Change is in the waters

Annual Report 2022

Watercare

Site blessing for Snells Beach wastewater scheme

A climate of innovation

Water is increasingly complex.

Reforms are challenging ownership structures and lines of responsibility. Climate change is challenging long-held assumptions on a range of fronts – including the water we can expect. Population changes demand new ways of channelling resources and making best use of current and projected water systems.

It's increasingly clear to us, as Auckland's public water utility, that tackling current and projected opportunities will take ambition, vision and energy. Therefore, innovation, education and collaboration are key aspects of moving forward.

Our six strategic priorities set out the journeys ahead: reimagining our impacts in order to be fully sustainable; valuing and embedding te ao Māori and leveraging its richness to inform who we are as people; fostering a workforce that is highly capable, engaged, safe and well-led; building new levels of trust with our stakeholders; including communities; and lifting our water supply resilience so that there is enough for everyone – not just for today but in the future as well.

Stronger, together

We're also making important changes to how we prepare.

The first is starting young – reaching into schools to inspire and identify the next generation of water engineers to transform our responses in the years ahead.

The second is paving new relationships through collaboration with other water companies, regulators, businesses, academia and other innovators to fast-track how and when we innovate effectively. The goal is a true meeting of minds: the young; the excited; and the experienced, working together in ways that make the most of our collective strengths.

There is pressure to get this right. And the timeframes to do so have condensed. That said, we back our scale, systems, collective experiences and processes to address what lies ahead, while continuing to meet business-as-usual requirements that are already complex. We are focused on the future.

Watercare education programme coordinator Kathryn Lorenz at Northcross Intermediate School

About us

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

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

We manage water and wastewater assets worth over $14 billion and plan and build infrastructure to ensure we support growth today and into the future.

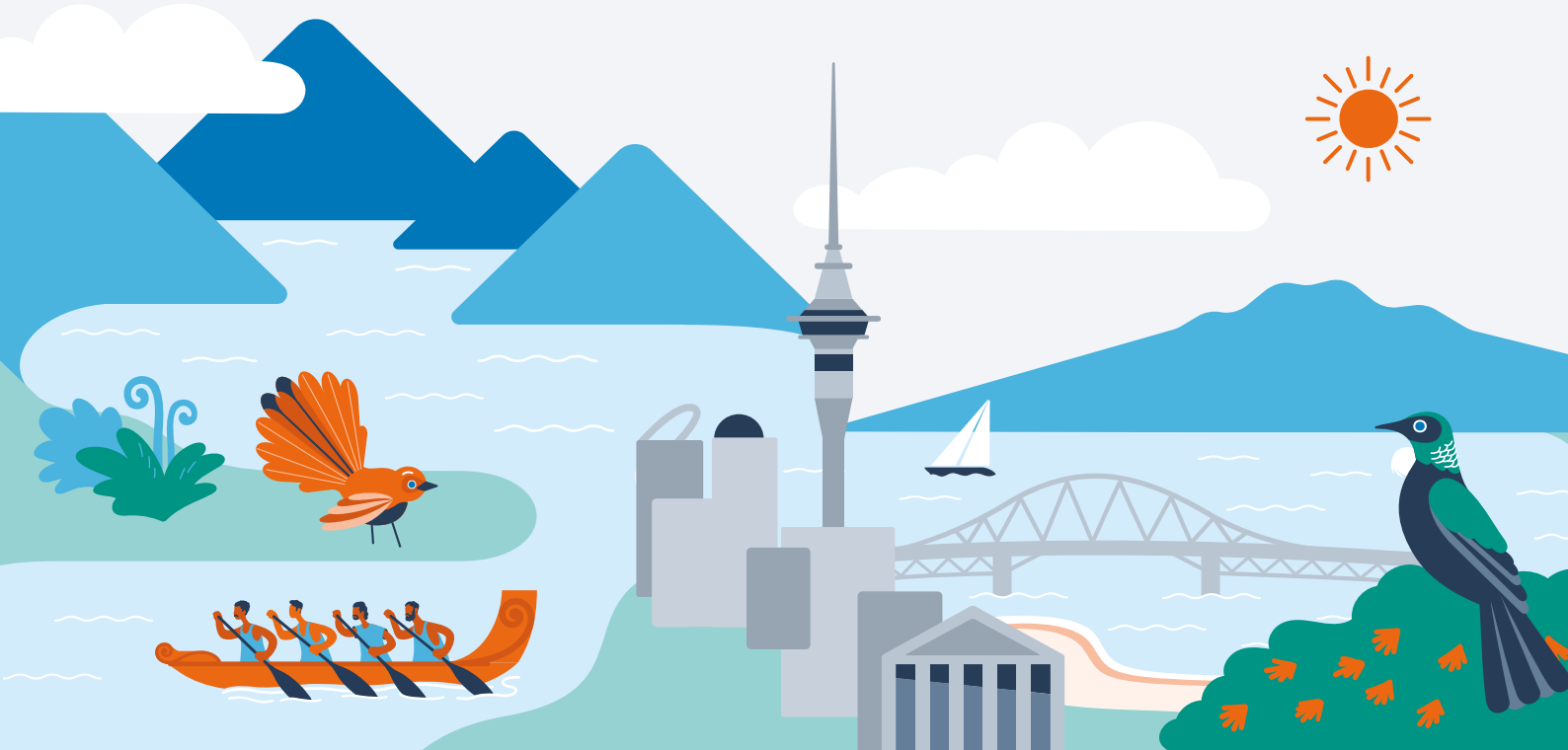
We are a council-controlled organisation, owned by Auckland Council. Our activities and programmes are funded through user charges and borrowings. We are required by law to be a minimum-cost, cost-efficient service provider and we do not pay a dividend to our shareholder.

About this report

This report presents an integrated view of Watercare's social, environmental and financial performance for the financial year ended 30 June 2022.

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

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



Reporting scope

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

Throughout this report, we have listed the sources of information used to compile the performance indicators and any significant assumptions or estimates applied. This report was approved for publication on 30 September 2022.

Cover image: Watercare education coordinator Kathryn Lorenz with students from NorthCross Intermediate School.

01

How we create value

Kia whaihanga ngā huanga

How we create value

INPUTS

Natural environment

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

People and culture

The competencies, capabilities, diversity and experience of our employees

Customer and stakeholder relationships

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

Assets and infrastructure

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

Intellectual capital

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

Financial capital and resources

Our equity, debt, cash flow, revenue and investments

WHAT WE DO

Supported by active governance

Our vision

Reliable, safe and efficient

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

Natural environment

Protected and enhanced natural environment

Leading-edge resource efficiency and reuse of resources including water

People and culture

Safe, engaged and empowered team

Customer trust and value

Industry talent and skills developed

Customer and stakeholder relationships

Public health

Engaged communities and stakeholders

Thriving communities and economy

Assets and infrastructure

Future-proofed growth and supply assurance

High-performing infrastructure

Intellectual capital

Industry-leading thinking and processes

Financial capital and resources

Minimum-cost, efficient, financially-robust service provider

and risk management

Chair and chief executive's report

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

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

In line with all of Aotearoa, Watercare has faced unprecedented external challenges over the past 12 months that have tested our personal and organisational resilience like never before. Yet, as we reflect on the year, we can see that our people rose to the challenge – their determination and ingenuity ensured our customers continued to receive safe and reliable services while achieving 23 of the 26 key performance indicators set out in our Statement of Service Performance (page 109).

$689m

of our capital programme delivered;

$800 million investment planned for the year ahead.

However, our solid performance came at a cost. We are very conscious of the pressure that was placed on our people and budgets. So, as we look forward to the year ahead, people wellbeing and sustainable efficiency are our core priorities.

Operating in a time of extended lockdown

The COVID-19 pandemic saw Tāmaki Makaurau placed under a range of restrictions from August 2021 to April 2022. At Watercare, these greatly impacted how and where we worked. Initially, our focus was on continuing the delivery of core services to customers: ensuring our treatment plants, networks and laboratories could continue to operate safely without impacting our customers. This saw us splitting teams and operating stringent rosters as well as enforcing social distancing and other health measures. By early 2022, when the Omicron variant was spreading in the community, all our people were vaccinated and we were proactively testing critical workers for the virus twice a week.

Margaret Devlin
Chair

Jon Lamonte
Chief Executive

Under the initial COVID-19 Alert Level 4 restrictions, most of our infrastructure projects were brought to a standstill for over a month. When the city moved to Level 3 restrictions, our people did well to remobilise quickly. However, productivity on sites was impacted by social-distancing requirements and procurement challenges. Overall, this meant we delivered $689 million of our capital programme, against a budget of $747 million. In the year ahead, we plan to invest $800 million, which will include a range of digital projects to improve our customers' experience such as upgrading our call centre software.

While COVID-19 no doubt impacted our business, we are pleased to report several achievements in terms of infrastructure delivery. We successfully completed Tāmaki Makaurau's largest water-related project to date, the Hūnua 4 pipeline. Now fully commissioned, it conveys water from Manukau to the city centre, boosting resilience and providing for population growth.

We also completed local water and wastewater networks in Clevedon that can accommodate 2,000 households and will improve the health of local waterways by enabling the removal of private septic tanks. In addition, several significant projects got under way, including the construction of a wastewater treatment plant in Snells Beach and a large, treated water storage reservoir in Manukau.

Our flagship $1.2 billion Central Interceptor project has made steady progress across the year, having been granted an exemption by government to operate a skeleton crew during the Level 4 restrictions. Work is under way at 11 construction sites and the main tunnel-boring machine is 1.5 kilometres into her journey from Māngere to Grey Lynn. Later in 2022, we expect she will pass under the Manukau Harbour before breaking through into the first shaft in Hillsborough.

This project is pushing the boundaries of traditional infrastructure delivery in New Zealand. The team is committed to leaving a legacy that is greater than the interceptor in the ground. Identifying and growing talent, raising the bar on health, safety and wellbeing, inspiring the next generation of engineers, and working positively with tangata whenua are central components of this project. This year, the team has partnered with local hapū Te Ahiwaru to set up a laundromat in the hope that it will become a thriving business initiative for the mana whenua group. The Whare Manaaki laundromat serves to protect staff and their whānau from being exposed to contaminants on site by cleaning all their overalls and other work gear (more details on page 32).

Responding to extreme weather

COVID-19 has not been the only challenge to test our resilience and capability over the past year. In July 2021 we were still recovering from the prolonged drought: mandatory water restrictions were in place and our dams were only 55.8% full. Twelve months later, we are in a very different position: we have lifted the mandatory water restrictions and our dams are nearly full. This speaks to the extraordinary weather we have been experiencing.

In the months of August (2021), March and June (2022), Tāmaki Makaurau was hit by severe storms that greatly impacted our operations. The first storm saw 260 millimeters of rain fall across the Waitākere Ranges overnight, triggering large-scale landslides that blocked access roads, damaged pipelines and muddied the waters of our western dams. The second storm severely impacted our wastewater networks, while the third caused widespread power outages that affected several treatment plants and pump stations. It is a testament to the dedication and capability of our people and contractors that we were able to deliver safe drinking water to our customers during and after these events, while also managing huge wastewater volumes.

These storms are further proof that our climate is changing. Our ongoing focus is on improving our ability to cope with these events and strengthening our resilience.

+23

Our employee engagement score

improved this year after a challenging lockdown in 2021.

Continuing our focus on customers

Over the past year, we have continued to strengthen our focus on customer and community relationships. While COVID-19 restrictions and illness impacted the reading of water meters, our ability to use customer insights to deliver better experiences has continued to mature. Our customer experience team introduced a chatbot very shortly before the storms in June and as a result, we were able to handle 222 customer conversations during the event, which is the capacity equivalent of three full-time people. Our live chat agents can handle 2.5 concurrent conversations, while the chatbot has the potential to handle up to 500 concurrent conversations. Our goal is to provide a service whereby high-impact, low-volume issues are handled sensitively by our customer care agents and low-impact, high-volume issues are handled using digital channels. This is to ensure customers receive the right level of care in a timely manner.

Beyond improving the transactional experience, we are also breaking new ground in early engagement with customers on complex decisions about future infrastructure investment. Having trialled New Zealand's first Citizens' Assembly in partnership with the University of Auckland's Koi Tū: The Centre for Informed Futures in 2021, we will run the full process involving a representative group of Aucklanders about the next water source for Auckland later in 2022.

We have made a commitment to the assembly that we will respond to every recommendation. This is a really important decision that will impact all Aucklanders for generations to come so we would have to have a very good reason for not implementing them.

Supporting our people in uncertain times

Over the past 12 months, great care has been taken to monitor, measure and manage the wellbeing of our people. We recognise the COVID-19 restrictions impacted everyone in the organisation, regardless of whether they were working from home or in the field. With our country and city borders closed, many of our people were unable to connect with family and friends. It became normal for people in Tāmaki Makaurau to feel isolated, lonely and anxious. At Watercare, our people engagement score dropped sharply from 35 in June 2021 to 11 by November 2021. We increased our wellbeing resources and advice for our people, including counselling services to help them cope with lockdown and remote-working.

In early 2022, we launched our company plan which clearly articulated our purpose and clarified our strategic priorities and workstreams. We also began reporting monthly and quarterly on progress against these priorities to all of our people, which is giving them greater understanding and ownership of the outcomes we are driving. These actions, combined with the easing of COVID-19 restrictions and the return to normal working conditions, have seen our employee engagement score lift to 23, above our target of 20. We also saw a measurable improvement in our culture, achieving a 7% increase in the constructive behaviours we remeasured – a sign that we are seeing a change in the right direction.

Embedding te ao Māori values and achieving outcomes for Māori

We continued our journey to support the aspirations of our iwi and mana whenua partners. To ensure our effectiveness in this space, we established Te Rua Whetū, our new Māori outcomes and relationships team, to oversee delivery of initiatives and projects aligned with Auckland Council's Kia Ora Tāmaki Makaurau Māori wellbeing outcomes framework.

Some of the successes we celebrated over the past 12 months include: the launch of a new engineering scholarship for Māori and Pasifika students – Ara Tātaki Engineering Pathway scholarship; the appointment of three Māori engineering apprentices to our infrastructure projects; partnership with Amotai to help drive supplier diversity and increase our interactions with Māori businesses; and the opening of Whare Manaaki laundromat in Māngere in partnership with local hapū Te Ahiwaru as mentioned above.

One of our six strategic priorities is to recognise and embed te ao Māori values at a strategic level and commit to meaningful programmes as part of embedding te ao Māori across watercare. Our newly-created Te Rua Whetū unit is championing this priority across our organisation, with a focus on embracing and developing our own Māori identity and culture competencies and making intergenerational commitment with iwi and mana whenua to build capability in water excellence through governance and operational mechanisms.

Looking to the year ahead

As we look to 2022/23, our focus is on our people's wellbeing and sustainable efficiency. We will support them through the Three Waters Reform transition, highlighting that their work is – and will continue to be – critical to the lives and livelihoods of our customers.

Challenges such as the drought, COVID-19 and global recession have seen our operating expenditure per connected customer rise sharply in recent years. In the past year alone, we spent $62 million more than budgeted on controllable costs.

While our revenue was $76 million higher than budgeted, this was due to Infrastructure Growth Charges and does not offset the overspend on controllable costs.

Our benchmarking suggests that there is a 30% efficiency gap compared to high performers in the United Kingdom. We want to be on the front foot of economic regulation and prepared for the future; so, we are driving a 10% reduction in our controllable cost position for 2023, while continuing to deliver our services and infrastructure to the same standard. We know it will require strong leadership and the full commitment of our people.

We wish to thank our executive team and our people for their dedication to the job at hand, and for rising to the many challenges presented over the past year. We would like to also thank our board of directors for their clear guidance as well as our shareholder, Auckland Council, for its ongoing support.

Margaret Devlin
Chair

Jon Lamonte
Chief Executive

2022 Performance snapshot

Highs

Launched

Struvite fertiliser

made from wastewater treatment processes

Volume of water lost to leaks

11.4%

(Target = 13% or below)
(13.7% in 2020/21)

Established

$1m

fund to encourage innovation, creating a safe-to-fail environment.

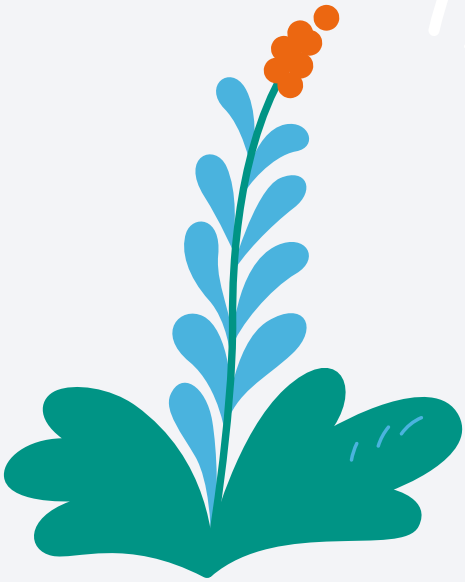
$933m

revenue in 2021/22
($802.6 million in 2020/21)

Community trust score of

57%

(Target = 55% or more)



Expanded

Parental leave

options for permanent people

Net Customer Satisfaction score of

54

(46 in 2020/21)

0.80%

of monthly income

was spent on water bills by an average Auckland household (0.84% in 2020/21)

7%

increase

in constructive culture indicators compared to 2020/21 (Human Synergistics culture survey)

Gross water consumption

243.9

litres per person per day
(Target limit of 260 litres)
(245.6 litres per person per day in 2020/21)

Lows

$689m

investment

in capital projects for 2021/22 (Target = $747m) ($767m in 2020/21)

63 minutes

to attend to wastewater faults (Target = 60* or less) (51 minutes in 2020/21)

19.2%

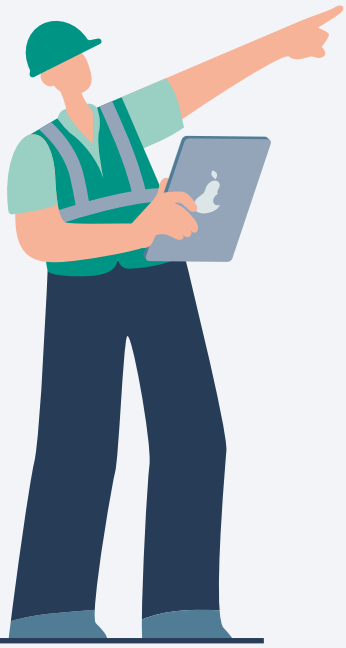
increase

in operating expenses for 2021/22 ($56m) due to people costs and unplanned maintenance

* Target and results measure median response times

Introduced

Gender Transitioning at Work Policy



Completed

31km

Hūnua 4 Watermain

strategic project to ensure security of supply for Auckland

02

Delivering our strategy

Kia whakamana te rautaki

How we're delivering value

Assets and infrastructure
P.38

Intellectual capital
P.42

Financial capital
and resources
P.46

How we're delivering value

Natural environment

Value created:

Protected and enhanced natural environment

Leading-edge resource efficiency

Reuse of resources including water

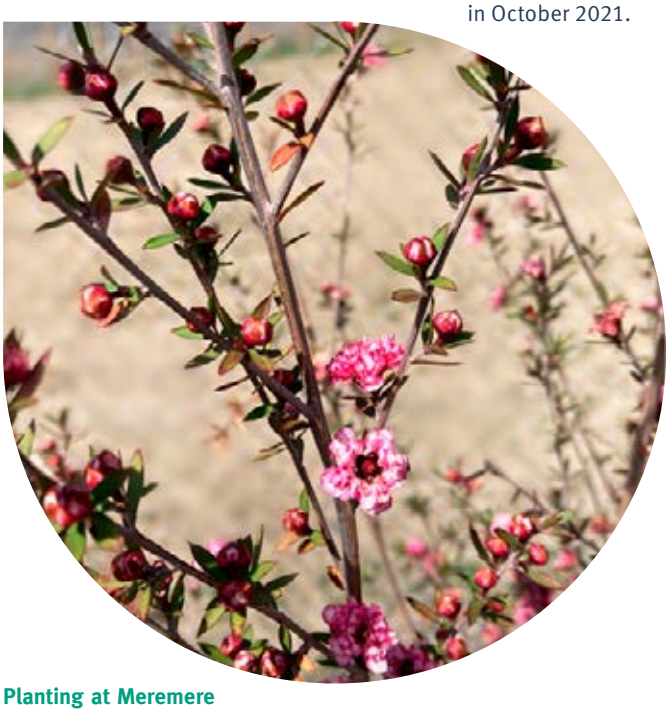
Ensuring resilience

Our efforts over the past year have focused on ensuring a resilient water supply situation for Auckland, especially after a prolonged drought which saw us implementing water restrictions, introducing new water sources and improving network performance.

Thanks to the multi-pronged drought response, and continuing water-efficient behaviours from our customers and community, the water storage levels at Auckland's main dams recovered sufficiently to enable us to remove restrictions in October 2021, nearly two years after the drought began.

Snapshot:

- Our storage dams recovered well over the first half of the year and by mid-October 2021 were over 90% full. As a result, outdoor water use restrictions that had been in place since May 2020 were lifted in October 2021.
- We were able to continue providing a safe and reliable water supply despite extreme weather events in August 2021, March and June 2022. These impacted the water quality at our storage dams, leading to high flows and high turbidity. We had to regulate our treatment processes and rebalance the flows through our treatment plants and networks to ensure there were no disruptions to communities or customers.
- We reduced the volume of water lost to leaks (11.4% in 2021/22, compared to 13.7% in 2020/21). This is due to the benefits realised from our ongoing proactive leak detection programme and improved feedback processes for managing leaks, right from reporting a leak, fixing the leak to updating the customer.
- We made some major strides in resource recovery, with the launch of a fertiliser made from Struvite. 'Emerge' is a sand-like, slow-release Struvite fertiliser that our resource recovery team has started producing from phosphorus and nitrogen which crystallises during the wastewater treatment process. This is extracted, sun-dried, sieved and sorted at our resource recovery facility within the Māngere Wastewater Treatment Plant. The fertiliser's first sale was to a turf management company in early 2022.



Planting at Meremere Wastewater Treatment Plant

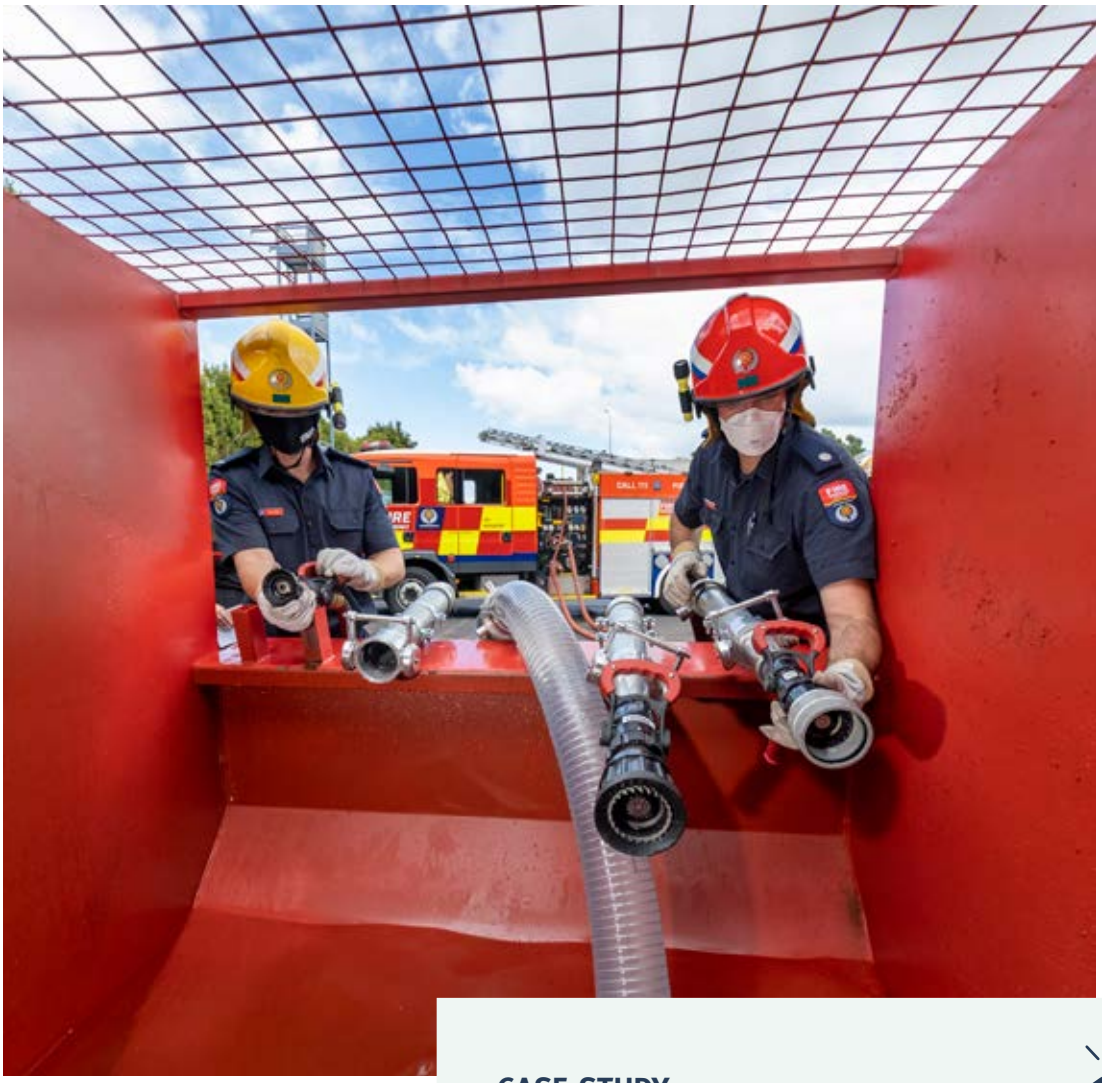
Resource recovery manager Rob Tinholt with Struvite fertiliser

- We began work on six non-potable water reuse demonstration projects that are all in different stages of development. These include sports field irrigation, golf course irrigation, a community garden, a recycled water ice rink and our first recycled water pilot plant to support the construction of the Central Interceptor wastewater tunnel. We expect to work closely with iwi and Auckland Council on this journey.
- We completed massive upgrades to the Meremere Wastewater Treatment Plant, on the strength of which the plant has received a 35-year consent (the maximum consent duration) and the quality of treated wastewater discharged to the environment is of a higher standard. This was delivered as part of our service contract for operating and maintaining Waikato District Council's water and wastewater assets.
- We received an abatement notice for non-compliance relating to the Helensville Wastewater Treatment Plant. This particular non-compliance pertained to the concentration of ammonia in the treated wastewater discharged by the plant. We presented a two-stage improvement plan to Auckland Council that will address the discharge quality by December 2022 and as a result, the abatement notice was lifted.
- We progressed our emissions reduction roadmap that will outline the pathways to halve our emissions by 2030 and achieve net zero emissions by 2050. The various initiatives we progressed as part of our climate change action and emissions reduction are detailed on page 20.

