

Watercare Services Limited Statement of Intent

2023 to 2026



Contents

Message from the Chair of the Board and Chief Executive of Watercare Services Limited	3
Part 1: Strategic overview	4
1.1 Roles and responsibilities	4
1.2 Responses to Council’s strategic objectives and outcomes	5
1.3 Nature and scope of activities – ‘what we do’	7
1.4 About us – The Watercare Board’s approach to governance.....	7
Part 2: Statement of performance expectations	9
2.1 Introduction.....	9
2.2 How we will deliver – annual work programme.....	9
2.3 Our six key activities for 2023-2026	11
2.4 Financial statements for the long-term plan	18
SOI Performance Measures	22

Message from the Chair of the Board and Chief Executive of Watercare Services Limited

Watercare's primary focus remains unchanged - the provision of reliable, safe and efficient water and wastewater services to Aucklanders.

Watercare's service delivery was tested by the Auckland Anniversary Floods and Cyclone Gabrielle. Despite these two severe weather events, our focus did not waver on maintaining and restoring quality water and wastewater services to our customers. We are moving into recovery and a large part of our work over the coming months/years will be to repair, and where necessary, rebuild, upgrade, or adapt our infrastructure to improve our resilience as climate change results in more frequent extreme weather events.

In line with the Letter of Expectation, this includes a suite of measures to provide Council and the public with useful information on our quality, performance, and efficiency. That said, the Board continues to monitor a wider suite of business performance measures not included in this updated report, including for example Māori outcomes and our diversity and inclusion initiatives.

Watercare's six key activities for 2023-2026 are:

1. Delivering safe and reliable water and wastewater services to Aucklanders 24/7.
2. Building and renewing the necessary water and wastewater infrastructure to improve resilience and the level of service for our customers.
3. Delivering our services and infrastructure projects efficiently, keeping a strong focus on operating costs, so we can minimise water charge increases.
4. Strengthening our relationships with developers, customers, community stakeholders and our Māori partners.
5. Improving our organisational performance in relation to our core strategic outcomes, namely: Climate Change (including drought and extreme weather resilience and supply); the health, safety, and wellness of our kaimahi; and Māori Outcomes.
6. Preparing for Central Government's Affordable Water reform programme, without compromising 1-5 above, whilst also preserving the ability to implement alternative water reform arrangements if the Affordable Water reform programme does not proceed as planned.

We confirm that Watercare will also abide by the Statement of Expectations of Substantive CCOs (July 2021).

The Board and Management will keep the Mayor, our Lead Councillor, Councillors, and the Council's Chief Executive informed of any matters that are potentially contentious or of high public interest, in line with the "no surprises" policy. We are working closely with Council to understand the Government's Affordable Water Reform proposals and what it means for Aucklanders. Watercare anticipates having a significant role to play in the water services reform process. That said, continuity of our essential services, leading up to, during and after transition remains paramount. If there are risks to our programmes from the Affordable Water Reform transition requirements, we will raise these with Council at the earliest opportunity.

In the meantime, Watercare will continue to work closely with Auckland Council, and the broader Council family to ensure that Council's vision for the city is achieved. Watercare is committed to providing world class water and wastewater services to Aucklanders. Our SOI reaffirms our commitment to work with Council and our partners so that together, we can meet the challenges of today and tomorrow.



Margaret Devlin
Chair of the Board



Dave Chambers
Chief Executive Officer

Part 1: Strategic overview

1.1 Roles and responsibilities

Watercare 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 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 valued in the order of \$14 billion and plan and build infrastructure to ensure we are resilient and reliable and can support growth today and into the future.

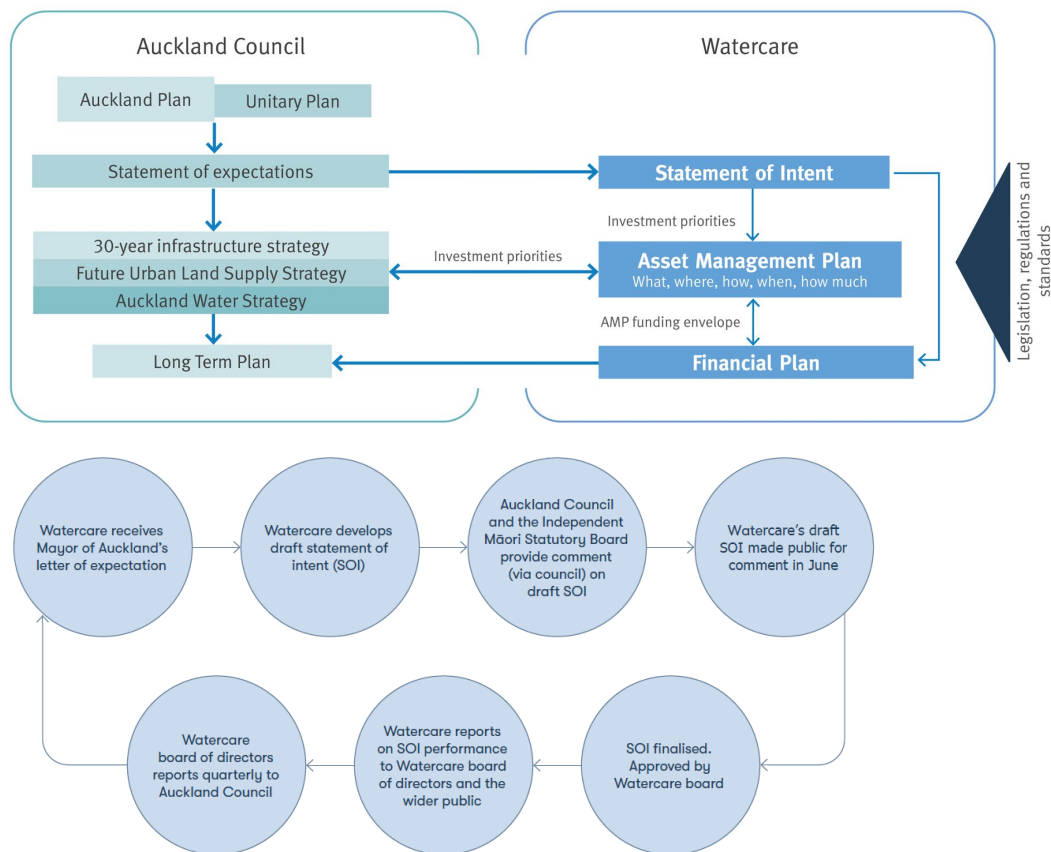
Our functions

Watercare is a council-controlled organisation, wholly owned by Auckland Council. The Council appoints our Board of Directors, who in turn appoint our Chief Executive.

We do not receive any funding from Auckland Council or the Government, nor do we pay a dividend to Auckland Council. Instead, our services and programmes are financed solely through user charges and borrowings. We are required by law to be a minimum-cost, cost-efficient service provider to our customers (collectively) that operates effectively into the long-term. Our legislative framework is summarised [on our website](#).

Purpose of statement of intent (SOI)





Our annual SOI is required by the Local Government Act 2002 and publicly states our activities and intentions for the next three years, and how they contribute to the Council’s objectives. Our SOI provides an opportunity for Council to influence the direction of Watercare and provides a basis for the accountability of performance.





1.2 Responses to Council’s strategic objectives and outcomes

We are fully committed to working with the Council group to deliver the Auckland Plan 2050, the Auckland Water Strategy, Te Tārūke-ā-Tāwhiri: Auckland’s Climate Plan, Kia ora Tāmaki Makaurau: Māori Outcomes Performance Measurement Framework, relevant performance measures and any associated guidance.

