

2013

ANNUAL REPORT

THINKING AHEAD →



**2013**

Pukekohe connects to the metropolitan water supply

**2016**

Auckland receives 3000 litres of water a second via the Hunua 4 watermain

**2025**

Regional per-capita water consumption is 15% lower than in 2004

**2027**

Wet-weather overflows in central Auckland are significantly lower than in 2013

## UNDERSTANDING OUR REPORTING

Watercare reports on areas of the business which are important to stakeholders, regulators and the company. This year, Watercare has sought to further improve its reporting by producing both an annual report and a supplementary report that follows the Global Reporting Initiative (GRI) framework.

### ANNUAL REPORT



Watercare's annual report covers its performance against 50 targets within eight focus areas.

The report also includes the financial statements and statutory information.

### Focus areas

01

#### SAFE AND RELIABLE WATER

Management of water resources to provide a safe and reliable water supply.

02

#### HEALTHY WATERWAYS

Management of wastewater discharges to maintain or improve the health of the environment.

03

#### HEALTH, SAFETY AND WELL-BEING

To be an industry-best workplace.

04

#### CUSTOMER SATISFACTION

Providing customers with great service and great value.

05

#### STAKEHOLDER RELATIONS

To be responsive to stakeholder requirements.

06

#### SUSTAINABLE ENVIRONMENT

To minimise and/or mitigate the adverse impact of the company's operations on the environment.

07

#### EFFECTIVE ASSET MANAGEMENT

Managing assets to ensure the use of existing assets is maximised while optimising the scope, timing and cost of new investments.

08

#### SOUND FINANCIAL MANAGEMENT

Management of the company to meet business objectives at the lowest cost.

For ease of reading, a dashboard of this year's performance is on pages 4–5.

*Cover Image:  
Watercare Dam Technician  
Sarah Muir takes a water  
sample from Mangatangi  
Dam in the Hunua Ranges.*

## GRI REPORT



The GRI report builds upon the information presented in the annual report. Featuring a comprehensive level of data, the GRI report enables stakeholders to gain an in-depth understanding of Watercare's sustainability performance.

The report is available for download at [www.watercare.co.nz](http://www.watercare.co.nz).

### Themes:

- CUSTOMER
- COMMUNITY
- ENVIRONMENT
- ECONOMY
- PEOPLE

Fresh water is a vital resource, essential for the health and well-being of everyone. Rain collected in the Waitakere and Hunua ranges is stored in Watercare's 10 water supply dams before being treated and delivered to households. Auckland also draws water from the Waikato River and an underground supply in Onehunga. Smaller ground and river sources supply outlying rural communities.



See the customer section of the GRI Report for further information on how this focus area impacts on Watercare's stakeholders and/or operations.

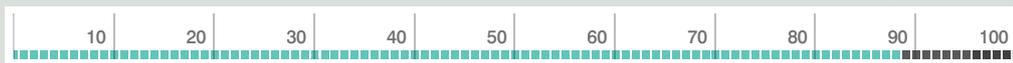
At the start of each focus area, there is information guiding readers to the relevant section in the GRI Report.

## HOW TO READ THE PERFORMANCE RULERS

(Pages 24-67)

Watercare uses easy-to-read rulers to show its percentage performance against each target. Previous years' performance is included when available to allow the reader to compare performance from one year to the next. For the 2012/13 financial year, in situations whereby Watercare has outperformed a target, the result is shown as >100%.

### A. Objective Target



An explanation of the measure and the performance.

Indicates whether it is better to achieve a result that is higher or lower than the target

Performance against target

← LESS THAN TARGET MORE THAN →

This year's performance



#### KEY

- ✓ Target met
- ✗ Target not met
- ↗ Good performance but could do better
- ★ New or updated ruler



Previous years' performance

## CONTACT US

Watercare remains committed to improving future annual reports. Feedback on this report is welcomed by emailing Rachel Hughes, Senior Communications Advisor, at [rhughes@water.co.nz](mailto:rhughes@water.co.nz).

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## COMPANY OVERVIEW

### Our Vision:

Outstanding and affordable water services for all the people of Auckland.

Water supply and wastewater services are essential to the economic, social and environmental health, and well-being of communities.

Each day, Watercare Services Limited (Watercare) supplies around 330 million litres of water to the people of Auckland and treats around 408 million litres of wastewater to a high standard.

The company is a council-controlled organisation (CCO), wholly owned by Auckland Council (Council). It does not operate to make a profit and it is prohibited by statute from paying a dividend to the council. Instead, benefits are returned directly to the people of Auckland. In 2013/14, Watercare will hold water and wastewater prices as a result of the cost savings and efficiencies achieved over the past 12 months.

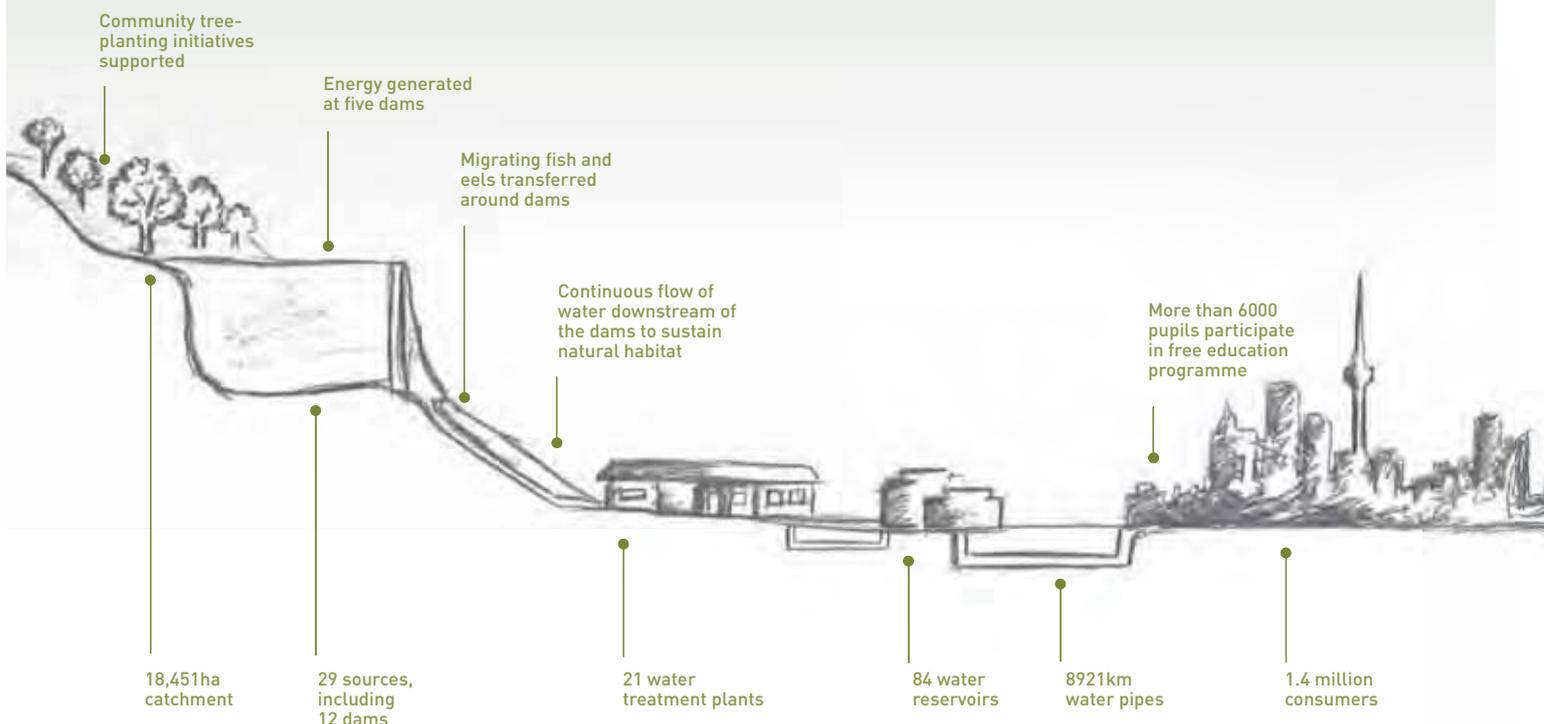
## THINKING AHEAD

Over the next 30 years, Auckland is predicted to grow by one million people. This means that more than 600 people per week will be born, move here or come back for the opportunities and quality of life the region offers. Watercare is responding to this predicted growth by prudently planning and developing water and wastewater infrastructure in a way that will contribute to the future economic, social and environmental health and well-being of the region.

## FROM SKY TO SEA

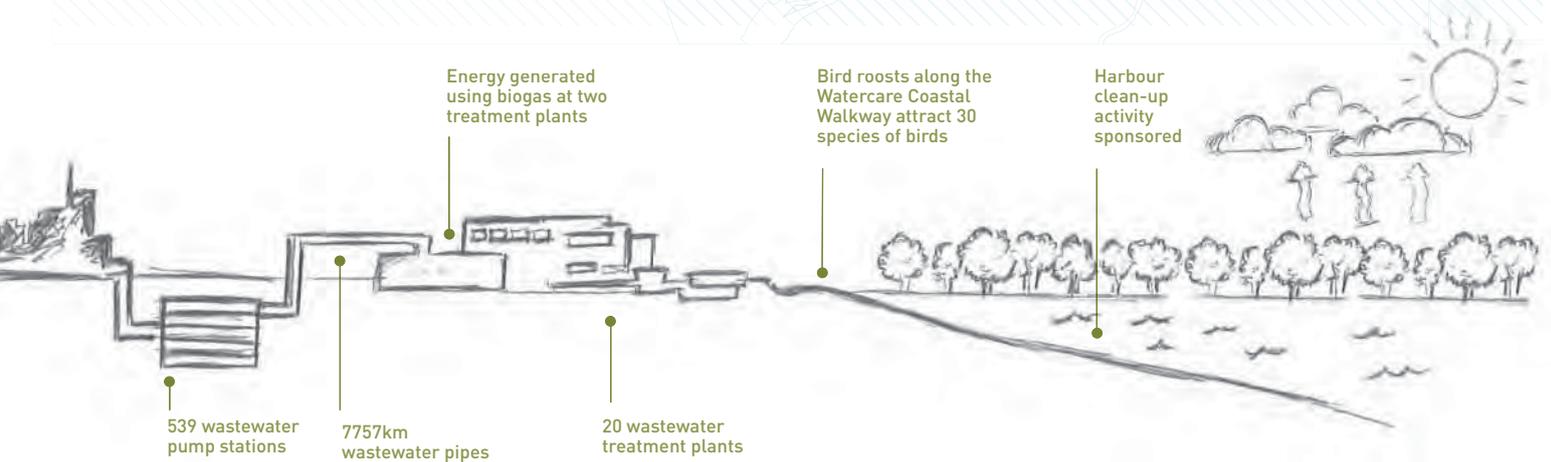
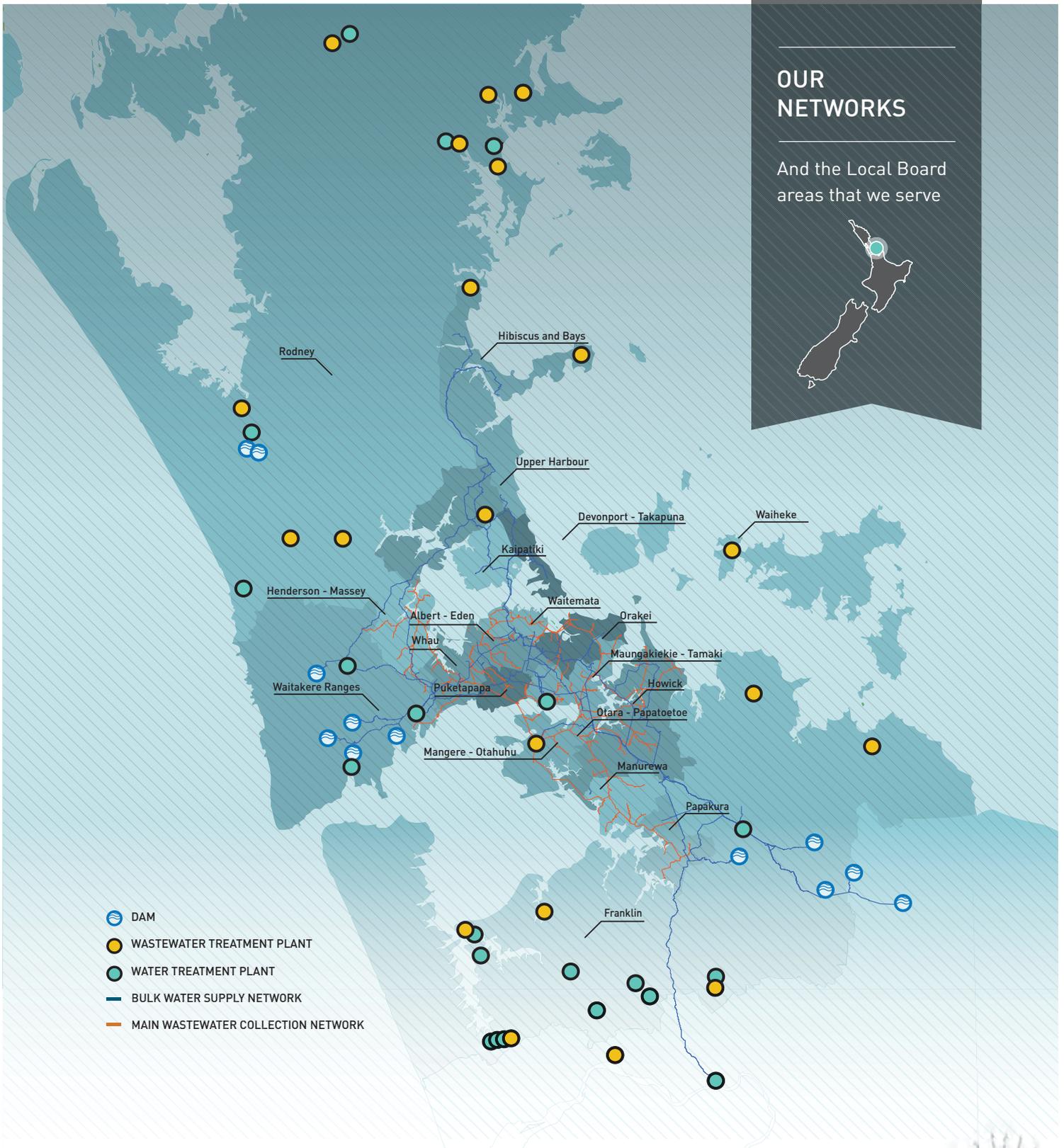
Watercare's water and wastewater operations

*For more information, see the Sustainable Environment focus area in the Annual Report and the Environment section in the GRI Report.*



## OUR NETWORKS

And the Local Board areas that we serve



## OUR PERFORMANCE

Watercare measures and manages its performance against 50 targets within eight focus areas. The dashboard scores are a weighted average of the percentage performance for each measure in a focus area. This reflects the relative impact of each activity within each focus area on the business.



### 01 SAFE AND RELIABLE WATER

In 2012/13, Watercare:

- Expanded the Waikato Water Treatment Plant to a capacity of 125 million litres per day and commenced work on resource consents to increase the volume of water extracted from the Waikato River
- Supplied quality drinking water to Auckland, meeting demand over the summer drought
- Progressed the \$350-million Hunua 4 watermain project
- Secured a new groundwater source for Warkworth.

#### Next financial year:

- Connect most of Franklin to the metropolitan water supply
- Lodge resource consents to increase the volume of water extracted from the Waikato River.

### 02 HEALTHY WATERWAYS

In 2012/13, Watercare:

- Lodged resource consent and land designation applications for the \$800-million Central Interceptor project
- Continued work to improve the compliance of rural wastewater treatment plants inherited from Auckland's legacy councils in 2010
- Continued work on the \$136 million upgrade of the Mangere Wastewater Treatment Plant
- Progressed design on a number of local wastewater storage tanks which will reduce wet-weather overflows.

#### Next financial year:

- Commence work on the design of the \$300-million Northern Interceptor which will collect and carry wastewater from Hobsonville to the Rosedale Wastewater Treatment Plant.

### 03 HEALTH, SAFETY AND WELL-BEING

In 2012/13, Watercare:

- Sustained a staff and contractor focus on health and safety
- Established a new health and safety committee that includes all board members and some senior management
- Continued to invest in staff development and training.

#### Next financial year:

- Progress an online health and safety platform that will enable staff and contractors to access induction and training modules at a time and location convenient to them.

### 04 CUSTOMER SATISFACTION

In 2012/13, Watercare:

- Introduced monthly water and wastewater billing
- Standardised the residential wastewater tariff
- Following consultation, formulated a standardised wastewater tariff for businesses that will be phased in over a three-year period
- Facilitated a trial to determine whether or not residential properties with rainwater tanks could be metered to enable volumetric wastewater charging.

#### Next financial year:

- Implement the new Trade Waste Bylaw and begin the transition to the non-domestic wastewater tariff.

1.4  
MILLION

Aucklanders receiving our services

120  
BILLION

litres of water supplied

149  
BILLION

litres of wastewater treated



**05 STAKEHOLDER RELATIONS**

In 2012/13, Watercare:

- Liaised with Auckland Council on the Unitary Plan
- Maintained communication with Local Boards and communities regarding infrastructure and operational works in their areas
- Continued to deliver a free education programme to schools across Auckland
- Actively participated in the development of relevant legislation and policy initiatives.

**Next financial year:**

- Engage with stakeholders on significant projects such as the Kohimarama and Mairangi Bay storage tanks, and the resource consent application to increase the volume of water extracted from the Waikato River.



**06 SUSTAINABLE ENVIRONMENT**

In 2012/13, Watercare:

- Established a free advice line to help residents reduce their water consumption
- Continued to seek ways to reduce the impact of its activities on the environment
- Sourced 29% of its energy from internal sources
- Continued to rehabilitate a former oxidation pond adjacent to the Mangere Wastewater Treatment Plant with treated biosolids.

**Next financial year:**

- Establish a Green Team made up of staff members who will contribute to environmental and social initiatives in the workplace.



**07 EFFECTIVE ASSET MANAGEMENT**

In 2012/13, Watercare:

- Delivered 97.5% of its capital programme
- Continued design and consenting work for the \$250-million North Harbour No. 2 Watermain
- Progressed the review of the Regional Demand Management Plan.

**Next financial year:**

- Complete the Asset Management Plan covering the period 1 July 2014 to 30 June 2034.



**08 SOUND FINANCIAL MANAGEMENT**

In 2012/13, Watercare:

- Maintained its objective of meeting interest targets and financial ratios
- Continued focus on procurement efficiencies and reducing operating expenditure
- Achieved savings that will enable the company to hold its water and wastewater prices in the 2013/14 year.

**Next financial year:**

- Maintain focus on leveraging efficiencies and gains from the integrated company.

*Below: Lower Nihotupu Dam in the Waitakere Ranges.*



**\$1.343** Price for 1000 litres of water

**\$482.6** MILLION Revenue

**\$8.2** BILLION Total assets

## CHAIRMAN'S REPORT

*On behalf of the board, I am pleased to report that Watercare continued to deliver safe and reliable water and wastewater services to more than 1.4 million people in Auckland this year, while also maintaining efficiencies of scale. Ambitious service delivery targets were set and achieved.*



Watercare has matured as the city's water and wastewater service provider since local government services in Auckland were integrated in 2010. In many ways, the most tangible benefits of integration have been realised over the past year. A number of these benefits are highlighted below.

### Increasing fairness and equity

- Watercare standardised and lowered the price of water across Auckland in 2011. The amount introduced – \$1.30 per 1000 litres – was 15 per cent lower than the average price in Auckland at that time.
- Wastewater tariffs for residential customers were standardised in 2012. Previously, there were numerous charging methodologies and in four former council areas, wastewater charges were collected by Auckland Council as part of the property rates and transferred to Watercare. The consolidation into a single bill issued by Watercare led some customers to erroneously conclude that prices had lifted exponentially. However, in reality, wastewater charges had been removed from their rates bill.
- In May 2013, following extensive consultation, Watercare announced a new wastewater tariff for businesses that will replace the 44 tariffs the company inherited from the former councils and water companies. The new tariff, which will be phased in over a three-year period, will deliver greater fairness across the region.
- As the 2012/13 financial year drew to a close, the board recommended to Auckland Council that it revoke the existing four trade waste bylaws and replace them with a single, standardised bylaw – again, this proposed standardisation will deliver greater fairness and equity for businesses across the region.

### Infrastructure improvements and developments

- In 2011, the company committed \$150 million to boost rural water and wastewater services to that of the required standards over a 10-year period – an expenditure that would not have been possible prior to integration. Since then, significant progress has been made with many upgrades completed or nearing completion.
- Also in 2011, Watercare made the decision to increase the capacity of the Waikato Water Treatment Plant in response to predicted population growth. The construction project, which was completed in early 2013, saw production increase from 75 to 125 million litres of water per day. The long, dry period experienced by much of New Zealand over the 2012/13 summer was a timely reminder of the importance of appropriate forward planning for services.
- With a capital works programme of more than \$1.6 billion in progress, Watercare will continue to work hard to meet the shareholder's bold growth objectives. Accordingly, our theme this year is 'Thinking Ahead'.

For the next 10 years, Watercare expects to invest over \$5 billion in infrastructure. A significant part of this budget will be allocated towards renewing and improving existing infrastructure, while ensuring sufficient capacity is available to cope with growth projections.

### Regular monthly billing

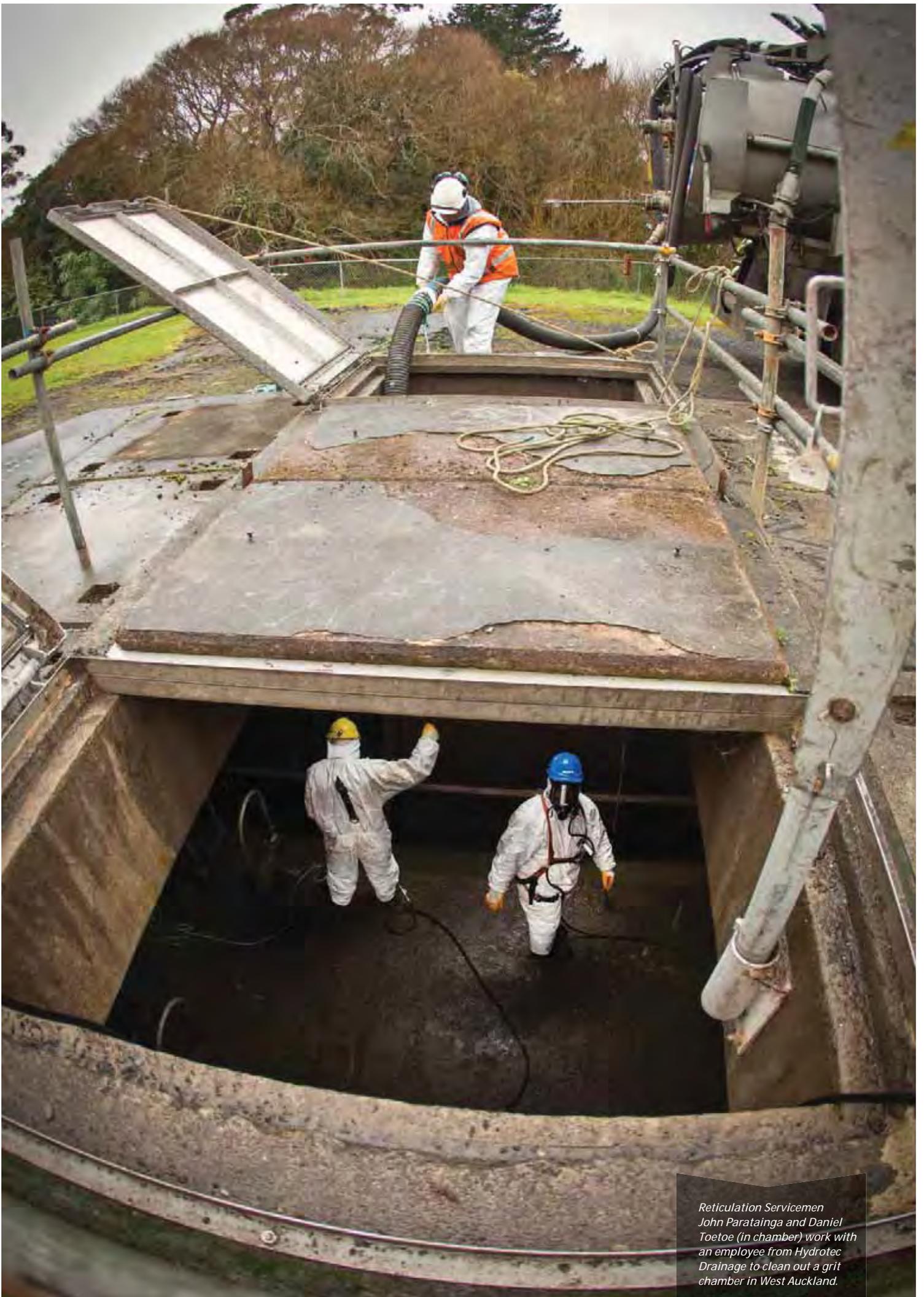
- In July 2012, Watercare introduced monthly billing which is in line with the billing practices of many utilities. While a small number of customers were reluctant to change from their three or six-monthly billing cycle, the majority acknowledged it is easier to plan and budget for payments on a more regular basis.

- While Watercare delivers services to 1.4 million people in Auckland, our residential 'customers' are the property owners. Recently, there has been comment in the media about landlords and tenants querying who is responsible for water and wastewater charges. Under the Residential Tenancies Amendment Act 2010, a landlord may choose to pass on the volumetric component of a bill to tenants. If a landlord chooses to pass on this component, it is by private arrangement with the tenants. Watercare's contractual relationship remains with the landlord – and nothing has changed in this respect. This is because the company has an obligation to provide water and wastewater services to all households (it is not permitted to terminate provision of services); so it will continue to request payment for services from property owners as fair security for guaranteeing the provisions of services in the interests of all Auckland consumers.

To be a successful organisation that achieves its shareholder's goals, Watercare requires the contribution of a large number of people and processes, both internal and external, and, within that, the establishment and maintenance of a myriad of key relationships. The board believes the year has been one of strong achievement at all levels and wishes to acknowledge the key players in that success.

A handwritten signature in black ink, appearing to read 'Ross B Keenan', written over a light grey background.

Ross B Keenan  
Chairman



*Reticulation Servicemen John Paratainga and Daniel Toetoe (in chamber) work with an employee from Hydrotec Drainage to clean out a grit chamber in West Auckland.*

## DIRECTORS' PROFILES



**Ross Keenan, 69**  
BCom, FCIT  
**Chairman**

Ross Keenan joined the Watercare board in March 2010 and was appointed Chairman in December 2010. He is an experienced company director, with corporate governance and executive experience across a diverse range of companies including aviation, tourism, telecommunications, health and property development. Ross has particular knowledge and experience in the retail and wholesale water and wastewater services industry and previously served as the Chairman of Metrowater Limited.

**General disclosure of interests:**

*Chair, AWF Group Ltd; Chair, Ngāi Tahu Tourism Ltd; Director, Ngāi Tahu Seafood Ltd; Director, Touchdown Ltd*



**David Clarke, 54**  
BE (Hons), ME, BBS, MBA, MInstD, FNZIM  
**Deputy Chairman; Chairman of the Capital Project Review Group**

David Clarke has considerable experience in the areas of engineering, biotechnology, IT, health, food and related sectors. He has been the inaugural chair for multiple technology industries and has strong commercial and governance skills.

His background includes engineering, finance, marketing and sales. David is a fellow of the New Zealand Institute of Management and member of the NZ Institute of Directors.

**General disclosure of interests:**

*Chairman, Optima Corporation Ltd; Chairman, TRGG Ltd; Chairman, NZ Institute of Rural Health; Chairman, Kordia Ltd; Chairman, Skin Institute; Director, Hawkins Watts Ltd; Director, Cranleigh Merchant Bankers; Director, FarmIQ Systems Ltd; Director, Ngāi Tahu Tourism Ltd; Director, Hynds Group Ltd; Trustee, South Auckland Foundation*



**Mike Allen, 52**  
LLB, BCom

Mike Allen has extensive experience in investment banking and general management in both New Zealand and the United Kingdom. He has previously consulted to the Australasian water and infrastructure sectors.

**General disclosure of interests:**

*Chairman, Coats plc; Chairman, GPG plc; Director, Godfrey Hirst Limited; Director, Tower Insurance; Director, Tainui Group Holdings Limited; Director, Breakwater Consulting Limited*



**Peter S Drummond, 60**  
MNZM, AFInstD

Peter Drummond is an experienced director and chairman, with extensive international business management and marketing expertise. He was previously chairman of Watercare and brings extensive knowledge of the wholesale and retail water services industry. He has also served on the boards of Vector, MidCentral Health and HortResearch Ltd, as well as a large range of community organisations such as Variety – The Children's Charity. Peter rejoined the Watercare board in March 2010.

**General disclosure of interests:**

*Chairman, Appliance Connection Ltd; Chairman, Watercare Harbour Clean-Up Trust; Chairman, Variety Medical Missions South Pacific; Chairman, Ngāti Whātua o Ōrākei Whai Maia; Chairman of the board, Variety International – The Children's Charity (Los Angeles); Director, NARTA New Zealand Ltd; Director, NARTA International Pty Ltd*



**Catherine Harland, 51**  
BA, PGDipBus, MBA, MInstD, JP

Catherine Harland has a background in research, consultancy and public policy in local and central government. She is a consultant with MartinJenkins and previously worked at The New Zealand Institute and Auckland University of Technology's Institute of Public Policy. Catherine was engaged in consultancy work with the Auckland water industry for four years and an elected local government member for 15 years. Her involvement in various community groups includes five years as chair of the Auckland Observatory and Planetarium Trust Board.

**General disclosure of interests:**

*Director, McHar Investments Ltd; Director, Interface Partners Ltd; Trustee, One Tree Hill Jubilee Educational Trust*



**Susan Huria, 53**  
FPRINZ, MInstD  
**Chairman of the Organisation Committee**

Susan Huria is a full-time director with a background in governance, marketing, communications and general management. She is a facilitator on the five-day Institute of Directors in New Zealand course.

**General disclosure of interests:**

*Deputy Chair, AgResearch Ltd; Director, Northland Port Company Ltd; Director and Shareholder, Huria Anders Ltd; Director and Shareholder, Susan Huria (2003) Associates Ltd; Director and Shareholder, Te Ara Tika Properties Ltd; Director, Vermilion Design Ltd; Director, Airways Corporation of New Zealand Ltd; Director, Veterinary Enterprises Group Limited; Trustee, First Foundation*



**Tony Lanigan, 65**  
MNZM, BE (Hons), PhD, FIPENZ, MICE  
**Chairman of the Health and Safety Committee**

Tony Lanigan is a professional civil engineer (FIPENZ), project-management consultant and former General Manager of Fletcher Construction. He was Chancellor of Auckland University of Technology and a director of Infrastructure Auckland. Tony is currently Vice Chairman of Habitat for Humanity in New Zealand and Chair of the New Zealand Housing Foundation. He is a Director of the New Zealand Transport Agency (NZTA).

**General disclosure of interests:**

*Vice Chairman, Habitat for Humanity International; Director, NZ Housing Foundation; Director, NZ Transport Agency; Director, Hargrave Project Management Limited; Director, A G Lanigan & Associates Limited; Director, Tāmaki Makaurau Community Housing Limited*

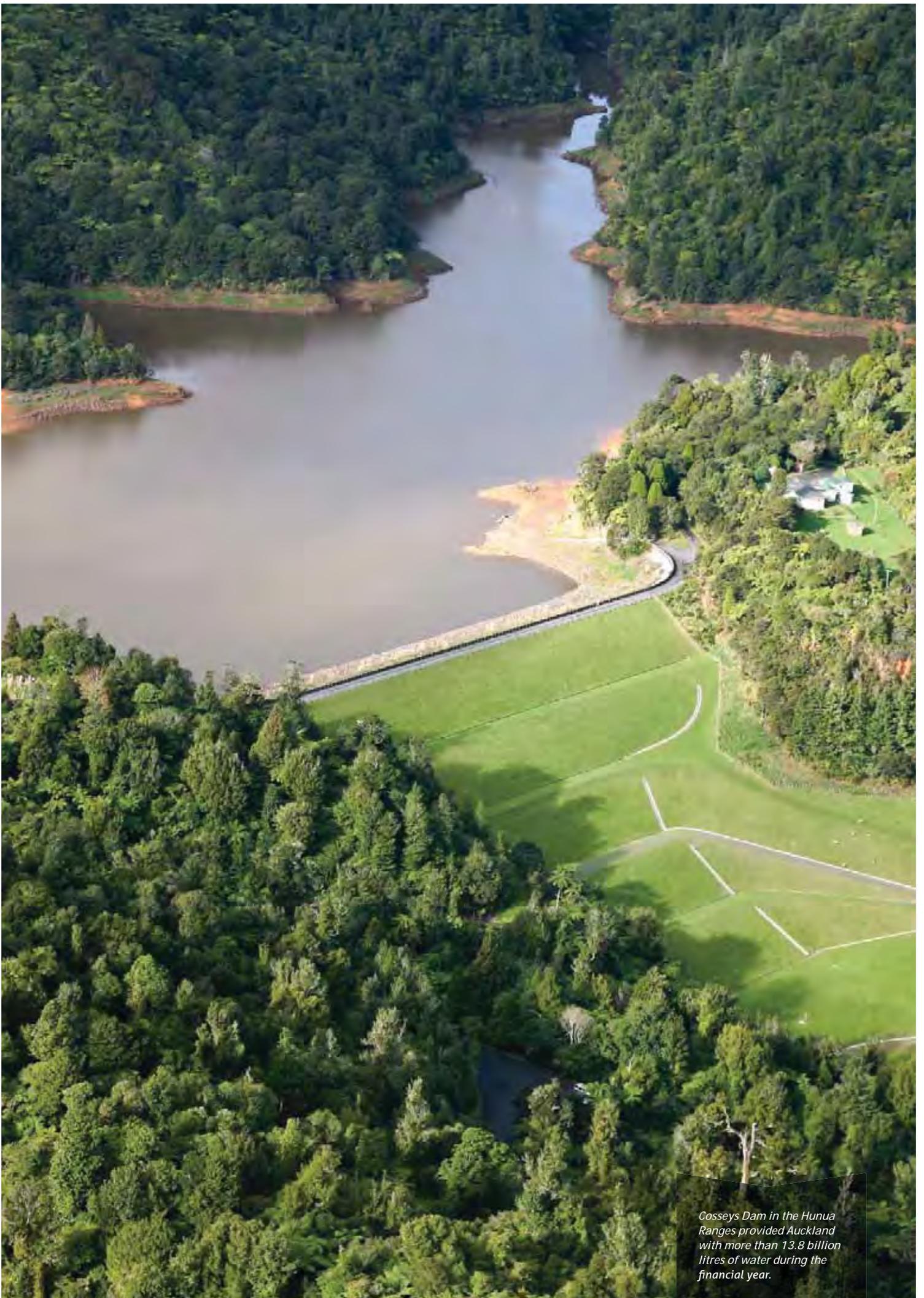


**Jeff Todd, 71**  
CBE, BCom, FCA, FInstD  
**Chairman of the Audit and Risk Committee**

Jeff Todd is a chartered accountant and company director, and was formerly managing partner for New Zealand and the Pacific for Price Waterhouse (now PwC). He is a former Chairman of the Southern Cross Medical Care Society, Southern Cross Healthcare Trust and The New Zealand Guardian Trust Company Ltd, and Director of the Reserve Bank of New Zealand and the ANZ Banking Group (NZ) Ltd. Jeff has a particular interest in corporate governance and is a fellow of the Institute of Directors in New Zealand.