6

non-potable water

reuse pilots under way.



CASE STUDY

A bit of Kiwi ingenuity helps firefighters make huge water savings

When it comes to solving some of the biggest challenges we face in Auckland – like how to reduce long-term water use – we know that we cannot do it alone.

That's why we're always looking for opportunities to work alongside other organisations and businesses to support their water-saving efforts.

Thanks to a fruitful collaboration and a bit of Kiwi ingenuity, Fire and Emergency Services New Zealand are using a new approach to training that's set to save millions of litres of water.

Funded by Watercare, Auckland firefighters are now using recycled water in modified skip bins to carry out one of their most important firefighting exercises – pump training.

It's a move that's saving each firefighter the equivalent of the water needs of about 17,000 people for one day, or about 2.8 million litres per firefighter through the training.

The skip is filled with water, and then pumped out using a small portable pump to simulate a hydrant. That supplies water to the large pump, and when a firefighter is training with it, the water is squirted back into the skip.

Five of these skip bins have been strategically placed at Fire and Emergency sites around Auckland.

Water supply

	2021/22	2020/21	2019/20
Water supply dams (No. of operational sources over the year)	12	12	12
River sources (No. of operational sources over the year)	2	2	2
Groundwater sources (No. of operational sources over the year)	14	14	13
Water treatment plants	18	18	15
Length of treated water mains (km)	9,584	9,490	9,429
Service reservoirs	87	89	87
Pump stations	84	94	95
Annual volume produced (ex Plant m^3)*	155,818,548	150,651,464	166,073,744
Annual volume sold (m^3)*	122,958,043	118,648,870	132,321,049

* The difference between volume produced and volume sold is due to non-revenue water, a portion of which is water lost to leaks.

Volume of water by source

		2021/22		2020/21		2019/20	
Source		Volume (m^3)	%	Volume (m^3)	%	Volume (m^3)	%
Waitākere Dam	Surface	3,859,628	2.5%	4,149,440	3%	2,700,520	2%
Upper Huia Dam	Surface	2,963,430	1.9%	4,638,628	3%	4,772,363	3%
Upper Nihotupu Dam	Surface	5,328,843	3.4%	6,338,574	4%	6,141,941	4%
Lower Huia Dam	Surface	7,464,984	4.8%	11,164,260	7%	12,116,995	7%
Lower Nihotupu Dam	Surface	9,409,917	6.0%	9,656,056	6%	9,503,293	6%
Cosseys Dam	Surface	10,630,170	6.8%	6,591,702	4%	14,291,634	9%
Upper Mangatawhiri Dam	Surface	19,972,255	12.8%	16,565,780	11%	21,188,152	13%
Wairoa Dam	Surface	5,423,656	3.5%	4,636,257	3%	9,139,533	5%
Mangatangi Dam	Surface	27,384,025	17.5%	19,259,299	13%	26,466,287	16%
Hays Creek	Surface	68,663	0.0%	501,548	0%	–	–
Waikato River	Surface	51,996,452	33.2%	57,748,547	38%	50,812,241	30%
Onehunga Aquifer	Ground	7,803,116	5.0%	6,291,033	4%	6,848,096	4%
Pukekohe Aquifer	Ground	1,701,533	1.1%	1,277,532	1%	–	–
Rural North – Wellsford	Surface	331,008	0.2%	204,975	0%	1,926,223	1%
Rural North – Warkworth	Ground	610,280	0.4%	594,846	0%	–	–
Rural North – Mangakura	Surface	58,256	0.0%	89,487	0%	–	–
Rural North – Sandhills	Ground	451,634	0.3%	454,223	0%	–	–
Rural North – Muriwai	Ground	55,089	0.0%	54,805	0%	–	–
Rural North – Huia Village	Surface	59,064	0.0%	71,933	0%	–	–
Rural South – Bombay and Waiuku	Ground	980,679	0.6%	922,541	1%	977,901	1%
TOTAL		**156,436,170**	**–**	**151,032,492**	**–**	**166,885,179**	**–**

Conservation activities

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

Climate change

Climate change continues its very visible impact across Aotearoa and around the globe. As expected, the impacts are felt keenly in the water industry and we are cognisant of the effects of both droughts and floods in recent years. The Intergovernmental Panel on Climate Change (IPCC) released its most recent updates over the past 12 months, bringing together the latest in global science. It tells us that impacts are here now and that there is a rapidly closing window for action if we are to expect a liveable future. Our commitment to climate action has continued as strong as ever throughout 2021/22, with collaboration in and across the water sector.

Our targets remain unchanged:

- Net zero emissions by 2050
- Reduce operational greenhouse gas emissions by 50% by the year 2030
- Reduce built carbon from infrastructure by 40% by 2025.

These targets are ambitious, but necessary and aligned with global science to reduce global warming. They will not be easy and require significant focus to be achieved. This year we have completed work on our emissions reduction roadmap to achieve the 2030 target. The roadmap has been created using knowledge from our newly-formed decarbonisation team, with representatives from across the business looking at a wide range of emission-reduction initiatives such as wastewater process emission monitoring and optimisation, electric vehicles (EVs) and investigation of other fuels, additional solar panel projects and new ways of using the biogas that comes from sewage. These have been reviewed and benchmarked with global peers such as Scottish Water and the WaterUK Net Zero Routemap. Our roadmap sets out key priorities for the year ahead as well as a list of projects that we will integrate into our work programme over the coming years. We are now pivoting to implementation.

Climate disclosure programme

Watercare has participated in the Auckland Council Group climate change disclosure programme. The current considerations of climate change impacts for Watercare are described using the Taskforce on Climate-related Financial Disclosure (TCFD) framework and detailed in the Auckland Council report that brings this together across the whole group. By the end of 2022, a climate change risk identification and assessment process using agreed-on scenarios for the council group will take place. These will be combined with climate-related opportunities, cost implications and relevant metrics to meet the mandatory reporting requirements established by the External Reporting Board.

Collaboration with Healthy Waters on climate action plan

Watercare and Healthy Waters have collaborated on a joint climate action plan to implement key areas of Te Tāruke-ā-Tāwhiri: Auckland's Climate Plan. The joint approach ensures that water management is undertaken in a holistic manner, capable of mitigating and adapting to climate change.

The action plan is directly aligned with and further enhanced by the Auckland Water Strategy 2022 – 2050, Auckland Council's strategy to protect and enhance te mauri o te wai, the life-sustaining capacity of water. The internally focused action plan provides the key focus areas for teams, split into 14 portfolios, and also sets the integration of direct activities for teams and individuals through more detailed work plans. The portfolios are divided into the categories of Māori Partnerships, Overarching, Adaptation, Mitigation and Engagement. Watercare and Healthy Waters have seized the opportunity to share learnings, apply a systems-thinking methodology and align approaches as part of a journey to operate a low-carbon water system resilient to climate impacts in Tāmaki Makaurau. This action plan builds on and supersedes the Watercare Climate Change Strategy launched in 2019.

Climate change modelling

A significant project to update Watercare's Integrated Source Management model (ISMM) has been completed. This has been updated with a new series of recent weather data points to ensure it captures the droughts over the past few years. In addition, the tool has been updated with the inclusion of climate change projections. This allows climate change scenarios to be used to predict the differences in water supply yields out to 2100.

Greenhouse gas (GHG) reporting updated to reflect industry best practice

We have also recently adopted new methodology for measuring wastewater emissions (which is now the most significant source of emissions). This methodology is globally recognised by the IPCC and has been refined for adoption in New Zealand through the WaterNZ Climate Change Special Interest Group. The new methodology has resulted in a substantial increase of the total reported volume of emissions. The updated approach was also recommended and has subsequently been reviewed by GHG verification specialists Toitū Envirocare.

Watercare's method of calculating our emissions has been updated and now reflects global best practice.

As a result, Watercare's reported GHG footprint has increased from 45,980 tCO_2e to 103,106 tCO_2e for the previously reported 2020/21 year and these figures have also been backdated to 2018 in line with the graph displayed below (Fig. 1). Emissions reported for 2021/22 are 107899 tCO2e.

Looking ahead we recognise that there will be further updates to the measurement approach for wastewater emissions. The updated approach from the IPCC still used default emissions factors derived from overseas treatment plants. As wastewater is a biological process the emissions will be unique in each facility. This year we started trials of direct monitoring using specially designed hoods that sit on top of the treatment plant at certain stages. This method will eventually be used to create plant-specific emissions factors.

GHG emissions

Our emissions have increased compared to 2020/21 (Fig. 2). Our wastewater treatment plants are now the most significant component of our footprint (Fig. 3) and the flow to these plants increased by 8% due to increased rainfall seen in 2021/22 compared to 2020/21 when drought conditions were experienced. Some of our sewer networks are combined with stormwater systems in several areas of Auckland and leaks and other intrusions to our pipes have resulted in higher volumes of water and other materials entering our treatment plants in wet years. We treat effluents to ensure they do not impact the receiving environments and consequently, GHGs are released, which we measure in this accounting.

Electricity emissions, termed scope 2, have also increased this year in comparison to last year. This is due to the additional volume of wastewater treated but also because we relied more heavily on drinking water supply from our Waikato

water treatment plants, which require more pumping, and thus more energy, to reach Auckland communities. We used the Waikato plants to allow the dams to recover after the drought and this highlights the interplay between water security and reducing emissions. Finally, the droughts have impacted the emission factor for electricity that is published by the Ministry for the Environment, which is higher than previous years. This results in higher reported emissions for Watercare due to the electricity that we use.

Natural gas consumption and fuel use in our corporate fleet reduced this year as operating procedures and EV fleet investment changes took effect.

The emissions relating to biosolid disposal at Puketutu Island have been excluded from this report due to lack of certainty in the measurement methodology for this unique emissions source. This is currently being confirmed and will be reported going forward.

Note 1: Watercare's carbon footprint has been calculated in accordance with the "Greenhouse Gas Protocol" World Resources Institute (WRI, 2004), including all six Kyoto GHG and the operational control method. Per protocol, it excludes biogenic CO_2 emissions from the burning of biogas, which totalled 21,972 tCO_2. Global Warming Potential values with climate-carbon feedbacks of 34 for CH4 and 298 for hitrous oxide (N_2O) have been used.

Note 2: Independent verification of GHG measurement provided by Toitū Envirocare in line with ISO 14064-1:2018. Emissions from Puketutu Island were excluded on the basis of insufficient data being available to calculate the emissions.

Note 3: Emissions factors are sourced from the Ministry for the Environment (2022) and the IPCC (2019). Wastewater emissions include additional industry calculations as defined in Water New Zealand Carbon Accounting Guidelines (2021).

Fig 1.

Impact of changed reporting methodology

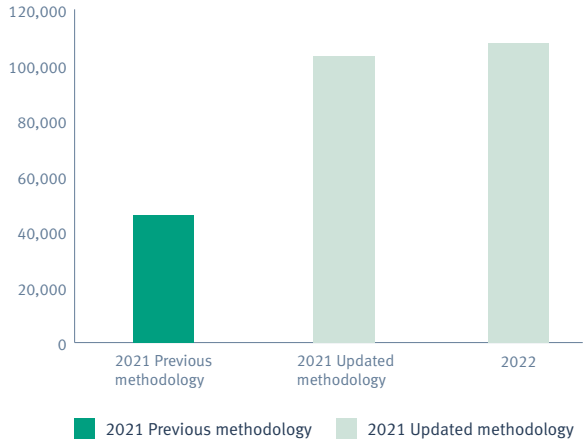


Fig 2.

Watercare greenhouse gas emissions

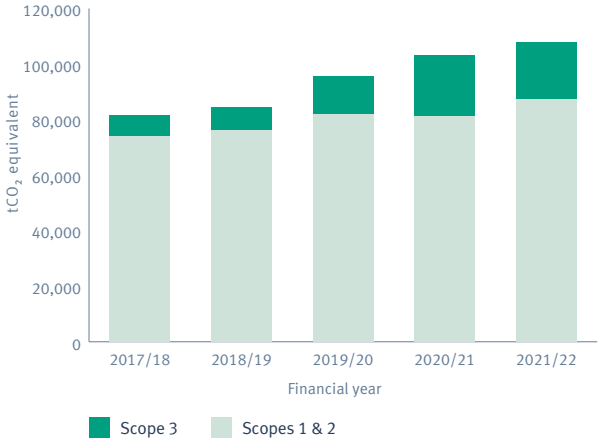
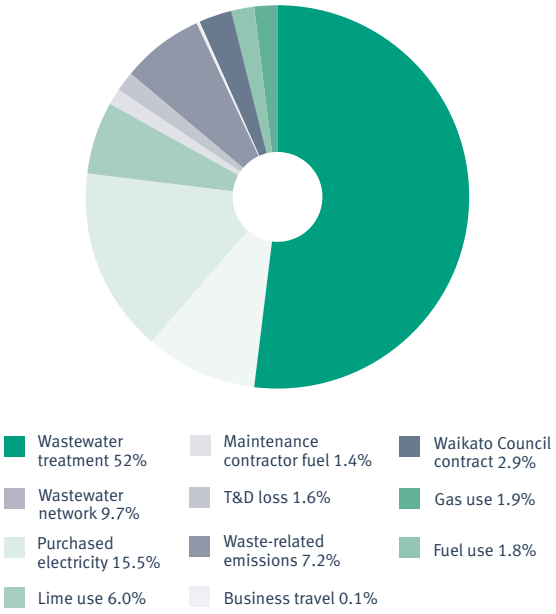


Fig 3.

2021/2022 emissions sources



Progress on infrastructure carbon

The assessment of climate change impacts is embedded into the delivery of our infrastructure programme. To achieve the ambitious target of 40% reduction in built carbon by 2025 we utilise the Moata Carbon Portal to assess impacts and different options throughout the planning and design stages. We are working closely with our construction partners, Fulton Hogan and Fletcher Construction, to bring new technologies to our projects such as CarbonCure to reduce the emissions associated with concrete. This relationship has also fostered a memorandum of understanding with key suppliers to work towards a future where concrete is zero carbon. Throughout the year, we have also progressed the scoping and purchase of three heavy electric spoil haulage trucks to be used for the Central Interceptor construction programme. Though COVID-19 related issues have caused delays in their arrival we look forward to showcasing this low-emissions technology in the construction sector.

Looking ahead, we will continue to monitor the impacts of the water reform and whether that will change the GHG emissions reporting boundary for Watercare while we also focus on delivering the projects that will further reduce our emissions.

Total energy consumption	Total	Unit	Percentage renewable	Percentage non-renewable	Total GJ	
Grid electricity purchased	154,590.16	MWh	85.5%	14.5%	556,524.56	
Electricity – self-generation renewable (solar, hydro, biogas)	46,358.51	MWh	100%	0.0%	166,890.64	
Electricity – self-generation non-renewable (natural gas, diesel)	3,792.42	MWh	0%	100.0%	13,652.72	
Transport – petrol, premium, diesel	731,446.55	litres	0%	100.0%	27,919.79	
Transport – BOC gas	780.00	kg	0%	100.0%	38.22	
Other – natural gas	36,240.00	GJ	0%	100.0%	36,240.00	
				TOTAL	**801,265.93**	
				Renewable	642,719.14	80%
				Non-renewable	158,546.79	20%

	2021/22		2020/21		2019/20	
Electricity use	**MWh**	**%**	**MWh**	**%**	**MWh**	**%**
Electricity generated through water supply (hydro)	1,324	0.6%	833	0.4%	2,665	1.3%
Electricity generated through wastewater treatment (biogas) – Māngere	37,727	18.4%	41,192	20.9%	35,108	17.7%
Electricity generated through wastewater treatment (biogas) – Rosedale	7,540	3.7%	5,883	3.0%	6,309	3.2%
Electricity generated from solar	1,554	0.7%	1,606	0.8%	402	0.2%
Electricity generated from non-renewable sources	3,792	1.8%	6,115	3.1%	3,652	1.8%
Total internally generated electricity	**51,938**	**25.4%**	**55,629**	**28.2%**	**48,136**	**24.2%**
Total purchased electricity	**154,590**	**75.5%**	**143,628**	**72.8%**	**153,307**	**77.1%**
Electricity exported to the grid (solar, hydro, biogas)	**-1,787**	**-0.9%**	**-2,069**	**-1.0%**	**-2,580**	**-1.3%**
Total electricity consumed	**204,741**	**100.0%**	**197,187**	**100.0%**	**198,864**	**100.0%**

Reusing waste from treatment processes

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

Operational Waste from:	2021/22	2020/21	2019/20
Water treatment (m^3) – sludge*	17,896	13,941	12,316
Wastewater treatment (t) – biosolids, grits and screenings	154,746	145,558	142,030

* Estimates have been used for calculating the volume of sludge from water treatment.

Resource consents

As at 30 June 2022, we averaged 431 active consents over 2021/22. Our average rate of compliance with these consent conditions was 93.3%.

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

We report all non-compliances to Auckland Council, and during the year, there was one abatement notice issued for the Helensville Wastewater Treatment Plant (see more details on page 17).

2021/22	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Total active consents	441	505	511	513	491	463	396	358	366	375	378	369
Total number of non-compliant consents	31	20	26	17	30	33	30	40	36	29	29	23
Consents with technical non-compliances	24	14	19	11	23	22	22	27	17	18	19	11
Consents with full non-compliances	7	6	7	6	7	11	13	13	19	11	10	12

How we're delivering value

People and culture

Value created:

Safe, engaged and empowered team

Customer trust and value

Industry talent and skills developed

Building a supportive, inclusive workplace

Against the backdrop of an extended lockdown, pandemic fatigue and an extremely tight labour market, looking after our people and building a supportive and future-focused workplace took on even more significance in 2021/22.

As a council-controlled organisation, we have a responsibility to be cost-efficient and financially responsible while still remaining a sought-after employer. We introduced a range of initiatives to attract, retain and grow our people, including wrap-around mental and physical wellbeing services, expanded leave options and professional development programmes. Improving the gender and ethnic diversity of our workforce and identifying new avenues for recruitment remain key priorities for us.

Snapshot:

- We implemented a vaccine mandate for accessing all of our sites between December 2021 and June 2022 to keep our people safe and ensure continuity of service.
- We carried out proactive saliva testing on a twice-weekly basis for our critical workers during the Omicron peak earlier in 2022 to limit the spread and exposure of the variant.
- We provided wellbeing resources and advice for our people, including the company-funded free counselling services to help them cope with lockdown and remote-working.
- We expanded parental leave options for permanent employees, adding to the current Parental Leave Policy. These include paid special leave for those who are expecting or adopting children, annual leave paid at a greater rate on return to work, and reduced hours before starting parental leave. This is in addition to the comprehensive set of benefits we already have in place including life insurance, income protection insurance, free health check-ups with an on-site registered nurse and free flu jabs.
- We introduced a 'buddy' programme for new starters where they are matched with our people from across the business who typically spend half an hour a week for the first three weeks of a new employee's time at Watercare answering their questions, sharing their time and knowledge, and helping new starters understand and navigate through the organisation.
- We introduced a Young Professionals Network (YPN) to provide a platform for anyone in the first 15 years of their career to get exposure, develop their skills, build a community of passionate and talented people and promote an exchange of ideas and knowledge.

Site blessing at new training campus

- We introduced a Gender Transitioning at Work Policy in December 2021, providing a framework and practical guidance to our people leaders on how to support our employees during the different stages of their gender transition journey. The policy is another significant step forward for Watercare's cultural evolution towards becoming an inclusive workforce that enables our team members to thrive, regardless of age, gender, ethnicity and sexual orientation. We are a finalist for this initiative, in the "Inclusive workplace" category of the Diversity Works 2022 Awards.
- We have made available additional early careers opportunities – more graduate roles, apprenticeships, cadetships and internships – and improved our graduate programme to provide a better experience for participants (see case study on page 26).
- We continued to deliver our career development programmes including Future Stars, Growing Greatness and the leadership programme.
- We also progressed the first phase of our dedicated training campus with the construction of the pipe-jacking facility, due to be officially opened in August 2022.
- We sponsor the South Pacific Professional Engineering Excellence network (SPPEEx) to grow the community of Māori and Pasifika engineers within Watercare and enable their ongoing career success.
- We set up a dedicated Māori outcomes and relationships unit – Te Rua Whetū – to build cultural and te reo competencies within Watercare and embed te ao Māori values across the business.
- Our Employee Net Promoter Score (ENFS – a metric used to measure employee satisfaction) for 2021/22 was slightly above target (23 against a target of 20 or above). Overall, our people believe that their work supports the team and organisational goals and that we are heading in the right direction as a company. Areas highlighted for improvement include a more transparent and equitable remuneration framework and better cohesion between various business functions.
- We improved our gender diversity, with 4% increase in gender representation. For departmental-level detail, please see page 27.
- We achieved a Total recordable injury frequency rate of 14.3 against a target of 20 or less. We continue to work on a range of targeted programmes to empower our people with training, tools and the confidence to carry out their work safely and stop work if they see unsafe practices.
- We achieved a 7% increase in constructive 'blue' behaviours (our aspirational target was 5%) based on our one-year culture check-in survey. We saw an increase across the two organisational causal factors we remeasured – articulation of organisational mission and customer service focus. Going forward, annual culture check-ins will become part of our ENPS surveys.

4%

increase

in gender representation.

CASE STUDY

Future-proofing our workforce

Getting young people thinking about the water industry as a great career option is essential for developing new talent, especially in a time of low unemployment and a competitive job market.

We are proactively working to future-proof our workforce through our talent acquisition strategic plan which focuses on reaching our future talent early, offering cadetships to train people on the job and providing scholarships to recognise academic excellence.

Early outreach

One of the ways we are helping to create potential future water professionals is by participating in Engineering New Zealand's Wonder Project, which involves talking to students from Years 5 to 13 about science, technology, engineering and maths.

Graduate engineer Hayes Okesene is one of the participants and speaks to students once a week, introducing and explaining basic physics concepts, like forces and variables.

Hayes completed a summer internship at Watercare while studying chemical materials engineering and returned as part of our graduate engineering programme. He is currently working in the technology innovation team.

We are also in touch with all the high schools in Auckland and attend career expos to show students some of the career paths available to them within the water industry.

Creating a more diverse workforce is a key aspect of our early careers programmes and building relationships with Māori and Pasifika organisations is part of that.

We work with organisations like Te Puni Kōkiri and iwi groups to find candidates for our programmes and to highlight early job opportunities. About 40% of candidates in our early careers programmes are Māori or Pasifika and about half identify as female. Last year, our internship programme comprised 68% people who identify as female.

Apprenticeships and cadetships

A new engineering apprenticeship programme, launched in 2022, aims to bridge the gap between leaving high school and embarking on an engineering career with us.

This is a four-year initiative/scheme where the apprentices are paid a full-time salary and supported to complete an engineering qualification at the Manukau Institute of Technology. The apprentices gain site engineering experience with the goal of being progressed into project engineering roles at the end of the programme.

