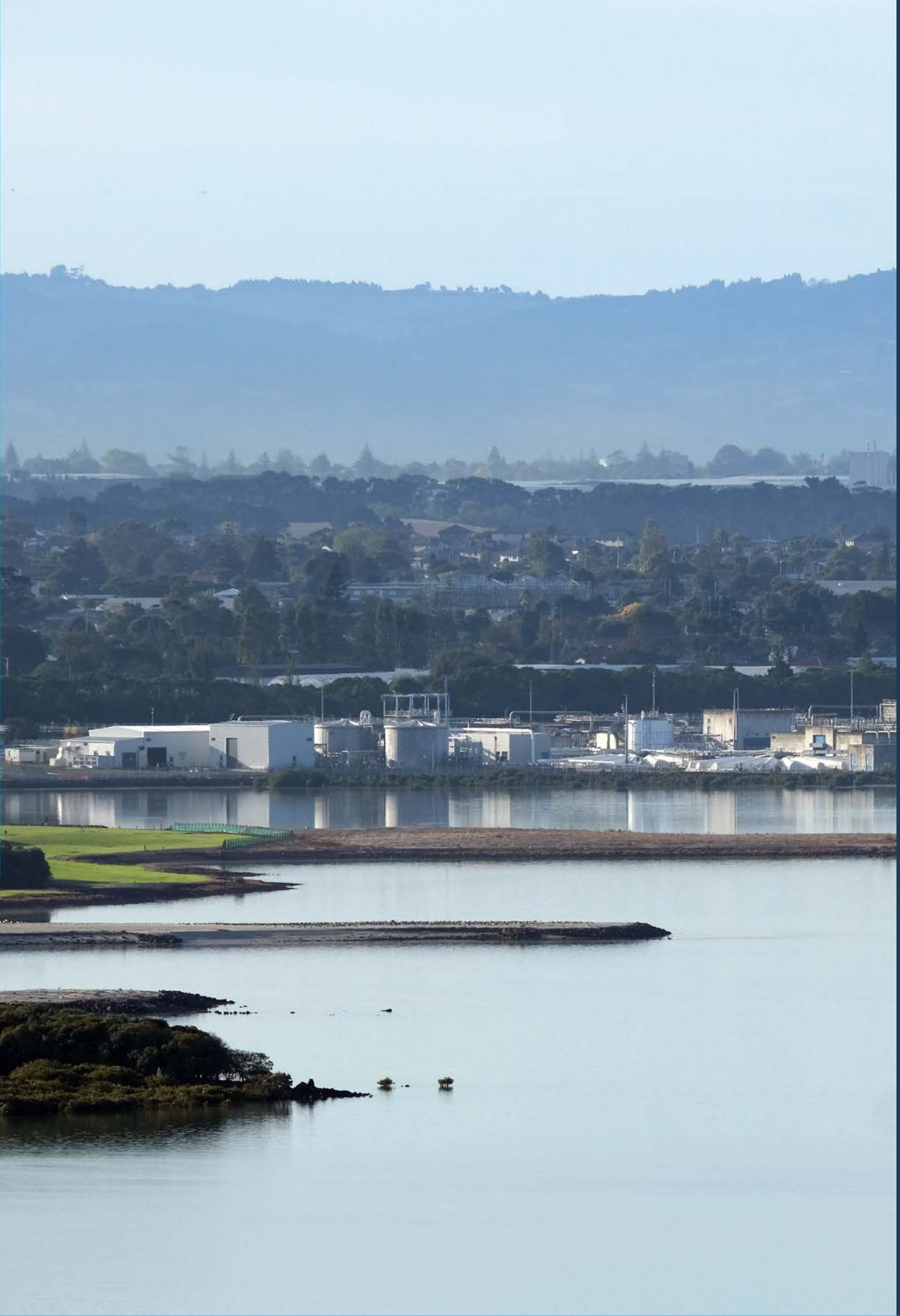

SECTION 4
FINANCIALS

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 2020.

