2017 Annual Report

Meeting the demands of change and growth

Watercare
An Auckland Council Organisation

Contents

Feedback

Watercare remains committed to improving future annual reports. Please provide feedback on this report by emailing communications@water.co.nz

Cover: Mt Eden resident Jean-Luc Batcheldor fills up a glass of 'Aa'-graded drinking water straight from the tap.

Our vision

Trusted by our communities for exceptional performance every day.

Better tomorrow than we are today | Pai ake apōpō atu i tēnei rā

Our mission

Reliable, safe and efficient water and wastewater services.

Watercare Services Limited (Watercare) provides lifeline services to Auckland. Our water supply and wastewater services are critical to the economic, social and environmental health and well-being of our communities. This year we supplied around 360 million litres of water to the people of Auckland and treated around 458 million litres of wastewater to a high standard, every day. We also invest in infrastructure such as treatment plants, pipelines, pump stations and reservoirs to maintain our levels of service, and provide capacity for future population growth.

Watercare is a council-controlled organisation (CCO), wholly owned by Auckland Council (the council). We fund all our activities ourselves and receive no funding from the council or from central government. Watercare is prohibited by statute from paying a dividend to the council.

Meeting the demands of change and growth

This year, the weather reminded us why Watercare plans for the unexpected. The Tasman Tempest storm peaked in the first week of March, dumping two months' worth of rain and a significant amount of silt into the catchment that supplies most of the city's water. The subsequent impact on water production sent our teams into action as they worked hard to maintain Auckland's water supply.

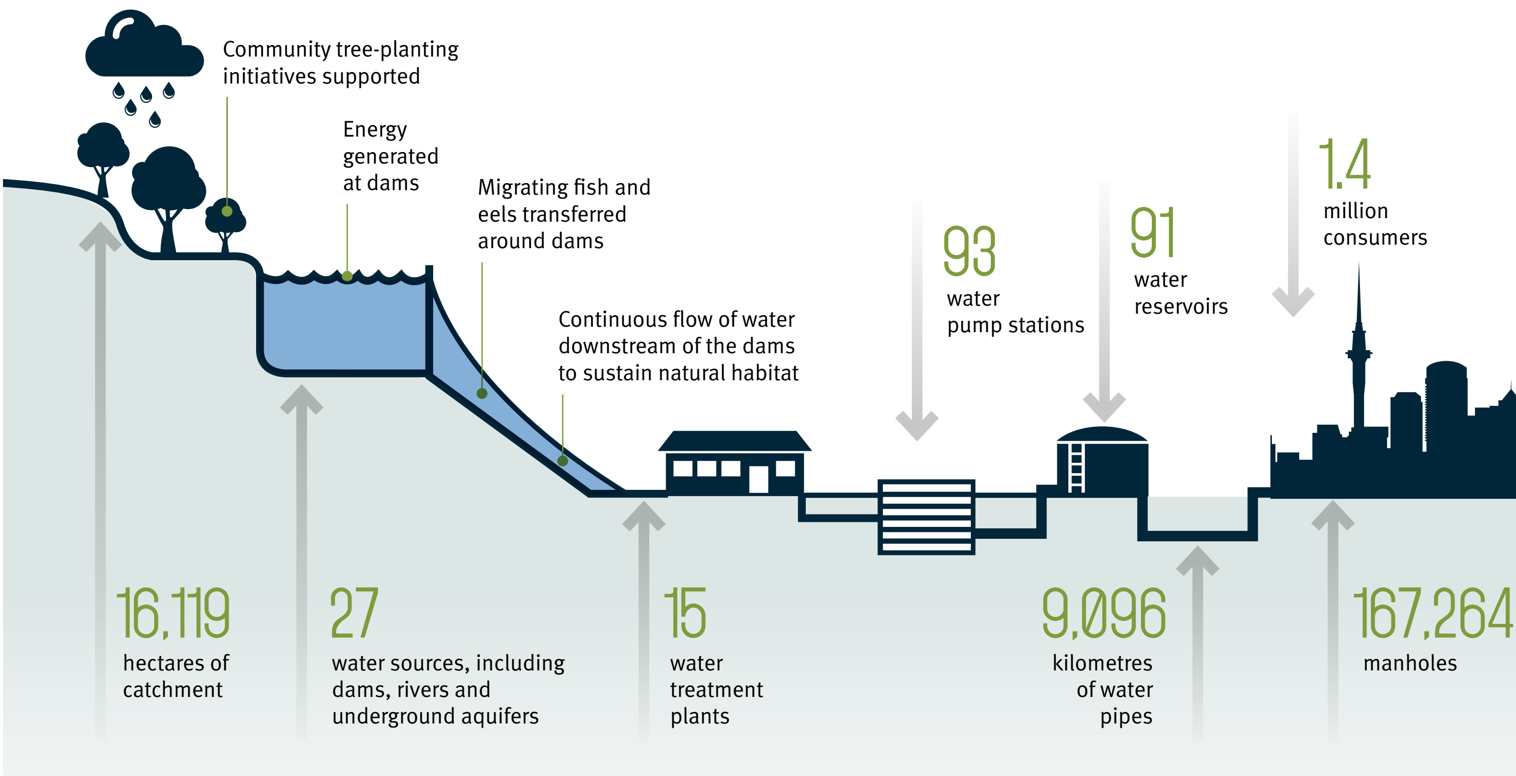
The event proved Watercare's resilience, and demonstrated the capability of both our water supply system and our people, as well as Aucklanders' willingness to heed our call and save water. It was also a reminder that Watercare fulfils its obligations as a lifeline provider in a volatile, uncertain world – and we must be prepared.

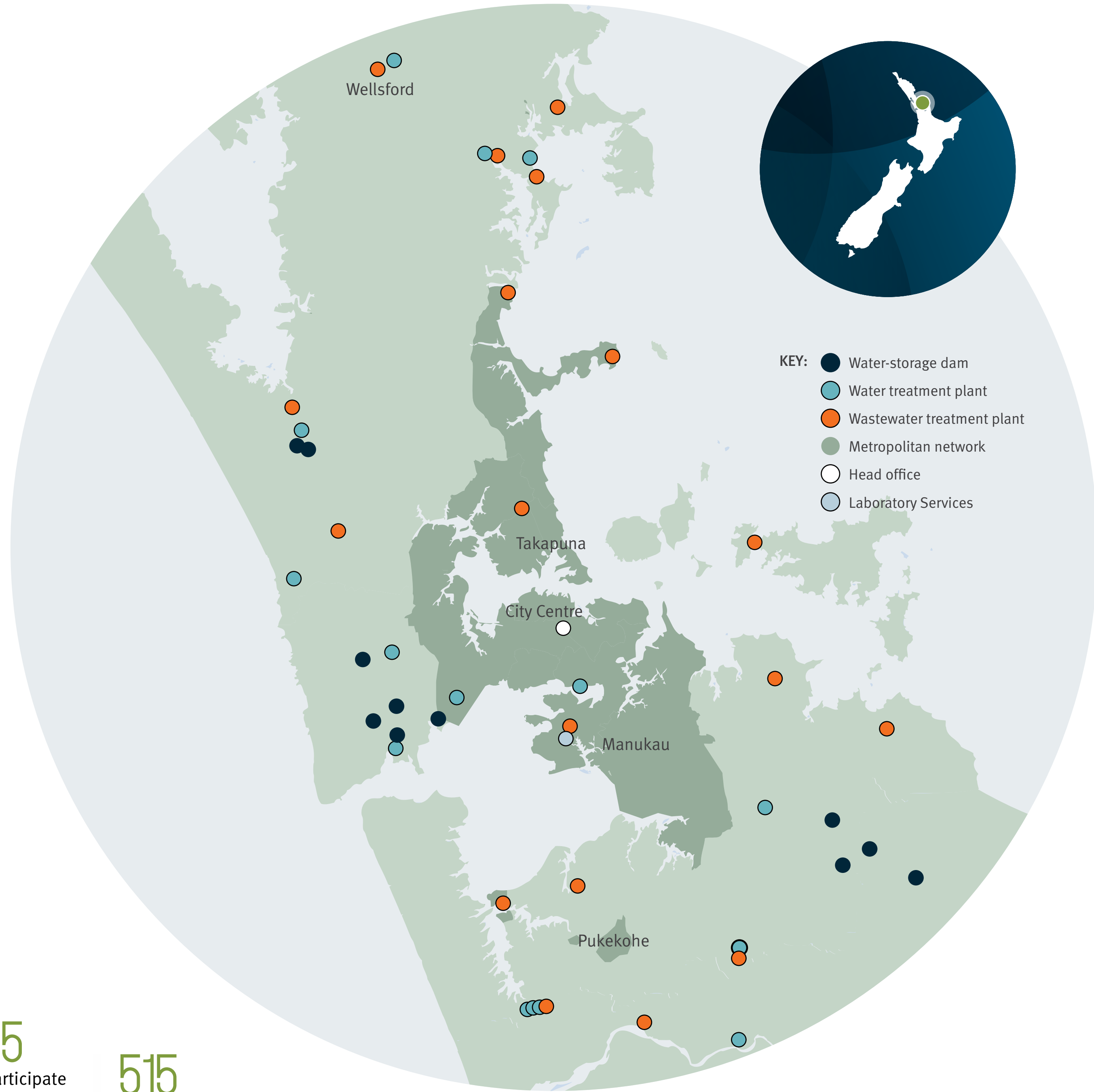
While the risk landscape is evolving so too is technology, along with the expectations of our customers and stakeholders.

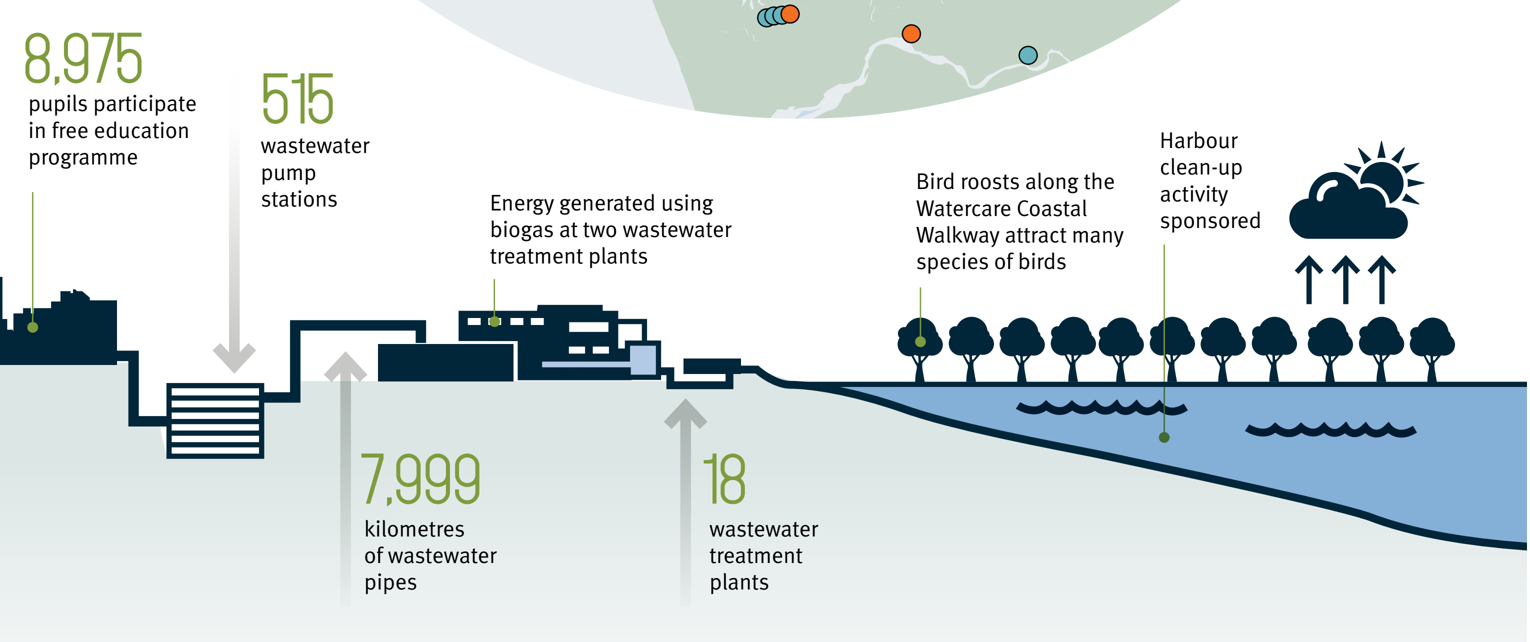
To meet these expectations, to reduce the risks presented by 'sunset' technology and to increase business efficiencies, we are turning to technology and innovation while we realign our culture and organisation.

From sky to sea

An overview of Watercare's assets and operations




Wellsford
Takapuna
City Centre
Manukau
Pukekohe
KEY:
Water-storage dam
Water treatment plant
Wastewater treatment plant
Metropolitan network
Head office
Laboratory Services


8,975
pupils participate in free education programme
515
wastewater pump stations
Energy generated using biogas at two wastewater treatment plants
Bird roosts along the Watercare Coastal Walkway attract many species of birds
Harbour clean-up activity sponsored
7,999
kilometres of wastewater pipes
18
wastewater treatment plants

As Auckland's water and wastewater services provider and a council-controlled organisation, Watercare has many topics to report on. We follow the Global Reporting Initiative (GRI) framework to ensure our reporting is aligned to international best practice.

Global Reporting Initiative

Global Reporting Initiative (GRI) is a sustainability reporting framework.

The GRI is an internationally-recognised framework which encourages transparent reporting on performance and includes an established set of disclosures and performance indicators.

This year, the GRI report has been prepared in accordance with the G4 'Core' guidelines. An index of the indicators that we have reported against is included on page 114 of this report.

With a focus on continuous improvement, we aim to develop our reporting into an integrated reporting framework over the next few years.

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 two small laboratories in Queenstown and Invercargill (four staff members). A map of the Auckland sites is available on page 3.

As a not-for-profit, self-funded organisation solely responsible for the supply of water and treatment of wastewater for Auckland, traditional reporting criteria such as competitive advantage, sources of differentiation and market positioning are not applicable to Watercare.

Throughout this report, we have listed the sources of information used to compile the performance indicators and any significant assumptions or estimates applied.

We have reported on three years of data in order to highlight trends and changes in performance, excluding performance measures that were introduced in 2016 or 2017.

Stakeholder inclusiveness

Watercare is accountable to a wide range of stakeholders, which comprise the entities or individuals that can affect or be affected by the organisation's activities.

The issues that were considered important by our stakeholders during the year are set out on the following page. This ensures that our reporting is aligned with the needs of our stakeholders.

The ways and means through which Watercare engages with stakeholders, and the outcomes of that engagement, are discussed on page 20 of this report, along with comment from two stakeholder groups (the Environmental Advisory Group and the Mana Whenua Kaitiaki Forum).

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.

Materiality

Material matters are those that Watercare views as having a potentially significant impact on our business model and those that stakeholders highlight as being important to them.

This year, we identified material issues by consulting with teams across the business on the issues that were important to their stakeholders, both internal and external. Engaging with stakeholders to identify material issues is considered best practice and is covered in more detail on pages 20-22. We reviewed the enterprise risk register for new risks identified this year and analysed media coverage about Watercare. We assessed customer feedback and complaints, stakeholders' meeting agendas and minutes. The material issues for 2016/17 are listed on the next page.

Our stakeholders considered the issues below as material in 2016/17

People

- Remuneration structure relative to market
- Supportive work culture
- Using internal systems more effectively
- Recognition of staff achievements

Community

- Tasman Tempest and our management of water supply
- Huia Water Treatment Plant Replacement
- Wastewater overflows caused by network blockages and stormwater ingress

Policy

- Submission to the Ministry for the Environment on Clean Water Consultation 2017
- Report to Productivity Commission on Better Urban Planning
- National Policy Statement for Freshwater Management for Auckland
- Adaptive responses to the impacts of climate change

Customer

- Leak rebate allowance
- Updating customer details
- Water meter readings
- Invoice information
- Faults resolution by maintenance contractors
- Timing, sequencing and location of Watercare-funded infrastructure

Economy

- Managing assets and strategy for supporting growth
- Funding for infrastructure to cater for growth
- Delivering value for money

Environment

- Effects of climate on water supply (Tasman Tempest)
- Impact of wastewater discharge
- Our work with council to enhance the Safeswim monitoring programme
- Wet-weather overflows and our network discharge consent
- Our inflow and infiltration investigation programme

Regulators • Infrastructure providers • Shareholder (Auckland Council) • Auckland Council teams • Local Boards • Customers • Tangata whenua • Environmental groups • Wider public • Local communities • Staff • Suppliers and contractors

Our performance highlights

Watercare measures and manages its performance based on four strategic priorities: customer focus, business excellence, financial responsibility and being fully sustainable. Each of these priorities comprises a range of measures that illustrate our performance in that area. We benchmark our performance and metrics with Australian water companies of similar scale.

Customer focus

In 2016/17, Watercare:

- Supplied 'Aa'-graded drinking water that was fully compliant with the Ministry of Health Drinking Water Standards for New Zealand, to all of Auckland, even during the extreme weather event in March 2017 that affected the quality of raw water in our storage reservoirs and the treatment processes at major plants (refer to details on page 28)
- Met all statement of intent (SOI) targets relating to attendance and resolution of water and wastewater issues such as outages, blockages and other faults
- Expanded the Voice of Customer (VoC) programme to our infrastructure projects so local communities have the opportunity to provide continuous feedback on the works undertaken in their area
- Progressed the design and development of the company website, which will be launched towards the end of 2017, with simpler navigation and more self-service options for our customers
- Selected a site for the replacement of the Huia Water Treatment Plant, which will provide additional capacity for water production, ensuring resiliency and providing for growth
- Commissioned a new section of the Hunua 4 Watermain that will increase the security and capacity of the water supply to parts of Mt Wellington, Penrose and the central eastern suburbs; engaged with stakeholders to prepare for the delivery of the final section of Hunua 4 Watermain from Market Road to Khyber Pass reservoirs. Construction will commence in June 2018 and is estimated to be completed by June 2020. This 32-kilometre-long watermain from Ardmore to Khyber Pass will ensure security of supply and cater for growth in Auckland
- Successfully commissioned the pump station at Triangle Road, Massey, which will help to boost water supply to the population on the North Shore, ensuring security of supply and providing additional capacity
- Began construction of a new water treatment plant at Warkworth using groundwater sources. This will ensure a safe and reliable supply of high-quality water for Warkworth, now and into the future
- Lodged a resource consent application for the discharge of treated wastewater to a new location in the Waiuku River channel as part of our $128-million South-West Wastewater Servicing scheme. If approved, the consent will enable us to substantially improve wastewater services to the Kingseat, Clarks Beach, Glenbrook Beach and Waiuku communities
- Hosted open days at Ardmore, Huia and Rosedale treatment plants to provide our customers and the wider community with added insight into what we do.

Next financial year:

- Develop and implement a programme to educate customers on the safe disposal of fats, oil and grease, and other non-dispersibles so we can better protect the wastewater network.

Business excellence

In 2016/17, Watercare:

- Met all SOI targets relating to health and safety: reduced the number of incidents, both in terms of severity (LTIFR) and volume (TRIFR), across the company and improved reporting of incidents, near-misses and observations
- Introduced a Safety In Design (SID) guide that will empower our design and construction teams to incorporate safety into our infrastructure, during construction as well as in our ongoing operations
- Refined our fault management process to improve responsiveness to customer issues and to ensure more efficient use of our maintenance crews (refer to details on page 38)
- Proactively audited and configured our payroll system to comply with the Holidays Act 2003 and made corrective payments to staff including former employees
- Upgraded the sludge handling capacity at Huia Water Treatment Plant (which enabled us to maximise production from the plant during the Tasman Tempest and keep Auckland supplied with high-quality water)
- Began a programme to reduce inflow and infiltration of stormwater into the wastewater network which causes overflows into the environment
- Introduced AskYourTeam, a comprehensive feedback survey to measure business performance across key areas such as people, organisation, stakeholders and continuous improvement
- Demonstrated excellence in a range of areas and received industry recognition in conjunction with our suppliers, including:
  - Excellence in building risk management capability (RiskNZ Awards of Excellence)
  - Veolia Health and Safety Innovation Award for designing a solution that eliminated the need for confined space entry during construction of the Hunua 4 Watermain (Water New Zealand Conference 2016)
  - Kensington Swan Safety Leadership Award for Hunua 4 Watermain (Site Safe Awards)
  - Hynds Construction Award for the Franklin Road Water and Wastewater Upgrade project (Civil Contractors NZ)
  - Chairman's commendation for Watercare's Annual Report for sustained excellence in reporting over a decade (Australian Reporting Association's 2017 Australasian Reporting Awards).

Next financial year:

- Appoint delivery partners for our strategic transformation programme (STP). STP will address four issues: the limitations of our ageing back-end systems; the challenges in meeting our customers' ever-increasing expectations; improving efficiency across the company; and providing greater business flexibility by implementing technology platforms capable of supporting different options in the future.

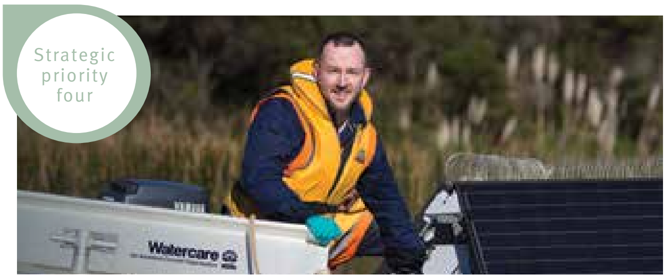
Financial responsibility

In 2016/17, Watercare:

- Achieved revenue of $631 million, which is an increase of $61 million compared to the previous year
- Achieved savings of $2 million on operating costs against budget, despite the cost pressures resulting from extreme storm events during the year
- Met the SOI target relating to cash flow/interest cover ratio
- Achieved savings in interest costs through lower-than-average interest rates throughout the year
- Sold 23 hectares of surplus land to increase the efficiency of our landholdings and provide cash-flow benefit during the year
- Tendered, negotiated and awarded $139 million worth of construction contracts and achieved more than $16 million in savings through negotiation and smart project management (refer to details on page 50)
- Achieved savings of $4 million in the procurement of waste management, chemicals, electricity, and plant maintenance. Savings were also achieved through collaborative procurement with Auckland Council and Auckland Transport for insurance, software licences and mobile voice and data
- Reviewed the organisational structure, systems and processes in the local networks business to increase efficiency and lower costs in future years
- Completed a review of funding and financial principles and strategies that were reflected in the pricing and funding projections for Watercare's 2017 SOI
- Completed internal training of non-financial staff in core financial management to increase financial discipline across the business
- Implemented an automated accounts payable scanning tool to improve our process efficiency, thereby reducing invoice processing and printing costs and removing storage costs.

Next financial year:

- Continue to target savings in operating and capital costs with a particular focus on embracing new technologies to achieve efficiencies
- Continue to investigate opportunities for sale of non-strategic land owned by Watercare
- Continue to educate non-financial staff to increase financial discipline across the business.



Fully sustainable

In 2016/17, Watercare:

- Purchased forestry rights to a 1900-hectare commercial pine forest in the Hunua Ranges. We plan to progressively restore the land to native forest to further protect the water supply catchment areas
- Generated 29.6% of total energy needs through co-generation and hydro turbines at our water and wastewater treatment plants
- Implemented a company-wide Energy Management Plan to enable us to achieve our energy-efficiency goals across the wider business by 2020 and energy neutrality for the Rosedale and Māngere wastewater treatment plants by 2025
- Launched the inaugural Energy Week, partnering with Auckland Transport and the Energy Efficiency & Conservation Authority (EECA) to promote energy efficiency at work and home
- Made significant progress in the construction of wastewater storage tanks at Glen Eden and Takapuna. These are part of the improvements planned for our wastewater network to provide additional storage capacity and reduce the number of overflows into the environment
- Completed a detailed design for the Central Interceptor, a large wastewater pipe that will address the risk of ageing infrastructure, reduce wet-weather overflows into the environment and provide additional capacity for growth
- Began developing the 2017–2020 Auckland Water Efficiency Strategy, which will outline our demand-management initiatives for the next three years
- Redefined and enhanced the purpose and membership of the Watercare Environmental Advisory Group to be strategic, future focused and proactive, with its input being sought at an earlier stage of programme development so that environmental improvements can better be achieved (refer to letter on page 24)
- Commenced the development of a hydrodynamic model for the Manukau Harbour in collaboration with National Institute of Water and Atmospheric Research (Niwa), Auckland Council and iwi
- Continued to reduce unnecessary printing by 9.5% across the business through the use of pull printing technology
- Registered 301 households for water audits in 2016/17, an increase of 300% compared to 2015/16. The water audits are a free service offered by Watercare, in partnership with the EcoMatters Environment Trust, to help householders to identify ways they can reduce their water use.

Next financial year:

- Accelerate implementation of the energy-efficiency programme
- Implement the Auckland Water Efficiency Strategy
- Engage with and update stakeholders on the Manukau Harbour hydrodynamic model.

While Watercare's core service provision – water supply and wastewater treatment and disposal – continues strongly, the company is now taking significant steps to realign the culture and organisation to fit a changing environment.

My first report as chair at Watercare covers a period of successes and challenges for the business.

In the past year, the company can claim many achievements. However I am especially pleased to recognise and acknowledge the management and staff of Watercare for meeting the challenges of growth while also reviewing and refocusing their strategy, particularly the attention that is being paid to organisational change. This will ensure the company not only remains fit for purpose but also fit for the future.

While Watercare's core service provision – water supply and wastewater treatment and disposal – continues strongly, the company is now taking significant steps to realign the culture and organisation to fit a changing environment.

Customer expectations are being shaped by a desire for convenience and the ability to self-serve – simply put, Watercare's legacy systems and processes can greatly be improved upon to help us better meet those customers' needs.

Technology and innovation have an enormous role to play in Watercare's evolution.

The technology landscape has changed with the greater adoption of cloud technology solutions and services, and increasing cybersecurity risks. Clearly, Watercare needs technology platforms and programs to enable the business to operate in a more efficient, cost-effective and customer-focused way.

It is pleasing to see the streamlined way new technology is being adopted by the company. Technology already underpins much of the existing water and wastewater service provision, and new innovations are coming on stream constantly.

More immediate opportunities are in information and document management across all business units, and customer interaction. As part of Watercare's strategic transformation programme, technology upgrades will streamline back-office processes, centralise information management to maintain the quality of data and assist company-wide access to that data, and set up opportunities for customers to serve themselves.

This will improve the efficiency of our service delivery to customers.

At the same time, management's aim is to promote a performance-based and customer-focused workforce underpinned by collaboration and accountability.

This year has seen the introduction of two important review mechanisms: a new staff survey which seeks to assess business performance through people, and a new individual performance evaluation process. Leadership training and support, and ongoing staff development programmes, are also being rolled out across the company.

Further work will be undertaken to explore what is needed to build the right capabilities to enable the execution of business strategies. Of course, jobs are changing under the lens of technology, so the challenge will be how to grow people capability, and a depth of capability, within that environment.

Meanwhile, Watercare continues to work closely with the wider council family to develop integrated solutions wherever possible.

To support population growth in the short term, Watercare works alongside the council group to identify areas of intensification or greenfields development where there is sufficient capacity in the water and wastewater system.

The company is aligning the planning of new or upgraded infrastructure to meet council's spatial development priorities and give effect to the Long-Term Plan. Teams have been collaborating on the development of the council's Future Urban Land Supply Strategy revision, particularly around the sequencing of land release.

As always, Watercare's challenge is to meet the demands of that growth without compromising quality and efficiency. The asset management strategy details the $4.9 billion in projects that have been planned and sequenced for the next 10 years to ensure the water network continues to have sufficient capacity to meet demand and provide resilience.

Organisational change manager Mirjam Oord explains the Strategic Transformation Programme (STP) to a staff member during a business expo at Mangere Wastewater Treatment Plant.

Another highlight this year was the joint work between Watercare and council to develop long-term integrated network strategies for the provision of stormwater and wastewater services in the central Auckland area for inclusion in the draft 2018 Long Term Plan.

Watercare is actively participating in the strategic value for money review being undertaken by council as required by section 17A of the Local Government Act 2002. Examining the ‘three waters’ – water, wastewater and stormwater – is a big part of this review. The ultimate deliverable will be an options report evaluating arrangements for governance, funding and delivery.

Watercare fully supports the council’s drive for greater transparency in budgeting and reporting. The company understands and appreciates that our customers expect us to be financially responsible as every dollar we spend has an impact on the price they pay for water and wastewater services.

As we look ahead, Watercare will continue to manage competing demands on our resources and funding.

In reflecting on this past year, I congratulate the Watercare team for the supreme effort it took to maintain Auckland’s water supply during the Tasman Tempest. The impact from this extreme cyclonic event presented a significant challenge that the company will take learnings from, but the resilience of Watercare’s water supply system and people is worthy of recognition.

On behalf of the Board, I would like to thank our management and staff for their dedication and commitment during the year.

I would also like to thank my board colleagues, not only for their welcome when I joined but also for their contribution during a busy year for Watercare.

Our board observer Ingrid Cronin-Knight, who took part in Auckland Council’s Board Observer Programme, has made a tremendous contribution over the past 12 months and we wish her well in her future endeavours.

As this reporting year closes, I am confident that Watercare is well placed to deal with the challenges of the future.

Margaret Devlin
Chair

This year has been something of a turning point for Watercare, with clear signs that our organisation is maturing as an integrated water utility.

In some ways, 2016/17 has been a continuation of the post council-integration journey: we provide water and wastewater services via $9 billion in assets, we respond to our customers' needs, pursue efficiencies, and we align and refine our back-end systems and processes accordingly.

As we reshape our business, we are also improving our ability to understand what matters most to our stakeholders.

Our ability to cater for Auckland's burgeoning population

Watercare continues to provide exceptional products and services. Again, in 2016/17, we have provided Auckland with 'Aa'-grade water 100% of the time (including during and after the Tasman Tempest). Consistent 'Aa'-grade drinking water is a high bar and it exceeds the standard required by the Drinking Water Standards of New Zealand. Watercare achieves this standard daily.

Working closely with Auckland Council, we plan and construct for the ever-expanding provision of water and wastewater services to service the growing region. Over the next decade, Watercare will invest $4.9 billion to build new infrastructure and renew ageing assets. Highlights from our asset programme for the past year include the $14 million wastewater pump station and pipeline in Wynyard Quarter, the $13 million Waikato Water Treatment Plant upgrades, and the $141 million project to expand biological nutrient removal capacity at the Mangere Wastewater Treatment Plant.

We have also made great progress on key resource consents. The Army Bay Outfall, North Harbour No.2 Watermain, the Northern Interceptor, Pukekohe East Reservoir and Warkworth-Snells-Algies wastewater services are now all consented and will become capital projects.

When it came to Snells Beach, by engaging in honest dialogue with mana whenua early, we were able to incorporate changes into the scheme. This greatly assisted us in obtaining wastewater discharge consents.

For the Pukekohe Wastewater Treatment Plant, we worked with Te Taniwha o Waikato, whose input resulted in changes to the scheme. One of the reasons for the mana whenua support of this application was that they accepted that the upgrades proposed for the plant would result in improved water quality for the local stream.

Protecting the city's waterways

Wastewater overflows that happen in heavy rain can affect private and public property and cause environmental pollution. For that reason, we are working closely with Auckland Council on a range of initiatives to protect the wastewater network from being inundated by stormwater. This includes private pipe inspections and customer education to encourage householders to prevent stormwater from their property entering the wastewater system. At the same time, we are investing heavily in building capacity into the wastewater network, such as the $18 million Glen Eden Wastewater Storage Tank and the $30 million wastewater pump station on Fred Thomas Drive in Takapuna.

Wise use of our natural resources

While we are fortunate that water is not scarce in New Zealand like it is in some parts of the world, it is a resource to respect and manage wisely for the people of Auckland, now and into the future. To meet the city's anticipated growth, we have lodged an application with Waikato Regional Council to access additional water from the Waikato River. We are also investigating new water sources for Helensville, Parakai and Warkworth communities. And we continue to work with customers to reduce per-person demand through a range of Be Waterwise initiatives.

Responding to our customers' needs

We continue to introduce initiatives such as our automated feedback programme, Voice of the Customer (VoC), which enables us to understand and respond to our customers' needs and issues. This year, VoC was expanded to include our infrastructure projects to enable the community to give constructive feedback on how we and our contractors are performing, and how we can improve.

Watercare's networks efficiency team tests houses in Te Atatu for illegal stormwater connections into Auckland's wastewater networks. This is part of Watercare's Auckland-wide programme to reduce stormwater entering the wastewater network, which is a major contributor to wet-weather overflows.

Making productivity gains

This year we have found innovative technological solutions to help us do more with less. Our first systems robot or 'bot', Bex, started work earlier this year processing meter replacements. By automating highly repetitive but very necessary tasks, we are able to free up our people to focus on higher value work. A second bot has recently begun work processing direct debit forms.

Meanwhile, out on the supply lakes, we are trialling new Dutch ultrasound technology to monitor and combat algae. This technology – which allows waterways to be kept clean, without having to use chemicals – transmits vibrations that kill algae without affecting humans, animals, fish and aquatic plants.

