



# Watercare Services Limited Statement of Intent

For the period: 1 July 2012 to 30 June 2015



**water Care**  
services limited

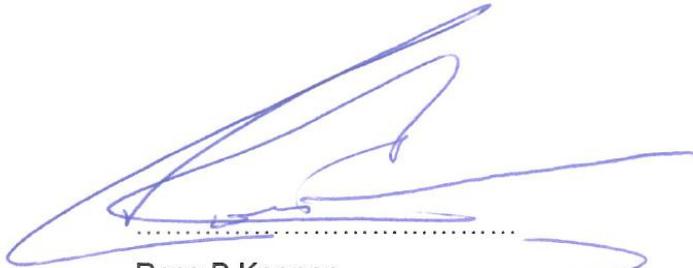
<b>1. INTRODUCTION .....</b>	<b>3</b>
<b>2. STRATEGIC DIRECTION.....</b>	<b>4</b>
2.1 VISION.....	4
2.2 KEY GOALS.....	4
2.3 CONTRIBUTION TO AUCKLAND COUNCIL GOALS .....	4
2.4 COMPANY OBLIGATION .....	5
<b>3. NATURE AND SCOPE OF ACTIVITIES.....</b>	<b>6</b>
<b>4. KEY PERFORMANCE INDICATORS.....</b>	<b>7</b>
4.1 NON-FINANCIAL PERFORMANCE.....	7
4.2 FINANCIAL PERFORMANCE .....	8
4.3 SUMMARY OF CAPITAL EXPENDITURE.....	11
<b>5. APPROACH TO GOVERNANCE .....</b>	<b>13</b>
5.1 SHAREHOLDER .....	13
5.2 BOARD OF DIRECTORS.....	13
5.3 ENGAGEMENT WITH THE SHAREHOLDER .....	14
5.3.1 <i>Relationship with the Governing Body</i> .....	14
5.3.2 <i>Quarterly Reports</i> .....	15
5.3.3 <i>Annual Report</i> .....	15
5.3.4 <i>Meetings with the Auckland Council</i> .....	15
5.3.5 <i>Relationship with associated units of Council</i> .....	16
5.3.6 <i>Information to be provided to shareholder</i> .....	16
5.3.7 <i>Events Requiring Shareholder Approval</i> .....	16
5.3.8 <i>Management of Strategic Assets</i> .....	16
5.4 ENGAGEMENT WITH OTHER STAKEHOLDERS .....	17
5.4.1 <i>Activities for which the Company Seeks Compensation from any Local</i> .....	17
5.4.2 <i>Tangata Whenua</i> .....	17
5.4.4 <i>Independent Māori Statutory Board (IMSB)</i> .....	18
5.4.5 <i>Auckland Council Advisory Panels</i> .....	18
5.4.6 <i>Other Council-Controlled Organisations</i> .....	18
5.4.7 <i>Central Government</i> .....	18
5.5 OTHER STAKEHOLDERS .....	19
<b>6. ORGANISATIONAL HEALTH, SAFETY AND CAPABILITY .....</b>	<b>19</b>
<b>7. FINANCIAL AND ACCOUNTING POLICIES.....</b>	<b>19</b>
7.1 FINANCIAL PLAN.....	19
7.2 AUCKLAND COUNCIL DEBT GUARANTEE.....	19
7.3 SHAREHOLDER FUNDS.....	20
7.4 ACCOUNTING POLICIES .....	20
7.5 APPLICATION OF SURPLUS FUNDS.....	20
7.6 PROCEDURES FOR THE ACQUISITION OF SHARES .....	20
7.7 DIRECTORS' ESTIMATE OF THE COMMERCIAL VALUE OF THE SHAREHOLDER INVESTMENT .....	21
7.8 DISPOSAL OF ASSETS.....	21
<b>APPENDIX A .....</b>	<b>21</b>
<b>APPENDIX B .....</b>	<b>22</b>

## 1. INTRODUCTION

Watercare Services is responsible for the provision of drinking water and wastewater services in the Auckland region and from 1 July 2012 is a council-controlled organisation (CCO) of the Auckland Council.

This Statement of Intent (SOI) represents Watercare's public expression of activities, intentions and objectives, and legislative expression of accountability to its shareholder the Auckland Council based on the performance measures included in this SOI.

The SOI recognises the important relationship that exists between Watercare and the Auckland Council, and that the success of each is dependent on the actions of the other. In particular, Watercare's ability to successfully undertake its business and meet performance targets set out in this SOI relies on the Auckland Council providing a supportive policy and regulatory environment that enables necessary water and wastewater investments and actions to be undertaken in a timely and sustainable manner.



Ross B Keenan

**Chairman**

June 2012

## 2. STRATEGIC DIRECTION

### 2.1 Vision

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

“Outstanding” means Watercare will provide safe drinking water, promote efficient water use, and protect waterways and the environment through the effective transport and treatment of wastewater. “Affordable” water services means that Watercare will run an efficient business and keep the overall costs of services to customers (collectively), at minimum levels.

### 2.2 Key Goals

Watercare has six main goals and focus areas that reflect the responsibilities and challenges of the company. These are:

- **Safe and Reliable Water Supply:** To manage water resources to provide a safe and reliable water supply.
- **Healthy Waterways:** To manage wastewater discharges to maintain or improve the health of the environment.
- **Sound Financial Management:** To meet business objectives at the lowest cost.
- **Effective Asset Management:** To maximise the use of existing assets while optimising the scope, timing and costs of new investments.
- **Engaged People:** To have a skilled, motivated and empowered workforce.
- **Satisfied Customers and Stakeholders:** To provide great service and great value.

These goals represent the main focus areas of Watercare’s business activities. Success in all these areas combined is required to deliver high quality and sustainable services to the people of Auckland.

### 2.3 Contribution to Auckland Council Goals

The supply of outstanding and affordable water services directly contributes to the Mayor’s vision of Auckland becoming the world’s most liveable city.

Of the six desired outcomes set out in the Auckland Plan, Watercare directly contributes to:

- A fair, safe and healthy Auckland, where people value the excellent services and facilities available
- A green Auckland, where our waterways and coastlines are clean and full of life
- A beautiful Auckland that is loved by its people, where Auckland communities take pride in their surroundings and work together to create places they value

The Auckland Plan sets out 11 strategic directions that will help Auckland achieve the Mayor's vision. Watercare contributes directly to several of these strategic directions. That is to:

- Enable Māori aspirations through recognition of the Treaty of Waitangi and customary rights
- Acknowledge that nature and its people are inseparable
- Contribute to tackling climate change and increasing energy resilience
- Plan, deliver and maintain quality infrastructure to make Auckland liveable and resilient.