Contents

Historical financial summary and key statistics

AS AT 30 JUNE 2020

	2016	2017	2018	2019	2020
	$000	$000	$000	$000	$000
Financial performance					
Total revenue	570,429	631,009	641,586	715,177	752,293
Operating expenses	209,894	213,480	217,625	226,484	268,560
Depreciation and amortisation	216,250	228,124	219,979	245,822	256,893
Finance costs	77,684	80,768	82,110	66,489	56,158
Total expenses	503,828	522,372	519,714	538,795	581,611
Operating surplus from trading operations	66,601	108,637	121,872	176,382	170,682
Net loss on disposal of and provision for redundant property, plant and equipment, and restructuring costs	(10,968)	(9,334)	(8,488)	(13,216)	(8,547)
Net (loss)/gain on revaluation of derivative financial instruments	(137,600)	87,546	(20,808)	–	–
Operating surplus/(deficit) before tax	(81,967)	186,849	92,576	163,166	162,135
Income tax (expense)/benefit	14,780	(62,163)	(38,145)	(55,547)	(88,306)
Net surplus/(deficit) after tax	(67,187)	124,686	54,431	107,619	73,829
Financial position					
Current assets	80,857	82,621	94,761	120,528	141,589
Non-current assets	8,739,757	8,862,924	9,992,051	10,271,797	10,695,175
Total assets	8,820,614	8,945,545	10,086,812	10,392,325	10,836,764
Current liabilities	504,561	360,715	482,209	175,330	192,931
Non-current liabilities	2,482,163	2,626,254	2,855,681	3,142,756	3,495,700
Total liabilities	2,986,724	2,986,969	3,337,890	3,318,086	3,688,631
Total equity	5,833,890	5,958,576	6,748,922	7,074,239	7,148,133
Cash flow					
Net cash inflows – operating activities	247,754	275,508	316,761	420,964	448,542
Net cash outflows – investing activities	(311,593)	(302,111)	(326,223)	(387,861)	(605,206)
Net cash inflows – financing activities	60,456	27,563	8,425	(30,553)	165,529
Net change in cash flows	(3,383)	960	(1,037)	2,550	8,865
Key statistics					
Property, plant and equipment	8,654,122	8,777,049	9,913,765	10,163,169	10,515,408
Capital expenditure	296,101	301,632	342,426	448,005	615,530
Net debt	1,577,571	1,603,895	1,613,065	1,696,942	1,942,577
Increase in net debt	63,575	26,324	9,170	83,877	245,635
Increase in net debt to capex	21%	9%	3%	19%	40%
EBITDA to interest expense ratio	4.23	4.41	4.78	6.39	7.43
Funds flow from operations to interest ratio	3.70	3.94	4.19	4.93	5.11
Funds flow from operations to average net debt	21%	22%	24%	26%	23%
Number (headcount) of permanent employees	861	909	908	984	1,105
Year-on-year growth of operating expenses	2.6%	1.7%	1.9%	4.1%	18.6%
Average growth (4 years average)				2.6%	6.6%

	2020 ACTUAL $000	2019 ACTUAL $000	2020 BUDGET $000	VARIANCE TO BUDGET $000	RESULT $000
Revenue	752,293	715,177	697,385	54,908	✓
Operating expenses	(268,560)	(226,484)	(228,389)	(40,171)	×
Depreciation and amortisation	(256,893)	(245,822)	(252,435)	(4,458)	×
Finance costs	(56,158)	(66,489)	(70,037)	13,879	✓
Total expenses	(581,611)	(538,795)	(550,861)	(30,750)	×
Operating surplus from trading operations	170,682	176,382	146,524	24,158	✓
Net loss on disposal of and provision for redundant property, plant and equipment, and restructuring costs	(8,547)	(13,216)	(8,000)	(547)	×
Operating surplus before tax	162,135	163,166	138,524	23,611	✓
Income tax expense	(88,306)	(55,547)	(40,999)	(47,307)	×
Net surplus for the year	73,829	107,619	97,525	(23,696)	×
Total comprehensive revenue and expense for the year, net of tax	73,829	107,619	97,525	(23,696)	×