Staff performance

We introduced two new performance review systems this year: an individual performance system (E3) that links to business goals, and a new staff survey, AskYourTeam, which measures business performance through people. Together, these review systems form part of the health and safety toolkit we need to help us achieve our vision and mission.

Transforming our organisation

Although so much of Watercare performance is world-class, we acknowledge that we are not perfect and can always do better.

In 2016/17 we took the first steps towards further business improvement with the introduction of an organisational transformation programme. We are looking to enable easier and more effective ways for customers to interact with us, and for them to be able to self-serve when they choose.

The enquiry process to remove old technology – rigid, slow, single-focus systems – is now well under way. Cross-functional teams are fully involved in the development of new technology solutions that will achieve a step-change in Watercare's capability.

We are also investing in leadership development, introducing agility to our work practices and our outlook, and changing emphasis to support values of collaboration, self-responsibility, mutual trust and respect. Senior managers across the business are excited about the future, and have come together to help lead the organisational change.

Getting through the Tasman Tempest

At the same time, and in the midst of embarking on such comprehensive organisational change, extreme weather tested the resilience of our water supply system, our people, and our relationship with our customers (see page 28 for the full story).

The Tasman Tempest has shown us that Watercare's water supply system and our people are capable of withstanding a very significant shock. Our customers, stakeholders and the people of Auckland should take great confidence from that fact.

There is no question that there are significant learnings for Watercare from the Tasman Tempest experience. However, what strikes me most in reviewing our response and reflecting on our organisational change process is that, as a lifeline service provider, our organisation must be prepared to fulfil its obligations in a volatile, uncertain environment, as happened earlier this year.

I wish to thank our staff for their commitment to the job at hand, and for rising to the many challenges presented over the past year. I would also like to thank the board of directors for their ongoing support and guidance.

Raveen Jaduram
Chief Executive

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 currently chair of Harrison Grierson and WEL Networks and a director of City Care and Meteorological Services of New Zealand Ltd.

She is also a member of the National Infrastructure Advisory Board. Margaret is a Chartered Fellow of the Institute of Directors in New Zealand.

General disclosure of interests: Chair, Harrison Grierson Limited; Chair, WEL Networks; Director, City Care Limited; Director, Meteorological Services of New Zealand Ltd; Director, Waikato Regional Airport; Director, IT Partners Group; Independent Chair, Audit and Risk Committee, Waikato District Council; Chair, Women in Infrastructure Network; Member, Waikato branch of Institute of Directors.

Julia Hoare, BCom, FCA, MInstD
Deputy Chair; Chair of the Audit and Risk Committee

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

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

Catherine Harland, BA, PGDipBus, MBA, MInstD, JP
Chair of the People, Remuneration and Appointments Committee

Catherine Harland is a consultant with a background in research and public policy in local and central government. She has worked for MartinJenkins, The New Zealand Institute and Auckland University of Technology's Institute of Public Policy. Catherine was an elected local government member for 15 years and involved in various community groups including five years as Chair of the Auckland Observatory and Planetarium Trust Board.

General disclosure of interests: Director, McHar Investments Limited; Director, Interface Partners Limited; Trustee, One Tree Hill Jubilee Educational Trust; Member, Auckland Regional Amenities Funding Board; Member, Water Allocation Technical Advisory Group.

Tony Lanigan, MNZM, BE (Hons), PhD, FIPENZ, MICE
Chairman of the Capital Projects Working Group

Dr Tony Lanigan is a professional civil engineer (FIPENZ), project-management consultant and former General Manager of Fletcher Construction. He was Chancellor of Auckland University of Technology and a director of Infrastructure Auckland.

General disclosure of interests: Director, Habitat for Humanity New Zealand Limited; Director and Chair, New Zealand Housing Foundation Limited; Director and Shareholder, A G Lanigan & Associates (2007) Limited; Director, Tamaki Makaurau Community Housing Limited; Director and Shareholder, Lanigan Trustee Limited; Member, Ministry of Health Hospital Redevelopment Partnership Group for Canterbury; Member, Ministry of Health Southern Partnership.

Nicola Crauford, BSc(Hons), PhD, FEngNZ, CPEng, FAICD, CFInstD

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

Nicki is a chartered professional engineer, a Fellow of the Institution of Professional Engineers in New Zealand and 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; Deputy Chair, Fire and Emergency New Zealand; Director, Orion New Zealand Limited; Director, Wellington Water Limited; Director, Environmental Protection Authority; Member of Electoral Authority – Cooperative Bank Limited; Specialist Advisor, WorleyParsons New Zealand Limited; Director and Shareholder, Riposte Consulting Limited.

David Thomas, BCA (Hons)

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

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

Brendon Green, BE Chem and Process (Hons), Postgrad Diploma in Dairy Science and Technology

Brendon Green brings extensive experience from New Zealand and offshore, primarily in resource development for power stations (gas, geothermal, landfill and wind), forestry, minerals, oil and gas exploration, water and dairy sectors. His career includes technical and commercial roles with the NZ Dairy Board, Contact Energy, General Electric (Mexico and the United States) and Mercury in developing its renewable energy portfolio under Mighty River Power.

Brendon is the founder of Kaitiaki Advisory Limited and holds board and executive board positions with Tainui Kāwhia Incorporation, Te Rūnanganui o Ngāti Hikairo, Bay Dairy Limited and Advanced Biotech NZ Limited. He has served as chairman for Tainui Kāwhia Incorporation and Tirohia Landfill Generation Joint Venture. Brendon is of Ngāti Hikairo and Ngāpuhi descent.

General disclosure of interests: Director, Kaitiaki Advisory Limited; Director, Tainui Kāwhia Incorporation; Executive Director, Bay Dairy Limited; Executive Director, Advanced Biotech NZ Limited; Executive, Te Rūnanganui o Ngāti Hikairo; contract with Mercury for stakeholder management of greenfield geothermal developments.

Note: Directors' disclosures as of 30 June 2017

Raveen Jaduram, BE (Hons), ME, FIPENZ
Chief Executive

Raveen Jaduram has been chief executive of Watercare since November 2014. His past roles include heading Maintenance Services, the business unit that provides operations and maintenance support to Watercare. He has been the managing director and chief executive of Australian private water company Murrumbidgee Irrigation Limited. Raveen is on the Steering Group of the Business Leaders’ Health & Safety Forum and chairs the Centre for Infrastructure Research, University of Auckland.

Brian Monk, BCom, CA
Chief Financial Officer

Brian Monk is a chartered accountant with over 40 years’ experience in corporate financial management. He holds responsibility for Watercare’s financial management, treasury and procurement functions. Brian has previously held senior financial management roles with Auckland Regional Council, Fletcher Energy, Air New Zealand and the United States’ multinational S.C. Johnson. He is also the Deputy Chairman and Chair of the Audit and Compliance Committee of the Manukau Institute of Technology.

Shayne Cunis, BE Civil (Hons), MIPENZ, CPEng
General Manager – Service Delivery

Shayne Cunis is a chartered professional engineer with more than 20 years’ experience in the Auckland water supply industry. He holds responsibility for Watercare’s operational management of the drinking water and wastewater systems, along with trade waste and reliability engineering. Shayne has previously held senior operational management and executive roles at Watercare and has served on the board of Water New Zealand. He is a board member of the Water Environment & Reuse Foundation.

Marlon Bridge, BCom, DipCom, CA
General Manager – Retail

Marlon Bridge is a chartered accountant with over 20 years’ experience in senior private and public-sector roles. He has held senior financial-management roles at Watercare and as Chief Financial Officer of Manukau Water Limited. Marlon is responsible for customer service (including key accounts), invoicing and billing, revenue assurance, credit management, new connections and new developments at Watercare.

Steve Webster, Dip CM, BE (Hons), NZCE (Civil)
General Manager – Infrastructure Delivery

Steve Webster is a civil engineer with more than 20 years’ experience in senior leadership roles delivering projects and maintenance services to government, local authority and private asset owners in New Zealand and Australia. He is responsible for Watercare’s delivery of capital projects, laboratory services and internal maintenance activities for both the water and wastewater network.

Martin Smith, BE (Hons) (Civil), PGDipBusAdmin, FIPENZ, CPEng, MICE, CEng, MInstD
General Manager – Strategy and Planning

Martin Smith was appointed as general manager of strategy and planning after performing in an acting capacity since November 2015. Prior to that he was acting general manager of the Maintenance Services business unit. Martin is a chartered professional engineer with 35 years’ experience in senior leadership roles as a consultant, with Manukau Water as general manager of infrastructure, and as a maintenance contractor. He is responsible for developing the water and wastewater regional servicing strategies, asset management, infrastructure planning, statutory consenting, environmental compliance, sustainability initiatives, and asset systems.

Adrienne Miller, BA/LLB (Hons)
General Manager – Corporate Services

Adrienne Miller has over 25 years of experience in the legal profession. She was appointed to the role of general manager of Corporate Services in March 2016. Adrienne is responsible for human resources, information services, health and safety, legal services and governance. She has held general counsel positions for infrastructure and heavy industry companies such as Downer Group, Carter Holt Harvey and Waste Management NZ Limited. Adrienne also has substantial experience in executive management.

Rob Fisher, ONZM, LLB, DipTP
Company Secretary

Rob Fisher is a barrister who has specialised in resource management, public law and local government law. He is responsible for statutory and environmental planning, resource consents and policy. Rob has provided strategic advice and expertise to both private and public bodies, especially in the consenting of large infrastructure projects. He was the 2010 Barrister of the Year at the New Zealand Law Awards and was made an Officer of the New Zealand Order of Merit in the 2011 Queen’s Birthday Honours. Previously, he was general counsel for Watercare.

Rebecca Chenery, BBus, DipMgmt
Business Transformation Manager

Rebecca Chenery has been with Watercare since 2010 and was appointed to the role of business transformation manager in November 2015. She has 15 years of experience in programme management and business transformation projects across the information services, telecommunications and water industries in New Zealand and overseas. Rebecca is responsible for leading key organisation-wide change initiatives and ensuring alignment between programmes of work and Watercare’s strategic priorities.

David Hawkins, MPP, TTC, JP
Corporate Relations and Communications Manager

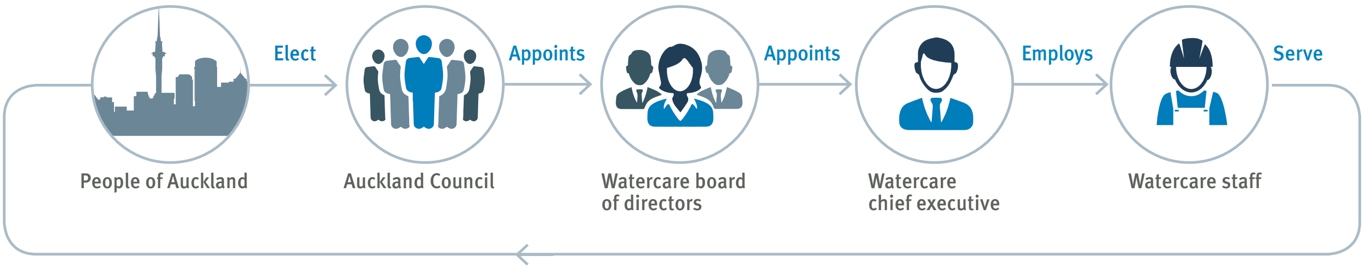
David Hawkins’ responsibilities include government and community relations as well as corporate communications. He has a background in sales and marketing management for New Zealand and global brands, and has a strong commitment to local government and community engagement. David has previously served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

David Sellars, BCA, CA
Risk and Assurance Manager

David Sellars is a chartered accountant with experience in banking and audit functions. He is responsible for the risk-management function and assurance procedures including reporting on the internal control environment and governance of major projects.

Governance

Watercare is a wholly owned subsidiary of Auckland Council (the shareholder). The board of directors (the board) and management of Watercare remain committed to ensuring that the company applies best-practice governance policies and procedures. The board is ultimately responsible for all decision-making by the company.



Operational responsibility is delegated to the chief executive by way of a formal delegated authority framework. The board comprises seven independent, non-executive directors as of 30 June 2017. Including the chair, they are appointed by the shareholder. Their profiles and disclosures of interests are published on page 12.

Watercare participates in council's Board Observer Programme, designed to give aspiring directors boardroom knowledge and allow them to establish relationships and networks with current directors, in conjunction with Auckland's council-controlled organisations (CCOs).

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. We are subject to regulation governing planning, health and environmental matters. The principal regulators include Auckland Council, Waikato Regional Council and the Ministry of Health. We also provide these and other regulatory bodies with information on the potential for existing and proposed policy and regulation to effect our activities.

The legislative framework enabling and governing our operations as the provider of water and wastewater services in Auckland is found largely in four Acts and amendments:

- Local Government Act 2002
- Local Government (Tāmaki Makaurau Reorganisation) Act 2009
- Local Government (Auckland Council) Act 2009
- Local Government (Auckland Transitional Provisions) Act 2010.
- Companies Act 1993.

Our obligations to deliver water and wastewater services for Auckland are established under Part 5, section 57(1), of the Local Government (Auckland Council) Act 2009, which stipulates that an Auckland water organisation:

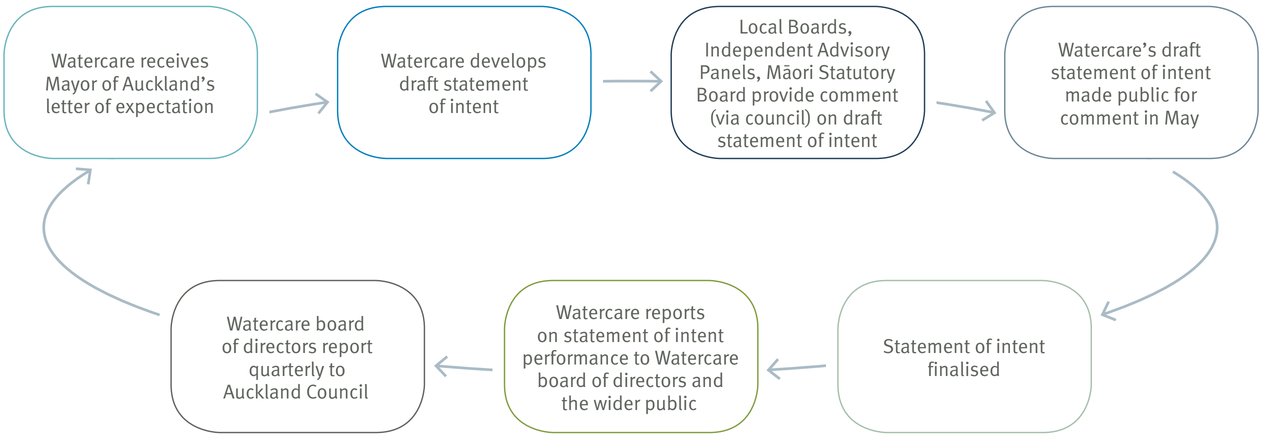
- Must manage its operations efficiently with a view to keeping the overall costs of water supply and wastewater services to its customers (collectively) at the minimum levels consistent with the effective conduct of its undertakings and the maintenance of the long-term integrity of its assets
- Must not pay any dividend or distribute any surplus in any way, directly or indirectly, to any owner or shareholder
- Is not required to comply with section 68(b) of the Local Government Act 2002 (avoiding the requirement to pay a dividend)
- Must have regard for public safety in relation to its structures.

Also under the legislative framework:

- We became a substantive council-controlled organisation (CCO) on 1 July 2012
- We must give effect to council's Long-Term Plan (LTP) and act consistently with other specified plans and strategies of the council, section 58 of the Local Government (Auckland Council) Act 2009
- At least two board meetings a year are required to be held in public: one before 30 June to consider the council's comments on the draft statement of intent (SOI) for the upcoming financial year, and one after 1 July to consider our performance under the SOI for the previous financial year. In practice, all board meetings have a session open to the public
- Our financial statements, the SOI and specified long-term plans must be audited by the Auditor-General, or by an auditor acting on behalf of the Auditor-General.

The Auditor-General is the auditor of Watercare's financial statements. The Auditor-General has appointed Andrew Burgess, 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.

Governance framework



Statement of intent (SOI) and stakeholder engagement

The SOI is developed in association with Auckland Council, the shareholder, and is approved by the board. The process follows the receipt of the Mayor of Auckland's letter of expectation, which includes the vision and objectives for Auckland and the outcomes sought by the Auckland Plan. A draft SOI is then prepared by us as the basis of consultation with the shareholder.

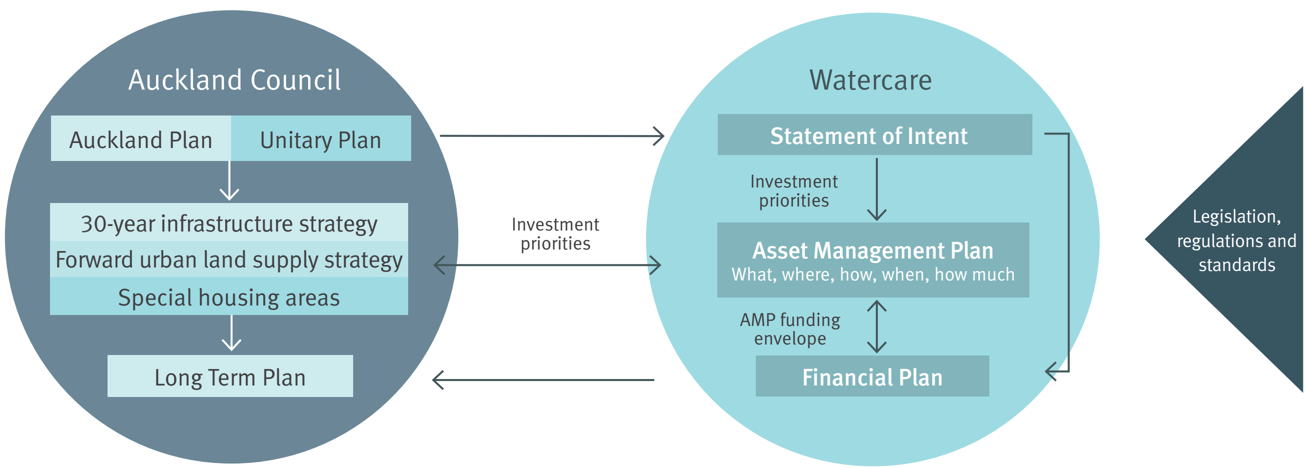
The SOI identifies the relationship between Watercare's activity and the delivery of those outcomes sought by the Mayor and those specified within the Auckland Plan. Prior to final adoption by the board, comment on the final draft SOI is invited from Local Boards, the Independent Māori Statutory Board and the general public. We delivered the 2016/17 SOI to the shareholder on 8 June 2016; this document is available on our website www.watercare.co.nz.

Of special importance are the Local Boards, which represent local communities under a co-governance model with the Auckland Council governing body. Watercare maintains purposeful relationships with the Local Board chairs and members, arranged through a dedicated company executive who ensures transparent and timely communication and ready access to relevant information. The relationship and channels of communication recognise the diverse needs of Local Boards and communities and the varying levels of interest in our services and projects.

For Watercare, sustainability is intrinsic to our business and influences everything we do. It is one of our four strategic priorities and we have undertaken several major programmes of work in this area over the past two years (see pages 55 to 61 for more details). We are committed to playing a pivotal role in enhancing the natural environment and improving the quality of life for all Aucklanders.

Watercare's Environmental Advisory Group comprises experts who advise on how our activities affect the environment. The Mana Whenua Kaitiaki Forum advises the company on how our plans and operations affect Māori and the relationship of Māori to the natural environment. Reports from the Environmental Advisory Group and Mana Whenua Kaitiaki Forum can be found on pages 24 and 25 respectively.

Our planning framework



Performance

Watercare has 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.

These are reported through the Finance and Performance Committee on a quarterly basis in accordance with the CCO governance manual.

The measures and targets include the Department of Internal Affairs-mandated measures and those that were agreed with council as part of its Long-Term Plan 2015–2025.

This annual report records the performance of the company against non-financial and financial performance measures included in the SOI. The non-financial performance measures are set out in the statement of service performance (SSP) from page 110.

A wider set of measures, including economic, social, environmental and selected SOI determinants, has been grouped under the four strategic priorities and the performance of the company against these priorities is reported on the upcoming pages.

Watercare is benchmarking its performance and metrics with Australian water companies of similar scale. We are committed to contributing to the development of new metrics and indicators which will measure our impact and align with a refreshed Auckland Plan and the Long-Term Plan 2018–2028.

The shareholder requires that the board undertakes a review every three years. Board members' remuneration is determined by the shareholder. The board oversees the performance of the chief executive, who is formally reviewed annually.

Setting standards of conduct for staff

Watercare demands the highest standards of behaviour from its staff.

All policies governing the conduct of employees are published on the company's intranet including: Business Conduct and Ethics Policy, Gift and Inducement Policy and Conflict of Interest Policy.

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

Regular independent reviews

Watercare subjects its planning, operations and reporting to regular independent review. This year, the board and the Audit and Risk Committee received reports from specialist advisors on risk and control issues to inform the maintenance and development of good practice and procedures.

We are committed to a culture of continuous improvement and seek independent feedback from specialist advisors to achieve this objective.

Board structure and functions

Audit and Risk Committee

The Audit and Risk Committee helps the board fulfil its financial reporting responsibilities and provides assurance regarding compliance with internal controls, policies and procedures.

Its responsibilities are established in the Audit and Risk Committee Charter, which is reviewed annually. The committee meets regularly with external auditors (both with and without management present) and the management of the company. Membership must include at least three board members, at least one of whom must have accounting or financial management expertise. The committee has no delegated authority. The board chair may not chair the Audit and Risk Committee. All our directors receive the papers of the Audit and Risk Committee in advance, and all are invited to attend committee meetings. Health and safety matters are the responsibility of the full board and are excluded from the duties of the Audit and Risk Committee.

The chair of the Audit and Risk Committee for 2016/17 was Julia Hoare.

People, Remuneration and Appointments Committee

The People, Remuneration and Appointments Committee helps the board to fulfil its wider human resources responsibilities to the company. Membership must include at least three board members plus the board chair, who may not chair the committee.

The committee provides advice to the board on: organisational capability and design; human resource strategies; and remuneration policy, including the remuneration framework for the chief executive.

The chair of the People, Remuneration and Appointments Committee for 2016/17 was Catherine Harland.

Capital Projects Working Group

The Capital Projects Working Group is responsible for reviewing Watercare's capital planning and expenditure processes. Membership must include at least two board members, the board chair and the chief executive; the group must be chaired by a member of the board. Papers that are reviewed by the group are circulated to all board members, and all board members can attend group meetings.

The group reviews: the process and formulation of our Asset Management Plan (AMP), including a review of the business drivers and the prioritisation methodology adopted within the AMP framework; the project reporting framework; and the development of specific strategic projects. All major capital projects greater than $75 million require approval of the full board.

The chair of the Capital Projects Working Group for 2016/17 was Dr Tony Lanigan.

Health and safety

All matters relating to health and safety are dealt with by the full board as a priority matter at each monthly board meeting.

Accountability

Reporting on performance

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

- An annual statement of intent (SOI)
- A long-term Asset Management Plan (AMP)
- An annual report that reports performance against the SOI and non-mandatory measures, following the Global Reporting Initiative (GRI) G4 guidelines
- An overview of current water storage levels and other information (published weekly on our website)
- Special reports and project newsletters for interested parties.

The board meets at regular intervals throughout the year. The board invites the public to attend all public sessions of board meetings; information regarding the time and venue of meetings and the agenda is posted on the company website and advertised in The New Zealand Herald in advance of each meeting.

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 two-and-a-half days.

Board participation

Board member attendance 2016/17	Board meetings	Audit and Risk Committee meetings	Capital Projects Working Group meetings	People, Remuneration and Appointments Committee meetings
Number of meetings	**12**	**5**	**4**	**6**
Margaret Devlin	8**	2 **	1 **	4 **
Nicki Crauford	12	2*	4	2*
Brendon Green	8**	1*	3 **	0*
Catherine Harland	12	5	3*	6
Julia Hoare	12	5	4*	6
Tony Lanigan	11	2*	4	1*
David Thomas	11	4	1*	5
David Clarke	3	2	0	2
Mike Allen	3	2	1	2
Peter Drummond	3	0*	1	2

** Not a member of the committee*
*** Appointed part-way through the year*
David Clarke, Mike Allen and Peter Drummond retired in October 2016

Risk management
Watercare's framework for risk identification, measurement and reporting is well developed, and meets the requirements of ISO 31000: 2009 Risk Management Principles and Guidelines. External reviews are carried out to ensure we meet and exceed good practice measures in risk management.

As part of the risk management framework, we have established a Risk Management Steering Committee, which meets four times per year to monitor emerging risk and risk-mitigating actions and strategies. The committee comprises the chief executive, senior management, and the risk and assurance manager. There are a number of risks that, given their significance, are monitored by the board, with updates presented as risk-mitigation actions are completed.

In 2016/17, some of the focus areas for enterprise risk have been:

- Cybersecurity: we have increased vigilance and deployed new tools and controls in response to the growing global cybersecurity threat environment
- Response to extreme weather events: we continue to review operational protocols and integrate learnings from March 2017's Tasman Tempest extreme storm event
- Skills and capability: we continued to work with suppliers and staff to develop and retain skilled resources in a tightening labour market to ensure service levels are maintained
- Collaboration on stormwater: we continued to work closely with Auckland Council's stormwater team regarding infrastructure planning and development.

Integrity

Corporate governance charter
The 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 former Securities Commission's nine principles of corporate governance.

Whistleblowing
We have a specific policy to receive and deal with information about any serious wrongdoing within the company, as required by the Protected Disclosures Act 2000. Watercare's policy prescribes how our staff and others are to report matters of serious misconduct, and provides contacts to whom such reporting can be made. The policy defines serious wrongdoing and applies to present and past employees, and to any individual either seconded to or working for Watercare on a contractual basis.

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

In 2016, Watercare was recognised at the RiskNZ Awards for excellence in building risk management capability.

Watercare's headworks team reviews footage of the devastation at Hays Creek after intense rainfall.

Watercare's role as Auckland's water and wastewater provider has the ability to directly and indirectly affect the quality of life of all Aucklanders and, by extension, the economic, environmental and social well-being of New Zealand as a whole. Recognising this, we engage with our stakeholders through a wide range of forums.

This section identifies Watercare's stakeholders, outlines how we interact with them and highlights what was achieved during the 2016/17 financial year.

Auckland Council as shareholder

Watercare engages by:

- Providing quarterly performance and progress reports
- Delivering quarterly briefings
- Consulting on the development of the statement of intent (SOI)
- Participating in 'scanning the horizon' joint workshops
- Giving effect to Auckland Council's major plans such as the Auckland Plan and the Long-Term Plan.

What was achieved:

- Continued to support the council's plans to accommodate growth through initiatives like the special housing areas (SHAs)
- Delivered all reports and briefings on time
- Adhered to a two-way 'no surprises' policy
- Worked closely with Auckland Council for the council group's submission on the Housing Infrastructure Fund. The fund is a central government initiative through which $1 billion is available to assist high-growth council areas to advance infrastructure projects to increase housing supply.

Auckland Council as service provider

Watercare engages by:

- Working closely with individual council units including planning, stormwater, parks and finance.

What was achieved:

- Continued to work closely with Auckland Council on 'Consenting Made Easy', an initiative that focuses on streamlining and improving the consenting process for developers and customers
- Signed a protocol agreement in March 2017 with Auckland Parks that will facilitate consistency in the investigations, planning and consenting activities undertaken by Watercare in parks and reserves
- Continued to work on council's co-sourcing procurement project to reduce servicing costs
- Formed a steering group with representation from Auckland Council to commence work on developing integrated strategies for the provision of wastewater and stormwater services in central Auckland.

Local residents and community groups that neighbour our worksites

Watercare engages by:

- Using a variety of channels to ensure there are no surprises regarding potentially disruptive works. Information is communicated via various channels, including: flyers, newsletters, door-to-door communication, advertisements, signage, radio broadcasts, local resident and business association information meetings, community open days, and direct mail
- Providing opportunities for the community to input to decision-making during the planning of new infrastructure with a view to minimising delays in statutory approval processes under the Resource Management Act.

What was achieved:

- Worked with schools along the Hunua 4 Watermain route to enable the use of the project as a teaching aid
- Shared information and updates on projects under construction with impacted communities, including Wynyard Quarter, Franklin Road, Fred Thomas Drive, Mt Hobson and Glen Eden
- Engaged with the Titirangi, Waima and Oratia communities on the short-listed site options for the replacement of the Huia Water Treatment Plant.

Local boards

Watercare engages by:

- Building enduring relationships with Local Board chairs and representatives to ensure multiple community objectives and good open-space outcomes can be met
- Working with Auckland Parks and Local Boards in their capacity as parks' landowners to obtain landowner approval for Watercare-related infrastructure
- Sharing information on Watercare-related matters ahead of infrastructure projects so there are no surprises.

What was achieved:

- Local boards were kept informed on the water supply situation and Auckland's daily water use throughout the Tasman Tempest weather event
- Continued to work with Local Boards on major project planning for the Huia Water Treatment Plant replacement, the North Harbour No. 2 Watermain and the Northern and Central Interceptor projects. On the Central Interceptor project, Watercare's design engineers found an effective alternative for a ventilation shaft which would otherwise have been built on Kiwi Esplanade, Māngere
- Continued engagement with Local Boards and parks staff in keeping with the agreed Standard Operating Procedure
- Engaged with interested Local Boards on the Network Discharge Consent to improve understanding of how Watercare responds to related issues. Newsletters for Te Atatu, Glen Innes and Mellons Bay communities were distributed in response to local wastewater issues. Local Board members helped to reinforce the key messages and shared the information via their community networks
- Unveiled the new 'Magma' mural on our Khyber Pass Reservoirs. The mural was the result of collaboration between the local business association, Watercare and the Waitematā Local Board.

Wider public

Watercare engages by:

- Providing a free education programme to schools across Auckland to increase awareness about water and wastewater
- Holding open days at treatment plants to educate visitors on how we provide safe and reliable water and wastewater services
- Supporting the Watercare Harbour Clean-Up Trust and Round the Bays fun-run
- Promoting our Be Waterwise programme at public events
- Holding Watercare board meetings open to the public and inviting comment on the SOI measures annually
- Publishing official information in accordance with our statutory obligations.

What was achieved:

- Responded to 40 requests for information made under the Local Government Official Information and Meetings Act (1987); average response time was two-and-a-half days
- A total of 8,975 students from 38 schools participated in 359 water lessons as part of our education programme
- A total of 5.7 million pieces of litter was removed from the harbours around Auckland through the work of the Watercare Harbour Clean-Up Trust this year
- Partnered with EcoMatters Environment Trust to promote waterwise behaviours and tips to Auckland residents at public shows
- Held three open days at treatment plants to educate hundreds of visitors on how we provide safe and reliable water and wastewater services.

Regulators

Watercare engages by:

- Contributing and responding to the development of relevant statutory and regulatory changes affecting the water industry.

What was achieved:

- Continued to work with Auckland Council to help resolve appeals to the Auckland Plan, and provided advice during the development and implementation of various projects, plans and strategies
- Lodged and submitted resource consent applications relating to the provision of water supply and wastewater services
- Lodged submissions and advised central government on public policy matters in relation to using land for housing, better urban planning, and proposed National Policy Statements.

Staff

Watercare engages by:

- Surveying its employees
- Conducting regular performance reviews
- Providing opportunities for training and development
- Working with staff to ensure a safe and healthy workplace is maintained
- Providing opportunities for staff to hear from our management team at half-yearly roadshows, and at other leadership and team forums.

What was achieved:

- Rolled out AskYourTeam, a comprehensive survey tool for staff to offer feedback on business performance, leadership and engagement. This will enable us to identify specific focus areas for improvement
- Introduced E3, a new performance review system that will facilitate better performance conversations between managers and their teams and enable more frequent feedback
- Introduced Your Wellbeing, a programme for our staff addressing work-life balance, financial well-being and health through seminars and workshops
- Continued to provide a variety of health and safety training and related resources such as the H&S toolkit
- Held executive roadshows across all sites to celebrate achievements and inform staff of upcoming projects.

Customers

Watercare engages by:

- Making information available through the company website, direct mail, newsletters and the contact centre
- Consulting with customers on topics that affect them to ensure their needs are understood and considered
- Holding forums for developers to inform them of our plans for infrastructure development
- Analysing feedback from our Voice of Customer (VoC) programme and looking at what we can do better or differently to reduce issues and complaints
- Collecting feedback through regular customer experience surveys
- Conducting annual customer focus groups on specific issues.

What was achieved:

- Ensured that customers were aware of the extreme weather event in March and its impact on Auckland's water supply
- Used a range of communication channels to call for region-wide water savings and kept customers and the community informed of the water supply situation daily
- Successfully completed the transition of all commercial customers to the new non-domestic tariffs
- Extended the VoC programme to all areas of customer and community interactions, such as the opportunity to provide feedback on ongoing infrastructure projects
- Redesigned our fault management process to improve responsiveness and efficiency (refer to details on page 38)
- Made substantial progress on the design of our website which is scheduled to be launched by the end of 2017. Our new website will offer improved self-service options and simpler navigation for customers
- Implemented a self-certification programme for consultants and contractors engaged in development. This enables them to self-certify their work, resulting in cost and time-savings on projects
- Introduced an option to enable our customers to pay their bills through mobile via the Pushpay app.

