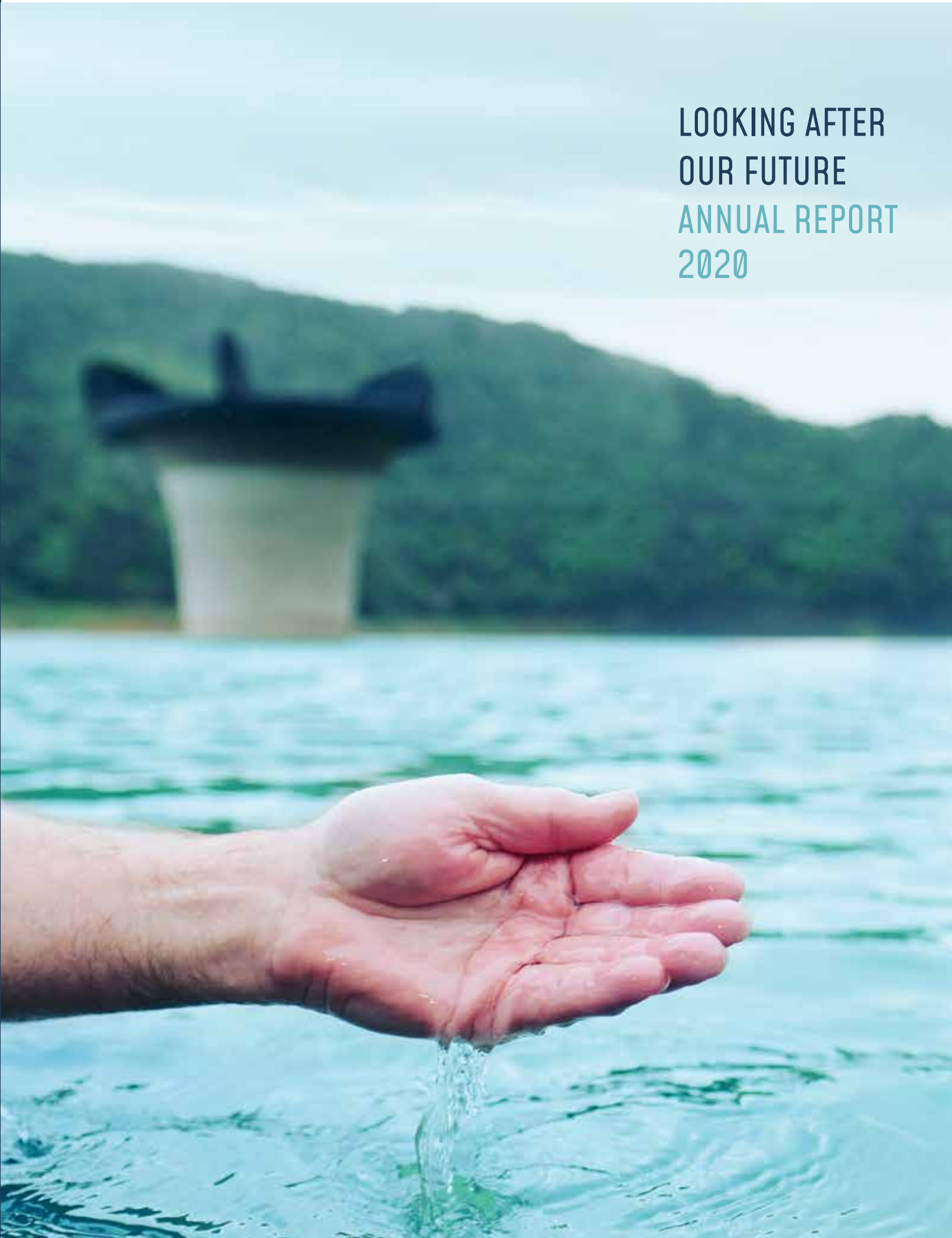


LOOKING AFTER
OUR FUTURE
ANNUAL REPORT
2020



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 \$11 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. 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 2020.

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

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

This report is also prepared in accordance with the Global Reporting Initiative (GRI) framework. The GRI is an internationally-recognised framework which encourages transparent reporting on performance and includes an established set of disclosures and performance indicators.

This year, the GRI report has been prepared in accordance with the GRI Standards 'core' option. An index of the indicators that we have reported against is included on page 119 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 an office in Hamilton, and three laboratories in Queenstown, Invercargill and Wellington.

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.

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Safeguarding our precious water

Reliable, clean, fresh water sits at the very heart of modern-day living – to the point where most of us take its availability for granted. Our role as one of Auckland’s water custodians is to ensure that this crucial resource is literally on tap as the city continues to grow.

This year, months and months of very little rain defied everything we had in place. Even though we plan for our infrastructure to be resilient to most droughts, the severity of this year’s drought required the collective support of Aucklanders to conserve water.

Working with precious natural resources is always about finding the informed and cost-effective way forward. We have that. We’ve planned for that. We literally have billions of dollars of infrastructure in the pipeline.

This year has challenged us. But it has in no way dented our commitment to work together with Aucklanders to ensure we preserve the water we have today – and the region is ready for tomorrow.



SECTION 1

THE LONGER-TERM PLAN

Our value creation model

INPUTS ►



NATURAL ENVIRONMENT

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



PEOPLE AND CULTURE

The competencies, capabilities and experience of our employees



CUSTOMER AND STAKEHOLDER RELATIONSHIPS

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



ASSETS AND INFRASTRUCTURE

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



INTELLECTUAL CAPITAL

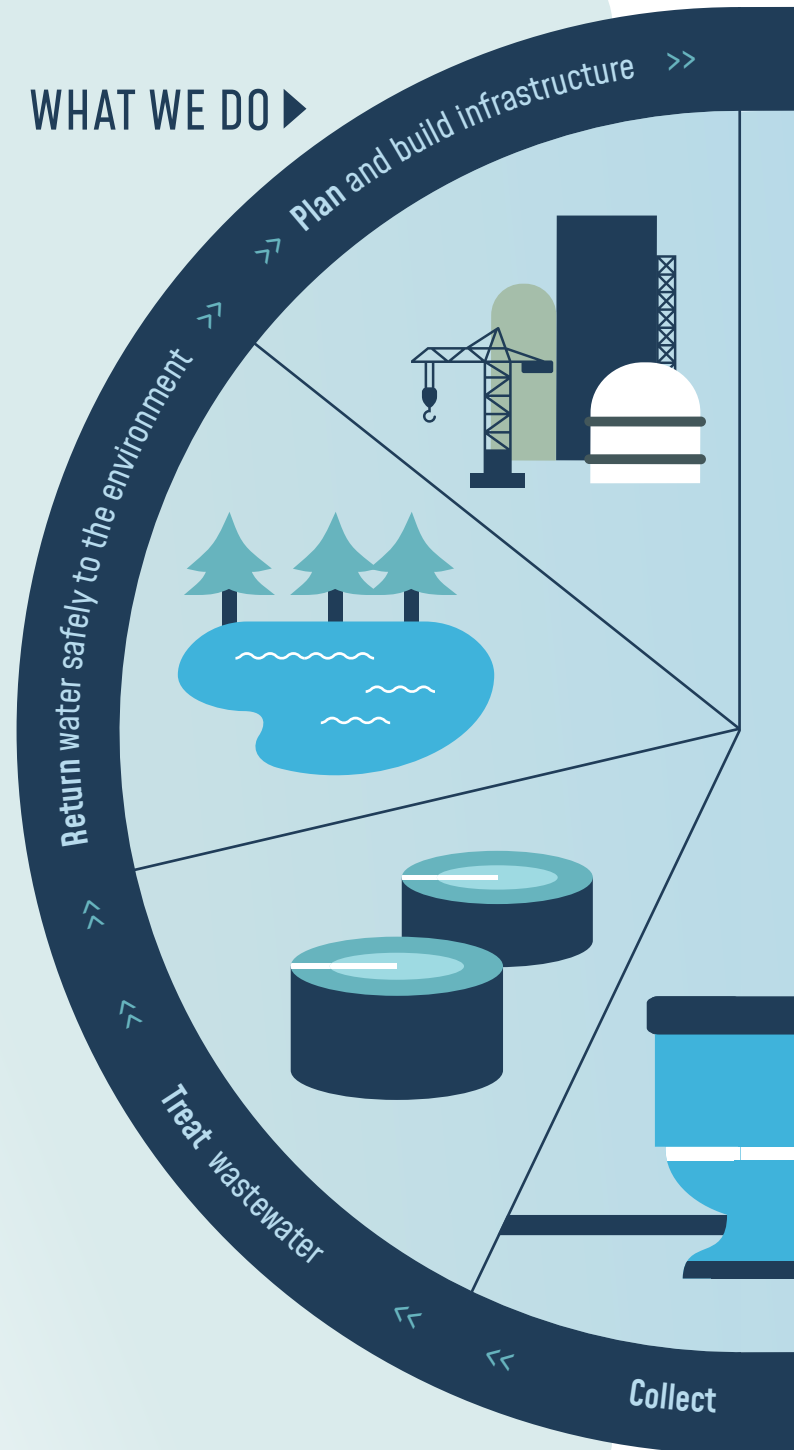
Our technology, processes, systems, datasets, documented practice and procedures



FINANCIAL CAPITAL AND RESOURCES

Our equity, debt, cash flow, revenue and investments

WHAT WE DO ►



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.



▶ OUTCOMES

- 
 - Protected and enhanced natural environment
 - Leading-edge resource efficiency and reuse of resources including water
- 
 - Safe, engaged and empowered team
 - Customer trust and value
 - Industry talent and skills developed
- 
 - Public health
 - Engaged communities and stakeholders
 - Thriving communities and economy
- 
 - Future-proofed growth and supply assurance
 - High-performing infrastructure
- 
 - Industry-leading thinking and processes
- 
 - Minimum-cost, efficient, financially-robust provider



Chair of Watercare's board of directors, Margaret Devlin and chief executive Raveen Jaduram

Chair and chief executive's report

Balancing today and tomorrow

The past year has been one of unprecedented challenges for Watercare. But alongside these challenges, we have also seen the enduring dedication and resilience of our people during the COVID-19 pandemic and the ongoing drought in Auckland.

Severe drought

2019/20 was dominated by two major events – a severe and unprecedented drought caused by prolonged dry weather and significantly less rainfall than normal, and COVID-19 – the impacts of both will undoubtedly continue into the next year.

The majority of Auckland's water is sourced from our water supply lakes in the Hūnua and Waitākere ranges. As part of our water resources management, we review lake storage levels daily and rely on short and long-range weather forecasts to balance the use of our water supply sources. For most of 2019/20, the storage levels in our Hūnua and Waitākere supply lakes were significantly lower than normal due to a severe shortage of rainfall. In fact, from 1 November 2019 to 31 May 2020, Auckland experienced its worst drought on record, receiving only 60 per cent of the normal rainfall.

Based on these indicators, we activated our drought management plan in November 2019 and maximised water production from our other sources to slow down the depletion of our lake storage.

The two main aspects of our drought management plan are augmenting water supply and reducing demand.

Augmenting water supply

We started work to bring two new water sources into operation – a bore in Pukekohe and a former dam (Hays Creek) in Papakura. We are close to commissioning a new reservoir in Pukekohe that will allow us to produce and distribute more water from the Waikato. Efforts are also underway to upgrade the Onehunga Water Treatment Plant to enable it to produce more water. Together, these new sources are expected to produce an additional 40 million litres per day (MLD) by December 2020.

Using emergency powers under Section 330 of the Resource Management Act, we also abstracted additional water from the Waikato River for two weeks and treated it at the Waikato Water Treatment Plant.

When the lake storage levels fell below 50 per cent in May 2020, we worked with Auckland Council to implement stage 1 water restrictions to safeguard future water supply. These restrictions banned the use

Throughout the year, we urged Aucklanders to use water efficiently; with the pandemic, we encouraged our customers and communities to heed the Government's advice to wash hands regularly and be mindful of using water wisely. During the lockdown and subsequent downgrading of alert levels, we focused on managing our water supply as efficiently as possible to ensure security of supply and the health and well-being of our communities.

Reducing demand

Aucklanders typically use between 375 MLD and 570 MLD, depending on the time of the year. Our focus was on reducing this demand and maintaining it at a sustainable level to allow our supply lakes to recharge in time for summer 2021. To achieve this, we urged Aucklanders to use water efficiently; during the pandemic, we encouraged our customers and communities to heed the Government's advice to wash hands regularly and be mindful of using water wisely. During the lockdown and subsequent downgrading of alert levels, we focused on managing our water supply as efficiently as possible to ensure security of supply and the health and well-being of our communities.

We also called for voluntary savings from both residential and commercial customers, and extensively promoted water-efficiency resources in the community. Our messaging focused on the power of collective action: if each of us saves a little, together we can save a lot.

of potable water for outdoor uses, and the use of hoses to water the garden or wash vehicles.

It was a tough decision to announce water-use restrictions that could adversely impact businesses like water blasting and building wash companies, especially on the back of COVID-19. But we have had to balance the availability of a finite resource – high quality drinking water for 1.7 million Aucklanders – versus the use of this resource for non-potable activities.

We have worked closely with Auckland Council to provide free access to seven non-potable water sources across Auckland, including springs and lakes, so these businesses have an alternative means of supply and can continue their operations. We would like to acknowledge the support of Auckland Council as we continue to address the challenges from the current drought.

Aucklanders have made significant reductions to overall demand, saving two billion litres of water by the end of June 2020.

Improving network performance

We also heightened our focus on improving the performance of our networks, particularly leaks. Leaks are inevitable for all water networks around the world. Though Auckland's network is one of the top performers in New Zealand in terms of the degree of real water loss, we know there is room for improvement and we are committed to reducing the volumes of water lost. We implemented a proactive programme of leak detection which has already reduced the volume of water losses by an estimated 2.35 MLD.

Investing in infrastructure

The drought has thrown light on another important aspect of being a water utility – planning and investing in infrastructure for today and tomorrow.

Since the amalgamation of the councils in 2010, Watercare has invested \$2.7 billion to build water and wastewater assets and \$1.8 billion to maintain these assets. As New Zealand's largest water utility with an asset base worth \$11.0 billion, our scale has enabled us to make significant investments in improving and transforming water networks and water quality across Auckland.

In 2019/20, we invested \$164 million towards building water supply infrastructure and another \$388 million on infrastructure for wastewater.

We have always planned for the future and we will continue to do so. Our Asset Management Plan has a horizon of twenty years, and includes investment of another \$4.8 billion on water and wastewater projects over the next eight years, with a further \$5.2 billion in the following 10 years.

We fund our infrastructure through a combination of user charges and borrowings so we have a responsibility to invest enough to

maintain and improve service levels while ensuring that the infrastructure we build is optimally used. We also have a responsibility to deliver our services at minimum cost for customers and ensure a stable price path for our services. An ongoing challenge for us is the impact that Watercare's borrowings have on Auckland Council Group's debt levels. While we receive no money from local or central government, we borrow through Auckland Council, impacting on their credit rating.

For all the investments we have made since 2010, our debt-to-equity ratio is low and backed by a strong balance sheet. So our focus over the next year will be to work with Auckland Council and explore options for independent financing.

Responding to COVID-19

Access to clean drinking water and sanitation services are particularly important during a pandemic and thanks to robust planning and risk management, we were able to remain operational and continue serving Aucklanders during the lockdown in March and April. (Read the case study on page 26.)

Recognising successes

It is true that most of our resources and time in 2019/20 have been dedicated to responding to the drought but there have been some significant achievements as well.

In September 2019, we signed a \$2.4 billion construction partnership with Fulton Hogan and Fletcher Construction for the delivery of water and wastewater infrastructure for Auckland over the next 10 years.

The long-term and collaborative nature of the contract is a first for New Zealand. This bold initiative addresses many of the challenges faced by the construction industry, while also achieving our ambitious sustainability, cost-efficiency and safety targets. (For a progress update on this programme, read the case study on page 44.)

We also progressed work on schedule for the \$1.2 billion, 14.7km-long, 4.5m-wide Central Interceptor Wastewater Tunnel project. In August 2019, we began to prepare the sites at Māngere and May Road, Mt Roskill.

Work on these sites included the creation of access roads, site fencing, delivery of key machinery and building platforms for the drop shafts. In 2020, we started construction at seven more sites to build the drop shafts that will eventually connect to the main tunnel.

Our tunnel-boring machine is scheduled to arrive at the end of 2020 and will begin tunnelling from Māngere in early 2021.

The commissioning of the completed Central Interceptor is estimated to happen in 2025. Together, the Central Interceptor and the Western Isthmus Water Quality Improvement Programme will reduce overflows in the area by up to 80%.

At the start of the financial year 2020, we signed a contract with Waikato District Council to manage their water, wastewater and stormwater assets. This service contract has the potential to run for 28 years and has a strong focus on better environmental outcomes and improved water services for our southern neighbours.

We also became the majority shareholder of Wellington-based software and process engineering company Lutra Limited in January 2020. Lutra has a small and highly skilled team of industry experts providing software and technical services to improve the performance of people and processes involved in water and wastewater operations.

With this acquisition, we will be able to gain efficiencies by implementing Lutra's software at our sites and using their training platform for our staff and contractors.

Building capability

Issues such as climate change, ageing populations and ageing infrastructure present complex challenges for the water industry; therefore, our focus is on building the capability of our people and unlocking their potential to be future leaders.

During the year, our people participated in external leadership programmes such as Smart Seeds and Rotary Youth Leadership Awards and learnt how to work collaboratively to solve complex problems.

We also launched in-house leadership programmes, through both our online learning platform and a face-to-face version called Future Stars, to provide more opportunities for leadership training to teams across the business.

It has been encouraging to witness the resilience demonstrated across Watercare, at both an individual level and an organisational level, in the face of ongoing challenges.

With the upcoming water industry reforms, our focus for 2020/21 will be to prepare Watercare for a new regulatory environment. Coming to grips with new environmental and water quality compliance frameworks may be a challenge but it is also an opportunity to forge a new path for Watercare as an international role model in efficiency, customer service and environmental stewardship.

We are incredibly grateful to our people for enabling us to continue operating as a business and provide essential water and sanitation services to the community during the pandemic.

In addition, we would like to acknowledge our Board of Directors for their direction and counsel during the year.

As chair of Watercare's board of directors, I would also like to acknowledge outgoing chief executive Raveen Jaduram's contribution to Watercare's journey over the last six years and wish him well for his future endeavours.

While the past year has been a challenging one, it has also presented many opportunities and learnings for our business and reaffirmed our commitment to be better tomorrow than we are today – *Pai ake āpōpō atu i tēnei rā.*



A snapshot of 2019/2020

HIGHS



303,000
TREES
PLANTED

in the Hūnua Ranges

25 ELECTRIC
VEHICLES

added to corporate fleet replacing
conventional fuel cars

0.87%

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



SAFE AND
RELIABLE

water and sanitation
services especially during
the COVID-19 pandemic
and nationwide lockdown



UNCONSCIOUS
BIAS TRAINING

introduced for managers
and people leaders



ZERO COVID-19
CASES

at Watercare or the extended
Watercare family due to
proactive risk management

2/3 STAFF
MEMBERS

equipped to work from home,
ensuring service continuity for
Aucklanders

Launched new incident reporting tool

iCARE

for health, safety and wellbeing



ENTERPRISE MODEL PARTNERSHIP
signed to deliver better infrastructure for Auckland

\$552M
investment in water and wastewater infrastructure for Auckland



Became a **MAJORITY SHAREHOLDER**
of processing software company Lutra

LOW S

36% LESS RAINFALL
in catchments between November 2019 and June 2020

Volume of real water loss
13.2%
against a target of 13% or below



STAGE 1 WATER RESTRICTIONS
banning the use of drinking water for outdoor water uses to reduce demand

Operating expenses
\$40.2M
higher than budgeted due to unplanned maintenance



10.6
Lost-time Injury Frequency Rate (LTIFR) per million hours worked (20 actual injuries)



waterCare
services limited



SECTION 2
DELIVERING
OUR
STRATEGY



Lower Nihotupu Dam, May 2020

Natural environment



Value created: Protected and enhanced natural environment, leading-edge resource efficiency and reuse of resources including water

It is a simple and universally-acknowledged truth that water is precious. It is also equally true that water, as both a resource and a service, is often taken for granted. This contrast came to the fore over the past year.

As a water and wastewater services provider for 1.7 million Aucklanders, our work is extremely dependent on the natural environment and, at the same time, has an enormous impact on it.

Extreme weather influenced our operations significantly during 2019/20. We began the year with prolonged dry weather and water storage levels lower than normal. While delayed rainfall in spring 2019 increased the storage levels over September and October, the dry weather resumed in November.

Since then, Auckland has been in a severe drought, with our water storage lakes receiving almost 40% less rainfall between November 2019 and May 2020. These storage lakes typically supply two-thirds of Auckland's water demand so the rainfall deficit is very critical to the region.

In 2019/20 we also observed an overall increase in demand for our water, especially record-breaking daily consumption during February due to hot and dry conditions.

Our efforts throughout the year have been focused on ensuring security of supply to our customers and the wider community. We introduced new tanker filling stations to help those on tank supply over summer. We maximised water production from sources that are independent from our supply lakes, such as the Waikato River and the Onehunga aquifer. We did this to preserve the water in our supply lakes and enable them to recharge. We also focused on augmenting our water supply with an investment of \$224 million and managing demand.

In May 2020, when the water storage levels in the lakes fell below 50% for the first time in 25 years, we recommended the implementation of Stage 1 Water restrictions as part of the Auckland Metropolitan Drought Management Plan in conjunction with Auckland Council.

36%

less rainfall
than normal
between
November 2019
and May 2020

Augmenting water supply

Apart from upgrading and maximising production at Waikato and Onehunga water treatment plants, we are also working to return two former water sources – Hays Creek Dam in Papakura and a bore in Pukekohe – which will provide an additional capacity of 40 MLD by December 2020. Planning, consenting and construction on these four projects are progressing at pace. These projects will not only provide additional water next summer, but they will also help to speed up the recovery in storage levels for next winter.

Auckland has been in a severe drought, with our water storage lakes receiving almost 40% less rainfall between November 2019 and May 2020.

We have invested significant resources towards reducing the amount of water lost through leaks and breaks in our water pipes. Annually, about 13% of the total water we produce is lost through leaks. While leaks are unavoidable for all water networks around the world, we know there is more we can do to reduce this volume. We therefore have a programme of works completed and underway that includes proactive leak detection across our 9000 kilometres of water network, prioritised management of leaks and pipe renewals.

Demand management

In line with the Drought Management Plan, throughout the year, we urged Aucklanders to be water-efficient and make voluntary savings. When the lake levels dropped critically in May, Auckland Council imposed stage 1 water restrictions which prohibited

the use of outdoor water hoses and water blasters for residential water users; Auckland Council, commercial and other non-domestic water users cannot use potable water to operate a car wash, water sports fields, plants or paddocks.

We did not recommend these restrictions lightly. We understood they would have a bigger impact on commercial water users than on residential water users and we knew it came at a very difficult time for businesses, given the challenges of COVID-19. However, permitting drinking water to be used for outdoor

and non-potable uses when the region continues to experience the worst drought on record is not sustainable.

We are working with Auckland Council to support impacted businesses by providing millions of litres of non-potable water from various sites across Auckland. Proving that necessity is the mother of invention, a number of Auckland businesses have overcome the impact of these restrictions by accessing water from these and other private bores and reusing water in their processes and operations.

Our own Central Interceptor Wastewater Tunnel project has been using non-potable water at all of its construction sites. The project will be using recycled wastewater from the Māngere Wastewater Treatment Plant to clean and operate a tunnel-boring machine.

These are encouraging shifts in thinking and behaviour that recognise the value of water, especially high-quality drinking water that Aucklanders have reliably enjoyed, without any restrictions, over the past 25 years.

While the drought dominated our work and resource allocation during the year, we made significant progress in some of our ongoing projects: we planted another 303,000 seedlings in the Hūnua Ranges, as part of our progressive regeneration of a former pine forest with native trees and plants over the next 30 years.

We partnered with Vector PowerSmart to install New Zealand's first-ever floating solar array on the oxidation pond at our Rosedale Wastewater Treatment Plant. This floating array is made up of 2700 solar panels and 3000 floating pontoons and the installation is expected to be complete in September 2020. It is the largest solar project in the country and will generate enough energy to power 200 homes for a year. It will increase the energy self-sufficiency of the Rosedale plant and is part of our energy efficiency and neutrality programme.

We also expanded our fleet of electric vehicles from five to 30 during the year, effectively removing 45 tonnes of carbon dioxide from the environment.

All of these initiatives are part of our ongoing organisational commitment to reduce the impacts from climate change.



Leak detection programme prevents millions of litres of water loss

Watercare’s proactive leak detection programme has prevented millions of litres of water loss at a crucial time for Auckland’s water supply.

The programme – which finds invisible leaks by listening for distinctive leak sounds – was accelerated this year as the region suffered the worst drought on record.

The programme has focused on areas in Auckland with the most reported leaks, including Mt Wellington, Ellerslie, New Lynn, Māngere, Ponsonby and Herne Bay, and covered more than 1140 kilometres of pipes.

Acoustic leak detection involves listening for signs of a leak by tapping a stick microphone to a meter or pipe connection. Leaks have a distinctive sound as they are constantly running. The checks are repeated at different times of the day to confirm it is a leak. The volume of the leak is estimated based on the sound detected.

From the work completed so far, an estimated water loss of more than two million litres a day (MLD) has been prevented.

Acoustic leak detection work is just one element of a wider programme to minimise water lost to leaks.

We spend more than \$20 million a year replacing ageing water pipes and their supporting infrastructure and we are looking at increasing investment on renewals. We have also put more crews in the field so we can investigate and fix

reported leaks as soon as possible. We aim to repair urgent leaks within a few hours, and all leaks within five days, but sometimes, due to the location of the leak and factors like traffic management, they do take longer.

While every effort is being made to reduce leakage in Auckland, leaks are expected in all water networks around the world. They can be caused by many factors: hot, dry weather and ground retraction; vibrations including heavy traffic; and damage caused by a third party working in the ground.