**General disclosure of interests:**

*Chairman, Dynasty Hotel Group Limited; Chairman, Sanford Limited; President, Auckland Medical Research Foundation; Trustee, Goodfellow Foundation; Trustee, Christian Healthcare Trust*



*Cosseys Dam in the Hunua Ranges provided Auckland with more than 13.8 billion litres of water during the financial year.*



*The theme of this year's report underpins Watercare's approach to managing its business: thinking ahead. We prudently plan and develop our water and wastewater infrastructure in a way that contributes to the economic, social and environmental well-being of the region.*

Last summer, our customers realised the benefit of Watercare thinking ahead. As large parts of the country experienced their lowest rainfall in 70 years, communities from the south to the far north faced water restrictions to prevent them from running out of water. Meanwhile, Watercare's customers enjoyed a continuous supply of safe drinking water. This was the result of Watercare's far-sighted decision after the drought of 1993/94 to select the Waikato River as a raw water source and to construct the Waikato Water Treatment Plant in such a way as to support staged expansions.

In early 2013, the company completed a \$48-million project to increase the plant's capacity from 75 to 125 million litres per day. This meant the plant was able to meet more than 25 per cent of metropolitan Auckland's requirements during the drought, which reduced drawdown on the water storage dams and ensured a reliable water supply. Work is now under way to further increase the capacity of the plant to 150 million litres per day.

Residents living in the rural township of Warkworth also enjoyed a continuous water supply over summer, despite their only water source – the Mahurangi River – experiencing extremely low flows. Watercare supplemented the local supply and worked with major water users and the community to ensure everyone used water wisely. In addition, the company secured the use of a bore that will make the community less reliant on the river in the future.

The drought did present its challenges. The cost of supplying water from the Waikato River is considerably greater than that from the water storage dams due to higher treatment and energy costs, as the water passes through a four-stage treatment process before being pumped to Manukau.

Also, the exceptionally dry soil conditions resulted in a significant increase in the

number of watermain breaks and leaks; this is because the soil contracted as it dried which caused ground movements that affected the watermains.

Despite these challenges, Watercare achieved a 2.3 per cent saving in operating expenses compared with budget as a result of lower costs for both labour and general overheads (page 67). The company also achieved its target of restoring at least 95 per cent of all unplanned water shutdowns within five hours (page 27).

While our core business performance for the year was slightly better than budget, we have posted a net surplus after tax of \$40.3 million reflecting a number of unbudgeted revenue items, including \$21.0 million of assets contributed to or vested in Watercare and \$3.5 million of income from the sale of tax losses to Ports of Auckland Ltd. The forecast increase in the outlook for interest rates has also given rise to an unbudgeted accounting gain on revaluation of our interest rate swap portfolio totalling \$39.6 million.

#### **Developing and maintaining water and wastewater networks**

As has been illustrated by Auckland's resilience during the drought, Watercare carefully plans its capital works projects to ensure our customers receive robust and reliable water and wastewater services. Over the 12 months, we delivered 98.2 per cent of our infrastructure programme – our largest to date with a \$263.5-million budget.

The programme includes the \$350-million Hunua 4 watermain project which is well under way. This major watermain will run 28 kilometres from Manukau to Epsom, connecting to the local water supply network along the way. Once complete in 2016, the Hunua 4 will mitigate risks in regard to security of supply and allow for population growth. During the past year, we

installed five kilometres of watermain and we expect to achieve a similar distance in the next 12 months (page 60).

I am pleased also with the progress we have made on the proposed Central Interceptor project. This \$800-million tunnel and its associated infrastructure will carry wastewater from Western Springs to the Mangere Wastewater Treatment Plant. The interceptor will replace ageing infrastructure, cater for population growth and reduce the frequency of overflows once it is complete in 2027. We lodged our land designation and resource consent applications during the financial year and are preparing for the resource consent hearings which begin in July 2013 (page 30).

In September 2013, I am looking forward to officially turning on the tap of Franklin's new water supply. The water sources and infrastructure inherited by Watercare at the time of integration in 2010 could not produce sufficient water to satisfy peak demand. There were also issues with water discolouration and quality. We have invested more than \$116 million in the area to ensure our customers in Pukekohe, Buckland, Patumahoe and Clarks Beach receive the same high-quality water as do customers in the rest of metropolitan Auckland.

The problems we discovered in Franklin were typical of those for some smaller communities where significant capital investment did not occur prior to integration due to the relatively small customer base that was expected to fund the work. In 2011, as part of our commitment to providing outstanding services to customers, we allocated \$150 million over 10 years to improve non-metropolitan water and wastewater plants. Since then, we have begun implementing a range of short- and long-term initiatives to address the shortfalls we inherited.



*Water Supply Operations Manager Shayne Cunis takes pupils from Kelston Boys High School on a tour of Huia Water Treatment Plant in West Auckland.*

### Delivering affordable services

Our vision is to provide outstanding and affordable water services for all the people of Auckland. For the past year, we have carefully focused our efforts and resources on delivering affordable water services to 1.4 million Aucklanders.

On 1 July 2012, Watercare introduced monthly billing in response to customer feedback that it aids family budgeting. Now customers receive a smaller bill every month, rather than a larger bill every three or six months, which is helping customers to pay their bills on time (page 42). Consequently, it has contributed to a 33 per cent reduction in the value of accounts that are overdue by 60 days or more.

costs. During the last year, 189 customers registered with the Trust and, of these, 178 were eligible to receive hardship relief.

Our commitment to affordability means we pass the benefits of cost savings and efficiencies on to our customers. This year, we realised savings in a number of areas, notably through labour, general overheads and interest costs being lower than budgeted. As a result, Watercare is able to hold its water and wastewater prices for the 2013/14 financial year.

### Responding to growth

Auckland's population is predicted to grow by one million over the next 30 years. In response, Auckland Council has released a draft, region-wide Unitary Plan.

### Sustainability

Since Watercare is a water supply and wastewater treatment company, sustainability lies at the core of our operations. As the region relies on Watercare to ensure the best long-term management of its water resources, we must deliver full and transparent reporting to stakeholders.

To provide this transparency, we measure our sustainability performance against 50 targets within eight focus areas (pages 24–67). This year, we have also produced an accompanying report that follows the Global Reporting Initiative framework. This report expands on themes that we consider material in terms of their impact on stakeholders or the company.

In late 2013, I look forward to bringing together the majority of Watercare's staff in our new office. For the first time since integration, our customer services, operations, infrastructure and support teams will be under one roof, working side by side.

As always, I wish to thank all staff members for their dedicated efforts. Their goodwill and teamwork remains essential to ensuring our services continue to be delivered in the best and most sustainable manner in the years to come.

*Our commitment to affordability means we pass the benefits of cost savings and efficiencies on to our customers. This year, we realised savings in a number of areas, notably through labour, general overheads and interest costs being lower than budgeted. As a result, Watercare is able to hold its water and wastewater prices for the 2013/14 financial year.*

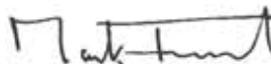
Monthly billing is allowing customers to also closely monitor their water usage which subsequently enables them to detect leaks in their private plumbing sooner. While customers are responsible for their private plumbing, we assist them with rebates on their water and wastewater bills if they meet our criteria. I'm pleased to report that the average rebate has reduced by more than half over the past 12 months as a result of earlier leak detection.

While monthly billing is aiding family budgeting, we recognise that some customers still struggle to manage their household costs. For this reason, Watercare continues to fund the Water Utility Consumer Assistance Trust.

This Trust, which was established by Watercare in 2011, has the ability to grant remissions to residential customers who meet its eligibility criteria and are deemed to be struggling to manage their water

From Watercare's perspective, the Unitary Plan will be the 'rule book' that sets the requirements for the company's operations under the Resource Management Act. It governs a range of matters including: water supply takes and allocation; wastewater discharges; and the construction of network utility infrastructure.

Watercare undertook a comprehensive review of the draft plan and submitted detailed constructive feedback to Auckland Council. Our objective is to ensure the company can continue to operate its business efficiently as a minimum-cost provider of water and wastewater services, while also recognising its wider environmental, social and cultural responsibilities. Watercare anticipates working closely with Auckland Council over the next few months to incorporate our feedback into the notified version of the plan.



**K M Ford**  
Chief Executive

## EXECUTIVES' PROFILES



**Mark Ford, 63**  
CNZM, BA  
Chief Executive

Mark Ford is an experienced chief executive, director and chairman who has worked in the water, forestry, transport and petroleum industries. He has been Chief Executive of Watercare since 1994, except for a 20-month period from July 2009 when he was Executive Chairman of the Auckland Transition Agency. As Executive Chairman, Mark was responsible for planning and managing the transition to Auckland's new governance structure. He currently serves as Chairman of Solid Energy Limited and Independent Chair of the Christchurch Client Governance Group for the Infrastructure Rebuild. Mark is also a member of the Better Public Services Advisory Group.

*All fees received from his association with companies or organisations outside Watercare are paid to Watercare.*



**Brian Monk, 63**  
BCom, ACA  
Chief Financial Officer

Brian Monk is a chartered accountant with over 40 years' experience in corporate financial management. He was appointed to the role of Chief Financial Officer in November 2010, and holds responsibility for Watercare's financial management, treasury and strategic planning functions, as well as the company's laboratory. Brian has previously held senior financial management roles with Auckland Regional Council, Fletcher Energy, Air New Zealand and the United States' multinational S.C. Johnson.



**David Worsnop, 61**  
BE (Hons)  
Chief Operations Officer

David Worsnop has over 35 years' experience working in a range of infrastructure, power generation and primary industries. He is responsible for Watercare's operational, networks and compliance teams. David was Group General Manager (Service Delivery) at Vector from 2008 to 2012 and, prior to this, he held a number of senior roles including New Zealand CEO of Hastie Group; Executive General Manager at Transfield Services Electrical Mechanical and Power, covering New Zealand and Australia; and management roles at industrial group SGS.



**Graham Wood, 56**  
MIM, BA (Hons), FIE (Aust), MCIWEM, CPEng (Aust), C.WEM (UK)  
Chief Infrastructure Officer

Graham Wood is a chartered mechanical engineer with 25 years' experience in the water industry across four continents. He has been the Managing Director of water-related businesses in Australia, Singapore and in the US. Graham joined Watercare in 2007 and now manages the company's capital programme, new developments, energy and control systems and asset information group.



**Trish Langridge, 55**  
MBA, RGON  
Chief Services Officer

Trish Langridge is an experienced general manager who has worked in both the health and local government sectors. Her responsibilities include customer services, human resources, sustainability, information services and property. Trish developed and implemented the customer services function of Auckland Council prior to joining Watercare in 2011.



**Rob Fisher, 69**  
ONZM, LLB, Dip TP  
General Counsel

Rob Fisher is a barrister who has specialised in resource management, public law and local government law. He holds responsibility for statutory and environmental planning, resource consents and policy. 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 strategic 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.



**David Hawkins, 59**  
MPP, TTC, JP  
Corporate Relations Manager

David Hawkins' responsibilities include government and community relations. 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.



**David Sellars, 46**  
BCA, CA  
Risk and Assurance Manager

David Sellars is a chartered accountant with experience in banking and audit functions. He is responsible for the risk-management function and assurance procedures including reporting on the internal control environment and governance of major projects. David is also responsible for the health and safety function.

# GOVERNANCE

Operational responsibility is delegated to the Chief Executive by way of a formal delegated authority framework. The board comprises eight independent, non-executive directors. Their profiles and disclosures of interests are published on page 8. Directors, including the chair, are appointed by the shareholder.

## 1. ACCOUNTABILITY

### Shareholder

The board is appointed by the shareholder to govern Watercare in accordance with the statutory obligations and the agreed Statement of Intent (SOI).

The SOI sets out the activities to be undertaken by Watercare and specific economic, social and environmental objectives for the company. It establishes performance targets which are used to measure the company's performance.

Watercare must consult with the shareholder, Local Boards, the Independent Māori Statutory Board and the public during the development of the SOI.

Prior to the board adopting the draft SOI in 2012/13, the public was invited to the board meeting on 17 May 2012 to consider shareholder comments on the SOI.



Watercare is a wholly owned subsidiary of Auckland Council (shareholder). The board of directors (board) and management of Watercare remain committed to ensuring that the company applies best-practice governance policies and procedures. The board is ultimately responsible for all decision-making by the company.

Watercare delivered the 2012/13 SOI to the shareholder on 29 June 2012, and the document is available on the company website [www.watercare.co.nz](http://www.watercare.co.nz).

### Performance

Watercare reports the performance of the company against the measures in the SOI to the board monthly and to the shareholder quarterly through the Accountability and Performance Committee. This annual report records performance of the company against non-financial and financial performance measures included in the SOI.

The non-financial performance measures are set out in the Statement of Service Performance from page 116. A wider set of measures including economic, social, environmental and selected SOI measures have been grouped under eight headings and the performance of the company against these is reported on pages 24–67.

These measures are selected to reflect the performance of the integrated company across a broad base.

## 2. TRANSPARENCY AND OPENNESS

### Legislative framework

Watercare is a limited liability company registered under the Companies Act 1993, and a local government organisation.

The Local Government Acts of 1974 and 2002 define the role and duties of local government organisations in New Zealand.

The legislative framework enabling and governing Watercare's operations as the regional provider of water and wastewater services in Auckland is found largely in three Acts and amendments:

1. Local Government (Tāmaki Makaurau Reorganisation) Act 2009
2. Local Government (Auckland Council) Act 2009
3. Local Government (Auckland Transitional Provisions) Act 2010.

The company's obligations to deliver water and wastewater services for

Auckland are established under Part 5, section 57(1), of the Local Government (Auckland Council) Act 2009 which stipulates that an Auckland water organisation:

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

Also under the legislative framework:

- The company became a council controlled organisation (CCO) on 1 July 2012, and must remain as such until at least 30 June 2015
- At least two board meetings a year are required to be held in public: one before 30 June to consider the council's comments on the draft SOI for the upcoming financial year, and one after 1 July to consider the company's performance under the SOI for the previous financial year
- The company's financial statements, the SOI and specified long-term plans must be audited by the Auditor-General, or by an auditor acting on behalf of the Auditor-General.

### Company goals and strategies

The goals and strategies for Watercare are set as part of the process of developing the SOI in association with the shareholder and with approval by the Watercare board of directors. The process follows the receipt of the Mayor of Auckland's letter of expectation which

includes the vision and objectives for Auckland and the outcomes sought by the Auckland Plan. A draft SOI is then prepared by Watercare as the basis of consultation with the shareholder which identifies the relationship between Watercare's activity and delivery of the outcomes sought by the Mayor and those specified within the Auckland Plan. Prior to final adoption by the board, comment on the final draft SOI is invited from Local Boards, the Independent Māori Statutory Board and key stakeholders.

Of special importance are the Local Boards which represent local communities under a co-governance model with the Auckland Council governing body. Watercare maintains purposeful relationships with the Local Board chairs and members arranged through a dedicated company executive who ensures flexible, transparent and timely communication and ready access to meaningful information. The relationship and channels of communication recognise the diverse needs of Local Boards and communities and the varying level of interest in Watercare's services and projects.

**Performance of the board and Chief Executive**

The performance of the board is reviewed by the shareholder annually, both in relation to the board as a whole and the contribution of its individual members.

Board remuneration is determined by the shareholder. The performance of the Chief Executive is reviewed annually by the board.

**Transparency in reporting**

Watercare remains committed to transparent reporting. Recognising this, the company publishes:

- An annual Statement of Intent (SOI)
- An annual Financial Plan
- A long-term Asset Management Plan (AMP)
- An annual report that reports performance against the SOI and non-mandatory measures, and a supplementary report that follows



*A section of a tunnel boring machine is lowered into a shaft as part of the Hunua 4 watermain project. The machine was used to pass underneath State Highway 1 in Flat Bush as it was not feasible to complete this section using an open trench.*

the United Nations' Global Reporting Initiative G3 guidelines

- An overview of current water storage levels and other information published weekly on the company website
- Special reports and project newsletters for interested parties.

The board agenda, papers and minutes of the previous meeting are made available in advance of each board meeting through the company website.

**Setting standards of conduct for staff**

Watercare demands the highest standards of behaviour from its staff.

All policies governing the conduct of employees are published on the company's intranet including: Business Conduct and Ethics Policy, Gift and Inducement Policy, Conflict of Interest Policy, Control of Discretionary Expenditure and Protected Disclosures Policy. All contracts managed by staff must be in writing. The policies also set out the delegated authority within the company. Watercare's projects are subject to internal probity reviews, and external probity auditors are appointed to provide additional assurance on major projects.

### Complaints disclosure

Any complaints against the company and the quality of responses are recorded. Targets have been set for the management of these processes and the level of service is reported in the annual report, to the shareholder quarterly, to the board monthly and are made public at the board meetings and published on Watercare's website.

### Whistleblowing

The company has a specific policy to receive and deal with information about any serious wrongdoing within the company, as required by the Protected Disclosures Act 2000. Watercare's policy prescribes how its staff and others are to report matters of serious wrongdoing, and provides contacts to whom such reporting can be made. The policy defines serious wrongdoing and applies to present and past employees, and to any individual either seconded to or working for Watercare on a contract basis.

## 3. INTEGRITY

### Corporate governance charter

The 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 New Zealand Institute of Directors' Code of Proper Practice for directors, relevant sections of the New Zealand Exchange Limited's (NZX) Corporate Governance Best Practice Code and the

Securities Commission's nine principles of corporate governance.

### Disclosures of interest

A register of directors' interests is maintained by Watercare and is updated as and when necessary. Directors' interests are a standard agenda item at every board meeting. Any disclosure of interest is recorded in the meeting minutes and the participant refrains from taking part in the discussion or voting on any related resolution. In 2012/13, board members disclosed a potential conflict of interest on two occasions.

### Audit and Risk Committee

The board is responsible for appointing the members of the Audit and Risk Committee. The committee's role is to assist the board to fulfil its responsibilities in the areas of financial reporting and to provide assurance regarding compliance with internal controls, policies and procedures.

Its responsibilities are established in the Audit and Risk Committee Charter which is reviewed annually. The committee has no delegated authority. In carrying out its duties, the committee meets regularly with the internal and external auditors (both with and without management present) and the management of the company. At least one member must have accounting or financial management expertise. The chairman of the board may not be chairman of the Audit and Risk

Committee. The chairman of the Audit and Risk Committee for 2012/13 was Jeff Todd. All Watercare's directors receive the papers of the Audit and Risk Committee in advance, and all are invited to attend committee meetings.

### Organisation Committee

The board established an Organisation Committee to provide a link between the Chief Executive and the board around senior staff remuneration and organisational development. The committee consists of two board members: Susan Huria as Chairman, and Ross Keenan. The committee provides a reference point for the Chief Executive in matters around organisational change and succession planning.

### Capital Projects Review Group

The Capital Projects Review Group (the Group) is chaired by a member of the Watercare board of directors, currently David Clarke, and includes other board members and senior management as required. The Group is responsible for reviewing the process and formulation of the company's Asset Management Plan (AMP), including a review of the business drivers and prioritisation methodology included within the AMP framework. The Group also reviews the capital planning and expenditure process, the project reporting framework and the development of specific strategic projects. Papers that are reviewed by the Group are circulated to all board members and all members of

Board member attendance 2012/13	Date appointed	Attendance at board/workshops/Health and Safety Committee meetings	Attendance at Audit and Risk Committee meetings	Attendance at Capital Projects Review Group meetings	Attendance at Organisation Committee meetings
Ross Keenan (Chairman)	March 2010	9/9	4/5	5/5	4/5
David Clarke (Deputy Chairman, Chairman, Capital Projects Review Group)	July 2008	7/9		4/5	2/5 (appointed May 2013)
Mike Allen	Dec 2011	8/9	5/5	4/5	1/5 (appointed May 2013)
Peter Drummond	March 2010	5/9		2/5	
Catherine Harland	May 2011	9/9	5/5		
Susan Huria (Chairman, Organisation Committee)	July 2008	9/9			5/5
Tony Lanigan (Chairman, Health and Safety Committee)	May 2011	7/9		5/5	
Jeff Todd (Chairman, Audit and Risk Committee)	May 2007	8/9	5/5		

the board of directors can attend Group meetings. All major capital projects require approval of the full board.

#### Health and Safety Committee

The Health and Safety Committee is chaired by Dr Tony Lanigan MNZM and includes all board members and some senior management.

Health and safety is one of the first matters of business at every board meeting and committee members regularly receive reports from management in this regard.

#### Regular independent reviews

Watercare subjects its planning, operations and reporting to review by independent consultants on a regular basis. This year, the board and the Audit and Risk Committee received reports from specialist advisors on risk and control issues to inform the maintenance and development of good practice and procedures. The company is committed to a culture of continuous improvement and seeks independent feedback from specialist advisors as necessary to achieve this objective.

### 4. STEWARDSHIP

#### Indemnity and insurance

Watercare has executed a deed of indemnity with each director which indemnifies the director in accordance with the company's constitution, and grants certain rights in respect of access to documents and the maintenance of liability insurance cover.

#### Board meetings

The board has meetings scheduled during the year. At two meetings, the public was invited to provide feedback (one on performance for the previous year and the other on the SOI for the following year). The board invites the public to attend all public sessions of board meetings.

#### Risk management

Watercare's framework for risk identification, measurement and reporting is well developed, and meets the requirements of ISO 31000: 2009 Risk

Management Principles and Guidelines. There are external reviews as required to ensure the company meets and exceeds good-practice measures in risk management.

As part of the risk-management framework, the company has established a Risk Steering Committee which meets four times per year to monitor emerging risk and risk-mitigating actions and strategies. The committee comprises the Chief Executive, senior management, and the Risk and Assurance Manager. Risks that have serious consequences are in turn directly monitored by the board, with updates presented at board meetings as required.

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*Watercare has valuable, long-standing relationships with the communities that neighbour the company's facilities. The company engages with local people prior to undertaking project work on its infrastructure, works closely with its shareholder and Local Boards, and consults directly with a wide range of groups including tangata whenua.*

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#### External auditor

The Auditor-General is the auditor of the company's financial statements. The Auditor-General has appointed Jamie Schmidt, using the staff and resources of Deloitte, to undertake the external audit work on behalf of the Auditor-General, in accordance with the Auditor-General's Audit Standards, which incorporate New Zealand Auditing Standards. Deloitte has no relationship with the company outside of the audit, negative pledge reporting and conducting a workshop during the year. This satisfies the independence requirements of the Auditor-General and External Reporting Board.

#### Regulators

Watercare is subject to regulation in planning, health and environmental matters. The principal regulators include Auckland Council, Waikato Regional Council and the Ministry of Health.

The company also engages with these bodies by providing input on the impacts of existing and proposed policy and regulation on Watercare's activities.

#### Advisory groups

Watercare's Environmental Advisory Group comprises experts who advise on how the company's activities impact on the environment. In addition, Watercare has a new Māori advisory group, the Mana Whenua Kaitiaki Forum, which advises the company on how its plans and operations impact on Māori and on the relationship between the natural environment and Māori. Letters from the Environmental Advisory Group and Mana Whenua Kaitiaki Forum can be found on pages 20–21.

#### Other stakeholders

Watercare has valuable, long-standing relationships with the communities that neighbour the company's facilities. The company engages with local people prior to undertaking project work on its infrastructure, works closely with its shareholder and Local Boards, and consults directly with a wide range of groups including tangata whenua.

The performance of Watercare is very closely monitored in terms of the level and quality of the service provided to customers and the community. The level of service is reported to the board monthly and to the shareholder on a quarterly basis.

#### Official information requests

In 2012/13, Watercare received 27 requests under the Local Government Official Information and Meetings Act 1987. The average response rate was within six days.

# STAKEHOLDER ENGAGEMENT

As a large public organisation providing a necessity of life – the quality of which is dependent on the natural environment – Watercare has a number of potential risks and opportunities to manage. To help prioritise material topics and to better address Aucklanders’ needs, the company engages with its stakeholders through a wide range of forums. This section identifies Watercare’s stakeholders, outlines how the company interacts with them and highlights what was achieved during the financial year.

## SHAREHOLDER (AUCKLAND COUNCIL)

### Watercare engages by

- Providing quarterly performance and progress reports
- Delivering quarterly briefings
- Consulting on the development of the Statement of Intent
- Giving effect to Auckland’s major plans, such as the Auckland Plan and the Long Term Plan

### What was achieved

- Delivered all reports and briefings on time

## CUSTOMERS

### Watercare engages by

- Consulting with customers on topics that affect them to ensure their needs are understood and considered
- Making information available through the website, direct mail and the contact centre
- Running customer satisfaction surveys each month

### What was achieved

- Consulted with non-domestic customers on the standardisation of wastewater tariffs
- Consulted with trade waste customers on a proposal to introduce a region-wide trade waste bylaw
- Introduced monthly billing in response to customer feedback
- Gave customers with rainwater tanks the option of switching to fixed/volumetric wastewater charging by installing a rainwater tank water meter
- Developed a free water-audit service for domestic customers
- Continued to fund the Water Utility Consumer Assistance Trust which assists residential customers experiencing financial hardship

## AUCKLAND COUNCIL TEAMS

### Watercare engages by

- Working closely with individual council units such as planning, stormwater and finance

### What was achieved

- Contributed to key council outputs such as the Auckland Plan, draft Unitary Plan, a review of the resource consent process and the Auckland Housing Accord

## TANGATA WHENUA (MĀORI)

### Watercare engages by

- Meeting with the Mana Whenua Kaitiaki Forum (MWKF) on a regular basis (refer to page 21)
- Holding blessing ceremonies at the start of infrastructure works
- Conducting meetings on infrastructure projects, operations and business decisions that may affect the interests of mana whenua

### What was achieved

- MWKF established with the principles agreed
- Held MWKF meetings addressing the ecology of the Manukau Harbour, the drinking water assistance programme and Auckland Council’s freshwater programme

## LOCAL BOARDS

### Watercare engages by

- Keeping Local Boards informed of infrastructure projects, operations and business decisions that affect their area and/or constituents, ensuring a ‘no surprises’ approach
- Having a dedicated Local Boards advisor who implements an agreed engagement plan and contributes to Local Board workshops
- Negotiating landowner approvals needed for infrastructure works in local parks

### What was achieved

- Ensured local boards were well informed of infrastructure projects, operations and business decisions that affect their areas and/or constituents
- Made sure feedback was passed back to the relevant parts of the business: for example, Albert-Eden Local Board’s feedback was incorporated into the proposed Central Interceptor project plan
- Reviewed the Local Board engagement plan

## ENVIRONMENTAL GROUPS

### Watercare engages by

- Meeting with the Environmental Advisory Group (EAG) on a regular basis (refer to page 20)
- Sponsoring environmental initiatives such as the Watercare Harbour Clean-Up Trust (WHCUT) and Trees for Survival

### What was achieved

- Held bimonthly EAG meetings addressing major environmental topics and projects
- Facilitated a special EAG workshop on water demand management
- Launched a new WHCUT boat

## WIDER PUBLIC

### Watercare engages by

- Inviting the public to Watercare board meetings
- Running a free education programme called Adopt A Stream
- Giving the public access to Watercare's facilities
- Sponsoring the Round the Bays fun run by providing free water to participants

### What was achieved

- More than 6000 pupils participated in Adopt A Stream
- Over 16,000 passengers boarded Watercare's Rain Forest Express, a train that runs through the Waitakere Ranges
- Watercare sponsored the Round the Bays event for the 20th year in a row

## STAFF

### Watercare engages by

- Surveying its employees annually
- Conducting annual performance reviews
- Providing opportunities for training and development
- Working with staff to ensure a safe workplace
- Providing life insurance and income continuity insurance

### What was achieved

- Completed the annual employee survey and performance reviews
- Provided training, safe working conditions and insurances

## REGULATORS

### Watercare engages by

- Actively participating in the development of relevant legislation and policy initiatives

### What was achieved

- Participated in the development of 14 different pieces of legislation relating to water or wastewater

## LOCAL RESIDENTS AND COMMUNITY GROUPS THAT NEIGHBOUR WATERCARE WORKSITES

### Watercare engages by

- Providing information during the planning and delivery phases of works via direct mail, door knocking, advertisements, signage boards and community open days
- Responding to feedback

### What was achieved

- Watercare engaged with community groups on numerous projects including the Hunua 4 watermain, the Mairangi Bay rising main and pump station, the Kohimarama storage tank and the Central Interceptor

## SUPPLIERS AND CONTRACTORS

### Watercare engages by

- Managing relationships with suppliers at an operational level rather than at a centralised procurement level

### What was achieved

- Increased co-operation with key suppliers, including a chemicals supplier which is actively helping Watercare to reduce polymer consumption at the Mangere Wastewater Treatment Plant

## INFRASTRUCTURE PROVIDERS

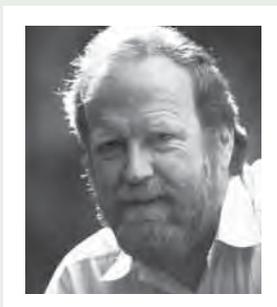
### Watercare engages by

- Actively working with other CCOs and infrastructure providers to co-ordinate planned works in order to minimise disruption to the public

### What was achieved

- Worked to identify where Auckland Transport's planned maintenance programmes could be dovetailed with Watercare's road reinstatement
- Carried out early consultation with Auckland Transport on the city rail link to ensure a co-ordinated approach
- Worked with Vector regarding works around Purewa Pump Station which resulted in the undergrounding of power lines in the area at the same time

## ENVIRONMENTAL ADVISORY GROUP



6 June 2013

Now in its 12th year, the Environmental Advisory Group continues to provide independent advice to Watercare on the environmental aspects of providing water supply and wastewater services across the region. This advice is based on the collective experience of our members and their involvement in community environmental organisations. We provide a sounding board for Watercare to gauge the views of the wider community on Watercare's programmes and projects.

This year, we actively advised on several of Watercare's major consent applications. In particular, we reviewed and provided feedback on the consent applications for the proposed Central Interceptor project and the Greater Auckland regional network discharge consent. We considered both of these at length.

We reiterate our support for the proposed Central Interceptor project as set out in Watercare's 2012 Annual Report. We also support the comprehensive and strategic approach incorporated in the Greater Auckland regional network discharge consent application for addressing wastewater network overflows. This will address historical problems with the existing network as well as provide for future growth while achieving acceptable environmental outcomes.

Another focus of our group this year has been to provide input into Watercare's initiative to review and update its regional water demand management plan. This is an area of particular interest to us. We support the development of a comprehensive plan that sets out a clear strategy for reducing water consumption in the region.

Other issues to which we contributed during the course of the year included:

- The proposed trade waste bylaw for the Auckland region
- Freshwater demand and allocation
- Rural wastewater treatment plant upgrades
- New water takes to support Auckland's growth
- Biosolids management
- Watercare's major water and wastewater projects.

These issues will continue to be critical for Watercare during the coming year.

The group also welcomes wider sustainability initiatives being developed within Watercare under the auspices of Watercare's sustainability manager.

We look forward to continuing to work with Watercare in the year ahead.



**Paul Walbran**  
*Chairman*  
Environmental Advisory Group

### MEMBERS

**Paul Walbran**  
Water quality, harbour health  
and heritage

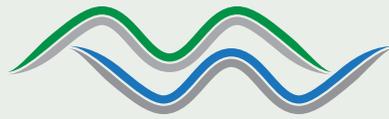
**Ken Catt**  
The water cycle

**Anne Fenn**  
Environmental policy and  
implementation

**Carol McSweeney**  
Air quality, ecosystems and botany

**Judy Bischoff**  
Water and land use, and energy

**Bob Tait**  
Biosolids



MANA WHENUA KAITIAKI FORUM



30 June 2013

*Kaitiaki – kaitiakitanga mauri – pupiri i te mauri kaitiaki mena ka tau te mauri i te taiao ka tau te oranga o te ira tangata.*

*If the life force of the environment is in balance, the well-being of mankind is assured.  
Mission Statement, November 2012*

Over the past year, our group has met regularly with Watercare's executives and staff to agree the nature, purpose and function of our Mana Whenua Kaitiaki Forum. This represents a significant step forward in the long-term relationship between mana whenua and Watercare.

Our forum comprises representatives from mana whenua entities in Auckland. Thirteen of the 19 mana whenua entities have signed a relationship agreement designed to promote partnership, protection and focused action with respect to Watercare's operations.

This year, we confirmed our charter, which is based on the following principles:

- Relationship building: building understanding and enhancing the interrelationship between mana whenua and Watercare
- Integrity: ensuring cultural integrity and respect
- Opportunities: identifying opportunities of mutual interest and benefit
- Best practice: advising on best practice for meeting the Forum's cultural, environmental, social and economic responsibilities
- Efficiency: establishing efficient, collective processes for building the relationship and engagement
- Water as taonga.

Based on these principles, we have a draft work programme that sets one, two and 10-year priorities which is expected to be finalised in July 2013. As part of the work programme, we have established an operational group of kaitiaki managers from each iwi. We have also developed an operations manual to guide the project-based work between mana whenua and Watercare.

The last 12 months have focused on direction setting. The year in front of us is about implementing the strategic direction. We believe this will be an exciting and rewarding time and look forward to working with Watercare further.

**Tame Te Rangi**  
Chairman  
Mana Whenua Kaitiaki Forum

## MEMBERS

**Mook Hohneck**  
Ngāti Wai Trust Board,  
Ngāti Manuhiri Settlement Trust

**Nicola MacDonald**  
Ngāti Rehua Ngātiwai Ki Aotea Trust

**Deborah Harding**  
Te Uri o Hau Settlement Trust

**Tame Te Rangi (Chair)**  
Te Rūnanga o Ngāti Whātua

**Waata Richards**  
Ngāti Whātua o Kaipara

**Grant Hawke**  
Ngāti Whātua o Ōrākei Māori  
Trust Board

**Janice Roberts**  
Makaurau Marae Māori Committee

**Karen Wilson**  
Te Akitai Waiohau Iwi Authority

**Dennis Kirkwood and Warahi Paki**  
Ngāti Tamaoho Trust

**Dame Nganeko Minhinnick**  
Te Ara Rangatū o Te Iwi o  
Ngāti Te Ata Waiohau

**Dave Beamish**  
Ngāi Tai Ki Tāmaki Tribal Trust

**Hemi Rau**  
Waikato Tainui Te Kauhanganui  
Incorporated

**Waati Ngamane**  
Ngāti Maru Rūnanga

**David Williams**  
Te Patukirikiri Iwi Incorporated

**Michael Barker**  
Ngāti Whanaunga  
Incorporated Society

**Liane Ngamane**  
Ngāti Tamaterā Treaty  
Settlement Trust

**Miria Andrews**  
Ngāti Paoa Trust

# 01

## SAFE AND RELIABLE WATER

Management of water resources to provide a safe and reliable water supply.



*Watercare has been supporting Auckland's Round the Bays fun run since 1993. The company's staff members provide runners with fresh drinking water at water stations along the 8.4-kilometre route.*



Fresh water is a vital resource, essential for the health and well-being of everyone. Rain collected in the Waitakere and Hunua ranges is stored in Watercare's 10 water supply dams before being treated and delivered to households. Auckland also draws water from the Waikato River and an underground supply in Onehunga. Smaller ground and river sources supply outlying rural communities.



