million) was accrued as subvention and the balance of $30.6 million (2018: $45.5 million) was recognised as an estimated loss offset with Auckland Council tax group.

For the year ended 30 June 2019, Watercare received a cash payment of $5.9 million (2018: $6.7 million) from Auckland Council tax group with a tax impact of $46.9 million (2018: $52.9 million).

This has resulted in subvention income of $3.8 million (net) being recognised in the financial statements reflecting the $4.4 million accrual at 30 June 2019 and $0.6 million reversal of accrual from 30 June 2018.

	2019 $000	2018 $000
Operating surplus before tax	163,166	92,576
Income tax calculated at current tax rate of 28%	45,686	25,921
Increase / (decrease) in income tax due to:		
• Dividend and other income exempt from taxation	(1,441)	(4,752)
• Assessable income	–	–
• Non-deductible expenses	822	1,481
• Imputation credits on dividends received	(43)	(43)
• Prior year and other adjustments	723	(119)
• Release of unused tax provision	–	(8)
• Subvention income and tax loss offset with Auckland Council tax group	9,800	15,665
Tax effect of non-deductible items and prior period adjustments	9,861	12,224
Income tax expense	55,547	38,145
Represented by:		
Current tax	–	(8)
Deferred tax	55,547	38,153
Total income tax expense	55,547	38,145

Imputation credits

The imputation credit account is a memorandum account and does not form part of the statement of financial position.

	2019 $000	2018 $000
Total imputation credits	30,564	30,521

16. Deferred tax liability

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised.

The depreciation temporary differences for property, plant and equipment arise because the carrying value of property, plant and equipment is higher for accounting purposes than it is for taxation purposes; for example, due to:

- the revaluation of certain assets
- the group's accounting depreciation rates being lower than those permitted by tax legislation.

The provisions and accrued expenses temporary differences, principally related to the mark-to-market revaluation of financial instruments. These expenses were recognised for accounting purposes but cannot be deducted for tax purposes until the amounts become payable.

Current and deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) which have been enacted or substantively enacted at the reporting date.

(i) Recognised deferred tax assets and liabilities

	2019 ASSETS $000	2018 ASSETS $000	2019 LIABILITIES $000	2018 LIABILITIES $000	2019 NET $000	2018 NET $000
Property, plant and equipment	–	–	(1,708,002)	(1,661,467)	(1,708,002)	(1,661,467)
Financial instruments	–	60,730	–	–	–	60,730
Employee benefits and other provisions	3,055	3,315	–	–	3,055	3,315
Tax losses	314,876	257,406	–	–	314,876	257,406
Other	–	–	(28,020)	(22,528)	(28,020)	(22,528)
Total	317,931	321,451	(1,736,022)	(1,683,995)	(1,418,091)	(1,362,544)

(ii) Movement in deferred tax

	PROPERTY, PLANT AND EQUIPMENT $000	FINANCIAL INSTRUMENTS $000	EMPLOYEE ENTITLEMENTS AND OTHER PROVISIONS $000	TAX LOSSES $000	OTHER $000	TOTAL $000
Balance as at 1 July 2017	1,352,628	(54,904)	(2,890)	(253,702)	19,232	1,060,364
Charged / (credited) to comprehensive revenue and expense	44,812	(5,826)	(425)	(3,704)	3,296	38,153
Charged to other comprehensive revenue and expense, resulting from revaluation	264,027	–	–	–	–	264,027
Balance as at 30 June 2018	1,661,467	(60,730)	(3,315)	(257,406)	22,528	1,362,544
Balance as at 1 July 2018	1,661,467	(60,730)	(3,315)	(257,406)	22,528	1,362,544
Charged / (credited) to comprehensive revenue and expense	46,535	60,730	260	(57,470)	5,492	55,547
Charged to other comprehensive revenue and expense, resulting from revaluation	–	–	–	–	–	–
Balance as at 30 June 2019	1,708,002	–	(3,055)	(314,876)	28,020	1,418,091

17. Trade and other receivables from exchange transactions

Trade and other receivables from exchange transactions are initially recognised at fair value. These are generally due for settlement within 21 days (2018: 21 days). Debts which are known to be uncollectable are written off by reducing the carrying amount directly.

From 1 July 2018 the group has early-adopted PBE IFRS 9, which has an expected credit loss model for impairment of financial assets. The expected credit loss allowance provision for receivables was calculated using the new PBE IFRS 9 model. The cumulative impact of the change has not been adjusted through opening retained earnings, as the financial effects are not material.

Prior to 1 July 2018 a provision for impairment of trade receivables was recognised when there was objective evidence that the group would not be able to collect all amounts due. Impairment losses are recognised in surplus or deficit within other expenses.

Subsequent recoveries of amounts previously written off are recorded within other revenue. Refer to note 10, page 83.

CURRENT	2019 $000	2018 $000
Trade receivables	48,848	44,500
Trade receivables – related parties	2,569	1,157
Provision for doubtful debts	(1,824)	(1,624)
	49,593	44,033
Other receivables – related parties	5,019	6,555
Unbilled revenue accrual	27,516	21,255
Trade and other receivables from exchange transactions	82,128	71,843

18. Inventories

Consumables are recorded at the lower of weighted average cost and net realisable value.

Spare parts and consumables are recorded at cost less an adjustment for the reduction in economic benefits due to obsolescence. The cost of spare parts is recorded as an expense when used for repairs and maintenance on existing plant and equipment or is recorded as part of the cost of the new asset if used in the construction of new property, plant and equipment.

Project stock is recorded at cost and relates to items purchased for a capital project which have yet to be transferred to the project site. Treated water in the network and reservoirs is recorded at the lower of cost and net realisable value.

The cost of inventories recognised as an expense during the year was $19.0 million (2018: $16.0 million).