Tangata whenua (Māori)

Watercare engages by:

- Promoting and supporting mana whenua relationships through bi-monthly meetings with the Managers Group (water sector)
- Supporting and advancing matters of mutual interest to mana whenua and us
- Developing, working and maintaining individual relationships with mana whenua affected by our operations and initiatives
- Increasing the understanding and use of Māori values and cultural impact throughout our organisation.

What was achieved:

- The Mana Whenua Kaitiaki Forum (MWKF) continued to fulfil the role and objectives identified in the initial establishment agreement with us
- Co-ordinated the Forum's regional input to the development of water and wastewater network strategies, our infrastructure projects and resource consents
- Facilitated co-ordination between the work of mana whenua, Watercare and Auckland Council Healthy Waters to promote integrated decision-making on water issues
- Promoted alignment of our project processes and mana whenua involvement by raising their awareness of our strategic plans and operations
- Worked to develop closer individual relationships with mana whenua entities including the signing of a relationship agreement
- Consulted with affected mana whenua on consents and operational issues and facilitated direct on-site resolution of matters by our front-line staff
- Explored commercial opportunities and possible collaboration between us and mana whenua
- The Watercare waiata tautoko group (Ngā Korimako – the Bellbirds) continued to participate at formal engagements/hui/site blessings to support us in our work with iwi
- Continued to provide a programme of Māori cultural training for our staff
- Awarded both the Mark Ford Ngā Tapuwae Scholarship for Māori students and the Mark Ford General Scholarship to Māori scholars.

Environmental groups

Watercare engages by:

- Meeting with the Environmental Advisory Group (EAG) members on a quarterly basis (refer to page 24) and hosting a number of site visits to various water and wastewater treatment plants within the Auckland region.

What was achieved:

- Held quarterly meetings with the renewed EAG – six new members joined the group in late 2016 – to inform them of the latest regional and national policy and infrastructure developments, and to seek their input and advice.

Suppliers and contractors

Watercare engages by:

- Managing supplier relationships through the business units and the procurement team.

What was achieved:

- Held supplier briefings and published our capital forward works programme to provide greater visibility to the marketplace on our forthcoming projects
- Engaged with and informed the construction industry of Watercare's forward works programme.

Infrastructure providers

Watercare engages by:

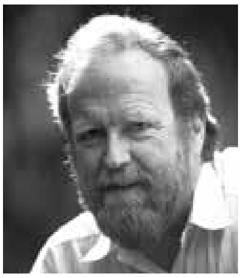
- Contributing to the update of the New Zealand Industry Standard Form of Contract for the engagement of professional services and the Conditions of Contract for Consultancy Services (CCCS)
- Developing deeper relationships with Civil Contractors New Zealand and the Association of Consulting Engineers New Zealand
- Developing guidelines to carry out Safety In Design (SID) reviews for best-practice delivery of projects
- Engaging with developers, contractors and the industry annually to inform them of upcoming initiatives, changes to processes and our forward works programme
- Participating in the Auckland Infrastructure and Procurement Group forums and working groups
- Continuing to work closely at technical and managerial levels with Auckland Transport (AT), the Auckland Motorway Alliance, New Zealand Transport Authority (NZTA) and other infrastructure providers to plan and deliver complex infrastructure solutions in the road and motorway corridors
- Co-ordinating planned major works with AT teams to ensure 'best for Auckland' outcomes.

What was achieved:

- Developed and launched the Engineering Standards Framework and a compliance framework for consultants, contractors and developers to ensure a high quality of work is undertaken on Auckland's water and wastewater infrastructure
- Worked with AT and NZTA to agree a tunnelled solution for the final section of the Hunua 4 Watermain along Manukau Road and the motorway, minimising disruption to commuters and achieving cost savings (refer to details on page 50)
- Worked in collaboration with the wider council group and other utilities to plan and implement a range of upgrades to Franklin Road: Auckland Council (for stormwater separation); AT (new carriageway surface, footpath, curb, channels, car park, street lights and cycleways); and Vector (undergrounding of power supply, new street lights)
- Liaised with AT and Waikato District Council for the trunk sewer upgrades along Buckland Road and Parker Lane in Pukekohe
- Negotiated with NZTA resulting in agreements for entrusted works under motorways and bridges on projects such as North Harbour No.2 Watermain and the Albany Pinehill Watermain
- Negotiated an entrusted works agreement with Panuku Development Auckland and AT for the construction of a new pump station at Wynyard Quarter.

Operations controller Glenys Rule explains to a visitor how bug-eating bacteria treat wastewater, during an open day at the Rosedale Wastewater Treatment Plant.

Environmental Advisory Group



26 June 2017

The Environmental Advisory Group (EAG) is an independent group made up of individuals with interest and expertise in water and/or wastewater-related topics. They have been brought together by Watercare to advise, support and challenge its approach to sustainability generally and environmental matters in particular. The EAG helps Watercare to anticipate emerging issues, express community concerns, inform its strategy development and urge it to exercise environmental leadership within the water industry.

This 2016/17 financial year has seen significant changes to the EAG's role, membership and quarterly meetings. The role of the group has changed to be strategic, future-focused and proactive, with its input now being sought at an earlier stage of programme development so that environmental improvements can more readily be achieved. The group will develop an annual work programme and present a yearly paper to the CEO highlighting environmental matters being considered and how Watercare could address them. More resourcing has been made available to the group than in previous years too.

Three previous long-term EAG members stood down in late 2016, and are sincerely thanked for their many years of invaluable contribution. Six new members joined at the November 2016 EAG meeting and were welcomed at the March 2017 meeting by Watercare's CEO, Raveen Jaduram, who gave the group an overview of Watercare's operations and current and future challenges and opportunities.

Topics covered at meetings included:

- The effects of climate change on Watercare's networks
- Response to, and planning for, intense weather events and other potential risk factors to the security, quantity and quality of water supplies
- Stormwater and overflows in the combined network
- Watercare's Network Discharge Consent
- Wastewater upgrades and consenting at Pukekohe and other smaller plants
- Huia Water Treatment Plant upgrade options
- The interface between Watercare's role and urban planning and water issues
- Manukau Harbour Centre of Excellence research programme
- Development of new terms of reference.

Two site visits occurred during this year – to the Māngere Wastewater Treatment Plant and associated biosolids disposal site on Puketutu Island, and also to the Huia Water Treatment Plant and Lower Nihotupu Dam.

We look forward to continuing to work with Watercare in the year ahead.

Paul Walbran
Chairman
Environmental Advisory Group

Members

Paul Walbran
Water quality, harbour health, heritage

Betsy Kettle
Zero waste, Water-sensitive urban design (WSUD)

Chris Hatton
Environmental management, restoration and conservation, business sustainability, water quality, climate change

Daniel Hikuroa
Mātauranga, mauri, waterscapes, water futures

Elizabeth Walker
Wetlands, water, community infrastructure, Aotearoa plants

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

Judy Bischoff
Permaculture, water, energy efficiency, waste

Madeleine Wright
Environmental litigation, national policy development

EAG members who retired in 2016

Ken Catt
Carol McSweeney
Bob Tait

21 July 2017

Tupu te toi, whanake te toi; he toi ora te toi; he toi i ahu mai i tua whakarere… tapatahi tonu ana te hono ki te wāhi ngaro i ngā wā o nehe ki ērā o nanahi mō ake tonu atu. Me mihi ki te whenua me tangi mo te hunga kua okioki. Rātou ki a rātou, tātou kua mahue ki muri nei, tēnā rawa atu koutou.

The 2016/17 year has seen the activities of the Mana Whenua Kaitiaki Forum (the Kaitiaki Managers' Group) as an extension of mātauranga values from a mana whenua perspective to the values expressed within Watercare's mission statement. As such, this contribution aligns with the integration of committed effort within a relationship-based partnership.

Proactive in its dialogue with Watercare, the Kaitiaki Managers' Group has raised issues for discussion, introduced new ideas, as well as reported on developments from within the realm of kaitiakitanga.

This past year has seen the Kaitiaki Managers' Group engaged in dialogue on multiple projects. These engagements have considered Section 11 of Hunua 4, Central Interceptor, the Improvement Works Prioritisation Model in the Wastewater Network Discharge Consent, the hydrodynamic model being developed for the Manukau Harbour, along with work that Watercare is undertaking in conjunction with Auckland Council's Healthy Waters unit.

In addition, Watercare has presented to the Kaitiaki Managers' Group on the Annual Report and Asset Management Plan, Kaitiaki Engagements Proposed Framework Module, update on Wastewater Treatment Technologies Part 1 [Māngere Wastewater Plant], as well as various third-party presentations related to the Kaitiaki Managers Group's work.

The expansion of the Kaitiaki Managers' Group this year to a bi-monthly format reflects the intention of both parties to open the way for wider consideration of other perspectives and ideas that promote the Kaitiaki outcomes advocated as beneficial to the region.

Watercare's business is intrinsically linked to the natural environment, and the company is conscious of its responsibility to be a good neighbour within communities where it operates. Working alongside Watercare, the Kaitiaki Managers' Group acknowledges Watercare's commitment to excellence, its strategic as well as collegial approach, and its willingness to work with other parties within and outside the council environment. The Kaitiaki Managers' Group seeks to align with Watercare in the perpetual quest to manifest the adage that:

Kaitiaki, kaitiakitanga mauri – pupuri i te mauri kaitiaki. Mena ka tau te mauri i te taiao ka tau te oranga o te ira tangata; … if the life force of the environment is in balance, the well-being of mankind is assured.

Kāti ki konei.

Tame Te Rangi
Chair
Mana Whenua Kaitiaki Forum

Members

Makaurau Marae Māori Trust:
Kowhai Olsen

Ngā Maunga Whakahii o Kaipara Trust:
Tracy Davis

Ngāti Manuhiri Settlement Trust:
Mook Hohneck

Ngāti Maru Rānanga Trust:
Wati Ngamane

Ngāti Rehua – Ngāti Wai ki Aotea Trust:
Nicola MacDonald

Ngāti Tamaoho Trust:
Hero Potini

Ngāti Paoa Iwi Trust:
Dean Ogilvie

Ngāti Tamaterā Settlement Trust:
Antony Royal

Ngāti Wai Trust Board:
Haydn Edmonds

Ngāti Whanaunga Incorporated:
Mike Baker

Ngāti Whātua Ōrākei Trust:
Moana Waa

Te Ākitai Waiohua Iwi Authority:
Karen Wilson

Te Ara Rangatū o Te Iwi o Ngāti Te Ata Waiohua:
Riki Minhinnick

Te Kawerau Iwi Settlement Trust:
Te Warena Taua

Te Patukirikiri Incorporated:
David Williams

Te Rūnanga o Ngāti Whātua:
Tame Te Rangi

Te Uri o Hau Settlement Trust:
Gabriel Thompson

Te Whakakitenga o Waikato Incorporated:
Hemi Rau


bewaterwise
watercare
services limited

Strategic priority one

Customer focus

Watercare provides water and wastewater services to 1.4 million Aucklanders and the many visitors to the region from around New Zealand and overseas. To fulfil our vision of providing exceptional service, we strive to understand our customers and stakeholders and engage with them in a meaningful way.

Outcomes for this strategic priority:

- We understand our customer needs and deliver value
- We consistently provide exceptional products and service
- We are trusted by our customers who understand our purpose and value our service.

Commercial manager Ilze Gotelli with Allied Concrete's plant supervisor Shaun Clark. Allied Concrete has five production sites throughout Auckland and the company significantly reduced its reticulated water usage during the Tasman Tempest in March 2017 by using stormwater to make concrete.

Water quality scientist Hayden Jackson compares beakers of silted raw water and treated water samples at the Ardmore Water Treatment Plant during the Tasman Tempest.

Watercare at work

Despite the tempest, 'Aa'-grade water flows on

Over a sustained period in late summer 2017, cyclonic weather brought unprecedented rainfall in the catchment that supplies most of Auckland's water, washing large volumes of clay sediment into three of the water storage reservoirs in the Hunua Ranges.

The Tasman Tempest storm that hit the catchment on 7 and 8 March was a one-in-200-year event – two months' worth of rain in 12 hours.

On 8 March, significantly high turbidity readings from the Hunua dams were reported. Subsequent readings of raw water quality at Ardmore Water Treatment Plant also showed turbidity rising sharply. With the plant's filtration system increasingly affected, the decision was made to temporarily shut Ardmore down.

Although the Ardmore plant was gradually being brought back online, it was clear on the morning of 9 March that unless the production capacity at Ardmore could be restored, Auckland's water demand might exceed Watercare's capacity to supply.

Watercare's incident response plan kicked in. Designated teams were briefed and stakeholder and customer notifications got under way.

We contacted the Medical Officer of Health, Auckland Regional Public Health Service, and water quality expert Dr Colin Fricker. If demand for water could not be managed, Watercare would be required to issue a 'boil water' notice to mitigate public health risks.

Over the next few hours and then days, our operations staff worked tirelessly on engineering solutions to make up for the shortfall in water production. They stabilised the plant, refilled the depleted reservoirs that supply Auckland, managed production out of Ardmore and Waikato water treatment plants, and maximised production at the Huia, Onehunga and Waitakere plants.

In order to assist in managing demand, Watercare's communications team launched a public campaign aimed at reducing consumption. Aucklanders listened and began reducing their water usage every day. Publicity and advertising encouraged voluntary water savings which would help relieve pressure on the system.

The combined strategy to increase production and reduce demand succeeded. Production held, and Aucklanders heeded the call to reduce their total water demand by 50 million litres a day in the space of a week.

A 'boil water' notice was not needed; the threat to Auckland's water supply was averted.

Water supply manager Priyan Perera says, "While we have done a lot of work on contingency management and preparing for extreme events, the effect of this storm was immense.

"Because we have an integrated supply network, we are not reliant on a single water treatment plant. Our metropolitan network has five treatment plants – including our Waikato and Huia plants – and we ran these at full capacity in order to meet our customers' needs. We adapted the processes at Ardmore to deal with increased levels of silt and managed our transmission system's reservoir storage to ensure that we did not disrupt the service to our customers.

"Thanks to all the upgrades that Watercare has undertaken in the past 15 years to strengthen our water supply infrastructure, we were able to keep the water flowing under the most challenging conditions we have faced in the past two decades."

We could not have done it without support from the people of Auckland, who came together and did their part to help us to carry out our mission despite the tempest.

Outcome one

We understand our customer needs and deliver value

We are seeking to engage in meaningful dialogue with our customers and to understand their needs and issues.

We know the cost of our services is important to our customers. Therefore, we are clear and transparent about our spending and we continue to focus on our obligation to be a minimum-cost service provider.

Percentage of customers surveyed satisfied with Watercare's delivery of water and wastewater services

SOI target 2016/17: ≥ 80%
Achieved: 84%
Previous year: 84%

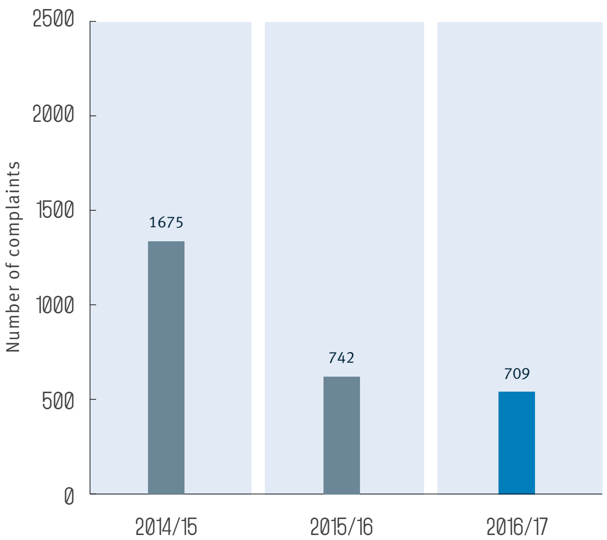
2017 2016 2015

Watercare met this target. For 2016/17, an automated feedback programme (Voice of the Customer – VoC) was used to survey customers after they interacted with us.

In previous years, we provided an average of the respondents' satisfaction rating, whereas, this year, we consider customers as being satisfied if they rate their overall experience between 7 and 10 on a scale of 0 to 10 (0 being poor and 10 being excellent).

This year, 4,625 customers rated us between 7 and 10 out of 5,530 respondents, which results in 84%. We changed the way we measure customer satisfaction because VoC enables us to survey more customers on a continuous basis and use their feedback to implement improvements.

Number of complaints



Percentage of complaints 'resolved and closed' within 10 working days

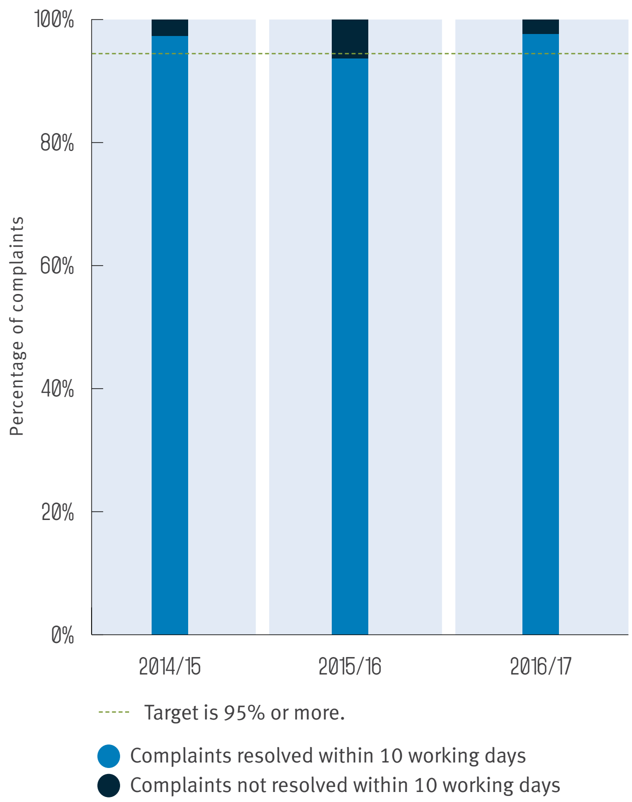
SOI target 2016/17: ≥ 95%
Achieved: 98%
Previous year: 94%

2017 2016 2015

Watercare met this target. In 2016/17, 709 complaints were received and of these complaints, 98% (695) were resolved within the stipulated 10-day period, against a target of 95% or more.

The overall number of complaints decreased by 4% this year compared to the result of 742 in 2015/16. For the purpose of this measure, a 'complaint' relates to transactional complaints such as price increases, account maintenance, employee behaviour, payments and refunds. It excludes calls received about drinking water quality and wastewater issues as these have been reported separately.

Complaints resolved and closed within 10 working days



Water complaints

SOI target 2016/17: ≤ 10
Achieved: 6
Previous year: 6

2017 2016

Performance measure: 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 expressed per 1,000 connections to the local authority's networked reticulation system.

Watercare met this target. It relates to the volume of calls we received regarding water quality and supply issues for the year ended 30 June 2017. The number of complaints received per 1,000 connections was six, which is well within the target of 10 or fewer.

Wastewater complaints

SOI target 2016/17: ≤ 50
Achieved: 24
Previous year: 21

2017 2016

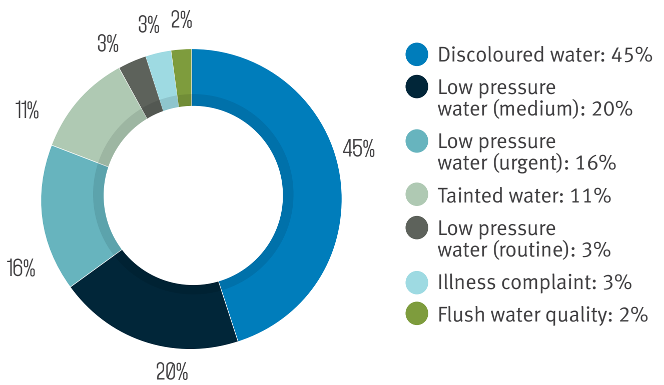
The total number of complaints received by Watercare about any of the following:

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

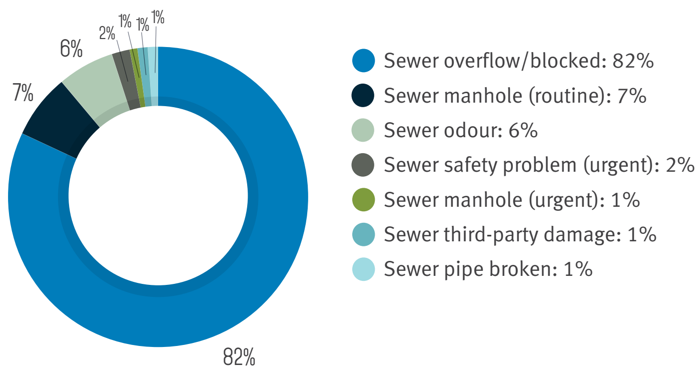
Watercare's response to issues with its sewerage system expressed per 1,000 connections to the Watercare sewerage system.

Watercare met this target. It relates to the volume of calls we received regarding wastewater odours, overflows, broken pipes and other network issues for the year ended 30 June 2017. The number of complaints received per 1,000 connections was 24, which is well within the target of 50 or fewer. The overall increase in the number of wastewater complaints in 2016/17 (compared to 2015/16) can be attributed to the extreme weather events in March.

Type of water complaints received



Type of wastewater complaints received



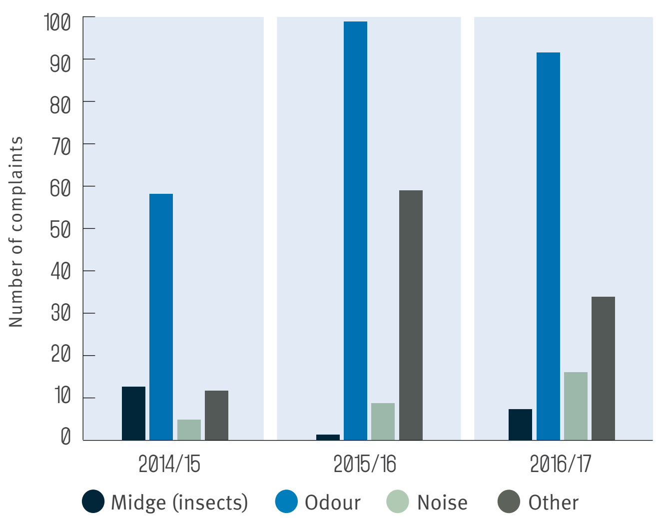
Midge, odour and noise management at operational sites

Watercare's mission is to deliver safe, reliable and efficient water and wastewater services to the people of Auckland. We endeavour to do this as much as practicable, in harmony with the community.

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

Midges are small flies that thrive in water bodies in still and mild conditions. Watercare continued its midge control programme this year. 'Other' includes complaints relating to maintenance of our structures such as rubbish in a car park, graffiti, fencing, access etc.

Midge, odour and noise complaints



Grade of service: Calls answered within 20 seconds

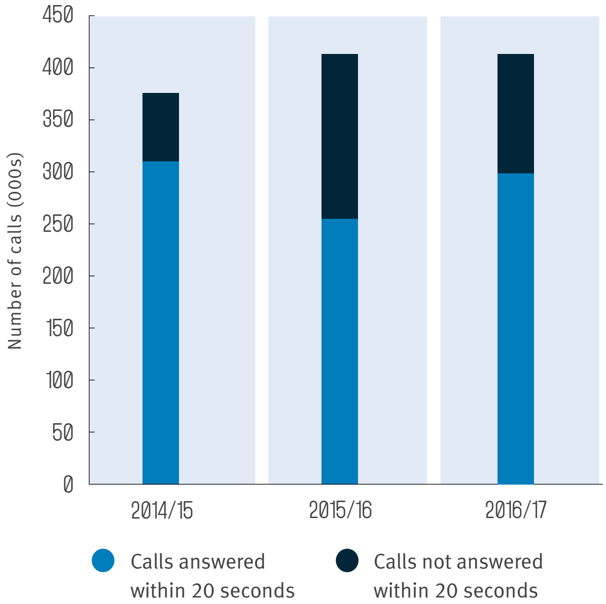
Grade of service is a call centre industry performance measure, aimed at ensuring calls are answered within 20 seconds.

In 2016/17, 73.1% of calls were answered within 20 seconds. This is a significant improvement compared to the 2015/16 result of 62.8%.

Our focus is to ensure that customer queries are answered in one phone call and occasionally this may necessitate spending more time on the phone with a customer to resolve their issue, therefore impacting our performance in this area.

It is worth noting that the number of complaints continued to reduce from 742 in 2015/16 to 709 in 2016/17.

Grade of service – calls answered within 20 seconds



Percentage of household expenditure on water supply services relative to the average household income

SOI target 2016/17: ≤ 1.5%
Achieved: 0.9%
Previous year: 0.9%

Watercare met this target. The average monthly household water and wastewater bill from us was $75.33 for the period 1 July 2016 to 30 June 2017 inclusive. Statistics New Zealand's current (2016/17) average monthly household income in Auckland is $8,764. This means that the average household water bill represents 0.9% of the average household income. This is well within the stipulated target to keep the average monthly household water bill below or equal to 1.5% of the average monthly household income.

Household expenditure on water supply services

Account area	Cost of water and wastewater services per household per month for 2014/15	Percentage of average weekly income earnings for 2014/15	Cost of water and wastewater services per household per month for 2015/16	Percentage of average weekly income earnings for 2015/16	Cost of water and wastewater services per household per month for 2016/17	Percentage of average weekly income earnings for 2016/17
Franklin	$56.80	0.71%	$59.03	0.70%	$61.08	0.70%
Manukau	$74.19	0.93%	$80.50	0.96%	$83.70	0.95%
Auckland City	$76.59	0.96%	$77.75	0.93%	$81.00	0.92%
North Shore	$66.07	0.83%	$68.89	0.82%	$71.43	0.82%
Rodney	$53.19	0.67%	$55.54	0.66%	$58.30	0.67%
Waitakere	$59.89	0.75%	$62.71	0.75%	$65.18	0.74%
Average	$69.24	0.87%	$72.47	0.86%	$75.33	0.86%

Outcome two

We consistently provide exceptional products and service

Our customers expect safe and reliable water and wastewater services from us. When issues arise, we seek to respond in a proactive, timely and transparent manner. Our focus is on maintaining quality and minimising service disruptions.

The extent to which Watercare's drinking water supply complies with part four of the drinking water standards

Bacterial Compliance Criteria

SOI target 2016/17: 100%
Achieved: 100%
Previous year: 100%

2017 2016

Watercare met this target. Water treated at all of our graded treatment plants met the Bacterial Compliance Criteria set by the Drinking Water Standards for New Zealand (DWSNZ). Compliance with DWSNZ is verified through a combination of continuous online analysers at various stages of the water treatment process and an extensive sampling and analysis programme by Watercare Laboratory Services. The results from this programme are independently assessed by a Ministry of Health-appointed drinking water assessor.

The extent to which Watercare's drinking water supply complies with part five of the drinking water standards

Protozoal Compliance Criteria

SOI target 2016/17: 100%
Achieved: 100%
Previous year: 100%

2017 2016

Watercare met this target. Water treated at all of our graded treatment plants met the Protozoal Compliance Criteria set by the Drinking Water Standards for New Zealand (DWSNZ). Compliance with DWSNZ is verified through a combination of continuous online analysers at various stages of the water treatment process and an extensive sampling and analysis programme by Watercare Laboratory Services. The results from this programme are independently assessed by a Ministry of Health-appointed drinking water assessor.

Metropolitan water treatment plants achieving grade 'A'

Water treated at all of the metropolitan water treatment plants fully complied with the DWSNZ specified by the Ministry of Health.

All metropolitan water treatment plants were graded and each maintained an 'A' grade.

Metropolitan water supply reticulation achieving grade 'a'

All metropolitan distribution networks were graded and each maintained an 'a' grade.

Non-metropolitan water treatment plants achieving grade 'A'

Water treated at all of the non-metropolitan water treatment plants fully complied with the DWSNZ specified by the Ministry of Health. All 10 non-metropolitan water treatment plants achieved an 'A' grade.

Non-metropolitan water supply reticulation achieving grade 'a'

All 11 non-metropolitan grading zones achieved an 'a' grade.

Common note for all measures on this page:
The reported result is based on the grading achieved in November 2016, for the year beginning 1 July 2015 and ending 30 June 2016. The 2016/17 result will be available after the grading in November 2017 for the year beginning 1 July 2016 and ending 30 June 2017.

Attendance for issues relating to the water network

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 2016/17: ≤ 60 mins
Achieved: 41 mins
Previous year: 44 mins

2017 2016

Watercare met this target. The median response time for our maintenance crew to attend to urgent issues was 41 minutes, which is well within the target of 60 minutes or less.

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 2016/17: ≤ 3 days
Achieved: 1 day
Previous year: 3 days

2017 2016

Watercare met this target. The median response time for our maintenance crew to attend to non-urgent water issues was one day, which met the target of three days or fewer.

Resolution for issues relating to the water network

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 2016/17: ≤ 5 hours
Achieved: 3 hours
Previous year: 3 hours

2017 2016

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

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 2016/17: ≤ 6 days
Achieved: 2 days
Previous year: 4 days

2017 2016

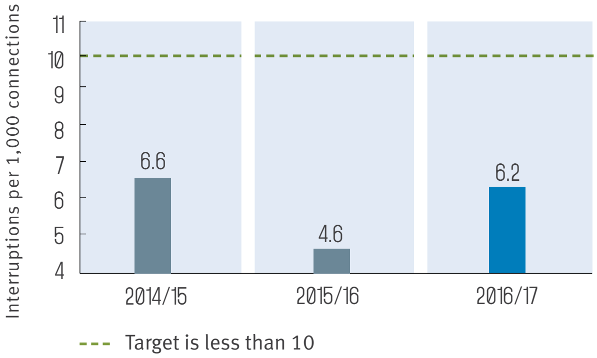
Watercare met this target. The median response time for our maintenance crew to resolve non-urgent issues was two days, which is well within the target of six days or fewer.

Number of unplanned water interruptions per 1,000 connections

The Auckland region covers a total of 429,000 water supply connections. 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 1,000 connections during the year. The result for the 2016/17 year was six for the Auckland region.

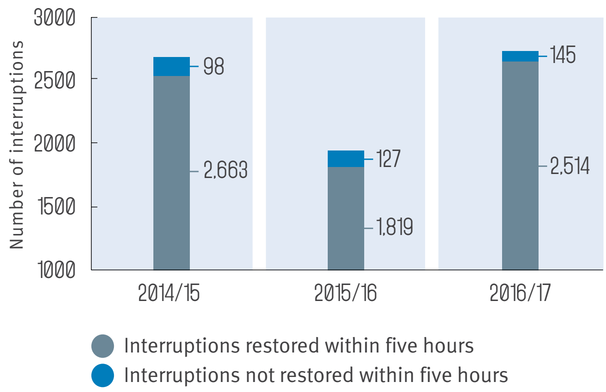
Unplanned water interruptions



Unplanned water interruptions restored within five hours

In order to minimise the impact on our customers, Watercare aims to ensure that at least 95% of all unplanned water interruptions are restored within five hours. The result for the year was 94.5% for the Auckland region.

Unplanned water interruptions restored within five hours



Responding to issues relating to the wastewater network

Attendance at wastewater 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 2016/17: ≤ 60 mins
Achieved: 50 mins
Previous year: 46 mins

2017 2016

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

Attendance at wastewater 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 2016/17: ≤ 5 hours
Achieved: 3 hours
Previous year: 3 hours

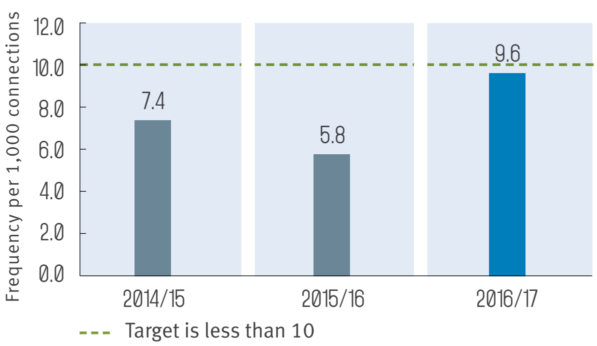
2017 2016

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

Number of sewer bursts and chokes per 1,000 properties

The number of unplanned wastewater network interruptions as a result of bursts and chokes is a measure of the integrity of the system. We aim to keep them fewer than 10 for every 1,000 properties. The result for the year was 9.6 for the Auckland region.

Number of sewer burst and chokes per 1,000 properties



The number of dry-weather overflows from Watercare's wastewater system, expressed per 1,000 connections to that wastewater system

SOI target 2016/17: ≤ 10
Achieved: 0.4
Previous year: 0.5

2017 2016

Watercare met this target. The number of wastewater overflows from our retail network during dry weather is a measure of the network's capability to meet current demand. The result for the year was 0.4 dry-weather overflows per 1,000 connections, which is well under the target of 10 or fewer.