Key points

- Watercare's total revenue of $752.3 million exceeded the budget by $54.9 million. The increase was primarily driven by non-cash vested asset revenue which contributed $34.5 million to this favourable variance. The infrastructure growth charge added $8.8 million revenue, reflecting continued growth in the Auckland region.
- Operating costs were $40.2 million higher than budget. This was primarily due to maintenance costs ($6.9 million) and asset operating costs ($14.9 million) being higher than budget. This was due to additional unplanned maintenance being required to address a higher volume of leakages throughout the year and the additional costs required to manage the historically low dam levels and the impacts of a severe drought.
- Other expenses were also over budget by $13.5 million due to unforeseen COVID-19 incident management costs, additional legal expenses, increased drought communication response costs and not achieving an efficiency target.
- Depreciation and amortisation was $4.5 million over budget. This was due to higher depreciation being recognised from asset capitalisations during the year.
- Finance costs were $13.9 million lower than budget due to lower spend against budget on capital expenditure projects and a lower cost of funds than what was budgeted.
- The company reports an operating surplus of $170.7 million compared with a budgeted operating surplus of $146.5 million, a favourable variance of $24.2 million. The water business unit reported an operating loss from trading operations of $3.1 million and the wastewater business unit reported an operating surplus of $173.8 million. The water business unit's operating loss was due to the additional costs associated with managing increased production demand and the severe drought.
- The reported operating surplus from trading operations was prior to a non-cash loss on disposal of property, plant and equipment of $8.5 million. This was $0.5 million higher than budget.
- The resulting net surplus after tax of $73.8 million was lower than the budgeted net surplus of $97.5 million. This was due to a prior period adjustment made to income tax expense.
- Total assets of the company have increased from $10.4 billion to $10.8 billion during the last year, reflecting the company's continued investment in new infrastructure assets.
- Net debt increased by $245.6 million during the year. Debt is used to fund capital expenditure that is directed at improving the quality of services provided by Watercare and service the effects of population and construction growth in Auckland.

Financial statements

We have ensured that the financial statements fairly reflect the financial position of the company as at 30 June 2020 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 2020.

These financial statements and the Statement of Service Performance for Watercare Services Limited for the year ended 30 June 2020 were approved and authorised for release on 15 September 2020.

For and on behalf of management:

R P Jaduram
Chief Executive

N Toms
Acting Chief Financial Officer

For and on behalf of the Board of Directors:

M P Devlin
Chair

H Raumati-Tu'ua
Director; Chair of the Audit and Risk Committee

Deloitte.

TO THE READERS OF WATERCARE SERVICES LIMITED GROUP'S FINANCIAL STATEMENTS AND STATEMENT OF SERVICE PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2020

The Auditor-General is the auditor of Watercare Services Limited (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 74 to 112 that comprise the Statement of Financial Position as at 30 June 2020, 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 113 to 115.

In our opinion:

- the financial statements of the Group on pages 74 to 112:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2020; 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 113 to 115 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 2020.

Our audit was completed on 15 September 2020. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements and the Statement of Service Performance, and we explain our independence.

Emphasis of matter – Impact of COVID-19

Without modifying our opinion, we draw attention to the disclosures about the impact of COVID-19 on the Group as set out in note 3 on page 81 of the financial statements.

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 Statement of Service Performance

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

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

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

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

Responsibilities of the auditor for the audit of the financial statements and the Statement of Service Performance

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

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

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

We did not evaluate the security and controls over the electronic publication of the financial statements and the Statement of Service Performance.

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

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

We 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 during 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 that fact. We have nothing to report in this regard.

Independence

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

In addition to the audit, we have carried out engagements in the areas of taxation services, cyber and security risk advisory, probity services and limited assurance on selected non-financial information which are compatible with those independence requirements. In addition to these assignments, principals and employees of our firm deal with the Group on normal terms within the ordinary course of trading activities of the Group. These assignments and trading activities have not impaired our independence as auditor of the Group.