Our major contributions to the Auckland Plan 2050 outcomes are:

Auckland Plan Outcomes	How we will contribute
<p>Opportunity and prosperity</p>  <p>Auckland is prosperous with many opportunities and delivers a better standard of living for everyone</p>	<ul style="list-style-type: none"> • By reliably and efficiently delivering safe drinking water to our customers • By reliably and efficiently delivering wastewater services to our customers • By building customer trust and value through exceptional performance and engagement • By developing and maintaining a safe, engaged, empowered, diverse and inclusive workforce • By providing a reliable pipeline of infrastructure programmes • By providing high performing infrastructure (reliable and resilient now and in the future) • By working with industry partners and tertiary education providers to deliver graduate programmes as well as apprenticeship and internship opportunities • By working with Council to deliver the Economic Development Action Plan • Be encouraging innovation to find new solutions to improve the way we work – to do this we allow our staff and partners to explore, experiment and if necessary, fail safe and learn fast
<p>Environment and cultural heritage</p>  <p>Preserve, protect and care for the natural environment as our shared cultural heritage for its intrinsic value, and for the benefit of present and future generations</p>	<ul style="list-style-type: none"> • By working with Council on implementing the Auckland Water Strategy to achieve the Auckland Plan 2050’s objectives of adapting to a changing water future • By reliably and efficiently delivering wastewater services to our customers and discharging it in a safe and responsible manner for people and the environment • By planning and providing resilient infrastructure that is adaptive to future changes including climate change • By adopting Council’s 50% target for greenhouse gas reduction by 2030 • By actively promoting water-efficient technologies and behaviours to customers and homebuilders • By consulting with affected parties on our development plans
<p>Homes and places</p>  <p>Aucklanders live in secure, healthy and affordable homes and have access to a range of inclusive public places</p>	<ul style="list-style-type: none"> • By reliably and efficiently delivering safe drinking water to our customers • By reliably and efficiently delivering wastewater services to our customers • By collaborating with the wider Council group to support areas of growth identified by Council • By aligning major infrastructure development for future urban areas with Council’s Future Development Strategy (FDS) • By proactively engaging with Kāinga Ora to plan, fund and deliver water and wastewater infrastructure to support its major urban transformation programmes • By collaborating with Council on the implementation of the Auckland Water Strategy, including the introduction of long-term new water consumption targets
<p>Māori identity and wellbeing</p> 	<ul style="list-style-type: none"> • By actively working with the Council group to deliver our Achieving Māori Outcomes Plan, a framework that will be used to measure Watercare’s contribution to Māori Outcomes. Our work is guided by, and is aligned to, Council’s Māori Outcomes Performance Measurement Framework, Kia ora Tāmaki Makaurau

Auckland Plan Outcomes	How we will contribute
<p>A thriving Māori identity is Auckland's point of difference in the world – it advances prosperity for Māori and benefits all Aucklanders</p>	<ul style="list-style-type: none"> • By actively fostering and maintaining relationships with local Māori, including via the Mana Whenua Kaitiaki Forum, mana whenua and mātāwaka • By working alongside Council's Ngā Mātārae and the Māori Outcomes Steering Group to achieve stronger alignment with Kia ora Tāmaki Makaurau regarding: a) rangatahi/ intern opportunities; and b) key performance indicators relating to Māori • By providing technical advice related to water supply and septic tanks to all marae • By providing technical advice for water supply and septic tanks to all marae
<p>Belonging and participation</p>  <p>All Aucklanders will be part of and contribute to society, access opportunities, and have the chance to develop to their full potential</p>	<ul style="list-style-type: none"> • By reliably and efficiently delivering safe drinking water to our customers • By reliably and efficiently delivering wastewater services to our customers • By developing and maintaining a safe, engaged and empowered workforce • By collaborating with the wider Council group to support areas of growth identified by Council • By employing a diverse and inclusive workforce • By providing a reliable pipeline of infrastructure programmes • By developing education programmes for our customers and tamariki, including water awareness programmes, free water education programmes for schools and open days at our treatment plants • By engaging Aucklanders on decisions around future infrastructure investments.
<p>Transport and access</p>  <p>Aucklanders will be able to get where they want to go more easily, safely and sustainably</p>	<ul style="list-style-type: none"> • By collaborating with the wider Council group to support areas of growth identified by Council • By ensuring Watercare works with Council, Auckland Transport, Waka Kotahi and other utilities to align infrastructure projects wherever possible, to minimise the effects on traffic and neighbourhoods

1.3 Nature and scope of activities – ‘what we do’

Our vision, mission and value creation model are illustrated below. We continue to focus our efforts and resources on creating value for Aucklanders while we prepare and adapt for rapid population growth, the impacts of climate change, higher standards for improved environmental outcomes and fulfil our mandate to be a minimum-cost, cost-efficient service provider into the long-term.



1.4 About us – The Watercare Board’s approach to governance



The Directors and the Executive team are committed to ensuring the company applies best-practice governance policies and procedures. The company has an Audit and Risk Committee. Our Board undergoes Board performance reviews biannually, in line with the Council-adopted process.

Watercare ensures we fulfil the public meetings stipulation of the Local Government (Auckland Council) Act 2009 which requires Auckland Council’s CCOs to hold two public meetings a year and the timing for these is set out below. All other Board meetings also include a public session. Dates and times are publicly notified in advance with agendas and minutes made available on our website. Members of the public are welcome to attend any public Board meeting held by Watercare.

Date	Purpose	Form of public notification
13 June 2023	Consider shareholder comments on draft SOI	Public notice
7 November 2023	Consider performance against SOI targets	Public notice
May/June 2024	Consider shareholder comments on draft SOI	Public notice
November 2024	Consider performance against SOI targets	Public notice

Watercare works diligently to meet our legal obligations and act in accordance with the Statement of Expectations of substantive council-controlled organisations (SOE), which sits alongside this SOI and forms part of the annual binding agreement between Council and Watercare. We operate under a no-surprises policy and inform the Mayor, Lead Councillor, Councillors or Local Boards (as appropriate) well in advance of anything that could be potentially contentious, whether or not the issue is covered by the SOI or legislation. We also ensure that if an issue is likely to attract public interest, that the Mayor, Lead Councillor, Councillors and/or Local boards (as appropriate) are fully briefed.

We are committed to participating in the design and implementation of group-wide policies. Watercare is also supportive of the development of Council group foundation principles and standards (where required).

Managing risk

We have an established risk management policy and framework, which follows the guidance of the ISO 31000 risk management standard. Risks are identified and evaluated using likelihood and consequence scores and ranked. The highest-ranked and most significant emerging risks are regularly reviewed by senior management and the board via management and board-level reporting.

As part of the risk management framework, Watercare management has a Risk Management Steering Committee to monitor emerging risk and risk-mitigating actions and strategies.

The internal audit function produces an annual plan that is approved by our Audit and Risk Committee with management's quarterly reporting against the plan to the committee. The Audit and Risk Committee maintains oversight of progress and must be satisfied that recommendations arising from internal audit's work are fully addressed by management.

Watercare also provides Council's Audit and Risk Committee with a quarterly report outlining our risk management framework, approach, processes and an overview of the top risks with associated mitigation actions. We proactively report on all significant risks and issues and their management to ensure no surprises, transparency and that significant risks are being appropriately managed.

Measuring our performance

We have an agreed set of performance measures and targets which form the basis of accountability for delivering on Council's strategic direction, priorities and targets. These are reported on a quarterly basis in accordance with the governance manual for substantive CCOs.

The measures and targets include mandated non-financial measures of the Department of Internal Affairs and those that were agreed with Council as part of the LTP 2021-2031.

Part 2: Statement of performance expectations

2.1 Introduction

In line with all of Aotearoa, Watercare has faced unprecedented external challenges over the past three years that have tested our organisational resilience like never before. We have navigated the Covid-19 pandemic, the drought, and now we have at least two years of work ahead of us to rebuild following the extreme weather events of January/February 2023.

As we look to the future, and water services reform, we remain committed to providing safe and reliable water and wastewater services to Aucklanders and to work with Council on delivering the Auckland Plan outcomes.

2.2 How we will deliver – annual work programme

Key activities and programmes over the coming financial year are below. We measure success through the performance measures and targets documented in the Appendices to this document.