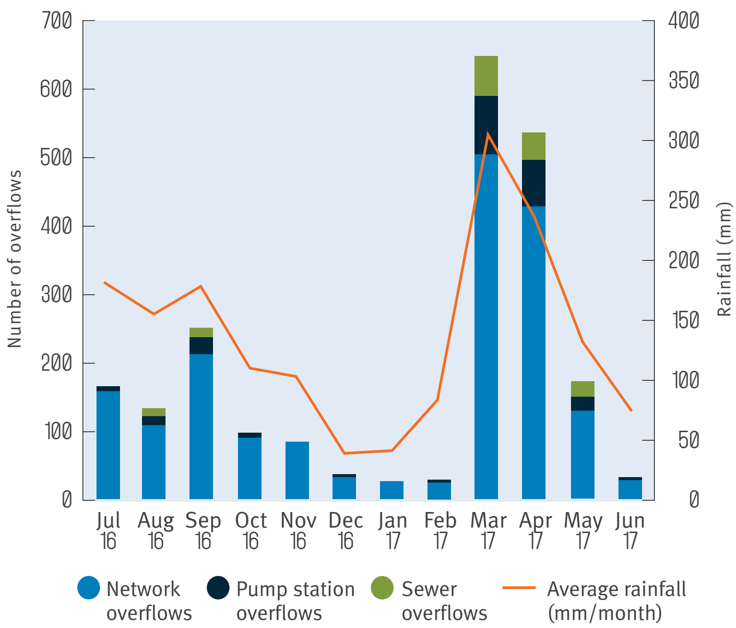
Average number of wet-weather overflows per discharge location

SOI target 2016/17: ≤ 2
Not achieved: 3.4
Previous year: 0.7

2017 2016

Watercare did not meet this target. The average number of wet-weather overflows for the transmission network per discharge location was 3.4, which is above the target of two or fewer overflows. It is also above the 2015/16 result of 0.7 overflows. The significant increase of overflows for the 2016/17 year was due to extreme wet weather, especially during the months of March and April (Tasman Tempest). The wet-weather overflow result is affected by the frequency, intensity and duration of rain events. As these are natural occurrences, it is not feasible to meet the target consistently.

A comparison of wet-weather overflows and rainfall per month



Outcome three

We are trusted by our customers who understand our purpose and value our service

We provide lifeline services in Auckland. Without safe and reliable water and wastewater services, the region's social, economic and environmental health and well-being would suffer.

Given the critical nature of our business, we believe it is important for our customers to understand our purpose and value our services. Therefore, we seek to engage with our communities on an ongoing basis by investing in community programmes, communicating with our customers, and educating people on using water wisely.

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 to participants at the annual Round the Bays fun-run. Our company sponsors the Watercare Harbour Clean-Up Trust, which works to remove litter from Auckland's harbours and inner Gulf islands, and promotes the concept of clean, clear, rubbish-free waterways. We also sponsor Trees for Survival and Waikato RiverCare, two conservation programmes in the Hunua 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.

Watercare education programme

This year, Watercare's free education programme was delivered at 38 schools, with a total participation of 8,975 students for 359 lessons. Fifteen new schools participated in the programme this year with the other requests coming from schools that had participated previously. Apart from the above, we have distributed the programme's teaching materials and resources to 17 schools, as well as to one Girl Guide, two Brownie and three Scout groups to assist them in their water studies. There are plans to develop video lessons to facilitate wider distribution and participation from schools.

Mark Ford Ngā Tapuwae Scholarship

Watercare has established two engineering scholarships that acknowledge our late chief executive Mark Ford for his outstanding contribution to the industry. Students who are studying engineering at the University of Auckland are able to apply for these scholarships, which are valued at $5,000 each. One of the scholarships is dedicated to students of Māori descent. Two students received the scholarships in 2016/17.

Programme	2014/15	2015/16	2016/17
Watercare Education Programme	$13,098	$8,982	$8,448
Water Utility Consumer Assistance Trust	$110,000	$100,000	$100,000
Trees for Survival	$3,250	$3,450	$3,450
Watercare Harbour Clean-Up Trust	$250,000	$250,000	$325,000
Waikato RiverCare	–	–	$10,000
Mark Ford Ngā Tapuwae Scholarship	–	$10,000	$10,000
Total	**$376,348**	**$372,432**	**$456,898**

Strategic priority two

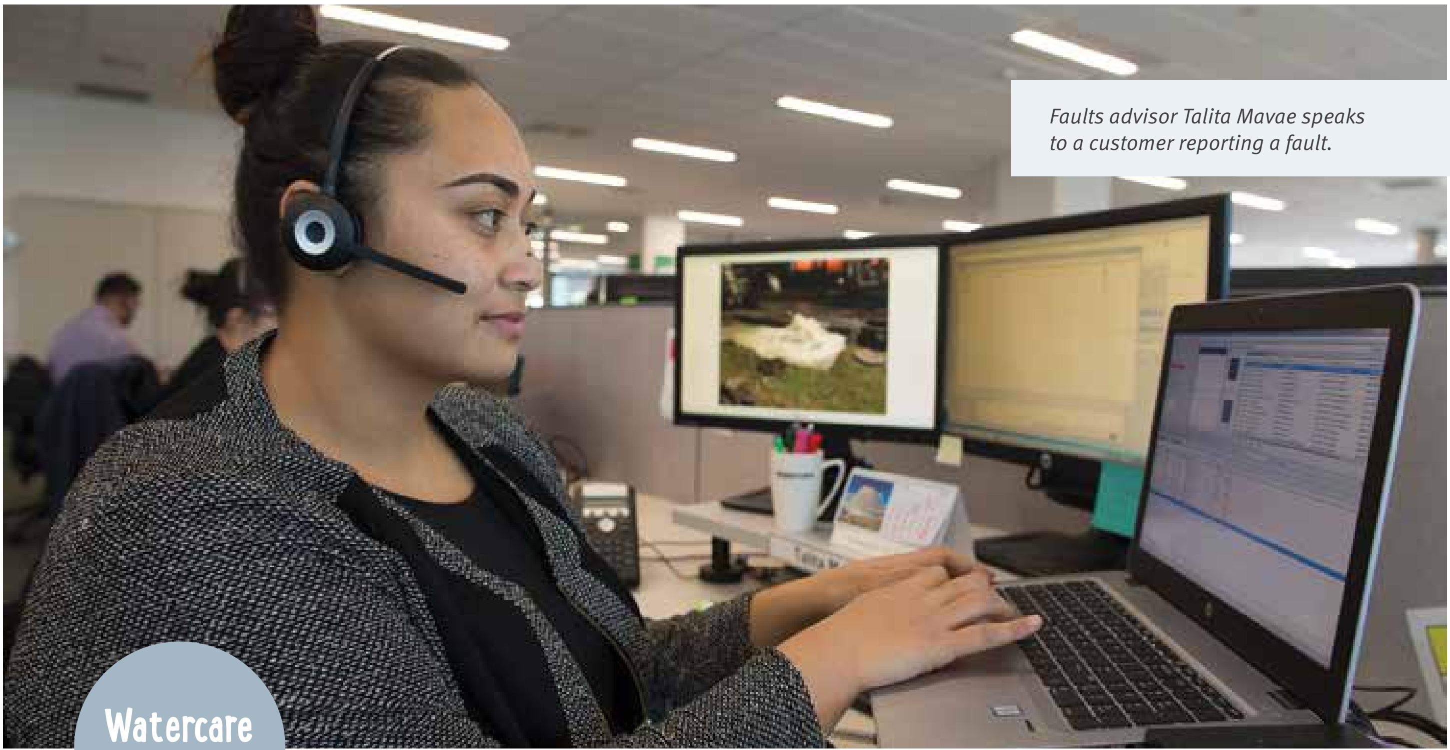
Business excellence

For Watercare, the drivers underpinning business excellence are the recruitment and retention of the right people, ensuring their health and well-being, and the implementation of smart processes and fit-for-purpose technology.

Outcomes for this strategic priority:

- We have a safe and engaged team
- We are a commercially-savvy business
- We are responsible stewards of our assets
- We continually strive for process excellence.

Watercare staff take part in the Māngere Mountain challenge as part of the Te Wiki o te Reo Māori (Māori Language Week).



Faults advisor Talita Mavae speaks to a customer reporting a fault.

Watercare at work

Improving the way we manage faults

Watercare's fault services team has changed the way they operate in an effort to improve efficiency, reduce wasted time for our maintenance crews and to improve customer satisfaction.

Following months of collaboration across the business, we have now established a new system for classifying faults reported by our customers.

Fault services manager Nisi Hakeai says the codes used to classify faults, like water leaks, have been made more flexible to reflect the varying nature and urgency of the problems.

"Previously we had only three codes – urgent (P1), medium (P2) and routine (P3). Each of these had a target response time. We found that too many jobs were being classified as P1, which meant our contractors were abandoning less urgent work to attend a job that didn't actually need to be fixed within an hour.

"Now we have six response timeframes, which include the critical (P1) jobs that need to be attended to within an hour, as well as two new urgent codes with four or eight-hour timeframes."

These codes are mainly used to defer works when it would be safer to send crew during daylight hours or when there is less risk of fatigue.

The review was a collaborative process with input from network operations, the Maintenance Services Network and our external maintenance contractors, who identified the potential benefits created by improved classification.

Focus groups were used to test customers' expectations before the changes were implemented.

"What we found is that most people don't expect us to attend a call-out within an hour, unless there's a geyser," Nisi says. "What frustrates them most is when we don't turn up within the timeframe we say we will.

"This is about getting smarter with how we prioritise jobs and finding the balance between customer satisfaction and field crew efficiency and well-being."

Wastewater overflows are still classified as a P1 with a one-hour response time, unless it's during a storm event.

The fault services advisors who take calls from our customers are asking more questions, and sometimes requesting photos, to help them prioritise the jobs accurately.

This means better information is passed onto our maintenance contractors before they attend the job, so they can turn up with the right person in terms of skills and experience, vehicle and tools. Improved triage analysis is expected to reduce the number of 'non-jobs', such as problems with stormwater or leaks on private property, which overload our field crews and waste time and resources.

"The new system has extended our talk time much more but if we can avoid causing the customer to have to call us back, that's great," Nisi says. "A good outcome is that each job is delivered on the day we say it'll be seen to."

Maintenance services manager Chris Kinley says the new triage system will deliver two key benefits to our field staff and contractors.

"We expect it will reduce the after-hours call-outs, which will help us with fatigue management and the lost time on the subsequent day shift while crew members get some rest.

"It also gives us a greater window within which to efficiently schedule crew geographically. That means crews will spend more time fixing faults and less time driving around Auckland," says Chris.

Outcome four

We have a safe and engaged team

We are committed to safeguarding the health, safety and well-being of our staff and contractors. Our focus is on developing an organisational culture where personal and process safety is everyone's responsibility.

To achieve business excellence, we need a high-performing team. This requires us to attract, retain and develop the right people. It also requires us to have a strong performance management framework and an effective approach to training and leadership development.

Staff engagement survey

This year, we introduced AskYourTeam, a new tool for gathering staff feedback on business performance. AskYourTeam is a comprehensive tool that measures key factors which influence organisational success such as people, strategy, engagement and stakeholders. The tool allows us to identify specific areas for improvement and test more frequently to determine progress against objectives. The survey identified some areas for improvement in 2017/18, including developing a supportive work culture, remuneration benchmarking against industry standards and utilising technology more effectively. Initiatives to address the above issues are now under way.

	2014/15*	2015/16*	2016/17
Survey response rate (%)	87%	90%	75%
Staff engagement score	68	69	65

** Results from the two previous years are not comparable to the 2016/17 results as the AYT survey measures other factors affecting business performance apart from staff engagement*

Investment in employees

Watercare's benefits policy provides for all permanent employees to receive the same benefits, regardless of whether they are employed on a full-time or part-time basis.

All permanent employees of Watercare are provided with life insurance equivalent to double the amount of their annualised salary, and income protection insurance which would cover 80% of their salary if they were affected by an incident or illness that left them unable to work for a period of time. We also provide discounted membership for health insurance.

Training per staff member

Our staff received an average of 23 hours of training in 2016/17, excluding time spent on employee orientation. Male employees received more training as the type of work they are involved in is largely technical and requires more tuition.

Total investment in training increased by 26% compared to 2015/16 and reflects the emphasis on developing leadership and capability within the business in 2016/17.

	2014/15	2015/16	2016/17
Average staff numbers over the year	791	869	917
Average hours of training for permanent employees	39	26	23
Men	44	30	26
Women	26	16	16
Full-time	36	26	23
Part-time	16	5	17
Casual	–	3	2
Total training spend ($)	$1,113,367	$1,061,886	$1,338,368
Ratio ($ per average staff numbers)	$1,407	$1,222	$1,460

Performance review process

Watercare conducts performance reviews annually for employees on individual employment agreements. These were conducted in August 2016 for 91% of those who were eligible, a significant increase from 76% in 2015/16. This is when there were organisational changes across the company.

We introduced a new performance review process in 2016/17 that will enable regular and timely feedback and conversations around development opportunities between managers and their teams.

Workforce employment breakdown

The number of staff increased by 6% in the 2016/17 financial year. Most of our employees work within the Auckland region. Watercare also operates laboratory testing services in Queenstown and Invercargill, where four staff 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.

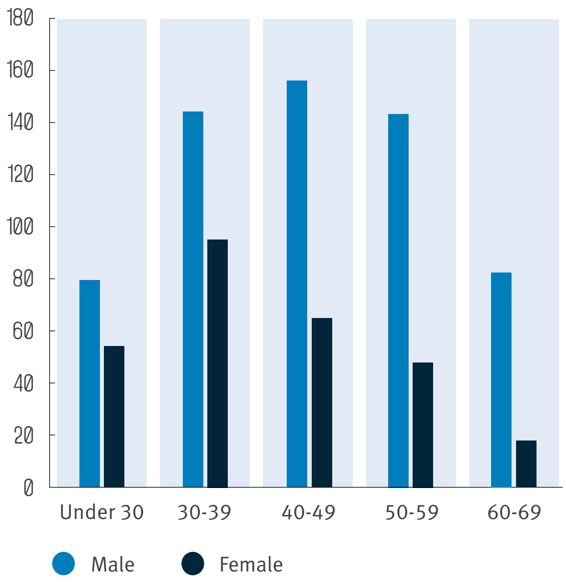
The majority of employees employed on CEAs are males who undertake operational or maintenance functions within the business.

Employees by age and gender

	Female	Male	Total
Under 30	55	79	134
30–39	96	146	242
40–49	70	158	228
50–59	56	146	202
60 or older	18	84	102
Total	295	613	908

		2014/15			2015/16			2016/17		
		Male	Female	Total	Male	Female	Total	Male	Female	Total
Permanent employees	Individual employment agreements (IEA)	396	265	661	443	265	708	475	277	752
	Collective employment agreements (CEA)	141	1	142	137	2	139	136	2	138
	Part-time headcount	3	11	14	2	12	14	2	17	19
Fixed-term employees	Fixed-term individual agreements (IEA) >1yr	7	7	14	2	11	13	5	7	12
	Fixed-term individual agreements (IEA) <1yr	8	11	19	3	6	9	7	5	12
Total fixed-term and permanent employees		**555**	**295**	**850**	**587**	**296**	**883**	**625**	**308**	**933**
Casual employees		*11*	*16*	*27*	*10*	*10*	*20*	*14*	*11*	*25*

Employee breakdown by age and gender



New hires by gender

	2014/15	2015/16	2016/17
Male	110	140	149
Female	68	65	84
Total	178	205	233

New hires by age group

	2014/15	2015/16	2016/17	Percent
Under 30	70	67	99	42%
30–39	50	62	60	26%
40–49	27	47	44	19%
50–59	23	23	25	11%
60 or older	8	6	5	2%
Total	178	205	233	

Participants at the 'Girls in Hi-Viz' career expo, Mangere Wastewater Treatment Plant.

Salary ratio: Percentage of remuneration for women as compared to men in the same job band

Salary bands enable a comparison of remuneration based on the type of job and the experience of the person with a view to achieve equality. The salary ratio is the percentage of remuneration women in a particular job band are paid compared to men in the same job band. The salary ratio has decreased this year for the executive and senior management band and the operational and support band. The management band's salary ratio stayed the same as 2015/16 and the technical band saw a slight increase.

Individual salaries are not reported, to protect confidentiality. Data does not include the chief executive, as it is the sole role in the band, nor staff employed in operational roles under CEAs who are paid on a different grading system relative to the terms of their particular employment agreement.

CEA salary bands are consistent and based on the type of job therefore, male and female staff under CEAs are remunerated at an equivalent level for the specific role being undertaken.

We plan to review our remuneration framework in 2017/18 to make sure it remains competitive in the market.

Salary ratio of female employees

	2015/16		2016/17			
	Staff ratio	Salary ratio	Male	Female	Staff ratio	Salary ratio
Executive and senior management	17%	92%	8	2	20%	90%
Management	17%	83%	76	16	17%	83%
Technical	25%	91%	330	93	22%	92%
Operational and support	43%	95%	198	185	48%	86%

Parental leave and returners

Watercare offers an additional eight weeks of paid parental leave beyond that provided as part of the government-funded parental leave allowance, and two weeks of paid parental leave for partners.

In 2016/17, 87% of employees who took parental leave returned to work, with the rest still on parental leave. The decision to return to work following the completion of their parental leave is solely up to the staff member and is dependent on their individual personal circumstances.

Parental leave

		2014/15	2015/16	2016/17
Number who commenced parental leave	Male	1	10	16
	Female	18	12	15
	Total	19	22	31
Number due to return from parental leave each year	Male	1	8	16
	Female	7	12	7
	Total	8	20	23
Number who returned from parental leave	Male	0	8	15
	Female	5	10	5
	Total	5	18	20
Percentage returning after parental leave		63%	90%	87%

Percentage of voluntary leavers relative to the number of permanent staff

SOI target 2016/17: ≤ 12%

Achieved: 12%

Previous year: 13%

2017 2016 2015

Watercare met this target. Voluntary staff turnover for 2016/17 was 12%, against a target of 12% or less. We have implemented initiatives for better recruitment and retention of staff, including:

- Participating in career weeks and expos to increase awareness of Watercare as a great place to work
- Launching an improved performance review programme
- Introducing a comprehensive survey tool for collecting staff feedback on engagement and performance of the business.

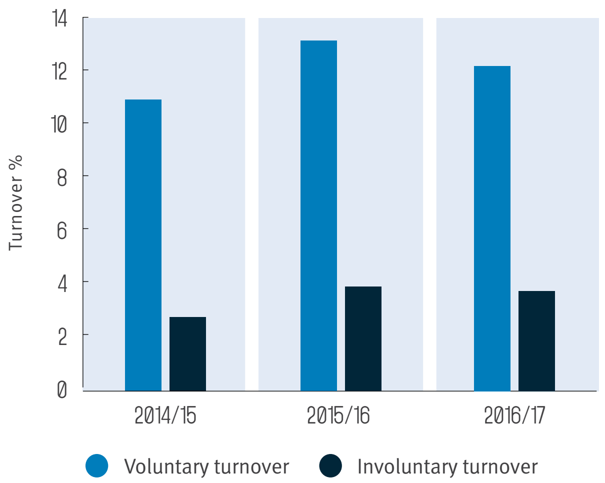
Involuntary staff turnover

Involuntary turnover includes retirements, deaths, abandonment of employment and negotiated or managed exits. In 2016/17, there were 31 instances of involuntary turnover, compared to 32 in 2015/16.

	2015/16		2016/17	
	Voluntary	Involuntary	Voluntary	Involuntary
Male	65	24	64	28
Female	43	8	45	3
Total	**12.9%**	**3.8%**	**12%**	**3.44%**

	2015/16		2016/17	
	Voluntary	Involuntary	Voluntary	Involuntary
Under 30	35	3	41	4
30–39	39	4	34	11
40–49	18	9	19	3
50–59	13	4	14	7
60 or older	3	12	1	6

Breakdown of voluntary and involuntary turnover



Absenteeism due to illness

Watercare recorded an unplanned absenteeism rate of 2.29%, which is a marginal increase over last year's result of 2.18%. Overall sick-leave utilisation remains at approximately 5.81 days per employee per annum. There were no occupational diseases reported in 2016/17. 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 Programme services are available to all staff, either through company- or self-referral.

Lost-time injury frequency rate (LTIFR) per million hours worked

SOI target 2016/17: ≤ 5
Achieved: 2
Previous year: 2

Watercare met this target. We recorded an LTIFR of two, which is well within the target of five or fewer. Although there has been a slight increase in our LTIFR since 2015/16, there were no injuries of a serious nature in 2016/17.

We continued to improve our hazard and incident reporting and recording, which is indicative of growth towards an informed, reporting and learning culture. This past year has trended well with both compliance and positive behavioural safety practices. We provided training programmes designed to empower management teams to improve health and safety (H&S) practices and behaviours across the business. The development and introduction of our H&S toolkit was another milestone this year. In 2017/18, we will continue to improve our H&S risk assurance programmes to ensure sound management of critical H&S risks across our operations, including in tasks undertaken by contractors.

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

SOI target 2016/17: ≤ 20
Achieved: 13
Previous year: 23

Watercare met this target, achieving a TRIFR of 13, against a target of 20 or fewer injuries for every million hours worked per year. This rate is significantly lower than the TRIFR for 2015/16 and can be attributed to the positive safety and zero-harm culture that is taking shape within our company. Increased reporting in the past two years has enabled more learnings and better behaviours, resulting in fewer injuries at work.

Level of ACC workplace management practices accreditation

Watercare's ACC tertiary level accreditation was maintained. Audits are carried out every two years, with the last audit conducted in December 2015 and the next one will be at the end of 2017.

Health and safety committees

Watercare has established health and safety (H&S) committees and meetings across the company that are in accordance with the Health and Safety at Work Act 2015. The percentage of H&S attendance at committee meetings was 12.88% in proportion to the number of our staff. Union representatives and members participate in the H&S committees as well. Nominated H&S representatives have been trained by the Employers and Manufacturers Association.

Outcome five

We are responsible stewards of our assets

As stewards of public assets that provide lifeline services, we are responsible for both the long term stability of our infrastructure as well as for ensuring resilience in the operational performance of our networks.

Water sources

Auckland's water supply is obtained from three types of sources: dams, rivers and underground aquifers. The exact proportion of water supply from each source varies daily, depending on the levels in the storage lakes, forecast rainfall, treatment plant capacity, maintenance requirements and transmission costs.

All abstraction decisions are regulated by resource consent conditions. This year, due to high storage levels in the supply lakes, we abstracted less water from the Waikato River.

Water facts and figures

	2014/15	2015/16	2016/17
Water supply dams (number of operational sources over the year)	12*	12*	12*
River sources (number of operational sources over the year)	3	3	3
Groundwater sources (number of operational sources over the year)	12	12	12
'A'-grade water treatment plants	12	15	15
Other water treatment plants	4	–	–
Length of treated watermains (km)	9,066	9,064	9,096
Water reservoirs	89	88	89
Water pump stations	90	92	93
Annual volume produced (ex plant m³)	143,548,551	148,674,615	149,488,237
Annual volume sold (m³)	119,045,999	121,072,423	123,291,865

** Though Watercare maintains Hays Creek, we do not draw any water from it and treat it as out-of-service*
Annual water volume produced (ex plant), less potable water network losses, equates to around 360 million litres of water per day supplied to the people of Auckland in 2016/17.

Volume of water by source

	2014/15		2015/16		2016/17	
	Volume (m³)	%	Volume (m³)	%	Volume (m³)	%
Waitakere Dam	4,236,379	3%	3,753,913	3%	3,481,154	2%
Upper Huia Dam	4,675,277	3%	4,013,773	3%	5,895,649	4%
Upper Nihotupu Dam	7,746,042	5%	6,208,120	4%	7,278,570	5%
Lower Huia Dam	1,860,675	1%	6,528,504	4%	8,617,074	6%
Lower Nihotupu Dam	6,960,088	5%	7,497,197	5%	3,333,443	2%
Cosseys Dam	14,199,939	10%	12,225,078	8%	12,397,456	8%
Upper Mangatāwhiri Dam	22,847,617	16%	22,523,768	15%	22,832,396	15%
Wairoa Dam	9,163,897	6%	6,286,530	4%	12,774,149	8%
Mangatangi Dam	30,763,525	21%	28,853,035	19%	46,103,369	31%
Waikato River	33,226,948	23%	41,839,028	28%	20,973,406	14%
Onehunga Aquifer	5,835,965	4%	6,470,573	4%	4,511,210	3%
Rural North*	1,323,224	1%	1,404,251	1%	1,774,126	1%
Rural South	1,084,600	1%	984,069	1%	896,396	1%
Total	**143,924,175**		**148,587,839**		**150,868,397**	

** Rural North includes two dams in Helensville.*

Capital investment

Capital expenditure is investment in developing and upgrading essential infrastructure such as watermains, treatment plants, pump stations and sewers. Watercare finances its capital expenditure through a combination of revenue and debt, and receives no contribution from central government or the council. The following are some of the significant projects for 2016/17.

Hunua 4 Watermain

The construction of the Hunua 4 Watermain is essential to cater for Auckland's population growth and ensure security of water supply. The 32-kilometre-long pipeline starts at Redoubt North Reservoir in Manukau Heights and will continue to the Khyber Pass reservoir complex in Grafton. Construction has been under way for over four years. Parts of East Tāmaki, Manukau and Māngere are already being supplied by the watermain. The Campbell Road stretch of the Hunua 4 pipeline was brought into service in August 2016. The next section, running from Campbell Road to Market Road, was tested in October 2016 and brought into service the following summer. Preliminary design is well under way for the final section of pipeline and construction will include three kilometres of tunnelling to minimise disruption to a major arterial road.

Glen Eden Wastewater Storage Tank and Pipeline

The construction of a 20-metre-wide storage tank in Glen Eden will cater for population growth and increase underground storage to deal with increased flows during wet weather. The project will help to protect local waterways and includes three new pipelines to increase network capacity. It is expected to be complete by November 2017.

Biological nutrient removal (BNR) upgrades, Māngere

The construction of a new BNR plant at Māngere will provide additional BNR capacity to cater for projected growth in population. The plant's increased capacity will ensure the highest-quality treated wastewater continues to be discharged into the Manukau Harbour, even during heavy rainfall. Earthworks began in 2013 and the new BNR plant is estimated to be complete and commissioned by the end of 2017.

Huia Water Treatment Plant replacement

Planning is under way to build a new Huia Water Treatment Plant at Manuka Road, Waima. The new plant will replace the adjacent ageing water treatment plant that was built in 1928.

The Huia plant is Auckland's third largest water treatment plant. It treats water from the Upper and Lower Huia dams and Upper and Lower Nihotupu dams.

The plant is nearing the end of its operational life and needs to be replaced. A new water treatment plant will ensure we can supply our growing city with high-quality water from the west for the next 100 years. We are now gathering information in preparation for lodging the necessary resource consent applications with Auckland Council in early 2018.

An aerial view of the Glen Eden Wastewater Storage Tank showing the central vacuum flushing chamber.

Outcome six

We are a commercially-savvy business

We have an in-depth knowledge of our industry and apply sound judgement when making decisions that impact our infrastructure, staff or operations. We manage our capital projects and supplier negotiations in order to deliver positive customer outcomes and mitigate risk.

Procurement and savings

Watercare's procurement function has continued its programme of improvement initiatives focused on our people, procedures and tools aimed at enabling more effective and efficient procurement across our business. In addition to our own business, Watercare has also participated in a number of Group Source initiatives with Auckland Council, Auckland Transport and other CCOs to the benefit of our company.

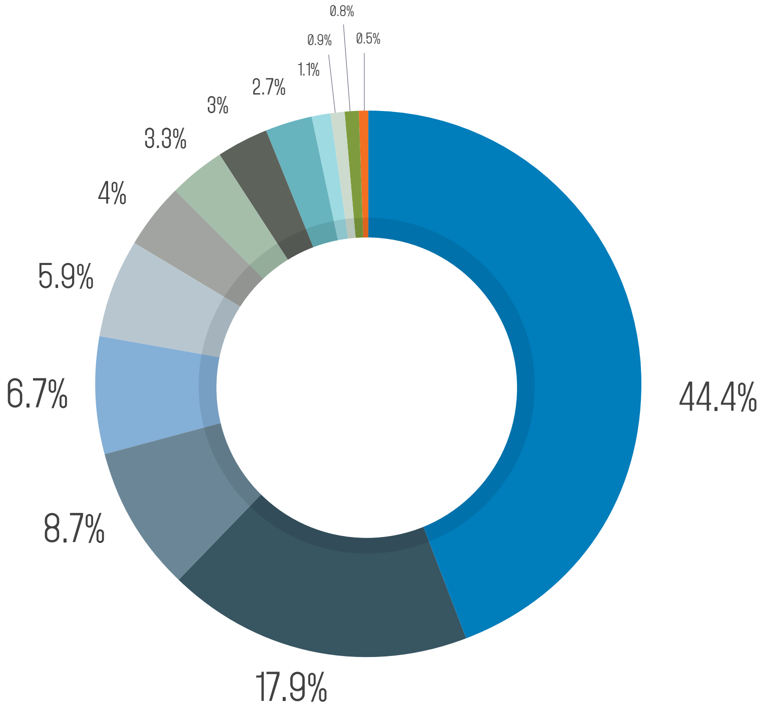
In 2016/17, savings of $4 million were achieved, mainly in the procurement of waste management, chemicals, electricity, and plant maintenance. Savings were also achieved through collaborative procurement with Auckland Council and Auckland Transport for insurance, software licences and mobile voice and data.

Top 15 suppliers

A list of Watercare's major suppliers during 2016/17 is displayed below. All have branches in New Zealand and are governed by New Zealand law.

Supplier	Value excluding GST
McConnell Dowell - HEB Joint Venture	$57,582,581
Fulton Hogan Limited	$41,386,216
Downer New Zealand Limited	$24,068,003
Fulton Hogan - John Holland Joint Venture	$16,278,385
City Care	$15,628,481
HEB Construction Limited	$14,092,029
Fletcher Construction Limited	$13,817,926
McConnell Dowell Constructors Limited	$11,717,655
Pipeline & Civil Limited	$10,943,329
Ixom Operations Pty Limited	$9,165,642
Trustpower Limited	$7,838,568
Waiau PA Bulk Haulage Limited	$7,206,332
Jacobs New Zealand Limited	$7,041,987
Steelpipe Limited	$6,545,390
Beca Infrastructure Limited	$6,069,064
Total	**$249,381,588**

Percentage of expenditure by group category



- Construction (44.4%)
- Maintenance (17.9%)
- Engineering professional fees (8.7%)
- Equipment and spares (6.74%)
- Business support (5.98%)
- Utilities (3.94%)
- Information services (3.3%)
- Retail (3%)
- Chemicals (2.67%)
- Property (1.07%)
- Non-assigned (0.87%)
- Operations support (0.84%)
- Waste (0.47%)

Outcome seven

We continually strive for process excellence

In order to deliver positive customer outcomes, the supporting processes and systems need to be aligned and integrated. This means we understand all key cross-functional business processes and deliver excellence through design and the effective use of supporting technology.

The percentage of real water loss from Watercare's networked reticulation system

SOI target 2016/17: ≤ 13%
Achieved: 11.9%
Previous year 12.9%

2017 2016 2015

Watercare met this target. The water losses in this measure are calculated by deducting water sales volumes and allowable unbilled water usage from the total volume of water produced. Allowable uses fall into three categories: operational usage (pipeline flushing, fire-fighting etc); meter under-recording; and unauthorised usage. The volumes attributed to these three activities are calculated by using percentages recommended by Water New Zealand.

In 2016/17 we were able to conduct analysis on the meter under-recording component using a sample of 1500 meters which were replaced in the Waiuku area. Results from the comparison of readings between the old and new meters show that the volume of water under-recorded by the old meters was 11% instead of the previously assumed 3%. The International Water Association advises that 5% is an appropriate value when empirical data is not available. In the absence of a larger representative sample, Watercare has adopted 5% as the under-registration component.

Following the results after comparing the readings of the old and new meters (set out above), we are undertaking programmes of work to address this disparity. This includes accelerating meter replacement and developing a smart networks strategy.

Innovative procurement leads to savings in power costs

In November 2016, Watercare secured a large portion of its electricity contract using an online reverse auction process, a first in New Zealand for an organisation of our size.

This innovative process led to a savings of $100,000 in our annual electricity contract which is significant for a relatively flat marketplace.

Procurement manager Stuart Bird says the process was quick, efficient and transparent.

"The pricing evaluation was available sooner than a traditional RFP, enabling us to make a decision sooner and reduced the time it takes to execute a new contract."

Procurement manager Stuart Bird prepares for the online auction for electricity procurement.


Watercare

Strategic priority three

Financial responsibility

Every dollar Watercare spends has an impact on the price our customers pay for services. We are obliged to be an efficient, minimum-cost provider with due consideration for long-term asset investment.

Outcomes for this strategic priority:

- We are a minimum-cost service provider
- We are financially stable over the long term.

Project manager Sven Harlos oversees the construction of an additional biological nutrient removal (BNR) facility as part of the upgrade of the Mangere Wastewater Treatment Plant. Expected to be completed at the end of this year, this project will ensure our wastewater network is able to cater for expected increases in the region's population over the next few decades.