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

Brett Tomkins

Brett Tomkins

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

Statement of comprehensive revenue and expense

FOR THE YEAR ENDED 30 JUNE 2020

	NOTES	2020 ACTUAL $000	2019 ACTUAL $000	2020 BUDGET $000
Revenue	NOTE 12, PAGE 96	752,293	715,177	697,385
Total revenue		752,293	715,177	697,385
Operating expenses				
Asset operating costs		(72,668)	(59,172)	(57,727)
Maintenance costs		(55,581)	(47,983)	(48,689)
Employee benefit expenses		(75,368)	(66,814)	(70,534)
Other expenses		(64,943)	(52,515)	(51,439)
Total operating expenses	NOTE 13, PAGE 98	(268,560)	(226,484)	(228,389)
Depreciation	NOTE 5, PAGE 86	(245,854)	(240,089)	(241,992)
Amortisation	NOTE 8, PAGE 90	(11,039)	(5,733)	(10,443)
Finance costs	NOTE 10, PAGE 90	(56,158)	(66,489)	(70,037)
Total expenses		(581,611)	(538,795)	(550,861)
Operating surplus from trading operations		170,682	176,382	146,524
Net loss on disposal of property, plant and equipment, and restructuring costs		(8,547)	(13,216)	(8,000)
Operating surplus before tax		162,135	163,166	138,524
Income tax expense	NOTE 15, PAGE 100	(88,306)	(55,547)	(40,999)
Net surplus for the year		73,829	107,619	97,525
Other comprehensive revenue and expense for the year, net of tax		–	–	
Total comprehensive revenue and expense for the year is attributable to:				
Owner of the parent, net of tax		73,817	107,619	97,525
Non-controlling interest, net of tax		12	–	–

The financial statements should be read in conjunction with the notes on pages 78 to 111 inclusive.

Statement of financial position

AS AT 30 JUNE 2020

	NOTES	2020 ACTUAL $000	2019 ACTUAL $000	2020 BUDGET $000
Assets				
Current				
Cash and cash equivalents		10,923	2,058	–
Trade and other receivables from exchange transactions	NOTE 17, PAGE 102	82,641	82,128	75,032
Inventories	NOTE 18, PAGE 102	25,597	18,547	15,174
Prepaid expenses	NOTE 20, PAGE 103	8,462	14,611	15,461
Other financial assets	NOTE 21, PAGE 104	13,966	3,184	–
Total current assets		141,589	120,528	105,667
Non-current				
Property, plant and equipment	NOTE 5, PAGE 86	10,515,408	10,163,169	10,504,143
Intangible assets	NOTE 8, PAGE 90	116,315	46,447	74,852
Inventories	NOTE 18, PAGE 102	3,619	8,158	8,309
Prepaid expenses	NOTE 20, PAGE 103	25,647	28,698	27,397
Other financial assets	NOTE 21, PAGE 104	34,186	25,325	25,611
Total non-current assets		10,695,175	10,271,797	10,640,312
Total assets		10,836,764	10,392,325	10,745,979
Liabilities				
Current				
Trade and other payables for exchange transactions	NOTE 19, PAGE 103	17,227	18,017	18,929
Accrued expenses	NOTE 22, PAGE 104	154,884	146,358	100,379
Provisions	NOTE 23, PAGE 105	20,820	10,955	9,331
Total current liabilities		192,931	175,330	128,639
Non-current				
Borrowings	NOTE 9, PAGE 91	1,953,500	1,699,000	1,994,334
Deferred tax liability	NOTE 16, PAGE 101	1,506,397	1,418,091	1,445,318
Trade and other payables for exchange transactions	NOTE 19, PAGE 103	2,859	2,210	–
Accrued expenses	NOTE 22, PAGE 104	14,213	14,486	15,949
Provisions	NOTE 23, PAGE 105	18,731	8,969	9,416
Total non-current liabilities		3,495,700	3,142,756	3,465,017
Total liabilities		3,688,631	3,318,086	3,593,656
Equity				
Equity attributable to owners of the parent				
Retained earnings		4,319,755	4,248,443	4,325,314
Revaluation reserves	NOTE 7, PAGE 89	2,567,608	2,565,103	2,566,316
Issued capital	NOTE 24, PAGE 106	260,693	260,693	260,693
Total equity attributable to owners of the parent		7,148,056	7,074,239	7,152,323
Non-controlling interest		77	–	–
Total equity		7,148,133	7,074,239	7,152,323
Total equity and liabilities		10,836,764	10,392,325	10,745,979

The financial statements should be read in conjunction with the notes on pages 78 to 111 inclusive.

