Pouring our energies into tomorrow

Annual Report 2021

Watercare

About us

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

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

We manage water and wastewater assets worth over $12 billion and plan and build infrastructure to ensure we support growth today and into the future.

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

About this report

This report presents an integrated view of Watercare's social, environmental and financial performance for the financial year ended 30 June 2021.

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

It covers our performance and our future plans to address the known challenges of ageing infrastructure and population growth as well as the challenges of a changing climate.

This report is also prepared in accordance with the Global Reporting Initiative (GRI) framework. The GRI is an internationally-recognised framework which encourages transparent reporting on performance and includes an established set of disclosures and performance indicators. This year, the GRI report has been prepared in accordance with the GRI Standards core option. An index of the indicators that we have reported against is included on page 127 of this report.

Reporting scope

This report covers all operations managed by Watercare. The majority of our operations and people are located in Auckland, New Zealand. We also operate three laboratories in Wellington, Queenstown and Invercargill (twelve staff members), along with an office in Hamilton. Watercare Services is contracted to provide water, wastewater and stormwater services for Waikato Disctrict Council. We are also a majority shareholder of software company Lutra.

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

Throughout this report, we have listed the sources of information used to compile the performance indicators and any significant assumptions or estimates applied. We have made an effort to report three years of data in order to highlight trends and changes in performance. This report was approved for publication on 29 October, 2021.

Looking ahead
Planning ahead

As Auckland's public water utility, we have a clear oversight of the water needs of this city as it grows. We were planning for the water infrastructure we have now 10 years ago. Our strategies to envisage and invest in water systems that will scale appropriately to meet Auckland's expanding needs are recognised globally.

It is important to us that the infrastructure required to ensure quality water for the city is understood, planned for and in the pipeline. Our strategies are pragmatic and reliable, and we take pride in the high quality of water and wastewater services we provide to enable Auckland's liveability and economy.

→

Two unknowns remain.

Climate changes won't be linear. Managing those impacts in ways that retain customers' confidence and keep our economy moving will challenge Watercare, just as it will challenge all of us. It will take energy and imagination to transform our responses, and the pressure to do so will be unrelenting for decades to come.

The proposed water reforms could also change the landscape in which we operate. Those are decisions outside our control. What we do know is that our scale, systems and processes can only contribute positively to whatever lies ahead.

Reconciling the future we have planned for and the future that will unfold is a challenge we will meet with confidence. We back ourselves to be resilient and to serve our city well. But we also understand that Watercare itself must, and will, transform. We are preparing for that. Just like water itself, we will move, flow and adapt to thrive.

01

How we create value
Kia whaihanga ngā huanga

How we create value

Our vision

Trusted by our communities for exceptional performance every day.

Better tomorrow than we are today.
Pai ake āpōpō atu i tēnei rā.

Our mission

Reliable, safe and efficient water and wastewater services.

INPUTS

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

People and culture
The competencies, capabilities, diversity and experience of our employees

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

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

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

Financial capital and resources
Our equity, debt, cash flow, revenue and investments

WHAT WE DO

OUTCOMES

Natural environment
Protected and enhanced natural environment

Leading-edge resource efficiency and reuse of resources including water

People and culture
Safe, engaged and empowered team

Customer trust and value

Industry talent and skills developed

Customer and stakeholder relationships
Public health

Engaged communities and stakeholders

Thriving communities and economy

Assets and infrastructure
Future-proofed growth and supply assurance

High-performing infrastructure

Intellectual capital
Industry-leading thinking and processes

Financial capital and resources
Minimum-cost, efficient, financially-robust provider

Supported by active governance and risk management

Chair and chief executive's report

Ki te ora te wai
Ka ora te whenua
Ka ora te tangata

The wellbeing of our customers and communities depends on us looking after our water sources. Because when the water is healthy, the land and the people are nourished.

Ongoing lower-than-average rainfall conditions in Auckland have cast a public spotlight on the resilience of our region's water supply. In the communities we serve, the perception of tap water as an infinite resource is slowly being replaced by an awareness of water as a precious taonga. At Watercare, we are embracing and fully supporting this evolution, which will serve us well as our city grows and our climate changes.

18B

Aucklanders did an outstanding job of using water efficiently throughout the year, saving around 18 billion litres.

Over the past 12 months, our response to the continued dry weather has been twofold: we have worked tirelessly to increase the volume of water available by building and expanding treatment plants; we have engaged our customers on their water use, encouraging them to use water wisely indoors while also adhering to mandatory restrictions outdoors. We are pleased to report significant progress on both counts.

Our flagship drought-response project, the Waikato 50, saw the design, procurement and construction of a new water treatment plant at Tuakau in less than 12 months – a project that would have normally taken up to four years to complete. From mid-July 2021, the new plant is supplying up to 50 million litres of water a day from the Waikato River. Crucially, this means we will take less water from our southern and western dams over winter to help them replenish ahead of summer. During the year, we also expanded our existing Waikato and Onehunga treatment plants and built new treatment plants at Papakura and Pukekohe.

Margaret Devlin
Chair

Jon Lamonte
Chief Executive

In the year ahead, we will increase production at our Papakura and Waitākere treatment plants. This means that by early 2022 we will have increased the total volume of water available by more than 100 million litres a day. That is enough to meet the needs of 400,000 people (about the population of Palmerston North, Tauranga and Hamilton combined). Most importantly, we will have increased the resilience of our city's water supply through greater diversity of sources and by reducing the reliance on dams, which suffer the effects of droughts more acutely than river and underground sources. We must also acknowledge the added demand this additional abstraction has placed on the Waikato River.

Aucklanders did an outstanding job of using water efficiently throughout the year, saving around 18 billion litres in total. We ensured that the need to be waterwise stayed top of mind by delivering a widespread campaign coupled with personalised management of commercial customers. By partnering with retailers, we were able to distribute tens of thousands of shower timers to shoppers, reinforcing our shorter shower message. And by delivering our hands-on education programme, we were able to teach 8675 pupils about the value of water.

In the year ahead, we will continue to encourage our communities and customers to be water efficient; however, our messaging will focus less on drought and more on water as a precious taonga. We will also continue to roll out smart meters to commercial customers and schools. Over the past year, we installed 1100 smart meters, which are helping these large-use customers to manage their water consumption and identify leaks more easily. We will extend this programme to home-owners in the next year.

Auckland's economy and quality of living depends on both the availability and quality of its water supply. Over the past year, we continued to meet the Ministry of Health's drinking water standards. We also started preparing for the new nationwide regulator – Taumata Arowai – which will introduce an enhanced drinking water regulatory system from late 2021.

We know Taumata Arowai will have a holistic approach to water safety – one that is about understanding and managing risks at each step of the way, from source to tap. We submitted updated water safety plans to the Wai Comply Drinking Water Assessors in June 2021 and began raising awareness of water safety planning across the business during the year. We strongly believe that all

$2.5M

We will invest an average of $2.5 million every day over the next 20 years to address the challenges of population growth, climate change and ageing assets.

our employees, regardless of their position, have a role to play in delivering safe drinking water to our customers.

Our relationship with our customers has been challenged during the years, due to the drought and COVID-19. The drought saw our ability to plan, deliver and operate infrastructure questioned in the media, on social forums, and by our customers. Meanwhile, COVID-19 impacted customers' direct experience with Watercare because our phone services and meter readings were temporarily suspended. However, over the final quarter of the year there was a marked improvement in our net promoter and trust scores. We believe this is due to several factors. Firstly, we focused heavily on first-call customer resolutions and committed more resources towards fixing leaks. Secondly, we promoted our drought-response projects and our future-focused 20-year asset management plan with our stakeholders through media and more targeted channels.

These actions served to rebuild trust in our ability to respond to issues in the short term as well as plan ahead for the long term.

Our 2021–2041 Asset Management Plan (AMP) is our most ambitious to date. It sets out how we will invest an average of $2.5 million every day over the next 20 years to address the challenges of population growth, climate change and ageing assets.

While our AMP is future focused, our investment in infrastructure during 2020/21 has also been significant. Over the past year, we spent $767 million, which saw us deliver several drought-response projects as well as progress some of our strategic initiatives. Substantial milestones were achieved on large-scale projects such as the Central Interceptor and Pukekohe Wastewater Treatment Plant upgrade. In the coming year, we again expect to spend over $747 million, with the completion of the Glen Innes Wastewater Network upgrade, the Hūnua 4 Watermain, and phase one of the Northern Interceptor.

Climate change is one of the biggest challenges that we face as a business and as a country. As we have experienced over the last few years, the water industry has been among the first to feel the impacts of climate change. Our commitment to climate action has continued throughout 2020/21. A key focus during the year was on boosting Auckland's water supply resilience and managing demand, as highlighted above. Our Integrated Source Management Model has been updated to reflect climate impacts on water source yield. (Read more information on work done in this area on page 24)

We cannot provide our services or deliver new infrastructure alone. Over the past 12 months, we have continued to nurture relationships with our iwi partners and stakeholders. We uphold Kia Ora Tāmaki Makaurau, a framework for the council group to place the aspirations of Māori in Tāmaki Makaurau at the heart of council business. In doing so, we have committed to award 5% of annual contract expenditure to Māori businesses by 2025. This programme will actively advance Māori business, identity, and culture.

Our responses to the drought and COVID-19 have demonstrated the collective resilience of our team, whether it is from our employee or our contractor workforce. They performed exceptionally well during a challenging and uncharted time. We appreciate their dedication to our mission.

$767M

Over the past year, we spent $767 million, which saw us deliver several drought-response projects as well as progress some of our strategic initiatives.

Our focus on ensuring our team return home safely saw us roll out an in-depth culture survey in the third quarter of the year. This has led to a programme of work that will take place over the coming year to improve our health, safety and wellbeing performance. It is being supported by a change in health and safety reporting, replacing traditional lag indicators, such as the lost-time injury frequency rate, with lead indicators focused on preventing injuries.

The challenge for the coming years is to retain and recruit talent in an extremely competitive job market. We believe this can be achieved by looking after our team – supporting their wellbeing; promoting training opportunities and career pathways; and recognising their contributions. This will be supported by demonstrating externally that we are an employer of choice that offers prospective employees opportunities that are unique to our business.

We would like to acknowledge the Board of Directors for their support over the year and thank our employees for their efforts and commitment. Together, we have overcome numerous challenges and become stronger as a result. This can only serve us well in the future.

Margaret Devlin
Chair

Jon Lamonte
Chief Executive

2021 Performance snapshot

Highs

18B

Litres of potable water saved by Auckland

1.23GWh

Electricity generated by floating solar array at Rosedale plant

+35

Stable employee net promoter score (+36 in 2019/20)

8.5 ↓

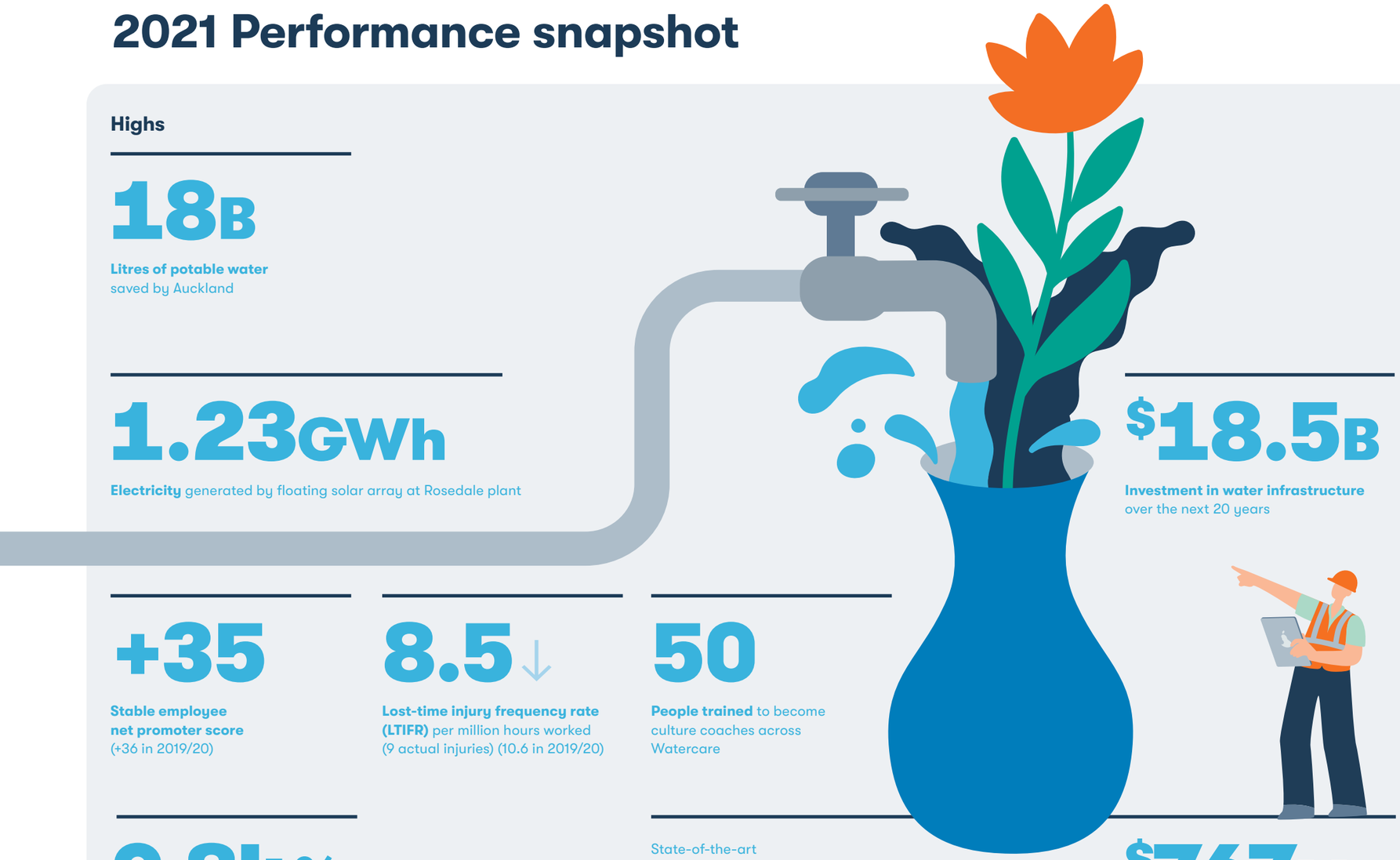
Lost-time injury frequency rate (LTIFR) per million hours worked (9 actual injuries) (10.6 in 2019/20)

50

People trained to become culture coaches across Watercare

0.84% ↑

Of monthly income was spent on water bills by an average Auckland household (0.87% in 2019/20)



3+3

3 new + 3 upgraded water treatment plants to boost supply resilience

State-of-the-art

Nerve Centre

for real-time operational insights

A new

Town-to-Tank

supply top-up service for customers on rain tanks supply

$18.5B

Investment in water infrastructure over the next 20 years

$767M ↑

Investment in capital projects ($552m in 2019/20)

$802.6M ↑

Revenue ($752m in 2019/20)

Lows

25%

Less rainfall than normal in catchments during 2020/21

$23M ↑

Operating expenses increased by 23 million or 8.7% from 2019/20 due to unplanned maintenance

12 ↑

Unplanned wastewater interruptions for every 1000 properties (Target = 10) (9.3 in 2019/20)

02

Delivering our strategy

Kia whakamana te rautaki

How we're delivering value

Natural environment
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People and culture
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Customer and stakeholder relationships
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Assets and infrastructure
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Intellectual capital
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Financial capital and resources
P.50

How we're delivering value

Natural environment

Value created
Protected and enhanced natural environment

Leading-edge resource efficiency and reuse of resources including water

Recovery and resilience have characterised the past year for Watercare.

Image: Hays Creek Dam, Feb 2021

We began our recovery from the severe drought in 2019/20 by improving the diversity of our water supply sources and reducing our reliance on rain-fed dams.

We have been working to increase the total volume of water available for Auckland. Our work to expand three existing treatment plants and build three new ones has meant that the water in our storage dams in the south and west has been conserved while we brought these new sources into service.

New, diverse water sources

In October 2020, we brought the Pukekohe bores back into service, treating groundwater at a new water treatment plant, to provide an extra five million litres of water daily.

The new water treatment plant has been designed in a modular fashion using equipment and containers built for different situations and other purposes, combined with custom-made components. This plant was designed, constructed and commissioned in just four months.

The next source to come online was Hays Creek in Papakura – a small dam which had been out of service for the past 15 years, due to the poor quality of raw water. Abstracting water from this dam and treating it to an extremely high standard, has added another six million litres of water daily, which would have otherwise been lost to the environment. The next stage of this project is on track to increase production by another six million litres by December 2021.

The last and biggest of our water supply augmentation projects is our new water treatment plant, the Waikato 50 at Tuakau, which can treat another 50 million litres of water from the Waikato River. This plant went into service in July 2021 and will make Auckland's water supply more resilient to prolonged dry weather. (Read more about the process of designing, building and commissioning these new treatment plants on page 48).

These new sources, along with the additional capacity enabled by upgrades at our existing plants at Tuakau, Onehunga and Waiākere will increase the total volume of water available to Auckland by more than 100 million litres of water a day. To put that into perspective, this is enough to meet the needs of 400,000 people (about the population of Palmerston North, Tauranga and Hamilton combined).

Reducing leaks

Our leak detection team has swept 5400 kilometres of pipes with acoustic technology, saving about nine million litres of water per day. The programme initially targeted areas with high numbers of reported leaks and will continue until all our 9000+ kilometres of pipes are surveyed. It is a key part of our efforts to minimise water lost to leaks.

When we find these invisible leaks in our network, we repair them and prevent the associated water loss. By repairing these smaller leaks which are normally invisible on the surface, we prevent larger leaks that can occur when the ground dries up and contracts, causing pipe movement and sometimes breakages.

While our dam levels were still about 25% lower than normal at the end of June 2021, our city's water supply is in a stronger position. This is thanks to these new sources, continued reduction in leaks and the incredible efforts of our customers and communities in demonstrating the value of water.

Enhancing environment

We know our customers and communities place a great deal of value on clean harbours and waterways and look to us to act as guardians of the environment. We don't take this responsibility lightly. Integrating environmental considerations into everything we do is key to our role as a trusted iwi partner and public utility.

Our activities are intrinsically linked to the health of the natural environment. We fulfil our environmental responsibilities through a regulatory framework (see page 23 for more details). Beyond compliance with consent conditions, we also further improve the quality of harbours and waterways through riparian restoration programmes, flora and fauna protection, and the use of advanced treatment processes to discharge high-quality treated wastewater.

The past year has seen us achieving a number of milestones relating to water quality:

Pukekohe
We completed the $110 million upgrade to the Pukekohe Wastewater Treatment Plant, putting in place advanced processes that will enable the discharge of top-quality treated wastewater into Parker Lane Stream, a tributary of the Waikato River. This is an example of a sustainable solution that allows us to discharge treated wastewater into the environment economically and safely while catering for the growing population in this region, for the next 35 years. We worked in partnership with Te Taniwha O Waikato.

Western Isthmus
As part of the Western Isthmus Water Quality Improvement Programme, we are investing $412 million over 10 years to reduce wastewater overflows into the environment in this area and working with Auckland Council's Healthy Waters department for sewer separation where there are combined stormwater and wastewater networks.

Highlights:

- Design and consenting for the St Marys Bay sewer separation project continues in the Herne Bay catchment.
- The Freemans Bay separation project is near completion with 1215 metres of new public stormwater network, separation of 16 dwellings in Picton Street and enabling separation of a further 61 dwellings in Anglesea and Picton Streets by diverting stormwater from the combined sewers into the new stormwater tunnel. This project also provides for full separation of an additional 74 dwellings in Franklin Road and Collingwood Street which are now connected to the new stormwater tunnel.
- The Ōwairaka separation project (Oakley catchment) is near completion, with 1170 metres of new public stormwater network (delivered by Piritahi and Kāinga Ora/Auckland Housing Programme) and separation of 66 dwellings (currently in progress).

$110M

upgrade to Pukekohe Wastewater Treatment Plant

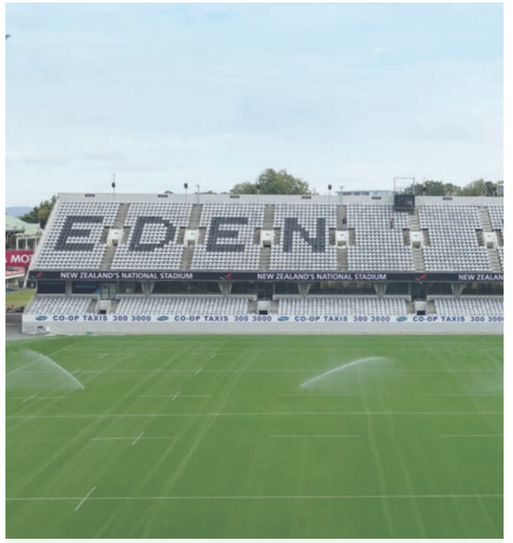
115K

native seedlings on the ground in the Hūnua Ranges

- Targeted/opportunistic separation projects include 515 metres of new public stormwater network installed in Bond Street (Motions catchment), Westmere Crescent and Winsomere Crescent (Westmere catchment) and 16 dwellings separated in Bond Street.
- We are carrying out field investigations for separation in other areas including Herne Bay, Point Chevalier, Westmere and Blockhouse Bay.

Hūnua Ranges
We advanced native planting in the Hūnua Ranges, with another 115,000 seedlings in the ground (adding to more than a million in total for the last three years). One of the largest restoration projects in the country, its objective is to progressively restore this 1900-hectare former pine forest to native bush over the next 30 years.

Image: Watercare's Hūnua forests



CASE STUDY

Eden Park gets a helping hand

Eden Park – New Zealand's national stadium has switched from using treated drinking water to bore water to irrigate its turf, thanks to a new custom-made water treatment plant and reinstated bore. Designed and supplied by Watercare, the new bore will result in projected water savings of 16 million litres of water per year (or the annual water use of 87 households) while ensuring that the turf is irrigated and kept in prime condition.

The historic bore has been out of service since 2008 because sandy sediment and minerals were causing major concrete stains and clogging irrigators. But now, the 25-metre-deep bore is pumping out up to 163,000 litres per day to water the turf. The bore revitalisation project began in May last year when water restrictions were introduced to combat Auckland's severe drought.

We are looking to extend the bore water irrigation project to other locations and likely candidates include Lloyd Elsmore Park in Pakuranga – one of the largest sports parks in Auckland.

Reduce and reuse

We completed the installation of New Zealand's first-ever floating solar array on the treatment pond at our Rosedale Wastewater Treatment Plant. The one-megawatt (1MW) floating array is made up of 2700 solar panels and 4000 floating pontoons and has generated 1.23 gigawatts per hour (GWh) since its installation in September 2020. Solar generation is expected to form a large part of our energy improvement programme in the coming years.

A key focus of our resource recovery journey is the beneficial use of biosolids. We have made notable progress in this area:

- Since September 2020, we have been trialling a range of potting mix blends, using pasteurised biosolids as fertiliser for growing native seedlings. About 10,000 native seedlings are part of this nursery trial at the Māngere Resource Recovery facility.
- Struvite, a clean sand-like by-product of the wastewater treatment process, has been used for formal turf trials and has produced very successful results both in seed germination and growth.

We will continue to expand these trials and work with Auckland Council and the wider industry to develop a market plan for the widespread use of treated biosolids for the horticulture industry.

Water supply

	2020/21	2019/20	2018/19
Water supply dams (no of operational sources over the year)	12	12	12
River sources (no of operational sources over the year)	2	2	3
Groundwater sources (no of operational sources over the year)	14	13	13
Water treatment plants	18	15	15
Length of treated water mains (km)	9,490	9,429	9,349
Service reservoirs	89	87	85
Pump stations	94	95	94
Annual volume produced (ex Plant m^3)	150,651,464	166,073,744	159,557,593
Annual volume sold (m^3)	118,648,870	132,321,049	128,610,171

* The difference between volume produced and volume sold is due to non–revenue water.

** Grading information for plants has not been reported as the Ministry of Health is now phasing out the grading system.

Volume of water by source

		2020/21		2019/20		2018/19	
Source		Volume (m^3)	%	Volume (m^3)	%	Volume (m^3)	%
Waitākere Dam	Surface	4,149,440	2.7%	2,700,520	2%	3,517,824	2%
Upper Huia Dam	Surface	4,638,628	3.1%	4,772,363	3%	4,684,808	3%
Upper Nihotupu Dam	Surface	6,338,574	4.2%	6,141,941	4%	5,299,609	3%
Lower Huia Dam	Surface	11,164,260	7.4%	12,116,995	7%	10,182,607	6%
Lower Nihotupu Dam	Surface	9,656,056	6.4%	9,503,293	6%	6,035,042	4%
Cosseys Dam	Surface	6,591,702	4.4%	14,291,634	9%	16,665,256	10%
Upper Mangatawhiri Dam	Surface	16,565,780	11.0%	21,188,152	13%	24,687,408	15%
Wairoa Dam	Surface	4,636,257	3.1%	9,139,533	5%	12,722,452	8%
Mangatangi Dam	Surface	19,259,299	12.8%	26,466,287	16%	41,817,529	26%
Hays Creek	Surface	501,548	0.3%	–	–	–	–
Waikato River	Surface	57,748,547	38.2%	50,812,241	30%	26,460,059	17%
Onehunga Aquifer	Ground	6,291,033	4.2%	6,848,096	4%	5,147,992	3%
Pukekohe Aquifer	Ground	1,277,532	0.8%	–	–	–	–
Rural North - Wellsford	Surface	204,975	0.1%	1,926,223	1%	1,727,329	1%
Rural North - Warkworth	Ground	594,846	0.4%	–	–	–	–
Rural North - Mangakura	Surface	89,487	-0.1%	–	–	–	–
Rural North - Sandhills	Ground	454,223	0.3%	–	–	–	–
Rural North - Muriwai	Ground	54,805	0.0%	–	–	–	–
Rural North - Huia Village	Surface	71,933	0.0%	–	–	–	–
Rural South - Bombay and Waiuku	Ground	922,541	0.6%	977,901	1%	928,023	1%
TOTAL		**151,032,492**		**166,885,179**		**159,875,938**	

In 2020/21, we supplied on average 356 million litres of water a day and collected and treated 354 million litres of wastewater a day.

Conservation activities

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

We continue to create native forest habitat in our water catchments and around our treatment plants. In 2020/21, we re-established native riparian margins at our Wellsford and Pukekohe wastewater treatment plants, and continued to replace pine forest with natives in the Hūnua Ranges.

Name of site	Ecological attributes	Conservation activities carried out in 2020/21
Southern regional wastewater plants	Habitat	Continued vegetation and noxious pest/weed control on Watercare-owned land at Pukekohe, Waiuku, Clarks Beach, Kawakawa Bay, Beachlands and Owhanake (Waiheke) wastewater treatment plants.
Southern regional wastewater plants	Habitat	Continued pest control (rabbits, possums, rats) at all southern sites.
Hūnua Ranges and Waitākere Ranges Fish Trap-and-haul Programme	Native bush	Trap-and-haul programme for the upstream migration of native juvenile eels and whitebait species and downstream migration of adult migrating eels. All trap-and-haul programmes are operated during the respective migrating season. Trap and haul at Mangatangi weir continued for the transfer of native torrent fish.
Northern regional wastewater plants	Native bush and wildlife habitat	Continued vegetation and noxious/pest weed control on Watercare-owned land – Army Bay, Waimauku, Helensville, Omaha, Snells/Algies, Waiwera, Warkworth and Wellsford wastewater treatment plants.
Northern regional wastewater plants	Native vegetation	We continue to actively undertake pest control (vermin) at all the northern regional wastewater treatment facilities.
Omaha Wastewaster Treatment Plant	Habitat	On the Omaha Wastewater Treatment Plant grounds, there is approximately 10 hectares of native plantings that are irrigated by treated wastewater.
Omaha Wastewater Treatment Plant – treated effluent storage pond	Native vegetation	Pāteke (Brown Teal), native to New Zealand, continue to seasonally swim in the storage pond. These are the rarest waterfowl on the mainland and hence are an important attribute to the area.
Māngere Wastewater Treatment Plant	Habitat for fauna	We have continued to undertake extensive vegetation management and noxious weed removal on Watercare land.
Bird roosts	Foreshore of Manukau Harbour, internationally-renowned for migratory birds	Continued maintaining bird roosts as needed. The Manukau Harbour and the bird roosts have continued to support more than 20% of New Zealand's total wading bird population with many migratory species including Eastern Bar-tailed Godwits, Wrybills and Southern Pied Oystercatchers.
Coastal walkways	Habitat for fauna	Ongoing maintenance of this public walkway.
Foreshore and coastal walkways	Foreshore of Manukau Harbour, internationally-renowned for migratory birds	Further planting done across foreshore area. Continued coordinated pest control activities with Auckland Council's Ambury Regional Park as a defence against invasive pests. The efforts included bait lines and alternate bait pulses, DOC200 traps, live traps, Pindone drops and shooting to reduce the number of pests impacting the bird roost and the Watercare Coastal Walkway. The ongoing support from volunteers for the trap lines and the general public in reporting changes on the foreshore have continued to help make the foreshore a better place.
Hūnua Ranges revegetation	Native bush	Planting of 115,000 native trees, replacing land previously under pine forestry. Part of an ongoing restoration project, with more plantings forecast for 2021/22.
Waikato RiverCare	Habitat	Riparian planting projects along the lower Waikato River to enhance river water quality.
Wellsford Wastewater Treatment Plant	Habitat	Riparian planting project along unnamed tributary downstream from discharge point.
Pukekohe Wastewater Treatment Plant	Home of birdlife as an extension of the adjacent wetland owned by Fish & Game	Riparian planting project along Parker Lane Stream.
Denehurst Wastewater Treatment Plant	Riparian restoration	Increased the density of plantings across the irrigation areas.
Puketutu Island	Volcanic cones	Formerly used for pastoral agriculture and as basalt quarry, now in the course of being rehabilitated and used as a high-tide roost by a variety of wading birds.
Meola Creek Enhancement	Local waterway	800 native trees planted in lava rock forest as part of Central Interceptor project.

Dams and other operational areas within Waitākere Ranges are covered by the Waitākere Ranges Area Heritage Act 2008. The Auckland Unitary Plan designates parts of our land as Significant Ecological areas. Some of our sites have 'heritage protection status' as well, e.g. Nihotupu Filter Station.

Climate change

Across the globe and throughout Aotearoa, New Zealand the effects of climate change are very visible. Climate impacts are often felt by the water industry first and the droughts experienced over the last two years have confirmed this. Our commitment to climate action has continued throughout 2020/21. An immediate focus has been on securing additional and diversified water sources and supporting Aucklanders to manage their demand. These are key components of the Watercare Climate Change Strategy which has been in place since March 2019.

The strategy covers specific actions that we will undertake immediately and establishes a pathway of monitoring and understanding between now and 2025 so that we can adapt to the changing climate based on evolving data and projections. Our strategy sets two ambitious targets for emissions reductions from our operations which align with keeping the global temperature increase within 1.5 degrees Celsius.

- Net Zero emissions by 2050
- Reduce operational greenhouse gas emissions by 50% by the year 2030.

Over the last 12 months Watercare has worked closely with Auckland Council on climate action and supported the development and launch of Te Tāruke-ā-Tāwhiri: Auckland's Climate Plan. As well as specific actions related to water security for Auckland, Watercare has also aligned emissions reduction targets with Auckland Council, aiming for a 50% reduction (the 2019 Watercare strategy aimed for 45%) by 2030.

Considerations of climate change impacts for Watercare are described using the Taskforce on Climate related Financial Disclosure (TCFD) framework and detailed in the Auckland Council report. Analysis of climate-related opportunities, cost implications of the identified climate-related risks and their management actions are currently in progress with a planned completion date of 2023.

