



The Watercare Board of Directors at the Ardmore Water Treatment Plant

2013-2016

Statement of Intent

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Introduction

Matariki tāpuapua
Puanga kai rau e
Tihewa Mauriora

The protective shield of Pleiades group indicating growth. The strength of Rigel as an indicator of harvest. The breath of life of growth.

Me mihi ki te whenua, me tangi hoki mō
rātou kua okioki

Acknowledgement of the land, condolences for those dearly departed.

E ngā mana, e reo, e ngā huihuinga tāngata
puta noa Tāmaki Makaurau Tāmaki Whānui
hoki tēnā koutou i raro i te pikinga ake o
Matariki o Puanga hoki. E manakohia nei kia
pērā ano hoki te pikinga ake o ā tātou mahi
ngātahi āmuri ake nei. Anei rā te tauāki hei
tātaki i aua manako. Kāti ake.

To the authorities, the spokespeople, the assemblage throughout Tāmaki the land of assembled suitors across the breadth of Tāmaki - a warm and gracious greeting in this period of Pleiades of Rigel as well. We do seek to enhance our collective tasks guided by such influences in our future collaborative arrangements. Herein follows the statement of such aspirations.

Watercare Services Limited (Watercare) is responsible for the provision of drinking water and wastewater services in Auckland and is a council-controlled organisation (CCO) of the Auckland Council.

This Statement of Intent (SOI) represents Watercare's public expression of activities, intentions and objectives, and legislative expression of accountability to its shareholder, the Auckland Council, based on the performance measures included in this SOI.

The SOI recognises the important relationship that exists between Watercare and the Auckland Council, and that the success of each is dependent on the actions of the other. In particular, Watercare's ability to successfully undertake its business and meet performance targets set out in this SOI relies on the Auckland Council providing a supportive policy and regulatory environment that enables necessary water and wastewater investments and actions to be undertaken in a timely and sustainable manner.



ROSS KEENAN
CHAIRMAN

JUNE 2013

Strategic Direction

Vision

“Outstanding and affordable water services for all the people of Auckland.”

“Outstanding” means Watercare will provide safe drinking water, promote efficient water use, and protect waterways and the environment through the effective transport and treatment of wastewater. “Affordable” water services means that Watercare will run an efficient business and keep the overall costs of services to customers (collectively) at minimum levels.

Key Goals

Watercare has seven main goals and focus areas that reflect the responsibilities and challenges of the company. These are:

Safe and Reliable Water Supply: To manage water resources to provide a safe and reliable water supply.

Healthy Waterways: To manage wastewater discharges to maintain or improve the health of the environment.

Sound Financial Management: To meet business objectives at the lowest cost.

Effective Asset Management: To maximise the use of existing assets while optimising the scope, timing and costs of new investments.

Stable Workforce: To have a skilled, motivated and empowered workforce.

Sustainable Environment: To conserve the resources of today for future generations.

Satisfied Customers and Stakeholders: To provide great service and great value.

These goals represent the main focus areas of Watercare’s business activities. Success in all these areas combined is required to deliver high quality and sustainable services to the people of Auckland.

Contribution to Auckland Council Goals

The supply of outstanding and affordable water services directly contributes to the Mayor's vision of Auckland becoming the world's most liveable city.

Of the seven desired outcomes set out in the Auckland Plan, Watercare directly contributes to:

- A fair, safe and healthy Auckland, where people value the excellent services and facilities available
- A green Auckland, where our waterways and coastlines are clean and full of life
- A beautiful Auckland that is loved by its people, where Auckland communities take pride in their surroundings and work together to create places they value

The Auckland Plan sets out 13 strategic directions that will help Auckland achieve the Mayor's vision. Watercare contributes directly to several of these strategic directions. That is to:

- Plan, deliver and maintain quality infrastructure to make Auckland liveable and resilient.
- Enable Māori aspirations through recognition of the Treaty of Waitangi and customary rights
- Acknowledge that nature and its people are inseparable
- Contribute to tackling climate change and increasing energy resilience

Watercare supports the aims of the Implementation and Funding Framework through the alignment of Watercare's prioritised Asset Management Plan (AMP) and Financial Plan with the Auckland Council Long Term Plan (LTP).

Watercare supports the key enablers of the Auckland Plan and, in particular, moving to a quality compact urban form.

Watercare also supports the environmental principles within the Auckland Plan attached as Table 7.1, Appendix A, pg29.

Company Obligation

From 1 July 2012 Watercare became a CCO¹. The company's obligations to deliver water and wastewater services for Auckland, are set out in Part 5 section 57(1) of the Local Government (Auckland Council) Act 2009 which stipulates amongst others, that an Auckland water organisation:

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

The SOI has been prepared in accordance with Schedule 8 of the Local Government Act 2002 and covers a three-year term from 1 July 2013 to 30 June 2016.

¹ Under sections 2(2) and 113(2) of the Local Government (Auckland Transitional Provisions) Act 2010.

Nature and Scope of Activities

As at 1 July 2013, Watercare managed assets which are valued at \$8.4 billion and received total revenue of \$467 million for the year ending 30 June 2013.

The company's main services include:

- The collection, treatment, and distribution of drinking water from 12 dams, 14 groundwater sources and springs and three river sources. A total of 143 billion litres of water was sourced in 2011/12 and treated at 21 plants and distributed through 8,800 kilometers of water pipes through 84 reservoirs and 90 pump stations to 1.4 million customers.
- **The collection, treatment, and disposal of wastewater** at 20 treatment plants. The two main wastewater plants servicing the majority of the region are located at Mangere on the Manukau Harbour and Rosedale on the North Shore. Wastewater is conveyed through 7,757 kilometers of sewers before treatment. The regional network includes 539 wastewater pump stations and 164,000 manholes.
- **The transfer, treatment, and disposal of trade wastes.** At 1 July 2012, Watercare worked with 1,650 customers in administering the four trade waste bylaws to protect the wastewater network and assist in ensuring that wastewater treatment plant discharges meet consent-requirements. Watercare is also responsible for enforcing trade waste compliance.
- **The provision of commercial laboratory services** in support of the business. The independently accredited laboratory provides a full range of testing and sampling services for water, wastewater, biota and air quality and also works with a wide customer base across a range of industries to provide first-class laboratory analysis and sampling services.