Statement of cash flows

FOR THE YEAR ENDED 30 JUNE 2020

	NOTES	2020 ACTUAL $000	2019 ACTUAL $000	2020 BUDGET $000
Operating activities				
Cash was provided from:				
Receipts from customers		696,707	649,931	674,580
Dividends received		121	123	–
Interest received		322	488	–
Subvention receipt	NOTE 15, PAGE 100	1,600	5,920	–
		698,750	656,462	674,580
Cash was applied to:				
Employees and suppliers		(250,203)	(231,928)	(227,774)
Finance costs paid		(5)	(3,570)	(14)
		(250,208)	(235,498)	(227,788)
Net cash inflows – operating activities	NOTE 14, PAGE 99	448,542	420,964	446,792
Investing activities				
Cash was provided from:				
Sale of property, plant and equipment, and intangibles		5,586	8,063	–
		5,586	8,063	–
Cash was applied to:				
Purchase and construction of property, plant and equipment, and intangibles		(588,252)	(395,924)	(641,856)
Acquisition of subsidiaries, associates and jointly-controlled entities		(2,540)	–	–
Issued term loans		(20,000)	(30,000)	–
		(610,792)	(425,924)	(641,856)
Net cash outflows – investing activities		(605,206)	(417,861)	(641,856)
Financing activities				
Cash was provided from:				
Proceeds from Auckland Council loans – related party	NOTE 24, PAGE 107	696,893	625,854	195,064
		696,893	625,854	195,064
Cash was applied to:				
Repay revolving credit facility (net)		–	(16,500)	–
Repay medium-term notes issue		–	(125,000)	–
Repay loans from Auckland Council – related party	NOTE 24, PAGE 107	(531,364)	(484,907)	–
		(531,364)	(656,407)	–
Net cash (outflows)/inflows – financing activities		165,529	(553)	195,064
Net change in cash flows		8,865	2,550	–
Cash and cash equivalents/(overdraft) at the beginning of the year		2,058	(492)	–
Cash and cash equivalents/(overdraft) at the end of the year		10,923	2,058	–
Cash and cash equivalents comprises:				
Bank balances/(overdraft)		10,923	2,058	–
		10,923	2,058	–

The financial statements should be read in conjunction with the notes on pages 78 to 111 inclusive.

Statement of changes in equity

FOR THE YEAR ENDED 30 JUNE 2020

	NOTES	RETAINED EARNINGS $000	REVALUATION RESERVES $000	ISSUED CAPITAL $000	NON-CONTROLLING INTEREST $000	TOTAL $000
Balance at 1 July 2018		3,917,524	2,570,705	260,693	–	6,748,922
Comprehensive revenue and expense						
Net surplus for the year		107,619	–	–	–	107,619
Other comprehensive revenue and expense						
Novation of interest rate swaps and options to Auckland Council		216,892	–	–	–	216,892
Close out of interest rate swaps novated to Auckland Council		806	–	–	–	806
Transfer between reserves on disposal of property, plant and equipment	NOTE 7, PAGE 89	5,602	(5,602)	–	–	–
Total comprehensive revenue and expense for the year, net of tax		330,919	(5,602)	–	–	325,317
Balance at 30 June 2019		4,248,443	2,565,103	260,693	–	7,074,239

	NOTES	RETAINED EARNINGS $000	REVALUATION RESERVES $000	ISSUED CAPITAL $000	NON-CONTROLLING INTEREST $000	TOTAL $000
Balance at 1 July 2019		4,248,443	2,565,103	260,693	–	7,074,239
Comprehensive revenue and expense						
Net surplus for the year		73,817	–	–	12	73,829
Other comprehensive revenue and expense						
Transfer between reserves on disposal of property, plant and equipment	NOTE 7, PAGE 89	(2,505)	2,505	–	–	–
Acquisition of controlled entity		–	–	–	65	65
Total comprehensive revenue and expense for the year, net of tax		71,312	2,505	–	77	73,894
Balance at 30 June 2020		4,319,755	2,567,608	260,693	77	7,148,133

The financial statements should be read in conjunction with the notes on pages 78 to 111 inclusive.