Watercare supports the aims of the Implementation and Funding Framework through the alignment of Watercare's prioritised Asset Management Plan (AMP) and Financial Plan with the Auckland Council Long Term Plan.

Watercare supports the key enablers of the Auckland Plan and, in particular, moving to a quality compact urban form.

Watercare also supports the environmental principles within the Auckland Plan attached as Table 7.1, Appendix A.

## **2.4 Company Obligation**

From 1 July 2012, Watercare ceased to be a council organisation (CO) and became a CCO<sup>1</sup>. The company's obligations to deliver water and wastewater services for Auckland, are set out in Part 5 section 57(1) of the Local Government (Auckland Council) Act 2009 which stipulates amongst others, that an Auckland water organisation:

- (a) 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; and
- (b) must not pay any dividend or distribute any surplus in any way, directly or indirectly, to any owner or shareholder; and
- (c) is not required to comply with section 68(b) of the Local Government Act 2002; and
- (d) must have regard for public safety (for example, the safety of children in urban areas) in relation to its structures.

The SOI has been prepared in accordance with Schedule 8 of the Local Government Act 2002 and covers a three-year term from 1 July 2012 to 30 June 2015.

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<sup>1</sup> Under sections 2(2) and 113(2) of the Local Government (Auckland Transitional Provisions) Act 2010.

### 3. NATURE AND SCOPE OF ACTIVITIES

As at 1 July 2011, Watercare managed assets which are valued at \$7.8 billion and total revenue of \$373 million for the year ending 30 June 2011.

The company's main services include:

- **The collection, treatment, and distribution of drinking water** from 12 dams, 14 groundwater sources and springs and three river sources. A total of 142 billion litres of water was sourced in 2011/12 and treated at 21 plants and distributed through 8,825 kilometres of water pipes through 84 reservoirs and 90 pump stations to 425,800 residential and non residential properties.
- **The collection, treatment, and disposal of wastewater** at 20 treatment plants. The two main wastewater plants servicing the majority of the region are located at Mangere on the Manukau Harbour and Rosedale on the North Shore. Wastewater is conveyed through 7,673 kilometres of sewers before treatment. The regional network includes 537 wastewater pump stations and 180,000 manholes.
- **The transfer, treatment, and disposal of trade wastes.** At 1 July 2011, Watercare worked with 1,740 customers in administering the trade waste bylaw to protect the wastewater network and assist in ensuring that wastewater treatment plant discharges meet consent-requirements. Watercare is also responsible for enforcing trade waste compliance.
- **The provision of commercial laboratory services** in support of the business. The independently accredited laboratory provides a full range of testing and sampling services for water, wastewater, biota and air quality and also works with a wide customer base across a range of industries to provide first-class laboratory analysis and sampling services.

These activities are supported by customer services, finance, legal services, capital programmes and communications.

Watercare's responsibilities for the supply of drinking water and treatment and disposal of wastewater mean the company is a major contributor to the health, prosperity, and well-being of the Auckland wide community. The company has a sound record as a good corporate citizen, committed to the delivery of high quality cost-effective services. As a local government-owned utility, Watercare is obliged to provide a high level of transparency in reporting<sup>2</sup>. In line with the focus on sustainability, the company has been recognised for its commitment to transparent and accountable reporting and as an integrated provider of water and wastewater services these commitments will continue.

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<sup>2</sup> Watercare has received awards in both New Zealand and Australasia for the quality and transparency of company reporting from the New Zealand Institute of Chartered Accountants and the Association of Chartered Certified Accountants.

## 4. KEY PERFORMANCE INDICATORS

The following non-financial and financial information sets out Watercare's Key Performance Indicators, with non financial targets demonstrating how they align with the Mayor's vision and strategies for Auckland.

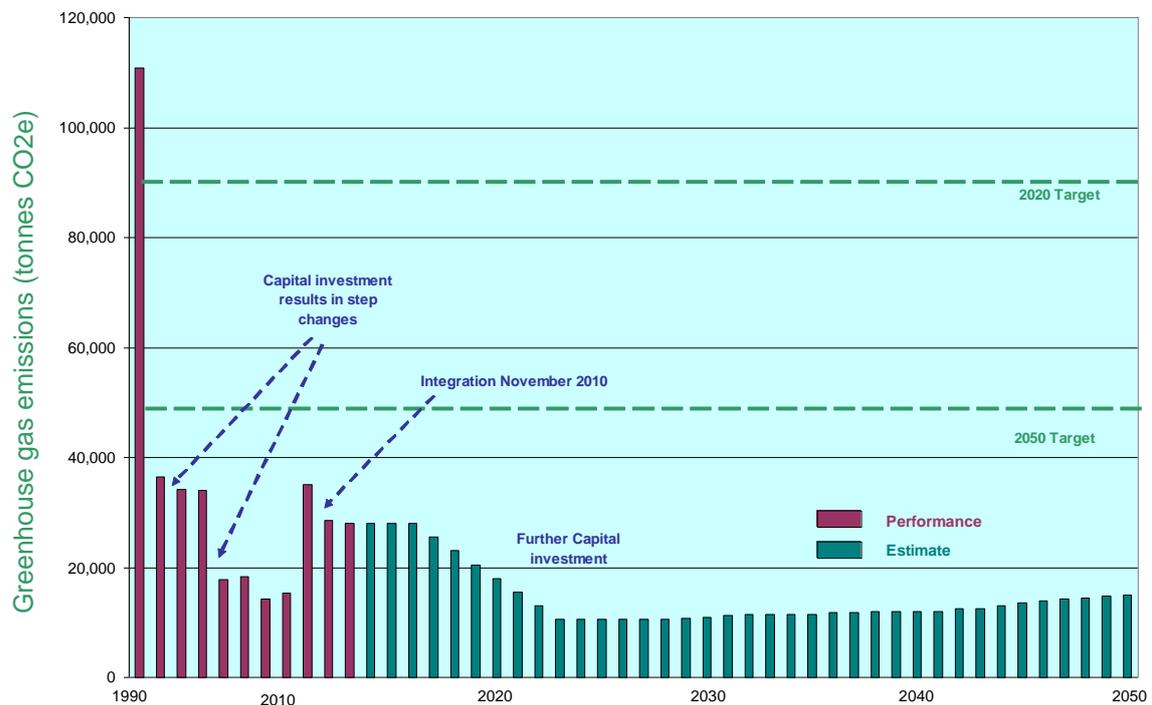
### 4.1 Non-financial performance

**The non financial performance measures can be found in Appendix B**

The performance target for greenhouse gas emissions adopted in the Auckland Plan differs from that of the Auckland Plan. The SOI target for this measure has been amended accordingly. Watercare is required to reduce greenhouse gas emissions by 10-20% by 2020 based upon 1990 levels and acknowledges the long-term target of a 50% reduction by 2050 based upon 1990 levels.