*See the customer section of the GRI Report for further information on how this focus area impacts on Watercare's stakeholders and/or operations.*



## WATERCARE AT WORK

*Operations Controller Stuart Urquhart inspects a beaker of treated water produced at the Waikato Water Treatment Plant. The plant was recently expanded to provide up to 125 million litres of water a day to metropolitan Auckland.*

## DRIEST SUMMER IN 70 YEARS NO ISSUE FOR AUCKLANDERS

New Zealand experienced its driest summer in 70 years, with the entire North Island being declared a drought zone. While communities throughout the country faced water restrictions, Auckland's water supply remained secure thanks to Watercare thinking ahead after the year-long drought of 1993/94.

Following that year-long drought, Watercare established the Future Water Source project to develop a solution to the region's water supply needs. A list was drawn up of every water supply option available and, of these options, the Waikato River was recognised as the best solution.

Operations Manager Water Supply Shayne Cunis says Watercare planned to draw the water from a point in the river prior to its discharge into the Tasman Sea. "We knew that, at this point, the river would be less susceptible to variations in rainfall and the environmental impacts of abstraction would be minimal."

When the Waikato Water Treatment Plant was completed in 2002, it added 50 million litres a day to Auckland's water supply system. However, Shayne says it was future-proofed to enable a staged expansion up to 150 million litres per day.

"This summer, Watercare completed a \$48-million project to increase the plant's capacity from 75 to 125 million litres per day," explains Shayne. "This meant it was able to meet more than 25 per cent of metropolitan Auckland's demand during the recent drought and, in doing so, it was able to reduce drawdown on the dams and ensure a reliable water supply."

Watercare is preparing to carry out the final stage of expansion. However, Shayne says the company is not resting on the knowledge it can expand the plant by a further 25 million litres a day.

"We know that the demand for water will continue to rise as the city grows. We're thinking ahead and planning now."

Watercare is preparing to submit a resource consent application with the Waikato Regional Council requesting to increase its net water take from the Waikato River from 150 million to 350 million litres per day. If this is granted, Watercare will plan a staged expansion of the Waikato Water Treatment Plant and the construction of a second pipeline from the plant. This will secure Auckland's water supply for over 30 years.

Residents living in the rural northern township of Warkworth also enjoyed a safe and reliable water supply over summer, despite their only water source – the Mahurangi River – experiencing the lowest flows since records began in the early 1980s.

Shayne says Watercare used water tankers to supplement local supply by 140,000 to 170,000 litres a day. The company also worked with major water users – such as Auckland Council's parks department – and the community to ensure everyone was using water wisely.

"The combined result was positive. The Mahurangi River level stabilised at a low point rather than continuing to fall and this meant Warkworth was able to avoid water restrictions."

The dry summer emphasised the need for a second water source for Warkworth. This year, Watercare secured the use of a bore in Sanderson Road. To meet the resource consent conditions, the company must monitor the bore's level for 12 months before it can begin drawing water from it. Once the bore is up and running, Warkworth will be less reliant on the river for its water.

KEY

✓ Target met

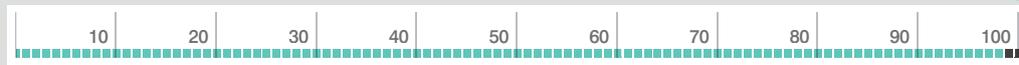
↗ Good performance but could do better

✗ Target not met

★ New or updated ruler

**1a. Percentage of drinking water treated in Watercare plants that is graded 'A' by the Ministry of Health.**

Target: 100% by 2020.



Water quality has been maintained based on the grading assessment carried out by the Auckland District Health Board on behalf of the Ministry of Health. All the metropolitan water treatment plants, which supply the bulk of drinking water to the people of Auckland, meet the 'A' grade.

The remaining 2% is made up of the non-metropolitan treatment plants inherited from former councils. See Ruler 1c for further information.

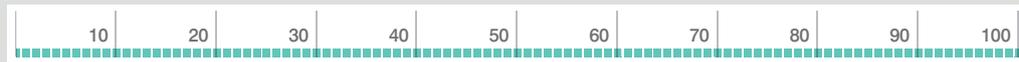
**98%**  
2013 SCORE

92% 2011   92% 2012



**1b. Percentage performance against Statement of Intent target: percentage of graded metropolitan water treatment plants achieving Grade 'A'.**

SOI target: 100%.



All metropolitan water treatment plants were graded and each maintained an 'A' grade.

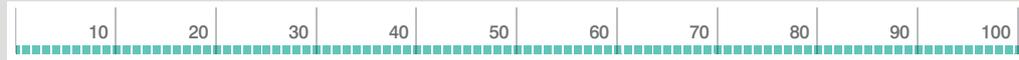
**100%**  
2013 SCORE

✓ 100% 2012



**1c. Percentage performance against Statement of Intent target: percentage of graded non-metropolitan water treatment plants achieving Grade 'A'.**

SOI target: 35%.



All non-metropolitan water treatment plants that were graded achieved an 'A' grade. Ten remain ungraded, of which six (in the Franklin region) will be decommissioned in the next financial year with the completion of the southern network upgrade project.

This project will provide these Franklin-based communities with water from the metropolitan system. It forms a significant part of Watercare's \$150 million programme of work to upgrade rural water and wastewater supplies.

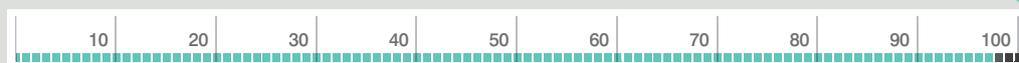
**>100%**  
2013 SCORE

✓ 100% 2012



**1d. Percentage of drinking water distributed through the Watercare network that is graded 'a' by the Ministry of Health.**

Target: 100% by 2020.



The same risk-based assessment used for water treatment plants also applies to the pipes, pump stations and service reservoirs that make up the water distribution networks. All graded zones meet the 'a' grade with the exception of one non-metropolitan zone which met the 'b' grade.

The portion of Watercare's network that is currently not graded covers the inherited networks from the former Franklin District Council. Most of Franklin's communities will be connected to the metropolitan system in the next financial year (see Ruler 1c).

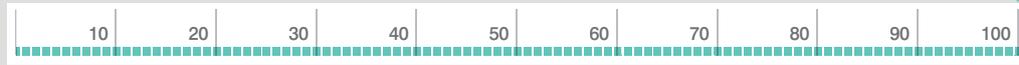
**97%**  
2013 SCORE

89% 2011   89% 2012



**1e. Percentage performance against Statement of Intent target: percentage of graded metropolitan water supply reticulation achieving Grade 'a'.**

SOI target: 100%.



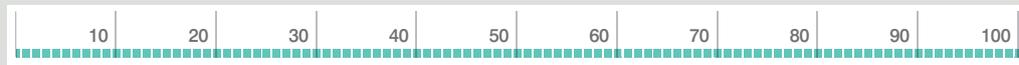
All metropolitan distribution networks were graded and each maintained an 'a' grade.

**100%**  
2013 SCORE



**1f. Percentage performance against Statement of Intent target: percentage of graded non-metropolitan water supply reticulation achieving Grade 'a'.**

SOI target: 15%.



Of the graded non-metropolitan networks, 83% received an 'a' grade and 17% received a 'b' grade. This is an improvement on last year when 50% achieved an 'a' grade and 50% a 'b' grade.

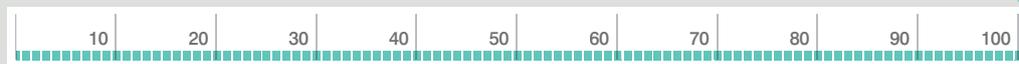
Seven of the nine ungraded zones in Franklin will be supplied from the metropolitan system following completion of the Southern Network Upgrade project in the next financial year.

**>100%**  
2013 SCORE



**1g. Percentage performance against Statement of Intent target: percentage compliance with Ministry of Health drinking water standards for graded plants.**

SOI target: 100%.



Watercare fully met the target and respect of compliance with the Ministry of Health's Drinking Water Standards for New Zealand (DWSNZ), at Ministry of Health-graded water treatment plants.

Compliance with the DWSNZ is verified through an extensive annual sampling programme by Watercare's laboratory which collects and analyses over 9000 samples throughout the region.

Compliance is independently assessed by a Ministry of Health-appointed drinking water assessor.

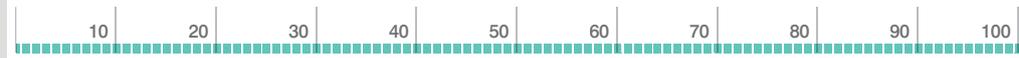
**100%**  
2013 SCORE



**1h. Percentage performance against Statement of Intent target: number of unplanned water interruptions.**

SOI target: ≤10 per 1000 connections.

Northern and southern regions



Central region not reported



As a measure of the reliability of service, Watercare monitors the number of times the water supply to its customers is interrupted. The target is set to ensure there are 10 or fewer interruptions per 1000 connections during the year. The result for the year was 7.7 for the northern and southern regions, which comprise around 6000 km of watermains.

The central region contains approximately 2000 km of watermains. Operation of the central region maintenance contract was taken over at the start of the year by a newly created in-house department, Maintenance Services Networks. Performance against this measure has not been reported for the central region as changes to the existing information systems are being implemented to enable standardised reporting to commence in the next financial year.

**>100%**  
2013 SCORE



↑  
Northern and southern regions

KEY

✓ Target met

↗ Good performance but could do better

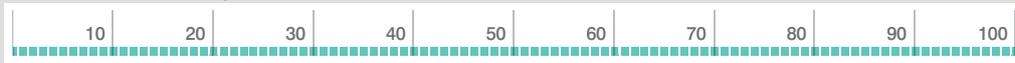
✗ Target not met

★ New or updated ruler

**1i. Percentage performance against Statement of Intent target: unplanned water shutdowns restored within five hours.**

SOI target:  $\geq 95\%$ .

Northern and southern regions



Central region not reported



In order to minimise the impact on its customers, Watercare has set a target of ensuring at least 95% of all unplanned water shutdowns are restored within five hours. The result for the year was 96.7% for the northern and southern regions, which comprise around 6000km of watermains.

The central region contains approximately 2000km of watermains. Operation of the central region maintenance contract was taken over at the start of the year by a newly created in-house department, Maintenance Services Networks. Performance against this measure has not been reported for the central region as changes to the existing information system are being implemented to enable standardised reporting to commence in the next financial year.

>100%  
2013 SCORE

100% 2011   100% 2012

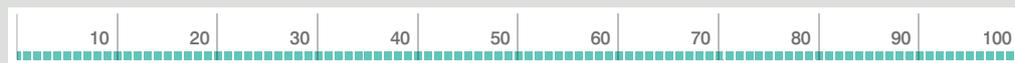
✓ ★



Northern and southern regions

**1j. Percentage performance against Statement of Intent target: unaccounted-for water loss.**

SOI target:  $\leq 15\%$ .



A portion of the water produced by Watercare is not able to be invoiced; this is known as non-revenue water. Some of this non-revenue water is accounted for, such as that used as part of the production process (e.g. pipeline flushing) or for community activities such as firefighting. Other losses, such as leakage from the network, are real unaccountable losses from the Watercare network. These were calculated to be 14.8% for the past 12 months against a target of 15% or less.

Last year, the calculation did not include non-metropolitan system data or losses upstream of the bulk supply points. The calculation this year has been adjusted to include actual losses from these sources.

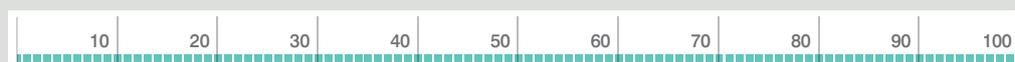
>100%  
2013 SCORE

100% 2011   100% 2012

✓ ★

**1k. Percentage performance against Statement of Intent target: water quality complaints.**

SOI target:  $\leq 5$  complaints per 1000 connections.



In order to improve the level of service provided, Watercare monitors the number and type of water quality complaints received from its customers. The number of complaints relating to taste, odour or appearance of the drinking water was 4.6 per 1000 connections which achieved the target of 5 or fewer.

>100%  
2013 SCORE

88% 2011   100% 2012

✓

THINKING AHEAD

SAFE AND RELIABLE WATER

The demand for water in the Auckland region will rise significantly over the next 30 years as a result of population growth. To meet this future need, Watercare is preparing to submit a resource consent application with the Waikato Regional Council requesting to increase its net water take from the Waikato River from 150 million to 350 million litres per day. If this request is granted, Watercare will plan a staged expansion of the Waikato Water Treatment Plant and the construction of a second pipeline from the plant. This will secure Auckland's water supply for more than 30 years.

# 02

## HEALTHY WATERWAYS

Management of wastewater discharges to maintain or improve the health of the environment.

*David, Matthew and Joel Harimate enjoy splashing in the water at Kawakawa Bay. In November 2012, the beach was deemed safe for swimming for the first time in 10 years. This was the result of Watercare commissioning the Kawakawa Wastewater Treatment Plant in 2011, enabling the removal of local septic tanks.*



Watercare is committed to maintaining the health of Auckland's harbours, estuaries and waterways. The company owns and operates 20 wastewater treatment plants and an extensive network of wastewater pipes that treat the majority of Auckland's wastewater to a very high standard.



*See the environment section of the GRI Report for further information on how this focus area impacts on Watercare's stakeholders and/or operations.*



*Project Manager David Ward and Resource Consent Manager Belinda Petersen visit an overflow structure in Mt Albert which is expected to release 80 per cent less stormwater and wastewater if the Central Interceptor is constructed.*

## WATERCARE AT WORK

### DELIVERING CLEANER WATERWAYS

Watercare is planning a long-term, \$800-million project that is expected to reduce overflows into waterways in central Auckland and the Waitematā Harbour by around 80 per cent.

Subject to statutory approval, the company will construct a 13-kilometre-long tunnel to collect and carry wastewater from Western Springs to the Mangere Wastewater Treatment Plant. Along the way, the tunnel – which will be called the Central Interceptor – will link to a series of smaller collector sewers that will collect flows from the local network.

Chief Infrastructure Officer Graham Wood says the proposed project has three objectives: providing for population growth, duplicating an existing interceptor that is at risk of failure, and reducing overflows into urban waterways and the Waitematā Harbour.

“The Central Interceptor has been identified as the best practicable option for addressing our needs,” he says. “It is the most cost-effective

solution for delivering the required wastewater network improvements.”

By addressing overflows, the Central Interceptor and its associated infrastructure will:

- Protect public health by reducing the likelihood of potentially harmful pathogens entering the waterways and harbour
- Improve the environment by reducing the nutrient and organic loads entering the waterways
- Increase recreational opportunities in public areas affected by overflows
- Assist in restoring the mauri of the waterways affected by overflows.

Graham says the proposed project is significant and will take time to deliver.

“This is a mammoth project, which began in 2009, and will take 18 years to complete from concept design to final reinstatement works.

“Over this past financial year, our focus has been lodging and notifying land designations and resource consent

applications. This proposed project has attracted considerable interest and the Auckland Council hearing, when we will have the opportunity to highlight why approvals should be granted, will be held in late July 2013.

“If the approvals are granted, we will spend three years working on a detailed design and confirming the construction methodology, and a further 10 years constructing the tunnel and associated infrastructure.”

Watercare is planning to construct the Central Interceptor using a tunnel-boring machine (TBM). The company used a TBM to construct a tunnel under Hobson Bay in 2009 and found it was a cost-effective solution that minimised the impact on the community and the environment.

Watercare plans to have 19 construction sites along the route to provide access for tunnelling, local connection works and long-term inspection and maintenance.

KEY

✓ Target met

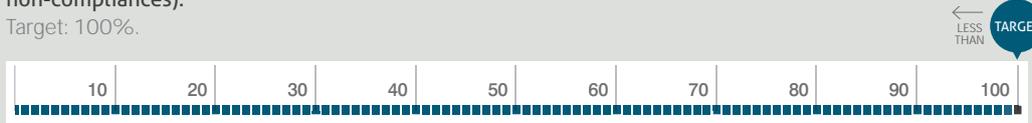
↗ Good performance but could do better

✗ Target not met

★ New or updated ruler

**2a. Percentage of wastewater discharged compliant with consent conditions (excluding minor or technical non-compliances).**

Target: 100%.



Watercare achieved a 99% level of overall compliance with consent requirements at its wastewater treatment plants on a volumetric basis, excluding minor and technical breaches. Compliance with consents at the major urban wastewater treatment plants was 100% against a target of 100%.

The overall result was influenced by the poor performance of some of the rural wastewater treatment plants transferred to Watercare by councils upon integration. See Ruler 2c for further information.

**99%**  
2013 SCORE

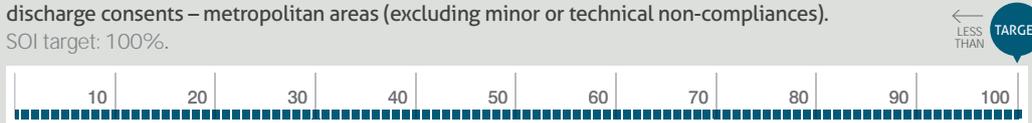
97%  
2011

97%  
2012



**2b. Percentage compliance with Statement of Intent target: percentage compliance with treatment plant discharge consents – metropolitan areas (excluding minor or technical non-compliances).**

SOI target: 100%.



Compliance with consents at the major urban wastewater treatment plants was 100% against a target of 100%. There was one transient period of 72 hours of minor non-compliance at the Mangere Wastewater Treatment Plant during the year and an upgrade programme has been implemented to address this. There was also a very short period of non-compliance of one parameter at the Army Bay Wastewater Treatment Plant.

**100%**  
2013 SCORE

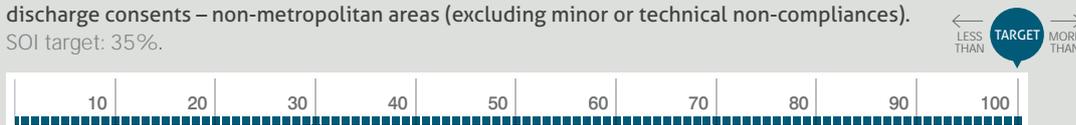


99%  
2012



**2c. Percentage compliance with Statement of Intent target: percentage compliance with treatment plant discharge consents – non-metropolitan areas (excluding minor or technical non-compliances).**

SOI target: 35%.



Work is continuing in regard to the poor performance of some of the rural wastewater treatment plants transferred to Watercare by councils upon integration. This year, the plants performed at 60% against a target of 35%. Watercare aims to achieve 100% compliance with this measure by 2020.

**>100%**  
2013 SCORE

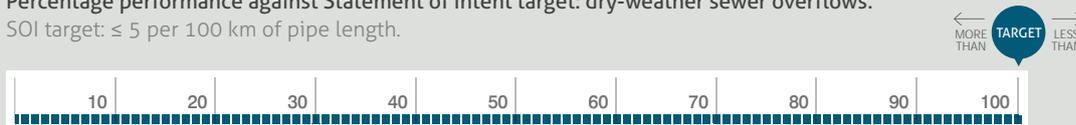


100%  
2012



**2d. Percentage performance against Statement of Intent target: dry-weather sewer overflows.**

SOI target: ≤ 5 per 100 km of pipe length.



Watercare reports on the number of wastewater overflows from its retail network during dry weather as a measure of the capability of the network to meet current demand. The result for the year was 2.7 overflows per 100 km of wastewater mains, which meets the target of five or fewer.

**>100%**  
2013 SCORE

100%  
2011

100%  
2012



**2e. Percentage performance against Statement of Intent target: wet weather overflows.**

SOI target: To have the Auckland-wide wastewater network discharge consent application lodged and consent operational by 2015

Watercare is applying for a regional wastewater network discharge consent, which, when granted, will set the target for wet-weather overflows. The consent application is expected to be lodged in the third quarter of 2013. Once lodged, the timeframe of the consenting process is beyond the control of Watercare.



**2f. Percentage performance against Statement of Intent target: sewer bursts and chokes.**

SOI target: ≤ 10 per 1000 properties.

Northern and southern regions



Central region not reported



The number of unplanned wastewater network interruptions as a result of breaks and chokes is a measure of the integrity of the system. The target is to achieve 10 or fewer. The result for the year was 6.8 for the northern and southern regions, which comprise around 5600 km of wastewater mains.

The central region contains approximately 2000 km of wastewater mains. Operation of the central region maintenance contract was taken over at the start of the year by a newly created in-house department, Maintenance Services Networks. Performance against this measure has not been reported for the central region as changes to the existing information systems are being implemented to enable standardised reporting to commence in the next financial year.



**>100%**  
2013 SCORE

100% 2011    100% 2012



Northern and southern regions

**2g. Response rate for urgent wastewater blockages.**

Target: 98% within agreed contracted timeframes.

Northern and southern regions



Central region not reported



Watercare requires network service providers to respond to all urgent wastewater blockages within the standard agreed at least 98% of the time. A total of 96% of blockages in the southern and northern areas were attended within the requested timeframe which equates to 98% compliance with the target. Performance in the central area has not been reported (see Ruler 2f).



**98%**  
2013 SCORE

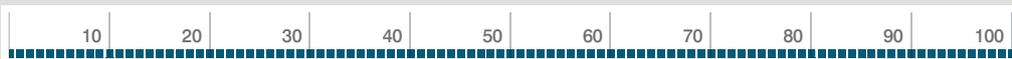
94% 2011    100% 2012



Northern and southern regions

**2h. Percentage performance against Statement of Intent target: number of successful Resource Management Act (RMA) prosecutions against Watercare.**

SOI target: Zero successful RMA prosecutions against Watercare.



There were no RMA prosecutions during the year.



**100%**  
2013 SCORE





*The Rosedale Wastewater Treatment Plant is Auckland's second largest. Located on the North Shore, it was commissioned in 1962 to serve a population of around 60,000 people. Over the past 51 years, the plant has been progressively upgraded and today it serves around 220,000 people.*

## THINKING AHEAD

### HEALTHY WATERWAYS

As the city grows, so too will the volume of wastewater it produces. Watercare has identified that the Mangere and Rosedale wastewater treatment plants can meet growth requirements within the existing resource consents and designations through to 2062. Work to upgrade the Mangere plant is under way and will be completed by 2017. Meanwhile, work to upgrade the Rosedale plant is being planned. These upgrades will ensure that, even with increased loading, the plants will continue to treat the majority of wastewater to a high standard.

Watercare is proposing to carry out two major projects that will rely on these plant upgrades. These are the construction of the \$800-million Central Interceptor which will connect to the Mangere plant and the \$300-million Northern Interceptor which will connect to the Rosedale plant. Subject to statutory approval, these projects will be completed in 2027 and 2020 respectively. For further information on the Central Interceptor, see page 30.

# 03

## HEALTH, SAFETY AND WELL-BEING

To be an industry-best  
workplace.

*Reticulation Servicemen John Paratainga (left) and Daniel Toetoe emerge from cleaning out a grit chamber in West Auckland.*



Recruiting, developing and retaining a highly capable and diverse workforce are major areas of focus for Watercare. The wide range of activities carried out by its staff requires a rigorous approach to health and safety, and a company culture of zero harm is well embedded.



*See the people section of the GRI Report for further information on how this focus area impacts on Watercare's stakeholders and/or operations.*



## WATERCARE AT WORK

*Reticulation Servicemen John Paratainga and Daniel Toetoe prepare to enter a grit chamber in West Auckland.*

### KEEPING THE CREW SAFE

Minimising risks and ensuring staff safety are both essential to the work carried out by Watercare's civil wastewater crews. These crews are the unsung heroes of Auckland who enter the region's wastewater structures to remove the fat, grease and grit that accumulates. If these structures are not cleaned out regularly, then pump failures, blockages, odours and dry-weather overflows can occur.

Wastewater structures can be hazardous environments. Maintenance Manager Mike Cruikshank says the crews undergo comprehensive confined-space training that teaches them how to assess hazards, how to test for a safe atmosphere, how to

select the appropriate safety gear and how to continuously monitor conditions as the work is carried out.

"If we take a grit chamber as an example, the crews assess the usual hazards – slips, trips and falls – as well as site-specific and introduced hazards.

"The most efficient way to clean a grit chamber is to blast it with high-pressure water. However, this introduces a hazard as the atomised water vapour can contain contaminants which could be breathed in by the crew. For this reason, the crew wear respirator masks that supply them with air via hoses connected to external tanks.

"The gear – which also includes full-body dry suits, gloves, disposable overalls and harnesses – can be cumbersome so it's important to rotate the men on a regular basis," says Mike. "We have people in the chamber and support crew outside monitoring them."

In addition to confined-space training, the crews receive first-aid and breathing-apparatus training as well as comprehensive immunisations. The training is delivered in accordance with the Australian and New Zealand Occupational Health and Safety Standards.

KEY

✓ Target met

↗ Good performance but could do better

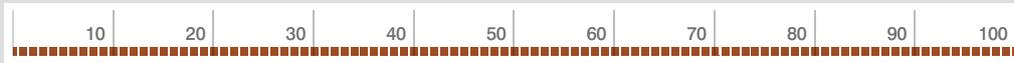
✗ Target not met

★ New or updated ruler

**3a. Percentage performance against Statement of Intent target: lost-time injury frequency rate (LTIFR) (number of lost-time injuries per year per 1,000,000 hours worked).**

SOI target: ≤ 5.

← MORE THAN TARGET LESS THAN →



Watercare staff achieved a LTIFR rate of zero per million hours worked which is well below the target of five or fewer.

>100%  
2013 SCORE

92% 2011 100% 2012

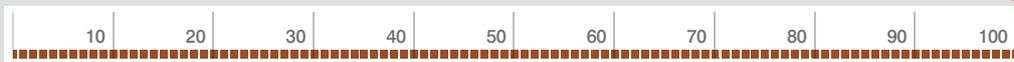
95% 2009 90% 2010



**3b. Percentage performance against target: lost-time severity rate (number of days lost x 200,000 hours worked).**

Target: ≤ 4.

← MORE THAN TARGET LESS THAN →



The severity rate measures the number of days lost from injury per 200,000 hours worked. Watercare had an injury severity rate of 0 at the end of the year.

>100%  
2013 SCORE

92% 2011 100% 2012

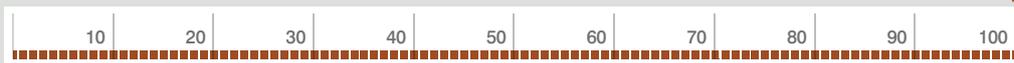
95% 2009 90% 2010



**3c. Percentage performance against Statement of Intent target: lost-time injury. Level of ACC workplace management practices accreditation.**

SOI target: tertiary.

← LESS THAN TARGET →



ACC tertiary-level accreditation was maintained following an external audit during the year.

100%  
2013 SCORE

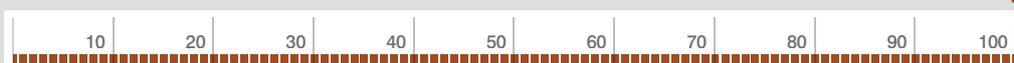
✓ 100% 2012



**3d. Percentage performance against Statement of Intent target: staff wellness.**

SOI target: ≤ 2.5% of total hours absent due to illness.

← MORE THAN TARGET LESS THAN →



Watercare achieved an unplanned absenteeism rate of 2.0%, which is under the target of 2.5% or less.

Watercare provides a comprehensive occupational health service to all staff, including: medical consultation, influenza immunisation, mandatory vaccinations for working in certain environments, skin checks and rehabilitation programmes. Employee Assistance Programme services are also available to all staff on a confidential basis either through the company or by self-referral.

>100%  
2013 SCORE

70% 2011 100% 2012

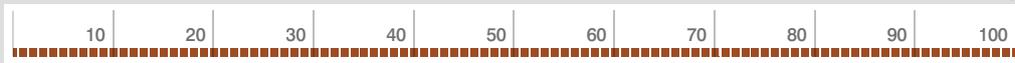
85% 2009 80% 2010



**3e. Percentage performance against Statement of Intent target: staff turnover.**

SOI target: ≤12%.

← MORE THAN TARGET LESS THAN →



Voluntary staff turnover for the year was 10.1%, which is within the target range of 12.0% or less. This is generally recognised as a healthy staffing refreshment rate.

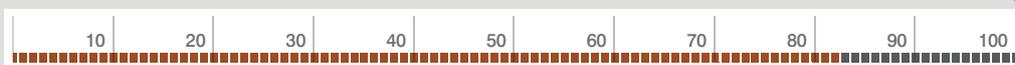
**>100%**  
2013 SCORE



**3f. Percentage performance: staff training.**

Target: 20 hours training and study per employee.

← LESS THAN TARGET MORE THAN →



Staff spent an average of 16.4 hours undertaking training and development during the last year. Professionally chartered employees are supported through payment of charter subscriptions. The graduate engineers' support group continues with 30 graduates currently working towards chartered status. In addition to operational training, water and wastewater operational staff are actively encouraged to pursue formal qualifications with 10 staff achieving certificate- or diploma-level qualifications during the year.

**82%**  
2013 SCORE



**3g. Percentage performance: employment equity and diversity.**

Target: 100% of employment equity and diversity outcomes achieved.

← LESS THAN TARGET →

Measure and monitor demographic indicators	Accredited employer with NZIS	Freedom of association promoted	Remuneration externally benchmarked	Targeted employee-development programmes identified	Exit interview results incorporated into management decision-making	Salaries assessed on performance	Address demographic trends	Performance and development review PADR extended to all staff covered by Individual Employment Agreements	Targeted employee development programmes in place
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Watercare strives to appoint the best candidates for all jobs. The workforce is diverse and comes from a wide range of backgrounds and experiences. Over 42 different nationalities are represented at Watercare.

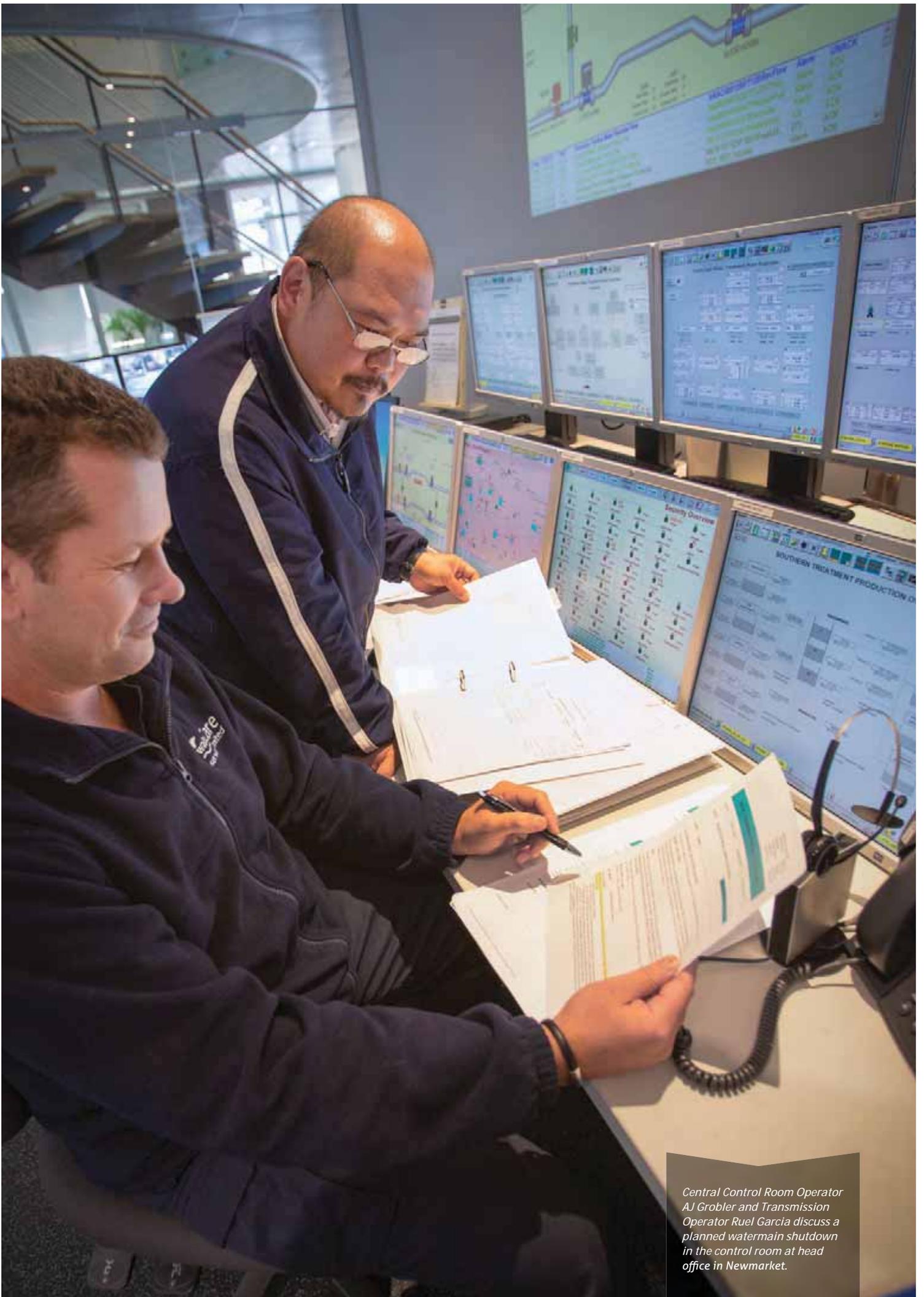
**95%**  
2013 SCORE



**THINKING AHEAD**

**HEALTH, SAFETY AND WELL-BEING**

Technology is to play an increasingly important role in keeping staff safe. Over the next financial year, Watercare is planning to roll out an online health and safety platform that will enable staff and contractors to access induction and training modules at a time and location that is convenient to them rather than waiting for group training sessions. The company will also investigate how state-of-the-art radio technology could be used to improve health and safety outcomes for staff working in remote locations.



Central Control Room Operator AJ Grobler and Transmission Operator Ruel Garcia discuss a planned watermain shutdown in the control room at head office in Newmarket.

# 04

## CUSTOMER SATISFACTION

Providing customers with great service and great value.



*Servicemen Wesley Sio and Tafunai Olo connect a water meter to a new residential property at the request of a customer.*



Watercare's vision is to provide outstanding and affordable services for all the people of Auckland. The contact centre is often a customer's first point of contact with Watercare, and continues to respond to up to 2000 phone calls, letters and emails from customers every day. The company also offers its customers the opportunity to transact with Watercare online, through our website and e-billing.



*See the customer section of the GRI Report for further information on how this focus area impacts on Watercare's stakeholders and/or operations.*



## WATERCARE AT WORK

*West Auckland resident Rachael Keereweer, mother of Kainoa, Tane and Dylan, says monthly billing is helping her with family budgeting.*

### MONTHLY BILLING AIDS FAMILY BUDGETING

On 1 July 2012, Watercare introduced monthly billing in response to an independent customer survey that found 84.3 per cent of its customers prefer to receive monthly utility bills because it helps them to manage their home budgets.

Previously, customers were sent bills every three or six months, depending on where they live. For West Auckland resident Rachael Keereweer and her family of five, the change was welcomed.

"Running a busy household, it's important to budget," says Rachael. "I like to know where I stand each month and, if there's something left over, we can treat the boys. But unlike my other bills, my Watercare one used to turn up out of the blue. It was usually fairly big and would give me a headache just thinking about it. Now it's regular like my power bill."