	2019 $000	2018 $000
Spare parts at cost	6,783	6,098
Consumables at cost	3,743	3,705
Treated water at cost	850	850
Project stock	16,266	12,335
Provision for obsolescence	(937)	(937)
Total	26,705	22,051
Represented as:		
Current inventory	18,547	10,898
Non-current inventory	8,158	11,153
Total	26,705	22,051

19. Trade and other payables for exchange transactions

Trade and other payables for exchange transactions are unsecured and usually paid within 30 days (2018: 30 days) of recognition. Certain construction contracts entitle the group to retain specified amounts to ensure the performance of contract obligations. These retentions are recorded as a liability, and either used to remedy contract performance or paid to the contractor at the end of the retention period. Contract retentions of $6.6 million are held as cash on hand at 30 June 2019 (2018: $2.9 million). This is in line with the amendment to the Construction Contracts Act (CCA) 2002 which was effective from April 2017.

	2019 $000	2018 $000
Current		
Trade creditors	9,408	7,982
Trade creditors – related parties	505	53
Contract retentions	5,071	4,273
Other payables	3,033	4,329
Total current trade and other payables for exchange transactions	18,017	16,637
Non-current		
Contract retentions	2,210	1,579
Total non-current trade and other payables for exchange transactions	2,210	1,579
Total trade and other payables for exchange transactions	20,227	18,216

20. Prepaid expenses

	2019 $000	2018 $000
Current		
Puketutu Island lease	443	443
Other prepaid expenses	14,168	2,335
Total current prepaid expenses	14,611	2,778
Non-current		
Puketutu Island lease	20,408	20,851
Other prepaid expenses	8,290	2,993
Total non-current prepaid expenses	28,698	23,844
Total prepaid expenses	43,309	26,622

Prepayments include an amount paid to Kelliher Charitable Trust towards the lease of land at Puketutu Island for disposal of biosolids by Watercare. The amount is amortised on a straight-line basis over the lease period, which is 55 years with one right of renewal of 15 years, which is longer than the resource consent period of 35 years as the land will be used beyond the consent period for aftercare.

Other prepaid expenses include capital project advances of $9.3 million (2018: $nil), prepaid insurance, a biosolids levy and software licensing fees.

21. Other financial assets

	2019 $000	2018 $000
Current		
Loan receivable	3,184	–
Non-current		
Loan receivable	25,325	–
Total other financial assets	28,509	–

The loan receivable was provided to the contractor as part of the Central Interceptor Main Works Contract and is secured against bank bonds. The loan was subsequently recorded at fair value through profit and loss, where fair value has been determined using the projected cash flows discounted at a rate of 2.4%, which is based on the prevailing market interest rate for a similar investment.

22. Accrued expenses

	2019 $000	2018 $000
Current		
Capital work in progress accruals	89,224	34,125
Interest payable	5,667	11,377
Revenue received in advance	28,420	21,919
Operating costs accruals	23,047	17,362
Total current accrued expenses	146,358	84,783
Non-current		
Revenue received in advance	14,486	14,842
Total non-current accrued expenses	14,486	14,842
Total accrued expenses	160,844	99,625

Capital work in progress accruals include multiple large projects that are in progress and yet to be invoiced.

Revenue received in advance includes $7.3 million (2018: $7.5 million) relating to the amount received in accordance with the franchise fee agreement with the network operator Veolia Water Services (ANZ) Pty Limited. The $13.0 million fee received at the commencement of the agreement covers the right to use the assets for a 50-year period and is recognised as revenue evenly over the term of the agreement.

Accrued expenses above include related party accruals. Refer to note 24, page 99 for a breakdown of related party accruals.

23. Provisions

The group provides for the cost of employees' entitlements under the terms of their employment contracts. The liability is calculated as the present value of the expected future payments after allowing for wage and salary increases, the rate of staff turnover and terms of service with the group. These amounts, except for the long-service leave entitlement, are expected to be settled within one year and are, therefore, recorded in current provisions. The amount recorded in non-current provisions represents the portion of long-service leave which is due for payment beyond one year from the reporting date. The amount recorded as a provision is the best estimate of the consideration required to settle the obligation at the end of each year.

Decommissioning provisions relate to future costs for site restoration and removal work that must be completed by Watercare in accordance with resource consent conditions. Decommissioning provisions are recognised as part of the cost of the relevant asset. Current decommissioning provisions are those which are expected to be utilised within 12 months after balance date.

Other provisions are recognised when the group has a present obligation as a result of a past event, it is probable that there will be a future outflow of resources, and that the amount of the provision can be reliably measured.

	2019 $000	2018 $000
Current		
Employee entitlements	7,836	8,053
Decommissioning costs	9	27
Other provisions	3,110	2,995
Total current provisions	10,955	11,075
Non-current		
Employee entitlements	1,731	1,717
Decommissioning costs	7,238	5,514
Total non-current provisions	8,969	7,231
Total provisions	19,924	18,306

	EMPLOYEE ENTITLEMENTS $000	DECOMMISSIONING COSTS $000	OTHER PROVISIONS $000	TOTAL $000
Balance at 1 July 2018	9,770	5,541	2,995	18,306
Additions during the year	10,368	1,725	2,063	14,156
Reductions resulting from payments	(10,571)	(19)	(1,791)	(12,381)
Unused provisions reversed during the year	–	–	(157)	(157)
Balance at 30 June 2019	9,567	7,247	3,110	19,924

Watercare is currently depositing biosolids on Puketutu Island in Māngere, Auckland. A non-current provision is recognised for the present value of costs to be incurred for the restoration of this site in line with consent conditions. It is expected that $23.3 million will be required evenly over the 10-year period covering the 2046 to 2055 financial years, with a net present value at balance date of $7.0 million (2018: $5.5 million).

The major assumptions used in the estimation of this provision are:

- An average inflation rate over the 40-year provision period of 3.35%
- A range of risk-free discount rates from 1.72% to 4.54% have been applied in calculating the net present value (2018: 4.75%)
- An expected biosolids completion date of 30 years from 2015 (the date biosolid activity commenced)
- Aftercare activities will be required for a period spanning 10 years from completion
- The exact extent of work required to restore the site, along with quantities of materials and supplies, is unknown; therefore, an estimate has been made based on the information available at balance date.