Our climate strategy comprises a work plan that consists of 14 portfolios across both adaptation and mitigation. There was progress across these portfolios such as:

Water source resilience
Through our drought response programme, we delivered three new water treatment plants and upgraded three existing ones. Collectively, these projects have added diversity to our supply sources, increasing the total volume of water available to Auckland by more than 100 million litres a day (MLD) and boosting our supply resilience. (See page 18 for more details.)

Demand management
In March 2021, we launched the Auckland Water Efficiency Plan 2021-2025 which outlines how we will reduce Auckland's water consumption by 15% by 2025 (from 2004 levels). This plan marks the final stage of Watercare's commitment to the Auckland Three Waters Strategic Plan (2008).

The next long-term goal set by Watercare and Auckland Council jointly is to decrease Aucklanders' water use by 20% over the next 30 years. This target is part of a broader strategy being developed by Auckland Council to help Auckland prepare for population growth and a water future that is resilient to drought and climate change.

Climate change modelling
This year we focused largely on water supply as we developed our 20-year asset management plan and undertook additional analysis and research for the Waikato water take. Through this work we have included climate impacts on water source yield and updated the tools we use daily to manage water drawn from our varied sources. This upgrade of the Integrated Source Management Model has reflected the most recent climatic changes, ensuring we are up to date. The next step is to integrate future climate scenarios into this modelling tool.

Low-carbon infrastructure
Watercare's Programme First office integrates the understanding of carbon emissions into the delivery of infrastructure. With an ambitious target to reduce construction emissions by 40% there has been a focus on understanding the emissions associated with new assets. We have launched the Moata Carbon Portal internally – this tool enables the direct measurement of emissions generated by proposed options for an asset and enables low-carbon solutions to be explored.

Greenhouse gas (GHG) emissions

The measurement and management of GHG emissions is something we have been working on for a number of years and one that we continue to improve and refine. This journey started with significant upgrades to the Māngere Wastewater Treatment Plant, replacing the open-air oxidation ponds and sludge lagoons with land-based treatment operations. This change enabled us to capture the methane and nitrous oxide from wastewater and convert that into biogas which is turned into electricity to help run the plant. This approach resulted in a decrease of GHG emissions by approximately 80% from those emitted in 1990.

In recent times, we have focused on the measurement process itself, improving the reporting framework and updating emission factors. We have selected 2017/18 as our new baseline year in line with our reduction target set in the Watercare Climate Change Strategy.

This year our overall emissions (scopes 1, 2 and 3) have increased by 9% in comparison with 2019/20 and the primary movements are reflected below.

Scope 1 emissions increased by 14% as a result of increased natural gas consumption at Māngere Wastewater Treatment Plant compared with 2019/20. This increase is a normalisation of the gas consumption that was incredibly low the year before due to three of the four co-generation gas engines that were overhauled in 2019/20 now being operational. The benefit of co-generation is that direct electricity consumption is reduced.

Our scope 2 emissions decreased by 4% compared with the previous year. Overall, reduced water demand by Aucklanders has contributed to reduced consumption from the water networks against prior years. Electricity imported for treating wastewater has fallen by approximately 10GWh; this reflects dry weather conditions with less inflow and infiltration into the wastewater network and increased internal energy output from co-generation, which has operated more efficiently and reliably in the last 12 months. More installed solar, in particular the 1MW floating array at Rosedale, saw a significant increase in solar electricity generated and exported.

The boundary of our scope 3 reporting has expanded this year to include emissions from the disposal of waste grit and screening material from our wastewater treatment plants to landfill, along with the transport of these to commercial landfills. This additional reporting has contributed to an 18% increase in scope 3 emissions.

Focus for 2021/22
Our major focus for the coming year is the establishment of an emissions reduction roadmap to meet our 2030 emissions reduction target. In line with our Statement of Intent, this will include annual targets for the coming three years.

A decarbonisation team has been established within the organisation which is tasked with the delivery of our existing projects as well as investigating more opportunities for emissions reduction across the key components of water and wastewater services.

The measurement of carbon emissions will once again receive more focus; next year the target will be wastewater processing and the disposal of biosolids. Wastewater treatment requires a complex set of biological processes which can be unique to a treatment plant and are therefore challenging to measure. Water New Zealand have worked on a set of guidelines for New Zealand conditions, as well as learnings from global peers, and this will be reviewed for Watercare's operations.

Once again, we will monitor the impacts of the water reform and whether that will change the GHG emissions reporting boundary for Watercare.

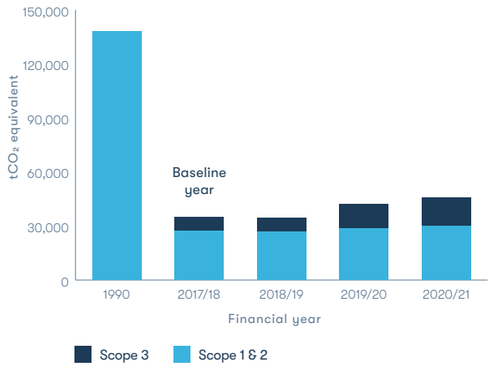
Note 1: Watercare's carbon footprint has been calculated in accordance with the "Greenhouse Gas Protocol" World Resources Institute (WRI, 2004), including all six Kyoto greenhouse gases (GHG) and the operational control method. Per protocol, it excludes biogenic CO_2 emissions from the burning of biogas which totalled 26,588 tCO_2. AR5 Global Warming Potential values with climate-carbon feedbacks of 34 for CH4 and 298 for N_2O have been used.

Note 2: Independent verification of GHG measurement provided by Toitū Envirocare in line with ISO 14064-1:2006. Emissions from Puketutu Island were excluded on the basis of insufficient data being available to calculate the emissions.

Note 3: Emissions factors are sourced from Ministry for the Environment (2015, 2019) and Intergovernmental Panel on Climate Change (IPCC) (2006). Wastewater emissions include additional industry calculations.

Performance against baseline (1990 onwards)

Watercare greenhouse gas emissions



We have selected 2017/18 as our new baseline year in line with our reduction target set in the Watercare Climate Change Strategy.

Scope 1 – Direct emissions e.g fuel burnt, treatment processes
Scope 2 – Electricity purchased Watercare greenhouse gas emissions

Scope 3 – Indirect emissions e.g fuel use by contractors

2020/21 Emissions sources

	Source	Emissions	%
Scope 1	Natural gas use	3,349	7.3
	Biogas combustion	31	0.1
	Fuel use in corporate vehicles	1,637	3.6
	On-site fuel use	292	0.6
	Wastewater treatment	3,600	7.8
	Effluent discharge to water and land	1,498	3.3
	Refrigerants	35	0.1
	Overflows from network	261	0.6
	Fugitive emissions from network	1,506	3.3
	Biosolids in land rehabilitation	2,906	6.3
Scope 2	Electricity use	14,668	31.9
Scope 3	Lime use (water and wastewater treatment)	6,557	14.3
	Maintenance contractor fuel use	1,661	3.6
	Transmission and distribution loss natural gas and electricity	1,528	3.3
	Waste generation and transport to landfill	3,720	8.1
	Business travel	72	0.2
	Waikato District Council operation and maintenance contract	2,659	5.8
	Total	**45,979**	**100**

Energy use and internal generation

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

This year, we used 197,187 megawatts per hour (MWh) of electricity, a decrease of 0.84% compared to 2019/20. We generated 28.2% of our total energy use internally, compared to 22.37% last year.

We have again had less rainfall this year and supply lakes' storage was also low for most of the year. To meet demand, we pumped more water from the Waikato River which consumes more energy than gravity-fed supply from our lakes.

The 1MW solar array at Rosedale Wastewater Treatment Plant has reduced grid consumption at that site by 25%. We will be exploring more options for solar generation to reduce emissions from operations.

Total energy consumption	Total	Unit	Percentage renewable	Percentage non-renewable	Total GJ	
Grid electricity purchased	143,627.70	MWh	78.8%	21.2%	517,059.73	
Electricity - self-generation renewable (solar, hydro, biogas)	47,444.00	MWh	100%	0.0%	170,798.41	
Electricity - self-generation non-renewable (natural gas, diesel)	6,115.44	MWh	0%	100.0%	22,015.57	
Transport - petrol, premium, diesel	723,159.89	litres	0%	100.0%	27,503.48	
Transport - BOC gas	705.00	kg	0%	100.0%	34.55	
Other - natural gas	1,593.00	GJ	0%	100.0%	1,593.00	
				TOTAL	**739,005**	
				Renewable	578,241.48	78%
				Non-renewable	160,763.26	22%

	2020/21		2019/20		2018/19	
Electricity use	MWh	%	MWh	%	MWh	%
Electricity generated through water supply (hydro)	833	0.4%	2,665	1.3%	1,413	0.8%
Electricity generated through wastewater treatment (biogas) - Mangere	41,192	20.9%	35,108	17.7%	39,298	21.9%
Electricity generated through wastewater treatment (biogas) - Rosedale	5,883	3.0%	6,309	3.2%	7,196	4.0%
Electricity generated from solar	1,606	0.8%	402	0.2%	84	0.0%
Electricity generated from non-renewable sources	6,115	3.1%	3,652	1.8%	4,834	2.7%
Total internally generated electricity	**55,629**	**28.2%**	**48,136**	**24.2%**	**52,824**	**29.4%**
Total purchased electricity	**143,628**	**72.8%**	**153,307**	**77.1%**	**128,441**	**71.5%**
Electricity exported to the grid (solar, hydro, biogas)	-2,069	-1.0%	-2,580	-1.3%	-1,626	-0.9%
Total electricity consumed	**197,187**	**100.0%**	**198,864**	**100.0%**	**179,639**	**100.0%**

Reusing waste from treatment processes

We aim to reuse as much material as possible from our water and wastewater treatment plants. Watercare uses biosolids from the Māngere Wastewater Treatment Plant to rehabilitate Puketutu Island, which was a maunga before it was quarried in the 1950's. We also maintain dedicated placement sites for solids removed during the water treatment process. In 2020/21, Watercare was able to reuse 100% of the solids from our water treatment process and 73% of the solids from our wastewater treatment process.

Operational waste from:	2020/21	2019/20	2018/19
Water treatment (m^3) - sludge	13,941	12,316	12,472
Wastewater treatment (t)- biosolids, grits and screenings	145,558	142,030	137,976

Metal content in biosolids at wastewater treatment plants

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

The metal content has decreased slightly this year, to 2.42 tonnes from last year's 2.43 tonnes.

	2020/21		2019/20	
Substance	Concentration (mg/kg)	Disposed weight (tonnes)	Concentration (mg/kg)	Disposed weight (tonnes)
Arsenic	6.50	–	5.40	0.19
Cadmium	0.60	–	0.70	0.03
Chromium	45.00	–	47.00	1.59
Lead	14.00	–	16.00	0.60
Mercury	0.40	–	0.50	0.02
Total	**66.50**	**–**	**69.60**	**2.43**

Resource consents

As at 30 June 2021, Watercare averaged 496 active consents over 2020/21 (507 in 2019/20). Our average rate of compliance with these consent conditions was 97.1% (96.6% in 2019/20).

Many of our non-compliances typically relate to treatment plants that are currently being upgraded or have upgrades planned. Where there have been repeat occurrences, we have plans in place for resolution either through design, consenting, construction or commissioning.

We investigated all non-compliances, and are confident that we have not caused any long-term adverse effects on the environment.

We report all non-compliances to Auckland Council, and the council took no formal enforcement actions, during 2020/21.

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Total active consents	513	512	521	529	526	532	535	525	529	529*	440*	441*
Number of non-compliant consents 1	16	17	15	19	17	9	16	13	12	13	13	21
Number of non-compliant category 3 Conditions	3	1	1	1	0	0	1	1	1	1	15	25
Number of non-compliant category 1 or 2 conditions	12	14	13	13	17	8	14	12	11	12	1	1

* Figures for these months are approximate and manually calculated due to a system fault.

How we're delivering value

People and culture

Value created

Safe, engaged and empowered team

Customer trust and value

Industry talent and skills developed

While Watercare manages assets worth more than $12 billion, our people are our biggest assets.

Our ability to respond to crises and recover from them is a reflection of the capability and commitment of our people.

The challenge for us, then, is to keep them safe and engaged, and enable them to grow and develop professionally while continuing to attract the right people for the right roles.

Engaged teams

Employee engagement levels, measured through employee net promoter scores (eNPS), were well above our targeted score (35 against a target of 20 or above) and remained relatively stable from 36 in 2019/20 for the company and showed positive increases for our operations and customer functions.

Meaningful work and a positive work environment are areas where we continue to perform well. One issue that emerged as an area for improvement is resourcing. Our work to tackle the drought has meant delivering critical projects within short timeframes which has impacted our people's ability to focus on long-term professional development and training.

The water industry has an ageing workforce, so attracting people – especially for critical operational roles – has been an ongoing challenge. To address this, we have been focusing on developing specific career pathways for operations; we have also increased the number of interns by 40%, and developed a new three-year graduate programme and apprenticeship scheme across our operations, Central Interceptor and infrastructure teams. Career pathways for other areas of the business will be developed from mid-2021 onwards.

Cultural shift for a safer workforce

Another ongoing issue has been the health and wellbeing of our workforce and ensuring our people go home safely to their families. Over the past few years, we have noticed a year-on-year increase in injuries. Injuries and incidents are symptoms of a deeper problem, so we have directed our attention towards identifying the implicit behaviours and factors that drive health and safety outcomes. Our work with Human Synergistics has been involving people from across the business – including our board and leadership teams – to improve our health, safety and wellbeing performance by understanding and addressing those implicit behaviours that are shaping our culture.

We have also made improvements to the way we report on health and safety every month, focusing on lead indicators including the number of cases raised and closed on our incident management system, number of safety conversations held by leadership teams and the number of site visits by leadership teams. These go beyond the blunt measures of lost-time injury frequency rate (LTIFR) and total recordable injury frequency rate (TRIFR), historically used as measures of health and safety performance.

Increasing diversity

Watercare is a diverse workplace, and we want to reflect this diversity across all functions in terms of both gender and Māori and Pasifika representation. We have committed to specific targets for increasing diversity and have completed work in identifying baselines that we will improve on year-on-year. (Read more information on page 122.) In 2020/21, we improved gender and ethnic representation: 9.0% for female employees and 6.4% for Māori/Pasifika ethnicity compared to 2019/20.

We also have a reciprocal arrangement with Waikato Tainui for sourcing interns from the iwi. During the year, 27 Watercare team members of Māori ethnicity participated and completed the Wānanga Māreikura for wāhine (female) irawhiti (transgender) and irahuhua (non-binary, gender-fluid). This bespoke programme was delivered in a marae environment to support our Māori employees to connect with their Māori tanga and cultural identity and has been designed to build confidence and competency. We also continued to incorporate te reo Māori into everyday business.

9.0%

Increase in gender representation

6.4%

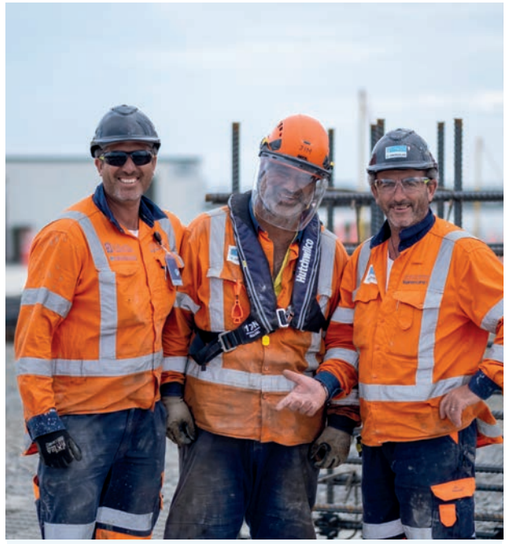
Increase in Māori/Pasifika representation

Growing talent

As a public water utility, we are competing in a tight labour market – not just with the private sector locally but also with companies overseas. Our aspiration is for Watercare to be an employer of choice by offering more growth and professional development opportunities. Our leadership development programme was delivered to 220 people leaders during 2020/21, focusing on core competencies, communication and delivering feedback. Our Future Stars and Mentoring the Watercare Way programmes are also examples of this in action.

Future Stars identifies people from across the business to collaborate and solve problems that challenge the water and infrastructure industry. Launched in 2019/20, one of the groups from the first cohort has been working on trialling the reuse of treated wastewater to irrigate green spaces and introduce the idea to the public. The next cohort of Future Stars has been identified and is working on issues like innovation and efficiency in the water sector.

More recently, we launched Watercare's mentoring programme and it has already seen encouraging participation from across the business. Mentoring programmes add valuable skill sets for current employees to advance their careers and personal development, while also attracting new talent into the organisation, particularly the younger generation. Mentoring is a key aspect of a supportive workplace as workplace statistics show that 76% of people believe mentors are important but only 37% have one.



CASE STUDY

Central Interceptor partners with Mates in Construction for suicide prevention

Watercare's Central Interceptor project is a foundation member of Mates in Construction NZ, which works to improve mental wellness and reduce suicide in the construction industry.

According to the Suicide Mortality Review Committee, the construction industry has the highest proportion of suicides across all industries in New Zealand, at 6.9%.

A one-hour mental health and suicide awareness programme is now part of the Central Interceptor induction, undertaken by all new employees.

The programme focuses on building people's confidence to talk to each other about mental health. Statistics show that of those who have taken their lives, only 7% had sought formal counselling, but more than half had reached out to a family member or friend.

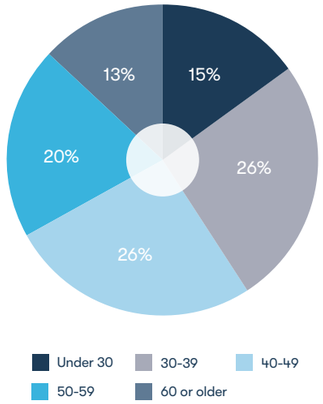
Suicide still has a big stigma attached to it. This programme is about trying to normalise talking about it. Building the confidence and skills of mates at work will empower them to have conversations about these really challenging topics.

Watercare is finalising an agreement for the rest of the infrastructure team to join the Mates in Construction programme.

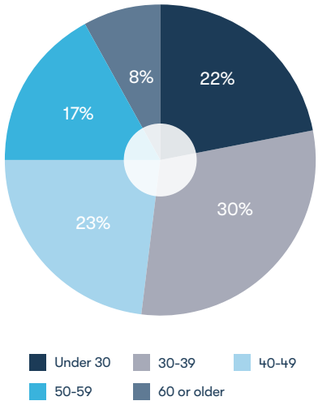
Workforce employment breakdown

The number of employees has increased (8.6%) from 1070 in 2019/20 to 1162 in 2020/21. Most of our employees work in the Auckland region. Watercare also operates laboratory testing services in Queenstown and Invercargill, where 12 staff members are employed. Collective employment agreements (CEAs) are employment agreements negotiated with one or more unions on behalf of those employees who belong to that union. Individual employment agreements (IEAs) remain the most common type of employment agreements. The majority of employees employed on CEAs are males who undertake operational or maintenance functions within the business.

Male age ratio



Female age ratio



New hires by gender and age

	2020/21	%	2019/20	%
Male	127	63%	106	54%
Female	74	37%	89	46%
Total	**201**		**195**	

Age group	2020/21	%	2019/20	%
Under 30	68	34%	66	34%
30-39	63	31%	53	27%
40-49	40	20%	55	28%
50-59	25	12%	18	9%
60 or older	5	2%	3	2%
Total	**201**		**195**	

	2020/21			2019/20			2018/19		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Individual employment agreements (IEA)	507	352	**859**	484	310	**794**	433	283	**716**
Collective employment agreements (CEA)	233	15	**248**	198	13	**211**	195	15	**210**
Part-time headcount	8	27	**35**	7	25	**32**	9	17	**26**
Fixed term individual agreements (IEA) >1yr	5	5	**10**	3	2	**5**	3	8	**11**
Fixed term individual agreements (IEA) <1yr	6	4	**10**	6	22	**28**	13	8	**21**
TOTAL fixed-term and permanent employees:	**759**	**403**	**1,162***	**698**	**372**	**1,070**	**653**	**331**	**984**
Casuals headcount	6	9	**15**	7	14	**21**	8	15	**23**
Total headcount on payroll	**765**	**412**	**1,177**	**705**	**386**	**1,091**	**661**	**346**	**1,007**

* Excludes Lutra employees

Employee engagement

Our eNPS score (a metric used to measure employee satisfaction) was well above our targeted score (35 against a target of 20 or above) and remained relatively stable from 36 in 2019/20 for the company while showing positive increases for our operations and customer functions.

Two areas that continue to score well are the work environment and culture, and the work itself. Improved opportunities for career development was also cited as a reason to work at Watercare. Areas highlighted for improvement include prioritisation of a business plan to reduce employee workload, adequately resourcing key functions and better cohesion between various business functions.

Diversity and inclusion

Watercare is a diverse place and we are committed to reflecting this diversity across all departments and functions. The overall gender representation for Watercare saw an improvement with an increase in female employees by 9% compared to 2019/20 levels. During the year, we undertook work to identify the baseline for gender representation within each department:

Breakdown of employee gender as at 30 June 2021

Department	Female	Male
Central Interceptor	52%	48%
Communications	75%	25%
Company Secretary	100%	0%
Customer	52%	48%
Digital	20%	80%
Executive	50%	50%
Finance	56%	44%
Infrastructure	31%	69%
Operations	18%	82%
People	65%	35%

Watercare's Board of Directors has the following gender breakdown: 57% female and 43% male.

Based on the above baseline for gender representation, we will implement appropriate hiring strategies and improve gender representation within departments going forward.

We also reviewed recruitment data to gather insights on our hiring process and to enable us to attract a broader range of applicants and ultimately increase representation.

In 2020/21, 6.4% of total applicants identified as Māori/Pasifika. We have established this as the baseline for applicant diversity. Now that we have the ability to capture and analyse applicant data, we will use this to implement appropriate hiring strategies and improve diversity.

Investment in employees

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

Training per staff member

Our employees undertook an average of 28 hours training in 2020/21 (excluding time spent on employee orientation) compared with 106 hours in 2019/20. Our drought response has required teams across our business to dedicate most, if not all, of their time to these projects; this intense demand on their time has led to a decrease in training hours. Across the business, there is a pressing need for more resources and reprioritisation of work to allow our people the time and space for training and professional development.

	2020/21	2019/20	2018/19
Average employee numbers over the year	1,089	1,007	945
Average hours of training for permanent employees	28	106	16
Total training spend ($)	1,050,667	1,235,033	1,092,397
Ratio ($ per average employee numbers)	$965	$1,226	$1,156

Performance review process

We schedule performance reviews annually for employees. These were conducted in August 2020 for 93% (55% for 2019/20) of those employees who were eligible. During the reporting year, the system used for these reviews was being phased out; as a result, this impacted the completion percentage.

Parental leave

Watercare offers an additional eight weeks of paid parental leave beyond that provided as part of the government-funded parental leave, and two weeks of paid parental leave for partners. In 2020/21, 100% of employees who took parental leave returned to work. The decision to return to work following the completion of their parental leave is solely up to the employee and is dependent on their individual personal circumstances. 93% of the people who returned from parental leave in 2019/20 are still employed with Watercare (2020/21).

Number who have taken parental leave	2020/21	2019/20	2018/19
Male	30	17	24
Female	13	12	15
Total	**43**	**29**	**39**

Number due to come back from parental leave each year	2020/21	2019/20	2018/19
Male	N/A	N/A	N/A
Female	13	16	11
Total	**13**	**16**	**11**

Number returned from parental leave	2020/21	2019/20	2018/19
Male	N/A	N/A	N/A
Female	13	15	7
Total	**13**	**15**	**7**
% returning after parental leave	**100%**	**94%**	**64%**

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

Employee turnover

Voluntary turnover

Voluntary turnover for 2020/21 was 8.08%, a decrease from 8.20% in 2019/20.

Involuntary turnover

Involuntary turnover includes retirements, deaths, abandonment of employment and negotiated or managed exits. In 2020/21, there were 25 instances of involuntary turnover.

	2020/21		2019/20		2018/19	
Gender/Age	Voluntary	Involuntary	Voluntary	Involuntary	Voluntary	Involuntary
Total %	**8%**	**2%**	**8.20%**	**3.00%**	**10.90%**	**3.82%**
Male	52	20	51	20	63	41
Female	36	5	32	10	36	12
Age group:						
Under 30	16	2	28	7	30	3
30-39	34	5	24	5	38	8
40-49	23	4	19	5	16	9
50-59	14	4	9	4	13	17
60 or older	1	10	3	9	2	16

Health, safety and wellbeing

HSW measure	2020/21	2019/20	2018/19
Lost-time injury frequency rate (LTIFR) – number of lost-time injuries per year per million hours worked	8.5	10.6	6.5
Total recordable injury frequency rate (TRIFR) per million hours worked	**16.1**	**20.6**	**12.4**

Third-party contractors are excluded from the above (and all health, safety and wellbeing performance data).

An analysis of the health and safety data during the year shows manual handling activities were the most common cause of injuries leading to sprains, strains and soft-tissue injuries to backs, shoulders and necks. There were 34 recordable injuries to employees in the year 2020/21.

We launched back-to-basics campaigns across 40 sites, focusing on a different theme each month to encourage people to think about workplace safety.

The idea is for people on site to decide on one action they can do to make their site safer every week. By encouraging people to commit to a safety action, the programme enables them to be proactive, build better workplace relationships and open the lines of communication, so they feel comfortable talking about any issues.

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

Absenteeism
Watercare recorded an unplanned absenteeism rate of 3.0%, which is a slight decrease over last year's result of 3.3%. We provide an occupational health service to all employees, including: medical consultation, influenza immunisation, mandatory vaccinations for those working in certain environments, skin checks and rehabilitation programmes. Employee assistance services such as counselling are available to all employees, either through the company or from self-referral. During the year, we also made available a special COVID-19 leave to encourage our people to stay home if they are unwell without worries about their sick leave allowance.

ACC workplace management practices accreditation
Watercare is a member of the Accredited Employers Programme (AEP) for workplace and non-workplace injuries. This programme is administered by Gallagher Bassett.

How we're delivering value

Customer and stakeholder relationships

Value created
Public health
Engaged communities and stakeholders
Thriving communities and economy

The past year has required us to make big decisions to address big challenges.

Looking after Auckland's water future is our highest priority and we need the support of and input from our customers to do so successfully. Therefore, 2020/21 has been about increasing our engagement with customers and stakeholders on diverse issues, listening to many perspectives and ensuring we are working towards a shared outcome – a safe and resilient water future for Auckland.

We engaged our customers in many ways, ranging from bespoke research on community-critical topics to asking for feedback on their experience at every touch point. The insights we gained not only guided day-to-day improvements to our systems, processes and behaviours, but they also informed our long-term investment decisions and how we price our services to afford those investments.

Valuing water today and tomorrow

Since the onset of the drought in 2019/20, Aucklanders have collectively saved about 18 billion litres of water. This is equivalent to the amount of water supplied to Auckland for 51 days. This greater appreciation for water has also led to increased interest in how we plan to cater for an ever-growing region against a backdrop of constantly stretched water resources and climate change.

Investing wisely and transparently

A resilient water future for our customers is a thoughtful mix of demand management and adequate investment so they are not faced with restrictions every year, while also having the assurance that a precious resource is being used responsibly.

Customers want greater involvement in our decision-making process – they want to be engaged early and receive the information that they need to be a part of that process.

Delivering value for money

While price increases are never welcomed, our customers tell us they care more about what they are getting for their money. They want to be charged fairly and transparently. This means: usage-based charging, with data and insights on abnormal or high usage; cost of growth distributed equitably between generations; and an appropriate level of investment in renewing and maintaining infrastructure.

Commercial customers, in particular, place more importance on service continuity and guaranteed access to safe and high-quality water over keeping costs low.

Protecting waterways

Along with a resilient water future, improving wastewater infrastructure remains a key area our customers want us to focus on. Overflows (a mix of stormwater and wastewater) into beaches and waterways impact quality of life for Aucklanders and they want this resolved sooner rather than later.

While we continued to engage with Aucklanders on the 'big picture' issues during the year, we also continued to improve on our day-to-day service commitments:

- We rolled out 1100 smart water meters to our commercial customers and schools, to help these large-use customers manage their water consumption and address leaks promptly.
- We made changes to the way we manage our maintenance crews over summer to enable us to address leaks promptly – reducing the need for customers to increase their need to contact us by 25% over summer (compared to 2019/20 summer).
- We introduced a new water top-up service in Whangaparāoa, allowing customers on tank water to have guaranteed access to water on demand – more than 232 residents have taken up this service. (Read more about this offering on page 38.)
- We improved our service to water tanker operators including timely notifications of network faults and water filling station availability.
- We introduced live-chat functionality on our website to provide customers with a 'digital first' experience. This channel offers more convenience, speedier response times and more enquiries are now able to be resolved during the first contact from customers.
- We engaged with key customer segments, especially those with high water consumption, and provided alternative, non-potable water supply where possible to reduce consumption of potable water.

A detailed view of our service performance is available on the next few pages.

Education on water

Proactive engagement on the value of water and water literacy continued throughout the year. Our education programme reached 8675 students across schools in Auckland. We participated in the Eye on Nature education programme at Auckland's Botanic Gardens, where we explained to over 800 children how wastewater is transferred and treated using practical experiments.

We launched our illustrated water and wastewater books as free downloadable resources in English and te reo Māori. These are being used by teachers to teach students about water and wastewater in the Auckland region.

We promoted the value of water extensively through competitions, campaigns and public events.

In partnership with Countdown, we distributed more than 60,000 free shower timers to shoppers to encourage them to take four-minute showers. For World Water Day in March, we partnered with a number of radio stations to encourage listeners to join the conversation about what water means for them. Initiatives like these contribute towards embedding water efficiency in everyday conversations and behaviours.

We have also partnered with Koi Tū, The Centre for Informed Futures at the University of Auckland, to trial a new form of democratic engagement for public decision-making called deliberative (or participatory) democracy. Many of the decisions that we need to make on behalf of Auckland are significant and complicated. By engaging with our customers, we aim to improve public understanding of the enormity of the decisions we need to make, socialise the trade-offs of the various options, and encourage them to deliberate and come to a consensus on the way forward. In the first of these sessions, we will focus on future water supply options for Auckland.

60K

Free shower timers distributed to shoppers to encourage them to take four-minute showers

CASE STUDY

New service provides peace of mind for customers on rain tank supply

In December 2020, we introduced a lower-cost connection option for Whangaparāoa residents with rain tank supply to connect to the public water network.

The new 'Town-to-Tank' connection allows eligible households to pay a reduced Infrastructure Growth Charge for a low-flow, metered connection that can be used as needed to top up a rain tank.

Customers using this option will benefit from the same level of security with their water supply as customers on a full connection. It offers assurance for those who want to remain mostly self-sufficient but would rather not have the stress of monitoring tank levels and possibly facing long wait times for tanker deliveries.

We lowered the barrier to obtaining a water connection by offering a reduced-flow service at a reduced price. A flow rate of between two and eight litres per minute means a tank can be topped up over a few days.

More than 232 residents have signed up for this service.

We also opened three new filling stations this summer, at Albany, Huapai and Ōrewa, to improve the service to water carriers and their customers.

Peak demand during the drought and dry weather can put a strain on our water networks and lead to long wait times for both the tanker operators and their customers waiting for water. It also poses a safety risk for the water carriers due to the number of truck movements at our filling stations.

These new stations will help water carriers serve their customers in a timely manner, while also reducing the health and safety risks at filling stations.