Monthly billing is also helping customers to detect leaks in their private plumbing. Chief Services Officer Trish Langridge says customers now have greater visibility of their water consumption habits.

"They can see if there has been an unusual spike in consumption and can investigate. While they are responsible for their private plumbing, we assist them by providing a rebate if they have the leak repaired and have not make a previous request within the last two years."

Trish says that while monthly billing was more costly for Watercare initially than was quarterly or six-monthly billing, it is leading to savings over time.

"Since July, more than 26,000 customers have signed up to receive their bills electronically which is resulting in significant printing and

postage savings. We've also seen a substantial increase in the number of customers who pay by direct debit which is the easiest payment method to process and the most cost-effective."

The introduction of monthly billing coincided with the roll-out of a standardised wastewater tariff for residential customers. Historically, each former council area had different charging regimes for wastewater for domestic customers. That meant some households were paying twice as much for wastewater services as were comparable households within other parts of Auckland. Trish says the standardised tariff is preferable to the old system because customers now pay the same amount regardless of where they live.

KEY

✓ Target met

↗ Good performance but could do better

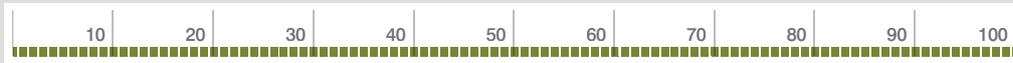
✗ Target not met

★ New or updated ruler

**4a. Percentage performance against Statement of Intent target: customer satisfaction with water and wastewater services.**

SOI target: 80% customer satisfaction.

← LESS THAN TARGET MORE THAN →



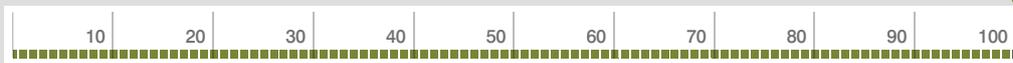
In line with best practice, an independent research organisation is used to survey a random selection of customers who contact Watercare to report faults. Watercare considers customers as being satisfied if the overall average score is at least 7 out of a possible 9. The overall average score for the year was 7.3 out of 9. This equates to a score of 81.4%.



**4b. Percentage performance against Statement of Intent target: grade of service.**

SOI target: 80% of calls answered within 20 seconds.

← LESS THAN TARGET MORE THAN →



Grade of service is an industry best-practice performance measure, aimed at ensuring calls are answered within 20 seconds. During the 2012/13 year, the grade of service target was not met due to the high volume of calls related to the unified tariffs and monthly billing projects implemented on 1 July 2012. Overall performance was 79.7%.

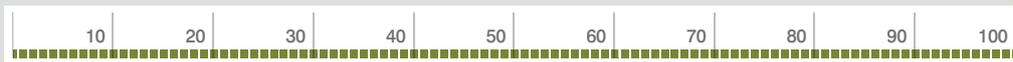
The number of calls to First Contact (after hours) was not included in the grade of service. First Contact's performance for the year was 86.9%.



**4c. Percentage performance against Statement of Intent target: 'resolved' complaints.**

SOI target: 95% of complaints 'resolved' within 10 working days.

← LESS THAN TARGET MORE THAN →



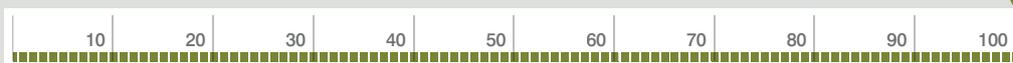
The target of 'resolved' complaints measures the total time taken for each issue to be resolved and for feedback to be given to the customer. A 10-day target is considered industry best practice. Complaints (2142) made up 5.2% of Watercare's total enquiries. Of these, 97.2% of complaints were resolved within 10 days, exceeding the target of 95%. Furthermore, 99.3% of enquiries were resolved satisfactorily within 10 days.



**4d. Percentage performance against Statement of Intent target: household affordability.**

SOI target: water and wastewater bill ≤ 1.5% of the average Auckland household income.

← MORE THAN TARGET LESS THAN →



The average monthly household water and wastewater bill from Watercare was \$64.35 for the period 1 July 2012 to 30 June 2013 inclusive. Based on Statistics New Zealand's current average monthly household income in Auckland of \$7,475, the bill represents 0.86% of the average household income, seemingly higher than the 0.72% reported last year. The apparent change in the result in 2012/13 is largely due to the inclusion of wastewater charges in Watercare bills for those customers formerly billed through council rates together with the introduction of monthly billing for water and wastewater services.

Watercare has announced that its retail customers will receive no increase in the price of water and wastewater services in the 2013/14 financial year.



## THINKING AHEAD

### CUSTOMER SATISFACTION

Watercare is seeking to improve the level of service it delivers to customers as it matures as a retail organisation. The company has developed a three-year road map to embed a customer orientation in all areas of its business. This involves reviewing and formalising all business processes as well as ensuring Watercare has the right staff with the right skills to deliver these processes.

A core component will be the delivery of new technologies that enable the end-to-end management of customer services. This includes new billing, asset management and knowledge management systems. It also involves improving the customer website; this will make it easier for customers to find the information they want and to transact with Watercare online.





*Engineer Josaphatt Ip and Maintenance Serviceperson Whetu Riwahi respond to a customer call-out in Hillsborough by replacing a faulty fire hydrant.*

# 05

## STAKEHOLDER RELATIONS

To be responsive to stakeholder requirements.

*Year 8 students from Northcross Intermediate on Auckland's North Shore carry out a hands-on field study of the waterway in Sherwood Reserve as part of Watercare's Adopt A Stream programme. Over the last year, 6142 students from 34 schools took part in this free education initiative.*



Watercare has valuable, long-standing relationships with the communities that neighbour the company's facilities. It engages with local people prior to undertaking project work on the company's infrastructure, works closely with its shareholder and Local Boards, and consults directly with a wide range of groups including tangata whenua.



*See the community section of the GRI Report for further information on how this focus area impacts on Watercare's stakeholders and/or operations.*



*The late Phil Warren's sisters, Helen Spencer and Geraldine Taylor, christen the new Phil Warren 2 vessel at a launch event in May 2013.*

## WATERCARE AT WORK

### WATERCARE PROMOTES HEALTHY WATERWAYS

Watercare continues to promote healthy waterways through its long-term support of the Watercare Harbour Clean-Up Trust.

For more than 10 years, the Trust has been working to remove rubbish from the Waitematā Harbour and inner Hauraki Gulf islands. Its contractors and volunteers have scooped up more than 25 million pieces of litter, including polystyrene, bottles, food wrappers and tyres.

Watercare and the Trust reinforced their commitment to improving the health of Auckland's waterways when they christened a new custom-built vessel in May 2013.

The new vessel is named the Phil Warren 2 in recognition of the environmental initiatives led by the late chairperson of the (then) Auckland Regional Council. Watercare Harbour Clean-Up Trust Chairman Peter Drummond says it is larger and more powerful than its predecessor, the Phil Warren.

"The Phil Warren 2 represented a massive investment for the Trust and

we spent a significant amount of time making sure it was fit for purpose.

"It features twin engines that give it outstanding manoeuvrability – it can practically turn on the spot, which is ideal for motoring in and out of tight spaces around the Viaduct.

"The Phil Warren 2 also has a flat hull which allows the crew to work the tides better – they can go up the Tāmaki River or Henderson Creek on the outgoing tide and the vessel can sit on the mudflat while they thoroughly clear the area of rubbish."

Peter says the Trust's work has had a positive impact on local communities, raising awareness of marine litter issues amongst schoolchildren and community groups, and making a real difference to the environment.

"The Trust relies on substantial volunteer support. In anticipation of increasing this support, the Phil Warren 2 was built to accommodate considerably more volunteers than were accommodated on the former vessel. It's ideal for community beach clean-up days as

it has a drop-down ramp on its bow allowing volunteers to access beaches with ease."

Watercare's Wastewater Operations Manager and Harbour Clean-Up Trust Contract Manager Mark Bourne says the Trust has removed more than three million litres of litter from the Waitematā Harbour since its inception in 2002.

"Since the Trust was established, the crew and volunteers have collected over 25 million pieces of litter from Auckland's waterways, based on an average of eight pieces of litter per litre. These are astonishing numbers and we are immensely proud of what the Trust has achieved over the past decade.

"Maintaining healthy waterways and contributing to the sustainability of Auckland's natural environment are core aspects of Watercare's role in our community, so there's a clear link between our company's activities and the work being done by the Trust.

"Watercare is delighted to continue to provide assistance to the Trust now and in the future."

KEY

✓ Target met

↗ Good performance but could do better

✗ Target not met

★ New or updated ruler

5a. Percentage performance: engaged shareholder.

Target: 100% of shareholder engagement outcomes achieved.



This year, Watercare worked closely with Auckland Council on the Unitary Plan which will set the planning framework for the future growth of Auckland. Watercare continues to work with Auckland Council to ensure there is an understanding of infrastructure provisions required to service growth in the region. Information has also been provided to developers and others with specific interests in Auckland Council growth areas and initiatives.

Watercare supports the delivery of the shareholder's outcomes through the development of a Statement of Intent (SOI), a document that sets out the governance arrangements and performance expectations between the company and the shareholder and by aligning investment through its financial plans and Asset Management Plan. All Watercare board meetings are open to the public, exceeding legislative requirements for two public meetings in May and October to hear council feedback on the SOI and to present progress against the SOI.

Watercare's important relationships with Local Boards continued to strengthen. In many cases, the company had to work closely with Local Boards as part of the landowner approval process to obtain approval for Watercare's works in local parks. The company also kept Local Boards informed of projects and issues, such as the non-domestic wastewater tariff review. Local Board communication is supported by an agreed engagement plan. However, the development of working relationships with Local Board members and staff has improved through the provision of timely and responsive replies in the interests of 'no surprises'.

Watercare worked with iwi authorities throughout the Auckland region to establish the Mana Whenua Kaitiaki Forum. The aim of the forum is to engage meaningfully and proactively to build relationships, increase understanding and seek feedback on projects. The forum also helps to enhance business efficiencies related to communication, statutory approvals and responsibilities. Watercare has always had a productive working relationship with iwi, based on mutual respect. Since the forum was established, Watercare has worked to improve the understanding of Watercare's projects and seeks iwi feedback to ensure the company operates in a manner that enhances environmental, social and economic values, whilst maintaining cultural integrity.

The company also continues to be an active participant in the development of relevant legislation and policy initiatives and made submissions on the following:

- Building Act Amendment Bill No. 4
- Heritage New Zealand Pohuere Taonga
- Improving our Resource Management System Discussion Document
- Land and Water Forum
- New Zealand Standard Ecological Flows
- Freshwater Reform 2013 and Beyond
- Resource Management (restricted duration of certain discharge Coastal Permits) Bill
- Resource Management Act Reform Bill
- Tāmaki Collective Claim on Volcanic Cones
- Auckland Council Operative Plan Changes
- Auckland Regional Policy Statement: Plan Change 8 – Outstanding Natural Landscapes
- Auckland Council Unitary Plan
- Waikato Regional Policy Statement (RPS)
- Waikato Regional Pest Management Plan.

### 5b. Percentage performance against target: engaged communities.

Target: 100% of communities' engagement outcomes achieved.

← LESS THAN TARGET



95%  
2013 SCORE

95% 2011 95% 2012



Watercare has 154 major projects underway to upgrade and expand infrastructure across Auckland. The company provides local communities and stakeholders with information during the planning and delivery phases of works via direct mail, door knocking, advertisements, signage boards and community open days. In the last year, Watercare engaged with community groups on numerous projects including the Hunua 4 watermain, the Mairangi Bay rising main and pump station, the Kohimarama storage tank and the Central Interceptor.

Watercare employs a qualified teacher who provides lessons about water quality, the water cycle, conservation and the environment via a structured programme known as 'Adopt A Stream'. Demand for lessons continues to be high with 6142 pupils participating from 34 schools. Watercare's Rain Forest Express, a narrow-gauge railway built to service the Upper Nihotupu Dam around 1912, also continues to be very popular with locals and tourists alike.

Watercare continued to sponsor the Watercare Harbour Clean-Up Trust which has been in operation since 2002. In that time, the Trust has removed more than 25 million pieces of rubbish from Auckland's harbours and waterways.

### 5c. Percentage performance: legal compliance.

Target: 100% of shareholder engagement outcomes achieved.

← LESS THAN TARGET



95%  
2013 SCORE

100% 2011 95% 2012



Watercare has many statutory obligations under a number of Acts and invests a considerable amount of resources in complying with and monitoring statutory requirements. Technical non-compliance with resource consents relating to the inherited non-metropolitan wastewater treatment plants as reported under Ruler 2a.

Following careful consideration, Watercare decided to defend health and safety charges brought against the company by the Department of Labour related to the Onehunga explosion of June 2011. The matter is currently before the courts. In all other respects, the company achieved compliance with all statutory obligations specified in the relevant Acts during the past year.

## THINKING AHEAD

## STAKEHOLDER RELATIONS

Watercare actively participates in the development of relevant legislation and policy initiatives. Over the next three years, the company expects to participate in central government's programme of freshwater reforms. The purpose of the reforms is to establish a mechanism that requires minimum environmental states in rivers, lakes and aquifers for ecosystem health and human contact, and to ensure communities operate within water quality and quantity limits.

Watercare will carefully consider the impact of the proposed reforms on the company and provide feedback to the Government and the Auckland and Waikato councils by way of consultation and submissions. Watercare's objective is to ensure the company can continue to operate its business efficiently as a minimum-cost provider of water and wastewater services, while also recognising its wider environmental, social and cultural responsibilities.



Each year, Watercare participates in Ambury Farm Day – a family-oriented event organised by Auckland Council. In October 2012, Watercare’s marquee proved very popular with children who were given the opportunity to create their own freshwater organisms from plasticine and take them home.

# 06

## SUSTAINABLE ENVIRONMENT

To minimise and/or mitigate the adverse impact of the company's operations on the environment.

A large flock of wading birds, likely New Zealand waders, is captured in flight over a coastal area. The birds are seen from various angles, some in the foreground and others further back, creating a sense of movement and density. The background shows a clear blue sky and a distant coastline with hills.

*There are four bird roosts along the Watercare Coastal Walkway which stretches seven kilometres from Ambury Park to the Otuataua Stonefields in Mangere. Approximately 60 per cent of New Zealand's wading bird population uses the harbour temporarily at some stage during the year.*



Watercare is committed to providing water and wastewater services using methods that are environmentally sustainable. The company is actively involved in the long-term restoration and rehabilitation of Auckland's harbours, beaches and islands, as well as in community tree-planting days, wildlife-protection programmes and sponsorship of environmental initiatives.



*See the environment section of the GRI Report for further information on how this focus area impacts on Watercare's stakeholders and/or operations.*



*Watercare Sustainability Manager Roseline Klein talks about water saving techniques to visitors at the Green Living Show.*

## WATERCARE AT WORK

### NEW SERVICE HELPS HOUSEHOLDS TO SAVE WATER

Residents are receiving in-depth advice on how to reduce their household's water consumption thanks to a new service launched by Watercare in October 2012.

Sustainability Manager Roseline Klein says the purpose of the service is to help Watercare achieve its goal of reducing gross per-capita consumption by 15 per cent by 2025.

"Auckland's population is growing and, consequently, so too is its demand for water. While it is reasonable to expect that new or augmented sources will be required in the future, reducing demand per capita can delay or reduce the need for new sources. This is a long-term process that has to be addressed now."

The new service is being delivered by EcoMatters Environment Trust on behalf of Watercare. Residents who are interested in reducing their water

consumption are referred to the Trust by Watercare's contact centre, as Roseline explains:

"A resident can talk to EcoMatters over the phone about his or her household's water usage, asking questions about such things as their whiteware, the number of toilets and showers they have, and their hot water system. The Trust then prepares a personalised recommendations report and sends this to the resident along with a water-savings guide. The guide has comprehensive information about checking for leaks and changing tap washers, for example. The audit focuses on how the household uses water, how it could save water, and it invites them to pledge a five, 10 or 20 per cent savings target."

Residents have the option of receiving progress reports from EcoMatters over the next year, based on their bills.

Roseline says that if a household has carried out an audit and is finding it hard to reduce its consumption, they can ask EcoMatters to visit the home and talk to them about water-saving measures face to face.

Information on water conservation is also being communicated to Aucklanders at key events such as the Auckland, Waitakere and North Shore home shows and the Green Living Show.

"We selected events that are relevant to our water-saving theme and attract a broad cross-section of Aucklanders," says Roseline. "EcoMatters has a stall with water-saving information and devices."

Since the new service launched in October last year, 134 households have benefited.

KEY

✓ Target met

↗ Good performance but could do better

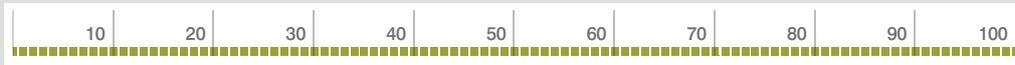
✗ Target not met

★ New or updated ruler

**6a. Percentage performance against target: atmospheric CO<sub>2</sub> emissions.**

Target: > 50% reduction based on 1990 levels by 2050.

← LESS THAN TARGET MORE THAN →



Greenhouse gases that relate to Watercare's services include carbon dioxide, methane and nitrous oxide. These are largely generated from the treatment of wastewater. This year, the levels were equivalent to 76%, below the 1990 baseline.

**>100%**  
2013 SCORE

75% 2011 100% 2012

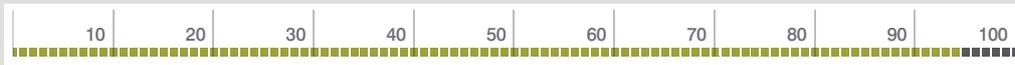
85% 2009 85% 2010



**6b. Percentage performance against target: internally sourced energy.**

Target: 100% of annual forecast.

← LESS THAN TARGET MORE THAN →



Watercare reviews the annual production forecasts each year and assesses how much energy it could potentially source internally. This is principally achieved by generators burning biogas at its two largest wastewater plants, Mangere and Rosedale, and from four hydroelectric generators within the water supply system. This year, Watercare sourced 29% of its energy against an annual forecast of 31%.

**94%**  
2013 SCORE

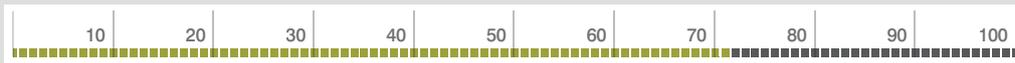
91% 2011 89% 2012



**6c. Percentage performance: recycling (ensuring recyclable and compostable material does not end up in landfill).**

Target: 100%.

← LESS THAN TARGET MORE THAN →



Watercare aims to minimise the volume of waste going to landfill. Over the past 10 years, the company has carried out audits to measure how effective it is at diverting material that can be recycled or composted from the general waste stream. The result has been relatively consistent in recent years.

This year, Watercare implemented a new system to divert paper towels from landfill at its four main sites. This system reduced the overall weight of kitchen and office waste by 8.4%. However, due to the way the audit is carried out, this improvement is not reflected in the ruler result. Next year, the ruler will be modified to capture this improvement as well as improvements from planned initiatives. Notwithstanding this initiative, in 2012/13 the company increased performance by 5.0% on last year.

**71%**  
2013 SCORE

70% 2011 66% 2012

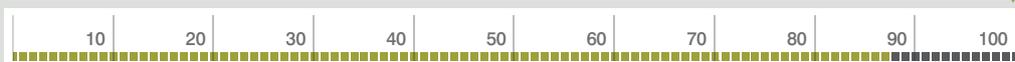
75% 2009 70% 2010



**6d. Percentage performance against target: waste management (treatment plant solid waste diverted from commercial landfills).**

Target: 95%.

← LESS THAN TARGET MORE THAN →



Watercare aims to divert 95% of material going to commercial landfills from its water and wastewater treatment plants. To do this, the company uses biosolids to rehabilitate a small part of the old oxidation ponds at the Mangere Wastewater Treatment Plant. The initiation of the Puketutu Island Biosolids Rehabilitation project is a major milestone that will help Watercare achieve its target. This year, the overall percentage of waste diverted from commercial landfill was 83% against a target of 95%.

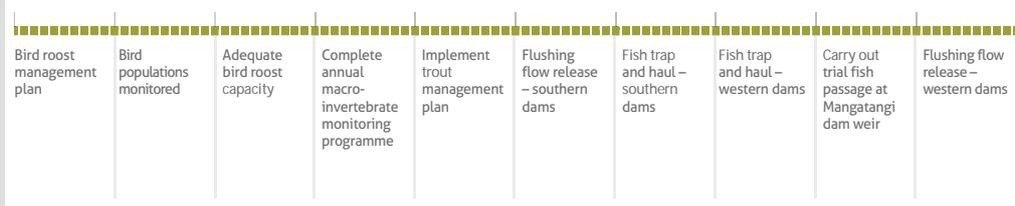
**87%**  
2013 SCORE

80% 2011 84% 2012



**6e. Percentage performance against target: species preservation.**

Target: 100% of species preservation outcomes achieved.



**100%**

2013 SCORE

100% 2011    100% 2012

90% 2009    100% 2010



Watercare interacts with many species during its activities and works hard to minimise any impacts and, where possible, improve conditions for them. An example is the coastal areas around the Mangere Wastewater Treatment Plant that support a large and diverse range of bird species, which have flourished in bird roosts built and maintained by Watercare. An additional benefit is that these roosts have helped to reduce bird strikes by planes at Auckland Airport. Watercare also allocates significant resources to minimise the effects that our water supply dams have on the surrounding freshwater ecologies. This includes simulating flood flows downstream from our dams and implementing a native fisheries trap-and-haul programme, where migrating fish and eels are transferred around our dams. The trial fish pass at Mangatangi has been successful and the full-scale pass will be implemented in the next financial year.

**6f. Percentage performance against target: habitat improvement.**

Target: 100% of habitat improvement outcomes achieved.



**91%**

2013 SCORE

90% 2011    90% 2012

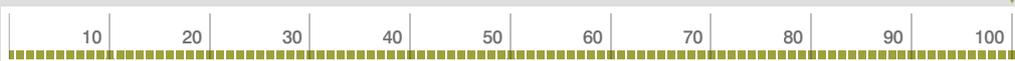
85% 2009    90% 2010



Watercare continues to be principal sponsor of the Watercare Harbour Clean-Up Trust. The Trust oversees the removal of litter from Auckland's Waitemata Harbour and inner Hauraki Gulf Islands. The restoration of Puketutu Island is a step closer as site works commenced in early 2013. Watercare staff participate in planting days for the 'Trees for Survival' programme. Recent testing has shown that there has been a 30% improvement in the quality of the water in the Manukau Harbour following extensive investment at the Mangere Wastewater Treatment Plant. The riparian planting programme for Mangatāwhiri was developed during the year and approved by the regulator. This will be implemented in the next financial year.

**6g. Percentage performance against target: midge complaints at wastewater treatment plants (number of midge complaints).**

Target: 0.



**100%**

2013 SCORE

70% 2011    90% 2012

100% 2009    100% 2010



Watercare operates a year-round monitoring and management programme that focuses on controlling midge breeding grounds around its wastewater treatment plants and on reducing midge breeding grounds in the community, largely through public awareness initiatives. Effective response continues to be required particularly when warm, wet weather creates conditions in which midges thrive. Watercare received no complaints relating to midge levels at any wastewater treatment plant this year.

KEY

✓ Target met

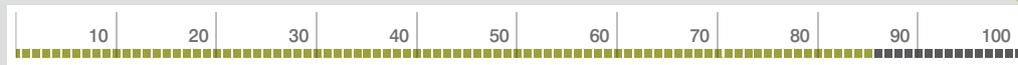
↗ Good performance but could do better

✗ Target not met

★ New or updated ruler

**6h. Percentage performance against target: odour complaints at wastewater treatment plants (number of verified odour complaints).**

Target: 0.



Odour control measures continue to be an important focus at Watercare's wastewater treatment plants and include the use of covers and odour filter beds as well as stationary and mobile deodoriser spraying units. The company undertakes periodic plant boundary odour surveys that involve an independent 'odour scout' to investigate and report any odour detection. During the year, Watercare achieved an 85% compliance as a result of 27 verified odour complaints at the Mangere plant, two at the Kingseat plant and one at the Pukekohe plant. All complaints were responded to in a timely manner. The elevated number of complaints at Mangere was driven by two issues: there was a short-term period when the digesters' performance was suboptimal due to unexpected influent conditions, resulting in some odours being experienced by neighbours nearby. There was also an increased level of complaints relating to the Pond 2 rehabilitation operation primarily due to the nature of the underlying material. Improved odour-management techniques were implemented.

**85%**  
2013 SCORE

90%  
2011

95%  
2012

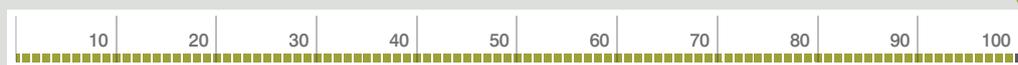
60%  
2009

85%  
2010



**6i. Percentage performance against target: compliance of trade waste customers.**

Target: 100%.



Watercare aims to work with its customers to improve their compliance with trade waste bylaws. A comprehensive monitoring and sampling programme, targeted education and a good level of environmental awareness by customers have all been factors in maintaining a high level of compliance.

**99%**  
2013 SCORE

99%  
2011

99%  
2012

96%  
2009

97%  
2010



**THINKING AHEAD**

**SUSTAINABLE ENVIRONMENT**

In the next financial year, Watercare will establish a Green Team to address sustainability challenges at the company's premises. The team will be made up of staff members who want to champion or contribute to environmental and social initiatives in the workplace such as energy management and waste minimisation. The aim is to grow an organisational culture of sustainability from the bottom up. This will be complemented by a corporate-level approach that involves understanding the company's environmental and social impacts, benchmarking against similar companies and understanding stakeholder expectations.

# 07

## EFFECTIVE ASSET MANAGEMENT

Managing assets to ensure the use of existing assets is maximised while optimising the scope, timing and cost of new investments.

*Watercare is constructing an eighth anaerobic sludge digester at the Mangere Wastewater Treatment Plant to cater for population growth. The plant is Auckland's largest, treating 327 million litres of wastewater a day, on average.*



Watercare aims to operate, maintain, replace and develop assets over the long term to meet required service levels and foreseeable future needs. The key drivers for asset-planning decisions relate to growth, renewal and levels of service. Watercare must also give effect to relevant aspects of Auckland Council's Long-Term Plan.



*See the economy section of the GRI Report for further information on how this focus area impacts on Watercare's stakeholders and/or operations.*



*Watercare Project Manager Richard McIntosh inspects progress on the Hunua 4 watermain as it passes through farmland in South Auckland.*

## WATERCARE AT WORK

### STRONG PROGRESS ON MAJOR WATERMAIN PROJECT

Watercare is constructing a \$350-million watermain to cater for population growth and to increase the security of the water supply to the Auckland region.

The Hunua 4 watermain will cover a 28-kilometre area, from Manukau to Epsom, connecting to the existing local water supply network along the way. In the future, it will be extended to Khyber Pass in the central city.

Work on the main construction programme began in 2012 and will take four years to complete. Project Manager Richard McIntosh says five kilometres of watermain was laid during the financial year, passing through farmland and beneath residential roads.

“The project is progressing well but it is not without certain challenges. The watermain is exceptionally large – up to 1.9 metres in diameter – and, for the most part, we’re laying it in an open trench. This means the work has an inevitable impact on local residents and traffic.”

“An effective communications strategy is essential to the smooth delivery

of the project. Watercare has two dedicated stakeholder liaison people who make sure that what we promise to the community is delivered. For this to happen, they have to make sure everyone working on the project – from those excavating the trench, to laying the watermain, to directing traffic – knows what is expected of them. As a result, we have had few complaints.”

A section of Te Irirangi Drive – a busy arterial road in South Auckland – was shut down over Easter weekend in order for the Hunua 4 watermain to cross a major intersection. In the lead-up, full-page advertisements were placed in the local newspaper and an extensive stakeholder database was emailed with details of the shutdown and detour maps. Schools were contacted and information was placed on the company website.

“The work over Easter was planned right down to the finest detail. We had to make sure that the work was carried out right first time. The four-metre-deep trench was excavated, the watermain was laid and the road was fully reinstated within the four-day window,

ready for heavy traffic the following Tuesday morning.”

Watercare used a tunnel boring machine to pass under State Highway 1 in Flat Bush, South Auckland, as it was not feasible to complete this section of the watermain using an open-trench installation. Richard says the tunnelling took around four weeks to complete with a 170-metre-long tunnel being excavated and lined.

Over the next 12 months, five to six kilometres of watermain will be laid between Papatoetoe and Mangere. Richard says one of the challenges will be the construction of an enormous pipe bridge that will pass over State Highway 20.

“This will require us to shut the motorway down on one or two nights as we lift the bridge into position,” says Richard. “We will undertake this in the same way as we did when we approached the work over Easter and during our other critical works – with a lot of attention being given to stakeholder relations and extremely detailed planning.”

KEY

✓ Target met

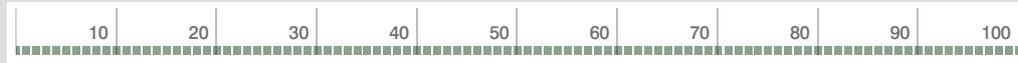
↗ Good performance but could do better

✗ Target not met

★ New or updated ruler

7a. Percentage performance against Statement of Intent target: capital expenditure.

SOI target: ≥ 85% of budget.



Watercare aims to ensure capital expenditure is within 15% of the approved financial budget. For 2012/13, the actual capital expenditure was 97.5%, which was within 2.5% of budget.



7b. Percentage performance against target: water conservation.

Target: 100% of demand-management outcomes achieved.

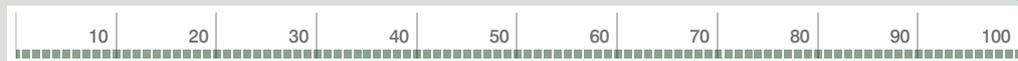
Implement demand management in everyday business at Watercare	Develop updated regional demand management plan	Develop cost-benefit analysis tool for demand-management	Future supply planning balances cost-beneficial efficiency options	Water loss strategies and management approaches developed	Work with Auckland Council to reduce water use	Understand customer water-use patterns	Promote water efficient devices and communicate water efficient messages	Work with large water users to reduce demand	Undertake trials and pilot studies to improve water efficiency
---	---	--	--	---	--	--	--	--	--

Water conservation incorporates all aspects of water use and Watercare works with various stakeholders to improve practices across the region. This year, new programmes have been made available to all Aucklanders, such as the water advice line (see page 54).



7c. Percentage performance against Statement of Intent target: per capita consumption.

SOI target: 282L per person per day.



As part of ensuring there is water for the future of Auckland, Watercare is committed to reducing per-capita consumption to 15% below the 2004 level by 2025. The level achieved this year was 274L per person per day, which meets the target of 282L per person per day.

This reduction is being achieved through a number of initiatives including network efficiency programmes and the provision of a free water audit service for residential customers. Watercare plans to develop its education programme and provide water audits for commercial customers in the 2013/14 financial year.



7d. Percentage performance against target: maintenance development.

Target: 100% of maintenance development outcomes.

Maintenance history recorded for wholesale assets	Failure mode effect and criticality analysis used to target wholesale asset Opex and Capex spend	Wholesale maintenance programme prioritised using Reliability Centred Maintenance	Review and update maintenance key performance indicators aligned to recognise international standards	Review network pump-station maintenance strategy	Develop and implement a company-wide control system alarm management strategy	Develop and implement smart maintenance reporting	Develop and implement online change management system	Develop and integrate electrical safety certificates into the asset register and document management system	Integrate computerised maintenance management system with electronic document management records system
---	--	---	---	--	---	---	---	---	---

This ruler has been modified to include a number of new outcomes to reflect Watercare's commitment to improving the effectiveness of maintenance programmes across the inherited networks as well as continuing to improve the existing systems. Watercare will continue to work towards these new outcomes and add new ones as the programme develops.



## THINKING AHEAD

### EFFECTIVE ASSET MANAGEMENT

Two major infrastructure projects are being planned for Auckland's North Shore to accommodate population growth. Watercare will spend \$240 million constructing a 32-kilometre-long watermain to transport water from the Waitakere Ranges to Albany to supply growing North Shore communities. Stage one of this project is scheduled for completion in 2017 while stage two will continue through to 2026.

The company will also spend \$270 million constructing an 18-kilometre-long wastewater pipe to carry wastewater from the Northern Strategic Growth Area (encompassing Massey North and Hobsonville) to the Rosedale Wastewater Treatment Plant. This project is scheduled for completion in 2020.





*Watercare's Principal Advisor Local Boards Brent Evans (right) shows Franklin Local Board Chair Andrew Baker around a construction site at Clarks Beach where a new reservoir is being constructed.*

# 08

## SOUND FINANCIAL MANAGEMENT

Management of the company to meet business objectives at the lowest cost.

*Financial Planning and Revenue Manager Marlon Bridge, Chief Financial Officer Brian Monk, Acting Communications Manager Ramari Young, Financial Analyst Grant Stuart and Project Manager Rebecca Chenery discuss the phased roll-out of the new non-domestic wastewater tariff.*



By law, Watercare is required to manage its operations efficiently with a view to keeping the overall costs of water supply and wastewater services to its customers collectively at minimum levels. The company is prohibited by statute from paying a dividend to its shareholder, Auckland Council. Auckland water and wastewater prices will remain unchanged for the 2013/14 year as a result of Watercare's sustained cost savings and greater efficiencies during the financial year.



*See the economy section of the GRI Report for further information on how this focus area impacts on Watercare's stakeholders and/or operations.*

## WATERCARE AT WORK

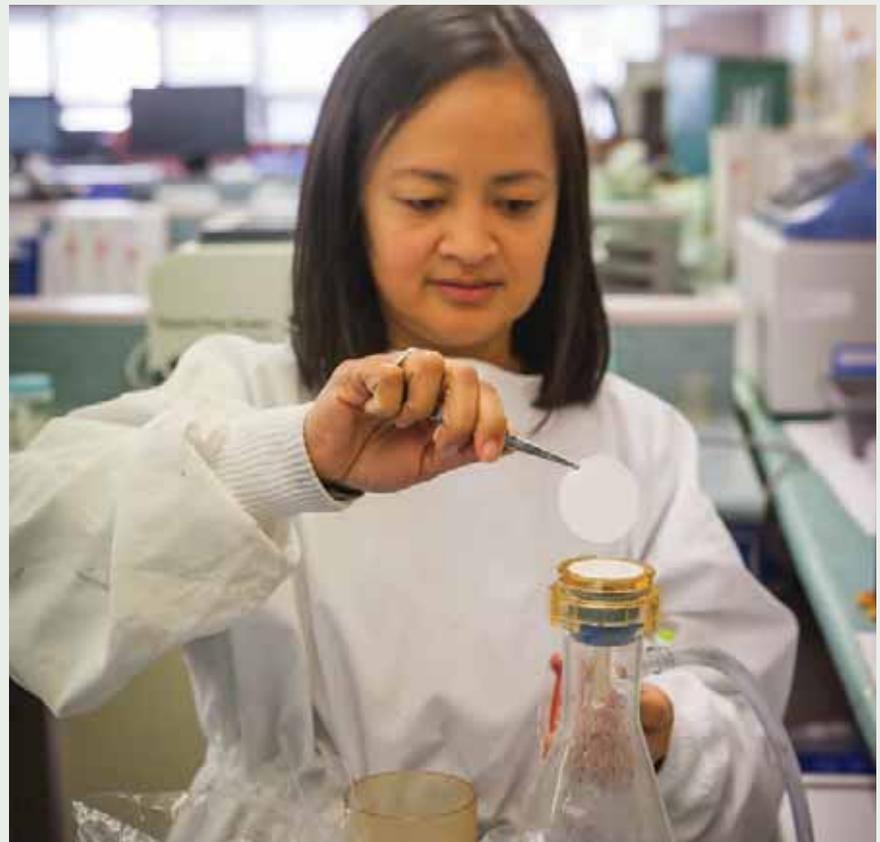
**WATERCARE'S  
LABORATORY EXPANDS  
OPERATIONS INTO  
SOUTHLAND**

Watercare's laboratory is now providing drinking water, wastewater, food and environmental testing services to a range of clients in Southland following the acquisition of a small laboratory in Invercargill in September 2012.