Other provisions of $3.1 million relates to claims made by contractors in respect of capital projects and the restructuring provision (2018: $3.0 million).

24. Equity and related parties

Equity

Watercare is 100% owned by Auckland Council. The total number of authorised and issued shares at balance date was 260,693,164 (2018: 260,693,164) ordinary shares of $1 each. Every ordinary issued share was fully paid and carries equal voting rights to:

- one vote on a poll at a meeting of the company on any resolution
- an equal share in the distribution of the surplus assets of the company.

Under Section 57(1)(b) of the Local Government (Auckland Council) Act 2009, the company must not pay any dividend or distribute any surplus in any way, directly or indirectly, to its shareholder. The capital management policy of the group is detailed in note 10, page 83.

The contribution value for the net assets of $3.8 billion, transferred to Watercare when the retail water and wastewater businesses in the Auckland region were integrated into the company on 1 November 2010, was recorded within retained earnings.

Subsidiaries

The consolidated financial statements comprise the financial statements of the controlling entity Watercare Services Limited and the first three controlled entities noted below. Consolidation involves adding together like items of assets, liabilities, equity, revenue and expenses on a line-by-line basis. All significant intra-group balances, transactions, revenues and expenses are eliminated on consolidation.

The company provides funding to its Trust subsidiaries in the form of grants; this is treated as expenditure in the company's books and as revenue in the Trust subsidiaries' books. On consolidation, this expenditure is offset by the revenue in the subsidiaries' books while the actual expenditure is recognised in the group's accounts when the subsidiaries incur the expenditure.

Water Utility Consumer Assistance Trust

Water Utility Consumer Assistance Trust was formed in October 2011 and is a charitable trust. Watercare has the power to appoint two out of five of the trustees on the trust board. Watercare exercises control over the trust as it fully funds the trust's running costs and the trust caters only to the customers of Watercare.

Watercare Harbour Clean Up Trust

Watercare Harbour Clean Up Trust was set up in December 2002 by several local authorities and is a charitable trust. During 2010/11, Watercare became the primary funder of this trust and, at 30 June 2019, two of the five trustees on the board were current Watercare employees.

Auckland City Water Limited

Auckland City Water Limited is 100% owned (2018: 100%) by Watercare and it is a non-trading company.

Hūnua Forests Limited

On 14 May 2019 Hūnua Forests Limited was removed from the New Zealand Companies Office register; prior to this, Watercare Services Limited owned 100% of this company.

Transactions with related parties

Watercare entered into borrowing arrangements with Auckland Council on the terms set out in note 8, page 81. With the centralised treasury function effective from 1 July 2018, intercompany interest rate swaps with Auckland Council were closed out. Loss on the close-out of $0.8 million is recorded in the statement of comprehensive revenue and expense.

The balances outstanding and transactions relating to the borrowings from Auckland Council during the year were as follows:

	2019 $000	2018 $000
Loans from Auckland Council, balance at 30 June	1,699,000	1,470,976
Interest payable on loans from Auckland Council	5,667	6,554
Interest expense on loans from Auckland Council	82,184	40,997
Loans borrowed from Auckland Council during the year	625,854	250,000
Loans repaid to Auckland Council during the year	484,907	80,839
Interest expense on swaps (net) with Auckland Council	–	361
Debt guarantee expense with Auckland Council	–	146

24. Equity and related parties (continued)

Transactions with related parties (continued)

The group has a loss offset and subvention arrangement with Auckland Council tax group as detailed in note 15, page 93.

Periodically the group enters into land sale and purchase agreements with the Auckland Council group. As these transactions are always carried out on an arm's-length basis they are not separately disclosed.

The group provides retail water and wastewater services to Auckland Council and its controlled, jointly controlled and significantly influenced entities as well as to key management personnel of the company and its parent. These sales take place in the normal course of its business. The group also entered into sale and purchase transactions with related parties in the normal course of its business, such as the payment of rates. These were not collectively significant.

	2019 $000	2018 $000
Sales to related parties	21,065	21,171
Trade receivables from exchange transactions – related parties	2,570	1,157
Purchases from related parties	5,022	2,998
Land rates – Auckland Council	2,415	2,165
Trade payables for exchange transactions – related parties	505	53
Receivables accruals – related parties	5,018	6,555
Payables accruals – related parties	2,440	1,528

25. Commitments

	2019 $000	2018 $000
Capital expenditure		
The capital expenditure committed to, but not recognised in these financial statements at balance date was:		
Buildings	2,568	2,836
Pipelines	1,027,999	142,914
Tanks, tunnels, roads and reservoirs	99,601	36,347
Intangibles	14,680	1,378
Other	27,232	33,863
Total capital expenditure commitments	1,172,080	217,338
Anticipated payment schedule		
Less than one year	448,622	113,730
One to two years	105,760	98,269
Two to five years	601,395	3,627
Beyond five years	16,303	1,712
Total capital expenditure commitments	1,172,080	217,338

At 30 June 2019 the Central Interceptor Main Works Contract is included within these capital commitments.

25. Commitments (continued)

The group leases certain property, plant and equipment where the lessor effectively retains substantially all the risks and benefits of ownership. Amounts payable under the lease terms are recognised as an expense on a straight-line basis over the lease term. Lease incentives received are initially recorded as a liability and are recognised as a reduction of the lease expense on a straight-line basis over the lease term.

The major lease commitments relate to the long-term lease of the office premises in Newmarket, which expires in November 2025, and the long-term lease from Auckland Council of the land forming the water catchment areas, which expires in July 2092. The annual rental of $0.6 million (2018: $0.6 million) for the water catchment areas was included in these commitments at face value. Other leases include parks, reservoirs and office equipment.

	2019 $000	2018 $000
Operating leases		
Anticipated payments under non-cancellable operating leases:		
Less than one year	6,908	6,573
One to two years	6,565	6,503
Two to five years	19,673	18,523
Beyond five years	81,576	84,781
Total lease commitments	114,722	116,380

26. Contingencies

There are no contingencies to report at balance date.