Safe, high-quality water

Water treatment plants
Water treated at all of our water treatment plants, both metropolitan and non-metropolitan, fully complied with the Drinking Water Standards for New Zealand (DWSNZ) regulations, including bacterial and protozoal compliance criteria.

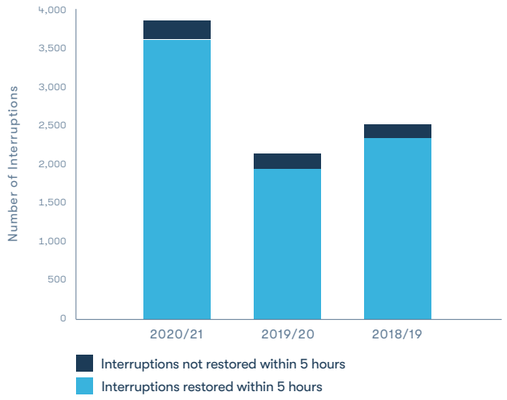
Reliable service

Unplanned water interruptions per 1000 connections
The Auckland region comprised a total of 452,093 water supply connections in 2020/21. As a measure of reliability of service, we monitor the number of times the water supply to our customers is interrupted.

We aim to ensure that there are 10 or fewer interruptions per 1000 connections during the year. The result for the 2020/21 year was 8.5 for the Auckland region compared to 4.8 during 2019/20.

Unplanned water interruptions restored within 5 hours
To minimise the impact on our customers, Watercare aims to ensure at least 95% of all unplanned water interruptions are restored within 5 hours. The result for the year was 94% for the Auckland region, compared to 91% for 2019/20.

Unplanned water shutdowns restored within 5 hours



Year	Total number of unplanned water shutdowns	Percentage of unplanned water interruptions restored within 5 hours
2020/21	3859	93.7%
2019/20	2132	91.0%
2018/19	2515	93.6%

Responsiveness

Attending and resolving faults

Type of fault	Description	Target	Achieved
Urgent faults on the water network	Median time taken by our crews to attend to the call-outs	≤60 mins	56
	Median time taken by our crews to resolve the fault	≤5 hours	2.8
Non-urgent faults on the water network	Median time taken by our crews to attend to the call-outs	≤5 days	1.0
	Median time taken by our crews to resolve the fault	≤6 days	1.3
Faults on the wastewater network	Median time taken by our crews to attend to the overflows caused by blockages or other faults	≤60 mins	51.0
	Median time taken by our crews to resolve the overflows caused by blockages or other faults	≤5 hours	2.5

Complaints
In 2020/21, 1071 complaints were received (1010 for 2019/20), and of these complaints, 98.3% (1053) were resolved within the stipulated 10-day period, meeting the target of 95% or more (95% for 2019/20).

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

Water

Types of complaints	Number	Percentage
Low water pressure (medium)	345	8.47%
Water complaint illness	66	1.62%
Water discoloured	1370	33.64%
Low water pressure (routine)	190	4.66%
Low water pressure (urgent)	1798	44.14%
Water quality flush	69	1.69%
Water tainted	235	5.77%
Total	**4073**	**100.00%**

Wastewater

Types of complaints	Number	Percentage
Sewer odour	760	6.26%
Sewer third-party damage	68	0.56%
Sewer incident	8	0.07%
Sewer manhole (routine)	276	2.27%
Sewer manhole (urgent)	39	0.32%
Sewer pipe broken		0.00%
Sewer pump station (routine)	871	7.17%
Sewer safety problem (urgent)	155	1.28%
Sewer overflow/blockage	9963	82.07%
Total	**12,140**	**100.00%**

Midge, odour and noise management at operational sites

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

Midges are small flies that thrive in water bodies in still and hot conditions. 'Other' includes complaints relating to the maintenance of our structures such as rubbish in a car park, graffiti, fencing and access.

Type of complaints	2018/19	2019/20	2020/21
Midge (insects)	13	9	3
Odour	100	29	32
Noise	7	1	–
Other	15	–	–

Affordability

In 2020/21, an average Auckland household (comprising three people) spent less than 1% (0.84%) of its monthly income on water and wastewater charges.

Account area	Cost of water and wastewater services per household per month 2020/21	2020/21 % of average weekly income earnings	Cost of water and wastewater services per household per month 2019/20	2019/20 % of average weekly income earnings	Cost of water and wastewater services per household per month 2018/19	2018/19 % of average weekly income earnings
Average	$81.29	0.84%	$84.96	0.87%	$81.00	0.83%

* Average income for Auckland based on Statistics NZ.

Customer satisfaction and loyalty

Net promoter score (NPS) is commonly used by utilities as a measure of customer loyalty. We use it to measure how satisfied our customers are with Watercare across all their interactions with our organisation – whether it is in person, by phone, email or via our website. Our NPS has improved this year (46 across 2020/21 from 43 across 2019/20), despite the challenges in 2020/21.

Our ongoing focus on embedding extreme accountability for customer outcomes among all customer-facing staff, including contractors Citycare and Downer, is making a difference. Improved first-call resolution, prompt attendance to leaks, and servicing customers through their channels of choice has reduced overall contacts to our front-line by 9%, compared to 2019/20.

Investment in community programmes

Watercare is active within the Auckland community in many ways. We offer a free education programme to primary schools and provide free water at public events.

We also sponsor Trees for Survival and Waikato RiverCare, two conservation programmes in the Hūnua Ranges and Waikato River respectively. Watercare funds the Water Utility Consumer Assistance Trust, which helps domestic customers facing financial difficulties to manage their water costs.

In addition, we continued sponsoring the Mark Ford Ngā Tapuwae Scholarship to acknowledge the company's late chief executive Mark Ford for his outstanding contribution to the industry. Students who are studying engineering at the University of Auckland are able to apply for this scholarship, which is valued at $5000.

Programme	2021	2020	2019
Watercare Education Programme	$7,738	$25,837	$11,507
Watercare Utility Consumer Assistance Trust	$100,000	$100,000	$120,000
Trees for Survival	$10,908	$3,450	$3,450
Watercare Harbour* Clean-Up Trust	$42,500	$325,000	$325,000
Waikato RiverCare	$50,000	$56,000	$50,000
Mark Ford Ngā Tapuwae Scholarship**	–	$5,000	$10,000
Total	**$203,408**	**$515,287**	**$519,957**

* We discontinued our sponsorship of the WHCUT in 2020/21.

** While two scholarships recipients were confirmed for 2020/21, the costs towards these scholarships were not incurred against the 2020/21 year.

Encouraging water efficiency

In 2020/21, the gross per capita consumption of water was 245.63 litres per person per day. Our target for 2020/21 was to maintain consumption within the 262 litres per person per day (+/- 2.5%) band, to meet the overall target of reducing demand by 15% by 2025, based on 2004 levels.

This significant reduction in water consumption is the result of the ongoing behavioural change from residential customers following the restrictions first announced in May 2020. It is also due to the proactive efforts by businesses to reduce their water consumption and implement water-efficient processes and systems.

The challenge for us, as the city's public water supplier, is to collaborate with our customers and communities and embed these behaviours over the long term.

Engaging with iwi

Broadly, our service outcomes advance all the strategic priorities outlined in Auckland Council's Kia Ora Tāmaki Makaurau framework through the provision of essential lifeline services to all the communities of Auckland, protecting public health and enabling the economy to flourish. Since our operations are intrinsically linked to the environment, we recognise the role played by mana whenua in providing advice which extends beyond project consultation.

Engagement with mana whenua has resulted in consents for strategic infrastructure projects without formal submissions from any of the 19 tribal authorities, because of early engagement and participation from iwi. These projects include the Central Interceptor, the Army Bay outfall and the new wastewater treatment plant at Snells Beach. The Pukekohe Wastewater Treatment Plant was consented with significant input and support from mana whenua.

We are applying the Mātauranga Māori principles in our project work, following our collaboration with Professor Rangi Mātāmua who has been instrumental in the revitalisation of this important tohu (sign) for Te Ao Māori.

Cultural Inductions for the Central Interceptor project workers and sub-contractors has been in full flight over the past year; our operational and infrastructure project consents continue to engage at an early stage with mana whenua, with site blessings and cultural inductions being the norm.

How we're delivering value

Assets and infrastructure

Value created
Future-proofed growth and supply assurance

High-performing infrastructure

As Auckland's water utility, we face three main challenges – population growth, ageing infrastructure and climate change.

The new water treatment plant in Tuakau

Planning for the short, medium and longer terms is integral for our business. Whether it is today or 20 years into the future, our customers and communities expect us to continue providing safe and reliable water and wastewater services at a fair price. Maintaining and building the right assets, at the right time and in the right place, is key to fulfilling our service commitments.

The past year has been notable not only for the infrastructure projects we have delivered but also for the way we have delivered them.

Delivering strategic assets

As highlighted on page 18, in 2020/21, we progressed and delivered almost all of our water supply augmentation projects, adding to Auckland's supply capacity by more than 100 million litres per day (MLD) at an investment of $224 million. While these were in response to the 2019/20 drought, they will also boost the region's overall resilience during the coming years.

In addition, we advanced several of our long-term projects across Auckland:

- In May 2021, we installed the final pipe on section 11 of the 31-Kilometre-long Hūnua 4 Watermain, one of our largest strategic water infrastructure projects. This project began in 2010 and on completion will ensure security of supply to Auckland and cater for growth. Parts of East Tāmaki, Manukau and Māngere are already being supplied by it and the full watermain is expected to be in service by December 2021.
- We received a resource consent to carry out earthworks and vegetation removal for the proposed Huia Water Treatment Plant replacement project from Auckland Council. This is an extremely critical project for our customers as the existing Huia Water Treatment Plant was built in 1928 and is nearing the end of its operational life. We will be replacing it with a new plant capable of treating 140MLD, which is 30 million litres more than the sustainable production capacity of the current plant. This project will cater for our region's growth and improve the security of the water supply.
- We advanced the construction of the Central Interceptor, a 14.7 Kilometre-long wastewater tunnel. This $1.2 billion tunnel is the biggest wastewater project in New Zealand history and will help to clean up central Auckland's waterways. Progress on this project during 2020/21 included: construction of the two main shafts at Māngere and May Road; start of micro-tunnelling at May Road for one of the link sewers; arrival of the main tunnel boring machine (TBM), Hiwa-i-te-rangi, from Germany and its assembly ahead of tunnelling underneath the Manukau Harbour. Tunnelling started in August 2021.
- We completed stage 1 of upgrades for Pukekohe Wastewater Treatment Plant – this is part of our work to cater for growth and improve environmental outcomes in this area. (Read more information about this project on page 20).
- Work progressed on other strategic projects including North Harbour 2 Watermain (to cater for growth and add resilience); Northern Interceptor (to cater for growth and balance the network); and the Huia 1 and Nihotupu 1 watermain replacements (to ensure service continuity and add resilience).

Low-carbon thinking

The scale of our infrastructure programme is enormous, as it should be, to cater for a growing population. This carries huge implications for increased emissions as we continue to build new installations. So our focus in the past year has also been on understanding, designing and delivering low-carbon infrastructure through our Enterprise Model approach to integrated programme delivery (see case study on page 48). This is also aligned with our 40:20:20 vision for reducing carbon in infrastructure by 40%; reducing cost by 20%; and improving health and safety outcomes by 20% by 2025.

Our efforts in this area have been recognised in a recent report by the UK's Construction Leadership Council (CLC) as an international best-practice example, highlighting our Enterprise Model as a climate-friendly approach to infrastructure delivery.

Supporting regional growth

There is considerable intensification occurring in our eastern and central-city catchments. The Tāmaki Regeneration Company (TRC) and Kāinga Ora are increasing the number of homes significantly in the Tāmaki, Glen Innes and Panmure areas in the east, and Mt Roskill, Ōwairaka and Oranga more centrally. They are targeting at least a threefold increase in dwelling numbers while they maintain the existing social housing stock in the area and provide additional housing for rent and private sale.

We have been working with these two organisations, specifically in managing wastewater capacity, to mitigate any adverse effects of the redevelopment on our network and the environment. Since the wastewater flows from this area are highly influenced by wet weather, we are planning to replace old wastewater pipes that connect each house to our network as well as investigate potential improvements to the public water and wastewater networks.

CASE STUDY

Investing more to improve service levels

Our customers expect safe and reliable services every day. This means investing sufficiently so our water and wastewater networks can withstand disruptions and operate with minimal impact on our customers or the environment.

To build a resilient water and wastewater system, and ensure reliability of service, we will invest about $10.2 billion in renewing and upgrading critical assets over the next 20 years. This is a significantly higher investment in renewals than ever before and makes up almost half of the total investment allocated in our latest asset management plan.

This investment is also a reflection of the shift towards a proactive rather than reactive asset renewal strategy and will result in improved service levels. A proactive renewal strategy will lead to leakage reduction in the water network and infiltration reduction in the wastewater network, preserving water as well as network and treatment capacity for customers. An analysis of our operations by the Water Industry Commission of Scotland in 2020 concluded that proactive renewal of assets generally lead to lower operating costs and more efficient delivery of services in the long term. Find the detailed renewal programme in our latest asset management plan.

$10.2B

To renew and upgrade assets over the next 20 years

High-performing infrastructure

Unplanned wastewater interruptions
The number of unplanned wastewater network interruptions caused by bursts and chokes is a measure of the integrity of the system. We aim to keep them fewer than 10 for every 1000 properties. The result for the year was 12 for the Auckland region.

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

The number of wastewater overflows from our retail network during dry weather is a measure of the network's capability to meet current demand. The result for the year was 0.86 dry-weather overflows per 1000 connections, which is well under the target of 5 or fewer.

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

The number of wet-weather overflows for the transmission network (bulk mains) per number of discharge locations was 0.51, which is within the target of 2 or fewer overflows.

The Central Interceptor Wastewater Tunnel and the Western Isthmus Water Quality Improvement Programme are examples of projects under way that will add capacity to the wastewater network, protect the environment from overflows and cater for growth.

Effective asset management

Water loss
Water loss is the difference between the volume of water produced and the volume of water sold, allowing for a percentage of water produced for operational and firefighting purposes. For 2020/21, the result was 13.7%, exceeding the specified target (13%). The water losses in this measure are calculated by deducting the volume of water sold and unbilled water usage (or non-revenue water) from the total volume of water produced.

Non-revenue water includes leaks (real water losses), water used for firefighting and operational use like toilet flushing. Portions of our non-revenue water are also attributed to meter inaccuracy at our bulk supply points as well as theft. However, leaks are the biggest contributor to our non-revenue water figures.

This year, we are again reporting real water loss percentages for the period February 2020 to January 2021, to show the consumption patterns following on from the last reporting period (February 2019 to January 2020).

It must be noted that the reported real water loss percentage is not an accurate representation of our performance; the result reflects the proportion of water loss rather than the actual volume of water loss. If the overall demand is low (as it was, due to COVID-19 lockdowns and water use restrictions), conversely the proportion of real losses increases while the overall volumes stay relatively similar.

While leaks are unavoidable for all water networks around the world, we have been proactively working on reducing water loss through early detection and fixing of leaks. In 2020/21, we have:

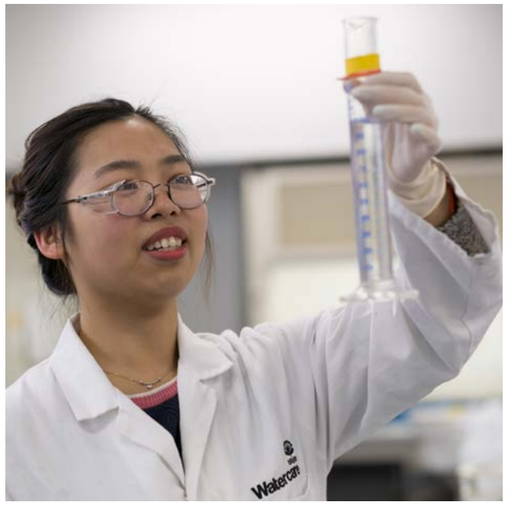
- Swept 5400 Kilometres of water pipes out of a planned 6000 Kilometres, proactively checking for leaks
- Saved 9.1MLD that would have been lost to leaks
- Replaced 30,000 domestic water meters as part of a planned replacement programme, to ensure accurate meter readings of consumption
- Installed about 1100 smart meters for commercial customers, to provide real-time information on water consumption and leaks.

How we're delivering value

Intellectual capital

Value created
Industry-leading thinking and processes

Tackling challenges like climate change, population growth and ageing infrastructure requires collaboration and new thinking.



Whether it was designing and constructing water treatment plants within shorter timeframes, incorporating low-carbon thinking in new infrastructure or working smarter and safer – teamwork and innovation characterised our work in 2020/21.

New ways of thinking and working led to our operations and infrastructure teams coming together to design, build and commission new water treatment plants at Pukekohe, Papakura and Tuakau within a span of months instead of the years it would have normally required. These projects were also an opportunity to introduce low-carbon thinking into the process. (Read the case study on page 48 for more details.)

As we build new infrastructure to meet the demands of population growth, we are mindful of the associated increase in carbon emissions – whether it is in the materials used for construction or the energy required for operating these assets.

Increasing co-generation and solar energy generation will be a big focus for us in future. We achieved the first big milestone towards this shift last September with the installation of New Zealand's first-ever floating solar array on the treatment pond at Rosedale. This array has generated 1.23GWh since its installation and reduces the plant's electricity consumption by 25%.

On the infrastructure side, we continued to strengthen the framework for implementing the Enterprise Model, our integrated programme for delivering low-carbon infrastructure, safely and efficiently. (Our ambitious 40:20:20 vision is to reduce carbon in infrastructure by 40% by 2024; cost to deliver infrastructure by 20% by 2024; and 20% year-on-year improvement in health, safety and wellbeing outcomes.)

We improved our carbon portal launched in 2019/20, with new insights and data through internal and external feedback sessions. There are now 99 users across the business with access to the carbon portal. With this portal, our aim is to provide insights into estimated carbon emissions for Watercare's capital works programme under the Enterprise Model.

We also added the next suite of resources to our Enterprise Model toolkit, including a project scorecard and value-capture process to measure, record and share performance and 40:20:20 ideas and progress.

Our new Nerve Centre has brought together operational information and various teams to help us be more responsive and deliver better customer outcomes. The aim behind the Nerve Centre is for a collaborative, insights-driven and customer-focused space to respond to operational issues quickly and effectively.

It surfaces real-time, granular data such as water treated and supplied, wastewater flows, leaks and outages categorised by priority and more. Representatives from our operations, networks, transmission and maintenance contractors have been working under one roof. They gather together every morning for a stand-up meeting, identify issues that need resolving, and support each other with insights and data to enable them to make better decisions.

5900tCO_2

Emissions saved in design of Waikato water treatment plant

We leveraged the remote working and collaboration technology introduced to the business in 2019/20 and strengthened our online training capability. More than 460 training sessions were delivered by our technical systems trainer in 2020/21 via Microsoft Teams, enabling easy and efficient training online on how to use our various enterprise systems and applications.

CASE STUDY

Delivering new infrastructure by thinking differently

Our new water treatment plant at Tuakau, the Waikato 50, has been delivered through our Enterprise Model partnership and was designed, consented, procured, constructed and commissioned in just under 12 months – a feat that would normally take three to four years to complete.

While this new infrastructure/plant was always in our asset management plan, its accelerated completion adds resilience to our water network in times of water shortage or extreme weather events.

This project has proved that we can adapt and innovate when we have to – and that we can do so safely.

The success of this project has been greatly influenced by the collaborative relationships between Watercare and the Enterprise Model partners – Beca, Fletcher Construction and Fulton Hogan – along with sub-consultants and suppliers, providing the springboard for rapid design and construction in alignment with the 40:20:20 vision. Through collaboration and value engineering in early design, the project teams were able to identify an estimated $25M cost reduction and approximately 5900 tCO2e of infrastructure carbon savings primarily as a result of the 'build nothing' approach.

The project also embraced digital technology with the use of 3D design simulation.

Around 700,000 work hours were spent by 2500 project team members and about 250 to 350 construction staff worked at any one time on the five-and-a-half-hectare site, with many more working in fabrication and engineering shops around New Zealand.

This contract and commercial model allowed flexibility and acceleration to make 'best for project' decisions, resulting in on-time delivery at a lower cost than traditional models, safe delivery and a strong focus on operator and maintenance staff safety and an estimated $10m of additional savings.

The spirit of collaboration, innovation and dedication was key to also getting the new Papakura Water Treatment Plant up and running in a remarkably short time.

The project forms part of our drought response and is being built in two stages on the site of the old treatment plant.

The first stage of the project went live in February 2021, after only six months of design, consenting and construction. The second stage will be a permanent treatment plant, which is already under way and expected to be completed by April 2022.

When this plant is finished it will be one of the most advanced water treatment facilities in the country.

Most of the stage one plant is designed to be relocated, so components such as tanks, vessels, pumps and equipment can be moved to the stage two site as part of the new plant to minimise waste and overall project cost.

Some elements of our temporary treatment plant will become part of our mobile water treatment systems fleet, which can be deployed either within our system in an emergency or to assist other water suppliers if required.

Only two water tanks remain from the old water treatment plant and these have been upgraded and repurposed for the new plant.

The team had to work through a number of challenges – at its peak, there were about 120 staff members working on the small construction site, which created logistical and health and safety challenges. These were addressed by dividing the site into multiple work areas and people worked within their area, which reduced the amount of people and equipment moving between the working areas and around the site.

A shuttle bus service was set up to run between the site and the project office in Papakura to reduce cars and other vehicle movements on site.

The lack of shade on site and the summer temperatures led to measures like water stations being set up, electrolytes provided for people's water bottles, ice machines and increased breaks during the day. Tai chi classes were held on site for the construction crew to learn and practise mindfulness techniques to enhance concentration and return home safely to their families every day.

Industry-leading thinking

As New Zealand's largest water company, we pride ourselves on being industry leaders, demonstrating excellence and innovation across many areas in the water and infrastructure industry. Listed below are the awards our people have received during 2020/21.

Award	Winners/Finalists
Employer of Choice Award	**Watercare** was recognised as **"Employer of Choice"** by HRD New Zealand
WSAA Ross Young Scholarship	Wastewater operations controller **Sophie McGuinness**
Diversity Awards 2020	Watercare's **Maintenance Services Network** (MSN) team was a finalist in the **Tomorrow's Workforce** category
New Zealand Procurement Excellence Awards 2020	**Enterprise Model** for most **innovative project of the year** Head of Supply Chain, **Stuart Bird – Procurement evangelist**
Water New Zealand Ronald Hicks Memorial Award	Resource recovery manager, **Rob Tinholt**, for his paper on biosolids
Auckland Council Project Excellence Awards	• Project Excellence Supreme Award for Best Project – **Pukekohe East Reservoir** • Physical Works Awards – **Pukekohe East Reservoir** • Innovation Awards – **Rosedale Floating Solar Array** • Project Leader Award – **Faiz Salim** • Rising Star Award – **Buena Van Wyk**
2020 Infrastructure New Zealand Excellence Awards	**Central Interceptor** was a finalist in the **Social Impact category**
Engineering New Zealand Fellow	Project manager **Sven Harlos**
International Accreditation New Zealand (IANZ)	Per- and poly-fluoroalkyl substances (PFAS) Accreditation for **Watercare Laboratory Services**
RiskNZ Awards of Excellence	Acting chief financial officer **Nigel Toms** was awarded Risk Professional of the Year
PRINZ Awards 2021	Watercare's **COVID-19 communications** won a **Bronze** in the Internal Communications category Watercare's **drought communications** won a **silver** in the Issues and Reputation Management category and was a finalist in the Marketing Communications category
Australasian Reporting Awards	Our 2020 Annual Report won the **Best Online Report** (Public Sector) and **Best Sector Report** for Infrastructure, Retail and Services; this report was also a finalist in the Communications and Integrated Reporting categories.

How we're delivering value

Financial capital and resources

Value created
Minimum-cost, efficient, financially-robust provider

We are at a critical time for Auckland's development as the region grapples with population growth, infrastructure development and ongoing environmental concerns.

The past year has seen us respond to this context by investing significant time and resources in planning for future growth and the impacts of a changing climate. But it has also reminded us we must remain nimble to address issues in the present so we can ensure safe and reliable water and wastewater services into the future.

In the short term, COVID-19 and Auckland's prolonged drought continues to present dual challenges to our finances.

Bringing forward investment

We began 2020/21 by focusing on bringing forward planned investment to augment our water supply – with an injection of $224 million. This investment was directed towards building three new water treatment plants and upgrading three existing ones, collectively boosting our supply capacity by more than 100MLD. (See the natural environment section for these project details.)

The drought has reinforced that diversifying our water sources is critical to long-term supply security. While we responded to these immediate challenges, we have also been focused on developing a long-term investment plan – our 2021–2041 Asset Management Plan (AMP). This AMP outlines how we will invest $18.5 billion over the next 20 years, delivering new water sources and infrastructure to cater for Auckland's growing population, renewing many of our ageing assets and expanding the wastewater network, ultimately improving the environment.

COVID-19 constraints on borrowing

Impacts of COVID-19 have resulted in substantial loss of revenue to the Auckland Council group, forecast to exceed $1 billion over the next three years. This has shaped the way we will fund our AMP as our borrowing is tied to Auckland Council Group.

Projects outlined in the AMP are financed for using a combination of water and wastewater service charges and Infrastructure Growth Charges. Watercare's debt is consolidated into the overall Auckland Council debt.

The 10 year pricing profile reflects the impact of the current constraints on Auckland Council's debt headroom.

A significant rise is not one we take lightly. (Read the case study on page 52 to see where every dollar we collect is spent.) Auckland's population is expected to grow by almost half a million people over the next 20 years, so we have a huge responsibility to ensure we can continue to provide top-quality drinking water to all of our customers and safely treat our region's wastewater while adapting to the changing climate. And while our population grows, industry does too. Auckland is already home to two-thirds of the country's food and beverage manufacturers – two sectors for which water is vital. Ensuring we can support growth in these industries with a secure water supply is important for the wider economy.

We are working with Auckland Council and the Government to find an interim solution to address the funding challenge.

In spite of the challenges we have faced as a result of the global impact of COVID-19 and the local effects of the drought, we continued to deliver on our mission to be a financially stable business that delivers value to its customers and communities.

Affordability of services remains a fundamental consideration for our operations. In 2020/21, an average Auckland household (comprising three people) spent less than 1% (0.84%) of its monthly income on water and wastewater charges; this reflects the value for money that our services provide.

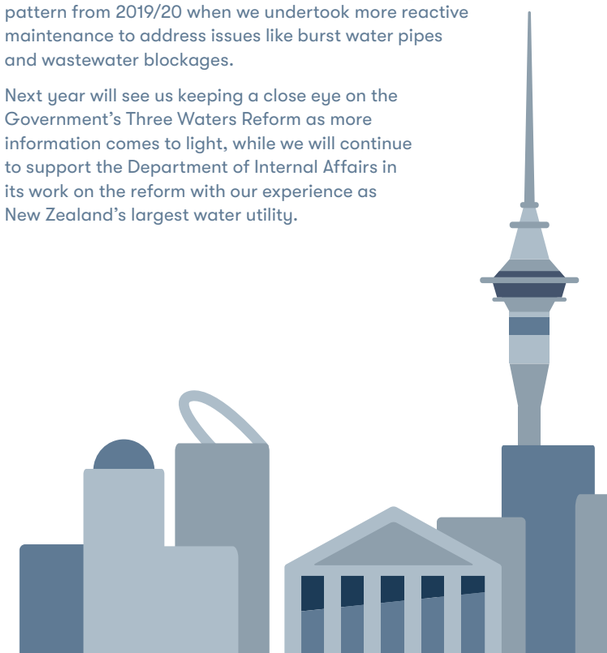
In addition, 2020/21 has seen our highest-ever investment in capital works, with a total spend of $767 million. This represents funding brought forward towards our drought response alongside planned projects like the Central Interceptor Wastewater Tunnel and Hūnua 4 Watermain – the former will reduce wastewater overflows and help keep Auckland's beaches clean while the latter will ensure security of supply and cater for growth.

Our total revenue was $802.6 million in 2020/21 and compared favourably to $752.3 million in 2019/20.

Slight changes to revenue streams reflect the current operating context. There was a 4.4% decrease in water and wastewater revenues (compared to 2019/20); this represents the region's reduction in water consumption as a result of our strong public messaging and close work with stakeholders in response to the drought. Meanwhile, revenue from Infrastructure Growth Charges totalled $196.9 million compared with $109.8 million in 2019/20, reflecting the unprecedented growth in housing development across the Auckland region. While helpful to an extent, these Infrastructure Growth Charges still only recovered 40.4% of our $486.4 million capital expenditure on growth projects for the year.

Although we are spending more on capital investment, our operational costs increased 8.6% in 2020/21 compared to 2019/20 and have grown an average of 8.3% per annum over the past four years. The increase in maintenance costs is due to unplanned maintenance, following the pattern from 2019/20 when we undertook more reactive maintenance to address issues like burst water pipes and wastewater blockages.

Next year will see us keeping a close eye on the Government's Three Waters Reform as more information comes to light, while we will continue to support the Department of Internal Affairs in its work on the reform with our experience as New Zealand's largest water utility.



CASE STUDY

Planning and investing for the next 20 years

On 1 July 2021 we launched our future-focused 20-year asset management plant (AMP).

Over the next 20 years, the city is expected to grow by another 476,000 people, with further growth of industry.

Our AMP details how we plan to accommodate this growth, continue to deliver reliable services and respond to a changing climate.

The 2021–2041 Asset Management Plan sets out how we intend to invest $18.5 billion ($2.5 million each day on average) over the next 20 years to enable the region to grow sustainably in the face of a changing climate, without a decrease in service reliability or quality.

This plan will be paid for using a combination of water and wastewater service charges, Infrastructure Growth Charges and borrowings.

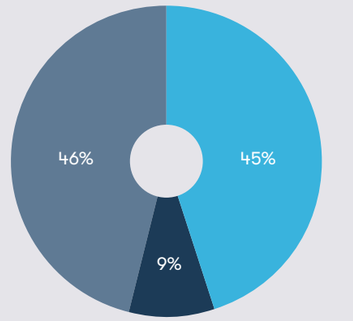
Setting a clear and fair price path is important to us and essential to enable us to build and retain trust in our customers. Therefore, every dollar collected for water and wastewater services is used to deliver these services, safely and reliably.

Out of every dollar collected from customers:

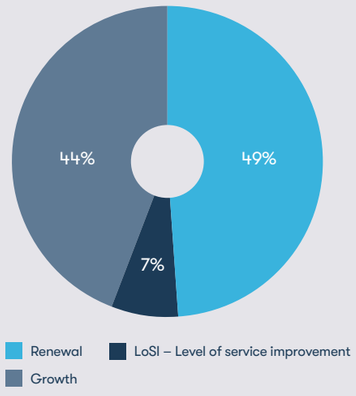
- 49 cents is used to maintain and upgrade our assets
- 13 cents is used to service our debt
- 38 cents is used to run our plants and operate our networks.

We acknowledge that our existing customers do not want to pay for growth-related infrastructure. Consequently, we are working to fully recover the cost of servicing growth through our Infrastructure Growth Charges, which will progressively rise over the next four years until we achieve a full recovery in 2025.

Investment in first decade 2022 – 2031
$9,653 million (nominal)



Investment in second decade 2032 – 2041
$8,832 million (nominal)



Financial responsibility

1. Revenue
Total revenue at $802.6 million in 2020/21 compared favourably to $752.3 million in 2019/20. Water and wastewater revenues of $510.7 million were $0.23 million lower than 2019/20 (a 4.4% reduction) due to decreased consumption driven by drought management initiatives. Revenue from Inrastructure Growth Charges totalled $196.9 million compared with $109.8 million in 2019/20, still only recovering 40.4% of the $486.4 million capital expenditure on growth projects for the year.