Auckland actually has one of the better leakage rates in New Zealand. However, we know there’s room for improvement so, by July next year, we expect to have proactively checked more than 6000 kilometres – almost two-thirds – of Auckland’s water pipes.

More than
2 MILLION
 litres of water a day
 has been prevented
 from leaking

Water supply

	2019/20	2018/19	2017/18
Water supply dams (number of operational sources over the year)	12*	12*	12*
River sources (number of operational sources over the year)	2	3	3
Groundwater sources (number of operational sources over the year)	13	13	12
'A'-grade water treatment plants	15	15	15
Other water treatment plants	1**	1**	Nil
Length of treated watermains (km)	9,429	9,349	9,187
Service reservoirs	87	85	85
Pump stations	95	94	93
Annual volume produced (ex plant m ³)	166,073,744	159,557,593	153,784,185
Annual volume sold (m ³)***	132,321,049	128,610,171	127,548,898

* Though Watercare maintains Hays Creek, it was out of service in 2019/20. It will be back in service next year and is part of our drought supply augmentation.

** Warkworth Wells Water Treatment Plant was commissioned in December 2018 and has not been submitted for grading.

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

Volume of water by source

	2019/20		2018/19		2017/18	
	Volume (m ³)	%	Volume (m ³)	%	Volume (m ³)	%
Waitākere Dam	2,700,520	2%	3,517,824	2%	3,839,835	3%
Upper Huia Dam	4,772,363	3%	4,684,808	3%	8,102,899	5%
Upper Nihotupu Dam	6,141,941	4%	5,299,609	3%	8,272,721	5%
Lower Huia Dam	12,116,995	7%	10,182,607	6%	6,611,783	4%
Lower Nihotupu Dam	9,503,293	6%	6,035,042	4%	1,329,914	1%
Cosseys Dam	14,291,634	8%	16,665,256	10%	12,388,820	8%
Upper Mangatawhiri Dam	21,188,152	13%	24,687,408	16%	29,291,746	19%
Wairoa Dam	9,139,533	5%	12,722,452	8%	12,265,389	8%
Mangatangi Dam	26,466,287	16%	41,817,529	26%	45,572,241	29%
Waikato River	50,812,241	30%	26,460,059	17%	20,210,713	13%
Onehunga Aquifer	6,848,096	4%	5,147,992	3%	4,326,071	3%
Rural North	1,926,223	1%	1,727,329	1%	1,539,685	1%
Rural South	977,901	1%	928,023	1%	942,431	1%
Total	166,885,179		159,875,938		154,694,248	

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 trap-and-haul programme at native fisheries, where migrating fish and eels are transferred around the dams.

Name of site	Ecological attributes	Conservation activities carried out in 2019/20
Southern regional wastewater plants	Habitat	Continued vegetation and noxious/pest weed control on Watercare-owned land – 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 Wastewater Treatment Plant	Habitat	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 wastewater 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	Access bridge built to enable better access and protect waterway. The artificial bird roosts' reconstruction has remained stable with minimal erosion over the past year. The Manukau Harbour and the bird roosts have continued to support more than 20% of New Zealand's total wading bird population with many migratory species including Eastern Bar-tailed Godwits, Wrybills and Southern Pied Oystercatchers.
Coastal walkways	Habitat for fauna	For the Coastal Clean-Up 2020, Watercare employees successfully removed over 10,000 litres of rubbish from the Watercare foreshore coastline.
Foreshore and coastal walkways	Foreshore of Manukau Harbour, internationally-renowned for migratory birds	Planting of 3000 seedlings across foreshore area. Continued co-ordinated 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 helped make the foreshore a better place.
Hūnua Ranges revegetation	Native bush	Planting of 303,000 native trees, replacing land previously under pine forestry. Part of an ongoing restoration project, with more plantings forecast for 2020/21.
Waikato RiverCare	Riparian restoration	Riparian planting projects along the lower Waikato River to enhance river water quality.
Central Interceptor Project	Riparian restoration	More than 2000 native seedlings planted on the banks of a tributary of the Waititiki-Meola Creek on Mt Albert Grammar School land.
Bombay Water Treatment Plant	Riparian restoration	Riparian planting along 800 metres of stream bank. 5320 trees planted in January 2020.

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

Climate change

During 2019/20, our focus was on embedding the impacts of a changing climate into our thinking and processes, following the launch of our Climate Change Strategy in early 2019. The strategy covers specific actions that we will take 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.

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

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

It also comprises a work plan that consists of 14 portfolios across both adaptation and mitigation.

Work progressed during the year includes:

- A new subcommittee of Watercare's board – Committee for Climate Action – was established in 2020 and the business has contributed to Te Tāruke-ā-Tāwhiri: Auckland's Climate Plan
- Milestones on several climate portfolios such as the following:

Climate modelling and water source

The business case for the Integrated Source Management Model (ISMM) phase 1 upgrades has been approved. This will provide a more robust understanding of recent rainfall patterns. Once established, this will lead to preparation of phase 2, which covers future projections with climate scenarios included. The tool can be used to identify and manage the water sources used to supply Auckland every day.

Treatment and network resilience

The assets value stream has progressed well over the past six months with teams established and priority work plans started. These are truly cross-functional teams that are utilising existing projects and scenarios. The priority areas in this value stream are sea level rise, odour and corrosion, materials and design standards, and wastewater network overflow modelling.

Low-carbon infrastructure

The Enterprise Model's Programme First office has been established at Watercare. This includes construction partners Fulton Hogan and Fletchers as well as a representative from our design consultants. This team is developing processes while also working live on a number of 'transition' projects where they are trialling carbon-reduction opportunities. An 'Infrastructure Carbon Baseline' has also been finalised which predicts the anticipated carbon associated with our construction projects; we believe this is a first in Australasia.

Greenhouse gas emissions

We are continuing to improve and evolve our measurement and management of greenhouse gas emissions. This journey started in the early 2000's as we significantly upgraded the Māngere Wastewater Treatment Plant. This has enabled us to capture the methane and nitrous oxide emissions from the sewage and has unlocked the generation of biogas which is now turned into electricity to help run the plant. Replacing the open-air oxidation ponds and sludge lagoons with land-based treatment resulted in a long-term decrease in greenhouse gas emissions by approximately 80% compared to the 1990 baseline (on page 20 and aligned with Auckland Council's approach in the Low Carbon Action Plan).

In 2013/14 we established an improved reporting framework which included a number of external emissions that should also be accounted for under our footprint (scope 3 emission sources). In 2019/20 we have continued the evolution of our approach, updating emissions factors and methodologies to align with recent updates, and improving data capture.

This year our overall emissions (scope 1, 2 and 3) have increased by 22% in comparison with the previous year. The main reasons for this increase are a rise in electricity consumption and new reporting sources that we have included within our scope. Details are provided below.

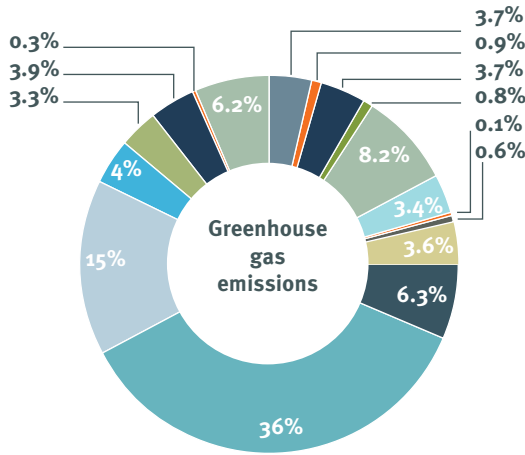
Emission movements over the past year

Scope 1 emissions decreased by six percent, primarily due to the reduction in natural gas consumption at Māngere Wastewater Treatment Plant compared with 2018/19, coupled with changes in emission factors for the reporting year.

Our scope 2 emissions increased by 21% compared with the previous year. This is wholly attributed to the electricity consumption associated with the increased pumping activity from the Waikato Water Treatment Plant undertaken in response to the drought conditions in Auckland. The low water storage levels in the Hūnua and Waitākere dams have resulted in a significant increase to the volume of water sourced from the Waikato River. This source requires about 25x more energy per unit of production, due to pumping uphill from the Waikato River to Auckland city.

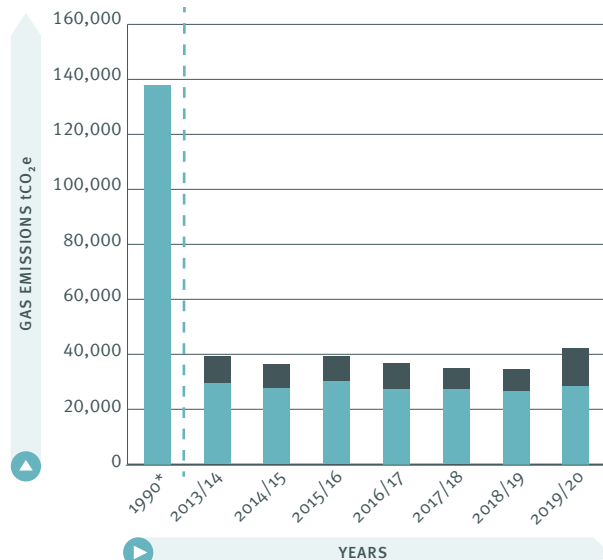
The boundary of our scope 3 reporting has expanded this year to include emissions from the newly-established operations and maintenance contract for the management of the three water services for Waikato District Council (which began on 1 October, 2019). For the first time we are reporting fuel use by our external maintenance contractors as well.

Greenhouse gas emissions 2019/20



● Natural gas use	3.7%	● Electricity use	36.0%
● Biogas combustion	0.9%	● Lime use (treatment processes)	15.0%
● Fuel use in corporate vehicles	3.7%	● Maintenance contractor fuel use	4.0%
● On-site fuel use	0.8%	● Transmission and distribution loss natural gas and electricity	3.3%
● Wastewater treatment	8.2%	● Waste generation and transport to landfill	3.9%
● Effluent discharge to water and land	3.4%	● Business travel	0.3%
● Refrigerants	0.1%	● Waikato District Council operation and maintenance contract	6.2%
● Overflows from network	0.6%		
● Fugitive emissions from network	3.6%		
● Biosolids in land rehabilitation	6.3%		

Performance against baseline (1990 onwards)



* As a result of lack of exact data breakdown for scope 1 and 2, we are reporting this as a combined figure for 1990. See details on page 19

● Scope 1 and 2 ● Scope 3

Scope 1 – Direct emissions e.g Fuel burnt, treatment processes
Scope 2 – Electricity purchased
Scope 3 – Indirect emissions e.g Fuel use by contractors

Focus for 2020/21

There are a number of external influences that will have an impact on our greenhouse gas emissions measurement and performance in the year to come.

We will review our emissions reduction target to align with the Te Tāruke-ā-Tāwhiri: Auckland’s Climate Plan which targets 50% reduction in emissions by 2030. We will also review recent changes to the measurement methodology for wastewater process emissions published by the Intergovernmental Panel on Climate Change (IPCC). The changes in methodology may result in an increased quantity of nitrous oxide and methane gases reported; these have a high global warming potential and therefore emissions impact. These emissions account for approximately 25% of our total emissions and we will work with WaterNZ and other local utilities to understand the implications in New Zealand.

We will be reporting a full year of emissions relating to the three waters contract with Waikato District Council which started in October 2019.

Finally, our reporting boundary for emissions may change significantly with any structural changes that are proposed through the *Water Services Bill* (water industry reform) due to be enacted in 2021.

Note 1: Watercare’s carbon footprint has been calculated in accordance with the “Greenhouse Gas Protocol” (WRI, 2004), including all six Kyoto Greenhouse gases and the operational control method. Per protocol, it excludes biogenic CO₂ emissions from the burning of biogas which totalled 60,628. AR5 Global Warming Potential values with climate-carbon feedbacks of 34 for CH₄ and 298 for N₂O have been used.

Note 2: Independent verification of GHG measurement provided by Toitu Envirocare in line with ISO 14064-1:2006. Emissions from Puketutu Island were excluded on the basis of sufficient data not being available to calculate the emissions.

Note 3: Emissions factors are sourced from Ministry for the Environment 2015, 2019 and IPCC 2006. Wastewater emissions include additional industry calculations.

Note 4: Additional breakdown can be found in the energy and greenhouse gas emissions supplement to the annual report 2020.

Energy use and internal generation

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

This year, we used 198,864MWh of electricity, an increase of 12.7% compared with 2018/19.

We generated 22.37% of our total energy use internally, compared with 26.7% last year. Cogeneration at Rosedale Wastewater Treatment Plant was lower than 2018/19 due to one of the co-generation engines being out of service. Cogeneration at Māngere Wastewater Treatment Plant was also lower than 2018/19 due to reduced engine uptime and maintenance issues.

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

The energy neutrality programme is underway to be achieved at Māngere and Rosedale treatment plants by 2025 (and should result in an energy reduction of about 37GWh). An investigation into control improvements at the Waikato Water Treatment Plant's raw water pumps was completed but not yet implemented due to COVID-19 and drought. An investigation into the Māngere ultraviolet (UV) treatment system is currently underway to quantify savings from the UV upgrade and identify additional potential for savings.

Total energy consumption

	2019/20			%
	Total	Unit	Total GJ	
Grid electricity purchased	153,307.11	MWh	551,905.58	
Electricity – self generation renewable (solar, hydro, biogas)	41,903.92	MWh	150,854.12	
Electricity – self generation non-renewable (natural gas, diesel)	3,652.49	MWh	13,148.95	
Transport – petrol, premium, diesel	713,348.71	litres	27,047.50	
Transport – BOC Gas	870.00	kg	42.63	
Other – Natural gas	1,574.00	GJ	1,574.00	
Total			744,572.38	
Renewable sources			606,176.23	81%
Non-renewable sources			138,396.55	19%

Internal Generation	2019/20		2018/19		2017/18	
	MWh	%	MWh	%	MWh	%
Electricity generated through water supply (hydro)	2,665	1.34%	1,413	0.79%	36	0.02%
Electricity generated through wastewater treatment (biogas) – Māngere	35,108	17.65%	39,298	21.88%	38,118	22.91%
Electricity generated through wastewater treatment (biogas) – Rosedale	6,309	3.17%	7,196	4.01%	6,050	3.64%
Electricity generated from solar	402	0.20%	84	0.05%	–	–
Electricity generated from non-renewable sources	3,652	1.84%	4,834	2.69%		
Total internally sourced electricity	44,484	22.37%	47,990	26.71%	44,204	26.57%
Total purchased electricity	153,307	77.09%	128,441	71.50%	122,172	73.43%
Electricity exported to the grid (solar, hydro, biogas)	-2,580	-1.30%	-1,626	-0.91%		
Total electricity consumed	198,864	100.00%	179,639	100.00%	166,376	

Reusing waste from treatment processes

We aim to reuse as much material as possible from our water and wastewater treatment plants. Watercare uses biosolids from the Māngere Wastewater Treatment Plant to rehabilitate Puketutu Island, which was formerly a quarry. We also maintain dedicated placement sites for solids removed during the water treatment process. In 2019/20, Watercare was able to reuse 57% of the solids from our water treatment process and 81% of the solids from our wastewater treatment process.

Operational waste from:	2019/20	2018/19	2017/18
Water treatment (m ³) – sludge	12,316	12,472	12,494
Wastewater treatment (t) – biosolids, grits and screenings	142,030	137,976	138,885

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 entering combined sewers 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 increased slightly this year, to 2.43 tonnes from last year's 2.36 tonnes but is well within the permitted levels specified in the Guidelines for the Beneficial use of Organic Materials on productive land – December 2017.

Substance	2019/20		2018/19		2017/18	
	Concentration (mg/kg)	Disposed weight (tonnes)	Concentration (mg/kg)	Disposed weight (tonnes)	Concentration (mg/kg)	Disposed weight (tonnes)
Arsenic	5.40	0.19	5.09	0.18	5.20	0.19
Cadmium	0.70	0.03	0.73	0.03	0.81	0.03
Chromium	47.00	1.59	43.35	1.55	41.19	1.49
Lead	16.00	0.60	16.24	0.58	18.52	0.67
Mercury	0.50	0.02	0.48	0.02	0.56	0.02
TOTAL	69.60	2.43	65.90	2.36	66.28	2.39

Resource consents

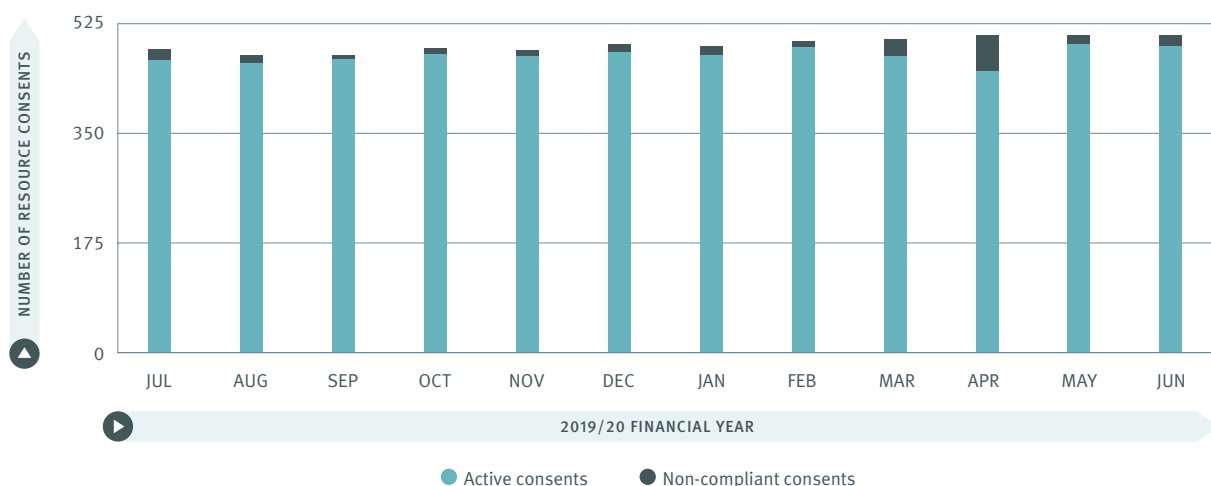
As at 30 June 2020, Watercare had 507 active consents across our network and treatment facilities, and we averaged 492 active consents over 2019/20. Our average rate of compliance with these consent conditions was 96.6%.

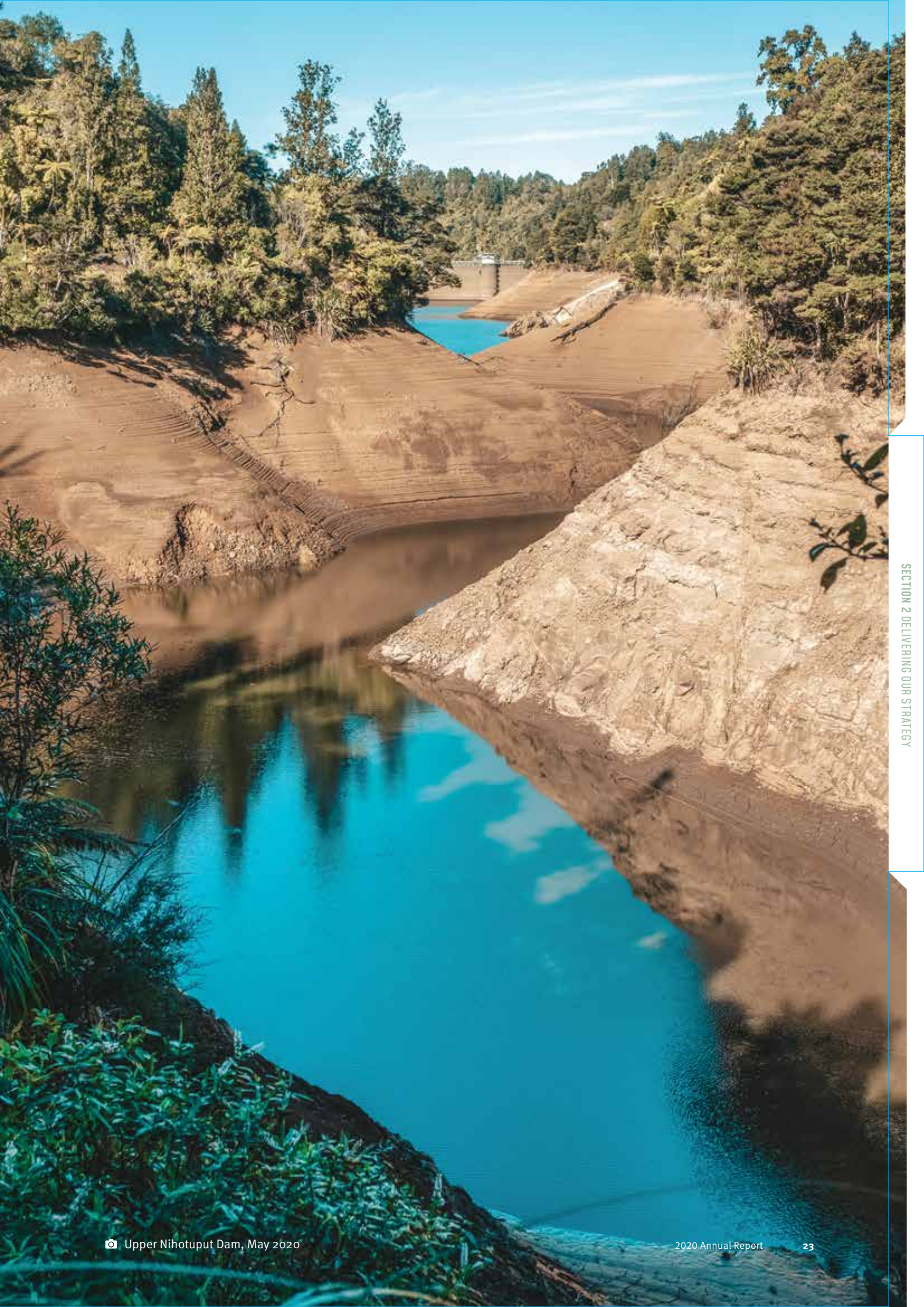
The increase in consent conditions with non-compliance during March and April were due to COVID-19: sampling activities that were deemed non-essential were temporarily put on hold and considered "technical breaches". These were all reported and did not incur any fines or enforcement actions.

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

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Total number of active consents	484	474	475	485	482	493	489	497	501	506	506	507
Number of non-compliant consents 1	17	12	7	8	8	14	14	9	27	56	14	17
Number of non-compliant category 3 conditions	–	–	1	–	–	–	–	1	–	–	–	–
Number of non-compliant category 1 or 2 conditions	11	13	14	18	14	15	17	16	12	15	20	18

Resource consent conditions





People and culture



Value created:
Safe, engaged and empowered team, customer trust and value, Industry talent and skills developed

At Watercare, we define ourselves as a lifeline utility providing essential services around the clock. This was emphatically proven again over the past year.

When the COVID-19 pandemic hit New Zealand, our main objectives as a company were to ensure the health and well-being of our people and continue providing services to 1.7 million Aucklanders.

While the country went into lockdown for more than six weeks and most other businesses remained closed, our people worked day and night to ensure that the two most essential services during a pandemic – access to safe and reliable water supply and sanitation – continued unhindered. We did this by proactively developing and implementing a COVID-19 response plan to manage our people's health and wellness, provide them with access to critical supplies, reduce their risk and enable remote-working. As a result, there were no confirmed cases of COVID-19 at Watercare or among the extended family networks, even during peak community transmission. (Read the case study on page 26.)

With the pandemic being a test of our resilience, the ongoing drought continues to be another one. It has been heartening to see our people come together time and again to weather crises and leave no stones unturned in responding to these situations. It is a welcome evolution of our organisation from one that is based on power and structure to one empowered by people, knowledge and collaboration.

Our most recent eNPS score (a metric used to measure employee satisfaction) has increased 70%, from +21 to +36. In general, our people would recommend Watercare as a great place to work for the work environment and culture, and because the work itself is interesting. Areas highlighted for improvement include more collaboration and alignment between business functions and more transparency around remuneration and how our pay structure compares to the market.

70% increase in employee satisfaction

The feedback from the recent eNPS also highlighted the progress made in diversity and inclusiveness: 84% of the respondents said they would be comfortable speaking about their background, identity and cultural experiences and 66% said they see leadership support for diversity and inclusion at Watercare. We also improved gender and ethnic representation: 13% for female employees and 12% for those of Māori ethnicity.

hiring, allocating work and promoting team members. Around 73% of our people leaders have completed this training to date.

We also introduced two leadership programmes – Future Stars and Growing Greatness – to unlock the potential in our teams and collectively solve some of the challenges prevalent in the water and infrastructure industry. Growing Greatness is specifically aimed at

Our Industrial Athlete programme includes education and practical support in nutrition, rest and sleep, relaxation and mindfulness, endurance, flexibility and strength, as well as manual handling techniques.

During 2019/20, 82 managers and people leaders participated in Mental Health First-Aid training. This training equipped managers to identify when employees are under mental stress, to support them through these issues and to promote a wellness culture at work.

When the COVID-19 pandemic hit New Zealand, our main objectives as a company were to ensure the health and well-being of our people and continue providing essential services to 1.7 million Aucklanders.

Staff turnover for 2019/20 was 8.2%, a decrease from 10.9% in 2018/19 and further affirms our commitment to be an employer of choice.

One positive outcome from the pandemic and the subsequent nationwide lockdown was the almost instantaneous adoption of technology and tools to work remotely. Around 70% of our workforce worked from home and collaborated digitally. This uptake of digital tools was also reflected in the quantum leap in time spent on training online – staff training through Immerse, our in-house learning platform, increased about 500%, from 16 hours per employee in 2018/19 to 106 hours in 2019/20.

One of the learning modules introduced during the year, Unconscious Bias, was aimed at educating managers and people leaders on the importance of diversity and inclusion and providing practical ways to overcome implicit biases in

developing mid-career women, to help them see themselves as leaders and fulfil their potential. Building capability not just for Watercare but also for the water and infrastructure industry as a whole will be an ongoing focus for us.