27. Retirement benefit plans

Each of the employees of the group can elect to join the KiwiSaver scheme. This is a work-based savings scheme run through a selection of private providers. The obligation of the group is to contribute a specified percentage of payroll costs to the KiwiSaver scheme in line with employee contributions and the only obligation of the group to the KiwiSaver scheme was to make the specified contributions. The total defined contribution expense recognised in the surplus or deficit for 2019 was $2.3 million (2018: $2.2 million).

28. Key management personnel

The key management personnel of the group are the directors, the chief executive, the senior management team of Watercare, and the trustees of the subsidiaries, who together constitute the governing body of the group. The number of individuals, on a full-time equivalent (FTE) basis, excluding directors and trustees, receiving remuneration from the group as key management personnel is 9 FTE (2018: 10FTE). The aggregate remuneration received by the key management personnel is shown below:

	2019 $000	2018 $000
Employees' salaries and wages, directors' fees and trustees' fees	4,638	4,512
Aggregate remuneration	4,638	4,512

28. Key management personnel (continued)

DIRECTORS' FEES	APPOINTED	2019 $000	2018 $000
Margaret Devlin (Chair – appointed November 2016)	November 2016	108	108
Julia Hoare	November 2013	68	67
Catherine Harland	April 2011	62	66
Nicola Crauford	April 2014	62	56
Brendon Green	November 2016	58	54
David Thomas	November 2014	54	54
Annette King (resigned December 2018)	November 2017	31	39
Tony Lanigan (resigned October 2017)	April 2011	–	18
Total		443	462

TRUSTEES' FEES	APPOINTED	2019 $000	2018 $000
Watercare Utility Consumer Assistance Trust			
Jeff Morrison (Chairman)	December 2015	8	8
Maureen Little	October 2011	5	5
Lauren Godsiff	October 2011	6	6
Emily Charlton-Rapana	July 2015	5	5
Total		24	24
Watercare Harbour Clean Up Trust			
Peter Drummond (Chairman)	April 2015	–	–
Penny Whiting	April 2015	–	–
Brian Monk	April 2015	–	–
Mark Bourne	April 2015	–	–
Rob Fisher	April 2015	–	–
Total		–	–

DIRECTORS' FEES	APPOINTED	2019 $000	2018 $000
Hūnua Forests Limited (ceased 19 March 2019)			
Brian Monk	January 2017	–	–
Rob Fisher	January 2017	–	–
Total		–	–

29. Events occurring after balance date

On 16 August 2019 a long term agreement for the provision of water, wastewater and stormwater services to Waikato District Council by Watercare was executed, effective from 1 October 2019. The water assets will stay in the ownership of Waikato District Council and they will pay Watercare for the provision of both operational and capital delivery services.

Employees' remuneration range

The table below shows the number of employees and former employees of the group who, in their capacity as employees, received remuneration and other benefits of at least $100,000 during the year.

	2019
EMPLOYEES' REMUNERATION RANGE ($)	NUMBER OF EMPLOYEES
100,000 – 110,000	60*
110,001 – 120,000	64*
120,001 – 130,000	41*
130,001 – 140,000	17
140,001 – 150,000	20*
150,001 – 160,000	13
160,001 – 170,000	9*
170,001 – 180,000	5
180,001 – 190,000	2
190,001 – 200,000	6*
200,001 – 210,000	4
210,001 – 220,000	1
220,001 – 230,000	1
230,001 – 240,000	4*
240,001 – 250,000	1
250,001 – 260,000	1
290,001 – 300,000	2
300,001 – 310,000	2
310,001 – 320,000	1
350,001 – 360,000	1
370,000 – 380,000	1
380,000 – 390,000	1
430,000 – 440,000	1*
770,000 – 780,000	1

* During the year final payments were made to a total of fifteen staff who left the company. These payments included outstanding annual leave and long service leave entitlements and in some cases redundancy payments.

Provide uninterrupted access to safe, clean and drinkable water

(i) The extent to which Watercare's drinking water supply complies with part 4 of the drinking water standards (Bacterial Compliance Criteria).

(SOI Target 2018/19: = 100% – Achieved: 100%; previous year: 100%)

Watercare met this target. Water treated at all of our graded treatment plants met the Bacterial Compliance Criteria set by the Drinking Water Standards for New Zealand (DWSNZ). Compliance with DWSNZ is verified through a combination of continuous online analysers at various stages of the water treatment process and an extensive sampling and analysis programme by Watercare Laboratory Services. The results from this programme are independently assessed by a Ministry of Health-appointed drinking water assessor. The reported result is based on the grading achieved in November 2018, for the year beginning 1 July 2017 and ending 30 June 2018 inclusive. The 2018/19 result will be available after the grading in November 2019 for the year beginning 1 July 2018 and ending 30 June 2019.

(ii) The extent to which Watercare's drinking water supply complies with part 5 of the drinking water standards (Protozoal Compliance Criteria).

(SOI Target 2018/19: =100% – Achieved: 100%; previous year: 100%)

Watercare met this target. Water treated at all of our graded treatment plants met the Protozoal Compliance Criteria set by the Drinking Water Standards for New Zealand (DWSNZ). Compliance with DWSNZ is verified through a combination of continuous online analysers at various stages of the water treatment process and an extensive sampling and analysis programme by Watercare Laboratory Services. The results from this programme are independently assessed by a Ministry of Health-appointed drinking water assessor. The reported result is based on the grading achieved in November 2018, for the year beginning 1 July 2017 and ending 30 June 2018 inclusive. The 2018/19 result will be available after the grading in November 2019 for the year beginning 1 July 2018 and ending 30 June 2019.

(iii) Median response time for attendance to urgent call-outs: from the time that Watercare receives notification to the time that service personnel reach the site.

(SOI Target 2018/19: ≤ 60 mins – Achieved: 50 mins; previous year: 54 mins)

Watercare met this target. The median response time for our maintenance crew to attend to urgent issues was 50 minutes, which is within the target of 60 minutes or less.