We also offer cadet plant operator roles in certain locations where candidates do not need prior experience or qualifications like NCEA credits and can learn on the job.

Our digital team recently welcomed its first intake of Rea cadets, who will spend three months learning the ins and outs of digital services at Watercare.

We have partnered with employment and learning platform Rea to provide the cadetship as part of Rea's seven-month Accelerated Pathway Programme.

The programme gives people with no previous technical experience the opportunity to get into digital roles, whether they are starting their careers or changing direction.

Scholarships

We support students studying engineering through a number of scholarships, including the Mark Ford Ngā Tapuwae Scholarship for Māori and Pasifika Students – Civil Engineering, the Mark Ford Ngā Tapuwae Scholarship for Māori Students – Civil Engineering and the Kate Edger Scholarship for Female Students – Engineering.

More recently, the Central Interceptor project has partnered with the University of Auckland to create the Ara Tātaki Engineering Pathway Scholarship for Māori and Pasifika engineering students, which is paired with an internship.

Workforce employment breakdown

The number of our people has increased (9.9%) from 1,162 in 2020/21 to 1,277 in 2021/22. Most of our people work in the Auckland region. Watercare also operates laboratory testing services in Queenstown and Invercargill, where 10 personnel are employed. Collective employment agreements (CEAs) are employment agreements negotiated with one or more unions on behalf of those staff who belong to that union. Individual employment agreements (IEAs) remain the most common type of employment agreements. The majority of employees employed on CEAs are males who undertake operational or maintenance functions within the business.

New hires by gender

	2021/22			2020/21			2019/20		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Individual employment agreements (IEA)	550	428	**978**	507	352	**859**	484	310	**794**
Collective employment agreements (CEA)	206	13	**219**	233	15	**248**	198	13	**211**
Part-time headcount	5	33	**38**	8	27	**35**	7	25	**32**
Fixed-term individual agreements (IEA) >1yr	14	6	**20**	5	5	**10**	3	2	**5**
Fixed-term individual agreements (IEA) <1yr	3	3	**6**	6	4	**10**	6	22	**28**
TOTAL fixed-term and permanent employees:	**778**	**483**	**1,261**	**759**	**403**	**1,162***	**698**	**372**	**1,070**
Casuals headcount	4	12	**16**	6	9	**15**	7	14	**21**
Total headcount on payroll	**782**	**495**	**1,277**	**765**	**412**	**1,177**	**705**	**386**	**1,091**

* Excludes Lutra employees.

Diversity and inclusion

Watercare is a diverse workplace and we are committed to reflecting this diversity across all departments and functions. The overall gender representation for Watercare saw an improvement with an increase in female employees by 4% compared to 2020/21 levels.

Breakdown of employee gender as at 30 June 2022

Department	Female	Male	% Change in female employees
Central Interceptor	61%	39%	6%
Company Secretary	90%	10%	(10%)
Customer	55%	45%	3%
Digital	25%	75%	(2%)
Executive	29%	71%	(14%)
Finance	63%	37%	11%
Infrastructure	37%	63%	6%
Operations	17%	83%	(1%)
People	69%	31%	(1%)
Te Rua Whetū	50%	50%	New department

Watercare's board of directors has the following gender breakdown: 50% female and 50% male.

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 2021/22, 100% of employees who took parental leave returned to work. The decision to return to work following the completion of their parental leave is solely up to the employee and is dependent on their individual personal circumstances. 77% of the people who returned from parental leave in 2020/21 were still employed with Watercare in 2021/22.

Number who have taken parental leave	2021/22	2020/21	2019/20
Male	23	29	17
Female	11	13	12
Total	**34**	**42**	**29**

Number due to come back from parental leave each year	2021/22	2020/21	2019/20
Female	12	12	16
Total	**12**	**12**	**16**

Number having come back from parental leave	2021/22	2020/21	2019/20
Female	12	12	15
Total	**12**	**12**	**15**
% returning after parental leave	**100%**	**100%**	**94%**

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

Staff turnover

Voluntary Turnover for 2021/22 was 15.6%, an increase from 8.08% in 2020/21. Our approach to manage this is outlined on pages 24 and 25. Staff turnover excludes casual and fixed term staff and contractors.

Health, safety and wellbeing

HSW measure	2021/22	2020/21	2019/20
Lost-time injury frequency rate (LTIFR) – number of lost-time injuries per year per million hours worked	9.8	8.5	10.6
Total recordable injury frequency rate (TRIFR) per million hours worked	14.3	16.1	20.6

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

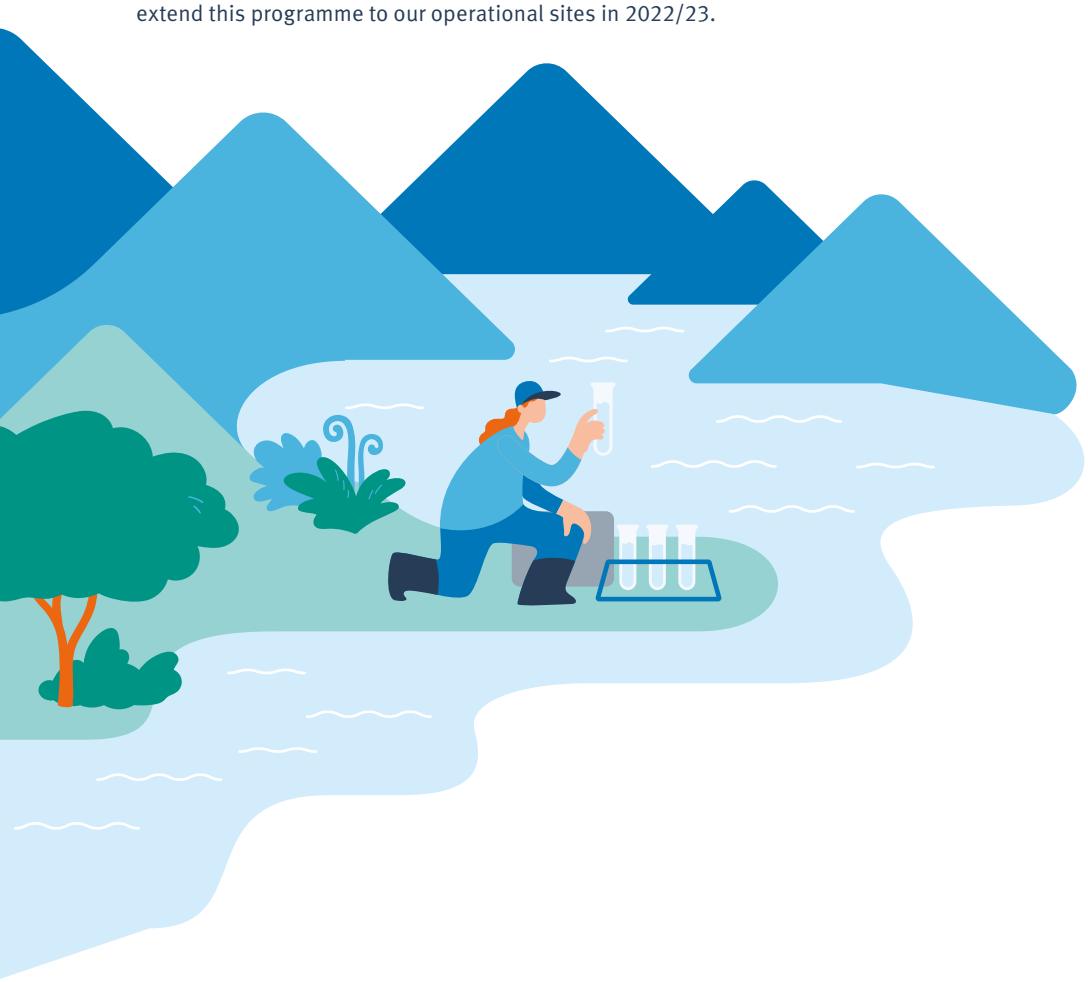
Musculoskeletal (sprains and strains) and hand injuries were the most common type of injuries recorded during the year so we continued equipping our teams with training and resources to enable them to carry out their work safely.

We continued our back-to-basics campaigns across our construction sites, focusing on a different theme each month to get people thinking about workplace safety. The themes pertain to our 14 critical hazards and risks including working at heights, confined spaces and working with suspended loads.

The purpose behind these campaigns is for people on-site to decide on one action they can do to make their site safer every week. By getting people to commit to a safety action, the programme enables them to be proactive, build better workplace relationships and open the lines of communication, so they feel comfortable talking about any issues. We plan to extend this programme to our operational sites in 2022/23.

Absenteeism

Watercare recorded an unplanned absenteeism rate of 2.8%, which is a slight decrease over last year's result of 3.0%. 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 leave to encourage staff to stay home if they are unwell without worries about their sick leave allowance.




Watercare

Customer and stakeholder relationships

Value created:

Public health

Engaged communities and stakeholders

Thriving communities and economy

Improving customer experience with insights and empathy

We continue to move closer to our customers and communities as we deliberately shift to making decisions and developing solutions with them instead of for them.

The past year saw us building on our engagement model to include always-on feedback about our infrastructure projects as well as very early consultation on future investment decisions. We continue to focus on extracting insights from our day-to-day customer interactions, be it through our satisfaction surveys, co-design workshops or interrogation of the underlying processes and behaviours behind customer complaints. The continuous improvements across our business, informed by customers, are evidenced in our healthy trust and customer net satisfaction scores.

While our water supply position continued its recovery over the past year, we did not take our eye off the water-efficiency ball and continued encouraging and embedding water-efficient behaviours among all customer segments. In response to our outreach, commercial customers decreased their consumption by over 10% through not only process changes, but also significant investment in water-efficient plant and equipment. Aucklanders generally remained vigilant and with their support we managed to maintain consumption at a sustainable level.

Snapshot:

- Our trust score of 57% is derived from a monthly survey, with more than 5,000 Aucklanders responding over the course of the year to the question "Thinking about everything you know about the company, how much do you trust Watercare?"
- Our Net Customer Satisfaction (NCS) score has increased this year to 54, from 46 in 2020/21.
- We now also measure the impact of our infrastructure projects on local communities through direct feedback from people living in those areas. Feedback received from almost 1,000 residents living near one of our project worksites returned an NCS score of +28. More importantly, it has given us very valuable insights into how the community perceives our projects and where we could improve.

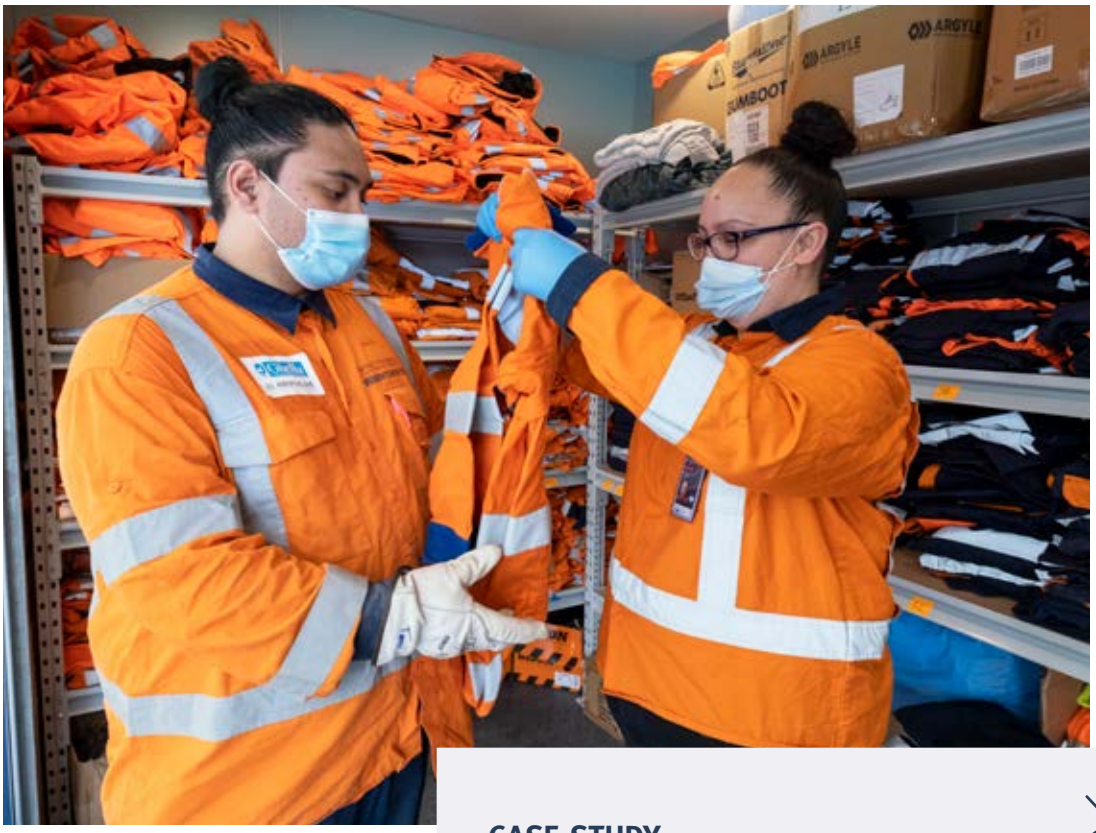
Citizen's Assembly trial in 2021

- Of the 1,028 complaints received in 2021/22, we resolved 98.9% (1017) within 10 days.
- A trial last year of a new way to engage customers on complex inter-generational challenges has led to the establishment of New Zealand's very first Citizens' Assembly. In August 2022, the assembly brought together 40 Aucklanders to deliberate over four full days on future water sources for Auckland. The outcome of the assembly will be a recommendation to our leadership and board.
- The 2021/22 gross per-capita water consumption of 243.9 litres per person per day was well below the target limit of 260 litres per person per day.
- We reached approximately 4,650 tamariki and rangatahi through our education programme, hopefully inspiring them to be water guardians who appreciate the value of water. In 2022/23, we plan to double our reach across Auckland.
- He Taonga te Wai, our inaugural water efficiency conference and exhibition for commercial customers, brought together more than 200 customers and water-efficient equipment and solutions providers in pursuit of a common goal – treasuring water as a precious resource.
- We worked with the Plumbers, Gasfitters and Drainlayers Board, the University of Auckland, the Unitec Institute of Technology and water industry experts to develop a water calculator which helps our customers figure out where they can save water.
- Following a successful trial in 2020/21, we began rolling out smart meters to Auckland residents. We aim to install 44,000 smart meters by the end of 2022, empowering customers with more timely insights into their household water use. Having real-time consumption data will also help us identify invisible leaks in our own water pipes, see where we need to focus our efforts, and to operate and maintain our network more efficiently.
- We introduced a priority assistance service, offering practical support to our vulnerable customers, including those who are visually and hearing impaired, dealing with long-term health conditions or facing financial difficulties.
- Through our Live Chat channel, we are now able to communicate with our customers in their language of choice. Te reo, Mandarin and Hindi are the three most requested alternative languages.
- We launched an information hub targeted towards local government, particularly local board members and councillors, recognising the quantum of information they have to manage. This hub is a one-stop shop with region-specific information on our projects, how we are engaging with local communities, and latest news.

54

Net Customer Satisfaction score

an increase from 46 in 2020/21



CASE STUDY

Te Ahiwaru hapū determined to turn laundromat into business success

In November 2021 our Central Interceptor project team partnered with local hapū Te Ahiwaru to create a laundromat in the hope that it will become a thriving business initiative for the mana whenua group.

The Whare Manaaki laundromat, based in Māngere and managed by Te Ahiwaru Trust, cleans all PPE from the various sites along the route of the giant wastewater tunnel.

Watercare and the Ghella Abergeldie Joint Venture for the Central Interceptor have funded and established the purpose-built laundry and repair service as part of the project's focus on supporting their neighbouring communities.

The aspiration behind the laundromat was to leave a legacy beyond the infrastructure in the ground and to support the communities alongside our tunnelling route in a way that has a lasting impact.

The laundry is made up of two containers. One is equipped with commercial washing machines and dryers; the other with sewing and embroidery machines that has additional space to store PPE.

A team of four work across seven sites. The containers are designed so they can be easily relocated at the end of the project.

All those employed to run the day-to-day services are descendants of Te Ahiwaru from Makaurau Marae. A key driver behind the laundry is to protect project team and their whānau from being exposed to contaminants on site. The Manaaki laundry team collect PPE from all active construction sites, wash, and dry gear overnight and return it back to site the next day.

The plan is to extend Whare Manaaki's contract until construction is complete in 2026, hopefully establishing a hapū business and employment venture after the project is finished, so that it continues to give for generations to come.

Reliable service

Unplanned water interruptions per 1,000 connections

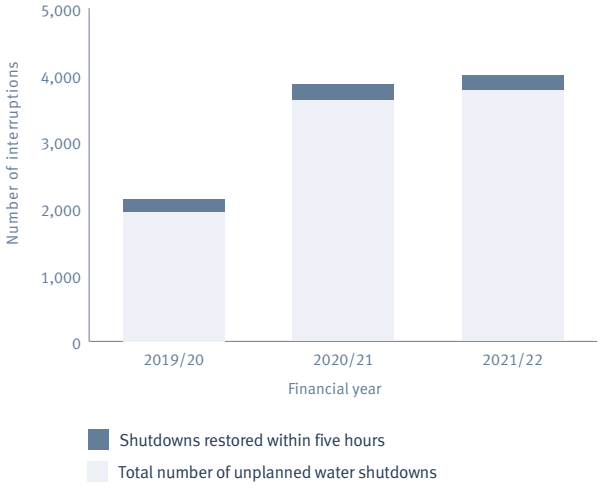
The Auckland region covered a total of 458,095 water supply connections in 2021/22. As a measure of reliability of service, we monitor the number of times the water supply to our customers is interrupted.

We aim to ensure that there are 10 or fewer interruptions per 1000 connections during the year. The result for the 2021/22 year was 8.7 for the Auckland region compared to 8.5 during 2020/21.

Unplanned water interruptions restored within 5 hours

To minimise the impact on our customers, Watercare aims to ensure at least 95% of all unplanned water interruptions are restored within 5 hours. The result for the year was 94% for the Auckland region (94% for 2020/21 as well).

Unplanned water shutdowns restored within five hours



Year	Total number of unplanned water shutdowns	Percentage of unplanned water interruptions restored within 5 hours
2021/22	4,001	94.1%
2020/21	3,859	93.7%
2019/20	2,132	91.0%

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	59 mins
	Median time taken by our crews to resolve the fault	⊠5 hours	3.1 hours
Non-urgent faults on the water network	Median time taken by our crews to attend to the call-outs	⊠5 days	1.1 days
	Median time taken by our crews to resolve the fault	⊠6 days	1.9 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	63 mins
	Median time taken by our crews to resolve the overflows caused by blockages or other faults	⊠5 hours	3.7 hours

Complaints

Information about transactional complaints is provided on page 31.

Complaints received about drinking water quality and wastewater issues as these have been reported separately below.

Water

Types of complaints	Number	Percentage
Low water pressure medium	352	8.76%
Water complaint illness	75	1.87%
Water discoloured water	1,339	33.34%
Water low pressure routine	128	3.19%
Water low pressure urgent	1,953	48.63%
Water quality flush	7	0.17%
Water tainted water	162	4.03%
Total	**4,016**	**100.00%**

Wastewater

Types of complaints	Number	Percentage
Sewer odour	766	6.77%
Sewer third-party damage	87	0.77%
Sewer incident	1	0.01%
Sewer manhole (routine)	473	4.18%
Sewer manhole (urgent)	119	1.05%
Sewer pipe broken	–	0.00%
Sewer pump station (routine)	412	3.64%
Sewer safety problem (urgent)	18	0.16%
Sewer overflow/blockage	9,443	83.43%
Total	**11,319**	**100.00%**

Investment in community programmes

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

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

We also continued sponsoring the Mark Ford Ngā Tapuwae Scholarships to acknowledge the company's late chief executive Mark Ford for his outstanding contribution to the industry.

Programme	2022	2021	2020
Watercare Education Programme	$13,042	$7,738	$25,837
Watercare Utility Consumer Assistance Trust	$100,000	$100,000	$100,000
Trees for Survival	$10,908	$10,908	$3,450
Waikato RiverCare	$75,099	$50,000	$56,000
Mark Ford Ngā Tapuwae Scholarship	$20,000	–	$5,000
Total	$219,049	$211,146	$515,287

How we're delivering value

Assets and infrastructure

Value created:

Future-proofed growth and supply assurance

High-performing infrastructure

Delivering despite COVID-19, supply chain challenges

In July 2021, we launched our ambitious Asset Management Plan for Auckland, detailing an investment of $18.5 billion for building and renewing water/wastewater infrastructure over the next 20 years.

It is fair to say that the first year of implementing our capital programme has been challenging, with an extended lockdown that shut down or slowed construction on most of our projects, the subsequent supply-chain delays and the cost of key construction materials like steel, concrete and pipes which increased sharply in early 2022.

Despite these significant challenges, we managed to invest $689 million (against a target of $747 million) for the delivery of our capital programme, including renewals which made up 30% of this expenditure. This investment covers both completed projects as well as those which we progressed through design and construction.

Central Interceptor crew at May Road branch sewer site

Snapshot:

- Construction on the Central Interceptor wastewater tunnel has progressed steadily, despite some challenges during the COVID-19 lockdown and subsequent Omicron outbreak. At the end of June 2022, the main tunnel-boring machine had bored more than 1.5 kilometres along its 14.7 kilometres route from the Māngere Wastewater Treatment Plant, across the Manukau Harbour to Grey Lynn in central Auckland. The project's micro tunnel-boring machine made excellent progress also in tunnelling for the link sewers that are an important aspect of the wastewater tunnel.
- We successfully connected the Hūnua 4 Watermain, Auckland's biggest-ever water project, to the Khyber Pass Reservoir marking the colossal 31-kilometre pipeline's completion. Work on the 31-kilometre transmission watermain started in 2008 and has been carried out in 11 stages. As each stage has been completed the pipe has been connected to its neighbouring suburbs, boosting resilience and providing for population growth.
- We built a new water and wastewater network in Clevedon to cater for growth over the next 20 years. The new network can accommodate more than 2000 households. It is designed to help address environmental

Final tie-in for Hunua 4 Watermain

pollution from failing septic tanks and provide reliable and safe water and wastewater services to Clevedon Village. The network is now live, with our first applicants receiving water and wastewater services.

- We started earthworks for a new reservoir at Redoubt Road, which will continue to supply water during busy times of the day as the city grows. With two large water reservoirs currently on site, the addition of a new one will take the total water storage to 165 million litres. The site is future-proofed and can accommodate up to eight reservoirs to meet Auckland's growth needs.
- Construction of our new $21.5 million wastewater pump station in Mairangi Bay is under way, which will reduce overflows to the beach. This will replace the current wastewater pump station which can overflow up to 10 times per year. The new pump station has larger pumps and greater storage capacity and will virtually eliminate overflows. New odour controls will be installed also.
- We began a $5.4 million wastewater pipe upgrade in Takapuna which will significantly reduce wastewater overflows and improve beach water quality. We are relining the 1.6-kilometre wastewater pipe which will extend its life by 50 years and expect to complete this upgrade in August 2022.
- We continued our proactive Targeted Asset Renewal Programme (TARP) across Auckland, upgrading and replacing ageing wastewater assets to ensure service reliability for our customers and communities.
- In January 2022 we were granted resource consent to abstract an additional volume of up to 150 million litres of water a day from the Waikato River. The 20-year consent provides us with a secure water supply and means we can now take up to 300 Million Litres per Day (MLD) from the river year-round under certain conditions, based on our original resource consent for 150 MLD still being active.
- We started work on our new $123 million wastewater treatment plant at Snells Beach as part of the 'North-East Growth Scheme' – a major infrastructure upgrade for the region to improve water quality in the Mahurangi River and cater for growth.
  - Apart from the new treatment plant, the scheme includes a new pipeline that will carry wastewater from the north-west of Warkworth to a new pump station in Lucy Moore Memorial Park. From here, the pipe will transfer wastewater to the new treatment plant which will be treated to a high standard before being safely discharged to sea. Work on the pump station is also well under way.
  - In early June 2022 we were granted resource consents for constructing the transfer pipeline connecting the pump station to the new plant and this is expected to start in September 2022.
  - Once this project is completed in 2024, there will be an end to treated discharges into the Mahurangi River and wet-weather overflows will be significantly reduced.
- For 2022/23, we are intending to invest around $800 million towards our capital programme to bridge the gap in delivery we faced in the past year.
- A combination of rising construction costs and the need to fast-track key infrastructure projects prompted a review and adjustment of the programme of work in our Asset Management Plan. These changes are outlined in the financial capital and resources section on page 44.

$18b

to be invested

in building and renewing water/wastewater infrastructure over the next 20 years.

Photo courtesy:
Stevenson Concrete

CASE STUDY

Partnering with industry for low-carbon concrete

Concrete is one of the major contributors of emissions for Watercare's infrastructure. Because it is so prevalent in our industry this material has been an early focus for embodied carbon reduction.