Other key elements of revenue included $48.5 million for the cost of physical assets funded by external parties and vested to Watercare.

Category	2020/21 ($000)
New meter and connections	26,137
Other	13,016
Water revenue	157,467
Wastewater revenue	353,226
Vested assets	48,534
Laboratory Services	7,283
Infrastructure Growth Charges (IGC)	196,936

2. Operating expenses
Operating expenses of $291.9 million were $21.8 million higher than budget for the year. This was primarily driven by higher unplanned maintenance costs due to an increased number of leakages in the network. We have recently updated our policy around the timeframes to repair leakages from three working days to three calendar days to support the drought management initiatives in place.

Category	2020/21 ($000)
Asset operating costs	82,070
Employee benefit expense	76,237
Maintenance costs	56,924
Other expenses	76,638

Operating expenses increased 8.7% in 2020/21 compared to 2019/20 and have grown an average of 9.9% per annum over the past four years. The increase in maintenance costs is due to unplanned maintenance.

3. Finance costs
Total finance costs of $88.3 million were incurred during the year, of which $34.1 million was treated as a capital cost on large scale, long-term capital projects. The remainder of $54.2 million was expensed to the Statement of Revenue and Expense.

The overall average interest rate was 4.15% compared to 4.42% in 2019/20.

4. Operating surplus from trading operations
An operating surplus from trading operations of $184.8 million was achieved in 2020/21, with revenue $152.1 million ahead of budget, and total operating expenses $21.8 million higher than budget.

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

We reported a net surplus after tax of $128.2 million for the year ending 30 June 2021.

6. Net new debt
In 2020/21, $355.0 million of net new debt was entered into by Watercare. Consistent with our agreement with Auckland Council's centralised treasury, all new debt is provided by Auckland Council to maximise efficiency from group borrowings.

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

7. Total assets
Total Watercare assets grew from $10.84 billion to $12.62 billion in 2020/21. The increase related to the cost of new infrastructure spending being capitalised during the year and a revaluation uplift in our assets.

8. Customer debt
Our primary performance measure for the management of debtors is the value of payments outstanding for 31 days or more from due date. This year, the outstanding customer debt was $8,950,781, a decrease of 14% compared to 2019/20.

The average amount of outstanding debt was $427 this year compared to $491 in 2019/20.

		% of total
Debit balances 31+ days (end of June 2021)	$8,950,781	19.5%
Number of accounts with 31+ days debt	20,950	7.0%
Average debt (31+ days)	$427	

* The above table shows retail customer debt and excludes council group and Infrastructure Growth Charges.

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

In 2020/21, opex savings of $1.9 million were achieved, mainly in the procurement of waste chemicals, including lime and polymers. Capex cost avoidance savings of $23.4 million was also achieved across a number of projects.

Top 15 suppliers

	Supplier	Value (excl GST)
1	The Fletcher Construction Company Limited	150,132,546
2	Ghella Abergeldie JV	129,402,707
3	Fulton Hogan Limited	99,467,912
4	McConnell Dowell Constructors Limited	44,152,654
5	New Zealand Transport Agency	40,898,148
6	Downer New Zealand Limited	39,664,648
7	Citycare Limited	30,553,339
8	Beca Limited	26,299,337
9	March Cato Limited	20,412,842
10	McConnell Dowell – HEB Joint Venture	17,745,154
11	Suez Water Technologies & Solutions	16,339,318
12	Genesis Energy Limited	15,260,784
13	Jacobs (NZ) Holdings Limited	13,761,051
14	Ixom Operations Pty Limited	10,592,076
15	Pipeline and Civil Limited	10,262,530
	Total	**$664,945,047**

Procurement expenditure by category

Category	Expenditure $	Expenditure %
Construction	543584261.38	56.66%
Engineering Profees	114507178.62	11.94%
Maintenance	87851824.48	9.16%
Equipment and Spares	58089017.90	6.05%
Retail	12898883.49	1.34%
Information Services	22625405.95	2.36%
Business Support	49992399.53	5.21%
Property	3144865.59	0.33%
Operations Support	17853187.03	1.86%
Chemicals	16213287.30	1.69%
Waste	6244751.43	0.65%
Utilities	26356718.37	2.75%
Total	**959,361,781**	**100.00%**

03

Leadership and governance

Ngā mana whakahaere

From left to right:
Brendon Green,
Frances Valintine,
Margaret Devlin,
Graham Darlow,
Hinerangi Raumati-Tu'ua,
Dave Chambers,
Nicola Crauford,
Rob Fisher.

Our board

Margaret Devlin

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

Chair

Margaret Devlin is a professional director with extensive experience in governance and executive management primarily in the water and infrastructure sectors in New Zealand and the United Kingdom. She has served as a director for a range of entities with a particular focus on audit and risk. Margaret is a Chartered Fellow of the Institute of Directors.

General disclosure of interests: Director and Chair, Lyttelton Port Company Limited; Director, Waikato Regional Airport; Director, Titanium Park (wholly owned subsidiary of Waikato Regional Airport); Director, Waimea Water Limited; Director, Aurora Energy; Director, IT Partners Group; Councillor, University of Waikato; Deputy Chair, WINTEC; Chair, Advisory Board Women in Infrastructure Network; Chair, Hospice Waikato; Chair, Infrastructure NZ; Chartered Fellow, Institute of Directors; Member, Institute of Directors, Waikato Branch Committee.

Hinerangi Raumati-Tu'ua

BMS, MMS, FCA, MNZM, MINSTD

Chair of the Audit and Risk Committee (from March 2020)

Hinerangi Raumati-Tu'ua, who is of Ngāti Mutunga and Waikato descent, is a Fellow of Chartered Accountants Australia and New Zealand. She is also a Member of the New Zealand Order of Merit for services to business and Māori. Hinerangi has significant experience in investment, financial management, and governance. She was CFO of Tainui Group Holdings Limited from 2002 to 2009 and Executive Director Operations at Te Wānanga o Aotearoa from 2010 to 2014.

General disclosure of interests: Chair, Parininihi ki Waitotara Incorporated; Chair, Te Rere O Kāpuni Limited; Chair, Ngā Miro Trust; Chair, Ngā Kāi Tautoko Limited; Chair, Te Kiwai Mauī o Ngāruahine Limited; Trustee, PKW Trust; Director, Taranaki Iwi Holdings Management Limited; Chair, Aotearoa Fisheries Limited; Director, Sealord Group Limited; Director, Port Nicholson Fisheries GP Limited; Director, Te Pūia Tāpapa GP Limited; Chair, Tainui Group Holdings Limited; Executive Member, Te Whakakitenga o Waikato.

Julia Hoare**

BCOM, FCA, MINSTD

Deputy Chair, Chair of Audit and Risk Committee (until March 2020)

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

Julia is a fellow of the New Zealand Institute of Chartered Accountants and is the Vice President of the Institute of Directors' National Council.

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

Nicola Crauford

BSC (HONS), PHD, DISTFENGNZ, FAICD, CFINSTD

Chair of the AMP and Major Capex Committee

Nicki has extensive governance and senior management experience in energy, water and telecommunications utilities. As a director she brings a combination of technical, commercial and strategic skills. She has a degree in chemical engineering from the University of Newcastle upon Tyne and a doctorate in applied science from the University of Southampton and has worked in the oil and gas, energy and banking sectors. As well as utilities her governance portfolio has spanned science research and development, fire and emergency management, and environmental protection and regulation. Nicki chairs the Electricity Authority and GNS Science and is a director of CentrePort and is a trustee of the Wellington Regional Stadium Trust. She is a Distinguished Fellow of Engineering New Zealand, and a Fellow of the Australian Institute of Company Directors and the Institute of Directors in New Zealand.

General disclosure of interests: Chair, GNS Science Limited; Chair, Electricity Authority; Director and Shareholder, Riposte Consulting Limited; Director, CentrePort Limited Group; Trustee, Wellington Regional Stadium Trust.

David Thomas**

BCA (HONS)

David Thomas has over 35 years' experience in the building industry, and has led key business units within Fletcher Building for the last 25 years. He is currently the General Manager of Winstone Wallboards Ltd. David was on the founding board of the South Auckland Crown Health Enterprise and represented Fletcher Challenge Ltd on the board of Māori Development Corporation.

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

Brendon Green

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

Chair of the Strategic Transformation Programme Committee and the Committee for Climate Action Committee

Brendon Green brings a career spanning 25 years in New Zealand and offshore, largely in the energy sector covering thermal generation, oil and gas exploration and renewables, notably wind and geothermal. Over recent years he has been involved in the decarbonisation of the transport sector by way of electric and hydrogen technologies. Brendon has worked with and within Māori organisations, which includes establishing partnerships and joint ventures around natural resources inclusive of water, energy, forestry and dairy.

His career includes technical and commercial leadership roles with Mercury, Contact Energy, General Electric (in Mexico and the USA) and the NZ Dairy Board. He is the founder of Kaitiaki Advisory Limited and holds a Bachelor of Chemical and Process Engineering and a Postgraduate Diploma in Dairy Science and Technology.

Brendon brings over a decade of governance experience inclusive of being a past Chair of Tainui Kawhia Incorporation and Tirohia Landfill Generation Joint Venture. He currently holds governance roles with Hiringa Energy Limited; Tainui Kawhia Incorporation; Te Whakakitenga o Waikato; Waikato District Council – Infrastructure Committee; Manukau Institute of Technology – Runanga; and government advisory panel Te Taumata Aronui (Tertiary Education Commission).

General disclosure of interests: Director, Kaitiaki Advisory Limited; Director, Tainui Kawhia Incorporation; Director, Hiringa Energy Limited; Director, Hiringa Refuelling Investments Limited; Executive Director, Advanced Biotech NZ Limited; Management contract, Tainui Kawhia Minerals; Australia-NZ Representative, Watstock LLC (USA); Representative of Waipapa Marae, Kawhia; Te Whakakitenga o Waikato Tainui; Runanga Manukau Institute of Technology, Te Whakakitenga o Waikato representative; Member, Waikato District Council – Infrastructure Committee; Advisor, Te Taumata Aronui – Ministry of Education; Adjunct Senior Fellow, University of Canterbury – Department of Chemical Engineering; Co-chair, Waikato Regional Skills Leadership Group; Member, Construction and Infrastructure Workforce Development Council.

Frances Valintine

CNZM

Frances Valintine is a futurist and thought-leader in emerging and disruptive technologies with over 20 years' experience across business, technology and education. The CEO and founder of The Mind Lab and the Tech Futures Lab, she is a Companion of the New Zealand Order of Merit for services to education and the technology sector.

In 2017, Frances won the New Zealand Flying Kiwi Award and was inducted into the New Zealand Hi-Tech Hall of Fame. She is a board member of The Mind Lab and trustee of Dilworth Trust Board, and a former board member of Education New Zealand, KEA and NZTech. She is also the Futures Advisor for the BNZ Bank.

General disclosure of interests: Director and CEO, The Mind Lab Limited; Director and CEO, Tech Futures Lab Limited; Director, Harcourt Jasper Limited; Director, Pointed Tangram Limited; Director, Harper Lilley Limited; Director, On Being Bold Limited; Director, Sandell Trustees Limited; Selection Advisor, Edmund Hillary Fellowship; Trustee, Dilworth Trust Board; Futures Advisor, BNZ Bank.

Dave Chambers

Chair of the People Committee/ Te Tangata Komiti

Dave Chambers is a highly experienced business leader with a background in large-scale customer-centric organisations. He was Managing Director of Progressive Enterprises NZ and Director of Woolworths Supermarkets in Australia and has held various operations leadership roles. Previously he was a board member of the New Zealand Business and Parliament Trust.

General disclosure of interests: Director, Paper Plus New Zealand Limited; Director, Living Clean NZ Limited; Director, Turners & Growers Fresh Limited.

Graham Darlow

BE, FICE, DIST FENGNZ

Graham Darlow is an independent director and advisor to the construction industry. He has extensive experience in the planning, consenting, design and construction of major infrastructure projects. His project governance experience includes the Waterview Tunnel, Te Papa Tongarewa, Māngere Wastewater Treatment Plant upgrade, Hobson Tunnel, Downtown Infrastructure Programme and many of New Zealand's water, wastewater, transport, energy and marine projects.

Previously Graham was Chief Executive of Fletcher Construction, President of Engineering New Zealand, and Safeguard Safety Leader of the Year in 2016. He is a Distinguished Fellow of Engineering New Zealand, Fellow of the Institution of Civil Engineers, and a Member of the Institute of Directors.

General disclosure of interests: Business executive, Acciona Infrastructure NZ Limited; director and shareholder, Brockway Consulting Limited; chair, Frequency NZ Limited; director, Hick Bros. Civil Construction Limited; director, Hick Bros. Infrastructure Limited; chair, Holmes GP Structure Limited; director, Tainui Auckland Airport Hotel GP (No.2) Limited; director, Citycare Limited; director, Hick Bros. Heavy Haulage Limited; director, Hick Bros. Holdings Limited.

Rob Fisher

ONZM, LLB, DIP TP

Company Secretary

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

* These disclosures were recorded as of 30 June 2020.
** Julia Hoare and David Thomas finished their terms in October 2020 and February 2021 respectively.

From left to right:
Nigel Toms,
Rebecca Chenery,
Steve Webster,
Jon Lamonte,
Shayne Cunis,
Amanda Singleton,
Richie Waiwai.

Not pictured:
Marlon Bridge,
Shane Morgan

Our executive team

Jon Lamonte

PHD, MA, BSC (HONS), CCMI, CMATH, CDIR, FRICS, FIOD, FIMA, FRIN, FCILT, RAF(RETD)

Chief Executive

Jon Lamonte is a former senior officer in the Royal Air Force in the United Kingdom, flying operationally before tours in the Ministry of Defence (logistics and procurement). After leaving the service, he became chief executive of Tube Lines, running the engineering and upgrade of London's busiest underground lines before taking over all modes of transport in the Greater Manchester region as chief executive for TfGM. More recently, he led Sydney Metro through the opening of their first driverless line, while constructing three more lines in Australia's largest public transport project. He was appointed as Watercare's chief executive in April 2021.

Marlon Bridge

BCOM, DIP.COM, CA

Deputy Chief Executive

Marlon Bridge is a senior executive with over 25 years of experience in senior management roles across both the private and public sectors. Marlon has been the chief financial officer of Manukau Water Limited. Marlon has previously been the general manager of retail and chief financial officer for Watercare. He was appointed to the role of deputy chief executive in June 2020. His responsibilities in his current role include all 'business as usual' operational activities outside of the drought response management.

Amanda Singleton

BA COMMUNICATIONS

Chief Customer Officer

A passionate customer advocate, Amanda Singleton is responsible for building a customer-centric culture and overseeing all the customer touch points in the business. She is also responsible for the company's communication and stakeholder relationship functions. She has extensive experience, nationally and internationally, as a transformational corporate leader.

Nigel Toms

MSC, ACMA, CMIRM

Acting Chief Financial Officer

Nigel Toms is a chartered management accountant and certified member of the Institute of Risk Management with over 25 years' experience in infrastructure and utility roles both in New Zealand and the United Kingdom. He was previously the head of risk and resilience for Watercare and is also a senior incident controller. Nigel is the technical author of PAS 60518 titled "Developing and implementing enterprise risk and resilience management (ERRM) in utilities", recently published by the British Standards Institution. As acting chief financial officer, he holds responsibility for financial control, supply chain, property, legal, internal audit, risk and resilience functions. Nigel was also recognised as 'Risk Professional of the Year' in 2021 by RiskNZ.

Shane Morgan

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

Chief Operations Officer (until August 2021)

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

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

Steve Webster

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

Chief Infrastructure Officer

Steve Webster is a civil engineer with more than 20 years' experience in senior leadership roles, predominantly in the infrastructure sectors in New Zealand and Australia, delivering projects and maintenance services to government, local authority and private asset owners. Steve is responsible for Watercare's delivery of infrastructure projects from servicing strategies through to planning and construction and for supporting external developer services to enable growth in Auckland. In addition, he is the executive climate change sponsor for the business.

Rebecca Chenery

BBUS, DIP.MGMT

Chief Digital Officer

Rebecca Chenery has many years of experience in programme management and business transformation projects across the information services, telecommunications and water industries in New Zealand and overseas. She is responsible for leading all technology aspects of the business along with Watercare's business transformation programme.

Richard Waiwai

Poutiaki Tikanga Māori (Principal Advisor)

Dedicated to bringing a greater understanding of the Māori world view to a corporate environment, Richie Waiwai is responsible for ensuring Watercare has the structures and resources to meet its obligations under Te Tiriti o Waitangi. An advocate for te reo and tikanga Māori, he has extensive experience working with iwi and mana whenua across the private and public sectors.

Shayne Cunis

BE CIVIL (HONS), FENGNZ, CMENGNZ

Executive Programme Director – Central Interceptor

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

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

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

David Hawkins*

MPP, TTC, JP

Chief Corporate Affairs Officer

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

Jason Glennon*

Chief People Officer

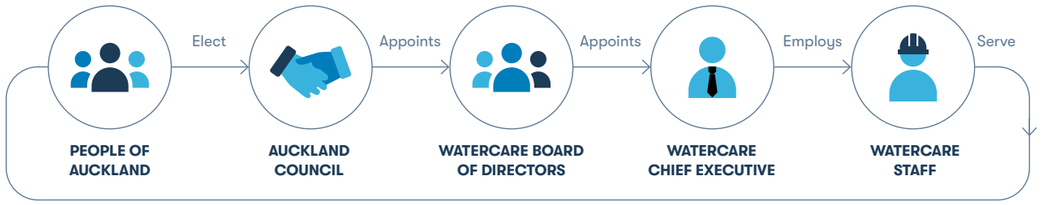
Jason Glennon has worked across a range of industries, including construction and fast-moving consumer goods. He has held a number of senior roles in human resources at Fonterra, Fletcher and Carter Holt Harvey.

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

* These positions were disestablished in May 2021.

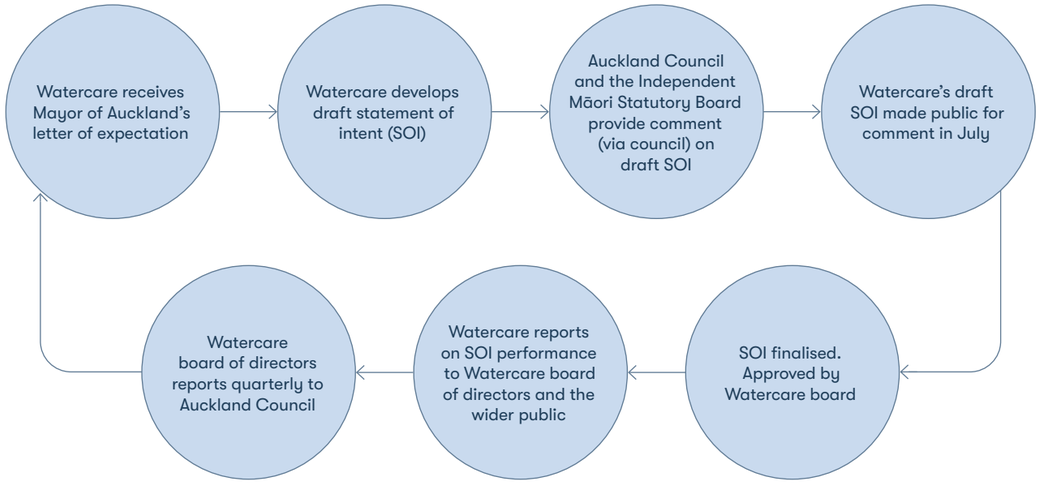
Governance

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



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

Our governance framework
Every year, Watercare consults with its shareholder, Auckland Council, to develop a statement of intent (SOI) covering the next three years. The SOI identifies the relationship between Watercare's activity and the delivery of those outcomes sought by the Mayor of Auckland and those specified within the Auckland Plan. Auckland Council, the Independent Māori Statutory Board and the general public are invited to comment on the final draft, before it is adopted by the board. The 2020–2023 SOI is available on our website.



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

The board is independently reviewed every two years.

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

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

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

Board structure and functions

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

As at 30 June 2021, the board had four committees. The board had an additional committee up until December 2020*. All directors are welcome to attend any committee meetings, but only committee members have voting rights. Committees provide advice and oversight and do not have delegated authority.

- **Audit and Risk Committee (ARC)**, chaired by Hinerangi Raumati-Tu'ua, helps the board fulfil its financial reporting responsibilities and provides assurance regarding compliance with internal controls, policies and procedures. The committee also helps the board exercise due care, diligence and effective overview of risk management and external reporting. Health, safety and wellness matters are the responsibility of the full board and are excluded from the duties of the Audit and Risk Committee.
- **Te Tangata Komiti (TTK)**, chaired by Dave Chambers, helps the board fulfil its wider human resources responsibilities to the company. The committee provides advice to the board on organisational capability and design, and human resource strategies, and annually reviews the chief executive's performance and remuneration framework.
- **Strategic Transformation Programme Committee (STPC)**. This committee was disestablished in December 2020 after the completion of strategic transformation programme. Up until this time it was chaired by Brendon Green and helped the board to exercise due care, diligence and effective oversight of all matters relating to the delivery of Watercare's Strategic Transformation Programme.
- **Asset Management Plan (AMP) and Major Capex Committee (AMCC)**, chaired by Nicola Crauford, helps the board exercise due care, diligence and effective oversight of all matters relating to Watercare's AMP and major projects involving capital expenditure over $100 million.
- **Committee for Climate Action (CCA)**, chaired by Brendon Green, helps the board to exercise due care, diligence and effective oversight of all matters relating to the actions taken by Watercare to mitigate climate change and adapt to a changing climate by increasing our resilience.

Board member attendance 2020/21	Board	ARC	TTK	AMCC	CCA	STPC*
Number of meetings	12	5	5	7	4	1
Margaret Devlin	12	5#	5	7[1]	-	1
Nicola Crauford	12	-	-	7	4	1
Brendon Green	11	4	-	-	4	1
Hinerangi Raumati-Tu'ua**	10	5	-	2✗	-	-
Dave Chambers	12	-	5	-	4✗	-
Frances Valintine	12	1	1✗	4[2]	2	1
Graham Darlow (appointed 03.02.2021)	4	1	-	2	-	-
David Thomas (retired on 28.02.2021)	9	4	4	-	-	-
Colin Magee (Board Intern) (retired on 24.11.2020)	6	2	1	1	-	-
Julia Hoare (retired on 31.10.2020)**	5	3	-	3	-	-

Board chair attends in ex-officio capacity
Denotes committee membership
* The committee was disestablished in December 2020
** Julia Hoare and Hinerangi Raumati-Tu'ua both chaired the Audit and Risk Committee during 2020/21
✗ Committee membership from February 2021
1 Margaret Devlin was absent from the meeting of 16 April 2021 as she was required to attend another meeting as Chair of the board
2 Committee membership until February 2021

Integrity

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

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

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

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

Transparency and accountability

Our financial statements, the statement of intent (SOI) and our long-term plans must be audited by the Auditor-General. The Auditor-General has appointed Brett Tomkins, using the staff and resources of Deloitte Limited, to undertake the external audit work on behalf of the Auditor-General, in accordance with the Auditor-General's Audit Standards, which incorporate New Zealand Auditing Standards. Deloitte Limited must satisfy the independence requirements of the Auditor-General and External Reporting Board.

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

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

As a council-controlled organisation, Watercare is subject to the Local Government Official Information and Meetings Act 1987, which provides to the public official information held by local authorities. The average response time this year was 4.7 days.

Enterprise risk management

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

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

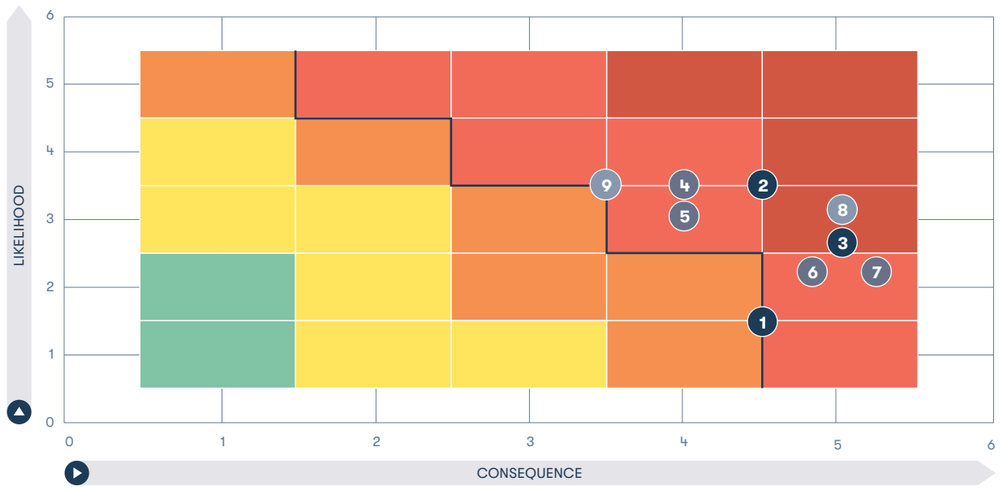
This risk management framework defines the management policies, procedures and practices to be applied to the risk management tasks of identifying, analysing, evaluating, treating and continuing to monitor risk to provide enterprise-level information.

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

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

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

Enterprise risk heat map



1. Water does not meet New Zealand Drinking Water Standards
2. Failure to treat wastewater to required standard and convey wastewater flows
3. Drought continues for a third year, affecting supply
4. Climate change impacts service delivery
5. Continuing impacts of COVID-19
6. Significant hazards related to Watercare employee operation/contractor/third-party-led operations
7. Significant capital project price, delivery cost or time overrun
8. Treasury – liquidity/capital funding risk
9. Three Waters Reform

Enterprise risk management (continued)

ENTERPRISE RISK DESCRIPTION	Potential consequence	Integrated reporting capitals	Key controls and mitigation strategies
Water does not meet New Zealand Drinking Water Standards Watercare remains compliant with Drinking Water Standards for New Zealand and meets the requirements of the Health Act	Non-compliant drinking water supplied to customers	• Assets and infrastructure • Natural environment • Community and stakeholder relationships	• Continual monitoring to ensure consistent compliance with Drinking Water Standards for New Zealand 2005 (Revised 2018) • Compliance with the requirements of the Health (Drinking Water Amendment) Act, including the implementation and operation of approved Water Safety Plans • Continue to participate in the development of the new Drinking Water Standards for New Zealand and Water Safety Planning Framework
Failure to treat wastewater to required standard and convey wastewater flows (including the impact of stormwater overflows in wet-weather events and longer-term climate change) This risk relates to environmental impacts and failure to meet consent conditions with a flow-on effect on stakeholder support and confidence	Environmental impacts or failure to meet consent conditions that affect stakeholders	• Financial capital and resources • Natural environment • People and culture • Community and stakeholder relationships	• Non-metro Wastewater Treatment Plan (WWTP) upgrade programme • Major WWTP Asset Management Plan (AMP) renewal and upgrade programme • Transmission and network upgrades to convey required stormwater and wastewater flows and avoid overflows • Network upgrades to address capacity constraints • Network Inflow and Infiltration (I&I) investigations
Drought continues for a third year affecting supply This risk is caused by extended dry weather, continued delays in the application for additional raw water from the Waikato River, failure to obtain regional consents for the new Huia Water Treatment Plant or the loss of water treatment capacity which could arise from climate change (including extreme weather events) and risk of plant failure due to operating at maximum capacity for longer periods during the extended dry conditions	Inability to supply sufficient treated water to meet Auckland's demand	• Financial capital and resources • Natural environment • Community and stakeholder relationships	• Risk mitigation is inherent in the design of the water systems, from source to treatment • Review, update and monitor the Drought Management Plan to address current challenges and continuing dry weather • Identify and develop new raw water sources • Identify, implement and monitor actions to increase production resilience • Increase the use of the Waikato River source in continuing dry conditions • Integrated source management model for water abstraction
Climate change impacts service delivery Potential impacts of climate change on assets and infrastructure, including natural hazards (i.e. short-term extreme weather events) impacting service delivery	Damage to assets and infrastructure impacting service delivery	• Assets and infrastructure • Natural environment • Community and stakeholder relationships	• Climate change strategy delivery is continuing • Progressed development of adaptive plans to optimise infrastructure planning in the face of trigger points (climate change and other) • Partnered with NIWA on National Science Foundation Deep South Challenge for decision-making under climate uncertainty for infrastructure • Emission reduction target aligned with Auckland Council emission reduction target • Emission reduction pathway developed and decarbonisation value stream actions continuing

ENTERPRISE RISK DESCRIPTION	Potential consequence	Integrated reporting capitals	Key controls and mitigation strategies
Continuing Impacts of COVID-19 Impacts may include travel constraints/further lockdowns impacting operations, causing supply chain constraints, inability to recruit specialist employees, or health impacts on employees/contractors	Further unplanned business and employee disruption Inability to manage key supply chain costs appropriately Inability to attract or retain key technical employees	• Financial capital and resources • Assets and infrastructure • People and culture • Intellectual capital • Community and stakeholder relationships	• Continued to monitor and review current COVID-19 alert levels and ensure key business resources and processes are prepared • Specific monitoring of key suppliers, stock levels and employees, with particular focus on physical and mental wellbeing • Develop further supplier strategic relationships for high expenditure goods and services • Critical Watercare roles identified and operational succession planning in place • Graduate programme, apprenticeship scheme and internal talent programme to increase critical skills pipeline
Significant hazards related to Watercare employee operation/ contractor/third-party-led operations Health and safety (H&S) incidents resulting from the actions of Watercare employees, contractors and/or third parties inside and outside Watercare sites Workforce fatigue resulting from redistribution of resources to address COVID-19 and drought challenges	Employees, contractors and/or third parties may face serious harm	• Financial capital and resources • Natural environment • People and culture • Community and stakeholder relationships	• Developed Watercare's standards for work involving significant safety hazards from operational activities • Ongoing monitoring of relevant lead and lag H&S indicators • Continuing programme of inspections and audits • Selection of contractors based on meeting Watercare's H&S requirements • Partner with contractors to ensure management of significant H&S hazards • Review and monitor contractors' H&S plans and performance
Significant capital project price, delivery cost or time overrun Actual cost of delivery is higher than anticipated	The funding requirement is outside the asset management plan (AMP) envelope	• Assets and infrastructure • Financial capital and resources • Community and stakeholder relationships • Intellectual capital	• Develop procurement strategies that minimise capital and whole-of-life costs of new assets • Monitor and closely manage project delivery time and costs • Use of the Enterprise Model with tier two construction partners for delivery of capital works • Continue to monitor market trends and engage with key suppliers to ensure availability and competitive prices of stocks • Monitor supply chain vulnerability and take early action to address any potential shortfalls • Ensure critical personnel based overseas can be accessed to support major project operations

Enterprise risk management (continued)

ENTERPRISE RISK DESCRIPTION	Potential consequence	Integrated reporting capitals	Key controls and mitigation strategies
Treasury – liquidity/capital funding risk Auckland Council nears/reaches its debt limits (debt-to-revenue ratios) resulting in council group constraints on future planned capital project funding	Inability to fund future planned capital projects	• Assets and infrastructure • Financial capital and resources • Community and stakeholder relationships	• Group debt position reviewed and work to support additional debt headroom continuing • Watercare will ensure that our capital programme is optimised in terms of project need, timing and cost • Agreement with Auckland Council regarding our projected capital expenditure so it can be factored into council's plans and requirements
Three Waters Reform Governing bodies influencing Watercare's ability to operate as an integrated company (as announced by the government on 30 June 2021 and 27 October 2021)	Changes within the water industry could impact current business operating model	• Financial and capital resources • Community and stakeholder relationships • Assets and Infrastructure	• Monitor developments within central government and provide feedback to inform decision-making • Review the implications of and response to the proposed Three Waters Reform programme as it develops, in consultation with Auckland Council

Environmental Advisory Group

The Environmental Advisory Group (EAG) has continued to advise, support and challenge Watercare's performance with regard to sustainability and ecological matters. We also attempt to focus Watercare's attention on emerging issues and inform strategy development. We express community concerns and press Watercare to exercise environmental leadership within governance of water issues.