(iv) 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.

(SOI Target 2018/19: ≤ 5 hours – Achieved: 2.8 hours; previous year: 3 hours)

Watercare met this target. The median response time for our maintenance crew to resolve urgent issues such as faults or interruptions was 2.8 hours, which is within the target of five hours or less.

(v) Median response time for attendance of non-urgent call-outs: from the time that Watercare receives notification to the time that service personnel reach the site. (SOI Target 2018/19: ≤ 5 days – Achieved: 1.3 days; previous year: 3 days)

Watercare met this target. The median response time for our maintenance crew to attend to non-urgent water issues was 1.3 days, which met the target of five days or fewer.

(vi) 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.

(SOI Target 2018/19: ≤ 6 days – Achieved: 2.1 days; previous year: 3 days)

Watercare met this target. The median response time for our maintenance crew to resolve non-urgent issues was 2.1 days, which is well within the target of six days or fewer.

(vii) 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.

Watercare's response to any of these issues are expressed per 1000 connections to the local authority's networked reticulation system.

(SOI Target 2018/19: ≤ 10 – Achieved: 4.4; previous year: 4)

Watercare met this target. It relates to the volume of calls we received regarding water quality and supply issues for the year ended 30 June 2019. The number of complaints received per 1000 connections was 4.4, which is well within the target of 10 or fewer.

Provide reliable wastewater services and manage discharges to maintain or improve the health of the environment

(i) The number of dry-weather overflows from Watercare's sewerage system, expressed per 1000 sewerage connections to that sewerage system.

(SOI Target 2018/19: ≤ 10 – Achieved: 0.59; previous year: 0.3)

Watercare met this target. The number of wastewater overflows from our retail network during dry weather is a measure of the network's capability to meet current demand. The result for the year was 0.59 dry-weather overflows per 1000 connections, which is well under the target of 10 or fewer.

Dry-weather overflows are generally caused by incorrect disposal of fats, oils and grease down the wastewater network which lead to blockages in the pipes resulting in wastewater overflows.

(ii) Compliance with 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.

(SOI Target 2018/19: a) ≤ 2, b) ≤ 2, c) ≤ 2, d) = 0. Achieved: a) = 0, b) = 0, c) = 0, d) = 0; previous year: a) = 0, b) = 0, c) = 0, d) = 0)

Watercare met this target. There were no abatement, infringement or enforcement notices or convictions for the 2018/19 year.

(iii) 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.

(SOI Target 2018/19: ≤ 60 mins – Achieved: 43 mins; previous year: 48 mins)

Watercare met this target. The median response time for our maintenance crew to attend to wastewater overflows or blockages was 43 minutes, which is within the target of 60 minutes or less.

(iv) Attendance at sewage 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.

(SOI Target 2018/19: ≤ 5 hours – Achieved: 2.8 hours; previous year: 3 hours)

Watercare met this target. The median response time for our maintenance crew to resolve wastewater overflows or blockages was 2.8 hours, which is within the target of five hours or less.

(v) The total number of complaints received by Watercare about any of the following:

a) sewage odour
b) sewerage system faults
c) sewerage system blockages

Watercare's response to issues with its sewerage system expressed per 1000 connections to the Watercare sewerage system.

(SOI Target 2018/19: ≤ 50 – Achieved: 18.4; previous year: 19)

Watercare met this target. It relates to the volume of calls we received regarding wastewater odours, overflows, broken pipes and other network issues for the year ended 30 June 2019. The number of complaints received per 1000 connections was 18.4, which is well within the target of 50 or fewer.

(vi) Average number of wet-weather overflows per discharge location.

(SOI Target 2018/19: ≤ 2 – Achieved: 1.2; previous year: 1.7)

Watercare met this target. The number of wet-weather overflows for the transmission network (bulk mains) per number of discharge locations was 1.2, which is within the target of two or fewer overflows.

Customer satisfaction

(i) Net promoter score.

(SOI Target 2018/19: ›30 – Achieved: 43; new measure)

Net Promoter Score (NPS) is commonly used by utilities as a measure of customer loyalty. We use it to measure how satisfied our customers are with Watercare across all their interactions whether it is in person, by phone, email or on our website.

While our NPS of 43 is a great improvement on previous years, we will continue to raise the bar in our pursuit of winning the confidence and trust of all our customers. We will continue to invest time and effort to understand the root causes of the things that frustrate our customers, actively drive improvements in our processes and behaviours, adopting a more empathetic and resolution-driven approach.

Effective management of resources

(i) The percentage of real water loss from Watercare's networked reticulation system.

(SOI Target 2018/19: ≤ 13% – Not achieved: 13.1%; previous year: 13.1%)

Watercare did not meet this target, with water loss over (13.1%) the specified target (13%). The water losses in this measure are calculated by deducting water sales volumes and unbilled water usage from the total volume of water produced.

These unbilled uses fall into three categories: operational usage (pipeline flushing, fire-fighting etc.); meter under-recording; and unauthorised usage. While leaks are one of the sources of water loss, we have evidence that water is being taken from our network illegally, through hydrants. A taskforce has been established to further investigate unauthorised usage and take all necessary steps to address this unauthorised use.

We continue to focus on improving the accuracy of measuring total volume of water produced, as detailed in the 2017/18 report. We are continuing to improve the accuracy of our Bulk Supply Points (BSP) and other opportunities to improve granularity of water supply data. We plan to establish district metered areas, which are discrete areas of a water distribution network. This will allow us to measure water consumption at a suburb level and enable more accurate total volume of water analysis, and better identification of unbilled uses.

(ii) The average consumption of drinking water per day per resident.

(SOI Target 2018/19: 266 +/- 2.5% –achieved: 270.7; previous year: 278.4)

Watercare met this target, despite the 2018/2019 year being one of high demand. The gross per-capita consumption was 270.7 litres per day this year, against a target of 266 litres per day (+/- 2.5%). The demand for water from Aucklanders was higher than expected in 2018/19 as Auckland experienced unusually warm and dry summer and winter periods. Aucklanders used a record-breaking 544 million litres of water on 13 February 2019 (40 million litres more than the previous record in December 2017).