Watercare's Enterprise Model (EM) partners, who are tasked with delivering on our vision to build low-carbon infrastructure in an efficient and safe way, put the challenge to the ready-mix concrete industry. Back in September 2020, our EM team selected two partners – Firth Concrete and Stevenson Concrete – to engage on a journey to Zero Carbon Concrete.

We signed a memorandum of understanding with these two suppliers, who had already been using Golden Bay Cement as their preferred cement – as it was proven to have lower embodied carbon emissions (approximately 18%) when compared with mixes from other suppliers for the same type of concrete.

These suppliers have since been exploring further ways of reducing these emissions through mix designs and introduction of supplementary materials. Most recently, this has led to a new technology called CarbonCure being installed and trialled at two South Auckland ready-mix plants.

CarbonCure works by injecting recycled carbon dioxide (CO_2) into fresh concrete during mixing. Once injected, the CO_2 undergoes a mineralisation process and becomes permanently embedded into the concrete. This improves the compressive strength of the concrete, potentially allowing for the reduction of cement content in mix designs. From international experience, the CarbonCure innovation could reduce embodied carbon emissions by up to 5 to 8% on a typical mix design.

While this technology has been developed and utilised in the United States, our EM partnership has been instrumental in introducing it into our local supply chain.

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 10.5 for the Auckland region.

Dry-weather overflows

Dry-weather overflows are generally caused by incorrect disposal of fats, oils and grease down the wastewater network which 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 1.1 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 1.1, which is within the target of 2 or fewer overflows.

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

Snells Beach

Intellectual capital

Value created:
Industry-leading thinking and processes

Thinking differently, working differently

The world has changed, especially over the past two years. Locally and nationally, the challenges faced by the water industry – climate change, ageing infrastructure and population growth – have really come to the fore.

To tackle these challenges effectively, we need to think differently, remain open to new ideas and collaborate, both within and outside the business.

The past year has seen us innovate to reduce carbon in our infrastructure, make the most of our waste, learn new ways of doing things and collaborate with the community, industry and academia to improve how we operate.

Innovation centre at Māngere Wastewater Treatment Plant

Snapshot:

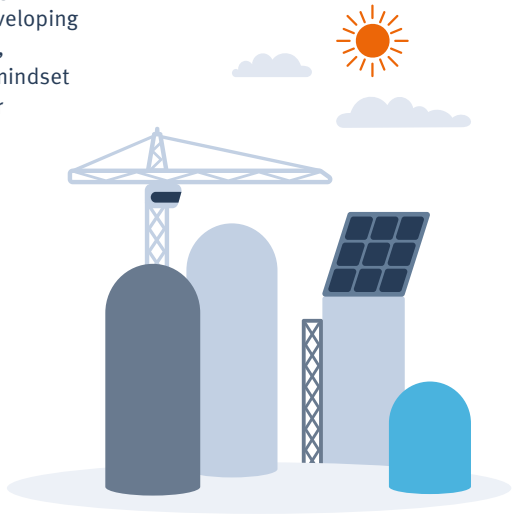
- On pages 30 and 31 we highlight the ways we have used technology and insights to improve customer experience – ensuring a more responsive and empathetic service for our customers.
- We have applied new thinking and partnerships to monitor and reduce our emissions. These include low-carbon concrete trials, New Zealand-first portable greenhouse gas monitor to trap and measure nitrous oxide (N_2O) from wastewater treatment processes and introducing a water-efficiency component to New Zealand's pilot low-carbon homes.
- We improved the way we carried out some aspects of our work, resulting in positive environmental, health and safety and efficiency outcomes:
  - The midge fly population on the Māngere foreshore is at its lowest ever, thanks to a novel, chemical-free method. This world-first 'lawn-mowing' approach involves a jet-ski pulling multiple chains with spikes through the 17-hectare treated wastewater channel near Māngere Wastewater Treatment Plant. The chain-drag method kills the midge fly larvae that live in the shallow water on impact and they are buried with the sediment that is temporarily stirred up.

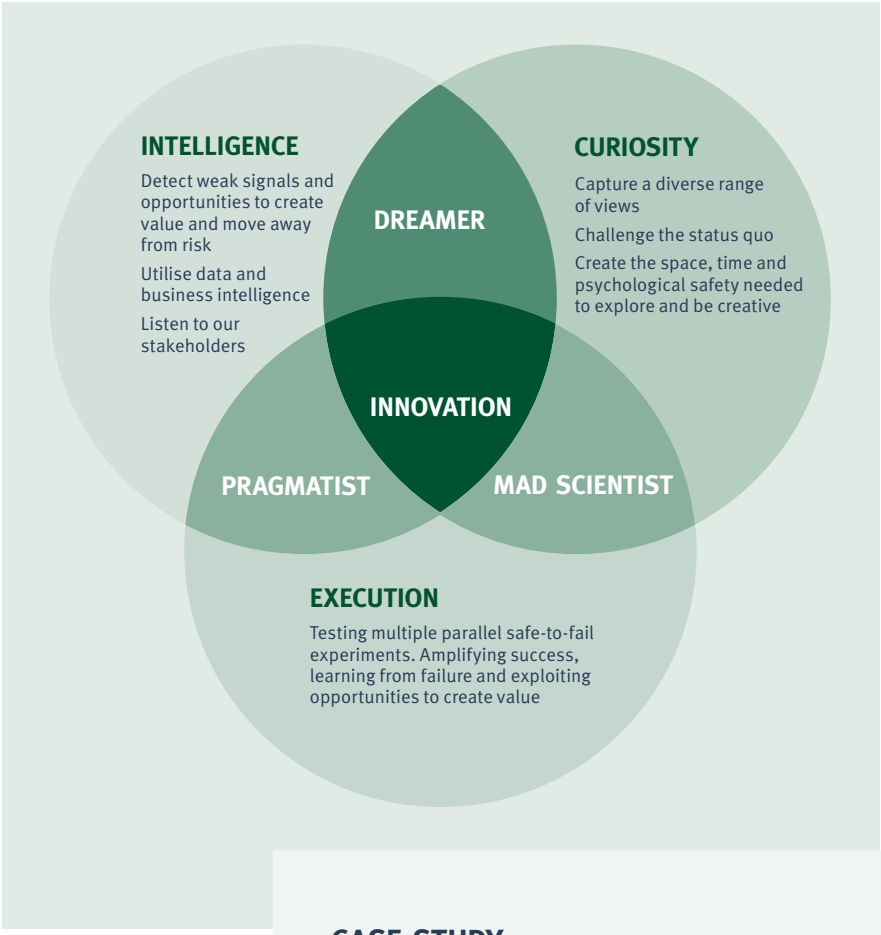
- As a Water Services Association of Australia (WSAA) member, we contributed to the release of a new wet-wipes standard that will provide clear guidance to consumers about what can and cannot be flushed down the toilet. Wet-wipes have long been a problem as they do not break down properly in water and can get caught on tree roots inside our pipes, thereby causing a blockage and triggering an overflow. While this standard is voluntary, it provides clear criteria for wet-wipes manufacturers and enables clear labelling on product for consumers.
- We assisted Crown research institution ESR by developing a tool to safely and efficiently collect wastewater samples from down a manhole to test it for COVID-19. This expanded the scope for wastewater sampling beyond treatment plants and has helped ESR, the Government and ultimately the public understand community spread of the virus, suburb by suburb, particularly during the Delta and Omicron outbreaks.
- Our water treatment plant teams learnt how to make bleach virtually last year. Our process engineering team had been working to reinstate our capacity to make sodium hypochlorite (bleach) for use in our water treatment process. As a result of lockdowns, they learnt how to use the equipment to make the bleach, then upskilled production staff so everyone was comfortable and ready to run the machines – all remotely, from a trainer based in California. We are planning to apply this approach to other projects as well.
- A new drone technology has provided our operations team with the ability to undertake inspections and assessments in a safer way. The inspections just need two people to spot the drone controller and guide the drone's flightpath. It is taking away the need for cumbersome procedures like getting barges on estuaries, and using abseiling and harnesses to clamber down steep slopes – reducing the risk to our people. This trial was kick-started by Watercare's innovation fund.
- We also focused on building a culture of innovation by developing a framework for innovation, encouraging a safe-to-fail mindset and launching our first-ever innovation fund – see case study on page 40 for more on this.

$1m

innovation fund

set up in 2020 for our teams to utilise for trials.





ICE™ – Intelligence, curiosity and execution

The ICE Innovation framework is designed to harness our business intelligence, natural curiosity and our ability to execute. When combined these forces create the conditions for innovation to occur.

CASE STUDY

Building a culture of innovation

Increasingly for the water industry, innovation is not a buzzword: It is a crucial enabler in tackling the challenges of climate change, ageing infrastructure and population growth.

An innovation-oriented organisation is more able to shape its strategic direction during times of deep uncertainty than a conventional organisation which fails to adapt.

In 2021/22, we took some important steps to begin building a culture that embraces innovation. We created a new role, the head of innovation, to lead this charge. Our approach was three-fold: build a framework for promoting innovation, improve internal understanding of innovation and safe-to-fail experimentation, and develop and make available resources including funding to encourage safe-to-fail experiments that meet a business need.

We set up a one-million-dollar innovation fund in 2021 which our teams could utilise for their trials in a low-risk way. This fund has been fully subscribed, kicking off a few projects including:

- The use of underwater drones for tank inspections and cleaning
- The use of aerial drones for asset condition assessments
- The use of satellite and artificial intelligence for leak detection and monitoring dam safety parameters such as ground movement
- The use of machine learning to develop soft sensors and identify greenhouse gas hotspots across the plant
- Watercare has kick-started a partnership with Fletcher Living to advance New Zealand's pilot low-carbon and water-efficient homes, targeting water use of 75 litres per person per day, through the use of smart, innovative water-saving and recycling devices.

The next focus for us is to scale these experiments into our everyday operations and integrate the benefits over the long term.


ALL VISITORS
REPORT TO OFFICE

How we're delivering value

Financial capital and resources

Value created:

Minimum cost, efficient and financially robust service provider

Moving forward in challenging times

The COVID-19 pandemic has had a far-reaching impact, touching every sector of society.

The infrastructure industry has been particularly hard hit, with inflationary pressure pushing up the cost of construction materials, labour and shipping. As Auckland's water and wastewater service provider, we are not immune to these challenges. But we remain committed to ensuring that our services are affordable to our communities; that our price path is stable and transparent; and, last but not the least, that we follow through on the promised investment outlined in our Asset Management Plan. The challenge ahead of us for 2022/23 is maximising efficiency, keeping our controllable costs low and delivering the most value for money.

Snapshot:

- Our total revenue was $933.0 million in 2021/22 and compared favourably with – $802.6 million in 2020/21. Changes to revenue streams reflect the current operating context. There was a 9.4% increase in water and wastewater revenues (compared to 2020/21); this represents the region's increase in water consumption with the removal of drought water restrictions and the price increase of 7% in July 2021.
- Revenue from Infrastructure Growth Charges totalled $240.5 million compared with $196.9 million in 2020/21, reflecting the unprecedented growth in housing development across the Auckland region. While helpful to an extent, these Infrastructure Growth Charges still only recovered 40.4% of our $486.4 million capital expenditure on growth projects for the year.
- Although we are spending more on capital investment, our operational costs increased 19.2% in 2021/22 compared to 2020/21 and have grown an average of 12.4% per annum over the past four years. This increase is a combination of increase in employee numbers and maintenance costs as a result of reactive maintenance to address issues like burst water pipes and wastewater blockages.

- We maintained positive debt headroom for 2021/22. Our debt-to-revenue ratio (the amount that Watercare can borrow in proportion to our revenue/assets) was 2.8, which is lower than the baseline of 3.54 we set for our debt headroom.
- In 2021/22, an average Auckland household (comprising three people) spent less than 0.80% of its monthly income on water and wastewater charges (compared to 0.84% in 2020/21). This is despite a more significant increase in water/wastewater charges that took effect on 1 July 2021. We do recognise that the rising cost of living makes affordability even more critical for our customers.
- In July 2022, Auckland's water and wastewater service prices increased by 7%. Despite rising costs due to COVID-19 and inflation, we are maintaining the price path we communicated last year as part of Auckland Council's Long-Term Plan.
- In June 2021, the Government announced the proposed regional boundaries for the new water service entities as part of the Three Waters Reform. Watercare and Auckland Council's Healthy Waters, which manages stormwater for Auckland, would be part of "Entity A", together with Kaipara District Council, Far North District Council and Whangārei District Council.

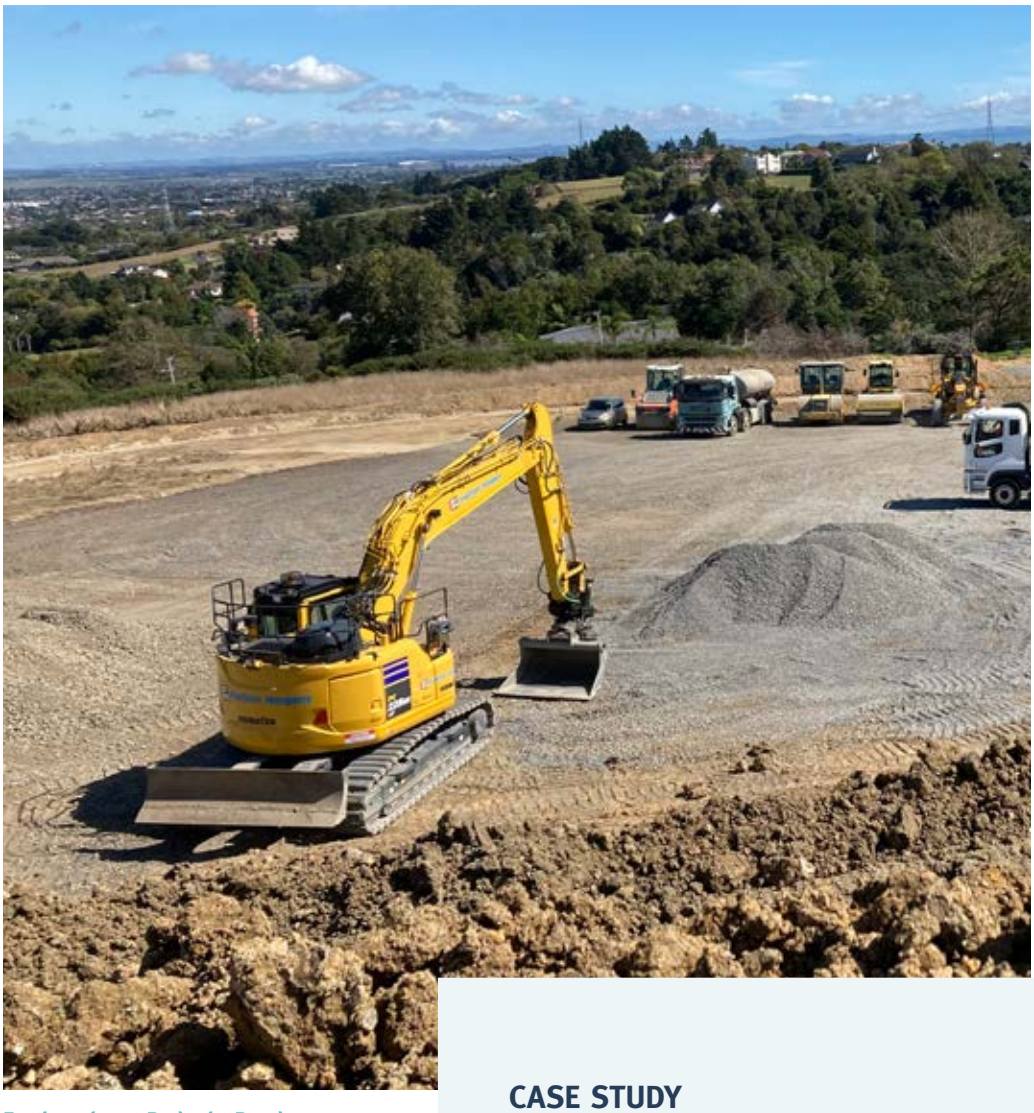
Currently Bill 1, which covers key principles behind the reform and ownership/governance model, has passed through its first reading and is taking submissions. Bill 2, the more detailed bill covering operations and scope, is expected in Parliament in early 2023. In addition to the two bills being drafted by the Department of Internal Affairs, the Ministry of Business, Innovation and Employment (MBIE) is developing the policy and legislation for economic regulation and consumer protection for water services.

Watercare is working with Auckland Council on the proposed transition and we have joined forces to create the Northern Waters Group – with other councils from the northern region. The group is focused on collaborating to share knowledge and resources, regardless of what happens with water reform.

$933m

total revenue

up from $802.6m in 2020/21.



Earthworks at Redoubt Road for new reservoir construction

CASE STUDY

Adjusting our Asset Management Plan

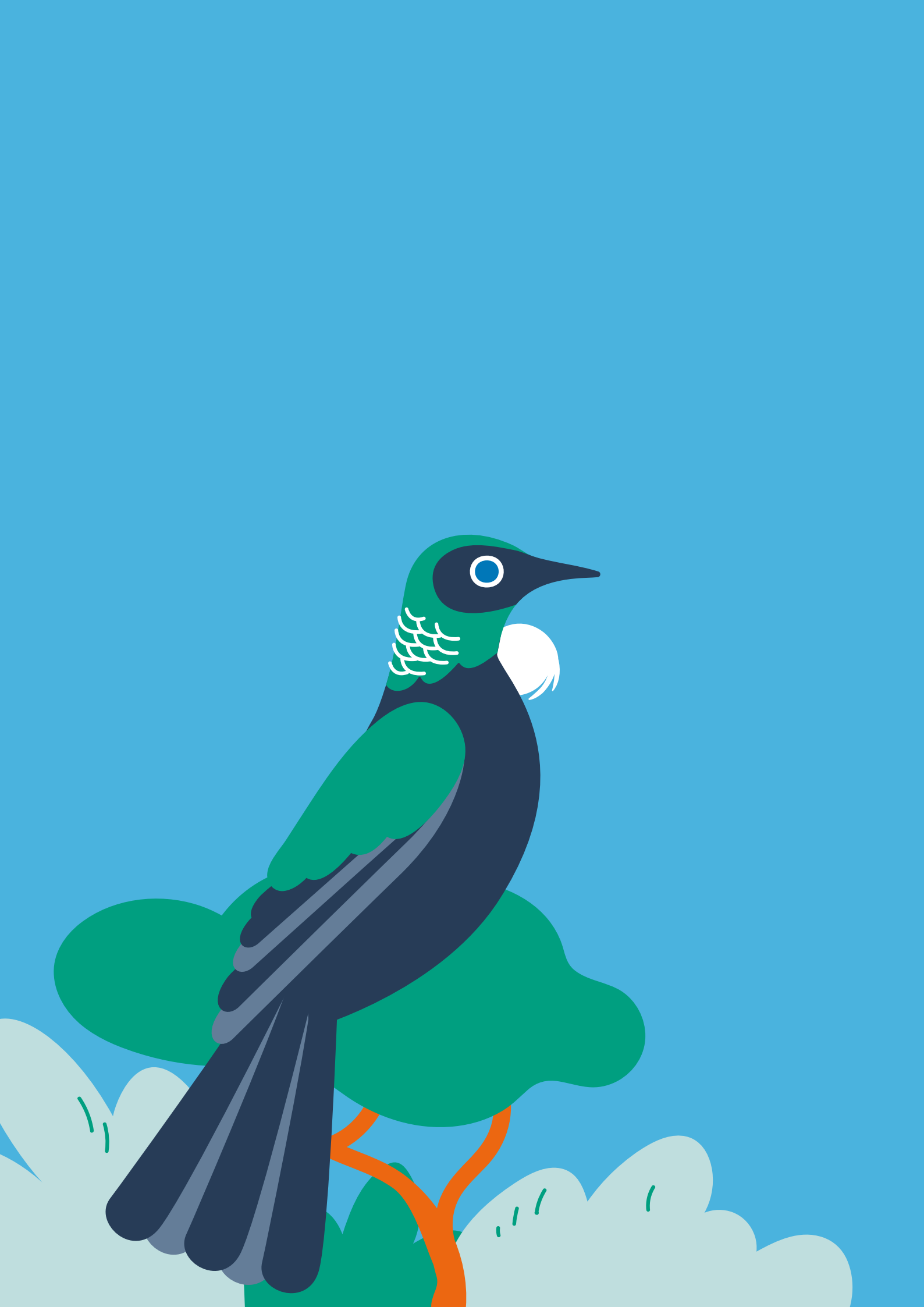
The combination of rising construction costs and the need to fast-track key infrastructure projects prompted a review and adjustment of the programme of work outlined in our current Asset Management Plan.

In June 2022 our board approved a plan to defer 65 projects – or 9% of the 742 projects in our current Asset Management Plan – that were intended to be carried out over the next few years.

Most of these projects were in the feasibility stage and had not yet progressed to design or consenting. They include a mix of water and wastewater upgrades. Our commitment to achieving the outcomes these projects will deliver remains steadfast however. In most cases, it is the timeframe not the scope that will change.

We have also started work on a new Three Waters Asset Management Plan, which will integrate stormwater into the water and wastewater investment forecast, in preparation for the reform.

New wastewater plant at Snells Beach



03

Leadership and governance

Ngā mana whakahaere

From left to right:
Nicola Crauford, Dave Chambers, Graham Darlow, Margaret Devlin, Julian Smith, Hinerangi Raumati-Tu'ua, Frances Valintine

Not pictured:
Brendon Green

Our board

Margaret Devlin

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

Chair

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

General disclosure of interests: Director and Chair, Lyttelton Port Company Limited; Director, Waikato Regional Airport; Director, Titanium Park (wholly owned subsidiary of Waikato Regional Airport); Director, Waimea Water Limited; Director, IT Partners Group; Chair, Hospice Waikato; Chair, Infrastructure NZ; Chartered Fellow, Institute of Directors; Member, Institute of Directors, Waikato Branch Committee; Director, Dairy NZ Limited; Member, the Office of the Auditor-General New Zealand, Mid-Term Review Panel (term ends on 30 July 2022).

Hinerangi Raumati-Tu'ua

BMS, MMS, FCA, MNZM, MINSTD

Chair of the Audit and Risk Committee

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, Te Rere O Kāpuni Limited; Chair, Ngā Miro Trust; Director, Taranaki Iwi Holdings Management Limited; Director, Te Puia Tapapa GP Limited; Chair, Tainui Group Holdings Limited; Executive Member, Te Whakakitenga O Waikato; Director, Genesis Energy Limited; Chair, Te Kiwai a Mauī o Ngāruahine Ltd; Chair, Te Pou Herenga Ltd; Member, Institute of Directors.

Nicola Crauford

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

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

She is a Distinguished Fellow of Engineering New Zealand, a Fellow of the Australian Institute of Company Directors and a Chartered Fellow of the Institute of Directors in New Zealand.

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

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

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

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

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

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

Frances Valintine

CNZM, MEdMGT

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

In 2017, Frances won the New Zealand Flying Kiwi Award and was inducted into the New Zealand Hi-Tech Hall of Fame. She is a board member of The Mind Lab. In 2022, Frances was inducted into the Hall of Fame for Women Entrepreneurs.

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 Lilly Limited; Director, On Being Bold Limited; Director, Sandell Trustees Limited; Selection Advisor, Edmund Hillary Fellowship; Board of Trustee, University of Silicon Valley.

Dave Chambers

Chair of the People Committee/ Te Tangata Komiti

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

General disclosure of interests: Director, Paper Plus New Zealand Limited; Director, Living Clean NZ Limited; Director, Turners and Growers Fresh Limited; Director, GB&DD's Outfit Limited.

Graham Darlow

BE, FICE, DIST FENGNZ

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

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

General disclosure of interests: Business Executive, Acciona Infrastructure NZ Limited; Director and Shareholder, Brockway Consulting Limited; Chair, Frequency NZ Limited; Director, Hick Bros. Civil Construction Limited; Director, Hick Bros. Infrastructure Limited; Chair, Holmes GP Structure Limited; Director, Tainui Auckland Airport Hotel GP (No.2) Limited; Director, Hick Bros. Heavy Haulage Limited; Director, Hick Bros. Holdings Limited; Chair, The Piritahi Alliance Board.

Julian Smith

LLB, BCOM, ADV ASB, CMINSTD

Julian Smith is an independent director with 13 years' governance experience. He retired from his executive career in late 2019 when he was Chief Customer Officer for Meridian Energy and responsible for $1.2 billion revenue and a team of 400. His career saw him hold several senior executive roles in the internet/digital, financial services and telecommunications sectors as well as central government.

Julian is a strategy, transformation and customer experience expert with extensive marketing and corporate affairs credentials and has worked in a range of international markets across Asia, Australasia, the Middle East and the United Kingdom. He holds an LLB and BCom from the University of Auckland and an associate diploma in public speaking from Speech NZ.