Face-to-face meetings were disrupted in 2020. In 2021 we have enjoyed being able to sit around the table together again. This has been particularly important as Watercare has a new CEO and is consulting with the Government on a range of proposed water-related reforms, while still responding to the issues arising from the 2020 drought.

Water supply has continued as the major topic for the group this year. We submitted a paper and recommendations on future water management and supply in November 2020. The paper took a holistic view of the topic, and thus some of the recommendations fall outside of Watercare's remit. We encourage Watercare to follow through where relevant with Auckland Council and government to assist in achieving coordinated management of water resources. Tāmaki Makaurau cannot assume continued unlimited abundance of water supply due to ongoing population growth and regional climate change impacts. For example, increased frequency and severity of drought place constraints on water supply and exacerbate environmental problems arising from water use. We must change our perspective and behaviours from approaching "water as a utility" to treating "water as a taonga". This is consistent with the Auckland Water Strategy (under development) and with "Te Mana o te Wai" as outlined in the National Policy Statement for Freshwater Management (2020).

Watercare reported on developments to its Climate Change Strategy. It engaged the internal audit function to review progress and received positive comments. We look forward to seeing action on the improvements that were recommended. We are impressed and pleased with the way the organisation is addressing the challenge of reducing emission impacts of construction, while noting that as Auckland grows future supply options are likely to have a larger carbon footprint than the existing mainly gravity-fed system.

The effects of wastewater on the environment and on community wellbeing are a continuing legacy issue. While substantial improvements have been made, there is still much to do, and we look forward to working on this with Watercare during the coming year.

Paul Walbran – Chair
Environmental Advisory Group

EAG group members and areas of interest:

Paul Walbran, Chair – Water quality, harbour health, heritage

Betsy Kettle – Zero Waste, water-sensitive urban design

Daniel Hikuroa – Mātauranga, mauri, waterscapes, water futures

Elizabeth Walker – Wetlands, water, community infrastructure, water-sensitive urban design

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

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

Madeleine Wright – Environmental barrister, national policy development

Dr Kevin Simon – Environmental science, freshwater ecology and chemistry

Mana Whenua Kaitiaki Forum

(Managers Group)

Kia whai tonu ake ki ngā pūtake mai ō tua whakarere

Kia whiria ake ngā aho mai i ngā tōpito mai i ngā tauranga

Tapuwae nuku tapuwae rangi

He nekeneke tāngata he nukunukunga o ngā aronga

Mai i ngā kāwai ki ngā uri kua heke ki ngā uri o āmuri ake nei e...

Ka mihi ki te whenua ka tangi mō te hunga kua okioki – rātou ki a rātou

Ki te hunga kua mahue mai ki muri tēnā rawa atu koe arā koutou katoa.

Kia tahuri tonu atu ki a koutou e ngā Pou o te Kāhui Tātaki mō Watercare, kāti ake.

Kaitiaki – mena ka tau te mauri o te taiao ka tau te oranga o te ira tangata

If the life force of the environment is in balance, the wellbeing of mankind is assured.

This expression aligns a vision of the partnership between Watercare and the Mana Whenua Kaitiaki Managers Forum (Kaitiaki Forum). The Kaitiaki Forum represents 19 iwi authorities from within Tāmaki initiated in 2012. The 2020/21 year has seen a need to review the role of the Forum within key water-related activities as well as the continuation of a refreshed direction into the foray of socio-environmental matters. Since the 2012 inception the Forum has maintained an operations focus promoting modes of efficient and effective working processes through relationships with Watercare across the myriad of issues associated with servicing the demands of population-based growth as well as the urban development across the breadth of Tāmaki Makaurau.

With the advent of the Central Interceptor (CI) project a Cultural Outcomes Group (COG) was established with representatives from the Kaitiaki Forum, Watercare as well as the Ghella Abergeldie Joint Venture (GAJV). The COG role is to have on-the-ground presence that can identify and respond to emerging issues aligned with its overall objectives:

- Acknowledging the cultural and spiritual importance of the whenua
- Recognising mana whenua as kaitiaki
- Creating opportunities for social, economic and environmental enhancement
- Providing mana whenua with the opportunity to be actively involved in the CI.

The influence of the COG has included the following initiatives:

- Early engagement in relation to archaeological sites
- Appointment of cultural advisors
- Cultural induction programmes for all workers
- Karakia and blessings prior to construction of each stage of work
- Engaging with industry groups to relay the importance of kaitiakitanga
- Developing programmes to educate the wider community on the cultural aspects of groundwater and taonga
- Advising on the use of appropriately sourced native species in landscaping.

This reporting period has seen the Forum advance work across a range of projects from the following key groups:

- Water headworks and treatment
- Water networks
- Wastewater treatment plants
- Wastewater network projects.

Watercare and the GAJV have embraced a major initiative that seeks to deliver significant social outcomes for the people of Tāmaki Makaurau. This level of progress is very encouraging indeed. There still remains, however, the dire need to establish a consolidated focus on a shared purpose for the Forum by considering this statement:

Nō onamata te mauri. Kei anamata te aronga: Ancestrally driven with a clear focus on the future.

In summary, it is important for the Forum membership to uphold the depth of relevant cultural knowledge and values on their respective quests for fully empowered futures.

We also support continuous messages that encourage people to be water wise through these prolonged dry periods, particularly as part of the education programme across schools to teach tomorrow's leaders about water and wastewater treatment, inspiring them to treat water as the precious resource that it is.

In conclusion we acknowledge the continued support from Watercare that enables the Kaitiaki Forum to give effect to focused, holistic ecosystems management.

Kāti ki konei, kia tau te mauri e...

Tame Te Rangi – Chair
Mana Whenua Kaitiaki Forum
(Managers Group)

Mana Whenua Kaitiaki Forum:

Makaurau Marae Māori Trust

Ngā Maunga Whakahii o Kaipara Trust

Ngāi Tai Ki Tāmaki Tribal Trust

Ngāti Manuhiri Settlement Trust

Ngāti Maru Rūnanga Incorporated

Ngāti Rēhua – Ngāti Wai ki Aotea Trust

Ngāti Tamaoho Trust

Ngāti Paoa Iwi Trust

Ngāti Tamaterā Settlement Trust

Ngāti Wai Trust Board

Ngāti Whanaunga Incorporated

Ngāti Whātua Ōrākei Trust

Te Ākitai Waiohua Iwi Authority

Te Ara Rangatū o Te Iwi o Ngāti Te Ata Waiohua

Te Kawerau Iwi Tribal Authority

Te Patukirikiri Incorporated

Te Rūnanga o Ngāti Whātua

Te Uri o Hau Settlement Trust

Te Whakakitenga o Waikato Incorporated

Stakeholder and materiality

As a public water utility, Watercare is accountable to a wide range of stakeholders, which comprise the entities or individuals that can affect or be affected by our activities. We have a structured process of engagement with many of our stakeholders. Media enquiries, complaints and other public interaction have also helped us to understand stakeholders' expectations.

Reporting on what's important to our stakeholders and our business is the basis for this integrated annual report. It is structured around the material customer, business, environmental, social and governance topics that stakeholders and Watercare identified as most relevant in 2020/21.

We commissioned an independent materiality analysis for the 2020/21 year, conducted in May – June 2021. This was completed by Foreseeable, using a process of online surveys and phone interviews with 19 external stakeholders and 15 internal stakeholders.

A long list of topics was developed, based on previous year's material topics, analysis of global and New Zealand's water industry, media reports and analysis of Watercare's risk register. These topics in the long list were then analysed and prioritised using the value creation and risk lenses as well as feedback from stakeholders.

Three key themes emerged from this internal and external engagement process:

- Appetite for a different approach to water
- Scale of the infrastructure challenge
- Auckland's resilience depends on the resilience of water and wastewater systems.

The themes are interrelated with four common drivers underpinning them:

Recognition that future water supply is under threat from climate change, but also that infrastructure must be constructed in a way that accommodates future climate-related hazards and minimises the creation of additional emissions.

The rapid and sustained growth of Auckland's population spread across both greenfield and infill developments.

Water restrictions, potable water contamination in areas outside Auckland, and proposed reforms have highlighted the importance of potable water and subsequently public awareness is heightened.

Acknowledgement that there has been an underinvestment in water and wastewater infrastructure. This is closely tied to how these services have been valued.

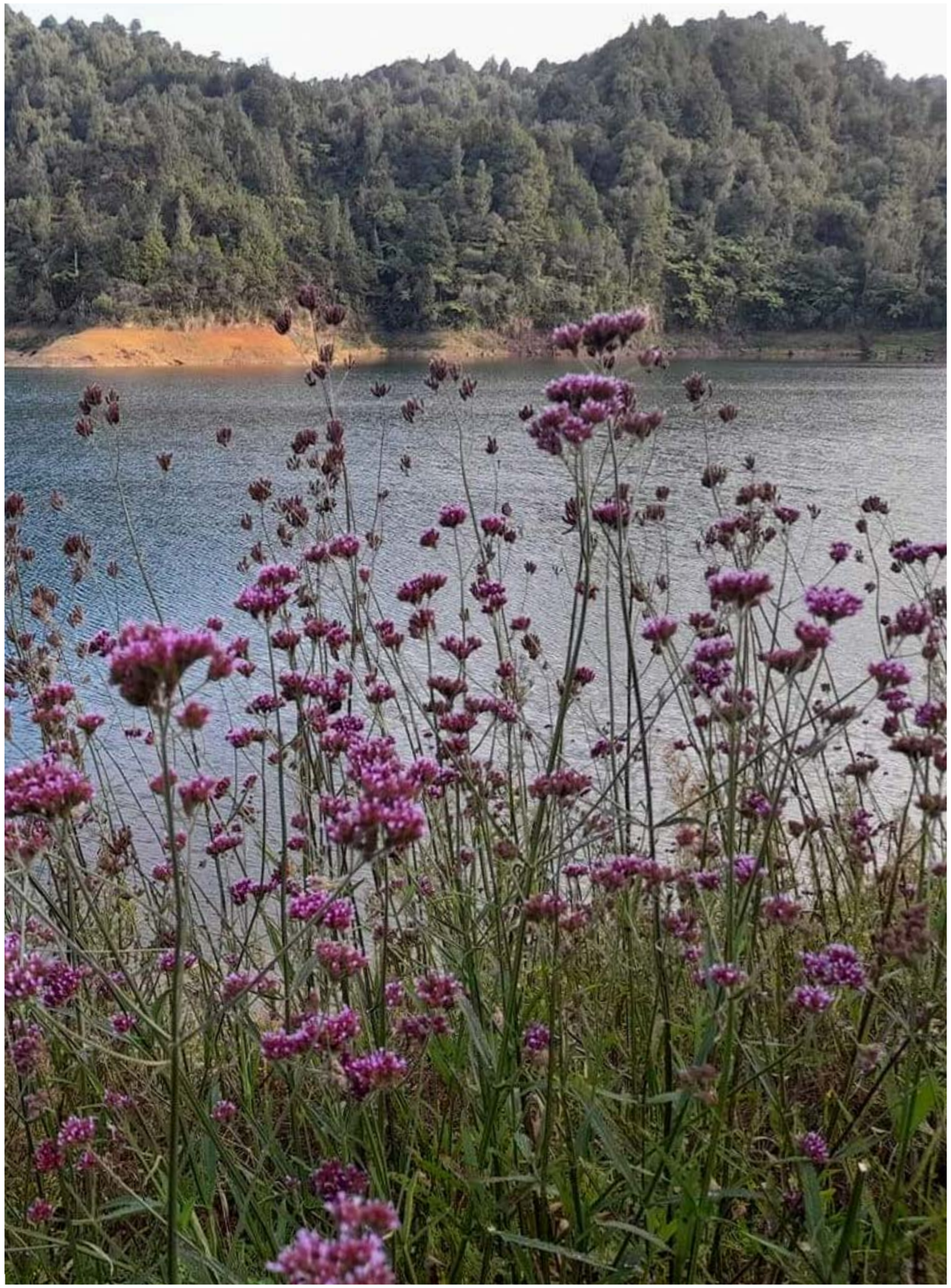
The full list of topics has been displayed below, ranked by stakeholder concern and business impact, with the top right-hand quadrant showing the most important topics.*

Business impact ↑

Customer focus National water reform Delivering value for money Water efficiency and demand management Excellence and innovation	Clean, safe and reliable drinking water Long-term availability of water Infrastructure planning Well, safe and engaged workforce Climate change adaptation and mitigation Resilience and business continuity Effective wastewater management and protection of waterways Attraction, retention and development
Stakeholder relationships and partnerships COVID-19 Risk to information systems, networks and data-efficient and financially stable business	Public understanding of the value of water

Stakeholder concern →

* Arrow direction shows the importance of topics



04

Financial report
Ngā pūrongo pūtea

These financial statements and the statement of service performance for Watercare Services Limited were approved and authorised for release for the year ended 30 June 2021.

Contents

Historical financial summary and key statistics

As at 30 June

	2017 $000	2018 $000	2019 $000	2020 $000	2021 $000
Financial Performance					
Total revenue	631,009	641,586	715,177	752,293	802,599
Operating expenses	213,480	217,625	226,484	268,560	291,869
Depreciation and amortisation	228,124	219,979	245,822	256,893	271,778
Finance costs	80,768	82,110	66,489	56,158	54,143
Total expenses	522,372	519,714	538,795	581,611	617,790
Operating surplus from trading operations	108,637	121,872	176,382	170,682	184,809
Net loss on disposal of and provision for redundant property, plant and equipment, and restructuring costs	(9,334)	(8,488)	(13,216)	(8,547)	(8,186)
Net (loss) / gain on revaluation of derivative financial instruments	87,546	(20,808)	–	–	–
Operating surplus / (deficit) before tax	186,849	92,576	163,166	162,135	176,623
Income tax (expense) / benefit	(62,163)	(38,145)	(55,547)	(88,306)	(48,423)
Net surplus / (deficit) after tax	124,686	54,431	107,619	73,829	128,200
Financial Position					
Current assets	82,621	94,761	120,528	141,589	140,898
Non-current assets	8,862,924	9,992,051	10,271,797	10,695,175	12,478,215
Total assets	8,945,545	10,086,812	10,392,325	10,836,764	12,619,113
Current liabilities	360,715	482,209	175,330	192,931	218,745
Non-current liabilities	2,626,254	2,855,681	3,142,756	3,495,700	4,154,116
Total liabilities	2,986,969	3,337,890	3,318,086	3,688,631	4,372,861
Total equity	5,958,576	6,748,922	7,074,239	7,148,133	8,246,252
Cash Flow					
Net cash inflows - operating activities	275,508	316,761	420,964	448,542	464,011
Net cash outflows - investing activities	(302,111)	(326,223)	(387,861)	(605,206)	(735,601)
Net cash inflows - financing activities	27,563	8,425	(30,553)	165,529	263,188
Net change in cash flows	960	(1,037)	2,550	8,865	(8,402)
Key Statistics					
Property, plant and equipment	8,777,049	9,913,765	10,163,169	10,515,408	12,300,209
Capital expenditure	301,632	342,426	448,005	615,530	800,953
Net debt	1,603,895	1,613,065	1,696,942	1,942,577	2,305,929
Increase in net debt	26,324	9,170	83,877	245,635	363,352
Increase in net debt to capex	9%	3%	19%	40%	45%
EBITDA to interest expense ratio	4.41	4.78	6.39	7.43	8.54
Funds flow from operations to interest ratio	3.94	4.19	4.93	5.11	5.24
Funds flow from operations to average net debt	22%	24%	26%	23%	22%
Number (headcount) of permanent employees	909	908	984	1,105	1,201
Year on year growth of operating expenses	1.7%	1.9%	4.1%	18.6%	8.7%
Average growth (4 years average)			2.6%	6.6%	8.3%

Financial commentary

For the year ended 30 June 2021

	2021 ACTUAL $000	2020 ACTUAL $000	2021 BUDGET $000	VARIANCE TO BUDGET $000	RESULT
Revenue	802,599	752,293	650,528	152,071	✓
Operating expenses	(291,869)	(268,560)	(270,048)	(21,821)	×
Depreciation and amortisation	(271,778)	(256,893)	(258,588)	(13,190)	×
Finance costs	(54,143)	(56,158)	(56,905)	2,762	✓
Total expenses	(617,790)	(581,611)	(585,541)	(32,249)	×
Operating surplus from trading operations	184,809	170,682	64,987	119,822	✓
Net loss on disposal of and provision for redundant property, plant and equipment, and restructuring costs	(8,186)	(8,547)	7,000	(15,186)	×
Operating surplus before tax	176,623	162,135	71,987	104,636	✓
Income tax expense	(48,423)	(88,306)	(10,380)	(38,043)	×
Net surplus for the year	128,200	73,829	61,607	66,593	✓
Gain on revaluation of property, plant and equipment	969,667	–	–	969,667	✓
Total comprehensive revenue and expense for the year, net of tax	1,097,867	73,829	61,607	1,036,260	✓

Key points

- Watercare's total revenue of $802.6 million exceeded the budget by $152.1 million. The increase was primarily driven by infrastructure growth charge which contributed $93.7 million to this favorable variance, reflecting continued growth in the Auckland region. The non-cash vested asset revenue added $27.0 million favorably to the revenue and balance was contributed by other revenues.
- Operating costs were $21.8 million higher than budget. This was primarily due to Maintenance costs ($8.6 million) and Employee benefit expenses ($8.4 million) being higher than budget. This was due to additional unplanned maintenance being required to address a higher volume of leaks reported resulting from the drought and the impact of complex repair jobs.
- Other expenses were also over budget by $9.8 million due to unbudgeted events and project costs, including additional consultancy and professional services for ongoing system implementation budgeted as capital expenditure, increase in provision for doubtful debts and one time write off for aged accounts and additional legal expenses for regulation reform readiness and other projects.
- Depreciation and amortisation were $13.2 million over budget. This was due to higher depreciation being recognized from revalued asset and capitalisations during the year.
- Finance costs were $2.8 million lower than budget due to lower borrowings required as a result of increased revenue.
- The company reports an operating surplus of $184.8 million compared with a budgeted operating surplus of $65.0 million, a favourable variance of $119.8 million. The water business unit reported an operating surplus from trading operations of $16.2 million and the wastewater business unit reported an operating surplus of $168.6 million.
- The reported operating surplus from trading operations was prior to a non-cash loss on disposal of property, plant and equipment of $8.2 million.
- The resulting net surplus after tax of $128.2 million was higher than the budgeted net surplus of $66.6 million. This was due to significant increase in revenue.
- Total assets of the company have increased from $10.8 billion to $12.6 billion during the year, reflecting the company's continued investment in new infrastructure assets and revaluation of assets.
- Net debt increased by $363.4 million during the year. Debt is used to fund capital expenditure that is directed at improving the quality of services provided by Watercare and service the effects of population and construction growth in Auckland.

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 2021 and its financial performance and cash flows for the year ended on that date.

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

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

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

Statement of Service Performance

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

We consider the results reported in the statement of service performance fairly reflect the achievements for the year ended 30 June 2021.

These financial statements and the statement of service performance for Watercare Services Limited for the year ended 30 June 2021 were approved and authorised for release on 30 August 2021.

For and on behalf of management:

J Lamonte
Chief Executive

N Toms
Acting Chief Financial Officer

For and on behalf of the Board of Directors:

M P Devlin
Chair

H Raumati-Tu'ua
Director; Chair of the Audit and Risk Committee

Deloitte.

To the Readers of Watercare Services Limited Group's Financial Statements and Statement of Service Performance for the Year Ended 30 June 2021

The Auditor-General is the auditor of Watercare Services Limited (the Group). The Auditor-General has appointed me, B E Tomkins, using the staff and resources of Deloitte Limited, to carry out the audit of the financial statements and the Statement of Service Performance of the Group on his behalf.

Opinion

We have audited:

- the financial statements of the Group on pages 78 to 120 that comprise the Statement of Financial Position as at 30 June 2021, the Statement of Comprehensive Revenue and Expense, Statement of Changes in Equity and Statement of Cash Flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the Statement of Service Performance of the Group on pages 121 to 124.

In our opinion:

- the financial statements of the Group on pages 78 to 120:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2021; and
    - its financial performance and cash flows for the year then ended; and
  - comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Standards; and
- the Statement of Service Performance of the Group on pages 121 to 124 presents fairly, in all material respects, the Group's actual performance compared against the performance targets and other measures by which performance was judged in relation to the Group's objectives for the year ended 30 June 2021.

Our audit was completed on 30 August 2021. This is the date at which our opinion is expressed.

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

Emphasis of matter

Without modifying our opinion, we draw attention to note 4 on page 90 to the financial statements, which outlines the Government's proposed Three Waters Reform programme. The likely outcome and impact on the Company is currently uncertain because no decisions have been made on how to progress the reforms announced by the Government on 30 June 2021.

Basis for our opinion

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

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

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

Responsibilities of the Board of Directors for the financial statements and the Statement of Service Performance

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

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

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

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

Responsibilities of the auditor for the audit of the financial statements and the Statement of Service Performance

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually

or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of these financial statements and the Statement of Service Performance.

For the budget information reported in the financial statements and the Statement of Service Performance, our procedures were limited to checking that the information agreed to the Group's statement of intent. We did not evaluate the security and controls over the electronic publication of the financial statements and the Statement of Service Performance.

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

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

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

Our responsibilities arise from the Public Audit Act 2001.

Other information

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

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

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

Independence

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

In addition to the audit, we have carried out engagements in the areas of Central Interceptor project assurance services, real water loss process assurance-related work, probity services, administrative services provided to the Corporate Taxpayers Group of which Watercare is a member, and limited assurance on selected non-financial information which are compatible with those independence requirements. In addition to these assignments, principals and employees of our firm deal with the Group on normal terms within the ordinary course of trading activities of the Group. These assignments and trading activities have not impaired our independence as auditor of the Group.

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

B E Tomkins

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

Statement of comprehensive revenue and expense

For the year ended 30 June 2021

	Notes	2021 Actual $000	2020 Actual $000	2021 Budget $000
Revenue	NOTE 13, PAGE 106	802,599	752,293	650,528
Total revenue		802,599	752,293	650,528
Operating expenses				
Asset operating costs		(82,070)	(72,668)	(87,048)
Maintenance costs		(56,924)	(55,581)	(48,310)
Employee benefit expenses		(76,237)	(75,368)	(67,819)
Other expenses		(76,638)	(64,943)	(66,871)
Total operating expenses	NOTE 14, PAGE 108	(291,869)	(268,560)	(270,048)
Depreciation	NOTE 6, PAGE 93	(258,609)	(245,854)	(247,988)
Amortisation	NOTE 9, PAGE 99	(13,169)	(11,039)	(10,600)
Finance costs	NOTE 11, PAGE 102	(54,143)	(56,158)	(56,905)
Total expenses		(617,790)	(581,611)	(585,541)
Operating surplus from trading operations		184,809	170,682	64,987
Net loss on disposal of property, plant and equipment, and restructuring costs		(8,186)	(8,547)	7,000
Operating surplus before tax		176,623	162,135	71,987
Income tax expense	NOTE 16, PAGE 109	(48,423)	(88,306)	(10,380)
Net surplus for the year		128,200	73,829	61,607
Other comprehensive revenue and expense net of tax				
Gain on revaluation of property, plant and equipment	NOTE 8, PAGE 98	969,667	–	
Other comprehensive revenue and expense for the year, net of tax		969,667	–	
Total comprehensive revenue and expense for the year is attributable to:				
Owner of the parent, net of tax		1,098,281	73,817	61,607
Non-controlling interest, net of tax		(414)	12	–

The financial statements should be read in conjunction with the notes on pages 86 to 119 inclusive.

Statement of financial position

As at 30 June 2021

	Notes	2021 Actual $000	2020 Actual $000	2021 Budget $000
Assets				
Current				
Cash and cash equivalents		2,521	10,923	10,530
Trade and other receivables from exchange transactions	NOTE 18, PAGE 112	88,800	82,641	78,308
Inventories	NOTE 19, PAGE 112	15,254	25,597	11,921
Prepaid expenses	NOTE 21, PAGE 113	7,120	8,462	8,460
Other financial assets	NOTE 22, PAGE 114	27,203	13,966	–
Total current assets		140,898	141,589	109,219
Non-current				
Property, plant and equipment	NOTE 6, PAGE 93	12,300,209	10,515,408	11,750,548
Intangible assets and goodwill	NOTE 9, PAGE 99	112,024	116,315	104,289
Inventories	NOTE 19, PAGE 112	5,582	3,619	3,619
Prepaid expenses	NOTE 21, PAGE 113	24,477	25,647	24,061
Other financial assets	NOTE 22, PAGE 114	35,923	34,186	–
Total non-current assets		12,478,215	10,695,175	11,882,517
Total assets		12,619,113	10,836,764	11,991,736
Liabilities				
Current				
Trade and other payables for exchange transactions	NOTE 20, PAGE 113	24,170	17,227	20,376
Accrued expenses	NOTE 23, PAGE 114	155,318	154,884	162,218
Provisions	NOTE 24, PAGE 115	39,257	20,820	17,316
Total current liabilities		218,745	192,931	199,910
Non-current				
Borrowings	NOTE 10, PAGE 101	2,308,450	1,953,500	2,307,667
Deferred tax liability	NOTE 17, PAGE 111	1,807,559	1,506,397	1,718,954
Trade and other payables for exchange transactions	NOTE 20, PAGE 113	4,982	2,859	–
Accrued expenses	NOTE 23, PAGE 114	13,793	14,213	17,099
Provisions	NOTE 24, PAGE 115	19,332	18,731	19,047
Total non-current liabilities		4,154,116	3,495,700	4,062,767
Total liabilities		4,372,861	3,688,631	4,262,677
Equity				
Equity attributable to owners of the parent				
Retained earnings		4,453,573	4,319,755	4,380,918
Revaluation reserves	NOTE 8, PAGE 98	3,532,335	2,567,608	3,087,448
Issued capital	NOTE 25, PAGE 116	260,693	260,693	260,693
Total equity attributable to owners of the parent		8,246,601	7,148,056	7,729,059
Non-controlling interest		(349)	77	–
Total equity		8,246,252	7,148,133	7,729,059
Total equity and liabilities		12,619,113	10,836,764	11,991,736

The financial statements should be read in conjunction with the notes on pages 86 to 119 inclusive.

Statement of cash flows

For the year ended 30 June 2021

	Notes	2021 Actual $000	2020 Actual $000	2021 Budget $000
Operating activities				
Cash was provided from:				
Receipts from customers		777,916	696,707	660,010
Dividends received		112	121	–
Interest received		88	322	–
Subvention receipt	NOTE 16, PAGE 109	–	1,600	–
		778,116	698,750	660,010
Cash was applied to:				
Employees and suppliers		(314,100)	(250,203)	(298,140)
Finance costs paid		(5)	(5)	(1,458)
		(314,105)	(250,208)	(299,598)
Net cash inflows – operating activities	NOTE 15, PAGE 109	464,011	448,542	360,412
Investing activities				
Cash was provided from:				
Sale of property, plant and equipment, and intangibles		9,790	5,586	–
		9,790	5,586	–
Cash was applied to:				
Purchase and construction of property, plant and equipment, and intangibles		(730,354)	(588,252)	(696,658)
Acquisition of subsidiaries, associates and jointly-controlled entities		–	(2,540)	–
Issued term loans	NOTE 22, PAGE 114	(15,037)	(20,000)	15,000
		(745,391)	(610,792)	(681,658)
Net cash outflows – investing activities		(735,601)	(605,206)	(681,658)
Financing activities				
Cash was provided from:				
Proceeds from Auckland Council loans – related party	NOTE 25, PAGE 116	807,579	696,893	271,247
		807,579	696,893	271,247
Cash was applied to:				
Repay loans from Auckland Council – related party	NOTE 25, PAGE 116	(544,391)	(531,364)	–
		(544,391)	(531,364)	–
Net cash inflows/(outflows) – financing activities		263,188	165,529	271,247
Net change in cash flows		(8,402)	8,865	(49,999)
Cash and cash equivalents/(overdraft) at the beginning of the year		10,923	2,058	–
Cash and cash equivalents/(overdraft) at the end of the year		2,521	10,923	(49,999)
Cash and cash equivalents comprises:				
Bank balances/(overdraft)		2,521	10,923	10,530
		2,521	10,923	10,530

The financial statements should be read in conjunction with the notes on pages 86 to 119 inclusive.

Statement of changes in equity

For the year ended 30 June 2021

	Notes	Retained earnings $000	Revaluation reserves $000	Issued capital $000	Non-controlling Interest $000	Total $000
Balance at 1 July 2020		4,319,755	2,567,608	260,693	77	7,148,133
Comprehensive revenue and expense						
Net surplus for the year		128,614	–	–	(414)	128,200
Other comprehensive revenue and expense						
Gain on revaluation of property, plant and equipment	NOTE 8, PAGE 98		969,667	–	–	969,667
Transfer between reserves on disposal of property, plant and equipment	NOTE 8, PAGE 98	5,204	(4,940)	–	–	264
Share of associate reserve		–	–	–	(12)	(12)
Total comprehensive revenue and expense for the year, net of tax		133,818	964,727	–	(426)	1,098,119
Balance at 30 June 2021		4,453,573	3,532,335	260,693	(349)	8,246,252

	Notes	Retained earnings $000	Revaluation reserves $000	Issued capital $000	Non-controlling Interest $000	Total $000
Balance at 1 July 2019		4,248,443	2,565,103	260,693	-	7,074,239
Comprehensive revenue and expense						
Net surplus for the year		73,817	-	-	12	73,829
Other comprehensive revenue and expense						
Transfer between reserves on disposal of property, plant and equipment	NOTE 8, PAGE 98	(2,505)	2,505	-	-	-
Acquisition of controlled entity		-	-	-	65	65
Total comprehensive revenue and expense for the year, net of tax		71,312	2,505	-	77	73,894
Balance at 30 June 2020		4,319,755	2,567,608	260,693	77	7,148,133

Notes to the financial statements

For the year ended 30 June 2021

1. Reporting entity and basis of preparation

Reporting entity

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

Watercare's objective is governed by section 57 of the Local Government (Auckland Council) Act 2009, which states that Watercare 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
- not pay any dividend or distribute any surplus in any way, directly or indirectly, to any owner or shareholder.

Any financial return is reinvested back into the business or used to repay debt.

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

Basis of preparation

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

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

These consolidated financial statements have been prepared on a going concern basis where applicable, and the accounting policies have been applied consistently throughout the period. When an entity within the group ceases to be a going concern, its individual financial statements are prepared on a net realisable value basis. The accounting policies that materially affect the measurement of comprehensive revenue and expense, financial position and cash flows are stated within the respective notes in these financial statements.

Statement of compliance

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

Budget figures

The budget figures presented are as approved by the board on 28 July 2020. The budget figures were prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted by Watercare in preparing these financial statements. The budget figures included in the financial statements are for the controlling entity (Watercare) and therefore exclude the budget for its subsidiaries. The budgets of the subsidiaries are immaterial to the consolidated group.

Critical accounting estimates and judgments

The group is required to make judgments, estimates and assumptions about carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and judgments are based on historical experience and other relevant factors. Actual results may differ from the estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

Revisions to estimates are recognised in the period in which the estimate is revised or in the current and/or future period(s) which the revisions affect. Refer to the notes below for a discussion of estimates and judgments in applying the accounting policies.