The increase in the number of injuries is an ongoing challenge in our industry. An analysis of the health and safety data shows that the vast majority of the incidents we recorded over the year were due to manual handling resulting in sprains, strains and soft-tissue injuries to backs, shoulders and necks.

We recognise that health and safety does not happen in isolation. A balanced diet, practising and warming up for specific work on any given day, and focusing on mental well-being, all play a critical role in ensuring our people are ready to undertake physical work in a safe and productive way.

Wellness continued to be a key focus during the lockdown. We put together a comprehensive welfare plan, including a special COVID-19 paid sick leave policy, food parcel delivery and daily well-being check-ins to support our people – those out in the field doing essential work and those working remotely from home – during this unprecedented time.

The option to work from home has been carried forward after the lockdown ended. This has enabled staff to be more flexible in how they carry out their work and reduced the time involved in commuting and the resulting pressure and stress.



A proactive, comprehensive response to COVID-19

As countries across the world struggle to combat the pandemic, New Zealand has addressed and contained COVID-19 comparatively well.

We believe Watercare's response to COVID-19 continues to be proactive, comprehensive and effective.

New Zealand saw its first COVID-19 case at the end of February 2020. By then, Watercare's risk and operations teams were already monitoring the situation and its potential impact on our workforce, especially those working in wastewater.

In the first week of March, we set up an incident response team, with over 50 people across the business dedicated to various functions: gathering up-to-date information on the pandemic, planning our response across the company, implementing our action plans, managing our supply chain, ensuring our people were looked after, keeping our workforce informed and engaged, and supporting the transition to working from home.

The two main objectives for the incident response team were: keeping our workforce safe and well, and maintaining our critical services.

We introduced a number of plans and policies to provide wrap-around support and safeguard the physical and mental well-being of our people. We worked on the principle that no staff member would be financially disadvantaged due to COVID-19: we introduced a special COVID-19 paid sick leave above and beyond the annual sick-leave allowance for staff in case they were confirmed to have the virus or asked to self-isolate; organised food and grocery deliveries to operational sites to reduce the risk to our essential workers; and established a welfare support crew to perform daily welfare check-ins over the phone with staff to ensure they stayed connected from inside their bubbles.

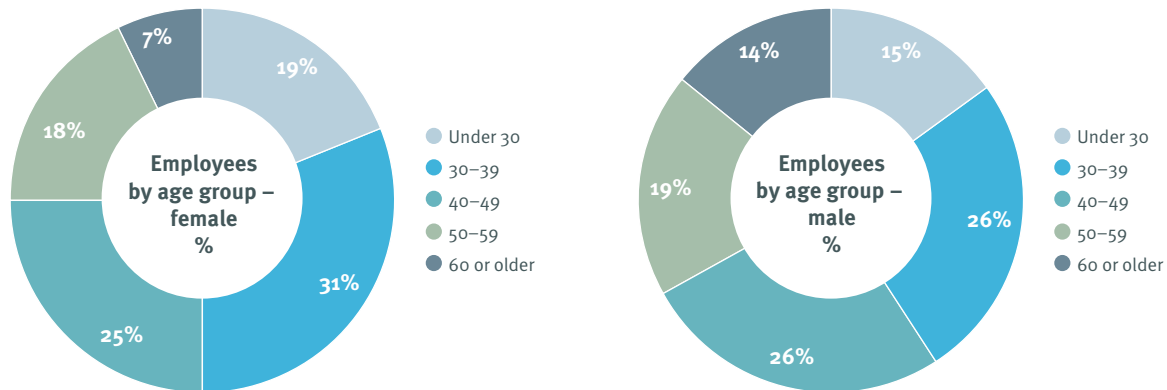
Rigorous protocols for work bubbles and physical distancing were put in place to reduce risk to our site-based operations crew. Our digital team deployed over 500 laptops to enable the remaining teams to work from home and support our other functions.

By the end of June 2020, we had successfully ensured that there were no instances of COVID-19 among staff or their extended families. With the robust framework we put in place in March, we are well placed to manage any resurgences.

By looking after our people, we enabled them to look after water and sanitation needs of 1.7 million Aucklanders.

Workforce employment breakdown

The total number of staff has increased (8.7%) from 984 in 2018/19 to 1070 in 2019/20. Most of our employees work in the Auckland region. Watercare also operates laboratory testing services in Wellington, Queenstown and Invercargill. Collective Employment Agreements (CEAs) are Employment Agreements negotiated with one or more unions on behalf of those staff who belong to that union. Individual employment agreements (IEAs) remain the most common type of employment agreements. The majority of employees employed on CEAs are males who undertake operational or maintenance functions within the business. Breakdown below also includes employees servicing the Waikato District Council Contract.



New hires by gender and age

Gender	2019/20	%	2018/19	2017/18
Male	106	54%	132	115
Female	89	46%	70	85
TOTAL	195		202	200

Age group	2019/20	%	2018/19	2017/18
Under 30	66	34%	77	99
30-39	53	27%	63	54
40-49	55	28%	44	31
50-59	18	9%	13	11
60 or older	3	2%	5	5
TOTAL	195		202	200

	2019/20			2018/19			2017/18		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Individual Employment Agreements (IEA)	484	310	794	433	283	716	436	263	699
Collective Employment Agreements (CEA)	198	13	211	195	15	210	173	12	185
Part-time headcount	7	25	32	9	17	26	5	19	24
Fixed-Term Individual Agreements (IEA) >1yr	3	2	5	3	8	11	9	19	28
Fixed-Term Individual Agreements (IEA) <1yr	6	22	28	13	8	21	3	1	4
TOTAL fixed-term and permanent employees	698	372	1,070	653	331	984	626	314	940
Casuals headcount	7	14	21	8	15	23	5	10	15

Staff engagement

We use employee net promoter score (eNPS) for measuring staff engagement every quarter. Our most recent eNPS score has increased 70%, from +21 to +36. In general, our people would recommend Watercare as a great place to work for the work environment and culture, and because the work itself is interesting. Areas highlighted for improvement include more collaboration and alignment between business functions and more transparency around remuneration and how our pay structure compares to the market.

2019/20 Quarter	eNPS Score
1	. +26
2	. +21
3	*
4	. +36

*As a result of COVID-19 level 4 lockdown, the survey was not conducted during this quarter.

Diversity and inclusion

The feedback from the recent eNPS also highlighted the progress made in diversity and inclusiveness: 84% of the respondents said they would be comfortable speaking about their background, identity and cultural experiences and 66% said they see leadership support for diversity and inclusion at Watercare. We also improved gender and ethnic representation with 13% more female employees and 12% more Māori employees recruited during the year.

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, the N3 staff discount scheme and discounted car parking.

Training per staff member

Our staff received an average of 106 hours-training in 2019/20, excluding time spent on employee orientation. This is an exponential increase compared to 2018/19 and was the result of two factors: inclusion of trade certifications offered in partnership with Connexis as part of the annual training and the introduction of staff training through Immerse, our in-house online learning platform.

	2019/20	2018/19	2017/18
Average staff numbers over the year	1,007	945	920
Average hours of training for permanent employees	106	16	28
Total training spend (\$)	\$1,235,033.36	\$1,092,397.00	\$1,354,830.00
Ratio (\$ per average staff numbers)	\$1,226	\$1,156	\$1,473

Performance review process

We schedule performance reviews annually for employees. These were conducted in August 2019 for 55% of those who were eligible. During the reporting year, the system used for these reviews was being phased out, and as a result, impacted the completion percentage. For 2020/21 we are targeting a completion rate of 100%.

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 2019/20, 94% of employees who took parental leave returned to work, with the rest still on parental leave. The decision to return to work following the completion of their parental leave is solely up to the staff member and is dependent on their individual personal circumstances.

Number who have taken parental leave	2019/20	2018/19	2017/18
Male	17	24	22
Female	12	15	16
TOTAL	29	39	38

Number due to come back from parental leave each year	2019/20	2018/19	2017/18
Male*	N/A	N/A	N/A
Female	16	11	11
TOTAL	16	11	11

Number having come back from parental leave	2019/20	2018/19	2017/18
Male*	N/A	N/A	N/A
Female	15	7	9
TOTAL	15	7	9
% returning after parental leave	94%	64%	82%

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

Staff turnover

Voluntary turnover for 2019/20 was 8.2%, a decrease from 10.9% in 2018/19.

Involuntary turnover includes retirements, deaths, abandonment of employment and negotiated or managed exits. In 2019/20, there were 30 instances of involuntary turnover.

Gender / Age	2019/20		2018/19		2017/18	
	Voluntary	Involuntary	Voluntary	Involuntary	Voluntary	Involuntary
Male	51	20	63	41	80	19
Female	32	10	36	12	48	8
Total %	8.2%	3.0%	10.9%*	3.8%	13.8%	2.9%
Under 30	28	7	30	3	40	1
30-39	24	5	38	8	46	6
40-49	19	5	16	9	23	2
50-59	9	4	13	17	15	7
60 or older	3	9	2	16	4	11

* Result for 2018/19 recalculated from 13.0% to 10.9%.

Health, safety and wellness

	2019/20	2018/19	2017/18
Lost-time injury frequency rate (LTIFR) – number of lost-time injuries per year per million hours worked	10.6	6.5	3.5
Total recordable injury frequency rate (TRIFR) per million hours worked	20.6	12.4	8.2

We continued to support the reporting of incidents, near-misses and observations more rigorously and to enable this, we launched a new reporting system in October 2019 that should facilitate the availability of more granular data. Our focus over the next year will be to use this new system to analyse trends and patterns so we can proactively manage our health and safety performance.

The year-on-year increase in the number of injuries is an ongoing challenge for us. We have formed an Executive Safety Group and are undertaking an external review in this area.

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.

A balanced diet, practising and warming up for specific work on any given day, and focusing on mental well-being all play a critical role in ensuring our people are ready to undertake physical work such as manual handling in a safe and productive way.

Our Industrial Athlete programme includes education and practical support in nutrition, rest and sleep, relaxation and mindfulness, endurance, flexibility and strength, as well as manual handling techniques.

Health and safety committees

Watercare has established health, safety and well-being (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.

Absenteeism

Watercare recorded an unplanned absenteeism rate of 3.3%, which is a slight decrease over last year's result of 3.6%. We provide an occupational health service to all staff, including: medical consultation, influenza immunisation, mandatory vaccinations for those working in certain environments, skin checks and rehabilitation programmes. Employee assistance services such as counselling are available to all staff, either through the company or from self-referral. During the year, we also made available a special COVID-19-related leave to encourage staff to stay home if they were unwell, without worries about their sick-leave allowance.

ACC workplace management practices accreditation

Watercare is a member of Accredited Employers Programme (AEP) for workplace and non-workplace injuries. The programme is administered by the multi-disciplinary third-party claims administrator Gallagher Bassett.



Customer and stakeholder relationships



Value created:
Public health,
engaged communities
and stakeholders,
thriving communities
and economy

Our vision is to be trusted by customers and communities for exceptional services. Gaining and maintaining the trust of our stakeholders is an ongoing journey as was underscored by the achievements and challenges of the past year.

As a lifeline utility, we pride ourselves on serving Auckland 24/7, day and night. This was especially true during the COVID-19 lockdown when our frontline operational teams weathered a pandemic to carry out critical repairs and collect samples out in the field for tests so we could continue validating the quality of our water.

Our maintenance crews' efforts attended to and resolved more than 58,000 pipe bursts and leaks during the year – an increase of five percent compared with 2018/19. This can largely be attributed to the extended hot and dry weather, which caused ground contraction and extra pressure on our water pipes. In addition, we also embarked on an extensive programme to identify concealed leaks to help reduce water loss. (Read the case study on page 16 to find out about our proactive leak detection programme.)

The COVID-19 lockdown impacted our ability to serve customers by phone as most of our home-based customer-facing teams could not receive phone calls. Customers therefore had to rely on email and web services to contact us, which affected the response and resolution rate. Despite these challenges, our team of customer champions managed to achieve a net promoter score (NPS) of +43 and our field crew continued to receive exceptional feedback from the community in the course of their work.

The biggest impact of the lockdown on our customers was caused by our inability to read their water meters. This meant that for several months we had to bill customers according to estimates. Estimates are based on previous actual reads, and were not reflective of customers' water consumption patterns during lockdown. This, unfortunately, led to higher-than-normal bills for some customers when we resumed meter readings after lockdown.

2 BILLION LITRES

of water savings
by Aucklanders
between May 16
and June 30,
2020

We understand that high bills can be alarming, even under normal circumstances, let alone when families have been financially impacted during a pandemic. That is why we increased our support to affected customers by offering flexible payment plans. We also promoted the services of the Water Utility Consumer Assistance Trust (WUCAT). Funded by Watercare, WUCAT supports customers in financial hardship to pay off their water bills; in 2019/20 we forgave \$82,500 of debt and about \$92,000 has been allocated for 2020/21.

Promoting the value of water to customers and communities was a major focus during 2019/20.

Since we started 2019/20 with an extended dry winter and low levels of water storage in our dams, we have been urging Aucklanders to conserve water. While Aucklanders are already the most water-efficient users in New Zealand, we needed to remind our customers and communities of the direct impact of weather and rainfall on Auckland's water supply and demand.

We launched the *Water is Precious* campaign in February 2020 to increase awareness among our customers and communities about how small changes to their water-use behaviour can make a big difference to the city's overall demand. The impact of taking shorter showers was a key message, supported by the distribution of thousands of free shower timers to households and accommodation providers across the city. Other outreach efforts included talks, demonstrations and free water stations at public events, water-wise competitions and free water-audits offered in partnership with EcoMatters Environment Trust, which is a community organisation that works to deliver environmental initiatives.

We continued to leverage our free education programme to promote the value of water to Auckland schools. (Read the case study on page 32 to learn about the recent programme milestones.)

When the drought led to our water storage levels dropping below 50% in May 2020, we recommended the implementation of water restrictions to Auckland Council. These restrictions banned the use of hoses and outdoor water use for non-potable activities like water blasting and car washing.

We were aware that these restrictions would severely impact building and car washing businesses. Therefore, working with Auckland Council, we provided free access to seven non-potable water sources across Auckland. At the end of June 2020, around six million litres of non-potable water had been sourced from these sites.

We also continued to engage with commercial customers on the status and impact of the drought and the role they could play in addressing potential consequences for their businesses.

Aucklanders have, in turn, heeded our call for water conservation. Since water restrictions were introduced in mid-May, our customers have collectively saved over two billion litres of water. Our top commercial customers have achieved water savings of 14% on average and several companies have adopted innovative practices to minimise the need for potable water in their activities.

While managing the drought and navigating the challenges of a global pandemic, we continued to invest in new infrastructure. By proactively engaging with impacted communities long before the pipes and pumps are installed, we enabled mutually

beneficial outcomes. Through the provision of clear and accurate information and commitment to mitigate/offset any adverse effects, our consenting and stakeholder teams have progressed planning work on the following projects: Grey Lynn Wastewater Tunnel, a new access chamber for the engineered overflow point in Hackett Street project, Drury South Wastewater Project and a region-wide Global Tree consent.

While 2019/20 has been a challenging year, we have gained a deeper understanding of our customers and stakeholders. In return, we hope they have developed an appreciation for drinking water being a precious resource. Our focus will continue to be our customers – delivering top-quality water and wastewater services, backed by excellent transactional experiences, and building awareness of water as a precious resource.



100,000 students participated in our free education programme

Watercare's free education lessons for Auckland school kids (from kindergarten to intermediate level) reached a special milestone in August 2019, with the programme clocking its 100,000th pupil.

The occasion was marked with school children at a primary school on the North Shore and involved a lesson on water, water-themed activities and a celebratory cake.

Back in 2000, when this free education programme was established to promote the value of water to school children, it was called 'Adopt A Stream' as it involved freshwater sampling. As more lessons were added, it was renamed the Watercare Education Programme, which, apart from offering on-site lessons, also provides many other resources for teachers.

Many of the lessons have a field-trip element. Learning how to catch and identify freshwater macroinvertebrates or find out about the effects of pollution is all part of the experience. Water experiments cover magnification, refraction and surface tension. In wastewater lessons, students find out how waste solids and liquids are treated and where they end up.

One of the more popular lessons is based on a dramatic re-enactment, where the children get to mimic the journey of water as it travels from sky to sea.

The last couple of years have seen the education programme develop new avenues of engagement. In 2018, we published an illustrated book on water, *Sam and Flo's Amazing Watery Adventure*, written by our then education coordinator Sally Smith. Free copies of this book were distributed to primary and intermediate schools across Auckland. We also developed a comprehensive water sampling kit that schools can use to test water quality of streams and interpret the results.

An illustrated book on wastewater, which is a companion piece to *Sam and Flo's Amazing Watery Adventure*, will be launched in English and te reo Māori in September 2020.

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 New Zealand (DWSNZ) including bacterial and protozoal compliance criteria. All metropolitan and non-metropolitan water treatment plants continue to maintain an 'A' grade.

Water supply reticulation

All metropolitan and non-metropolitan distribution networks continue to maintain an 'a' grade.

Reliable service

Unplanned water interruptions per 1000 connections

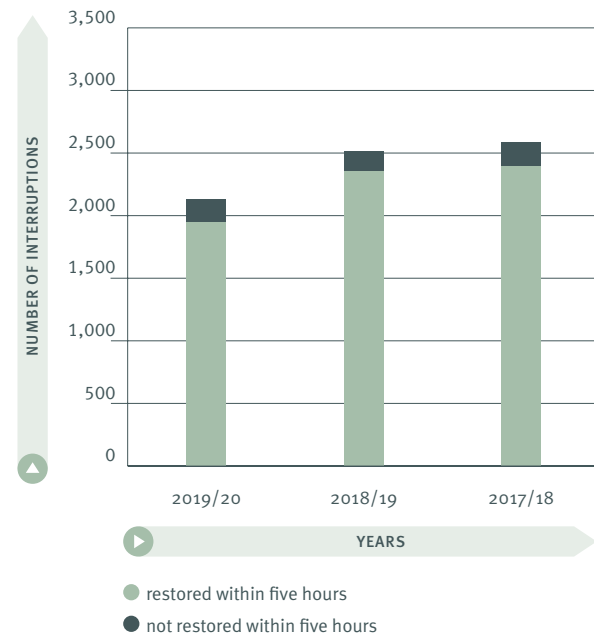
The Auckland region covered a total of 440,000 water supply connections in 2019/20. As a measure of reliability of service, we monitor the number of times the water supply to our customers is interrupted.

We aim to ensure that there are 10 or fewer interruptions per 1000 connections during the year. The result for the 2019/20 year was 4.8 for the Auckland region compared with 5.7 during 2018/19.

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 91% for the Auckland region, compared with 94% for 2018/19.

This result was due to unplanned shutdowns taking longer because of increased traffic management, arborists requirements and complexity of jobs in central Auckland.



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	50 mins
	Median time taken by our crews to resolve the fault	≤5 hours	2.9 hours
Non-urgent faults on the water network	Median time taken by our crews to attend to the call-outs	≤5 days	1.7 days
	Median time taken by our crews to resolve the fault	≤6 days	2.1 days
Faults on the wastewater network	Median time taken by our crews to attend to the overflows caused by blockages or other faults	≤60 mins	43 mins
	Median time taken by our crews to resolve the overflows caused by blockages or other faults	≤5 hours	2.4 hours

Grade of service: Calls answered within 20 seconds

Grade of service (GOS) is an industry performance measure used with the call centre industry, aimed at ensuring calls are answered within 20 seconds. In 2019/20, 59.56% of calls were answered within 20 seconds, compared with 69.53% in 2018/19.

During the year, we identified an error in the way our telephony system measures the GOS (a measure of 120 seconds was incorrectly set up instead of 20 seconds) so our results for 2018/19 and 2019/20 have been restated as below.

- 2018/19 old result (against a measure of 120 seconds) – 81.51%
- 2018/19 restated result (against a measure of 20 seconds) – 69.53%
- 2019/20 result (against a measure of 20 seconds) – 59.56%

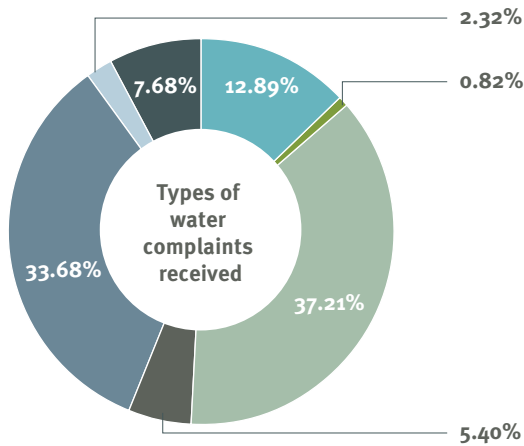
Our focus over the past few years has been on first-call resolution so customer issues are addressed within their first interaction with us. This often requires our customer agents to spend more time on the phone and reduces the pool of available staff to pick up calls in the queue. The prompt and effective resolution of customer issues is our priority rather than the speed of answering calls.

Complaints

In 2019/20, 1010 complaints were received and of these complaints, 95% (955) were resolved within the stipulated 10-day period, meeting the target of 95% or more.

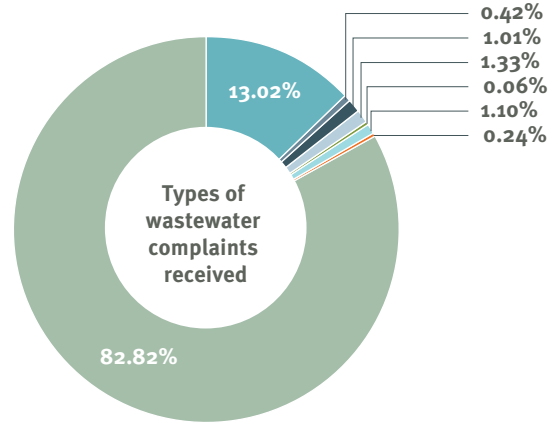
For the purpose of this measure, a ‘complaint’ relates to transactional complaints such as price increases, account maintenance, employee behaviour, payments and refunds. It excludes calls received about drinking water quality and wastewater issues as these have been reported separately on the next page.

Water



- Low water pressure medium 12.89%
- Water complaint illness 0.82%
- Discoloured water 37.21%
- Water low pressure (routine) 5.40%
- Water low pressure (urgent) 33.68%
- Water quality flush 2.32%
- Tainted water 7.68%

Wastewater



- Sewer odour 13.02%
- Sewer third-party damage 0.42%
- Sewer incident 1.01%
- Sewer manhole (routine) 1.33%
- Sewer manhole (urgent) 0.06%
- Sewer pipe broken 1.10%
- Sewer pump station (routine) 0.24%
- Sewer safety problem (urgent) 82.82%

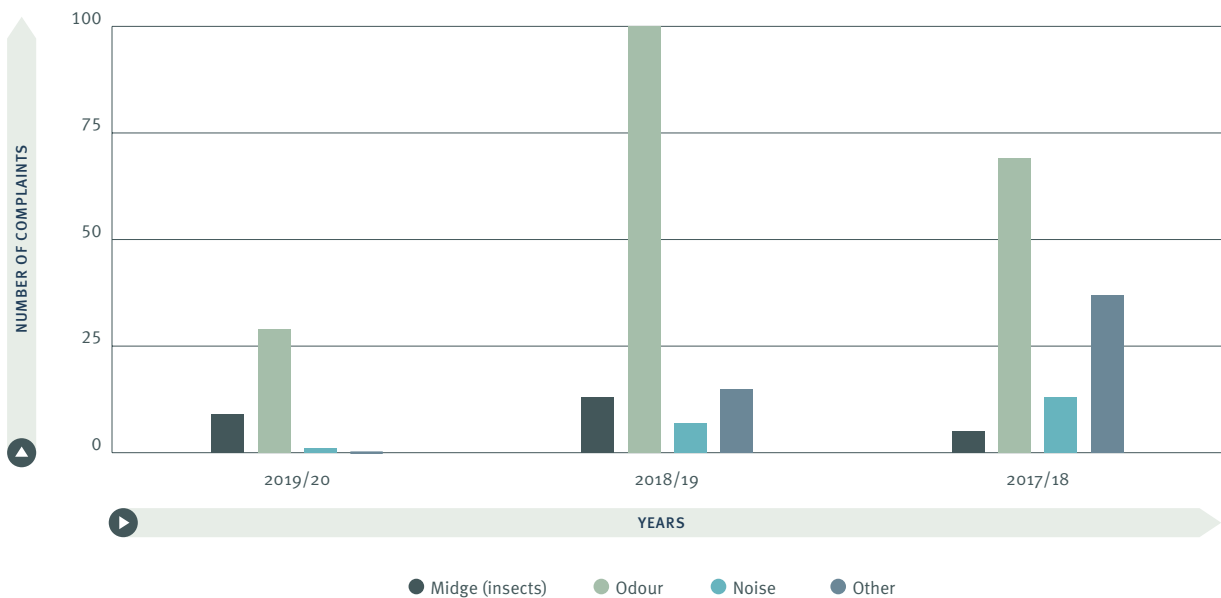
Midge, odour and noise management at operational sites

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 maintenance of our structures such as rubbish in a car park, graffiti, fencing or access.

This year, data does not include complaints from the transmission network, which were included in previous years, due to a system issue and non-availability of data.

Midge, odour and noise complaints



Affordability

In 2019/20, an average Auckland household (comprising three people) spent less than 1.0% (0.87%) of its monthly income on water and wastewater charges.

Cost of water & wastewater services per household per month 2019/20	2019/20 % of average weekly income earnings	Cost of water & wastewater services per household per month 2018/19	2018/19 % of average weekly income earnings	Cost of water & wastewater services per household per month 2017/18	2017/18 % of average weekly income earnings
\$84.96	0.87%	\$81.00	0.83%	\$78.22	0.85%

* 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 whether it is in person, by phone, email or on our website. Our NPS has stayed relatively stable this year (43 across 2018/19 and 2019/20), despite the challenges in 2019/20.

In the past year, the COVID-19 lockdown impacted the ability of many of our home-based, customer-facing teams to receive phone enquiries. Customers had to rely on email to get in touch, which affected the response and resolution rate. The lockdown also meant we could not read customers' water meters for an extended period of time and had to use estimates to bill them. The ongoing drought and stage 1 water restrictions have had an impact on some businesses so we continue to engage with them and provide advice and support.