Contributing to the high demand is the fact that consumers that depend on rainwater tanks needed to purchase more water from tanker operators during the warm and dry periods of the year. This means that the water sold to tanker operators, which is supplied by our metropolitan network, is then distributed to consumers that are not connected to our metropolitan network.

This year, we have used the Statistic NZ 2018 medium projection which includes non-residents (e.g. consumers living in commercial rest homes, hotels and hospitals in the metropolitan area) for the population figure as non-residents also account for demand for water supply in the Auckland region.

To ensure we report water consumption accurately, we have used the most up to date number for water connections, based on 2018 percentage of people who are connected to our network, instead of the 2013 percentage used in previous years' calculations.

The water efficiency programme continued to engage with Aucklanders in various ways including social media, customer newsletters, public events like home and garden shows and in-house water audits as part of the Be Waterwise programme offered in partnership with EcoMatters.

Deloitte.

INDEPENDENT ACCOUNTANT'S ASSURANCE REPORT TO THE DIRECTORS OF WATERCARE SERVICES LIMITED

Report on sustainability content within the 2019 Annual Report

Watercare Services Limited's Annual Report for the year ended 30 June 2019 (the 'Annual Report') contains sustainability information which includes information that is prepared in accordance with the Global Reporting Initiative Sustainability Reporting Standards (the 'GRI Standards'): Core option. The specific GRI Standards reported against are set out in the Global Reporting Initiative Index (the 'GRI Index') on pages 109 to 111.

The subject of our limited assurance engagement is the 'sustainability content' which consists of the disclosures and indicators listed in the GRI Index and included on pages 8 to 55 of the Annual Report but does not cover forward looking statements, comparisons made against historical data or online supplements.

Conclusion

This conclusion has been formed on the basis of, and is subject to, the inherent limitations outlined elsewhere in this independent assurance report.

Based on the evidence obtained from the procedures we have performed, nothing has come to our attention that causes us to believe that the sustainability content has not been prepared, in all material respects, in accordance with the GRI Standards: Core option for the year ended 30 June 2019.

Basis for Conclusion

Our engagement has been conducted in accordance with International Standard on Assurance Engagements (New Zealand) 3000 (Revised): *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* ('ISAE (NZ) 3000 (Revised)') issued by the New Zealand Auditing and Assurance Standards Board.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Board of Directors' Responsibility

The Board of Directors is responsible for:

- determining Watercare Services Limited's objectives in respect of sustainability reporting;
- selecting the material topics;
- ensuring that the sustainability content is prepared in accordance with the GRI Standards: Core option and specifically those GRI Standards set out in the GRI Index;
- establishing and maintaining appropriate performance management and internal control systems in order to derive the selected sustainability information.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of Professional and Ethical Standard 1 (Revised): *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Other than this engagement and our role as auditor of the statutory financial statements, our firm carries out other assignments for Watercare Services Limited in the areas of taxation services, cyber security and probity services, which are compatible with those independence requirements.

In addition, principals and employees of our firm deal with Watercare Services Limited on arm's length terms within the ordinary course of trading activities of the entity. These services have not impaired our Independence as auditor of the Group. Other than these engagements and arm's length transactions, and in our capacity as auditor acting on behalf of the Auditor-General, we have no relationship with, or interests in, the entity.

The firm applies Professional and Ethical Standard 3 (Amended): *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements* issued by the New Zealand Auditing and Assurance Standards Board, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Independent Accountant's Responsibility

Our responsibility is to conduct a limited assurance engagement in order to express an opinion whether, based on the procedures performed, anything has come to our attention that causes us to believe that the sustainability content has not been prepared, in all material respects, in accordance with the GRI Standards: Core option.

We did not evaluate the security and controls over the electronic publication of the Annual Report.

In a limited assurance engagement, the assurance practitioner performs procedures, primarily consisting of discussion and enquiries of management and others within the entity, as appropriate, and observation and walk-throughs, and evaluates the evidence obtained. The procedures selected depend on our judgement, including identifying areas where the risk of material non-compliance with the GRI Standards is likely to arise.

Our procedures included:

- Obtaining an understanding of the internal control environment, risk assessment process and information systems relevant to the sustainability reporting process;
- A review of the materiality process followed to determine the material topics chosen for inclusion in the Annual Report;
- Analytical review and other test checks of the information presented;
- Checking whether the appropriate indicators have been reported in accordance with the GRI Standards: Core option;
- Evaluating whether the information presented is consistent with our overall knowledge and experience of sustainability reporting processes at Watercare Services Limited.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Accordingly, we do not express a reasonable assurance opinion about whether Watercare Services Limited's Annual Report has been prepared, in all material respects, in accordance with the GRI Standards: Core option.

Inherent Limitations

Because of the inherent limitations of any limited assurance engagement, it is possible that fraud, error or non-compliance may occur and not be detected. A limited assurance engagement is not designed to detect all instances of non-compliance with the GRI Standards: Core option as it generally comprises making enquiries, primarily of the responsible party, and applying analytical and other review procedures. The conclusion expressed in this report has been formed on the above basis.

A limited assurance engagement does not provide assurance on whether compliance with the GRI Standards will continue in the future.

Use of Report

Our assurance report is made solely to the directors of Watercare Services Limited in accordance with the terms of our engagement. Our work has been undertaken so that we might state to the directors those matters we have been engaged to state in this assurance report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the directors of Watercare Services Limited for our work, for this assurance report, or for the conclusions we have reached.