Watercare has achieved a 75% overall reduction in greenhouse gas emissions since 1990 and is working towards reducing levels further over future years as shown in Figure 1 below.

Fig 1. Watercare's greenhouse emissions 1990 -2012 with projections to 2050



In addition, Watercare generates over 30% of its total energy requirements annually through its gas turbine electricity generators at Mangere Wastewater Treatment Plant helping Watercare to be a minimum cost service provider. Watercare also generates electricity from small turbines on the water discharge from storage dams and designs its pipelines to use gravity as much as possible to reduce the need for pumps and associated power requirements.

## 4.2 Financial Performance

### Prospective summary income statement

for the year ending 30 June

\$000	Budget 2012/13	Plan 2012/13	Plan 2013/14	Plan 2014/15
<b>Income</b>				
Opex funding from Auckland Council	0	0	0	0
Capex funding from Auckland Council	0	0	0	0
Revenue from services	459,572	461,799	496,954	528,895
Other revenue to fund capital expenditure	0	0	0	0
Revenue from vested assets	0	0	0	0
Finance income	0	0	0	0
Dividend Income	0	0	0	0
Other gains/(losses)	0	0	0	0
<b>Total income</b>	<b>459,572</b>	<b>461,799</b>	<b>496,954</b>	<b>528,895</b>
<b>Expenditure</b>				
Personnel Costs	40,093	38,582	39,884	41,581
Depreciation and amortisation	177,669	177,335	200,973	210,408
Finance costs	92,069	92,088	100,702	110,790
Other expenditure	156,265	160,485	165,900	172,955
<b>Total operating expenditure</b>	<b>466,096</b>	<b>468,490</b>	<b>507,459</b>	<b>535,734</b>
<b>Surplus/(deficit) before tax</b>	<b>(6,524)</b>	<b>(6,691)</b>	<b>(10,505)</b>	<b>(6,839)</b>
Income tax credit / (expense)	1,827	1,873	2,941	1,915
<b>Surplus/(deficit) after tax</b>	<b>(4,697)</b>	<b>(4,818)</b>	<b>(7,564)</b>	<b>(4,924)</b>
<b>Gains/(losses) recognised directly in equity</b>	<b>319,105</b>	<b>319,105</b>	<b>0</b>	<b>473,605</b>
<b>Total surplus/(deficit)</b>	<b>314,408</b>	<b>314,287</b>	<b>(7,564)</b>	<b>468,681</b>

Note:

Auckland Council does not capitalise interest on major capital projects whereas Watercare's accounting policy is to capitalise interest. These financial statements for Watercare have been restated to conform with Auckland Council policy with respect to capitalised interest, other than the opening Financial Position as at 1 July 2011 which has not been restated.

## Prospective Statement of Financial Position

As at 30 June

\$000	Plan 2012/13	Plan 2013/14	Plan 2014/15
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalent	0	0	0
Other current assets	75,853	80,324	84,390
<b>Total current assets</b>	<b>75,853</b>	<b>80,324</b>	<b>84,390</b>
Property plant and equipment	8,285,416	8,426,539	9,215,324
Investment property	0	0	0
Other non current assets	36,922	36,922	36,922
<b>Total non- current assets</b>	<b>8,322,338</b>	<b>8,463,461</b>	<b>9,252,246</b>
<b>Total assets</b>	<b>8,398,191</b>	<b>8,543,785</b>	<b>9,336,636</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	88,991	89,551	90,279
Borrowings	226,238	226,238	226,238
Other current liabilities	99,247	99,247	99,247
<b>Total current liabilities</b>	<b>414,476</b>	<b>415,036</b>	<b>415,764</b>
<b>Non-current liabilities</b>			
Borrowing from parent	374,202	296,829	164,213
Other borrowing	787,536	1,020,449	1,294,241
Other non-current liabilities	958,524	955,582	1,137,847
<b>Total non-current liabilities</b>	<b>2,120,262</b>	<b>2,272,860</b>	<b>2,596,301</b>
<b>Total liabilities</b>	<b>2,534,738</b>	<b>2,687,896</b>	<b>3,012,065</b>
<b>Net assets</b>	<b>5,863,453</b>	<b>5,855,889</b>	<b>6,324,571</b>
<b>Equity</b>			
Contributed equity	260,693	260,693	260,693
Reserves	5,527,838	5,527,838	6,001,443
Retained earnings	74,922	67,358	62,435
<b>Total equity</b>	<b>5,863,453</b>	<b>5,855,889</b>	<b>6,324,571</b>

Note:

Auckland Council does not capitalise interest on major capital projects whereas Watercare's accounting policy is to capitalise interest. These financial statements for Watercare have been restated to conform with Auckland Council policy with respect to capitalised interest, other than the opening Financial Position as at 1 July 2011 which has not been restated.

## Prospective summary funding statement

for the year ending 30 June

\$000	Plan 2012/13	Plan 2013/14	Plan 2014/15
Total operating expenditure	468,490	507,459	535,734
<b>Operating expenditure to be funded</b>	<b>468,490</b>	<b>507,459</b>	<b>535,734</b>
<b>Operating expenditure funded by:</b>			
Opex funding from Auckland Council	0	0	0
Revenue from services	461,799	496,954	528,896
Other revenue	0	0	0
External Loans	7,108	7,774	8,552
<b>Total opex funding</b>	<b>468,907</b>	<b>504,728</b>	<b>537,448</b>
<b>Operating Funding Surplus/(Deficit)</b>	<b>417</b>	<b>(2,731)</b>	<b>1,714</b>
Total capital expenditure	304,976	342,096	341,408
<b>Capital expenditure to be funded</b>	<b>304,976</b>	<b>342,096</b>	<b>341,408</b>
<b>Capital Expenditure funded by</b>			
Funded depreciation	177,335	200,973	210,408
Investment by Auckland Council	0	0	0
Loans from Auckland Council	0	0	0
External Loans	127,641	141,123	131,000
Grants and subsidies	0	0	0
Development and financial contributions	0	0	0
<b>Total capex funding</b>	<b>304,976</b>	<b>342,096</b>	<b>341,408</b>

Note:

Auckland Council does not capitalise interest on major capital projects whereas Watercare's accounting policy is to capitalise interest. These financial statements for Watercare have been restated to conform with Auckland Council policy with respect to capitalised interest, other than the opening Financial Position as at 1 July 2011 which has not been restated.