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.

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

We also 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	2020	2019	2018
Watercare Education Programme	\$25,837	\$11,507	\$35,057
Watercare Utility Consumer Assistance Trust	\$100,000	\$120,000	\$80,000
Trees for Survival	\$3,450	\$3,450	\$3,450
Watercare Harbour Clean-Up Trust	\$325,000	\$325,000	\$306,250
Waikato RiverCare	\$56,000	\$50,000	\$50,000
Mark Ford Ngā Tapuwae Scholarship	\$5,000	\$10,000	\$10,000
Total	\$515,287	\$519,957	\$484,757

Encouraging water efficiency

In 2019/20, the gross per capita consumption of water was 268.6 litres per person per day.

Our target for 2019/20 was to maintain consumption within the 264 litres per person per day (+/- 2.5%) band, to meet the overall demand management target of reducing demand by 15% by 2025, compared to 2004 consumption levels.

The demand for water from Aucklanders was higher than expected in 2019/20 as the region experienced a prolonged dry winter followed by a severe drought with 25% less rainfall than normal.

Contributing to the high demand were two factors: the COVID-19 pandemic and subsequent lockdown led to increased residential demand during March, April and May; the extremely hot summer caused consumers on rainwater tanks to purchase more water from tanker operators during the warm and dry periods of the year. This means that the water sold to tanker operators, which is supplied by our metropolitan network, is then distributed to consumers that are not connected to our metropolitan network.

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 2020 water connection data.

Our engagement with customers on water efficiency increased in 2019/20. We launched a new outreach programme "Water is precious", with the objective of educating Aucklanders to value their water supply. This initiative includes a portal with water efficiency resources and activation events where we engaged with the public on their water consumption behaviours and then subsequently on the drought and ways to make voluntary water savings.



Assets and infrastructure



Value created:
Future-proofed growth and supply assurance, high-performing infrastructure

Despite the challenges over the past 12 months, 2019/20 has been a record year for investment in water and wastewater infrastructure for Auckland.

We have invested about \$552 million – \$164 million towards building water supply infrastructure and another \$388 million on infrastructure for wastewater – during the past year.

This investment is part of our long-term planning to ensure we build adequate infrastructure to cater for Auckland's population growth and maintain or improve service levels while addressing the impacts of a changing climate.

Over the past five years, we have been consistently increasing our annual capital expenditure. The number of applications for new connections we receive per day has increased from 50 in 2017 to 60 in 2018 and hit 70 in 2019. Our capital expenditure reflects the level of growth in Auckland that we need to cater for as well as the infrastructure we need to replace.

Some of the key projects we progressed this year include:

- a tunnelling breakthrough for the final section of the Hūnua 4 Watermain. This 31-kilometre-long pipeline, running from Redoubt Road in Manukau to the city, when complete, will ensure security of supply and provide additional distribution capacity
- a new water reservoir in Pukekohe East, which is close to commissioning and will enable us to produce more water at the Waikato Water Treatment Plant and ensure security of supply for the area. (Read the case study on page 40 for more details.)
- a new pump station and watermain connecting Albany and Pinehill reservoirs to boost supply to this rapidly-growing area
- application for resource consent for the Huia Water Treatment Plant replacement, which will provide improved treatment processes and ensure security of supply. The process is now at the hearings stage, with further environmental assessments on Kauri dieback in the area underway. A decision on the consent is expected in late 2020.

\$552M

invested in
infrastructure
during 2019/20

- tunnelling in Upper Harbour for phase 1 of the Northern Interceptor, which is a new wastewater pipe being built in stages that will redirect wastewater flows currently going to the Māngere Wastewater Treatment Plant to the Rosedale Wastewater Treatment Plant, and has the capacity to service the additional flows and cater for growth
- pre-commissioning works (mechanical, electrical and roading) for stage 1 of the Pukekohe Wastewater Treatment Plant upgrades, expected to be complete by January 2021. These upgrades will significantly improve treatment processes, provide capacity for growth and improve the water quality of the local stream.

will provide an additional supply of 40 million litres per day (MLD) for the 2020/21 summer. We are also building another plant adjacent to the existing Waikato plant that will provide an additional 50 (MLD) by mid 2021.

While our focus is on planning and building more infrastructure for a growing Auckland, we also want to build better. In September 2019, we announced a \$2.4 billion construction partnership, the 'Enterprise Model' (EM), with Fulton Hogan and Fletcher Construction for the delivery of water and wastewater infrastructure for Auckland over the next 10 years.

The long-term and collaborative nature of this contract is a first for New Zealand and seeks to address many of the challenges faced by the

The onset of COVID-19 and the ensuing lockdown had an impact on our infrastructure projects. All construction works, except those considered essential for our operations, were closed down for a period of five weeks. These activities resumed once the Government downgraded to Alert Level 3, with physical distancing and site separation protocols in place, and have progressed on schedule to date.

This investment is part of our long-term planning to ensure we build adequate infrastructure to cater for Auckland's population growth and maintain or improve service levels while addressing the impacts of a changing climate.

But it is not only long-term infrastructure that we focused on during the year. Our teams have also been fully involved in the drought response, specifically to plan and design new infrastructure to augment water supply in the short term.

Our Waikato and Onehunga water treatment plants are undergoing upgrades to increase production capacity. We are also working to return to supply two former water sources – Hays Creek Dam in Papakura and a bore in Pukekohe – which will provide additional capacity by December 2020. Planning, consenting and construction on these projects is progressing at pace, and these efforts

construction industry, while ensuring we build infrastructure in an efficient, safe and sustainable manner. EM has been selected as the first 'Beacon Project' by the Construction Sector Accord, which is a joint commitment from Government and industry to work together to create a high-performing construction sector for a better New Zealand.

In its first year, the EM team has focused on establishing culture – a new way of working in partnership and laying the foundations to achieve our ambitious sustainability, cost and safety targets. (Read the case study on page 44 for more details.)



New reservoir in Pukekohe to improve resilience

Watercare's largest reservoir in more than 25 years is close to completion.

The \$34-million reservoir has been under construction for the last two years and will be in service in September 2020.

At a height of 12 metres, a diameter of 80 metres and capacity of 50 million litres, the Pukekohe East Reservoir at Runciman Road will be one of our largest reservoirs.

Once operational, it will help to ensure security of supply within the southern region and wider Auckland. The new reservoir can store almost 50 times the volume of the existing balance tank and will strengthen our network storage and resilience.

The increased storage capacity means water can be supplied for longer periods in the reverse direction or 'back-fed' to the surrounding communities in Pukekohe, Glenbrook Beach, Patumahoe, Clarks Beach, Waiau Beach as well as other parts of Auckland.

Currently treated water is pumped from the Waikato Water Treatment Plant through the Waikato No. 1 Watermain to the small concrete balancing tank. With the new reservoir, water will flow by gravity from the new Pukekohe East Reservoir to the Redoubt Road reservoirs in Manukau.

Throughout construction, our project team has engaged with the local community through fortnightly updates, open days and site tours. At our initial open day we used virtual reality (VR) digital technology to demonstrate what the project would look like when it was completed. Visitors got a feel for the size of the reservoir and were able to understand how we would reduce the impact on the environment.

The project site also has space allocated for the construction of another reservoir in the future, to cater for population growth and demand.

The Pukekohe East Reservoir will be one of our largest reservoirs at

50 MILLION LITRES CAPACITY

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 9.3 for the Auckland region.

Dry-weather overflows

Dry-weather overflows are generally caused by incorrect disposal of wet-wipes, fats, oils and grease down 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 0.55 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 1.46, 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 underway that will add capacity to the wastewater network, protect the environment from overflows and cater for Auckland's 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 2019/20, the result was 13.2%, against a target of 13% or less.

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 reporting real water loss percentages for the period February 2019 to January 2020. This is due to the lack of up-to-date meter-reading data during the national lockdown period and subsequent alert levels, which meant our meter readers could not enter properties to access the water meters.

Leaks are unavoidable for all water networks around the world. There were more leaks on our water network this year compared to previous years. This was due to two factors: the extended hot and dry weather led to the ground contracting around the pipes, causing more cracks and breaks; the amount of construction happening across Auckland and consequently more instances of third-party damage to our pipes. While Auckland's network is one of the top performers in New Zealand in terms of real water loss, we know there is room for improvement, and we are committed to reducing the volumes of water lost in the future.

We began a proactive programme of leak detection targeting the Maungakiekie, Auckland Airport, Konini and Khyber bulk supply zones, since they have the highest percentage of non-revenue water in the network. Over 1140 kilometres of water pipes have been investigated for leaks using acoustic leak detection technology. We have identified and fixed leaks contributing to an estimated 2.35 million litres of water loss per day. We aim to have checked 6000 kilometres of pipes – almost two thirds of our network – by July next year.

Bulk supply zone	Kilometres checked	Leaks found	Estimated volume saved (MLD)
Auckland Airport	260	127	0.40
Maungakiekie	394	390	1.00
Konini	299	180	0.60
Khyber	187	121	0.35

We also introduced additional district metered areas (DMA) in the Maungakiekie and Manukau bulk supply zone and more are planned for 2020/21. DMAs are discrete areas of a water distribution network. DMAs allow us to measure water consumption at a suburb level and enable more accurate total volume of water analysis, and better identification of unbilled uses.

Intellectual capital

Our aspiration is to be a utility of the future – one that leverages technology and data to work smarter and serve our customers and communities better. As a result of COVID-19, we moved closer to our goal of using technology more effectively.

Back in March 2020, as COVID-19 cases in New Zealand began to increase, it became critical for our teams to be properly equipped to work remotely.

While there was a programme under development to enable this, it was scheduled to be implemented over months, not days. But with a nationwide lockdown looming, the priority for our business was to ensure the continuity of critical water and wastewater services to Aucklanders during the pandemic.

We needed to equip more than two-thirds of our staff to work from home, and to continue to support the remaining essential workers who needed to be physically running our plants and other sites.

Through a super-accelerated programme, new laptops were provided to staff with some basic self-service instructions. Hundreds of laptops were deployed within a matter of days.

Like many businesses in New Zealand, Watercare was not set up to cope with



Value created:
Industry-leading thinking and processes

such a high volume of users working remotely within a short space of time. This necessitated a quick change to increase network bandwidth. Security was an important consideration too, with the increased risk of cyber threats in light of the uncertainty caused by COVID-19.

Having sorted infrastructure, security and bandwidth, we focused on training and communication.

For many of our people, working remotely was a completely new proposition and they needed the right platform to communicate, to check in with each other and collaborate remotely.

We introduced Microsoft Teams to all staff and commenced a company-wide daily online education series to promote the tools.

The almost-overnight transition required people who would normally be hesitant with new technology and change to roll up their sleeves and dive in. It has been challenging, but we have seen our people embrace these changes with enthusiasm.

70% of staff equipped to work from home

Like many businesses in New Zealand, Watercare was not set up to cope with such a high volume of users working remotely within a short space of time. This necessitated a quick change to increase network bandwidth. Security was an important consideration too, with the increased risk of cyber threats in light of the uncertainty caused by COVID-19.

Beyond the increased use of technology, the past year also saw the business demonstrate best practice and leadership in several areas:

- We were commended for our transformational efforts in the sustainability and resource recovery area and recognised as a 'Utility of the Future Today', a global programme now in its fourth year.

Utility of the Future Today celebrates the achievements of water utilities that are making the shift from a traditional wastewater treatment system to a resource recovery centre and leading the overall sustainability and resilience of the communities they serve. This initiative was launched by four global water sector organisations—the National Association of Clean Water Agencies (NACWA), the Water Environment Federation (WEF), the Water Research Foundation (WRF) and the WaterReuse Association, with input from the US Environmental Protection Agency (EPA).

We were one of the 43 water utilities that have been recognised and the only one in the list outside the US.

- Our \$2.4 billion Enterprise Model construction partnership has been chosen as the first 'Beacon Project' by the Construction Sector Accord. The accord is a joint commitment from government and industry to work together to create a high performing construction sector for a better New Zealand. (Read the case study on page 44 to learn more about this partnership and its objectives)
- The Central Interceptor Wastewater Tunnel is New Zealand's largest environmental project underway at this time. When complete, it will increase network resilience, accommodate Auckland's growth and deliver improved environmental outcomes. Along with these positive environmental outcomes, it is also being delivered in a sustainable way.
- In June 2020, the project was awarded a "leading" rating for sustainable design – the highest possible rating for a project – by the Infrastructure Sustainability Council of Australia (ISCA). The rating covered six main themes: management and governance, using resources, emissions, pollution and waste, ecology, people and place, and innovation.

In particular, the Central Interceptor scored highly in the area of innovation due to the following initiatives:

- piloting wastewater reuse for the operation of the tunnel-boring machine (TBM), reducing the need for potable water
- contributing to the rehabilitation of Puketutu Island, by reusing the tunnel spoil as cover and reducing the need for imported fill
- building a dedicated training centre for the project, which includes a life-sized TBM cutterhead
- developing a new methodology for assessing ecological enhancement
- using a single-pass tunnel-lining methodology.



Reducing infrastructure carbon through collaboration

In September 2019, Watercare signed a \$2.4 billion construction partnership with Fulton Hogan and Fletcher Construction for the delivery of water and wastewater infrastructure for Auckland over the next 10 years.

With this partnership, we are seeking to address many of the challenges faced by the construction industry, while also achieving our ambitious sustainability, cost-efficiency and well-being targets (40% reduction in “build carbon”, 20% reduction in cost and 20% improvement in health, safety and well-being outcomes).

Historically, Watercare has delivered on its large infrastructure programme on a project-by-project basis. With this new long-term partnership, we aim to leverage the scale of the works to incentivise innovation and deliver a programme of work – rather than discrete projects – to drive greater cost-efficiency and, more importantly, create sustainable infrastructure. This approach is a first for New Zealand and combines many of the most successful infrastructure delivery learnings from around the world, with our local adaptations.

In its first year, the Enterprise Model has identified four key steps – commit to action, understand our carbon footprint, build our internal processes and review our approach to procurement – to achieve a step-change reduction in carbon in infrastructure construction.

At the end of 2019/20, the Enterprise Model team had:

- created a toolkit which encompasses all elements necessary for successful ‘programme first’ delivery, e.g. governance, processes, procurement, ways of working and technical solutions
- strengthened the business case process to ensure that carbon reduction targets must be addressed, including a challenge to pre-existing business cases, within the design options
- initiated carbon reduction outcome expectations within the upstream supply chain
- included dashboard reporting on carbon and cost reductions on the contract to incentivise performance
- began embedding culture and mindset behavioural change expectations and methods to measure realised change.

An infrastructure carbon baseline was developed to provide insights into estimated carbon emissions for Watercare’s capital works programme under the Enterprise Model. Key insights include:

- The carbon emissions for these projects is more than Watercare’s expected operational emissions over the same period of time.
- Most of the capital carbon occurs in networks and transmission, as opposed to treatment infrastructure.
- Concrete and steel make up a large percentage of the baseline.

This baseline, at a programme-wide level, is believed to be the first in Australasia. Now with a clear understanding of the capital carbon involved in our planned programme of works, we are starting to apply a carbon reduction hierarchy to achieve potential carbon savings. We are challenging the root cause of infrastructure as well as our standard designs and approaches, with an early focus on concrete, pipe material and low-carbon construction techniques.

Intellectual capital

As New Zealand’s largest water company, we pride ourselves on being industry leaders, demonstrating excellence and innovation across many areas in the water and infrastructure industry. Below are some of the awards our people have received in 2019/20.

Award	Winners
Water New Zealand Awards	<p>Hynds Paper of the year titled “Developing a corrosion strategy to protect NZ’s largest Wastewater Asset” – Stephen Grace (co-writer), engineering manager for Central Interceptor</p> <p>Runner-up Hynds Paper of the year titled “A How-to Guide for Securing 25-Year Discharge Consents” – Mark Bourne (co-writer), head of servicing and consents</p> <p>Project of the year for Army Bay Wastewater Outfall pipe – project managers John McCann and Dirk DuPlessis</p> <p>This project also won Best Photo of the year.</p>
WASTEMINZ Awards of Excellence	Best written paper titled “The potential value of biosolids in New Zealand – an industry assessment” – Rob Tinholt, resource recovery manager
Civil Contractors New Zealand (CCNZ) Excellence Awards	<p>Wynyard Quarter Pump Station project was recognised in the projects under \$5 million category. Peter Kukulsky, project manager</p> <p>Army Bay Wastewater Outfall pipe was recognised in the projects between \$20 million and \$100 million category – project managers John McCann and Dirk DuPlessis</p>
ACENZ Innovate Awards	Gold Award of excellence for the Māngere Biological Nutrient Removal Upgrades project – project manager Sven Harlos
Diversity Works	Chief operations officer Shane Morgan was a finalist in the Walk the Talk category
No-Dig Down Under Awards – Melbourne	Army Bay Wastewater Outfall pipe was recognised for the innovation, and world-record-setting trenchless drive – project managers John McCann and Dirk DuPlessis
No-Dig International Awards – Florence	Project of the Year 2019 – Army Bay Wastewater Outfall pipe was recognised for the innovation, and world-record-setting trenchless drive – project managers John McCann and Dirk DuPlessis
QUESTAR International Video Awards	Our Central Interceptor public education video won a silver award in the educational/informative category at the 2020 QUESTAR Awards – Maxine Clayton, Janie Smith, Rachel Hughes
Australasian Reporting Awards	<p>Our 2019 Annual Report, managed by Julian Stewart, Anusha Vishnampet and Chris Thurston, won the Best Communications (Public and Not-for-Profit Sector) award.</p> <p>Watercare also won its 15th consecutive Gold Award for excellence in reporting at the Australasian Reporting Awards.</p>

Financial capital and resources



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

Water utilities across the world constantly balance two challenges: planning and building infrastructure for a growing population and ensuring minimum-cost services so communities are not constrained to access a necessity of life. In the past year, COVID-19 and the severe drought presented additional challenges for Watercare.

The predominantly hot and dry year resulted in increased demand for water and higher than budgeted revenue but it also caused more breaks and bursts in our pipes, leading to more unplanned maintenance and increased operating expenses. We also invested in additional workplace infrastructure such as laptops, personal protective equipment (PPE) and technology solutions to enable our staff to continue working safely throughout the lockdown.

In response to the drought, we are investing \$224 million to augment our water supply in the short term and a further \$780,000 towards our proactive leak detection programme to reduce water loss. Above and beyond the drought, our investment in capital infrastructure and systems has also steadily increased over the last five years, with \$615 million of capital expenditure in 2019/20, to keep pace with population growth and demand for our services.

We plan and build infrastructure based on growth projections from Auckland Council. Our planning and

consenting horizons are long and underpinned by the need to build at the right time, right size and in the right place. As a council-controlled public water utility, we have a responsibility to invest prudently and ensure optimum use of existing infrastructure.

The drought and stage 1 water restrictions in Auckland have shed more light on customer and community expectations from a municipal water utility: the need for and cost of providing expensive drought-proof infrastructure versus a drought-resilient infrastructure where demand management and water conservation play a key role. This will be an ongoing long-term conversation with our stakeholders.

Being a council-owned entity has an impact on our borrowings to fund new infrastructure. We fund our capital infrastructure programme and systems through a combination of user charges and borrowings. We borrow through council's centralised treasury so our capital works, though fully-funded, have an impact on the council's debt levels.

In 2019/20, debt only increased by \$245.6 million, despite our capital expenditure being at its highest ever. Since the council amalgamation in 2010, when Watercare became an integrated water supplier for Auckland, we have invested \$2.7 billion to build water and wastewater assets, with debt extended by only \$725 million. We plan to invest \$4.8 billion on water and wastewater projects over the next eight years, with a further \$5.2 billion in the following 10 years.

We work closely with the Auckland Council treasury team to ensure we manage our debt and cash flow requirements effectively.

In line with the Mayor of Auckland's Letter of Expectation (LoE), we continued to explore new opportunities for revenue in 2019/20.

In October 2019, Watercare started providing 'three waters' services to Waikato District Council (WDC) via a contract of service for a period of up to 28 years, focusing on better environmental outcomes and improved water services in northern Waikato.

WDC continues to own all assets, while Watercare manages the infrastructure above and below the ground. This includes 16 treatment plants (9 wastewater, 7 water), 106 pump stations, 805 kilometres of water pipes, 323 kilometres of wastewater pipes, 154 kilometres of stormwater pipes, 31 reservoirs and 16,644 homes and businesses in the region. At the commencement of the contract 29 WDC staff joined Watercare's workforce.

We also acquired majority shares in Wellington-based software company Lutra Limited. Lutra develops software for the water and wastewater industry and this acquisition will enable us to improve process efficiencies by utilising their software systems and in return, we can accelerate their growth plans.

Our focus for the year ahead will be on the reform of the water sector by the central government, including the proposed introduction of a water services regulator. We will collaborate with council in the planning and subsequent implementation of any changes that will contribute to improved water quality and service outcomes for Auckland.



Watercare becomes majority shareholder of Lutra

In February 2020, Watercare became the majority shareholder of Wellington-based software and process engineering company Lutra.

Lutra provides software and technical services to improve the performance of people and processes involved in water and wastewater operations.

The company has a team of 25 people which includes highly-skilled process engineers, software developers and data analysts, and has strong relationships with a number of New Zealand councils and commercial customers.

The clear synergies between Lutra and Watercare were a key driver for this acquisition. Watercare seeks to gain efficiencies by implementing Lutra's software and training systems at our sites and we can help Lutra accelerate and realise their software development growth plans.

This acquisition also strengthens Watercare's ability to prepare for the upcoming water industry regulations.

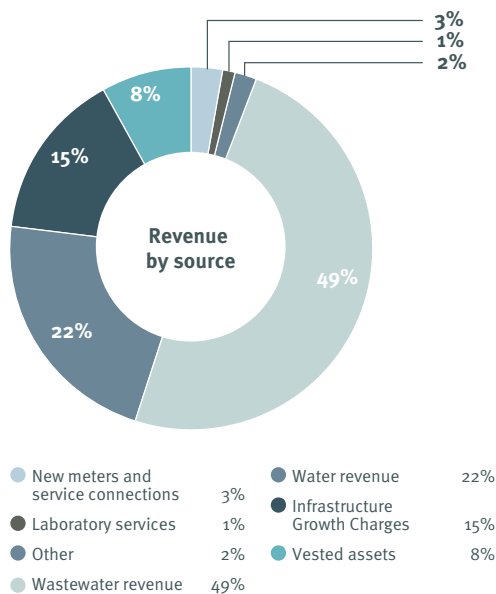
The long-term aspiration for both companies is to see a cross-fertilisation of staff, with both organisations sharing knowledge, experience and learning from each other.

Two of Watercare's executive team members are on the board of Lutra and the company retains its name and continues to operate from its head office in Wellington.

Financial responsibility

1. Revenue

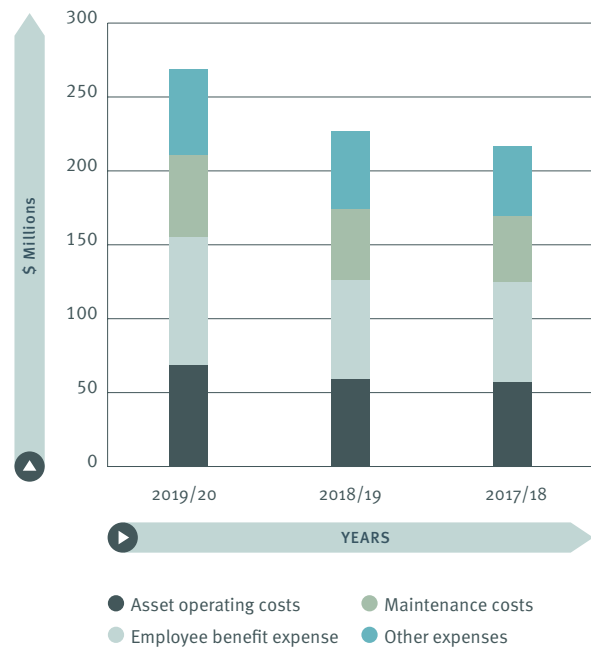
Total revenue at \$752.3 million in 2019/20 compared favourably with \$715.2 million in 2018/19. Water and wastewater revenues of \$534.0 million were \$18.5 million ahead of 2018/19 (a 3.6% increase) with \$4.2 million of the increase due to the 2.5% price increase on 1 July 2019 and \$14.1 million largely as a result of the overall increase in demand because of the prolonged hot and dry weather. Revenue from Infrastructure Growth Charges totalled \$109.8 million compared with \$103.8 million in 2018/19, still only recovering 33% of the \$332 million capital expenditure on growth projects for the year. Other key elements of revenue included \$64.5 million for the cost of physical assets funded by external parties and vested to Watercare.



2. Operating expenses

Operating expenses of \$268.6 million were \$40.2 million higher than budget for the year. This was primarily due to higher than budgeted asset operating costs and maintenance expenses associated with the drought.

Operating expenses increased 18.6% in 2019/20 compared with 2018/19 and have grown an average of 6.6% per annum over the past four years. The increase in maintenance costs is largely due to unplanned maintenance.



3. Finance costs

Total finance costs of \$81.7 million were incurred during the year of which \$25.5 million was treated as a capital cost on large scale, long-term capital projects. The remainder of \$56.2 million was expensed to the Statement of Comprehensive Revenue and Expense.

The overall average interest rate was 4.42% compared with 5.36% in 2018/19.

4. Operating surplus from trading operations

An operating surplus from trading operations of \$170.7 million was achieved in 2019/20, with revenue \$54.9 million ahead of budget, and total expenses \$30.7 million higher than budget.