Deloitte Limited

Chartered Accountants
17 September 2019

Auckland, New Zealand

General disclosures

GRI 102: General disclosures 2016	
Organisational profile	
102-1	Watercare Services Limited
102-2	Water supply and wastewater services
102-3	Auckland, New Zealand
102-4	New Zealand
102-5	100% owned by Auckland Council
102-6	i. Auckland, New Zealand ii. Public sector iii. Auckland public
102-7	People and Culture p.22, Financial Capital and Resources p.40, Reporting Scope and Materiality p.Inside Cover, Materiality and Stakeholder Inclusiveness p.54-55, Financials p.65
102-8	People and Culture p.22
102-9	Financial and Capital Resources p.43
102-10	No change in size, structure or ownership over the reporting period
102-11	Governance p.46-51 (including Enterprise risk management p.51)
102-12	Watercare has not endorsed any external charters
102-13	Watercare is a member of the Water Services Association of Australia, Water New Zealand, the Sustainable Business Network, and the Water Research Foundation.
Strategy	
102-14	Chair and chief executive's report p.8-11
Ethics and integrity	
102-16	Governance p.49
Governance	
102-18	Reporting Scope and Materiality p.Inside Cover, Materiality and Stakeholder Inclusiveness p.54-55
Stakeholder engagement	
102-40	Reporting Scope and Materiality p.Inside Cover, Materiality and Stakeholder Inclusiveness p.54-55
102-41	People and Culture p.23
102-42	Reporting Scope and Materiality p.Inside Cover, Materiality and Stakeholder Inclusiveness p.54-55
102-43	Reporting Scope and Materiality p.Inside Cover, Materiality and Stakeholder Inclusiveness p.54-55
102-44	Reporting on what's important p.54
Reporting practice	
102-45	Refer Financials p.58-103
102-46	Reporting Scope and Materiality p.Inside Cover, Materiality and Stakeholder Inclusiveness p.54-55
102-47	Reporting Scope and Materiality p.Inside Cover, Materiality and Stakeholder Inclusiveness p.54-55, Chair and chief executive's report p.8-11
102-48	No significant change
102-49	No significant change
102-50	1 July 2018 to 30 June 2019
102-51	September 2018
102-52	Annual reporting cycle
102-53	communications@water.co.nz
102-54	This report has been prepared in accordance with the GRI Standards: Core option
102-55	GRI index p.110-112
102-56	Annual report Assurance statements p.62-63, p.108-109

Material topics	
103-1	Material topics have been selected as a result of our Value Creation Model p.4-5 and engagement with stakeholders Materiality and stakeholder inclusiveness p.54-55
103-3	Becoming future fit p.12-43
Category: Economic	
GRI 201: Economic performance 2016	
103-2	Chair and chief executive's report p.8-11, Materiality and stakeholder inclusiveness p.54
201-1	Financial and capital resources p.40, Financials p.58-103
201-2	Chair and chief executive's report p.8-11, Materiality and stakeholder inclusiveness p.54, Enterprise risk management p.52, Financial capital and resources p.40, Climate change p.16
201-4	Nil
GRI 203: Indirect economic impacts 2016	
103-2	Assets and infrastructure p.32, Financial capital and resources p.40, Materiality and stakeholder inclusiveness p.54
203-1	Assets and infrastructure p.32, Financial capital and resources p.40
Category: Environmental	
GRI 302: Energy 2016	
103-2	Natural environment p.12-13, Materiality and stakeholder inclusiveness p.54
302-1	Natural environment p.18
GRI 303: Water 2016	
103-2	Chair and chief executive's report p.9 Materiality and stakeholder inclusiveness p.54
303-1	Natural environment p.14
303-2	Natural environment p.14-15
GRI 304: Biodiversity 2016	
103-2	Natural environment p.12-13, Materiality and stakeholder inclusiveness p.54
304-1	Natural environment p.15
GRI 305: Emissions 2016	
103-2	Natural environment p.17, Materiality and stakeholder inclusiveness p.54
305-1	Natural environment p.17
305-5	Natural environment p.17
GRI 307: Environmental compliance 2016	
103-2	Chair and chief executive's report p.8-11, Natural environment p.19 Materiality and stakeholder Inclusiveness p.54
307-1	Statement of service performance p.104-106 Natural Environment p.19

Category: Social	
GRI 401: Employment 2016	
103-2	People and culture p.20-21, Materiality and stakeholder inclusiveness p.54
401-1	People and culture p.22, p.24
401-3	People and culture p.24 (partially reported to this GRI Standard)
GRI 403: Occupational health and safety 2016	
103-2	People and culture p.25, Materiality and stakeholder inclusiveness p.54
403-1	People and culture p.25
403-2	People and culture p.25 (partially reported to this GRI Standard)
403-4	People and culture p.25
GRI 404: Training and education 2016	
103-2	People and culture p.20-21, Materiality and stakeholder inclusiveness p.54
404-2	People and culture p.21 and p.23
404-3	People and culture p.23
GRI 405: Diversity and equal opportunity 2016	
103-2	People and culture p.20-21, Materiality and stakeholder inclusiveness p.54
405-1	Leadership and governance p.44-45, People and culture p.22 (partially reported to this GRI Standard)
405-2	People and culture p.25
GRI 413: Local communities 2016	
103-2	Reporting Scope and Materiality - Inside cover Materiality and stakeholder inclusiveness p.54-55
413-1	Chair and chief executive's report p.8-11 Customer and stakeholder relationships p.27
413-2	Chair and chief executive's report p.8-11 Customer and stakeholder relationships p.27
GRI 416: Customer health and safety 2016	
103-2	Natural environment p.12-13
416-1	Performance snapshot p.7 People and culture p.25
416-2	Statement of service performance p.104-106 Natural environment p.19
GRI 419: Socioeconomic compliance 2016	
103-2	People and culture p.20, Financial capital and resources p.40
419-1	No non-compliance reported

Inputs – Value In

Watercare's ability to carry out its activities is influenced by the following resources and relationships:

Natural capital

- Availability of and access to water sources
- Availability and access to discharge points for treated wastewater
- Ecosystem services
- Understanding of environmental dynamics

Human capital

- Access to the right people
- Staff training and development
- Positive organisational culture
- Understanding future workforce needs

Social and relationships capital

- Understanding of customer needs
- Understanding of community and environmental stakeholder expectations
- Engagement with owner, regulator and government
- Engagement with iwi
- Relationships with unions
- Relationships with contractors, suppliers, consultants and industry professionals