### 4.3 Summary of capital expenditure

Key capital projects with a whole life cost over \$2 million or of public interest (both renewal and new projects)

<b>Capital Project name</b>	<b>LTP \$000's</b>
<b>Water</b>	<b>Full year 12/13</b>
Hunua No 4 Trunk Water Main	54,760
KHR Water Transmission	10,215
Expansion of the Waikato Water Treatment Plant	10,000
North Franklin Rural communities	9,600
Pukekohe Watermain	5,486
Ardmore rapid restart & sludge handling	5,200
Drury Pump Station	3,075
Mt Hobson Upgrade	2,927
Remuera Watermain Project	2,650
Mt Wellington Water Supply Upgrade	2,503
Domain No. 2 Watermain	2,375
Pukekohe Upgrades	2,100
North Franklin Rural Communities-Watermain	1,485
Upper Huia Standpipe Replacement	1,100
Cathodic Protection	925
Ardmore Water Treatment Plant - Disinfection Facility	200
Albany/Pinehill Boost Pumping	170
Lower Huia Dam Pipework	100
Huia PAC	100
<b>Wastewater</b>	
Northern Waitakere Wastewater Servicing	10,120
Rehabilitation of Puketutu Island	7,735
Mangere Waste Water Treatment Plant Digester 8	5,440
TS30 Northern Trunk Sewer	5,320
DPS028 Pakuranga Rising Main	5,061
Western Interceptor Rehabilitation	3,695
Reconstruction of Eastern Interceptor	2,525
South Lynn Br Sewer (MH9-MH21) & Local	2,337
Catchment 34 Wastewater Sewer	2,100
Manurewa Branch Sewer Replacement	2,025
Branch 8 and Southern Interceptor Rehab	1,942
Royal Rd Siphon Replacement Duplication	1,901
Kerwyn Ave Renewal and Upgrade	1,830
Orakei Main Sewer Rehabilitation MH21-19	1,700
Network Consents	1,600

Central Interceptor Feasibility Design	1,525
Mangere Wastewater Treatment Plant BNR Capacity Upgrade	1,500
Eastern Interceptor Rehabilitation	1,370
Wairau (HSPS05) Rising Main Replacement	1,310
Mahia Branch Sewer Extension	1,215
Pump Station 37 (Blackbridge) Upgrade	1,156
EI Pipe Bridge #1 Replacement	952
Upgrade of North Shore TS8	914
Rosedale Wastewater Treatment Plant Cogeneration Upgrade	885
North Shore PS09 rising main	860
Barrys Point Wastewater Pump Station (NSPS04) an	780
Howick Diversion	737
Waiuku Treatment Plant Upgrade	610
Branch 3 Sewer Overflow Mitigation	585
Pt England Storage Tank & Br Sewer	530
Kohimarama Storage Tank & Branch Sewer	475
Army Bay Outfall	350
Wastewater Local Reticulation Renewals	300
Glen Eden Storage & Pipe Upgrade	250
Beachlands New Avenues Pump Station	250
Tamaki East Extension	215
Kumeu/Huapai/Riverhead Local Wastewater	200
Kawakawa Bay Wastewater Scheme	183
Matakana Wastewater Retrofit and Transfer	160
Mairangi Wastewater Pump Station (NSPS09) and St	145
Clarks Wastewater Treatment Plant Beach Upgrade	110
Mangere Wastewater Treatment Plant Digester Re-roofing	100
<b>Total projects &gt;\$2m</b>	<b>187,968</b>
<b>Total other projects &lt; \$2m</b>	<b>108,672</b>
<b>Total capital expenditure</b>	<b>296,640</b>

## 5. APPROACH TO GOVERNANCE

### 5.1 Shareholder

From the 1 July 2012 Watercare is a CCO of the Auckland Council. The Auckland Council is the company's shareholder.

### 5.2 Board of Directors

Watercare has an independent board of directors. The Local Government (Auckland Transitional Provisions) Act 2010 stipulates that no person who is a governing member of Auckland Council or a member of a local board, may hold office as a director of Watercare.

Watercare's constitution requires the directors to manage the company in line with the annual SOI. Through the SOI, the directors are accountable to the shareholder, who is in turn accountable to residents and ratepayers of the Auckland region.

The directors determine the overall direction of the company in light of the objectives set out in the SOI and the statutory requirements for the company under the Local Government Act 2002 and the Companies Act 1993. The directors make major decisions, including decisions on major new capital investment and on major business initiatives, in line with those objectives.

The directors are responsible for monitoring the performance of the company, and for monitoring the performance of the chief executive who has responsibility for managing the company on a day-to-day basis.

Watercare holds board meetings that are open to members of the public consistent with the guidelines for public meetings provided by the Mayor. Watercare also meets the public meeting requirements for CCOs pursuant to Section 96 of the Local Government (Auckland Council) Act 2009 which requires two public meetings to be open to members of the public as follows:

Purpose	Board Meeting
<ul style="list-style-type: none"><li>One meeting must be held before 30 June each year for the purpose of considering comments from shareholders on the organisation's draft statement of intent for the following financial year.</li></ul>	16 May 2013 (To be confirmed)
<ul style="list-style-type: none"><li>The other meeting must be held after 1 July each year for the purpose of considering the organisation's performance under its statement of intent in the previous financial year.</li></ul>	17 October 2013 (To be confirmed)

The board meetings are notified by way of a public notice in The New Zealand Herald and posted on the Watercare website.

Watercare is subject to Parts 1 to 6 of the Local Government Official Information and Meetings Act 1987. The company respects the underlying principles of, and complies fully with the Act.