- Revaluation of property, plant and equipment, note 8, page 98
- Unbilled revenue estimate, note 13, page 106
- Provisions, note 24, page 115

Notes to the financial statements (continued)

For the year ended 30 June 2021

1. Reporting entity and basis of preparation (continued)

Basis of consolidation

Consolidation of a subsidiary begins when Watercare obtains control over the subsidiary and ceases when Watercare loses control of the subsidiary. The group controls an entity when it has the power to govern the financial and operating policies of the entity so as to benefit from its activities. The results of the subsidiary acquired or disposed of during the year are included in the statement of comprehensive revenue and expense from the date Watercare gains control until the date when Watercare ceases to control the subsidiary.

A list of all subsidiaries is shown on note 25, page 116.

Where necessary, adjustments are made to the financial statements of the subsidiary to bring the accounting policies used in line with the group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the group are eliminated on consolidation.

Non-controlling interests in the subsidiary are identified separately from the group's equity. Those interests of non-controlling shareholders are initially measured at the non-controlling interests' proportionate share of the carrying amount of the subsidiary's identifiable net assets. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity.

Profit or loss and each component of other comprehensive income are attributed to the owners of the company and to the non-controlling interests. Total comprehensive income of the subsidiaries is attributed to the owners of the company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

PBE Standards on Interests in Other Entities

The New Zealand Accounting Standards Board (NZASB) issued the following accounting standards that are effective for the reporting period beginning 1 January 2021 with early application being permitted:

- PBE IPSAS 40 Combinations
- PBE Interest Rate Benchmark Reform – Phase 2

And those that are effective for reporting period beginning 1 January 2022 with early application being permitted:

- PBE IPSAS 41 Financial Instruments
- PBE FRS 48 Service Performance Reporting

The group has not early adopted these new or amended standards in preparing the consolidated financial statements. The impact of these standards on the group are being assessed.

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

2. Explanation of major variances to budget

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

Statement of comprehensive revenue and expense – extract

	2021 Actual $000	2021 Budget $000	Variance $000	Variance %
Revenue	802,599	650,528	152,071	23.4%
Asset operating costs	82,070	87,048	4,978	5.7%
Maintenance costs	56,924	48,310	(8,614)	(17.8%)
Employee benefit expenses	76,237	67,819	(8,418)	(12.4%)
Other expenses	76,638	66,871	(9,767)	(14.6%)
Depreciation	258,609	247,988	(10,621)	(4.3%)
Finance costs	54,143	56,905	2,762	4.9%
Net loss on disposal of property, plant and equipment, and restructuring costs	8,186	(7,000)	(15,186)	216.9%

- Revenue was $152.1 million, or 23.4%, higher than budget. This increase was driven by Infrastructure Growth Charge revenue being $93.7 million and non-cash vested assets revenue being $27 million higher than budget due to the timing of new developments around the Auckland region.
- Asset operating costs were $5.0 million, or 5.7%, lower than budget. The main driver for the favourable budget variance is an underspend on Waikato District Council's (WDC's) capital works programme. Long lead times on equipment orders impacted by COVID-19 have resulted in deferred asset operating costs under WDC's contract with Watercare.
- Maintenance costs were $8.6 million, or 17.8%, higher than budget. The key driver of this variance was planned and unplanned maintenance costs. While every effort was made to reduce unplanned maintenance, the costs to repair the leakages were higher than budget due to the increased volume of water leaks reported resulting from the drought and the impact of complex repair jobs.
- Other expenses were $9.8 million over budget due to unbudgeted events and project costs, including:
  - Additional Consultancy and Professional Services cost of $7.1 million was incurred for ongoing systems implementation that was budgeted as capital expenditure.
  - Increase in provision for doubtful debts against budget by $1.9 million represented by one-time write-offs for old aged accounts.
  - Legal expenses were $1.1 million over budget, primarily due to regulation reform readiness and other projects.
- Finance costs were better than budget by $2.7 million, or 4.9%, due to lower borrowings required as a result of increased revenue.

Notes to the financial statements (continued)

For the year ended 30 June 2021

2. Explanation of major variances to budget (continued)

Statement of financial position – extract

	2021 Actual $000	2021 Budget $000	Variance $000	Variance %
Total current assets	140,898	109,219	31,679	29.0%
Total non-current assets	12,478,215	11,882,517	595,698	5.0%
Total current liabilities	218,745	199,910	(18,835)	(9.4%)
Total non-current liabilities	4,154,116	4,062,767	(91,349)	(2.2%)
Total equity	8,246,252	7,729,059	517,193	6.7%

- Current assets were $31.7 million higher than budget. This was primarily due to an increase in receivables and an additional loan advanced ($20.0 million) to the Central Interceptor project.
- Non-current assets were $595.7 million higher than budget. This was mainly due to revaluation of land, building and infrastructure assets.
- Current liabilities were $18.8 million higher than budget. The variance against budget was mainly driven by provisions for multiple large capital projects.
- Equity was higher than budget at year-end, primarily due to the higher total comprehensive revenue and expense for the year and significant uplift in revaluation reserve.

Statement of cash flows – extract

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

	2021 Actual $000	2021 Budget $000	Variance $000	Variance %
Net cash inflows – operating activities	464,011	360,412	103,599	28.7%
Net cash outflows – investing activities	(735,601)	(681,658)	(53,943)	(7.9%)
Net cash inflows / (outflows) – financing activities	263,188	271,247	(8,059)	(3.0%)

- Net operating cash inflows were $103.6 million better than budget, primarily due to the higher collections for Infrastructure Growth Charges revenue.
- The net cash outflow from investing activities was 7.9% higher than budget due to increased capital expenditure during the year, which was partly driven by projects brought forward as a response to the drought.
- The net cash inflows from financing activities were $8.1 million lower than budget. This was due to lower borrowing requirements from Auckland Council, resulting from increased revenue from Infrastructure Growth Charges and new connections.

3. Business update

Impact of COVID-19

COVID-19 and the Government mandated lockdown periods has not had a significant impact on the group given it provides essential services. During lockdown level four and level three Watercare's core business of providing water and wastewater services to Auckland continued.

Construction contract variations

Capital projects in progress during lockdown periods incurred insignificant delays and therefore immaterial contractual variation payments to compensate construction contractors under the terms of each agreement.

Revaluation of property, plant and equipment

The group has historically considered the revaluation of property, plant and equipment a critical accounting estimate and judgment. The impact of COVID-19 has created additional reliance on estimation over the group's assumptions in considering whether property, plant and equipment is recorded at fair value given the yet unknown impacts on the domestic and global construction industry. The group has taken all practical steps and engaged experts where necessary to ensure all estimates and judgments are reasonable. Refer to note 6, page 93.

IFRIC update on Software as a Service

In April 2021, the IFRS Interpretations Committee published an agenda decision clarifying how configuration and customisation costs incurred in implementing Software-as-a-Service (SaaS) must be accounted for.

The decision clarifies that certain configuration and customisation activities that are undertaken in implementing SaaS arrangements may give rise to a separate asset where the customer controls it; in such instances, these costs are capitalised as per PBE IPSAS 31.

In all other cases, it is expensed as the services are received or over the term of the SaaS contract. The clarification now makes it harder for companies to capitalise the costs of implementing SaaS arrangements as intangible assets. As a result, all companies are now expected to reassess the accounting treatment of any recently implemented SaaS arrangements and make any retrospective adjustments as required.

In the financial year ended 30 June 2020, Watercare capitalised costs associated with the Strategic Transformation Program (STP) and other cloud-based digital projects amounting to $69 million. The STP involved a two-year implementation of a cloud-based enterprise resource planning (ERP) solution. These implementation costs include the cost of development, configuration and customisation of the ERP solution. After considering the volume and complexity of the STP program and the limited time available to carry out an accurate assessment this financial year, management will complete the assessment and recognise any relevant adjustments by 31 December 2021.

4. Three Waters Reform

In July 2020, the Government launched the Three Waters Reform Programme – a three-year programme to reform local government three waters service delivery arrangements. Currently 67 different councils own and operate the majority of the drinking water, wastewater and stormwater services across New Zealand. The proposed reform programme is being progressed through a partnership-based approach with the local government sector, alongside iwi/Māori as the Crown's Treaty Partner.

If the reform programme proceeds, it proposes to transfer three water delivery from the 67 councils to 4 Water Services Entities. On 30 June 2021 the Government announced the proposed regional boundaries for each entity. Auckland Council Group, including Watercare, would be part of "Entity A", together with Kaipara District Council, Far North District Council and Whangārei District Council.

Watercare's activities includes working with Auckland Council in respect of the proposed transition. In addition, Auckland Council and Watercare are sharing information with the Northern Councils. At the date this report was approved for issue, there is considerable uncertainty in respect of the extent of potential impacts on Watercare. This includes whether the reforms will ultimately progress as currently proposed by the Government and whether Watercare would continue in its current form, be wound up, or subsumed as part of "Entity A". At this stage, it is not possible to assess the likely outcome and impacts on Watercare with any certainty.

5. Business unit reporting

Business unit comprehensive revenue and expense, financial position and cash flows for water and wastewater activities of Watercare are presented below. Revenues and expenses (except those directly attributable to debt) are apportioned to each unit on a direct basis plus an allocation of non-specific and overhead costs proportional to each unit's actual revenues at balance date.

The costs directly attributable to debt, such as finance costs and gain or loss on revaluation of derivative financial instruments, have been allocated in proportion to the debt as at balance date in water and wastewater activities. Where possible, other assets and liabilities are apportioned to each unit on a direct basis and non-specific assets and liabilities are allocated proportional to each unit's actual revenues at balance date. There are no material transactions between the two business units.

Business unit comprehensive revenue and expense

	Water 2021 $000	Wastewater 2021 $000	Total 2021 $000	Water 2020 $000	Wastewater 2020 $000	Total 2020 $000
Revenue						
Water and wastewater	157,473	353,220	510,693	166,647	367,408	534,055
Other revenue	89,123	202,783	291,906	63,728	154,510	218,238
Total revenue	246,596	556,003	802,599	230,375	521,918	752,293
Operating expenses						
Asset operating costs	(35,379)	(46,691)	(82,070)	(31,235)	(41,433)	(72,668)
Maintenance costs	(24,394)	(32,530)	(56,924)	(23,486)	(32,095)	(55,581)
Employee benefit expenses	(16,643)	(59,594)	(76,237)	(33,761)	(41,607)	(75,368)
Other expenses	(29,223)	(47,415)	(76,638)	(21,461)	(43,482)	(64,943)
Total operating expenses	(105,639)	(186,230)	(291,869)	(109,943)	(158,617)	(268,560)
Depreciation	(102,879)	(155,730)	(258,609)	(109,261)	(136,593)	(245,854)
Amortisation	(2,632)	(10,537)	(13,169)	(2,385)	(8,654)	(11,039)
Finance costs	(19,205)	(34,938)	(54,143)	(11,877)	(44,281)	(56,158)
Total expenses	(230,355)	(387,435)	(617,790)	(233,466)	(348,145)	(581,611)
Operating (loss) / surplus from trading operations	16,241	168,568	184,809	(3,091)	173,773	170,682
Net loss on disposal of property, plant and equipment, and restructuring costs	(3,787)	(4,399)	(8,186)	(3,468)	(5,079)	(8,547)
Operating (loss) / surplus before tax	12,454	164,169	176,623	(6,559)	168,694	162,135
Income tax benefit / (expense)	(3,414)	(45,009)	(48,423)	3,573	(91,879)	(88,306)
Net (loss) / surplus for the year	9,040	119,160	128,200	(2,986)	76,815	73,829
Other comprehensive revenue and expense net of tax						
Gain on revaluation of property, plant and equipment	385,752	583,915	969,667	–	–	–
Other comprehensive revenue and expense for the year, net of tax	385,752	583,915	969,667	–	–	–
Total comprehensive revenue and expense for the year attributable to owners of the parent, net of tax	394,792	703,075	1,097,867	(2,986)	76,815	73,829

5. Business unit reporting (continued)

Business unit financial position

	Water 2021 $000	Wastewater 2021 $000	Total 2021 $000	Water 2020 $000	Wastewater 2020 $000	Total 2020 $000
Assets						
Current						
Current assets	36,913	103,985	140,898	43,954	97,635	141,589
Total current assets	36,913	103,985	140,898	43,954	97,635	141,589
Non-current						
Property, plant and equipment	4,966,669	7,333,540	12,300,209	4,583,099	5,932,309	10,515,408
Intangible assets	22,392	89,632	112,024	25,855	90,460	116,315
Inventories	5,582	–	5,582	3,619	–	3,619
Prepaid expenses	–	24,477	24,477	–	25,647	25,647
Other financial assets	–	35,923	35,923	–	34,186	34,186
Total non-current assets	4,994,643	7,483,572	12,478,215	4,612,573	6,082,602	10,695,175
Total assets	5,031,556	7,587,557	12,619,113	4,656,527	6,180,237	10,836,764
Liabilities						
Current						
Current liabilities	72,013	146,732	218,745	52,910	140,021	192,931
Total current liabilities	72,013	146,732	218,745	52,910	140,021	192,931
Non-current						
Borrowings	820,158	1,488,292	2,308,450	415,900	1,537,600	1,953,500
Deferred tax liability	555,641	1,251,918	1,807,559	469,191	1,037,206	1,506,397
Trade and other payables for exchange transactions	200	4,782	4,982	295	2,564	2,859
Accrued expenses	8,223	5,570	13,793	8,407	5,806	14,213
Provisions	686	18,646	19,332	615	18,116	18,731
Total non-current liabilities	1,384,908	2,769,208	4,154,116	894,408	2,601,292	3,495,700
Total liabilities	1,456,921	2,915,940	4,372,861	947,318	2,741,313	3,688,631
Equity attributable to owners of the parent and non-controlling interest	3,574,635	4,671,617	8,246,252	3,709,209	3,438,924	7,148,133
Total equity and liabilities	5,031,556	7,587,557	12,619,113	4,656,527	6,180,237	10,836,764

Business unit cash flows

	Water 2021 $000	Wastewater 2021 $000	Total 2021 $000	Water 2020 $000	Wastewater 2020 $000	Total 2020 $000
Net cash inflows – operating activities	122,096	341,915	464,011	120,038	328,420	448,458
Net cash outflows – investing activities	(256,006)	(479,595)	(735,601)	(196,390)	(408,816)	(605,206)
Net cash (outflows) / inflows – financing activities	130,926	132,262	263,188	78,221	87,308	165,529
Net change in cash flows	(2,984)	(5,418)	(8,402)	1,869	6,912	8,781

6. Property, plant and equipment

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

			Estimated remaining useful lives in years	
Asset class	Category	Subsequent measurement basis	2021	2020
Land	Operational asset	Land at fair value that reflects current market value and forestry assets at fair value less costs to sell	–	–
Buildings	Operational asset	Highly specialised buildings at fair value which is deemed to be depreciated replacement cost, less accumulated depreciation Other buildings at fair value that reflects current market value, less accumulated depreciation	Up to 100	up to 98
Pipelines	Infrastructure asset	Fair value which is deemed to be depreciated replacement cost, less accumulated depreciation	Up to 164	up to 165
Tanks, tunnels, roads and reservoirs	Infrastructure asset	Fair value which is deemed to be depreciated replacement cost, less accumulated depreciation	Tanks: up to 95 Tunnels: up to 822	Tanks: up to 100 Tunnels: up to 822
Dams	Infrastructure asset	Fair value which is deemed to be depreciated replacement cost, less accumulated depreciation	up to 195	up to 196
Landfill	Infrastructure asset	Cost less accumulated depreciation and impairment losses	up to 15	up to 16
Machinery	Infrastructure asset	Fair value which is deemed to be depreciated replacement cost, less accumulated depreciation	up to 196	up to 197
Motor vehicles	Operational asset	Cost less accumulated depreciation and impairment losses	up to 17	up to 18
Office equipment	Operational asset	Cost less accumulated depreciation and impairment losses	up to 24	up to 25
Capital work in progress	Infrastructure assets mainly	Cost less accumulated impairment losses	–	–

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

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

6. Property, plant and equipment (continued)

Revaluation

All PPE, except for landfill, motor vehicles, office equipment and capital work in progress, are revalued after initial recognition. Also refer to note 8, page 98, Revaluation Reserves.

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

Revaluation assumptions

The group has taken all practical steps and engaged experts where necessary to ensure all estimates and judgments are reasonable in respect of the impact of COVID-19 on the valuation of property, plant and equipment.

The most recent revaluation for land and buildings was completed at 30 June 2021 by Beca Valuations Limited (Beca). The land valuation was based on relevant market prices using a comparable sales approach. Beca completed kerbside inspections on land parcels with book values at or above $800,000 and primary inspections were undertaken at the main treatment plants. For highly specialised buildings, which are rarely traded in the marketplace, the valuation was based on the depreciated replacement cost. The valuation included desktop assessments and site visits for six treatment plants, a laboratory, one dam and two pump stations.

A comprehensive desktop assessment was carried out for all infrastructure assets as at 30 June 2021 by Beca. As part of the assessment, Beca gathered data on equipment prices and other infrastructure cost information relative to modern-day equivalent assets to assess replacement rates; updated asset schedules with 2021 optimised replacement costs (ORC), optimised depreciated replacement costs (ODRC) and annual financial depreciation for assets. By the nature of Watercare's business the infrastructure assets are of a specialised nature, which are rarely traded in the marketplace; therefore, fair value is assessed by ODRC approach. Few buildings that are non-specialised are revalued based on market value approach. ODRC uses the assessment of replacement cost of an asset with a new or a modern equivalent asset and applies optimisation and depreciation to adjust for age, condition, performance and remaining useful life.

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

- Construction costs based on recent contract-based construction work and the unit rates reflect the costs of replacing assets.
- The useful lives of assets are calculated as the lesser of their physical lives or at the point where the assets are to be replaced for economic reasons.
- The capital goods price index (CGPI) was used where indexation is appropriate (at the time of valuation, the CGPI was available to the March 2021 quarter and an estimate was made for the June 2021 quarter).

A full revaluation of infrastructure assets will be completed in the 2022 financial year.

The revaluation and desktop assessment gave rise to an overall increase of 13.5% in infrastructure and property assets.

Depreciation

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

Notes to the financial statements (continued)

For the year ended 30 June 2021

6. Property, plant and equipment (continued)

	Land $000	Buildings $000	Pipelines $000	Tanks, tunnels, roads and reservoirs $000	Dams $000	Landfill $000	Machinery $000	Motor vehicles $000	Office equipment $000	Capital work in progress $000	Total $000
Balance at 1 July 2019											
Cost or valuation	256,137	124,893	7,104,386	691,392	271,764	94,346	1,226,008	20,966	37,279	618,172	10,445,343
Accumulated depreciation	–	(2,496)	(152,571)	(13,754)	(2,481)	(10,852)	(68,340)	(10,547)	(21,133)	–	(282,174)
Net book value	256,137	122,397	6,951,815	677,638	269,283	83,494	1,157,668	10,419	16,146	618,172	10,163,169
Year ended 30 June 2020											
Additions to work in progress	–	–	–	–	–	–	–	–	–	615,531	615,531
Additions to PPE	750	–	59,292	–	–	9,366	3,454	37	248	–	73,147
Transfers from work in progress	5,272	110	149,766	1,354	–	24,834	56,635	1,325	4,005	(321,248)	(77,947)
Disposals	(1,473)	–	(8,871)	–	–	–	(1,751)	(138)	(12)	–	(12,245)
Revaluation	–	–	–	–	–	–	–	–	–	–	–
Impairment	–	–	–	–	–	–	–	–	(32)	(361)	(393)
Transfer from/(to) other classes	–	–	–	–	–	–	–	–	–	–	–
Depreciation	–	(2,927)	(152,813)	(12,837)	(2,472)	(3,649)	(63,702)	(2,232)	(5,222)	–	(245,854)
Closing carrying amount	260,686	119,580	6,999,189	666,155	266,811	114,045	1,152,304	9,411	15,133	912,094	10,515,408
Balance at 30 June 2020											
Cost or valuation	260,686	125,003	7,302,790	692,746	271,764	128,546	1,284,326	22,192	41,922	912,094	11,042,069
Accumulated depreciation	–	(5,423)	(303,601)	(26,591)	(4,953)	(14,501)	(132,022)	(12,781)	(26,789)	–	(526,661)
Carrying amount	260,686	119,580	6,999,189	666,155	266,811	114,045	1,152,304	9,411	15,133	912,094	10,515,408
Year ended 30 June 2021											
Additions to work in progress	–	–	–	–	–	–	–	–	–	800,953	800,953
Additions to PPE	(750)	–	48,752	–	–	–	532	–	–	–	48,534
Transfers from work in progress/(to) intangibles	7,251	8,780	161,411	66,261	154	10,799	287,314	1,012	7,867	(559,017)	(8,168)
Disposals	(6,676)		(10,501)		(40)	–	180	(144)	182	–	(16,999)
Revaluation	319,541	(10,730)	832,095	29,334	–	–	52,252	–	–	–	1,222,492
Impairment	–	–	–	–	–	–	–	–	(96)	(3,306)	(3,402)
Transfer from/(to) other classes	–	–	–	–	–	–	–	–	–	–	–
Depreciation	–	(3,116)	(154,447)	(13,511)	(2,461)	(3,856)	(72,549)	(2,515)	(6,154)	–	(258,609)
Closing carrying amount	580,052	114,514	7,876,499	748,239	264,464	120,988	1,420,033	7,764	16,932	1,150,724	12,300,209
Balance at 30 June 2021											
Cost or valuation	580,052	114,811	8,333,513	788,339	271,876	139,345	1,622,615	22,607	49,084	1,150,724	13,072,966
Accumulated depreciation	–	(297)	(457,014)	(40,100)	(7,412)	(18,357)	(202,582)	(14,843)	(32,152)	–	(772,757)
Carrying amount	580,052	114,514	7,876,499	748,239	264,464	120,988	1,420,033	7,764	16,932	1,150,724	12,300,209

6. Property, plant and equipment (continued)

Service concession assets – included in the above

Service concession assets are infrastructure assets owned by Watercare and operated by Veolia Water Services (ANZ) Pty Limited (Veolia) for the provision of water and wastewater services in the Papakura district. The franchise agreement stipulates the services Veolia must provide, to whom it must provide them and regulates the price. Veolia is responsible for upgrading and maintaining the network in Papakura so that at the end of the contract period (initial term of 30 years ending on 30 June 2027 with a 20-year right of renewal), the network shall be in a better overall condition than that which existed at the time the contract was commenced in 1997. At the commencement of the contract, a franchise fee was paid in exchange for the rights to operate the assets as detailed in note 23, page 114. Watercare retains ownership of the infrastructure assets franchised to Veolia.

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

	Pipelines $000	Machinery $000	Total $000
Balance at 30 June 2019			
Cost or valuation	199,543	4,498	204,041
Accumulated depreciation	(4,390)	(176)	(4,566)
Carrying amount	195,153	4,322	199,475
Year ended 30 June 2020			
Additions to PPE	1,436	–	1,436
Disposals	(107)	–	(107)
Revaluation	–	–	–
Depreciation	(4,043)	(181)	(4,224)
Closing carrying amount	192,439	4,141	196,580
Balance at 30 June 2020			
Cost or valuation	200,866	4,498	205,364
Accumulated depreciation	(8,427)	(357)	(8,784)
Carrying amount	192,439	4,141	196,580
Year ended 30 June 2021			
Additions to PPE	2,943	–	2,943
Disposals	(64)	–	(64)
Transfers	(1,195)	–	(1,195)
Revaluation	–	–	–
Depreciation	(3,913)	(166)	(4,079)
Closing carrying amount	190,209	3,975	194,185
Balance at 30 June 2021			
Cost or valuation	202,545	4,498	207,043
Accumulated depreciation	(12,336)	(523)	(12,858)
Carrying amount	190,209	3,975	194,185

6. Property, plant and equipment (continued)

Capital work in progress

Work in progress relates to the following projects:	2021 $000	2020 $000
Water treatment plant	169,136	32,383
Wastewater treatment plant	58,001	241,059
Wastewater pump station and sewer	498,204	353,839
Watermains, pump stations and reservoirs	299,678	204,570
Dams and raw water transmission pipelines	27,297	5,630
Other	98,408	74,613
Total work in progress	1,150,724	912,094

7. Impairment of property, plant and equipment, and intangible assets including goodwill

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

Cash-generating assets

Assets are considered cash generating where their primary objective is to generate a commercial return. At each reporting date, the group assesses whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of the cash-generating unit's (CGU) fair value less costs to sell and its value in use. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the CGU. Where the carrying amount of the CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Goodwill

Goodwill acquired through business combination has been allocated to Lutra Limited, which the group considers to be a CGU. The group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

An impairment loss is recognised if the carrying amount of the CGU exceeds its recoverable amount. The impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

No goodwill impairment was recognised for 30 June 2021.

Non-cash-generating assets

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

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

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

8. Revaluation reserves

The group maintains a revaluation reserve for each class of asset. Each class of asset contains a number of assets which could have a revaluation gain or loss in the current year. The changes in the value of each class of asset as a result of revaluations is assessed collectively and are recorded in other comprehensive revenue and expense and accumulated in a revaluation reserve. Any revaluation increase is credited to the asset class revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset class 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, except for those assets on which a desktop assessment was performed, and the asset cost is restated to the revalued amount. When revalued assets are disposed of, the related amounts included in other reserves are transferred to retained earnings. As the impact to revaluation reserve is calculated on a class of asset level, the disposal of individual assets with a negative other reserve balance within a net positive other reserve balance results in an increase to other reserves and a decrease to retained earnings.

	Land $000	Buildings $000	Pipelines $000	Tanks, tunnels, roads and reservoirs $000	Dams $000	Machinery $000	Total $000
Balance at 1 July 2019	141,472	32,215	1,794,621	326,953	130,700	139,142	2,565,103
Revaluation during the year – net of deferred tax	–	–	–	–	–	–	–
Transfer (to)/from other classes	–	–	–	–	–	–	–
Transferred to retained earnings on disposal of property, plant and equipment (net of tax)	–	–	752	–	–	1,753	2,505
Balance at 30 June 2020	141,472	32,215	1,795,373	326,953	130,700	140,895	2,567,608

	Land $000	Buildings $000	Pipelines $000	Tanks, tunnels, roads and reservoirs $000	Dams $000	Machinery $000	Total $000
Balance at 1 July 2020	141,472	32,215	1,795,373	326,953	130,700	140,895	2,567,608
Revaluation during the year – net of deferred tax	319,541	(7,725)	599,108	21,121	–	37,622	969,667
Transfer (to)/from other classes	–	–	–	–	–	–	–
Transferred to retained earnings on disposal of property, plant and equipment (net of tax)	(1,100)	–	(2,614)	(547)	(43)	(636)	(4,940)
Balance at 30 June 2021	459,913	24,490	2,391,867	347,527	130,657	177,881	3,532,335

9. Intangible assets

Measurement

Intangible assets are initially recorded at cost.

Asset class	Subsequent measurement basis	Estimated remaining useful lives in years 2021	2020
Network models	Cost less accumulated amortisation and impairment losses	up to 9	up to 10
Computer software	Cost less accumulated amortisation and impairment losses	up to 9	up to 10
Resource consents	Cost less accumulated amortisation and impairment losses	up to 34	up to 35
Easement	Cost less impairment losses	Indefinite	Indefinite
Goodwill	Cost less impairment losses	Indefinite	Indefinite

Goodwill

Goodwill is initially recognised and measured as the excess of the sum of the consideration transferred and the amount of any non-controlling interests in the acquiree, over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. Goodwill is not amortised but is reviewed for impairment at least annually.

On disposal of a cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Amortisation

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

9. Intangible assets (continued)

Carrying amount	Network models $000	Computer software $000	Resource consents $000	Easements $000	Goodwill $000	Total $000
Balance at 30 June 2019						
Cost	5,998	61,639	43,103	1,427	–	112,167
Accumulated amortisation	(3,392)	(50,187)	(12,141)	–	–	(65,720)
Carrying amount	2,606	11,452	30,962	1,427	–	46,447
Year ended 30 June 2020						
Transferred from work in progress	–	74,018	3,929	–	–	77,947
Acquisitions of a controlled entity	–	–	–	–	2,300	2,300
Impairment	(22)	(9)	(159)	–	–	(190)
Disposals	–	(2)	–	–	–	(2)
Additions to Intangibles	–	75	777	–	–	852
Transfer from/(to) other classes	–	–	–	–	–	–
Amortisation	(506)	(9,078)	(1,455)	–	–	(11,039)
Closing carrying amount	2,078	76,456	34,054	1,427	2,300	116,315
Balance at 30 June 2020						
Cost or valuation	5,976	135,721	47,650	1,427	2,300	193,074
Accumulated amortisation	(3,898)	(59,265)	(13,596)	–	–	(76,759)
Carrying amount	2,078	76,456	34,054	1,427	2,300	116,315
Year ended 30 June 2021						
Transferred from work in progress	233	7,887	48	–	–	8,168
Acquisitions of a controlled entity	–	–	–	–	–	–
Impairment	–	–	(374)	–	–	(374)
Disposals	–	(1)	–	–	–	(1)
Additions to Intangibles	–	1,085	–	–	–	1,085
Transfer from/(to) other classes	–	–	–	–	–	–
Amortisation	(430)	(11,234)	(1,505)	–	–	(13,169)
Closing carrying amount	1,881	74,193	32,223	1,427	2,300	112,024
Balance at 30 June 2021						
Cost or valuation	5,039	144,202	47,061	1,427	2,300	200,029
Accumulated amortisation	(3,158)	(70,009)	(14,838)	–	–	(88,005)
Carrying amount	1,881	74,193	32,223	1,427	2,300	112,024

10. Borrowings

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

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

From 1 July 2018 Watercare and its parent, Auckland Council, entered into a service level agreement (SLA) for the provision of treasury services and an inter-company loan agreement for existing loans at 30 June 2018. The terms of both agreements commenced 1 July 2018 and are in place until 31 January 2023. Auckland council treasury met all of their obligations under the terms of the SLA during the 2021 financial year.

The key objective of the centralised treasury function is to achieve cost savings and efficiencies. Under the agreement, Auckland Council now provides all of Watercare's financing needs to meet both the debt projections included in Watercare's latest annual statement of intent and the debt projections for Watercare included in the council's Long-Term Plan 2021-2031, as modified by any subsequent Annual Plan. The treasury function also provides risk management of the weighted average interest rate; liquidity and funding risk management; treasury reporting; and foreign exchange transacting. The agreement relinquishes Watercare from maintaining its own treasury function for liquidity and financial risk management.

There is an expectation for Watercare to meet the long-term annual plan budgeted borrowing balance of $2,313.8 million. The actual results for the year ended 30 June 2021 were $2,308.5 million. A total of $1.4 million of borrowings pertains to unbudgeted housing infrastructure funding.

In the current year, financing is made available through Auckland Council to meet the debt projections included in Watercare's agreed statement of intent and in the council's Long-Term Plan 2021-2031, as modified by any subsequent Annual Plan.

	2021		2020	
	Face value $000	Carrying value $000	Face value $000	Carrying value $000
Current				
Related party term loan (unsecured)	–	–	–	–
Medium-term notes (unsecured)	–	–	–	–
Bank loan (unsecured)	–	–	–	–
Total current borrowings	–	–	–	–
Non-current				
Related party term loan (unsecured)	2,308,450	2,308,450	1,953,500	1,953,500
Total non-current borrowings	2,308,450	2,308,450	1,953,500	1,953,500
Total borrowings	2,308,450	2,308,450	1,953,500	1,953,500

The group had $2.0 million (2020: $2.0 million) of undrawn bank overdraft committed facilities.