Manufactured capital

- Company assets (e.g. dams, plants, pump stations)
- Critical third-party infrastructure (e.g. roads, energy)
- Quality of wastewater
- Volume of stormwater
- Availability of construction materials
- Chemicals
- Energy

Intellectual capital

- Technology
- Business continuity and crisis management procedures
- Processes and systems
- Documented good practice
- Datasets

Financial capital

- Access to affordable capital and debt
- Access to sufficient free cash flow

Outcomes – Value Out

Through the provision of safe and reliable water and wastewater services, Watercare delivers the following:

Natural capital

- We mitigate the negative impact of our activities
- We protect and enhance the environment and ecosystems
- We use resources efficiently and reduce waste, leading to a circular economy

Human capital

- We have a productive and engaged workforce
- We develop talents and skills in the industry
- We are committed to the health and safety of our staff and contractors
- We are an employer of choice

Social and relationships capital

- We provide continuity of service
- We create a positive customer experience and receive positive feedback
- We are trusted by our customers and stakeholders who understand our purpose and value our service
- We have a strong relationship with our shareholder
- We have strong relationships with iwi, regulators and government
- We contribute to public health and well-being
- We provide affordable water and wastewater services
- We enable the Auckland Plan supporting growth / development
- We are a client of choice for our suppliers

Manufactured capital

- We ensure our water and wastewater assets are well maintained and perform well
- We build and maintain resilient, fit-for-purpose infrastructure
- We plan and construct in a timely way

Intellectual capital

- We make robust decisions that are informed and effective
- We continually strive for process excellence
- We strive for continuous improvement, and to be a future-proofed organisation
- We are industry leaders

Financial capital

- We are a minimum-cost provider
- We are financially stable over the long term
- We optimise cash flow and interest cover
- We optimise asset value
- We are a commercially savvy business

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Asset Management Plan (AMP)	A document that defines Watercare's best engineering judgment of the revenue and capital investment required to maintain the integrity of its asset base over a 20-year period.
Biogas	A by-product of the wastewater treatment process that comprises approximately 65% methane.
Biosolids	A treated solid by-product of the wastewater treatment process.
Capex	Capital expenditure.
Capitalised interest	The borrowing costs directly attributable to the acquisition or construction of qualifying assets, which are capital projects that span more than one financial year, added to the cost of those assets, until such time as the assets are substantially ready for their intended use.
Central Interceptor	A large tunnel that will collect and carry wastewater.
EBITDA	Operating surplus from trading operations before depreciation and amortisation, finance costs, vested assets revenue (non-cash) and developer and financial contributions (non-cash).
Global Reporting Initiative (GRI)	A non-profit organisation that works towards a sustainable global economy by providing sustainability reporting guidance.
Greenhouse gases	Gases that trap heat in the atmosphere. Examples of greenhouse gases are methane, perfluorocarbons and nitrous oxide.
Infrastructure assets	Assets that are mainly held and used for the purpose of treatment, storage and transmission of water and wastewater, such as watermains and sewers, and also treatment plants, tanks, dams and reservoirs.
Infrastructure Growth Charge (IGC)	Amount collected from property owners or developers applying for new connections to help fund new infrastructure required by growth.
Integrated Reporting	This is an internationally recognised framework for reports. It is a concise communication about how an organisation's strategy, governance, performance and prospects lead to the creation of value over the short, medium and long term.
Iwi	Tribal group(s) (origin: Māori).
Kaitiaki	Custodian (origin: Māori).
Mana whenua	Territorial rights; tribal connection to a geographic region; associated with possession and occupation (origin: Māori).
Mauri	A material symbol of life (origin: Māori).
Net finance costs	Interest paid/payable less interest received/receivable.
Operational assets	Assets that are mainly held and used for the purpose of administration and/or to support infrastructure assets and activities.
Opex	Operational expenditure.
Regional Demand Management Plan	A plan that outlines how Watercare intends to achieve a 15% reduction in gross per-capita water consumption by 2025. It is known as the Auckland Water Efficiency Strategy.
Resource efficiency	The maximising of the supply of money, materials, staff, and other assets that can be drawn on by a person or organisation in order to function effectively, with minimum wasted (natural) resource expenses.
Service concession arrangement	A binding arrangement between Watercare (grantor) and Veolia Water Services (ANZ) Pty Limited (operator) in which the operator uses the service concession asset to provide a public service on behalf of the grantor for a specified period of time; and the operator is compensated for its services over the period of the service concession arrangement.
Service Concession Assets	Assets owned and either provided by Watercare or upgraded for use by Veolia to provide public services in a service concession arrangement.
Statement of intent (SOI)	The SOI represents Watercare's public and legislative expression of accountability to its shareholder and establishes the agreement between the board and its shareholder.
Statement of service performance (SSP)	The SSP is a retrospective record of the performance of the company against the measures in its SOI.
Strategic Transformation Programme	Watercare's enterprise-wide digital transformation programme that is being delivered using agile principles. It will improve productivity by delivering better systems and insights for staff, enabling them to make more informed decisions.
Subvention receipt	Amount received/receivable from a profit company by a loss company for the sale of tax losses.
Sustainability	Meeting current needs without compromising future generations' ability to meet their own needs.
Tāmaki Makaurau	The Auckland isthmus region (origin: Māori).
Tangata whenua	Indigenous people of the land (origin: Māori).
Trade waste	Any discharge into a sewer in the course of an industry or trade process.
Unaccounted-for water loss	Water that is lost before it reaches the customer. Losses can be real losses (through leaks) or apparent losses (e.g. through theft or metering inaccuracies).
Vested assets	Infrastructure assets transferred to Watercare by external parties: e.g. developers, New Zealand Transport Agency, Veolia Water Services (ANZ) Pty Limited.
Wastewater	Liquid or solid matter discharged into the sewerage network from domestic, commercial or industrial locations.

Watercare Services Limited
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Watercare
An Auckland Council Organisation