However, due to the commercial nature of the company business, which includes commercial negotiations, contracts and tenders, there are occasions where certain information cannot be disclosed in public, particularly during the

course of negotiations. Where such information is materially significant, Watercare will keep the shareholder informed, consistent with the no-surprises approach.

When sharing confidential information with the shareholder where it is required to be heard in a confidential session, Watercare will provide a separate report and clearly state the reason for confidentiality under the Local Government Official Information and Meetings Act 1987.

The directors acknowledge that they are subject to an annual performance review in accordance with the Council's Appointment and Remuneration Policy.

Being a good employer is a principal objective of Watercare under section 59 of the Local Government Act 2002.

Watercare will act in accordance with relevant statutory provisions referring to the Treaty of Waitangi.

As Watercare Services Limited is a company under the Companies Act 1993, the board is bound by the duties and obligations under that Act. In particular, the board will adhere to the duty of directors, as set out under s131 of that Act, to act in good faith and in the best interests of company. The board of the company has all the powers necessary for managing, and for directing and supervising the management of the business and affairs of the company as set out under s128 of that Act.

The board operates under a governance charter that 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 (NZX) Corporate Governance Best Practice Code and the Securities Commission's nine principles of corporate governance.

## **5.3 Engagement with the Shareholder**

### **5.3.1 Relationship with the Governing Body**

Watercare is committed to working closely with the Auckland Council for the achievement of regional outcomes. Watercare will respect Auckland Council's roles and responsibilities and make sure that there is a mutual sharing of information by adopting a no-surprises approach. Watercare will ensure that Auckland Council is kept informed well in advance of anything considered potentially contentious in the public arena, whether the issue is inside or outside issues outlined in the SOI and the relevant legislation. Watercare will give effect to the Auckland Plan and to the Long Term Plan, and act consistently with other plans and policies of the Auckland Council such as the shareholder's Accountability Policy and the Shareholder Expectation Guide.

Watercare's ability to successfully undertake its business and achieve SOI outcomes relies on the support and cooperation of the Auckland Council in providing a policy and regulatory environment that enables the timely and successful delivery of water and wastewater investments and actions.

### **5.3.2 Quarterly Reports**

Management reports will be provided within one month of the end of the September and March quarters and within two months of the end of the December and June quarters as required under s66 of the Local Government Act 2002, including:

- The unaudited Statement of Financial Position as at the end of the preceding quarter, and the Statement of Financial Performance, Statement of Cash Flows and a capital expenditure summary for the year to date and the preceding quarter. These statements will include comparative budget data and variances.
- A commentary upon significant matters that occurred in the previous quarter including comments on financial results and significant matters expected in the next quarter.
- The return on equity for the preceding quarter and year to date.
- Particulars of any assets sold during the preceding quarter where the aggregate value of associated assets exceeds \$1 million.
- A commentary on customer service performance.
- A commentary on significant capital projects in progress.
- A commentary on material changes, if any, in capital expenditure.
- A report on the achievement of the SOI performance targets.
- Any reasonable request for information.

### **5.3.3 Annual Report**

Watercare will produce an Annual Report that covers sustainability performance together with the audited financial and service performance statements.

The annual report will be provided to the shareholder within three months of the end of the financial year in accordance with s67 of the Local Government Act 2002 and will meet the reporting requirements of the Companies Act 1993 and the Financial Reporting Act 1993. The annual report will also comply with New Zealand international financial reporting standards and will include any other information the directors consider appropriate.

### **5.3.4 Meetings with the Auckland Council**

Watercare will meet with the Auckland Council governing body or relevant council committee to formally present its quarterly reports which will include the six month and full year reports.

Watercare will also provide additional information as required consistent with a no-surprises approach to ensure the Auckland Council is kept informed in a timely manner of significant events which relate to the company and which may affect the Auckland Council.

While Watercare is accountable to the Governing Body as shareholder, it also has a relationship with local boards who share the decision-making responsibilities of the Auckland Council.

Watercare recognises the important role of local boards in local representation and decision making and has been proactively building relationships based on transparent communication of its activities. Watercare's Principal Advisor Local Boards facilitates the relationship and maintains information flows.

Watercare attends a significant number of local board meetings and workshops ensuring a no surprises approach on local issues and projects, particularly where they may affect members of the public and local constituents. An engagement plan has been developed, agreed and is place with the local boards to help facilitate the working relationship.

Watercare takes account of objectives and activities outlined in local board plans and agreements, to the extent that Watercare is responsible for their delivery. Watercare will also continue to provide a timely response to questions from local boards such as those raised during the local board planning processes or passed on by members of the public.

Watercare consults with local boards as part of statutory consenting processes where major works are planned that are likely to have a significant effect on residents and services.

### **5.3.5 Relationship with associated units of Council**

Watercare recognises the need for a close working relationship with the Stormwater unit of Council, particularly in the older central areas of Auckland which are serviced by a combined wastewater/storm water network. Watercare is also committed to participating in coordinating planning studies with many other parts of Council, to ensure that the study outcomes and associated implementation represents the best practicable option from an environmental and whole community perspective.

### **5.3.6 Information to be provided to shareholder**

In addition to reporting on the key performance indicators detailed in Section 4.0, Watercare will also regularly report on other aspects of compliance, governance and accountability. This includes major projects as part of the quarterly shareholder reporting process and will provide information specified in the templates provided by the shareholder's CCO Governance and Monitoring.

### **5.3.7 Events Requiring Shareholder Approval**

Shareholder approval will be obtained prior to Watercare entering any business activity that significantly changes or is outside the nature and scope of Watercare's current activities.

Watercare will follow Auckland Council's Board Appointment and Remuneration Policy, when making appointments to any subsidiaries and will communicate with the Council about proposed appointments in advance.

### **5.3.8 Management of Strategic Assets**

The company is required to give effect to the relevant aspects of the Auckland Council Long Term Plan (LTP) as it relates to the management of strategic assets. The Council has approved the LTP which includes the Watercare AMP.

Watercare is also required to give effect to the shareholder's Accountability Policy. It is recognised that there are a number of factors that should be considered by the board for decisions where prior consultation with the Council is required. The board of Watercare is not aware of any forthcoming decisions that meet these factors.