General disclosure of interests: Board Trustee – Auckland Philharmonia Orchestra; Advisory Board Member – Vadacom Limited; Board Trustee – Look Good Feel Better Trust; Director and Shareholder of JTB Enterprises Limited; Committee member of Institute of Directors – Auckland Committee; Committee member of Institute of Directors – Northland Committee; Committee member of Body Corporate Chairs Group NZ – Auckland Committee; Body Corporate Chair – The Residences, Auckland; Body Corporate Committee member – The Connaught Residential Apartments, Auckland.

From left to right:
Richie Waiwai, Mark Bourne, Amanda Singleton, Shayne Cunis, Jon Lamonte, Nigel Toms, Steve Webster, Andrew Chin

Not pictured:
Marlon Bridge, Jamie Sinclair

Our executive team

Jon Lamonte

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

Chief Executive

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

Marlon Bridge

BCOM, DIP.COM, CA

Deputy Chief Executive

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

Amanda Singleton

BA COMMUNICATIONS

Chief Customer Officer

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

Mark Bourne

DIP BUSINESS AND NZCE (CIVIL)

Chief Operations Officer

Mark is a New Zealand water industry professional with more than 30 years' experience. He's also worked in Australia and England in the infrastructure and gas sectors. He has held a very wide variety of roles including infrastructure planning, trade waste, and operations management since he first joined us in 1992. His most recent role was head of servicing and consents. He was appointed as chief operations officer in August 2021. Mark is responsible for the operation of our water and wastewater assets, networks and treatment facilities, along with asset integrity functions, and operations control centre.

Nigel Toms

MSC, ACMA, CMIRM

Acting Chief Financial Officer

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

Steve Webster

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

Chief Infrastructure Officer

Steve Webster is a civil engineer with more than 20 years' experience in senior leadership roles, predominantly in the infrastructure sectors in New Zealand and Australia, delivering projects and maintenance services to government, local authority and private asset owners.

Steve is responsible for Watercare's delivery of infrastructure projects from servicing strategies through to planning and construction and for supporting external developer services to enable growth in Auckland. In addition, he is the executive climate change sponsor for the business.

Richard Waiwai

Tumuaki Rautaki ā-Iwi me ngā Hononga – Chief, Māori Strategy and Relationships

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

Shayne Cunis

BE CIVIL (HONS), FENGNZ, CMENGNZ

Executive Programme Director – Central Interceptor

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

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

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

Jamie Sinclair

BMS (HONS), PGDIPSCI, CA

Chief Corporate Services Officer

Jamie Sinclair is a chartered accountant with 20 years' experience in the United Kingdom and New Zealand, working across multiple sectors at executive and board level. Prior to joining Watercare, he spent six years working for Ngāti Whātua Ōrākei and was the inaugural chief executive for the post-settlement governance entity. Jamie leads our corporate services team and is responsible for the people and capability, sustainability, finance, legal and governance, health and safety, risk and resilience departments.

Andrew Chin

B TECH (ENV ENG), M PLAN PRAC, IPENZ CHARTERED MEMBER (MCIWEM C.WEM)

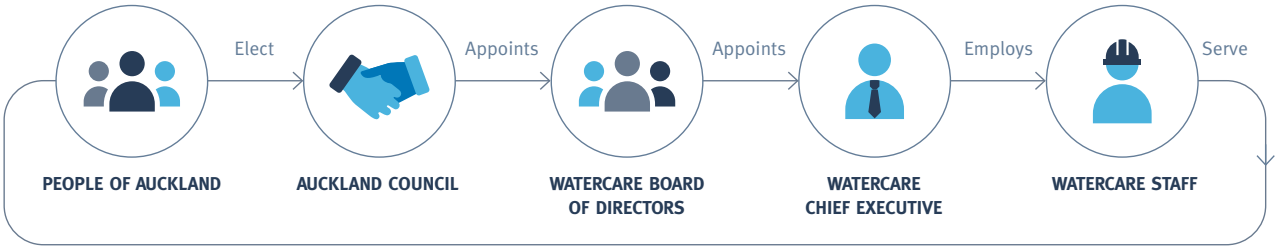
Executive Director – Special Projects

Andrew Chin is a chartered engineer (EC UK) and chartered environmentalist (SocEnv) with more than 20 years' experience in three waters infrastructure in New Zealand and the United Kingdom. Since 2011, he has been working for Auckland Council in the Healthy Waters department, which provides stormwater services for Auckland. Andrew has a dual role in preparing for water reform as the head of Healthy Waters strategy at Auckland Council and as an executive director – special projects for Watercare, to which he was appointed in January 2022.

He is responsible for the preparation and transition activities necessary for the Government's Three Waters reform.

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.

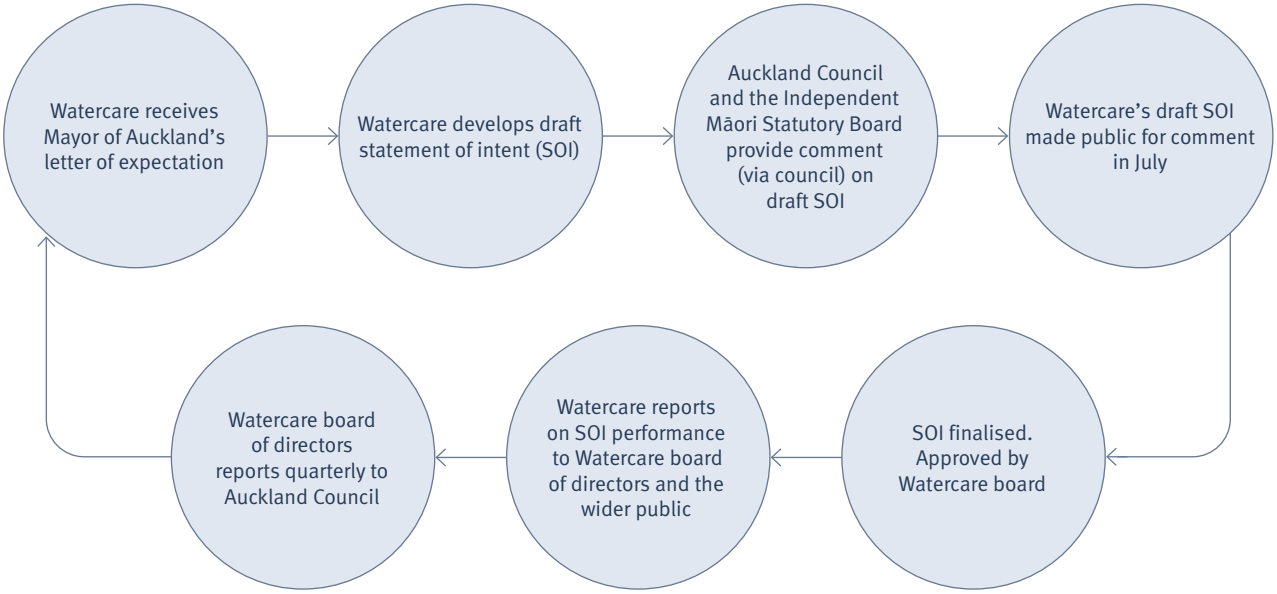


Our legislative framework

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 2022 – 2025 SOI is available on our website.



Performance

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

The board is independently reviewed every two years.

Setting standards of conduct for employees

We demand the highest standards of behaviour from our employees. Policies governing the conduct of employees are published on our intranet including the Good Employer Policy, the Discrimination, Bullying and Harassment Policy, Sensitive Expenditure Policy, Gifts and Inducement Policy and Conflicts 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 2022, the board has one committee. This is the Audit and Risk Committee (ARC). Previously, we had three other committees. At the board meeting on 8 February 2022 Board meeting, the following three committees were disestablished, and the Board agreed to undertake the functions of these committees in its future meetings: Te Tangata Komiti, AMP and Major Capex, and committee for Climate Action. All directors are welcome to attend ARC meetings, but only committee members have voting rights. The ARC provides advice and oversight and does not have delegated authority.

- **Audit and Risk Committee (ARC)**, chaired by Hinerangi Raumati-Tu'ua, helps the board fulfil its financial reporting responsibilities and provides assurance regarding compliance with internal controls, policies and procedures. The committee also helps the board exercise due care, diligence and effective overview of risk management and external reporting. Health, safety and wellness matters are the responsibility of the full board and are excluded from the duties of the ARC.

Board member attendance 2021/22	Board	ARC	TTK*	AMCC*	CCA*
Number of meetings	10	5	2	2	2
Margaret Devlin	10	5#	2	1	–
Nicola Crauford	9	–	–	2	2
Brendon Green	10	5	–	–	2
Hinerangi Raumati-Tu'ua	10	5	–	1	–
Dave Chambers	9	1	2	1	2
Frances Valintine	9	–	2	–	2
Graham Darlow	10	3	–	1	–
Julian Smith (appointed on 01.01.2022)	4	1	–	–	–
Wi Pere Mita (Board Intern) (appointed on 01.01.2022)	2	1	–	–	–

Board chair attends in ex-officio capacity
Denotes committee membership
* The committee was disestablished in February 2022

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 (Protection of Whistleblowers) Act 2022. PwC provides a Whistleblowing Disclosure Service so employees and others may confidentially and anonymously report matters of serious misconduct.

Complaints disclosure

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

Disclosures of interest

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

Transparency and accountability

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

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

- An annual statement of intent (SOI)
- A long-term asset management plan (AMP)
- An annual report that reports performance against the SOI and non-mandatory measures
- 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 11.26 days.

Enterprise risk management

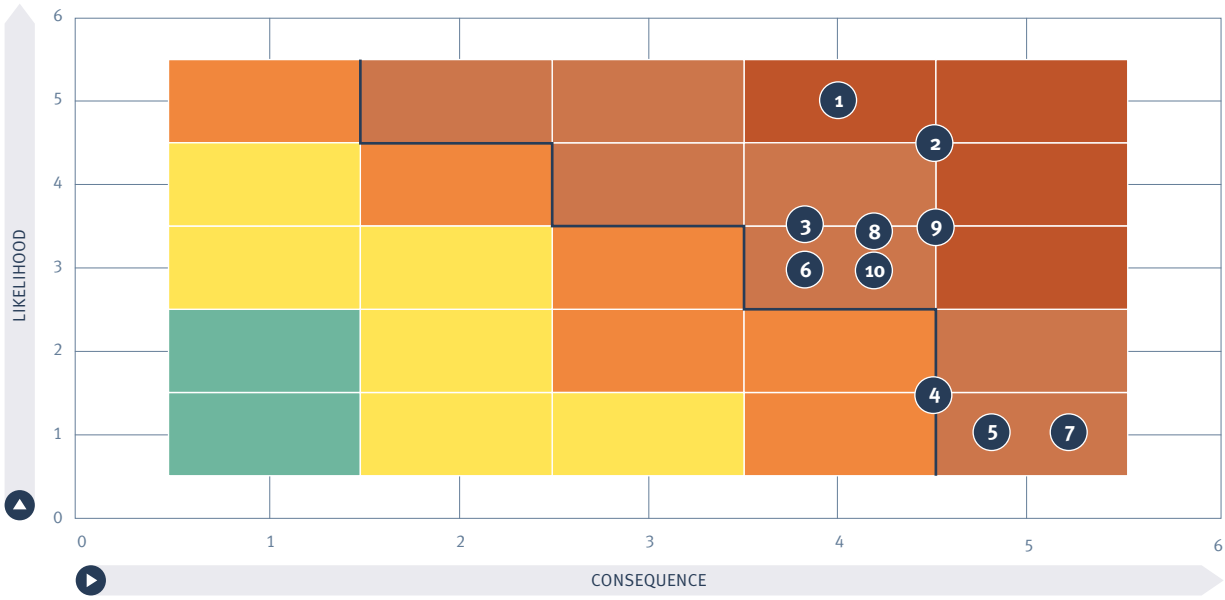
Watercare is committed to continually improving and embedding a risk culture across the organisation to ensure it delivers on its strategic focus and objectives.

Our risk management framework defines the risk management methodology, governance and reporting procedures which are applied to the risk management activities at Watercare. Our framework is consistent with ISO 31000:2018 guidelines and enables Watercare to enhance, protect value and respond to uncertainty on our objectives.

Watercare also applies the Three Lines of Defense model which articulates and facilitates robust risk management accountability and governance oversight. Decisions and actions taken are made in line with the board-approved risk appetite.

Significant risks, also known as enterprise risks, are aggregated and reported to the board quarterly, or as required. 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; these are outlined on the heat map below.

Enterprise risk heat map



1. Preparation and challenges for Three Waters Reform
2. Increasing cost of doing business
3. Failure to attract and retain key technical employees
4. Maintaining adequate water supplies to meet demand
5. Water system resilience and critical asset failure
6. Insufficient or incomplete asset investment to service future growth
7. Significant hazards related to Watercare employee operations
8. Climate change impacts service delivery
9. Cyber intrusion affecting control (SCADA) or critical corporate business system(s)
10. Public perception that Watercare is not managing Auckland's water resources

Environmental Advisory Group

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

We have further developed the "water as a taonga" concept, reported on last year, so water is considered holistically and its value to life is acknowledged and appropriately provided for. We engaged with the Watercare executive team on this, and offered a broad range of ways to advance and promote this changed approach. Some of these are outside of Watercare's purview; however, we encouraged the organisation to explain and promote "water as a taonga" to other agencies with responsibilities in water.

EAG has had positive engagement with Watercare over the last year on the (wastewater) Network Discharge Consent, one of the means by which the legacy discharges of untreated wastewater are being addressed and improved. Inadequate aspects of the inherited network have led to overflows and discharges that greatly concern the community, particularly in some of the older parts of the city. It is important that improvements to these historical inadequacies continue to be progressed – and, wherever possible, at an accelerated rate.

The proposed new structure for managing water nationwide will provide an endpoint to the EAG's advice to Watercare, as Watercare's roles will become incorporated into a new and different entity. Accordingly, the EAG has taken time to reflect on its work and processes and is reporting on what it considers has worked well, and what improvements could be made. Overall, the EAG considers that both parties have derived considerable value from our engagement over the last 20+ years. Our working relationship has evolved into a form in which in-depth discussion and understanding take place early enough in a project or process life for suggested changes or improvements to be easily accommodated, if appropriate. This informed and early input, before things become set in concrete, is the most significant single learning that has come out of the EAG's existence. The EAG sees real merit in the continuation of this practice in any entities that evolve out of current restructuring proposals.

Paul Walbran
Chair
Environmental Advisory Group

EAG GROUP MEMBERS AND AREAS OF INTEREST:

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

Betsy Kettle – Zero Waste, water-sensitive urban design

Dr Daniel Hikuroa – Mātauranga, mauri, waterscapes, water futures

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

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

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

Madeleine Wright – Environmental litigation, national policy development

Dr Kevin Simon – Environmental science, freshwater ecology and chemistry

Mana Whenua Kaitiaki Managers' Forum:

A review of the 2021-22 Operational Year

Nō Tua Whakarere te orokohanga.

Takea mai ko ngā kāwai o ia reanga e whiri haere nei i ngā aho mai i ngā tōpito, mai i ngā tauranga.

Tapuwae nuku, tapuwae rangi – he nekeneke tāngata, he pikinga taumata, he putanga aronga mai i ngā kāwai ki ngā uri kua heke ki ngā uri o ā muri ake nei e.

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

Tātou kua mahue mōrehu nei ki muri, tēnā rawa atu koe, arā, koutou katoa.

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

Kāti ake.

The 2021/22 Operational Year was marked with the significance of pandemic socio-economic impacts along with heightened anxieties around the Reform's agenda enacted by central government. They both directly align with the role of the Mana Whenua Kaitiaki Managers' Forum (the Forum) within key water-related activities. The role and function initiated through the relationship between mana whenua and Watercare in 2012 must continue to strengthen all elements of alignment to the significant water-related issues, along with the opportunities across all Watercare's services. An extended geographic spread has been set for Entity A, which will convert to a level of operational preparedness at the proper time. The anticipated transitional arrangements will provide further opportunities to give effect to the relationship-based arrangements between the Forum and Watercare.

A Joint Technical Working Group (JTWG) between Infrastructure and Environmental Services (I&ES) and Mana Whenua Forum was initiated in August 2021. It was established to navigate workstreams relating to the Three Waters and Resource Management Act Reforms undertaken by central and local government. The overall aim was to drive an enhanced and elevated conversation with mana whenua entities to help them engage in, understand and shape their own pathways relative to the Three Waters and Resource Management Reforms.

The JTWG has maintained an operational focus on promoting efficient and effective working processes through relationships with Watercare across a myriad of issues associated with the demands of population growth and urban development across Tāmaki Makaurau. Technical analysis work was conducted on a draft template submission to the Economic Regulation and Consumer Protection for Three Waters Services. It was circulated to the 19 mana whenua entities for consideration in December 2021.

The Central Interceptor (CI) project has continued with the Cultural Outcomes Group (COG) which includes representatives from the Forum, Watercare and Ghella Abergeldie Joint Venture (GAJV). This COG role has provided on-the-ground presence in response to emerging issues aligned with the overall objectives, which include:

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

The leadership of Watercare and the GAJV have embraced a major initiative that seeks to deliver significant social uplift outcomes for the people of Tāmaki Makaurau. This level of progress is very encouraging with outcomes being reported against environmental, social, kaitiakitanga, biodiversity and biosecurity aspects. There remains, however, the direct need to establish a consolidated focus on a shared purpose for the Forum.

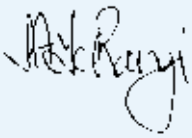
In summary, it is important for the Forum to uphold the depth of relevant cultural knowledge and values on their respective quests for a fully empowered future. By doing so, the Forum can continue to progress projects including:

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

The Forum supports continuing messages that encourage people to be water-wise through the prolonged dry periods. This, as part of the education programme in schools, teaches tomorrow's leaders about water and wastewater treatment, inspiring them to treat water as a precious, vital resource.

In conclusion, the relevance of the Forum to both parties of this relationship will require regular review. We acknowledge the continued support from Watercare that enables the Forum to give effect to focused, holistic ecosystems management.

Kāti ki konei, kia tau te mauri e.



Tame Te Rangi
Chair

Mana Whenua Kaitiaki Forum (Managers Group)

Mana Whenua Kaitiaki Forum:

Makaurau Marae Māori Trust

Ngā Maunga Whakahii o Kaipara Trust

Ngāi Tai Ki Tāmaki Tribal Trust

Ngāti Manuhiri Settlement Trust

Ngāti Maru Rūnanga Incorporated

Ngāti Rēhua – Ngāti Wai ki Aotea Trust

Ngāti Tamaoho Trust

Ngāti Paoa Iwi Trust

Ngāti Tamaterā Settlement Trust

Ngāti Wai Trust Board

Ngāti Whanaunga Incorporated

Ngāti Whātua Ōrākei Trust

Te Ākitai Waiohua Iwi Authority

Te Ara Rangatū o Te Iwi o Ngāti Te Ata Waiohua

Te Kawerau Iwi Tribal Authority

Te Patukirikiri Incorporated

Te Rūnanga o Ngāti Whātua

Te Uri o Hau Settlement Trust

Te Whakakitenga o Waikato Incorporated

Stakeholder and materiality

As a public water utility, Watercare is accountable to a wide range of stakeholders, which comprise the entities or individuals that can affect or be affected by our activities.

We have a structured process of engagement with many of our stakeholders. Media enquiries, complaints and other public interaction have also helped us to understand stakeholders' expectations.

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

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

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

Three key themes emerged from this internal and external engagement process which we believe hold relevance a year on from the analysis:

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

The themes are interrelated with four common drivers underpinning them:

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

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

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

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

04

Financial report

Ngā pūrongo pūtea

These financial statements and the statement of service performance for Watercare Services Limited were approved and authorised for release for the year ended 30 June 2022.

Contents

Historical financial summary and key statistics

For the year ended 30 June 2022

	2018 $000	2019 $000	2020 $000	2021 (Restated)* $000	2022 $000
Financial Performance					
Total revenue	641,586	715,177	752,293	802,599	933,005
Operating expenses	217,625	226,484	268,560	291,869	347,912
Depreciation and amortisation	219,979	245,822	256,893	267,514	283,024
Finance costs	82,110	66,489	56,158	54,143	58,118
Total expenses	519,714	538,795	581,611	613,526	689,054
Operating surplus from trading operations	121,872	176,382	170,682	189,073	243,951
Net loss on disposal of and provision for redundant property, plant and equipment, and restructuring costs	(8,488)	(13,216)	(8,547)	(8,186)	(18,529)
Net (loss) / gain on revaluation of derivative financial instruments	(20,808)	–	–	–	–
Operating surplus / (deficit) before tax	92,576	163,166	162,135	180,887	225,422
Income tax (expense) / benefit	(38,145)	(55,547)	(88,306)	(49,617)	(62,339)
Net surplus / (deficit) after tax	54,431	107,619	73,829	131,270	163,083
Financial Position					
Current assets	94,761	120,528	141,589	140,898	164,468
Non-current assets	9,992,051	10,271,797	10,695,175	12,445,140	13,980,118
Total assets	10,086,812	10,392,325	10,836,764	12,586,038	14,144,586
Current liabilities	482,209	175,330	192,931	218,745	241,015
Non-current liabilities	2,855,681	3,142,756	3,495,700	4,144,855	4,768,462
Total liabilities	3,337,890	3,318,086	3,688,631	4,363,600	5,009,477
Total equity	6,748,922	7,074,239	7,148,133	8,222,438	9,135,109
Cash Flow					
Net cash inflows – operating activities	316,761	420,964	448,542	464,011	526,028
Net cash outflows – investing activities	(326,223)	(387,861)	(605,206)	(735,601)	700,979
Net cash inflows – financing activities	8,425	(30,553)	165,529	263,188	180,034
Net change in cash flows	(1,037)	2,550	8,865	(8,402)	5,083
Key Statistics					
Property, plant and equipment	9,913,765	10,163,169	10,515,408	12,300,209	13,851,882
Capital expenditure	342,426	448,005	615,530	800,953	725,836
Net debt	1,613,065	1,696,942	1,942,577	2,305,929	2,576,396
Increase in net debt	9,170	83,877	245,635	363,352	270,467
Increase in net debt to capex	3%	19%	40%	45%	37%
EBITDA to interest expense ratio	4.78	6.39	7.43	8.54	8.92
Funds flow from operations to interest ratio	4.19	4.93	5.11	5.24	5.47
Funds flow from operations to average net debt	24%	26%	23%	22%	21%
Number (headcount) of permanent employees	908	984	1,105	1,201	1,319
Year on year growth of operating expenses	1.9%	4.1%	18.6%	8.7%	19.2%
Average growth (4 years average)		2.6%	6.6%	8.3%	12.6%

* Refer to note 3 for the details on the Software as a Service restatement

Financial commentary

For the year ended 30 June 2022

	2022 ACTUAL $000	2021 ACTUAL (Restated) $000	2022 BUDGET $000	VARIANCE TO BUDGET $000
Revenue	933,005	802,599	857,379	75,626
Operating expenses	(347,912)	(291,869)	(280,204)	(67,708)
Depreciation and amortisation	(283,024)	(267,514)	(249,908)	(33,116)
Finance costs	(58,118)	(54,143)	(62,320)	4,202
Total expenses	(689,054)	(613,526)	(592,432)	(96,622)
Operating surplus from trading operations	243,951	189,073	264,947	(20,996)
Net loss on disposal of and provision for redundant property, plant and equipment, and restructuring costs	(18,529)	(8,186)	(9,000)	(9,529)
Operating surplus before tax	225,422	180,887	255,947	(30,525)
Income tax expense	(62,339)	(49,617)	(60,845)	(1,494)
Net surplus for the year	163,083	131,270	195,102	(32,019)
Gain on revaluation of property, plant and equipment	749,587	969,667	–	749,587
Total comprehensive revenue and expense for the year, net of tax	912,670	1,100,937	195,102	717,568

Key points

- Watercare's total revenue of $933 million exceeded the budget by $75.6 million. The increase was primarily driven by infrastructure growth charges reflecting continued growth in the Auckland region.
- Operating costs were $67.7 million higher than budget. This was due to a range of factors reflecting the challenging operating environment, including the increasing costs of operating and maintaining our assets, the impacts of Covid-19, and increasing staff and contractor costs. Of the increase, employee benefits expenses were $24.1 million higher than budget. This reflects higher than budgeted headcount and lower vacancy rates, as well as a significant reduction in labour recoveries as lockdown restrictions impacted the delivery of our capital investment program. Maintenance costs were $17.3 million higher than budget due to an extended dry period and other weather events impacting the performance of our network. Other Expenses were $12.9 million higher than budget mostly due to Professional Services costs and construction contract variation payments of $15.4 million relating to the level 4 Covid-19 lockdown costs which were unbudgeted.
- Depreciation and amortisation were $33.1 million over budget. This was due to accelerated depreciation on some assets due to a reduced useful life and higher depreciation on completed projects.
- The company reports an operating surplus of $244.0 million compared with a budgeted operating surplus of $264.9 million, an unfavourable variance of $21.0 million. The water business unit reported an operating surplus from trading operations of $32.1 million and the wastewater business unit reported an operating surplus of $211.8 million.
- The resulting net surplus after tax of $163.0 million was lower than the budgeted net surplus of $195.1 million. This was due to the higher expenses discussed above.
- Total assets of the company have increased from $12.6 billion to $14.1 billion during the year, reflecting the company's continued investment in new infrastructure assets and revaluation of assets.
- Net debt increased by $270.4 million during the year. Debt is used to fund capital expenditure that is directed at improving the quality of services provided by Watercare and servicing the effects of population and development growth across 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 2022 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 2022.