Our contributions to the Auckland Plan	Significant activities and programmes over the coming financial year	Direct expenditure \$m	Capex budget \$m
Deliver safe and reliable water services 24/7	<ul style="list-style-type: none"> Water operating activities Meet Taumata Arowai water quality regulations Implementation of the Auckland Water Strategy, including the continued roll out of smart meters, water efficiency programs and management of network leakage to ELL. Continue planning the Huia Water Treatment Replacement Plant to help meet peak demand and improve system resilience. 	\$141m	Refer to page 20
Deliver safe and reliable wastewater services 24/7	<ul style="list-style-type: none"> Wastewater operating activities Via TARP (Targeted Asset Replacement Programme), expand the Inflow and Infiltration reduction programme and network renewals programme, to improve and coordinate cost effective asset refurbishment Deliver a new Wastewater Network Strategy to update the 2017 Strategy, and in the meantime, continue work to reduce overflows 	\$255m	Refer to Page 20
Minimum cost, efficient, financially robust provider both now and in the future & industry leading thinking and processes	<ul style="list-style-type: none"> Work collaboratively with the National Transition Unit, the Local Establishment Entity and Auckland Council, including Healthy Waters, on transition to a new water services entity (Entity A). Continue to work closely with Council to provide advice and support to the government on the development of an economic regulator. Build on regulatory capability within Watercare ahead of economic regulation. Continue collaborating with Council on the finalisation, and then implementation of Climate Related Financial Disclosure (TCFD) reporting requirements Continue to develop and deliver our Enterprise Model Target efficiency savings against current opex costs 	Within Operating and Capital Budgets	N/A
High performing infrastructure (reliable and resilient now and in the future)	<ul style="list-style-type: none"> Continue work to optimise our AMP Continue to implement the Auckland Water Strategy including continuing our leak detection programme ensuring we are within the ELL, including understanding what is required to design, measure and implement water infrastructure that is regenerative, resilient, low carbon and increases the mauri of water. <p>Actively engage with Council in the development of the Auckland Future Development Strategy and additions to the Infrastructure Strategy</p>	\$396m	\$1,086m
Future-proofed growth and supply assurance	<p>We currently have under design or construction (projects over \$50m):</p> <p>Water (growth, level of service and renewal)</p> <ul style="list-style-type: none"> Ardmore to Redoubt Rd watermain Nihotupu No.1 and Huia No.1 watermain replacement Hays Creek source programme 		\$3,290m

Our contributions to the Auckland Plan	Significant activities and programmes over the coming financial year	Direct expenditure \$m	Capex budget \$m
	<ul style="list-style-type: none"> • Redoubt Road reservoir expansion • Waikowhai pump station & watermain • Smart meter programme <p>Wastewater (growth, level of service and renewal)</p> <ul style="list-style-type: none"> • Central interceptor • Western Isthmus Water Quality Improvement Programme • Queen Street diversion • Otara Catchment wastewater capacity upgrades • Dunkirk Road pumpstation and capacity upgrade • East Coast Bays link sewer • Whenuapai & Redhills wastewater scheme • Pukekohe wastewater treatment plant upgrade • Warkworth-Snells-Algies wastewater network • Snells wastewater treatment plant <p>In addition to the above we have \$1,000m of approved water and wastewater projects, under \$50m, in design or construction.</p>		
Protect and enhance our natural environment	<ul style="list-style-type: none"> • Continue our work with our Enterprise Model partners to develop processes to reduce carbon associated with infrastructure projects. This includes developing a carbon portal to measure emissions related to infrastructure builds, also included within the EDAP • Continue our work with customers to reduce water demand to ensure we achieve the targets in the Auckland Water Strategy 	Within Water and Wastewater Opex budgets	Within Capex budgets above
Enhance our partnerships and strong relationships with Māori in Tāmaki Makaurau	<ul style="list-style-type: none"> • Continue to deliver on our Achieving Māori Outcomes Plan • Build on the recently launched procurement programme to source 5% from Māori owned businesses by the end of 2025 • Continue our work with The Mana Whenua Managers Kaitiaki Forum (MWMKF). Watercare hosts the bi-monthly meetings of the MWMKF • Recognise the impact of Affordable Water reform on iwi and continue to strengthen existing hononga (relationships) and build new partnerships that represent Māori communities 	Māori Outcomes team included in Opex FY24 Target 3% procurement from Māori owned businesses	N/A
Customer trust and value through exceptional performance and engagement	<ul style="list-style-type: none"> • Participate in a collaborative working group with Council to assess and define a water literacy framework (Auckland Water Strategy Action 2.1) • Increasingly segment our customer base to engage in ways that are relevant to them and increase water literacy and trust 	Within Water and Wastewater Opex budgets	N/A
Safe, engaged and empowered team	<ul style="list-style-type: none"> • Continue building capability through our staff development and training programmes • Embed employee wellbeing and safety as core principles of the organisation. • Further develop our safety programmes including Back to Basics safety collaboration with contractors. 	Within Water and Wastewater Opex budgets	N/A

2.3 Our six key activities for 2023-2026

1. Delivering safe and reliable water and wastewater services to Aucklanders 24/7

Watercare's [Customer Promise](#) is to "deliver water and wastewater services you can trust". Over the period of the SOI we will deliver on this promise by embedding and reporting against new drinking water standards, investigating alternative sources for drinking water, ensuring our preparedness for future droughts, and working closely with customers to manage water demand and reduce water losses.

On 14 November 2022, Taumata Arowai introduced a new suite of drinking water standards, quality assurance rules and aesthetic values came into force. These sit alongside the Department of Internal Affairs non-financial performance measures, which include some water and wastewater safety measures, as well as the requirement to have Drinking Water Safety Plans for each of our water treatment plants, which includes source risks, and our distribution network.

Ensuring a safe and reliable water supply has always been our core purpose. We remain committed to delivering services that protect public health and comply with all regulatory standards. Our water quality team has been working with production, headworks, service delivery, commercial customers and lab teams since 2020 to prepare for these new water quality standards. Watercare's performance against the standards is reported to the Board monthly. They will also be reported to the Governing Body via our Quarterly report. Any non-compliances are reported to Taumata Arowai automatically, and at the end of each calendar year, Taumata Arowai produces a summary report, which Watercare will share with Council.

In terms of wastewater, our ability to protect the environment has been challenged by the extreme weather events and power outages, which has resulted in wastewater overflows. Through the progress of our Central Interceptor wastewater tunnel, our floods recovery programme of work, and our existing Asset Management Plan processes, we are working to upgrade or adapt many of our wastewater assets to ensure they remain resilient in the face of a growing population and more frequent extreme weather events. Watercare is currently working with Auckland Council on the recovery following the recent weather events.

Linked to population growth, we currently plan our water security to meet the following standards:

Level of Service 1 Proactive demand restrictions are to be required for an event no more frequently than that with a 5% probability of occurring.	The peak supply/demand balance is designed to show the forecast peak demand without restrictions during a dry summer with a return period of 1 in 20 years. Under drier conditions (leading to higher demand), Watercare could impose restrictions to reduce peak demand while continuing to meet our Levels of Service.
Level of Service 2 Annual average demand within the Metropolitan supply area can be met in a drought with a 1% probability of occurrence leaving 15% residual capacity in its water supply lakes.	The annual drought supply/demand balance is designed to show the forecast annual average demand during a drought with a return period of 1 in 100 years can be met and would result in water supply lake levels being no less than 15%. Watercare would expect to impose some restrictions during this event (see Level of Service 1, above).

Sitting alongside these Levels of Service is our recently updated Drought Management Plan, which was approved by Auckland Council's Planning, Environment and Parks Committee in March 2023. This Plan provides a series of responses to mitigate the potential impact of droughts so we can continue to deliver water our customers can trust, even during a drought.

Live data showing our current water supply situation in our dams is publicly available on our website. Looking to the future, we continue to further improve our source drinking water source diversity by focusing on alternative sources, which could include purified recycled water, desalination, and increased use of groundwater sources.

To manage water demand, we have a comprehensive demand management plan which aligns with the Auckland Water Strategy. The Auckland Water Strategy sets out a series of actions and milestones for both Watercare and Auckland Council to ensure the delivery of the agreed outcomes.

We are also undertaking various other initiatives, such as our proactive leak detection programme, to reduce water loss. In parallel we continue to encourage and embed water efficiency behaviours across all customer segments, including our tamariki and rangatahi through our free education programme.

As part of the second Waikato River consent, from 2026, Watercare will submit a water management plan to Waikato Regional Council every five years on the progress being made on the investigation and implementation of future water source options for Auckland. Watercare must establish and maintain a committee or board within its organisation to promote the vision and strategy for the Waikato River (as set out in Schedule 2 Waikato-Tainui Raupatu Claims (Waikato River) Settlement Act 2010). Representatives of Te Whakakitenga o Waikato Incorporated (Waikato Tainui Governance Board) and Te Taniwha o Waikato (a collection of 7 Marae along the lower river and part of Waikato Tainui) will be invited to be members of that committee or board in order to become material participants and directly involved in all aspects of the management, governance and use of the river, including its water. Generally, the purpose and function of that committee or board will be to investigate and address options for the reduction in reliance on the awa by Watercare, including identifying new alternative sources for resilient water and wastewater systems. In particular, the committee and board will be looking at the following:

- reduction in reliance on the Waikato River for the supply of water to Auckland;
- reduction in the volume (both relative and absolute) of water taken from the Waikato River;
- increased resilience of the Waikato River to human activities and their effects; and
- in that context, recognition of the rights and interests of tangata whenua in fresh water.