Strategic assets are assets that are elements of the water and wastewater networks that are integral to the functioning of the whole, assets such as the:

- Mangere Wastewater Treatment Plant
- Rosedale Wastewater Treatment Plant
- Army Bay Wastewater Treatment Plant
- Ardmore Water Treatment Plant
- Waikato Water Treatment Plant
- Hunua and Waitakere dams

## **5.4 Engagement with other stakeholders**

### **5.4.1 Activities for which the Company Seeks Compensation from any Local Authority**

Watercare maintains commercial arrangements with the Waikato District Council for functions, duties or services that the company is required to undertake. These include the supply of bulk wastewater services for properties in the Waikato District which dispose of wastewater to the Watercare owned and operated Tuakau Wastewater Treatment Plant in the Auckland Region.

Any negotiations with a local authority for commercial arrangements for the delivery of services will be undertaken without prejudice to Watercare's rights at law to impose reasonable charges for the supply of its services.

### **5.4.2 Tangata Whenua**

Watercare has always had a close relationship with Māori recognising the importance of natural resources to tangata whenua and acting in accordance with relevant statutory provisions referring to the Treaty of Waitangi. The company also undertakes consultation on company decisions that are likely to impact on Māori views and values.

In December 2009, Watercare established a memorandum of relationship with Waikato Tainui recognising the importance of the relationship to the achievement of outcomes such as Project Manukau, the Waikato River water take and the Puketutu Island Biosolids Rehabilitation Project. Watercare will continue to honor this relationship without prejudice to consultation with other iwi or hapu.

Watercare is working with iwi authorities throughout Auckland to establish the Kaitiaki Board. The emergence of the Kaitiaki Board resulted from a collective desire to engage with Māori proactively to build relationships and to enhance business efficiencies. In order to foster this relationship, Watercare has been working with Chairs of each iwi to develop the "Kaitiaki Charter." This Charter has been designed to provide a new vehicle through which Watercare and mana whenua can work collaboratively. The primary purpose is to develop creative, innovative solutions for water and wastewater strategies and projects throughout Auckland.

The Kaitiaki Charter has had considerable input from iwi and the feedback has been very positive to date. The draft Principles of the Charter are firmly based in ensuring Watercare operates in a manner that enhances environmental, social, and economic values, whilst maintaining cultural integrity. The inaugural hui to establish the Kaitiaki Board took place on 3 May 2012. The intention is to establish the Kaitiaki Board from September 2012.

The draft Charter principles are:

- **Relationship Building** - Building understanding and enhancing the relationship between mana whenua and Watercare
- **Integrity** - Ensuring cultural integrity and respect
- **Opportunities** - Identifying opportunities of mutual interest and benefit
- **Best Practice** - Advising on best practices for meeting Watercare's cultural, environmental, social and economic responsibilities
- **Efficiency** - Establishing efficient, collective processes for building the relationship and engagement

#### **5.4.4 Independent Māori Statutory Board (IMSB)**

The IMSB is both independent from Auckland Council and Mana Whenua groups. Its purpose is to assist the council to make decisions, perform functions and exercise powers by:

- promoting cultural, economic, environmental and social issues of significance for Mana Whenua groups and Mataawaka of Tamaki Makaurau; and
- ensuring that the council acts in accordance with statutory provisions referring to the Treaty of Waitangi.

Watercare acknowledges the role of Independent Māori Statutory Board and will take into account the schedule of issues of significance and any statutory Treaty of Waitangi provisions that are relevant to its activities and where appropriate engage with the board on these matters.

#### **5.4.5 Auckland Council Advisory Panels**

In addition to the IMSB Auckland Council has a number of advisory panels including the Pacific people's advisory panel, ethnic advisory panel, business advisory panel, rural advisory panel, youth advisory panel and the social policy forum. These groups provide Council with feedback from different perspectives and on the most appropriate ways to engage with Pacific and ethnic people. Where appropriate, Watercare will inform, and consult with advisory panels on issues of particular interest.

#### **5.4.6 Other Council-Controlled Organisations**

The relationship and cooperation with other CCOs is also important, particularly Auckland Transport, to minimise disruption to local communities. An example of cooperation was the joint road works and pipe laying as part of the Manukau Harbour crossing section of the Hunua 4 watermain thereby minimising disruption to the public. Watercare will continue to undertake this proactive, responsive and transparent communication with stakeholders and members of the public likely to be affected by company activities.

#### **5.4.7 Central Government**

Effective engagement with relevant central government organisations will be important to the successful delivery of water and wastewater services to Auckland. In particular, Watercare will work closely with Housing New Zealand, a significant property owner in Auckland, regarding water demand management.

Watercare may also contribute to the development of relevant national policies such as the National Infrastructure Plan and the National Policy Statement for Freshwater Management.

## **5.5 Other Stakeholders**

Stakeholder and community engagement is crucial to the success of Watercare's projects and work programmes. The company has an excellent record of public communication and consultation with large programmes of work such as Project Manukau, Project Hobson, the Puketutu Island Biosolids Rehabilitation Project and the Hunua 4 Watermain Project.

Watercare also has a proactive and constructive working relationship with regulators such as the Auckland Regional Public Health Service which is important to the delivery of safe drinking water and meeting required standards.

Watercare will also continue to work closely with the New Zealand Fire Service towards achievement of the Code of Practice for Fire Fighting Water Supplies.

## **6. ORGANISATIONAL HEALTH, SAFETY AND CAPABILITY**

Watercare is committed to building and maintaining an enduring and resilient organisation and will adhere to s36 of Schedule 7 of the Local Government Act 2002, which provides that a local authority must operate a personnel policy that complies with the principle of being a good employer. The obligations of being a good employer include providing good and safe working conditions.

### **6.1 Staff engagement survey**

Watercare will participate in an annual staff engagement survey that is relevant to the nature of the organisations role as a service utility provider. In addition, Watercare will also if required, take part in the shareholders group staff engagement survey using the shareholders survey provider.

## **7. FINANCIAL AND ACCOUNTING POLICIES**

### **7.1 Financial Plan**

Watercare was required to produce a Funding Plan under Section 18 of the Local Government Auckland Transitional Provisions Act 2010. Although no longer a legislative requirement, Watercare will provide the shareholder forward financial plans and information to satisfy the legislated requirements relating to the Annual Plan and the Long Term Plan obligations of the shareholder in respect of Watercare. Watercare will undertake extensive and transparent consultation with non-domestic customers and other stakeholders in setting the 2013/14 wastewater tariff and any trade waste charges. During the process Watercare will regularly report on progress to the Council.