These financial statements and the statement of service performance for Watercare Services Limited for the year ended 30 June 2022 were approved and authorised for release on 06 September 2022.

For and on behalf of management:

J Lamonte
Chief Executive

N Toms
Acting GM Finance

For and on behalf of the Board of Directors:

M P Devlin
Chair

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

Deloitte.

TO THE READERS OF WATERCARE SERVICES LIMITED GROUP'S FINANCIAL STATEMENTS AND STATEMENT OF SERVICE PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2022

The Auditor-General is the auditor of Watercare Services Limited and its controlled entities (collectively referred to as '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 70 to 108 that comprise the Statement of Financial Position as at 30 June 2022, 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 109 to 111.

In our opinion:

- the financial statements of the Group on pages 70 to 108:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2022; 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 109 to 111 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 2022.

Our audit was completed on 6 September 2022. This is the date at which our opinion is expressed.

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

Emphasis of matter

Without modifying our opinion, we draw attention to note 4 on page 78 to the financial statements, which outlines that in June 2022 the Government introduced legislation to establish four publicly owned water services entities. The likely outcome and impact on the Group is not yet certain as the bill is currently before Parliament. Additional legislation is expected later in 2022 that will provide detail on the transfer of assets and liabilities to the water service entities.

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 performance information

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 the 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 performance information, 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 performance information, 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 performance information 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 performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtain sufficient appropriate audit evidence regarding the financial statements and the statement of service performance of the entities or business activities within the Group to express an opinion on the consolidated financial statements and the consolidated performance statement of service performance. We are responsible solely for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

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 in 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 the 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: International Code of Ethics for Assurance Practitioners, issued by New Zealand Auditing and Assurance Standards Board.

In addition to the audit, we have carried out engagements in the areas of Central Interceptor project assurance services, probity services, non-assurance services provided to the Corporate Taxpayers Group of which Watercare is a member, and limited assurance on selected non-financial information reported in the 2021 annual report 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.

Bret Tomkins

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

Statement of comprehensive revenue and expense

For the year ended 30 June 2022

	Notes	2022 Actual $000	2021 Actual (Restated) $000	2022 Budget $000
Revenue	NOTE 13, PAGE 94	933,005	802,599	857,379
Total revenue		933,005	802,599	857,379
Operating expenses				
Asset operating costs		(83,854)	(82,070)	(86,031)
Maintenance costs		(64,032)	(56,924)	(46,665)
Employee benefit expenses		(97,005)	(76,237)	(72,889)
Construction contract variations payment		(15,456)	–	–
Other expenses		(87,565)	(76,638)	(74,619)
Total operating expenses	NOTE 14, PAGE 96	(347,912)	(291,869)	(280,204)
Depreciation	NOTE 6, PAGE 81	(272,871)	(258,609)	(237,218)
Amortisation	NOTE 9, PAGE 87	(10,153)	(8,905)	(12,690)
Finance costs	NOTE 11, PAGE 90	(58,118)	(54,143)	(62,320)
Total expenses		(689,054)	(613,526)	(592,432)
Operating surplus from trading operations		243,951	189,073	264,947
Net loss on disposal of property, plant and equipment		(18,529)	(8,186)	(9,000)
Operating surplus before tax		225,422	180,887	255,947
Income tax expense	NOTE 16, PAGE 97	(62,339)	(49,617)	(60,845)
Net surplus for the year		163,083	131,270	195,102
Other comprehensive revenue and expense net of tax				
Gain on revaluation of property, plant and equipment	NOTE 8, PAGE 86	749,587	969,667	–
Other comprehensive revenue and expense for the year, net of tax		749,587	969,667	–
Total comprehensive revenue and expense for the year is attributable to:				
Owner of the parent, net of tax		911,951	1,101,351	195,102
Non-controlling interest, net of tax		719	(414)	–

The financial statements should be read in conjunction with the notes on pages 74 to 107 inclusive.

Statement of financial position

As at 30 June 2022

	Notes	2022 Actual $000	2021 Actual (Restated) $000	2022 Budget $000
Assets				
Current				
Cash and cash equivalents		7,604	2,521	–
Trade and other receivables from exchange transactions	NOTE 18, PAGE 100	100,185	88,800	98,504
Inventories	NOTE 19, PAGE 100	17,849	15,254	12,469
Prepaid expenses	NOTE 21, PAGE 101	9,142	7,120	3,747
Other financial assets	NOTE 22, PAGE 102	29,688	27,203	38,981
Total current assets		164,468	140,898	153,701
Non-current				
Property, plant and equipment	NOTE 6, PAGE 81	13,851,882	12,300,209	13,022,986
Intangible assets and goodwill	NOTE 9, PAGE 87	73,192	78,949	87,995
Inventories	NOTE 19, PAGE 100	6,594	5,582	2,200
Prepaid expenses	NOTE 21, PAGE 101	22,782	24,477	23,956
Other financial assets	NOTE 22, PAGE 102	25,668	35,923	3,468
Total non-current assets		13,980,118	12,445,140	13,140,604
Total assets		14,144,586	12,586,038	13,294,306
Liabilities				
Current				
Trade and other payables for exchange transactions	NOTE 20, PAGE 101	25,886	24,170	19,237
Accrued expenses	NOTE 23, PAGE 102	193,651	155,318	167,506
Provisions	NOTE 24, PAGE 103	21,478	39,257	2,090
Total current liabilities		241,015	218,745	188,833
Non-current				
Borrowings	NOTE 10, PAGE 89	2,584,000	2,308,450	2,653,061
Deferred tax liability	NOTE 17, PAGE 99	2,150,357	1,798,298	1,932,010
Trade and other payables for exchange transactions	NOTE 20, PAGE 101	8,664	4,982	–
Accrued expenses	NOTE 23, PAGE 102	11,720	13,793	17,199
Provisions	NOTE 24, PAGE 103	13,721	19,332	19,521
Total non-current liabilities		4,768,462	4,144,855	4,621,792
Total liabilities		5,009,477	4,363,600	4,810,624
Equity				
Equity attributable to owners of the parent				
Retained earnings		4,596,397	4,429,759	4,628,782
Revaluation reserves	NOTE 8, PAGE 86	4,277,649	3,532,335	3,594,206
Issued capital	NOTE 25, PAGE 104	260,693	260,693	260,693
Total equity attributable to owners of the parent		9,134,739	8,222,787	8,483,681
Non-controlling interest		370	(349)	–
Total equity		9,135,109	8,222,438	8,483,681
Total equity and liabilities		14,144,586	12,586,038	13,294,306

The financial statements should be read in conjunction with the notes on pages 74 to 107 inclusive.

Statement of cash flows

For the year ended 30 June 2022

	Notes	2022 Actual $000	2021 Actual $000	2022 Budget $000
Operating activities				
Cash was provided from:				
Receipts from customers		841,521	777,916	858,425
Dividends received		122	112	–
Interest received		63	88	–
		841,706	778,116	858,425
Cash was applied to:				
Employees and suppliers		(315,678)	(314,100)	(354,256)
Finance costs paid		–	(5)	–
		(315,678)	(314,105)	(354,256)
Net cash inflows – operating activities	Note 15, page 97	526,028	464,011	504,169
Investing activities				
Cash was provided from:				
Sale of property, plant and equipment, and intangibles		4,392	9,790	–
Repayment of advances or loans to external parties		7,770	–	27,203
		12,162	9,790	27,203
Cash was applied to:				
Purchase and construction of property, plant and equipment, and intangibles		(713,141)	(730,354)	(757,094)
Issued term loans		–	(15,037)	–
		(713,141)	(745,391)	(757,094)
Net cash outflows – investing activities		(700,979)	(735,601)	(729,891)
Financing activities				
Cash was provided from:				
Proceeds from Auckland Council loans – related party	Note 25, page 104	723,964	807,579	225,722
Cash was applied to:				
Repay loans from Auckland Council – related party	Note 25, page 104	(543,930)	(544,391)	–
		(543,930)	(544,391)	–
Net cash inflows / (outflows) – financing activities		180,034	263,188	225,722
Net change in cash flows		5,083	(8,402)	–
Cash and cash equivalents / (overdraft) at the beginning of the year		2,521	10,923	–
Cash and cash equivalents / (overdraft) at the end of the year		7,604	2,521	–
Cash and cash equivalents comprises:				
Bank balances / (overdraft)		7,604	2,521	–
		7,604	2,521	–

The financial statements should be read in conjunction with the notes on pages 74 to 107 inclusive.

Statement of changes in equity

For the year ended 30 June 2022

	Notes	Retained earnings $000	Revaluation reserves $000	Issued capital $000	Non–controlling Interest $000	Total $000
Balance at 1 July 2021		4,429,759	3,532,335	260,693	(349)	8,222,438
Comprehensive revenue and expense						
Net surplus for the year		162,364	–	–	719	163,083
Other comprehensive revenue and expense						
Gain on revaluation of property, plant and equipment	Note 8, page 86	–	749,587	–	–	749,587
Transfer between reserves on disposal of property, plant and equipment	Note 8, page 86	4,273	(4,273)	–	–	–
Share of associate reserve		–	–	–	–	–
Balance at 30 June 2022		4,596,396	4,277,649	260,693	370	9,135,109

	Notes	Retained earnings (Restated) $000	Revaluation reserves $000	Issued capital $000	Non–controlling Interest $000	Total $000
Balance at 1 July 2020		4,292,871	2,567,608	260,693	77	7,121,249
Comprehensive revenue and expense						
Net surplus for the year		131,684	–	–	(414)	131,270
Other comprehensive revenue and expense						
Gain on revaluation of property, plant and equipment	Note 8, page 86		969,667	–	–	969,667
Transfer between reserves on disposal of property, plant and equipment	Note 8, page 86	5,204	(4,940)	–	–	264
Acquisition of controlled entity		–	–	–	(12)	(12)
Balance at 30 June 2021		4,429,759	3,532,335	260,693	(349)	8,222,438

The financial statements should be read in conjunction with the notes on pages 74 to 107 inclusive.

Notes to the financial statements

For the year ended 30 June 2022

1. Reporting entity and basis of preparation

Reporting entity

These financial statements are for Watercare Services Limited, 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 (hereafter referred to as the financial statements) are for the economic entity of Watercare and its subsidiaries (Watercare or the group). The group's registered office and principal place of business is at 73 Remuera Road, Remuera, Auckland 1050, New Zealand.

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 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 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 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 01 June 2021. 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 6
- Unbilled revenue estimate, note 13
- Provisions, note 24

1. Reporting entity and basis of preparation (continued)

Basis of consolidation

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

A list of all subsidiaries is shown on note 25.

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.

Adoption of new and revised PBE accounting standards, interpretations and amendments

The New Zealand Accounting Standards Board (NZASB) issued the following accounting standards that are effective for the reporting period beginning 1 January 2022 with early application being permitted:

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

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

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

2. Explanation of major variances to budget

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

Statement of comprehensive revenue and expense – extract

	2022 Actual $000	2022 Budget $000	Variance $000	Variance %
Revenue	933,005	857,379	75,626	8.8
Asset operating costs	(83,854)	(86,031)	(2,177)	2.5
Maintenance costs	(64,032)	(46,665)	17,367	(37.2)
Employee benefit expenses	(97,005)	(72,889)	24,116	(33.1)
Construction contract variations payment	(15,456)	–	15,456	–
Other expenses	(87,565)	(74,619)	12,946	(17.3)
Depreciation	(272,871)	(237,218)	35,653	(15.0)
Finance costs	(58,118)	(62,320)	(4,202)	6.7
Net loss on disposal of property, plant and equipment, and restructuring costs	(18,529)	(9,000)	9,529	(105.9)

- Revenue was $75.6m favourable to budget. The was driven by favourable Infrastructure Growth Charge revenue of $88.2m and other development revenue of $11.0m, offset by unfavourable tariff revenue of $16.3m, government grants of $4.0m and others of $3.2m.
- Maintenance costs were $17.4m (37.2%) unfavourable to budget. The key drivers of this variance were a combination of price escalation of key materials & services, an extended dry period that lead to significantly increased leak volumes and a number of one off significant weather events.
- Employee Benefit expenses were $24.1m (33.1%) unfavourable to budget driven by a combination of higher than forecast headcount and lower vacancy rates ($10.8m), unfavourable annual leave of $2.0m (driven by covid lockdown) and a significant reduction in labour recoveries ($12.5m) due to lockdown restrictions in the first half of the financial year.
- Construction contract variation payments were $15m unfavourable to budget, this relates to the COVID-19 Level 4 lock down costs for suppliers which operated during this period.
- Other expenses were $12.9m (17.3%) unfavourable to budget driven by unbudgeted events and project costs, including:
  - Professional services spend ($6.7m) including costs related to Software as a Service
  - Materials and services ($3.6m) relating to network services
  - Bad debts written off ($0.7m)
  - Others ($1.2m)
- Depreciation was $36m unfavourable due to the accelerated depreciation on landfill assets from a reduction in useful life and higher depreciation on completed projects.
- Net loss on disposal of $9.5m was unfavourable to budget due to the higher loss on disposal of local network assets and impairment of wastewater assets.

2. Explanation of major variances to budget (continued)

Statement of financial position – extract

	2022 Actual $000	2022 Budget $000	Variance $000	Variance %
Total current assets	164,468	153,701	10,767	7.0
Total non-current assets	13,980,118	13,140,604	839,514	6.4
Total current liabilities	241,015	188,833	52,182	27.6
Total non-current liabilities	4,768,462	4,621,792	146,670	3.2
Total equity	9,135,109	8,483,681	651,428	7.7

- Current assets were $10.7m greater than budget. This was primarily due to increased cash, inventory and prepayment movements.
- Non-current assets were $839.5m greater than budget primarily due to the revaluation of Infrastructure Assets.
- Current liabilities were $52.1m greater than budget mainly driven by higher provisions for multiple large capital projects.
- Equity was $651.4m greater than budget at year-end, primarily due to the significant uplift in revaluation reserve.

Statement of cash flows – extract

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

	2022 Actual $000	2022 Budget $000	Variance $000	Variance %
Net cash inflows – operating activities	526,028	504,169	21,859	4.3
Net cash outflows – investing activities	(700,979)	(729,891)	28,912	(4.0%)
Net cash inflows / (outflows) – financing activities	180,034	225,722	(45,688)	(20.2%)

- Net operating cash inflows were $21.9m favourable to budget, primarily due to higher revenue and working capital management.
- The net cash outflow from investing activities was $28.9m lower than budget due to decreased capital expenditure during the year, which was largely driven by delays to projects.
- The net cash inflows from financing activities were $45.7m lower than budget. This was due to lower borrowing requirements from Auckland Council, resulting from increased revenue and lower capital expenditure.

3. Business update

Impact of COVID-19

The ongoing effects of the Covid-19 pandemic and associated economic conditions have impacted Watercare's core operations necessitating additional work to protect key staff and processes including the use of split shifts. As a result, all operational outputs were maintained, however, Covid-19 did impact Watercare's ability to deliver its capital programme, particularly maintaining the planned schedule which impacted both capital and operational costs. Watercare's operations remain resilient, and we are prepared for any further Covid-19 related challenges.

Construction contract variations

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

Revaluation of property, plant and equipment

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

Change in Accounting Policy – Software as a Service Arrangements

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

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

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

In the financial year ended 30 June 2020, Watercare capitalised costs associated with the Strategic Transformation Program (STP) and other cloud based digital projects amounting to $69m. The STP involved a two-year implementation of a cloud-based ERP solution. These implementation costs include the cost of development, configuration, and customisation of the ERP solution.

The Company has now revised its policy in relation to capitalization of SaaS to be consistent with the IFRS Interpretation Committee. The company has applied the policy retrospectively and restated comparative balances. The impact of the change in accounting policy is that some previously capitalised intangible assets no longer meet the criteria for capitalisation and have therefore been expensed.

The impact on the Financial Statements is:

	Reported 30 June 2021 $000	Adjustments $000	Restated 30 June 2021 $000
Statement of Financial Position			
Intangible Assets and Goodwill	112,024	(33,076)	78,948
Deferred Tax Liabilities	(1,807,559)	9,261	(1,798,298)
Retained Earnings	(4,453,573)	23,815	(4,429,758)
Statement of comprehensive revenue and expense			
Amortisation	13,169	(4,264)	8,905
Income Tax Expense	48,423	1,194	49,617

4. Three Waters Reform

In July 2020, the Government launched the Three Waters Reform Programme – a three-year programme to reform local government three waters service delivery arrangements. Currently 67 different councils own and operate the majority of the drinking water, wastewater and stormwater services across New Zealand. The proposed reform programme is being progressed through a partnership-based approach with the local government sector, alongside iwi/Māori as the Crown's Treaty Partner, with delivery of three water services changing hands from 67 councils to four water service entities. On 30 June 2021 the Government announced the proposed regional boundaries for each entity. Watercare and Auckland Council's Healthy Waters which manages stormwater for Auckland would be part of "Entity A", together with Kaipara District Council, Far North District Council and Whangarei District Council.

Currently Bill 1, which covers key principles behind the reform and ownership/governance model, has passed through first reading and is taking submissions. Bill 2, the more detailed bill covering operations and scope, is expected in the parliament early next year. In addition to the two Bills being Drafted by the Department of Internal Affairs, The Ministry of Business, Innovation and Employment is developing the policy and legislation for Economic Regulation and Consumer Protection for water services, Cabinet decisions on the economic regulation regime are anticipated in the coming months.

Until Bill 2 and the new legislation for economic regulation are published, it is not possible to assess the all likely impacts on Watercare with any certainty.

5. Business unit reporting

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

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

Business unit comprehensive revenue and expense

	Water 2022 $000	Wastewater 2022 $000	Total 2022 $000	Water 2021 (Restated) $000	Wastewater 2021 (Restated) $000	Total 2021 (Restated) $000
Revenue						
Water and wastewater	173,809	384,898	558,707	157,473	353,220	510,693
Other revenue	115,432	258,866	374,298	89,123	202,783	291,906
Total revenue	289,241	643,764	933,005	246,596	556,003	802,599
Operating expenses						
Asset operating costs	(30,100)	(53,754)	(83,854)	(35,379)	(46,691)	(82,070)
Maintenance costs	(21,424)	(42,608)	(64,032)	(24,394)	(32,530)	(56,924)
Employee benefit expenses	(30,457)	(66,548)	(97,005)	(16,643)	(59,594)	(76,237)
Construction contract variations payment	(4,783)	(10,673)	(15,456)	–	–	–
Other expenses	(27,469)	(60,096)	(87,565)	(29,223)	(47,415)	(76,638)
Total operating expenses	(114,233)	(233,679)	(347,912)	(105,639)	(186,230)	(291,869)
Depreciation	(119,514)	(153,358)	(272,872)	(102,879)	(155,730)	(258,609)
Amortisation	(2,012)	(8,141)	(10,153)	(1,780)	(7,125)	(8,905)
Finance costs	(21,368)	(36,750)	(58,118)	(19,205)	(34,938)	(54,143)
Total expenses	(257,127)	(431,928)	(689,055)	(229,503)	(384,023)	(613,526)
Operating (loss) / surplus from trading operations	32,114	211,836	243,950	17,093	171,980	189,073
Net loss on disposal of property, plant and equipment, and restructuring costs	(8,116)	(10,413)	(18,529)	(3,787)	(4,399)	(8,186)
Net (loss) / gain on revaluation of derivative financial instruments	–	–	–	–	–	–
Operating (loss) / surplus before tax	23,998	201,423	225,421	13,306	167,581	180,887
Income tax benefit / (expense)	(6,636)	(55,702)	(62,338)	(3,498)	(46,119)	(49,617)
Net (loss) / surplus for the year	17,362	145,721	163,083	9,808	121,462	131,270
Other comprehensive revenue and expense net of tax						
Gain on revaluation of property, plant and equipment	328,309	421,278	749,587	385,752	583,915	969,667
Other comprehensive revenue and expense for the year, net of tax	328,309	421,278	749,587	385,752	583,915	969,667
Total comprehensive revenue and expense for the year attributable to owners of the parent, net of tax	345,369	566,582	911,951	395,709	705,642	1,101,351

5. Business unit reporting (continued)

Business unit financial position

	Water 2022 $000	Wastewater 2022 $000	Total 2022 $000	Water 2021 (Restated) $000	Wastewater 2021 (Restated) $000	Total 2021 (Restated) $000
Assets						
Current						
Current assets	53,387	111,081	164,468	36,913	103,985	140,898
Total current assets	53,387	111,081	164,468	36,913	103,985	140,898
Non-current						
Property, plant and equipment	5,902,702	7,949,180	13,851,882	4,966,669	7,333,540	12,300,209
Intangible assets	15,150	58,042	73,192	15,781	63,168	78,949
Inventories	3,957	2,637	6,594	5,582	–	5,582
Prepaid expenses	–	22,782	22,782	–	24,477	24,477
Other financial assets	–	25,668	25,668	–	35,923	35,923
Total non-current assets	5,921,809	8,058,309	13,980,118	4,988,032	7,457,108	12,445,140
Total assets	5,975,196	8,169,390	14,144,586	5,024,945	7,561,093	12,586,038
Liabilities						
Current						
Current liabilities	65,792	175,223	241,015	72,013	146,732	218,745
Total current liabilities	65,792	175,223	241,015	72,013	146,732	218,745
Non-current						
Borrowings	950,032	1,633,968	2,584,000	820,158	1,488,292	2,308,450
Deferred tax liability	665,450	1,484,907	2,150,357	552,794	1,245,504	1,798,298
Trade and other payables for exchange transactions	301	8,363	8,664	200	4,782	4,982
Accrued expenses	7,700	4,020	11,720	8,223	5,570	13,793
Provisions	847	12,874	13,721	686	18,646	19,332
Total non-current liabilities	1,624,330	3,144,132	4,768,462	1,382,061	2,762,794	4,144,855
Total liabilities	1,690,122	3,319,355	5,009,477	1,454,074	2,909,526	4,363,600
Equity attributable to owners of the parent and non-controlling interest	4,285,074	4,850,035	9,135,109	3,564,312	4,658,126	8,222,438
Total equity and liabilities	5,975,196	8,169,390	14,144,586	5,018,386	7,567,652	12,586,038

6. Property, plant and equipment

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

			Estimated remaining useful lives in years	
Asset class	**Category**	**Subsequent measurement basis**	**2022**	**2021**
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 164	up to 164
Tanks, tunnels, roads and reservoirs	Infrastructure asset	Fair value which is deemed to be depreciated replacement cost, less accumulated depreciation	up to 95 Tunnels: up to 438	up to 95 Tunnels: up to 822
Dams	Infrastructure asset	Fair value which is deemed to be depreciated replacement cost, less accumulated depreciation	up to 194	up to 195
Landfill	Infrastructure asset	Cost less accumulated depreciation and impairment losses	up to 14	up to 15
Machinery	Infrastructure asset	Fair value which is deemed to be depreciated replacement cost, less accumulated depreciation	up to 195	up to 196
Motor vehicles	Operational asset	Cost less accumulated depreciation and impairment losses	up to 22	up to 17
Office equipment	Operational asset	Cost less accumulated depreciation and impairment losses	up to 23	up to 24
Capital work in progress	Infrastructure assets mainly	Cost less accumulated impairment losses	–	–

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

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

6. Property, plant and equipment (continued)

Revaluation

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

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

Revaluation assumptions

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

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

The most recent valuation for all infrastructure assets was completed at 30 June 2022 by Beca. Watercare's 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 2022 quarter and an estimate was made for the June 2022 quarter).
- Capitalised interest was applied to qualifying asset types in accordance with the estimated construction period and applicable cost of debt.

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.

