

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.

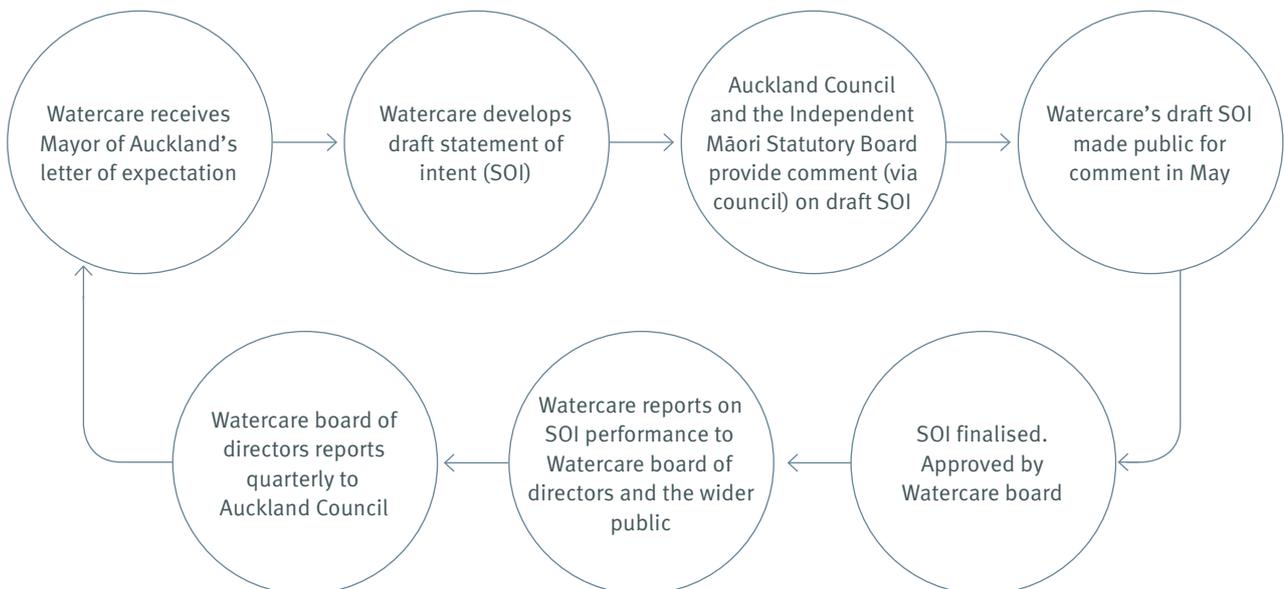


**Our legislative framework**

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 2018–2021 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 to three years.

## Setting standards of conduct for staff

We demand the highest standards of behaviour from our staff. 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 Conflict of Interest Policy.

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

## Regular independent reviews

Watercare subjects its planning, operations and reporting to regular independent review. 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 are welcome to attend all public sessions of board meetings.

As at 30 June 2019, the board had four committees. All directors are welcome to attend any committee meetings, but only committee members have voting rights. Committees provide advice and oversight and do not have delegated authority.

- **Audit and Risk Committee**, chaired by Julia Hoare, helps the board fulfil its financial reporting responsibilities and provides assurance regarding compliance with internal controls, policies and procedures. The committee also helps the board exercise due care, diligence and effective oversight 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 Audit and Risk Committee.
- **People, Remuneration and Appointments Committee (PRAC)**, chaired by Catherine Harland, helps the board fulfil its wider human resources responsibilities to the company. The committee provides advice to the board on organisational capability and design, and human resource strategies, and annually reviews the chief executive's performance and remuneration framework.
- **Strategic Transformation Programme Committee (STPC)**, chaired by Brendon Green, helps the board exercise due care, diligence and effective oversight of all matters relating to the delivery of Watercare's Strategic Transformation Programme.
- **Asset Management Plan (AMP) and Major Capex Committee (AMCC)**, chaired by Nicola Crauford, helps the board exercise due care, diligence and effective oversight of all matters relating to Watercare's AMP and major projects involving capital expenditure over \$100 million.

Board member attendance 2018/19	Board	Audit and Risk	PRAC	AMCC	STPC
Number of meetings	10	5	4	4	3
Margaret Devlin	9	4+	3	1	0*
Julia Hoare	9	5	0*	4	0*
Nicola Crauford	10	0*	0*	4	3
Brendon Green	10	5	2*	1*	3
Catherine Harland	10	4*	4	4	3*
David Thomas	8	4	4	0*	0*
Hon. Dame Annette King (retired 31.12.18)	5	1*	2	0*	2

+ Board Chair attends in an ex-officio capacity.