Progress against this work programme will be reported to Council regularly. The five yearly reports will be made publicly available and shared with representatives of Te Whakakitenga o Waikato Incorporated, Te Taniwha o Waikato, Te Tokanganui-a-noho Regional Management Committee and Hauauru Ki Uta Regional Management Committee, Ngā Waihua o Paerangi, Te Kotahitanga o Ngāti Tuwharetoa, Raukawa Settlement Trust, Te Arawa River Iwi Trust, Ngāti Tahu-Ngāti Whāoa, and the Waikato River Authority.

SOI performance measures related to the above activities are set out in **Appendix A and A1**.

2. Building and renewing the necessary water and wastewater infrastructure to improve resilience and maintain service levels for our customers

Regional growth in population, industry, and commerce has a direct impact on Watercare's ability to provide safe and reliable water and wastewater services and protect both public health and the environment. Our focus over the SOI period will be continuing to deliver Watercare's Asset Management Plan (AMP), which will be reviewed to reflect the impact of recent weather events and the increasing challenges of delivering large infrastructure projects.

Watercare's Asset Management Plan (AMP) 2021-2041 is a future focussed planning document for managing our infrastructure effectively to achieve our long-term strategic goals and meet future demand increases. Over the next 20 years, our AMP sees Watercare invest at least \$18.5 billion to build, maintain and expand water and wastewater infrastructure for Aucklanders. Our asset management planning is focused on: growth, renewals, and levels of service. It helps us to decide what, where, how, when, and how much we invest to build and maintain networks.

The 2023 Auckland floods significantly impacted our assets and as a result, we are developing a programme of repairs, replacements, and upgrades to work on over the next two to three years. This will necessarily mean our current published AMP will need to be revised to allow us to undertake necessary repairs/upgrades to ensure the resilience of our assets. We will keep Council updated in this regard.

To part fund the growth portion of our AMP, we charge customers IGCs – infrastructure growth charges. This is a contribution towards the capital investment we have made in bulk infrastructure – i.e. new water sources, new transmission water pipes, new transmission wastewater pipes and new treatment plants and expansions.

Through the IGCs, the cost of increasing the capacity of our bulk infrastructure is paid for by those who increase demand on the system now, rather than by existing customers or future generations. Without the IGCs we would need to recover

a greater proportion of our growth-related capital investment costs through our operational charges. This would cost all customers a lot more for their water and wastewater services.

Currently, IGCs do not cover increasing the capacity of local networks. Instead, local network infrastructure is currently built and paid for by developers, and then vested in Watercare once the development is complete. In early 2023, Watercare sought feedback from the community on the issues experienced with the existing local network policy. We performed a review of the current model based on this feedback to determine where upgrades are needed. As requested in the Letter of Expectation, we have investigated opportunities to enhance the local network delivery and funding model. However, before any new local IGC is introduced, significant costs would need to be incurred to provide for a local network delivery team, digital, system and process updates, and a legal review of customer and commercial contracts. We expect that these establishment costs would be in the order of at least \$600,000.

In the meantime, we have been in discussions with the DIA's National Transition Unit on the design of any Development Contribution/IGC charge for the water services entities under reform. Entity A is considering adopting a new way to charge for local network upgrades. We are expecting to see this drafted into their policies in August 2023 when the NTU carries out public consultation on a comprehensive price path for Entity A. As such, Watercare will pause this work, whilst this consultation is undertaken. If Affordable Water Reform does not proceed, then the work being done by the DIA/NTU will be able to be carried on by Watercare.

SOI performance measures related to the above activities are set out in **Appendix B**, two of which have been informed by KPMG's Auckland Council CCO Performance Measures and Target Review undertaken in 2022/2023.

3. Delivering our services and infrastructure projects efficiently, keeping a strong focus on operating costs, so we can minimise water charges

Legislation mandates that Watercare must manage our operations efficiently – keeping costs to customers (collectively) at minimum levels while maintaining the long-term integrity of our assets. To deliver on this, we will continue our focus on controllable costs – embedding efficiency expectations to our annual budgeting process. A controllable cost target performance measure has also been included into this SOI for the first time. The target was set using a base, trend, step methodology. This establishes the baseline, drives efficiency off that baseline, and then considers inflationary pressures and the cost of servicing our growing asset base.

We will also carefully manage the funding needed to deliver our asset improvements over time, implementing our agreed price path while maintaining customer costs below our SOI target of 1.5% of Aucklanders' household income and supporting customers who need assistance with their bills.

Our financial management is underpinned by robust plans and policies, supported by a comprehensive risk and audit programme. To be financially stable over the long term, we consider network age and resilience, risk, future demand, debt levels, interest costs and inter-generational equity. We are required to not pay a dividend to our shareholder and collect from our customers no more than what is needed to operate and reinvest in our network.

Our borrowings are sourced through Auckland Council's centralised treasury function. We work closely with Auckland Council's treasury and financial planning teams to ensure our debt and cash flow requirements align with Council's forecasts and debt limits.

The challenge of our budget throughout the next 10 years is balancing our increased investment and service level needs with affordability for our customers and to be within the Council group's prudential debt limits. Watercare's financing requirements are being openly and transparently discussed with Auckland Council.

Our current published price path sees an annual increase of 9.5% from 2023 to 2029.

Over the last few years, the nation's infrastructure industry has been particularly hard hit, with inflationary pressure pushing up the cost of construction materials, labour and shipping. With a large capital programme, Watercare is not immune from this pressure. Operationally, we are also incurring increased production costs (e.g. chlorine has risen in cost 600% over the last two years).

Considering these challenges, as well as the current cost-of-living crisis, Watercare has already adopted a strong focus on achieving sustainable efficiencies and reducing costs, to ensure our services remain affordable and that we are delivering value for money. We will continue to drive sustainable cost reductions across the business by identifying process, system and operational efficiency and by limiting non-core activity.

We continue to monitor affordability for our customers, which is still well below our SOI target of 1.5% of Aucklanders' household income. In line with our Customer Promise, which states "we will support you in difficult times", assistance is always available for our customers who are struggling to pay their bills. We will continue to provide flexible payment options to customers and we also fund the Water Utility Consumer Assistance Trust (WUCAT), which supports customers suffering genuine hardship by writing off part, or all, of the amount owed.

SOI performance measures related to the above activities are set out in **Appendix C**.

4. Strengthening our relationships with customers, developers, community stakeholders, elected members, and our Māori partners

Our services are vital to life and help communities to flourish. As a lifeline utility, we have relationships with customers, developers, community stakeholders, elected members, and our Māori partners.

Customers: Over the past few years, we have built 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 trust and customer net satisfaction scores.

Developers: Watercare is committed to continuing to work with Council to reduce the time and costs for our teams to provide technical assessments needed to process resource consent applications.

Our current Service Level Agreement (SLA) with Council requires us to complete Watercare's specialist input requests for resource consents within 10 working days. A new SOI performance measure has been included for FY24 and will be reported quarterly to Council. From January 2022 until December 2022, Watercare's performance against the SLA was 82.6%. In FY24, our teams are targeting an improvement in response times and 90% against the SLA.

We will also work with Council to improve the Better Faster Consents mechanism to allow objections to the way Watercare enforces its code of practice and design manuals. However, developers are always welcome to chat with our teams regarding any concerns they have with our code of practice. We also regularly hold Developer Forums, which allow us to engage face-to-face with developers.

In 2022, Watercare conducted both quantitative and qualitative research with developers who work with us. The first piece of work was a survey that was completed by 200 developers in June 2022 and highlighted a number of areas for improvement. We followed this up with focus group sessions to understand developers' frustrations and the experience they are seeking from Watercare.

Elected Members, Council and Local Boards: Combined CCO engagement plans are now in place with regular reporting commitments being followed. Watercare is committed to working collaboratively and sharing information with elected members and Council staff, as appropriate, including adherence with the no-surprises protocols set out in Council's Statement of Expectation.