6. Property, plant and equipment (continued)

	Land $000	Buildings $000	Pipelines $000	Tanks, tunnels, roads and reservoirs $000	Dams $000	Landfill $000	Machinery $000	Motor vehicles $000	Office equipment $000	Capital work in progress $000	Total $000
Balance at 30 June 2020											
Cost or valuation	260,686	125,003	7,302,790	692,746	271,764	128,546	1,284,326	22,192	41,922	912,094	11,042,069
Accumulated depreciation	–	(5,423)	(303,601)	(26,591)	(4,953)	(14,501)	(132,022)	(12,781)	(26,789)	–	(526,661)
Carrying amount	260,686	119,580	6,999,189	666,155	266,811	114,045	1,152,304	9,411	15,133	912,094	10,515,408
Year ended 30 June 2021											
Additions to work in progress	–	–	–	–	–	–	–	–	–	800,953	800,953
Additions to PPE	(750)	–	48,752	–			532	–	–	–	48,534
Transfers from work in progress/ (to intangibles)	7,251	8,780	161,411	66,261	154	10,799	287,314	1,012	7,867	(559,017)	(8,168)
Disposals	(6,676)	–	(10,501)	–	(40)	–	180	(144)	182	–	(16,999)
Revaluation	319,541	(10,730)	832,095	29,334	–	–	52,252	–	–	–	1,222,492
Impairment	–	–	–	–	–	–	–	–	(96)	(3,306)	(3,402)
Transfer from/(to) other classes	–	–	–	–	–	–	–	–	–	–	–
Depreciation	–	(3,116)	(154,447)	(13,511)	(2,461)	(3,856)	(72,549)	(2,515)	(6,154)	–	(258,609)
Closing carrying amount	580,052	114,514	7,876,499	748,239	264,464	120,988	1,420,033	7,764	16,932	1,150,724	12,300,209
Balance at 30 June 2021											
Cost or valuation	580,052	114,811	8,333,513	788,339	271,876	139,345	1,622,615	22,607	49,084	1,150,724	13,072,966
Accumulated depreciation		(297)	(457,014)	(40,100)	(7,412)	(18,357)	(202,582)	(14,843)	(32,152)		(772,757)
Carrying amount	580,052	114,514	7,876,499	748,239	264,464	120,988	1,420,033	7,764	16,932	1,150,724	12,300,209
Year ended 30 June 2022											
Additions to work in progress	–	–	–	–	–	–	–	–	–	725,836	725,836
Additions to PPE	3,776	–	72,728	54	–	–	4,174	17	124	–	80,873
Transfers from work in progress/ (to intangibles)	29,114	29,253	216,083	33,640	95	21,135	130,059	5,457	6,190	(475,210)	(4,184)
Disposals	(4,763)	–	(8,593)	–	–	(1,586)	211	(90)	(4)	–	(14,825)
Revaluation	–	–	812,519	(88,235)	35,961	–	280,848	–	–	–	1,041,093
Impairment	–	–	–	–	–	–	–	(22)	(21)	(4,206)	(4,249)
Transfer from/(to) other classes	–	–	–	–	–	–	–	–	–	–	–
Depreciation	–	(3,867)	(163,827)	(15,872)	(2,507)	(9,839)	(66,474)	(3,961)	(6,524)	–	(272,871)
Closing carrying amount	608,179	139,900	8,805,409	677,826	298,013	130,698	1,768,851	9,165	16,697	1,397,144	13,851,882
Balance at 30 June 2022											
Cost or valuation	608,179	144,065	8,805,409	677,826	298,013	158,894	1,768,851	26,576	55,323	1,397,144	13,940,280
Accumulated depreciation	–	(4,165)	–	–	–	(28,196)	–	(17,411)	(38,626)	–	(88,398)
Carrying amount	608,179	139,900	8,805,409	677,826	298,013	130,698	1,768,851	9,165	16,697	1,397,144	13,851,882

6. Property, plant and equipment (continued)

Service concession assets – included in the above

Service concession assets are infrastructure assets owned by Watercare and operated by Veolia Water Services (ANZ) Pty Limited (Veolia) for the provision of water and wastewater services in the Papakura district. The franchise agreement stipulates the services Veolia must provide, to whom it must provide them and regulates the price. Veolia is responsible for upgrading and maintaining the network in Papakura so that at the end of the contract period (initial term of 30 years ending on 30 June 2027 with a 20-year right of renewal), the network shall be in a better overall condition than that which existed at the time the contract was commenced in 1997. At the commencement of the contract, a franchise fee was paid in exchange for the rights to operate the assets as detailed in note 23. 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 30 June 2020			
Cost or valuation	200,866	4,498	205,364
Accumulated depreciation	(8,427)	(357)	(8,784)
Carrying amount	192,439	4,141	196,580
Year ended 30 June 2021			
Additions to PPE	2,943		2,943
Disposals	(64)		(64)
Transfers	(1,195)		(1,195)
Revaluation			–
Depreciation	(3,913)	(166)	(4,079)
Closing carrying amount	190,209	3,975	194,185
Balance at 30 June 2021			
Cost or valuation	202,545	4,498	207,043
Accumulated depreciation	(12,336)	(523)	(12,858)
Carrying amount	190,209	3,975	194,185
Year ended 30 June 2022			
Additions to PPE	13,105	31	13,136
Disposals	(365)		(365)
Transfers	14		14
Revaluation	13,922	2,637	16,559
Depreciation	(4,311)	(107)	(4,418)
Closing carrying amount	212,574	6,536	219,111
Balance at 30 June 2022			
Cost or valuation	212,574	6,536	219,111
Accumulated depreciation	–	–	–
Carrying amount	212,574	6,536	219,111

6. Property, plant and equipment (continued)

Capital work in progress

Work in progress relates to the following projects:	2022 $000	2021 $000
Water treatment plant	53,218	169,136
Wastewater treatment plant	131,121	58,001
Wastewater pump station and sewer	740,335	498,204
Watermains, pump stations and reservoirs	271,749	299,678
Dams and raw water transmission pipelines	108,143	27,297
Other	92,578	98,408
Total work in progress	1,397,144	1,150,724

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

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

Cash-generating assets

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

Goodwill

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

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

No goodwill impairment was recognised for 30 June 2022.

Non-cash-generating assets

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

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

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

8. Revaluation reserves

The group maintains a revaluation reserve for each class of asset. Each class of asset contains a number of assets which could have a revaluation gain or loss in the current year. The changes in the value of each class of asset as a result of revaluations is assessed collectively and are recorded in other comprehensive revenue and expense and accumulated in a revaluation reserve. Any revaluation increase is credited to the asset class revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset class previously charged as an expense in determining the surplus or deficit for the year.

Any accumulated depreciation at the date of the revaluation is transferred to the gross carrying amount of the asset, except for those assets on which a desktop assessment was performed, and the asset cost is restated to the revalued amount. When revalued assets are disposed of, the related amounts included in other reserves are transferred to retained earnings. As the impact to revaluation reserve is calculated on a class of asset level, the disposal of individual assets with a negative other reserve balance within a net positive other reserve balance results in an increase to other reserves and a decrease to retained earnings.

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

	Land $000	Buildings $000	Pipelines $000	Tanks, tunnels, roads and reservoirs $000	Dams $000	Machinery $000	Total $000
Balance at 1 July 2021	459,913	24,490	2,391,867	347,527	130,657	177,881	3,532,335
Revaluation during the year – net of deferred tax	–	–	585,014	(63,529)	25,892	202,211	749,587
Transfer (to) / from other classes	–	–	–	–	–	–	–
Transferred to retained earnings on disposal of property, plant and equipment (net of tax)	(3,343)	–	(748)	4	–	(186)	(4,273)
Balance at 30 June 2022	456,570	24,490	2,976,133	284,002	156,549	379,906	4,277,649

9. Intangible assets

Measurement

Intangible assets are initially recorded at cost.

		Estimated remaining useful lives in years	
Asset class	Subsequent measurement basis	2022	2021
Network models	Cost less accumulated amortisation and impairment losses	up to 8	up to 9
Computer software	Cost less accumulated amortisation and impairment losses	up to 8	up to 9
Resource consents	Cost less accumulated amortisation and impairment losses	up to 32	up to 34
Easement	Cost less impairment losses	Indefinite	Indefinite
Goodwill	Cost less impairment losses	Indefinite	Indefinite

Goodwill

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

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

Amortisation

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

9. Intangible assets (continued)

Carrying amount	Network models $000	Computer software (Restated) $000	Resource consents $000	Easements $000	Goodwill $000	Total $000
Balance at 30 June 2020						
Cost or valuation	5,976	95,141	47,650	1,427	2,300	152,494
Accumulated amortisation	(3,898)	(56,024)	(13,596)	–	–	(73,518)
Carrying amount	2,078	39,117	34,054	1,427	2,300	78,976
Year ended 30 June 2021						
Transferred from work in progress	233	7,887	48	–	–	8,168
Acquisitions of a controlled entity	–	–	–	–	–	–
Impairment	–	–	(374)	–	–	(374)
Disposals	–	(1)	–	–	–	(1)
Additions to Intangibles	–	1,085	–	–	–	1,085
Transfer from/(to) other classes	–	–	–	–	–	–
Amortisation	(430)	(6,970)	(1,505)	–	–	(8,905)
Closing carrying amount	1,881	41,118	32,223	1,427	2,300	78,949
Balance at 30 June 2021						
Cost or valuation	5,039	103,622	47,061	1,427	2,300	159,449
Accumulated amortisation	(3,158)	(62,504)	(14,838)	–	–	(80,500)
Carrying amount	1,881	41,118	32,223	1,427	2,300	78,949
Year ended 30 June 2022						
Transferred from work in progress	560	3,620	4	–	–	4,184
Acquisitions of a controlled entity	–	–	–	–	–	–
Impairment	–	–	–	–	–	–
Disposals	–	2	–	–	–	2
Additions to Intangibles	–	211	(1)	–	–	210
Transfer from/(to) other classes	–	–	–	–	–	–
Amortisation	(498)	(8,172)	(1,483)	–	–	(10,153)
Closing carrying amount	1,943	36,779	30,743	1,427	2,300	73,192
Balance at 30 June 2022						
Cost or valuation	5,599	107,583	47,065	1,427	2,300	163,974
Accumulated amortisation	(3,656)	(70,804)	(16,322)	–	–	(90,782)
Carrying amount	1,943	36,779	30,743	1,427	2,300	73,192

10. Borrowings

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

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

From 1 July 2018 Watercare and its parent, Auckland Council, entered into a service level agreement (SLA) for the provision of treasury services and an inter-company loan agreement for existing loans at 30 June 2018. The terms of both agreements commenced 1 July 2018 are in place and renews on 31 January 2023. Large scale repayments are not required as long as Watercare remains within the debt headroom position agreed with Auckland Council Treasury. Auckland Council treasury met all of their obligations under the terms of the SLA during the 2022 financial year.

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

There is an expectation for Watercare to meet the long term annual plan budgeted borrowing balance of $2,704m. The actual results for the year ended 30 June 2022 were $2,584m.

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

	2022		2021	
	Face value $000	Carrying value $000	Face value $000	Carrying value $000
Current				
Related party term loan (unsecured)	–	–	–	–
Medium-term notes (unsecured)	–	–	–	–
Bank loan (unsecured)	–	–	–	–
Total current borrowings	–	–	–	–
Non-current				
Related party term loan (unsecured)	2,584,000	2,584,000	2,308,450	2,308,450
Total non-current borrowings	2,584,000	2,584,000	2,308,450	2,308,450
Total borrowings	2,584,000	2,584,000	2,308,450	2,308,450

The group had $2.0m (2021: $2.0m) of undrawn bank overdraft committed facilities.

11. Finance costs

Finance costs consist of interest and other costs that are incurred in connection with the borrowing of funds. Finance costs directly attributable to the acquisition, construction or production of a qualifying asset that necessarily takes more than 12 months to become ready for its intended use or sale are capitalised as part of the cost of that asset. During the year, an average interest rate of 4.15% (2021: 4.15%) was used to determine the amount of capitalised interest. All other finance costs are expensed in the period in which they occur.

	2022 $000	2021 $000
Interest on bank overdraft and borrowings, paid and payable	94,848	88,283
Capitalised interest on construction of property, plant and equipment, and intangibles	(36,730)	(34,140)
Net finance costs	58,118	54,143

12. Financial instruments and risk management

Risk management objectives and policies

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

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

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

Market risk

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

Interest rate risk

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

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

12. Financial instruments and risk management (continued)

Interest rate sensitivity

At 30 June 2022 there is no interest rate risk as interest rates are fixed annually (2021: 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 (2021: 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 2022 and 30 June 2021.

Foreign exchange sensitivity

The group had no exposure to foreign exchange risk at 30 June 2022 and 30 June 2021.

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:

	2022			2021		
	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	36,058	–	36,058	49,711	–	49,711
Past due 1 to 30 days	12,228		12,228	4,264	0	4,264
Past due 30 to 60 days	5,976	–	5,976	4,271	(30)	4,240
Past due more than 60 days	30,363	(3,477)	26,886	10,301	(2,721)	7,580
Total	84,624	(3,477)	81,147	68,547	(2,751)	65,796

Movement in the provision for doubtful debts	2022 $000	2021 $000
Balance at 1 July	2,751	1,702
Additions during the year	848	2,023
Bad debts written off	(122)	(974)
Unused provisions reversed during the year	–	–
Balance at 30 June	3,477	2,751

During year ended 30 June 2022, the group is also exposed to credit risk through a $55m loan provided to the Central Interceptor contractor (2021: $63m). The group has mitigated this risk by contractually securing the loan with bank bonds, which in the event of a default the group has the right to call on the bonds and have the loan repaid in full. Refer to note 22 for further information.

12. Financial instruments and risk management (continued)

Liquidity risk

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

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

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

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

Gross contractual maturity analysis

	Current		Non-current			
2022	0–6 months $000	7–12 months $000	1–2 years $000	>2 years $000	Gross nominal cash outflow $000	Carrying amount $000
Financial liabilities						
Trade and other payables for exchange transactions	25,886	–	8,664	–	34,551	34,551
Accrued expenses*	162,754	–	–	–	162,754	162,754
Borrowings	–	–	–	2,584,000	2,584,000	2,584,000
Total	188,640	–	8,664	2,584,000	2,781,305	2,781,305

	Current		Non-current			
2021	0–6 months $000	7–12 months $000	1–2 years $000	>2 years $000	Gross nominal cash outflow $000	Carrying amount $000
Financial liabilities						
Trade and other payables for exchange transactions	29,152	–	–	–	29,152	29,152
Accrued expenses*	104,322	–	–	–	104,322	104,322
Borrowings	–	–	–	2,308,450	2,308,450	2,308,450
Total	133,474	–	–	2,308,540	2,441,924	2,441,924

* Excludes current and non-current revenue received in advance of $30.9m (2021:$51.0m) as it was not categorised as a financial liability; refer to note 23.

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

Fair values

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

Financial assets at amortised cost

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

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

12. Financial instruments and risk management (continued)

Financial liabilities at amortised cost

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

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

Fair value through profit and loss

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

Fair value hierarchy

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

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

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

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

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

From 1 July 2018 the group did not have any financial assets or liabilities that were measured at fair value in the statement of financial position. At 30 June 2022 there are no derivative financial instruments (2021: None).

Financial assets and liabilities

	2022		2021	
	Amount $000	Fair value $000	Amount $000	Fair value $000
Financial assets – current				
Amortised cost				
Cash and cash equivalents	7,604	7,604	2,521	2,521
Trade and other receivables from exchange transactions	100,185	100,185	88,800	88,800
Other financial assets	29,688	29,688	27,203	27,203
Financial assets – non-current				
Amortised cost				
Other financial assets	25,668	25,668	35,923	35,923
Total financial assets	163,145	163,145	154,447	154,447
Financial liabilities – current				
Amortised cost				
Trade and other payables for exchange transactions	25,886	25,886	24,170	24,170
Accrued expenses*	162,754	162,754	104,322	104,322
Financial liabilities – non-current				
Amortised cost				
Trade and other payables for exchange transactions	8,664	8,664	4,982	4,982
Related party term loan (unsecured)	2,584,000	2,584,000	2,308,450	2,308,450
Total financial liabilities	2,781,305	2,781,305	2,441,924	2,441,924

* Excludes current revenue received in advance of $30.9m (2021: $51.0m) and non-current revenue received in advance of $11.7m (2021: $13.8m) as it was not categorised as a financial liability; refer to note 23.

12. Financial instruments and risk management (continued)

Capital management

The capital structure of the group consists of equity attributable to the owners of the parent, comprising issued capital, reserves and retained earnings as disclosed in the statement of changes in equity, and debt including borrowings as disclosed in note 10.

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 2022 and 30 June 2021.

13. Revenue

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

Revenue from exchange transactions

Water and wastewater revenue

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

Revenue from rendering of services

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

Interest income

Interest income is recognised using the effective interest method.

Dividend income

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

Infrastructure Growth Charge revenue

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

Revenue from non-exchange transactions

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

Vested assets revenue

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

13. Revenue (continued)

	Notes	2022 $000	2021 $000
Revenue from exchange transactions			
Revenue from sale of goods			
Water revenue – gross		176,160	160,456
Water leak remission		(2,673)	(2,989)
Water revenue – net of leak remissions		173,487	157,467
Revenue from sale of services			
Wastewater revenue – gross		391,425	360,121
Wastewater leak remission		(6,205)	(6,895)
Wastewater revenue – net of leak remissions		385,220	353,226
Total water and wastewater revenue – net of leak remissions		558,707	510,693
New meters and service connections		33,589	26,137
Laboratory revenue		7,674	7,283
Total revenue from sale of goods and services		599,970	544,113
Infrastructure Growth Charge revenue		240,484	196,936
Dividend income		122	112
Subvention income		-	-
Interest income		63	88
Other revenue		17,687	10,761
Total other revenue from exchange transactions		258,356	207,897
Total revenue from exchange transactions		858,326	752,010
Revenue from non-exchange transactions			
Government grants		15,144	2,055
Vested assets revenue		59,535	48,534
Total revenue from non-exchange transactions		74,679	50,589
Total revenue		933,005	802,599

14. Operating expenses

	Notes	2022 $000	2021 $000
Operating expenses include:			
Auditor's remuneration			
– annual audit and review of the financial statements – Deloitte Limited		826	698
– audit of financial statements – Office of the Auditor-General (OAG) contribution		46	45
– other services		330	384
Directors and trustees' fees	NOTE 29, PAGE 106	505	477
Environmentally significant costs			
– chemicals		16,949	13,356
– energy		26,155	25,329
Cost of consumables and spare parts consumed	NOTE 19, PAGE 100	17,403	18,104
Operating leases and rent		7,715	7,628
Increase in provision for doubtful debts	NOTE 12, PAGE 90	848	2,023
Bad debts written off	NOTE 12, PAGE 90	(122)	(974)
Salaries and wages			
– paid to employees		130,790	110,966
– capitalised on construction of property, plant and equipment		(33,785)	(38,935)

Auditor's remuneration for other services relates to the Central Interceptor project assurance services, probity services, assurance in respect of Watercare's 2021 GRI report and administrative and other advisory services to the Corporate Taxpayers Group (CTG), of which Watercare, alongside a number of other organisations, are a member. Prior year fees were similar to the current year's other services except for additionally performing a review of processes and controls in respect of real water loss, IT risk advisory services and an extension payment review.

15. Reconciliation of operating cash flows

	2022 $000	2021 (Restated) $000
Reconciliation of net surplus after tax to net cash flows from operating activities		
Net surplus for the year	163,083	131,270
Non-cash and non-operating items:		
Depreciation and amortisation	283,024	267,514
Net loss on disposal of and provision for redundant property, plant and equipment	18,529	8,172
Vested and other non-cash revenue	(66,478)	(48,534)
Finance Costs	58,118	54,218
Net loss / (gain) on revaluation of derivative financial instruments	–	–
Medium-term notes interest paid (non-operating)	–	–
Medium-term notes premium amortisation and time value of money charges	–	–
Deferred tax	62,339	49,617
Movements in working capital:		
(Increase) / decrease in assets:		
Inventories	(3,607)	(935)
Trade and other receivables from exchange transactions	(11,385)	2,026
Prepaid expenses	(327)	2,512
Increase / (decrease) in liabilities:		
Trade and other payables for exchange transactions	5,398	1,388
Accrued expenses	36,260	(3,469)
Provisions	(23,390)	232
Working Capital Movements related to Investing Activities	4,464	–
Net cash inflows from operating activities	526,028	464,011

16. Income tax expense

Current tax

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

Sale of tax losses

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

16. Income tax expense (continued)

	2022 $000	2021 (Restated) $000
Operating surplus before tax	225,421	180,887
Income tax calculated at current tax rate of 28%	63,118	50,648
Increase / (decrease) in income tax due to:		
– Dividend and other income exempt from taxation	(539)	(1,738)
– Assessable income		–
– Non-deductible expenses	193	479
– Imputation credits on dividends received	3	(52)
– Prior year and other adjustments	119	279
– Other	(555)	–
– Subvention income and tax loss offset with Auckland Council tax group	–	–
– Reintroduction of building tax depreciation	–	–
Tax effect of non-deductible items and prior period adjustments	(779)	(1,031)
Income tax expense	62,339	49,617
Represented by:		
Current tax	–	–
Deferred tax	62,339	49,617
Total income tax expense	62,339	49,617

Imputation credits

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

	2022 $000	2021 $000
Total imputation credits	43	30

17. Deferred tax liability

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

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

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

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

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

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

(i) Recognised deferred tax assets and liabilities

	2022 Assets $000	2021 Assets (Restated) $000	2022 Liabilities $000	2021 Liabilities (Restated) $000	2022 Net $000	2021 Net (Restated) $000
Property, plant and equipment	–	–	(2,364,627)	(2,027,544)	(2,364,627)	(2,027,544)
Financial instruments	–	–	–	–	–	–
Employee benefits and other provisions	4,516	4,429	–	–	4,516	4,429
Tax losses	260,063	269,579	–	–	260,063	269,579
Other	–	–	(50,309)	(44,762)	(50,309)	(44,762)
Total	264,579	274,008	(2,414,936)	(2,072,306)	(2,150,357)	(1,798,298)

(ii) Movement in deferred tax

	Property, plant and equipment (Restated) $000	Employee entitlements and other provisions (Restated) $000	Tax losses (Restated) $000	Other (Restated) $000	Total $000
Balance as at 1 July 2020	1,743,945	(3,778)	(279,388)	35,164	1,495,943
Charged / (credited) to comprehensive revenue and expense	30,860	(651)	9,808	9,599	49,616
Charged to other comprehensive revenue and expense, resulting from revaluation	252,739	–	–	–	252,739
Balance as at 30 June 2021	2,027,544	(4,429)	(269,580)	44,762	1,798,298
PPA Income Tax Return	(772)	(166)	(849)	–	(1,787)
Charged / (credited) to comprehensive revenue and expense	46,348	78	10,366	5,547	62,339
Charged to other comprehensive revenue and expense, resulting from revaluation	291,507	–	–	–	291,507
Balance as at 30 June 2022	2,364,627	(4,516)	(260,063)	50,309	2,150,357

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

18. Trade and other receivables from exchange transactions

Trade and other receivables from exchange transactions are initially recognised at fair value. These are generally due for settlement within 21 days (2021: 21 days). Debts which are known to be uncollectable are written off by reducing the carrying amount directly.

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

Subsequent recoveries of amounts previously written off are recorded within other revenue.

	2022 $000	2021 $000
Current		
Trade receivables	83,431	63,264
Trade receivables – related parties	1,193	5,283
Provision for doubtful debts	(3,477)	(2,751)
	81,147	65,796
Other receivables – related parties	–	–
Unbilled revenue accrual	19,038	23,004
Trade and other receivables from exchange transactions	100,185	88,800

19. Inventories

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

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

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

The cost of inventories recognised as an expense during the year was $17.4m (2021: $18.1m).

	2022 $000	2021 $000
Spare parts at cost	138	2,541
Consumables at cost	12,576	9,229
Treated water at cost	1,179	1,080
Project stock	10,550	8,006
Provision for obsolescence	–	(20)
Total	24,443	20,836
Represented as:		
Current inventory	17,849	15,254
Non-current inventory	6,594	5,582
Total	24,443	20,836

20. Trade and other payables for exchange transactions

Trade and other payables for exchange transactions are unsecured and usually paid within 30 days (2021: 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 $12.8m are held as cash on hand at 30 June 2022 (2021: $10.3m) by Auckland Council Treasury. This is in line with the amendment to the Construction Contracts Act (CCA) 2002 which was effective from April 2017.

	2022 $000	2021 $000
Current		
Trade creditors	18,415	12,175
Trade creditors – related parties	780	5,782
Contract retentions	4,215	5,364
Other payables	2,476	849
Total current trade and other payables for exchange transactions	25,886	24,170
Non-current		
Contract retentions	8,664	4,982
Total non-current trade and other payables for exchange transactions	8,664	4,982
Total trade and other payables for exchange transactions	34,550	29,152

21. Prepaid expenses

	2022 $000	2021 $000
Current		
Puketutu Island lease	443	443
Other prepaid expenses	8,699	6,677
Total current prepaid expenses	9,142	7,120
Non-current		
Puketutu Island lease	18,637	19,523
Other prepaid expenses	4,145	4,954
Total non-current prepaid expenses	22,782	24,477
Total prepaid expenses	31,924	31,597

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

Other prepaid expenses include prepaid capital project insurance of $3.5m (2021: $4.7m), prepaid employee insurance, a biosolids levy and software licensing fees.