\* Not a committee member.

## Integrity

### Corporate governance charter

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

### Whistleblowing

We have a specific policy to receive and deal with information about any serious wrongdoing within the company, as required by the Protected Disclosures Act 2000. PwC provides a Whistleblowing Disclosure Service so staff and others may confidentially and anonymously report matters of serious misconduct.

### Complaints disclosure

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

### Disclosures of interest

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

## Transparency and accountability

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

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

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

As a council-controlled organisation, Watercare is subject to the Local Government Official Information and Meetings Act 1987, which provides to the public official information held by local authorities. The average response time this year was 3.8 days.

Watercare maintains a board-approved Risk Management Policy, the intent of which is to direct the risk management function. This policy focuses risk management onto those risks that are material to the achievement of the organisation’s principal objectives.

Watercare applies a risk management framework consistent with ISO 31000: 2018 Risk Management Guidelines to ensure that risks throughout the business are managed consistently.

This risk management framework defines the management policies, procedures and practices to be applied to the risk management tasks of identifying, analysing, evaluating, treating and continuing to monitor risk to provide enterprise-level information.

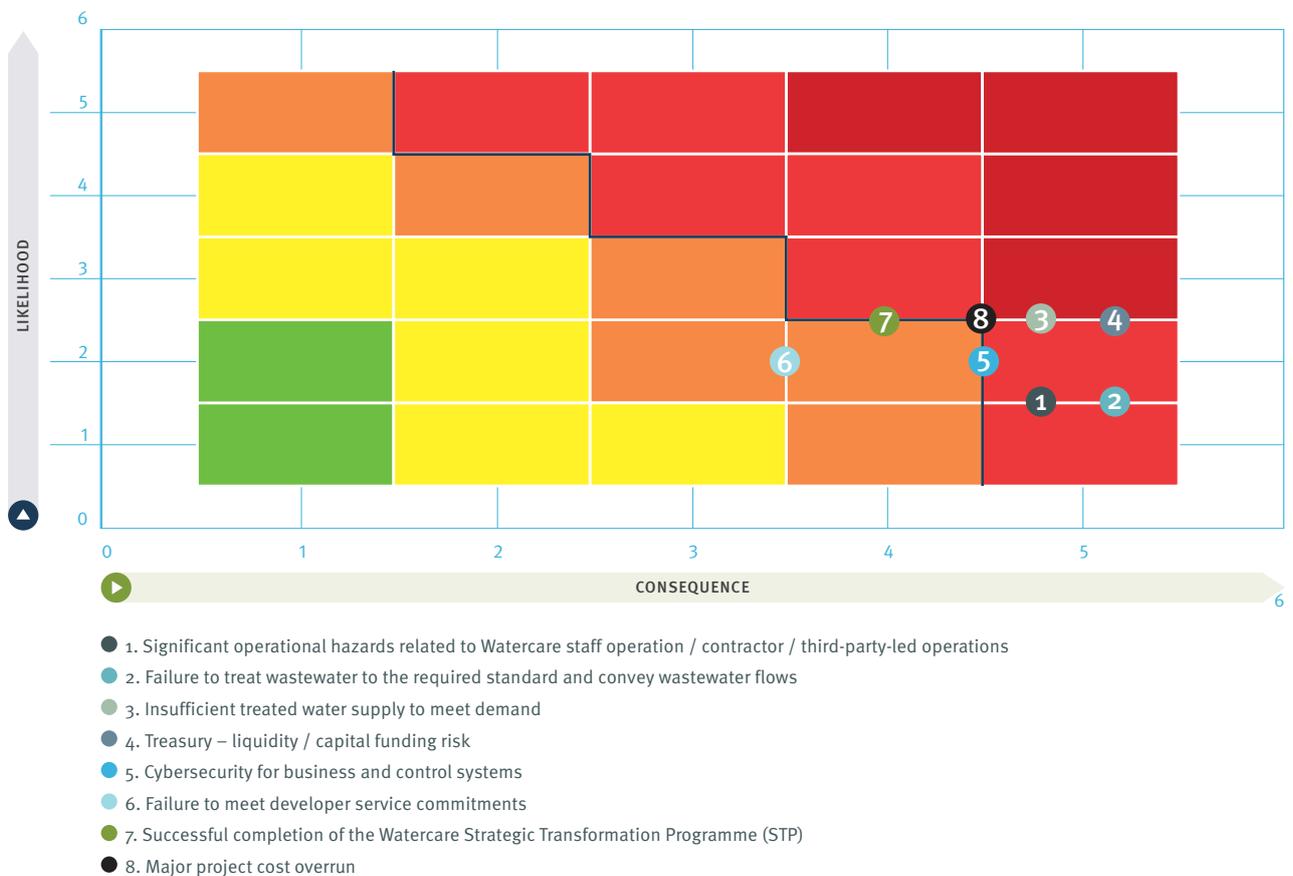
As part of the risk management framework, we have established a Risk and Resilience Steering Committee, which meets quarterly to monitor emerging risk and risk mitigation actions and strategies. The committee comprises the chief executive, senior management and the head of risk and resilience.

Regular monitoring, review and reporting of risks is an important component of the Watercare Risk Management Framework, as it ensures new risks and changes to existing risks are identified and managed, and that risk treatment plans are developed and implemented.

Several significant risks are monitored by the board at least quarterly, or as required. In addition, the Audit and Risk Committee receives detailed updates on these risks.

Watercare’s enterprise risks primarily reflect the dependencies that the organisation has to deliver its services and these are outlined on the heat map below and table on the next page.

Enterprise risk heatmap



Enterprise risk description	Potential consequence	Integrated reporting capitals	Key controls and mitigation strategies
<p><b>Significant hazards related to Watercare staff operations/ contractor/third-party-led operations</b></p> <p><i>Health and safety (H&amp;S) incidents resulting from the actions of Watercare staff, contractors and/or third parties inside and outside Watercare sites</i></p>	<p>Staff, contractors and/or third parties may face serious harm</p>	<ul style="list-style-type: none"> <li>• Financial capital and resources</li> <li>• Natural environment</li> <li>• People and culture</li> <li>• Community and stakeholder relationships</li> </ul>	<ul style="list-style-type: none"> <li>• Developing Watercare’s standards for work involving significant safety hazards</li> <li>• Training staff to industry standards</li> <li>• Ongoing monitoring of relevant lead and lag H&amp;S indicators</li> <li>• Continuing programme of inspections and audits</li> <li>• Selection of contractors based on meeting Watercare’s H&amp;S requirements</li> <li>• Partner with contractors to ensure management of significant H&amp;S hazards</li> <li>• Review and monitor contractors’ H&amp;S plans and performance</li> </ul>
<p><b>Failure to treat wastewater to the required standard and convey wastewater flows</b></p> <p><i>(including the impact of stormwater overflows in wet-weather events and longer-term climate change)</i></p> <p><i>This risk relates to environmental impacts and failure to meet consent conditions with a flow-on effect to stakeholder support and confidence</i></p>	<p>Environmental impacts or failure to meet consent conditions that affect stakeholders</p>	<ul style="list-style-type: none"> <li>• Financial capital and resources</li> <li>• Natural environment</li> <li>• People and culture</li> <li>• Community and stakeholder relationships</li> </ul>	<ul style="list-style-type: none"> <li>• Non-metro WWTP upgrade programme</li> <li>• Major WWTP AMP renewal and upgrade programme</li> <li>• Transmission and network upgrades to convey required stormwater and wastewater flows and avoid overflows</li> <li>• Network upgrades to address capacity constraints</li> <li>• Network Inflow and Infiltration (I&amp;I) investigations</li> </ul>
<p><b>Insufficient treated water supply to meet demand</b></p> <p><i>This could be caused by extended dry weather, the loss of a major storage dam, continued delays in the application for additional raw water from the Waikato River, failure to obtain regional consents for the new Huia Water Treatment Plant or the loss of water treatment capacity which could arise from climate change (including extreme weather events)</i></p>	<p>Inability to supply sufficient treated water to meet Auckland’s demand</p>	<ul style="list-style-type: none"> <li>• Financial capital and resources</li> <li>• Natural environment</li> <li>• People and culture</li> <li>• Community and stakeholder relationships</li> </ul>	<ul style="list-style-type: none"> <li>• Risk mitigation is inherent in the design of the water systems, from source to treatment</li> <li>• Formation of a Water Task Force to address issues associated with continuing dry weather</li> <li>• Increasing the use of the Waikato River source in continuing dry conditions</li> <li>• Integrated sources management model for water abstraction</li> <li>• A Drought Management Plan</li> </ul>
<p><b>Treasury – liquidity/capital funding risk</b></p> <p><i>Auckland Council nears/reaches its debt limits (debt-to-revenue ratios) resulting in group constraints on future planned capital project funding</i></p>		<ul style="list-style-type: none"> <li>• Assets and infrastructure</li> <li>• Financial capital and resources</li> <li>• Community and stakeholder relationships</li> </ul>	<ul style="list-style-type: none"> <li>• Group debt position reviewed</li> <li>• A slowdown in group capital expenditure has improved short-term headroom</li> <li>• Watercare will ensure that its capital programme is optimised in terms of project need, timing and cost</li> <li>• Agreement with Auckland Council regarding our projected capital expenditure so it can be factored into council’s plans and requirements</li> </ul>

Enterprise risk description	Potential consequence	Integrated reporting capitals	Key controls and mitigation strategies
<p><b>Cybersecurity for business and control systems</b></p> <p><i>Malicious acts compromising Watercare's corporate network or its operating (SCADA) control systems, as the cyber threat environment continues to grow</i></p>	<p>Corporate network and/or operating control (SCADA) systems are compromised, affecting operations</p>	<ul style="list-style-type: none"> <li>• Assets and infrastructure</li> <li>• Financial capital and resources</li> <li>• Natural environment</li> <li>• People and culture</li> <li>• Community and stakeholder relationships</li> <li>• Intellectual capital</li> </ul>	<ul style="list-style-type: none"> <li>• Comprehensive cybersecurity policies in place</li> <li>• Specialist cybersecurity and detection tools deployed</li> <li>• Independent experts used to recommend an enhanced cybersecurity roadmap</li> <li>• Dedicated cybersecurity function with ongoing education of staff</li> </ul>
<p><b>Failure to meet developer service commitments</b></p> <p><i>Failure of delivery of major Watercare infrastructure projects in the timeframes recommended to/expected by developers</i></p>	<p>Failure to meet developer service commitments</p>	<ul style="list-style-type: none"> <li>• Assets and infrastructure</li> <li>• Financial capital and resources</li> <li>• Natural environment</li> <li>• People and culture</li> <li>• Community and stakeholder relationships</li> </ul>	<ul style="list-style-type: none"> <li>• Proactive developer relationship engagement</li> <li>• Consenting Made Easy (CME) to improve response times</li> <li>• Improving transparency/working closely with developers on delivery of growth-related capital projects</li> </ul>
<p><b>Successful completion of the Watercare Strategic Transformation Programme (STP)</b></p> <p><i>The benefits which STP seeks to deliver may not be realised and planned stakeholder experiences, cost and process efficiencies may not be achieved</i></p>	<p>Planned benefits of Watercare's Strategic Transformation Programme not realised</p>	<ul style="list-style-type: none"> <li>• Assets and infrastructure</li> <li>• Financial capital and resources</li> <li>• Natural environment</li> <li>• People and culture</li> <li>• Community and stakeholder relationships</li> <li>• Intellectual capital</li> </ul>	<ul style="list-style-type: none"> <li>• A benefits realisation workstream will continue for the duration of the programme</li> <li>• The benefits framework has been implemented</li> <li>• Continuing monitoring of lead indicators of benefits realisation</li> <li>• Continuing customer, partner and employee engagement to co-design and gather feedback on functionality</li> </ul>
<p><b>Major project cost overrun</b></p> <p><i>Actual cost of delivery is higher than anticipated</i></p>	<p>The funding requirement is outside the Asset Management Plan (AMP) envelope</p>	<ul style="list-style-type: none"> <li>• Assets and infrastructure</li> <li>• Financial capital and resources</li> <li>• People and culture</li> <li>• Community and stakeholder relationships</li> <li>• Intellectual</li> </ul>	<ul style="list-style-type: none"> <li>• Develop procurement strategies that minimise capital and whole-of-life costs of new assets</li> <li>• Monitor and closely manage project delivery time and costs</li> <li>• The Central Interceptor project has been let within budget</li> <li>• Enterprise Model including the appointment of tier two construction partners for delivery of capital works</li> </ul>