1. Reporting entity and basis of preparation

Reporting entity

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

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

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

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

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

Basis of preparation

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

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

These consolidated financial statements have been prepared on a going concern basis where applicable, and 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.

Statement of compliance

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

Budget figures

The budget figures presented are as approved by the board on 28 May 2019. 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 5, page 85
- Unbilled revenue estimate, note 12, page 96
- Provisions, note 23, page 105

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 on note 24, page 106.

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.

PBE Standards on Interests in Other Entities

The New Zealand Accounting Standards Board (NZASB) issued the following five standards in January 2017 and these are effective for the reporting period beginning 1 January 2019. These standards are collectively referred to as PBE Standards on Interests in Other Entities and comprise:

- PBE IPSAS 34 Separate Financial Statements
- PBE IPSAS 35 Consolidated Financial Statements
- PBE IPSAS 36 Investment in Associates and Joint Ventures
- PBE IPSAS 37 Joint Arrangements
- PBE IPSAS 38 Disclosure of Interests in Other Entities.

There was no material impact upon adoption of these standards.

Impairment of Revalued Assets (Amendments to PBE IPSAS 21 and 26)

The above-stated amendments were issued in April 2017 are effective for the reporting period beginning 1 January 2019. The transition to the revised standards did not result in material adjustments to the financial statements.

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 $5.0 million or 10%, or where relevant.

Statement of comprehensive revenue and expense – extract

	2020 ACTUAL $000	2020 BUDGET $000	VARIANCE $000	VARIANCE %
Revenue	752,293	697,385	54,908	7.9%
Asset operating costs	72,668	57,727	(14,941)	(25.9%)
Maintenance costs	55,581	48,689	(6,892)	(14.2%)
Other expenses	64,943	51,439	(13,504)	(26.3%)
Finance costs	56,158	70,037	13,879	19.8%

- Revenue was $54.9 million, or 7.9%, better than budget. This increase was driven by non-cash vested assets revenue being $34.5 million higher than budget due to the timing of new developments around the Auckland region. The remainder of the increase was mainly driven by one-off events. Firstly, there was a one-off revenue addition of $8.3 million from the transfer of assets which was not budgeted. Secondly, the Infrastructure Growth Charge (IGC) revenue was higher than budget by $8.8 million, which included one-off revenue of $5.0 million from Veolia. Excluding this one-off item, IGC revenue was broadly in line with budget.
- Asset operating costs were $14.9 million, or 25.9% higher than budget. Additional costs were incurred to increase water production at Waikato to manage the historically low dam levels and the impacts of the severe drought in the second half of the year. Additional costs were also incurred due to unbudgeted energy and waste disposal price increases.
- Maintenance costs were $6.9 million, or 14.2%, higher than budget. The key driver of this variance was planned and unplanned maintenance costs. While every effort was made to reduce unplanned maintenance, the costs to repair the leakages were higher than budget due to the increased volume of water leaks reported resulting from the drought and the impact of complex repair jobs such as the burst mains in the Auckland CBD.
- Other expenses were $13.5 million over budget due to unbudgeted events and project costs, including:
  - Additional unbudgeted contract labour of $1.8 million was required for ongoing systems implementation;
  - Legal expenses were $1.5 million over budget, primarily due to regulation reform readiness, acquisition of subsidiary and other projects;
  - Drought management costs of $2.3 million were incurred which included increased external communication and non-potable water costs;
  - COVID-19 incident management which cost the group an additional $1.1 million; and
  - An efficiency target of $2.7 million was not achieved due to COVID-19, drought and the reasons listed above.
- Finance costs were better than budget by $13.9 million, or 19.8%, resulting from a reduction in capital expenditure projects during the year due to COVID-19 lockdown level four and a lower annual cost of funds, reflecting the current low interest rate environment.