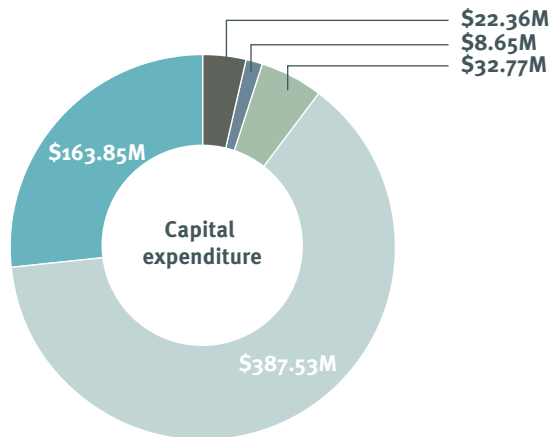
5. Net surplus for the year

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.

The loss on disposal below the operating surplus from trading operations line items delivered a net surplus after tax of \$73.8 million for the year ending 30 June 2020.

6. Net new debt

In 2019/20 \$245.6 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.



● New meters and service connections	\$22.36M
● Other projects	\$8.65M
● Corporate	\$32.77M
● Wastewater projects	\$387.53M
● Water projects	\$163.85M

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

7. Total assets

Total Watercare assets grew from \$10.39 billion to \$10.84 billion in 2019/20. This increase related to the cost of new infrastructure spending being capitalised during the year.

8. Customer debt

Our primary performance measure for the management of debtors is the value of payments outstanding for 31 days or more from due date. This year, the outstanding customer debt was \$10,440,330, an increase of 39% compared with 2018/19.

The average amount of outstanding debt was \$491 this year compared with \$383 in 2018/19.

		% of total
Debit balances 31+ days (end of June 2020)	\$10,440,330	22.3%
Number of accounts with 31+ days' debt	21,244	7.7%
Average debt (31+ days)	\$491	

* Excluding council group and Infrastructure Growth Charges

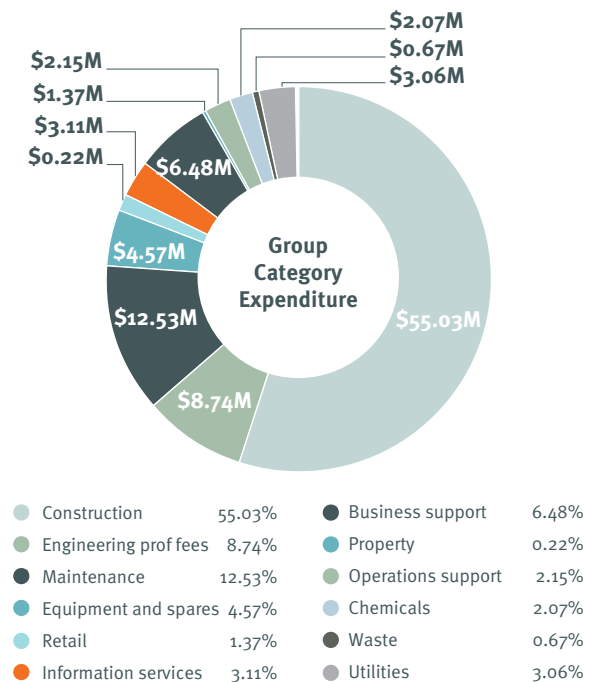
9. Supply chain and savings

Watercare's supply chain team has focused on the development and implementation of a supplier code of conduct. This has been widely acknowledged by our suppliers. During 2019/20 opex savings of \$890,000 was achieved from procurement of polymer, new meter connections and our security systems upgrade. We also facilitated an estimated capex/opex cost avoidance of \$3.16 million through the procurement of concrete-lined steel pipe, switchboards and engineering professional services.

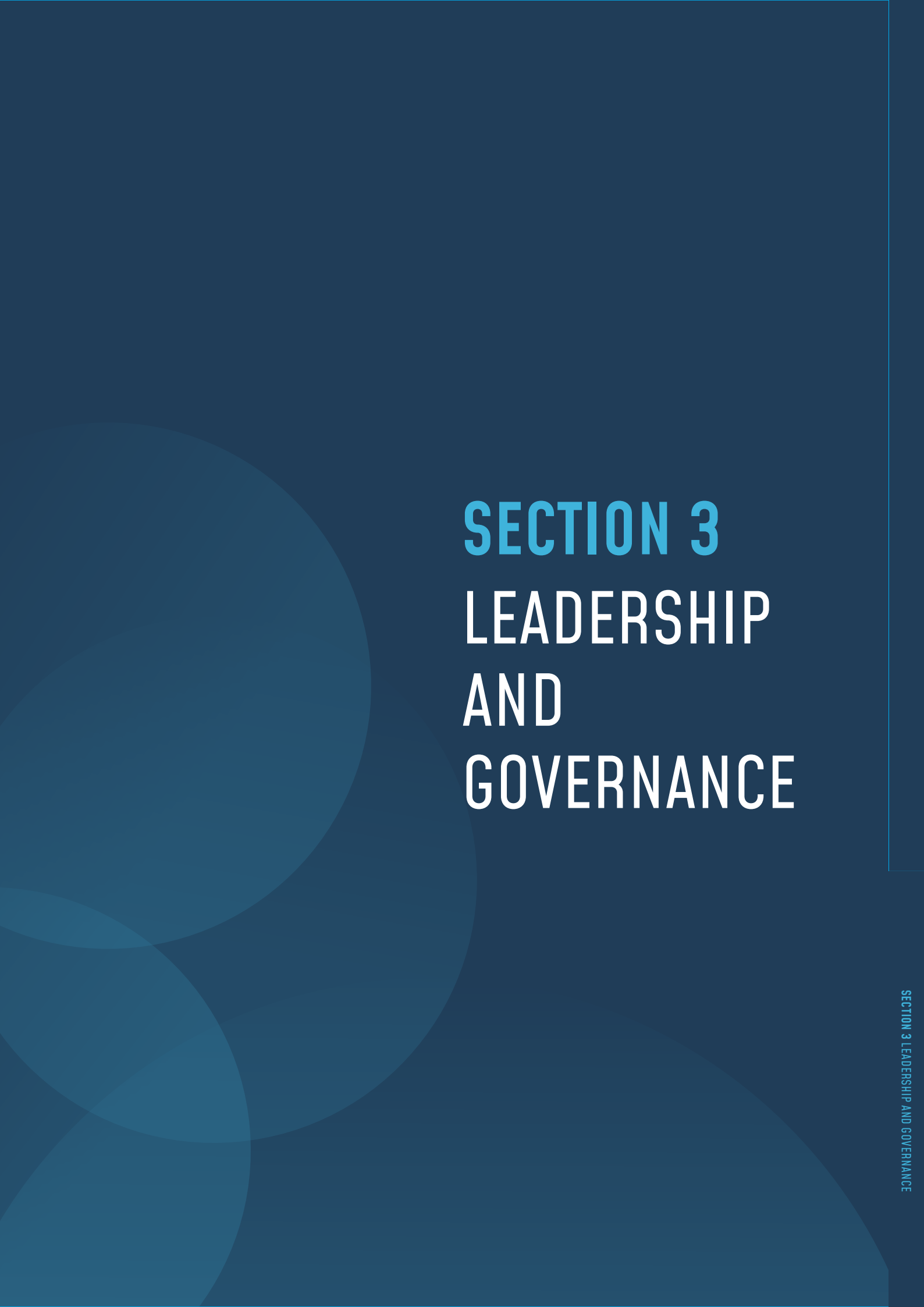
Top 15 suppliers

No.	Supplier	Value \$
1	Fulton Hogan Limited	92,212,254
2	The Fletcher Construction Company Limited	79,776,928
3	Ghella Abergeldie JV	64,682,455
4	McConnell Dowell – HEB Joint Venture	40,526,850
5	McConnell Dowell Constructors Limited	40,415,150
6	Downer New Zealand Limited	33,564,074
7	New Zealand Transport Agency	29,260,622
8	City Care Limited	26,649,877
9	Pipeline and Civil Limited	17,969,898
10	Fulton Hogan Land Development Limited	17,406,560
11	March Cato Limited	12,710,952
12	Genesis Energy Limited	9,678,848
13	Steelpipe Limited	9,464,504
14	Beca Limited	8,536,166
15	Jacobs New Zealand Limited	8,497,262
TOTAL		491,352,402

Procurement expenditure by category







SECTION 3 **LEADERSHIP** **AND** **GOVERNANCE**



📷 **Left to right:** David Thomas, Colin Magee, Hinerangi Raumati-Tu'ua, Julia Hoare, Margaret Devlin, Dave Chambers, Brendon Green, Frances Valentine, Nicola Crauford and 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, Meteorological Services of NZ Limited; Director, Waikato Regional Airport; Director, Titanium Park (wholly-owned subsidiary of Waikato Regional Airport); Director, IT Partners Group; Director, Aurora Energy; Independent Chair, Audit and Risk Committee, Waikato District Council; Chair, Advisory Board Women in Infrastructure Network; Councillor, Waikato University; Deputy Chair, WINTEC; Director and Chair, Lyttelton Port Company Limited; Chartered Fellow, Institute of Directors; Director, Infrastructure New Zealand; Chair, Hospice Waikato; Member, Institute of Directors Waikato Branch Committee.

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, FENGNZ, CPENG, FAICD, CFINSTD

Chair of the AMP and Major Capex Committee

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

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

General disclosure of interests: Chair, GNS Science Limited; Director, Environmental Protection Authority (EPA); Member of Electoral Authority – Cooperative Bank Limited; Director and Shareholder, Riposte Consulting Limited; Director, Pioneer Energy Limited; Board member Kāinga Ora – Homes and Communities; Director, CentrePort Limited Group; Trustee, Wellington Regional Stadium Trust; Member of the Statistics New Zealand Advisory Board.

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 brings a career spanning 25 years in NZ 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 that 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 US) and the NZ Dairy Board. He is the founder of Kaitiaki Advisory Limited and holds a Bachelors of Chemical and Process Engineering and a Post Graduate 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. Brendon 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.

General disclosure of interests: Director, Kaitiaki Advisory Limited; Infrastructure Committee Maangai Māori, Waikato District Council; Director, Tainui Kawhia Incorporation; Executive director, Advanced Biotech NZ; Director, Peak2Peak Limited; Waipapa Marae representative, Te Whakakitenga o Waikato; Waikato Tainui appointed member, Manukau Institute of Technology Runanga; Commercial Director ANZ, Wattstock LLC.

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 Whakaeue 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.

Hinerangi Raumati-Tu'ua

BMS, MMS, FCA, MNZM

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, Parinihi Ki Waitotara Inc; Trustee, PKW Trust; Chair, Ngā Miro Trust; Chair, Nga Kai Tautoko Ltd; Chair, Te Kiwai Maui o Ngaruahine Ltd; Director, Taranaki Iwi Holdings Management Ltd; Director, Aotearoa Fisheries Ltd; Director, Sealord Group Ltd; Director, Port Nicholson Fisheries GP Ltd; Director, Te Puia Tapapa GP Ltd; Director, Tainui Group Holdings Ltd; Executive Member, Te Whakakitenga O Waikato and Member, Venture Taranaki.

Frances Valintine

CNZM

Frances Valintine is a futurist and thought-leader in emerging and disruptive technologies with 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.

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.



📷 **Left to right:** Jason Glennon, Shayne Cunis, Rebecca Chenery, Shane Morgan, Raveen Jaduram, Amanda Singleton, Marlon Bridge, Steve Webster, David Hawkins, Nigel Toms

OUR EXECUTIVE TEAM

Raveen Jaduram

BE (HONS), ME, FENGNZ

Chief Executive Officer

Raveen Jaduram has been chief executive of Watercare since 2014. He has held chief executive roles in private and public sectors in Australia and New Zealand. Raveen is a dedicated infrastructure leader, passionate about water and sustainability. He is currently on the board of the New Zealand Infrastructure Commission – Te Waihangā and Water Services Association of Australia.

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. He has been the chief financial officer of Manukau Water Limited. He 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 as deputy chief executive 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 has extensive experience, nationally and internationally, as a transformational corporate leader.

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. Rebecca is responsible for leading all technology aspects of the business along with Watercare's business transformation programme.

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. He 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.

Steve Webster

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

Chief Infrastructure Officer

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

David Hawkins

MPP, TTC, JP

Chief Corporate Affairs Officer

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

Jason Glennon

Chief People Officer

Jason Glennon has worked across a 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.

Shane Morgan

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

Chief Operations Officer

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

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

Shayne Cunis

BE CIVIL (HONS), FENGNZ, CMENGNZ

Executive Programme Director – Central Interceptor

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

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.

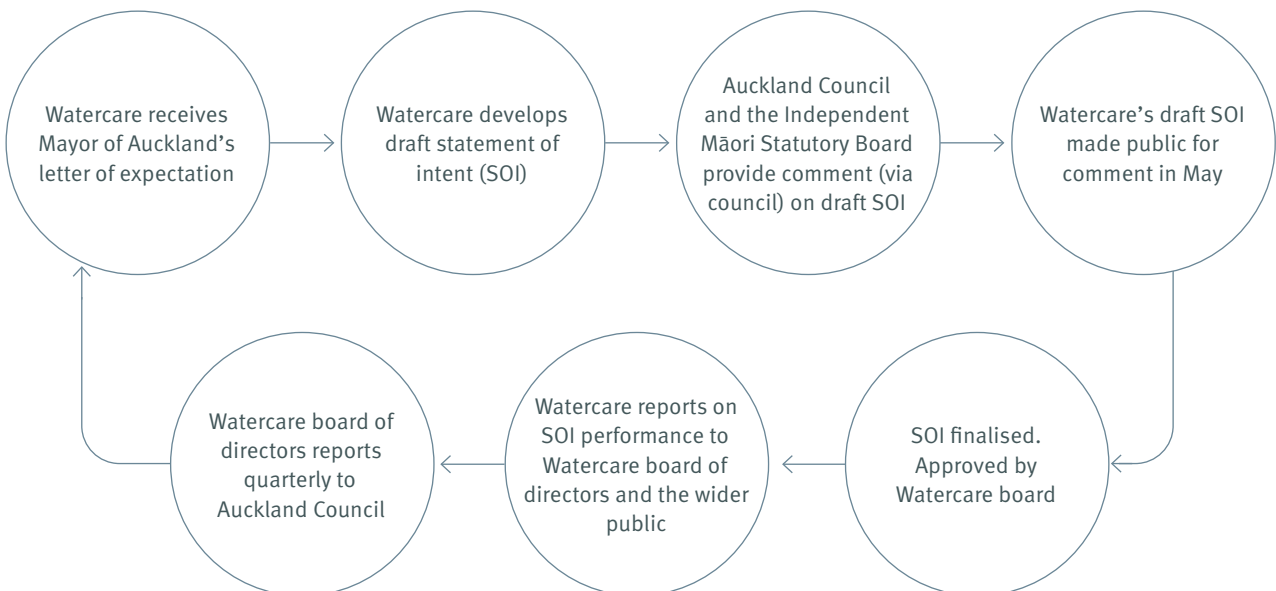


Our legislative framework

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 2019–2022 SOI is available on our website.



Performance

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

The board is independently reviewed every two to three years.

Setting standards of conduct for staff

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

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

Regular independent reviews

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

Board structure and functions

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

As at 30 June 2020, the board had five committees. All directors are welcome to attend any committee meetings, but only committee members have voting rights. Committees provide advice and oversight and do not have delegated authority.

- **Audit and Risk Committee**, chaired by 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 oversight 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)**, chaired by Brendon Green, helps the board exercise due care, diligence and effective oversight of all matters relating to the delivery of Watercare's Strategic Transformation Programme.
- **Asset Management Plan (AMP) and Major Capex Committee (AMCC)**, chaired by Nicola Crauford, helps the board exercise due care, diligence and effective oversight of all matters relating to Watercare's AMP and major projects involving capital expenditure over \$100 million.
- **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 2019/20	Board	Audit and Risk	TTK	AMCC	STPC	CCA*
Number of meetings	11	5	6	4	4	2
Margaret Devlin	11	4	6	3	1	–
Nicola Crauford	11	–	1	4	4	2
Brendon Green	11	5	–	–	3	2
Catherine Harland (retired 31.10.19)	4	3	3	1	2	–
Julia Hoare**	9	5	–	4	–	–
David Thomas	10	4	5	–	–	–
Colin Magee (Board Intern) (appointed 1.1.19)	10	5	4	3	2	–
Hinerangi Raumati-Tu'ua (appointed 1.8.19)**	9	4	–	–	–	–
Dave Chambers (appointed 1.11.19)	7	1	3	2	–	1
Frances Valintine (appointed 1.11.19)	7	–	–	3	3	2

■ Denotes committee membership

* inaugural meeting on 18 February 2020

** Julia Hoare and Hinerangi Raumati-Tu'ua both chaired the Audit and Risk Committee during 2019/20.

GOVERNANCE CONT.

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 staff and others may confidentially and anonymously report matters of serious misconduct.

Complaints disclosure

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

Disclosures of interest

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

Transparency and accountability

Our financial statements, the statement of intent (SOI) and our long-term plans must be audited by the Auditor-General. The Auditor-General has appointed 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 3.6 days.

ENTERPRISE RISK MANAGEMENT

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

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

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

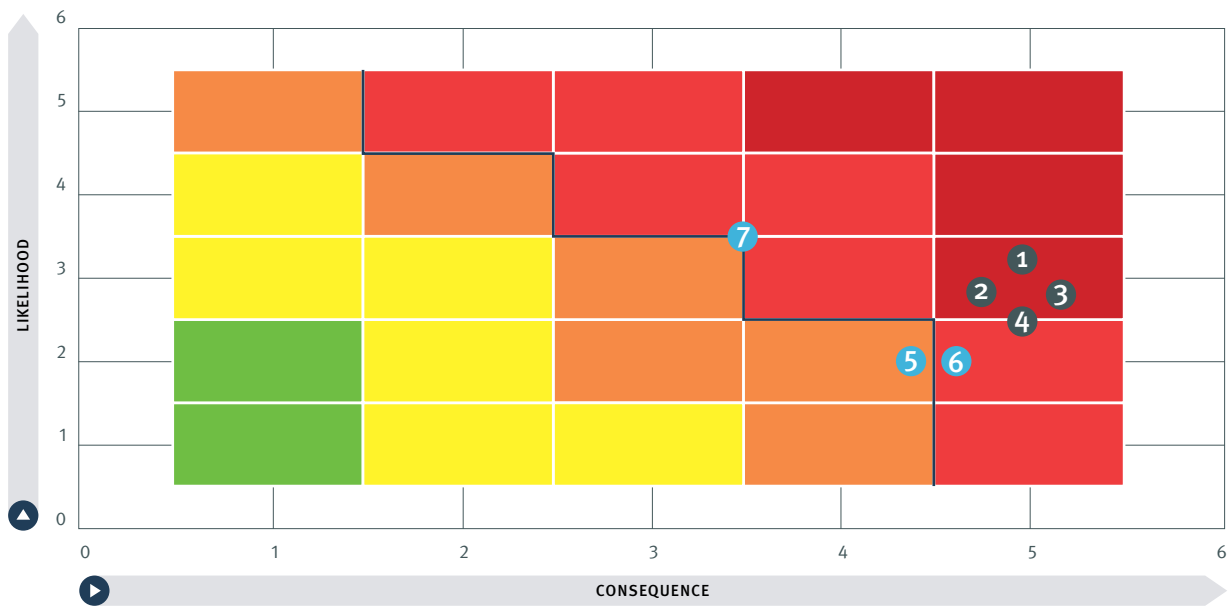
As part of the risk management framework, we have established a Risk and Resilience Steering Committee, which meets quarterly to monitor emerging risk and risk mitigation actions and strategies. The committee comprises the chief executive, senior management and the head of risk and resilience.

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

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 heatmap below and in the table on the next page.

Enterprise risk heatmap



- 1. Failure to meet water demand due to drought, reduced or loss of supply as a result of climate change
- 2. Treasury – liquidity/capital funding risk
- 3. Major project delivery cost, price and time overrun
- 4. Significant operational hazards related to Watercare staff operation/contractor/third-party-led operations
- 5. Cyber intrusion affecting business and control systems
- 6. Failure to treat wastewater to the required standard and convey wastewater flows
- 7. Central and local government intervention

ENTERPRISE RISK MANAGEMENT CONT.

Enterprise risk description	Potential consequence	Integrated reporting capitals	Key controls and mitigation strategies
<p>Failure to meet water demand due to drought and reduced or loss of supply</p> <p><i>This risk is caused by extended dry weather, the loss of a major storage dam, continued delays in the application for additional raw water from the Waikato River, failure to obtain regional consents for the new Huia Water Treatment Plant or the loss of water treatment capacity which could arise from climate change (including extreme weather events) and risk of plant failure due to operating at maximum capacity for longer periods during the extended dry conditions</i></p>	<p>Inability to supply sufficient treated water to meet Auckland's demand</p>	<ul style="list-style-type: none"> • Financial capital and resources • Natural environment • People and culture • Community and stakeholder relationships 	<ul style="list-style-type: none"> • Risk mitigation is inherent in the design of the water systems, from source to treatment • Drought incident team formed to address issues associated with 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 weather • Integrated sources management model for water abstraction • Review and update the existing Drought Management Plan to address current challenges
<p>Treasury – liquidity/capital funding risk</p> <p><i>Auckland Council nears/reaches its debt limits (debt-to-revenue ratios)</i></p>	<p>Group Constraints imposed on future planned capital project funding</p>	<ul style="list-style-type: none"> • Assets and infrastructure • Financial capital and resources • Community and stakeholder relationships 	<ul style="list-style-type: none"> • Continue to investigate alternative financing options such as Infrastructure Funding and Financing (IFF), and Shovel-Ready Projects and Water Reform Funding • 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
<p>Major project delivery cost, price and time overrun</p> <p><i>Actual cost of delivery is higher than anticipated</i></p>	<p>The funding requirement is outside the Asset Management Plan (AMP) envelope</p>	<ul style="list-style-type: none"> • Assets and infrastructure • Financial capital and resources • People and culture • Community and stakeholder relationships • Intellectual Capital 	<ul style="list-style-type: none"> • Develop procurement strategies that minimise capital and whole-of-life costs of new assets • Monitor and closely manage project delivery time and costs • The Central Interceptor contract has been awarded within budget • Enterprise Model including the appointment of tier 2 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 due to COVID-19 and take early action to address any potential shortfalls • Work closely with border control and immigration authorities to ensure critical personnel based overseas can be accessed to support critical project operations

Enterprise risk description	Potential consequence	Integrated reporting capitals	Key controls and mitigation strategies
<p>Significant operational hazards related to Watercare staff operation/contractor/third-party-led operations</p> <ul style="list-style-type: none"> • Health and safety (H&S) incidents resulting from the actions of Watercare staff, contractors and/or third parties inside and outside Watercare sites and impacts of COVID-19 • Workforce fatigue resulting from redistribution of resources to address COVID-19 and drought challenges 	<p>Staff, contractors and/or third parties may face serious harm</p>	<ul style="list-style-type: none"> • Financial capital and resources • Natural environment • People and culture • Community and stakeholder relationships 	<ul style="list-style-type: none"> • Develop Watercare’s standards for work involving significant safety hazards from operational activities, and plans to address issues that arise due to COVID-19 • Train staff to industry standards • Ongoing monitoring of relevant lead and lag H&S indicators • Continue 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
<p>Cyber intrusion affecting business and control systems</p> <p><i>Malicious acts compromising Watercare’s corporate network or its operating (SCADA) control systems, as the cyber threat environment continues to grow</i></p>	<p>Corporate network and/or operating control (SCADA) systems are compromised, affecting operations</p>	<ul style="list-style-type: none"> • Assets and infrastructure • Financial capital and resources • Natural environment • People and culture • Community and stakeholder relationships • Intellectual capital 	<ul style="list-style-type: none"> • Comprehensive cybersecurity policies in place • Specialist cybersecurity and detection tools deployed • Independent experts used to recommend an enhanced cybersecurity roadmap • Dedicated cybersecurity function with ongoing education of staff • Increased cybersecurity capability implemented to support working from home • Continue penetration and other testing for corporate and control networks
<p>Failure to treat wastewater to required standard and convey wastewater flows</p> <p><i>(including the impact of stormwater overflows in wet-weather events and longer-term climate change)</i></p> <p><i>This risk relates to environmental impacts and failure to meet consent conditions with a flow-on effect on stakeholder support and confidence</i></p>	<p>Environmental impacts or failure to meet consent conditions that affect stakeholders</p>	<ul style="list-style-type: none"> • Financial capital and resources • Natural environment • People and culture • Community and stakeholder relationships 	<ul style="list-style-type: none"> • Non-metro wastewater treatment plant upgrade programme • Major wastewater treatment plant 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
<p>Central and local government intervention</p> <p><i>Governing bodies influencing Watercare’s ability to operate as an integrated company</i></p>	<p>Changes within the water industry could impact current business operating model</p>	<ul style="list-style-type: none"> • Financial and capital resources • Community and stakeholder relationships • Assets and infrastructure 	<ul style="list-style-type: none"> • Monitor development within central government and provide feedback to inform decision-making • Review the implications of and response to the proposed Water Reform Programme as it develops, in consultation with Auckland Council

ENVIRONMENTAL ADVISORY GROUP



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

This year we were joined by Dr Kevin Simon, associate professor in the School of Environment at the University of Auckland. Kevin brings with him an in-depth knowledge of freshwater ecosystems and multiple contributing factors to water quality from across communities and chemistry, a skill set which will be of great value to the EAG.

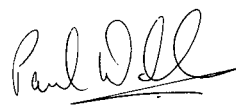
Water supply has been a major topic for the group during the past year. Climate change projections clearly show that extreme weather events are likely to occur with increasing frequency. Watercare's Climate Change Strategy addresses both prevention and mitigation and, based on recommendation from staff workshops, the organisation has identified a wide-ranging set of responses and is starting to implement these. Planning lead times are long, however, and climate extremes are with us already. This, together with faster-than-projected population growth, has presented an ongoing challenge and a need to advance planning for alternative means in order to build resilience into Auckland's water supply. EAG is currently engaging with this process of considering alternatives. This raises a wide variety of issues, including maintaining quality standards for public health, practicality, timeliness, financial costs and wider environmental implications.

In June 2019 EAG sent recommendations to Watercare on the Hūnua revegetation project.

This was followed by a site visit in July 2019; EAG was impressed by the knowledge and dedication of Watercare staff and the extent of successful plant establishment.