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

11. Finance costs

Finance costs consist of interest and other costs that are incurred in connection with the borrowing of funds. Finance costs directly attributable to the acquisition, construction or production of a qualifying asset that necessarily takes more than 12 months to become ready for its intended use or sale are capitalised as part of the cost of that asset. During the year, an average interest rate of 4.15% (2020: 4.42%) was used to determine the amount of capitalised interest. All other finance costs are expensed in the period in which they occur.

	2021 $000	2020 $000
Interest on bank overdraft and borrowings, paid and payable	88,283	81,688
Capitalised interest on construction of property, plant and equipment, and intangibles	(34,140)	(25,530)
Net finance costs	54,143	56,158

12. Financial instruments and risk management

Risk management objectives and policies

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

Risk	Exposure arising from	Measurement	Management
Market risk – interest rate	Long-term borrowings at variable rates	Sensitivity analysis	Fixed interest rate agreement with Auckland Council
Market risk – foreign exchange	Future commercial transactions denominated in foreign currency	Sensitivity analysis	Forward foreign exchange contracts and foreign exchange options
Credit risk	Cash and cash equivalents, trade receivables from exchange transactions and derivatives	Credit ratings	Credit limits, performance guarantees and third-party bonds
Liquidity risk	Maturing liabilities and timing mismatches between revenue and expenses	Rolling cash flow forecasts	To remain within the debt projections in the agreement with Auckland Council

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

Market risk

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

Interest rate risk

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

The group is no longer exposed to interest rate risk as this is now managed by Auckland Council. The group has a fixed interest rate agreement with Auckland Council. Also refer to note 10, page 101.

12. Financial instruments and risk management (continued)

Interest rate sensitivity

At 30 June 2021 there is no interest rate risk as interest rates are fixed annually (2020: None).

Foreign exchange risk

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

From time to time the group is exposed to foreign exchange risk on foreign currency transactions related to the purchase of equipment, parts and chemicals. Where amounts exceed NZ$300,000 (2020: NZ$300,000), the group manages this risk with forward foreign exchange contracts or options.

The group had no forward foreign exchange contracts at 30 June 2021 and 30 June 2020.

Foreign exchange sensitivity

The group had no exposure to foreign exchange risk at 30 June 2021 and 30 June 2020.

Credit risk

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

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

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

	2021			2020		
	Carrying amount $000	Provision for doubtful debts $000	Net carrying amount $000	Carrying amount $000	Provision for doubtful debts $000	Net carrying amount $000
Not past due	49,711	–	49,711	36,017	(1,061)	34,956
Past due 1 to 30 days	4,264	–	4,264	9,715	(286)	9,429
Past due 30 to 60 days	4,271	(30)	4,241	2,437	(72)	2,365
Past due more than 60 days	10,301	(2,721)	7,580	9,598	(283)	9,315
Total	68,547	(2,751)	65,796	57,767	(1,702)	56,065

Movement in the provision for doubtful debts	2021 $000	2020 $000
Balance at 1 July	1,702	1,824
Additions during the year	2,023	500
Bad debts written off	(974)	(622)
Unused provisions reversed during the year	–	–
Balance at 30 June	2,751	1,702

During the year ended 30 June 2021, the group is also exposed to credit risk through a $70 million loan provided to the Central Interceptor contractor (2020: $50 million). The group has mitigated this risk by contractually securing the loan with bank bonds, which in the event of a default, the group has the right to call on the bonds and have the loan repaid in full. Refer to note 22, page 114, for further information.

12. Financial instruments and risk management (continued)

Liquidity risk

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

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

From 1 July 2018 the group's objective is to remain within the terms of the agreement for the provision of treasury services by Auckland Council, ensuring that the group's financing needs stay within agreed forward limits as prescribed in the approved Council's Long-Term Plan 2021-2031, as modified by any subsequent Annual Plan. This is a key requirement of the guarantee letter from Auckland Council.

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		Gross nominal cash outflow	Carrying amount
2021	0–6 months $000	7–12 months $000	1–2 years $000	2–3 years $000	$000	$000
Financial liabilities						
Trade and other payables for exchange transactions	29,152	–	–	–	29,152	29,152
Accrued expenses*	104,322	–	–	–	104,322	104,322
Borrowings	–	–	–	2,308,450	2,308,450	2,308,450
Total	133,474	–	–	2,308,450	2,441,924	2,441,924

	Current		Non-current		Gross nominal cash outflow	Carrying amount
2020	0–6 months $000	7–12 months $000	1–2 years $000	2–3 years $000	$000	$000
Financial liabilities						
Trade and other payables for exchange transactions	20,086	–	–	–	20,086	20,086
Accrued expenses*	112,634	–	–	–	112,634	112,634
Borrowings	–	–	–	1,953,500	1,953,500	1,953,500
Total	132,720	–	–	1,953,500	2,086,220	2,086,220

* Excludes current and non-current revenue received in advance of $64.8 million (2020: $56.5 million) as it was not categorised as a financial liability; refer to note 23, page 114.

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

Fair values

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

Financial assets at amortised cost

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

The loan provided to the Central Interceptor contractor at nil market interest rate was initially recognised at the present value of the expected future cash flow, discounted at the current market rate of return for a similar financial instrument. After initial recognition, the loan is measured at amortised cost using the effective interest method. Refer to note 22, page 114.

Notes to the financial statements (continued)

For the year ended 30 June 2021

12. Financial instruments and risk management (continued)

Financial liabilities at amortised cost

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

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

Fair value through profit and loss

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

Fair value hierarchy

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

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

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

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

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

From 1 July 2018 the group did not have any financial assets or liabilities that were measured at fair value in the statement of financial position. At 30 June 2021 there are no derivative financial instruments (2020: None).

Financial assets and liabilities

	2021		2020	
	Carrying amount $000	Fair value $000	Carrying amount $000	Fair value $000
Financial assets - current				
Amortised cost				
Cash and cash equivalents	2,521	2,521	10,923	10,923
Trade and other receivables from exchange transactions	88,800	88,800	82,641	82,641
Other financial assets	27,203	27,203	13,966	13,966
Financial assets - non-current				
Amortised cost				
Other financial assets	35,923	35,923	34,186	34,186
Total financial assets	154,447	154,447	141,716	141,716
Financial liabilities - current				
Amortised cost				
Trade and other payables for exchange transactions	24,170	24,170	17,227	17,227
Accrued expenses*	104,322	104,322	112,634	112,634
Financial liabilities - non-current				
Amortised cost				
Trade and other payables for exchange transactions	4,982	4,982	2,859	2,859
Related party term loan (unsecured)	2,308,450	2,308,450	1,953,500	1,953,500
Total financial liabilities	2,441,924	2,441,924	2,086,220	2,086,220

* Excludes current revenue received in advance of $51.0 million (2020: $42.3 million) and non-current revenue received in advance of $13.8 million (2020: $14.2 million) as it was not categorised as a financial liability; refer to note 23, page 114.

12. Financial instruments and risk management (continued)

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 85, and debt including borrowings as disclosed in note 10, page 101.

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

The group continues to focus on the maintenance of the long-term integrity of its assets while keeping the overall costs to its customers at minimum levels. There has been no change in the group's overall strategy for capital management during the years ended 30 June 2021 and 30 June 2020.

13. Revenue

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

Revenue from exchange transactions

Water and wastewater revenue

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

Revenue from rendering of services

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

Interest income

Interest income is recognised using the effective interest method.

Dividend income

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

Infrastructure Growth Charge revenue

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

Revenue from non-exchange transactions

All non-exchange revenue earned by Watercare is from vested assets.

Vested assets revenue

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

13. Revenue (continued)

	2021 $000	2020 $000
Revenue from exchange transactions		
Revenue from sale of goods		
Water revenue – gross	160,456	168,714
Water leak remission	(2,989)	(2,072)
Water revenue – net of leak remissions	157,467	166,642
Revenue from sale of services		
Wastewater revenue – gross	360,121	372,270
Wastewater leak remission	(6,895)	(4,857)
Wastewater revenue – net of leak remissions	353,226	367,413
Total water and wastewater revenue – net of leak remissions	510,693	534,055
New meters and service connections	26,137	20,339
Laboratory revenue	7,283	7,115
Total revenue from sale of goods and services	544,113	561,509
Infrastructure Growth Charge revenue	196,936	109,773
Dividend income	112	121
Interest income	88	322
Other revenue	10,761	16,079
Total other revenue from exchange transactions	207,897	126,295
Total revenue from exchange transactions	752,010	687,804
Revenue from non-exchange transactions		
Government grants	2,055	–
Vested assets revenue	48,534	64,489
Total revenue from non-exchange transactions	50,589	64,489
Total revenue	802,599	752,293

14. Operating expenses

	Notes	2021 $000	2020 $000
Operating expenses include:			
Auditor's remuneration			
– annual audit and review of the financial statements – Deloitte		698	697
– audit of financial statements – Office of the Auditor-General (OAG) contribution		45	43
– other services		384	462
Directors and trustees' fees	NOTE 30, PAGE 119	477	507
Environmentally significant costs			
– chemicals		13,356	13,417
– energy		25,329	23,788
Cost of consumables and spare parts consumed	NOTE 19, PAGE 112	18,104	16,716
Operating leases and rent		7,628	7,091
Increase in provision for doubtful debts	NOTE 12, PAGE 103	2,023	500
Bad debts written off	NOTE 12, PAGE 103	(974)	(622)
Salaries and wages			
– paid to employees		110,966	98,550
– capitalised on construction of property, plant and equipment		(38,935)	(26,914)
– included in employee benefit expenses		72,031	71,636

Auditor's remuneration for other services relates to the Central Interceptor project assurance services and probity services, a review of processes and controls in respect of real water loss, and assurance in respect of Watercare's GRI report. Prior year fees for other services provided by the auditors related to cybersecurity advice including incident response support, Central Interceptor and Enterprise Model probity services.

All fees paid to the auditor were authorised in line with the Audit and Risk Committee Charter.

15. Reconciliation of operating cash flows

	2021 $000	2020 $000
Reconciliation of net surplus after tax to net cash flows from operating activities		
Net surplus for the year	128,200	73,829
Non-cash and non-operating items:		
Depreciation and amortisation	271,778	256,893
Net loss on disposal of and provision for redundant property, plant and equipment	8,172	8,711
Vested assets revenue	(48,534)	(64,489)
Capitalised interest on borrowings and assets	54,218	63,798
Deferred tax	48,423	88,306
Movements in working capital:		
(Increase) / decrease in assets:		
Inventories	(935)	(1,456)
Trade and other receivables from exchange transactions	2,026	9,121
Prepaid expenses	2,512	8,085
Increase / (decrease) in liabilities:		
Trade and other payables for exchange transactions	1,388	1,699
Accrued expenses	(3,469)	1,382
Provisions	232	2,663
Net cash inflows from operating activities	464,011	448,542

16. Income tax expense

Current tax

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

Sale of tax losses

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

Tax loss offset

For the income year ended 30 June 2021, Watercare agreed to a maximum of tax losses to be sold to Auckland Council tax group of $Nil (2020: $27.0 million). However, no subvention payment or tax loss offset has been recorded.

In respect of the year ended 30 June 2021, Watercare received no cash payment (2020: $1.6 million) from Auckland Council tax group with no tax impact (2020: $13.0 million).

16. Income tax expense (continued)

	2021 $000	2020 $000
Operating surplus before tax	176,623	162,135
Income tax calculated at current tax rate of 28%	49,454	45,398
Increase / (decrease) in income tax due to:		
– Dividend and other income exempt from taxation	(1,738)	(361)
– Non-deductible expenses	479	422
– Imputation credits on dividends received	(52)	–
– Prior year and other adjustments	279	54,737
– Reintroduction of building tax depreciation	–	(11,890)
Tax effect of non-deductible items and prior period adjustments	(1,031)	42,908
Income tax expense	48,423	88,306
Represented by:		
Current tax	–	–
Deferred tax	48,423	88,306
Total income tax expense	48,423	88,306

	2021 $000	2020 $000
Total imputation credits	30,616	30,564

Imputation credits

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

17. Deferred tax liability

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

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

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

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

These provisions and accrued expenses temporary differences relate to expenses that were recognised for accounting purposes but cannot be deducted for tax purposes until the amounts have become payable.

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

(i) Recognised deferred tax assets and liabilities

	2021 Assets $000	2020 Assets $000	2021 Liabilities $000	2020 Liabilities $000	2021 Net $000	2020 Net $000
Property, plant and equipment	–	–	(2,033,040)	(1,746,266)	(2,033,040)	(1,746,266)
Employee benefits and other provisions	4,429	3,778	–	–	4,429	3,778
Tax losses	265,814	271,254	–	–	265,814	271,254
Other	–	–	(44,762)	(35,163)	(44,762)	(35,163)
Total	270,243	275,032	(2,077,802)	(1,781,429)	(1,807,559)	(1,506,397)

(ii) Movement in deferred tax

	Property, plant and equipment $000	Financial instruments $000	Employee entitlements and other provisions $000	Tax losses $000	Other $000	Total $000
Balance as at 1 July 2019	1,708,002	–	(3,055)	(314,876)	28,020	1,418,091
Charged / (credited) to comprehensive revenue and expense	38,264		(723)	43,622	7,143	88,306
Charged to other comprehensive revenue and expense, resulting from revaluation	–	–	–	–	–	–
Balance as at 30 June 2020	1,746,266	–	(3,778)	(271,254)	35,163	1,506,397
Balance as at 1 July 2020	1,746,266	–	(3,778)	(271,254)	35,163	1,506,397
Charged / (credited) to comprehensive revenue and expense	34,035		(651)	5,440	9,599	48,423
Charged to other comprehensive revenue and expense, resulting from revaluation	252,739	–	–	–	–	252,739
Balance as at 30 June 2021	2,033,040	–	(4,429)	(265,814)	44,762	1,807,559

Deferred tax movement mainly represents the recognition of deferred tax on revaluation of Building and Infrastructure assets.

18. Trade and other receivables from exchange transactions

Trade and other receivables from exchange transactions are initially recognised at fair value. These are generally due for settlement within 21 days (2020: 21 days). Debts which are known to be uncollectable are written off by reducing the carrying amount directly.

The expected credit loss provision for receivables was calculated using the PBE IFRS 9 model, which is based on forward-looking information, as well as current and historic information. The group has applied the simplified approach to all receivables which requires the recognition of lifetime expected credit losses at all times.

Subsequent recoveries of amounts previously written off are recorded within other revenue. Refer to note 12, page 103.

	2021 $000	2020 $000
Current		
Trade receivables	63,264	51,757
Trade receivables - related parties	5,283	3,685
Provision for doubtful debts	(2,751)	(1,702)
	65,796	53,740
Other receivables - related parties	–	2,326
Unbilled revenue accrual	23,004	26,575
Trade and other receivables from exchange transactions	88,800	82,641

19. Inventories

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

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

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

The cost of inventories recognised as an expense during the year was $18.1 million (2020: $16.7 million).

	2021 $000	2020 $000
Spare parts at cost	2,541	2,227
Consumables at cost	9,229	8,763
Treated water at cost	1,080	925
Project stock	8,006	17,321
Provision for obsolescence	(20)	(20)
Total	20,836	29,216
Represented as:		
Current inventory	15,254	25,597
Non-current inventory	5,582	3,619
Total	20,836	29,216

Notes to the financial statements (continued)

For the year ended 30 June 2021

20. Trade and other payables for exchange transactions

Trade and other payables for exchange transactions are unsecured and usually paid within 30 days (2020: 30 days) of recognition. Certain construction contracts entitle the group to retain specified amounts to ensure the performance of contract obligations. These retentions are recorded as a liability, and either used to remedy contract performance or paid to the contractor at the end of the retention period. Contract retentions of $10.3 million are held as cash on hand at 30 June 2021 (2020: $8.5 million) by Auckland Council treasury. This is in line with the amendment to the Construction Contracts Act (CCA) 2002 which was effective from April 2017.

	2021 $000	2020 $000
Current		
Trade creditors	12,175	9,889
Trade creditors - related parties	5,782	107
Contract retentions	5,364	5,750
Other payables	849	1,481
Total current trade and other payables for exchange transactions	24,170	17,227
Non-current		
Contract retentions	4,982	2,859
Total non-current trade and other payables for exchange transactions	4,982	2,859
Total trade and other payables for exchange transactions	29,152	20,086

21. Prepaid expenses

	2021 $000	2020 $000
Current		
Puketutu Island lease	443	443
Other prepaid expenses	6,677	8,019
Total current prepaid expenses	7,120	8,462
Non-current		
Puketutu Island lease	19,523	19,965
Other prepaid expenses	4,954	5,682
Total non-current prepaid expenses	24,477	25,647
Total prepaid expenses	31,597	34,109

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

Other prepaid expenses include prepaid capital project insurance of $4.7 million (2020: $5.8 million), prepaid employee insurance, a biosolids levy and software licensing fees.

22. Other financial assets

	2021 $000	2020 $000
Current		
Loan receivable	27,203	13,966
Non-current		
Loan receivable	35,923	34,186
Total other financial assets	63,126	48,152

The loan receivable was provided to the contractor as part of the Central Interceptor Main Works Contract and is secured against bank bonds. The loan was subsequently recorded at fair value through profit and loss, where fair value has been determined using the projected cash flows discounted at a rate of 2.4%, which is based on the prevailing market interest rate for a similar investment (2020: 2.4%).

23. Accrued expenses

	2021 $000	2020 $000
Current		
Capital work in progress accruals	74,438	67,908
Interest payable	4,146	–
Revenue received in advance	50,996	42,250
Operating costs accruals	25,738	44,726
Total current accrued expenses	155,318	154,884
Non-current		
Revenue received in advance	13,793	14,213
Total non-current accrued expenses	13,793	14,213
Total accrued expenses	169,111	169,097

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

Revenue received in advance includes $6.8 million (2020: $7.0 million) relating to the amount received in accordance with the franchise fee agreement with the network operator Veolia Water Services (ANZ) Pty Limited. The $13.0 million fee received at the commencement of the agreement covers the right to use the assets for a 50-year period and is recognised as revenue evenly over the term of the agreement.

Accrued expenses above include related party accruals. Refer to note 25, page 116, for a breakdown of related party accruals.

24. Provisions

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

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

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

	2021 $000	2020 $000
Current		
Employee entitlements	10,127	10,140
Other provisions	29,130	10,680
Total current provisions	39,257	20,820
Non-current		
Employee entitlements	2,233	1,975
Decommissioning costs	17,099	16,756
Total non-current provisions	19,332	18,731
Total provisions	58,589	39,551

	Employee entitlements $000	Decommissioning costs $000	Other provisions $000	Total $000
Balance at 1 July 2020	12,115	16,756	10,680	39,551
Additions during the year	12,528	–	27,821	40,349
Reductions resulting from payments	(12,283)	–	(9,371)	(21,654)
Net present value adjustment	–	343	–	343
Balance at 30 June 2021	12,360	17,099	29,130	58,589

Watercare is currently depositing biosolids on Puketutu Island in Māngere, Auckland. A non-current provision is recognised for the present value of costs to be incurred for the restoration of this site in line with consent conditions. It is expected that $22.2 million will be required evenly over the 10-year period covering the 2036 to 2045 financial years, with a net present value at balance date of $17.1 million (2020: $16.8 million).

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

- An average inflation rate over the 25-year provision period of 3.35%
- A range of risk-free discount rates from 0.16% to 1.86% have been applied in calculating the net present value (2020: from 0.16% to 1.86%)
- An expected biosolids completion date of 20 years from 2015 (the date biosolid activity commenced)
- Aftercare activities will be required for a period spanning 10 years from completion
- The exact extent of work required to restore the site, along with quantities of materials and supplies, is unknown; therefore, an estimate has been made based on the information available at balance date.

Other provisions of $29.1 million relates to claims made by contractors in respect of capital projects (2020: $10.7 million).

25. Equity and related parties

Equity

Watercare is 100% owned by Auckland Council. The total number of authorised and issued shares at balance date was 260,693,164 (2020: 260,693,164) ordinary shares of $1 each. Every ordinary issued share was fully paid and carries equal voting rights to:

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

Under Section 57(1)(b) of the Local Government (Auckland Council) Act 2009, the company must not pay any dividend or distribute any surplus in any way, directly or indirectly, to its shareholder. The capital management policy of the group is detailed in note 12, page 103.

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

Subsidiaries

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

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

Lutra Limited

In the prior year, on 31 January 2020, Watercare Services Limited acquired 67% of the issued share capital of Lutra Limited, obtaining control of Lutra Limited. Two out of the three directors are employees of Watercare. The acquisition is detailed in note 26, page 117.

Water Utility Consumer Assistance Trust

Water Utility Consumer Assistance Trust was formed in October 2011 and is a charitable trust governed by the Charitable Trusts Act 1957 and registered under the Charities Act 2005. The primary activity of this trust is described in the Customer and Stakeholder Relationships section of the annual report. Watercare has the power to appoint two out of five of the trustees on the trust board. Watercare exercises control over the trust as it fully funds the trust's running costs and the trust caters only to the customers of Watercare.

Watercare Harbour Clean Up Trust

Watercare Harbour Clean Up Trust was set up in December 2002 by several local authorities and is a charitable trust governed by the Charitable Trusts Act 1957 and registered under the Charities Act 2005. The primary activity of this trust is described in the Customer and Stakeholder Relationships section of the annual report. During 2010/11, Watercare became the primary funder of this trust and, at 30 June 2021, two of the five trustees on the board were current Watercare employees.

Auckland City Water Limited and WCS Limited

Auckland City Water Limited and WCS Limited are 100% owned (2020: 100%) by Watercare and are non-trading companies.

Transactions with related parties

Watercare entered into borrowing arrangements with Auckland Council on the terms set out in note 10, page 101.

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

	2021 $000	2020 $000
Loans from Auckland Council, balance at 30 June	2,308,450	1,953,500
Interest receivable on loans from Auckland Council	–	2,326
Interest payable on loans from Auckland Council	4,146	–
Interest expense on loans from Auckland Council	88,143	80,978
Loans borrowed from Auckland Council during the year	807,579	696,893
Loans repaid to Auckland Council during the year	544,391	531,364

The group has a loss offset and subvention arrangement with Auckland Council tax group as detailed in note 16, page 109.

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

25. Equity and related parties (continued)

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

	2021 $000	2020 $000
Sales to related parties	14,442	14,756
Trade receivables from exchange transactions - related parties	5,547	3,681
Purchases from related parties	5,958	4,437
Land rates - Auckland Council	2,581	2,439
Payables accruals - related parties	1,507	4,684

26. Business combination

In the prior year, on 31 January 2020, Watercare Services Limited acquired 67% of the issued share capital of Lutra Limited, obtaining control of Lutra Limited. Lutra Limited is a Wellington-based engineering and cloud-based software company and qualifies as a business under PBE IFRS 3. Lutra Limited was acquired for its core software and the synergies it will bring to Watercare's operations.

The group accounts for business combinations using the acquisition method when control is transferred to the group. The acquisition method involves recognising at acquisition date the identifiable assets acquired, the liabilities assumed and any non-controlling interest, separate from goodwill. The consideration transferred in the acquisition is measured at fair value. At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date exclusive of transaction costs which are expensed.

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the date of the acquisition.

	Fair value at acquisition date $000
Financial assets	641
Property, plant and equipment	227
Financial liabilities	511
Total identifiable assets acquired and liabilities assumed	357
Goodwill arising on acquisition	2,300
Less: Non-controlling interest in 33% of Lutra Limited	117
Total consideration	2,540
Total consideration was satisfied by cash.	
Net cash outflow arising on acquisition:	
Cash consideration	2,540
Less: Cash and cash equivalent balances acquired	41
	2,499

The acquisition may result in Watercare making additional payments of up to $3.1 million, depending on the financial performance of Lutra Limited, the ongoing employment of key employees and delivery of software (ID2). The payments will be recognised as an expense by Watercare in the same financial year as these conditions are achieved.

27. Commitments

	2021 $000	2020 $000
Capital expenditure		
The capital expenditure committed to, but not recognised in these financial statements at balance date, was:		
Land and buildings	3,240	2,354
Pipelines	803,091	890,071
Tanks, tunnels, roads and reservoirs	30,769	40,031
Intangibles	3,043	1,675
Other	122,176	34,342
Total capital expenditure commitments	962,319	968,473
Anticipated payment schedule		
Less than one year	422,886	349,400
One to two years	276,118	208,516
Two to five years	259,486	409,273
Beyond five years	3,829	1,284
Total capital expenditure commitments	962,319	968,473

At 30 June 2021 the Central Interceptor Main Works Contract is included within these capital commitments. The above commitments includes capital commitments contracted and approved.

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

The major lease commitments relate to the long-term lease of the office premises in Newmarket, which expires in November 2025, and the long-term lease from Auckland Council of the land forming the water catchment areas, which expires in July 2092. The annual rental of $0.6 million (2020: $0.6 million) for the water catchment areas was included in these commitments at face value. Other leases include parks, reservoirs and office equipment.

	2021 $000	2020 $000
Operating leases		
Anticipated payments under non-cancellable operating leases:		
Less than one year	7,400	7,338
One to two years	7,428	7,326
Two to five years	19,277	21,898
Beyond five years	77,140	81,323
Total lease commitments	111,245	117,885

28. Contingencies

There are no contingencies to report at balance date.

29. Retirement benefit plans

Each of the employees of the group can elect to join the KiwiSaver scheme. This is a work-based savings scheme run through a selection of private providers. The obligation of the group is to contribute a specified percentage of payroll costs to the KiwiSaver scheme in line with employee contributions and the only obligation of the group to the KiwiSaver scheme was to make the specified contributions. The total defined contribution expense recognised in the surplus or deficit for 2021 was $2.9 million (2020: $2.5 million).

30. Key management personnel

The key management personnel of the group are the directors, the chief executive, the senior management team of Watercare, and the trustees of the subsidiaries, who together constitute the governing body of the group. The number of individuals, on a full-time equivalent (FTE) basis, excluding directors and trustees, receiving remuneration from the group as key management personnel is 10 FTE (2020: 9 FTE). The aggregate remuneration received by the key management personnel is shown below:

	2021 $000	2020 $000
Employees' salaries and wages, directors' fees and trustees' fees	4,487	4,240
Post-employment benefits	–	–
Aggregate remuneration	4,487	4,240

Directors' fees	Appointed	2021 $000	2020 $000
Watercare Services Limited			
Margaret Devlin (Chair)	November 2016	101	104
Julia Hoare (retired October 2020)	November 2013	18	65
Nicola Crauford	April 2014	58	60
Brendon Green	November 2016	58	60
David Thomas (retired February 2021)	November 2014	32	52
Hinerangi Raumati-Tu'ua	August 2019	58	50
Frances Valintine	November 2019	50	34
David Chambers	November 2019	58	39
Catherine Harland (resigned Oct 2019)	April 2011	–	21
Graham Darlow	February 2021	18	–
Lutra Limited			
Jason Colton	January 2016	–	–
Rebecca Chenery	February 2020	–	–
Shane Morgan (resigned August 2021)	February 2020	–	–
Total		451	485

Trustees' fees	Appointed	2021 $000	2020 $000
Watercare Utility Consumer Assistance Trust			
Jeff Morrison (Chair)	December 2015	8	8
Maureen Little	October 2011	6	5
Lauren Godsiff	October 2011	6	5
Emily Charlton-Rapana	July 2015	6	4
Total		26	22

31. Events occurring after balance date

Government mandated level four lockdown in August 2021 as a measure against COVID-19. During lockdown level four, Watercare's core business of providing water and wastewater services to Auckland continued. Management will monitor the costs incurred during the level four lockdown to ensure appropriate accounting of these costs. There are no changes to reported numbers as a result of this lockdown. There were no other subsequent events identified.

Statutory information

Employees' remuneration range

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

Employees' remuneration range ($)	2021 Number of employees
100,000 – 110,000	100
110,001 – 120,000	74
120,001 – 130,000	86
130,001 – 140,000	38
140,001 – 150,000	26
150,001 – 160,000	23
160,001 – 170,000	17
170,001 – 180,000	10
180,001 – 190,000	5
190,001 – 200,000	5
200,001 – 210,000	2
210,001 – 220,000	1
220,001 – 230,000	2
230,001 – 240,000	5
240,001 – 250,000	1
250,001 – 260,000	3
260,001 – 270,000	1
270,001 – 280,000	1
280,001 – 290,000	1
310,001 – 320,000	2
320,001 – 330,000	1
340,001 – 350,000	2
410,001 – 420,000	1
430,001 – 440,000	1
500,001 – 510,000	1
870,001 – 880,000	1

2021 Statement of Service Performance

(Non-Financial Performance Measures)

NATURAL ENVIRONMENT

(i) Compliance with Watercare's resource consents for discharge from its sewerage system measured by the number of:

a) abatement notices
b) infringement notices
c) enforcement orders
d) convictions

received by Watercare in relation to those resource consents.

(SOI Target 2020/21: a) ≤ 2, b) ≤ 2, c) ≤ 2, d) = 0 – Achieved: a) = 0, b) = 0, c) = 0, d) = 0; previous year: a) = 0, b) = 0, c) = 0, d) = 0)

Watercare met this target. There were no abatement, infringement or enforcement notices or convictions for the 2020/21 year.

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

(SOI Target 2020/21: 262 +/- 2.5% – Achieved: 245.6; previous year: 268.6)

Watercare met this target. In 2020/21, the gross per capita consumption of water was 245.63 litres per person per day. Our target for 2020/21 was to maintain consumption within the 262 litres per person per day (+/- 2.5%) band, to meet the overall target of reducing demand by 15% by 2025, based on 2004 levels.

This significant reduction in water consumption is the result of the ongoing behavioural change from residential customers following the restrictions first announced in May 2020, as well as proactive efforts by businesses to reduce their water consumption and implement water-efficient processes and systems.

The challenge for us, as the city's public water supplier, is to collaborate with our customers and communities and embed these behaviours over the long term.

About our methodology: We continue to use Statistics NZ's 2018 medium population projections which include consumers living in commercial rest homes, hotels and hospitals and other similar dwellings. We have added 1.8% to this figure to account for year-on-year growth based on Auckland Council's median growth forecast and deducted the percentage of the population that is not connected to our water supply network using our 2021 water connection data.

(iii) We will implement mitigation measures in line with our responsibility to keep global warming within 1.5°C.

(SOI Target 2020/21: By June 2021: Complete work on a plan to achieve reductions in operational emissions by 2030, including updating targets in line with Auckland Climate Action Plan (ACAP) – **Achieved; new measure)**

Watercare met this target. The main focus has been on a decarbonisation pathway to achieve the 2030 targets – the pathway will be used to establish annualised SOI targets. This work plan is the building block for future work and SOI targets.

The pathway has included analysis on the likely increase in emissions that we could experience from population growth and new infrastructure as well as reduction in emissions from our planned and proposed projects.

These known emission reduction opportunities have been identified to develop the pathway and have been divided into key emission areas – energy, travel etc. The emission reduction initiatives will be delivered through the traditional mechanisms of the asset management plan and operational budgets. In addition, investigations are taking place for further reductions and ways of financing these projects.

Watercare has reviewed its operational target in line with Te Tāruke-ā-Tāwhiri: Auckland's Climate Plan which was launched in December 2020 and replaces the previous Auckland Climate Action Plan (ACAP). Through this process Watercare has amended its operational target from a 45% reduction in scope 1 and 2 emissions by 2030 to 50% reduction to ensure alignment. This change has been made in our Statement of Intent 2021–2024 and will be reflected in the review of Watercare's Climate Change Strategy scheduled for 2022. It should be noted that this new target will be very challenging to achieve.

(iv) The average consumption of water per residential connection.