We maintain strong relationships with the Councillors and Local Board members by providing timely and accurate information on Watercare-related matters, including infrastructure planning and construction projects in the interests of no-surprises. We have a dedicated team who ensure Councillors and Local Board members are pro-actively briefed and updated on projects and provide a high level of service for enquiries about operational issues. We also have [a Local board hub](#) on our website to ensure local board members have access to good information about the existing infrastructure and projects in their areas. Many treatment plants also have special requirements for ongoing community liaison groups, and we regularly meet to share information and discuss local issues.

IMSB: Watercare will continue to foster its relationship with the Independent Māori Statutory Board across 2023 – 2026. The Independent Māori Statutory Board’s Schedule of Issues of Significance recognise access to infrastructure as an Issue of Significance to Māori in Tāmaki Makaurau. It seeks to ensure that Māori receive ongoing access to safe, operational, and reasonably priced infrastructure services and are enabled to contribute to the decision-making process of future infrastructure projects actively and meaningfully. Watercare will strengthen our relationship with the Independent Māori Statutory Board through regular meetings at both operational and governance levels. Watercare will also work with the Independent Māori Statutory Board towards the discharge of its Te Tiriti o Waitangi audit obligations.

Māori Partners: We value our partnership with Māori. In working with our Māori partners we have developed a mutual respect and a shared understanding. Watercare supports the Auckland Water Strategy’s commitment to partnering with Mana Whenua to achieve the vision of te Mauri o te Wai o Tāmaki Makaurau and working together to advance our core interests in water and the environment.

SOI performance measures related to the above activities are set out in **Appendix D**.

5. Improving our organisation performance in relation to our core strategic outcomes, namely: Climate Change (including drought resilience and supply); the health, safety and wellness of our kaimahi; and Māori Outcomes.

Climate Change: The impacts of climate change are often seen through water, and it is our responsibility to recognise, mitigate and adapt to these impacts. Climate change can make new issues arise while exacerbating existing problems. This demands that we change not only what we do but how we do it.

We are committed to delivering on the actions and direction set out in Te Tāruke-ā-Tāwhiri, including Auckland’s regional targets of halving emissions by 2030 and net zero by 2050. To achieve this, Watercare has adopted a range of climate change targets that give direction to the company in taking responsibility for our impacts and establishing ourselves as a low-carbon company including:

- Reducing infrastructure emissions by 40% by 2025
- Reducing operational emissions by 50% by 2030
- Energy neutrality at major WWTPs by 2030
- Net-zero emissions by 2050.

In order to achieve our 2030 targets, we have adopted a decarbonisation roadmap – identifying the key initiatives necessary to achieve our objectives. The priorities over the coming years include: expanding our solar rollout to more facilities; investigating options around the use of biogas at our treatment plants; and reducing the intensity of our wastewater process emissions. Whilst our GHG emissions are predicted to stay relatively steady or slightly rise over the short term, including this SOI period, once we have implemented our decarbonisation initiatives, those GHG emissions will stabilise and then start reducing to meet the 2030 reduction target and realise our goal of providing low carbon water and wastewater services.

Watercare will continue to report to Council our Scope 1 and 2 greenhouse gas emissions annually, against our SOI target. In FY24, we will also report our Scope 3 greenhouse gas emissions annually on our website and to Auckland Council, consistent with our commitments and the Auckland Council group approach.

In 2022, Watercare’s Climate Change Strategy was refreshed in light of this overarching strategy and a new document, the Watercare and Healthy Waters Climate Action Plan has been established. The Action Plan includes the key areas we will focus on to meet our 2030 Climate targets and GHG performance measures are now included in this SOI for a second year. We are working together with Healthy Waters to ensure the targets in the Action Plan and our actions to monitor and prepare for climate impacts are aligned.

Watercare commits to working with Council on climate change risk assessment and disclosure. During 2023 direct support will be provided to implement the underlying processes that will meet the mandatory reporting requirements under the Financial Sector (Climate Related Disclosures and other Matters) Amendment Bill.

Our water and wastewater systems have a reasonable degree of resilience engineered into them. However, the resilience of our water and wastewater networks has and will continue to be challenged. Over the last five years, Auckland has experienced extremes in weather, ranging from storm events with record rainfall to severe droughts depleting our water storage.

As assets age, we normally see a decline in their performance, sometimes to the point of asset failure. Asset failures can cause service interruptions and may pose a risk to public health and safety. We have developed asset replacement and rehabilitation programmes to monitor the condition and performance of assets to estimate the end of their useful lives. Asset renewal decisions are based on a risk assessment of the likelihood and consequence of failure, taking into account the asset's age and life expectancy, condition, performance, system resilience and criticality.

Over the next six years, Watercare will deliver a \$1.8b asset upgrade and renewals programme, which will support and improve Watercare's resilience to extreme weather events. This uplift in investment aligns with the independent economic benchmarking review by WICS that recommended increased renewals investment and funding to ensure a reliable and sustainable network over the long-term.

Health, Safety and Wellbeing of our kaimahi: The Water Services Entities Bill 1 received royal assent on 14 December 2022 and the Entity A CE was appointed in late January 2023. This has created a different environment for Watercare and has caused a feeling of uncertainty amongst staff. This uncertainty creates a risk around retaining and attracting talent. We are managing as best as we can with regular communications to our kaimahi.

At an operational level, musculoskeletal (sprains and strains) and hand injuries are the most common type of injuries our people get at work, so we are continuing to equip our teams with training and resources to enable them to carry out their work safely.

We are also continuing 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.

Māori outcomes: Watercare is an active member of the Māori Outcomes Steering Group. The Māori Outcomes Steering Group reports into Council's Executive Leadership Team and the Council Group Chief Executives and has oversight of the long-term plan funding for Māori Outcomes

Watercare has identified initiatives within its Achieving Māori Outcomes Plan that it will advance over the next 3 to 4 years to improve social, economic, and cultural wellbeing for Māori communities throughout Auckland. The plan aligns to Kia Ora Tāmaki Makaurau, the Council group's Māori Outcomes Performance Measurement Framework, and progress against the plan is reported to Council quarterly.

Watercare's Te Rua Whetū - Māori Outcomes & Relationships Unit, has strong relationships with their counterpart teams at Council and other CCOs, and is committed to explore opportunities to improve the consistency between CCOs in how they contribute to Kia Ora Tāmaki Makaurau

Watercare will continue to provide Council with regular updates on engagement hui with iwi and mana whenua including update relevant to Kia Ora Tāmaki Makaurau and Watercare's Achieving Māori Outcomes Plan.

SOI performance measures related to the above activities are set out in **Appendix E**.

6. Preparing for Central Government’s Affordable Water Reform, without compromising 1-5 above, and whilst also preserving the ability to implement alternative water reform arrangements if the Affordable Water Reform programme does not proceed as planned

The workstreams that Watercare has identified (and which align with the workstreams of Auckland Council’s Transition Office) are as follows:

- Iwi engagement – supporting iwi engagement activities associated with reform.
- People and culture – including supporting the impact of reform on employees in Watercare, resource planning, organisational design, staff engagement and retention, and third party/union relationships Legal support – due diligence, contract reviews, reform legislative support and guidance.
- Commercial, financial and technical support – includes provision of financial, commercial and risk expertise from the business, including data and systems expertise to inform the integration process.
- Other support – including staff involvement in reform across key technical areas, including Asset Management, Operations and Customer.

Watercare staff time spent on reform activities is covered by either the DIA directly (as in the case of employee secondments), or by the transition funding received from Central Government via Auckland Council.

Watercare and its Board commit to being transparent with Council about any work being undertaken on Three Waters. Substantive and pertinent information Watercare shares with the Department of Internal Affairs within the reform transition period will continue to be shared with Council as well.

Watercare will seek to preserve our ability to implement alternative arrangements with the Council, including a return to the present position, if the reform does not proceed or is revised or reversed by Central Government. However, this will become more challenging if the current legislation programme continues at the current pace. If reform does not proceed, we will ensure that any improvements identified through the enhanced scrutiny process undertaken by the Water Industry Commission for Scotland (WICS), and s17A reviews, are embedded in our business.

Updates on the three waters work programmes, as well as the efficiency programme recommendations established from our work with the WICS, will be provided to Council via our quarterly reports.