### **7.2 Auckland Council Debt Guarantee**

In July 2008, Watercare established a debt guarantee facility with Auckland City Council, backed by the other shareholding councils, the obligations of which have now passed to Auckland Council under the Local Government (Tamaki Makaurau Reorganisation) Act 2009. The guarantee allows Watercare to utilise Auckland Council's stronger credit rating to raise a larger quantum of debt funding at lower interest rates and therefore deliver lower price increases than otherwise would have been possible.

Watercare will, as part of its treasury function, work with the Auckland Council to ensure that where appropriate the guarantee facility is fully utilised to ensure the costs to customers (collectively) are minimised.

### 7.3 Shareholder Funds

	\$million	2012/13	2013/14	2014/15
Shareholder Funds		5,863	5,856	6,325
Total Assets		8,398	8,544	9,337
<b><i>Ratio of Consolidated Shareholder Funds to Total Assets</i></b>		<b><i>0.70</i></b>	<b><i>0.69</i></b>	<b><i>0.68</i></b>

Note:

1. Consolidated Shareholder Funds are defined as Issued and Paid Up Capital, Revaluation Reserve and Retained Earnings.
2. Total Assets are defined as Net Book Value of Current Assets, Investments and Fixed Assets as disclosed in the Company's Statement of Financial Position.

### 7.4 Accounting Policies

Watercare's financial statements are prepared in accordance with the New Zealand International Financial Reporting Standards. Watercare's accounting policies are consistent with the shareholder's accounting policies with nominated exceptions e.g. interest capitalisation.

### 7.5 Application of Surplus Funds

Watercare is prohibited by legislation from paying a dividend.

Watercare annually reviews any water and wastewater surpluses and considers if the return of such surpluses to the customers is commercially prudent.

Watercare has developed a Pricing Adjustment Mechanism that allows for prices to customers to be reduced in circumstances where in aggregate, the company's performance in the year is significantly better than anticipated. The pricing adjustment in these exceptional circumstances will be made in the year it occurs.

### 7.6 Procedures for the Acquisition of Shares

The directors of Watercare will consider any share investment proposals.

Any decision to invest in or divest shares in another company or to enter into a joint venture relationship or participation arrangement through equity or operating agreements will be made by the directors in accordance with Watercare's constitution. The shareholder will be consulted in the event that an investment or divestment of this nature will create a significant increase in risk exposure or would be likely to generate significant public interest.

## 7.7 Directors' Estimate of the Commercial Value of the Shareholder Investment

The inclusion of an estimate of commercial value is a statutory requirement.

However, the Local Government Act 2002 prohibits Watercare from being privatised. Legislative restrictions also prevent the Auckland Council from selling its shares and prevent Watercare from paying dividends to the council.

The book value of the shareholder's investment at 30 June 2011 was \$5.58 billion, which includes a capital contribution reserve of \$3.77 billion based on the accounts maintained by Watercare in accordance with the stated accounting policies. The directors may from time to time requisition an independent valuation of the shareholder investment.

## 7.8 Disposal of Assets

The Company will consult with the shareholder prior to the disposal of any part of its undertakings, which, in any one-year, exceed in aggregate 5% of the current book value of its assets and in line with the Auckland Council Accountability Policy for council controlled organisations.

**Appendix A** (Table 7.1 is reproduced from page 176 of the Auckland Plan)

Table 7.1 Environmental Principles\*

Auckland's environment must be healthy and resilient in order to support life and lifestyles. To ensure this we must recognise that:

1. The environment supports us – we recognise the natural resources provided by our environment have limits, and must be protected and restored to ensure our future well being.
2. We need to consider environmental values in all that we do – the interaction between the environment and people is understood and considered in our everyday behaviour and choices.
3. Everything is connected – human activities affect air, sea, land and freshwater systems. Understanding the connections between environments in the way we manage them is critical.
4. Biodiversity is everywhere – our flora and fauna, and their habitats, occur both in public and private spaces, and in urban, rural, freshwater and coastal areas. To maintain biodiversity values we must all work together.
5. Natural hazards can affect our well-being – we need to ensure that Auckland and its people are resilient to the effects of natural hazards.
6. We are environmental stewards – future generations will depend on how well we manage the natural environment.