The expansion means Watercare now has a strong national presence from Northland to Southland, with laboratories in Auckland, Queenstown and Invercargill providing comprehensive services to industrial companies, regulatory authorities and government agencies.

The state-of-the-art laboratory in Auckland carries out approximately 870,000 analyses on over 102,000 samples each year and it continuously monitors air quality at a number of sites throughout New Zealand. Commercial Services Manager Ian Shand says the laboratory employs more than 80 people and is made up of five analytical departments: microbiology, inorganic chemistry, organic chemistry, air quality and sampling logistics.

"We operate 365 days a year in Auckland, offering a very quick turnaround on



*Watercare Laboratory Technician Nora Burt carries out a membrane filtration test on a water sample at the laboratory in Invercargill.*

chemistry and microbiology testing. Some of our specialist services include testing for viruses, pathogens, *Cryptosporidium* and *Giardia* in a variety of matrices."

The laboratory's strong national presence and broad range of testing benefits Watercare in a wide range of ways, as Ian explains:

"Obviously, the revenue we generate from our clients helps to offset the cost of carrying out testing for Watercare. But it's more than that: by having a strong national presence, we can support a larger team with more equipment which protects Watercare from a business continuity perspective. For example, if there were a drinking water or wastewater incident in Auckland, our large team has

the capacity to respond to the situation. It also means we can spread the cost of buying expensive, specialist equipment and we can have back-up equipment readily available."

Watercare has also invested in emergency back-up facilities which include a power generator, a water reservoir and offsite emergency laboratories.

In the next financial year, the laboratory will roll out a new customer portal, accessible through its new website ([www.watercarelabs.co.nz](http://www.watercarelabs.co.nz)), which will provide a variety of online services. In addition, the laboratory is to release a new report format in August 2013 to facilitate easier interpretation of results.

## THINKING AHEAD

## SOUND FINANCIAL MANAGEMENT

In order to provide a degree of certainty around future interest rate expense for long-term financial forecasting purposes, Watercare locks in interest rates on a portion of its projected borrowing requirements using interest rate swaps. Following the global financial crisis, when interest rates were at historical lows, the company amended its Treasury Policy to allow interest rate cover out to 15 years (the previous policy limit was 10 years) and extended the duration of its interest rate swap portfolio. Looking forward to 30 June 2025, Watercare had \$370 million of interest rate cover locked in at a weighted average interest rate of 5.79 per cent as at 30 June 2013.

KEY

✓ Target met

↗ Good performance but could do better

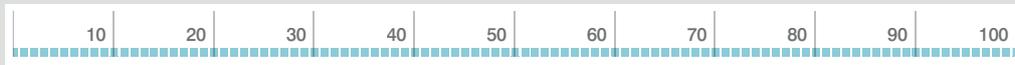
✗ Target not met

★ New or updated ruler

**8a. Percentage performance against Statement of Intent target: minimum funds flow from operations (FFO) to interest cover before any price adjustment.**

SOI target:  $\geq 2.5$ .

← LESS THAN TARGET MORE THAN →



The FFO to interest cover ratio for the year was 3.37, higher than the budget figure of 2.86 and the required SOI target of at least 2.50. The most significant contributor to this outperformance was interest expense, which came in well below budget due to a combination of Watercare's lower-than-budgeted new borrowings and a lower-than-projected cost of funds. A mixture of slightly higher-than-budgeted revenue and lower operating expenses was also a factor.

>100%  
2013 SCORE

100% 2011 100% 2012

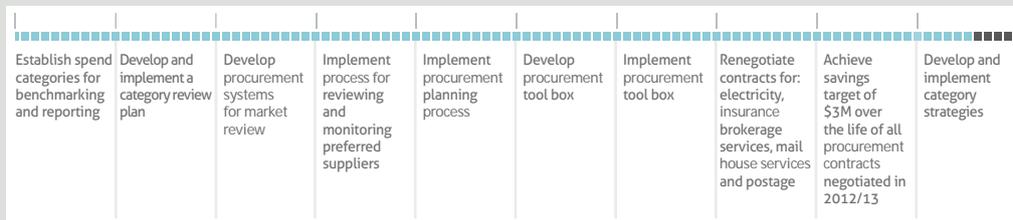
100% 2009 100% 2010



**8b. Percentage performance against target: procurement efficiency programme and savings.**

Target: 100% of the procurement efficiency programme outcomes achieved.

← LESS THAN TARGET MORE THAN →



Major savings were realised by Watercare through new insurance premiums obtained via a brokerage services tender. Other significant savings were achieved through electricity, chemicals and mail-house procurement. All other targets were met with the exception of a new target, implementing category strategies, which is forecast to be achieved by the end of 2013.

95%  
2013 SCORE

95% 2011 98% 2012

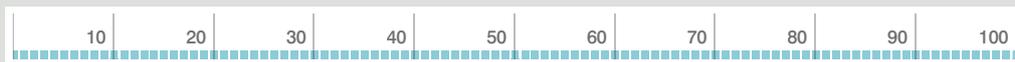
90% 2009 95% 2010



**8c. Percentage performance against target: interest rate percentage.**

Target: Treasury benchmark of 5.40%.

← MORE THAN TARGET LESS THAN →



Watercare's weighted average interest rate, excluding credit margins and fees, was 5.39%, versus the benchmark rate of 5.40%. As well as outperforming the target, the company's cost of funds was 0.18% lower than it was for the previous year, a significant factor in Watercare's actual interest cost being below budget.

100%  
2013 SCORE

100% 2011 99% 2012

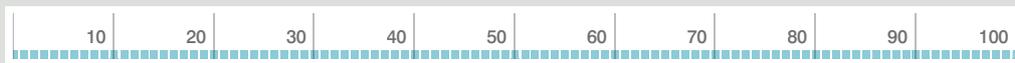
90% 2009 50% 2010



**8d. Percentage performance against target: actual operating expense.**

Target:  $\geq 2\%$  below budget.

← LESS THAN TARGET MORE THAN →



Watercare is required to minimise operating costs and seeks to achieve actual operating expenses of at least 2% below budget. For 2012/13, the company achieved an actual operating expense that was 2.3% below budget as a result of labour cost savings and lower general overheads. These savings were partially offset by higher unplanned maintenance and asset operating costs resulting from the region's drier summer.

>100%  
2013 SCORE

100% 2011 90% 2012

75% 2009 95% 2010





## ERM Independent Assurance Report to Watercare Services Limited

ERM New Zealand Limited (ERM) was engaged by Watercare Services Limited (Watercare) to provide independent assurance of selected non-financial data contained within Watercare's 2013 Annual Report and 2013 Global Reporting Initiative (GRI) Report, to the scope of work outlined below.

### Our Brief

We were asked to provide external independent assurance as to whether the material data and disclosures contained within the following sections of the Watercare 2013 Annual Report and 2013 GRI Report were appropriately reported:

- Non-financial Annual Report Performance Rulers relating to: Safe and Reliable Water; Healthy Waterways; Health, Safety and Well-being; Customer Satisfaction; Stakeholder Relations; Sustainable Environment; Effective Asset Management; and Sound Financial Management.
- GRI Report sections relating to: People; Environment; Customer; Community; and Economy.
- GRI G3 Application Level A+ requirements.

The scope excluded data and statements relating to financial information as well as data that had been assured in 2012 and not changed for the 2013 Annual Report. Data reported within the 2013 Statement of Service Performance and duplicated within the 2013 Statement of Intent Performance Rulers have been assured by Watercare's financial auditors and have consequently also been excluded from the scope of ERM's assurance.

### Our Approach

We delivered our work in accordance with ERM's assurance methodology, which is based on the following international assurance and audit standards: ISAE 3000, ISO14064-3, and ISO 19011.

We planned and performed our work to obtain all the relevant information and explanations that we believe were necessary to gather sufficient evidence to provide a basis for our assurance conclusions as to whether the reported information and data set out in the 'Our Brief' were appropriately reported i.e. that nothing has come to our attention through the course of our work that the data are materially mis-reported (limited assurance).

Our assurance activities included:

- Face-to-face interviews at corporate level to understand and test the processes in place for reporting non-financial data and the underlying data-management system. This was followed up with a review of relevant documentation;
- Review of the presentation of information relevant to the scope of our work in the report to ensure consistency with our findings.

### Respective Responsibilities and ERM's Independence

Watercare was responsible for preparing the 2013 Annual Report and 2013 GRI Report, including the collection and presentation of data and statements within it. The ERM team, led by Tracey Ryan, Managing Partner, ERM New Zealand, was responsible for expressing assurance conclusions in line with the scope of work agreed with Watercare. During 2012/13, ERM did not work with Watercare on other consulting engagements.

### Our Conclusion

On the basis of its scope of work, and in consideration of the assurance engagement brief and approach presented above, ERM concludes that in all material respects, the above selected sustainability performance data for 2012-13 are appropriately presented in the report. The report also adheres to the GRI G3 Application Level A+.

### Key Findings

Based on the scope of work, and without affecting our assurance conclusion, ERM identified the following key findings:

- The traceability of data streams has been further improved through the implementation of a consolidated tracking system and standardised reporting templates. ERM note that a methodology manual was established for the SOI Performance Rulers, a similar manual would be beneficial for the other reported measures.
- The decision to produce a stand-alone GRI Report led to the reassessment of Watercare's materiality process and the extent of its data disclosure. This has strengthened the scope of Watercare's non-financial disclosures, making data more accessible and relevant to report readers whilst also allowing greater commentary around material disclosures. The new weighting scheme applied to Watercare's Performance Dashboard is one example of how consideration of the materiality of Watercare's disclosures has been improved.
- In some areas of the report, consistency of reported data streams between Performance Rulers and GRI data could be improved, for example headcount and diversity figures vary depending on whether full-time equivalent or individual employee bases are used.

ERM congratulates Watercare on its 2013 Annual Report and 2013 GRI Report.

ERM New Zealand Ltd,  
12 August 2013,  
Auckland, New Zealand

ERM New Zealand Limited (ERM) is an independent global provider of environmental, social and corporate responsibility consulting and assurance services. ERM has prepared this statement for Watercare Services Limited in accordance with ERM's standard terms and the standard practised by members of the environmental consulting profession performing this type of service at the same time. No other warranty, express or implied, is given by ERM as a result of the provision of this statement. To the extent permitted by law, this statement is provided for informational purposes only, without the right to rely, and ERM will not be liable for any reliance which may be placed on this statement by a third party. This statement may not be used by any third party without ERM's express written permission.

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*Watercare is rehabilitating a former oxidation pond, adjacent to the Mangere Wastewater Treatment Plant, with treated biosolids. Set to become a public open space, the rehabilitation includes the planting of several native species such as pohutukawa, kowhai, cabbage trees and oioi. These plants have been rapidly colonised by native insects and birds and a coastal flaxland forest is developing.*

## HISTORICAL FINANCIAL SUMMARY AND KEY STATISTICS

AS AT 30 JUNE 2013

	2004	2005*	2006	2007	2008	2009	2010	2011	2012	2013
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<b>FINANCIAL PERFORMANCE</b>										
Total revenue **	149,529	156,628	168,509	172,773	168,773	184,888	199,227	373,107	441,950	482,620
Total expenses	133,470	137,713	144,070	159,196	165,763	170,427	189,002	361,273	436,998	448,519
Operating surplus before:	16,059	18,915	24,439	13,577	3,010	14,461	10,225	11,834	4,952	34,101
Loss on disposal, provision for redundant property, plant and equipment, and other restructuring costs	(3,102)	(3,254)	(1,026)	(7,719)	(4,793)	(11,589)	(6,140)	(6,162)	(8,517)	(10,210)
Loss/(gain) on revaluation of derivative financial instruments	-	(2,673)	2,561	3,021	(3,222)	(16,599)	(20,483)	(13,567)	(60,618)	39,628
Operating surplus/(deficit) before tax	12,957	12,988	25,974	8,879	(5,005)	(13,727)	(16,398)	(7,895)	(64,183)	63,519
Current tax	2,478	(25)	2,079	(28)	-	-	-	-	-	-
Deferred tax	8,508	4,303	7,909	3,639	(2,208)	(3,363)	11,311	4,438	(18,878)	23,173
<b>Net surplus/(deficit) after tax</b>	<b>1,971</b>	<b>8,710</b>	<b>15,986</b>	<b>5,268</b>	<b>(2,797)</b>	<b>(10,364)</b>	<b>(27,709)</b>	<b>(12,333)</b>	<b>(45,305)</b>	<b>40,346</b>
<b>FINANCIAL POSITION</b>										
<b>Non-current assets</b>										
Property, plant and equipment	1,571,546	1,585,453	1,959,687	1,977,280	2,025,034	2,357,369	2,413,113	7,688,196	7,730,309	8,084,978
Intangibles ****	-	-	13,539	18,429	18,844	16,375	14,374	30,229	39,554	43,054
Investments	15,714	17,456	-	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	5,579	12,220	5,284	12,285	23,609	10,819
Inventories	1,921	1,821	2,378	2,797	2,640	2,599	3,237	3,040	2,637	3,338
Prepaid expenses	-	-	-	-	-	-	-	-	24,033	24,854
	1,589,181	1,604,730	1,975,604	1,998,506	2,052,097	2,388,563	2,436,008	7,733,750	7,820,142	8,167,043
<b>Current assets</b>	<b>19,823</b>	<b>18,121</b>	<b>33,535</b>	<b>35,491</b>	<b>19,414</b>	<b>114,101</b>	<b>34,782</b>	<b>87,586</b>	<b>78,744</b>	<b>72,090</b>
<b>Total assets</b>	<b>1,609,004</b>	<b>1,622,851</b>	<b>2,009,139</b>	<b>2,033,997</b>	<b>2,071,511</b>	<b>2,502,664</b>	<b>2,470,790</b>	<b>7,821,336</b>	<b>7,898,886</b>	<b>8,239,133</b>
<b>Non-current liabilities</b>										
Borrowings	129,000	200,000	200,000	200,000	200,000	350,000	416,500	987,604	1,063,910	909,917
Deferred tax liability	39,675	256,090	377,656	347,502	342,348	420,666	402,049	848,828	829,950	927,052
Derivative financial instruments	-	-	-	-	4,460	27,725	40,298	59,110	133,336	83,909
Payables, provisions and accruals	9,420	972	926	1,194	880	966	1,053	10,492	10,304	9,751
	178,095	457,062	578,582	548,696	547,688	799,357	859,900	1,906,034	2,037,500	1,930,629
<b>Current liabilities</b>										
Bank overdraft	458	44	148	132	111	-	446	558	-	42
Borrowings	241,954	175,713	161,505	174,174	207,349	204,560	109,225	241,295	232,156	438,025
Payables, provisions, accruals and derivative financial instruments	25,835	29,760	23,149	26,179	41,219	47,796	48,606	92,054	92,921	103,686
	268,247	205,517	184,802	200,485	248,679	252,356	158,277	333,907	325,077	541,753
<b>Total liabilities</b>	<b>446,342</b>	<b>662,579</b>	<b>763,384</b>	<b>749,181</b>	<b>796,367</b>	<b>1,051,713</b>	<b>1,018,177</b>	<b>2,239,941</b>	<b>2,362,577</b>	<b>2,472,382</b>

## HISTORICAL FINANCIAL SUMMARY AND KEY STATISTICS (continued)

AS AT 30 JUNE 2013

	2004	2005*	2006	2007	2008	2009	2010	2011	2012	2013
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<b>Equity</b>										
Issued capital	260,693	260,693	260,693	260,693	260,693	260,693	260,693	260,693	260,693	260,693
Revaluation reserves	848,488	575,826	843,712	873,086	862,745	1,043,205	1,071,655	1,429,619	1,424,231	1,620,746
Retained earnings	53,481	123,753	141,350	151,037	151,706	147,053	120,265	111,972	72,274	106,201
Capital reserve	-	-	-	-	-	-	-	3,779,111	3,779,111	3,779,111
<b>Total equity</b>	<b>1,162,662</b>	<b>960,272</b>	<b>1,245,755</b>	<b>1,284,816</b>	<b>1,275,144</b>	<b>1,450,951</b>	<b>1,452,613</b>	<b>5,581,395</b>	<b>5,536,309</b>	<b>5,766,751</b>
<b>Total funds employed</b>	<b>1,609,004</b>	<b>1,622,851</b>	<b>2,009,139</b>	<b>2,033,997</b>	<b>2,071,511</b>	<b>2,502,664</b>	<b>2,470,790</b>	<b>7,821,336</b>	<b>7,898,886</b>	<b>8,239,133</b>

### CASH FLOW SUMMARY

Net cash flows – operating	54,669	65,627	66,777	70,370	59,208	81,297	74,624	176,035	163,394	208,980
Net cash flows – investing	(66,854)	(69,972)	(52,673)	(83,023)	(92,362)	(138,387)	(126,245)	(192,231)	(229,173)	(261,639)
Net cash flows – financing	11,661	4,759	(14,208)	12,669	33,175	57,411	50,965	16,116	67,167	51,876
Net change in cash flows	(524)	414	(104)	16	21	321	(656)	(80)	1,388	(783)
Bank/(overdraft) at start of the year (net)	66	(458)	(44)	(148)	(132)	(111)	210	(446)	(526)	862
Bank/(overdraft) at end of the year (net)	(458)	(44)	(148)	(132)	(111)	210	(446)	(526)	862	79

### KEY STATISTICS

Debt to capitalisation (book value)	23%	27%	22%	23%	24%	28%	27%	18%	19%	19%
Debt to capitalisation (historical cost)	53%	48%	47%	48%	50%	58%	58%	23%	24%	25%
Funds flow from operations to interest ratio	3.6	3.5	3.7	3.6	2.9	2.9	2.9	3.3	3.2	3.4
EBITDA total interest ratio	3.7	3.5	3.7	3.6	2.9	2.9	2.9	3.3	3.2	3.4
EBITDA interest expense ratio	3.9	3.8	3.8	3.7	3.4	3.9	3.5	3.5	3.5	3.8
Total liabilities to total assets	28%	41%	38%	37%	38%	42%	41%	29%	30%	30%
Capital expenditure (\$000)	66,209	70,651	64,489	86,416	120,174	129,860	123,324	191,943	234,670	289,289
Number of employees	335	329	343	363	363	381	387	611	645	731

\* The company adopted NZ IFRS with effect from 1 July 2005 and has restated the comparative information for the year ended 30 June 2005 in accordance with NZ IFRS.

\*\* Contribution to property, plant and equipment is included within the total revenue.

\*\*\* Intangibles have been disclosed separately from the June 2006 financial year onwards.

## FINANCIAL COMMENTARY

This financial commentary includes the budget for the 2013 year and notes on significant variances. Comparisons are also provided to last year being the June 2012 financial year. The budget for the June 2014 year is shown in italics for information purposes.

### STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2013

#### Total comprehensive income

	2013	2013	2012	2014
	Actual	Budget	Actual	Budget
	\$000	\$000	\$000	\$000
Operating surplus/(deficit) from trading operations	34,101	442	4,952	(2,890)
Loss on disposal, provision for redundant property, plant and equipment and other restructuring costs	(10,210)	-	(8,517)	-
Gain/(loss) on revaluation of derivative financial instruments	39,628	-	(60,618)	-
Operating surplus/(deficit) before tax	63,519	442	(64,183)	(2,890)
Deferred tax	(23,173)	(124)	18,878	810
<b>Net surplus/(deficit) after tax</b>	<b>40,346</b>	<b>318</b>	<b>(45,305)</b>	<b>(2,080)</b>
Asset revaluation, net of tax	190,096	319,105	-	-
<b>Total comprehensive income for the year, net of tax</b>	<b>230,442</b>	<b>319,423</b>	<b>(45,305)</b>	<b>(2,080)</b>

Note: All of the figures in the above table reflect Watercare's accounting policy to capitalise interest. The Statement of Intent budgets for 2013 and 2014 differ from the figures in the table above as they reflect the Auckland Council Group accounting policy not to capitalise interest.

#### KEY POINTS

- The financial result for the year was highlighted by an operating surplus from trading operations of \$34.1 million compared with a budgeted operating surplus of \$0.4 million being a favourable variance of \$33.7 million.
- Revenue was 5.0% or \$23.0 million above budget due primarily to the effect of items of unbudgeted revenue including vested assets revenue (non-cash) of \$19.0 million, contributed property, plant and equipment (non-cash) of \$2.0 million and tax subvention revenue of \$3.5 million.
- Cost savings were achieved in operating expenses of \$4.5 million or 2.3% and interest expense of \$13.5 million or 15.8% compared to budget. These savings were partially offset by higher depreciation of \$7.3 million or 4.1% compared to budget.
- The reported operating surplus was prior to the adjustment for the revaluation of derivative instruments and loss on sale of assets.
- Under NZ IFRS, the company revalues its interest rate swaps and forward foreign exchange contracts to fair value. This revaluation resulted in an increase in current year net surplus by \$39.6 million (2012: decrease in net surplus by \$60.6 million).
- The company has recorded a loss on disposal of fixed assets of \$10.2 million being primarily the write-down of assets that were replaced during the year and the write-down resulting from the residual clean-up of assets inherited through integration.
- The resulting net surplus after tax of \$40.3 million was compared with a budgeted net surplus of \$0.3 million (2012: net deficit after tax of \$45.3 million).
- All property, plant and equipment except land and buildings, office equipment and motor vehicles was revalued in accordance with NZ IAS 16 requirements at 30 June 2013. The impact of the asset revaluation was an uplift of \$264.0 million in the value of property, plant and equipment.
- This was reflected in the total comprehensive income at \$190.1 million (net of tax). The budget assumed a higher increase in the value of property, plant and equipment resulting from the 30 June 2013 asset revaluation of \$319.1 million (net of tax). Total comprehensive income for the year ending 30 June 2013 was \$230.4 million compared with the budget of \$319.4 million.

## FINANCIAL COMMENTARY (continued)

### Revenue

	2013	2013	2013	2012	2014
	Actual	Budget	Variance to Budget	Actual	Budget
	\$000	\$000		\$000	\$000
Water	134,978	137,930	(2.1%)	129,543	136,088
Wastewater	272,818	271,540	0.5%	263,624	269,702
Trade waste	13,161	13,318	(1.2%)	12,462	13,382
Other	61,663	36,784	67.6%	36,321	48,277
<b>Operating revenue</b>	<b>482,620</b>	<b>459,572</b>	<b>5.0%</b>	<b>441,950</b>	<b>467,449</b>

Water revenue was \$135.0 million for the year, 2.1% lower than the budget of \$137.9 million. Despite higher revenue during the dry summer, shortfalls in water revenues for the first five months and the last three months of the financial year resulted in an overall water revenue shortfall.

Wastewater revenue was \$272.8 million for the year, 0.5% higher than the budget of \$271.5 million.

Trade waste revenue was \$13.2 million for the year and was less than the budget by 1.2%.

Other revenue was \$61.7 million for the year and was 67.6% above budget primarily due to vested asset revenue of \$19.0 million (non-cash), contribution to the construction of water mains of \$2.0 million (non-cash) and a subvention receipt of \$3.5 million from Ports of Auckland for tax losses.

### Operating expenses

	2013	2013	2013	2012	2014
	Actual	Budget	Variance to Budget	Actual	Budget
	\$000	\$000		\$000	\$000
Water	69,675	72,515	3.9%	71,542	77,274
Wastewater	122,232	123,844	1.3%	113,048	118,260
<b>Total expenses</b>	<b>191,907</b>	<b>196,359</b>	<b>2.3%</b>	<b>184,590</b>	<b>195,534</b>

Operating expenses were \$4.5 million or 2.3% lower than budget for the year primarily due to savings in net labour and general overheads. These favourable variances were partially offset by higher-than-budgeted expenditure in asset operating costs and maintenance costs.

Operating expenses in the water business unit were \$2.8 million or 3.9% lower than budget. The savings were primarily due to lower labour costs and general overheads than budget. Labour costs were lower than budget due primarily to vacancies. Additionally, savings were achieved in general overheads including bad debts, printing, postage and insurance costs. The savings were partially offset by higher than budgeted reactive maintenance in the retail network and chemical costs due to the greater use of the Waikato Water Treatment Plant as a result of the dry summer.

Operating expenses in the wastewater business unit were \$1.6 million or 1.3% lower than budget. The savings were primarily due to lower labour costs and general overheads. Labour costs were lower than budget due primarily to vacancies. Additionally, savings were achieved in general overheads including bad debts, printing, postage and insurance costs.

### Depreciation and amortisation

	2013	2013	2013	2012	2014
	Actual	Budget	Variance to Budget	Actual	Budget
	\$000	\$000		\$000	\$000
Water	79,616	77,032	(3.4%)	80,070	86,096
Wastewater	105,364	100,636	(4.7%)	99,752	113,585
	<b>184,980</b>	<b>177,668</b>	<b>(4.1%)</b>	<b>179,822</b>	<b>199,681</b>

Depreciation and amortisation for 2013 was 4.1% above budget primarily due to the acceleration of depreciation on assets which have been identified for replacement as part of new capital projects.

## FINANCIAL COMMENTARY (continued)

### Finance costs

	2013		2013	2012		2014	
	Actual	Budget		Variance to Budget	Actual	Budget	
	\$000	\$000	\$000		\$000	\$000	
<b>Water</b>							
Paid and payable	7,068	7,700	8.2%	3,618	11,730		
Capitalised on asset construction	(6,194)	(4,467)	38.7%	(2,990)	(7,831)		
	874	3,233	73.0%	628	3,899		
<b>Wastewater</b>							
Paid and payable	73,030	84,369	13.4%	75,587	74,674		
Capitalised on asset construction	(2,272)	(2,499)	(9.1%)	(3,629)	(3,449)		
	70,758	81,870	13.6%	71,958	71,225		
<b>Total</b>							
Paid and payable	80,098	92,069	13.0%	79,205	86,404		
Capitalised on asset construction	(8,466)	(6,966)	21.5%	(6,619)	(11,280)		
	71,632	85,103	15.8%	72,586	75,124		

Total finance costs of \$71.6 million were 15.8% below budget. The lower interest costs were primarily due to lower interest rates than budgeted. The amount of interest being capitalised to capital projects of \$8.5 million was 21.5% above budget.

### Tax

	2013		2013	2012		2014	
	Actual	Budget		Variance to Budget	Actual	Budget	
	\$000	\$000	\$000		\$000	\$000	
Current tax	-	-	-	-	-		
Deferred tax	(23,173)	100	N/A	18,878	810		
	(23,173)	100	N/A	18,878	810		

No income tax was payable on the trading result for the year.

## FINANCIAL COMMENTARY (continued)

### STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2013

The company was in a strong financial position with net equity of \$5.8 billion at year-end. The net equity increased by \$230.4 million from 30 June 2012 due primarily to the asset revaluation at 30 June 2013 and the reported net surplus after tax for the year.

#### Property, plant and equipment

	2013	2013	2013	2012	2014
	Actual	Budget	Variance to Budget	Actual	Budget
	\$000	\$000		\$000	\$000
Water	3,392,587	3,536,990	(4.1%)	3,259,783	3,611,021
Wastewater	4,692,391	4,748,426	(1.2%)	4,470,526	4,777,857
	8,084,978	8,285,416	(2.4%)	7,730,309	8,388,878

Movements in property, plant and equipment by business unit for 2013:

	Water	Wastewater	Total
	\$000	\$000	\$000
Net additions and other movements	121,232	143,853	265,085
Asset revaluation (before tax)	86,915	177,110	264,025
Depreciation	(75,343)	(99,098)	(174,441)
	132,804	221,865	354,669

The increase for property, plant and equipment was a result of the upward asset revaluation at 30 June 2013 and the spend on capital projects during the financial year. Significant capital expenditure projects in the year included work on the new Hunua 4 watermain, expansion of the Waikato Water Treatment Plant, Puketutu Island biosolids rehabilitation project, Kumeu Huapai Riverhead water and wastewater networks and the Northern Waitakere wastewater servicing project.

#### Intangible assets

	2013	2013	2013	2012	2014
	Actual	Budget	Variance to Budget	Actual	Budget
	\$000	\$000		\$000	\$000
Water	17,121	13,209	29.6%	14,150	14,961
Wastewater	25,933	23,713	9.4%	25,404	26,599
	43,054	36,922	16.6%	39,554	41,560

The increase in intangible assets reflects the completion of various systems improvement projects during the year.

#### Borrowings

	2013	2013	2013	2012	2014
	Actual	Budget	Variance to Budget	Actual	Budget
	\$000	\$000		\$000	\$000
	1,347,942	1,387,976	2.9%	1,296,066	1,481,899

Borrowings at year-end were \$40.0 million or 2.9% lower than budget due to a lower spend on capital expenditure projects. Borrowings include commercial paper of \$139.0 million, \$35.0 million drawn under a revolving credit facility, related-party loans of \$497.5 million, medium-term notes of \$526.4 million and a bank loan of \$150.0 million.

#### Deferred tax liability

	2013	2013	2013	2012	2014
	Actual	Budget	Variance to Budget	Actual	Budget
	\$000	\$000		\$000	\$000
	927,052	960,521	(3.5%)	829,950	948,887

The deferred tax liability primarily comprises temporary differences between the revalued property, plant and equipment and the corresponding values recognised for tax purposes plus differences in the company's accounting depreciation rates and those permitted by the Inland Revenue. At 30 June 2013, deferred tax liability was lower than budget. This was principally due to the increase in property, plant and equipment resulting from the asset revaluation being lower than was budgeted meaning the effect on deferred tax liability was also lower than budgeted.

## FINANCIAL COMMENTARY (continued)

### STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2013

All of the company's cash flow from operations was available for either capital expenditure or debt repayment. Borrowings increased as a result of the shortfall between operating cash flows and capital expenditure.

#### Net cash flows from operating activities

	2013	2013	2013	2012	2014
	Actual	Budget	Variance to Budget	Actual	Budget
	\$000	\$000		\$000	\$000
	208,980	197,213	6.0%	163,394	196,791

Net operating cash flows at \$209.0 million were 6.0% higher than budget for 2013. This was primarily due to the effect of lower operating costs and lower finance costs payments.

#### Net cash flows from investing activities

	2013	2013	2013	2012	2014
	Actual	Budget	Variance to Budget	Actual	Budget
	\$000	\$000		\$000	\$000
	(261,639)	(292,766)	10.6%	(229,173)	(318,817)

The net cash flow from investing activities was 10.6% lower than budget due to a lower spend on capital expenditure projects.

#### Net cash flows from financing activities

	2013	2013	2013	2012	2014
	Actual	Budget	Variance to Budget	Actual	Budget
	\$000	\$000		\$000	\$000
	51,876	95,554	(45.7%)	67,167	122,026

The net cash flow from financing activities shows a net increase in borrowings in 2013 from the prior year. The increase in borrowing was lower than budgeted due to lower capital expenditure.

The audited financial statements are set out on pages 80 to 114.

## RESPONSIBILITY FOR THE FINANCIAL STATEMENTS AND STATEMENT OF SERVICE PERFORMANCE

### FINANCIAL STATEMENTS

We have ensured that the financial statements fairly reflect the financial position of the company as at 30 June 2013 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 accord with New Zealand Equivalents to International Financial Reporting Standards.

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

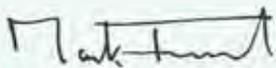
### STATEMENT OF SERVICE PERFORMANCE

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 2013.

We have pleasure in presenting the financial statements and the statement of service performance for Watercare Services Limited for the year ended 30 June 2013, which were approved and authorised for release on 22 August 2013.

### For and on behalf of management:



K M Ford  
Chief Executive

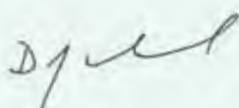


B T Monk  
Chief Financial Officer

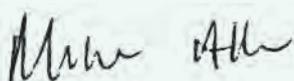
### For the board:



R B Keenan  
Chairman



D J Clarke  
Deputy Chairman



M N Allen  
Director



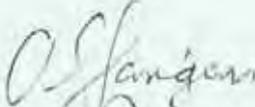
P S Drummond  
Director



C J Harland  
Director



S M Huria  
Director



A G Lanigan  
Director



J G Todd  
Director

## INDEPENDENT AUDITOR'S REPORT

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### TO THE READERS OF WATERCARE SERVICES LIMITED AND GROUP'S FINANCIAL STATEMENTS AND STATEMENT OF SERVICE PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2013

The Auditor-General is the auditor of Watercare Services Limited (the company) and group. The Auditor-General has appointed me, Jamie Schmidt, using the staff and resources of Deloitte, to carry out the audit of the financial statements and statement of service performance of the company and group on her behalf.

We have audited:

- the financial statements of the company and group on pages 80 to 114, that comprise the statements of financial position as at 30 June 2013, the statements of comprehensive income, statements of changes in equity and statements 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 company and group on pages 116 to 118.

### OPINION

#### Financial statements and statement of service performance

In our opinion,

- the financial statements of the company and group on pages 80 to 114:
  - comply with generally accepted accounting practice in New Zealand;
  - give a true and fair view of the company and group's:
    - financial position as at 30 June 2013; and
    - financial performance and cash flows for the year ended on that date; and
- the statement of service performance of the company and group on pages 116 to 118:
  - complies with generally accepted accounting practice in New Zealand; and
  - gives a true and fair view of the company's service performance achievements measured against the performance targets adopted for the year ended 30 June 2013.

#### Other legal requirements

In accordance with the Financial Reporting Act 1993 we report that, in our opinion, proper accounting records have been kept by the company and group as far as appears from an examination of those records.

Our audit was completed on 22 August 2013. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities, and explain our independence.

### BASIS OF OPINION

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements and statement of service performance are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements and statement of service performance. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and statement of service performance. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and statement of service performance whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the company and group's financial statements and statement of service performance that give a true and fair view of the matters to which they relate.

We consider internal control 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 company and group's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board of Directors;
- the adequacy of all disclosures in the financial statements and statement of service performance; and
- the overall presentation of the financial statements and statement of service performance.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and statement of service performance. Also we did not evaluate the security and controls over the electronic publication of the financial statements and statement of service performance.

In accordance with the Financial Reporting Act 1993, we report that we have obtained all the information and explanations we have required. We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

#### RESPONSIBILITIES OF THE BOARD OF DIRECTORS

The Board of Directors is responsible for preparing financial statements and a statement of service performance that:

- comply with generally accepted accounting practice in New Zealand;
- give a true and fair view of the company and group's financial position, financial performance and cash flows; and
- give a true and fair view of the company and group's service performance.

The Board of Directors is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements and a statement of service performance that are free from material misstatement, whether due to fraud or error. The Board of Directors is also responsible for the publication of the financial statements and statement of service performance, whether in printed or electronic form.