Statement of financial position – extract

	2020 ACTUAL $000	2020 BUDGET $000	VARIANCE $000	VARIANCE %
Total current assets	141,589	105,667	35,922	34.0%
Total non-current assets	10,695,175	10,640,312	54,863	0.5%
Total current liabilities	192,931	128,639	(64,292)	(50.0%)
Total non-current liabilities	3,495,700	3,465,017	(30,683)	(0.9%)
Total equity	7,148,133	7,152,323	(4,190)	(0.1%)

- Current assets were $35.9 million higher than budget. This was primarily due to an increase in inventory for capital projects and an additional loan advanced ($20.0 million) to the Central Interceptor project.
- Non-current assets were $54.9 million higher than budget. This was mainly due to capitalisation of software during the year.
- Current liabilities were $64.3 million higher than budget. The variance against budget was mainly driven by accrued expenses which included multiple large capital projects that were in progress and yet to be invoiced.
- Equity was lower than budget at year-end, primarily due to the lower total comprehensive revenue and expense for the year.

2. Explanation of major variances to budget (continued)

Statement of cash flows – extract

All the group's cash flow from operations was available for either capital expenditure or debt repayment. Borrowings were lower than budget, reflecting improved operating cash flows and lower capital expenditure during the year.

	2020 ACTUAL $000	2020 BUDGET $000	VARIANCE $000	VARIANCE %
Net cash inflows – operating activities	448,542	446,792	1,750	0.4%
Net cash outflows – investing activities	(605,206)	(641,856)	36,650	5.7%
Net cash inflows / (outflows) – financing activities	165,529	195,064	(29,535)	(15.1%)

- Net operating cash inflows were $1.8 million better than budget, primarily due to the one-off revenue additions as noted in the commentary above. (Refer to note 14 on page 99 for the reconciliation of net surplus after tax to operating cash flows.)
- The net cash outflow from investing activities was 5.7% lower than budget due to reduced spend on capital expenditure projects during the year, which was partly driven by delays in construction projects during COVID-19 lockdown periods.
- The net cash inflows from financing activities were $29.5 million lower than budget. This was due to lower borrowing requirements from Auckland Council, resulting from the delays in construction projects.

3. Impact of COVID-19

COVID-19 and the Government mandated lockdown periods has not had a significant impact on the group given it provides essential services. During lockdown level four and level three Watercare's core business of providing water and wastewater services to Auckland continued. The key areas impacted are listed below:

Construction contract variations

Capital projects in progress during lockdown periods incurred delays and therefore contractual variation payments were made to compensate construction contractors under the terms of each agreement. The total COVID-19 contract variation amount recognised as capital expenditure for the year ended 30 June 2020 is $13.4 million. As a result, some projects are expected to be completed later than initially planned.

Provision for doubtful debts

The group has increased its expected credit losses on trade receivables, which has resulted in an increase to the provision for doubtful debts of $0.5 million. The group anticipates some non-significant deterioration on collectability of some debtors. Refer to note 17, page 102. The scope of Watercare Utility Consumer Assistance Trust has been extended to further support those customers experiencing hardships as a result of COVID-19.

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 5, page 85.

Reintroduction of tax depreciation for buildings

On 17 March 2020, the central government announced a package of measures in support of businesses via the COVID-19 Response (Taxation and Social Assistance Urgent Measures) Act 2020. One of the measures was the reintroduction of tax depreciation on commercial and industrial buildings and the allowance for tax depreciation on newly acquired buildings and capital improvements made to existing buildings from the 2020/21 tax year. This has resulted in an $11.8 million adjustment to deferred tax to reflect the future deductibility of qualifying buildings for the year ended 30 June 2020. Refer to note 16, page 101.

Voluntary director fee reduction

The directors of Watercare Services Limited agreed to a voluntary 20% reduction of their fees for a period of six months from 1 May 2020. The total impact of this reduction is $53,000 with $18,000 included in the year ended 30 June 2020.

Additional expenses relating to COVID-19

The group incurred unbudgeted expenses of $1.1 million in response to COVID-19 for the year ended 30 June 2020. These costs related to additional personal protective equipment, temporary office space at sites operating during lockdown to allow physical distancing, and IT costs to support remote working.