General manager of infrastructure delivery Steve Webster addresses the audience at an industry briefing.

Watercare at work

Interactive procurement delivers savings on infrastructure

As Auckland's water and wastewater services provider, Watercare plans and builds infrastructure for today and tomorrow. Our assets are currently worth $8.9 billion and we plan to invest $4.9 billion to build new infrastructure over the next 10 years.

Watercare's infrastructure delivery team is ensuring that our capital investment is carried out efficiently and we build reliable and high-quality infrastructure while achieving value for money.

The infrastructure delivery team, comprising people with expertise in areas like tendering, design and construction, has embarked on several process improvements over the past two years. These improvements have resulted in savings of more than $11 million for 2016/17. Further savings of $18.7 million, generated through smarter project management, are expected to be realised over the life cycle of our current projects.

One of the key changes involved our procurement strategy. We launched a forward works programme in October 2015 to inform the construction industry of the projects involving more than $2 million that we plan to source from the market over the next five years. Last year, we updated the programme and have since been engaging with the market on an ongoing basis.

Commercial and tendering manager Dominic Hollewand says, "We briefed the construction industry on key aspects in our business such as safety, planning and improvements we are looking to introduce and received feedback on them. It's all about sharing our plans and making information available so our suppliers can be better prepared to meet our needs."

Informing and engaging with the industry early has enabled the tendering process to be more interactive so that contractors can put forward their ideas and options for more efficient outcomes.

We also established an engineering professional services panel made up of four suppliers with whom we will partner for delivering infrastructure services in the future. This type of arrangement will ensure a closer working and strategic relationship with our suppliers, minimising the cost of going to the market for every project and delivering greater overall value.

The procurement process for the construction of the final stage of the Hunua 4 Watermain is a good model for delivering effective outcomes.

Hunua 4 is a 32-kilometre-long watermain that runs from Ardmore to Khyber Pass. The final section, which will run from Market Road to Khyber Pass, was initially planned to be trenched along one of the busiest roads in Auckland. Following discussions during the tendering and design process, a more effective and less disruptive option emerged.

Project manager David Moore says the method of construction will be tunnelling, with estimated savings of $11 million to the project. "Minimising disruption to the public and cost efficiency were our main priorities and the interactive process enabled us to look at all the options and decide on the one that met our criteria. We are working with NZTA and Auckland Transport to build the watermain along the motorway."

Outcome eight

We are a minimum-cost service provider

We are required by law to manage our operations efficiently with a view to keeping the overall costs of water supply and wastewater services at minimum levels, consistent with the effective conduct of our undertakings and the maintenance of the long-term integrity of our assets.

The average monthly household water and wastewater bill from Watercare was $75.33 for the period 1 July 2016 to 30 June 2017 inclusive, which represents 0.9% of the average monthly household income. (Please see page 31 for related data for the past three years.)

Customer debt

Our primary performance measure for the management of debtors is the value of payments outstanding for 31 days or more from due date. This year, the outstanding customer debt was $5,465,686, an increase of 9.8% compared to 2015/16.

The average amount of outstanding debt continued to decrease, to $248 this year compared to $269 in 2015/16.

		% of total
Debit balances 31+ days (end of June 2017)	$4,925,988	12.8%
Number of accounts with 31+ days' debt	16,398	5.7%
Average debt (31+ days)	$300	

Excluding council group and Infrastructure Growth Charges

Outcome nine

We are financially stable over the long term

To be financially stable over the long term, we take the following into consideration when managing our capital investment programme: risk; future demand; maintaining debt levels and interest costs; and inter-generational equity.

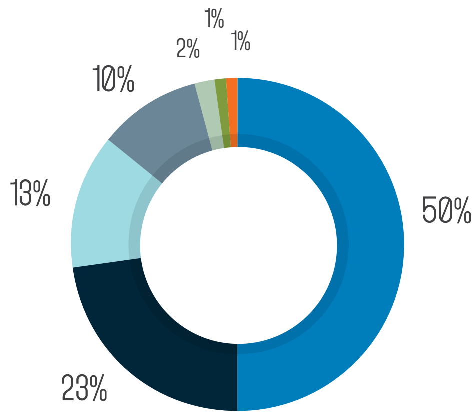
Revenue		Total expenses		Operating surplus		Capital expenditure**	
$631m		$522.4m		$108.6m		$300m	
↑*	10.6%	↑*	3.7%	↑*	63.1%	↑*	1.8%

** For the year ended 30 June 2017 compared to the year ended 30 June 2016*
*** Capital expenditure net of impairments*

Total revenue

Total revenue at $631 million in 2016/17 compared favourably with $570.4 million in 2015/16. Water and wastewater revenues of $466.9 million were $14.2 million ahead of 2015/16 with $9.9 million of the increase due to the 2.5% price increase on 1 July 2016 and $4.3 million largely as a result of an overall volume increase. Infrastructure growth charge revenue totalled $79.1 million compared with $62.1 million in 2015/16 but still only recovered 50% of the $158 million capital expenditure on growth projects in the year. Other key contributors to revenue included $60.9 million for the cost of physical assets funded by external parties and vested to Watercare ownership, and $2.1 million of revenue recognised for the sale of Watercare tax losses within the Auckland Council group.

Revenue by source

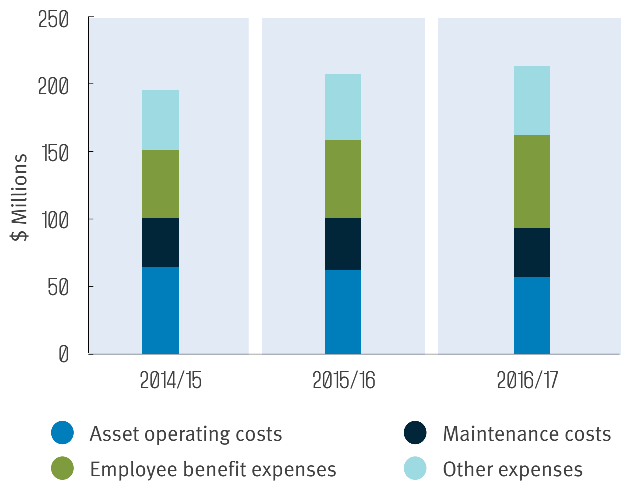


Key:
- Wastewater revenue (50%)
- Water revenue (23%)
- Infrastructure Growth Charge (13%)
- Vested assets (10%)
- New meters and service connections (2%)
- Laboratory Services (1%)
- Other (1%)

Total operating expenses

Operating expenses of $213.5 million were $2 million lower than budget for the year. This was primarily due to lower spend on asset operating programme costs and lower general overhead costs. This was an excellent outcome in a year where the company incurred significant additional operating costs due to extreme weather events.

Operating expenses



Operating expenses increased 1.7% in 2016/17 compared to 2015/16 and have grown an average of 2.7% per annum over the past five years. The growth in employee benefit expenses is due to bringing in house some treatment plant operations and networks maintenance that were previously outsourced.

Total finance costs

Total finance costs of $90.5 million were incurred during the year, of which $9.7 million was treated as capital cost funding on larger-scale, long-term capital projects. The remainder of $80.8 million was expensed to the statement of comprehensive revenue and expense.

The overall average interest rate was 5.89% compared with 5.72% in 2015/16.

Operating surplus from trading operations

An operating surplus from trading operations of $108.6 million was achieved in 2016/17 with revenue being $52.5 million ahead of budget expectation, and total expenses being $0.6 million below budget.

Total assets

Total Watercare assets grew from $8.8 billion to $8.9 billion in 2016/17. The increase related to the cost of new infrastructure asset spending during the year.

Net surplus for the year

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

In order to enable a smoother and more predictable future price path, the company utilises interest rate swap agreements to fix medium to long-term interest rates on a proportion of its debt; this reduces the uncertainty created by fluctuations in floating interest rates.

Under Accounting Standards, the company revalues its interest rate swaps to fair value. This revaluation resulted in an $87.6 million (non-cash) gain due to the upward movement in interest rates over the year. This gain on revaluation and other below-the-line items of operating surplus from trading operations delivered a net surplus after tax of $124.7 million for the year ending 30 June 2017.

Minimum funds flow from operations (FFO) to interest cover ratio before any price adjustment

SOI target 2016/17: ≥ 2.5

Achieved: 3.9

Previous year 3.7

The funds from operations (FFO) to interest cover ratio for the year ending 30 June 2017 was 3.9. The FFO were boosted by higher-than-budgeted revenue, while interest expense benefited from a combination of lower-than-budgeted new borrowings and lower-than-projected cost of funds.

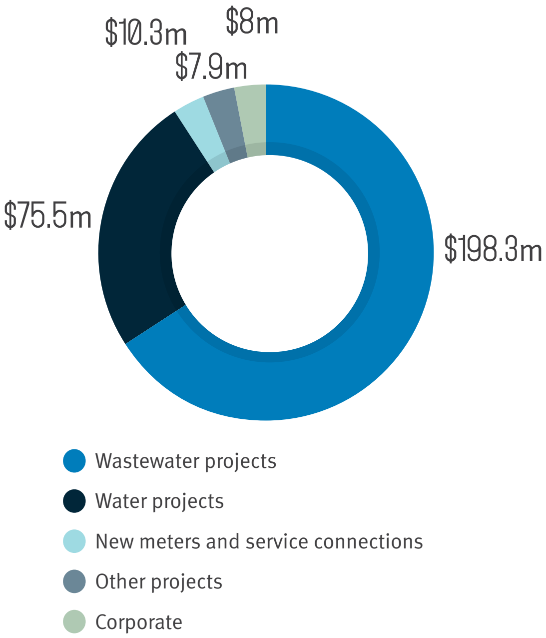
Despite incurring additional operating costs due to extreme weather events, the total operating expenses were $2 million lower than budgeted for 2016/17.

Net new debt

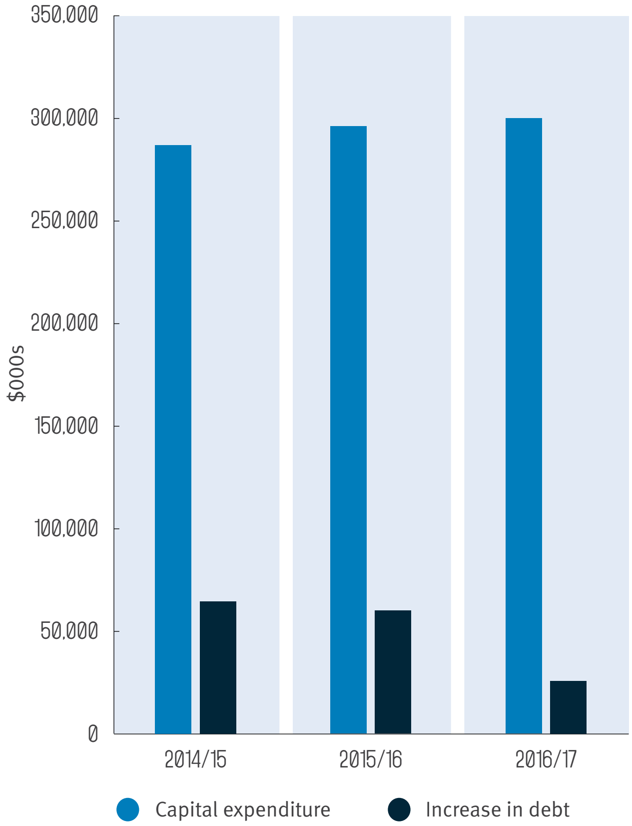
In 2016/17 $259.2 million of new debt was entered into by Watercare. Consistent with our SOI undertaking, all of the new long-term debt ($250 million) was sourced from Auckland Council as this is the lowest cost source of debt for Watercare. Other debt, primarily the revolving credit facility and commercial paper, increased by $9.2 million.

During the year, $231.6 million of debt from previous years was repaid, resulting in an overall $27.6 million net debt increase for the year. Debt is used to fund capital expenditure that is directed at improving the quality of services provided by Watercare and also a share of the capital expenditure required to service the effects of population and construction growth in Auckland.

Capital expenditure $300 million



Capital expenditure compared to the increase in net debt




YAMAHA
Watercare
An Auckland Council Organisation

Strategic priority four

Fully sustainable

Watercare's business is intrinsically linked to the natural environment and significantly impacts the communities in which we operate. Integrating sustainability into everything we do is key to our role as a trusted community and iwi partner.

Outcomes for this strategic priority:

- We are a socially-responsible business
- We protect and enhance our natural environment
- We meet all our legal and regulatory obligations.

Water quality scientist Matt Hubrick monitors algae at Lower Nihotupu Lake using ultrasonic technology. This technology helps to control algae in a sustainable way and improve the quality of water and the ecosystem of the lake.

Pine forests in the Hunua Ranges.

Watercare at work

Watercare to regenerate pine forest in Hunua Ranges with natives

Watercare has purchased forestry rights to a large private pine forest in the Hunua Ranges.

The 1900-hectare commercial pine forest, operated under a forestry right on land owned by Auckland Council, was purchased from Waytemore Forests Limited earlier this year. Around 65% of Auckland's water supply comes from four Watercare dams in the Hunua Ranges and this former private forest stretches as far as the Wairoa and Upper Mangatāwhiri reservoir catchments.

Watercare chief executive Raveen Jaduram says: "This is an exciting purchase. By owning the forest, we are able to control the forestry operation and regenerate the water supply catchment with native forest."

With the forestry right in our ownership, the timeframe for harvesting the timber is now reduced. Originally, harvesting would have continued up to 2089 (another 72 years) but now Watercare and Auckland Council have agreed to shorten the term to 27 years (2044).

After the current rotations of pine trees are harvested, we will progressively restore the land back to native bush. This will drastically reduce the slips in Watercare's catchment area, protecting the land and preserving the water quality of the supply lakes.

Not only will this increase native flora and fauna in the region but it will also provide more recreational opportunities for the public, without the restrictions imposed by commercial forestry. Auckland Council's Hunua Ranges Regional Parkland is less than one hour's drive south of Auckland and features waterfalls, creeks and large tracts of native bush. The region is a natural playground for walkers, mountain bikers and horse riders.

The ranges area has a high rainfall, about 1.8 metres per year, which is 50% more than the rest of the Auckland region. The high elevation means that water from our dams flows by gravity to the Ardmore Water Treatment Plant, reducing energy use.

Watercare is also a long-time sponsor of two other planting programmes:

The Trees for Survival programme in the Wairoa River catchment area: We supply the Hunua, Paparimu, Ararimu, Ardmore and Clevedon schools with resources to plant trees and to educate students on the relationship between the forest and the catchment environment.

Waikato RiverCare: We work with Waikato RiverCare to achieve riparian restoration of the Waikato River and reduce land run-offs and soil erosion through native planting along the river banks.

Outcome ten

We are a socially-responsible business

We seek to act with integrity by considering the well-being of our staff, communities and local environment when carrying out our daily operations. Our policies and governance arrangements support ethical behaviour, and we endeavour to be a positive member of our community.

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.

As part of the ongoing rehabilitation of the Māngere foreshore, in February 2017, 65 staff volunteers from Watercare helped to clean the Coastal Walkway and conducted biota sampling to identify the species inhabiting the foreshores. Over a five-day period, our staff covered a distance of 3.4 kilometres and collected more than 110 bags of rubbish.

As part of the detailed design for the Central Interceptor, significant work was undertaken to reduce the number of link sewers, permanent shafts on the network and the overall construction footprint.

For example, Watercare's design engineers devised an alternative option for a proposed ventilation shaft at Kiwi Esplanade, Māngere. Kiwi Esplanade is an area of social and ecological importance. It is used extensively for recreation and has an abundance of coastal ecology.

The elimination of the ventilation shaft is estimated to have saved up to 6,800 cubic metres of concrete, prevented 108,600 cubic metres of waste spoil from being generated and kept around 7,000 truck-and-trailer units off the local roads.

Name of site	Ecological attributes supported by Watercare
Māngere Coastal Walkway	Public walkways, bird roosts and native and marine habitat. The bird roosts are of local, regional and international significance to wading migratory birds. It is estimated that over 50% of New Zealand's wading bird population passes through the Manukau Harbour. The roosts also provide an alternative habitat for birds and keep them away from the Auckland International Airport area. We liaise regularly with airport staff to assist them in reducing the risk of bird strike.
Puketutu Island	Formerly used for pastoral agriculture and as basalt quarry; now in the course of being rehabilitated and surrounding areas are used as a high-tide roost by a variety of wading birds
Oruarangi Awa	Marine estuarine ecosystems being restored
Waikato RiverCare Lower Waikato	Riparian planting along the lower Waikato River to enhance river water quality
Hunua Ranges	Native bush, wildlife habitat and Watercare's programme to revert the plantation pine forest into a diverse native bush
Waitakere Ranges	Native bush and wildlife habitat
Mangakura Catchment	Native bush and wildlife habitat
Sandhills Wetland	Native bush and wildlife habitat
Bycroft Wetland, Onehunga	Home of rare and endangered moss species, indigenous vegetation and wildlife
Pukekohe Wastewater Treatment Plant	Home of birdlife as an extension of the adjacent wetland owned by Fish & Game NZ
Auckland Volcanic Cones	The cones are parks and heritage areas and a defining feature of Auckland. Eight of them host Watercare's reservoirs

Outcome eleven

We protect and enhance our natural environment

The average consumption of drinking water per day per resident

SOI target 2016/17: 270 +/- 2.5%

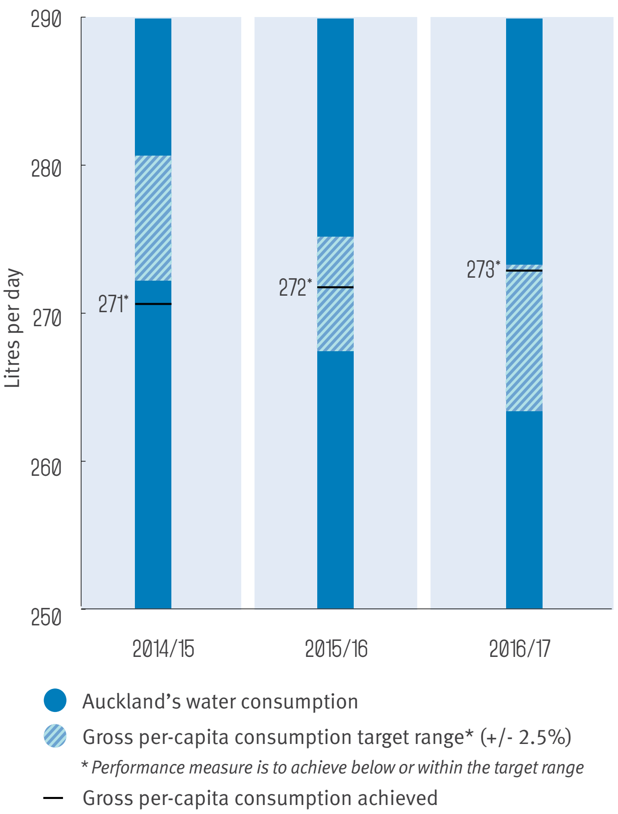
2017 2016 2015

Achieved: 273
Previous year: 272

Watercare met this target. The gross per-capita consumption was 273 litres per day this year, against a target of 270 litres per day (+/- 2.5%). The increase in gross per-capita consumption is a result of increased economic activity in Auckland and increased demand for water from non-domestic customers. Demand from our residential customers has generally remained stable.

We are currently updating the Auckland Regional Water Demand Management Plan, which will outline our strategy for managing demand over the next three years (2017 to 2020). The plan will propose strategies to manage demand based on the type of consumer (e.g. domestic, commercial and industrial) as well as on specific initiatives such as smart metering, consumer education, and water efficiency services to support the demand management plan.

Gross per-capita consumption patterns



Percentage of the 19 iwi groups throughout Auckland with whom Watercare has entered into a Memorandum of Understanding (MoU)

SOI target 2016/17: 60%

2017

Not achieved: 16%
New measure

Although Watercare did not meet this target, we continue to maintain strong relationships with the iwi groups throughout Auckland, and our level of engagement with the 19 iwi groups is significant, including bi-monthly meetings with the Mana Whenua Kaitiaki Managers Group.

The MoU records our relationships with the iwi groups, articulates the objectives that Watercare and iwi wish to realise through our engagement and outlines the engagement approach. We signed MoUs with three iwi groups in 2016/17, which equates to 16% against a target of 60%.

Previously, Watercare has signed MoUs with Waikato Tainui and Te Ākitai. Also, we are in the process of refreshing the MoU with Ngāti Whātua o Ōrākei. Efforts to finalise agreements with the remaining iwi groups are well advanced.

Adapting to climate change impacts

In 2016/17, Watercare increased its activities towards understanding what climate change adaptation is required for water and wastewater services in Auckland. This included:

- Secondment of two scientists from National Institute of Water and Atmospheric Research (Niwa) to analyse Watercare's historical water storage data and develop predictive models for future
- Collaborating with the Auckland Council group to begin developing a vulnerability assessment for the region
- Developing an approach to climate change adaptation and mitigation which will be finalised and implemented in 2017/18.

Greenhouse gas emissions

Aligned with Auckland Council's Low Carbon Action Plan, Watercare reports against a 1990 baseline year. In the early 2000s, we significantly upgraded the Māngere Wastewater Treatment Plant. The open-air oxidation ponds and sludge lagoons were replaced by land-based treatment, enabling the capture of methane and nitrous oxide emissions and making biogas generation possible. This resulted in a long-term decrease in greenhouse gas emissions by approximately 80% compared with the 1990 baseline.

In 2016/17, a total of 38,890 tonnes (t) of carbon dioxide equivalent (CO_{2e}) was generated, which is a slight decrease compared with the previous year's result of 38,949 t CO_{2e}.

** Result for 2015/16 has been restated and the result for 2016/17 does not include emissions from the refurbishment of our head office*

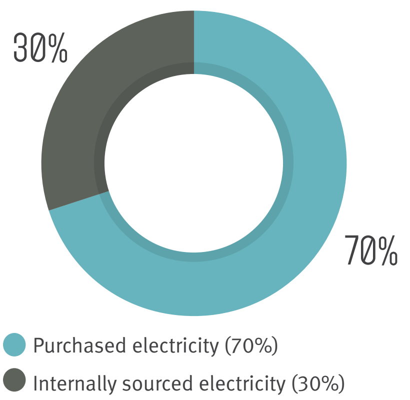
Energy use and internal generation

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

This year, we used 165,719 MWh of electricity. This is a decrease of 5.5% compared to 2015/16 due to high levels of storage at supply lakes and, consequently, less need to run the Waikato Water Treatment Plant which is more energy-intensive. We generated 29.6% of our total energy use internally, compared to 26% last year.

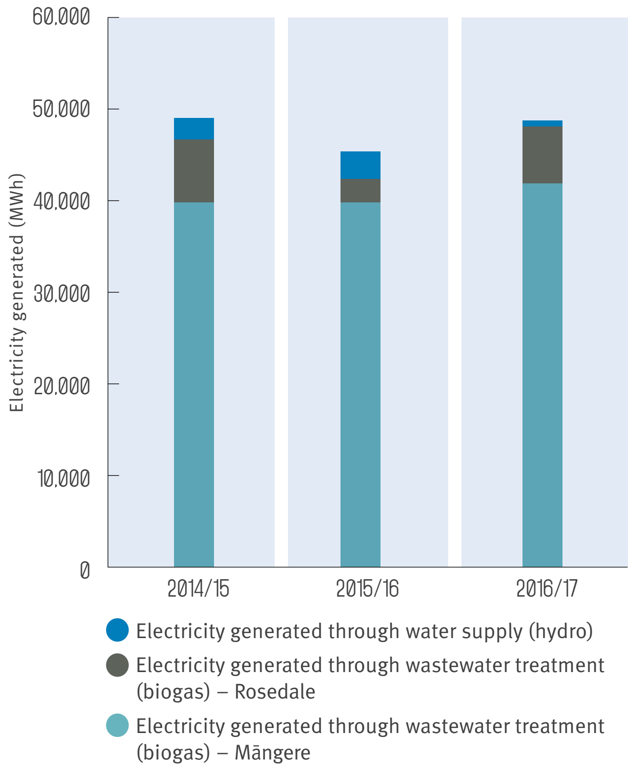
In 2016, we launched our energy initiative with a vision to achieve energy savings of 8 kWh by 2020 and energy neutrality at Mangere and Rosedale plants by 2025. We also introduced a company-wide Energy Management Plan which outlines the programme of works for achieving our energy goals.

Source of electricity



We have created a specialist energy team and appointed an energy manager to lead the function. We took part in the Water Services Association of Australia's survey to benchmark our wastewater treatment plants for energy use. Next year, we will begin developing a plan for achieving energy neutrality and working with American and Australian water utility companies to understand and apply best practice in this area.

Electricity generation



Reusing waste from treatment processes

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

In 2016/17, Watercare was able to reuse 78% of the solids from our water treatment process and 81% of the solids from our wastewater treatment process. We also reused around 30 million litres of treated wastewater every day at Māngere and Rosedale wastewater treatment plants for operational purposes.

We reused:	2014/15	2015/16	2016/17
Sludge from water treatment (m^3)	11,366	11,414	13,277
Biosolids, grits and screenings from wastewater treatment (t)	138,953	137,317	142,195

Diverting office waste from landfill

We aim to minimise the volume of office waste being sent to landfill. Over the past 10 years, Watercare has carried out audits to measure how effective we are in diverting material that can be recycled or composted from the general waste stream.

This year, the overall amount of waste sent to landfill was 31.9 kilograms per day. There is potential for us to further reduce the amount of waste currently being sent to landfill as 63.3% of the materials that end up in the waste stream could be recycled or composted.

The results for 2016/17 are not comparable to 2015/16 as the office waste from Laboratory Services was not included in this year's waste audit.

Metal content in biosolids at wastewater treatment plants

Biosolids from wastewater treatment plants can have a high metal content, due to stormwater run-off from the streets and through waste from industrial users.

The table below displays the metal content of biosolids from the Māngere and Rosedale treatment plants, which produce most of Watercare's biosolids.

The metal content has further decreased this year to 2.56 tonnes from last year's 2.79 tonnes, as a result of effective controls and continued monitoring by our trade waste team.

Substance	2014/15		2015/16		2016/17	
	Concentration (mg/kg)	Disposed weight (tonnes)	Concentration (mg/kg)	Disposed weight (tonnes)	Concentration (mg/kg)	Disposed weight (tonnes)
Arsenic	5.34	0.19	4.99	0.18	5.20	0.17
Cadmium	1.13	0.04	1.01	0.04	1.10	0.04
Chromium	50.71	1.85	47.78	1.71	52.76	1.70
Lead	31.96	1.17	23.80	0.85	19.81	0.64
Mercury	0.55	0.02	0.56	0.02	0.46	0.01
Total		**3.27**	**78.13**	**2.79**	**79.32**	**2.56**

Trade waste compliance advisor Annette Hemingway holds a sample of wastewater collected from a grease trap.

Outcome twelve

We meet all our legal and regulatory obligations

Meeting our legal and regulatory obligations are baseline requirements for our company. Our wastewater treatment plants are subject to a large number of resource consent conditions in relation to factors such as effluent quality and volume, and we hold resource consents in respect of our projects and facilities.

We are subject to a large number of laws and statutory expectations associated with the governance and financial management of our organisation.

Resource consent compliance

As at 30 June 2017, Watercare held an average of 494 active resource consents per month for our products and facilities. We achieved a monthly average of 96.71% compliance with the active conditions associated with these consents.

With most of northern Franklin now connected to the water supply from the Waikato River, there were three remaining bores in Waiuku that presented a risk of over-abstraction in the future. New resource consents for abstracting increased volumes have recently been granted.

All large metropolitan wastewater treatment plants were technically compliant for the full year. There were some non-compliances relating to wastewater treatment across regional wastewater facilities during the year, due to exceedance of the discharge standards in processed water volume or quality of wastewater.

We have investigated each of these non-compliances and are satisfied that there were no adverse effects on the environment. All non-compliances were reported to the regulator. There have been no sanctions, fines or enforcement actions brought against Watercare for the above matters, nor have there been any complaints.

In all cases, non-compliances occurred at facilities where upgrades are under way, either through design, consenting, construction or commissioning phases of work.

We achieved significant milestones in 2016/17 including:

- The successful consenting of the northeast regional wastewater servicing, Omaha Wastewater Treatment Plant and Denehurst Wastewater Treatment Plant
- The addition of membrane filtration at the Wellsford Wastewater Treatment Plant
- The commencement of the upgrade of the Army Bay Wastewater Treatment Plant and outfall
- The refurbishment of the filters at the Owhanake Wastewater Treatment Plant and Clarks Beach Wastewater Treatment Plant
- The preliminary design completion and lodgement of new resource consents for the Southwestern Regional Wastewater Treatment Plant and Pukekohe Wastewater Treatment Plant.

In addition, new interim package treatment plants have been designed and are being procured for Warkworth Wastewater Treatment Plant, Clarks Beach Wastewater Treatment Plant and Owhanake Wastewater Treatment Plant to improve treatment outcomes ahead of permanent long-term treatment upgrades.

Resource consent compliance relating to sewerage operations

SOI target 2016/17:
a) ≤ 2, b) ≤ 2, c) ≤ 2, d) = 0

2017 2016

Achieved: a) = 0, b) = 0, c) = 0, d) = 0
Previous year: a) = 0, b) = 0, c) = 0, d) = 0

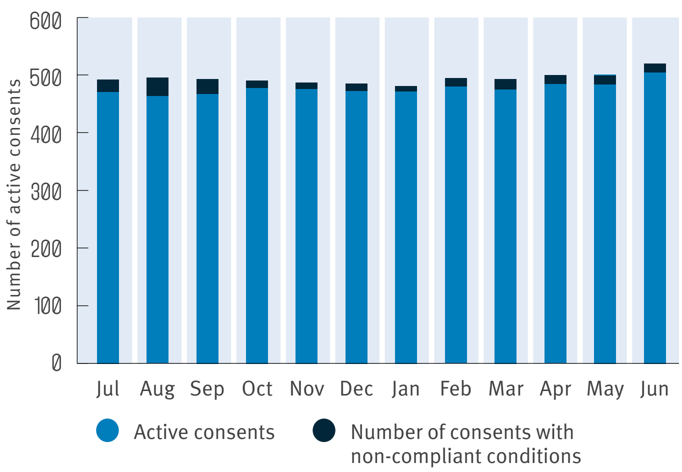
Performance measure: Compliance with Watercare's resource consents for discharge from its sewerage system measured by the number of:

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

received by Watercare in relation to those resource consents.

Watercare met this target. There were no abatement, infringement or enforcement notices or convictions for the 2016/17 year. We continued to invest in improvements to our wastewater treatment processes and infrastructure. Major upgrades are under way at Māngere, Rosedale and Pukekohe wastewater treatment plants. Further work is planned for the upgrade of the Army Bay Wastewater Treatment Plant and wastewater servicing for the Warkworth-Snells-Algies area.

Resource consents



Independent Limited Assurance Report to Directors of Watercare Services Limited

Based on our limited assurance engagement, which is not a reasonable assurance engagement or an audit, we have not become aware of any matter that would lead us to believe that the selected non-financial information in the Annual Report has not, in all material respects, been prepared in accordance with Global Reporting Initiative ("GRI") G4 reporting principals and guidelines for the period 1 July 2016 to 30 June 2017.

Information subject to assurance

We have performed an engagement to provide limited assurance in relation to Watercare Services Limited's ("Watercare") non-financial information within the Annual Report for the 1 July 2016 ended 30 June 2017.

Selected non-financial information

The selected non-financial information covers the collation and presentation of the significant areas within the report on pages 4 to 7 and 27 to 61, excluding:

- The 2017 financial indicators and the financial statements on pages 64 to 113,
- Statement of Intent (SOI) targets and information, and
- The online supplements.

Standards we followed

We conducted our limited assurance engagement in accordance with International Standard on Assurance Engagements (New Zealand) ISAE (NZ) 3000 (Revised) Assurance Engagements other than audits or reviews of historical financial information. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion. In accordance with that standards we have:

- used our professional judgement to plan and perform the engagement to obtain limited assurance that the selected non-financial information is free from material misstatement, whether due to fraud or error
- analytical review and other testing to assess the reasonableness of the information presented
- checking whether the appropriate indicators have been reported in accordance with GRI Core in accordance level, and
- overall sense check of the report against our findings and understanding of Watercare

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for a reasonable assurance engagement. Consequently the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

Restriction of distribution and use

Our report should not be regarded as suitable to be used or relied on by any party other than Watercare for any purpose or in any context. Any party other than Watercare who obtains access to our report or a copy thereof and chooses to rely on our report (or any part thereof) will do so at its own risk.

To the fullest extent permitted by law, we accept or assume no responsibility and deny any liability to any party other than Watercare for our work, for this independent limited assurance report, or for the conclusions we have reached.

Our report is released to Watercare on the basis that it shall not be copied, referred to or disclosed, in whole (save for Watercare own internal purposes) or in part, without our prior written consent.

Directors' responsibility for the Annual report

The directors of Watercare are responsible for the preparation and fair presentation of the selected non-financial information in accordance with GRI G4 guidelines for each of the principles of materiality, stakeholder inclusiveness, sustainability context and completeness. This responsibility includes such internal control as the directors determine is necessary to enable the preparation of the selected non-financial information is free from material misstatement whether due to fraud or error.