The Board of Directors' responsibilities arise from the Local Government Act 2002 and the Financial Reporting Act 1993.

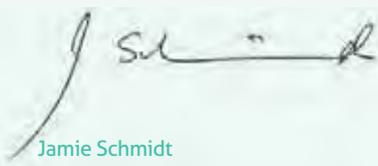
#### RESPONSIBILITIES OF THE AUDITOR

We are responsible for expressing an independent opinion on the financial statements and statement of service performance and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and section 69 of the Local Government Act 2002.

#### INDEPENDENCE

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

Other than the audit, the provision of negative pledge reporting and conducting a workshop in the current year, we have no relationship with or interests in the company or any of its subsidiaries.



Jamie Schmidt  
Deloitte

On behalf of the Auditor-General  
Auckland, New Zealand

## STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2013

	Notes	2013		2012	
		Group and Company		Group and Company	
		\$000		\$000	
Revenue	Note 1, page 91	482,620	441,950		
<b>Total revenue</b>		<b>482,620</b>	<b>441,950</b>		
<b>Operating expenses</b>					
Asset operating costs		(83,113)	(73,523)		
Maintenance costs		(27,904)	(38,143)		
Employee benefit expenses		(41,845)	(38,948)		
Other expenses		(39,045)	(33,976)		
<b>Total operating expenses</b>	Note 2, page 92	<b>(191,907)</b>	<b>(184,590)</b>		
Depreciation and amortisation	Note 3, page 92	(184,980)	(179,822)		
Finance costs	Note 4, page 92	(71,632)	(72,586)		
<b>Total expenses</b>		<b>(448,519)</b>	<b>(436,998)</b>		
<b>Operating surplus from trading operations</b>		<b>34,101</b>	<b>4,952</b>		
Loss on disposal, provision for redundant property, plant and equipment, and other restructuring costs		(10,210)	(8,517)		
Gain/(loss) on revaluation of derivative financial instruments	Note 5, page 93	39,628	(60,618)		
<b>Operating surplus/(deficit) before tax</b>		<b>63,519</b>	<b>(64,183)</b>		
<b>Income tax (expense)/benefit</b>					
Deferred tax	Note 7, page 94	(23,173)	18,878		
<b>Income tax (expense)/benefit</b>		<b>(23,173)</b>	<b>18,878</b>		
<b>Net surplus/(deficit) for the year</b>		<b>40,346</b>	<b>(45,305)</b>		
<b>Other comprehensive income net of tax</b>					
Gain on revaluation of property, plant and equipment	Note 11, page 96	190,096	-		
<b>Other comprehensive income for the year, net of tax</b>		<b>190,096</b>	<b>-</b>		
<b>Total comprehensive income for the year, net of tax</b>		<b>230,442</b>	<b>(45,305)</b>		

The financial statements should be read in conjunction with the accounting policies and notes on pages 86 to 114 inclusive.

## STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2013

	Notes	2013		2012	
		Group and Company		Group and Company	
		\$000		\$000	
<b>ASSETS</b>					
<b>Current</b>					
Cash and cash equivalents			121		862
Trade and other receivables	Note 15, page 103		60,097		71,590
Prepaid expenses	Note 16, page 103		4,222		3,473
Inventories	Note 14, page 102		4,005		2,793
Derivative financial instruments	Note 21, page 106		3,645		26
<b>Total current assets</b>			<b>72,090</b>		<b>78,744</b>
<b>Non-current</b>					
Prepaid expenses	Note 16, page 103		24,854		24,033
Inventories	Note 14, page 102		3,338		2,637
Derivative financial instruments	Note 21, page 106		10,819		23,609
Intangible assets	Note 13, page 101		43,054		39,554
Property, plant and equipment	Note 12, page 97		8,084,978		7,730,309
<b>Total non-current assets</b>			<b>8,167,043</b>		<b>7,820,142</b>
<b>Total assets</b>			<b>8,239,133</b>		<b>7,898,886</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Current</b>					
Bank overdraft			42		-
Trade and other payables	Note 17, page 103		28,123		24,484
Accrued expenses	Note 18, page 103		65,870		61,834
Provisions	Note 19, page 104		8,703		6,241
Borrowings	Note 20, page 104		438,025		232,156
Derivative financial instruments	Note 21, page 107		990		362
<b>Total current liabilities</b>			<b>541,753</b>		<b>325,077</b>
<b>Non-current</b>					
Accrued expenses	Note 18, page 103		8,580		8,840
Provisions	Note 19, page 104		1,171		1,464
Borrowings	Note 20, page 104		909,917		1,063,910
Derivative financial instruments	Note 21, page 107		83,909		133,336
Deferred tax liability	Note 8, page 94		927,052		829,950
<b>Total non-current liabilities</b>			<b>1,930,629</b>		<b>2,037,500</b>
<b>Total liabilities</b>			<b>2,472,382</b>		<b>2,362,577</b>
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT</b>					
Retained earnings			106,201		72,274
Revaluation reserves	Note 11, page 96		1,620,746		1,424,231
Capital reserve	Note 9, page 95		3,779,111		3,779,111
Issued capital	Note 9, page 95		260,693		260,693
<b>Total equity</b>			<b>5,766,751</b>		<b>5,536,309</b>
<b>Total equity and liabilities</b>			<b>8,239,133</b>		<b>7,898,886</b>

The financial statements should be read in conjunction with the accounting policies and notes on pages 86 to 114 inclusive.

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2013

	Notes	2013	2012
		Group and Company \$000	Group and Company \$000
<b>OPERATING ACTIVITIES</b>			
<b>Cash was provided from:</b>			
Receipts from customers		470,882	445,197
Dividends received		94	91
Interest received		156	753
Income tax refund		5	-
Subvention receipt	Note 8, page 95	3,501	-
		474,638	446,041
<b>Cash was applied to:</b>			
Employees and suppliers		(192,789)	(208,941)
Finance costs paid		(72,869)	(73,706)
		(265,658)	(282,647)
<b>Net cash flows – operating activities</b>	Note 6, page 93	208,980	163,394
<b>INVESTING ACTIVITIES</b>			
<b>Cash was provided from:</b>			
Cash acquired from Watercare Harbour Clean-Up Trust		-	220
Sale of property, plant and equipment, and intangibles		6,230	86
		6,230	306
<b>Cash was applied to:</b>			
Purchase and construction of property, plant and equipment, and intangibles		(259,403)	(222,860)
Interest capitalised on construction of property, plant and equipment, and intangibles	Note 4, page 92	(8,466)	(6,619)
		(267,869)	(229,479)
<b>Net cash flows – investing activities</b>		(261,639)	(229,173)
<b>FINANCING ACTIVITIES</b>			
<b>Cash was provided from:</b>			
Proceeds from medium-term notes issue (net)		-	76,649
Proceeds from bank's term loan facility		-	50,000
Commercial paper issued (net)		9,915	4,976
Revolving credit facility (net)		21,500	2,000
Proceeds from Auckland Council loan – related party	Note 22, page 112	60,000	-
		91,415	133,625
<b>Cash was applied to:</b>			
Repay medium-term notes issue		(227)	-
Repay loan from Auckland Council – related party	Note 22, page 112	(39,312)	(66,458)
		(39,539)	(66,458)
<b>Net cash flows – financing activities</b>		51,876	67,167
Net change in cash flows		(783)	1,388
Cash and cash equivalents at the beginning of the year		862	(526)
<b>Cash and cash equivalents at the end of the year</b>		79	862
Cash and cash equivalents comprises:			
Bank balances		121	577
Short-term deposits maturing within three months		-	285
Bank overdraft		(42)	-
		79	862

The financial statements should be read in conjunction with the accounting policies and notes on pages 86 to 114 inclusive.

## STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2013

	Notes	2013				
		Group and Company				
		Issued capital	Revaluation reserves	Retained earnings	Capital reserve	Total
		\$000	\$000	\$000	\$000	\$000
<b>Balance at 1 July 2012</b>		260,693	1,424,231	72,274	3,779,111	5,536,309
<b>Comprehensive income</b>						
Net surplus for the year		-	-	40,346	-	40,346
<b>Other comprehensive income</b>						
Gain on revaluation of property, plant and equipment	Note 11, page 96	-	190,096	-	-	190,096
Transfer to retained earnings on disposal of property, plant and equipment	Note 11, page 96	-	6,419	(6,419)	-	-
<b>Total comprehensive income for the year, net of tax</b>		-	196,515	33,927	-	230,442
<b>Balance at 30 June 2013</b>		260,693	1,620,746	106,201	3,779,111	5,766,751

	Notes	2012				
		Group and Company				
		Issued capital	Revaluation reserves	Retained earnings	Capital reserve	Total
		\$000	\$000	\$000	\$000	\$000
<b>Balance at 1 July 2011</b>		260,693	1,429,619	111,972	3,779,111	5,581,395
<b>Comprehensive income</b>						
Net deficit for the year		-	-	(45,305)	-	(45,305)
<b>Other comprehensive income</b>						
Transfer to retained earnings on disposal of property, plant and equipment	Note 11, page 96	-	(5,388)	5,388	-	-
<b>Total comprehensive income for the year, net of tax</b>		-	(5,388)	(39,917)	-	(45,305)
<b>Transactions with owners</b>						
Watercare Harbour Clean-up Trust acquired control at the beginning of the year	Note 10, page 95	-	-	219	-	219
<b>Total transactions with owners</b>		-	-	219	-	219
<b>Balance at 30 June 2012</b>		260,693	1,424,231	72,274	3,779,111	5,536,309

The financial statements should be read in conjunction with the accounting policies and notes on pages 86 to 114 inclusive.

## STATEMENT OF COMPREHENSIVE INCOME BY BUSINESS UNIT

FOR THE YEAR ENDED 30 JUNE 2013

	2013		2012		2012	
	Group and Company			Group and Company		
	Water	Wastewater	Total	Water	Wastewater	Total
	\$000	\$000	\$000	\$000	\$000	\$000
<b>Revenue</b>						
Water and wastewater	134,978	272,818	407,796	129,543	263,624	393,167
Trade waste	-	13,161	13,161	-	12,462	12,462
Other revenue	29,248	32,415	61,663	20,348	15,973	36,321
<b>Total revenue</b>	<b>164,226</b>	<b>318,394</b>	<b>482,620</b>	<b>149,891</b>	<b>292,059</b>	<b>441,950</b>
<b>Operating expenses</b>						
Asset operating costs	(27,148)	(55,965)	(83,113)	(26,534)	(46,989)	(73,523)
Maintenance costs	(14,064)	(13,840)	(27,904)	(19,485)	(18,658)	(38,143)
Employee benefit expenses	(14,892)	(26,953)	(41,845)	(13,708)	(25,240)	(38,948)
Other expenses	(13,571)	(25,474)	(39,045)	(11,815)	(22,161)	(33,976)
<b>Total operating expenses</b>	<b>(69,675)</b>	<b>(122,232)</b>	<b>(191,907)</b>	<b>(71,542)</b>	<b>(113,048)</b>	<b>(184,590)</b>
Depreciation and amortisation	(79,616)	(105,364)	(184,980)	(80,070)	(99,752)	(179,822)
Finance costs	(874)	(70,758)	(71,632)	(628)	(71,958)	(72,586)
<b>Total expenses</b>	<b>(150,165)</b>	<b>(298,354)</b>	<b>(448,519)</b>	<b>(152,240)</b>	<b>(284,758)</b>	<b>(436,998)</b>
<b>Operating surplus/(deficit) from trading operations</b>	<b>14,061</b>	<b>20,040</b>	<b>34,101</b>	<b>(2,349)</b>	<b>7,301</b>	<b>4,952</b>
Gain/(loss) on disposal, provision for redundant property, plant and equipment, and other restructuring costs	(1,000)	(9,210)	(10,210)	(4,808)	(3,709)	(8,517)
Gain/(loss) on revaluation of derivative financial instruments	3,497	36,131	39,628	(2,070)	(58,548)	(60,618)
<b>Operating surplus/(deficit) before tax</b>	<b>16,558</b>	<b>46,961</b>	<b>63,519</b>	<b>(9,227)</b>	<b>(54,956)</b>	<b>(64,183)</b>
<b>Income tax (expense)/benefit</b>						
Deferred tax	(6,041)	(17,132)	(23,173)	2,714	16,164	18,878
<b>Income tax (expense)/benefit</b>	<b>(6,041)</b>	<b>(17,132)</b>	<b>(23,173)</b>	<b>2,714</b>	<b>16,164</b>	<b>18,878</b>
<b>Net surplus/(deficit) for the year</b>	<b>10,517</b>	<b>29,829</b>	<b>40,346</b>	<b>(6,513)</b>	<b>(38,792)</b>	<b>(45,305)</b>
<b>Other comprehensive income net of tax</b>						
Gain on revaluation of property, plant and equipment	62,578	127,518	190,096	-	-	-
<b>Other comprehensive income for the year, net of tax</b>	<b>62,578</b>	<b>127,518</b>	<b>190,096</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total comprehensive income for the year, net of tax</b>	<b>73,095</b>	<b>157,347</b>	<b>230,442</b>	<b>(6,513)</b>	<b>(38,792)</b>	<b>(45,305)</b>

The financial statements should be read in conjunction with the accounting policies and notes on pages 86 to 114 inclusive.

## STATEMENT OF FINANCIAL POSITION BY BUSINESS UNIT

AS AT 30 JUNE 2013

	2013		2012		2012	
	Group and Company			Group and Company		
	Water	Wastewater	Total	Water	Wastewater	Total
	\$000	\$000	\$000	\$000	\$000	\$000
<b>ASSETS</b>						
<b>Current</b>						
Current assets	26,762	45,328	72,090	38,517	40,227	78,744
<b>Total current assets</b>	<b>26,762</b>	<b>45,328</b>	<b>72,090</b>	<b>38,517</b>	<b>40,227</b>	<b>78,744</b>
<b>Non-current</b>						
Prepaid expenses	27	24,827	24,854	25	24,008	24,033
Inventories	56	3,282	3,338	133	2,504	2,637
Derivative financial instruments	955	9,864	10,819	1,079	22,530	23,609
Intangibles	17,121	25,933	43,054	14,150	25,404	39,554
Property, plant and equipment	3,392,587	4,692,391	8,084,978	3,259,783	4,470,526	7,730,309
<b>Total non-current assets</b>	<b>3,410,746</b>	<b>4,756,297</b>	<b>8,167,043</b>	<b>3,275,170</b>	<b>4,544,972</b>	<b>7,820,142</b>
<b>Total assets</b>	<b>3,437,508</b>	<b>4,801,625</b>	<b>8,239,133</b>	<b>3,313,687</b>	<b>4,585,199</b>	<b>7,898,886</b>
<b>LIABILITIES</b>						
<b>Current</b>						
Current liabilities	78,550	463,203	541,753	47,927	277,150	325,077
<b>Total current liabilities</b>	<b>78,550</b>	<b>463,203</b>	<b>541,753</b>	<b>47,927</b>	<b>277,150</b>	<b>325,077</b>
<b>Non-current</b>						
Accrued expenses	4,102	4,478	8,580	4,226	4,614	8,840
Provisions	375	796	1,171	482	982	1,464
Borrowings	80,290	829,627	909,917	48,602	1,015,308	1,063,910
Derivative financial instruments	7,404	76,505	83,909	6,091	127,245	133,336
Deferred tax liability	297,254	629,798	927,052	273,457	556,493	829,950
<b>Total non-current liabilities</b>	<b>389,425</b>	<b>1,541,204</b>	<b>1,930,629</b>	<b>332,858</b>	<b>1,704,642</b>	<b>2,037,500</b>
<b>Total liabilities</b>	<b>467,975</b>	<b>2,004,407</b>	<b>2,472,382</b>	<b>380,785</b>	<b>1,981,792</b>	<b>2,362,577</b>
Equity attributable to the owners of the parent	2,969,533	2,797,218	5,766,751	2,932,902	2,603,407	5,536,309
<b>Total equity and liabilities</b>	<b>3,437,508</b>	<b>4,801,625</b>	<b>8,239,133</b>	<b>3,313,687</b>	<b>4,585,199</b>	<b>7,898,886</b>

## STATEMENT OF CASH FLOWS BY BUSINESS UNIT

FOR THE YEAR ENDED 30 JUNE 2013

	2013		2012		2012	
	Group and Company			Group and Company		
	Water	Wastewater	Total	Water	Wastewater	Total
	\$000	\$000	\$000	\$000	\$000	\$000
Net cash flows – operating activities	83,908	125,072	208,980	74,540	88,854	163,394
Net cash flows – investing activities	(138,012)	(123,627)	(261,639)	(120,501)	(108,672)	(229,173)
Net cash flows – financing activities	53,300	(1,424)	51,876	27,108	40,059	67,167
<b>Net change in cash flows</b>	<b>(804)</b>	<b>21</b>	<b>(783)</b>	<b>(18,853)</b>	<b>20,241</b>	<b>1,388</b>

The financial statements should be read in conjunction with the accounting policies and notes on pages 86 to 114 inclusive.

# STATEMENT OF ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2013

## REPORTING ENTITY

The financial statements are for Watercare Services Limited (Watercare), a council-controlled organisation wholly owned by Auckland Council, as defined in the Local Government Act 2002 incorporated and domiciled in New Zealand. The consolidated financial statements of the group are for the economic entity of Watercare and its subsidiaries. Separate financial statements of the parent are not presented in these financial statements as the subsidiary financial statements are immaterial to the consolidated group, as detailed in note 10, page 95.

Watercare provides water and wastewater services to the Auckland region (except Papakura). The group's registered office and principal place of business is at 2 Nuffield Street, Newmarket, Auckland 1023, New Zealand.

## STATEMENT OF COMPLIANCE

Watercare is a public-benefit entity (PBE) as defined under the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS). The financial statements and accounting policies comply with the specific recognition, measurement and disclosure requirements of NZ IFRS in relation to PBEs and New Zealand Generally Accepted Accounting Practice.

## STATUTORY BASE

Watercare is a group registered under the Companies Act 1993 and is a reporting entity as defined by the Financial Reporting Act 1993. The financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 1993, the Local Government Acts 1974 and 2002, Local Government (Auckland Transitional Provisions) Act 2010 and the Companies Act 1993.

## MEASUREMENT BASE

The financial statements have been prepared on a historical-cost basis, modified by the revaluation of land and buildings, certain infrastructural assets and derivative financial instruments as described in specific accounting policies below.

## FUNCTIONAL AND PRESENTATION CURRENCY

The financial statements are prepared in New Zealand dollars and all values are rounded to the nearest thousand, unless otherwise stated.

## KEY MANAGEMENT DECISIONS

The key areas where management has exercised its judgment in the preparation of these financial statements are as follows:

There are a number of assumptions and estimates used when performing depreciated replacement cost valuations of infrastructure assets. For example, estimates are made determining the remaining useful life over which an asset will be depreciated, replacement costs for assets and capitalised interest. In respect of estimated useful lives, if the estimated useful lives are not accurate, this would lead to the annual depreciation charge being either higher or lower in the statement of comprehensive income. To minimise the estimation risk of asset useful lives, the group continually assesses the condition of infrastructural assets and their remaining useful lives. Physical inspections and condition assessments are used by the group to ensure that the condition of major assets is understood and the carrying value of an asset reflects its actual condition. See note 12, page 100, for additional information.

## SIGNIFICANT ACCOUNTING POLICIES

The following specific accounting policies that materially affect the measurement of comprehensive income, financial position and cash flows have been applied consistently to all periods presented in these financial statements.

### 1. BUSINESS UNIT REPORTING

Business unit comprehensive income, financial position and cash flows are presented in the financial statements for water and wastewater services, reflecting the group's legislative requirements. Revenues and expenses 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. Costs directly attributable to debt such as finance costs and 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.

All operations are carried out within New Zealand. There are no material transactions between the two business units.

### 2. BASIS OF CONSOLIDATION

The purchase method is used to prepare the consolidated financial statements; this involves adding together like items of assets, liabilities, equity, income and expenses on a line-by-line basis. All significant intra-group balances, transactions, revenues and expenses are eliminated on consolidation.

### 3. GOODS AND SERVICES TAX (GST)

The statement of comprehensive income and the statement of financial position are stated excluding GST, with the exception of 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.

### 4. OPERATING REVENUE

The group measures revenue at the fair value of the amounts received or receivable, net of returns, trade allowances, duties and taxes paid. It accounts for revenue for the major activities as follows:

#### Water and wastewater revenue

Water revenue comprises the amounts received and receivable, including estimated amounts of unread meters at balance date, for water supplied to customers in the ordinary course of business. Wastewater revenue is a combination of fixed charge and a percentage of water used. Both are shown net of prompt payment discounts and leak remissions.

#### Provision of services

Sales of services are recognised at fair value of the amounts received or receivable as the services are rendered, or to reflect the percentage completion of the related services where rendered over time.

#### Interest income

Interest income is recognised using the effective interest method.

## STATEMENT OF ACCOUNTING POLICIES (continued)

FOR THE YEAR ENDED 30 JUNE 2013

### SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 4. OPERATING REVENUE (CONTINUED)

##### Dividend income

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

##### Development contributions, financial contributions and infrastructure growth charge

Development contributions, financial contributions and infrastructure growth charges received towards the construction of property, plant and equipment are recognised when payment is received for approved connections.

##### Vested assets revenue

Vested assets revenue is recognised when control over the assets is obtained.

#### 5. GRANT EXPENDITURE

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

#### 6. FINANCE COSTS

Finance costs directly attributable to the acquisition, construction or production of a qualifying asset that necessarily takes a substantial period of time to become ready for its intended use or sale are capitalised as part of the cost of that asset. All other finance costs are expensed in the period they occur. Finance costs consist of interest and other costs that are incurred in connection with the borrowing of funds.

#### 7. LEASES

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 terms of these leases are recognised as expenses spread evenly over the term of the leases.

#### 8. RESEARCH AND DEVELOPMENT

Research costs are expensed as incurred. Development expenditure on individual projects is capitalised and recognised as an asset when it meets the definition and criteria for capitalisation as an asset and it is probable that the group will receive future economic benefits from the asset. Assets which have finite lives are stated at cost less accumulated amortisation and are amortised on a straight-line basis over their useful lives.

#### 9. PROPERTY, PLANT AND EQUIPMENT

##### Classes of assets

Property, plant and equipment is allocated to classes, being:

- Land (including improvements)
- Buildings
- Pipelines
- Tanks, tunnels, roads and reservoirs
- Dams
- Machinery
- Motor vehicles
- Office equipment
- Work in progress.

##### Rights-to-franchise assets

Rights-to-franchise assets are the water and wastewater infrastructure assets owned by Watercare and operated by the franchise holder Veolia Water Services (ANZ) Pty Limited (previously United Water International Pty Limited) for the provision of water and sewerage services in the Papakura district.

Under the franchise agreement, 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 with a 20-year right of renewal), the network shall be in a better overall condition than the condition at the time the contract was commenced. Refer also to note 12, page 98, and note 18, page 103.

##### Initial recognition

The cost of purchased property, plant and equipment is the initial purchase price plus directly attributable costs of bringing the assets to the location and condition necessary for their intended use.

Constructed assets are initially recorded as work in progress at the cost of construction (including materials and direct labour), finance costs and other direct costs until the asset is ready for productive use. Finance costs incurred during the course of construction that are attributable to a project are capitalised, using the finance rate applicable to the funding. When the asset is ready for productive use, the ongoing operating and finance costs are recorded as expenses.

##### Subsequent recognition

Land and buildings are carried at fair values that reflect current market values, which is the amount that would be expected from an orderly sale, determined by an independent registered valuer at least every three years.

Pipelines, tanks, tunnels, roads, reservoirs, dams and machinery are also carried at fair value, which is deemed to be depreciated replacement cost because the assets are of a specialised nature. The depreciated replacement costs are determined on the basis of an independent valuation prepared by external valuers at least every three years.

The revaluation process involves assessing the current replacement cost and remaining useful lives of the specialised property, plant and equipment.

Any property, plant and equipment that has been acquired after the most recent valuation is carried at cost less accumulated depreciation and impairment until the next revaluation.

Motor vehicles and office equipment are carried at cost less accumulated depreciation. Work in progress is carried at cost less any impairment.

## STATEMENT OF ACCOUNTING POLICIES (continued)

FOR THE YEAR ENDED 30 JUNE 2013

### SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 9. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

##### Subsequent recognition (CONTINUED)

The changes in the value of each class of property, plant and equipment as a result of the revaluations are recorded in other comprehensive income and accumulated in a revaluation reserve. The group maintains a revaluation reserve for each class of assets. Where cumulative decreases exceed cumulative increases in the value of a class of assets, the net amount is recognised as an expense in determining the surplus or deficit for the year. 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.

##### Impairment

Asset carrying values are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. An impairment loss is recognised if the estimated recoverable amount of an asset is less than its carrying amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For revalued assets, value in use is the depreciated replacement cost for an asset, where the future economic benefits of the asset are not primarily dependent on the asset's ability to generate net cash inflows, and where the entity would, if deprived of the asset, replace its remaining future economic benefits. The value in use for cash-generating assets is the present value of expected future cash flows. If an asset's carrying amount exceeds its recoverable amount, the asset is impaired and the carrying amount is written down to the recoverable amount.

For revalued assets, the impairment loss is recognised in other comprehensive income to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that same class of asset. The reversal of an impairment loss on a revalued asset is credited to the revaluation reserve. However, to the extent that an impairment loss on the same class of asset was previously recognised within the surplus or deficit, a reversal of that impairment loss is also recognised within the surplus or deficit. For assets not carried at a revalued amount, the total impairment loss and the reversal of an impairment loss (for assets other than goodwill) is recognised in the surplus or deficit.

##### Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment, other than for freehold land and work in progress, at rates calculated to allocate their cost or revalued amounts over their estimated useful lives. Assets are depreciated to a nil residual value.

Asset class	for 2013			2013	2012
	Range of useful lives in years			Average useful life in years	
Buildings	1	to	80	61	62
Pipelines	1	to	389	115	109
Tanks, tunnels, roads and reservoirs	1	to	200	82	79
Dams	6	to	203	179	185
Machinery	3	to	200	57	49
Motor vehicles	1	to	15	8	6
Office equipment	1	to	20	8	7

#### 10. INTANGIBLE ASSETS

Computer software assets and network models are recorded at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis over the assets' estimated useful lives.

Easements are recognised at cost, being the costs directly attributable in bringing the asset to its intended use. Easements have an indefinite useful life and are not amortised, but are instead tested for impairment annually.

Resource Management Act consents are recorded at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis, over the term of the consent.

Intangible assets' carrying values are reviewed at the end of each year to determine whether there is any indication that those assets have suffered an impairment loss. If any impairment loss has occurred, the carrying value of the asset is adjusted and the loss recognised in determining the surplus or deficit for the year.

Asset class	for 2013			2013	2012
	Range of useful lives in years			Average useful life in years	
Network models	1	to	5	5	4
Computer software	1	to	10	5	5
Resource consents	1	to	39	28	30

#### 11. INCOME TAX

##### 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 tax for current and prior years is recognised as a liability (or asset) to the extent it is unpaid (or refundable).

##### Deferred tax

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.

Current and deferred tax assets and liabilities are measured at the tax rates that are expected to apply to 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 by the reporting date.

## STATEMENT OF ACCOUNTING POLICIES (continued)

FOR THE YEAR ENDED 30 JUNE 2013

### SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 12. INVENTORIES

Inventories comprise consumables, spare parts, project stock and treated water.

Consumables are recorded at the lower of cost (determined on a weighted average basis) 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 recorded as part of the cost of the new asset if used in the construction of new property, plant and equipment.

Treated water in the network and reservoirs is recorded at the lower of cost and net realisable value.

#### 13. PROVISIONS

The group provides for the cost of employees' entitlements to annual leave, sick leave and gratuities under the terms of their employment contracts. These amounts are expected to be settled within one year and are therefore recorded in current provisions.

The group provides for the liability for employees' long-service leave 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 term of service with the group. Long-service leave is recorded in current and non-current provisions. The amount recorded in non-current provisions represents the portion which is due for payment beyond one year from the reporting date.

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

The amount recorded as a provision is the best estimate of the consideration required to settle the obligation at the end of each year.

#### 14. CONTRACT RETENTIONS

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.

#### 15. FOREIGN CURRENCIES

The cost of assets purchased with foreign currencies is calculated using the exchange rate on the date of purchase. Any difference between this cost and the amount later required to settle the transaction is recognised as a foreign exchange gain or loss.

Operating expenses in foreign currencies are converted at the rate of exchange on the date of each transaction.

#### 16. FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument in another. As such, the group recognises all its financial instruments as soon as it becomes a party to the contractual provisions of the financial instrument.

At each reporting date, the group includes in its statement of financial position a range of financial assets that include cash and short-term deposits, trade and other receivables, and derivative financial instruments. Similarly, it also reflects in its statement of financial position a number of financial liabilities that include bank overdrafts, trade and other payables, borrowings and derivative financial instruments.

A derivative is a financial instrument or other contract that satisfies all of the following characteristics: its value changes in response to the change in a specified variable such as an interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index; it requires no initial investment or an initial investment that is smaller than would be required for other types of similar contracts; and it will be settled at some future date.

##### Sourcing fair values

For financial instruments that are traded in active markets, quoted market prices are used as a measure of fair value. Where quoted market prices do not exist, fair values are estimated using present value or other market-accepted valuation techniques, using methods and assumptions that are based on market conditions and risks existing at balance date.

##### Recognition and measurement of financial assets

Financial assets are initially measured at fair value and, for the purpose of subsequent measurement, the group has categorised financial assets into the following categories. Each category determines the process of subsequent measurement and how the resulting surplus or deficit should be reflected in the statement of comprehensive income. The group does not have financial assets in the held-to-maturity and available-for-sale categories.

##### Loans and receivables

The group's cash and cash equivalents and trade and other receivables fall into this category of financial instruments. These are initially recorded at their fair value plus transaction costs because they have fixed or determinable payments that are not quoted in an active market. Fair value is estimated as the present value of future cash flows.

After initial recognition, they are recorded at amortised cost using the effective interest method, less provision for impairment. The amount of impairment loss is the difference between the assets' carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the impairment loss is recognised in determining the surplus or deficit for the year.

The collection of trade receivables is reviewed on an ongoing basis and debts known to be uncollectible are written off. When there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables, a provision is made for doubtful receivables to recognise impairment in the carrying value of receivables at balance date. This amount provided is recorded in determining surplus or deficit.

##### Financial assets at fair value through profit or loss

All derivative financial instruments fall into this category, except for those designated as, and effective as, hedging instruments, for which the hedge accounting requirements apply. The group does not apply hedge accounting.

Financial assets carried at fair value through profit or loss are initially recorded at fair value.

Financial assets can be classified as at fair value through profit or loss only if they are either classified as held for trading or upon initial recognition they are designated as at fair value through profit or loss. The group does not have any financial assets that are in the category of held for trading or designated upon initial recognition as at fair value through profit or loss.

## STATEMENT OF ACCOUNTING POLICIES (continued)

FOR THE YEAR ENDED 30 JUNE 2013

### SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 16. FINANCIAL INSTRUMENTS (CONTINUED)

##### Recognition and measurement of financial liabilities

Financial liabilities are initially recorded at their fair value plus transaction costs.

Financial liabilities are recorded subsequently at amortised cost using the effective interest method, except for financial liabilities held for trading or designated at fair value through profit or loss. Those liabilities are recorded subsequently at fair value with gains or losses recognised in the surplus or deficit.

Trade and other payables represent liabilities for goods and services provided to the group prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

The group does not have any financial liabilities that are in the category of held for trading or designated at fair value through profit or loss.

##### Borrowings

Borrowings are recorded at fair value, net of 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.

##### Derivative financial instruments

Derivative financial instruments are used by the group to manage its exposures to interest rate and foreign currency risks.

Derivative financial instruments are recorded at fair value in the statement of financial position and fair value changes are accounted for through the surplus or deficit.

##### Derecognition of financial instruments

Financial assets are derecognised only when the contractual rights to the cash flows from the financial asset have expired, or when the financial asset and all substantial risks and rewards associated with it have been transferred.

Financial liabilities are derecognised when they have been either extinguished, discharged or cancelled, or have expired.

#### 17. STATEMENT OF CASH FLOWS

For the purpose of the statement of cash flows, cash and cash equivalents include cash on hand net of outstanding bank overdrafts. The following terms are used in the statement of cash flows:

- 'Operating activities' are amounts received for the supply of services by the group, and payments made to employees and suppliers necessary to support those services, including finance costs. Operating activities also include any transactions or events that are not investing or financing activities
- 'Investing activities' are amounts paid or received for the acquisition and disposal of property, plant and equipment and intangibles and other investments not included in cash equivalents
- 'Financing activities' are the receipt and repayment of the principal on borrowings, and contributions from, and distributions to the shareholder.

#### 18. INSURANCE

Any uninsured loss is recorded in determining the surplus or deficit for the year in which the loss is incurred. Insurance recoveries are recorded only when there is virtual certainty of receipt.

#### 19. COMPARATIVES

Certain comparatives have been restated to ensure consistency with current year presentation as follows:

- Laboratory revenue is presented as a separate line item in note 1, page 91. Previously it was included in other revenue.
- The interest rate risk table in note 21, page 108, is updated to include the interest rate swaps with Auckland Council. The notional amounts and fixed interest rates have been updated accordingly. Previously these related-party interest rate swaps were disclosed only in note 22, page 112.

#### 20. ACCOUNTING STANDARDS AND INTERPRETATIONS

The External Reporting Board (XRB) issued a new Accounting Standards Framework in April 2012 based on a multi-sector, multi-tiers approach. The new framework applicable to Watercare was issued in May 2013 and is effective for periods beginning on or after 1 July 2014. Early adoption is not permitted. This means that the financial reporting requirements for PBEs are frozen for the short term. Consequently, no disclosure has been made regarding the new or amended NZ IFRS released during the year as they are not applicable to PBEs. A detailed impact assessment of the new suite of standards will be completed by 30 June 2014.

### CHANGES IN ACCOUNTING POLICIES

There have been no changes in accounting policies during the year.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

### 1. REVENUE

The water and wastewater revenue represents the amounts invoiced to customers and the accrual of unbilled water and wastewater revenue.