22. Other financial assets

	2022 $000	2021 $000
Current		
Loan receivable	29,688	27,203
Non-current		
Loan receivable	25,668	35,923
Total other financial assets	55,356	63,126

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 amortised cost.

23. Accrued expenses

	2022 $000	2021 $000
Current		
Capital work in progress accruals	96,103	74,438
Interest payable	8,694	4,146
Revenue received in advance	30,897	50,996
Operating costs accruals	57,956	25,738
Total current accrued expenses	193,651	155,318
Non-current		
Revenue received in advance	11,720	13,793
Total non-current accrued expenses	11,720	13,793
Total accrued expenses	205,371	169,111

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

Revenue received in advance includes $6.5m (2021: $6.8m) relating to the amount received in accordance with the franchise fee agreement with the network operator Veolia Water Services (ANZ) Pty Limited. The $13.1m 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.

24. Provisions

The group provides for the cost of employees' entitlements under the terms of their employment contracts. The liability is calculated as the present value of the expected future payments after allowing for wage and salary increases, the rate of 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.

	2022 $000	2021 $000
Current		
Employee entitlements	11,245	10,127
Other provisions	10,233	29,130
Total current provisions	21,478	39,257
Non-current		
Employee entitlements	2,738	2,233
Decommissioning costs	10,983	17,099
Total non-current provisions	13,721	19,332
Total provisions	35,199	58,589

	Employee entitlements $000	Decommissioning costs $000	Other provisions $000	Total $000
Balance at 1 July 2021	12,360	17,099	29,130	58,589
Additions during the year	14,803	–	9,150	23,953
Reductions resulting from payments	(13,179)	–	(12,057)	(25,236)
Unused provisions reversed during the year			(15,990)	(15,990)
Increase in provision due to change in discount rate		(6,374)		(6,374)
Net present value adjustment	–	258		258
Balance at 30 June 2022	13,983	10,983	10,233	35,199

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 $22.2m 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 $11.0m (2021: $17.1m).

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

- An average inflation rate over the 25-year provision period of 2.29%
- A range of risk-free discount rates from 3.84% to 4.07% have been applied in calculating the net present value (2021: from 0.16% to 1.86%)
- An expected biosolids completion date of 20 years from 2015 (the date biosolid activity commenced)
- Aftercare activities will be required for a period spanning 10 years from completion
- The exact extent of work required to restore the site, along with quantities of materials and supplies, is unknown; therefore, an estimate has been made based on the information available at balance date.

Other provisions of $10.2m relates to claims made by contractors in respect of capital projects (2021: $29.1m).

25. Equity and related parties

Equity

Watercare is 100% owned by Auckland Council. The total number of authorised and issued shares at balance date was 260,693,164 (2021: 260,693,164) ordinary shares of $1 each. Every ordinary issued share was fully paid and carries equal voting rights to:

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

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

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 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.

Water Utility Consumer Assistance Trust

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

Watercare Harbour Clean Up Trust

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

Auckland City Water Limited and WCS Limited

Auckland City Water Limited and WCS Limited are 100% owned (2021: 100%) by Watercare and are non-trading companies.

Transactions with related parties

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

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

	2022 $000	2021 $000
Loans from Auckland Council, balance at 30 June	2,584,000	2,308,450
Interest receivable on loans from Auckland Council	–	–
Interest payable on loans from Auckland Council	8,694	4,146
Interest expense on loans from Auckland Council	95,516	88,143
Loans borrowed from Auckland Council during the year	723,964	807,579
Loans repaid to Auckland Council during the year	543,930	544,391
Interest expense on swaps (net) with Auckland Council	–	–
Debt guarantee expense with Auckland Council	–	–

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

25. Equity and related parties (continued)

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

	2022 $000	2021 $000
Sales to related parties	12,832	14,442
Trade receivables from exchange transactions – related parties	1,193	5,547
Purchases from related parties	5,850	5,958
Land rates – Auckland Council	2,754	2,581
Trade payables for exchange transactions – related parties	290	–
Payables accruals – related parties	490	1,507

26. Commitments

	2022 $000	2021 $000
Capital expenditure		
The capital expenditure committed to, but not recognised in these financial statements at balance date, was:		
Land & Buildings	6,119	3,240
Pipelines	686,807	803,091
Tanks, tunnels, roads and reservoirs	70,267	30,769
Intangibles	4,093	3,043
Other	201,610	122,176
Total capital expenditure commitments	968,896	962,319
Anticipated payment schedule		
Less than one year	533,826	422,886
One to two years	323,465	276,118
Two to five years	107,652	259,486
Beyond five years	3,953	3,829
Total capital expenditure commitments	968,896	962,319

At 30 June 2022 the Central Interceptor Main Works Contract is included within these capital commitments. Above commitments includes capital commitments contracted and approved.

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

The major lease commitments relate to the long-term lease of the office premises in Newmarket, which expires in November 2025, and the long-term lease from Auckland Council of the land forming the water catchment areas, which expires in July 2092. The annual rental of $0.6m (2021: $0.6m) for the water catchment areas was included in these commitments at face value. Other leases include parks, reservoirs and office equipment.

26. Commitments (continued)

	2022 $000	2021 $000
Operating leases		
Anticipated payments under non-cancellable operating leases:		
Less than one year	7,937	7,400
One to two years	7,848	7,428
Two to five years	14,479	19,277
Beyond five years	74,938	77,140
Total lease commitments	105,202	111,245

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 2022 was $3.2m (2021: $2.9m).

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, receiving remuneration from the group as directors, trustees and key management personnel is 8 FTE (2021: 10 FTE). The aggregate remuneration received by the directors, trustees and key management personnel is shown below:

	2022 $000	2021 $000
Employees' salaries and wages, directors' fees and trustees' fees	4,637	4,487
Post-employment benefits	–	–
Aggregate remuneration	4,637	4,487

29. Key management personnel (continued)

Directors' fees	Appointed	2022 $000	2021 $000
Watercare Services Limited			
Margaret Devlin (Chair)	November 2016	108	101
Julia Hoare (Retired October 2020)	November 2013	–	18
Nicola Crauford	April 2014	59	58
Brendon Green	November 2016	59	58
David Thomas (Retired February 2021)	November 2014	–	32
Hinerangi Raumati-Tu'ua	August 2019	62	58
Frances Valintine	November 2019	54	50
David Chambers	November 2019	59	58
Julian Smith	January 2022	27	–
Graham Darlow	February 2021	54	18
Wi Pere Mita (Board Intern)	January 2022	–	–
Lutra Limited			
Jason Colton (Retired August 2021)	January 2016	–	–
Rebecca Chenery (Resigned July 2022)	February 2020	–	–
Shane Morgan (Resigned August 2021)	February 2020	–	–
Maseina Ilo Koneferenisi	August 2021	–	–
Shayne Robert Cunis	September 2021	–	–
Jamie Sinclair	May 2022	–	–
Total		483	451

During FY21 the Board of Director's temporarily reduced their fees as a response to COVID-19. The full fees have been reinstated for FY22 resulting in higher overall spend.

Trustees' fees	Appointed	2022 $000	2021 $000
Watercare Utility Consumer Assistance Trust			
Jeff Morrison (Chair)	December 2015	8	8
Maureen Little	October 2011	5.5	6
Lauren Godsiff	October 2011	5.5	6
Emily Charlton-Rapana	July 2015	3	6
Total		22	26
Total Directors and Trustees Fees		505	477

30. Events occurring after balance date

No significant events have occurred since balance date requiring disclosure in these financial statements.

Statutory information

Employees' remuneration range

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

Employees' remuneration range ($)	2022 Number of employees
100,000 – 110,000	117
110,000 – 120,000	83
120,000 – 130,000	83
130,000 – 140,000	53
140,000 – 150,000	35
150,000 – 160,000	18
160,000 – 170,000	22
170,000 – 180,000	9
180,000 – 190,000	8
190,000 – 200,000	2
200,000 – 210,000	4
210,000 – 220,000	4
220,000 – 230,000	4
230,000 – 240,000	3
250,000 – 260,000	5
260,000 – 270,000	1
270,000 – 280,000	1
290,000 – 300,000	1
320,000 – 330,000	1
330,000 – 340,000	1
340,000 – 350,000	1
360,000 – 370,000	1
420,000 – 430,000	1
480,000 – 490,000	1
510,000 – 520,000	1
550,000 – 560,000	1
580,000 – 590,000	1

2022 Statement of Service Performance

(Non-Financial Performance Measures)

NATURAL ENVIRONMENT

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

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

received by Watercare in relation to those resource consents.

SOI Target 2021/22: a) ⊠ 2, b) ⊠ 2, c) ⊠ 2, d) = 0
Achieved: a) = 1, b) = 0, c) = 0, d) = 0
Previous year: a) = 0, b) = 0, c) = 0, d) = 0

Watercare met this target. There was one abatement notice for the Helensville Wastewater Treatment Plant and no infringement or enforcement notices or convictions for the 2021/22 year.

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

SOI Target 2021/22: 260 +/- 2.5%
Achieved: 243.9
Previous year: 245.6

Watercare met this target. In 2021/22, the gross per capita consumption of water was 243.9 litres per person per day. Our target for 2021/22 was to maintain consumption within the 260 litres per person per day (+/- 2.5%) band, to meet the overall target of reducing demand by 15% by 2025, based on the Auckland Strategic Three Waters Plan (2008).

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

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

About our methodology: We continue to use Statistics NZ's 2018 medium projections for population 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 medium growth forecast and deducted the percentage of the population that is not connected to our water supply network using our 2021 water connection data.

PEOPLE AND CULTURE

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

SOI Target 2021/22: = ⊠ 20
Achieved: 23
Previous Year: 35

Watercare met this target. Our eNPS score (a metric used to measure employee satisfaction) was slightly above our targeted score (23 against a target of 20 or above).

The significant drop from 35 in 2020/21 can be attributed to a combination of factors – the extended national lockdown and continuing anxiety around the pandemic, rising cost of living and the imminent changes/uncertainty associated with the Three Waters Reform has definitely had an impact on staff wellbeing.

Overall, our people believe that their work supports the team and organisational goals and that we are heading in the right direction as a company. Areas highlighted for improvement include a more transparent and equitable remuneration framework and better cohesion between various business functions.

(ii) Gender workforce ratio.

SOI Target 2021/22: = Improve on prior year
Achieved: Achieved
Previous Year: Achieved

Watercare met this target. The majority of our teams saw an increase in the percentage of female staff, with the two exceptions being our executive team and the company secretary team which saw a 14% and 10% decrease respectively in female staff.

Department	Female	Male	% Change in female staff
Central Interceptor	61%	39%	6%
Company Secretary	90%	10%	-10%
Customer	55%	45%	3%
Digital	25%	75%	-2%
Executive	29%	71%	-14%
Finance	63%	37%	11%
Infrastructure	37%	63%	6%
Operations	17%	83%	-1%
People	69%	31%	-1%
Te Rua Whetu	50%	50%	New Department

(iii) Total recordable injury frequency rate per million hours worked

SOI Target 2021/22: = <20
Achieved: 14.3
Previous Year: New measure

Watercare met this target. We continue to work on a range of targeted programmes to empower our people with training, tools and the confidence to carry out their work safely and stop work if they see unsafe practices.

CUSTOMER AND STAKEHOLDER RELATIONSHIPS

(i) Net promoter score

SOI Target 2021/22: 40>
Achieved: 54
Previous year: 46

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 increased this year to 54, from 46 in 2020/21. Our ongoing focus on serving customers quickly, effectively and through their channel of choice has helped to strengthen our responsiveness and improve customer experience.

(ii) Community trust score

SOI Target 2021/22: >55%
Achieved: 57%
Previous Year: New measure

Watercare met this target. Our trust score is the percentage of survey respondents who agree that they trust us by scoring us seven or higher out of 10 to the question: Thinking about everything you know about the company, how much do you trust Watercare? Over the course of 2021/22, we surveyed 5,142 people across Auckland.

(iii) Percentage of customer complaints resolved within ten days of notification

SOI Target 2021/22: >95%
Achieved: 98.9%
Previous Year: New measure

Watercare met this target. In 2021/22, 1028 complaints were received (1071 for 2020/21), and of these complaints, 98.9% (1017) were resolved within the stipulated 10-day period, meeting the target of 95% or more.

(iv) Formal engagement with mana whenua of Tāmaki Makaurau

SOI Target 2021/22: 100%
Achieved: 95%
Previous Year: New measure

Watercare did not meet this target. Over the last 12-months, despite changes in staff and capacity issues which limited the ability of all mana whenua to engage directly with Watercare or to participate in the Mana Whenua Kaitiaki forum, Watercare achieved 95% compliance by meeting with 18 of the 19 mana whenua of Tāmaki Makaurau. Although engagement with some of our mana whenua partners was more frequent than others, we were not able to meet with Ngāti Rehua Ngāti Wai ki Aotea. We intend to re-engage through the water reforms and Entity A discussions.

(v) Ratio of procurement sourced through Māori owned businesses

SOI Target 2021/22: 1%
Achieved: 1.48%
Previous Year: New measure

Watercare met this target. Our supply chain function will continue to work with Te Rua Whetu, internal stakeholders and supply partners to encourage spend towards Māori businesses where possible. We are also engaging with external sources including Amotai, local iwi and other Māori business groups to ensure that we maximise opportunities for Māori businesses. An additional focus for next year will be to improve our procurement planning processes and systems to increase visibility of all procurement activities at the planning stage for supply chain.

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

SOI Target 2021/22: 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 as well as the interim compliance process specified by the new water services regulator Taumata Arowai.

The drinking water quality was regulated through the Ministry of Health (MoH) up to 30 September 2021. Wai Comply, as an external expert and the MoH appointed contractor to perform Drinking Water Assessor (DWA) functions, provided a compliance report up to this date. This regulator changed to Taumata Arowai from 1 October 2021. From October 2021, compliance with the Water Services Act 2021 require us to notify Taumata Arowai of any risks to Drinking Water Safety or Quantity and any MAV (Maximum Allowable Value) exceedances as required under the Water Services Act 2021. Taumata Arowai have confirmed that these specific notifications were received within prescribed timeframes accompanied by relevant documentation and records and it was concluded that there was no risk to public health.

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

SOI Target 2021/22: 100%
Achieved: 100%
Previous year: 100%

Watercare met this target. We continued to demonstrate 100% compliance with Drinking Water Standards New Zealand (DWSNZ) Protozoal Compliance Criteria as well as the interim compliance process specified by the new water services regulator Taumata Arowai.

The drinking water quality was regulated through the Ministry of Health (MoH) up to 30 September 2021. Wai Comply, as an external expert and the MoH appointed contractor to perform Drinking Water Assessor (DWA) functions, provided a compliance report up to this date. This regulator changed to Taumata Arowai from 1 October 2021. From October 2021, compliance with the Water Services Act 2021 require us to notify Taumata Arowai of any risks to Drinking Water Safety or Quantity and any MAV (Maximum Allowable Value) exceedances as required under the Water Services Act 2021. Taumata Arowai have confirmed that these specific notifications were received within prescribed timeframes accompanied by relevant documentation and records and it was concluded that there was no risk to public health.

(viii) 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 2021/22: ≤ 60 mins
Achieved: 59 mins
Previous year: 56 mins

Watercare met this target. The median response time for our maintenance crew to attend to urgent issues was 59 minutes, which is within the target of 60 minutes or less.

(ix) 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 2021/22: ≤ 5 hours
Achieved: 3.1 hours
Previous year: 2.8 hours

Watercare met this target. The median response time for our maintenance crews to resolve urgent issues such as faults or interruptions was 3.1 hours, which is within the target of five hours or less.

(x) 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 2021/22: ≤ 5 days
Achieved: 1.1 days
Previous year: 1.0 days

Watercare met this target. The median response time for our maintenance crews to attend to non-urgent water issues was 1.1 days, which met the target of five days or less.

(xi) 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 2021/22: ≤ 6 days
Achieved: 1.9 days
Previous year: 1.3 days

Watercare met this target. The median response time for our maintenance crews to resolve non-urgent issues was 1.9 days, which is well within the target of six days or fewer.

(xii) 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 2021/22: ≤ 10
Achieved: 8.8
Previous year: 9.0

Watercare met this target. This measure relates to the volume of calls we received regarding water quality and supply issues for the year ended 30 June 2022. The number of complaints received per 1000 connections was 8.8, which meets the target of 10 or fewer.

(xiii) 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 2021/22: ⩽ 60 mins
Achieved: 63 mins
Previous year: 51 mins

Watercare did not meet this target. The median response time for our maintenance crews to attend to wastewater overflows or blockages was 63 minutes, which is above the target of 60 minutes or less. The longer times for attendance were due to short-staffed teams that were impacted by COVID and the Government's isolation requirements.

(xiv) 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 2021/22: ⩽ 5 hours
Achieved: 3.7 hours
Previous year: 2.5 hours

Watercare met this target. The median response time for our maintenance crew to resolve wastewater overflows or blockages was 3.7 hours, which is within the target of five hours or less.

(xv) 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 2021/22: ⩽ 50
Achieved: 27.1
Previous year: 29.5

Watercare met this target. This measure relates to the volume of calls we received about wastewater odours, overflows, broken pipes and other network issues for the year ended 30 June 2022. The number of complaints received per 1000 connections was 27.1, which is well within the target of 50 or fewer.

ASSETS AND INFRASTRUCTURE

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

SOI Target 2021/22: ⩽ 13%
Achieved: 11.4%
Previous year: 13.7%

Watercare met this target, with water loss (11.4%) lower than the target limit of 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.

There are three factors contributing to the reduction in real losses:

- Increased customer engagement and improved feedback processes when leaks have been fixed which has led to more proactive reporting from customers, bringing these to our attention sooner
- Greater scrutiny into the backlog of unresolved leaks leading to faster leak repair times and reduced leak run-times
- Benefits from the ongoing and proactive leak detection survey of our 9000+ kms of pipe network are finally being realised.

Pressure management and the increased use of smart meters across Auckland in 2022/23 will result in more leaks being detected early and prevent worsening of leaks, leading to further reduction in real losses.

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

SOI Target 2021/22: ⩽ 5
Achieved: 1.1
Previous year: 0.9

Watercare met this target. The number of wastewater overflows from our network during dry weather is a measure of the network's capability to meet current demand. The result for the year was 1.1 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; wet-wipes flushed down the wastewater network also lead to blockages in the pipes resulting in wastewater overflows. We continued to educate the public on what not to flush down the toilet, through our social media channels, customer newsletters and the media.

(iii) Average number of wet-weather overflows per engineered overflow point per discharge location in the transmission system (12-month rolling average).

SOI Target 2021/22: ⩽ 2 overflows per year
Achieved: 1.1
Previous year: 0.5

Watercare met this target. The number of wet-weather overflows for the transmission network (bulk mains) per number of discharge locations was 1.1, which is within the target of two or fewer overflows.

(iv) Average asset age

SOI Target 2021/22: Reduce on prior year
Achieved: 40.0
Previous Year: New measure

Watercare did not meet this target as the average asset age for 2020/21 was 39.5. The calculation for average asset age applies asset age and replacement cost to form a weighted average asset age. The driver for the weighted average asset age increase in 2021/22 compared to 2020/21 is mainly due to some older assets influencing the overall asset age result.

FINANCIAL CAPITAL AND RESOURCES

(i) Percentage of household expenditure on water supply services relative to the average household income.

SOI Target 2021/22: ⩽ 1.5 %
Achieved: 0.80%
Previous year: 0.84%

Watercare met this target. In 2021/22, an average Auckland household (comprising three people) spent less than 1% (0.80%) of its monthly income on water and wastewater charges. This is despite a more significant increase in water/wastewater charges that took effect on 1 July 2021.

* Average income for Auckland based on Statistics NZ data.

(ii) Debt to revenue ratio

SOI Target 2021/22: < 3.54
Achieved: 2.8
Previous Year: 2.9

Watercare met this target. Debt headroom is the amount that Watercare can borrow in proportion to its revenue/assets. The baseline set for 2021/22 is 3.54 or lower. Any result below this number indicates there is positive headroom; our ratio for 2021/22 was 2.8, due to increased revenue from Infrastructure Growth Charges, new connections and wastewater charges.

Our Value Creation Model: full list of inputs and outcomes

Inputs – Value In

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

Natural capital

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

Human capital

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

Social and relationships capital

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

Manufactured capital

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

Intellectual capital

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

Financial capital

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

Outcomes – Value Out

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

Natural capital

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

Human capital

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

Social and relationships capital

- We ensure continuity of service
- We create a positive customer experience and receive positive feedback
- We are trusted by our customers and stakeholders who understand our purpose and value our service
- We have a strong relationship with our shareholder
- We have strong relationships with iwi, regulators and government
- We contribute to public health and well-being
- We provide affordable water and wastewater services
- We enable the Auckland Plan supporting growth / development
- We are a client of choice for our suppliers

Manufactured capital

- We ensure our water and wastewater assets are well maintained and perform well
- We build and maintain resilient, fit-for-purpose infrastructure
- We plan and construct in a timely way

Intellectual capital

- We make robust decisions that are informed and effective
- We continually strive for process excellence
- We strive for continuous improvement, and to be a future-proofed organisation
- We are industry leaders

Financial capital

- We are a minimum-cost provider
- We are financially stable over the long term
- We optimise cash flow and interest cover
- We optimise asset value
- We are a commercially savvy business.

Glossary

Asset Management Plan (AMP)	A document that defines Watercare's best engineering judgment of the revenue and capital investment required to maintain the integrity of its asset base over a 20-year period.
Biogas	A by-product of the wastewater treatment process that comprises approximately 65% methane.
Biosolids	A treated solid by-product of the wastewater treatment process.
Capex	Capital expenditure.
Capitalised interest	The borrowing costs directly attributable to the acquisition or construction of qualifying assets, which are capital projects that span more than one financial year, added to the cost of those assets, until such time as the assets are substantially ready for their intended use.
Central Interceptor	A large tunnel that will collect and carry wastewater.
EBITDA	Operating surplus from trading operations before depreciation and amortisation, finance costs, vested assets revenue (non-cash) and developer and financial contributions (non-cash).
Greenhouse gases	Gases that trap heat in the atmosphere. Examples of greenhouse gases are methane, perfluorocarbons and nitrous oxide.
Infrastructure assets	Assets that are mainly held and used for the purpose of treatment, storage and transmission of water and wastewater, such as watermains and sewers, and also treatment plants, tanks, dams and reservoirs.
Infrastructure Growth Charge (IGC)	Amount collected from property owners or developers applying for new connections to help fund new infrastructure required by growth.
Integrated Reporting	This is an internationally recognised framework for reports. It is a concise communication about how an organisation's strategy, governance, performance and prospects lead to the creation of value over the short, medium and long term.
Iwi	Tribal group(s) (origin: Māori).
Kaitiaki	Custodian (origin: Māori).
Mana whenua	Territorial rights; tribal connection to a geographic region; associated with possession and occupation (origin: Māori).
Mauri	A material symbol of life (origin: Māori).
Net finance costs	Interest paid/payable less interest received/receivable.
Operational assets	Assets that are mainly held and used for the purpose of administration and/or to support infrastructure assets and activities.
Opex	Operational expenditure.
Regional Demand Management Plan	A plan that outlines how Watercare intends to achieve a 15% reduction in gross per-capita water consumption by 2025. It is known as the Auckland Water Efficiency Strategy.
Resource efficiency	The maximising of the supply of money, materials, staff, and other assets that can be drawn on by a person or organisation in order to function effectively, with minimum wasted (natural) resource expenses.
Service concession arrangement	A binding arrangement between Watercare (grantor) and Veolia Water Services (ANZ) Pty Limited (operator) in which the operator uses the service concession asset to provide a public service on behalf of the grantor for a specified period of time; and the operator is compensated for its services over the period of the service concession arrangement.
Service Concession Assets	Assets owned and either provided by Watercare or upgraded for use by Veolia to provide public services in a service concession arrangement.
Statement of intent (SOI)	The SOI represents Watercare's public and legislative expression of accountability to its shareholder and establishes the agreement between the board and its shareholder.
Statement of Service Performance (SSP)	The SSP is a retrospective record of the performance of the company against the measures in its SOI.
Subvention receipt	Amount received/receivable from a profit company by a loss company for the sale of tax losses.
Sustainability	Meeting current needs without compromising future generations' ability to meet their own needs.
Tāmaki Makaurau	The Auckland isthmus region (origin: Māori).
Tangata whenua	Indigenous people of the land (origin: Māori).
Trade waste	Any discharge into a sewer in the course of an industry or trade process.
Unaccounted-for water loss	Water that is lost before it reaches the customer. Losses can be real losses (through leaks) or apparent losses (e.g. through theft or metering inaccuracies).
Vested assets	Infrastructure assets transferred to Watercare by external parties: e.g. developers, New Zealand Transport Agency, Veolia Water Services (ANZ) Pty Limited.
Wastewater	Liquid or solid matter discharged into the sewerage network from domestic, commercial or industrial locations.

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