(SOI Target 2020/21: Baseline established – Achieved; new measure)

Watercare met this target. In 2020/21, we undertook work to establish the framework/targets for measuring consumption of water per residential connection as part of our Water Efficiency Plan 2021–2025. The baseline estimated for average water consumption per residential connection for 2020/21 is 504, with a target to reduce it further to 499 in 2021/22.

We will be measuring consumption per connection along with gross per capita consumption as it gives us a clearer indication of where water is lost in the network (rather than focusing only on the total amount of water supplied from our treatment plants). As we gain greater oversight of consumption (and loss) from source to tap, we will be better able to improve our network performance as well as our commercial and residential water efficiency initiatives.

(v) The average consumption of water per non-domestic connection.

(SOI Target 2020/21: 1 March 2021: Baseline established and sector targets published in our next SOI – In progress; new measure)

Watercare is on track to meet this target, which was delivered in September 2021. Water efficiency targets for three commercial sectors (food and beverage, education and Auckland Council) have been identified; the reporting methodology has been defined in a way that is meaningful to improve water efficiency in those sectors.

Actual consumption targets (water used per pupil for schools, and water used per connection for Auckland Council, our largest commercial customer) for 2020/21 will factor into our calculation of numerical water efficiency targets for 2021/22. These targets will take into account the impacts of COVID-19 and drought restrictions on demand in 2020/21 against normal historical consumption patterns in those sectors.

The numerical targets were published in September 2021.

PEOPLE AND CULTURE

(i) We will improve our employee engagement (eNPS).

(SOI Target 2020/21: ≥ 20 – Achieved: 35.00; new measure)

Our eNPS score (a metric used to measure employee satisfaction) was well above our targeted score (35 against a target of 20 or above) and remained relatively stable from 36 in 2019/20 for the company, while showing positive increases for our operations and customer functions.

Two areas that continue to score well are the work environment and culture, and the work itself. Improved opportunities for career development were also cited as a reason to work here. Areas highlighted for improvement include prioritisation of business plan to reduce employee workload, adequately resourcing key functions and better cohesion between various business functions.

(ii) Improve gender workforce split in departments where the split is uneven.

(SOI Target 2020/21: Identify 2020/21 baselines and improve on baseline – Achieved; new measure)

Watercare met this target. The baseline for gender representation within each department was identified and the overall gender representation for Watercare also saw an improvement with an increase in female employees by 9% compared to 2019/20 levels.

Breakdown of employee gender at 30 June 2021

Department	Female	Male
Central Interceptor	55%	45%
Communications	75%	25%
Company Secretary	100%	0%
Customer	52%	48%
Digital	27%	73%
Executive	43%	57%
Finance	52%	48%
Infrastructure	31%	69%
Operations	18%	82%
People	70%	30%

Watercare's Board of Directors has the following gender breakdown: 57% female and 43% male.

Based on the above baseline for gender representation, we will implement appropriate hiring strategies and improve gender representation within departments going forward.

(iii) Attract a more diverse range of applicants to apply for jobs at Watercare.

(SOI Target 2020/21: Identify 2020/21 baselines and improve on baseline – Achieved: 6.4% Māori/Pasifika total applicants; new measure)

We have reviewed recruitment data to gather insights on our hiring process and attract a broader range of applicants and ultimately increase representation.

In 2020/21, 6.4% of total applicants identified as Māori/Pasifika. We have established this as the baseline for applicant diversity. Now that we have the ability to capture and analyse applicant data, we will use this to implement appropriate hiring strategies and improve the level of diversity.

CUSTOMER AND STAKEHOLDER RELATIONSHIPS

(i) Net promoter score

(SOI Target 2020/21: > 38 Achieved: 46; previous year: 43)

Watercare met this target. Net promoter score (NPS) is commonly used by utilities as a measure of customer loyalty. We use it to measure how satisfied our customers are with Watercare across all their interactions whether it is in person, by phone, email or via our website. Our NPS has increased this year to 46, from 43 in 2019/20.

Our ongoing focus on embedding extreme accountability for customer outcomes among all customer-facing-employees including contractors Citycare and Downer, is making a difference. Improved first-call resolution, prompt attendance to leaks and servicing customers through their channels of choice have reduced overall contacts to our front-line by 9%, compared to 2019/20.

(ii) We contribute to the delivery of Māori outcomes and deliver on the joint outcomes agreed by Council and CCOs.

(SOI Target 2020/21: = At least one kōrero with each of the 19 iwi every year and work with them to develop meaningful measures for Māori outcomes; result: Not Achieved; new measure)

Watercare did not meet this target. We met with 13 iwi groups at least once in 2020/21. While we continue to meet with many iwi entities on a one-on-one basis, our performance against this measure is also heavily influenced by iwi priorities and their varying levels of interest in meeting with us. Our main focus is on working together as partners to develop meaningful measures for Māori outcomes rather than merely achieving a target for meetings.

(iii) The extent to which Watercare's Drinking Water Supply complies with part 4 of the Drinking Water Standards (Bacterial Compliance Criteria).

(SOI Target 2020/21: 100% – Achieved: 100%; previous year: 100%)

Watercare met this target. Watercare continued to demonstrate 100% compliance with Drinking Water Standards of New Zealand (DWSNZ) Bacterial Compliance Criteria across all water treatment plants and distribution networks. Compliance with DWSNZ is verified through a combination of continuous online analysers at various stages of the water treatment process and an extensive sampling and analysis programme by Watercare Laboratory Services. The results from this programme are independently assessed by a Ministry of Health-appointed drinking water assessor and published on the Drinking Water Online website and the annual report on Drinking Water Quality.

(iv) The extent to which Watercare's Drinking Water Supply complies with part 5 of the drinking water standards (Protozoal Compliance Criteria).

(SOI Target 2020/21: 100% – Achieved: 100%; previous year: 100%)

Watercare met this target. Watercare continue to demonstrate 100% compliance with Drinking Water Standards of New Zealand (DWSNZ) Protozoal Compliance Criteria across all water treatment plants and distribution networks. Compliance with DWSNZ is verified through a combination of continuous online analysers at various stages of the water treatment process and an extensive sampling and analysis programme by Watercare Laboratory Services. The results from this programme are independently assessed by a Ministry of Health-appointed drinking water assessor and published on the Drinking Water Online website and the annual report on Drinking Water Quality.

2021 Statement of Service Performance (continued)

(Non-Financial Performance Measures)

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

(SOI Target 2020/21: ≤ 60 mins – Achieved: 56 mins; previous year: 50 mins)

Watercare met this target. The median response time for our maintenance crew to attend to urgent issues was 56 minutes, which is within the target of 60 minutes or less.

(vi) Median response time for resolution of urgent call-outs: from the time that Watercare receives notification to the time that service personnel confirm resolution of the fault or interruption.

(SOI Target 2020/21: ≤ 5 hours – Achieved: 2.8 hours; previous year: 2.9 hours)

Watercare met this target. The median response time for our maintenance crews to resolve urgent issues such as faults or interruptions was 2.8 hours, which is within the target of 5 hours or less.

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

(SOI Target 2020/21: ≤ 5 days – Achieved: 1.0 day; previous year: 1.7 days)

Watercare met this target. The median response time for our maintenance crews to attend to non-urgent water issues was 1.0 days, which met the target of 5 days or fewer.

(viii) Median response time for resolution of non-urgent call-outs: from the time that Watercare receives notification to the time that service personnel confirm resolution of the fault or interruption.

(SOI Target 2020/21: ≤ 6 days – Achieved: 1.3 days; previous year: 2.1 days)

Watercare met this target. The median response time for our maintenance crews to resolve non-urgent issues was 1.3 days, which is well within the target of 6 days or fewer.

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

a) drinking water clarity
b) drinking water taste
c) drinking water odour
d) drinking water pressure or flow
e) continuity of supply.

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

(SOI Target 2020/21: ≤ 10 – Achieved: 9.0 previous year: 7.2)

Watercare met this target. This measure relates to the volume of calls we received regarding water quality and supply issues for the year ended 30 June 2021. The number of complaints received per 1000 connections was 9.0, which meets the target of 10 or fewer.

(x) Attendance at sewage overflows resulting from blockages or other faults: median response time for attendance – from the time that Watercare receives notification to the time that service personnel reach the site.

(SOI Target 2020/21: ≤ 60 mins – Achieved: 51 mins; previous year: 43 mins)

Watercare met this target. The median response time for our maintenance crews to attend to wastewater overflows or blockages was 51 minutes, which is within the target of 60 minutes or less.

(xi) Attendance at sewage overflows resulting from blockages or other faults: median response time for resolution – from the time that Watercare receives notification to the time that service personnel confirm resolution of the blockage or other fault.

(SOI Target 2020/21: ≤ 5 hours – Achieved: 2.5 hours; previous year: 2.4 hours)

Watercare met this target. The median response time for our maintenance crew to resolve wastewater overflows or blockages was 2.5 hours, which is within the target of 5 hours or less.

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

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

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

(SOI Target 2020/21: ≤ 50 – Achieved: 29.5; previous year: 20.1)

Watercare met this target. This measure relates to the volume of calls we received about wastewater odours, overflows, broken pipes and other network issues for the year ended 30 June 2021. The number of complaints received per 1000 connections was 29.5, which is well within the target of 50 or fewer.

ASSETS AND INFRASTRUCTURE

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

(SOI Target 2020/21: ≤ 13% – Not achieved: 13.7%; previous year: 13.2%)

Watercare did not meet this target, with water loss result (13.7%) exceeding the specified target (13%). The water losses in this measure are calculated by deducting the volume of water sold and unbilled water usage (or non-revenue water) from the total volume of water produced.

Non-revenue water includes leaks (real water losses), water used for firefighting and operational use like toilet flushing. Portions of our non-revenue water are also attributed to meter inaccuracy at our bulk supply points and theft. However, leaks are the biggest contributor to our non-revenue water figures.

This year, we are again reporting real water loss percentages for the period February 2020 to January 2021, to show the consumption patterns following on from the last reporting period (February 2019 to January 2020).

It must be noted that the reported real water loss percentage is not an accurate representation of our performance; the result reflects the proportion of water loss rather than the actual volume of water loss. If the overall demand is low (as it was, due to COVID-19 lockdowns and water use restrictions), conversely the proportion of real losses increases while the overall volumes stay relatively similar.

While leaks are unavoidable for all water networks around the world, we have been proactively working on reducing water loss through early detection and fixing of leaks. In 2020/21, we have:

- swept 5400km of water pipes out of a planned 6000km, proactively checking for leaks
- saved 9.1MLD that would have been lost to leaks
- replaced 30,000 domestic water meters as part of a planned replacement programme, to ensure accurate meter readings of consumption
- installed about 1100 smart meters for commercial customers to provide real-time information on water consumption and leaks.

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

(SOI Target 2020/21: ≤ 5 – Achieved: 0.86; previous year: 0.55)

Watercare met this target. The number of wastewater overflows from our network during dry weather is a measure of the network's capability to meet current demand. The result for the year was 0.86 dry-weather overflows per 1000 connections, which is well under the target of 5 or fewer.

Dry-weather overflows are generally caused by incorrect disposal of fats, oils and grease; wet-wipes flushed down the wastewater network also lead to blockages in the pipes resulting in wastewater overflows. We continued to educate the public on what not to flush down the toilet, through our social media channels, customer newsletters and the media.

(iii) Average number of wet-weather overflows per engineered overflow point per discharge location in the transmission system (12-month rolling average).

(SOI Target 2020/21: ≤ 2 overflows per year – Achieved: 0.5; previous year: 1.5)

Watercare met this target. The number of wet-weather overflows for the transmission network (bulk mains) per number of discharge locations was 0.5, which is within the target of 2 or fewer overflows.

(iv) We will develop and use talent, processes and technologies to manage non-revenue water and ensure optimal supply efficiency.

(SOI Target 2020/21: Establish baseline and demonstrate continuous improvements on previous year; result: Achieved; new measure)

Watercare has met this target. Watercare has developed the appropriate talent, processes and technology to manage non-revenue water effectively. As part of this, a dedicated team of specialists is in place and reviewing the economic level of leakage (ELL), in conjunction with external consultants. ELL is the level of leakage beyond which the cost to reduce leakage outweighs its financial benefit. We have already developed a series of targets involving leak detection, district metered area construction, pressure management, meter replacements and asset renewals needed to bring non-revenue water within an economic level.

Our progress on these initiatives in 2020/21 includes:

- 5400km swept for leak detection out of a planned 6000km
- 9.1MLD saved from proactive leak detection
- 30,000 domestic meters replaced, meeting the target of planned replacements
- 1100 commercial customer smart meters installed out of a planned 2000 – installation of these smart meters was delayed and only commenced in February 2021 (instead of December 2020 as planned) due to supply chain delays caused by COVID-19.

We have reviewed and refined the methodology to monitor ELL which was released in August 2021.

INTELLECTUAL CAPITAL

(i) Establish and implement an Infrastructure Carbon Portal and corresponding toolkit to assess ways to reduce carbon emissions during the construction of water and wastewater assets.

(SOI Target 2020/21: Deliver and implement portal and toolkit. For the Enterprise Model, monitor and report on the target of a 40% reduction post 2024; result: Achieved; new measure)

Watercare has launched a carbon portal to provide insights into estimated carbon emissions for Watercare's capital works programme under the Enterprise Model. New insights and data are being added to the portal through internal and external feedback sessions. There are now 99 users across the business with access to the carbon portal.

(ii) Establish and implement an Infrastructure Cost toolkit across the programme and project to deliver new ways to reduce costs during the construction of water and wastewater assets.

(SOI Target 2020/21: Deliver and implement portal and toolkit. For the Enterprise Model, monitor and report on the target of a 20% reduction post 2024; result: Achieved; new measure)

An Enterprise Model toolkit has been developed. Recent tools added to the toolkit include a project scorecard and value-capture process to measure, capture and share performance and 40:20:20 ideas/progress.

FINANCIAL CAPITAL AND RESOURCES

(i) Percentage of household expenditure on water supply services relative to the average household income.

(SOI Target 2020/21: ≤ 1.5 % – Achieved: 0.84%; new measure)

In 2020/21, an average Auckland household* (comprising three people) spent less than 1% (0.84%) of its monthly income on water and wastewater charges.

* Average income for Auckland based on Statistics NZ data.

(ii) Watercare group's debt headroom

(SOI Target 2020/21: Set measure in conjunction with Auckland council and establish baseline of 3.54 or lower – Achieved: 2.89; new measure)

Watercare met this target. Debt headroom is the amount that Watercare can borrow in proportion to its revenue/assets. The baseline set for 2020/21 is 3.54 or lower. Any result below this number indicates there is positive headroom; our ratio for 2020/21 was 2.89, due to increased revenue from Infrastructure Growth Charges, new connections and wastewater charges.

Deloitte.

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

Report on sustainability content within the 2021 Annual Report

Watercare Services Limited Group's Annual Report for the year ended 30 June 2021 (the 'Annual Report') contains sustainability information which includes information that is prepared in accordance with the Global Reporting Initiative Sustainability Reporting Standards (the 'GRI Standards'): Core option. The specific GRI Standards reported against are set out in the Global Reporting Initiative Index (the 'GRI Index') on pages 127 to 130.

The subject of our limited assurance engagement is the 'sustainability content' which consists of the disclosures and indicators listed in the GRI Index and included on pages 6 to 72 of the Annual Report but does not cover forward looking statements, comparisons made against historical data or online supplements.

Conclusion

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

Based on the evidence obtained from the procedures we have performed, nothing has come to our attention that causes us to believe that the sustainability content has not been prepared, in all material respects, in accordance with the GRI Standards: Core option for the year ended 30 June 2021.

Emphasis of matter

Without modifying our opinion, we draw attention to note 4 on page 90 to the financial statements, which outlines the Government's proposed Three Waters Reform programme. The likely outcome and impact on the Company is currently uncertain because no decisions have been made on how to progress the reforms announced by the Government on 30 June 2021 and updated on 27 October 2021 (refer page 68 of the Annual Report).

Basis for Conclusion

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

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

Board of Directors' Responsibility

The Board of Directors is responsible for:

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

Our Independence and Quality Control

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

Other than this engagement and our role as auditor of the statutory financial statements, our firm carries out other assignments for Watercare Services Limited Group in the areas of Central Interceptor project assurance services, real water loss process assurance related work, probity services, administrative services provided to the Corporate Taxpayers Group of which Watercare is a member, and limited assurance on selected non-financial information, which are compatible with those independence requirements.

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

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

Assurance Report (continued)

Independent Accountant's Responsibility

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

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

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

Our procedures included:

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

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

Inherent Limitations

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

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

Use of Report

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

Deloitte Limited

29 October 2021
Auckland, New Zealand

GRI Index

General Disclosures

GRI 102: General disclosures 2016	
Organisational profile	
102-1	Watercare Services Limited
102-2	Water supply and wastewater services
102-3	Auckland, New Zealand
102-4	New Zealand
102-5	100% owned by Auckland Council
102-6	i. Auckland, New Zealand ii. Public sector iii. Auckland public
102-7	People and culture p.31 Reporting Scope p.Inside Cover Financials (Note 13) p.107 Natural environment p.22
102-8	People and culture p.31, includes all staff under employment by Watercare.
102-9	Financial and capital resources p.53-54
102-10	Chair and chief executive's report p.8-11 No significant supply chain changes during the year.
102-11	Relevant legislation takes a precautionary principle based approach
102-12	Watercare has partnered with the Construction Sector Accord
102-13	Watercare is a member of the Water Services Association of Australia, Water New Zealand, the Sustainable Business Network and the Water Research Foundation.
Strategy	
102-14	Chair and chief executives report p.8-11
Ethics and integrity	
102-16	Governance p.63
Governance	
102-18	Leadership and Governance p.62-64
Stakeholder engagement	
102-40	Stakeholder and Materiality p.72 Stakeholders include shareholder representatives, environmental groups, community groups, customers, staff, suppliers and business partners.
102-41	People and culture p.31
102-42	Stakeholder and Materiality p.72
102-43	Stakeholder and Materiality p.72
102-44	Stakeholder and Materiality p.72
Reporting practice	
102-45	Refer Financials p.75-124
102-46	Reporting Scope p.Inside Cover Stakeholder and Materiality p.72
102-47	Reporting Scope p.Inside Cover Stakeholder and Materiality p.72 Chair and chief executives report p.8-11 GRI Index p.127-130
102-48	Disclosed throughout the report where relevant
102-49	Stakeholder and Materiality p.72
102-50	1 July 2020 to 30 June 2021
102-51	October 2020
102-52	Annual reporting cycle
102-53	communications@water.co.nz

GRI Index (continued)

102-54	This report has been prepared in accordance with the GRI Standards: Core option
102-55	GRI Index p.127-130
102-56	Annual report Assurance statements p.80-81, p.125-126
Material Topics	
103-1	Material topics have been selected as a result of Our value creation model p.6-7 and engagement with stakeholders Stakeholder and Materiality p.72
103-3	Delivering Our Strategy p.15-55
Category: Economic	
GRI 201: Economic performance 2016	
103-2	Financial capital and resources p.51, 53 Stakeholder and Materiality p.72
201-1	Financial capital and resources p.53 Financials p.75-124
201-2	Chair and chief executives report p.8-11 Enterprise Risk Management p.65-68 Financial capital and resources p.50 Climate Change p.24 Natural environment p.18-20 https://www.watercare.co.nz/About-us/Information-Hub/Future-planning-hub https://www.aucklandcouncil.govt.nz/plans-projects-policies-reports-bylaws/our-annual-reports/Pages/current-annual-report.aspx - Climate Change Risk Volume 4, p26-28
201-4	Financials p.107
GRI 203: Indirect economic impacts 2016	
103-2	Assets and infrastructure p.42-45 Financial capital and resources p.50-51 Stakeholder and Materiality p.72
203-1	Chair and chief executives report p.8-11 Natural environment p.18-21 Customer and Stakeholder Relationships p.36-37 Assets and infrastructure p.42-43 Financial capital and resources p.50-51 Reporting Scope p.Inside Cover Our operations and infrastructure projects have the potential to impact customers and communities in minor and major ways (noise, odour, traffic management, land purchase etc). We have a structured process of engagement, specifically with those impacted and the broader community/suburb before, during and after these works through a range of channels including face-to-face, written and cascaded through local boards and associations.
Category: Environmental	
GRI 302: Energy 2016	
103-2	Natural environment p.21, 25-26 Stakeholder and Materiality p.72
302-1	Natural environment p.26
GRI 303: Water 2018	
103-2	Chair and chief executives report p.10-11 Natural environment p.18 Customer and Stakeholder Relationships p.36-38 Stakeholder and Materiality p.72
303-1	Natural environment p.19, 22 Customer and Stakeholder Relationships p.37 Enterprise Risk Management p. 65-66
303-2	Natural environment p.19, 22-23 https://www.watercare.co.nz/Water-and-wastewater/Wastewater-collection-and-treatment
303-3	Natural environment p.22 By definition nothing in New Zealand is under stress based on WRI Aqueduct Water Risk Atlas GRI-303-3 (c) is not deemed material for disclosure.

GRI Index (continued)

303-5	Natural environment p.22 Statement of service performance p.121 By definition nothing in New Zealand is under stress based on WRI Aqueduct Water Risk Atlas GRI-303-3 (c) is not deemed material for disclosure.
GRI 304: Biodiversity 2016	
103-2	Natural environment p.19, 22-23 Stakeholder and Materiality p.72
304-1	Natural environment p.23
GRI 305: Emissions 2016	
103-2	Natural environment p.24 Stakeholder and Materiality p.72
305-1	Natural environment p.22, 24-25
305-2	Natural environment p.24-25
305-3	Natural environment p.24-25
GRI 307: Environmental compliance 2016	
103-2	Natural environment p.27 Stakeholder and Materiality p.72
307-1	Statement of service performance p.121-124 Natural environment p.27
Category: Social	
GRI 401: Employment 2016	
103-2	People and culture p.28-30 Stakeholder and Materiality p.72
401-1	People and culture p.31, 33 Stakeholder and Materiality p.72
401-3	People and culture p.33
GRI 403: Occupational health and safety 2018	(Occupational health services, non-occupational health services and promotional health services are not available for third party contractors. Third Party contractors are not part of the formal health and safety committees at Watercare.) However we consult, collaborate and cooperate to ensure worker safety on all Watercare sites.
103-2	Chair and chief executives report p.8-11, People and culture p.29, 34 Stakeholder and Materiality p.72
403-1	People and culture p.34 Stakeholder and Materiality p.72 Enterprise Risk Management p. 65-68 As per legal requirement, all OHS systems have been implemented and externally audited during the financial year by Telarc and ACC. To AS/NZS 4801:2001 and Watercare has accreditation for two years. Watercare is also in the process of upgrading our systems to ISO 45001.
403-2	People and culture p.29, 34 (partially reported to this GRI Standard) Watercare uses a variety of ways to keep workers safe including the elimination, substitution, isolation of hazards; influencing and promoting behaviours of workers and lastly the provision of personal protection equipment. Watercare also has policies such as an independently operated Whistle-blower policy for workers to use and stop work policies.
403-3	People and culture p.29, 30, 32, 34
403-4	People and culture p.34 HS&W Committee meetings are held on sites monthly.
403-5	People and culture p.34. Watercare has a comprehensive H&S Training plan delivered by externally accredited trainers and by other internal and external training. These include generic H&S trainings such as first-aid and induction for sites and hazard specific trainings for critical risks such as confined spaces, working at height, etc.
403-6	People and culture p.34. Watercare provides a comprehensive health and wellness promotion services such as Employee assistance via OCP and Vaccinations and Wellness support.
403-7	People and culture p.29, 34. Watercare prioritises the heath and safety of all workers both internal and external, including customers and communities.

GRI Index (continued)

403-9	People and culture p.34 Watercare uses a variety of ways to keep workers safe including the elimination, substitution, isolation of hazards; influencing and promoting behaviours of workers and lastly the provision of personal protection equipment. Watercare has identified critical risks and has comprehensive risk management in place. Employees – 2,115,834 hours (partially report to this GRI standard)
GRI 404: Training and education 2016	
103-2	People and culture p.29, 32 Stakeholder and Materiality p.72
404-2	People and culture p.29 Intellectual capital p.46-47 In addition to this employees continue to have access to Surf, Immerse, and Connexis for their professional development, learning and upgrading of skills
404-3	People and culture p.33 A new performance review platform was introduced in 2020, replacing E3. The introduction of the new system in FY20 coupled with the four-point rating scale is believed to have impacted the percentage of employees rated in a performance review in FY20.
GRI 405: Diversity and equal opportunity 2016	
103-2	People and culture p.32 Stakeholder and Materiality p.72
405-1	Leadership and Governance p.60-61 People and culture p.31-32 (partially reported to this GRI Standard)
GRI 413: Local communities 2016	
103-2	Reporting Scope p.Inside Cover, People and culture p. 38 Stakeholder and Materiality p.72 GRI Index p.127-130, 413-1
413-1	Stakeholder and Materiality p.72 Chair and chief executives report p.8-11 Customer and stakeholder relationships p.36-38 Environmental Advisory Group p.69 Mana Whenua Kaitiaki Forum p.70-71 Local boards provide governance at the local level within Auckland Council. They enable democratic decision making by, and on behalf of communities within the local board area. There are 21 local boards with between five and nine members elected to each board. Watercare operate 95% engagement across the local boards. https://www.watercare.co.nz/About-us/Information-Hub/Community-engagement-hub
413-2	Chair and chief executives report p.8-11, Customer and stakeholder relationships p.36-38 Assets and infrastructure p.42-45 Link to Watercares projects: https://www.watercare.co.nz/About-us/Projects-around-Auckland GRI Index p.127-130, 203-1
GRI 416: Customer health and safety 2016	
103-2	Chair and chief executives report p.8-11, Customer and stakeholder relationships p.39
416-1	Chair and chief executives report p.8-11, Customer and stakeholder relationships p.39
416-2	Statement of service performance p.121-124 Natural environment p.27
GRI 419: Socioeconomic compliance 2016	
103-2	Natural environment p.27 People & Culture p.34 Financial capital and resources p.50-51 Statement of service performance p.121-124
419-1	No non-compliance reported

Our Value Creation Model: full list of inputs and outcomes

Inputs – Value In

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

Natural capital

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

Human capital

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

Social and relationships capital

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

Manufactured capital

- Company assets (e.g. dams, plants, pump stations)
- Critical third-party infrastructure (e.g. roads, energy)
- Quality of wastewater
- Volume of stormwater
- Availability of construction materials
- Chemicals
- Energy

Intellectual capital

- Technology
- Business continuity and crisis management procedures
- Processes and systems
- Documented good practice
- Datasets

Financial capital

- Access to affordable capital and debt
- Access to sufficient free cash flow

Outcomes – Value Out

Through the provision of safe and reliable water and wastewater services, Watercare delivers the following:

Natural capital

- We mitigate the negative impact of our activities
- We protect and enhance the environment and ecosystems
- We use resources efficiently and reduce waste, leading to a circular economy

Human capital

- We have a productive and engaged workforce
- We develop talents and skills in the industry
- We are committed to the health and safety of our staff and contractors
- We are an employer of choice

Social and relationships capital

- We ensure continuity of service
- We create a positive customer experience and receive positive feedback
- We are trusted by our customers and stakeholders who understand our purpose and value our service
- We have a strong relationship with our shareholder
- We have strong relationships with iwi, regulators and government
- We contribute to public health and well-being
- We provide affordable water and wastewater services
- We enable the Auckland Plan supporting growth / development
- We are a client of choice for our suppliers

Manufactured capital

- We ensure our water and wastewater assets are well maintained and perform well
- We build and maintain resilient, fit-for-purpose infrastructure
- We plan and construct in a timely way

Intellectual capital

- We make robust decisions that are informed and effective
- We continually strive for process excellence
- We strive for continuous improvement, and to be a future-proofed organisation
- We are industry leaders

Financial capital

- We are a minimum-cost provider
- We are financially stable over the long term
- We optimise cash flow and interest cover
- We optimise asset value
- We are a commercially savvy business.

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Glossary

Asset Management Plan (AMP)	A document that defines Watercare's best engineering judgment of the revenue and capital investment required to maintain the integrity of its asset base over a 20-year period.
Biogas	A by-product of the wastewater treatment process that comprises approximately 65% methane.
Biosolids	A treated solid by-product of the wastewater treatment process.
Capex	Capital expenditure.
Capitalised interest	The borrowing costs directly attributable to the acquisition or construction of qualifying assets, which are capital projects that span more than one financial year, added to the cost of those assets, until such time as the assets are substantially ready for their intended use.
Central Interceptor	A large tunnel that will collect and carry wastewater.
EBITDA	Operating surplus from trading operations before depreciation and amortisation, finance costs, vested assets revenue (non-cash) and developer and financial contributions (non-cash).
Global Reporting Initiative (GRI)	A non-profit organisation that works towards a sustainable global economy by providing sustainability reporting guidance.
Greenhouse gases	Gases that trap heat in the atmosphere. Examples of greenhouse gases are methane, perfluorocarbons and nitrous oxide.
Infrastructure assets	Assets that are mainly held and used for the purpose of treatment, storage and transmission of water and wastewater, such as watermains and sewers, and also treatment plants, tanks, dams and reservoirs.
Infrastructure Growth Charge (IGC)	Amount collected from property owners or developers applying for new connections to help fund new infrastructure required by growth.
Integrated Reporting	This is an internationally recognised framework for reports. It is a concise communication about how an organisation's strategy, governance, performance and prospects lead to the creation of value over the short, medium and long term.
Iwi	Tribal group(s) (origin: Māori).
Kaitiaki	Custodian (origin: Māori).
Mana whenua	Territorial rights; tribal connection to a geographic region; associated with possession and occupation (origin: Māori).
Mauri	A material symbol of life (origin: Māori).
Net finance costs	Interest paid/payable less interest received/receivable.
Operational assets	Assets that are mainly held and used for the purpose of administration and/or to support infrastructure assets and activities.
Opex	Operational expenditure.
Regional Demand Management Plan	A plan that outlines how Watercare intends to achieve a 15% reduction in gross per-capita water consumption by 2025. It is known as the Auckland Water Efficiency Strategy.
Resource efficiency	The maximising of the supply of money, materials, staff, and other assets that can be drawn on by a person or organisation in order to function effectively, with minimum wasted (natural) resource expenses.
Service concession arrangement	A binding arrangement between Watercare (grantor) and Veolia Water Services (ANZ) Pty Limited (operator) in which the operator uses the service concession asset to provide a public service on behalf of the grantor for a specified period of time; and the operator is compensated for its services over the period of the service concession arrangement.
Service Concession Assets	Assets owned and either provided by Watercare or upgraded for use by Veolia to provide public services in a service concession arrangement.
Statement of intent (SOI)	The SOI represents Watercare's public and legislative expression of accountability to its shareholder and establishes the agreement between the board and its shareholder.
Statement of Service Performance (SSP)	The SSP is a retrospective record of the performance of the company against the measures in its SOI.
Subvention receipt	Amount received/receivable from a profit company by a loss company for the sale of tax losses.
Sustainability	Meeting current needs without compromising future generations' ability to meet their own needs.
Tāmaki Makaurau	The Auckland isthmus region (origin: Māori).
Tangata whenua	Indigenous people of the land (origin: Māori).
Trade waste	Any discharge into a sewer in the course of an industry or trade process.
Unaccounted-for water loss	Water that is lost before it reaches the customer. Losses can be real losses (through leaks) or apparent losses (e.g. through theft or metering inaccuracies).
Vested assets	Infrastructure assets transferred to Watercare by external parties: e.g. developers, New Zealand Transport Agency, Veolia Water Services (ANZ) Pty Limited.
Wastewater	Liquid or solid matter discharged into the sewerage network from domestic, commercial or industrial locations.

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