	Note	2013		2012	
		Group and Company		Group and Company	
		\$000		\$000	
<b>Revenue from sale of goods</b>					
Retail and bulk water revenue		134,978		129,543	
<b>Revenue from rendering of services</b>					
Wastewater revenue		272,818		263,624	
Trade waste revenue		13,161		12,462	
<b>Total water and wastewater revenue</b>		<b>420,957</b>		<b>405,629</b>	
Water and wastewater revenue is shown net of leak remissions and prompt payment discount (PPD). Below is a breakdown of leak remission and PPD:					
Water and wastewater revenue		412,182		398,060	
Leak remission – water		(1,580)		(1,968)	
Leak remission – wastewater		(2,806)		(2,396)	
Prompt payment discount – water		-		(356)	
Prompt payment discount – wastewater		-		(173)	
<b>Water and wastewater revenue net of remissions and PPD</b>		<b>407,796</b>		<b>393,167</b>	
Trade waste revenue		13,161		12,462	
<b>Total water and wastewater revenue</b>		<b>420,957</b>		<b>405,629</b>	
<b>Other revenue</b>					
Infrastructure growth charge		20,691		14,012	
Developer and financial contributions		1,978		3,389	
New meters and service connections		5,462		4,667	
Vested assets revenue		18,972		816	
Dividend income		101		97	
Subvention receipt	Note 8, page 95	3,501		-	
Laboratory revenue		5,629		6,218	
Interest income		170		753	
Other revenue		5,159		6,369	
<b>Total other revenue</b>		<b>61,663</b>		<b>36,321</b>	
<b>Total revenue</b>		<b>482,620</b>		<b>441,950</b>	

## NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2013

### 2. OPERATING EXPENSES

	Notes	2013		2012	
		Group and Company		Group and Company	
		\$000		\$000	
<b>Operating expenses include:</b>					
Auditor's remuneration	- annual audit of the financial statements		661		508
	- other services provided		13		19
Directors' fees	Note 26, page 114		505		484
Environmentally significant costs	- chemicals		11,469		10,360
	- energy		17,899		16,556
Cost of consumables and spare parts consumed			2,891		3,209
Decrease in provision for obsolescence of inventory			(400)		(234)
Operating leases and rent			4,618		4,245
Increase in provision for doubtful debts	Note 21, page 110		771		77
Bad debts written off	Note 21, page 110		1,592		612
Salaries and wages	- paid to employees		59,621		53,763
	- capitalised on construction of property, plant and equipment or recorded within asset operating costs and maintenance costs		(19,861)		(16,748)
	- included in employee benefit expenses		39,760		37,015

Auditor's remuneration for other services relates to fees paid during the year for negative pledge reporting and for conducting a workshop. Fees for other services provided by the auditor in the prior year relate to review of financial information systems and assistance on taxation matters.

### 3. DEPRECIATION AND AMORTISATION

	2013		2012	
	Group and Company		Group and Company	
	\$000		\$000	
Buildings		4,009		3,621
Pipelines		113,610		109,326
Tanks, tunnels, roads and reservoirs		9,569		10,334
Dams		1,832		1,823
Machinery		43,038		42,717
Motor vehicles		523		341
Office equipment		1,860		1,550
Network models		1,005		1,252
Computer software		8,369		8,080
Resource consents		1,165		778
<b>Total depreciation and amortisation</b>		<b>184,980</b>		<b>179,822</b>

### 4. FINANCE COSTS

	2013		2012	
	Group and Company		Group and Company	
	\$000		\$000	
Interest on bank overdraft and borrowings, paid and payable		80,098		79,205
Capitalised interest on construction of property, plant and equipment (2013: 6.45%; 2012: 6.60%)		(8,466)		(6,619)
<b>Net finance costs</b>		<b>71,632</b>		<b>72,586</b>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2013

### 5. REVALUATION OF DERIVATIVE FINANCIAL INSTRUMENTS

	2013	2012
	Group and Company	Group and Company
	\$000	\$000
Interest rate swaps contracts (gain)/loss	(39,603)	61,434
Forward foreign exchange contracts gain	(25)	(816)
<b>Net revaluation (gain)/loss</b>	<b>(39,628)</b>	<b>60,618</b>

### 6. OPERATING CASH FLOWS

	2013	2012
	Group and Company	Group and Company
	\$000	\$000
<b>Reconciliation of net deficit after tax to net cash flows from operating activities</b>		
Net surplus/(deficit) for the year	40,346	(45,305)
<b>Non-cash and non-operating items:</b>		
Depreciation and amortisation	184,980	179,822
Loss on disposal and provision for redundant property, plant and equipment	10,118	8,465
Vested assets revenue	(18,972)	(816)
Developer and financial contributions	(1,978)	(3,389)
Gain/(loss) on revaluation of derivative financial instruments (net)	(39,628)	60,618
Deferred tax	23,173	(18,878)
<b>Movements in working capital:</b>		
(Increase)/decrease in assets:		
Inventories	(1,913)	1,703
Trade and other receivables	11,492	7,918
Prepaid expenses	(1,570)	(24,105)
Increase/(decrease) in liabilities:		
Trade and other payables and accruals	2,292	(3,780)
Provisions	640	1,141
<b>Net cash flows from operating activities</b>	<b>208,980</b>	<b>163,394</b>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2013

### 7. INCOME TAX EXPENSE

	2013		2012	
	Group and Company		Group and Company	
	\$000		\$000	
Operating surplus/(deficit) before tax	63,519		(64,183)	
Income tax calculated at current tax rate of 28%	17,785		(17,971)	
Dividend and other income exempt from taxation	(1,211)		(242)	
Non-deductible expenses	114		99	
Imputation credits on dividends received	(39)		(38)	
Prior year and other adjustments	(276)		(726)	
Losses offset with Ports of Auckland Limited	6,800		-	
<b>Tax effect of non-deductible items and prior period adjustments</b>	<b>5,388</b>		<b>(907)</b>	
<b>Income tax expense/(benefit)</b>	<b>23,173</b>		<b>(18,878)</b>	
<b>Represented by:</b>				
Deferred tax	23,173		(18,878)	
<b>Income tax expense/(benefit)</b>	<b>23,173</b>		<b>(18,878)</b>	

### IMPUTATION CREDITS

	2013		2012	
	Group and Company		Group and Company	
	\$000		\$000	
<b>Total imputation credits</b>	<b>30,173</b>		<b>30,134</b>	

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

### 8. DEFERRED TAX LIABILITY

	2013		2012	
	Group and Company		Group and Company	
	\$000		\$000	
<b>Balance at 1 July 2012</b>	<b>829,950</b>		<b>848,828</b>	
Deferred tax recognised in other comprehensive income – resulting from the revaluation of property, plant and equipment	73,929		-	
Deferred tax recognised in other comprehensive income, resulting from transfer to retained earnings relating to disposal of property, plant and equipment	(2,496)		2,095	
Deferred tax recognised in other comprehensive income, resulting from transfer from revaluation reserve relating to disposal of property, plant and equipment	2,496		(2,095)	
Deferred tax recognised in the surplus/(deficit) for the year	23,173		(18,878)	
<b>Balance at 30 June 2013</b>	<b>927,052</b>		<b>829,950</b>	
The balance relates to:				
Depreciation temporary differences	1,119,281		1,002,921	
Provisions and accrued expenses temporary differences	(17,880)		(31,515)	
Tax losses	(174,349)		(141,456)	
<b>Total deferred tax liability</b>	<b>927,052</b>		<b>829,950</b>	

## NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2013

### 8. DEFERRED TAX LIABILITY (CONTINUED)

The group's subsidiary, Watercare Harbour Clean-Up Trust, was exempt from tax and the group's other subsidiary, Auckland City Water Limited, was a non-trading entity.

During the year, tax losses of \$27.8 million were sold to Ports of Auckland Limited (POAL), a related party. Based on an agreement between the parties, Watercare received a subvention payment of \$3.5 million from POAL which equates to 45 cents per dollar of the tax impact of the losses sold. The balance of \$24.3 million was recorded by Watercare as a loss offset with POAL.

The depreciation temporary differences for property, plant and equipment arose because the carrying value of property, plant and equipment was higher for accounting purposes than 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.

### 9. EQUITY ATTRIBUTABLE TO OWNERS

The total number of authorised and issued shares at balance date was 260,693,164 (2012: 260,693,164) ordinary shares of \$1 each. All ordinary issued shares were fully paid and carry 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 21, page 111.

On 1 November 2010, the retail water and wastewater businesses in the Auckland region were integrated into the company. As a result, net assets of \$3.8 billion were transferred to the company with the contribution value being recorded separately in the capital reserve.

### 10. SUBSIDIARIES

The group disclosures in these financial statements represent the consolidated numbers of Watercare Services Limited (company) and its subsidiaries. The net assets at balance date of each of the company's subsidiaries are immaterial to the consolidated financial position of the group. As at the balance date, the details of the company's subsidiaries, net assets, revenue and net surplus or deficit for each subsidiary, after inter-entity eliminations, are as follows:

#### Water Utility Consumer Assistance Trust

The Water Utility Consumer Assistance Trust was formed in October 2011 and is a charitable trust. Its principal activity is to assist eligible residential customers of the company who are unable to pay their water and wastewater charges by approving a payment arrangement which may include recommending to Watercare a write-off of part or the entire amount owed. Watercare has the power to appoint two out of five of the Trustees on the Trust board. The Trust is fully funded by Watercare. The net assets of the Water Utility Consumer Assistance Trust at balance date comprise a cash and cash equivalent balance of \$10,299 (2012: \$9,712) and accrued expenses of \$10,289 (2012: \$5,179). The Trust recorded revenue of \$228 (2012: \$145) and a net deficit of \$4,534 for the year (2012: \$4,533).

#### Watercare Harbour Clean-Up Trust

The Watercare Harbour Clean-Up Trust was set up in December 2002 by several local authorities as The Waitemata Harbour Clean-Up Trust and is a charitable trust. Its principal activity is to promote and monitor the cleaning up of Auckland's Waitemata Harbour with a view to preserving its natural beauty for the benefit and enjoyment of the public. During 2010/11, Watercare became the primary funder of this Trust and, at 30 June 2013, three of the five Trustees on the board were current Watercare employees. The chairman of the Trust is a director of Watercare. The net assets of the Trust at balance date comprise cash and cash equivalents, GST receivable and property, plant and equipment of \$332,872 (2012: \$295,992) and accrued expenses of \$22,883 (2012: \$25,730). The Trust recorded revenue of \$12,870 (2012: \$48,205) and a net surplus of \$39,725 (2012: \$51,418).

#### Auckland City Water Limited

Auckland City Water Limited is 100 per cent owned by Watercare and it is non-trading company. The net assets of Auckland City Water Limited at balance date comprise \$nil (2012: \$nil).

#### Te Motu A Hiaroa (Puketutu Island) Park Trust

The Trust was a 100 per cent subsidiary of Watercare and was a non-trading entity. It was dissolved on 10 June 2013.

The total net assets of all the above subsidiaries included in the consolidated financial position of the group are \$309,999 (2012: \$274,795), comprising cash and cash equivalents, GST receivable and property, plant and equipment of \$343,171 (2012: \$305,704) and accrued expenses of \$33,172 (2012: \$30,909).

## NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2013

### 11. REVALUATION RESERVES

	2013		2012	
	Group and Company		Group and Company	
	\$000		\$000	
Balances at beginning of the year	1,424,231		1,429,619	
Revaluation – net of deferred tax	190,096		-	
Transferred to retained earnings on disposal of property, plant and equipment – net of tax	6,419		(5,388)	
<b>Total revaluation reserves</b>	<b>1,620,746</b>		<b>1,424,231</b>	
<b>Comprising:</b>				
Land	47,196		48,517	
Buildings	31,086		31,953	
Pipelines	978,345		837,391	
Tanks, tunnels, roads and reservoirs	307,722		281,782	
Dams	88,150		79,171	
Machinery	168,247		145,417	
<b>Total revaluation reserves</b>	<b>1,620,746</b>		<b>1,424,231</b>	
<b>Analysis:</b>				
<b>Land</b>				
Balances at beginning of the year	48,517		48,517	
Transferred to retained earnings on disposal of property, plant and equipment	(1,321)		-	
<b>Total land revaluation reserves</b>	<b>47,196</b>		<b>48,517</b>	
<b>Buildings</b>				
Balances at beginning of the year	31,953		31,953	
Transferred to retained earnings on disposal of property, plant and equipment – net of tax	(867)		-	
<b>Total buildings revaluation reserves</b>	<b>31,086</b>		<b>31,953</b>	
<b>Pipelines</b>				
Balances at beginning of the year	837,391		844,715	
Revaluation	131,339		-	
Transferred to retained earnings on disposal of property, plant and equipment – net of tax	9,615		(7,324)	
<b>Total pipelines revaluation reserves</b>	<b>978,345</b>		<b>837,391</b>	
<b>Tanks, tunnels, roads and reservoirs</b>				
Balances at beginning of the year	281,782		281,705	
Revaluation	26,230		-	
Transferred to retained earnings on disposal of property, plant and equipment – net of tax	(290)		77	
<b>Total tanks, tunnels, roads and reservoirs revaluation reserves</b>	<b>307,722</b>		<b>281,782</b>	
<b>Dams</b>				
Balances at beginning of the year	79,171		79,171	
Revaluation	8,979		-	
<b>Total dams revaluation reserves</b>	<b>88,150</b>		<b>79,171</b>	
<b>Machinery</b>				
Balances at beginning of the year	145,417		143,558	
Revaluation	23,548		-	
Transferred to retained earnings on disposal of property, plant and equipment – net of tax	(718)		1,859	
<b>Total machinery revaluation reserves</b>	<b>168,247</b>		<b>145,417</b>	

## NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2013

### 12. PROPERTY, PLANT AND EQUIPMENT

#### Property, plant and equipment – movement in gross carrying value

	2012		2013					
	Group and Company							
	Opening value	Additions	Disposals	Depreciation	Impairment	Revaluation	Reclassification	Closing value
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Land	124,247	2,393	(2,083)	-	-	-	-	124,557
Buildings	116,558	1,472	(1,051)	-	-	-	-	116,979
Pipelines	5,579,928	79,646	(3,519)	-	(7,479)	(34,036)	-	5,614,540
Tanks, tunnels, roads and reservoirs	653,676	312	(254)	-	-	16,745	-	670,479
Dams	205,832	105	-	-	-	8,746	(2,683)	212,000
Machinery	882,473	86,818	(5,519)	-	-	(46,576)	2,683	919,879
Motor vehicles	4,899	2,546	(466)	-	-	-	-	6,979
Office equipment	13,317	868	(29)	-	-	-	-	14,156
	7,580,930	174,160	(12,921)	-	(7,479)	(55,121)	-	7,679,569
Work in progress	332,230	106,575	-	-	-	-	-	438,805
<b>Gross carrying value</b>	<b>7,913,160</b>	<b>280,735</b>	<b>(12,921)</b>	<b>-</b>	<b>(7,479)</b>	<b>(55,121)</b>	<b>-</b>	<b>8,118,374</b>

#### Property, plant and equipment – movement in accumulated depreciation

	2012		2013					
	Group and Company							
	Opening value	Additions	Disposals	Depreciation	Impairment	Revaluation	Reclassification	Closing value
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Buildings	(3,720)	-	138	(4,009)	-	-	-	(7,591)
Pipelines	(111,467)	-	1,249	(113,610)	437	216,449	-	(6,942)
Tanks, tunnels, roads and reservoirs	(10,389)	-	87	(9,569)	-	19,685	-	(186)
Dams	(1,894)	-	-	(1,832)	-	3,726	-	-
Machinery	(43,150)	-	2,369	(43,038)	-	79,286	-	(4,533)
Motor vehicles	(3,741)	-	441	(523)	-	-	-	(3,823)
Office equipment	(8,490)	-	29	(1,860)	-	-	-	(10,321)
<b>Accumulated depreciation</b>	<b>(182,851)</b>	<b>-</b>	<b>4,313</b>	<b>(174,441)</b>	<b>437</b>	<b>319,146</b>	<b>-</b>	<b>(33,396)</b>

#### Property, plant and equipment – movement in net book values including revaluation

	2012		2013					
	Group and Company							
	Opening value	Additions	Disposals	Depreciation	Impairment	Revaluation	Reclassification	Closing value
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Land	124,247	2,393	(2,083)	-	-	-	-	124,557
Buildings	112,838	1,472	(913)	(4,009)	-	-	-	109,388
Pipelines	5,468,461	79,646	(2,270)	(113,610)	(7,042)	182,413	-	5,607,598
Tanks, tunnels, roads and reservoirs	643,287	312	(167)	(9,569)	-	36,430	-	670,293
Dams	203,938	105	-	(1,832)	-	12,472	(2,683)	212,000
Machinery	839,323	86,818	(3,150)	(43,038)	-	32,710	2,683	915,346
Motor vehicles	1,158	2,546	(25)	(523)	-	-	-	3,156
Office equipment	4,827	868	-	(1,860)	-	-	-	3,835
	7,398,079	174,160	(8,608)	(174,441)	(7,042)	264,025	-	7,646,173
Work in progress	332,230	106,575	-	-	-	-	-	438,805
<b>Net book value</b>	<b>7,730,309</b>	<b>280,735</b>	<b>(8,608)</b>	<b>(174,441)</b>	<b>(7,042)</b>	<b>264,025</b>	<b>-</b>	<b>8,084,978</b>

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.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2013

### 12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Rights-to-franchise assets – included in the above; refer to accounting policy 9, page 87, and note 18, page 103

	2012		2013					
	Group and Company							
	Opening value	Additions	Disposals	Depreciation	Impairment	Revaluation	Reclassification	Closing value
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Gross carrying value								
Machinery	6,078	1,030	-	-	-	330	-	7,438
Pipelines	83,682	2,091	-	-	-	12,272	-	98,045
	89,760	3,121	-	-	-	12,602	-	105,483
Accumulated depreciation								
Machinery	(256)	-	-	(272)	-	512	-	(16)
Pipelines	(1,504)	-	-	(1,526)	-	3,008	-	(22)
	(1,760)	-	-	(1,798)	-	3,520	-	(38)
Net book value								
Machinery	5,822	1,030	-	(272)	-	842	-	7,422
Pipelines	82,178	2,091	-	(1,526)	-	15,280	-	98,023
<b>Net book value</b>	<b>88,000</b>	<b>3,121</b>	<b>-</b>	<b>(1,798)</b>	<b>-</b>	<b>16,122</b>	<b>-</b>	<b>105,445</b>

### PROPERTY, PLANT AND EQUIPMENT – COMPARATIVES

Property, plant and equipment – movement in gross carrying value

	2011		2012					
	Group and Company							
	Opening value	Additions	Disposals	Depreciation	Impairment	Reclassification	Closing value	
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	
Land	119,339	4,879	-	-	-	29	124,247	
Buildings	113,352	2,905	-	-	-	301	116,558	
Pipelines	5,477,954	104,430	(3,841)	-	(2,871)	4,256	5,579,928	
Tanks, tunnels, roads and reservoirs	680,072	1,397	(16)	-	-	(27,777)	653,676	
Dams	210,475	546	-	-	-	(5,189)	205,832	
Machinery	795,384	61,602	(2,507)	-	(16)	28,010	882,473	
Motor vehicles	4,182	737	(20)	-	-	-	4,899	
Office equipment	13,004	72	-	-	-	241	13,317	
	7,413,762	176,568	(6,384)	-	(2,887)	(129)	7,580,930	
Work in progress	288,288	43,942	-	-	-	-	332,230	
<b>Gross carrying value</b>	<b>7,702,050</b>	<b>220,510</b>	<b>(6,384)</b>	<b>-</b>	<b>(2,887)</b>	<b>(129)</b>	<b>7,913,160</b>	

## NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2013

### 12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

#### PROPERTY, PLANT AND EQUIPMENT – COMPARATIVES (CONTINUED)

##### Property, plant and equipment – movement in accumulated depreciation

	2011		2012				
	Group and Company						
	Opening value	Additions	Disposals	Depreciation	Impairment	Reclassification	Closing value
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Buildings	(99)	-	-	(3,621)	-	-	(3,720)
Pipelines	(2,716)	-	505	(109,326)	79	(9)	(111,467)
Tanks, tunnels, roads and reservoirs	(56)	-	1	(10,334)	-	-	(10,389)
Dams	(71)	-	-	(1,823)	-	-	(1,894)
Machinery	(535)	-	116	(42,717)	-	(14)	(43,150)
Motor vehicles	(3,414)	-	14	(341)	-	-	(3,741)
Office equipment	(6,963)	-	-	(1,550)	-	23	(8,490)
<b>Accumulated depreciation</b>	<b>(13,854)</b>	<b>-</b>	<b>636</b>	<b>(169,712)</b>	<b>79</b>	<b>-</b>	<b>(182,851)</b>

##### Property, plant and equipment – movement in net book values including revaluation

	2011		2012				
	Group and Company						
	Opening value	Additions	Disposals	Depreciation	Impairment	Reclassification	Closing value
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Land	119,339	4,879	-	-	-	29	124,247
Buildings	113,253	2,905	-	(3,621)	-	301	112,838
Pipelines	5,475,238	104,430	(3,336)	(109,326)	(2,792)	4,247	5,468,461
Tanks, tunnels, roads and reservoirs	680,016	1,397	(15)	(10,334)	-	(27,777)	643,287
Dams	210,404	546	-	(1,823)	-	(5,189)	203,938
Machinery	794,849	61,602	(2,391)	(42,717)	(16)	27,996	839,323
Motor vehicles	768	737	(6)	(341)	-	-	1,158
Office equipment	6,041	72	-	(1,550)	-	264	4,827
	7,399,908	176,568	(5,748)	(169,712)	(2,808)	(129)	7,398,079
Work in progress	288,288	43,942	-	-	-	-	332,230
<b>Net book value</b>	<b>7,688,196</b>	<b>220,510</b>	<b>(5,748)</b>	<b>(169,712)</b>	<b>(2,808)</b>	<b>(129)</b>	<b>7,730,309</b>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2013

### 12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

#### PROPERTY, PLANT AND EQUIPMENT – COMPARATIVES (CONTINUED)

Rights-to-franchise assets – included in the above; refer to accounting policy 9, page 87, and note 18, page 103

	2011		2012					Closing value \$000
	Group and Company							
	Opening value \$000	Additions \$000	Disposals \$000	Depreciation \$000	Impairment \$000	Reclassification \$000		
Gross carrying value								
Machinery	6,078	-	-	-	-	-	6,078	
Pipelines	82,867	816	(1)	-	-	-	83,682	
	88,945	816	(1)	-	-	-	89,760	
Accumulated depreciation								
Machinery	-	-	-	(256)	-	-	(256)	
Pipelines	-	-	-	(1,504)	-	-	(1,504)	
	-	-	-	(1,760)	-	-	(1,760)	
Net book value								
Machinery	6,078	-	-	(256)	-	-	5,822	
Pipelines	82,867	816	(1)	(1,504)	-	-	82,178	
<b>Net book value</b>	<b>88,945</b>	<b>816</b>	<b>(1)</b>	<b>(1,760)</b>	<b>-</b>	<b>-</b>	<b>88,000</b>	

All assets subject to valuation are independently valued at least every three years. The most recent valuation was completed at 30 June 2013 for all infrastructure assets included in: pipelines; tanks, tunnels, roads and reservoirs; dams; and machinery asset classes. ANA Group completed the valuation in association with Beca Valuations Limited (Beca) which completed a peer review of the work. The assumptions used in determining the depreciated replacement cost of pipelines, tanks, roads, tunnels, reservoirs, dams and machinery were that:

- 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 price goods index (CPGI) was used where indexation is appropriate. At the time of valuation, the CPGI was available to the March 2013 quarter and an estimate was made for the June 2013 quarter; and
- Capitalised interest was applied to qualifying asset types in accordance with the estimated construction period and applicable cost of debt.

The Local Government Acts 1974 and 2002 restrict the business activities of the group and effectively prevent the sale of key assets. Many of the assets are specialised in nature, reflecting the activities of the group. As there is no active market for such assets and the income from them is not determined by the market, property, plant and equipment (other than land, motor vehicles and office equipment) are revalued to depreciated replacement cost, which reflects their deemed fair values.

Each year, other than in the years in which the assets are revalued, the group assesses whether there was any material change in the value of property, plant and equipment. The movement in asset values between June 2011 and June 2012 was assessed using indices deemed suitable by the registered valuer ANA Group and Beca. The increase in asset value of 1.5 per cent was not considered material by management and, accordingly, the assets were not revalued at 30 June 2012. The most recent valuation for land and buildings was completed by Beca as at 30 June 2011. The land valuation was based on relevant market prices and buildings were valued using the depreciated replacement cost.

	2013	2012
	Group and Company \$000	Group and Company \$000
<b>Work in progress relates to the following projects:</b>		
Water treatment plants	25,604	58,795
Wastewater treatment plant	47,129	21,880
Wastewater pump stations and sewers	166,129	117,229
Watermains, pump stations and reservoirs	165,903	95,076
Dams and raw water transmission pipelines	11,748	7,727
Other	22,292	31,523
<b>Total work in progress</b>	<b>438,805</b>	<b>332,230</b>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2013

### 13. INTANGIBLE ASSETS

#### Intangibles – movement in gross carrying value

	2012		2013				
	Group and Company						
	Opening value	Additions	Disposals	Amortisation	Impairment	Reclassifications	Closing value
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Network models	5,680	1,272	-	-	-	-	6,952
Computer software	42,097	12,362	-	-	(1,937)	-	52,522
Resource consents	24,474	779	-	-	-	-	25,253
Easements	498	-	-	-	-	-	498
<b>Gross carrying value</b>	<b>72,749</b>	<b>14,413</b>	<b>-</b>	<b>-</b>	<b>(1,937)</b>	<b>-</b>	<b>85,225</b>

#### Intangibles – movement in accumulated amortisation

	2012		2013				
	Group and Company						
	Opening value	Additions	Disposals	Amortisation	Impairment	Reclassifications	Closing value
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Network models	(3,716)	-	-	(1,005)	-	-	(4,721)
Computer software	(23,859)	-	-	(8,369)	1,563	-	(30,665)
Resource consents	(5,620)	-	-	(1,165)	-	-	(6,785)
<b>Accumulated amortisation</b>	<b>(33,195)</b>	<b>-</b>	<b>-</b>	<b>(10,539)</b>	<b>1,563</b>	<b>-</b>	<b>(42,171)</b>

#### Intangibles – movement in net book values

	2012		2013				
	Group and Company						
	Opening value	Additions	Disposals	Amortisation	Impairment	Reclassifications	Closing value
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Network models	1,964	1,272	-	(1,005)	-	-	2,231
Computer software	18,238	12,362	-	(8,369)	(374)	-	21,857
Resource consents	18,854	779	-	(1,165)	-	-	18,468
Easements	498	-	-	-	-	-	498
<b>Net book value</b>	<b>39,554</b>	<b>14,413</b>	<b>-</b>	<b>(10,539)</b>	<b>(374)</b>	<b>-</b>	<b>43,054</b>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2013

### 13. INTANGIBLE ASSETS (CONTINUED)

#### INTANGIBLE ASSETS – COMPARATIVES

##### Intangibles – movement in gross carrying value

	2011		2012			
	Group and Company					
	Opening value	Additions	Disposals	Amortisation	Reclassifications	Closing value
	\$000	\$000	\$000	\$000	\$000	\$000
Network models	5,974	-	-	-	(294)	5,680
Computer software	28,456	13,186	-	-	455	42,097
Resource consents	18,400	6,106	-	-	(32)	24,474
Easements	484	14	-	-	-	498
<b>Gross carrying value</b>	<b>53,314</b>	<b>19,306</b>	<b>-</b>	<b>-</b>	<b>129</b>	<b>72,749</b>

##### Intangibles – movement in accumulated amortisation

	2011		2012			
	Group and Company					
	Opening value	Additions	Disposals	Amortisation	Reclassifications	Closing value
	\$000	\$000	\$000	\$000	\$000	\$000
Network models	(2,361)	-	-	(1,252)	(103)	(3,716)
Computer software	(15,884)	-	-	(8,080)	105	(23,859)
Resource consents	(4,840)	-	-	(778)	(2)	(5,620)
<b>Accumulated amortisation</b>	<b>(23,085)</b>	<b>-</b>	<b>-</b>	<b>(10,110)</b>	<b>-</b>	<b>(33,195)</b>

##### Intangibles – movement in net book values

	2011		2012			
	Group and Company					
	Opening value	Additions	Disposals	Amortisation	Reclassifications	Closing value
	\$000	\$000	\$000	\$000	\$000	\$000
Network models	3,613	-	-	(1,252)	(397)	1,964
Computer software	12,572	13,186	-	(8,080)	560	18,238
Resource consents	13,560	6,106	-	(778)	(34)	18,854
Easements	484	14	-	-	-	498
<b>Net book value</b>	<b>30,229</b>	<b>19,306</b>	<b>-</b>	<b>(10,110)</b>	<b>129</b>	<b>39,554</b>

### 14. INVENTORIES

	2013		2012	
	Group and Company		Group and Company	
	\$000		\$000	
Spare parts at cost	4,293		3,768	
Consumables at cost	2,752		2,503	
Treated water at cost	687		679	
Project stock	514		248	
Provision for obsolescence	(903)		(1,768)	
<b>Total inventory</b>	<b>7,343</b>		<b>5,430</b>	
<b>Represented as:</b>				
Current inventory	4,005		2,793	
Non-current inventory	3,338		2,637	
<b>Total inventory</b>	<b>7,343</b>		<b>5,430</b>	

## NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2013

### 15. TRADE AND OTHER RECEIVABLES

	2013	2012
	Group and Company	Group and Company
	\$000	\$000
<b>Current</b>		
Trade receivables – related parties	875	1,445
Trade receivables – other	36,843	33,698
Provision for doubtful debts	(2,384)	(3,205)
	35,334	31,938
Other receivables	3,931	2,780
Unbilled revenue accrual	20,832	36,872
<b>Total trade and other receivables</b>	<b>60,097</b>	<b>71,590</b>

### 16. PREPAID EXPENSES

Prepayments include an amount of \$23.9 million paid to Kelliher Charitable Trust towards lease of land at Puketutu Island for disposal of biosolids by Watercare. The lease is for a period of 55 years with one right of renewal of 15 years. At balance date, the unamortised amount was \$23.5 million (2012: \$23.5 million) of which \$0.4 million was included within current prepaid expenses (2012: \$0.4 million) and \$23.1 million within non-current prepaid expenses (2012: \$23.1 million).

### 17. TRADE AND OTHER PAYABLES

	2013	2012
	Group and Company	Group and Company
	\$000	\$000
<b>Current</b>		
Contract retentions	9,251	8,707
Trade creditors – other	18,094	15,161
Trade creditors – related parties	354	327
Other payables	424	289
<b>Total trade and other payables</b>	<b>28,123</b>	<b>24,484</b>

### 18. ACCRUED EXPENSES

	2013	2012
	Group and Company	Group and Company
	\$000	\$000
<b>Current</b>		
Capital work in progress accruals	30,226	29,235
Interest payable	10,641	11,497
Income received in advance	6,249	5,916
Operating costs accruals	18,754	15,186
<b>Total current accrued expenses</b>	<b>65,870</b>	<b>61,834</b>
<b>Non-current</b>		
Income received in advance	8,580	8,840
<b>Total non-current accrued expenses</b>	<b>8,580</b>	<b>8,840</b>
<b>Total accrued expenses</b>	<b>74,450</b>	<b>70,674</b>

Income received in advance includes \$8.8 million (2012: \$9.1 million) relating to the amount received in accordance with the franchise fee agreement between the network operator Veolia Water Services (ANZ) Pty Limited (previously United Water International Pty Limited) and Papakura District Council (integrated into the company on 1 November 2010). The franchise agreement grants the operator the right to use the water and wastewater infrastructure assets owned by the group for the provision of water and wastewater services within the Papakura district. Under the franchise agreement, Veolia is responsible for upgrading and maintaining the network so that, at the end of the contract period, the network shall be in a better overall condition than that which existed at the time the contract commenced. 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. Refer also to accounting policy 9, page 87.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2013

### 19. PROVISIONS

	2013		2012	
	Group and Company		Group and Company	
	\$000		\$000	
<b>Current</b>				
Employee entitlements		5,720		5,019
Decommissioning costs		2,751		1,222
Other provisions		232		-
<b>Total current provisions</b>		<b>8,703</b>		<b>6,241</b>
<b>Non-current</b>				
Employee entitlements		1,171		1,464
<b>Total non-current provisions</b>		<b>1,171</b>		<b>1,464</b>
<b>Total provisions</b>		<b>9,874</b>		<b>7,705</b>

	Employee entitlements	Decommissioning costs	Other provisions	Total
	\$000	\$000	\$000	\$000
<b>Balance at 1 July 2012</b>	6,483	1,222	-	7,705
Additions during the year	5,120	3,035	232	8,387
Reductions resulting from payments	(4,712)	(1,506)	-	(6,218)
<b>Balance at 30 June 2013</b>	<b>6,891</b>	<b>2,751</b>	<b>232</b>	<b>9,874</b>

### 20. BORROWINGS

	2013		2012	
	Group and Company		Group and Company	
	\$000		\$000	
<b>Current</b>				
Related-party term loan (unsecured)		78,754		89,312
Medium-term notes (unsecured)		220,239		227
Commercial paper (unsecured)		139,032		129,117
Bank loan (unsecured)		-		13,500
<b>Total current borrowings</b>		<b>438,025</b>		<b>232,156</b>
<b>Non-current</b>				
Related-party term loan (unsecured)		418,734		387,488
Medium-term notes (unsecured)		306,183		526,422
Term loan (unsecured)		150,000		150,000
Bank loan (unsecured)		35,000		-
<b>Total non-current borrowings</b>		<b>909,917</b>		<b>1,063,910</b>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2013

### 20. BORROWINGS (CONTINUED)

	2013	2012
	Group and Company	Group and Company
	\$000	\$000
<b>Repayment schedule:</b>		
<b>Related-party term loan (unsecured)</b>		
Less than one year	78,754	89,312
One to two years	136,395	78,754
Two to three years	18,918	136,394
Three to four years	81,606	18,918
Beyond four years	181,815	153,422
<b>Medium-term notes</b>		
Less than one year	220,239	227
One to two years	150,251	220,239
Two to three years	30,264	150,251
Three to four years	278	30,264
Beyond four years	125,390	125,668
<b>Term loan</b>		
Three to four years	150,000	-
Beyond four years	-	150,000
<b>Bank loan</b>		
Less than one year	-	13,500
Two to three years	35,000	-
<b>Commercial paper</b>		
Less than one year	139,032	129,117
<b>Total borrowings</b>	<b>1,347,942</b>	<b>1,296,066</b>

	2013	2012
	Group and Company	Group and Company
	%	%
<b>Interest rates at balance date:</b>		
<b>Related-party term loan</b>		
Average	5.48	6.24
Average including interest rate swaps	7.87	6.80
<b>Medium-term notes</b>		
Average	5.99	5.99
Average including interest rate swaps	4.39	5.59
<b>Term loan</b>		
Average	4.04	4.07
Average including interest rate swaps	7.56	7.10
<b>Bank loan</b>		
Average	3.57	3.55
Average including interest rate swaps	3.57	3.55
<b>Commercial paper</b>		
Average	2.79	2.80
Average including interest rate swaps	5.64	5.02
<b>Total debt</b>		
Average	5.19	5.52
Average including interest rate swaps	6.13	6.13

## NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2013

### 20. BORROWINGS (CONTINUED)

Lenders under the bank loans and holders of medium-term notes and short-term commercial paper receive the benefit of the negative pledge undertaking from the group. This undertaking limits the extent to which the group can give security to lenders and requires the group to ensure that the following financial ratios are achieved at all times:

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

The group complied with these financial covenant ratios during the years ended 30 June 2013 and 30 June 2012.

The group has an agreement with Auckland Council under which Auckland Council guarantees repayment of the group's external borrowings and obligations under interest rate swaps.

The group had the following undrawn committed facilities available:

	2013		2012	
	Group and Company		Group and Company	
	\$000	\$000	\$000	\$000
Bank overdraft facility; expires on cancellation		1,958		5,100
Revolving advances; expires November 2015 (2012: expired May 2013)		25,000		61,500
Commercial paper stand-by facility; \$100 million expires July 2015 and \$100 million expires in July 2017 (2012: expired July 2012)		200,000		200,000
<b>Total undrawn committed facilities</b>		<b>226,958</b>		<b>266,600</b>

Commercial paper held by the group is represented by multiple issues that spread funding risk. As each issue matures, the group replaces it with a new issue, if required. The providers of the commercial paper stand-by facilities act as lenders of last resort, should the group be unable to issue new commercial paper when it matures. The group's treasury risk management policy requires that sufficient stand-by facilities be maintained to meet 50 per cent of outstanding commercial paper and other uncommitted short-term debt repayable within 60 days. The group complied with its treasury risk-management policy during the years ended 30 June 2013 and 30 June 2012.