Our responsibility

Our responsibility is to express a conclusion to the directors on the preparation and presentation of the selected non-financial information in accordance with GRI guidelines.

Our independence and quality control

We have complied with the independence and other ethical requirements of Professional and Ethical Standard 1 (Revised) issued by the New Zealand Auditing and Assurance Standards Board, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Professional and Ethical Standard 3 (Amended) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

KPMG also provides advisory services to Watercare. Subject to certain restrictions the Partners and employees of our firm may also deal with Watercare on normal terms within the ordinary course of trading activities. This has not impaired our independence in respect of this engagement. Other than in our capacity as a service provider, we have no relationship with, or interest in, Watercare.

KPMG

KPMG
Auckland
15 September 2017

Financial report contents

Historical financial summary

For the year ended 30 June

	2013	2014	2015	2016	2017
	$000	$000	$000	$000	$000
Financial performance					
Total revenue	482,620	500,470	520,407	570,429	**631,009**
Operating expenses	191,907	196,611	204,572	209,894	**213,480**
Depreciation and amortisation	184,980	205,947	208,739	216,250	**228,124**
Finance costs	71,632	69,149	73,992	77,684	**80,768**
Total expenses	448,519	471,707	487,303	503,828	**522,372**
Operating surplus from trading operations	34,101	28,763	33,104	66,601	**108,637**
Net loss on disposal of and provision for redundant property, plant and equipment, and restructuring costs	(10,210)	(11,975)	(11,052)	(10,968)	**(9,334)**
Net gain/(loss) on revaluation of derivative financial instruments	39,628	13,050	(88,644)	(137,600)	**87,546**
Operating surplus/(deficit) before tax	63,519	29,838	(66,592)	(81,967)	**186,849**
Income tax (expense)/benefit	(23,173)	(38,230)	11,236	14,780	**(62,163)**
Net surplus/(deficit) after tax	40,346	(8,392)	(55,356)	(67,187)	**124,686**
Financial position					
Current assets	72,090	78,118	79,692	80,857	**82,621**
Non-current assets	8,167,043	8,308,101	8,605,062	8,739,757	**8,862,924**
Total assets	8,239,133	8,386,219	8,684,754	8,820,614	**8,945,545**
Current liabilities	541,753	533,685	320,837	504,561	**360,715**
Non-current liabilities	1,930,629	2,069,089	2,488,916	2,482,163	**2,626,254**
Total liabilities	2,472,382	2,602,774	2,809,753	2,986,724	**2,986,969**
Total equity	5,766,751	5,783,445	5,875,001	5,833,890	**5,958,576**
Cash flows					
Net cash flows – operating activities	208,980	222,570	224,712	247,754	**275,508**
Net cash flows – investing activities	(261,639)	(328,411)	(285,494)	(311,593)	**(302,111)**
Net cash flows – financing activities	51,876	106,025	63,487	60,456	**27,563**
Net change in cash flows	(783)	184	2,705	(3,383)	**960**
Key statistics					
Property, plant and equipment	8,084,978	8,235,338	8,528,217	8,654,122	**8,777,049**
Capital expenditure	289,289	313,391	286,913	296,101	**301,632**
Net debt	1,347,863	1,453,464	1,513,996	1,577,571	**1,603,895**
Increase in net debt	52,659	105,601	60,532	63,575	**26,324**
Increase in net debt to capex	18%	34%	22%	21%	**9%**
EBITDA to interest expense ratio	3.8	4.1	4.0	4.2	**4.4**
Funds flow from operations to interest ratio	3.4	3.3	3.4	3.7	**3.9**
Funds flow from operations to average net debt	20%	20%	20%	21%	**22%**
Number (headcount) of permanent employees	731	772	817	861	**909**

Financial commentary

For the year ended 30 June 2017

	2017 Actual $000	2016 Actual $000	2017 Budget $000
Revenue	**631,009**	570,429	578,533
Operating expenses	**(213,480)**	(209,894)	(215,498)
Depreciation and amortisation	**(228,124)**	(216,250)	(226,851)
Finance costs	**(80,768)**	(77,684)	(80,663)
Total expenses	**(522,372)**	(503,828)	(523,012)
Operating surplus from trading operations	**108,637**	66,601	55,521
Net loss on disposal of and provision for redundant property, plant and equipment, and restructuring costs	**(9,334)**	(10,968)	(8,000)
Net gain/(loss) on revaluation of derivative financial instruments	**87,546**	(137,600)	–
Operating surplus/(deficit) before tax	**186,849**	(81,967)	47,521
Income tax (expense)/benefit	**(62,163)**	14,780	(21,698)
Net surplus/(deficit) for the year	**124,686**	(67,187)	25,823
Gain on revaluation of property, plant and equipment	**–**	26,076	326,016
Total comprehensive revenue and expense for the year, net of tax	**124,686**	(41,111)	351,839

Key points

- The company is reporting revenue of $631 million which was $52.5 million ahead of budget expectations. Non-cash vested asset revenue was $40.9 million ahead of budget during the year. Infrastructure growth charge revenue was $8.8 million ahead of budget reflecting the high level of development activity in Auckland. The infrastructure growth charge revenue contributes to the funding of growth based water and wastewater infrastructure. Additionally water and wastewater revenue was $3.2 million higher than budget.
- Operating costs of $213.5 million were $2 million lower than budget for the year. This was primarily due to lower spend on asset operating programme costs and lower general overhead costs. This was an excellent outcome in a year where the company incurred significant additional operating costs due to extreme weather events. Finance costs were $0.1 million higher than budget due to the lower level of interest being capitalised during the year. Additionally depreciation and amortisation was $1.2 million higher than budget due to higher depreciation on assets identified for replacement as part of new capital projects.
- The company reports an operating surplus of $108.6 million compared with a budgeted operating surplus of $55.5 million being a favourable variance of $53.1 million. Both business units are reporting an operating surplus from trading operations being $38 million for water and $70.6 million for wastewater.
- The reported operating surplus from trading operations was prior to a non-cash adjustment for the revaluation of derivative financial instruments and the loss on disposal of property, plant and equipment, and restructuring costs.
- In order to enable a more smooth and predictable future price path, the company utilises interest rate swap agreements to fix medium to long term interest rates on a proportion of its debt – thereby reducing the uncertainty created by fluctuations in floating interest rates. Under Accounting Standards, the company revalues its interest rate swaps to fair value. This revaluation resulted in a $87.6 million (non-cash) gain due to the upward move in interest rates over the year. This accounting gain was not budgeted for.
- The company has recorded a loss on disposal of property, plant and equipment and restructuring costs of $9.3 million being primarily the write-down of assets that were replaced in the normal course of business during the year.
- The resulting net surplus after tax of $124.7 million was compared with a budgeted net surplus of $25.8 million. (2016: net deficit after tax of $67.2 million).
- Total assets of the company have increased from $8.8 billion to $8.9 billion during the year, reflecting the company's continued investment in new infrastructure assets.
- Net debt increased by $26.3 million during the year, funding the shortfall between operating cash flows and capital expenditure. The increase in net debt was lower than budget, reflecting better operating cash flows, proceeds from the sale of surplus land and lower capital expenditure during the year.

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 2017 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 2017.

These financial statements and the statement of service performance for Watercare Services Limited for the year ended 30 June 2017 were approved and authorised for release on 29 August 2017.

For and on behalf of management:

R P Jaduram *Chief Executive*	**B T Monk** *Chief Financial Officer*

For and on behalf of the Board of Directors:

M P Devlin *Chair*	**J C Hoare** *Deputy Chair*

Deloitte.

Independent Auditor's Report

To the readers of Watercare Services Limited Group's financial statements and statement of service performance for the year ended 30 June 2017

The Auditor-General is the auditor of Watercare Services Limited (the Group). The Auditor-General has appointed me, Andrew Burgess, 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 2017, 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 110 to 113.

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 2017; 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.
- the statement of service performance of the Group on pages 110 to 113 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 2017.

Our audit was completed on 29 August 2017. This is the date at which our opinion is expressed.

The basis of 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 explain our independence.

Basis of opinion

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

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

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

Responsibilities of the Board of Directors for the financial statements and the statement of service performance

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

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

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

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

Responsibilities of the auditor for the audit of the financial statements and the statement of service performance

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

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

Deloitte.

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

We did not evaluate the security and controls over the electronic publication of the financial statements and the statement of service performance.

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

- We identify and assess the risks of material misstatement of the financial statements and the statement of service performance, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We evaluate the appropriateness of the reported statement of service performance within the Group's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the statement of service performance or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements and the statement of service performance, including the disclosures, and whether the financial statements and the statement of service performance represent the underlying transactions and events in a manner that achieves fair presentation.
- We 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 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 on pages 1 to 120, but does not include the financial statements and the statement of service performance, and our auditor's report thereon.

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 (Revised): 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 taxation services, and cyber and security risk advisory, 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 and these assignments and trading activities, we have no relationship with, or interests in the Group.

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

Statement of comprehensive revenue and expense

For the year ended 30 June 2017

	Notes	2017 Actual $000	2016 Actual $000	2017 Budget $000
Revenue	Note 12, page 96	**631,009**	570,429	578,533
Total revenue		**631,009**	570,429	578,533
Operating expenses				
Asset operating costs		**(54,874)**	(60,872)	(56,310)
Maintenance costs		**(39,630)**	(38,776)	(36,698)
Employee benefit expenses		**(69,332)**	(63,420)	(69,956)
Other expenses		**(49,644)**	(46,826)	(52,534)
Total operating expenses	Note 13, page 97	**(213,480)**	(209,894)	(215,498)
Depreciation	Note 4, page 81	**(220,293)**	(207,903)	(219,964)
Amortisation	Note 7, page 85	**(7,831)**	(8,347)	(6,887)
Finance costs	Note 9, page 88	**(80,768)**	(77,684)	(80,663)
Total expenses		**(522,372)**	(503,828)	(523,012)
Operating surplus from trading operations		**108,637**	66,601	55,521
Net loss on disposal of and provision for redundant property, plant and equipment, and restructuring costs		**(9,334)**	(10,968)	(8,000)
Net gain/(loss) on revaluation of derivative financial instruments	Note 11, page 95	**87,546**	(137,600)	–
Operating surplus/(deficit) before tax		**186,849**	(81,967)	47,521
Income tax (expense)/benefit	Note 15, page 99	**(62,163)**	14,780	(21,698)
Net surplus/(deficit) for the year		**124,686**	(67,187)	25,823
Other comprehensive revenue and expense net of tax				
Gain on revaluation of property, plant and equipment	Note 6, page 84	**–**	26,076	326,016
Other comprehensive revenue and expense for the year, net of tax		**–**	26,076	326,016
Total comprehensive revenue and expense for the year attributable to owners of the parent, net of tax		**124,686**	(41,111)	351,839

The financial statements should be read in conjunction with the notes on pages 74 to 108 inclusive.

Statement of financial position

As at 30 June 2017

	Notes	2017 Actual $000	2016 Actual $000	2017 Budget $000
Assets				
Current				
Cash and cash equivalents		**545**	172	–
Trade and other receivables from exchange transactions	Note 17, page 101	**66,698**	68,247	69,322
Inventories	Note 18, page 101	**8,934**	5,896	5,818
Prepaid expenses	Note 20, page 102	**2,237**	3,336	3,415
Derivative financial instruments	Note 10, page 94	**4,207**	3,206	3,793
Total current assets		**82,621**	80,857	82,348
Non-current				
Property, plant and equipment	Note 4, page 81	**8,777,049**	8,654,122	9,222,415
Intangible assets	Note 7, page 85	**45,564**	42,880	44,666
Inventories	Note 18, page 101	**8,443**	4,373	4,356
Prepaid expenses	Note 20, page 102	**23,641**	23,244	23,245
Derivative financial instruments	Note 10, page 94	**8,227**	15,138	12,590
Total non-current assets		**8,862,924**	8,739,757	9,307,272
Total assets		**8,945,545**	8,820,614	9,389,620
Liabilities				
Current				
Bank overdraft		**–**	587	–
Borrowings	Note 8, page 86	**230,367**	380,951	206,363
Derivative financial instruments	Note 10, page 94	**38,618**	33,276	31,189
Trade and other payables for exchange transactions	Note 19, page 102	**14,182**	17,559	20,398
Accrued expenses	Note 21, page 103	**68,823**	62,968	71,084
Provisions	Note 22, page 103	**8,725**	9,220	8,008
Total current liabilities		**360,715**	504,561	337,042
Non-current				
Borrowings	Note 8, page 86	**1,374,073**	1,196,205	1,421,224
Derivative financial instruments	Note 10, page 94	**169,900**	268,697	237,552
Deferred tax liability	Note 16, page 100	**1,060,364**	998,201	1,156,289
Trade and other payables for exchange transactions	Note 19, page 102	**2,186**	865	–
Accrued expenses	Note 21, page 103	**12,717**	13,434	18,116
Provisions	Note 22, page 103	**7,014**	4,761	5,101
Total non-current liabilities		**2,626,254**	2,482,163	2,838,282
Total liabilities		**2,986,969**	2,986,724	3,175,324
Equity attributable to owners of the parent				
Retained earnings		**3,867,688**	3,733,270	3,776,255
Revaluation reserves	Note 6, page 84	**1,830,195**	1,839,927	2,177,348
Issued capital	Note 23, page 104	**260,693**	260,693	260,693
Total equity		**5,958,576**	5,833,890	6,214,296
Total equity and liabilities		**8,945,545**	8,820,614	9,389,620

The financial statements should be read in conjunction with the notes on pages 74 to 108 inclusive.

Statement of cash flows

For the year ended 30 June 2017

	Notes	2017 Actual $000	2016 Actual $000	2017 Budget $000
Operating activities				
Cash was provided from:				
Receipts from customers		**569,841**	531,685	549,837
Dividends received		**111**	113	100
Interest received		**43**	35	–
Income tax refund		**2**	–	–
Subvention receipt	Note 15, page 98	**3,903**	5,379	6,800
		573,900	537,212	556,737
Cash was applied to:				
Employees and suppliers		**(218,844)**	(212,891)	(213,925)
Finance costs paid		**(79,548)**	(76,567)	(80,663)
		(298,392)	(289,458)	(294,588)
Net cash flows – operating activities	Note 14, page 98	**275,508**	247,754	262,149
Investing activities				
Cash was provided from:				
Sale of property, plant and equipment, and intangibles		**26,791**	94	–
		26,791	94	–
Cash was applied to:				
Purchase and construction of property, plant and equipment, and intangibles		**(301,160)**	(300,638)	(315,057)
Purchase of forestry company		**(18,000)**	–	–
Interest capitalised on construction of property, plant and equipment, and intangibles	Note 9, page 88	**(9,742)**	(11,049)	(12,243)
		(328,902)	(311,687)	(327,300)
Net cash flows – investing activities		**(302,111)**	(311,593)	(327,300)
Financing activities				
Cash was provided from:				
Commercial paper issued (net)		**169**	374	167
Revolving credit facility (net)		**9,000**	19,000	10,500
Proceeds from Auckland Council loans – related party	Note 23, page 105	**250,000**	90,000	286,484
		259,169	109,374	297,151
Cash was applied to:				
Repay term loans		**(150,000)**	–	(150,000)
Repay medium-term notes issue		**–**	(30,000)	–
Repay loans from Auckland Council – related party	Note 23, page 105	**(81,606)**	(18,918)	(82,000)
		(231,606)	(48,918)	(232,000)
Net cash flows – financing activities		**27,563**	60,456	65,151
Net change in cash flows		**960**	(3,383)	–
(Overdraft)/cash and cash equivalents at the beginning of the year		**(415)**	2,968	–
Cash and cash equivalents/(overdraft) at the end of the year		**545**	(415)	–
Cash and cash equivalents comprises:				
Bank balances/(overdrafts)		**545**	(415)	–
		545	(415)	–

The financial statements should be read in conjunction with the notes on pages 74 to 108 inclusive.

Statement of changes in equity

For the year ended 30 June 2017

	Notes	2017 Retained earnings $000	2017 Revaluation reserves $000	2017 Issued capital $000	2017 Total $000
Balance at 1 July 2016		3,733,270	1,839,927	260,693	5,833,890
Comprehensive revenue and expense					
Net surplus for the year		124,686	–	–	124,686
Other comprehensive revenue and expense					
Gain on revaluation of property, plant and equipment	Note 6, page 84	–	–	–	–
Transfer between reserves on disposal of property, plant and equipment	Note 6, page 84	9,732	(9,732)	–	–
Total comprehensive revenue and expense for the year, net of tax		**134,418**	**(9,732)**	**–**	**124,686**
Balance at 30 June 2017		**3,867,688**	**1,830,195**	**260,693**	**5,958,576**

	Notes	2016 Retained earnings $000	2016 Revaluation reserves $000	2016 Issued capital $000	2016 Total $000
Balance at 1 July 2015		3,802,099	1,812,209	260,693	5,875,001
Comprehensive revenue and expense					
Net deficit for the year		(67,187)	–	–	(67,187)
Other comprehensive revenue and expense					
Gain on revaluation of property, plant and equipment	Note 6, page 84	–	26,076	–	26,076
Transfer between reserves on disposal of property, plant and equipment	Note 6, page 84	(1,642)	1,642	–	–
Total comprehensive revenue and expense for the year, net of tax		(68,829)	27,718	–	(41,111)
Balance at 30 June 2016		3,733,270	1,839,927	260,693	5,833,890

The financial statements should be read in conjunction with the notes on pages 74 to 108 inclusive.

1. Reporting entity and basis of preparation

Reporting Entity

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

Watercare's primary objective is to manage its operations efficiently with a view to providing water and wastewater services at a minimum cost to the Auckland region (except Papakura district which has been franchised to Veolia Water Services (ANZ) Pty Limited), and bulk wastewater services to parts of the Waikato region. Watercare does not operate to make a financial return on its assets and by legislation is restricted from paying dividends to its shareholder.

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

Basis of Preparation

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

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

These consolidated financial statements have been prepared on a going concern basis, and the accounting policies have been applied consistently throughout the period. The accounting policies that materially affect the measurement of comprehensive revenue and expense, financial position and cash flows are stated within the respective notes in these financial statements.

Statement of compliance

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

Budget figures

The budget figures presented are as approved by the Board on 21 June 2016. 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 4, page 80
- Unbilled revenue estimate, note 12, page 95
- Provisions, note 22, page 103

2. Explanation of major variances to budget

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

Statement of comprehensive revenue and expense – extract

	2017 Actual	2017 Budget	Variance	Variance
	$000	$000	$000	%
Revenue	631,009	578,533	52,476	9.1%
Amortisation	7,831	6,887	(944)	(13.7%)
Net loss on disposal of and provision for redundant property, plant and equipment, and restructuring costs	9,334	8,000	(1,334)	(16.7%)
Net gain on revaluation of derivative financial instruments	87,546	–	87,546	–
Gain on revaluation of property, plant and equipment	–	326,016	(326,016)	(100%)

- Revenue was $52.5 million or 9.1% higher than budget. This was primarily due to (non-cash) vested assets revenue being $40.9 million higher than budget and infrastructure growth charge revenue being $8.8 million higher than budget due to increased development activity in the Auckland region throughout the year. Additionally water and wastewater revenue was $3.2 million higher than budget.
- Amortisation was $0.9 million or 13.7% higher than budget due to increased amortisation on computer software assets as a result of higher capitalisations than expected during the year.
- The net loss on disposal of property, plant and equipment was $1.3 million or 16.7% higher than budget due to higher than expected business as usual replacement of assets during the year.
- Under PBE accounting standards the company revalues its interest rate swaps and forward foreign exchange contracts to fair value. This revaluation increased the current year surplus by $87.5 million. The revaluation is a (non-cash) unbudgeted accounting adjustment primarily reflecting the increase in the forward interest rate curve during the year to 30 June 2017.
- The budget assumed that infrastructure assets would be revalued at 30 June 2017. The fair value of infrastructure assets was assessed at balance date, but the increase was not considered material by management and accordingly the infrastructure assets were not revalued at 30 June 2017.

Statement of financial position – extract

	2017 Actual	2017 Budget	Variance	Variance
	$000	$000	$000	%
Total current assets	82,621	82,348	273	0.3%
Total non-current assets	8,862,924	9,307,272	(444,348)	(4.8%)
Total current liabilities	360,715	337,042	(23,673)	(7%)
Total non-current liabilities	2,626,254	2,838,282	212,028	7.5%
Total equity	5,958,576	6,214,296	(255,720)	(4.1%)

- Current assets were $0.3 million higher than budget primarily due to holding higher inventory for capital projects than was assumed in the budget.
- Non-current assets were $444.3 million lower than budget as no revaluation of infrastructure assets was required at 30 June 2017. The budget assumed that infrastructure assets would be revalued at 30 June 2017 resulting in a $453 million increase in asset value. The fair value of infrastructure assets was assessed at balance date, but the increase was not considered material by management and accordingly the infrastructure assets were not revalued at 30 June 2017. Capital expenditure was also lower than budgeted during the year.
- Current liabilities were $23.7 million higher than budget at year-end primarily due to higher levels of short term borrowings being primarily the reclassification of the $24 million term loan from non-current to current liabilities.
- Non-current liabilities were $212 million lower than budget due primarily to the decrease in financial liabilities resulting from the revaluation of derivative financial instruments. Additionally the budget assumed an increase in deferred tax liability resulting from the revaluation of infrastructure assets, this did not occur as no asset revaluation was completed during the year. Additionally term borrowings were lower than budget as a result of lower capital expenditure during the year and the reclassification of the $24 million term loan from non-current to current liabilities.
- Equity was lower than budget at year-end primarily due to there being no revaluation of infrastructure assets during 2017.

2. Explanation of major variances to budget (continued)

Statement of cash flows – extract

All of the company's cash flow from operations was available for either capital expenditure or debt repayment. Borrowings increased as a result of the shortfall between operating cash flows and capital expenditure.

	2017 Actual $000	2017 Budget $000	Variance $000	Variance %
Net cash flows – operating activities	275,508	262,149	13,359	5.1%
Net cash flows – investing activities	(302,111)	(327,300)	25,189	7.7%
Net cash flows – financing activities	27,563	65,151	(37,588)	(57.7%)

Net operating cash flows at $275.5 million were higher than budget primarily due to higher receipts from customers during the year. (See note 14 on page 98 for the reconciliation of net surplus after tax to operating cash flows).

The net cash flow for investing activities was 7.7% lower than budget due to lower spend on capital expenditure projects during the year.

The net cash flow from financing activities shows a net increase in borrowings in 2017 from the prior year of $27.6 million being lower than budget due to higher operating cash inflows and lower capital expenditure outflows.

3. 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/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

	2017			2016		
	Water	Wastewater	Total	Water	Wastewater	Total
	$000	$000	$000	$000	$000	$000
Revenue						
Water and wastewater	**148,313**	**318,604**	**466,917**	143,252	309,497	452,749
Other revenue	**83,679**	**80,413**	**164,092**	60,479	57,201	117,680
Total revenue	**231,992**	**399,017**	**631,009**	203,731	366,698	570,429
Operating expenses						
Asset operating costs	**(17,928)**	**(36,946)**	**(54,874)**	(21,031)	(39,841)	(60,872)
Maintenance costs	**(19,771)**	**(19,859)**	**(39,630)**	(17,741)	(21,035)	(38,776)
Employee benefit expenses	**(25,687)**	**(43,645)**	**(69,332)**	(23,497)	(39,923)	(63,420)
Other expenses	**(17,028)**	**(32,616)**	**(49,644)**	(16,255)	(30,571)	(46,826)
Total operating expenses	**(80,414)**	**(133,066)**	**(213,480)**	(78,524)	(131,370)	(209,894)
Depreciation	**(98,662)**	**(121,631)**	**(220,293)**	(93,695)	(114,208)	(207,903)
Amortisation	**(2,426)**	**(5,405)**	**(7,831)**	(2,338)	(6,009)	(8,347)
Finance costs	**(12,445)**	**(68,323)**	**(80,768)**	(9,476)	(68,208)	(77,684)
Total expenses	**(193,947)**	**(328,425)**	**(522,372)**	(184,033)	(319,795)	(503,828)
Operating surplus from trading operations	**38,045**	**70,592**	**108,637**	19,698	46,903	66,601
Net loss on disposal of and provision for redundant property, plant and equipment, and restructuring costs	**(3,778)**	**(5,556)**	**(9,334)**	(5,825)	(5,143)	(10,968)
Net gain/(loss) on revaluation of derivative financial instruments	**13,895**	**73,651**	**87,546**	(22,089)	(115,511)	(137,600)
Operating surplus/(deficit) before tax	**48,162**	**138,687**	**186,849**	(8,216)	(73,751)	(81,967)
Income tax (expense)/benefit	**(16,394)**	**(45,769)**	**(62,163)**	(235)	15,015	14,780
Net surplus/(deficit) for the year	**31,768**	**92,918**	**124,686**	(8,451)	(58,736)	(67,187)
Other comprehensive revenue and expense net of tax						
Gain on revaluation of property, plant and equipment	–	–	–	12,354	13,722	26,076
Other comprehensive revenue and expense for the year, net of tax	–	–	–	12,354	13,722	26,076
Total comprehensive revenue and expense for the year attributable to owners of the parent, net of tax	**31,768**	**92,918**	**124,686**	3,903	(45,014)	(41,111)

3. Business unit reporting (continued)

Business unit financial position

	2017			2016		
	Water	Wastewater	Total	Water	Wastewater	Total
	$000	$000	$000	$000	$000	$000
Assets						
Current						
Current assets	28,440	54,181	82,621	29,005	51,852	80,857
Total current assets	28,440	54,181	82,621	29,005	51,852	80,857
Non-current						
Property, plant and equipment	3,788,050	4,988,999	8,777,049	3,784,278	4,869,844	8,654,122
Intangible assets	11,202	34,362	45,564	11,454	31,426	42,880
Inventories	4,244	4,199	8,443	112	4,261	4,373
Prepaid expenses	–	23,641	23,641	–	23,244	23,244
Derivative financial instruments	1,315	6,912	8,227	2,505	12,633	15,138
Total non-current assets	3,804,811	5,058,113	8,862,924	3,798,349	4,941,408	8,739,757
Total assets	3,833,251	5,112,294	8,945,545	3,827,354	4,993,260	8,820,614
Liabilities						
Current						
Current liabilities	71,283	289,432	360,715	99,122	405,439	504,561
Total current liabilities	71,283	289,432	360,715	99,122	405,439	504,561
Non-current						
Borrowings	201,132	1,172,941	1,374,073	200,909	995,296	1,196,205
Derivative financial instruments	27,167	142,733	169,900	44,469	224,228	268,697
Deferred tax liability	336,819	723,545	1,060,364	315,832	682,369	998,201
Trade and other payables for exchange transactions	992	1,194	2,186	136	729	865
Accrued expenses	4,681	8,036	12,717	4,946	8,488	13,434
Provisions	554	6,460	7,014	408	4,353	4,761
Total non-current liabilities	571,345	2,054,909	2,626,254	566,700	1,915,463	2,482,163
Total liabilities	642,628	2,344,341	2,986,969	665,822	2,320,902	2,986,724
Equity attributable to owners of the parent	3,190,623	2,767,953	5,958,576	3,161,532	2,672,358	5,833,890
Total equity and liabilities	3,833,251	5,112,294	8,945,545	3,827,354	4,993,260	8,820,614

Business unit cash flows

	2017			2016		
	Water	Wastewater	Total	Water	Wastewater	Total
	$000	$000	$000	$000	$000	$000
Net cash flows – operating activities	118,668	156,840	275,508	105,275	142,479	247,754
Net cash flows – investing activities	(89,392)	(212,719)	(302,111)	(137,090)	(174,503)	(311,593)
Net cash flows – financing activities	(29,122)	56,685	27,563	31,255	29,201	60,456
Net change in cash flows	154	806	960	(560)	(2,823)	(3,383)

4. Property, plant and equipment

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

Asset Class	Category	Subsequent measurement basis	Estimated remaining useful lives in years	
			2017	2016
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	Fair value which is deemed to be depreciated replacement cost, less accumulated depreciation	**up to 80**	up to 81
Pipelines	Infrastructure asset	Fair value which is deemed to be depreciated replacement cost, less accumulated depreciation	**up to 166**	up to 166
Tanks, tunnels, roads and reservoirs	Infrastructure asset	Fair value which is deemed to be depreciated replacement cost, less accumulated depreciation	**up to 94**	up to 95
Dams	Infrastructure asset	Fair value which is deemed to be depreciated replacement cost, less accumulated depreciation	**up to 200**	up to 196
Landfill	Infrastructure asset	Cost less accumulated depreciation and impairment losses	**up to 35**	up to 35
Machinery	Infrastructure asset	Fair value which is deemed to be depreciated replacement cost, less accumulated depreciation	**up to 200**	up to 198
Motor vehicles	Operational asset	Cost less accumulated depreciation and impairment losses	**up to 22**	up to 22
Office equipment	Operational asset	Cost less accumulated depreciation and impairment losses	**up to 28**	up to 29
Capital work in progress	Infrastructure asset 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.

Reclassification

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

Revaluation

All PPE except for landfill, motor vehicles, office equipment and capital work in progress are revalued after initial recognition. Also refer to note 6, page 84 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.

4. Property, plant and equipment (continued)

Revaluation assumptions

The most recent valuation for land and buildings was completed at 30 June 2016 by Beca Valuations Limited (Beca). The land valuation was based on relevant market prices using a comparable sales approach and buildings were valued using the depreciated replacement cost. For the 2017 financial year, the movement in the fair value of land and buildings since 30 June 2016 was assessed at balance date using indices deemed suitable by management and prepared by Beca. The assessment indicated an increase of 7.9% in land value and 3.5% in buildings value at balance date. Aligning with Auckland Council Group, a revaluation of operational land and buildings will be completed in the 2018 financial year.

The most recent valuation for all infrastructure assets was completed at 30 June 2015 by Beca. By the nature of Watercare's business the infrastructure assets are of a specialised nature, which are rarely traded in the market place, 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 that:

- 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 2015 quarter and an estimate was made for the June 2015 quarter)
- Capitalised interest was applied to qualifying asset types in accordance with the estimated construction period and applicable cost of debt.

The movement in fair value of infrastructure assets since 30 June 2015 was assessed at balance date using indices deemed suitable by management. The assessment indicated an increase in infrastructure asset value of 3.5% which was not considered material by management and accordingly the infrastructure assets were not revalued during the year. A revaluation of infrastructure assets will be completed in the 2018 financial year. This is in line with Group policy of having revaluations carried out at least every three years.

Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment, 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.