EAG supports the planting of appropriate native species, which will both optimise protection of the important Hūnua catchment and bring biodiversity and potentially carbon sequestration benefits. EAG notes that the large scale of the Hūnua project is rare in New Zealand. The project provides great opportunities for the citizens of Auckland and the rest of the country.

Our contributions in recent months have been greatly affected by COVID-19. Some topics we were intending to examine have been reprioritised as we focused on feedback to Watercare staff as they tackled the challenges of lockdown and the most severe drought in living memory. Ensuring that we citizens of Auckland have high-quality drinking water on demand and that all the water we use is safely disposed of is a hugely complex and skilled undertaking, dependent on critical day-on-day performance by the legion of Watercare employees at all levels. From our observation, these essential services have continued smoothly through the stresses of the past months.



Paul Walbran
Chairman, Environmental Advisory Group

EAG group members and areas of interest:

Paul Walbran
Chairman
Water quality, harbour health, heritage

Betsy Kettle
Zero Waste, Water Sensitive Urban Design

Daniel Hikuroa
Mātauranga, mauri, waterscapes, water futures

Elizabeth Walker
Wetlands, water, community infrastructure, Aotearoa plants

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

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

Madeleine Wright
Environmental litigation, national policy development

Dr Kevin Simon
Environmental science, freshwater ecology and chemistry

MANA WHENUA KAITIAKI FORUM MANAGERS GROUP



*He pūtaka nō tua whakarere
He whiringa o ngā aho mai i ngā tōpito 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 āmuri ake nei e...
E mihi ana ki te whenua e tangi ana mō te hunga kua okioki – rātou ki a rātou
Ki te hunga kua mahue mai ki muri tēnā rawa atu koe arā koutou katoa...*

The 2019/20 year has seen important developments for the role of the Mana Whenua Kaitiaki Forum Managers Group (the Forum) within key water-related activities as well as the continuation of a refreshed direction into the foray of socio-environmental matters. The role and function initiated through the relationship between Mana Whenua and Watercare will continue to strengthen the dimensions of alignment to the significant water-related issues along with the opportunities across all of Watercare Services as well as the organisations within Auckland Council.

Since the 2012 inception, the Forum has maintained an operations focus through the Kaitiaki Managers Group promoting modes of efficient and effective working processes through relationships with Watercare that address the myriad issues associated with servicing the demands of population-based growth across all of Tāmaki Makaurau.

In the 2019/20 reporting period the Forum has worked with Watercare to advance work across an average of 28 projects from the following range of key groups that include but are not limited to:

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

Auckland's nine water storage dams have been hampered by receiving about 25 percent less rainfall than normal during this reporting period. This situation was further compounded by the ensuing summer drought conditions creating unprecedented critically-low water storage levels. We support continuous messages that encourage people to be *water wise* through these prolonged dry periods.

Then came COVID-19 where the overall well-being of people became the paramount focus at a government as well as a personal level. *Working from home* took on a completely different meaning for many, including the Forum, in the quest to minimise risks of virus transmission by applying *virtual connect technology*.

In conclusion we acknowledge the continued support from Watercare Services that enables the Mana Whenua Kaitiaki Forum (Managers Group) to give effect to focused good ecosystems management.

Kāti ki konei, ka puta ka ora e...

Tame te Rangī
Chair, Mana Whenua Kaitiaki Forum

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 Waiohūa Iwi Authority
Te Ara Rangātū o Te Iwi o Ngāti Te Ata Waiohūa
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

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 2019/20.

These are the key issues that have a material impact on the long-term success of our business and our wider operating environment. Other than the significant impacts from the drought and COVID-19, these issues broadly remain the same as reported in our 2019 Annual Report.

Climate change continues to be material to Watercare as it has a huge potential to impact our operations and services, and has significantly influenced our decision-making in 2019/20.

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

Key issues

- Drought
- COVID-19
- Climate change
- Safe, clean, reliable drinking water
- Health, safety and well-being of our people
- Responsible infrastructure stewardship
- Infrastructure planning for future growth
- Effective wastewater management
- Long-term financial stability



The ongoing drought and COVID-19 have affected each of the stakeholder groups below so these two issues are common to all of our stakeholder groups. Apart from these, the issues that relate to the individual stakeholder groups are:

Auckland Council

- Climate change
- Promoting Māori outcomes
- Water and wastewater investment
- Progress on Central Interceptor project
- Investigating commercial opportunities and funding.

Regulators

- Involvement and contribution to Department of Internal Affairs' review of 'three waters'
- Proposed central government reform to the water industry.

Environmental groups

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

Residential and commercial customers

- Responsiveness to issues (billing, faults)
- Affordability of services
- Impact of stage 1 water restrictions on businesses
- Water efficiency (for businesses) in order to reduce their operational costs.

Developers

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

Tangata whenua (Māori)

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

Local Boards

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

Local residents and community groups that neighbour our worksites

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

Infrastructure providers

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

Suppliers and contractors

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

Staff

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





SECTION 4
FINANCIALS

These financial statements and the Statement of Service Performance for Watercare Services Limited were approved and authorised for release for the year ended 30 June 2020.

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Historical financial summary and key statistics

AS AT 30 JUNE 2020

	2016	2017	2018	2019	2020
	\$000	\$000	\$000	\$000	\$000
Financial performance					
Total revenue	570,429	631,009	641,586	715,177	752,293
Operating expenses	209,894	213,480	217,625	226,484	268,560
Depreciation and amortisation	216,250	228,124	219,979	245,822	256,893
Finance costs	77,684	80,768	82,110	66,489	56,158
Total expenses	503,828	522,372	519,714	538,795	581,611
Operating surplus from trading operations	66,601	108,637	121,872	176,382	170,682
Net loss on disposal of and provision for redundant property, plant and equipment, and restructuring costs	(10,968)	(9,334)	(8,488)	(13,216)	(8,547)
Net (loss)/gain on revaluation of derivative financial instruments	(137,600)	87,546	(20,808)	-	-
Operating surplus/(deficit) before tax	(81,967)	186,849	92,576	163,166	162,135
Income tax (expense)/benefit	14,780	(62,163)	(38,145)	(55,547)	(88,306)
Net surplus/(deficit) after tax	(67,187)	124,686	54,431	107,619	73,829
Financial position					
Current assets	80,857	82,621	94,761	120,528	141,589
Non-current assets	8,739,757	8,862,924	9,992,051	10,271,797	10,695,175
Total assets	8,820,614	8,945,545	10,086,812	10,392,325	10,836,764
Current liabilities	504,561	360,715	482,209	175,330	192,931
Non-current liabilities	2,482,163	2,626,254	2,855,681	3,142,756	3,495,700
Total liabilities	2,986,724	2,986,969	3,337,890	3,318,086	3,688,631
Total equity	5,833,890	5,958,576	6,748,922	7,074,239	7,148,133
Cash flow					
Net cash inflows – operating activities	247,754	275,508	316,761	420,964	448,542
Net cash outflows – investing activities	(311,593)	(302,111)	(326,223)	(387,861)	(605,206)
Net cash inflows – financing activities	60,456	27,563	8,425	(30,553)	165,529
Net change in cash flows	(3,383)	960	(1,037)	2,550	8,865
Key statistics					
Property, plant and equipment	8,654,122	8,777,049	9,913,765	10,163,169	10,515,408
Capital expenditure	296,101	301,632	342,426	448,005	615,530
Net debt	1,577,571	1,603,895	1,613,065	1,696,942	1,942,577
Increase in net debt	63,575	26,324	9,170	83,877	245,635
Increase in net debt to capex	21%	9%	3%	19%	40%
EBITDA to interest expense ratio	4.23	4.41	4.78	6.39	7.43
Funds flow from operations to interest ratio	3.70	3.94	4.19	4.93	5.11
Funds flow from operations to average net debt	21%	22%	24%	26%	23%
Number (headcount) of permanent employees	861	909	908	984	1,105
Year-on-year growth of operating expenses	2.6%	1.7%	1.9%	4.1%	18.6%
Average growth (4 years average)				2.6%	6.6%

	2020	2019	2020	VARIANCE TO	
	ACTUAL \$000	ACTUAL \$000	BUDGET \$000	BUDGET \$000	RESULT \$000
Revenue	752,293	715,177	697,385	54,908	✓
Operating expenses	(268,560)	(226,484)	(228,389)	(40,171)	✗
Depreciation and amortisation	(256,893)	(245,822)	(252,435)	(4,458)	✗
Finance costs	(56,158)	(66,489)	(70,037)	13,879	✓
Total expenses	(581,611)	(538,795)	(550,861)	(30,750)	✗
Operating surplus from trading operations	170,682	176,382	146,524	24,158	✓
Net loss on disposal of and provision for redundant property, plant and equipment, and restructuring costs	(8,547)	(13,216)	(8,000)	(547)	✗
Operating surplus before tax	162,135	163,166	138,524	23,611	✓
Income tax expense	(88,306)	(55,547)	(40,999)	(47,307)	✗
Net surplus for the year	73,829	107,619	97,525	(23,696)	✗
Total comprehensive revenue and expense for the year, net of tax	73,829	107,619	97,525	(23,696)	✗

Key points

- Watercare's total revenue of \$752.3 million exceeded the budget by \$54.9 million. The increase was primarily driven by non-cash vested asset revenue which contributed \$34.5 million to this favourable variance. The infrastructure growth charge added \$8.8 million revenue, reflecting continued growth in the Auckland region.
- Operating costs were \$40.2 million higher than budget. This was primarily due to maintenance costs (\$6.9 million) and asset operating costs (\$14.9 million) being higher than budget. This was due to additional unplanned maintenance being required to address a higher volume of leakages throughout the year and the additional costs required to manage the historically low dam levels and the impacts of a severe drought.
- Other expenses were also over budget by \$13.5 million due to unforeseen COVID-19 incident management costs, additional legal expenses, increased drought communication response costs and not achieving an efficiency target.
- Depreciation and amortisation was \$4.5 million over budget. This was due to higher depreciation being recognised from asset capitalisations during the year.
- Finance costs were \$13.9 million lower than budget due to lower spend against budget on capital expenditure projects and a lower cost of funds than what was budgeted.
- The company reports an operating surplus of \$170.7 million compared with a budgeted operating surplus of \$146.5 million, a favourable variance of \$24.2 million. The water business unit reported an operating loss from trading operations of \$3.1 million and the wastewater business unit reported an operating surplus of \$173.8 million. The water business unit's operating loss was due to the additional costs associated with managing increased production demand and the severe drought.
- The reported operating surplus from trading operations was prior to a non-cash loss on disposal of property, plant and equipment of \$8.5 million. This was \$0.5 million higher than budget.
- The resulting net surplus after tax of \$73.8 million was lower than the budgeted net surplus of \$97.5 million. This was due to a prior period adjustment made to income tax expense.
- Total assets of the company have increased from \$10.4 billion to \$10.8 billion during the last year, reflecting the company's continued investment in new infrastructure assets.
- Net debt increased by \$245.6 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 2020 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 2020.

These financial statements and the Statement of Service Performance for Watercare Services Limited for the year ended 30 June 2020 were approved and authorised for release on 15 September 2020.

For and on behalf of management:



R P Jaduram
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



TO THE READERS OF WATERCARE SERVICES LIMITED GROUP'S FINANCIAL STATEMENTS AND STATEMENT OF SERVICE PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2020

The Auditor-General is the auditor of Watercare Services Limited (the Group). The Auditor-General has appointed me, Brett 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 74 to 112 that comprise the Statement of Financial Position as at 30 June 2020, 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 113 to 115.

In our opinion:

- the financial statements of the Group on pages 74 to 112:
 - present fairly, in all material respects:
 - + its financial position as at 30 June 2020; 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 113 to 115 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 2020.

Our audit was completed on 15 September 2020. 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 – Impact of COVID-19

Without modifying our opinion, we draw attention to the disclosures about the impact of COVID-19 on the Group as set out in note 3 on page 81 of the financial statements.

Basis for our opinion

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

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

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

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

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

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

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

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

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

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

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

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

We did not evaluate the security and controls over the electronic publication of the financial statements and the Statement of Service Performance.

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

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

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

Our responsibilities arise from the Public Audit Act 2001.

Other Information

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

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

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

Independence

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

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

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



Brett Tomkins

Deloitte Limited

On behalf of the Auditor-General
Auckland, New Zealand

Statement of comprehensive revenue and expense

FOR THE YEAR ENDED 30 JUNE 2020

	NOTES	2020	2019	2020
		ACTUAL \$000	ACTUAL \$000	BUDGET \$000
Revenue	NOTE 12, PAGE 96	752,293	715,177	697,385
Total revenue		752,293	715,177	697,385
Operating expenses				
Asset operating costs		(72,668)	(59,172)	(57,727)
Maintenance costs		(55,581)	(47,983)	(48,689)
Employee benefit expenses		(75,368)	(66,814)	(70,534)
Other expenses		(64,943)	(52,515)	(51,439)
Total operating expenses	NOTE 13, PAGE 98	(268,560)	(226,484)	(228,389)
Depreciation	NOTE 5, PAGE 86	(245,854)	(240,089)	(241,992)
Amortisation	NOTE 8, PAGE 90	(11,039)	(5,733)	(10,443)
Finance costs	NOTE 10, PAGE 90	(56,158)	(66,489)	(70,037)
Total expenses		(581,611)	(538,795)	(550,861)
Operating surplus from trading operations		170,682	176,382	146,524
Net loss on disposal of property, plant and equipment, and restructuring costs		(8,547)	(13,216)	(8,000)
Operating surplus before tax		162,135	163,166	138,524
Income tax expense	NOTE 15, PAGE 100	(88,306)	(55,547)	(40,999)
Net surplus for the year		73,829	107,619	97,525
Other comprehensive revenue and expense for the year, net of tax		-	-	
Total comprehensive revenue and expense for the year is attributable to:				
Owner of the parent, net of tax		73,817	107,619	97,525
Non-controlling interest, net of tax		12	-	-

The financial statements should be read in conjunction with the notes on pages 78 to 111 inclusive.

Statement of financial position

AS AT 30 JUNE 2020

		2020	2019	2020
	NOTES	ACTUAL \$000	ACTUAL \$000	BUDGET \$000
Assets				
Current				
Cash and cash equivalents		10,923	2,058	–
Trade and other receivables from exchange transactions	NOTE 17, PAGE 102	82,641	82,128	75,032
Inventories	NOTE 18, PAGE 102	25,597	18,547	15,174
Prepaid expenses	NOTE 20, PAGE 103	8,462	14,611	15,461
Other financial assets	NOTE 21, PAGE 104	13,966	3,184	–
Total current assets		141,589	120,528	105,667
Non-current				
Property, plant and equipment	NOTE 5, PAGE 86	10,515,408	10,163,169	10,504,143
Intangible assets	NOTE 8, PAGE 90	116,315	46,447	74,852
Inventories	NOTE 18, PAGE 102	3,619	8,158	8,309
Prepaid expenses	NOTE 20, PAGE 103	25,647	28,698	27,397
Other financial assets	NOTE 21, PAGE 104	34,186	25,325	25,611
Total non-current assets		10,695,175	10,271,797	10,640,312
Total assets		10,836,764	10,392,325	10,745,979
Liabilities				
Current				
Trade and other payables for exchange transactions	NOTE 19, PAGE 103	17,227	18,017	18,929
Accrued expenses	NOTE 22, PAGE 104	154,884	146,358	100,379
Provisions	NOTE 23, PAGE 105	20,820	10,955	9,331
Total current liabilities		192,931	175,330	128,639
Non-current				
Borrowings	NOTE 9, PAGE 91	1,953,500	1,699,000	1,994,334
Deferred tax liability	NOTE 16, PAGE 101	1,506,397	1,418,091	1,445,318
Trade and other payables for exchange transactions	NOTE 19, PAGE 103	2,859	2,210	–
Accrued expenses	NOTE 22, PAGE 104	14,213	14,486	15,949
Provisions	NOTE 23, PAGE 105	18,731	8,969	9,416
Total non-current liabilities		3,495,700	3,142,756	3,465,017
Total liabilities		3,688,631	3,318,086	3,593,656
Equity				
Equity attributable to owners of the parent				
Retained earnings		4,319,755	4,248,443	4,325,314
Revaluation reserves	NOTE 7, PAGE 89	2,567,608	2,565,103	2,566,316
Issued capital	NOTE 24, PAGE 106	260,693	260,693	260,693
Total equity attributable to owners of the parent		7,148,056	7,074,239	7,152,323
Non-controlling interest		77	–	–
Total equity		7,148,133	7,074,239	7,152,323
Total equity and liabilities		10,836,764	10,392,325	10,745,979

The financial statements should be read in conjunction with the notes on pages 78 to 111 inclusive.

Statement of cash flows

FOR THE YEAR ENDED 30 JUNE 2020

		2020	2019	2020
	NOTES	ACTUAL \$000	ACTUAL \$000	BUDGET \$000
Operating activities				
Cash was provided from:				
Receipts from customers		696,707	649,931	674,580
Dividends received		121	123	–
Interest received		322	488	–
Subvention receipt	NOTE 15, PAGE 100	1,600	5,920	–
		698,750	656,462	674,580
Cash was applied to:				
Employees and suppliers		(250,203)	(231,928)	(227,774)
Finance costs paid		(5)	(3,570)	(14)
		(250,208)	(235,498)	(227,788)
Net cash inflows – operating activities	NOTE 14, PAGE 99	448,542	420,964	446,792
Investing activities				
Cash was provided from:				
Sale of property, plant and equipment, and intangibles		5,586	8,063	–
		5,586	8,063	–
Cash was applied to:				
Purchase and construction of property, plant and equipment, and intangibles		(588,252)	(395,924)	(641,856)
Acquisition of subsidiaries, associates and jointly-controlled entities		(2,540)	–	–
Issued term loans		(20,000)	(30,000)	–
		(610,792)	(425,924)	(641,856)
Net cash outflows – investing activities		(605,206)	(417,861)	(641,856)
Financing activities				
Cash was provided from:				
Proceeds from Auckland Council loans – related party	NOTE 24, PAGE 107	696,893	625,854	195,064
		696,893	625,854	195,064
Cash was applied to:				
Repay revolving credit facility (net)		–	(16,500)	–
Repay medium-term notes issue		–	(125,000)	–
Repay loans from Auckland Council – related party	NOTE 24, PAGE 107	(531,364)	(484,907)	–
		(531,364)	(656,407)	–
Net cash (outflows)/inflows – financing activities		165,529	(553)	195,064
Net change in cash flows		8,865	2,550	–
Cash and cash equivalents/(overdraft) at the beginning of the year		2,058	(492)	–
Cash and cash equivalents/(overdraft) at the end of the year		10,923	2,058	–
Cash and cash equivalents comprises:				
Bank balances/(overdraft)		10,923	2,058	–
		10,923	2,058	–

The financial statements should be read in conjunction with the notes on pages 78 to 111 inclusive.

Statement of changes in equity

FOR THE YEAR ENDED 30 JUNE 2020

	NOTES	RETAINED EARNINGS \$000	REVALUATION RESERVES \$000	ISSUED CAPITAL \$000	NON- CONTROLLING INTEREST \$000	TOTAL \$000
Balance at 1 July 2018		3,917,524	2,570,705	260,693	–	6,748,922
Comprehensive revenue and expense						
Net surplus for the year		107,619	–	–	–	107,619
Other comprehensive revenue and expense						
Novation of interest rate swaps and options to Auckland Council		216,892	–	–	–	216,892
Close out of interest rate swaps novated to Auckland Council		806	–	–	–	806
Transfer between reserves on disposal of property, plant and equipment	NOTE 7, PAGE 89	5,602	(5,602)	–	–	–
Total comprehensive revenue and expense for the year, net of tax		330,919	(5,602)	–	–	325,317
Balance at 30 June 2019		4,248,443	2,565,103	260,693	–	7,074,239

	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 7, PAGE 89	(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

The financial statements should be read in conjunction with the notes on pages 78 to 111 inclusive.

1. Reporting entity and basis of preparation

Reporting entity

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

Watercare's 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 May 2019. 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 5, page 85
- Unbilled revenue estimate, note 12, page 96
- Provisions, note 23, page 105

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 24, page 106.

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 five standards in January 2017 and these are effective for the reporting period beginning 1 January 2019. These standards are collectively referred to as PBE Standards on Interests in Other Entities and comprise:

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

There was no material impact upon adoption of these standards.

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

The above-stated amendments were issued in April 2017 are effective for the reporting period beginning 1 January 2019. The transition to the revised standards did not result in material adjustments to the financial statements.

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

	2020 ACTUAL \$000	2020 BUDGET \$000	VARIANCE \$000	VARIANCE %
Revenue	752,293	697,385	54,908	7.9%
Asset operating costs	72,668	57,727	(14,941)	(25.9%)
Maintenance costs	55,581	48,689	(6,892)	(14.2%)
Other expenses	64,943	51,439	(13,504)	(26.3%)
Finance costs	56,158	70,037	13,879	19.8%

- Revenue was \$54.9 million, or 7.9%, better than budget. This increase was driven by non-cash vested assets revenue being \$34.5 million higher than budget due to the timing of new developments around the Auckland region. The remainder of the increase was mainly driven by one-off events. Firstly, there was a one-off revenue addition of \$8.3 million from the transfer of assets which was not budgeted. Secondly, the Infrastructure Growth Charge (IGC) revenue was higher than budget by \$8.8 million, which included one-off revenue of \$5.0 million from Veolia. Excluding this one-off item, IGC revenue was broadly in line with budget.
- Asset operating costs were \$14.9 million, or 25.9% higher than budget. Additional costs were incurred to increase water production at Waikato to manage the historically low dam levels and the impacts of the severe drought in the second half of the year. Additional costs were also incurred due to unbudgeted energy and waste disposal price increases.
- Maintenance costs were \$6.9 million, or 14.2%, 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 such as the burst mains in the Auckland CBD.
- Other expenses were \$13.5 million over budget due to unbudgeted events and project costs, including:
 - Additional unbudgeted contract labour of \$1.8 million was required for ongoing systems implementation;
 - Legal expenses were \$1.5 million over budget, primarily due to regulation reform readiness, acquisition of subsidiary and other projects;
 - Drought management costs of \$2.3 million were incurred which included increased external communication and non-potable water costs;
 - COVID-19 incident management which cost the group an additional \$1.1 million; and
 - An efficiency target of \$2.7 million was not achieved due to COVID-19, drought and the reasons listed above.
- Finance costs were better than budget by \$13.9 million, or 19.8%, resulting from a reduction in capital expenditure projects during the year due to COVID-19 lockdown level four and a lower annual cost of funds, reflecting the current low interest rate environment.

Statement of financial position – extract

	2020 ACTUAL \$000	2020 BUDGET \$000	VARIANCE \$000	VARIANCE %
Total current assets	141,589	105,667	35,922	34.0%
Total non-current assets	10,695,175	10,640,312	54,863	0.5%
Total current liabilities	192,931	128,639	(64,292)	(50.0%)
Total non-current liabilities	3,495,700	3,465,017	(30,683)	(0.9%)
Total equity	7,148,133	7,152,323	(4,190)	(0.1%)

- Current assets were \$35.9 million higher than budget. This was primarily due to an increase in inventory for capital projects and an additional loan advanced (\$20.0 million) to the Central Interceptor project.
- Non-current assets were \$54.9 million higher than budget. This was mainly due to capitalisation of software during the year.
- Current liabilities were \$64.3 million higher than budget. The variance against budget was mainly driven by accrued expenses which included multiple large capital projects that were in progress and yet to be invoiced.
- Equity was lower than budget at year-end, primarily due to the lower total comprehensive revenue and expense for the year.

2. Explanation of major variances to budget (continued)

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 and lower capital expenditure during the year.

	2020 ACTUAL \$000	2020 BUDGET \$000	VARIANCE \$000	VARIANCE %
Net cash inflows – operating activities	448,542	446,792	1,750	0.4%
Net cash outflows – investing activities	(605,206)	(641,856)	36,650	5.7%
Net cash inflows / (outflows) – financing activities	165,529	195,064	(29,535)	(15.1%)

- Net operating cash inflows were \$1.8 million better than budget, primarily due to the one-off revenue additions as noted in the commentary above. (Refer to note 14 on page 99 for the reconciliation of net surplus after tax to operating cash flows.)
- The net cash outflow from investing activities was 5.7% lower than budget due to reduced spend on capital expenditure projects during the year, which was partly driven by delays in construction projects during COVID-19 lockdown periods.
- The net cash inflows from financing activities were \$29.5 million lower than budget. This was due to lower borrowing requirements from Auckland Council, resulting from the delays in construction projects.

3. 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. The key areas impacted are listed below:

Construction contract variations

Capital projects in progress during lockdown periods incurred delays and therefore contractual variation payments were made to compensate construction contractors under the terms of each agreement. The total COVID-19 contract variation amount recognised as capital expenditure for the year ended 30 June 2020 is \$13.4 million. As a result, some projects are expected to be completed later than initially planned.

Provision for doubtful debts

The group has increased its expected credit losses on trade receivables, which has resulted in an increase to the provision for doubtful debts of \$0.5 million. The group anticipates some non-significant deterioration on collectability of some debtors. Refer to note 17, page 102. The scope of Watercare Utility Consumer Assistance Trust has been extended to further support those customers experiencing hardships as a result of COVID-19.

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 5, page 85.

Reintroduction of tax depreciation for buildings

On 17 March 2020, the central government announced a package of measures in support of businesses via the COVID-19 Response (Taxation and Social Assistance Urgent Measures) Act 2020. One of the measures was the reintroduction of tax depreciation on commercial and industrial buildings and the allowance for tax depreciation on newly acquired buildings and capital improvements made to existing buildings from the 2020/21 tax year. This has resulted in an \$11.8 million adjustment to deferred tax to reflect the future deductibility of qualifying buildings for the year ended 30 June 2020. Refer to note 16, page 101.

Voluntary director fee reduction

The directors of Watercare Services Limited agreed to a voluntary 20% reduction of their fees for a period of six months from 1 May 2020. The total impact of this reduction is \$53,000 with \$18,000 included in the year ended 30 June 2020.