These activities are supported by customer services, finance, legal services, capital programmes, human resources, information services and maintenance services.

Watercare's responsibilities for the supply of drinking water and treatment and disposal of wastewater mean the company is a major contributor to the health, prosperity, and well-being of the Auckland wide community. The company has a sound record as a good corporate citizen, committed to the delivery of high quality cost-effective services.

As a local government-owned utility, Watercare is obliged to provide a high level of transparency in reporting². In line with the focus on sustainability, the company has been recognised for its commitment to transparent and accountable reporting, and as an integrated provider of water and wastewater services these commitments will continue.

Approach To Governance

Shareholder

Watercare is a CCO of the Auckland Council. The Auckland Council is the company's shareholder.

Board of Directors

Watercare has an independent board of directors. Watercare's constitution requires the directors to manage the company in line with the annual SOI. Through the SOI, the directors are accountable to the shareholder, who is in turn accountable to residents and ratepayers of the Auckland region.

The directors determine the overall direction of the company in light of the objectives set out in the SOI and the statutory requirements for the company under the Local Government Act 2002 and the Companies Act 1993. The directors make major decisions, including decisions on large new capital investment and on significant business initiatives, in line with those objectives.

The directors are responsible for monitoring the performance of the company, and for monitoring the performance of the chief executive who has responsibility for managing the company on a day-to-day basis.

Watercare holds board meetings that are open to members of the public consistent with the guidelines for public meetings provided by the Mayor. Watercare also meets the public meeting requirements for CCOs pursuant to Section 96 of the Local Government (Auckland Council) Act 2009 which requires two public meetings to be open to members of the public as follows:

² Watercare has regularly received awards in both New Zealand and Australasia for the quality and transparency of company reporting from the New Zealand Institute of Chartered Accountants and the Association of Chartered Certified Accountants.

Purpose	Board Meeting
<ul style="list-style-type: none"> One meeting must be held before 30 June each year for the purpose of considering comments from shareholders on the organisation's draft statement of intent for the following financial year. 	<p align="center">16 May 2014 (To be confirmed)</p>
<ul style="list-style-type: none"> The other meeting must be held after 1 July each year for the purpose of considering the organisation's performance under its statement of intent in the previous financial year. 	<p align="center">17 October 2014 (To be confirmed)</p>

All board meetings are notified by way of a public notice in The New Zealand Herald and posted on the Watercare website.

Watercare is subject to Parts 1 to 6 of the Local Government Official Information and Meetings Act 1987. The company respects the underlying principles of, and complies fully with, the Act.

However, due to the commercial nature of the company business, which includes commercial negotiations, contracts and tenders, there are occasions where certain information cannot be disclosed in public, particularly during the course of negotiations. Where such information is materially significant, Watercare will keep the shareholder informed, consistent with the no-surprises approach.

When sharing confidential information with the shareholder where it is required to be heard in a confidential session, Watercare will provide a separate report and clearly state the reason for confidentiality under the Local Government Official Information and Meetings Act 1987.

The directors acknowledge that they are subject to an annual performance review in accordance with the Council's Appointment and Remuneration Policy.

Being a good employer is a principal objective of Watercare under section 59 of the Local Government Act 2002.

Watercare will act in accordance with relevant statutory provisions referring to the Treaty of Waitangi.

As Watercare Services Limited is a company under the Companies Act 1993, the board is bound by the duties and obligations under that Act.

In particular, the board will adhere to the duty of directors, as set out under s131 of that Act, to act in good faith and in the best interests of the company, however the Directors may act in the best interests of the shareholder when it is not in the best interests of the company.

The board of the company has all the powers necessary for managing, directing and supervising the management of the business and affairs of the company as set out under s128 of that Act.

The board operates under a governance charter that 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 New Zealand Institute of Directors' Code of Proper Practice for Directors, relevant sections of the New Zealand Exchange Limited (NZX) Corporate Governance Best Practice Code and the Securities Commission's nine principles of corporate governance.

Engagement with the Shareholder

Relationship with the Governing Body

Watercare is committed to working closely with the Auckland Council for the achievement of regional outcomes. Watercare will respect Auckland Council's roles and responsibilities and make sure that there is a mutual sharing of information by adopting a no-surprises approach. Watercare will ensure that Auckland Council is kept informed well in advance of anything considered potentially contentious in the public arena, whether the issue is inside or outside issues outlined in the SOI and the relevant legislation. Watercare will give effect to the Auckland Plan and to the LTP, and act consistently with other plans and policies of the Auckland Council such as the Shareholder's Accountability Policy and the Shareholder Expectation Guide.

Watercare's ability to successfully undertake its business and achieve SOI outcomes relies on the support and cooperation of the Auckland Council in providing a policy and regulatory environment that enables the timely and successful delivery of water and wastewater investments and actions.

Quarterly Reports

Management reports will be provided within six weeks of the end of the September and March quarters as required by the shareholder and within eight weeks of the end of the December and June quarters as required under s66 of the Local Government Act 2002, including:

- The unaudited Statement of Financial Position as at the end of the preceding quarter, and the Statement of Financial Performance, Statement of Cash Flows and a Capital Expenditure Summary for the year to date and the preceding quarter. These statements will include comparative budget data and variances.
- The return on equity for the preceding quarter and year to date.
- Particulars of any assets sold during the preceding quarter where the aggregate value of associated assets exceeds \$1 million.
- A commentary on customer service performance.
- A commentary on significant capital projects in progress.
- A commentary on material changes, if any, in capital expenditure.
- A report on the achievement of the SOI performance targets.
- Any reasonable request for information.

Annual Report

Watercare will produce an Annual Report that covers sustainability performance together with the audited financial and service performance statements.

The annual report will be provided to the shareholder within three months of the end of the financial year in accordance with s67 of the Local Government Act 2002 and will meet the reporting requirements of the Companies Act 1993 and the Financial Reporting Act 1993. The annual report will also comply with New Zealand international financial reporting standards and will include any other information the directors consider appropriate.

Meetings with the Auckland Council

Watercare will meet with the Auckland Council governing body or relevant council committee to formally present its quarterly reports which will include the six month and full year reports.

Watercare will also provide additional information as required consistent with a no-surprises approach to ensure the Auckland Council is kept informed in a timely manner of significant events which relate to the company and which may affect the Auckland Council.

While Watercare is accountable to the Governing Body as shareholder, it also has a relationship with local boards who share the decision-making responsibilities of the Auckland Council.

Watercare recognises the important role of local boards in local representation and decision making and has been proactively building relationships based on transparent communication of its activities. Watercare's Principal Advisor Local Boards facilitates the relationship and maintains information flows.

Watercare attends a significant number of local board meetings and workshops ensuring a no surprises approach on local issues and projects, particularly where they may affect members of the public and local constituents. Engagement plans have been revised, agreed and are in place with the local boards to help facilitate the working relationship.

Watercare takes account of objectives and activities outlined in local board plans and agreements, to the extent that Watercare is responsible for their delivery. Watercare will also continue to provide a timely response to questions from local boards such as those raised during the local board planning processes or passed on by members of the public.

Watercare consults with local boards as part of statutory consenting processes where major works are planned that have the potential to have a significant effect on residents and services.

Relationship with associated units of Council

Watercare recognises the need for a close working relationship with the shareholder, engaging actively on the development of the Unitary Plan to encourage an environment that enables the operation, maintenance, upgrade and construction of water and wastewater infrastructure. Watercare is also committed to working collaboratively with the council's regulatory and finance groups to ensure that the council group as a whole achieves effective and efficient outcomes for the people of Auckland. Watercare works closely with the Stormwater unit of Council, particularly in the older central areas of Auckland which are serviced by a combined wastewater/storm water network.

Watercare is also committed to participating in coordinating planning studies with many other parts of Council, to ensure that the study outcomes and associated implementation represents the best practicable option from an environmental and whole community perspective.

Information to be provided to shareholder

In addition to reporting on key performance indicators, Watercare will also regularly report on other aspects of compliance, governance and accountability. This includes major projects as part of the quarterly shareholder reporting process.

Events Requiring Shareholder Approval

Shareholder approval will be obtained prior to Watercare entering any business activity that significantly changes or is outside the nature and scope of Watercare's current activities. Watercare will follow Auckland Council's Board Appointment and Remuneration Policy, when making appointments to any subsidiaries and will communicate with the Council about proposed appointments in advance.

Management of Strategic Assets

The company is required to give effect to the relevant aspects of the LTP as it relates to the management of strategic assets. The Council has approved the LTP which includes the Watercare AMP.

Watercare is also required to give effect to the shareholder's Accountability Policy. It is recognised that there are a number of factors that should be considered by the board for decisions where prior consultation with the Council is required. For instance, Watercare has worked closely with the shareholder during the consultation for the new Non Domestic Wastewater Tariff, providing regular updates to shareholder governance committees and forums. Watercare will continue to undertake extensive and transparent consultation with non-domestic customers and other stakeholders in setting the 2013/14 wastewater tariff and any trade waste charges. During the process Watercare will regularly report on progress to the Council.

Strategic assets are assets that are elements of the water and wastewater networks that are integral to the functioning of the whole, assets such as the:

- Mangere Wastewater Treatment Plant
- Rosedale Wastewater Treatment Plant
- Army Bay Wastewater Treatment Plant
- Ardmore Water Treatment Plant
- Waikato Water Treatment Plant
- Hunua and Waitakere dams

Engagement with other stakeholders

Activities for which the Company Seeks Compensation from any Local Authority

Watercare maintains commercial arrangements with the Waikato District Council for functions, duties or services that the company is required to undertake.

These include the supply of bulk wastewater services for properties in the Waikato District which dispose of wastewater to the Watercare owned and operated Tuakau Wastewater Treatment Plant in the Auckland Region.

Any negotiations with a local authority for commercial arrangements for the delivery of services will be undertaken without prejudice to Watercare's rights at law to impose reasonable charges for the supply of its services.

Tangata Whenua

Watercare has always had a close relationship with Māori, recognising the importance of natural resources to mana whenua and acting in accordance with relevant statutory provisions and Treaty of Waitangi principles. The company undertakes consultation on company activities that are likely to impact on Māori views and values.

In November 2009, Watercare established a memorandum of relationship with Waikato Tainui recognising the importance of the relationship to the achievement of outcomes such as Project Manukau, the Waikato River water take and the Puketutu Island Biosolids Rehabilitation Project. Watercare will continue to honor this relationship without prejudice to consultation with other iwi or hapu.

Watercare has engaged with 19 Iwi groups throughout Auckland to establish the Mana Whenua Kaitiaki Forum. The emergence of the Kaitiaki Forum resulted from a collective desire for proactive engagement between Iwi and Watercare in order to build strong and enduring relationships and to enhance business efficiencies. In order to foster this relationship, Watercare has been working with Chairs and other representatives of each Iwi to develop the Mana Whenua/Watercare "Relationship Agreement". This Agreement has been designed to provide a new vehicle through which Watercare and mana whenua can work collaboratively. The primary purpose is to ensure Iwi are involved in Watercare's projects at an early stage of the process and have the opportunity to contribute in creative and innovative ways to water and wastewater plans and projects throughout Auckland.

The Forum does not override existing relationships and Watercare will continue to maintain one to one relationships with individual iwi groups.

The preparation of the Relationship Agreement and associated documents took place throughout 2012 and consisted of workshops and legal feedback. The second meeting of the Kaitiaki Forum was held on 2 May 2013. Thirteen of the 19 Auckland Iwi including Waikato-Tainui have signed the Relationship Agreement and are attending the quarterly Mana Whenua Kaitiaki Forum meetings.

The principles of the Agreement are firmly based on Watercare's commitment to operate in a manner that enhances environmental, social, and economic values, whilst maintaining cultural integrity.

The Agreement principles are:

Relationship Building - Building understanding and enhancing the relationship between Mana Whenua and Watercare

Integrity - Ensuring cultural integrity and respect

Opportunities - Identifying opportunities of mutual interest and benefit

Best Practice - Advising on best practices for meeting Watercare's cultural, environmental, social and economic responsibilities

Efficiency - Establishing efficient, collective processes for building the relationship and engagement.

Independent Maori Statutory Board (IMSB)

The IMSB is both independent from Auckland Council and Mana Whenua groups. Its purpose is to assist the Council to make decisions, perform functions and exercise powers by:

- promoting cultural, economic, environmental and social issues of significance for Mana Whenua groups and Mataawaka of Tamaki Makaurau; and
- ensuring that the Council acts in accordance with statutory provisions referring to the Treaty of Waitangi.

Watercare acknowledges the role of Independent Māori Statutory Board and will take into account the schedule of issues of significance and any Treaty of Waitangi provisions that are relevant to its activities and where appropriate engage with the board on these matters.

Auckland Council Advisory Panels

In addition to the IMSB, Auckland Council has a number of advisory panels including the Pacific people's advisory panel, ethnic advisory panel, business advisory panel, rural advisory panel, youth advisory panel and the social policy forum. These groups provide Council with feedback from different perspectives and on the most appropriate ways to engage with Pacific and ethnic people. Where appropriate, Watercare will inform, and consult with these advisory panels where there are issues of particular interest to the advisory panels.

Other Council-Controlled Organisations

The relationship and cooperation with other CCOs is also important, particularly Auckland Transport. Watercare works closely with Auckland Transport to minimise disruption to local communities. An example of cooperation has been the joint road works and pipe laying as part of the Northern Strategic Growth Area (NorSGA), where works were coordinated to reduce costs and minimising disruption to the public.

Watercare will continue to undertake this proactive, responsive and transparent communication with stakeholders and members of the public likely to be affected by company activities.

Central Government

Effective engagement with relevant central government organisations will be important to the successful delivery of water and wastewater services to Auckland. In particular, Watercare will work closely with Housing New Zealand, a significant property owner in Auckland, regarding water demand management. Watercare actively contributed to the Air, Land and Water Forum established by the Government.

Where relevant, Watercare may contribute to the development of relevant national policies such as the National Infrastructure Plan and national initiatives which indicate operational efficiencies may be gained.

Any such contribution to national policy development will be discussed with Council beforehand.

Other Stakeholders

Stakeholder and community engagement is crucial to the success of Watercare's projects and work programmes. The company has a good record of public communication and consultation with large programmes of work such as Project Manukau, Project Hobson, the Puketutu Island Biosolids Rehabilitation Project, the Central Connector and the Hunua 4 Watermain Project.

Watercare also has a proactive and constructive working relationship with regulators such as the Auckland Regional Public Health Service which is important to the delivery of safe drinking water and meeting required standards. Watercare will also continue to work closely with the New Zealand Fire Service towards achievement of the Code of Practice for Fire Fighting Water Supplies.

Organisational Health, Safety and Capability

Watercare is committed to building and maintaining an enduring and resilient organisation and will adhere to s36 of Schedule 7 of the Local Government Act 2002, which provides that a local authority must operate a personnel policy that complies with the principle of being a good employer. The company continues to drive a culture where health and safety is at the forefront of its operational management and where the public may be impacted by its infrastructure and works. Watercare's commitment to health and safety is reinforced in its governance of the function which includes comprehensive reporting, and informing a specialist health and safety sub-committee of the Board.

Staff engagement survey

Watercare carried out an annual staff engagement survey in September 2012 that is relevant to the nature of the organisations' role as a service utility provider. There was a strong and positive response from staff. The results

demonstrated the organisation is in good health and staff are proud to work for Watercare. In addition, Watercare was also required to take part in the shareholders group staff engagement survey in March 2013 using the shareholders survey provider.

Financial and Accounting Policies

Financial Plan

Watercare was required to produce a Funding Plan under Section 18 of the Local Government Auckland Transitional Provisions Act 2010. Although no longer a legislative requirement, Watercare will provide the shareholder with forward financial plans and information to satisfy the legislated requirements relating to the Annual Plan and the Long Term Plan obligations of the shareholder in respect of Watercare.

Auckland Council Debt Guarantee

In July 2008, Watercare established a debt guarantee facility with Auckland City Council, backed by the other shareholding councils. The obligations under this facility have now passed to Auckland Council under the Local Government (Tamaki Makaurau Reorganisation) Act 2009. Auckland Council is currently able to borrow and on-lend to Watercare at lower rates than Watercare is able to achieve by borrowing in its own name, Therefore Watercare will source its medium/long term debt funding requirements for the financial year ending 30 June 2014 through Auckland Council. In order to maintain flexibility in debt funding and pricing advantages as per its Treasury Policy, Watercare will review this arrangement prior to the commencement of the 2014/15 financial year and each subsequent year going forward.

Existing debt covered by the debt guarantee facility will retain the Council guarantee benefit until maturity. The facility will be retained but only used in future for specific funding requirements as agreed by Auckland Council.

Watercare will continue to raise Commercial Paper in its own name.

Tax Losses

Watercare has tax losses which are unlikely to be required to offset its taxable income in the foreseeable future. Under current legislation, these tax losses

are available for offset against the taxable income of one or more companies wholly owned by Auckland Council. Watercare's objective is to establish a basis by December 2013, under which its tax losses are able to be utilised in compliance with applicable legislation, and on a consistent basis, by other wholly owned subsidiaries of Auckland Council.

Watercare notes that in the 2012/13 year \$27.8 million of tax losses were made available to Ports of Auckland Ltd resulting in tax savings of \$7.78 million to Ports of Auckland Ltd.

Shareholder Funds

	\$million	2013/14	2014/15	2015/16
Shareholder Funds		5,859	6,269	6,267
Total Assets		8,565	9,274	9,394
<i>Ratio of Consolidated Shareholder Funds to Total Assets</i>		<i>0.68</i>	<i>0.68</i>	<i>0.67</i>

Note:

1. Consolidated Shareholder Funds are defined as Issued and Paid Up Capital, Revaluation Reserve and Retained Earnings.
2. Total Assets are defined as Net Book Value of Current Assets, Investments and Fixed Assets as disclosed in the Company's Statement of Financial Position.

Accounting Policies

Watercare's financial statements are prepared in accordance with the New Zealand International Financial Reporting Standards. Watercare's accounting policies are consistent with the shareholder's accounting policies with nominated exceptions e.g. interest capitalisation.

Application of Surplus Funds

Watercare is prohibited by legislation from paying a dividend.

Watercare annually reviews any water and wastewater surpluses and considers if the return of such surpluses to the customers is commercially prudent.

Watercare has held water and wastewater prices at 2012/13 levels for the 2013/14 financial year.

Directors' Estimate of the Commercial Value of the Shareholder Investment

The inclusion of an estimate of commercial value is a statutory requirement.

However, the Local Government Act 2002 prohibits Watercare from being privatised. Legislative restrictions also prevent the Auckland Council from selling its shares and prevent Watercare from paying dividends to the council.

The book value of the shareholder's investment at 30 June 2012 was \$5.54 billion, which includes a capital contribution reserve of \$3.77 billion based on the accounts maintained by Watercare in accordance with the stated accounting policies. The directors may from time to time requisition an independent valuation of the shareholder investment.

Disposal of Assets

The Company will consult with the shareholder prior to the disposal of any part of its undertakings, which, in any one-year, exceed in aggregate 5% of the current book value of its assets and in line with the Auckland Council Accountability Policy for council controlled organisations.

Key Performance Indicators

The following non-financial and financial information sets out Watercare's Key Performance Indicators, with non-financial targets demonstrating how they align with the Mayor's vision and strategies for Auckland.

Non-financial performance

The non-financial performance measures can be found in Appendix B

Watercare has adopted a set of key non-financial performance measures

The performance target for greenhouse gas emissions adopted in the Auckland Plan differs from that of the Draft Auckland Plan. Watercare is required to reduce greenhouse gas emissions by 10-20% by 2020 based upon 1990 levels and acknowledges the long-term target of a 50% reduction by 2050 based upon 1990 levels.

Watercare has achieved a 75% overall reduction in greenhouse gas emissions since 1990 and is working towards reducing levels further over future years.

In addition, Watercare generates over 30% of its total energy requirements annually through its gas turbine electricity generators at Mangere Wastewater Treatment Plant helping Watercare to be a minimum cost service provider. Watercare also generates electricity from small turbines on the water discharge from storage dams and designs its pipelines to use gravity as much as possible to reduce the need for pumps and associated power requirements.

Financial Performance

Prospective summary statement of financial position				
As at 30 June				
	Budget 2012/13	Budget 2013/14	Budget 2014/15	Budget 2015/16
Assets				
Current assets				
Cash and cash equivalent	0	0	0	0
Other current assets	106,842	120,450	123,719	127,876
Total current assets	106,842	120,450	123,719	127,876
Non-current assets				
Property plant and equipment	8,253,469	8,372,605	9,073,400	9,188,760
Investment property	0	0	0	0
Other non current assets	39,554	39,554	39,554	39,554
Total non-current assets	8,293,023	8,412,159	9,112,954	9,228,314
Total assets	8,399,864	8,532,609	9,236,672	9,356,190
Liabilities				
Current liabilities				
Trade and other payables	85,567	102,205	108,893	109,539
Borrowings	406,641	336,641	216,641	336,641
Other current liabilities	9,779	13,829	13,829	13,829
Total current liabilities	501,987	452,676	339,363	460,010
Non-current liabilities				
Borrowing from parent	484,202	830,428	976,071	1,118,187
Other borrowing	464,830	314,830	434,830	314,830
Other non-current liabilities	1,096,495	1,092,527	1,247,012	1,240,504
Total non-current liabilities	2,045,527	2,237,785	2,657,913	2,673,520
Total liabilities	2,547,514	2,690,460	2,997,276	3,133,530
Net assets	5,852,350	5,842,148	6,239,396	6,222,660
Equity				
Contributed equity	260,693	260,693	260,693	260,693
Reserves	5,515,437	5,515,437	5,922,601	5,922,601
Retained earnings	76,221	66,019	56,103	39,366
Total equity	5,852,350	5,842,148	6,239,396	6,222,660
Ratio of equity to total assets	70%	68%	68%	67%

Prospective summary income statement

for the year ended 30 June

\$000	Budget 2012/13	Budget 2013/14	Budget 2014/15	Budget 2015/16
Income				
Opex funding from Auckland Council	0	0	0	0
Capex funding from Auckland Council	0	0	0	0
Revenue from services	461,760	467,449	493,016	525,560
Other revenue to fund capital expenditure	0	0	0	0
Revenue from vested assets	0	0	0	0
Finance income	0	0	0	0
Dividend Income	0	0	0	0
Other gains/(losses)	0	0	0	0
Total income	461,760	467,449	493,016	525,560
Expenditure				
Personnel Costs	38,185	40,639	41,387	42,957
Depreciation and amortisation	185,276	199,681	210,053	235,615
Finance costs	80,526	86,404	95,475	104,294
Other expenditure	152,291	154,894	159,873	165,938
Total operating expenditure	456,277	481,619	506,789	548,804
Revaluation of derivative financial instruments	0	0	0	0
Surplus/(deficit) before tax	5,482	(14,170)	(13,773)	(23,244)
Income tax credit / (expense)	(1,535)	3,968	3,857	6,508
Surplus/(deficit) after tax	3,947	(10,202)	(9,916)	(16,736)
Gains/(losses) recognised directly in equity	312,095	0	407,164	0
Total surplus/(deficit)	316,042	(10,202)	397,248	(16,736)

Prospective summary funding statement

for the year ended 30 June

\$000	Budget 2012/13	Budget 2013/14	Budget 2014/15	Budget 2015/16
Operating Funding Statement:				
Total operating expenditure	456,277	481,619	506,789	548,804
Operating expenditure to be funded	456,277	481,619	506,789	548,804
Operating expenditure funded by:				
Opex funding from Auckland Council	0	0	0	0
Revenue from services	461,760	467,449	493,016	525,560
Other revenue	0	0	0	0
Borrowing to fund operating expenditure	6,999	11,280	13,776	15,342
Total opex funding	468,758	478,729	506,792	540,901
Operating Funding Surplus/(Deficit)	12,481	(2,890)	3	(7,902)
Capital Funding Statement:				
Total capital expenditure	274,971	318,817	345,342	350,975
Capital expenditure to be funded	274,971	318,817	345,342	350,975
Capital Expenditure funded by:				
Depreciation funding	185,276	199,681	210,053	235,615
Investment by Auckland Council	0	0	0	0
Loans from Auckland Council	89,695	119,136	135,289	115,360
External Loans	0	0	0	0
Grants and subsidies	0	0	0	0
Development and financial contributions	0	0	0	0
Total capex funding	274,971	318,817	345,342	350,975
Capital Funding Surplus/(Deficit)	0	0	0	0
Movement in borrowing				
Opening borrowing	1,295,204	1,355,673	1,481,899	1,627,542
Borrowing to fund operating expenditure	6,999	11,280	13,776	15,342
Borrowing to fund capital expenditure	89,695	119,136	135,289	115,360
Other movements	(23,744)	(4,190)	(3,418)	11,413
Surplus funds used to repay borrowing	0	0	0	0
Principal repayment	(12,481)	0	(3)	0
Closing borrowing	1,355,673	1,481,899	1,627,542	1,769,658

Prospective summary statement of cash flows				
As at 30 June				
	Budget 2012/13	Budget 2013/14	Budget 2014/15	Budget 2015/16
Cashflow from operating activities				
Cash provided from:				
Income from Activities	461,760	467,449	493,016	525,560
Operating funding from Auckland Council	0	0	0	0
External loans	6,999	11,280	13,776	15,342
Capital funding from Auckland Council	0	0	0	0
Grants & Subsidies	0	0	0	0
Other revenue	0	0	0	0
Total cash provided	468,758	478,729	506,792	540,901
Cash applied to:				
Payments to suppliers and employees	271,001	281,938	296,736	313,189
Total cash applied	271,001	281,938	296,736	313,189
Net cash from operating activities	197,757	196,791	210,056	227,713
Cashflow from investing activities				
Cash applied to:				
Capital expenditure projects	274,971	318,817	345,342	350,975
Total cash applied	274,971	318,817	345,342	350,975
Net cash from investing activities	(274,971)	(318,817)	(345,342)	(350,975)
Cashflow from financial activities				
Cash provided from:				
Loans from Auckland Council	89,695	122,026	135,289	123,263
Capital contribution from Auckland Council	0	0	0	0
External Loans	0	0	0	0
Total cash provided	89,695	122,026	135,289	123,263
Cash applied to:				
Loan repayment	12,481	0	3	0
Total cash applied	12,481	0	3	0
Net cash from financing activities	77,214	122,026	135,286	123,263
Net (decrease)/increase in cash and cash equivalents	0	0	0	0
Opening cash balance	0	0	0	0
Closing cash balance	0	0	0	0

Prospective summary funding statement by Activity

for the year ended 30 June 2014

\$000	Water supply services	Wastewater treatment and	Total
Operating Funding Statement:			
Total operating expenditure	175,100	306,518	481,619
Operating expenditure to be funded	175,100	306,518	481,619
Operating expenditure funded by:			
Opex funding from Auckland Council	0	0	0
Revenue from services	161,519	305,930	467,449
Other revenue	0	0	0
Borrowing to fund operating expenditure	7,832	3,448	11,280
Total opex funding	169,351	309,378	478,729
Operating Funding Surplus/(Deficit)	(5,750)	2,860	(2,890)
Capital Funding Statement:			
Total capital expenditure	191,982	126,836	318,817
Capital expenditure to be funded	191,982	126,836	318,817
Capital Expenditure funded by:			
Depreciation funding	86,096	113,585	199,681
Investment by Auckland Council	0	0	0
Loans from Auckland Council	105,886	13,251	119,136
External Loans	0	0	0
Grants and subsidies	0	0	0
Development and financial contributions	0	0	0
Total capex funding	191,982	126,836	318,817
Capital Funding Surplus/(Deficit)	0	0	0

Summary of capital expenditure

Key capital projects with a whole life cost over \$2 million or of public interest (both renewal and new projects)

Water

Capital Projects	AMP/Forecast (\$k)
Water	Full Year 2013/14
Hunua No. 4 Water Supply Scheme	53,643
Kumeu / Huapai Water Supply System	16,852
Southern Supply Main	11,376
New Waterman - North Harbour Duplication	9,992
Waikato - Stage 3 Expansion	4,686
Huia - BAC Installation	4,221
Ardmore- Rapid restart and sludge handling	4,050
New Watermain - Domain Watermain	3,952
Watermain Renewals - Metropolitan	3,490
Orakei Watermain Replacement	3,108
Meters Replacements	2,805
Boost Pumping - Pinehill from Albany Reservoir	2,547
Albany Reservoir	2,457
New Watermain- East Tamaki No3	2,104
Mt Hobson Upgrade Project	2,040
ECS Water Improvements	2,038
Helensville Water Treatment Upgrade	2,023
Warkworth Water Treatment Upgrade	1,766
Upper Huia Dam Standpipe Replacement	1,590
Upper Huia Dam Upgrade	1,475
Mt Wellington Water Supply	1,467
Snells/Algies Water Treatment Upgrade	1,115
Wellsford Water Treatment Upgrade	1,012
St Heliers No. 1 Watermain Duplication	973

Wastewater

Wastewater	Full Year 2013/14
North Shore Trunk Sewer Upgrades - East	8,941
Bio Nitrogen Removal - Reactor Clarifier	8,259
Trunk Sewer Planned Rep (Mangere)	8,252
North Shore Trunk Sewer Upgrades - West	6,704
Puketutu Island Rehabilitation	6,697
Sludge Digestion - New Digester	6,530
Army Bay WWTP Upgrade	5,460
Manukau Eastern Suburbs Area Servicing	4,642
Storage Tanks	4,642
Trunk Rising Main Planned Replacement	3,090
Newmarket Storage Tank	3,076
Local Sewer Planned Replacements	2,497
Rosedale Wastewater Treatment Improvements	2,269
Trunk Sewer Upgrades	2,063
Pipe Bridge Replacements	1,998
Gas System - Replacement of Gas Compression System	1,976
Helensville WWTP Upgrade	1,939
Waitakere Southern Area Servicing	1,805
Local PS and Rising Main Improvements	1,498
Trunk Wastewater Pump Station Upgrades	1,289
Auckland Isthmus Area Servicing - West	1,083
Trunk Pump Station Planned Rep (Mangere)	1,083
Central Interceptor - Spine	1,034
Rodney Non-metropolitan Area Servicing	1,031
Projects / Programmes Over \$2 million	204,506
Projects / Programmes Under \$2 million	114,311
AMP / Capital Delivery 2013/14	318,817

Project costs exclude capitalisation.

Appendix A (Table 7.1 is reproduced from page 176 of the Auckland Plan)

Table 7.1 Environmental Principles*

Auckland's environment must be healthy and resilient in order to support life and lifestyles. To ensure this we must recognise that:

1. The environment supports us – we recognise the natural resources provided by our environment have limits, and must be protected and restored to ensure our future well-being.
2. We need to consider environmental values in all that we do – the interaction between the environment and people is understood and considered in our everyday behaviour and choices.
3. Everything is connected – human activities affect air, sea, land and freshwater systems. Understanding the connections between environments in the way we manage them is critical.
4. Biodiversity is everywhere – our flora and fauna, and their habitats, occur both in public and private spaces, and in urban, rural, freshwater and coastal areas. To maintain biodiversity values we must all work together.
5. Natural hazards can affect our well-being – we need to ensure that Auckland and its people are resilient to the effects of natural hazards.
We are environmental stewards – future generations will depend on how well we manage the natural environment.

Performance Measurements: Statement of Intent 2012-2013

Performance Measure		Performance Target Over 3-Year Period			Output	Impact	Outcome		
		2013/2014	2014/2015	2015/2016			Auckland Plan Target	Auckland Plan Chapter	Auckland Plan Priority
INDICATOR	DRAFT MEASURE	TARGET	TARGET	TARGET					
	<i>Safe and Reliable Water</i>								
Potable Water Quality	Percentage compliance with MoH drinking water standards for graded plants (excluding minor or technical non-compliance)	100%	100%	100%	Safe and reliable drinking water	Improved public health		Chapter 1	Improve the education, health and safety of Aucklanders, with a focus on those most in need
	Percentage of metropolitan water treatment plants achieving Grade A	100%	100%	100%	Safe and reliable drinking water	Improved public health		Chapter 1	Improve the education, health and safety of Aucklanders, with a focus on those most in need
	Percentage of metropolitan water supply reticulation achieving Grade a	100%	100%	100%	Safe and reliable drinking water	Improved public health		Chapter 1	Improve the education, health and safety of Aucklanders, with a focus on those most in need
	Percentage of non-metropolitan water treatment plants achieving Grade A	45%	50%	50%	Safe and reliable drinking water	Improved public health		Chapter 1 Chapter 9	Improve the education, health and safety of Aucklanders, with a focus on those most in need Support rural settlements, living and communities
	Percentage of non-metropolitan water supply reticulation achieving Grade a	25%	50%	50%	Safe and reliable drinking water	Improved public health		Chapter 1 Chapter 9	Improve the education, health and safety of Aucklanders, with a focus on those most in need Support rural settlements, living and communities
Continuity of Supply	Percentage of unplanned water shutdowns restored within five hours	≥95%	≥95%	≥95%	Safe and reliable drinking water	Improved public health		Chapter 1	Improve the education, health and safety of Aucklanders, with a focus on those most in need
	Number of unplanned water interruptions per 1000 connected properties	<10	<10	<10	Safe and reliable drinking water	Improved public health		Chapter 1	Improve the education, health and safety of Aucklanders, with a focus on those most in need
	<i>Healthy Waterways</i>								
Wastewater Network Performance	Number of dry weather sewer overflows per 100km of wastewater pipe length per year	≤5	≤5	≤5	Reduced wastewater discharges to environment	Healthier environment		Chapter 1 Chapter 7	Improve the education, health and safety of Aucklanders, with a focus on those most in need Sustainably manage natural resources
	Average number of wet weather overflows per discharge location in priority receiving environments in areas serviced by the separated networks.	The Auckland-Wide Wastewater Network Discharge Consent application lodged and consent operational.			Reduced wastewater discharges to the environment	Healthier environment	Reduce wet weather overflows to an average of no more than 2 events per discharge location per annum, where the stormwater and wastewater system are separated, by 2040 (with priority given to bathing beaches and other sensitive receiving environments by 2030)	Chapter 12 Chapter 5 Chapter 7 Chapter 7	Optimise, integrate, and align utility provision and planning Prioritise and optimise our recreation and sport facilities and public open space use and the capability of recreation and sport organisations. Treasure our coastline, harbours, islands and marine areas Sustainably manage natural resources
	Number of sewer bursts and chokes per 1000 properties	<10	<10	<10	Reduced wastewater discharges to the environment	Healthier environment		Chapter 12 Chapter 5 Chapter 7	Optimise, integrate, and align utility provision and planning Prioritise and optimise our recreation and sport facilities and public open space use and the capability of recreation and sport organisations. Treasure our coastline, harbours, islands and marine areas