4. Property, plant and equipment (continued)

	Land	Buildings	Pipelines	Tanks, tunnels, roads and reservoirs	Dams	Landfill	Machinery	Motor vehicles	Office equipment	Capital work in progress	Total
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
Balance at 1 July 2015											
Cost or valuation	155,354	76,193	5,981,345	684,238	232,282	47,940	948,018	14,049	32,271	385,275	8,556,965
Accumulated depreciation	–	(1,737)	(1,200)	(2)	(4)	(2,829)	(921)	(5,365)	(16,690)	–	(28,748)
Net book value	155,354	74,456	5,980,145	684,236	232,278	45,111	947,097	8,684	15,581	385,275	8,528,217
Year ended 30 June 2016											
Additions to work in progress	–	–	–	–	–	–	–	–	–	296,101	296,101
Additions to PPE	–	–	31,002	–	–	–	140	–	–	–	31,142
Transfers from work in progress	2,861	904	155,349	15,706	342	70	38,072	2,817	1,825	(229,311)	(11,365)
Disposals	–	(55)	(7,288)	(1)	–	–	(863)	(13)	(138)	(1,641)	(9,999)
Revaluation	21,312	6,617	–	–	–	–	–	–	–	–	27,929
Impairments	–	–	–	–	–	–	–	–	–	–	–
Transfer from/(to) other classes	–	1,461	–	–	–	2,601	(2,844)	–	(1,218)	–	–
Depreciation	–	(1,775)	(136,270)	(11,196)	(1,962)	(1,830)	(49,859)	(1,743)	(3,268)	–	(207,903)
Closing carrying amount	179,527	81,608	6,022,938	688,745	230,658	45,952	931,743	9,745	12,782	450,424	8,654,122
Balance at 30 June 2016											
Cost or valuation	179,527	81,609	6,160,366	699,943	232,625	50,581	982,386	16,533	32,422	450,424	8,886,416
Accumulated depreciation	–	(1)	(137,428)	(11,198)	(1,967)	(4,629)	(50,643)	(6,788)	(19,640)	–	(232,294)
Carrying amount	179,527	81,608	6,022,938	688,745	230,658	45,952	931,743	9,745	12,782	450,424	8,654,122
Year ended 30 June 2017											
Additions to work in progress	–	–	–	–	–	–	–	–	–	301,632	301,632
Additions to PPE	18,000	–	57,167	1,286	–	1,611	4,053	–	–	–	82,117
Transfers from work in progress	14,830	7,679	176,413	–	2,979	5,059	52,554	2,810	4,107	(277,122)	(10,691)
Disposals	(16,492)	(50)	(5,275)	(21)	–	–	(2,706)	(96)	(2)	–	(24,642)
Revaluation	–	–	–	–	–	–	–	–	–	–	–
Impairments	(2,965)	–	–	–	–	–	–	–	(647)	(1,606)	(5,218)
Transfer from/(to) other classes	–	–	1,324	(1,346)	–	–	44	–	–	–	22
Depreciation	–	(2,178)	(148,935)	(11,304)	(2,010)	(2,042)	(48,330)	(1,920)	(3,574)	–	(220,293)
Closing carrying amount	**192,900**	**87,059**	**6,103,632**	**677,360**	**231,627**	**50,580**	**937,358**	**10,539**	**12,666**	**473,328**	**8,777,049**
Balance at 30 June 2017											
Cost or valuation	192,900	89,238	6,388,533	699,859	235,604	57,251	1,035,214	18,347	29,919	473,328	9,220,193
Accumulated depreciation	–	(2,179)	(284,901)	(22,499)	(3,977)	(6,671)	(97,856)	(7,808)	(17,253)	–	(443,144)
Carrying amount	**192,900**	**87,059**	**6,103,632**	**677,360**	**231,627**	**50,580**	**937,358**	**10,539**	**12,666**	**473,328**	**8,777,049**

4. 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 entire 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 21, page 103. 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	Machinery	Total
	$000	$000	$000
Balance at 1 July 2015			
Cost or valuation	152,702	4,190	156,892
Accumulated depreciation	(54)	(1)	(55)
Carrying amount	152,648	4,189	156,837
Year ended 30 June 2016			
Additions to PPE	4,191	–	4,191
Disposals	(263)	(15)	(278)
Depreciation	(3,471)	(164)	(3,635)
Closing carrying amount	153,105	4,010	157,115
Balance at 30 June 2016			
Cost or valuation	156,624	4,175	160,799
Accumulated depreciation	(3,519)	(165)	(3,684)
Carrying amount	153,105	4,010	157,115
Year ended 30 June 2017			
Additions to PPE	7,256	693	7,949
Disposals	(133)	–	(133)
Depreciation	(3,516)	(182)	(3,698)
Closing carrying amount	**156,712**	**4,521**	**161,233**
Balance at 30 June 2017			
Cost or valuation	163,738	4,868	168,606
Accumulated depreciation	(7,026)	(347)	(7,373)
Carrying amount	**156,712**	**4,521**	**161,233**

4. Property, plant and equipment (continued)

Capital work in progress (WIP)

Work in progress relates to the following projects:	2017 $000	2016 $000
Water treatment plant	**38,239**	18,354
Wastewater treatment plant	**175,768**	132,101
Wastewater pump station and sewer	**166,146**	104,485
Watermains, pump stations and reservoirs	**60,158**	162,234
Dams and raw water transmission pipelines	**3,111**	5,401
Other	**29,906**	27,849
Total work in progress	**473,328**	450,424

5. Impairment of property, plant and equipment, and intangible assets

Non-financial assets other than revalued assets, primarily consisting of landfill, motor vehicles, office equipment, work in progress and intangibles, 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 fair value less costs to sell and its value in use. Where the carrying amount of the cash-generating unit (CGU) exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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.

6. Revaluation reserves

The group maintains a revaluation reserve for each class of assets. The changes in the value of each class of PPE as a result of the revaluations 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 previously charged as an expense in determining the surplus or deficit for the year. Any accumulated depreciation at the date of the revaluation is transferred to the gross carrying amount of the asset and the asset cost is restated to the revalued amount. When revalued assets are disposed of, the amounts included in other reserves are transferred to retained earnings.

	Land	Buildings	Pipelines	Tanks tunnels, roads and reservoirs	Dams	Machinery	Total
	$000	$000	$000	$000	$000	$000	$000
Balance at 1 July 2016	94,837	24,675	1,169,985	325,275	100,856	124,299	1,839,927
Revaluation during the year – net of deferred tax	–	–	–	–	–	–	–
Transferred to retained earnings on disposal of property, plant and equipment (net of tax)	(6,635)	57	(1,778)	(20)	–	(1,356)	(9,732)
Balance at 30 June 2017	**88,202**	**24,732**	**1,168,207**	**325,255**	**100,856**	**122,943**	**1,830,195**

	Land	Buildings	Pipelines	Tanks tunnels, roads and reservoirs	Dams	Machinery	Total
	$000	$000	$000	$000	$000	$000	$000
Balance at 1 July 2015	72,317	19,449	1,169,165	325,285	100,856	125,137	1,812,209
Revaluation during the year – net of deferred tax	21,312	4,764	–	–	–	–	26,076
Transferred to retained earnings on disposal of property, plant and equipment (net of tax)	1,208	462	820	(10)	–	(838)	1,642
Balance at 30 June 2016	94,837	24,675	1,169,985	325,275	100,856	124,299	1,839,927

7. Intangible assets

Measurement

Intangible assets are initially recorded at cost.

Asset Class	Subsequent measurement basis	Estimated remaining useful lives in years	
		2017	2016
Network models	Cost less accumulated amortisation and impairment losses	**up to 10**	up to 10
Computer software	Cost less accumulated amortisation and impairment losses	**up to 10**	up to 10
Resource consents	Cost less accumulated amortisation and impairment losses	**up to 35**	up to 36

Amortisation

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

7. Intangible assets (continued)

Carrying amount	Network models $000	Computer software $000	Resource consents $000	Easements $000	Total $000
Balance at 1 July 2015					
Cost	6,514	55,746	34,214	629	97,103
Accumulated amortisation	(4,694)	(40,449)	(11,777)	–	(56,920)
Carrying amount	1,820	15,297	22,437	629	40,183
Year ended 30 June 2016					
Transferred from work in progress	2,340	2,314	6,245	466	11,365
Disposals	–	(33)	–	–	(33)
Impairment	(8)	(6)	(274)	–	(288)
Transfer from/(to) other classes	–	–	–	–	–
Amortisation	(645)	(6,678)	(1,024)	–	(8,347)
Closing carrying amount	3,507	10,894	27,384	1,095	42,880
Balance at 30 June 2016					
Cost	4,948	55,855	35,460	1,095	97,358
Accumulated amortisation	(1,441)	(44,961)	(8,076)	–	(54,478)
Carrying amount	3,507	10,894	27,384	1,095	42,880
Year ended 30 June 2017					
Transferred from work in progress	351	7,439	2,808	93	10,691
Disposals	–	–	–	–	–
Impairment	–	(154)	–	–	(154)
Transfer from/(to) other classes	–	(22)	–	–	(22)
Amortisation	(846)	(5,860)	(1,125)	–	(7,831)
Closing carrying amount	**3,012**	**12,297**	**29,067**	**1,188**	**45,564**
Balance at 30 June 2017					
Cost or valuation	5,299	56,297	38,244	1,188	101,028
Accumulated amortisation	(2,287)	(44,000)	(9,177)	–	(55,464)
Carrying amount	**3,012**	**12,297**	**29,067**	**1,188**	**45,564**

8. 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.

Covenants

All borrowings are unsecured. Providers of bank loans and holders of medium-term notes and short-term commercial paper receive the benefit of a negative pledge undertaking from the group. This undertaking limits the extent to which the group can give security to lenders and requires the group to ensure that the following financial ratios are achieved at all times:

- Total liabilities do not exceed 60 per cent of total tangible assets
- Total liabilities plus total contingent liabilities do not exceed 65 per cent of total tangible assets
- Shareholder's funds are not less than $500 million
- Earnings before interest, tax, depreciation and amortisation is greater than 1.75 times interest expense
- Total tangible assets of the group are to be greater than 90 per cent of total tangible assets of the borrowing group.

All of these ratios have been met for the years 30 June 2017 and 30 June 2016. The group has an agreement with Auckland Council, under which Auckland Council guarantees repayment of the group's external borrowings and obligations under interest rate swaps.

	2017			2016		
	Face value	Unamortised cost	Carrying value	Face value	Unamortised cost	Carrying value
	$000	$000	$000	$000	$000	$000
Current						
Related party term loan (unsecured)	**80,839**	**–**	**80,839**	81,606	–	81,606
Medium-term notes (unsecured)	**–**	**292**	**292**	–	278	278
Commercial paper (unsecured)	**150,000**	**(764)**	**149,236**	150,000	(933)	149,067
Term loan (unsecured)	**–**	**–**	**–**	150,000	–	150,000
Total current borrowings	**230,839**	**(472)**	**230,367**	381,606	(655)	380,951
Non-current						
Related party term loan (unsecured)	**1,220,976**	**–**	**1,220,976**	1,051,816	–	1,051,816
Medium-term notes (unsecured)	**125,000**	**97**	**125,097**	125,000	389	125,389
Bank loan (unsecured)	**28,000**	**–**	**28,000**	19,000	–	19,000
Total non-current borrowings	**1,373,976**	**97**	**1,374,073**	1,195,816	389	1,196,205
Total borrowings	**1,604,815**	**(375)**	**1,604,440**	1,577,422	(266)	1,577,156

8. Borrowings (continued)

Interest rates at balance date:	2017 %	2016 %
Related-party term loan		
Weighted average	**3.35**	3.68
Average including interest rate swaps	**6.34**	6.02
Medium-term notes		
Weighted average	**5.49**	5.49
Weighted average including interest rate swaps	**3.34**	3.70
Term loan		
Weighted average	**–**	3.76
Weighted average including interest rate swaps	**–**	6.22
Bank loan		
Weighted average	**2.51**	3.01
Weighted average including interest rate swaps	**2.51**	3.01
Commercial paper		
Weighted average	**2.02**	2.45
Weighted average including interest rate swaps	**4.73**	5.05
Total debt		
Weighted average	**3.38**	3.70
Weighted average including interest rate swaps	**5.89**	5.72

The group had the following undrawn committed facilities available:

	2017 $000	2016 $000
Bank overdraft facility; expires on cancellation	**2,000**	1,413
Revolving advances; expires November 2018 (2016: expires November 2018)	**32,000**	41,000
Commercial paper stand-by facility; expires June 2020 (2016: expires July 2017)	**150,000**	175,000
Total undrawn committed facilities	**184,000**	217,413

Commercial paper issued by the group is represented by multiple tranches that spread funding risk. As each tranche matures, the group replaces it with a new issue, if required. The provider of the commercial paper stand-by facility acts as a lender of last resort, should the group be unable to reissue new commercial paper as it matures. The group's treasury policy requires that sufficient stand-by facilities be maintained to meet 50 per cent of outstanding commercial paper and other uncommitted short-term debt repayable within 60 days. The group complied with this requirement during the years ended 30 June 2017 and 30 June 2016.

9. 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 3.61% (2016: 4.32%) was used to determine the amount of capitalised interest. All other finance costs are expensed in the period in which they occur.

	2017	2016
	$000	$000
Interest on bank overdraft and borrowings, paid and payable	**90,510**	88,733
Capitalised interest on construction of property, plant and equipment, and intangibles	**(9,742)**	(11,049)
Net finance costs	**80,768**	77,684

10. Financial instruments and risk management

Risk management objectives and policies

The group's management monitor and manage 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	Interest rate swaps and interest rate options
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 mis-matches between revenue and expenses	Rolling cash flow forecasts	Availability of committed credit lines and borrowing facilities

The group's risk management is carried out by a treasury function (Treasury) in accordance with policies approved by the Board of Directors. Treasury 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.

10. Financial instruments and risk management (continued)

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 risk is managed by the group through monitoring market interest rates and reviewing the impact of these on interest rate exposures.

The group's borrowings comprise both fixed rates and floating rates of interest. It is group policy to ensure that a proportion of interest rate exposure is maintained on a fixed-rate basis. To achieve this, the group enters into contracts that allow some of its floating interest rate exposure to be swapped to fixed rates, and vice versa. As interest rates change, these derivative financial instruments are revalued to fair value and the change in fair value is recorded in the surplus or deficit.

The group's exposure to market interest rates relates primarily to the group's debt obligations, which are disclosed in note 8, page 86. The notional amounts and fixed interest rates in place at balance date to manage interest rate risk were as follows:

	2017		2016	
	Fixed interest rate	Notional amount	Fixed interest rate	Notional amount
Interest rate swaps	%	$000	%	$000
Receivable maturities (fixed to floating):				
One to two years	**5.69**	**125,000**	–	–
Two to three years	**–**	**–**	5.69	125,000
Four to five years	**5.94**	**50,000**	–	–
Beyond five years	**6.24**	**60,000**	6.10	110,000
Payable maturities (floating to fixed):				
Within one year	**3.55**	**25,000**	4.65	115,000
One to two years	**5.62**	**105,000**	3.55	25,000
Two to three years	**4.06**	**20,000**	5.62	105,000
Three to four years	**4.14**	**125,000**	4.06	20,000
Four to five years	**4.55**	**230,000**	4.14	125,000
Beyond five years	**5.34**	**1,140,000**	5.22	1,350,000

	2017			2016		
	Cap rate	Floor rate	Notional amount	Cap rate	Floor rate	Notional amount
Interest rate 'collar' option	%	%	$000	%	%	$000
Four to five years	**5.25**	**4.35**	**50,000**	–	–	–
Beyond five years	**–**	**–**	**–**	5.25	4.35	50,000

10. Financial instruments and risk management (continued)

Interest rate sensitivity

The following sensitivity analysis is based on the group's interest rate risk exposures at balance date.

At balance date, if interest rates had moved as illustrated in the table below with all other variables held constant, the post-tax surplus or deficit and equity would have been affected as follows:

	2017		2016	
	Post-tax surplus Higher/(lower)	Equity Higher/(lower)	Post-tax deficit (Higher)/lower	Equity Higher/(lower)
Sensitivity to possible movements:	$000	$000	$000	$000
Interest paid				
1% (100 basis points) higher for the year	**(850)**	**(850)**	(1,577)	(1,577)
1% (100 basis points) lower for the year	**850**	**850**	1,577	1,577
Revaluation of derivative financial instruments				
1% (100 basis points) higher at year-end	**72,473**	**72,473**	82,543	82,543
1% (100 basis points) lower at year-end	**(79,968)**	**(79,968)**	(91,565)	(91,565)

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$250,000 (2016: NZ$250,000), the group manages this risk with forward foreign exchange contracts or options.

The group had forward foreign exchange contracts at balance date as follows:

	2017			
	Average exchange rate	Foreign currency	Contract value	Mark-to-market gain/(loss)
		FC 000	NZ$000	NZ$000
Australian Dollar (AUD)				
Less than three months	0.9559	120	126	1
Three months and beyond	0.9500	460	484	(1)
Total forward foreign exchange contracts			**610**	**–**

	2016			
	Average exchange rate	Foreign currency	Contract value	Mark-to-market gain/(loss)
		FC 000	NZ$000	NZ$000
United States Dollar (USD)				
Less than three months	0.7142	500	700	8
Three months and beyond	0.7727	93	121	13
Euro (EUR)				
Three months and beyond	0.5910	146	247	(13)
Total forward foreign exchange contracts			1,068	8

10. Financial instruments and risk management (continued)

Foreign exchange sensitivity

The following sensitivity analysis is based on the group's foreign exchange risk exposures at year-end. At balance date, had the New Zealand dollar exchange rate changed as illustrated in the table below with all other variables held constant, the post-tax surplus or deficit and equity would have been affected as follows:

	2017		2016	
	Post-tax surplus Higher/(lower)	Equity Higher/(lower)	Post-tax deficit (Higher)/lower	Equity Higher/(lower)
Sensitivity to possible movements:	$000	$000	$000	$000
Change in Australian dollar exchange rate				
10% increase	**(40)**	**(40)**	–	–
10% decrease	**49**	**49**	–	–
Change in United States dollar exchange rate				
10% increase	**–**	**–**	(55)	(55)
10% decrease	**–**	**–**	67	67
Change in Euro exchange rate				
10% increase	**–**	**–**	(15)	(15)
10% decrease	**–**	**–**	19	19

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.

The group's cash and cash equivalents and derivatives are placed with major trading banks or other parties with a minimum A– long-term credit rating assigned by Standard & Poor's, or its Moody's equivalent. 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:

	2017			2016		
	Carrying amount	Provision for doubtful debts	Net carrying amount	Carrying amount	Provision for doubtful debts	Net carrying amount
	$000	$000	$000	$000	$000	$000
Not past due	**29,083**	**–**	**29,083**	33,838	–	33,838
Past due 1 to 30 days	**4,456**	**(16)**	**4,440**	2,116	(13)	2,103
Past due 30 to 60 days	**1,189**	**(69)**	**1,120**	848	(98)	750
Past due more than 60 days	**4,428**	**(871)**	**3,557**	3,052	(1,082)	1,970
Total	**39,156**	**(956)**	**38,200**	39,854	(1,193)	38,661

	2017	2016
Movement in the provision for doubtful debts	$000	$000
Balance at 1 July 2016	**1,193**	1,234
Additions during the year	**19**	386
Bad debts written off	**(256)**	(427)
Balance at 30 June 2017	**956**	1,193

10. 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.

The group's objective is to maintain a balance between continuity of funding through long-term borrowings, sourced mainly from Auckland Council but also comprising medium-term notes and term loans, and the flexibility provided by a bank overdraft, revolving credit facility and commercial paper. The liquidity risk associated with the commercial paper is mitigated by a stand-by facility of $150 million (2016: $175 million).

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

	2017						
	Current		Non-Current			Gross nominal cash outflow	Carrying Amount
	0–6 months	7–12 months	1–2 years	2–3 years	Over 3 years		
	$000	$000	$000	$000	$000	$000	$000
Financial liabilities							
Trade and other payables for exchange transactions	13,461	721	2,139	47	–	16,368	16,368
Accrued expenses*	56,099	–	–	–	–	56,099	56,099
Forward exchange contracts	1	–	–	–	–	1	1
Interest rate swaps	22,294	22,201	36,475	32,767	195,456	309,193	203,985
Interest rate option	588	572	890	798	1,126	3,974	4,532
Borrowings	255,710	25,028	284,228	242,300	1,154,125	1,961,391	1,604,440
Total	**348,153**	**48,522**	**323,732**	**275,912**	**1,350,707**	**2,347,026**	**1,885,425**

	2016						
	Current		Non-Current			Gross nominal cash outflow	Carrying Amount
	0–6 months	7–12 months	1–2 years	2–3 years	Over 3 years		
	$000	$000	$000	$000	$000	$000	$000
Financial liabilities							
Bank overdraft	587	–	–	–	–	587	587
Trade and other payables for exchange transactions	18,424	–	–	–	–	18,424	18,424
Accrued expenses*	56,470	–	–	–	–	56,470	56,470
Forward exchange contracts	–	13	–	–	–	13	13
Interest rate swaps	18,290	19,362	42,015	41,564	267,284	388,515	296,743
Interest rate option	95	519	1,048	1,048	2,535	5,245	5,217
Borrowings	375,552	52,916	122,305	262,269	1,049,727	1,862,769	1,577,156
Total	469,418	72,810	165,368	304,881	1,319,546	2,332,023	1,954,610

* Excludes current and non-current revenue received in advance of $25.4 million (2016: $19.9 million) as it was not categorised as a financial liability; refer note 21, page 103.

The group monitors rolling forecasts of liquidity reserves on the basis of expected cash flow. At balance date the group had $184 million of unused credit facilities (commercial paper stand-by facility, overdraft facility and revolving credit facility) available for immediate use (2016: $217.4 million).

10. Financial instruments and risk management (continued)

Fair values

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

Loans and receivables

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

Amortised cost

As a result 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

Interest rate swaps and interest rate options were measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates. Forward foreign exchange contracts were measured using observable market forward exchange rates.

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to those used in the previous reporting period. No reclassification of financial assets was made during the years ended 30 June 2017 or 30 June 2016.

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.

The only financial assets and liabilities that were measured at fair value in the statement of financial position were derivative financial instruments. The valuation for derivative financial instruments was based on the level 2 fair value hierarchy. The derivative financial instruments that the group held at balance date comprised interest rate swaps, interest rate options and forward foreign exchange contracts.

Watercare's derivative transactions under the International Swaps and Derivative Association (ISDA) Master Agreement do not meet the criteria for offsetting in the balance sheet, such as a default on the bank loans or other credit events. As Watercare does not have a legally enforceable right of set-off at present, these amounts have not been offset in the balance sheet.

There were no transfers between levels 1, 2 and 3 during the year ended 30 June 2017. Fair values at balance date were assessed using a range of market interest rates of between 2.08 per cent and 3.59 per cent (2016: 2.25 per cent and 2.90 per cent), derived from the interest rate swap curve.

10. Financial instruments and risk management (continued)

	2017		2016	
	Carrying amount	Fair value	Carrying amount	Fair value
	$000	$000	$000	$000
Financial assets – current				
Loans and receivables				
Cash and cash equivalents	**545**	**545**	172	172
Trade and other receivables from exchange transactions	**66,698**	**66,698**	68,247	68,247
Fair value through surplus or deficit				
Derivative financial instruments	**4,207**	**4,207**	3,206	3,206
Financial assets – non-current				
Fair value through surplus or deficit				
Derivative financial instruments	**8,227**	**8,227**	15,138	15,138
	79,677	**79,677**	86,763	86,763
Financial liabilities – current				
Amortised cost				
Trade and other payables for exchange transactions	**14,182**	**14,182**	17,559	17,559
Accrued expenses*	**56,099**	**56,099**	56,470	56,470
Bank overdraft (unsecured)	**–**	**–**	587	587
Related party term loan (unsecured)	**80,839**	**81,969**	81,606	81,976
Medium-term notes (unsecured)	**292**	**292**	278	278
Commercial paper (unsecured)	**149,236**	**149,595**	149,067	149,477
Term loan (unsecured)	**–**	**–**	150,000	150,718
Fair value through surplus or deficit				
Derivative financial instruments	**38,618**	**38,618**	33,276	33,276
Financial liabilities – non-current				
Amortised cost				
Trade and other payables for exchange transactions	**2,186**	**2,186**	865	865
Related party term loan (unsecured)	**1,220,976**	**1,236,010**	1,051,816	1,049,012
Medium-term notes (unsecured)	**125,097**	**131,510**	125,389	134,913
Bank loan (unsecured)	**28,000**	**28,002**	19,000	19,002
Fair value through surplus or deficit				
Derivative financial instruments	**169,900**	**169,900**	268,697	268,697
	1,885,425	**1,908,363**	1,954,610	1,962,830

* Excludes current and non-current revenue received in advance of $25.4 million (2016: $19.9 million) as it was not categorised as a financial liability; refer note 21, page 103.

10. Financial instruments and risk management (continued)

Capital management

The capital structure of the group consists of equity attributable to the owners of the parent, comprising issued capital, reserves and retained earnings as disclosed on page 73, and debt including borrowings and covenants compliance as disclosed in note 8 on pages 86 and 87.

The group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. In ensuring that the group has sufficient solvency to satisfy all its operational needs, it 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 whilst 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 2017 and 30 June 2016.

11. Revaluation of derivative financial instruments

	2017	2016
	$000	$000
Interest rate swaps contracts (gain)/loss	**(87,553)**	137,127
Forward foreign exchange contracts loss	**7**	473
Net revaluation (gain)/loss	**(87,546)**	137,600

12. Revenue

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

Revenue from exchange transactions

Water and wastewater revenue

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

Revenue from rendering of services

Revenue from rendering of services is recognised at 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 transfers.

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 fair value of the assets received, being the values provided by the developers, at the date of transfer to Watercare. Vested assets received are recorded as additions to property, plant and equipment and are not classified as capital expenditure.

12. Revenue (continued)

	Notes	2017 $000	2016 $000
Revenue from exchange transactions			
Revenue from sale of goods			
Water revenue – gross		149,923	144,834
Water leak remission		(1,610)	(1,585)
Water revenue – net of leak remissions		148,313	143,249
Revenue from sale of services			
Wastewater revenue – gross		322,521	312,955
Wastewater leak remission		(3,917)	(3,455)
Wastewater revenue – net of leak remissions		318,604	309,500
Total water and wastewater revenue – net of leak remissions		466,917	452,749
New meters and service connections		10,585	8,529
Laboratory revenue		6,464	6,070
Total revenue from sale of goods and services		483,966	467,348
Infrastructure growth charge revenue		79,115	62,059
Dividend income		111	113
Subvention income	Note 15, page 98	2,139	5,253
Interest income		43	35
Other revenue		4,715	4,280
Total other revenue from exchange transactions		86,123	71,740
Total revenue from exchange transactions		570,089	539,088
Revenue from non-exchange transactions			
Transfers revenue			
Vested assets revenue		60,920	31,341
Total revenue from non-exchange transactions		60,920	31,341
Total revenue		631,009	570,429

13. Operating expenses

	Notes	2017 $000	2016 $000
Operating expenses include:			
Auditor's remuneration			
– annual audit and review of the financial statements – Deloitte		**583**	582
– audit of financial statements – Office of the Auditor-General (OAG) contribution		**38**	37
– other services – Deloitte		**302**	18
Directors' and trustees' fees	Note 27, pages 107 & 108	**484**	532
Environmentally significant costs			
– chemicals		**11,034**	10,943
– energy		**17,270**	17,937
Cost of consumables and spare parts consumed	Note 18, page 101	**15,679**	15,055
Operating leases and rent		**5,813**	5,419
Increase in provision for doubtful debts	Note 10, page 91	**19**	386
Bad debts written off	Note 10, page 91	**256**	427
Salaries and wages			
– paid to employees		**81,487**	71,955
– capitalised on construction of property, plant and equipment		**(15,280)**	(11,672)
– included in employee benefit expenses		**66,207**	60,283

Auditor's remuneration for other services relates to a review of ERP systems, cyber-security advice including planning and implementation, tax advisory and negative pledge reporting. Prior year fees for other services provided by the auditors relate to a review of ERP systems, a cyber-security policy review and negative pledge reporting.

14. Reconciliation of operating cash flows

	2017	2016
	$000	$000
Reconciliation of net surplus/(deficit) after tax to net cash flows from operating activities		
Net surplus/(deficit) for the year	124,686	(67,187)
Non-cash and non-operating items:		
Depreciation and amortisation	228,124	216,250
Net loss on disposal of and provision for redundant property, plant and equipment	9,122	10,569
Vested assets revenue	(60,920)	(31,341)
Net (gain)/loss on revaluation of derivative financial instruments	(87,546)	137,600
Medium-term notes premium amortisation and time value of money charges	(278)	(76)
Deferred tax	62,163	(14,780)
Movements in working capital:		
(Increase)/decrease in assets:		
Inventories	(3,257)	(2,324)
Trade and other receivables from exchange transactions	3,150	(897)
Prepaid expenses	702	115
Increase/(decrease) in liabilities:		
Trade and other payables for exchange transactions	439	(1,158)
Accrued expenses	(2,740)	(316)
Provisions	1,863	1,299
Net cash flows from operating activities	275,508	247,754

15. Income tax expense

Current tax

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

Sale of tax losses

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

Tax loss offset

For the income year ended 30 June 2017, Watercare agreed to a maximum of tax losses to be sold to Auckland Council tax group of $49 million (2016: $63 million). Of which, $6.2 million (2016: $7.9 million) was accrued as subvention and the balance of $42.8 million (2016: $55.1 million) was recognised as an estimated loss offset with Auckland Council tax group.

For the year ended 30 June 2017, Watercare received a cash payment of $3.9 million (2016: $5.4 million) from Auckland Council tax group with a tax impact of $31 million (2016: $42.7 million).

This has resulted in subvention income of $2.1 million (net) being recognised in the financial statements reflecting the $6.2 million accrual at 30 June 2017 partially offset by an over accrual of $4.1 million at 30 June 2016.

15. Income tax expense (continued)

	2017 $000	2016 $000
Operating surplus/(deficit) before tax	186,849	(81,967)
Income tax calculated at current tax rate of 28%	52,318	(22,951)
Increase/(decrease) in income tax due to:		
– Dividend and other income exempt from taxation	(1,433)	(1,470)
– Assessable income	4,168	–
– Non-deductible expenses	2,012	(276)
– Imputation credits on dividends received	(42)	(43)
– Prior year and other adjustments	386	(6,341)
– Subvention income and tax loss offset with Auckland Council tax group	4,754	16,301
Tax effect of non-deductible items and prior period adjustments	9,845	8,171
Income tax expense/(benefit)	62,163	(14,780)
Represented by:		
Deferred tax	62,163	(14,780)
Total income tax expense/(benefit)	62,163	(14,780)

Imputation credits

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

	2017 $000	2016 $000
Total imputation credits	30,478	30,437

16. Deferred tax liability

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

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

The depreciation temporary differences for property, plant and equipment arose because the carrying value of property, plant and equipment was higher for accounting purposes than it was 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.

The provisions and accrued expenses temporary differences principally related to the mark-to-market revaluation of financial instruments. These expenses were recognised for accounting purposes but cannot be deducted for tax purposes until the amounts become payable.

Current and deferred tax assets and liabilities are measured at the tax rates that are expected to apply to 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.

16. Deferred tax liability (continued)

(i) Recognised deferred tax assets and liabilities

	2017	2016	2017	2016	2017	2016
	Assets	Assets	Liabilities	Liabilities	Net	Net
	$000	$000	$000	$000	$000	$000
Property, plant and equipment	–	–	**(1,352,628)**	(1,305,383)	**(1,352,628)**	(1,305,383)
Financial instruments	**54,904**	79,416	–	–	**54,904**	79,416
Employee benefits and other provisions	**2,890**	2,698	–	–	**2,890**	2,698
Tax losses	**253,702**	241,417	–	–	**253,702**	241,417
Other	–	–	**(19,232)**	(16,349)	**(19,232)**	(16,349)
Total	**311,496**	323,531	**(1,371,860)**	(1,321,732)	**(1,060,364)**	(998,201)

(ii) Movement in deferred tax

	Property, plant and equipment	Financial instruments	Employee entitlements and other provisions	Tax losses	Other	Total
	$000	$000	$000	$000	$000	$000
Balance as at 1 July 2015	1,258,761	(40,888)	(3,666)	(216,376)	13,297	1,011,128
Charged/(credited) to comprehensive revenue and expense	44,769	(38,528)	968	(25,041)	3,052	(14,780)
Charged to other comprehensive revenue and expense, resulting from revaluation	1,853	–	–	–	–	1,853
Balance as at 30 June 2016	1,305,383	(79,416)	(2,698)	(241,417)	16,349	998,201
Balance as at 1 July 2016	1,305,383	(79,416)	(2,698)	(241,417)	16,349	998,201
Charged/(credited) to comprehensive revenue and expense	47,245	24,512	(192)	(12,285)	2,883	62,163
Charged to other comprehensive revenue and expense, resulting from revaluation	–	–	–	–	–	–
Balance as at 30 June 2017	**1,352,628**	**(54,904)**	**(2,890)**	**(253,702)**	**19,232**	**1,060,364**

17. Trade and other receivables from exchange transactions

Trade and other receivables from exchange transactions are initially recognised at fair value. These are generally due for settlement within 21 days (2016: 21 days). Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is recognised when there is objective evidence that the group will not be able to collect all amounts due. Impairment losses are recognised in surplus or deficit within other expenses. Subsequent recoveries of amounts previously written off are recorded within other revenue. Refer to note 10, page 91.

	2017 $000	2016 $000
Current		
Trade receivables	**37,669**	38,796
Trade receivables – related parties	**1,487**	1,058
Provision for doubtful debts	**(956)**	(1,193)
	38,200	38,661
Other receivables – related parties	**6,577**	8,384
Other receivables	**2,516**	331
Unbilled revenue accrual	**19,405**	20,871
Trade and other receivables from exchange transactions	**66,698**	68,247

18. Inventories

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

Spare parts and consumables are recorded at cost less an adjustment for the reduction in economic benefits due to obsolescence. The cost of spare parts is recorded as an expense when used for repairs and maintenance on existing plant and equipment, or 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 $15.7 million (2016: $15.1 million).

	2017 $000	2016 $000
Spare parts at cost	**5,743**	5,140
Consumables at cost	**3,429**	3,483
Treated water at cost	**864**	835
Project stock	**8,218**	1,669
Provision for obsolescence	**(877)**	(858)
Total	**17,377**	10,269
Represented as:		
Current inventory	**8,934**	5,896
Non-current inventory	**8,443**	4,373
Total	**17,377**	10,269

19. Trade and other payables for exchange transactions

Trade and other payables for exchange transactions are unsecured and usually paid within 30 days (2016: 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.

	2017 $000	2016 $000
Current		
Trade creditors	7,656	9,375
Trade creditors – related parties	109	779
Contract retentions	4,461	6,976
Other payables	1,956	429
Total current trade and other payables for exchange transactions	14,182	17,559
Non-current		
Contract retentions	2,186	865
Total non-current trade and other payables for exchange transactions	2,186	865
Total trade and other payables for exchange transactions	16,368	18,424

20. Prepaid expenses

	2017 $000	2016 $000
Current		
Puketutu Island lease	443	443
Other prepaid expenses	1,794	2,893
Total current prepaid expenses	2,237	3,336
Non-current		
Puketutu Island lease	21,294	21,737
Other prepaid expenses	2,347	1,507
Total non-current prepaid expenses	23,641	23,244
Total prepaid expenses	25,878	26,580

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 relate mainly to prepaid insurance, biosolids levy and software licensing fees.