**Performance Measurements: Statement of Intent 2012-2013**

Performance Measure		Performance Target Over 3-Year Period			Output	Impact	Outcome		
		2012/2013	2013/2014	2014/2015			Auckland Plan Target	Auckland Plan Chapter	Auckland Plan Priority
INDICATOR	DRAFT MEASURE	TARGET	TARGET	TARGET					
	<i>Safe and Reliable Water</i>								
Potable Water Quality	Percentage compliance with MoH drinking water standards for graded plants (excluding minor or technical non-compliance)	100%	100%	100%	Safe and reliable drinking water	Improved public health		Chapter 1	Improve the education, health and safety of Aucklanders, with a focus on those most in need
	Percentage of graded metropolitan water treatment plants achieving Grade A	100%	100%	100%	Safe and reliable drinking water	Improved public health		Chapter 1	Improve the education, health and safety of Aucklanders, with a focus on those most in need
	Percentage of graded metropolitan water supply reticulation achieving Grade a	100%	100%	100%	Safe and reliable drinking water	Improved public health		Chapter 1	Improve the education, health and safety of Aucklanders, with a focus on those most in need
	Percentage of graded non-metropolitan water treatment plants achieving Grade A	35%	45%	50%	Safe and reliable drinking water	Improved public health		Chapter 1 Chapter 9	Improve the education, health and safety of Aucklanders, with a focus on those most in need Support rural settlements, living and communities
	Percentage of graded non-metropolitan water supply reticulation achieving Grade a	15%	25%	50%	Safe and reliable drinking water	Improved public health		Chapter 1 Chapter 9	Improve the education, health and safety of Aucklanders, with a focus on those most in need Support rural settlements, living and communities
Continuity of Supply	Percentage of unplanned water shutdowns restored within 5 hours	≥95%	≥95%	≥95%	Safe and reliable drinking water	Improved public health		Chapter 1	Improve the education, health and safety of Aucklanders, with a focus on those most in need
	Number of unplanned water interruptions per 1000 connected properties	<10	<10	<10	Safe and reliable drinking water	Improved public health		Chapter 1	Improve the education, health and safety of Aucklanders, with a focus on those most in need
Water Conservation	Per capita consumption (litres/person/day) Target for 2025 = 255 l/person/day Baseline in 2004 = 298 l/person/day	282 ±5%	280 ±5%	278 ±5%	Reduced demand on water resources	More sustainable use of natural resources	Reduce gross per capita water consumption from 2004 levels by 15% by 2025	Chapter 7 Chapter 8	Sustainably manage natural resources Mitigate climate change
Water Losses	Percentage of annual potable water network losses* measured as total network volume  *This is defined as "real" losses, which includes losses from the wholesale and retail distribution systems.	15%	14%	13%	Reduced demand on water resources	More sustainable use of natural resources	Reduce maximum annual potable water network losses to less than 12% of total network volume by 2040	Chapter 7 Chapter 8 Chapter 12	Sustainably manage natural resources Mitigate climate change Optimise, integrate, and align utility provision and planning
	<i>Healthy Waterways</i>								
Wastewater Network Performance	Number of dry weather sewer overflows per 100km of wastewater pipe length per year	≤5	≤5	≤5	Reduced wastewater discharges to environment	Healthier environment		Chapter 1 Chapter 7	Improve the education, health and safety of Aucklanders, with a focus on those most in need Sustainably manage natural resources
	Average number of wet weather overflows per discharge location in priority receiving environments in areas serviced by the separated networks.	The Auckland-Wide Wastewater Network Discharge Consent application lodged and consent operational.			Reduced wastewater discharges to the environment	Healthier environment	Reduce wet weather overflows to an average of no more than 2 events per discharge location per annum, where the stormwater and wastewater system are separated, by 2040 (with priority given to bathing beaches and other sensitive receiving environments by 2030)	Chapter 12 Chapter 5 Chapter 7 Chapter 7	Optimise, integrate, and align utility provision and planning Prioritise and optimise our recreation and sport facilities and public open space use and the capability of recreation and sport organisations. Treasure our coastline, harbours, islands and marine areas Sustainably manage natural resources
	Number of sewer bursts and chokes per 1000 properties	<10	<10	<10	Reduced wastewater discharges to the environment	Healthier environment		Chapter 12 Chapter 5 Chapter 7	Optimise, integrate, and align utility provision and planning Prioritise and optimise our recreation and sport facilities and public open space use and the capability of recreation and sport organisations. Treasure our coastline, harbours, islands and marine areas

Performance Measure		Performance Target Over 3-Year Period			Output	Impact	Outcome		
		2012/2013	2013/2014	2014/2015			Auckland Plan Target	Auckland Plan Chapter	Auckland Plan Priority
INDICATOR	DRAFT MEASURE	TARGET	TARGET	TARGET					
Wastewater Treatment Plant Compliance	Percentage compliance with treatment plant discharge consents – Metropolitan Areas (excluding minor or technical non-compliances)	100%	100%	100%	Reduced adverse effects on environment in urban areas	Healthier environment		Chapter 5 Chapter 7 Chapter 7	Prioritise and optimise our recreation and sport facilities and public open space use and the capability of recreation and sport organisations. Treasure our coastline, harbours, islands and marine areas Sustainably manage natural resources
	Percentage compliance with treatment plant discharge consents – Non-Metropolitan Areas (excluding minor or technical non-compliances)	35%	35%	35% 2020: 100%	Reduced adverse effects on environment in rural areas	Healthier rural and coastal environment		Chapter 7 Chapter 7 Chapter 9	Treasure our coastline, harbours, islands and marine areas Sustainably manage natural resources Create a sustainable balance between environmental protection, rural production and activities connected to rural environment
RMA Compliance	Number of successful RMA prosecutions against Watercare	0	0	0	Reduced adverse effects on environment	Healthier environment		Chapter 7 Chapter 7	Treasure our coastline, harbours, islands and marine areas Sustainably manage natural resources
<b>Satisfied Customers and Stakeholders</b>									
Customer Satisfaction	Percentage of customers surveyed satisfied with Watercare's delivery of water and wastewater services	80%	80%	80%	Satisfied customers	Better quality water services		Chapter 1 Chapter 6	Improve the education, health and safety of Aucklanders, with a focus on those most in need Grow a business-friendly and well-functioning city
	Percentage of calls answered within 20 seconds	80%	80%	80%	Satisfied customers	Better quality water services		Chapter 1 Chapter 6	Improve the education, health and safety of Aucklanders, with a focus on those most in need Grow a business-friendly and well-functioning city
	Number of water quality complaints (taste, odour, appearance) per 1,000 water supply connections	<5	<5	<5	Safe and reliable drinking water	Improved public health		Chapter 1 Chapter 6	Improve the education, health and safety of Aucklanders, with a focus on those most in need Grow a business-friendly and well-functioning city
	Percentage of complaints and being "closed" within 10 working days	95%	95%	95%	Satisfied customers	Better quality water services		Chapter 1 Chapter 6	Improve the education, health and safety of Aucklanders, with a focus on those most in need Grow a business-friendly and well-functioning city
<b>Effective Asset Management</b>									
	Percentage of actual capital expenditure relative to budget	>85%	>85%	>85%	Better water infrastructure	Better quality water services	Ongoing provision of planned and serviced capacity for Group 1 business land, including large lots, to meet 5-yearly demand as assessed by annual surveys	Chapter 1 Chapter 6 Chapter 7 Chapter 8 Chapter 10 Chapter 12	Improve the education, health and safety of Aucklanders, with a focus on those most in need Grow a business-friendly and well-functioning city Build resilience to natural hazards Mitigate climate change Demand good design in all development Optimise, integrate, and align utility provision and planning
<b>Sound Financial Management</b>									
	Minimum funds flow from operations to interest cover (FFO) before any price adjustment	≥2.5	≥2.5	≥2.5	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
Affordability	Percentage of expenditure on water supply services relative to the average household income	≤1.5%	≤1.5%	≤1.5%	Affordable water services	Improved public health		Chapter 1	Improve the education, health and safety of Aucklanders, with a focus on those most in need
<b>Stable Workforce</b>									
Lost-time injury	Lost-time injury frequency rate per million hours worked	≤5	≤5	≤5	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
	Level of ACC workplace management practices accreditation	Tertiary	Tertiary	Tertiary	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
Staffing	Percentage of total hours absent due to illness	≤2.5%	≤2.5%	≤2.5%	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
	Percentage of voluntary leavers relative to number of permanent staff	≤12%	≤12%	≤12%	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable