Watercare
Annual Report 2023

Watercare

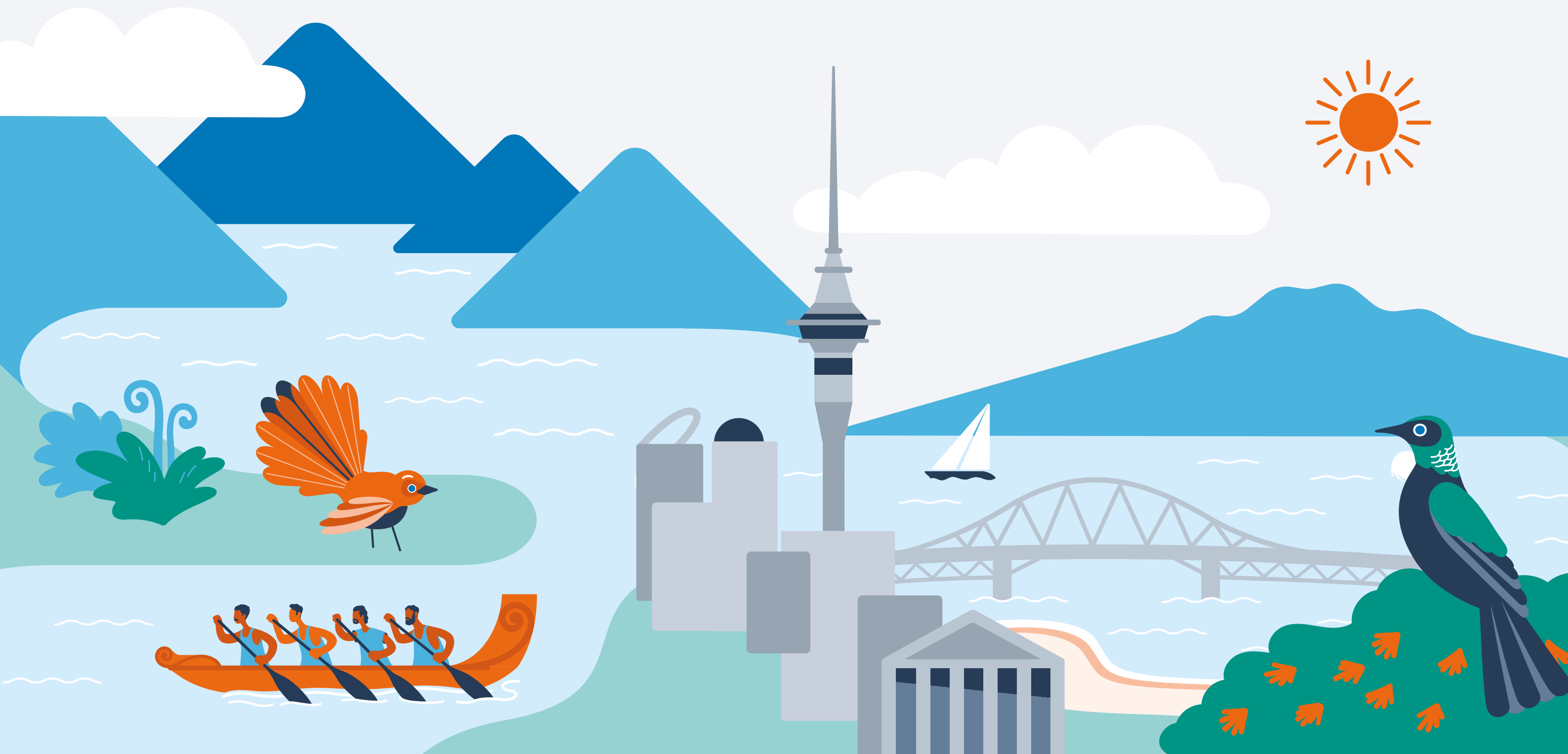
About us

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

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

We manage water and wastewater assets worth $15.59 billion and plan and build infrastructure to ensure we support growth today and into the future.

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



Reporting scope

This report covers all operations managed by Watercare. The majority of our operations and people are located in Auckland, New Zealand. Watercare Services is contracted to provide water, wastewater and stormwater services for Waikato District Council.

In this report, we have listed the sources of information used to compile the performance indicators and any significant assumptions or estimates applied. This report was approved for publication on 30 September 2023.

CONTENTS

Chair and chief executive's report

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

When the water is healthy, the land and the people are nourished.

Coming on the heels of the pandemic, the 2022/23 year brought its own unprecedented challenges, including extreme weather events, inflation and preparation for changes associated with the water services reform.

The year has also been filled with milestones and achievements. As an organisation, we continued to innovate, we delivered our largest capital programme in Watercare's history and we continued to make headway in our journey to zero emissions. Our key performance indicators are set out in our Statement of Service Performance (page 60).

60%

our community trust score for 2022/23

against a target of >55%.

Looking after our people

Despite these challenges, Watercare remains steadfast in our commitment to our core purpose – safe, reliable and efficient water services for Auckland. We would like to thank our people for rising to these challenges and acknowledge their tireless dedication in looking after our customers and communities.

Staff engagement has remained relatively stable (7.3 for 2022/23 compared to 7.6 in 2021/22), a testament to the resilience of our people. The safety of our people, whether they are working on site, in the field or in an office, is paramount. While we have a robust and targeted approach to prevent injuries associated with critical risks, musculoskeletal injuries (sprains and strains) are an ongoing challenge that we will continue to address through education and training.

We are mindful that rising costs and the anniversary floods/cyclone have significantly impacted the psyche of the nation, including our workforce; these financial and psychological stressors are likely to be ongoing. Therefore, the physical and mental wellbeing of our people will be a key focus for us over the coming year.

Margaret Devlin
Chair

Dave Chambers
Chief executive

Looking after our customers

Both the anniversary floods and Cyclone Gabrielle had a significant impact on our water and wastewater networks. After the weather events, our immediate priorities were to ensure all our customers had water flowing through their taps and to protect the health of our customers and the environment by responding to wastewater network issues.

We put in place a number of temporary operational fixes such as tankering water to affected communities and setting up temporary overland hoses and pumps to transfer wastewater. We also provided targeted support through phone check-ins for those who needed special assistance, account credits to assist with clean-up efforts and temporary holds on monthly fixed charges.

We provided proactive daily updates through text, email and social media on water and wastewater issues, repair progress and timeframes. We also set up a dedicated flood recovery team to keep people updated and provide a higher level of proactive care for customers living in areas that were impacted. This team was out and about door-knocking customers and doing letterbox drops to let people know what was happening in their neighbourhoods.

We have a team dedicated to delivering our long-term recovery plan, from assessing the damage to carrying out permanent repairs. We are taking this opportunity to build back better wherever we can – with more resilient infrastructure that can withstand the impacts of climate change.

Building trust and awareness through engagement and education

Engaging with customers and communities was a key focus throughout the year and is reflected in these metrics: our community trust score for 2022/23 was 60 per cent against a target of ›55 per cent; our voice of community survey, which measures community sentiment in the areas where we have construction works, was +52 against a target of +35; and our customer net satisfaction score was +43 against a target +45, only narrowly missing the target despite an extremely challenging year that saw high call volumes due to several extreme weather events and frontline resourcing constraints.

We also trialled innovative forms of community engagement: in August 2022, we began early engagement on the topic of future water sources for Auckland, through a citizen's assembly of 37 Aucklanders who deliberated over four full days on the various options for a safe and resilient water supply for the region in the long term. The assembly selected direct recycled water as its top recommendation for Auckland's future source.

We also expanded our public consultation for the wastewater network strategy, going beyond the minimum requirements and offering face-to-face engagements, surveys and two global café-style meetings, a format which uses an informal setting for participants to explore an issue by discussing it in small table groups.

Water efficiency remains an ongoing focus for us, regardless of the amount of rainfall our catchments receive. We continued our smart meter installation for customers – a smart meter records real-time water use and helps customers identify leaks. We launched the Watercare App in December 2022 to support our smart meters. With this app, customers with smart meters are able to track their water use daily, pay their bills and compare their water consumption to Auckland's water efficiency targets all in one place.

Safe and reliable services

Despite extreme weather events and changing regulations around water quality, we ensured our services were delivered safely and reliably. We maintained full bacterial and protozoal compliance for drinking water for the year. We continued to maintain a high level of compliance against the new and more stringent Drinking Water Quality Assurance Rules (DWQAR) introduced by Taumata Arowai in January 2023. See our SSP measure on page 60 for more details.

$810m

investment in water and wastewater assets

Our highest ever spend on capital delivery.

An example of our robust water safety planning is our decision to pre-emptively shut down the Onehunga Water Treatment Plant in October 2022. We did this out of an abundance of caution and to ensure we avoided occasional non-compliance with the new rules which have specified a maximum limit for poly-fluorinated alkyl substances (PFAS) in drinking water, for the first time.

Looking after the environment

The natural environment is intrinsic to our operations. We have an obligation to look after the environment, mitigate the impacts of our operations and enhance it, wherever possible.

One way we do this is by upgrading our wastewater assets and processes to ensure we discharge high quality treated wastewater into the environment.

In 2022/23, we progressed and completed the following projects:

- We officially completed our $128m upgrade of the Pukekohe Wastewater Treatment Plant, doubling the treatment capacity of the plant, but more importantly making the quality of the treated wastewater so high it ultimately improves the water quality in Parker Lane Stream.
- We completed the relining and rehabilitation of the ageing Takapuna Foreshore Beach Sewer pipeline, which runs the entire length of Takapuna Beach. This renewal project has extended the pipeline's life by 50 years and will reduce the amount of groundwater getting into and leaking out of the pipe.
- We commissioned an innovative treatment facility at the Helensville Wastewater Treatment Plant, which has vastly improved the quality of the treated wastewater discharged into the Kaipara River and will enable the plant to better cope with peak flows in wet weather.

Delivering our capital programme

As mentioned above, during the 2022/23 year, we invested $810 million in water and wastewater assets for Auckland – our highest ever spend on capital delivery. Along with the projects mentioned above, we also progressed:

- Our proactive watermain renewal programme, which is replacing ageing water pipes across Auckland, with 12km replaced in the east (St. Heliers, Mission Bay, Meadowbank and Glendowie) and west (Kelston and New Lynn) and now working in the south (Manukau and Manurewa).
- Dunkirk Road wastewater upgrades, involving a new pump station, new gravity main and connecting pipes. This project is part of the joint shovel-ready programme we are delivering with Kāinga Ora, and will help reduce wastewater overflows and cater for population growth in the Panmure area.
- Construction of a new 45-million-litre reservoir at Redoubt Road that will increase the resilience of Auckland's water supply and cater for growth.
- The 17km-long Huia 1 replacement watermain, with about two-thirds of the pipeline completed. This will replace the ageing Huia 1 and improve our water network's resilience, as well as providing capacity for growth.

We commissioned:

- A new temporary water treatment plant for Waiuku, giving its water supply a big boost. The temporary plant, which is a modular design, has increased the area's water supply by up to 80,000 litres an hour. The plant is part of a multi-pronged approach to meeting Waiuku's growing water demand.
- A new booster pump station on East Coast Road, giving the region's water supply a significant lift. It will pump an extra 17 million litres of water to Hibiscus Coast daily, doubling the overall water pumping capacity from 17 to 34ML a day.

Our super-sized wastewater tunnel, the Central Interceptor, also made great progress in 2022/23. The main tunnel boring machine, Hiwa-i-te-Rangi, successfully crossed underneath the harbour last December, and had bored about six kilometres of its 14.7km route at the end of 2022/23. The tunnel will significantly reduce wet-weather overflows in central Auckland and clean up our waterways.

This project is using three new electric tipper trucks at a work site in Māngere – the first of their kind in New Zealand. The E-trucks can each transport up to 13 tonnes of material, with an average range of 200km. They produce 79 per cent less CO_2 emissions compared with their diesel counterparts.

Increased levels of capital expenditure will continue into 2023/24 with a planned $1billion programme of capital works.

Climate change preparedness and emissions reduction

It is fair to say that the floods and cyclone from earlier this year have brought climate change impacts and adaptation to the fore. As part of our long-term flood recovery plan, a flood response adaptation framework has been drafted to ensure that we review and improve our resilience to extreme weather events through the recovery projects.

The framework assesses the level of response that is both possible and necessary – ranging from relocating equipment and control panels above the flood line to longer-term planning assessments on the location and need of certain assets.

We continued to collaborate and explore opportunities for carbon reduction across the lifecycle of our infrastructure programme; we used low-carbon concrete for the foundations of the new reservoir at Redoubt Road, adding fly ash to the cement mix; we also transported clay fill from this site to help construction works at Puketutu Island, where we are rehabilitating volcanic cones that were quarried in the 1950s – offsetting approximately 559 tonnes of carbon.

We also re-examined the need for the peak flow treatment project at the Māngere Wastewater Treatment Plant and determined that the need to cater for increased duration of peak flows can be fulfilled through other projects already planned at the site – saving an estimated 1600 tonnes of carbon emissions.

Our resource recovery team continues to explore ways we can develop waste from treatment processes into beneficial products for the market. During the year, we sold 150 tonnes of Emerge fertiliser, a slow-release fertiliser made from phosphorus and nitrogen that is recovered from wastewater treatment processes. We are committed to building a future where waste from water and wastewater treatment processes becomes a valued resource.

Our Central Interceptor project has built a non-potable recycled water plant that uses secondary treated effluent from the Māngere Wastewater Treatment Plant to produce water for construction and to supply the tunnel boring machine.

Focus on innovation

We continued to explore new, better and safer ways of working. Some examples include:

- We trialled the Tracked Carrier – a remote-controlled, battery-operated machine that can carry up to 1.2 tonne of weight – to transport pipe sections in tricky terrains to undertake repairs.
- We introduced Techsee, a tool that allows our customer agents to connect to customers' phone cameras (with their permission), so they can see a fault in real time while they are triaging it.
- We deployed RiverWatch Waka, portable water quality monitors that provide continuous data on flows and environmental conditions, reducing the need for manual sampling.
- We developed and trialled an innovative safety structure that could ensure a safer rescue for our people working in deep tanks, like reactor-clarifiers. This innovation will also be shared with the industry at the upcoming Water NZ conference.

Embedding te ao Māori values and partnerships

As a public water and wastewater services provider, we recognise Te Tiriti o Waitangi and the significance of Te Mana o te Wai. Embedding te ao Māori values, increasing our organisation's understanding of the Māori worldview and supporting Māori enterprise is an ongoing focus for us.

Our total Māori business spend for 2022/23 was $22.84 million, an increase from $13.26 million in 2021/22. All our physical works suppliers are now reporting their Māori business spend and we have 83 active Māori suppliers out of a total of 1,952 active suppliers. We continue to work with Amotai to increase the diversity of our suppliers.

We continued to progress outcomes identified in Kia Ora Tāmaki Makaurau through: te reo and tikanga workshops and training for staff, Kaupapa Māori events, rangatahi Māori cadetships and engineering scholarship and Koiora Māori leadership programme.

Commitment to efficiency

Since 2020, we have faced significant challenges, including very high rates of inflation and extreme weather events ranging from drought to the recent floods. As a public utility providing an essential service, it is important that we operate efficiently and invest wisely. Over the past year, we have focused heavily on reducing our controllable costs and finding efficiencies – whether it is through smarter technology, better processes or prioritisation. We will continue to work with the Auckland Council group to find opportunities for efficiency and value for money.

Preparing for reform and the future

We continued to work with the Department of Internal Affairs' (DIA) National Transition Unit on the water services reform programme. In April 2023, the Government announced the reset to the reform, proposing 10 water services entities instead of the initially recommended four entities. This amendment was subsequently passed into legislation in August 2023.

The current water reform programme shows Entity A (Wai Tāmaki ki Te Hiku), the entity that will cover the area serviced by Watercare, is planned to go live on 1 July 2024.

While there are uncertainties still associated with the reform, we will continue to focus on delivering safe and reliable services, effective infrastructure and better customer experiences for Tāmaki Makaurau.

We would again like to thank our people for their commitment and efforts over the year and our board of directors, especially Hinerangi Raumati-Tu'ua and Brendon Green (now members of the establishment board for Wai Tāmaki Ki Te Hiku) for their service to Watercare during their time on the board.

Margaret Devlin
Chair

Dave Chambers
Chief executive

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

Not pictured: Brendon Green

Our board

Margaret Devlin

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

Chair

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

General disclosure of interests: Director, Waikato Regional Airport; Director, Titanium Park (wholly owned subsidiary of Waikato Regional Airport); Director, Waimea Water Limited; Director, IT Partners Group; Chair, Advisory Board Women in Infrastructure Network; Chair, Hospice Waikato; Chartered Fellow, Institute of Directors; Member, Institute of Directors, Waikato Branch Committee; Director, Dairy NZ Limited.

Nicola Crauford

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

Chair of Audit and Risk Committee (from August 2023)

Nicola has extensive governance and senior management experience in energy, water and telecommunications utilities. As a director she brings a combination of technical, commercial and strategic skills. She has a degree in chemical engineering from the University of Newcastle upon Tyne, a doctorate in applied science from the University of Southampton, and has worked in the oil and gas, energy and banking sectors. As well as utilities her governance portfolio has spanned science research and development, fire and emergency management, and environmental protection and regulation. Nicola chairs Burgundy Holdco Limited (owner of StraitNZ Limited) and is a director of Lyttleton Port Company Limited; director and shareholder of Riposte Consulting Limited and a trustee of the Wellington Regional Stadium Trust. She is a Distinguished Fellow of Engineering New Zealand, and a Fellow of the Australian Institute of Company Directors and the Institute of Directors in New Zealand.

General disclosure of interests: Director and Shareholder, Riposte Consulting Limited; Trustee, Wellington Regional Stadium Trust; Director and Chair, Burgundy Holdco Limited (owner of StraitNZ Limited) Director, Lyttleton Port Company Limited.

Graham Darlow

BE, FICE, DIST FENGNZ

Graham is an independent director and advisor to the construction industry. He has extensive experience in the planning, consenting, design and construction of major infrastructure projects. His project governance experience includes the Waterview Tunnel, Te Papa Tongarewa, Māngere Wastewater Treatment Plant upgrade, Hobson Tunnel, Downtown Infrastructure Programme and many of New Zealand's water, wastewater, transport, energy and marine projects. Previously Graham was chief executive of Fletcher Construction, President of Engineering New Zealand, and Safeguard Safety Leader of the Year in 2016. He is a Distinguished Fellow of Engineering New Zealand, Fellow of the Institution of Civil Engineers, and a Member of the Institute of Directors.

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

Frances Valintine

CNZM, MEdMGT

Frances is dedicated to pushing Aotearoa ahead as a global leader in innovation to build a stronger, more resilient future for all New Zealanders. Over the past eight years across Tech Futures Lab and The Mind Lab, Frances has been instrumental in reskilling and educating 20,000 adult students in formal programmes, many thousands in short tech courses in software development, and over 250,000 school aged students.

With an eye always on future horizons, Frances has worked with and advised over 250 organisations across every sector in New Zealand – from agriculture to finance, retail to law – and has gained a reputation as an expert in leading digital transformation initiatives that bring positive impact.

A Companion of the New Zealand Order of Merit for her lifetime contribution to education and technology (2018), Frances has received numerous awards recognising her passion and commitment to supporting the young and more mature to seek opportunities and reach their potential. In 2020, Frances received the Outstanding Contribution to Technology and Business at the CIO Awards. Her past accolades include:

2017: the NZ Flying Kiwi Award, inducted into the New Zealand Hi-Tech Hall of Fame and named one of the top three NZ Innovators of the Year at the NZer of the Year awards.

2016: named one of the top 50 EdTech Educators in the World by EdTech International; awarded a Sir Peter Blake Leader Award.

2015: awarded the Westpac New Zealand Woman of Influence (Innovation) and the Next New Zealand Woman of the Year (Education).

She holds a Master of Education Management from the University of Melbourne.

General disclosure of interests: Director, The Mind Lab Limited; Director, Tech Futures Lab Limited; Director and Shareholder, Harcourt Jasper Limited; Director and Shareholder, Pointed Tangram Limited; Director and Shareholder, Harper Lilley Limited; Director and Shareholder, On Being Bold Limited; Director and Shareholder, Sandell Trustees Limited; Selection Advisor, Edmund Hillary Fellowship; Board of Trustee, University of Silicon Valley; Shareholder, Thought-Wired Limited; Director, Academy EX Limited; Director, Earth Futures Lab; Director, Edlab Limited.

Julian Smith

LLB, BCOM, ADV ASB, CMINSTD

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

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

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

Dave Chambers*

The board has appointed Dave as acting chief executive until Entity A (Wai Tāmaki Ki Te Hiku) is stood up. Dave has been a director of Watercare since late 2019 so he has a firm grasp of the business.

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

General disclosure of interests: Director, Paper Plus New Zealand Limited; Director, GB & DD's Outfit Limited; Director, Turners and Growers Fresh Limited; Director, Watercare Services Limited (on sabbatical whilst acting chief executive).

Brendon Green**

BE CHEM AND PROCESS (HONS), POSTGRAD DIPLOMA IN DAIRY SCIENCE AND TECHNOLOGY

Brendon's career spans 25 years in New Zealand and offshore, largely in the energy sector covering thermal generation, oil and gas exploration and renewables, notably wind and geothermal. In recent years he has been involved in the decarbonisation of the transport sector by way of electric and hydrogen technologies. Brendon has worked with and within Māori organisations, which includes establishing partnerships and joint ventures around natural resources inclusive of water, energy, forestry and dairy. His career includes technical and commercial leadership roles with Mercury, Contact Energy, General Electric (in Mexico and the USA) and the NZ Dairy Board. He is the founder of Kaitiaki Advisory Limited and holds a Bachelor of Chemical and Process Engineering and a Postgraduate Diploma in Dairy Science and Technology. Brendon brings over a decade of governance experience inclusive of being a past Chair of Tainui Kawhia Incorporation and Tirohia Landfill Generation Joint Venture.

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

Hinerangi Raumati-Tu'ua**

BMS, MMS, FCA, MNZM, MINSTD

Chair of the Audit and Risk Committee

Hinerangi is of Ngāti Mutunga and Waikato descent, and is a Fellow of Chartered Accountants Australia and New Zealand. She is also a Member of the New Zealand Order of Merit for services to business and Māori. Hinerangi has significant experience in investment, financial management, and governance. She was CFO of Tainui Group Holdings Limited from 2002 to 2009 and Executive Director Operations at Te Wānanga o Aotearoa from 2010 to 2014.

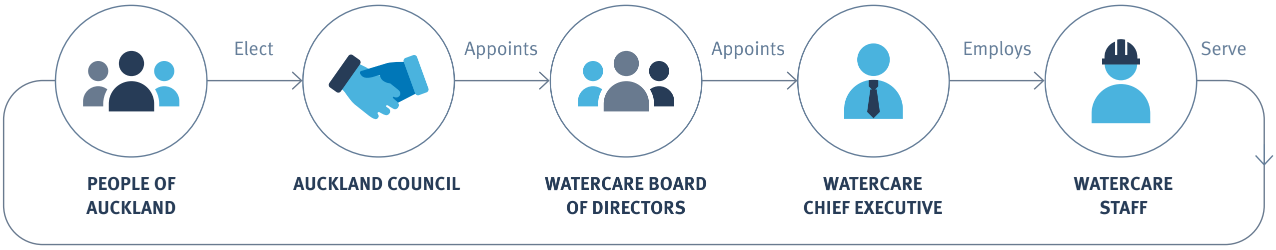
General disclosure of interests: Chair, Ngā Miro Trust; Director, Taranaki Iwi Holdings Management Limited; Director, Te Puia Tapapa GP Limited; Chair, Tainui Group Holdings Limited; Executive Member, Te Whakakitenga O Waikato; Director, Genesis Energy Limited; Director, Reserve Bank of New Zealand; Director, Pouarua Farms Limited.

* Following the appointment of former Watercare chief executive Jon Lamonte to lead the establishment of and transition to Entity A from July 2024, the board appointed Dave Chambers as chief executive of Watercare until Entity A is stood up.

** Resigned on 31.07.2023

Governance

Watercare, a council-controlled organisation (CCO), is a wholly-owned subsidiary of Auckland Council (the shareholder). The board of directors (the board) and management are committed to ensuring that we apply best-practice governance policies and procedures. The board is ultimately responsible for all decision-making by the company.

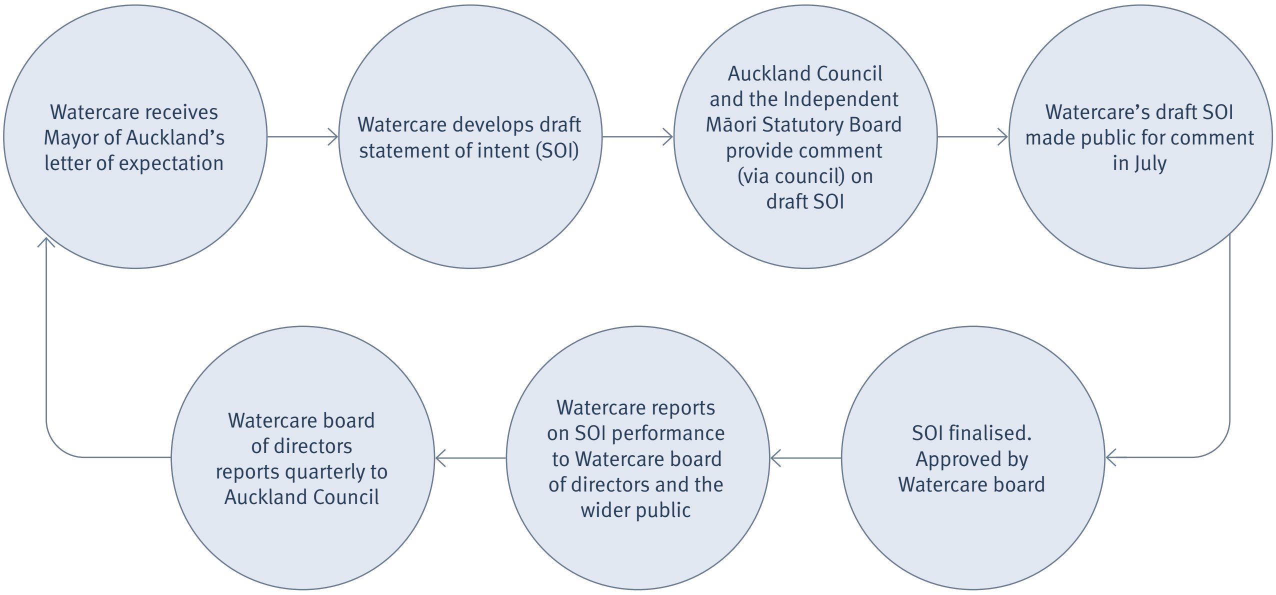


Our legislative framework

Watercare is a limited liability company registered under the Companies Act 1993, and a local government organisation under the Local Government Act 2002. Full details of the legislative framework we operate under can be found on our website.

Our governance framework

Every year, Watercare consults with its shareholder, Auckland Council, to develop a statement of intent (SOI) covering the next three years. The SOI identifies the relationship between Watercare's activity and the delivery of those outcomes sought by the Mayor of Auckland and those specified within the Auckland Plan. Auckland Council, the Independent Māori Statutory Board and the general public are invited to comment on the final draft, before it is adopted by the board. The 2023 – 2026 SOI is available on our website.



Performance

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

Setting standards of conduct for employees

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

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

Regular independent reviews

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

Board structure and functions

The board meets at regular intervals throughout the year. The public is welcome to attend all public sessions of board meetings. As at 30 June 2023, the board had one committee. This is the Audit and Risk Committee (ARC). All directors are welcome to attend ARC meetings, but only committee members have voting rights. The ARC provides advice and oversight and does not have delegated authority.

During 2022/23, the ARC was chaired by Hinerangi Raumati-Tu'ua, and helped the board fulfil its financial reporting responsibilities and provided assurance regarding compliance with internal controls, policies and procedures. The committee also helps the board exercise due care, diligence and effective overview of risk management and external reporting. Health, safety and wellness matters are the responsibility of the full board and are excluded from the duties of the ARC.

Board member attendance 2022/23	Board meetings	Audit and Risk Committee meetings
Number of meetings	10	5
Margaret Devlin (Chair)	9	3#
Nicola Crauford	9	
Frances Valintine	9	
Graham Darlow	9	4
Julian Smith	10	2
Dave Chambers *	5	1
Brendon Green (Resigned on 31.07.2023)	9	5
Hinerangi Raumati-Tu'ua (ARC Chair) (Resigned on 31.07.2023)	7	5
Wi Pere Mita (Intern)**	1	1

Board chair attends in ex-officio capacity

Denotes committee membership

* The board has appointed Dave Chambers as acting chief executive until Entity A is stood up. Dave is therefore on sabbatical from the board (effective from 7 February 2023) whilst he is acting chief executive.

** Wi Pere Mita discontinued his internship programme from January 2023.

Corporate governance charter

This charter defines the duties and obligations of the board and board members covering fiduciary duty, duty of care, diligence, legal and statutory duties, and conflicts of interest. It incorporates the principles of the Institute of Directors of New Zealand's Code of Practice for directors, relevant sections of New Zealand Exchange Limited's Corporate Governance Best Practice Code, and the Financial Market Authority's guide to corporate governance.

Whistleblowing

We have a specific policy to receive and deal with information about any serious wrongdoing within the company, as required by the Protected Disclosures (Protection of Whistleblowers) Act 2022. PwC provides a Whistleblowing Disclosure Service so employees and others may confidentially and anonymously report matters of serious misconduct.

Complaints disclosure

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

Disclosures of interest

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

Transparency and accountability

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

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

- An annual statement of intent (SOI)
- A long-term asset management plan (AMP)
- An annual report that reports performance against the SOI
- An overview of current water storage levels and other information (published weekly on our website)
- Special reports and project newsletters for interested parties.

As a council-controlled organisation, Watercare is subject to the Local Government Official Information and Meetings Act 1987, which provides to the public official information held by local authorities. The average response time in FY23 was 12.71 days.

Financial report

These financial statements and the statement of service performance for Watercare Services Limited were approved and authorised for release for the year ended 30 June 2023.

Contents

Historical financial summary and key statistics

As at 30 June 2023

	2019 $000	2020 $000	2021 $000	2022 $000	2023 $000
Financial Performance					
Total revenue	715,177	752,293	802,599	926,177	968,258
Operating expenses	226,484	268,560	291,869	343,564	330,586
Depreciation and amortisation	245,822	256,893	267,514	282,779	317,395
Finance costs	66,489	56,158	54,143	58,063	75,673
Total expenses	538,795	581,611	613,526	684,406	723,654
Operating surplus from trading operations	176,382	170,682	189,073	241,771	244,604
Net loss on disposal of and provision for redundant property, plant and equipment, and restructuring costs	(13,216)	(8,547)	(8,186)	(18,527)	(24,991)
Net (loss) / gain on revaluation of derivative financial instruments	–	–	–	–	–
Operating surplus / (deficit) before tax	163,166	162,135	180,887	223,244	219,613
Income tax (expense) / benefit	(55,547)	(88,306)	(49,617)	(62,339)	(66,481)
Net surplus / (deficit) after tax	107,619	73,829	131,270	160,905	153,132
Financial Position					
Current assets	120,528	141,589	140,898	164,468	204,721
Non-current assets	10,271,797	10,695,175	12,445,140	13,980,118	15,695,783
Total assets	10,392,325	10,836,764	12,586,038	14,144,586	15,900,504
Current liabilities	175,330	192,931	218,745	241,015	250,852
Non-current liabilities	3,142,756	3,495,700	4,144,855	4,768,462	5,451,280
Total liabilities	3,318,086	3,688,631	4,363,600	5,009,477	5,702,132
Total equity	7,074,239	7,148,133	8,222,438	9,135,109	10,198,372
Cash Flow					
Net cash inflows – operating activities	420,964	448,542	464,011	526,028	542,972
Net cash outflows – investing activities	(387,861)	(605,206)	(735,601)	(700,979)	(796,461)
Net cash inflows – financing activities	(30,553)	165,529	263,188	180,034	250,000
Net change in cash flows	2,550	8,865	(8,402)	5,083	(3,489)
Key Statistics					
Property, plant and equipment	10,163,169	10,515,408	12,300,209	13,851,882	15,588,357
Capital expenditure	448,005	615,530	800,953	725,836	926,240
Net debt	1,696,942	1,942,577	2,305,929	2,576,396	2,951,469
Increase in net debt	83,877	245,635	363,352	270,467	375,073
Increase in net debt to capex	19%	40%	45%	37%	40%
EBITDA to interest expense ratio	6.39	7.43	8.54	8.89	7.41
Funds flow from operations to interest ratio	4.93	5.11	5.24	5.44	4.64
Funds flow from operations to average net debt	26%	23%	22%	21%	20%
Number (headcount) of permanent employees	984	1,105	1,201	1,319	1,235
Year on year growth of operating expenses	4.1%	18.6%	8.7%	17.7%	-3.8%
Average growth (4 years average)	2.6%	6.6%	8.3%	12.3%	10.3%

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 2023 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 2023.

These financial statements and the statement of service performance for Watercare Services Limited for the year ended 30 June 2023 were approved and authorised for release on 6 September 2023.

For and on behalf of management:

D Chambers
Chief Executive

J Sinclair
Chief Corporate Services Officer

For and on behalf of the Board of Directors:

M P Devlin
Chair

Dr N Crauford
Director; Chair of the Audit and Risk Committee

TO THE READERS OF WATERCARE SERVICES LIMITED GROUP'S FINANCIAL STATEMENTS AND STATEMENT OF SERVICE PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2023

The Auditor-General is the auditor of Watercare Services Limited and its controlled entities (collectively referred to as 'the Group'). The Auditor-General has appointed me, Brett Tomkins, using the staff and resources of Deloitte Limited, to carry out the audit of the financial statements and the statement of service performance of the Group on his behalf

Opinion

We have audited:

- the financial statements of the Group on pages 19 to 58 that comprise the Statement of Financial Position as at 30 June 2023, 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 60 to 65

In our opinion:

- the financial statements of the Group on pages 19 to 58, which have been prepared on a disestablishment basis:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2023; and
    - its financial performance and cash flows for the year then ended; and
  - comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Standards; and
- the statement of service performance of the Group on pages 60 to 65, 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 2023.

Our audit was completed on 6 September 2023. This is the date at which our opinion is expressed.

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

Emphasis of matter

Without modifying our opinion, we draw attention to the following matters:

Uncertainty over the water services reform programme

Note 1 on page 23, outlines the developments in the Government's water services reform programme.

The Water Services Entities Act 2022, as amended by the Water Services Entities Amendment Act 2023 on 23 August 2023 and the Water Services Legislation Act 2023 on 31 August 2023, establishes ten publicly owned water services entities to carry out responsibilities for the delivery of three waters services and related assets and liabilities currently controlled by local authorities. The financial impact of the water services reform on the Group remains uncertain until the allocation schedule of assets, liabilities, and other matters to be transferred is approved.

The financial statements have been prepared on a disestablishment basis

Note 1 on page 23 of the financial statements outlines that the Group has prepared its financial statements on a disestablishment basis because the New Zealand government is currently implementing water reform legislation which will result in the transfer of most of the assets, liabilities and operations of the Group to a new water service entity on or about 1 July 2024. There have been no changes to the values of the Group's assets and liabilities as a result of preparing the financial statements on a disestablishment basis.

Inherent uncertainties in the measurement of greenhouse gas emissions

The Group has chosen to include a measure of its greenhouse gas (GHG) emissions in its performance information. Note (iii) within the Natural Environment section on page 60 of the statement of service performance outlines the inherent uncertainty in the reported GHG emissions. Quantifying GHG emissions is subject to inherent uncertainty because the scientific knowledge and methodologies to determine the emissions factors and processes to calculate or estimate quantities of GHG sources are still evolving, as are GHG reporting and assurance standards.

Basis for our opinion

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

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

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

Responsibilities of the Board of Directors for the financial statements and the performance information

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

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

In preparing the financial statements and the statement of service performance, the Board of Directors is responsible on behalf of the Group for assessing the Group's ability to continue as a going concern. If the Board concludes that a going concern basis of accounting is inappropriate, the Board is responsible for preparing financial statements on a disestablishment basis and making appropriate disclosures.

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

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

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

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

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

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

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

Our responsibilities arise from the Public Audit Act 2001.

Other information

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

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

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

Independence

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

In addition to the audit, we have carried out engagements in the areas of non-assurance services provided to the Corporate Taxpayers Group of which Watercare is a member and a non-financial data quality review of selected non-financial information reported in the 2022 annual report which are compatible with those independence requirements. In addition to these assignments, partners, principals, and employees of our firm deal with the Group on normal terms within the ordinary course of trading activities of the Group. These assignments and trading activities have not impaired our independence as auditor of the Group.

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

Brett Tomkins

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

6 September 2023

Statement of comprehensive revenue and expense

For the year ended 30 June 2023

	Notes	2023 Actual $000	2022 Actual $000	2023 Budget $000
Revenue	NOTE 13, PAGE 45	968,258	926,177	996,354
Total revenue		968,258	926,177	996,354
Operating expenses				
Asset operating costs		(98,336)	(83,701)	(84,565)
Maintenance costs		(77,516)	(64,032)	(73,911)
Employee benefit expenses		(66,765)	(92,143)	(80,372)
Construction contract variations payment		–	(15,456)	–
Other expenses		(87,969)	(88,232)	(73,608)
Total operating expenses	NOTE 14, PAGE 47	(330,586)	(343,564)	(312,456)
Depreciation	NOTE 6, PAGE 32	(308,980)	(272,626)	(246,467)
Amortisation	NOTE 9, PAGE 38	(8,415)	(10,153)	(9,417)
Finance costs	NOTE 11, PAGE 41	(75,673)	(58,063)	(81,600)
Total expenses		(723,654)	(684,406)	(649,940)
Operating surplus from trading operations		244,604	241,771	346,414
Net loss on disposal of property, plant and equipment		(24,991)	(18,527)	(11,000)
Operating surplus before tax		219,613	223,244	335,414
Income tax expense		(66,481)	(62,339)	(96,996)
Net surplus for the year from continuing operations		153,132	160,905	238,418
Discontinued operations				
Profit after tax for the year from discontinued operations	NOTE 3, PAGE 27	(372)	2,179	–
Net surplus for the year		152,760	163,084	238,418
Other comprehensive revenue and expense net of tax				
Gain on revaluation of property, plant and equipment	NOTE 8, PAGE 37	910,503	749,587	–
Total comprehensive revenue and expense for the year, net of tax		1,063,263	912,671	238,418
Attributable to:				
Owner of the parent, net of tax		1,063,501	911,952	238,418
Non-controlling interest, net of tax		(238)	719	–
		1,063,263	912,671	238,418

The financial statements should be read in conjunction with the notes on pages 23 to 58 inclusive.

Statement of financial position

As at 30 June 2023

	Notes	2023 Actual $000	2022 Actual $000	2023 Budget $000
Assets				
Current				
Cash and cash equivalents		4,115	7,604	–
Trade and other receivables from exchange transactions	NOTE 18, PAGE 51	121,286	100,185	98,073
Inventories	NOTE 19, PAGE 51	19,841	17,849	16,701
Prepaid expenses	NOTE 21, PAGE 52	21,385	9,142	7,763
Other financial assets	NOTE 22, PAGE 53	38,094	29,688	21,790
Total current assets		204,721	164,468	144,327
Non-current				
Property, plant and equipment	NOTE 6, PAGE 32	15,588,357	13,851,882	13,653,316
Intangible assets and goodwill	NOTE 9, PAGE 38	64,772	73,192	52,702
Inventories	NOTE 19, PAGE 51	6,953	6,594	7,550
Prepaid expenses	NOTE 21, PAGE 52	32,708	22,782	23,427
Other financial assets	NOTE 22, PAGE 53	2,993	25,668	5,626
Total non-current assets		15,695,783	13,980,118	13,742,621
Total assets		15,900,504	14,144,586	13,886,948
Liabilities				
Current				
Trade and other payables for exchange transactions	NOTE 20, PAGE 52	35,843	25,886	21,610
Accrued expenses	NOTE 23, PAGE 53	200,301	193,651	180,921
Provisions	NOTE 24, PAGE 54	14,708	21,478	25,471
Total current liabilities		250,852	241,015	228,002
Non-current				
Borrowings	NOTE 10, PAGE 40	2,955,584	2,584,000	2,846,710
Deferred tax liability	NOTE 17, PAGE 50	2,460,504	2,150,357	2,000,495
Trade and other payables for exchange transactions	NOTE 20, PAGE 52	12,784	8,664	–
Accrued expenses	NOTE 23, PAGE 53	10,271	11,720	20,295
Provisions	NOTE 24, PAGE 54	12,137	13,721	20,467
Total non-current liabilities		5,451,280	4,768,462	4,887,967
Total liabilities		5,702,132	5,009,477	5,115,969
Equity				
Equity attributable to owners of the parent				
Retained earnings		4,779,792	4,596,397	4,841,055
Revaluation reserves	NOTE 8, PAGE 37	5,157,887	4,277,649	3,669,231
Issued capital	NOTE 25, PAGE 55	260,693	260,693	260,693
Total equity attributable to owners of the parent		10,198,372	9,134,739	8,770,979
Non-controlling interest		–	370	–
Total equity		10,198,372	9,135,109	8,770,979
Total equity and liabilities		15,900,504	14,144,586	13,886,948

The financial statements should be read in conjunction with the notes on pages 23 to 58 inclusive.

Statement of cash flows

For the year ended 30 June 2023

	Notes	2023 Actual $000	2022 Actual $000	2023 Budget $000
Operating activities				
Cash was provided from:				
Receipts from customers		869,990	841,521	922,035
Dividends received		121	122	–
Interest received		52	63	–
		870,163	841,706	922,035
Cash was applied to:				
Employees and suppliers		(327,191)	(315,678)	(312,951)
Finance costs paid		–	–	–
		(327,191)	(315,678)	(312,951)
Net cash inflows – operating activities	NOTE 15, PAGE 48	542,972	526,028	609,084
Investing activities				
Cash was provided from:				
Sale of property, plant and equipment, and intangibles		918	4,392	–
Proceeds on disposal of discontinued operations		2,792	–	–
Repayment of advances or loans to external parties		15,659	7,770	18,148
		19,369	12,162	18,148
Cash was applied to:				
Purchase and construction of property, plant and equipment, and intangibles		(815,830)	(713,141)	(799,793)
Issued term loans		–	–	–
		(815,830)	(713,141)	(799,793)
Net cash outflows – investing activities		(796,461)	(700,979)	(781,645)
Financing activities				
Cash was provided from:				
Proceeds from Auckland Council loans – related party	NOTE 25, PAGE 55	906,084	723,964	172,561
		906,084	723,964	172,561
Cash was applied to:				
Repay loans from Auckland Council – related party	NOTE 25, PAGE 55	(656,084)	(543,930)	–
		(656,084)	(543,930)	–
Net cash inflows / (outflows) – financing activities		250,000	180,034	172,561
Net change in cash flows		(3,489)	5,083	–
Cash and cash equivalents / (overdraft) at the beginning of the year		7,604	2,521	–
Cash and cash equivalents / (overdraft) at the end of the year		4,115	7,604	–
Cash and cash equivalents comprises:				
Bank balances / (overdraft)		4,115	7,604	–
		4,115	7,604	–

The financial statements should be read in conjunction with the notes on pages 23 to 58 inclusive.

Statement of changes in equity

For the year ended 30 June 2023

	Notes	Retained earnings $000	Revaluation reserves $000	Issued capital $000	Non–controlling Interest $000	Total $000
Balance at 1 July 2022		4,596,397	4,277,649	260,693	370	9,135,109
Comprehensive revenue and expense						
Net surplus for the year		153,130	–	–	(238)	152,892
Disposal of minority interest		–	–	–	(132)	(132)
Other comprehensive revenue and expense						
Gain on revaluation of property, plant and equipment	NOTE 8, PAGE 37	–	910,503	–	–	910,503
Transfer between reserves on disposal of property, plant and equipment	NOTE 8, PAGE 37	30,265	(30,265)	–	–	–
Balance at 30 June 2023		4,779,792	5,157,887	260,693	–	10,198,372

	Notes	Retained earnings (Restated) $000	Revaluation reserves $000	Issued capital $000	Non–controlling Interest $000	Total $000
Balance at 1 July 2021		4,429,759	3,532,335	260,693	(349)	8,222,438
Comprehensive revenue and expense						
Net surplus for the year		162,365	–	–	719	163,084
Other comprehensive revenue and expense						
Gain on revaluation of property, plant and equipment	NOTE 8, PAGE 37	–	749,587	–	–	749,587
Transfer between reserves on disposal of property, plant and equipment	NOTE 8, PAGE 37	4,273	(4,273)	–	–	–
Balance at 30 June 2022		4,596,397	4,277,649	260,693	370	9,135,109

The financial statements should be read in conjunction with the notes on pages 23 to 58 inclusive.

1. Reporting entity and basis of preparation

Reporting entity

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

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

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

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

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

Basis of preparation

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

These 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.

Water services reform programme

The New Zealand Government is implementing a water services reform programme that is intended to ensure all New Zealanders have safe, clean and affordable water services. The Government believes this will be achieved by establishing new public entities to take on the delivery of drinking water, wastewater and stormwater services across New Zealand. The reform will be enacted by three pieces of legislation:

- The Water Services Entities Act 2022, which (as amended by the Water Services Entities Amendment Act 2023 on 23 August 2023) establishes ten publicly owned water services entities and sets out their ownership, governance and accountability arrangements. A water services entity is established (for transitional purposes) on the date on which the appointment of the entity's establishment board takes effect, and its establishment date (operational date) will be a date between 1 July 2024 and 1 July 2026.
- The Water Services Legislation Act 2023, which amended the Water Services Entities Act 2022 on 31 August 2023 to provide for the transfer of water services assets and liabilities to the water services entities.
- The Water Services Economic Efficiency and Consumer Protection Act 2023, which provides the economic regulation and consumer protection framework for water services. The consumer protection framework will come into force on 1 July 2024 and the rest of the Act came into force on 31 August 2023.

The group will be impacted by the transfer of the water supply and wastewater assets and services. Auckland Council provide stormwater services and as such own those assets. These financial statements do not contain the impact of water reform on stormwater assets or services.

The National Transition Unit within the Department of Internal Affairs issued draft transfer principles and associated guidance in December 2022. These principles may be amended following the finalisation of the last three water service bills. Due to the timing of the finalisation the bills and possible impacts on the draft principles, the impact of the transfers from the group has not yet been fully determined. However, management has estimated the financial impacts where possible.

The legislation is expected to result in the transfer of assets and liabilities of the group to the new water service entity on or about the new entity establishment date being 1 July 2024. The only exception anticipated at the current time is that tax losses at transfer date will remain with the company and other deferred tax liabilities may reverse, depending on the final mechanisms by which the legislative outcome is achieved. Refer Note 4.

As a result of New Zealand government's water reforms, these financial statements have been prepared on a disestablishment basis. However, because water and wastewater services will continue to be provided through the new water services entity, no changes have been made to the recognition and measurement basis, or presentation of assets and liabilities in these financial statements as a result of the use of the disestablishment basis of preparation.

The accounting policies have been applied consistently throughout the period. When an entity within the group ceases to be a going concern, its individual financial statements are prepared on a net realisable value basis. The accounting policies that materially affect the measurement of comprehensive revenue and expense, financial position and cash flows are stated within the respective notes in these financial statements.

1. Reporting entity and basis of preparation (continued)

Statement of compliance

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

Budget figures

The budget figures presented are as approved by the board on 7 June 2022. The budget figures were prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted by Watercare in preparing these financial statements. The budget figures included in the financial statements are for the controlling entity (Watercare) and therefore exclude the budget for its subsidiaries. The budgets of the subsidiaries are immaterial to the consolidated group.

Critical accounting estimates and judgments

The group is required to make judgments, estimates and assumptions about carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and judgments are based on historical experience and other relevant factors. Actual results may differ from the estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

Revisions to estimates are recognised in the period in which the estimate is revised or in the current and/or future period(s) which the revisions affect. Refer to the notes below for a discussion of estimates and judgments in applying the accounting policies.

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

Basis of consolidation

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

A list of all subsidiaries is shown in note 25.

Where necessary, adjustments are made to the financial statements of the subsidiary to bring the accounting policies used in line with the group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the group are eliminated on consolidation.

Non-controlling interests in the subsidiary are identified separately from the group's equity. Those interests of non-controlling shareholders are initially measured at the non-controlling interests' proportionate share of the carrying amount of the subsidiary's identifiable net assets. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity.

Profit or loss and each component of other comprehensive income are attributed to the owners of the company and to the non-controlling interests. Total comprehensive income of the subsidiaries is attributed to the owners of the company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

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

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

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

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

2. Explanation of major variances to budget

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

Statement of comprehensive revenue and expense – extract

	2023 Actual $000	2023 Budget $000	Variance $000	Variance %
Revenue	968,258	996,354	(28,096)	(2.8%)
Asset operating costs	(98,336)	(84,565)	(13,771)	(16.3%)
Maintenance costs	(77,516)	(73,911)	(3,605)	(4.9%)
Employee benefit expenses	(66,765)	(80,372)	13,607	16.9%
Construction contract variations payment	–	–	–	0.0%
Other expenses	(87,969)	(73,608)	(14,361)	(19.5%)
Depreciation	(308,980)	(246,467)	(62,513)	(25.4%)
Amortisation	(8,415)	(9,417)	1,002	10.6%
Finance costs	(75,673)	(81,600)	5,927	7.3%
Net loss on disposal of property, plant and equipment	(24,991)	(11,000)	(13,991)	(127.2%)

- Revenue was $28.1m unfavourable to budget. This was driven by lower volumetric revenue charges ($29.1m) due to the high levels of rainfall experienced throughout the year resulting in reduced outdoor water requirements. Infrastructure growth charges and developer revenues were also down ($21.6m) against budget due to the economic slowdown and reduction in developer activity, as were government grants revenue ($5.2m) due to lower than anticipated completion of shovel ready projects. These lower revenues were offset by higher than anticipated vested asset revenue ($13.7m) and other revenues ($17.4m) which includes water reform cost recoveries.
- Asset operating costs were $13.8m (16.3%) unfavourable to budget for the year. The flooding events of January and February and ongoing wet weather has led to high turbidity levels at Huia and an increased reliance on the Waikato Water Treatment Plant. This has resulted in additional chemical, energy and operating costs being incurred. Chemical costs have also been very volatile throughout the year contributing to the variance to budget.
- Maintenance costs were $3.6m (4.9%) unfavourable to budget primarily due to the flood events and ongoing wet weather resulting in a high volume of overflows and breaks in our network requiring corrective action.
- Employee benefit expenses were $13.6m (16.9%) favourable to budget driven by a combination of higher labour recoveries as the capital programme accelerated, and close management of headcount and vacancy recruitment.
- Other expenses were $14.3m (19.5%) unfavourable to budget driven by unbudgeted events and project costs, including:
  - Contract labour spend ($2.7m) predominantly in digital and infrastructure to cover vacancies
  - Bad debts provided for or written off ($1.9m)
  - Budgeted efficiency target ($5.7m) included under other expenses. Savings realised from the efficiency initiatives were realised in other expense categories
  - Phone & Internet charges, rent, security and other utility charges have increased during the year. Total variance to budget for these items totalled ($1.2m)
  - Insurance, audit fees and bank charges have all increased and accounted for ($0.8m) of the variance to budget
  - Other items ($2m)
- Depreciation was $62.5m unfavourable due to shortened useful life on pipes and dams as well as the FY22 asset revaluation which was not factored into the budgeted depreciation value.
- Net loss on disposal of $13.6m unfavourable to budget due to the higher loss on disposal of local network assets and impairment of wastewater assets.

2. Explanation of major variances to budget (continued)

Statement of financial position – extract

	2023 Actual $000	2023 Budget $000	Variance $000	Variance %
Total current assets	204,721	144,327	60,394	41.8%
Total non-current assets	15,695,783	13,742,621	1,953,162	14.2%
Total current liabilities	250,852	228,002	22,850	10.0%
Total non-current liabilities	5,451,280	4,887,967	563,313	11.5%
Total equity	10,198,372	8,770,979	1,427,393	16.3%

- Current assets were $60.4m greater than budget. This was due to movements across trade and other receivables, inventory and prepayments.
- Non-current assets are $1,953m greater than budget mainly due to the under estimation in respect of revaluation of PPE in FY23.
- Current liabilities were $22.8m greater than budget mainly driven by higher trade payables and accruals including significantly higher capex accruals which is partly offset by lower provisions.
- Non-current liabilities were $563m greater than budget mainly driven by higher borrowings from Auckland Council and movements in deferred tax because of the revaluation completed in FY23.
- Equity was $1,427m greater than budget at year-end, primarily due to the significant uplift in revaluation reserves in FY22 and FY23.

Statement of cash flows – extract

All the group's cash flow from operations was available for either capital expenditure or debt repayment. Operating cash was lower than budget with the significant weather events impacting both revenue and costs.

	2023 Actual $000	2023 Budget $000	Variance $000	Variance %
Net cash inflows – operating activities	542,972	609,084	(66,112)	(10.9%)
Net cash outflows – investing activities	(796,461)	(781,645)	(14,816)	1.9%
Net cash inflows / (outflows) – financing activities	250,000	172,561	77,439	44.9%

- Net operating cash inflows were $66.1m unfavourable to budget, primarily due to lower revenues and higher expenses than budgeted and timing of receipts from customers.
- The net cash outflow from investing activities was $14.8m higher than budget due to increased capital expenditure during the year.
- The net cash inflows from financing activities were $77.4m higher than budget. This was due to lower operating cash.

3. Business update

a) Impact of Significant weather event

Auckland experienced two significant weather events in January and February 2023. There was damage to the group's water related infrastructure caused by flooding, landslides, and extreme wind, which in turn resulted in the accumulation of silt, debris, and contamination of sites. Overall, the damage was limited to the water catchments, treatment plants, network pipes and electrics of certain wastewater pump stations.

The group's immediate response to the damage included mobilising a team to physically inspect facilities where damage has been identified and perform assessments of the assets' integrity and restore water supply and wastewater services.

Significant judgements and estimates used in determining the impact of significant weather events

- The most significant assumptions, and associated risks to the estimates provided relate to the extent of the damage to assets, the estimated cost to repair the assets, the timeline for repair and the position of the insurers as the claims are presented. These judgements and estimates will continue to be reviewed as new information becomes available.
- Judgement has been exercised in determining whether damage to assets should be treated as impairment losses, derecognition of the assets or repairs and maintenance expenses.

Accounting implications

Clean-up costs

Cost to clean-up assets are recognised in surplus or deficit within operating expenses when the clean-up takes place.

Damaged or destroyed assets

Damaged or destroyed assets are assessed by consideration of their carrying value in the financial statements. Cost to repair and recoverable service amount as shown in the following table.

Asset type	Where impairment loss is recognised
Assets held at cost	Net other gains or losses, in surplus or deficit.
Property, plant and equipment held at revalued amount	Other comprehensive revenue to the extent that it does not exceed the amount in the revaluation surplus for the class of asset. Any excess is recognised in Net other gains or losses, in surplus or deficit.

Costs to repair assets

Where assets are not otherwise impaired, costs to repair damaged assets to their original condition are recognised in surplus or deficit within operating expenses when incurred. Costs that renew the entire asset or improve the economic benefits or service potential of an asset are capitalised to the net book value of the asset (after recognising any impairment).

Insurance proceeds

Insurance proceeds are recognised when recovery is virtually certain. This is when the claim has been accepted by insurers and the group has received confirmation of the reimbursement value. The proceeds are recognised in surplus or deficit within revenue. For the year ended 30 June 2023, no insurance proceeds have been recognised in revenue relating to the two weather events described above.

Financial impacts

Additional costs, including unplanned maintenance, chemical, energy and cleaning costs, specific to these weather events of $9.1 million were recognised in the Statement of Comprehensive Income.

The current estimate of impairment relating to identified impacted assets is between $3m and $80m. The range reflects the extent to which there remains uncertainty in respect of the exact extent of damage to assets and their associated costs to remediate. As a result of the quantum of revaluation reserves in respect of the classes of impacted assets, no impairment loss has been recorded in the Statement of comprehensive revenue and expense. For the year ended 30 June 2023, the group commissioned an independent valuation of property, plant and equipment. The group considered the extent of potential impairment in adopting revalued amounts. Refer to Note 6 for valuation details.

b) Impact of COVID-19

In FY22 the ongoing effects of the COVID-19 pandemic and associated economic conditions impacted Watercare's core operations necessitating additional work to protect key staff and processes including the use of split shifts. As a result, all operational outputs were maintained, however, COVID-19 did impact Watercare's ability to deliver its capital programme, particularly maintaining the planned schedule which impacted both capital and operational costs. In FY23 the effects of COVID-19 were limited and Watercare's operations remain resilient, and we are prepared for any further COVID-19 related challenges.

Construction contract variations

In FY22 capital projects in progress during lockdown periods incurred delays and therefore construction contract variations payments to construction contractors under the terms of each agreement. There were no equivalent payments in FY23.

Revaluation of property, plant and equipment

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

3. Business update (continued)

c) Discontinued activities

On 31 May 2023, Watercare sold its 67% holding in Lutra Limited, an engineering and cloud based software company, for a total of $3,316,500. Control of Lutra Limited passed to the acquirer on 31 May 2023.

The results of Lutra Limited are presented below.

	2023 01/07/22 – 31/05/23 $000	2022 01/07/21 – 30/06/22 $000
Revenue	8,316	6,829
Expenses	(9,020)	(4,650)
Operating (Loss) / Surplus before tax	(704)	2,179
Gain on sale of discontinued operations	349	–
Income Tax expense	(17)	–
Net (loss) / surplus for the year	(372)	2,179

The major classes of assets and liabilities for Lutra Limited were:

	As at 31/05/23	As at 30/06/22
Assets		
Cash and cash equivalents	82	660
Trade and other receivables from exchange transactions	1,439	1,485
Prepaid expenses	51	45
Inventories	–	240
Property, plant and equipment	278	332
Intangible assets	1,300	1,061
Total assets	3,150	3,823
Liabilities		
Trade and other payables and accruals	2,180	2,239
Provisions	343	266
Deferred tax liability	61	31
Total liabilities	2,584	2,536
Net assets directly associated with discontinued activities	566	1,287

The statement of comprehensive revenue and expense has been restated for 2022 to reflect the sale of Lutra as a discontinued activity.

The net cash flows incurred by Lutra Limited are, as follows:

	2023 01/07/22 – 31/05/23 $000	2022 01/07/21 – 30/06/22 $000
Operating	(29)	522
Investing	(549)	(564)
Financing	–	–
Net cash (outflow) / inflow	(578)	(42)

4. Water services reform

As described in Note 1 Statement of accounting policies – Basis of preparation the New Zealand government is currently implementing water services reform that is intended to ensure that all New Zealanders have safe, reliable, clean, and affordable water services. As part of the reform programme assets and liabilities of the group are expected to be transferred to the new water services entity on or about the new entity establishment date being 1 July 2024.

The impact on the Group remains to be determined. 30 June 2023 balances are shown in the tables below alongside the Group's assumptions and uncertainties as at the date of approving the financial statements for issue. Values at transition date are expected to be different to those shown below.

Statement of financial position as at 30 June 2023

Description	June 2023	Assumptions and uncertainty
Current assets	$204 million	Draft principals set out that water services related assets and liabilities will be transferred to the new water services entity, with the expected exclusion of deferred tax balances.
Non-current assets	$15,695 million	
Current liabilities	$251 million	The exact mechanisms of the transfers are still to be determined.
Non-current liabilities (excluding deferred tax liability)	$2,990 million	

Statement of comprehensive revenue and expenditure for the year ended 30 June 2023

Description	June 2023	Assumptions and uncertainty
Revenue	$968 million	Draft principals set out that water services related assets and liabilities will be transferred to the new water services entity.
Expenses	$724 million	

Other measures as at 30 June 2023

Description	June 2023	Assumptions and uncertainty
Capital commitments to be transferred	$612 million	Commitments and FTE will change by "go live" date.
Lease commitments to be transferred	$118 million	It is assumed that the majority of Watercare employees will transfer.
Full-time equivalents (FTE) to be transferred	1215 FTE's	

5. Business unit reporting

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

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

Business unit comprehensive revenue and expense

	Water 2023 $000	Wastewater 2023 $000	Total 2023 $000	Water 2022 $000	Wastewater 2022 $000	Total 2022 $000
Revenue						
Water and wastewater	187,302	425,602	612,904	173,809	384,898	558,707
Other revenue	107,104	248,250	355,354	115,432	252,038	367,470
Total revenue	294,406	673,852	968,258	289,241	636,936	926,177
Operating expenses						
Asset operating costs	(34,169)	(64,167)	(98,336)	(30,100)	(53,601)	(83,701)
Maintenance costs	(25,194)	(52,322)	(77,516)	(21,424)	(42,608)	(64,032)
Employee benefit expenses	(20,114)	(46,651)	(66,765)	(30,457)	(61,686)	(92,143)
Construction contract variations payment	–	–	–	(4,783)	(10,673)	(15,456)
Other expenses	(27,206)	(60,763)	(87,969)	(27,469)	(60,763)	(88,232)
Total operating expenses	(106,683)	(223,903)	(330,586)	(114,233)	(229,331)	(343,564)
Depreciation	(135,329)	(173,651)	(308,980)	(119,514)	(153,113)	(272,627)
Amortisation	(1,668)	(6,747)	(8,415)	(2,012)	(8,141)	(10,153)
Finance costs	(27,822)	(47,851)	(75,673)	(21,368)	(36,694)	(58,062)
Total expenses	(271,502)	(452,152)	(723,654)	(257,127)	(427,279)	(684,406)
Operating (loss) / surplus from trading operations	22,904	221,700	244,604	32,114	209,657	241,771
Net loss on disposal of property, plant and equipment, and restructuring costs	(11,143)	(13,848)	(24,991)	(8,116)	(10,411)	(18,527)
Operating (loss) / surplus before tax	11,761	207,852	219,613	23,998	199,246	223,244
Income tax benefit / (expense)	(3,560)	(62,921)	(66,481)	(6,701)	(55,638)	(62,339)
Net surplus for the year from continuing operations	8,201	144,931	153,132	17,297	143,608	160,905
Discontinued operations						
Profit after tax for the year from discontinued operations	(372)	–	(372)	2,179	–	2,179
Net (loss) / surplus for the year	7,829	144,931	152,760	19,476	143,608	163,084
Other comprehensive revenue and expense net of tax						
Gain on revaluation of property, plant and equipment	398,788	511,715	910,503	328,309	421,278	749,587
Total comprehensive revenue and expense for the year attributable to owners of the parent, net of tax	406,617	656,646	1,063,263	347,785	564,886	912,671

5. Business unit reporting (continued)

Business unit financial position

	Water 2023 $000	Wastewater 2023 $000	Total 2023 $000	Water 2022 $000	Wastewater 2022 $000	Total 2022 $000
Assets						
Current						
Current assets	60,982	143,739	204,721	53,387	111,081	164,468
Total current assets	60,982	143,739	204,721	53,387	111,081	164,468
Non-current						
Property, plant and equipment	6,581,917	9,006,440	15,588,357	5,902,702	7,949,180	13,851,882
Intangible assets	12,837	51,935	64,772	15,150	58,042	73,192
Inventories	4,172	2,781	6,953	3,957	2,637	6,594
Prepaid expenses	–	32,708	32,708	–	22,782	22,782
Other financial assets	–	2,993	2,993	–	25,668	25,668
Total non-current assets	6,598,926	9,096,857	15,695,783	5,921,809	8,058,309	13,980,118
Total assets	6,659,908	9,240,596	15,900,504	5,975,196	8,169,390	14,144,586
Liabilities						
Current						
Current liabilities	76,778	174,074	250,852	65,792	175,223	241,015
Total current liabilities	76,778	174,074	250,852	65,792	175,223	241,015
Non-current						
Borrowings	1,086,648	1,868,936	2,955,584	950,032	1,633,968	2,584,000
Deferred tax liability	750,435	1,710,069	2,460,504	665,450	1,484,907	2,150,357
Trade and other payables for exchange transactions	–	12,784	12,784	301	8,363	8,664
Accrued expenses	–	10,271	10,271	7,700	4,020	11,720
Provisions	680	11,457	12,137	847	12,874	13,721
Total non-current liabilities	1,837,763	3,613,517	5,451,280	1,624,330	3,144,132	4,768,462
Total liabilities	1,914,541	3,787,591	5,702,132	1,690,122	3,319,355	5,009,477
Equity attributable to owners of the parent and non-controlling interest	4,745,367	5,453,005	10,198,372	4,285,074	4,850,035	9,135,109
Total equity and liabilities	6,659,908	9,240,596	15,900,504	5,975,196	8,169,390	14,144,586

6. Property, plant and equipment

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

			Estimated remaining useful lives in years	
Asset class	**Category**	**Subsequent measurement basis**	**2023**	**2022**
Land	Operational asset	Land at fair value that reflects current market value and forestry assets at fair value less costs to sell	–	–
Buildings	Operational asset	"Highly specialised buildings at fair value which is deemed to be depreciated replacement cost, less accumulated depreciation Other buildings at fair value that reflects current market value, less accumulated depreciation"	up to 100	up to 98
Pipelines	Infrastructure asset	Fair value which is deemed to be depreciated replacement cost, less accumulated depreciation	up to 167	up to 164
Tanks, tunnels, roads and reservoirs	Infrastructure asset	Fair value which is deemed to be depreciated replacement cost, less accumulated depreciation	up to 200	up to 95 Tunnels: up to 438
Dams	Infrastructure asset	Fair value which is deemed to be depreciated replacement cost, less accumulated depreciation	up to 200	up to 194
Landfill	Infrastructure asset	Cost less accumulated depreciation and impairment losses	up to 21	up to 14
Machinery	Infrastructure asset	Fair value which is deemed to be depreciated replacement cost, less accumulated depreciation	up to 200	up to 195
Motor vehicles	Operational asset	Cost less accumulated depreciation and impairment losses	up to 25	up to 22
Office equipment	Operational asset	Cost less accumulated depreciation and impairment losses	up to 30	up to 23
Capital work in progress	Infrastructure assets mainly	Cost less accumulated impairment losses	–	–

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

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

6. Property, plant and equipment (continued)

Revaluation

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

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

Revaluation assumptions

The group has taken all practical steps and engaged experts where necessary to ensure all estimates and assumptions are reasonable and have factored in the impacts of the post-COVID19, macro-economic challenges, and weather events in FY23 on the valuation of property, plant, and equipment.

The most recent valuation for all land, buildings, and infrastructure assets were completed at 30 June 2023 by Beca Projects NZ Limited (Beca). The revaluation process involves physical inspection of selected assets at various sites to evaluate assets condition, utilisation, replacement timing, and asset optimisation to determine the assessed remaining useful life. The following valuation approach was taken per category:

- Land valuation was based on relevant market prices using market-based approach, comparable property sales analysis and analysed sales indices. Beca has performed kerbside inspections for both land parcels above $700k, and land parcels with pump stations and dams.
- Specialised buildings that do not have an active trading open market are valued based on Optimised Depreciated Replacement Cost approach (ODRC). The valuation was performed through a combination of primary inspections for seven (7) treatment plants, kerbside inspections for pump stations and buildings at dams, and indexation.
- Non-specialised buildings valuation was based on comparable property selling prices using a market comparison approach. The valuation was performed through indexation.
- Infrastructure assets are specialised assets where valuation was based on the replacement cost of a new modern equivalent asset using the Optimised Depreciated Replacement Cost (ODRC) approach. The valuation was performed through a combination of physical inspections for nine (9) treatment plants, six (6) pump stations, three (3) dams, three (3) reservoirs, various site improvements, and indexation.

The assumptions used in determining the indexed or the depreciated replacement cost for buildings and infrastructure assets were:

- Construction costs based on recent contract-based construction work and the unit rates reflect the costs of replacing the assets.
- The capital goods price index (CGPI) was used where valuation was performed through indexation. The CGPI was available to the December 2022 quarter and Beca has forecasted the CGPI values in assessing unpublished indices for June 2023 quarter.
- 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. To further obtain confidence and minimise the estimation risk of assets' useful lives, Watercare continually assesses the condition of its specialised assets through physical inspections and integrity condition assessments.

The increase in FY2023 land, building, and infrastructure assets valuation is primarily driven by the following:

- Upward trend in commercial industrial land due to the high demand versus the limited supply and low vacancy rates.
- Market volatility post COVID impact, and macro-economic challenges, driving CGPI increase, influencing the increase in the unit rates used in the valuation. For FY2023 revaluation, Beca has relied on various sources for the unit rates used to value Sewer and Water Mains, Sewer and Water Valves, Water Meters, Water Hydrants and Sewer Manhole. Other than Sewer Mains, the increase of unit rates used in the mentioned asset types range between 1% to 9%. Unit rates used for Sewer Mains valuation are based on June 2022, and was deemed most representative of the market as opposed to the volatile rates for FY2023. Beca has also indicated pipes sizes as another factor for unit rates used. This is relevant when the pipes reach a certain size, e.g. 2050mm and above, driving the material costs increase since they are now being bespoken to Watercare's requirements.
- Increase in the construction costs across sectors due to material supply and labour availability challenges.
- More comprehensive information available allowing Beca to perform a more detailed valuation for the modern equivalent asset for Dams assets

Transfers from/to other classes

The category reclasses in the year was driven by more comprehensive available information for the assets register. Building assets have now been categorised accordingly, allocating it between property building, and infrastructure building, while assets previously categorised as landfill have now been appropriately reflected as machinery, building, tanks, and vehicles.

Depreciation

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

6. Property, plant and equipment (continued)

	Land $000	Buildings $000	Pipelines $000	Tanks, tunnels, roads and reservoirs $000	Dams $000	Landfill $000	Machinery $000	Motor vehicles $000	Office equipment $000	Capital work in progress $000	Total $000
Balance at 30 June 2021											
Cost or valuation	580,052	114,811	8,333,513	788,339	271,876	139,345	1,622,615	22,607	49,084	1,150,724	13,072,966
Accumulated depreciation	–	(297)	(457,014)	(40,100)	(7,412)	(18,357)	(202,582)	(14,843)	(32,152)	–	(772,757)
Carrying amount	580,052	114,514	7,876,499	748,239	264,464	120,988	1,420,033	7,764	16,932	1,150,724	12,300,209
Year ended 30 June 2022											
Additions to work in progress	–	–	–	–	–	–	–	–	–	725,836	725,836
Additions to PPE	3,776	–	72,728	54	–	–	4,174	17	124	–	80,873
Transfers from work in progress	29,114	29,253	216,083	33,640	95	21,135	130,059	5,457	6,190	(471,026)	–
Transfers to intangibles	–	–	–	–	–	–	–	–	–	(4,184)	(4,184)
Disposals	(4,763)	–	(8,593)	–	–	(1,586)	211	(90)	(4)	–	(14,825)
Revaluation	–	–	812,519	(88,235)	35,961	–	280,848	–	–	–	1,041,093
Impairment	–	–	–	–	–	–	–	(22)	(21)	(4,206)	(4,249)
Depreciation	–	(3,867)	(163,827)	(15,872)	(2,507)	(9,839)	(66,474)	(3,961)	(6,524)	–	(272,871)
Closing carrying amount	608,179	139,900	8,805,409	677,826	298,013	130,698	1,768,851	9,165	16,697	1,397,144	13,851,882
Balance at 30 June 2022											
Cost or valuation	608,179	144,065	8,805,409	677,826	298,013	158,894	1,768,851	26,576	55,323	1,397,144	13,940,280
Accumulated depreciation	–	(4,165)	–	–	–	(28,196)	–	(17,411)	(38,626)	–	(88,398)
Carrying amount	608,179	139,900	8,805,409	677,826	298,013	130,698	1,768,851	9,165	16,697	1,397,144	13,851,882
Year ended 30 June 2023											
Additions to work in progress	–	–	–	–	–	–	–	–	–	926,240	926,240
Transfers from work in progress	(346)	11,227	58,812	28,008	49,691	–	52,519	2,651	8,904	(211,466)	–
Transfers to intangibles	–	–	–	–	–	–	–	–	–	(4,657)	(4,657)
Disposals	(1,232)	(360)	(11,350)	(129)	–	(1,136)	(4,305)	(859)	(598)	–	(19,969)
Revaluation	312,945	8,583	171,961	68,707	513,965	–	75,571	–	–	–	1,151,732
Impairment	–	–	–	–	–	–	–	–	–	(7,638)	(7,638)
Transfer from/(to) other classes	–	(59,621)	1,876	(2,061)	–	(39,902)	99,138	570	–	–	–
Depreciation	–	(4,486)	(182,757)	(22,427)	(6,055)	(3,442)	(83,314)	(3,298)	(3,201)	–	(308,980)
Depreciation for discontinued operations	–	–	–	–	–	–	–	–	(253)	–	(253)
Closing carrying amount	919,546	95,243	8,843,951	749,924	855,614	86,218	1,908,460	8,229	21,549	2,099,623	15,588,357
Balance at 30 June 2023											
Cost or valuation	919,546	95,243	8,843,951	749,924	855,614	117,931	1,908,460	28,914	61,346	2,099,623	15,680,552
Accumulated depreciation	–	–	–	–	–	(31,713)	–	(20,685)	(39,797)	–	(92,195)
Carrying amount	919,546	95,243	8,843,951	749,924	855,614	86,218	1,908,460	8,229	21,549	2,099,623	15,588,357

6. Property, plant and equipment (continued)

Service concession assets – included in the above

Service concession assets are infrastructure assets owned by Watercare and operated by Veolia Water Services (ANZ) Pty Limited (Veolia) for the provision of water and wastewater services in the Papakura district. The franchise agreement stipulates the services Veolia must provide, to whom it must provide them and regulates the price. Veolia is responsible for upgrading and maintaining the network in Papakura so that at the end of the contract period (initial term of 30 years ending on 30 June 2027 with a 20-year right of renewal), the network shall be in a better overall condition than that which existed at the time the contract was commenced in 1997. At the commencement of the contract, a franchise fee was paid in exchange for the rights to operate the assets as detailed in note 23. Watercare retains ownership of the infrastructure assets franchised to Veolia.

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

	Pipelines $000	Machinery $000	Total $000
Balance at 30 June 2021			
Cost or valuation	202,545	4,498	207,043
Accumulated depreciation	(12,336)	(523)	(12,859)
Carrying amount	190,209	3,975	194,184
Year ended 30 June 2022			
Additions to PPE	13,105	31	13,136
Disposals	(365)	–	(365)
Transfers	14	–	14
Revaluation	13,922	2,637	16,559
Depreciation	(4,311)	(107)	(4,418)
Closing carrying amount	212,574	6,536	219,110
Balance at 30 June 2022			
Cost or valuation	212,574	6,536	219,110
Accumulated depreciation	–	–	–
Carrying amount	212,574	6,536	219,110
Year ended 30 June 2023			
Additions to PPE	16,706	1,615	18,321
Disposals	(609)	–	(609)
Transfers	–	–	–
Revaluation	74,571	(320)	74,251
Depreciation	(3,273)	(132)	(3,405)
Closing carrying amount	299,969	7,699	307,668
Balance at 30 June 2023			
Cost or valuation	299,969	7,699	307,668
Accumulated depreciation	–	–	–
Carrying amount	299,969	7,699	307,668

6. Property, plant and equipment (continued)

Capital work in progress

Work in progress relates to the following projects:	2023 $000	2022 $000
Water treatment plant	61,996	53,218
Wastewater treatment plant	156,226	131,121
Wastewater pump station and sewer	1,169,242	740,335
Watermains, pump stations and reservoirs	334,646	271,749
Dams and raw water transmission pipelines	168,321	108,143
Other	209,192	92,578
Total work in progress	2,099,623	1,397,144

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

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

Cash-generating assets

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

Goodwill

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

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

The goodwill was reversed on the sale of Lutra. No goodwill impairment was recognised for 30 June 2023 (2022: nil).

Non-cash-generating assets

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

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

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

8. Revaluation reserves

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

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

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

	Land $000	Buildings $000	Pipelines $000	Tanks, tunnels, roads and reservoirs $000	Dams $000	Machinery $000	Total $000
Balance at 1 July 2022	456,570	24,490	2,976,133	284,002	156,549	379,906	4,277,649
Revaluation during the year – net of deferred tax	312,824	6,027	139,589	56,586	370,065	25,412	910,503
Transfers between equity components	–	–	–	–	–	–	–
Transfer (to) / from other classes	–	–	–	–	–	–	–
Transferred to retained earnings on disposal of property, plant and equipment (net of tax)	(315)	(223)	(9,547)	(1,477)	(25)	(18,678)	(30,265)
Balance at 30 June 2023	769,079	30,294	3,106,175	339,111	526,589	386,640	5,157,887

9. Intangible assets

Measurement

Intangible assets are initially recorded at cost.

Asset class	Subsequent measurement basis	Estimated remaining useful lives in years	
		2023	2022
Network models	Cost less accumulated amortisation and impairment losses	up to 7	up to 8
Computer software	Cost less accumulated amortisation and impairment losses	up to 7	up to 8
Resource consents	Cost less accumulated amortisation and impairment losses	up to 35	up to 32
Easement	Cost less impairment losses	Indefinite	Indefinite
Goodwill	Cost less impairment losses	Indefinite	Indefinite

Goodwill

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

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

Amortisation

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

9. Intangible assets (continued)

	Network models $000	Computer software $000	Resource consents $000	Easements $000	Goodwill $000	Total $000
Balance at 30 June 2021						
Cost or valuation	5,039	103,622	47,061	1,427	2,300	159,449
Accumulated amortisation	(3,158)	(62,504)	(14,838)	–	–	(80,500)
Carrying amount	1,881	41,118	32,223	1,427	2,300	78,949
Year ended 30 June 2022						
Transferred from work in progress	560	3,620	4	–	–	4,184
Disposals	–	2	–	–	–	2
Additions to Intangibles	–	211	(1)	–	–	210
Transfer from / (to) other classes	–	–	–	–	–	–
Amortisation	(498)	(8,172)	(1,483)	–	–	(10,153)
Closing carrying amount	1,943	36,779	30,743	1,427	2,300	73,192
Balance at 30 June 2022						
Cost or valuation	5,599	107,583	47,065	1,427	2,300	163,974
Accumulated amortisation	(3,656)	(70,804)	(16,322)	–	–	(90,782)
Carrying amount	1,943	36,779	30,743	1,427	2,300	73,192
Year ended 30 June 2023						
Transferred from work in progress	2,250	2,407	–	–	–	4,657
Disposals	–	(2,362)	–	–	–	(2,362)
Disposal of a controlled entity	–	–	–	–	(2,300)	(2,300)
Transfer from / (to) other classes	582	30	(612)	–	–	–
Amortisation	(1,255)	(6,487)	(673)	–	–	(8,415)
Closing carrying amount	3,520	30,367	29,458	1,427	–	64,772
Balance at 30 June 2023						
Cost or valuation	7,849	108,307	47,064	1,427	–	164,647
Accumulated amortisation	(4,329)	(77,940)	(17,606)	–	–	(99,875)
Carrying amount	3,520	30,367	29,458	1,427	–	64,772

10. Borrowings

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

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

From 1 July 2018 Watercare and its parent, Auckland Council, entered into a service level agreement (SLA) for the provision of treasury services and an intercompany loan agreement for existing loans at 30 June 2018. The terms of both agreements commenced 1 July 2018 are in place and renews on 31 January 2024. The proposed water reform has not led to any decisions being made regarding the intercompany loan at year end. Large scale repayments are not required as long as Watercare remains within the debt headroom position agreed with Auckland Council Treasury. Auckland Council treasury met all of their obligations under the terms of the SLA during the 2023 financial year.

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

There is an expectation for Watercare to meet the long-term annual plan budgeted borrowing balance of $2,964m. The actual results for the year ended 30 June 2023 were $2,956m.

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

	2023			2022		
	Face value $000	Unamortised cost $000	Carrying value $000	Face value $000	Unamortised cost $000	Carrying value $000
Current						
Related party term loan (unsecured)	–	–	–	–	–	–
Medium-term notes (unsecured)	–	–	–	–	–	–
Bank loan (unsecured)	–	–	–	–	–	–
Total current borrowings	–	–	–	–	–	–
Non-current						
Related party term loan (unsecured)	2,955,584	–	2,955,584	2,584,000	–	2,584,000
Total non-current borrowings	2,955,584	–	2,955,584	2,584,000	–	2,584,000
Total borrowings	2,955,584	–	2,955,584	2,584,000	–	2,584,000

The group had $2.0m (2022: $2.0m) of undrawn bank overdraft committed facilities.

11. Finance costs

Finance costs consist of interest and other costs that are incurred in connection with the borrowing of funds. Finance costs directly attributable to the acquisition, construction or production of a qualifying asset that necessarily takes more than 12 months to become ready for its intended use or sale are capitalised as part of the cost of that asset. During the year, an average interest rate of 4.48% (2022: 4.15%) was used to determine the amount of capitalised interest. All other finance costs are expensed in the period in which they occur.

	2023 $000	2022 $000
Interest on bank overdraft and borrowings, paid and payable	120,732	94,793
Capitalised interest on construction of property, plant and equipment and intangibles	(45,059)	(36,730)
Net finance costs	75,673	58,063

12. Financial instruments and risk management

Risk management objectives and policies

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

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

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

Market risk

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

Interest rate risk

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

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

12. Financial instruments and risk management (continued)

Interest rate sensitivity

At 30 June 2023 there is no significant interest rate risk as interest rates are fixed annually (2022: None).

Foreign exchange risk

Foreign exchange risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. Most of the group's transactions are carried out in New Zealand dollars.

From time to time the group is exposed to foreign exchange risk on foreign currency transactions related to the purchase of equipment, parts and chemicals. Where amounts exceed NZ$300,000 (2022: NZ$300,000), the group manages this risk with forward foreign exchange contracts or options.

The group had no forward foreign exchange contracts at 30 June 2023 and 30 June 2022.

Foreign exchange sensitivity

The group had no exposure to foreign exchange risk at 30 June 2023 and 30 June 2022.

Credit risk

Credit risk is the risk that a counterparty will default on its contractual obligations, resulting in financial loss to the group. Financial instruments that potentially subject the group to credit risk consist mainly of cash and cash equivalents, derivative assets held for risk management, and trade and other receivables.

From 1 July 2018 the group's financing is made available through a guarantee letter from Auckland Council, which has credit ratings of AA from Standard & Poor's and Aa2 from Moody's. The group's cash and cash equivalents are placed with a major trading bank with an AA- long-term credit rating assigned by Standard & Poor's and A1 from Moody's.

Debtors and other receivables arise from the group's statutory functions. Therefore, there are no procedures in place to monitor the creditworthiness of debtors and other receivables with regard to credit evaluations or external credit rating. However, there is no concentration of credit risk in respect of receivables, as the company has a large number of customers. The ageing of trade receivables from exchange transactions at balance date was as follows:

	2023			2022		
	Carrying amount $000	Provision for doubtful debts $000	Net carrying amount $000	Carrying amount $000	Provision for doubtful debts $000	Net carrying amount $000
Not past due	56,034	–	56,034	36,058	–	36,058
Past due 1 to 30 days	7,202	–	7,202	12,228	–	12,228
Past due 30 to 60 days	4,963	–	4,963	5,976	–	5,976
Past due more than 60 days	27,400	(5,092)	22,308	30,362	(3,477)	26,885
Total	95,599	(5,092)	90,507	84,624	(3,477)	81,147

Movement in the provision for doubtful debts	2023 $000	2022 $000
Balance at 1 July	3,477	2,751
Additions during the year	1,865	848
Bad debts written off	(250)	(122)
Unused provisions reversed during the year	–	–
Balance at 30 June	5,092	3,477

During year ended 30 June 2023, the group is also exposed to credit risk through a $41m loan provided to the Central Interceptor contractor (2022: $55m). The group has mitigated this risk by contractually securing the loan with bank bonds, which in the event of a default the group has the right to call on the bonds and have the loan repaid in full. Refer to Note 22 for further information.

12. Financial instruments and risk management (continued)

Liquidity risk

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

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

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

The proposed water reform has not led to any decisions being made regarding the intercompany loan at year end, thereby the treatment will continue with no changes.

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

Gross contractual maturity analysis

	Current		Non-current			
2023	**0–6 months $000**	**7–12 months $000**	**1–2 years $000**	**2–3 years $000**	**Gross nominal cash outflow $000**	**Carrying amount $000**
Financial liabilities						
Trade and other payables for exchange transactions	35,843	–	12,784	–	48,627	48,627
Accrued expenses*	163,327	–	–	–	163,327	163,327
Borrowings	–	–	–	2,955,584	2,955,584	2,955,584
Total	199,170	–	12,784	2,955,584	3,167,538	3,167,538

	Current		Non-current			
2022	**0–6 months $000**	**7–12 months $000**	**1–2 years $000**	**2–3 years $000**	**Gross nominal cash outflow $000**	**Carrying amount $000**
Financial liabilities						
Trade and other payables for exchange transactions	25,886	–	8,664	–	34,550	34,550
Accrued expenses*	162,754	–	–	–	162,754	162,754
Borrowings	–	–	–	2,584,000	2,584,000	2,584,000
Total	188,640	–	8,664	2,584,000	2,781,304	2,781,304

* Excludes current and non-current revenue received in advance of $36.9m (2022: $30.9m) as it was not categorised as a financial liability; refer to note 23.

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

Fair values

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

Financial assets at amortised cost

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

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

12. Financial instruments and risk management (continued)

Financial liabilities at amortised cost

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

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

Fair value through profit and loss

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

Fair value hierarchy

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

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

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

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

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

From 1 July 2018 the group did not have any financial assets or liabilities that were measured at fair value in the statement of financial position. At 30 June 2023 there are no derivative financial instruments (2022: None).

Financial assets and liabilities

	2023		2022	
	Amount $000	Fair value $000	Amount $000	Fair value $000
Financial assets – current				
Amortised cost				
Cash and cash equivalents	4,115	4,115	7,604	7,604
Trade and other receivables from exchange transactions	121,286	121,286	100,185	100,185
Other financial assets	38,094	38,094	29,688	29,688
Financial assets – non-current				
Amortised cost				
Other financial assets	2,993	2,993	25,668	25,668
Total financial assets	166,488	166,488	163,145	163,145
Financial liabilities – current				
Amortised cost				
Trade and other payables for exchange transactions	35,843	35,843	25,886	25,886
Accrued expenses*	163,327	163,327	162,754	162,754
Financial liabilities – non-current				
Amortised cost				
Trade and other payables for exchange transactions	12,784	12,784	8,664	8,664
Related party term loan (unsecured)	2,955,584	2,955,584	2,584,000	2,584,000
Total financial liabilities	3,167,538	3,167,538	2,781,304	2,781,304

* Excludes current revenue received in advance of $36.9m (2022: $30.9m) and non-current revenue received in advance of $10.3m (2022: $11.7m) as it was not categorised as a financial liability; refer to note 23.

12. Financial instruments and risk management (continued)

Capital management

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

The group's policy is to maintain a strong capital base so as to maintain debt investor, creditor and market confidence and to sustain the future development of the business. In ensuring that the group has sufficient solvency to satisfy all its operational needs, management closely monitors the ratio between the funds it receives from operations and its finance costs.

The group continues to focus on the maintenance of the long-term integrity of its assets while keeping the overall costs to its customers at minimum levels. There has been no change in the group's overall strategy for capital management during the years ended 30 June 2023 and 30 June 2022.

13. Revenue

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

Revenue from exchange transactions

Water and wastewater revenue

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

Revenue from rendering of services

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

Interest income

Interest income is recognised using the effective interest method.

Dividend income

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

Infrastructure Growth Charge revenue

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

Revenue from non-exchange transactions

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

Vested assets revenue

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

13. Revenue (continued)

	Notes	2023 $000	2022 $000
Revenue from exchange transactions			
Revenue from sale of goods			
Water revenue – gross		190,165	176,160
Water leak remission		(3,035)	(2,673)
Water revenue – net of leak remissions		187,130	173,487
Revenue from sale of services			
Wastewater revenue – gross		432,085	391,425
Wastewater leak remission		(6,627)	(6,205)
Wastewater revenue – net of leak remissions		425,458	385,220
Total water and wastewater revenue – net of leak remissions		612,588	558,707
New meters and service connections		34,955	33,589
Laboratory revenue		9,026	7,674
Total revenue from sale of goods and services		656,569	599,970
Infrastructure Growth Charge revenue		179,555	240,484
Dividend income		121	122
Subvention income	NOTE 16, PAGE 48	2,947	–
Interest income		107	62
Other revenue		21,610	10,999
Total other revenue from exchange transactions		204,340	251,667
Total revenue from exchange transactions		860,909	851,637
Revenue from non-exchange transactions			
Government Grants		30,704	15,005
Vested assets revenue		76,645	59,535
Total revenue from non-exchange transactions		107,349	74,540
Total revenue		968,258	926,177

14. Operating expenses

	Notes	2023 $000	2022 $000
Operating expenses include:			
Auditor's remuneration			
– annual audit and review of the financial statements – Deloitte Limited		968	826
– other audit fees – Trusts, Lutra and OAG		32	46
– other services		42	330
Directors and trustees' fees	NOTE 29, PAGE 57	495	505
Environmentally significant costs			
– chemicals		18,655	16,949
– energy		27,013	26,155
Cost of consumables and spare parts consumed	NOTE 19, PAGE 51	26,260	17,403
Operating leases and rent		8,327	7,715
Increase in provision for doubtful debts	NOTE 12, PAGE 41	1,865	848
Bad debts written off	NOTE 12, PAGE 41	(250)	(122)
Salaries and wages			
– paid to employees		132,940	125,928
– capitalised on construction of property, plant and equipment		(66,175)	(33,785)
		66,765	92,143

Auditor's remuneration for other services relates to non-financial data quality review and other advisory services to the Corporate Taxpayers Group (CTG), of which Watercare, alongside a number of other organisations, are a member. Prior year fees also included services related to Central Interceptor project assurance services, probity services, assurance in respect of Watercare's 2021 GRI report. All fees paid to the auditor were authorised in line with the Audit and Risk Committee Charter.

15. Reconciliation of operating cash flows

	2023 $000	2022 $000
Reconciliation of net surplus after tax to net cash flows from operating activities		
Net surplus for the year	152,760	163,084
Non-cash and non-operating items:		
Depreciation and amortisation*	317,648	283,024
Net loss on disposal of and provision for redundant property, plant and equipment*	25,102	18,529
Gain on disposal of discontinued operations	(349)	–
Vested assets revenue	(76,645)	(66,478)
Capitalised interest on borrowings and assets	76,748	58,117
Deferred tax*	66,498	62,339
Movements in working capital:		
(Increase) / decrease in assets:		
Inventories	(2,351)	(3,607)
Trade and other receivables from exchange transactions	(21,101)	(11,385)
Prepaid expenses	(22,169)	(327)
Increase / (decrease) in liabilities:		
Trade and other payables for exchange transactions	14,077	5,398
Accrued expenses	5,201	36,260
Provisions	(8,354)	(23,390)
Working Capital Movements related to Investing Activities	15,907	4,464
Net cash inflows from operating activities	542,972	526,028

* Includes discontinued operations.

16. Income tax expense

Current tax

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

Sale of tax losses

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

Tax loss offset

For the income year ended 30 June 2023, Watercare agreed to a maximum of tax losses to be sold to Auckland Council tax group of $23.4 million (2022: none). This amounts to a tax benefit totalling $6.5 million (2022: none) of which $2.9 million (2022: none) was recognised as subvention income within other revenue (Note 13). The impact of the reduction in tax losses and associated subvention income is recognised as a tax expense.

16. Income tax expense (continued)

	2023 $000	2022 $000
Operating surplus before tax	219,613	223,244
Operating activities before tax – Lutra	349	2,179
Income tax calculated at current tax rate of 28%	61,589	63,118
Increase / (decrease) in income tax due to:		
– Dividend and other income exempt from taxation	(1,091)	(539)
– Non-deductible expenses	598	193
– Imputation credits on dividends received	3	3
– Prior year and other adjustments	(339)	119
– Other	(2)	(555)
– Subvention income and tax loss offset with Auckland Council tax group	5,723	–
Tax effect of non-deductible items and prior period adjustments	4,892	(779)
Income tax expense	66,481	62,339
Represented by:		
Current tax	–	–
Deferred tax	66,481	62,339
Total income tax expense	66,481	62,339

Imputation credits

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

	2023 $000	2022 $000
Total imputation credits	41	43

17. Deferred tax liability

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

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

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

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

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

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

(i) Recognised deferred tax assets and liabilities

	2023 Assets $000	2022 Assets $000	2023 Liabilities $000	2022 Liabilities $000	2023 Net $000	2022 Net $000
Property, plant and equipment	–	–	(2,666,323)	(2,364,627)	(2,666,323)	(2,364,627)
Financial instruments	–	–	–	–	–	–
Employee benefits and other provisions	7,979	4,516	–	–	7,979	4,516
Tax losses	234,764	260,063	–	–	234,764	260,063
Other	–	–	(36,924)	(50,309)	(36,924)	(50,309)
Total	242,743	264,579	(2,703,247)	(2,414,936)	(2,460,504)	(2,150,357)

Refer to Note 4 for the potential impact of Water Reform on the Group's tax position.

(ii) Movement in deferred tax

	Property, plant and equipment $000	Employee entitlements and other provisions $000	Tax losses $000	Other $000	Total $000
Balance as at 1 July 2021	2,027,544	(4,429)	(269,580)	44,762	1,798,297
PPA Income Tax Return	(772)	(165)	(849)	–	(1,786)
Charged / (credited) to comprehensive revenue and expense	46,348	78	10,366	5,547	62,339
Charged to other comprehensive revenue and expense, resulting from revaluation	291,507	–	–	–	291,507
Balance as at 30 June 2022	2,364,627	(4,516)	(260,063)	50,309	2,150,357
PPA Income Tax Return	413	(468)	(285)	–	(340)
Charged / (credited) to comprehensive revenue and expense	57,617	(2,995)	25,584	(13,385)	66,821
Charged to other comprehensive revenue and expense, resulting from revaluation	243,666	–	–	–	243,666
Balance as at 30 June 2023	2,666,323	(7,979)	(234,764)	36,924	2,460,504

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

18. Trade and other receivables from exchange transactions

Trade and other receivables from exchange transactions are initially recognised at fair value. These are generally due for settlement within 21 days (2022: 21 days). Debts which are known to be uncollectable are written off by reducing the carrying amount directly.

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

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

	2023 $000	2022 $000
Current		
Trade receivables	86,056	83,431
Trade receivables – related parties	9,543	1,193
Provision for doubtful debts	(5,092)	(3,477)
	90,507	81,147
Other receivables – related parties	–	–
Unbilled revenue accrual	30,779	19,038
Trade and other receivables from exchange transactions	121,286	100,185

19. Inventories

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

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

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

The cost of inventories recognised as an expense during the year was $26.2m (2022: $17.4m).

	2023 $000	2022 $000
Spare parts at cost	5,891	138
Consumables at cost	10,502	12,576
Treated water at cost	1,179	1,179
Project stock	9,222	10,550
Total	26,794	24,443
Represented as:		
Current inventory	19,841	17,849
Non-current inventory	6,953	6,594
Total	26,794	24,443

20. Trade and other payables for exchange transactions

Trade and other payables for exchange transactions are unsecured and usually paid within 30 days (2022: 30 days) of recognition. Certain construction contracts entitle the group to retain specified amounts to ensure the performance of contract obligations. These retentions are recorded as a liability, and either used to remedy contract performance or paid to the contractor at the end of the retention period. Contract retentions of $17.3m are held as cash on hand at 30 June 2023 (2022: $12.9m) by Auckland Council Treasury. This is in line with the amendment to the Construction Contracts Act (CCA) 2002 which was effective from April 2017.

	2023 $000	2022 $000
Current		
Trade creditors	29,288	18,415
Trade creditors – related parties	2,295	780
Contract retentions	4,534	4,215
Other payables	(274)	2,476
Total current trade and other payables for exchange transactions	35,843	25,886
Non-current		
Contract retentions	12,784	8,664
Total non-current trade and other payables for exchange transactions	12,784	8,664
Total trade and other payables for exchange transactions	48,627	34,550

21. Prepaid expenses

	2023 $000	2022 $000
Current		
Puketutu Island lease	443	443
Other prepaid expenses	20,942	8,699
Total current prepaid expenses	21,385	9,142
Non-current		
Puketutu Island lease	18,637	19,080
Other prepaid expenses	14,071	3,702
Total non-current prepaid expenses	32,708	22,782
Total prepaid expenses	54,093	31,924

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

Other prepaid expenses include prepaid access rights, capital projects, prepaid employee insurance, a biosolids levy and software licensing fees.

22. Other financial assets

	2023 $000	2022 $000
Current		
Loan receivable	38,094	29,688
Non-current		
Loan receivable	2,993	25,668
Total other financial assets	41,087	55,356

The loan receivable was provided to the contractor as part of the Central Interceptor Main Works Contract and is secured against bank bonds. The loan was subsequently recorded at amortised cost.

23. Accrued expenses

	2023 $000	2022 $000
Current		
Capital work in progress accruals	110,723	96,103
Interest payable	10,308	8,694
Revenue received in advance	36,974	30,897
Operating costs accruals	42,296	57,957
Total current accrued expenses	200,301	193,651
Non-current		
Revenue received in advance	10,271	11,720
Total non-current accrued expenses	10,271	11,720
Total accrued expenses	210,572	205,371

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

Revenue received in advance includes $6.2m (2022: $6.5m) relating to the amount received in accordance with the franchise fee agreement with the network operator Veolia Water Services (ANZ) Pty Limited. The $13.1m fee received at the commencement of the agreement covers the right to use the assets for a 50-year period and is recognised as revenue evenly over the term of the agreement.

24. Provisions

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

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

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

	2023 $000	2022 $000
Current		
Employee entitlements	11,133	11,245
Other provisions	3,575	10,233
Total current provisions	14,708	21,478
Non-current		
Employee entitlements	2,229	2,738
Decommissioning costs	9,908	10,983
Total non-current provisions	12,137	13,721
Total provisions	26,845	35,199

	Employee entitlements $000	Decommissioning costs $000	Other provisions $000	Total $000
Balance at 1 July 2022	13,983	10,983	10,233	35,199
Additions during the year	16,515	–	140	16,655
Reductions resulting from payments	(17,136)	–	(6,798)	(23,934)
Increase in provision due to change in discount rate	–	(1,419)	–	(1,419)
Net present value adjustment	–	344	–	344
Balance at 30 June 2023	13,362	9,908	3,575	26,845

Watercare is currently depositing biosolids on Puketutu Island in Māngere, Auckland. A non-current provision is recognised for the present value of costs to be incurred for the restoration of this site in line with consent conditions. It is expected that $22.2m will be required evenly over the 10-year period covering the 2036 to 2045 financial years, with a net present value at balance date of $9.9m (2022: $11.0m).

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

- An average inflation rate over the 25-year provision period of 2.29%
- A range of risk-free discount rates from 4.77% to 4.87% have been applied in calculating the net present value (2022: from 3.84% to 4.07%)
- An expected biosolids completion date of 20 years from 2015 (the date biosolid activity commenced)
- Aftercare activities will be required for a period spanning 10 years from completion
- The exact extent of work required to restore the site, along with quantities of materials and supplies, is unknown; therefore, an estimate has been made based on the information available at balance date.

Other provisions of $3.6m relates to claims made by contractors in respect of capital projects (2022: $10.2m).

25. Equity and related parties

Equity

Watercare is 100% owned by Auckland Council. The total number of authorised and issued shares at balance date was 260,693,164 (2022: 260,693,164) ordinary shares of $1 each. Every ordinary issued share was fully paid and carries equal voting rights to:

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

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

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

Subsidiaries

The financial statements comprise the financial statements of the controlling entity Watercare Services Limited and the five controlled entities noted below. Consolidation involves adding together like items of assets, liabilities, equity, revenue and expenses on a line-by-line basis. All significant intra-group balances, transactions, revenues and expenses are eliminated on consolidation.

The company provides funding to its Trust subsidiaries in the form of grants; this is treated as expenditure in the company's books and as revenue in the Trust subsidiaries' books. On consolidation, this expenditure is offset by the revenue in the subsidiaries' books while the actual expenditure is recognised in the group's accounts when the subsidiaries incur the expenditure.

Water Utility Consumer Assistance Trust

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

Auckland City Water Limited and WCS Limited

Auckland City Water Limited and WCS Limited are 100% owned (2022: 100%) by Watercare and are non-trading companies.

Lutra Limited (1 July 2022 to 31 May 2023)

On 31 January 2020, Watercare Services Limited acquired 67% of the issued share capital of Lutra Limited, obtaining control of Lutra Limited. Two out of the three directors are employees of Watercare. On 31 May 2023, Watercare Services Limited, sold its total shareholding in Lutra Limited (refer Note 3 for details)

Watercare Harbour Clean Up Trust (1 July 2022 to 28 February 2023)

Watercare Harbour Clean Up Trust was set up in December 2002 by several local authorities and is a charitable trust governed by the Charitable Trusts Act 1957 and registered under the Charities Act 2005. The primary activity of this trust is described in the Customer and Stakeholder Relationships section of the annual report. During 2010/11, Watercare became the primary funder of this trust and, at 30 June 2022, two of the five trustees on the board were current Watercare employees. The Trust was deregistered on 28 February 2023.

Transactions with related parties

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

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

	2023 $000	2022 $000
Loans from Auckland Council, balance at 30 June	2,955,584	2,584,000
Interest payable on loans from Auckland Council	10,308	8,694
Interest expense on loans from Auckland Council	121,584	95,516
Loans borrowed from Auckland Council during the year	906,084	723,964
Loans repaid to Auckland Council during the year	656,084	543,930

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

25. Equity and related parties (continued)

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

	2023 $000	2022 $000
Sales to related parties	12,258	12,832
Trade receivables from exchange transactions – related parties	9,543	1,193
Purchases from related parties	5,160	5,850
Land rates – Auckland Council	3,109	2,754
Trade payables for exchange transactions – related parties	1,732	290
Payables accruals – related parties	563	490

26. Commitments

	2023 $000	2022 $000
Capital expenditure		
The capital expenditure committed to, but not recognised in these financial statements at balance date, was:		
Land & Buildings	30,084	6,119
Pipelines	428,195	686,807
Tanks, tunnels, roads and reservoirs	19,559	70,267
Intangibles	2,548	4,093
Other	131,423	201,610
Total capital expenditure commitments	611,809	968,896
Anticipated payment schedule		
Less than one year	469,608	533,826
One to two years	135,443	323,465
Two to five years	6,758	107,652
Beyond five years	–	3,953
Total capital expenditure commitments	611,809	968,896

At 30 June 2023 the Central Interceptor Main Works Contract is included within these capital commitments. Above commitments includes capital commitments contracted and approved.

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

The major lease commitments relate to the long-term lease of the office premises in Newmarket, which expires in November 2034, 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 $0.4m (2022: $0.6m) for the water catchment areas was included in these commitments at face value. Other leases include parks, reservoirs and office equipment.

26. Commitments (continued)

	2023 $000	2022 $000
Operating leases		
Anticipated payments under non-cancellable operating leases:		
Less than one year	6,328	7,937
One to two years	6,288	7,848
Two to five years	18,655	14,479
Beyond five years	86,823	74,938
Total lease commitments	118,094	105,202

27. Contingencies

There are no contingencies to report at balance date.

28. Retirement benefit plans

Each of the employees of the group can elect to join the KiwiSaver scheme. This is a work-based savings scheme run through a selection of private providers. The obligation of the group is to contribute a specified percentage of payroll costs to the KiwiSaver scheme in line with employee contributions and the only obligation of the group to the KiwiSaver scheme was to make the specified contributions. The total defined contribution expense recognised in the surplus or deficit for 2023 was $3.6m (2022: $3.2m).

29. Key management personnel

The key management personnel of the group are the directors, the chief executive, the senior management team of Watercare, and the trustees of the subsidiaries, who together constitute the governing body of the group. The number of individuals, on a full-time equivalent (FTE) basis, receiving remuneration from the group as key management personnel is 8 FTE (2022: 8 FTE). The aggregate remuneration received by the directors, trustees and key management personnel is shown below:

	2023 $000	2022 $000
Employees' salaries and wages, directors' fees and trustees' fees	4,338	4,637
Post-employment benefits	–	–
Aggregate remuneration	4,338	4,637

29. Key management personnel (continued)

Directors' fees	Appointed	2023 $000	2022 $000
Watercare Services Limited			
Margaret Devlin (Chair)	November 2016	108	108
Nicola Crauford	April 2014	54	59
Brendon Green (Resigned July 2023)	November 2016	54	59
Hinerangi Raumati-Tu'ua (Resigned July 2023)	August 2019	62	62
Frances Valintine	November 2019	54	54
Dave Chambers (On sabbatical from the Board, effective from 7 February 2023, whilst acting chief executive)	November 2019	32	59
Julian Smith	January 2022	54	27
Graham Darlow	February 2021	54	54
Wi Pere Mita (Board Internship discontinued from January 2023)	January 2022	–	–
Lutra Limited			
Jason Colton (Retired August 2021)	January 2016	–	–
Rebecca Chenery (Resigned July 2022)	February 2020	–	–
Shane Morgan (Resigned August 2021)	February 2020	–	–
Maseina Ilo Koneferenisi (Resigned June 2023)	August 2021	–	–
Shayne Robert Cunis (Resigned June 2023)	September 2021	–	–
Jamie Sinclair (Resigned June 2023)	May 2022	–	–
Total		472	482

Trustees' fees	Appointed	2023 $000	2022 $000
Watercare Utility Consumer Assistance Trust			
Jeff Morrison (Chair)	December 2015	8	8
Maureen Little	October 2011	5.5	6
Lauren Godsiff	October 2011	5.5	6
Emily Charlton-Rapana	July 2015	–	3
Lynne Webb	August 2022	4	–
Total		23	23
Total Directors and Trustees Fees		495	505

30. Events occurring after balance date

Refer to update legislation of water reform in Note 1.

Statutory information

Employees' remuneration range

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

Employees' remuneration range ($)	2023 Number of employees
100,000 – 110,000	122
110,000 – 120,000	101
120,000 – 130,000	87
130,000 – 140,000	62
140,000 – 150,000	59
150,000 – 160,000	35
160,000 – 170,000	40
170,000 – 180,000	16
180,000 – 190,000	10
190,000 – 200,000	6
200,000 – 210,000	7
210,000 – 220,000	2
220,000 – 230,000	6
230,000 – 240,000	3
240,000 – 250,000	1
250,000 – 260,000	4
260,000 – 270,000	1
270,000 – 280,000	2
280,000 – 290,000	1
290,000 – 300,000	2
350,000 – 360,000	1
390,000 – 400,000	2
420,000 – 430,000	2
520,000 – 530,000	2

2023 Statement of Service Performance

(Non-financial performance measures)

KEY

Met SOI Target — Failed SOI Target

NATURAL ENVIRONMENT

(i) Compliance with the territorial authority'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 the territorial authority in relation to those resource consents.

Note the assumption is that abatement notices received relates to new notices issued in the financial year.

SOI Target 2022/23:	**a) ≤ 2, b) ≤ 2, c) ≤ 2, d) = 0**
Achieved:	**a) = 0, b) = 0, c) = 0, d) = 0**
Previous year:	**a) = 1, b) = 0, c) = 0, d) = 0**

Neither Waikato Regional Council, Waikato District Council or Auckland Council issued any notices nor took any formal enforcement in 2022/23.

(ii) The average consumption of drinking water per day per resident within the territorial authority district (*litres plus/minus 2.5%) (12-month rolling average)

SOI Target 2022/23:	**258.0 litres**
Achieved:	**241.3 litres**
Previous year:	**243.9 litres**

In 2022/23, the gross per capita consumption of water was 241.3 litres per person per day.

Our target for 2022/23 was to maintain consumption within the 258 litres per person per day (+/- 2.5%) band, to meet the overall target of reducing demand by 15% by 2025, based on the Auckland Strategic Three Waters Plan (2008).

About our methodology: We continue to use Stats NZ's 2018 medium projections for population which include consumers living in commercial rest homes, hotels and hospitals and other similar dwellings. We have added 1.8% to this figure to account for year-on-year growth based on Auckland Council's medium growth forecast and deducted the percentage of the population that is not connected to our water supply network using our 2021 water connection data.

(iii) We will implement mitigation measures in line with our emissions reduction targets. We will report annual greenhouse gas (GHG) emissions from Scope 1 and Scope 2 emissions (operational mitigation) in line with our emission reduction pathway to meet 50% reduction by 2030

SOI Target 2022/23:	**<88,400 tonnes CO_2e ****
Achieved:	**84,617 tonnes CO_2e***
Previous year:	**New Measure**

Watercare achieved the FY23 target by 3,385 tCO_2e (4.3%).

By their nature, GHG emissions are subject to uncertainty. Watercare uses recognised frameworks for calculating our GHG inventory*. Watercare continues to improve the reporting approach and respond to changes in both the science and approach to GHG reporting. For the FY23 figures we have adopted the guidance from the IPCC AR6 report as well as emissions factors released by Ministry for Environment in July 2023, relating to the FY23 year. In particular, these changes led to a decrease in emissions from electricity use as a result of abundant hydro generation impacting the New Zealand electricity market as a whole. Applying the latest emissions factors for the FY23 year as well as improvements in how overflows are reported resulted in Watercare meeting the SOI target.

Our main Scope 1 emissions arise from the use of natural gas in our operations, treatment of wastewater and fugitive emissions from biosolids (as well as placement of biosolids at Puketutu Island). The wastewater process emissions are dependent on biological processes and the GHG calculations rely on the best current understanding of the mechanisms by which GHG are produced and the associated levels of carbon dioxide equivalent volumes.

This year wastewater volumes increased due to the extreme weather events. This led to an increase in the key parameters that drive wastewater process emissions and electricity consumption. A change in energy production at the Māngere WWTP also resulted in reduced electricity purchase but higher natural gas consumption which influenced the emissions. We are reviewing the co-generation operating philosophy and the high inflows into the wastewater treatment plants to better understand the trade-offs between operating procedures, energy production, natural gas use, budget efficiency and meeting our long-term targets for GHG emissions.

Through the year we progressed long term actions in line with the Decarbonisation Roadmap and target of 50% reduction by 2030. The main focus has been on getting a better understanding of wastewater process emissions and capital expenditure for direct measurement has been approved. Other highlights have included investigations into the emissions associated with Puketutu Island** which has been assured for FY23 as part of Watercare's GHG inventory as a whole, as well as options for the use of biogas at our two largest wastewater treatment plants.

* Reasonable assurance provided by Toitu Envirocare (Toitu) August 2023 in respect of Watercare's Scope 1 and 2 emissions (including Puketutu). Toitu provided limited assurance on Scope 3 emissions. An operational control approach was used to set the reporting boundary based on areas of direct influence for the organisation.

** The target set in the Statement of Intent excludes emissions from Puketutu Island as a result of difficulty of obtaining accurate data at the time of setting the target. Consequently, both the target and outcome exclude Puketutu Island.

2023 Statement of Service Performance (continued)

(Non-financial performance measures)

PEOPLE AND CULTURE

(i) Total recordable injury frequency rate (TRIFR) per million hours worked (12-month rolling average)

SOI Target 2022/23: <10
Achieved: 21.96 ✗
Previous year: 14.30

The target limit was lowered this year from 20 to 10 to reflect our aspiration to reduce the number of kaimahi being hurt in our workplace.

While the result has increased versus FY22, it should be noted that the total number of injuries related to critical risk exposure this year is one, relating to a driving incident. Manual handling, slips and trips continue to be our most common cause of injury and remain an area of focus.

Comparison to the Business Leaders' Health & Safety Forum data shows the average LTIFR across 70 participating NZ businesses of 17.9 (when converted to a rate of per 1m hours worked). We consider 10 to be a "stretch target" and one we will continue to work towards.

(ii) Employee net promoter score (eNPS)

SOI Target 2022/23: ≥20
Achieved: 10 ✗
Previous year: 23

Our eNPS score (a metric used to measure employee satisfaction) was below our targeted score (10 against a target of 20 or above).

The eNPS of 10 for 2022/23 (compared to 23 in 2021/22) can be attributed to a combination of factors. Water reform and what it means for our people, rising cost of living, visibility and understanding of company plan, and transparency of remuneration and its processes continued to be key themes of feedback.

Over the last 18-months we've embarked on a programme to address the remuneration framework, philosophy, and processes. These components are key drivers of our engagement scores.

This year, the final part of the programme is aligned to the annual remuneration process and will provide transparency and education around remuneration.

Going forward we will shift to using the average engagement score as our measure instead of eNPS, which only considers extreme sentiments (i.e., promoters and detractors) in its measurements. Our average engagement score has remained relatively stable across the last 12 months (7.6 for 2021/22 compared to 7.3 for 2022/23). This speaks to targeted and effective improvement programmes to increase engagement where issues were surfaced through the feedback.

(iii) Gender workforce ratio in fixed term and/or permanent roles, including leadership positions (Tier 3 and above)

SOI Target 2022/23: 40% men, 40% women, 20% any gender
Achieved: 43% men, 37% women, 20% any gender (20% men for 2022/23) ✗
Previous year: Achieved

For the 2022/23 year, we achieved 43% male employees; 37% female employees and 20% male employees under any gender. It is important to note that the way we report on this measure has changed. We have moved from a static percentage increase in female employees measured at the end of the year to an aspirational gender split ratio (40% male employees, 40% female employees, 20% any gender) that allows for workforce movement over the year. However, gender diversity is an area of ongoing focus for us. We have analysed our recruitment processes and identified that attracting female candidates to our talent pipeline is where we need to focus our efforts. We are looking at targeted ways to attract a broader range of candidates for Watercare roles.

One of our strategies included conducting focus groups with a diverse range of employees to identify why our people chose to work for us and why they continue to do so. This will inform our external outreach going forward.

(iv) Employees in fixed term and/or permanent roles, including leadership positions (Tier 3 and above) identify as Māori

SOI Target 2022/23: 6.00%
Achieved: 4.38%) ✗
Previous year: New Measure

Watercare is a diverse workplace, committed to reflecting the diversity of the community it serves across all functions and levels.

We are looking at attraction and retention strategies that target a broader range of candidates for Watercare roles. One of our strategies included conducting focus groups with a diverse range of employees to identify why our people chose to work for us and why they continue to do so. This will inform our programme going forward.

(v) Safety improvement plans

SOI Target 2022/23: 100% of teams with a HSW improvement plan
Achieved: 100%* ✓
Previous year: New Measure

(vi) Culture and leadership

SOI Target 2022/23: 100% of Tier 1 to Tier 4 who have completed at least 10 leadership walks per year
Achieved: 30% ✗
Previous year: New Measure

This KPI does not adequately capture what we are attempting to demonstrate. As a result for FY 24 we have replaced this with a suite of lead indicators that we will be measuring and reporting on a monthly/quarterly basis.

* From 1 July 2022 – 31 December 2022 we measured compliance against Parts 4 and 5 of the Drinking Water Standards 2005, (revised 2018) with a target of 100% bacterial and protozoal compliance. We met this target for this period.

CUSTOMER AND STAKEHOLDER RELATIONSHIPS

(i) The extent to which the local authority's drinking water supply complies with part 4 of the drinking water standards (bacteria compliance criteria)

1 January 2023 – 30 June 2023 updated to the extent to which the local authority's drinking water supply complies with Drinking Water Quality Assurance Rules

SOI Target 2022/23: 100%
Achieved: 100%*
Previous year: 100%

This SOI measure was set before the introduction of the new rules by Taumata Arowai (effective from 1 January 2023). Therefore, we are reporting our performance against two different requirements. Compliance against both requirements was independently assessed and verified by Wai Comply.

From 1 January 2023, new Drinking Water Quality Assurance Rules (DWQAR) introduced by Taumata Arowai took effect. These requirements measure compliance against the following criteria: bacterial, protozoal, chemicals and cyanotoxin for treatment plants and microbiological, residual disinfection, disinfection by-products and plumbosolvent metal rules for distribution networks. Compliance is monitored and reported through on-line monitoring along with a sampling regime, with minimum samples specified for various zones. We adhered to the minimum sampling requirements and in some zones, we exceeded the sampling requirements. Our compliance performance against each of the criteria is listed below. Where we recorded non-compliant samples, we took prompt action and there was no risk to public health, as confirmed by Wai Comply in their independent assessment.

Requirement	Met/Not Met
Bacterial	Met
Protozoal	Met
Chemical	Met
Cyanotoxins	Met
Residual disinfection	Not met
(Chlorine)	We collect approximately 9,000 residual chlorine samples annually. In the 6-month period under the new rules, 7 out of the 40 zones did not reach the 85% target of residual chlorine. However only 20 residual chlorine samples out of the 5,006 collected within the 6 month period did not meet the minimum requirement of residual chlorine of at least 0.1mg/L.
Microbiological	Met
Disinfection by-products	Met
Plumbosolvent Metals	Met

(ii) The extent to which the local authority's drinking water supply complies with part 5 of the drinking water standards (protozoal compliance criteria)

1 January 2023 – 30 June 2023 updated to the extent to which the local authority's drinking water supply complies with Drinking Water Quality Assurance Rules

SOI Target 2022/23: 100%
Achieved: 100%*
Previous year: 100%

This SOI measure was set before the introduction of the new rules by Taumata Arowai (effective from 1 January 2023). Therefore, we are reporting our performance against two different requirements. Compliance against both requirements was independently assessed and verified by Wai Comply.

From 1 July 2022 – 31 December 2022 we measured compliance against Parts 4 and 5 of the Drinking Water Standards 2005, (revised 2018) with a target of 100% bacterial and protozoal compliance. We met this target for this period.

From 1 January 2023, new Drinking Water Quality Assurance Rules (DWQAR) introduced by Taumata Arowai took effect. These requirements measure compliance against the following criteria: Bacterial, protozoal, chemicals and cyanotoxin for treatment plants and microbiological, residual disinfection, disinfection by-products and plumbosolvent metal rules for distribution networks. Compliance is monitored and reported through on-line monitoring along with a sampling regime, with minimum samples specified for various zones. We adhered to the minimum sampling requirements and in some zones, we exceeded the sampling requirements. Our compliance performance against each of the criteria is listed below. Where we recorded non-compliant samples, we took prompt action and there was no risk to public health, as confirmed by Wai Comply in their independent assessment.

Requirement	Met/Not Met
Bacterial	Met
Protozoal	Met
Chemical	Met
Cyanotoxins	Met
Residual disinfection	Not met
(Chlorine)	We collect approximately 9,000 residual chlorine samples annually. In the 6-month period under the new rules, 7 out of the 40 zones did not reach the 85% target of residual chlorine. However only 20 residual chlorine samples out of the 5,006 collected within the 6 month period did not meet the minimum requirement of residual chlorine of at least 0.1mg/L.
Microbiological	Met
Disinfection by-products	Met
Plumbosolvent Metals	Met

* From 1 July 2022 – 31 December 2022 we measured compliance against Parts 4 and 5 of the Drinking Water Standards 2005, (revised 2018) with a target of 100% bacterial and protozoal compliance. We met this target for this period.

(iii) Median response time for attendance for urgent water call-outs: from the time that the local authority receives notification to the time that service personnel reach the site (minutes) 12-month rolling average

SOI Target 2022/23: ≤60 mins
Achieved: 45 mins ✓
Previous year: 59 mins

Targets (iiii) to (x) are binary targets. We either met or did not meet the measure. Consequently, if we met the measure we have not provided a narrative explanation.

The median response time for our maintenance crew to attend to urgent issues was 45 minutes, which is within the target of 60 minutes or less.

(iv) Median water response time for resolution of urgent callouts: from the time that the local authority receives notification to the time that service personnel confirm resolution of the fault or interruption (hours) 12-month rolling average

SOI Target 2022/23: ≤5 hours
Achieved: 3.7 hours ✓
Previous year: 3.1 hours

The median response time for our maintenance crews to resolve urgent issues such as faults or interruptions was 3.7 hours, which is within the target of five hours or less.

(v) Median response time for attendance for non-urgent water call-outs: from the time that the local authority receives notification to the time that service personnel reach the site (days) 12-month rolling average

SOI Target 2022/23: ≤5 days
Achieved: 1.0 days ✓
Previous year: 1.1 days

The median response time for our maintenance crews to attend to non-urgent water issues was 1.0 days, which met the target of five days or less.

(vi) Median response time for resolution of non-urgent water call-outs: from the time that the local authority receives notification to the time that service personnel confirm resolution of the fault or interruption (days) 12-month rolling average

SOI Target 2022/23: ≤6 days
Achieved: 1.7 days ✓
Previous year: 1.9 days

The median response time for our maintenance crews to resolve non-urgent issues was 1.7 days, which is well within the target of six days or fewer.

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

a) drinking water clarity
b) drinking water taste
c) drinking water odour
d) drinking water pressure or flow
e) continuity of supply
f) the local authority's response to any of these issues

expressed per 1000 connections to the local authority's networked reticulation system. (12-month rolling average)

SOI Target 2022/23: ≤10
Achieved: 7.5 ✓
Previous year: 8.8

This measure relates to the volume of calls we received regarding water quality and supply issues for the year ended 30 June 2023. The number of complaints received per 1,000 connections was 7.5, which meets the target of 10 or fewer.

(viii) Attendance at sewerage overflows resulting from blockages or other faults: median response time for attendance – from the time that the territorial authority receives notification to the time that service personnel reach the site (minutes) 12-month rolling average

SOI Target 2022/23: ≤60 mins
Achieved: 78 mins ✗
Previous year: 63 mins

The median response time for our maintenance crews to attend to wastewater overflows or blockages was 78 minutes, which is above the target of 60 minutes or less.

The weather events seen in 2022/23 have significantly impacted the 12-month rolling average. Provisioning of permanent repairs to weather event damage, and deferred leave and overtime requirements continue to put pressure on resource availability. Our performance excluding the storms would be 69 minutes.

(ix) Attendance at sewerage overflows resulting from blockages or other faults: median response time for resolution – from the time that the territorial authority receives notification to the time that service personnel confirm resolution of the blockage or other fault (hours) 12-month rolling average

SOI Target 2022/23: ≤5 hours
Achieved: 3.8 hours ✓
Previous year: 3.7 hours

The median response time for our maintenance crew to resolve wastewater overflows or blockages was 3.8 hours, which is within the target of five hours or less.

(x) The total number of complaints received by the territorial authority about any of the following:

a) sewerage odour
b) sewerage system faults
c) sewerage system blockages
d) Watercare's response to issues with its sewerage system

expressed per 1000 connections to the territorial authority's sewerage system (12-month rolling average)

SOI Target 2022/23: ≤50
Achieved: 24.4 ✓
Previous year: 27.1

This measure relates to the volume of calls we received about wastewater odours, overflows, broken pipes and other network issues for the year ended 30 June 2023. The number of complaints received per 1,000 connections was 24.4, which is well within the target of 50 or fewer.

(xi) Formal engagement with mana whenua of Tāmaki Makaurau

SOI Target 2022/23: **Partnering with mana whenua of Tāmaki Makaurau to achieve outcomes for Māori each year, at least five priority outcomes within our achieving Māori Outcomes Plan are being progressed with mana whenua (updated measure).**
Achieved: 100%
Previous year: 95%

Six outcomes identified within Kia Ora Tāmaki Makaurau. Initiatives under the following areas are being progressed:

1) Kia Ora te Hononga: Te Mana o te Wai workshops and training programme
2) Kia Ora te Ahurea: Kaupapa Māori events (Matariki, Te Wiki o te Reo Māori, Ngā Korimako waiata and reo roopu)
3) Kia Ora te Rangatahi: Rangatahi Māori cadetships (x 3) and engineering scholarship (x 1). Tupu Toa partnership

4) Kia Hāngai te Kaunihera: Kawenata (Te Kawerau a Maki, Waikato-Tainui). Koiora Māori leadership programme
5) Kia Ora te Reo: Māori cultural induction. Reo Māori training (board and senior executives). Tier 1 – 4 reo Māori job title translations
6) Kia Ora te Umanga: Amotai partnership. 2% total contract spend with Māori businesses achieved for 2022/2023.

(xii) Ratio of procurement sourced through Māori owned businesses

SOI Target 2022/23: 2%
Achieved: 2.22% ✓
Previous year: 1.48%

Our supply chain function will continue to work with Watercare's Te Rua Whetū team, internal stakeholders, and supply partners to encourage spend towards Māori businesses where possible and appropriate to meet business needs.

Total Māori business spend for 2022/23 was $22.84 million which is up from $13.26 million in 2021/22. All physical works partner suppliers are now reporting their Māori business spend and we have 83 active Māori suppliers out of a total of 1,952 active suppliers.

(xiii) Integration/Adoption of Te Reo and Tikanga Māori within Watercare

SOI Target 2022/23: Ensure all Tier 1-4 job titles include Te Reo Māori translation; and hold a Watercare Tikanga Māori experience for all staff
Achieved: Achieved ✓
Previous year: New Measure

Te Reo Māori translations for all Tier 1 – 4 job titles are complete.

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

SOI Target 2022/23: ≥95%
Achieved: 99.2% ✓
Previous year: 98.9%

In 2022/23, 1,288 complaints were received (1,028 for 2021/22), and of these complaints, 99.2% (1,277) were resolved within the stipulated 10-day period, meeting the target of 95% or more.

(xv) Customer Net Satisfaction Score (Previously Net Promoter Score)

SOI Target 2022/23: ≥45
Achieved: 43 ✗
Previous year: 54

Severe weather events combined with high staff attrition resulted in Watercare missing its Customer Net Satisfaction target for 2022/23.

With time needed to recruit and train new staff, use of the chatbot and proactive notification enabled us to sustain levels of service despite extreme weather events and high vacancy rates. Maintaining our service levels in this environment has been a challenge.

(xvi) Community trust score

SOI Target 2022/23: ≥55%
Achieved: 60% ✓
Previous year: 57%

Our trust score is the percentage of survey respondents who agree that they trust us by scoring us seven or higher out of 10 to the question: *Thinking about everything you know about the company, how much do you trust Watercare?* Over the course of 2022/23, we surveyed more than 5,000 people across Auckland who represent the make-up of Auckland's population.

ASSETS AND INFRASTRUCTURE

(i) The percentage of real water loss from the territorial authority's networked reticulation system (12-month rolling average)

SOI Target 2022/23: ≤13%
Achieved: 11.6% ✓
Previous year: 11.4%

Water loss (11.6%) was lower than the target limit of 13%. The water losses in this measure are calculated by deducting the volume of water sold and unbilled water usage (or non-revenue water) from the total volume of water produced.

Non-revenue water includes leaks (real water losses), water used for firefighting and operational use like flushing. Portions of our non-revenue water are also attributed to meter inaccuracy at our bulk supply points and theft. However, leaks are the biggest contributor to our non-revenue water figures.

The performance remains stable compared to last year due to our consistent effort in leakage management.

(ii) The number of dry-weather overflows from the territorial authority's sewerage system, expressed per 1000 sewerage connections to that sewerage system (12-month rolling average)

SOI Target 2022/23: ≤5
Achieved: 0.7 ✓
Previous year: 1.1

The number of wastewater overflows from our network during dry weather is a measure of the network's capability to meet current demand. The result for the year was 0.7 dry-weather overflows per 1,000 connections, which is under the target of five or fewer.

Dry-weather overflows are generally caused by incorrect disposal of fats, oils, and grease; wet-wipes flushed down the wastewater network also lead to blockages in the pipes resulting in wastewater overflows. We continued to educate the public on what not to flush down the toilet, through our social media channels, customer newsletters, and the media.

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

SOI Target 2022/23: ≤2 overflows per year
Achieved: 4.7 ✗
Previous year: 1.1

The number of wet-weather overflows for the transmission network (bulk mains) per number of discharge locations was 4.7, which is more than the target of two or fewer overflows.

Performance for this measure was significantly impacted by the January/February 2023 extreme weather events. Results have exceeded the target this year due to significant volume of overflows experienced during the storms events and wetter than normal conditions. Our performance excluding the storms would be 2.86.

(iv) Leakage target – Economic level of leakage (ELL) – litres/connection/day (l/c/d)

SOI Target 2022/23: Equal to the ELL as calculated annually
Achieved: 107.9 ✓
Previous year: New Measure

The ELL is the point at which the cost of producing water is equivalent to the cost of the efforts to keep leakage at those levels through a combination of leakage repairs, managing water pressure and renewal of watermains.

(v) Leakage performance # – litres/connection/day (l/c/d)

SOI Target 2022/23: **Performance to be reported at end of each month with final result available mid-November each year as there is a four-month lag.**
Achieved: 111.2 l/c ✓
Previous year: **New Measure**

Watercare has set an aspirational target for economic level of leakage (ELL) at 107.9 l/c/d. For the 2022/23 year, our target was to begin reporting our ELL every month. For 2022/23, our ELL was 111.2 l/c/d. We have adopted ELL as a performance measure to track our progress in achieving the aspirational target.

The ELL is the point at which the cost of producing water is equivalent to the cost of the efforts to keep leakage at those levels through a combination of leakage repairs, managing water pressure and renewal of watermains.

(v) We are sourcing water from a diversity of sources; and we are preparing for, and promoting, the adoption of alternative sources of human drinking water in the future

SOI Target 2022/23: **Watercare to make submissions to central Government when the opportunity arises (e.g., the Natural and Built Environments Bill and Strategic Planning Bill), supporting the use of desalination and purified recycled water as recognised sources of drinking water in New Zealand.**
Achieved: On track to achieve ✓
Previous year: **New Measure**

In early 2023, Watercare forwarded submission points that supported the adoption of more diverse water sources in the development of its Resource Management and Water Services Reform submission points. We are awaiting updated versions of the bills to see whether the submission points were incorporated.

Our Central Interceptor project has a pilot wastewater reuse plant for beneficial use. The plant came into service in 2022/23. The plant is providing water for construction purposes to the contractor constructing the Central Interceptor tunnel. In the future, water from the plant will be used to test the new pump station being built at Māngere.

We also have several other workstreams underway to promote the adoption of alternative sources of water, i.e.:

- Investigating the use of non-potable water to the construction and mobile contractor industry.
- Testing of grey water in the home with our construction partners.
- Educating and encourage the use of rain tanks for outdoor use.
- Work with third parties to enable non-potable water for irrigation, i.e., at parks and sports facilities.

FINANCIAL CAPITAL AND RESOURCES

(i) Debt to revenue ratio

SOI Target 2022/23: **≤3.61**
Achieved: 3.3 ✓
Previous year: **2.8**

Debt headroom is the amount that Watercare can borrow in proportion to its revenue/assets. The baseline set for 2022/23 is 3.61 or lower. Any result below this number indicates there is positive headroom; our ratio for 2022/23 was 3.3. The scale and acceleration of our capital project delivery and the lower-than-expected IGC revenue are impacting our working capital position.

(ii) Percentage of household expenditure on water supply services relative to average household income

SOI Target 2022/23: **≤1.5%**
Achieved: 0.83% ✓
Previous year: **0.80%**

In 2022/23, an average Auckland household (comprising three people) spent less than 1% (0.83%) of its monthly income on water and wastewater charges. This is despite a significant increase in water/ wastewater charges that took effect on 1 July 2022. * Average income for Auckland based on Stats NZ data.

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