### 21. FINANCIAL ASSETS AND LIABILITIES

#### Categories of financial assets and liabilities

The carrying amounts presented in the statement of financial position relate to the following categories of assets and liabilities:

	2013		2012	
	Group and Company		Group and Company	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$000	\$000	\$000	\$000
<b>FINANCIAL ASSETS – CURRENT</b>				
<b>Loans and receivables</b>				
Cash and cash equivalents	121	121	862	862
Trade and other receivables	60,097	60,097	71,590	71,590
<b>Fair value through profit or loss</b>				
Derivative financial instruments	3,645	3,645	26	26
<b>FINANCIAL ASSETS – NON-CURRENT</b>				
<b>Fair value through profit or loss</b>				
Derivative financial instruments	10,819	10,819	23,609	23,609
	<b>74,682</b>	<b>74,682</b>	<b>96,087</b>	<b>96,087</b>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2013

### 21. FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

	2013		2012	
	Group and Company		Group and Company	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$000	\$000	\$000	\$000
<b>FINANCIAL LIABILITIES – CURRENT</b>				
<b>Amortised cost</b>				
Trade and other payables	28,123	28,123	24,484	24,484
Accrued expenses*	59,621	59,621	55,918	55,918
Bank overdraft (unsecured)	42	42	-	-
Medium-term notes (unsecured)	220,239	227,701	227	227
Related party term loan (unsecured)	78,754	80,042	89,312	90,223
Commercial paper (unsecured)	139,032	139,427	129,117	129,555
Bank loan (unsecured)	-	-	13,500	13,507
<b>Fair value through profit or loss</b>				
Derivative financial instruments	990	990	362	362
<b>FINANCIAL LIABILITIES – NON-CURRENT</b>				
<b>Amortised cost</b>				
Medium-term notes (unsecured)	306,183	323,381	526,422	559,654
Term loan (unsecured)	150,000	150,802	150,000	150,777
Related party term loan (unsecured)	418,734	421,709	387,488	391,579
Bank loan (unsecured)	35,000	35,010	-	-
<b>Fair value through profit or loss</b>				
Derivative financial instruments	83,909	83,909	133,336	133,336
	1,520,627	1,550,757	1,510,166	1,549,622

\* Excludes current and non-current income received in advance of \$14.8 million (2012: \$14.8 million) as it was not categorised as a financial liability; refer note 18 page 103.

The calculation of fair value for each category of financial assets and liabilities is explained below. 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 years ended 30 June 2013 or 30 June 2012.

#### Loans and receivables

Due to their relatively short-term nature, the carrying amount of trade receivables was considered to be a reasonable approximation of fair value.

#### Amortised cost

Due to their relatively short-term nature, the carrying amount of trade payables was considered to be 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

Interest rate swaps 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.

#### 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.

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 level 2 fair value hierarchy. The derivative financial instruments that the group held at balance date comprised interest rate swaps and forward foreign exchange contracts.

Fair values at balance date were assessed using a range of market interest rates of between 2.66 per cent and 4.74 per cent (2012: 2.69 per cent and 4.04 per cent), derived from the interest rate swap curve.

There were no transfers between levels 1, 2 and 3 during the year ended 30 June 2013.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2013

### 21. FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

#### Financial instrument risks

##### Risk-management objectives and policies

The group's management monitors and manages the 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 risks are market risk, credit risk and liquidity risk.

The group seeks to manage the effects of these risks by using derivative financial instruments to minimise these risk exposures. The use of financial derivatives is governed by the group's policies approved by the board of directors, which provide written principles on interest rate risk, credit risk, the use of derivative and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits is reviewed by the board of directors on a regular basis.

##### Market risk

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

##### Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The group is exposed to interest rate risk when it borrows funds at floating interest rates. The risk is managed by the group through monitoring market interest rates and reviewing the impact of these on interest rate exposures.

The group's borrowings comprise both fixed rates and floating rates of interest. It is group policy to ensure that a proportion of interest rate exposure is maintained on a fixed-rate basis. To achieve this, the group enters into contracts that allow some of its floating interest rate exposure to be swapped from floating to fixed, and vice versa.

The group's exposure to market interest rates relates primarily to the group's debt obligations, which are disclosed in note 20, page 105.

The notional principal, contract amounts of agreements and fixed interest rates in place, at balance date, to manage interest rate risk were as follows:

	2013		2012	
	Group and Company		Group and Company	
	Fixed interest rate	Notional amount	Fixed interest rate	Notional amount
	%	\$000	%	\$000

#### Interest rate swaps

Receivable maturities (fixed to floating):

Within one year	5.40%	195,000	-	-
One to two years	5.74%	150,000	5.40%	195,000
Two to three years	5.10%	30,000	5.74%	150,000
Three to four years	-	-	5.10%	30,000
Beyond five years	5.84%	135,000	5.84%	135,000

Payable maturities (floating to fixed):

Within one year	5.43%	80,000	6.72%	55,000
One to two years	-	-	5.43%	80,000
Two to three years	4.33%	130,000	6.25%	15,000
Three to four years	4.56%	105,000	4.62%	105,000
Four to five years	5.77%	100,000	4.95%	80,000
Beyond five years	5.80%	845,000	5.93%	890,000

As interest rates change, these derivative financial instruments are revalued to fair value and the change in fair value is recorded in the surplus or deficit.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2013

### 21. FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

#### Interest rate sensitivity

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

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

	2013		2012	
	Group and Company		Group and Company	
	Post-tax surplus Higher/(lower)	Equity Higher/(lower)	Post-tax deficit (Higher)/lower	Equity Higher/(lower)
Judgments of reasonably possible movements:	\$000	\$000	\$000	\$000
<b>Interest paid</b>				
1% (100 basis points) higher for the year	(2,376)	(2,376)	(2,725)	(2,725)
1% (100 basis points) lower for the year	2,376	2,376	2,725	2,725
<b>Revaluation of derivative financial instruments</b>				
1% (100 basis points) higher at year-end	37,137	37,137	37,744	37,744
1% (100 basis points) lower at year-end	(41,500)	(41,500)	(43,012)	(43,012)

#### 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\$250,000 (2012: NZ\$100,000), the group manages this risk with forward foreign exchange contracts or options.

The group had forward foreign exchange contracts at balance date as follows:

	2013			
	Group and Company			
	Average exchange rate	Foreign exchange	Contract value	Carrying amount and fair value
	FC 000	NZ\$000	NZ\$000	
<b>USD</b>				
Less than 3 months	0.760	178	233	(5)
<b>AUD</b>				
3 months and beyond	0.807	693	858	(35)
<b>EUR</b>				
3 months and beyond	0.610	296	481	17
Total forward foreign exchange contracts			1,572	(23)

	2012			
	Group and Company			
	Average exchange rate	Foreign exchange	Contract value	Carrying amount and fair value
	FC 000	NZ\$000	NZ\$000	
<b>USD</b>				
3 months and beyond	0.767	1,473	1,920	(42)
<b>AUD</b>				
3 months and beyond	0.776	397	512	(6)
Total forward foreign exchange contracts			2,432	(48)

## NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2013

### 21. FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

#### Foreign exchange sensitivity

The following sensitivity analysis is based on the group's foreign exchange risk exposures at year-end. At balance date, had the New Zealand dollar exchange rate changed as illustrated in the table below with all other variables held constant, post-tax deficit and equity would have been affected as follows:

	2013		2012	
	Post-tax surplus Higher/(lower)	Equity Higher/(lower)	Post-tax deficit (Higher)/lower	Equity Higher/(lower)
Sensitivity to reasonable movements:	\$000	\$000	\$000	\$000
<b>Change in United States dollar exchange rate</b>				
10% increase	(15)	(15)	(123)	(123)
10% decrease	18	18	150	150
<b>Change in Australian dollar exchange rate</b>				
10% increase	(54)	(54)	(33)	(33)
10% decrease	66	66	40	40
<b>Change in Euro exchange rate</b>				
10% increase	(33)	(33)	-	-
10% decrease	40	40	-	-

#### Credit risk

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

The group's cash and cash equivalents are placed with major trading banks 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 credit quality of debtors and other receivables with regard to credit evaluations or external credit rating. However, there is no concentration of credit risk with respect to receivables, as the company has a large number of customers. The ageing of trade receivables at balance date was as follows:

	2013			2012		
	Group and Company			Group and Company		
	Carrying amount	Provision for doubtful debts	Net carrying amount	Carrying amount	Provision for doubtful debts	Carrying amount
	\$000	\$000	\$000	\$000	\$000	\$000
Not past due	27,332	(319)	27,013	22,395	(75)	22,320
Past due 1 to 30 days	3,157	(269)	2,888	2,466	(198)	2,268
Past due 30 to 60 days	1,426	(194)	1,232	1,624	(156)	1,468
Past due more than 60 days	5,803	(1,602)	4,201	8,658	(2,776)	5,882
<b>Total</b>	<b>37,718</b>	<b>(2,384)</b>	<b>35,334</b>	<b>35,143</b>	<b>(3,205)</b>	<b>31,938</b>

	2013	2012
	Group and Company	Group and Company
	\$000	\$000
<b>Movement in the provision of doubtful debts</b>		
Balance at 1 July 2012	3,205	3,128
Additions during the year	771	689
Bad debts written off	(1,592)	(612)
<b>Balance at 30 June 2013</b>	<b>2,384</b>	<b>3,205</b>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2013

### 21. FINANCIAL ASSETS AND LIABILITIES (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 profiles of financial liabilities.

The group's objective is to maintain a balance between continuity of funding through long-term borrowings, sourced largely through 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 \$200 million.

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				
	Group and Company						
	0-6 months	7-12 months	1-2 years	2-3 years	Over 3 years	Gross nominal cash outflow	Carrying amount
2013	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<b>Financial liabilities</b>							
Bank overdraft	42	-	-	-	-	42	42
Trade and other payables	28,123	-	-	-	-	28,123	28,123
Accrued expenses*	59,621	-	-	-	-	59,621	59,621
Forward exchange contracts	12	31	14	-	-	57	57
Interest rate swaps	11,609	10,119	12,068	9,836	55,022	98,654	84,842
Borrowings	180,516	320,276	329,411	117,629	584,172	1,532,004	1,347,942
<b>Total</b>	<b>279,923</b>	<b>330,426</b>	<b>341,493</b>	<b>127,465</b>	<b>639,194</b>	<b>1,718,501</b>	<b>1,520,627</b>

	CURRENT		NON-CURRENT				
	Group and Company						
	0-6 months	7-12 months	1-2 years	2-3 years	Over 3 years	Gross nominal cash outflow	Carrying amount
2012	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<b>Financial liabilities</b>							
Trade and other payables	24,484	-	-	-	-	24,484	24,484
Accrued expenses*	55,918	-	-	-	-	55,918	55,918
Forward exchange contracts	6	68	-	-	-	74	74
Interest rate swaps	9,805	10,941	20,067	14,554	110,036	165,403	133,624
Borrowings	221,813	72,759	356,466	321,740	533,890	1,506,668	1,296,066
<b>Total</b>	<b>312,026</b>	<b>83,768</b>	<b>376,533</b>	<b>336,294</b>	<b>643,926</b>	<b>1,752,547</b>	<b>1,510,166</b>

\* Excludes current and non-current income received in advance of \$14.8 million (2012: \$14.8 million) as it was not categorised as a financial liability; refer note 18, page 103.

The group monitors rolling forecasts of liquidity reserves on the basis of expected cash flow. At balance date the group had \$227 million of unused credit facilities (commercial paper stand-by facility, overdraft facility and revolving credit facility) available for immediate use (2012: \$267 million).

#### 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 81, and debt including borrowings and covenants compliance as disclosed in note 20 on pages 104 to 106.

The group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The objective is to maintain an optimal capital structure to reduce the cost of capital. In ensuring that the group has sufficient solvency to satisfy all its operational needs, it 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 whilst 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 2013 and 30 June 2012.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2013

### 22. RELATED PARTIES

Shareholder	2013		2012	
	%	Shares	%	Shares
Auckland Council	100	260,693,164	100	260,693,164

#### Transactions with related parties

Watercare entered into borrowing arrangements with Auckland Council on the terms set out in note 20, page 106. Watercare also entered into interest rate swap arrangements with Auckland Council (with a notional value of \$120 million, 2012: \$130 million) with a fair value of \$1.3 million (2012: \$3.7 million) as at balance date as included in note 21, page 108. The balances outstanding and transactions relating to the borrowings from Auckland Council during the year were as follows:

	2013	2012
	Group and Company	Group and Company
	\$000	\$000
Loans from Auckland Council balance at 30 June	497,488	476,800
Interest payable on loans from Auckland Council	4,526	5,434
Interest expense on loans from Auckland Council	25,441	22,702
Loans borrowed from Auckland Council during the year	60,000	-
Loans repaid to Auckland Council during the year	39,312	66,458
Interest receivable (net) on interest rate swaps with Auckland Council	362	316
Interest expense on swaps (net) with Auckland Council	2,409	3,367

During the year, the group provided funding to its subsidiaries listed in note 10, page 95. Also, in the normal course of business, Watercare received monies and incurred expenses on behalf of Te Motu A Hiaroa (Puketutu Island) Governance Trust and, at balance date, \$512,153 (2012: \$236,427) was payable to the Trust by the group. Additionally, Watercare paid \$2 million to the Te Motu A Hiaroa (Puketutu Island) Governance Trust towards prepayment of the biosolids levy in accordance with an agreement with the iwi. The group also sold \$27.8 million of tax losses to POAL, an Auckland Council group entity as detailed in note 8, page 95.

The group provides retail water and wastewater services to its parent, 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 sales and purchases transactions with related parties in the normal course of its business such as the payment of rates. These were not collectively significant.

	2013	2012
	Group and Company	Group and Company
	\$000	\$000
Sales to related parties	13,483	94,783
Trade receivables – related parties	875	1,445
Purchases from related parties	6,178	4,247
Trade payables – related parties	354	327
Receivables accruals – related parties	1,253	1,531
Payables accruals – related parties	1,102	7,240

## NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2013

### 23. COMMITMENTS

	2013	2012
	Group and Company	Group and Company
	\$000	\$000
<b>Capital expenditure</b>		
The capital expenditure committed to, but not recognised in, these financial statements at balance date was:		
Buildings	490	174
Pipelines	195,076	251,376
Tanks, tunnels, roads and reservoirs	2,680	1,000
Intangibles	706	556
Other	53,354	20,290
<b>Total capital expenditure commitments</b>	<b>252,306</b>	<b>273,396</b>
<b>Anticipated payment schedule:</b>		
Less than one year	149,303	90,608
One to two years	72,248	11,547
Two to five years	30,755	171,241
<b>Total capital expenditure commitments</b>	<b>252,306</b>	<b>273,396</b>
The commitments relate to the following projects:		
Bulk supply meters	-	6,793
Expansion of the Waikato Water Treatment Plant	4,792	7,136
Hunua 4 Watermain	140,105	192,663
KHR Water Transmission	6,755	-
North Franklin Rural Communities	2,632	-
North Franklin Rural Communities – Water Transmission	5,165	-
Northern Trunk Sewer TS30	1,998	-
Reconstruction of Eastern Interceptor	2,976	-
Southwestern Interceptor	251	418
Stage 1 Northern Waitakere wastewater	3,503	5,182
Wastewater treatment plants	37,907	8,197
Water treatment plants	4,869	3,838
Other projects	41,353	49,169
<b>Total capital expenditure commitments</b>	<b>252,306</b>	<b>273,396</b>
<b>Operating leases</b>		
Anticipated payments under non-cancellable operating leases:		
Less than one year	4,695	3,229
One to two years	5,049	2,942
Two to five years	14,735	4,584
Beyond five years	81,497	49,312
<b>Total lease commitments</b>	<b>105,976</b>	<b>60,067</b>

The major lease commitments relate to the long-term lease of the new office premises in Newmarket which expires in September 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 \$585,000 (2012: \$510,000) for the water catchment areas was included in these commitments at face value. Other leases include the Newmarket office, the East Tamaki office, parks, reservoirs, office equipment and motor vehicles.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2013

### 24. CONTINGENCIES

In November 2011, the Department of Labour commenced proceedings against Watercare Services Limited for three charges laid in relation to the Onehunga gas explosion incident. In the event that Watercare is proven to be liable or changes its plea, the maximum liability for each charge is estimated to be approximately \$250,000.

The Bank of New Zealand has issued performance bonds of \$400,000 for 2013 (2012: nil). The performance bonds are to support the group's obligations to New Zealand Transport Agency for any potential defects or additional maintenance work resulting from the construction work being undertaken to the State Highway.

In the normal course of its business, the group was exposed to claims, legal proceedings and arbitrations that may in some cases result in costs to the group. The directors believe that these were adequately provided for by the group within note 19, page 104, of these financial statements and no additional material contingent liabilities requiring disclosure have been identified.

### 25. RETIREMENT BENEFIT PLANS

The employees of the group can each elect to join the KiwiSaver scheme. KiwiSaver 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 2013 was \$1,045,352 (2012: \$798,338).

### 26. REMUNERATION

The directors and key management personnel are included in this compensation.

	2013	2012
	Group and Company	Group and Company
	\$000	\$000
<b>Compensation of directors and key management personnel</b>		
Employees' salaries and wages and directors' fees	3,617	3,489
Post-employment benefits	68	60
<b>Total compensation for directors and key executives</b>	<b>3,685</b>	<b>3,549</b>

		2013	2012
		Group and Company	Group and Company
	Appointed	\$000	\$000
<b>Directors' remuneration</b>			
David Clarke (Deputy Chairman)	July 2008	66	66
Peter Drummond	March 2010	53	50
Susan Huria	July 2008	53	53
Ross Keenan (Chairman)	March 2010	106	96
Jeff Todd	May 2007	65	60
Tony Lanigan	May 2011	53	53
Catherine Harland	May 2011	56	53
Mike Allen	December 2011	53	27
Patrick Snedden (resigned December 2011)	December 2002	-	26
<b>Total</b>		<b>505</b>	<b>484</b>

### 27. EVENTS OCCURRING AFTER BALANCE DATE

No significant events have occurred since balance date that require disclosure in these financial statements.

## STATUTORY INFORMATION

FOR THE YEAR ENDED 30 JUNE 2013

### 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 during the year of at least \$100,000.

Employees' remuneration range	2013
	Group and Company Number of employees
\$100,000 – \$110,000	49
\$110,001 – \$120,000	29
\$120,001 – \$130,000	20
\$130,001 – \$140,000	17
\$140,001 – \$150,000	11
\$150,001 – \$160,000	5
\$170,001 – \$180,000	5
\$180,001 – \$190,000	2
\$200,001 – \$210,000	3
\$210,001 – \$220,000	5
\$220,001 – \$230,000	1
\$230,001 – \$240,000	1
\$240,001 – \$250,000	2
\$270,001 – \$280,000	1
\$280,001 – \$290,000	1
\$340,001 – \$350,000	1
\$360,001 – \$370,000	1
\$370,001 – \$380,000	1
\$400,001 – \$410,000	1
\$780,001 – \$790,000	1

There were no redundancy and restructuring payments made to employees in the above remuneration ranges.

All fees received from the chief executive's association with entities outside Watercare are paid directly to Watercare and are retained by Watercare.

## 2013 STATEMENT OF SERVICE PERFORMANCE

(NON-FINANCIAL PERFORMANCE MEASURES)

### SAFE AND RELIABLE WATER

#### (a) Potable water quality

- (i) Percentage compliance with the Ministry of Health's drinking water standards for graded plants (excluding minor or technical non-compliance)  
(Target: 100% – Achieved: 100% – Previous year 100%)

Watercare fully met the target in respect of compliance with the Ministry of Health's Drinking Water Standards for New Zealand (DWSNZ) at Ministry of Health graded water treatment plants.

Compliance with the DWSNZ is verified through an extensive annual sampling programme by Watercare Laboratory Services who collects and analyses over 9000 samples throughout the region.

Compliance with the DWSNZ is independently assessed by a Ministry of Health-appointed Drinking Water Assessor.

- (ii) Percentage of graded metropolitan water treatment plants achieving Grade 'A'  
(Target: 100% – Achieved: 100% – Previous year 100%)

All metropolitan water treatment plants were graded and each maintained an 'A' grade.

- (iii) Percentage of graded metropolitan water supply reticulation achieving Grade 'a'  
(Target: 100% – Achieved: 100% – Previous year 100%)

All metropolitan distribution networks were graded and each maintained an 'a' grade.

- (iv) Percentage of graded non-metropolitan water treatment plants achieving Grade 'A'  
(Target: 35% (100% by 2020) – Achieved: 100% – Previous year 100%)

All non-metropolitan water treatment plants that were graded achieved an 'A' grade. Ten remain ungraded, of which six (in the Franklin region) will be decommissioned in the next financial year with the completion of the southern network upgrade project.

This project will provide these Franklin-based communities with water from the metropolitan system. It forms a significant part of Watercare's \$150 million programme of work to upgrade rural water and wastewater supplies.

- (v) Percentage of graded non-metropolitan water supply reticulation achieving Grade 'a'  
(Target: 15% (100% by 2020) – Achieved: 83% – Previous year 50%)

Of the graded non-metropolitan networks, 83% received an 'a' grade and 17% received a 'b' grade. This is an improvement on last year when 50% achieved an 'a' grade and 50% a 'b' grade.

Seven of the nine ungraded zones in the Franklin region will be supplied from the metropolitan system following completion of the southern network upgrade project in the next financial year.

#### (b) Continuity of supply

- (i) Percentage of unplanned water shutdowns restored within five hours  
(Target: ≥95% – Northern and Southern regions – Achieved: 96.7% (Central region is not provided) – Previous year: 98%)

In order to minimise the impact on its customers, Watercare has set a target of ensuring at least 95% of all unplanned water shutdowns are restored within five hours. The result for the year was 96.7% for the northern and southern regions, which comprise around 6000km of watermains.

The central region contains approximately 2000km of watermains. Operation of the central region maintenance contract was taken over at the start of the year by a newly created in-house department, Maintenance Services Networks. Performance against this measure has not been reported for the central region as a new information system is being developed to enable reporting to commence in the next financial year.

- (ii) Number of unplanned water interruptions per 1000 connected properties  
(Target: <10 – Northern and Southern regions – Achieved: 7.7 (Central region is not provided) – Previous year: 5.8)

As a measure of reliability of service, Watercare monitors the number of times the water supply to its customers is interrupted. The target is set to ensure there are 10 or fewer interruptions per 1000 connections during the year. The result for the year was 7.7 for the northern and southern regions, which comprise around 6000km of watermains.

The central region contains approximately 2000km of watermains. Operation of the central region maintenance contract was taken over at the start of the year by a newly created in-house department, Maintenance Services Networks. Performance against this measure has not been reported for the central region as a new information system is being developed to enable reporting to commence in the next financial year.

#### (c) Water conservation

- (i) Per capita consumption (litres/person/day)  
(Target: 282L/person/day – Achieved: 274L/person/day)

As part of ensuring there is water for the future of Auckland, Watercare is committed to reducing per capita consumption to 15% below the 2004 level by 2025. The level achieved this year was 274L/person/day, which meets the target of 282L/person/day.

This reduction is being achieved through a number of initiatives including network efficiency programmes and the provision of a free water audit service for residential customers. Watercare plans to develop its education programme and provide water audits for commercial customers in the 2013/14 financial year.

#### (d) Unaccountable water losses

- (i) Percentage of annual potable water network losses measured as total network volume ('losses' is defined as 'real' unaccountable losses, from the wholesale and retail distribution systems)  
(Target: ≤15% – Achieved: 14.8%)

A portion of the water produced by Watercare is not able to be invoiced; this is known as non-revenue water. Some of this non-revenue water is accounted for, such as that used as part of the production process (e.g. pipeline flushing) or for other community activities such as firefighting. Other losses, such as leakage from the network, are real unaccountable losses from the Watercare network. These were calculated to be 14.8% for the past 12 months against a performance target of less than 15%.

Last year, this calculation did not include non-metropolitan system data or losses upstream of the bulk supply points. The calculation this year has been adjusted to include actual losses from these sources.

## 2013 STATEMENT OF SERVICE PERFORMANCE (continued)

(NON-FINANCIAL PERFORMANCE MEASURES)

### HEALTHY WATERWAYS

#### (a) Wastewater network performance

- (i) Number of dry-weather sewer overflows per 100km of wastewater pipe length per year  
(Target: ≤5 – Achieved: 2.7 – Previous year: 2.3)

Watercare reports on the number of wastewater overflows from its retail network during dry weather as a measure of the capability of the network to meet current demand. The result for the year was 2.7 overflows per 100km of wastewater mains, which meets the target of five or fewer.

- (ii) Average number of wet-weather overflows per discharge location in priority receiving environments in areas serviced by the separated networks  
(Target: To have the Auckland-Wide Wastewater Network Discharge Consent application lodged and consent operational by 2015)

Watercare is applying for a regional wastewater network discharge consent, which, when granted, will set the target for wet-weather overflows. The consent application is expected to be lodged in the third quarter of 2013. Once lodged, the timeframe of the consenting process is beyond the control of Watercare.

- (iii) Number of sewer bursts and chokes per 1000 properties  
(Target: <10 – Northern and Southern regions – Achieved: 6.8 (Central region is not provided) – Previous year: 6.4)

The number of unplanned wastewater network interruptions as a result of breaks and chokes is a measure of the integrity of the system. The target is to achieve 10 or fewer. The result for the year was 6.8 for the northern and southern regions, which comprise around 5600km of wastewater mains.

The central region contains approximately 2000km of wastewater mains. Operation of the central region maintenance contract was taken over at the start of the year by a newly created in-house department, Maintenance Services Networks. Performance against this measure has not been reported for the central region as a new information system is being developed to enable reporting to commence in the next financial year.

#### (b) Wastewater treatment plant compliance

- (i) Percentage compliance with treatment plant discharge consents – metropolitan areas (excluding minor or technical non-compliances)  
(Target: 100% – Achieved: 100% – Previous year: 99%)

Compliance with consents at the major urban wastewater treatment plants was 100% against a target of 100%.

There was one transient period of 72 hours of minor non-compliance at the Mangere Wastewater Treatment Plant during the year and an upgrade programme has been implemented to address this. There was also a very short period of non-compliance of one parameter at the Army Bay Wastewater Treatment Plant.

- (ii) Percentage compliance with treatment plant discharge consents – non-metropolitan areas (excluding minor or technical non-compliances)  
(Target: 35% (100% by 2020) – Achieved: 60% – Previous year: 64%)

Work is continuing in regard to the poor performance of some of the rural wastewater treatment plants transferred to Watercare by councils upon integration.

This year, the plants performed at 60% against a target of 35%.

Watercare aims to achieve 100% compliance with this measure by 2020.

#### (c) RMA compliance

- (i) Number of successful Resource Management Act (RMA) prosecutions against Watercare  
(Target: 0 – Achieved: 0 – Previous year: 0)

There were no RMA prosecutions during the year.

### SATISFIED CUSTOMERS AND STAKEHOLDERS

#### (a) Customer satisfaction

- (i) Percentage of customers surveyed satisfied with Watercare's delivery of water and wastewater services  
(Target: 80% – Achieved: 81.4% – Previous year: 82.2%)

In line with best practice, an independent research organisation is used to survey a random selection of customers who contact Watercare to report faults. Watercare considers customers as being satisfied if the overall average score is at least 7 out of a possible 9. The overall average score for the year was 7.3 out of 9. This equates to a score of 81.4%.

- (ii) Percentage of calls answered within 20 seconds  
(Target: 80% – Achieved: 79.7% – Previous year: 81.8%)

Grade of service is an industry best-practice performance measure, aimed at ensuring calls are answered within 20 seconds. During the 2012/13 year, the grade of service target was not met due to the increased number of calls related to the unified tariffs and monthly billing project implemented on 1 July 2012. Overall performance was 79.7%.

The number of calls to First Contact (after hours) was not included in the grade of service. First Contact's grade of service performance for the year was 86.9%.

- (iii) Number of water-quality complaints (taste, odour, appearance) per 1000 water supply connections  
(Target: <5 – Achieved: 4.6 – Previous year: 4.1)

In order to improve the level of service provided, Watercare monitors the number and type of water quality complaints received from its customers. The number of complaints relating to taste, odour or appearance of the drinking water was 4.6 per 1000 connections which achieved the target of five or fewer.

- (iv) Percentage of complaints being 'resolved' within 10 working days  
(Target: 95% – Achieved: 97.2% – Previous year: 99.7%)

The target of 'resolved' complaints measures the total time taken for each issue to be resolved and feedback given to the customer. A 10-day target is considered industry best practice. Complaints (2142) made up 5.2% of Watercare's total enquiries. Of these, 97.2% of complaints were resolved within 10 days, exceeding the target of 95%. Furthermore, 99.3% of enquiries were resolved satisfactorily within 10 days.

## 2013 STATEMENT OF SERVICE PERFORMANCE (continued)

(NON-FINANCIAL PERFORMANCE MEASURES)

### EFFECTIVE ASSET MANAGEMENT

- (i) Percentage of actual capital expenditure relative to budget  
(Target: >85% – Achieved: 97.5% – Previous year: 96.5%)

Watercare aims to ensure capital expenditure is within 15% of the approved financial budget. For 2012/13 the actual capital expenditure was 97.5%, which was within 2.5% of budget.

### SOUND FINANCIAL MANAGEMENT

#### (a) Prudency

- (i) Minimum funds flow from operations (FFO) to interest cover before any price adjustment  
(Target:  $\geq 2.5$  – Achieved: 3.37 – Previous year: 3.22)

The FFO to interest cover ratio for the year was 3.37, higher than the budget figure of 2.86 and the required target of 2.50. The most significant contributor to this outperformance was interest expense, which came in well below budget due to a combination of lower-than-budgeted new borrowings and a lower-than-projected cost of funds. A mixture of slightly higher-than-budgeted revenue and lower operating expenses was also a factor.

#### (b) Affordability

- (i) Percentage of expenditure on water supply services relative to the average household income  
(Target:  $\leq 1.5\%$  – Achieved: 0.86% – Previous year: 0.72%)

The average monthly household water and wastewater bill from Watercare was \$64.35 for the period 1 July 2012 to 30 June 2013 inclusive. Based on Statistics NZ's current average monthly household income in Auckland of \$7475, the bill represents 0.86% of the average household income, seemingly higher than the 0.72% reported last year.

The apparent change in the result this year is largely due to the inclusion of wastewater charges in Watercare bills for those customers formerly billed through Council rates, together with the introduction of monthly billing for water and wastewater services.

Watercare has announced that its retail customers will receive no increase in the price of water and wastewater services in the 2013/14 financial year.

### STABLE WORKFORCE

#### (a) Lost-time injuries

- (i) Lost-time injury frequency rate (LTIFR) per million hours worked  
(Target:  $\leq 5$  – Achieved: 0 – Previous year: 1.39)

Watercare staff achieved a LTIFR of zero per million hours worked, which is within the target range of five or fewer.

- (ii) Level of ACC workplace management practices accreditation  
(Target: Tertiary – Achieved: Tertiary – Previous year: Tertiary)

ACC tertiary level accreditation was maintained following an external audit during the year.

#### (b) Staffing

- (i) Percentage of total hours absent due to illness  
(Target:  $\leq 2.5\%$  – Achieved: 2.0% – Previous year: 1.81%)

Watercare achieved an unplanned absenteeism rate of 2.0%, which is under the target of 2.5% or less.

Watercare provides a comprehensive occupational health service to all staff including: medical consultation, influenza immunisation, mandatory vaccinations for working in certain environments, skin checks and rehabilitation programmes. Employee Assistance Programme services are also available to all staff on a confidential basis either through company or self-referral.

- (ii) Percentage of voluntary leavers relative to number of permanent staff  
(Target:  $\leq 12\%$  – Achieved: 10.1% – Previous year: 11.81%)

Voluntary staff turnover for the year was 10.1%, which is within the target range of 12% or less. This is generally recognised as a healthy staffing refreshment rate.

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## GLOSSARY

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<b>Adopt A Stream</b>	Watercare's free education programme.
<b>Asset Management Plan (AMP)</b>	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.
<b>Biogas</b>	A by-product of the wastewater treatment process that comprises approximately 65 per cent methane.
<b>Biosolids</b>	A treated solid by-product of the wastewater treatment process.
<b>Capex</b>	Capital expenditure.
<b>Capitalised interest</b>	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.
<b>Central Interceptor</b>	A large tunnel that will collect and carry wastewater.
<b>Global Reporting Initiative (GRI)</b>	A non-profit organisation that works towards a sustainable global economy by providing sustainability reporting guidance.
<b>Greenhouse gases</b>	Gases that trap heat in the atmosphere. Examples of greenhouse gases are methane, perfluorocarbons and nitrous oxide.
<b>Infrastructure assets</b>	Assets that are mainly held and used for the purpose of treatment, storage and transmission of water and wastewater, such as water mains and sewers, and also treatment plants, tanks, dams and reservoirs.
<b>Infrastructure growth charge</b>	Amount collected from property owners or developers applying for new connections to help fund new infrastructure required by growth.
<b>Iwi</b>	Tribal group/s (origin: Māori).
<b>Kaitiaki</b>	Custodian (origin: Māori).
<b>Mana whenua</b>	Territorial rights; tribal connection to a geographic region; associated with possession and occupation (origin: Māori).
<b>Mauri</b>	A material symbol of life (origin: Māori).
<b>Net finance costs</b>	Interest paid/payable less interest received/receivable.
<b>Opex</b>	Operational expenditure.
<b>Regional Demand Management Plan</b>	A plan that outlines how Watercare intends to achieve a 15% reduction in gross per-capita water consumption by 2025.
<b>Reliability-Centred Maintenance (RCM)</b>	A framework which identifies the optimum time to maintain or replace assets based on operational performance, cost, health and safety and the environment.
<b>Statement of Intent (SOI)</b>	The SOI represents Watercare's public and legislative expression of accountability to its shareholder and establishes the agreement between the board and its shareholder.
<b>Statement of Service Performance (SSP)</b>	The SSP is a retrospective record of the performance of the company against the measures in its SOI.
<b>Subvention receipt</b>	Amount received/receivable from a profit company by a loss company for the sale of tax losses.
<b>Sustainability</b>	Meeting current needs without compromising future generations' ability to meet their own needs.
<b>Tāmaki Makaurau</b>	The Auckland isthmus region (origin: Māori).
<b>Tangata whenua</b>	Indigenous people of the land (origin: Māori).
<b>Taonga</b>	Property, goods, possessions (origin: Māori).
<b>Trade Waste</b>	Any discharge into a sewer in the course of an industry or trade process.
<b>Unaccounted-for water loss</b>	Water that is lost before it reaches the customer. Losses can be real losses (through leaks) or apparent losses (for example, through theft or metering inaccuracies).
<b>Vested assets</b>	Infrastructure assets transferred to Watercare by external parties: e.g. developers, New Zealand Transport Agency, Veolia Water Services (ANZ) Pty Limited.
<b>Wastewater</b>	Liquid or solid matter discharged into the sewer network from domestic, commercial or industrial locations.
<b>Well-being</b>	A general term to encompass health, happiness and welfare.

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