Performance Measure		Performance Target Over 3-Year Period			Output	Impact	Outcome		
		2013/2014	2014/2015	2015/2016			Auckland Plan Target	Auckland Plan Chapter	Auckland Plan Priority
INDICATOR	DRAFT MEASURE	TARGET	TARGET	TARGET					
Wastewater Treatment Plant Compliance	Percentage of wastewater discharged that is compliant with consent discharge requirements (excluding minor or technical non-compliance) for Metropolitan areas	100%	100%	100%	Reduced adverse effects on environment in urban areas	Healthier environment		Chapter 5 Chapter 7 Chapter 7	Prioritise and optimise our recreation and sport facilities and public open space use and the capability of recreation and sport organisations. Treasure our coastline, harbours, islands and marine areas Sustainable manage natural resources
	Percentage of wastewater discharged that is compliant with consent discharge requirements (excluding minor or technical non-compliance) for non-Metropolitan areas	35%	35%	65% 2020: 100%	Reduced adverse effects on environment in rural areas	Healthier rural and coastal environment		Chapter 7 Chapter 7 Chapter 9	Treasure our coastline, harbours, islands and marine areas Sustainably manage natural resources Create a sustainable balance between environmental protection, rural production and activities connected to rural environment
RMA Compliance	Number of successful RMA prosecutions against Watercare	0	0	0	Reduced adverse effects on environment	Healthier environment		Chapter 7 Chapter 7	Treasure our coastline, harbours, islands and marine areas Sustainably manage natural resources
Health, Safety and well-being									
Lost-time injury	Lost-time injury frequency rate per million hours worked	≤5	≤5	≤5	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
	Level of ACC workplace management practices accreditation	Tertiary	Tertiary	Tertiary	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
Staffing	Percentage of total hours absent due to illness	≤2.5%	≤2.5%	≤2.5%	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
	Percentage of voluntary leavers relative to number of permanent staff	≤12%	≤12%	≤12%	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
Customers Satisfaction									
Customer Satisfaction	Percentage of customers surveyed satisfied with Watercare's delivery of water and wastewater services	80%	80%	80%	Satisfied customers	Better quality water services		Chapter 1 Chapter 6	Improve the education, health and safety of Aucklanders, with a focus on those most in need Grow a business-friendly and well-functioning city
	Percentage of calls answered within 20 seconds	80%	80%	80%	Satisfied customers	Better quality water services		Chapter 1 Chapter 6	Improve the education, health and safety of Aucklanders, with a focus on those most in need Grow a business-friendly and well-functioning city
	Number of water quality complaints (taste, odour, appearance) per 1,000 water supply connections	<5	<5	<5	Safe and reliable drinking water	Improved public health		Chapter 1 Chapter 6	Improve the education, health and safety of Aucklanders, with a focus on those most in need Grow a business-friendly and well-functioning city
	Percentage of complaints and being "resolved and closed" within 10 working days	95%	95%	95%	Satisfied customers	Better quality water services		Chapter 1 Chapter 6	Improve the education, health and safety of Aucklanders, with a focus on those most in need Grow a business-friendly and well-functioning city

Performance Measure		Performance Target Over 3-Year Period			Output	Impact	Outcome		
		2013/2014	2014/2015	2015/2016			Auckland Plan Target	Auckland Plan Chapter	Auckland Plan Priority
INDICATOR	DRAFT MEASURE	TARGET	TARGET	TARGET					
Sustainable Environment									
Water Conservation	Per capita consumption (litres/person/day) Target for 2025 = 255 l/person/day Baseline in 2004 = 298 l/person/day	280 ±5%	278 ±5%	275 ±5%	Reduced demand on water resources	More sustainable use of natural resources	Reduce gross per capita water consumption from 2004 levels by 15% by 2025	Chapter 7 Chapter 8	Sustainably manage natural resources Mitigate climate change
Water Losses	Percentage of annual potable water network losses* measured as total network volume *This is defined as "real" losses, which includes losses from the wholesale and retail distribution systems.	14%	13%	13%	Reduced demand on water resources	More sustainable use of natural resources	Reduce maximum annual potable water network losses to less than 12% of total network volume by 2040	Chapter 7 Chapter 8 Chapter 12	Sustainably manage natural resources Mitigate climate change Optimise, integrate, and align utility provision and planning
Effective Asset Management									
	Percentage of actual capital expenditure relative to budget	>85%	>85%	>85%	Better water infrastructure	Better quality water services	On-going provision of planned and serviced capacity for Group 1 business land, including large lots, to meet 5-yearly demand as assessed by annual surveys	Chapter 1 Chapter 6 Chapter 7 Chapter 8 Chapter 10 Chapter 12	Improve the education, health and safety of Aucklanders, with a focus on those most in need Grow a business-friendly and well-functioning city Build resilience to natural hazards Mitigate climate change Demand good design in all development Optimise, integrate, and align utility provision and planning
Sound Financial Management									
	Minimum funds flow from operations to interest cover (FFO) before any price adjustment	≥2.5	≥2.5	≥2.5	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
Affordability	Percentage of expenditure on water supply services relative to the average household income	≤1.5%	≤1.5%	≤1.5%	Affordable water services	Improved public health		Chapter 1	Improve the education, health and safety of Aucklanders, with a focus on those most in need