Additional expenses relating to COVID-19

The group incurred unbudgeted expenses of \$1.1 million in response to COVID-19 for the year ended 30 June 2020. These costs related to additional personal protective equipment, temporary office space at sites operating during lockdown to allow physical distancing, and IT costs to support remote working.

4. 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 2020 \$000	WASTEWATER 2020 \$000	TOTAL 2020 \$000	WATER 2019 \$000	WASTEWATER 2019 \$000	TOTAL 2019 \$000
Revenue						
Water and wastewater	166,647	367,408	534,055	162,856	352,743	515,599
Other revenue	63,728	154,510	218,238	92,488	107,090	199,578
Total revenue	230,375	521,918	752,293	255,344	459,833	715,177
Operating expenses						
Asset operating costs	(31,235)	(41,433)	(72,668)	(21,606)	(40,572)	(62,178)
Maintenance costs	(23,486)	(32,095)	(55,581)	(24,059)	(23,924)	(47,983)
Employee benefit expenses	(33,761)	(41,607)	(75,368)	(23,049)	(43,765)	(66,814)
Other expenses	(21,461)	(43,482)	(64,943)	(16,298)	(33,211)	(49,509)
Total operating expenses	(109,943)	(158,617)	(268,560)	(85,012)	(141,472)	(226,484)
Depreciation	(109,261)	(136,593)	(245,854)	(111,271)	(128,818)	(240,089)
Amortisation	(2,385)	(8,654)	(11,039)	(1,528)	(4,205)	(5,733)
Finance costs	(11,877)	(44,281)	(56,158)	(11,226)	(55,263)	(66,489)
Total expenses	(233,466)	(348,145)	(581,611)	(209,037)	(329,758)	(538,795)
Operating (loss) / surplus from trading operations	(3,091)	173,773	170,682	46,307	130,075	176,382
Net loss on disposal of property, plant and equipment, and restructuring costs	(3,468)	(5,079)	(8,547)	(7,363)	(5,853)	(13,216)
Operating (loss) / surplus before tax	(6,559)	168,694	162,135	38,944	124,222	163,166
Income tax benefit / (expense)	3,573	(91,879)	(88,306)	(13,258)	(42,289)	(55,547)
Net (loss) / surplus for the year	(2,986)	76,815	73,829	25,686	81,933	107,619
Total comprehensive revenue and expense for the year attributable to owners of the parent, net of tax	(2,986)	76,815	73,829	25,686	81,933	107,619

4. Business unit reporting (continued)**Business unit financial position**

	WATER 2020 \$000	WASTEWATER 2020 \$000	TOTAL 2020 \$000	WATER 2019 \$000	WASTEWATER 2019 \$000	TOTAL 2019 \$000
Assets						
Current						
Current assets	43,954	97,635	141,589	48,336	72,192	120,528
Total current assets	43,954	97,635	141,589	48,336	72,192	120,528
Non-current						
Property, plant and equipment	4,583,099	5,932,309	10,515,408	4,301,597	5,861,572	10,163,169
Intangible assets	25,855	90,460	116,315	11,279	35,168	46,447
Inventories	3,619	–	3,619	4,475	3,683	8,158
Prepaid expenses	–	25,647	25,647	–	28,698	28,698
Other financial assets	–	34,186	34,186	–	25,325	25,325
Total non-current assets	4,612,573	6,082,602	10,695,175	4,317,351	5,954,446	10,271,797
Total assets	4,656,527	6,180,237	10,836,764	4,365,687	6,026,638	10,392,325
Liabilities						
Current						
Current liabilities	52,910	140,021	192,931	40,701	134,629	175,330
Total current liabilities	52,910	140,021	192,931	40,701	134,629	175,330
Non-current						
Borrowings	415,900	1,537,600	1,953,500	262,904	1,436,096	1,699,000
Deferred tax liability	469,191	1,037,206	1,506,397	447,701	970,390	1,418,091
Trade and other payables for exchange transactions	295	2,564	2,859	356	1,854	2,210
Accrued expenses	8,407	5,806	14,213	8,513	5,973	14,486
Provisions	615	18,116	18,731	546	8,423	8,969
Total non-current liabilities	894,408	2,601,292	3,495,700	720,020	2,422,736	3,142,756
Total liabilities	947,318	2,741,313	3,688,631	760,721	2,557,365	3,318,086
Equity attributable to owners of the parent and non-controlling interest	3,709,209	3,438,924	7,148,133	3,604,966	3,469,273	7,074,239
Total equity and liabilities	4,656,527	6,180,237	10,836,764	4,365,687	6,026,638	10,392,325

Business unit cash flows

	WATER 2020 \$000	WASTEWATER 2020 \$000	TOTAL 2020 \$000	WATER 2019 \$000	WASTEWATER 2019 \$000	TOTAL 2019 \$000
Net cash inflows – operating activities	120,038	328,504	448,542	141,556	279,408	420,964
Net cash outflows – investing activities	(196,390)	(408,816)	(605,206)	(113,107)	(274,754)	(387,861)
Net cash (outflows) / inflows – financing activities	78,221	87,308	165,529	(27,988)	(2,565)	(30,553)
Net change in cash flows	1,869	6,996	8,865	461	2,089	2,550

5. 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.

ASSET CLASS	CATEGORY	SUBSEQUENT MEASUREMENT BASIS	ESTIMATED REMAINING USEFUL LIVES IN YEARS	
			2020	2019
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 98	up to 100
Pipelines	Infrastructure asset	Fair value which is deemed to be depreciated replacement cost, less accumulated depreciation	up to 165	up to 166
Tanks, tunnels, roads and reservoirs	Infrastructure asset	Fair value which is deemed to be depreciated replacement cost, less accumulated depreciation	up to 100 Tunnels: up to 822	up to 96 Tunnels: up to 823
Dams	Infrastructure asset	Fair value which is deemed to be depreciated replacement cost, less accumulated depreciation	up to 196	up to 196
Landfill	Infrastructure asset	Cost less accumulated depreciation and impairment losses	up to 16	up to 35
Machinery	Infrastructure asset	Fair value which is deemed to be depreciated replacement cost, less accumulated depreciation	up to 197	up to 196
Motor vehicles	Operational asset	Cost less accumulated depreciation and impairment losses	up to 18	up to 20
Office equipment	Operational asset	Cost less accumulated depreciation and impairment losses	up to 25	up to 27
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.

5. Property, plant and equipment (continued)

Reclassification

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

Revaluation

All PPE, except for landfill, motor vehicles, office equipment and capital work in progress, are revalued after initial recognition. Also refer to note 7, page 89 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 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 largely 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.

The most recent valuation for land and buildings was completed at 30 June 2018 by Beca Valuations Limited (Beca). The land valuation was based on relevant market prices using a comparable sales approach. For highly specialised buildings, which are rarely traded in the marketplace, the valuation was based on the depreciated replacement cost.

For the 2020 financial year, the movement in the fair value of land and buildings since 30 June 2018 was assessed at balance date using indices deemed suitable by management. The assessment indicated an increase of 1.3% in land value and 7.5% in buildings value at balance date, which was not considered material by management and accordingly the land and buildings assets were not revalued during the year. An independent revaluation of operational land and buildings will be completed in the 2021 financial year, in line with group policy of having revaluations carried out at least every three years.

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

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

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

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

The movement in fair value of infrastructure assets since 30 June 2018 was assessed at balance date using indices deemed suitable by management. The assessment indicated an increase in infrastructure asset value of 4.39%, which was not considered material by management and accordingly the infrastructure assets were not revalued during the year. A revaluation of infrastructure assets will be completed in the 2021 financial year, in line with group policy of having revaluations carried out at least every three years.

Depreciation

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

Notes to the financial statements (continued)

FOR THE YEAR ENDED 30 JUNE 2020

5. 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 2018											
Cost or valuation	253,923	99,192	6,949,495	675,019	271,446	61,357	1,142,887	20,078	34,761	451,858	9,960,016
Accumulated depreciation	-	(40)	(1,003)	(141)	-	(8,666)	(8,210)	(9,548)	(18,643)	-	(46,251)
Net book value	253,923	99,152	6,948,492	674,878	271,446	52,691	1,134,677	10,530	16,118	451,858	9,913,765
Year ended 30 June 2019											
Additions to work in progress	-	-	-	-	-	-	-	-	-	448,005	448,005
Additions to PPE	-	-	62,104	2	-	1,194	53	-	-	-	63,353
Transfers from work in progress	3,903	25,786	99,303	16,428	318	31,794	87,936	2,248	4,621	(281,047)	(8,710)
Disposals	(1,689)	(96)	(8,621)	(41)	-	-	(1,551)	(119)	(17)	-	(12,134)
Revaluation	-	-	-	-	-	-	-	-	-	-	-
Impairment	-	-	-	-	-	-	-	-	(147)	(644)	(791)
Transfer from/(to) other classes	-	12	2,693	-	-	-	(2,705)	-	(230)	-	(230)
Depreciation	-	(2,457)	(152,156)	(13,629)	(2,481)	(2,185)	(60,742)	(2,240)	(4,199)	-	(240,089)
Closing carrying amount	256,137	122,397	6,951,815	677,638	269,283	83,494	1,157,668	10,419	16,146	618,172	10,163,169
Balance at 30 June 2019											
Cost or valuation	256,137	124,893	7,104,386	691,392	271,764	94,346	1,226,008	20,966	37,279	618,172	10,445,343
Accumulated depreciation	-	(2,496)	(152,571)	(13,754)	(2,481)	(10,852)	(68,340)	(10,547)	(21,133)	-	(282,174)
Carrying amount	256,137	122,397	6,951,815	677,638	269,283	83,494	1,157,668	10,419	16,146	618,172	10,163,169
Year ended 30 June 2020											
Additions to work in progress	-	-	-	-	-	-	-	-	-	615,530	615,530
Additions to PPE	750	-	59,292	-	-	9,366	3,454	37	248	-	73,147
Transfers from work in progress/ (to intangibles)	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)	(137)	(12)	-	(12,244)
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	9,412	15,133	912,093	10,515,408
Balance at 30 June 2020											
Cost or valuation	260,686	125,003	7,302,790	692,746	271,764	128,546	1,284,327	22,192	41,922	912,093	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	1,152,305	9,411	15,133	912,093	10,515,408

5. 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 22, page 104. Watercare retains ownership of the infrastructure assets franchised to Veolia.

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

	PIPELINES \$000	MACHINERY \$000	TOTAL \$000
Balance at 1 July 2018			
Cost or valuation	181,477	4,742	186,219
Accumulated depreciation	(47)	–	(47)
Carrying amount	181,430	4,742	186,172
Year ended 30 June 2019			
Additions to PPE	18,753	–	18,753
Disposals	(683)	(244)	(927)
Revaluation	–	–	–
Depreciation	(4,347)	(176)	(4,523)
Closing carrying amount	195,153	4,322	199,475
Balance at 30 June 2019			
Cost or valuation	199,543	4,498	204,041
Accumulated depreciation	(4,390)	(176)	(4,566)
Carrying amount	195,153	4,322	199,475
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

5. Property, plant and equipment (continued)

Capital work in progress

WORK IN PROGRESS RELATES TO THE FOLLOWING PROJECTS:	2020 \$000	2019 \$000
Water treatment plant	32,383	42,874
Wastewater treatment plant	241,059	144,391
Wastewater pump station and sewer	353,839	200,760
Watermains, pump stations and reservoirs	204,570	142,275
Dams and raw water transmission pipelines	5,630	2,081
Other	74,613	85,791
Total work in progress	912,094	618,172

6. 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 2020.

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.

7. 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 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 2018	142,349	32,290	1,798,829	326,914	130,700	139,623	2,570,705
Transferred to retained earnings on disposal of property, plant and equipment (net of tax)	(877)	(69)	(4,270)	18	–	(404)	(5,602)
Balance at 30 June 2019	141,472	32,215	1,794,621	326,953	130,700	139,142	2,565,103

	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
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

8. Intangible assets

Measurement

Intangible assets are initially recorded at cost.

ASSET CLASS	SUBSEQUENT MEASUREMENT BASIS	ESTIMATED REMAINING USEFUL LIVES IN YEARS	
		2020	2019
Network models	Cost less accumulated amortisation and impairment losses	up to 10	up to 12
Computer software	Cost less accumulated amortisation and impairment losses	up to 10	up to 7
Resource consents	Cost less accumulated amortisation and impairment losses	up to 35	up to 35
Easement	Cost less impairment losses	Indefinite	Indefinite
Goodwill	Cost less impairment losses	Indefinite	–

8. Intangible assets (continued)

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.

CARRYING AMOUNT	NETWORK MODELS \$000	COMPUTER SOFTWARE \$000	RESOURCE CONSENTS \$000	EASEMENTS \$000	GOODWILL \$000	TOTAL \$000
Balance at 1 July 2018						
Cost	5,742	55,287	41,152	1,403	–	103,584
Accumulated amortisation	(2,698)	(46,930)	(10,667)	–	–	(60,295)
Carrying amount	3,044	8,357	30,485	1,403	–	43,289
Year ended 30 June 2019						
Transferred from work in progress	256	6,479	1,951	24	–	8,710
Impairment	–	(49)	–	–	–	(49)
Transfer from/(to) other classes	–	230	–	–	–	230
Amortisation	(694)	(3,565)	(1,474)	–	–	(5,733)
Closing carrying amount	2,606	11,452	30,962	1,427	–	46,447
Balance at 30 June 2019						
Cost	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
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

9. Borrowings

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

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

From 1 July 2018 Watercare and its parent, Auckland Council, entered into a service level agreement (SLA) for the provision of treasury services and an inter-company loan agreement for existing loans at 30 June 2018. The terms of both agreements commenced 1 July 2018 and are in place until 30 June 2021. Auckland Council treasury met all of their obligations under the terms of the SLA during the 2020 financial year.

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

Covenants

The covenants agreed to in the annual plan were a budgeted net cash inflow from borrowings of \$195.1 million for the year and a budgeted borrowings balance of \$1,994.3 million as at 30 June 2020. The actual results for the year ended 30 June 2020 were \$165.5 million and \$1,953.5 million respectively. There have been no breaches of these covenants during the year.

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

	2020		2019	
	FACE VALUE \$000	CARRYING VALUE \$000	FACE VALUE \$000	CARRYING VALUE \$000
Non-current				
Related party term loan (unsecured)	1,953,500	1,953,500	1,699,000	1,699,000
Total non-current borrowings	1,953,500	1,953,500	1,699,000	1,699,000
Total borrowings	1,953,500	1,953,500	1,699,000	1,699,000

The group had \$2.0 million (2019: \$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.

10. 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 4.42% (2019: 5.36%) was used to determine the amount of capitalised interest. All other finance costs are expensed in the period in which they occur.

	2020 \$000	2019 \$000
Interest on bank overdraft and borrowings, paid and payable	81,688	86,178
Capitalised interest on construction of property, plant and equipment, and intangibles	(25,530)	(19,689)
Net finance costs	56,158	66,489

11. 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.

From 1 July 2018 the group is no longer exposed to interest rate risk as this is now managed by Auckland Council. The group has a fixed interest rate agreement with Auckland Council. Also refer to note 9, page 91.

Interest rate sensitivity

At 30 June 2020 there is no interest rate risk as interest rates are fixed annually (2019: 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 (2019: 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 2020 and 30 June 2019.

Foreign exchange sensitivity

The group had no exposure to foreign exchange risk at 30 June 2020 and 30 June 2019.

11. Financial instruments and risk management (continued)

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:

	2020			2019		
	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	36,017	(1,061)	34,956	31,976	(37)	31,939
Past due 1 to 30 days	9,715	(286)	9,429	11,017	(134)	10,883
Past due 30 to 60 days	2,437	(72)	2,365	1,842	(100)	1,742
Past due more than 60 days	9,598	(283)	9,315	6,582	(1,553)	5,029
Total	57,767	(1,702)	56,065	51,417	(1,824)	49,593

	2020 \$000	2019 \$000
MOVEMENT IN THE PROVISION FOR DOUBTFUL DEBTS		
Balance at 1 July	1,824	1,624
Additions during the year	500	430
Bad debts written off	(622)	(230)
Balance at 30 June	1,702	1,824

During year ended 30 June 2020, the group is also exposed to credit risk through a \$50 million loan provided to the Central Interceptor contractor (2019: \$30 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 21, page 104, for further information.

Liquidity risk

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

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

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

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.

11. Financial instruments and risk management (continued)**Gross contractual maturity analysis**

	CURRENT		NON-CURRENT		GROSS NOMINAL CASH OUTFLOW \$000	CARRYING AMOUNT \$000
	0-6 MONTHS \$000	7-12 MONTHS \$000	1-2 YEARS \$000	2-3 YEARS \$000		
2020						
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
2019						
Financial liabilities						
Trade and other payables for exchange transactions	20,227	–	–	–	20,227	20,227
Accrued expenses*	117,938	–	–	–	117,938	117,938
Borrowings	–	–	–	1,699,000	1,699,000	1,699,000
Total	138,165	–	–	1,699,000	1,837,165	1,837,165

* Excludes current and non-current revenue received in advance of \$56.5 million (2019: \$42.9 million) as it was not categorised as a financial liability; refer to note 22, page 104.

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 21, page 104.

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.

11. Financial instruments and risk management (continued)

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 2020 there are no derivative financial instruments (2019: None).

Financial assets and liabilities

	2020		2019	
	CARRYING AMOUNT \$000	FAIR VALUE \$000	CARRYING AMOUNT \$000	FAIR VALUE \$000
Financial assets - current				
Amortised cost				
Cash and cash equivalents	10,923	10,923	2,058	2,058
Trade and other receivables from exchange transactions	82,641	82,641	82,128	82,128
Other financial assets	13,966	13,966	3,184	3,184
Financial assets - non-current				
Amortised cost				
Other financial assets	34,186	34,186	25,325	25,325
Total financial assets	141,716	141,716	112,695	112,695
Financial liabilities - current				
Amortised cost				
Trade and other payables for exchange transactions	17,227	17,227	18,017	18,017
Accrued expenses*	112,634	112,634	117,938	117,938
Financial liabilities - non-current				
Amortised cost				
Trade and other payables for exchange transactions	2,859	2,859	2,210	2,210
Related party term loan (unsecured)	1,953,500	1,953,500	1,699,000	1,699,000
Total financial liabilities	2,086,220	2,086,220	1,837,165	1,837,165

* Excludes current and non-current revenue received in advance of \$56.5 million (2019: \$42.9 million) as it was not categorised as a financial liability; refer to note 22, page 104.

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 77, and debt including borrowings and covenants compliance as disclosed in note 9, page 91.

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 2020 and 30 June 2019.

12. Revenue

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

Revenue from exchange transactions

Water and wastewater revenue

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

Revenue from rendering of services

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

Interest income

Interest income is recognised using the effective interest method.

Dividend income

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

Infrastructure Growth Charge revenue

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

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.

12. Revenue (continued)

	NOTE	2020 \$000	2019 \$000
Revenue from exchange transactions			
Revenue from sale of goods			
Water revenue – gross		168,714	164,936
Water leak remission		(2,072)	(2,080)
Water revenue – net of leak remissions		166,642	162,856
Revenue from sale of services			
Wastewater revenue – gross		372,270	358,228
Wastewater leak remission		(4,857)	(5,485)
Wastewater revenue – net of leak remissions		367,413	352,743
Total water and wastewater revenue – net of leak remissions		534,055	515,599
New meters and service connections		20,339	14,987
Laboratory revenue		7,115	7,091
Total revenue from sale of goods and services		561,509	537,677
Infrastructure Growth Charge revenue		109,773	103,754
Dividend income		121	114
Subvention income	NOTE 15, PAGE 100	–	3,778
Interest income		322	11
Other revenue		16,079	7,684
Total other revenue from exchange transactions		126,295	115,341
Total revenue from exchange transactions		687,804	653,018
Revenue from non-exchange transactions			
Vested assets revenue		64,489	62,159
Total revenue from non-exchange transactions		64,489	62,159
Total revenue		752,293	715,177

13. Operating expenses

	NOTES	2020 \$000	2019 \$000
Operating expenses include:			
Auditor's remuneration			
• annual audit and review of the financial statements - Deloitte		697	577
• audit of financial statements - Office of the Auditor-General (OAG) contribution		43	40
• other services - Deloitte		462	510
Directors and trustees' fees	NOTE 29, PAGES 110 & 111	507	467
Environmentally significant costs			
• chemicals		13,417	11,743
• energy		23,788	18,689
Cost of consumables and spare parts consumed	NOTE 18, PAGE 102	16,716	18,960
Operating leases and rent		7,091	6,447
Increase in provision for doubtful debts	NOTE 11, PAGE 93	500	430
Bad debts written off	NOTE 11, PAGE 93	622	230
Salaries and wages			
• paid to employees		98,550	86,250
• capitalised on construction of property, plant and equipment		(26,914)	(22,836)
• included in employee benefit expenses		71,636	63,414

Auditor's remuneration for other services relates to the cyber-security advice including incident response support, corporate taxpayers group membership fees, EDMS data migration review, management plan review, enterprise model probity, Central Interceptor project assurance services and CFO vantage programme. Prior year fees for other services provided by the auditors related to cyber-security 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.

14. Reconciliation of operating cash flows

	2020 \$000	2019 \$000
Reconciliation of net surplus after tax to net cash flows from operating activities		
Net surplus for the year	73,829	107,619
Non-cash and non-operating items:		
Depreciation and amortisation	256,893	245,822
Net loss on disposal of and provision for redundant property, plant and equipment	8,711	12,393
Vested assets revenue	(64,489)	(62,159)
Capitalised interest on borrowings and assets	63,798	66,012
Medium-term notes interest paid (non-operating)	–	(3,553)
Medium-term notes premium amortisation and time value of money charges	–	(97)
Deferred tax	88,306	55,547
Movements in working capital:		
(Increase) / decrease in assets:		
Inventories	(1,456)	(176)
Trade and other receivables from exchange transactions	9,121	3,396
Prepaid expenses	8,085	(7,373)
Increase / (decrease) in liabilities:		
Trade and other payables for exchange transactions	1,699	1,021
Accrued expenses	1,382	2,362
Provisions	2,663	150
Net cash inflows from operating activities	448,542	420,964

15. Income tax expense

Current tax

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

Sale of tax losses

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

Tax loss offset

For the income year ended 30 June 2020, Watercare agreed to a maximum of tax losses to be sold to Auckland Council tax group of \$27.0 million (2019: \$35.0 million). However, no subvention payment or tax loss offset has been recorded.

In respect of the year ended 30 June 2020, Watercare received a cash payment of \$1.6 million (2019: \$5.9 million) from Auckland Council tax group with a tax impact of \$13.0 million (2019: \$46.9 million).

This has resulted in subvention income accrual reversal of \$2.8 million from 30 June 2019.

	2020 \$000	2019 \$000
Operating surplus before tax	162,135	163,166
Income tax calculated at current tax rate of 28%	45,398	45,686
Increase / (decrease) in income tax due to:		
• Dividend and other income exempt from taxation	(361)	(1,441)
• Non-deductible expenses	422	822
• Imputation credits on dividends received	–	(43)
• Prior year and other adjustments	54,737	723
• Subvention income and tax loss offset with Auckland Council tax group	–	9,800
• Reintroduction of building tax depreciation	(11,890)	–
Tax effect of non-deductible items and prior period adjustments	42,908	9,861
Income tax expense	88,306	55,547
Represented by:		
Current tax	–	–
Deferred tax	88,306	55,547
Total income tax expense	88,306	55,547

The prior period adjustment of \$54.7 million relates mostly to the finalisation of the tax treatment for the transfer of derivative assets and liabilities to Auckland Council on 1 July 2018. As at 30 June 2019, the tax treatment for this equity transaction was not finalised, and was subsequently confirmed in February 2020 during the submission of the Group's tax return for the previous period. This resulted in a \$61.0 million adjustment to deferred tax. Offsetting this was a \$6.0 million adjustment following the finalisation of subvention income payable to the Group during the completion of Auckland Council's tax return for the previous year in 2020.

Imputation credits

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

	2020 \$000	2019 \$000
Total imputation credits	30,564	30,564

16. Deferred tax liability

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

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

The 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

	2020 ASSETS \$000	2019 ASSETS \$000	2020 LIABILITIES \$000	2019 LIABILITIES \$000	2020 NET \$000	2019 NET \$000
Property, plant and equipment	–	–	(1,746,266)	(1,708,002)	(1,746,266)	(1,708,002)
Employee benefits and other provisions	3,778	3,055	–	–	3,778	3,055
Tax losses	271,254	314,876	–	–	271,254	314,876
Other	–	–	(35,163)	(28,020)	(35,163)	(28,020)
Total	275,032	317,931	(1,781,429)	(1,736,022)	(1,506,397)	(1,418,091)

(ii) Movement in deferred tax

	PROPERTY, PLANT AND EQUIPMENT \$000	EMPLOYEE ENTITLEMENTS AND OTHER PROVISIONS \$000	TAX LOSSES \$000	OTHER \$000	TOTAL \$000
Balance as at 1 July 2018	1,661,467	(3,315)	(257,406)	22,528	1,362,544
Charged / (credited) to comprehensive revenue and expense	46,535	260	(57,470)	5,492	55,547
Charged to other comprehensive revenue and expense, resulting from revaluation	–	–	–	–	–
Balance as at 30 June 2019	1,708,002	(3,055)	(314,876)	28,020	1,418,091
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

The Taxation and Social Assistance Urgent Measures Act (Covid-19 Act) which reintroduces tax depreciation on non residential buildings received the Royal Assent on 25 March 2020. The change in legislation is effective for the group for the year ended 30 June 2021. It allows tax depreciation to be claimed at 2% per annum diminishing value or 1.5% per annum straight line. Tax losses on the disposal of a building will remain non-deductible and should a building be sold more than its tax book value, tax depreciation previously claimed will be recoverable. The effect of this change in legislation is an \$11.8 million adjustment to deferred tax to reflect the future deductibility of qualifying buildings for the year ended 30 June 2020.

17. Trade and other receivables from exchange transactions

Trade and other receivables from exchange transactions are initially recognised at fair value. These are generally due for settlement within 21 days (2019: 21 days). Debts which are known to be uncollectable are written off by reducing the carrying amount directly.