2.4 Financial statements for the long-term plan

Operating budgets (\$million)	2021/22 Actual	2022/23 Annual Plan	2023/24 Annual Plan	2024/25 *Revised LTP	2025/26 *Revised LTP
Revenue	977.5	925.6	1,113.3	1,104.0	1,190.6
Fees and charges	559.8	586.9	698.1	757.1	840.1
*Grants and subsidies	15.1	0.0	52.5	47.0	48.5
Other revenue	402.5	338.7	362.7	300.0	302.0
Direct expenditure	392.2	347.7	395.5	389.7	386.9
Employee related costs	114.9	77.8	80.0	79.5	79.1
Grants, contributions, sponsorship	0.35	0.0	0.0	0.0	0.0
Other expenditure	276.9	269.9	315.5	310.3	307.8
Net direct expenditure (income)	(585.3)	(577.9)	(717.8)	(714.3)	(803.8)
Funding from Auckland Council	0.0	-			
Revenue from vested assets	(59.5)	(65.5)	(56.4)	(52.5)	(51.6)
Other non-operating income		-			
Net finance expense	94.9	115.6	139.3	165.5	196.7
Depreciation and amortisation	281.3	273.3	290.1	331.3	349.6
Net losses (gains)	18.5	8.0	8.0	8.0	8.0
Income tax	52.6	80.7	99.7	88.3	106.6
NET EXPENDITURE (INCOME)	(197.5)	(165.8)	(237.0)	(173.6)	(194.4)

Net direct expenditure (income)	(585.3)	(577.9)	(717.8)	(714.3)	(803.8)
Wastewater Service	(398.0)	(355.8)	(488.2)	(492.1)	(548.0)
Water Supply	(187.3)	(222.1)	(229.6)	(222.2)	(255.8)
- to meet additional demand	357.1	341.7	508.5	559.9	585.2
- to improve the level of service	119.3	123.2	191.2	336.6	354.8
- to replace existing assets	217.3	249.8	386.7	302.8	342.8
Total capital expenditure excluding capitalised interest	693.7	714.7	1,086.5	1,199.2	1,282.8
Capitalised interest	36.2	34.1	43.5	59.5	74.8
Total capital expenditure including capitalised interest	729.9	748.8	1,130.0	1,258.7	1,357.7
Sources of capital funding	789.4	748.8	1,130.0	1,258.7	1,357.7
Infrastructure growth charge	280.5	198.5	169.0	188.9	185.7
Debt	275.6	258.9	484.9	634.8	675.6
Asset sales	4.4	-	-	-	-
Operating surplus (Net direct income less IGC and finance expense)	246.1	297.9	453.0	419.3	496.2
Working capital	(17.1)	(6.5)	23.1	15.6	0.2
Specific expenditure towards Māori outcomes					

Initiatives (\$thousand)	2021/22 Actual	2022/23 Annual Plan	2023/24 Annual Plan	2024/25 Revised LTP	2025/26 Revised LTP
Iwi engagement on Watercare projects	1.4	1.3	2.0	2.1	2.1
Other financial information					
Current value of assets	The current value of Watercare's assets as 30 June 2022 was \$14.1 billion as disclosed in the audited financial statements.				
Accounting policies	Watercare's accounting policies are consistent with Auckland Council's group policies, except in relation to a) capitalised interest, and b) treatment of Waikato District Council arrangement (treated as net in Watercare's financials, and gross as per group accounting policy).				
Financial reporting	Watercare's financial reporting to Auckland Council will be in accordance with the requirements of the group.				
	2021/22 Actual	2022/23 Annual Plan	2023/24 Annual Plan	2024/25 Revised LTP	2025/26 Revised LTP
Shareholder equity ratio	65%	76%	61%	59%	57%

****Revised LTP numbers are high level projections**

*** Grants and subsidies relate to capital grant revenue projected from KO**

Detailed Capital Expenditure List (\$million)	2021/22 Actual	2022/23 Revised LTP	2023/24 Revised LTP	2024/25 Revised LTP	2025/26 Revised LTP
Capital Expenditure (excluding capitalised interest)	679.7	714.7	1,086.5	1,199.2	1,282.8
Water Sources					
Additional water sources	5.4	-	8.7	4.8	9.3
Water sources other programmes	4.1	0.2	-	1.8	1.3
Water TRL and KO Programme	8.9	-	33.0	8.3	20.4
Waikato 50 and Waikato A water treatment plant	32.4	1.9	45.1	56.4	26.7
Wellsford water supply	-	-	3.3	12.1	9.8
Water treatment other programmes	10.5	3.6	78.0	204.3	154.5
Local water network renewals	16.8	14.2	6.7	18.6	26.5
North Harbour 2 watermain	0.3	-	9.4	56.3	74.0
Other water networks	72.8	35.1	3.2	4.2	11.5
Huia 1 watermain replacement	8.8	32.3	32.9	2.4	40.5
Ardmore projects	-	-	6.7	18.0	18.2
Network Metropolitan	-	-	9.9	32.9	31.3
*Other water projects	20.1	22.3	77.2	8.3	17.6
Total Water	180.1	111.5	314.2	428.4	441.5
Wastewater Networks					
Central interceptor	220.2	280.7	269.3	46.8	10.9
Local sewer network renewals	12.8	7.2	16.9	6.5	13.5
Northern interceptor	12.4	47.0	16.7	47.7	9.6
Southern interceptor augmentation	-	26.1	10.0	42.0	65.2
Western isthmus programme	2.1	26.2	25.1	99.8	171.0
Wastewater network other programmes	29.1	41.1	63.9	202.0	133.9
Otara catchment upgrades	4.0	15.1	-	-	-
North Shore trunk sewer and pump station upgrades	33.9	22.1	-	-	-
North East Sub-regional wastewater servicing	25.7	60.4	79.1	-	-
South West Sub-regional wastewater servicing	9.5	9.9	22.5	45.4	125.0
Rosedale WWTP upgrade	3.5	2.1	33.9	55.7	91.8
Pukekohe WWTP upgrades	14.1	0.3	16.3	22.2	18.3
Waste water treatment other	3.8	28.5	14.8	98.3	99.6
Pukekohe trunk sewer upgrades	37.9	14.8	-	-	-
Rodney HBC Wastewater Servicing	-	-	23.3	13.0	27.2
WW TRL and KO Programme	- 10.3	-	46.1	15.3	9.7
Mangere WWTP Capacity Upgrade	12.5	-	23.5	42.1	35.8
*Other wastewater projects	56.2	2.7	83.2	8.2	7.2
Total Wastewater	467.3	584.2	744.6	745.1	818.6
Shared Service					
Shared Service Programmes	32.2	19.0	27.7	25.8	22.7
Capital Expenditure (excluding capitalised interest)	679.7	714.7	1,086.5	1,199.2	1,282.8

* \$80m flood/storm related costs included

Further breakdown of revenue and expenses

Operating budgets (\$million)	2021/22 Actual	2022/23 Annual Plan	2023/24 Annual Plan
Revenue	977.5	925.6	1,113.3
Fees & user charges	559.8	586.9	698.1
Water	173.8	177.4	205.2
Wastewater	386.0	409.5	492.9
Other revenue	417.6	338.7	415.2
Grants and subsidies	15.1	0.0	52.5
Infrastructure growth charges	240.5	198.5	169.0
Insurance proceeds-storm recovery	0.0	0.0	80.0
Other revenue	162.0	140.2	113.7
Direct expenditure	392.2	347.7	395.5
Employee related cost	114.9	77.8	80.0
Grants, contributions, sponsorship	0.4	0.0	0.0
Other expenditure	276.9	269.9	315.5
Consultancy and professional services	28.7	21.4	25.0
Maintenance costs	70.5	70.5	82.4
Asset operating cost	78.1	81.6	95.4
**Other direct expense	99.6	96.4	112.7
Net direct expenditure (income)	(585.3)	(577.9)	(717.8)

**Other direct expenses includes insurance, digital costs, rent/rates, other plant operating costs

SOI Performance Measures

Appendix A: Delivering safe and reliable water and wastewater services to Aucklanders 24/7

Measure	Source	2022 Actual	2023 SOI Target	Next three-year targets		
				2024	2025	2026
Adherence to all of DIA's non-financial service performance measures set out in Appendix A1	DIA measures	92.9% (13/14 achieved)	100%	100%	100%	100%
Average number of wet-weather overflows per engineered overflow point per discharge location (12-month rolling average)	Watercare	1.1	≤2 overflows per year	≤2 overflows per year	≤2 overflows per year	≤2 overflows per year
Leakage performance - litres/connection/day (l/c/d)	Watercare	New measure	107.9 l/c/d being the Economic Level of Leakage	107.9 l/c/d being the Economic Level of Leakage	TBC	TBC

The Economic Level of Leakage (ELL) has been incorporated into the Auckland Water Strategy. The ELL lies at the intersection of the marginal costs and benefits of leakage reduction and is represented by the litres of leakage/connection/day (l/c/d). As the model relies on two variables (the cost of leakage reduction and the cost of water), the ELL will need to be periodically reviewed and may change from year to year.