21. Accrued expenses

	2017 $000	2016 $000
Current		
Capital work in progress accruals	**26,321**	19,706
Interest payable	**11,501**	10,613
Revenue received in advance	**12,724**	6,498
Operating costs accruals	**18,277**	26,151
Total current accrued expenses	**68,823**	62,968
Non-current		
Revenue received in advance	**12,717**	13,434
Total non-current accrued expenses	**12,717**	13,434
Total accrued expenses	**81,540**	76,402

Revenue received in advance includes $7.7 million (2016: $8 million) relating to the amount received in accordance with the franchise fee agreement with the network operator Veolia Water Services (ANZ) Pty Limited. The $13 million fee received at the commencement of the agreement covers the right to use the assets for a 50-year period and is recognised as revenue evenly over the term of the agreement. Accrued expenses above include related party accruals. Refer to note 23, page 105 for a breakdown of related party accruals.

22. 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, and it is probable that there will be a future outflow of resources and that the amount of the provision can be reliably measured.

	2017 $000	2016 $000
Current		
Employee entitlements	**7,844**	8,314
Decommissioning costs	**131**	241
Other provisions	**750**	665
Total current provisions	**8,725**	9,220
Non-current		
Employee entitlements	**1,744**	1,291
Decommissioning costs	**5,270**	3,470
Total non-current provisions	**7,014**	4,761
Total provisions	**15,739**	13,981

22. Provisions (continued)

	Employee entitlements	Decommissioning costs	Other provisions	Total
	$000	$000	$000	$000
Balance at 1 July 2016	9,605	3,711	665	13,981
Additions during the year	8,503	1,879	750	11,132
Reductions resulting from payments	(8,520)	(189)	(21)	(8,730)
Unused provisions reversed during the year	–	–	(644)	(644)
Balance at 30 June 2017	**9,588**	**5,401**	**750**	**15,739**

Watercare is currently depositing biosolids on Puketutu Island in Mangere, 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 $23.3 million will be required evenly over the 10 year period covering 2046 to 2055 financial years, with a net present value at balance date of $5.3 million (2016: $3.4 million).

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

- An average inflation rate over the 40 year provision period of 3.35%
- A 4.75% discount rate in calculating net present value (2016: 6%)
- An expected biosolids completion date of 30 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 and therefore an estimate has been made based on the information available at balance date.

Included within the decommissioning provisions is an additional provision of $0.1 million (2016: $0.3 million) for the restoration of Pond 2 located adjacent to the Mangere wastewater treatment plant. Other provisions of $0.8 million relate to claims made by contractors in respect of capital projects.

23. Equity and related parties

Equity

Watercare is 100 per cent owned by Auckland Council. The total number of authorised and issued shares at balance date was 260,693,164 (2016: 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 10, page 95.

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

Subsidiaries

The consolidated financial statements comprise the financial statements of the controlling entity Watercare Services Limited and the four 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 whilst the actual expenditure is recognised in the group's accounts when the subsidiaries incur the expenditure.

Water Utility Consumer Assistance Trust

Water Utility Consumer Assistance Trust was formed in October 2011 and is a charitable trust. 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. During 2010/11, Watercare became the primary funder of this trust and, at 30 June 2017, two of the five trustees on the Board were current Watercare employees.

23. Equity and related parties (continued)

Auckland City Water Limited

Auckland City Water Limited is 100 per cent owned (2016: 100 per cent) by Watercare and it is a non-trading company.

Hunua Forests Limited

On 23 January 2017 Watercare purchased 100% of the shares of Waytemore Forests Limited. The company's name was subsequently changed to Hunua Forests Limited (HFL). The assets of the company were primarily forestry rights relating to forested areas in and close to the Hunua catchment. These assets are held within the land asset class which are disclosed in the PP&E movements schedule in note 4 on page 81. Although the whole company was acquired the transaction was accounted for as an asset acquisition as the main commercial objective of the transaction was to acquire the forestry rights held by HFL in the Hunua catchment area. The rights will be amended to protect the catchment area from future contamination risks and improve security of supply.

Transactions with related parties

Watercare entered into borrowing arrangements with Auckland Council on the terms set out in note 8, page 86. Watercare also entered into interest rate swap arrangements with Auckland Council (with a notional value of $30 million; 2016: $30 million) with a fair value of $1 million (2016: $0.8 million) as at balance date, as included in note 10, page 89. The balances outstanding and transactions relating to the borrowings from Auckland Council during the year were as follows:

	2017	2016
	$000	$000
Loans from Auckland Council, balance at 30 June	**1,301,815**	1,133,422
Interest payable on loans from Auckland Council	**5,802**	5,156
Interest expense on loans from Auckland Council	**41,574**	42,441
Loans borrowed from Auckland Council during the year	**250,000**	90,000
Loans repaid to Auckland Council during the year	**81,606**	18,918
Interest receivable (net) on interest rate swaps with Auckland Council	**245**	244
Interest expense on swaps (net) with Auckland Council	**361**	474
Debt guarantee fee payable to Auckland Council	**123**	179
Debt guarantee expense with Auckland Council	**385**	717

During the year, the group provided funding to its subsidiaries. Also, in the normal course of business, Watercare received monies and incurred expenses on behalf of Te Motu A Hiaroa (Puketutu Island) Governance Trust and, at balance date, $133,231 (2016: $229,172) was payable to the trust by the group.

The group has a loss offset and subvention arrangement with Auckland Council tax group as detailed in note 15, page 98.

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

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

	2017	2016
	$000	$000
Sales to related parties	**15,638**	17,802
Trade receivables from exchange transactions – related parties	**1,487**	1,058
Purchases from related parties	**4,527**	4,461
Trade payables for exchange transactions – related parties	**109**	779
Receivables accruals – related parties	**6,576**	8,384
Payables accruals – related parties	**1,207**	1,795

24. Commitments

	2017 $000	2016 $000
Capital expenditure		
The capital expenditure committed to, but not recognised in, these financial statements at balance date was:		
Buildings	**3,278**	3,214
Pipelines	**164,851**	119,603
Tanks, tunnels, roads and reservoirs	**17,865**	28,156
Intangibles	**2,333**	1,726
Other	**29,066**	75,196
Total capital expenditure commitments	**217,393**	227,895
Anticipated payment schedule:		
Less than one year	**162,494**	186,847
One to two years	**29,282**	38,228
Two to five years	**23,691**	680
Beyond five years	**1,926**	2,140
Total capital expenditure commitments	**217,393**	227,895

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

The major lease commitments relate to the long-term lease of the office premises in Newmarket, which expires in November 2025, and the long-term lease from Auckland Council of the land forming the water catchment areas, which expires in July 2092. The annual rental of $0.6 million (2016: $0.6 million) for the water catchment areas was included in these commitments at face value. Other leases include parks, reservoirs and office equipment.

	2017 $000	2016 $000
Operating leases		
Anticipated payments under non-cancellable operating leases:		
Less than one year	**6,287**	5,735
One to two years	**6,262**	5,711
Two to five years	**17,467**	16,410
Beyond five years	**84,941**	70,258
Total lease commitments	**114,957**	98,114

25. Contingencies

A Watercare contractor is alleged to have caused damage to a private home following the installation of an underground pipe. The maximum exposure Watercare has from home owner claim is $850,000. However, this claim has been accepted by Watercare's insurers and the excess is $50,000. Negotiations have commenced between lawyers representing our insurer and the property owner. In the normal course of its business, the group was exposed to other claims, legal proceedings and arbitrations that may, in some cases, result in costs to the group. The directors believe that these were provided for adequately by the group within the provisions outlined in note 22, page 103, of these financial statements and no additional material contingent liabilities requiring disclosure have been identified.

26. 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 2017 was $2.1 million (2016: $1.8 million).

27. Key management personnel

The key management personnel of the group are the directors, the chief executive, and the senior management team of Watercare, and the trustees of the subsidiaries, who together constitute the governing body of the group. The number of individuals, on a full-time equivalent (FTE) basis, excluding directors and trustees, receiving remuneration from the group as key management personnel is 10 FTE (2016: 12 FTE). The aggregate remuneration received by the key management personnel is shown below:

	2017	2016
	$000	$000
Employees' salaries and wages, directors' fees and trustees fees	**4,074**	4,321
Post-employment benefits	**–**	127
Aggregate remuneration	**4,074**	4,448

		2017	2016
Directors' fees	Appointed	$000	$000
Margaret Devlin (Chair – appointed November 2016)	November 2016	**71**	–
Julia Hoare	November 2013	**65**	61
Tony Lanigan	April 2011	**53**	53
Catherine Harland	April 2011	**53**	53
Nicola Crauford	April 2014	**53**	53
David Thomas	November 2014	**53**	53
Brendon Green	November 2016	**36**	–
David Clarke (Chairman – resigned October 2016)	July 2008	**36**	107
Mike Allen (resigned October 2016)	December 2011	**22**	68
Peter Drummond (resigned October 2016)	January 2010	**18**	53
Total		**460**	501

27. Key management personnel (continued)

Trustees' fees	Appointed	2017 $000	2016 $000
Water Utility Consumer Assistance Trust			
Jeff Morrison (Chairman)	December 2015	8	5
Maureen Little	October 2011	5	4
Lauren Godsiff	October 2011	6	6
Emily Charlton-Rapana	July 2015	5	7
John Lusk (Chairman) – retired November 2015	October 2011	–	4
Bruce Hucker – retired June 2016	October 2011	–	5
Total		24	31
Watercare Harbour Clean Up Trust			
Peter Drummond (Chairman)	April 2015	–	–
Penny Whiting	April 2015	–	–
Brian Monk	April 2015	–	–
Mark Bourne	April 2015	–	–
Rob Fisher	April 2015	–	–
Total		–	–

Directors' fees			
Hunua Forests Limited			
Brian Monk	January 2017	–	–
Rob Fisher	January 2017	–	–
Total		–	–

28. Events occurring after balance date

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

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 ($)	2017 Number of employees
100,000 – 110,000	72
110,001 – 120,000	48
120,001 – 130,000	34
130,001 – 140,000	29
140,001 – 150,000	12
150,001 – 160,000	14
160,001 – 170,000	8
170,001 – 180,000	4
180,001 – 190,000	3
190,001 – 200,000	2
200,001 – 210,000	3
210,001 – 220,000	3
220,001 – 230,000	1
230,001 – 240,000	4
240,001 – 250,000	1
250,001 – 260,000	1
260,001 – 270,000	1
270,001 – 280,000	1
290,001 – 300,000	1
300,001 – 310,000	1
310,001 – 320,000	1
350,001 – 360,000	1
360,001 – 370,000	1
370,001 – 380,000	1
470,000 – 480,000	1
680,000 – 690,000	1

During the year, Watercare made one-off corrective payments covering the past 6 years to ensure full compliance with its obligations under the Holidays Act 2003. This has resulted in a number of staff earning more than $100,000. The one-off payment has also resulted in greater increases in salary for many staff. The extreme weather event also resulted in higher than normal overtime, especially where automated plants had to be manually operated.

Customer focus

(i) **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 2016/17: ≤ 60 mins – Achieved: 41 mins; Previous year: 44 mins)

Watercare met this target. The median response time for our maintenance crew to attend to urgent issues was 41 minutes, which is well within the target of 60 minutes or less.

(ii) **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 2016/17: ≤ 5 hours – Achieved: 3 hours; Previous year: 3 hours)

Watercare met this target. The median response time for our maintenance crew to resolve urgent issues such as faults or interruptions was 3 hours, which is well within the target of five hours or less.

(iii) **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 2016/17: ≤ 3 days – Achieved: 1 day; Previous year: 3 days)

Watercare met this target. The median response time for our maintenance crew to attend to non-urgent water issues was one day, which met the target of three days or fewer.

(iv) **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 2016/17: ≤ 6 days – Achieved: 2 days; Previous year: 4 days)

Watercare met this target. The median response time for our maintenance crew to resolve non-urgent issues was 2 days, which is well within the target of six days or fewer.

(v) **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 expressed per 1000 connections to the local authority's networked reticulation system.
(SOI Target 2016/17: ≤ 10 – Achieved: 6; Previous year: 6)

Watercare met this target. It relates to the volume of calls we received regarding water quality and supply issues for the year ended 30 June 2017. The number of complaints received per 1000 connections was 6, which is well within the target of 10 or fewer.

(vi) **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 2016/17: ≤ 50 – Achieved: 24; Previous year: 21)

Watercare met this target. It relates to the volume of calls we received regarding wastewater odours, overflows, broken pipes and other network issues for the year ended 30 June 2017. The number of complaints received per 1000 connections was 24, which is well within the target of 50 or fewer. The overall increase in the number of wastewater complaints in 2016/17 (compared to 2015/16) can be attributed to the extreme weather events in March.

(vii) **Attendance at sewage overflows resulting from blockages or other faults: median response time for attendance – from the time that Watercare receives notification to the time that service personnel reach the site.**
(SOI Target 2016/17: ≤ 60 mins – Achieved: 50 mins; Previous year: 46 mins)

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

(viii) 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 2016/17: ≤ 5 hours – Achieved: 3 hours; Previous year: 3 hours)

Watercare met this target. The median response time for our maintenance crew to resolve wastewater overflows or blockages was 3 hours, which is within the target of five hours or less.

(ix) Percentage of customers surveyed satisfied with Watercare's delivery of water and wastewater services.
(SOI Target 2016/17: ≥ 80% – Achieved: 84%; Previous year: 84%)

Watercare met this target. For 2016/17, an automated feedback programme (Voice of the Customer) was used to survey customers after they interacted with Watercare. In previous years, we provided an average of the respondents' satisfaction rating whereas this year, we consider customers as being satisfied if they rate their overall experience between 7 and 10 on a scale of 0 to 10 (0 being poor and 10 being excellent). This year, 4,625 customers rated us between 7 and 10 out of 5,530 respondents, which results in 84%. We changed the way we measure customer satisfaction because VoC enables us to survey more customers on a continuous basis and use their feedback to implement improvements.

(x) Percentage of complaints 'resolved and closed' within 10 working days.
(SOI Target 2016/17: ≥ 95% – Achieved: 98%; Previous year: 94%)

Watercare met this target. In 2016/17, 709 complaints were received and of these complaints, 98% (695) were resolved within the stipulated 10-day period, against a target of 95% or more. The overall number of complaints decreased by 4% this year compared to the result of 742 in 2015/16.
For the purpose of this measure, a 'complaint' relates to transactional complaints such as price increases, account maintenance, employee behaviour, payments and refunds. It excludes calls received about drinking water quality and wastewater issues as these have been reported separately above.

(xi) Percentage of household expenditure on water supply services relative to the average household income.
(SOI Target 2016/17: ≤ 1.5% – Achieved: 0.9%; Previous year: 0.9%)

Watercare met this target. The average monthly household water and wastewater bill from us was $75.33 for the period 1 July 2016 to 30 June 2017 inclusive. Statistics New Zealand's current (2016/17) average monthly household income in Auckland is $8,764. This means that the average household water bill represents 0.9% of the average household income. This is well within the stipulated target to keep the average monthly household water bill below or equal to 1.5% of the average monthly household income.

(xii) The number of dry-weather overflows from Watercare's sewerage system, expressed per 1000 sewerage connections to that sewerage system.
(SOI Target 2016/17: ≤ 10 – Achieved: 0.4; Previous year: 0.5)

Watercare met this target. The number of wastewater overflows from our retail network during dry weather is a measure of the network's capability to meet current demand. The result for the year was 0.4 dry-weather overflows per 1000 connections, which is well under the target of 10 or fewer.

(xiii) Average number of wet-weather overflows per discharge location.
(SOI Target 2016/17: ≤ 2 – Not Achieved: 3.4; Previous year: 0.7)

Watercare did not meet this target. The average number of wet-weather overflows for the transmission network per discharge location was 3.4, which is above the target of two or fewer overflows. It is also above the 2015/16 result of 0.7 overflows. The significant increase of overflows for the 2016/17 year was due to extreme wet weather, especially during the months of March and April (Tasman Tempest). Wet weather overflows are very dependent on the frequency, intensity and duration of rain events. As these are natural occurrences, it is not feasible to meet the target consistently.

(xiv) The extent to which Watercare's drinking water supply complies with part 4 of the drinking water standards (Bacterial Compliance Criteria).
(SOI Target 2016/17: = 100% – Achieved: 100%; Previous year: 100%)

Watercare met this target. Water treated at all of our graded treatment plants met the Bacterial Compliance Criteria set by the Drinking Water Standards for New Zealand (DWSNZ). Compliance with DWSNZ is verified through a combination of continuous online analysers at various stages of the water treatment process and an extensive sampling and analysis programme by Watercare Laboratory Services. The results from this programme are independently assessed by a Ministry of Health-appointed drinking water assessor. The reported result is based on the grading achieved in November 2016, for the year beginning 1 July 2015 and ending 30 June 2016 inclusive. The 2016/17 result will be available after the grading in November 2017 for the year beginning 1 July 2016 and ending 30 June 2017.

(xv) The extent to which Watercare's drinking water supply complies with part 5 of the drinking water standards (Protozoal Compliance Criteria).
(SOI Target 2016/17: =100% – Achieved: 100%; Previous year: 100%)

Watercare met this target. Water treated at all of our graded treatment plants met the Protozoal Compliance Criteria set by the Drinking Water Standards for New Zealand (DWSNZ). Compliance with DWSNZ is verified through a combination of continuous online analysers at various stages of the water treatment process and an extensive sampling and analysis programme by Watercare Laboratory Services. The results from this programme are independently assessed by a Ministry of Health-appointed drinking water assessor. The reported result is based on the grading achieved in November 2016, for the year beginning 1 July 2015 and ending 30 June 2016. The 2016/17 result will be available after the grading in November 2017 for the year beginning 1 July 2016 and ending 30 June 2017.

Business excellence

(i) Lost-time injury frequency rate (LTIFR) per million hours worked.
(SOI Target 2016/17: ≤ 5 – Achieved: 2; Previous year: 2)

Watercare met this target. We recorded an LTIFR of 2, which is well within the target of five or fewer. Although there has been a slight increase in our LTIFR since 2015/16, there were no injuries of a serious nature in 2016/17.

We continued to improve our hazard and incident reporting and recording, which is indicative of growth towards an informed, reporting and learning culture. This past year has trended well with both compliance and positive behavioural safety practices. We provided health and safety training programmes designed to empower management teams to improve health and safety practices and behaviours across the business. The development and introduction of our health and safety toolkit was another milestone this year. In 2017/18, we will continue to improve our health and safety risk assurance programmes to ensure sound management of critical health and safety risks across our operations, including contractors.

(ii) Total recordable injury frequency rate (TRIFR) per million hours worked.
(SOI Target 2016/17: ≤ 20 – Achieved: 13; Previous year: 23)

Watercare met this target, achieving a TRIFR of 13, against a target of 20 or fewer injuries for every million hours worked per year. This rate is significantly lower than the TRIFR for 2015/16 and can be attributed to the positive safety and zero-harm culture that is taking shape at Watercare. Increased reporting in the past two years has enabled more learnings and better behaviours, resulting in fewer injuries at work.

(iii) Percentage of voluntary leavers relative to the number of permanent staff.
(SOI Target 2016/17: ≤ 12% – Achieved: 12%; Previous year: 13%)

Watercare met this target. Voluntary staff turnover for 2016/17 was 12%, against a target of 12% or less. We have implemented initiatives for better recruitment and retention of staff, including:

- participating in career weeks and expos to increase awareness of Watercare as a great place to work
- launching an improved performance review programme
- launching a comprehensive survey tool for collecting staff feedback on engagement and performance of the business.

We plan to review the remuneration framework in 2017/18 to ensure we remain competitive in the market.

Fully sustainable

(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 2016/17: a) ≤ 2, b) ≤ 2, c) ≤ 2, d) = 0. Achieved: a) = 0, b) = 0, c) = 0, d) = 0; Previous year: a) = 0, b) = 0, c) = 0, d) = 0)

Watercare met this target. There were no abatement, infringement or enforcement notices or convictions for the 2016/17 year. We continued to invest in improvements to our wastewater treatment processes and infrastructure. Major upgrades are under way at Māngere and Rosedale and Pukekohe treatment plants. Further work is planned for the upgrade of the Army Bay Wastewater Treatment Plant and wastewater servicing for the Warkworth-Snells-Algies area.

(ii) **The percentage of real water loss from Watercare's networked reticulation system.**
(SOI Target 2016/17: ≤ 13% – Achieved: 11.9%; Previous year: 12.9%)

Watercare met this target. The water losses in this measure are calculated by deducting water sales volumes and allowable unbilled water usage from the total volume of water produced. These allowable uses fall into three categories: operational usage (pipeline flushing, fire-fighting etc); meter under-recording; and unauthorised usage. The volumes attributed to these three activities are calculated by using percentages recommended by Water New Zealand.

In 2016/17 we were able to conduct analysis on the meter under-recording component using a sample of 1,500 meters which were replaced in the Waiuku area. Results from the comparison of readings between the old and new meters show that the volume of water under-recorded by the old meters was 11% instead of the previously assumed 3%. The International Water Association advices that 5% is an appropriate value where empirical data is not available. In the absence of a larger representative sample, Watercare has adopted 5% as the under-registration component.

Following the results after comparing the readings of the old and new meters (set out above), Watercare are undertaking programmes of work to address this. This includes accelerating meter replacement and developing a smart networks strategy.

(iii) **The average consumption of drinking water per day per resident.**
(SOI Target 2016/17: 270 +/- 2.5% – Achieved: 273; Previous year: 272)

Watercare met this target. The gross per-capita consumption was 273 litres per day this year, against a target of 270 litres per day (+/- 2.5%). The increase in gross per capita consumption is a result of increased economic activity in Auckland and increased demand for water from non-domestic customers. Demand from our customers has generally remained stable.

Watercare is currently updating the Auckland Regional Water Demand Management Plan, which will outline our strategy for managing demand over the next three years (2017 to 2020). The plan will propose strategies to manage demand based on the type of consumer (e.g. domestic, commercial, industrial etc.) as well as specific initiatives such as smart metering, consumer education, and water efficiency services to support the demand management plan.

(iv) **Percentage of the 19 Iwi groups throughout Auckland that Watercare has entered into a Memorandum of Understanding (MoU) with.**
(SOI Target 2016/17: 60% – Not Achieved: 16%; Previous year: N/A – New measure for 2016/17)

Although Watercare did not meet this target, it continues to maintain strong relationships with the Iwi groups throughout Auckland, and our level of engagement with the 19 Iwi groups is significant including bi-monthly meetings with the Mana Whenua Kaitiaki Managers Group. The MoU records our relationships with the Iwi groups and articulates the objectives that Watercare and Iwi wish to realise through our engagement and outlines the engagement approach. We signed MoUs with three Iwi groups in 2016/17, which equates to 16% against a target of 60%. Previously, Watercare has signed MoU's with Waikato Tainui and Te Akitai. Also, Watercare is in the process of refreshing the MoU with Ngati Whatua o Orakei. Efforts to finalise agreements with the remaining Iwi groups are well advanced.

Financial responsibility

(i) **Minimum funds flow from operations (FFO) to interest cover ratio before any price adjustment.**
(SOI Target 2016/17: ≥ 2.5 – Achieved: 3.9; Previous year: 3.7)

The funds from operations (FFO) to interest cover ratio for the year ending 30 June 2017 was 3.9. The FFO were boosted by higher-than-budgeted revenue, while interest expense benefited from a combination of lower-than-budgeted new borrowings and lower-than-projected cost of funds.

GRI index – ‘in accordance’ core

This Content Index provides an overview of the G4 Standard Disclosures based on the selections made.

GRI’s Standard Disclosures are comprised of one or more disclosure requirements. Following the link on a specific disclosure label in this Index will take you to the next sheet, ‘Overview - Standard Disclosures’, where the requirements are listed from “a” to “z” under the column “Disclosure Requirements”. In order to report ‘in accordance’, an organization must answer each of the disclosure requirements for all the required Standard Disclosures.

In exceptional cases, if it is not possible to disclose certain required information, reasons for omission may apply for those Standard Disclosures marked with (*) in tables 3 and 4 on page 12 of Guidelines – Reporting Principles and Standard Disclosures. Consult the “Reasons for omission” on page 13 of the Guidelines – Reporting Principles and Standard Disclosures. There are also macros embedded in this sheet to assist you in disclosing accepted reasons for omission; click on the cell in the Reason(s) for Omission(s) column that you want to provide such a reason for and a selection form will open.

The GRI Guidelines contain the authoritative text. In case of any discrepancies between this Content Index template and the GRI Guidelines, the GRI Guidelines’ text shall prevail.

General standard disclosures

General standard disclosures	Page number (or link) Information related to Standard Disclosures required by the ‘in accordance’ options may already be included in other reports prepared by the organization. In these circumstances, the organization may elect to add a specific reference to where the relevant information can be found.	External assurance Indicate if the Standard Disclosure has been externally assured. If yes, include the page reference for the External Assurance Statement in the report.
Strategy and analysis		
G4-1	Governance section p.14, Fully Sustainable p.57; CE’s report p.10-11	
Organizational profile		
G4-3	Watercare Services Limited	
G4-4	Water supply and wastewater services	
G4-5	Auckland, New Zealand	
G4-6	New Zealand	
G4-7	100% owned by Auckland Council	
G4-8	Auckland, New Zealand	
G4-9	Overview p.4; Business Excellence p.42; Financials p.53	
G4-10	Business Excellence p.40, p.43	
G4-11	Business Excellence p.40	
G4-12	Business Excellence p.46	
G4-13	No change in size, structure or ownership over the reporting period	
G4-14	Watercare does not explicitly mention precautionary approach. It is however included in the risk management process explained in the Governance section on page 18	
G4-15	Watercare has not endorsed external charters	
G4-16	Watercare is a member of Water Services Association of Australia, Water New Zealand and the Sustainable Business Network	
Identified material aspects and boundaries		
G4-17	Financials p.64	
G4-18	Reporting and Materiality p.4-5	
G4-19	Reporting and Materiality p.4-5; CE Report p.10-11; GRI Content index	
G4-20	Throughout annual report	
G4-21	Throughout annual report	
G4-22	GHG Emissions p.58	
G4-23	No significant change	

General standard disclosures (continued)

DMA and indicators	Page number (or link)
Stakeholder engagement	
G4-24	Stakeholder engagement p.5
G4-25	Reporting and Materiality p.20-25
G4-26	Governance p.15
G4-27	CE Report p.10-11; Reporting and Materiality p.20-25
Report profile	
G4-28	1 July 2016 to 30 June 2017
G4-29	Sep-16
G4-30	Annual reporting cycle
G4-31	communications@water.co.nz
G4-32	In accordance with G4 ‘Core’ guidelines
G4-33	Annual report Assurance statements p.62-63, p.68
Governance	
G4-34	Governance p.14-18
Ethics and integrity	
G4-56	Governance p.14-18

Specific standard disclosures

DMA and indicators	Page number (or link)	Identified omission(s)	Reason(s) for omission(s)	Explanation for omission(s)	External assurance
	Information related to Standard Disclosures required by the 'in accordance' options may already be included in other reports prepared by the organization. In these circumstances, the organization may elect to add a specific reference to where the relevant information can be found.	In exceptional cases, if it is not possible to disclose certain required information, identify the information that has been omitted.	In exceptional cases, if it is not possible to disclose certain required information, provide the reason for omission.	In exceptional cases, if it is not possible to disclose certain required information, explain the reasons why the information has been omitted.	Indicate if the Standard Disclosure has been externally assured. If yes, include the page reference for the External Assurance Statement in the report.
Category: Economic					
Material aspect: Economic performance					
G4-DMA	Overview p.2				
G4-EC1	Financial responsibility p.51; Financials p.66				
G4-EC2	Governance p.18; CE Report p.10-11; Customers Focus p.28; Financial Responsibility p.52				
G4-EC4	Overview p.2				
Material aspect: Indirect economic impacts					
G4-DMA	Overview p.2 ; Business Excellence p.44				
G4-EC7	CE Report p.10-11; Stakeholder engagement p.20-22; Business Excellence p.45; Financial Responsibility p.53				
Material aspect: Procurement practices					
G4-DMA	Business Excellence p.46-47; Financial Responsibility p.50				
G4-EC9	Business Excellence p.46				
Category: Environmental					
Material aspect: Energy					
G4-DMA	Fully Sustainable p.58-59				
G4-EN3	Fully Sustainable p.58-59				
Material aspect: Water					
G4-DMA	Overview p.2; Customer Focus p.28; Business Excellence p.44; Fully Sustainable p.56				
G4-EN8	Business Excellence p.44				
G4-EN9	Business Excellence p.44 ; Fully Sustainable p.57				
G4-EN10	Fully sustainable p.59				
Material aspect: Biodiversity					
G4-DMA	Fully Sustainable p.57				
G4-EN11	Overview p.3; Fully Sustainable p.57				
Material aspect: Emissions					
G4-DMA	Fully Sustainable p.58				
G4-EN15	Energy and greenhouse gas emissions online supplement (www.watercare.co.nz)				
G4-EN16	Energy and greenhouse gas emissions online supplement (www.watercare.co.nz)				
G4-EN17	Energy and greenhouse gas emissions online supplement (www.watercare.co.nz)				
G4-EN19	Energy and greenhouse gas emissions online supplement (www.watercare.co.nz)				

Specific standard disclosures (continued)

DMA and indicators	Page number (or link)
Category: Environmental (continued)	
Material aspect: Effluents and waste	
G4-DMA	Fully Sustainable p.59-61
G4-EN22	Fully Sustainable p.59-61; Wastewater online supplement (www.watercare.co.nz)
G4-EN23	Fully Sustainable p.59
G4-EN24	Customer Focus p.34; Fully Sustainable p.61
G4-EN25	Fully Sustainable p.60
G4-EN26	Fully Sustainable p.56-57; Biodiversity online supplement (www.watercare.co.nz)
Material aspect: Compliance	
G4-DMA	Fully Sustainable p.61
G4-EN29	Fully Sustainable p.61
Category: Social	
Sub-category: Labor practices and decent work	
Material aspect: Employment	
G4-DMA	Business Excellence p.39, p.42
G4-LA1	Business Excellence p.40
G4-LA3	Business Excellence p.42
Material aspect: Occupational health and safety	
G4-DMA	Business Excellence p.39
G4-LA5	Business Excellence p.43
G4-LA6	Business Excellence p.43
G4-LA8	Business Excellence p.43
Material aspect: Training and education	
G4-DMA	Business Excellence p.39
G4-LA9	Business Excellence p.39
G4-LA11	Business Excellence p.39
Material aspect: Diversity and equal opportunity	
G4-DMA	Business Excellence p.40
G4-LA12	Profiles p.12-13; Governance p.17 ; Business Excellence p.40
Material aspect: Equal remuneration for women and men	
G4-DMA	Business Excellence p.42
G4-LA13	Business Excellence p.42

Specific standard disclosures (continued)

DMA and indicators	Page number (or link)
Category: Social (continued)	
Sub-category: Society	
Material aspect: Local communities	
G4-DMA	CE Report p.10-11; Governance p.15; Stakeholder engagement p.20-24
G4-SO1	Community engagement is required for all major infrastructure projects and is part of the consenting process. Stakeholder engagement p.20
Material aspect: Compliance	
G4-DMA	Fully Sustainable p.61
G4-SO8	Fully Sustainable p.61
Sub-category: Product responsibility	
Material aspect: Customer health and safety	
G4-DMA	Customer Focus p.30, p.32-33
G4-PR1	Customer Focus p.30, p.32-33
G4-PR2	Fully Sustainable p.61
Material aspect: Product and service labelling	
G4-DMA	Customer Focus p.29
G4-PR5	Customer Focus p.31
Material aspect: Compliance	
G4-DMA	Customer Focus p.29-31; Fully Sustainable p.61
G4-PR9	No non-compliance reported

Index

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 per cent methane.
Biosolids	A treated solid by-product of the wastewater treatment process.
Capex	Capital expenditure.
Capitalised interest	The borrowing costs directly attributable to the acquisition or construction of qualifying assets, which are capital projects that span more than one financial year, added to the cost of those assets, until such time as the assets are substantially ready for their intended use.
Central Interceptor	A large tunnel that will collect and carry wastewater.
EBITDA	Operating surplus from trading operations before depreciation and amortisation, finance costs, vested assets revenue (non-cash) and developer and financial contributions (non-cash).
Global Reporting Initiative (GRI)	A non-profit organisation that works towards a sustainable global economy by providing sustainability reporting guidance.
Greenhouse gases	Gases that trap heat in the atmosphere. Examples of greenhouse gases are methane, perfluorocarbons and nitrous oxide.
Infrastructure assets	Assets that are mainly held and used for the purpose of treatment, storage and transmission of water and wastewater, such as water mains and sewers, and also treatment plants, tanks, dams and reservoirs.
Infrastructure growth charge	Amount collected from property owners or developers applying for new connections to help fund new infrastructure required by growth.
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.
Reliability-Centred Maintenance (RCM)	A framework which identifies the optimum time to maintain or replace assets based on operational performance, cost, health and safety and the environment.
Service concession arrangement	A binding arrangement between Watercare (grantor) and Veolia (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).
Taonga	Property, goods, possessions (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 (for example, 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 sewer network from domestic, commercial or industrial locations.

Turbid water in the Cosseys Reservoir during the Tasman Tempest.

Watercare Services Limited

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