From 1 July 2018 the group has early-adopted PBE IFRS 9, which has an expected credit loss model for impairment of financial assets. The expected credit loss 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 97.

CURRENT	2020 \$000	2019 \$000
Trade receivables	51,757	48,848
Trade receivables - related parties	3,685	2,569
Provision for doubtful debts	(1,702)	(1,824)
	53,740	49,593
Other receivables - related parties	2,326	5,019
Unbilled revenue accrual	26,575	27,516
Trade and other receivables from exchange transactions	82,641	82,128

18. Inventories

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

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

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

The cost of inventories recognised as an expense during the year was \$16.7 million (2019: \$19.0 million).

	2020 \$000	2019 \$000
Spare parts at cost	2,227	6,783
Consumables at cost	8,763	3,743
Treated water at cost	925	850
Project stock	17,321	16,266
Provision for obsolescence	(20)	(937)
Total	29,216	26,705
Represented as:		
Current inventory	25,597	18,547
Non-current inventory	3,619	8,158
Total	29,216	26,705

19. Trade and other payables for exchange transactions

Trade and other payables for exchange transactions are unsecured and usually paid within 30 days (2019: 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 \$8.5 million are held as cash on hand at 30 June 2020 (2019: \$6.6 million). This is in line with the amendment to the Construction Contracts Act (CCA) 2002 which was effective from April 2017.

	2020 \$000	2019 \$000
Current		
Trade creditors	9,889	9,408
Trade creditors - related parties	107	505
Contract retentions	5,750	5,071
Other payables	1,481	3,033
Total current trade and other payables for exchange transactions	17,227	18,017
Non-current		
Contract retentions	2,859	2,210
Total non-current trade and other payables for exchange transactions	2,859	2,210
Total trade and other payables for exchange transactions	20,086	20,227

20. Prepaid expenses

	2020 \$000	2019 \$000
Current		
Puketutu Island lease	443	443
Other prepaid expenses	8,019	14,168
Total current prepaid expenses	8,462	14,611
Non-current		
Puketutu Island lease	19,965	20,408
Other prepaid expenses	5,682	8,290
Total non-current prepaid expenses	25,647	28,698
Total prepaid expenses	34,109	43,309

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

Other prepaid expenses include capital project advances of \$1.1 million (2019: \$9.3 million), prepaid insurance, a biosolids levy and software licensing fees.

21. Other financial assets

	2020 \$000	2019 \$000
Current		
Loan receivable	13,966	3,184
Non-current		
Loan receivable	34,186	25,325
Total other financial assets	48,152	28,509

The loan receivable was provided to the contractor as part of the Central Interceptor Main Works Contract and is secured against bank bonds. The loan was subsequently recorded at fair value through profit and loss, where fair value has been determined using the projected cash flows discounted at a rate of 2.4%, which is based on the prevailing market interest rate for a similar investment (2019: 2.4%).

22. Accrued expenses

	2020 \$000	2019 \$000
Current		
Capital work in progress accruals	67,908	89,224
Interest payable	–	5,667
Revenue received in advance	42,250	28,420
Operating costs accruals	44,726	23,047
Total current accrued expenses	154,884	146,358
Non-current		
Revenue received in advance	14,213	14,486
Total non-current accrued expenses	14,213	14,486
Total accrued expenses	169,097	160,844

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

Revenue received in advance includes \$7.0 million (2019: \$7.3 million) relating to the amount received in accordance with the franchise fee agreement with the network operator Veolia Water Services (ANZ) Pty Limited. The \$13.0 million fee received at the commencement of the agreement covers the right to use the assets for a 50-year period and is recognised as revenue evenly over the term of the agreement.

Accrued expenses above include related party accruals. Refer to note 24, page 107 for a breakdown of related party accruals.

23. Provisions

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

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

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

	2020 \$000	2019 \$000
Current		
Employee entitlements	10,140	7,836
Decommissioning costs	–	9
Other provisions	10,680	3,110
Total current provisions	20,820	10,955
Non-current		
Employee entitlements	1,975	1,731
Decommissioning costs	16,756	7,238
Total non-current provisions	18,731	8,969
Total provisions	39,551	19,924

	EMPLOYEE ENTITLEMENTS \$000	DECOMMISSIONING COSTS \$000	OTHER PROVISIONS \$000	TOTAL \$000
Balance at 1 July 2019	9,567	7,247	3,110	19,924
Additions during the year	11,968	–	9,100	21,068
Reductions resulting from payments	(9,420)	–	(866)	(10,286)
Unused provisions reversed during the year	–	(229)	(664)	(893)
Increase in provision due to change in estimate	–	1,749	–	1,749
Increase in provision due to change in discount rate	–	7,617	–	7,617
Net present value adjustment	–	372	–	372
Balance at 30 June 2020	12,115	16,756	10,680	39,551

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 \$16.8 million (2019: \$7.0 million). The change in the net present value is due to a reduction in the risk-free discount rate during the year and the 10-year period is now estimated to be between 2036 and 2045, instead of 2046 and 2055 financial years which was the previous estimate.

23. Provisions (continued)

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 (2019: from 1.72% to 4.54%)
- 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 \$10.7 million relates to claims made by contractors in respect of capital projects (2019: \$2.8 million).

24. Equity and related parties

Equity

Watercare is 100% owned by Auckland Council. The total number of authorised and issued shares at balance date was 260,693,164 (2019: 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 11, page 95.

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

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 25, page 108.

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 2020, 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 (2019: 100%) by Watercare and are non-trading companies.

24. Equity and related parties (continued)**Transactions with related parties**

Watercare entered into borrowing arrangements with Auckland Council on the terms set out in note 9, page 91.

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

	2020 \$000	2019 \$000
Loans from Auckland Council, balance at 30 June	1,953,500	1,699,000
Interest receivable on loans from Auckland Council	2,326	–
Interest payable on loans from Auckland Council	–	5,667
Interest expense on loans from Auckland Council	80,978	82,184
Loans borrowed from Auckland Council during the year	696,893	625,854
Loans repaid to Auckland Council during the year	531,364	484,907

The group has a loss offset and subvention arrangement with Auckland Council tax group as detailed in note 15, page 100.

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

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

	2020 \$000	2019 \$000
Sales to related parties	14,756	21,065
Trade receivables from exchange transactions - related parties	3,681	2,570
Purchases from related parties	4,437	5,022
Land rates - Auckland Council	2,439	2,415
Trade payables for exchange transactions - related parties	–	505
Receivables accruals - related parties	–	5,018
Payables accruals - related parties	4,684	2,440

25. Business combination

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 \$4.1 million, depending on the financial performance of Lutra Limited and the ongoing employment of key staff. The payments will be recognised as an expense by Watercare in the same financial year as these conditions are achieved.

26. Commitments

	2020 \$000	2019 \$000
Capital expenditure		
The capital expenditure committed to, but not recognised in these financial statements at balance date, was:		
Buildings	2,354	2,568
Pipelines	890,071	1,027,999
Tanks, tunnels, roads and reservoirs	40,031	99,601
Intangibles	1,675	14,680
Other	34,342	27,232
Total capital expenditure commitments	968,473	1,172,080
Anticipated payment schedule		
Less than one year	349,400	448,622
One to two years	208,516	105,760
Two to five years	409,273	601,395
Beyond five years	1,284	16,303
Total capital expenditure commitments	968,473	1,172,080

At 30 June 2020 the Central Interceptor Main Works Contract is included within these capital commitments.

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 (2019: \$0.6 million) for the water catchment areas was included in these commitments at face value. Other leases include parks, reservoirs and office equipment.

	2020 \$000	2019 \$000
Operating leases		
Anticipated payments under non-cancellable operating leases:		
Less than one year	7,338	6,908
One to two years	7,326	6,565
Two to five years	21,898	19,673
Beyond five years	81,323	81,576
Total lease commitments	117,885	114,722

27. Contingencies

There are no contingencies to report at balance date.

28. 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 2020 was \$2.5 million (2019: \$2.3 million).

29. Key management personnel

The key management personnel of the group are the directors, the chief executive, the senior management team of

Watercare, and the trustees of the subsidiaries, who together constitute the governing body of the group. The number of individuals, on a full-time equivalent (FTE) basis, excluding directors and trustees, receiving remuneration from the group as key management personnel is 9 FTE (2019: 9 FTE). The aggregate remuneration received by the key management personnel is shown below:

	2020 \$000	2019 \$000
Employees' salaries and wages, directors' fees and trustees' fees	4,240	4,638
Post-employment benefits	–	–
Aggregate remuneration	4,240	4,638

29. Key management personnel (continued)

DIRECTORS' FEES	APPOINTED	2020 \$000	2019 \$000
Watercare Services Limited			
Margaret Devlin (Chair)	November 2016	104	108
Julia Hoare	November 2013	65	68
Nicola Crauford	April 2014	60	62
Brendon Green	November 2016	60	58
David Thomas	November 2014	52	54
Hinerangi Raumati-Tu'ua	August 2019	50	–
Frances Valintine	November 2019	34	–
David Chambers	November 2019	39	–
Catherine Harland (resigned Oct 2019)	April 2011	21	62
Annette King (resigned December 2018)	November 2017	–	31
Lutra Limited			
Jason Colton	January 2016	–	–
Rebecca Chenery	February 2020	–	–
Shane Morgan	February 2020	–	–
Total		485	443
TRUSTEES' FEES			
Watercare Utility Consumer Assistance Trust			
Jeff Morrison (Chair)	December 2015	8	8
Maureen Little	October 2011	5	5
Lauren Godsiff	October 2011	5	6
Emily Charlton-Rapana	July 2015	4	5
Total		22	24

30. Events occurring after balance date

On 4 August 2020, the funding for shovel-ready projects was announced by the Minister for Housing, three of which were projects to be delivered by Watercare. Total funding of up to \$115.0 million will be provided by the government for these three projects.

On 12 August 2020, the Greater Auckland region was placed into COVID-19 level 3 lockdown. The impact of this lockdown to the group is expected to be similar to the lockdown during March and April 2020, depending on the length and severity of each lockdown. Refer to note 3, page 81 for details.

Statutory information

FOR THE YEAR ENDED 30 JUNE 2020

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 (\$)	2020
	NUMBER OF EMPLOYEES
100,000 – 110,000	75
110,001 – 120,000	62
120,001 – 130,000	68
130,001 – 140,000	28
140,001 – 150,000	22
150,001 – 160,000	21*
160,001 – 170,000	6
170,001 – 180,000	14
180,001 – 190,000	6
190,001 – 200,000	4
200,001 – 210,000	1
210,001 – 220,000	4
220,001 – 230,000	3
230,001 – 240,000	3
240,001 – 250,000	1
250,001 – 260,000	1
260,001 – 270,000	1
300,001 - 310,000	1
320,001 - 330,000	2
340,001 - 350,000	1
350,001 - 360,000	1
410,001 - 420,000	1
420,001 - 430,000	2
810,001 - 820,000	1

* During the year final payments were made to one staff member who left the company, whose payments fell within this remuneration range. The payments included outstanding annual leave and long-service leave entitlements and a redundancy payment.

Provide uninterrupted access to safe, clean and drinkable water

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

(SOI Target 2019/20: = 100% – Achieved: 100%; previous year: 100%)

Watercare met this target. Watercare continued to demonstrate 100% compliance with Drinking Water Standards 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. The reported result is for the period 1 July 2018 to 30 June 2019.

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

(SOI Target 2019/20: = 100% – Achieved: 100%; previous year: 100%)

Watercare met this target. Watercare continue to demonstrate 100% compliance with Drinking Water Standards 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. The reported result is for the period 1 July 2018 to 30 June 2019.

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

(SOI Target 2019/20: ≤ 60 mins – Achieved: 50 mins; previous year: 50 mins)

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

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

(SOI Target 2019/20: ≤ 5 hours – Achieved: 2.9 hours; previous year: 2.8 hours)

Watercare met this target. The median response time for our maintenance crew to resolve urgent issues such as faults or interruptions was 2.9 hours, which is within the target of five hours or less.

The number of call-outs in this category increased by 535 from 20,743 in 2018/19 to 21,278 in 2019/20 due to breakages caused by drought conditions.

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

(SOI Target 2019/20: ≤ 5 days – Achieved: 1.7 days; previous year: 1.3 days)

Watercare met this target. The median response time for our maintenance crews to attend to non-urgent water issues was 1.7 days, which met the target of five days or fewer. The number of call-outs in this category increased by 2,363 from 34,633 in 2018/19 to 36,996 in 2019/20 due to breakages caused by drought conditions.

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

(SOI Target 2019/20: ≤ 6 days – Achieved: 2.1 days; previous year: 2.1 days)

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

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

- a) drinking water clarity
- b) drinking water taste
- c) drinking water odour
- d) drinking water pressure or flow
- e) continuity of supply.

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

(SOI Target 2019/20: ≤ 10 – Achieved: 7.2; previous year: 7.7)

Watercare met this target. It relates to the volume of calls we received regarding water quality and supply issues for the year ended 30 June 2020. The number of complaints received per 1000 connections was 7.2, which is within the target of 10 or fewer.

Towards the end of this reporting year, we changed our information systems. As a result, the way we categorise complaints has changed. To ensure an accurate comparison with 2018/19 results, we have restated 2018/19 and 2019/20 results using the new method of categorisation of complaints.

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

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

(SOI Target 2019/20: ≤ 5 – Achieved: 0.55; previous year: 0.59)

Watercare met this target. The number of wastewater overflows from our retail network during dry weather is a measure of the network's capability to meet current demand. The result for the year was 0.55 dry-weather overflows per 1000 connections, which is well under the target of five or fewer.

Dry-weather overflows are generally caused by incorrect disposal of fats, oils and grease as well as wet-wipes down the wastewater network which 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.

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

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

received by Watercare in relation to those resource consents.

(SOI Target 2019/20: 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 2019/20 year.

(iii) Attendance at sewerage overflows resulting from blockages or other faults: median response time for attendance – from the time that Watercare receives notification to the time that service personnel reach the site.

(SOI Target 2019/20: ≤ 60 mins – Achieved: 43 mins; previous year: 43 mins)

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

(iv) Attendance at sewage overflows resulting from blockages or other faults: median response time for resolution – from the time that Watercare receives notification to the time that service personnel confirm resolution of the blockage or other fault.

(SOI Target 2019/20: ≤ 5 hours – Achieved: 2.4 hours; previous year: 2.8 hours)

Watercare met this target. The median response time for our maintenance crew to resolve wastewater overflows or blockages was 2.4 hours, which is within the target of five hours or less.

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

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

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

(SOI Target 2019/20: ≤ 50 – Achieved: 20.1; previous year: 22.7)

Watercare met this target. It relates to the volume of calls we received regarding wastewater odours, overflows, broken pipes and other network issues for the year ended 30 June 2020. The number of complaints received per 1000 connections was 20.1, which is well within the target of 50 or fewer.

Towards the end of this reporting year, we changed our information systems. As a result, the way we categorise complaints has changed. To ensure an accurate comparison with 2018/19 results, we have restated 2018/19 and 2019/20 results using the new method of categorisation of complaints.

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

(SOI Target 2019/20: ≤ 2 – Achieved: 1.5; previous year: 1.2)

Watercare met this target. The number of wet-weather overflows for the transmission network (bulk mains) per number of discharge locations was 1.5, which is within the target of two or fewer overflows.

Customer satisfaction

(i) Net promoter score

(SOI Target 2019/20: > 33 – Achieved: 43; 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 on our website. Our NPS has stayed relatively stable this year (43 across 2018/19 and 2019/20), despite the challenges in 2019/20.

In the past year, the COVID-19 lockdown impacted the ability of many of our home-based, customer-facing teams' ability to receive phone enquiries. Customers had to rely on email to get in touch, which affected the response and resolution rate. The lockdown also meant we could not read customers' water meters for an extended period of time and used estimates to bill them. The ongoing drought and stage one water restrictions have had an impact on some businesses so we continued to engage with them and provide advice and support.

Effective management of resources

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

(SOI Target 2019/20: ≤ 13% – Not achieved: 13.2%; previous year: 13.1%)

Watercare did not meet this target, with water loss over (13.2%) 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 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 reporting real water loss percentages for the period February 2019 to January 2020.* This is due to the lack of actual meter reading data during the national lockdown period and subsequent alert levels which meant our meter readers could not enter properties to access the water meters.

Leaks are unavoidable for all water networks around the world. There were more leaks on our water network this year compared to previous years. This was due to two factors: the extended hot and dry weather led to the ground contracting around the pipes causing more cracks and breaks; the amount of construction happening across

Auckland and consequently more instances of third-party damage to our pipes.

We began a proactive programme of leak detection targeting the Maungakiekie, Māngere airport, Konini and Khyber bulk supply zones, since they have the highest percentage of non-revenue water in the network. Over 1140 kilometres of water pipes have been investigated for leaks using acoustic leak detection technology. We have identified and fixed leaks contributing to an estimated 2.35 million litres of water loss per day. We aim to have checked 6000 kilometres of pipes – almost two thirds of our network by July next year.

The table below is presented to summarise the scope and results of the leak detection programme.

BULK SUPPLY ZONE	KILOMETRES CHECKED	LEAKS FOUND	ESTIMATED VOLUME SAVED (MILLION LITRES DAY)
Māngere Airport	260	127	0.40
Maungakiekie	394	390	1.00
Konini	299	180	0.60
Khyber	187	121	0.35

We also introduced additional district metered areas (DMAs) in the Maungakiekie and Manukau bulk supply zone and more are planned for 2020/21. DMAs are discrete areas of a water distribution network. DMAs allow us to measure water consumption at a suburb level and enable more accurate total volume of water analysis, and better identification of unbilled uses.

*Although the meter reading data to June is sufficient to estimate unbilled revenue for the financial statements (refer note 12), the data is not sufficient for this measure as a full set of meter read data is required.

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

(SOI Target 2019/20: 264 +/- 2.5% – Achieved: 268.6; previous year: 270.7)

Watercare met this target. In 2019/20, the gross per capita consumption of water was 268.6 litres per person per day. Our target for 2019/20 was to maintain consumption within the 266 litres per person per day (+/- 2.5%) band, to meet the overall demand management target of reducing demand by 15% by 2025, based on 2004 levels.

The demand for water from Aucklanders was higher than expected in 2019/20 as Auckland experienced a prolonged dry winter followed by a severe drought with 25 per cent less rainfall than normal.

Contributing to the high demand were two factors: the COVID-19 pandemic and subsequent lockdown led to increased residential demand during March, April and May; the extremely hot summer caused consumers on rainwater tanks to purchase more water from tanker operators during the warm and dry periods of the year.

This means that the water sold to tanker operators, which is supplied by our metropolitan network, is then distributed to consumers that are not connected to our metropolitan network.

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 2020 water connection data.

Our engagement with customers on water efficiency increased in 2019/20. We launched a new outreach programme "Water is precious", with the objective of educating Aucklanders to value their water supply. This programme includes a portal with water efficiency resources and activation events where we engaged with the public on their water consumption behaviours and then subsequently on the drought and ways to make voluntary water savings.



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

Report on sustainability content within the 2020 Annual Report

Watercare Services Limited's Annual Report for the year ended 30 June 2020 (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 119 to 121.

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 65 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 2020.

Basis for Conclusion

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

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

Board of Directors' Responsibility

The Board of Directors is responsible for:

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

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of Professional and Ethical Standard 1 *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 in the areas of taxation services, cyber and security risk advisory services, and probity services, which are compatible with those independence requirements.

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

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

Independent Accountant's Responsibility

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

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

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

Our procedures included:

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

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

Inherent Limitations

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

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

Use of Report

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

The logo for Deloitte Limited, featuring the company name in a stylized, cursive script font.

Chartered Accountants

15 October 2020

Auckland, New Zealand

General disclosures

GRI 102: General disclosures 2016	
Organisational profile	
102-1	Watercare Services Limited
102-2	Water supply and wastewater services
102-3	Auckland, New Zealand
102-4	New Zealand
102-5	100% owned by Auckland Council
102-6	i. Auckland, New Zealand ii. Public sector iii. Auckland public
102-7	People and culture p.27 Reporting Scope p. Inside Cover Financials (Note 12) p.97 Natural environment p.17
102-8	People and culture p.27
102-9	Financial and capital resources p.49
102-10	Chair and chief executive's report p.6-8 Financial capital and resources p.47
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.6-8
Ethics and integrity	
102-16	Governance p.57
Governance	
102-18	Leadership and Governance p.56-58
Stakeholder engagement	
102-40	Stakeholder and Materiality p.64-65
102-41	People and culture p.27
102-42	Stakeholder and Materiality p.64-65
102-43	Stakeholder and Materiality p.64-65
102-44	Stakeholder and Materiality p.64-65
Reporting practice	
102-45	Refer Financials p.67-112
102-46	Reporting Scope p. Inside Cover Stakeholder and Materiality p.64-65
102-47	Reporting Scope p. Inside Cover Stakeholder and Materiality p.64-65 Chair and chief executives report p.6-8 GRI Index p.119-121
102-48	Disclosed throughout the report where relevant
102-49	Stakeholder and Materiality p.64-65
102-50	1 July 2019 to 30 June 2020
102-51	September 2019
102-52	Annual reporting cycle
102-53	communications@water.co.nz
102-54	This report has been prepared in accordance with the GRI Standards: Core option

102-55	GRI index p.119-121
102-56	Annual report Assurance statements p.72-73, p.117-118
Material Topics	
103-1	Material topics have been selected as a result of Our value creation model p.4-5 and engagement with stakeholders Stakeholder and Materiality p.64-65
103-3	Delivering Our Strategy p.13-49
Category: Economic	
GRI 201: Economic performance 2016	
103-2	Chair and chief executives report p.6-8 Stakeholder and Materiality p.64
201-1	Financial capital and resources p.48 Financials p.67-112
201-2	Chair and chief executives report p.6-8 Stakeholder and Materiality p.64 Enterprise Risk Management p.59-61 Financial capital and resources p.46 Climate Change p.19 Natural environment p.14
201-4	Nil
GRI 203: Indirect economic impacts 2016	
103-2	Assets and infrastructure p.38-39 Financial capital and resources p.46 Stakeholder and Materiality p.64
203-1	Chair and chief executives report p.6-8 Natural environment p.14-16 Customer and Stakeholder Relationships p.31 Assets and infrastructure p.38-40 Financial capital and resources p.47 Reporting Scope p. Inside Cover
Category: Environmental	
GRI 302: Energy 2016	
103-2	Natural environment p.14-15 Stakeholder and Materiality p.64
302-1	Natural environment p.21
GRI 303: Water 2016	
103-2	Chair and chief executives report p.6-8 Stakeholder and Materiality p.64
303-1	Natural environment p.17
303-2	Natural environment p.17-18
GRI 304: Biodiversity 2016	
103-2	Natural environment p.18 Stakeholder and Materiality p.64
304-1	Natural environment p.18
GRI 305: Emissions 2016	
103-2	Natural environment p.19 Stakeholder and Materiality p.64
305-1	Natural environment p.19-20
305-2	Natural environment p.19-20
305-3	Natural environment p.19-20
GRI 307: Environmental compliance 2016	

103-2	Chair and chief executives report p.6-8 Natural environment p.22 Stakeholder and Materiality p.64
307-1	Statement of Service Performance p.113-116 Natural environment p.22
Category: Social	
GRI 401: Employment 2016	
103-2	People and culture p.24-25 Stakeholder and Materiality p.64
401-1	People and culture p.27, p.29
401-3	People and culture p.28 (partially reported to this GRI Standard)
GRI 403: Occupational health and safety 2016	
103-2	People and culture p.29 Stakeholder and Materiality p.64
403-1	People and culture p.29
403-2	People and culture p.29 (partially reported to this GRI Standard)
403-4	People and culture p.29
GRI 404: Training and education 2016	
103-2	People and culture p.24-25 Stakeholder and Materiality p.64
404-2	People and culture p.25, p.28 Intellectual capital p.43
404-3	People and culture p.28 (partially reported to this GRI Standard)
GRI 405: Diversity and equal opportunity 2016	
103-2	People and culture p.24-25 Stakeholder and Materiality p.64
405-1	Leadership and Governance p.52-53 People and culture p.27 (partially reported to this GRI Standard)
GRI 413: Local communities 2016	
103-2	Reporting Scope p. Inside Cover, Stakeholder and Materiality p.64-65
413-1	Stakeholder and Materiality p.64-65 Assets and infrastructure p.40 People and culture p.29 Chair and chief executives report p.6-8 Customer and stakeholder relationships p.30-31 Environmental Advisory Group p.62 Mana Whenua Kaitiaki Forum p.63
413-2	Chair and chief executives report p.6-8, Customer and stakeholder relationships p.30-31 Assets and infrastructure p.38-39
GRI 416: Customer health and safety 2016	
103-2	Customer and stakeholder relationships p.33
416-1	Customer and stakeholder relationships p.33
416-2	Statement of Service Performance p.113-116 Natural environment p.22
GRI 419: Socioeconomic compliance 2016	
103-2	Natural environment p.22 Financial capital and resources p.46-47
419-1	No non-compliance reported

Inputs – Value In

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

Natural capital

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

Human capital

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

Social and relationships capital

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

Manufactured capital

- Company assets (e.g. dams, plants, pump stations)
- Critical third-party infrastructure (e.g. roads, energy)
- Quality of wastewater
- Volume of stormwater
- Availability of construction materials
- Chemicals
- Energy

Intellectual capital

- Technology
- Business continuity and crisis management procedures
- Processes and systems
- Documented good practice
- Datasets

Financial capital

- Access to affordable capital and debt
- Access to sufficient free cash flow

Outcomes – Value Out

Through the provision of safe and reliable water and wastewater services, Watercare delivers the following:

Natural capital

- We mitigate the negative impact of our activities
- We protect and enhance the environment and ecosystems
- We use resources efficiently and reduce waste, leading to a circular economy

Human capital

- We have a productive and engaged workforce
- We develop talents and skills in the industry
- We are committed to the health and safety of our staff and contractors
- We are an employer of choice

Social and relationships capital

- We 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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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.

Watercare Services Limited

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