Appendix A1: DIA Non-financial performance measures

Measure	Source	30 June 2022 Actual	30 June 2023 Target	Next three years		
				30 June 2024	30 June 2025	30 June 2026
1	Compliance with the territorial authority's resource consents for discharge from our 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	(a) 1 (b) 0 (c) 0 (d) 0	(a) ≤2 (b) ≤2 (c) ≤2 (d) 0	(a) ≤2 (b) ≤2 (c) ≤2 (d) 0	(a) ≤2 (b) ≤2 (c) ≤2 (d) 0	(a) ≤2 (b) ≤2 (c) ≤2 (d) 0
2	The average consumption of drinking water per day per resident within the territorial authority district (*litres plus/minus 2.5%)	243.9	258 litres*	256 litres*	253 litres*	252 litres*
3	The extent to which the local authority's drinking water supply complies with part 4 of the drinking-water standards (bacteria compliance criteria)	100%	100%	100%	100%	100%
4	The extent to which the local authority's drinking water supply complies with part 5 of the drinking-water standards (protozoal compliance criteria)	100%	100%	100%	100%	100%
5	Median response time for attendance for urgent call-outs (water): from the time that the local authority receives notification to the time that service personnel reach the site (minutes)	59 mins	≤60 mins	≤60 mins	≤60 mins	≤60 mins
6	Median response time for resolution of urgent call-outs (water): from the time that the local authority receives notification to the time that service personnel confirm resolution of the fault or interruption (hours)	3.1 hours	≤5 hours	≤5 hours	≤5 hours	≤5 hours
7	Median response time for attendance for non-urgent call-outs (water): from the time that the local authority receives notification to the time that service personnel reach the site (days)	1.1 day	≤5 days	≤5 days	≤5 days	≤5 days

Measure	Source	30 June 2022 Actual	30 June 2023 Target	Next three years		
				30 June 2024	30 June 2025	30 June 2026
8	Median response time for resolution of non-urgent call-outs (water): from the time that the local authority receives notification to the time that service personnel confirm resolution of the fault or interruption (days)	1.9 days	≤6 days	≤6 days	≤6 days	≤6 days
9	The total number of complaints received by the local authority 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 (f) Watercare's response to any of these issues expressed per 1000 connections to the local authority's networked reticulation system	8.8	≤10	≤10	≤10	≤10
10	Attendance at sewerage overflows resulting from blockages or other faults: median response time for attendance – from the time that the territorial authority receives notification to the time that service personnel reach the site (minutes)	63	≤60 mins	≤60 mins	≤60 mins	≤60 mins
11	Attendance at sewerage overflows resulting from blockages or other faults: median response time for resolution – from the time that the territorial authority receives notification to the time that service personnel confirm resolution of the blockage or other fault (hours)	3.7 hours	≤ 5 hours	≤ 5 hours	≤ 5 hours	≤ 5 hours
12	The total number of complaints received by the territorial authority about any of the following: (a) sewerage odour (b) sewerage system faults (c) sewerage system blockages (d) Watercare's response to issues with its sewerage system expressed per 1000 connections to the Watercare's sewerage system	27.1	≤50	≤50	≤50	≤50
13	The percentage of real water loss from the local authority's networked reticulation system	11.4%	≤13%	≤13%	<13%	<13%
14	The number of dry-weather sewerage overflows from the territorial authority's sewerage system, expressed per 1000 sewerage connections to that sewerage system	1.1	≤5	≤5	≤5	≤5

All of the above DIA measures are also Auckland Council Long Term Plan measures.

Appendix B: Building and renewing the necessary water and wastewater infrastructure to improve resilience and maintain service levels for our customers

Measure	Source	30 June 2022 Actual	30 June 2023 Target	Next three years		
				30 June 2024	30 June 2025	30 June 2026
Deliver capital programme in line with the asset management plan baseline approved by the Board	Watercare	New measure	New measure	80% of projects are delivered within the approved budget and 80% of projects are in service within the approved time.		
Reactive maintenance spend v's proactive renewals spend	Watercare	New measure	New measure	Establish a methodology on how this should be measured to demonstrate resilience within the network.	TBC	TBC

Appendix C: Delivering our services and infrastructure projects efficiently, keeping a strong focus on operating costs, so we can minimise water charges

Measure	Source	30 June 2022 Actual	30 June 2023 Target	Next three years target		
				30 June 2024	30 June 2025	30 June 2026
Percentage of household expenditure on water supply services relative to average household income	Watercare	0.85% Achieved	<1.5%	<1.5%	<1.5%	<1.5%
Debt to revenue ratio	Watercare	2.8	≤3.61	≤3.35	≤3.97	≤4.27
Controllable Cost target	Watercare	New measure	New measure	\$396m	\$390m	\$387m

Appendix D: Strengthening our relationships with customers, developers, community stakeholders, and our Māori partners

Measure	Source	30 June 2022 Actual	30 June 2023 Target	Next three years		
				30 June 2024	30 June 2025	30 June 2026
Customer Net Satisfaction Score (Previously Net promoter score)+	Watercare	54	≥45	≥45	≥45	≥45
Community trust score	Watercare	57%	≥55%	≥55%	≥55%	≥55%
Percentage of customer complaints resolved within ten days of notification	Watercare	98.9%	≥95%	≥95%	≥95%	≥95%
Ratio of procurement sourced through Māori-owned businesses*	Watercare	1.48%	2%	3%	5%	5%
Adherence to the Service Level Agreement with Council (10 working days) for Watercare to provide specialist input into resource consents (New measure)	Watercare	New Measure	New measure	90%	90%	90%

+ Customer Net Satisfaction Score includes, amongst many other things, a measure of the new connections performance, but not the developer experience end-to-end.

*addressable spend, including through design, construction, maintenance and subcontracting suppliers.

Appendix E: Improving our organisation performance in relation to our core strategic outcomes

Measure	Source	30 June 2022 Actual	30 June 2023 Target	Next three years		
				30 June 2024	30 June 2025	30 June 2026
<p>Operational greenhouse gas performance. We will implement Mitigation measures in line with our emissions reduction targets (scope 1 and 2).</p> <p><i>Note: these targets exclude emissions from Puketutu island as our current measurement methodology does not provide enough accuracy for a performance target. Actions to directly monitor emissions from this source as well as reduce them are being delivered and future SOI's will include these numbers.</i></p>	Watercare	New measure	<88,400 tonnes CO ₂ e	<89,200 tonnes CO ₂ e	<89,900 tonnes CO ₂ e	<88,200 tonnes CO ₂ e
Total recordable injury frequency rate (TRIFR) per million hours worked	Watercare	14.3*	<10	<10	<10	<10

*Target in 2022 was ≤20

Attachment 1

Forecast Financial Statements

These prospective financial statements have been prepared for inclusion in the Statement of Intent 2023-2026 for Watercare Services Limited (WSL) and is consistent with Watercare's accounting policies.

The prospective financial statements have been approved by the Board of Directors of WSL.

Significant Assumptions

The prospective financial statements for 23/24 have been prepared using the Annual plan budget submitted and approved by Auckland Council. The prospective financial statements for 24/25 and 25/26 have been prepared using the expected operating revenue and expenditure budget for those years. These budgets are subject to approval Auckland council prior to the start of the respective financial years.

Prospective statement of comprehensive revenue and expense

For the year ended 30 June 2023

	22/23 Actual \$000	2023/24 Budget \$000	2024/25 Forecast \$000	2025/26 Forecast \$000
Revenue (Includes Vested Assets and Excludes WDC)	968,258	1,104,700	1,091,500	1,177,200
Total revenue	968,258	1,104,700	1,091,500	1,177,200
Operating expenses				
Asset operating costs (excl. WDC expenses and profit contribution)	(98,336)	(98,607)	(97,582)	(96,272)
Maintenance costs	(77,516)	(77,389)	(76,904)	(76,433)
Employee benefit expenses	(66,765)	(66,655)	(66,237)	(65,832)
Construction contract variations payment				
Other expenses	(87,969)	(87,854)	(84,019)	(83,342)
Total operating expenses	(330,586)	(330,505)	(324,743)	(321,879)
Depreciation & Amortisation	(317,395)	(290,090)	(331,332)	(349,577)
Finance costs	(75,673)	(95,849)	(105,968)	(121,524)
Total expenses	(723,654)	(716,444)	(762,043)	(792,980)
Operating surplus from trading operations	244,604	388,256	329,458	384,220
Net loss on disposal of property, plant and equipment	(24,991)	(8,000)	(8,000)	(8,000)
Operating surplus before tax	219,613	380,256	321,458	376,220
Income tax expense	(66,481)	(106,472)	(90,008)	(105,342)
Net surplus for the year from continuing operations	153,132	273,784	231,449	270,878
Discontinued operations				
Profit after tax for the year from discontinued operations	(372)	-	-	-
Net surplus for the year	152,760	273,784	231,449	270,878
Other comprehensive revenue and expense net of tax				
Gain on revaluation of property, plant and equipment	910,503	-	-	-
Total comprehensive revenue and expense for the year, net of tax	1,063,263	273,784	231,449	270,878
Attributable to:				
Owner of the parent, net of tax	1,063,501	273,784	231,449	270,878
Non-controlling interest, net of tax	(238)	-	-	-
	1,063,263	273,784	231,449	270,878

Prospective statement of financial position

As at 30 June 2023

	2023 Actual \$000	2023/24 Budget \$000	2024/25 Forecast \$000	2025/26 Forecast \$000
Assets - Current				
Cash and cash equivalents	4,115	10,923	10,923	10,923
Trade and other receivables from exchange transactions	121,286	100,714	100,386	110,076
Inventories	19,841	19,613	19,613	19,613
Prepaid expenses	21,385	14,461	14,461	14,461
Other financial assets	38,094	40,541	40,541	40,541
Total current assets	204,721	186,252	185,924	195,614
Non-current				
Property, plant and equipment	15,588,357	16,250,545	17,219,585	18,272,183
Intangible assets and goodwill	64,772	92,197	92,197	92,197
Inventories	6,953	3,619	3,619	3,619
Prepaid expenses	32,708	23,775	22,775	22,775
Other financial assets	2,993	2,993	2,993	2,993
Total non-current assets	15,695,783	16,373,129	17,341,169	18,393,767
Total assets	15,900,504	16,559,381	17,527,093	18,589,381
Liabilities - Current				
Trade and other payables for exchange transactions	35,843	27,346	41,035	50,992
Accrued expenses	200,301	154,863	154,863	154,863
Provisions	14,708	20,821	20,821	20,821
Total current liabilities	250,852	203,030	216,719	226,676
Non-current				
Borrowings	2,955,584	3,440,484	4,075,284	4,750,884
Deferred tax liability	2,460,504	2,407,907	2,495,681	2,601,534
Trade and other payables for exchange transactions	12,784	2,859	2,859	2,859
Accrued expenses	10,271	14,213	14,213	14,213
Provisions	12,137	18,731	18,731	18,731
Total non-current liabilities	5,451,280	5,884,194	6,606,768	7,388,221
Total liabilities	5,702,132	6,087,224	6,823,487	7,614,897
Equity				
Equity attributable to owners of the parent				
Retained earnings	4,779,792	5,053,576	5,285,026	5,555,904
Revaluation reserves	5,157,887	5,157,887	5,157,887	5,157,887
Issued capital	260,693	260,693	260,693	260,693
Total equity attributable to owners of the parent	10,198,372	10,472,157	10,703,606	10,974,484
Total equity	10,198,372	10,472,157	10,703,606	10,974,484
Total equity and liabilities	15,900,504	16,559,381	17,527,093	18,589,381

Prospective statement of changes in equity

For the year ended 30 June 2023

	22/23 Actual \$000	2023/24 Budget \$000	2024/25 Forecast \$000	2025/26 Forecast \$000
Balance at 1 July 2022	9,135,109	10,198,374	10,472,157	10,703,606
Net Surplus for the year	153,132	273,784	231,449	270,878
Movements in non-controlling interest	(370)	-	-	-
Total Comprehensive Income	152,762	273,784	231,449	270,878
Gain on revaluation of property, plant & equipment	910,503	-	-	-
Transfer between reserves on disposal of property, plant & equipment	-	-	-	-
Total other comprehensive income and expense	910,503	-	-	-
Balance at 30 June 2023	10,198,374	10,472,157	10,703,606	10,974,484

Prospective statement of cashflows

For the year ended 30 June 2023

	2023 Actual \$000	2023/24 Budget \$000	2024/25 Forecast \$000	2025/26 Forecast \$000
Operating activities				
Cash was provided from:				
Receipts from customers	869,990	1,071,398	1,059,251	1,130,542
Dividends received	121	-	-	-
Interest received	52	-	-	-
	870,163	1,071,398	1,059,251	1,130,542
Cash was applied to:				
Employees and suppliers	(327,191)	(330,500)	(329,409)	(326,939)
Finance costs paid	-	-	-	-
	(327,191)	(330,500)	(329,409)	(326,939)
Net cash inflows – operating activities	542,972	740,898	729,842	803,603
Investing activities				
Cash was provided from:				
Sale of property, plant and equipment, and intangibles	918	-	-	-
Proceeds on disposal of discontinued operations	2,792	-	-	-
Repayment of advances or loans to external parties	15,659	-	-	-
	19,369	-	-	-
Cash was applied to:				
Purchase and construction of property, plant and equipment, and intangibles	(815,830)	(1,086,461)	(1,199,210)	(1,282,840)
	(815,830)	(1,086,461)	(1,199,210)	(1,282,840)
Net cash outflows – investing activities	(796,461)	(1,086,461)	(1,199,210)	(1,282,840)
Financing activities				
Cash was provided from:				
Proceeds from Auckland Council loans – related party	906,084	1,033,765	1,188,829	1,282,171
	906,084	1,033,765	1,188,829	1,282,171
Cash was applied to:				
Repay loans from Auckland Council – related party	(656,084)	(688,202)	(719,461)	(802,935)
	(656,084)	(688,202)	(719,461)	(802,935)
Net cash inflows / (outflows) – financing activities	250,000	345,563	469,369	479,237
Net change in cash flows	(3,489)	0	0	(0)
Cash and cash equivalents / (overdraft) at the beginning of the year	7,604	10,923	10,923	10,923
Cash and cash equivalents / (overdraft) at the end of the year	4,115	10,923	10,923	10,923

Significant Accounting Policies

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.

Watercare's objective is governed by section 57 of the Local Government (Auckland Council) Act 2009, which states that Watercare must:

- manage its operations efficiently with a view to keeping the overall costs of water supply and wastewater services to its customers (collectively) at the minimum levels consistent with the effective conduct of its undertakings and the maintenance of the long-term integrity of its assets; and
- not pay any dividend or distribute any surplus in any way, directly or indirectly, to any owner or shareholder.

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

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

Basis of preparation

Watercare is a company registered under the Companies Act 1993. The financial statements have been prepared in accordance with its accounting policy and 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.

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 annual Long Term Planning budget process. 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 and have not changed for the budget and forecast years

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 in the 2023 Annual Report below for a discussion of estimates and judgments in applying the Watercare accounting policies.

- Revaluation of property, plant and equipment, note 6,
- Unbilled revenue estimate, note 13,
- Provisions, note 24,

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. All other finance costs are expensed in the period in which they occur.

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.

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

Watercare adopted *PBE IPSAS 41 Financial Instruments* and *PBE FRS 48 Service Performance Reporting* for the first time on 1 July 2022. Neither standard has a material effect on Watercare's financial statements.

Effective 1 July 2022, Watercare adopted *PBE IPSAS 41 Financial Instruments*. PBE IPSAS 41 replaces PBE IPSAS 29 *Financial Instruments: Recognition and Measurement* and PBE IPSAS 41 also supersedes PBE IFRS 9 *Financial Instruments*. The adoption of PBE IPSAS 41 did not result in a material adjustment to previously reported results.

Effective 1 July 2022, Watercare adopted *PBE FRS 48 Service Performance Reporting*. PBE FRS 48 replaces the service performance reporting requirements of *PBE IPSAS 1 Presentation of Financial Statements*. This adoption of *PBE FRS 48 Service Performance Reporting* resulted in the disclosure of judgements used in the selection, measurement and aggregation of service performance information.

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.