4. 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 2020 $000	WASTEWATER 2020 $000	TOTAL 2020 $000	WATER 2019 $000	WASTEWATER 2019 $000	TOTAL 2019 $000
Revenue						
Water and wastewater	166,647	367,408	534,055	162,856	352,743	515,599
Other revenue	63,728	154,510	218,238	92,488	107,090	199,578
Total revenue	230,375	521,918	752,293	255,344	459,833	715,177
Operating expenses						
Asset operating costs	(31,235)	(41,433)	(72,668)	(21,606)	(40,572)	(62,178)
Maintenance costs	(23,486)	(32,095)	(55,581)	(24,059)	(23,924)	(47,983)
Employee benefit expenses	(33,761)	(41,607)	(75,368)	(23,049)	(43,765)	(66,814)
Other expenses	(21,461)	(43,482)	(64,943)	(16,298)	(33,211)	(49,509)
Total operating expenses	(109,943)	(158,617)	(268,560)	(85,012)	(141,472)	(226,484)
Depreciation	(109,261)	(136,593)	(245,854)	(111,271)	(128,818)	(240,089)
Amortisation	(2,385)	(8,654)	(11,039)	(1,528)	(4,205)	(5,733)
Finance costs	(11,877)	(44,281)	(56,158)	(11,226)	(55,263)	(66,489)
Total expenses	(233,466)	(348,145)	(581,611)	(209,037)	(329,758)	(538,795)
Operating (loss) / surplus from trading operations	(3,091)	173,773	170,682	46,307	130,075	176,382
Net loss on disposal of property, plant and equipment, and restructuring costs	(3,468)	(5,079)	(8,547)	(7,363)	(5,853)	(13,216)
Operating (loss) / surplus before tax	(6,559)	168,694	162,135	38,944	124,222	163,166
Income tax benefit / (expense)	3,573	(91,879)	(88,306)	(13,258)	(42,289)	(55,547)
Net (loss) / surplus for the year	(2,986)	76,815	73,829	25,686	81,933	107,619
Total comprehensive revenue and expense for the year attributable to owners of the parent, net of tax	(2,986)	76,815	73,829	25,686	81,933	107,619

4. Business unit reporting (continued)

Business unit financial position

	WATER 2020 $000	WASTEWATER 2020 $000	TOTAL 2020 $000	WATER 2019 $000	WASTEWATER 2019 $000	TOTAL 2019 $000
Assets						
Current						
Current assets	43,954	97,635	141,589	48,336	72,192	120,528
Total current assets	43,954	97,635	141,589	48,336	72,192	120,528
Non-current						
Property, plant and equipment	4,583,099	5,932,309	10,515,408	4,301,597	5,861,572	10,163,169
Intangible assets	25,855	90,460	116,315	11,279	35,168	46,447
Inventories	3,619	–	3,619	4,475	3,683	8,158
Prepaid expenses	–	25,647	25,647	–	28,698	28,698
Other financial assets	–	34,186	34,186	–	25,325	25,325
Total non-current assets	4,612,573	6,082,602	10,695,175	4,317,351	5,954,446	10,271,797
Total assets	4,656,527	6,180,237	10,836,764	4,365,687	6,026,638	10,392,325
Liabilities						
Current						
Current liabilities	52,910	140,021	192,931	40,701	134,629	175,330
Total current liabilities	52,910	140,021	192,931	40,701	134,629	175,330
Non-current						
Borrowings	415,900	1,537,600	1,953,500	262,904	1,436,096	1,699,000
Deferred tax liability	469,191	1,037,206	1,506,397	447,701	970,390	1,418,091
Trade and other payables for exchange transactions	295	2,564	2,859	356	1,854	2,210
Accrued expenses	8,407	5,806	14,213	8,513	5,973	14,486
Provisions	615	18,116	18,731	546	8,423	8,969
Total non-current liabilities	894,408	2,601,292	3,495,700	720,020	2,422,736	3,142,756
Total liabilities	947,318	2,741,313	3,688,631	760,721	2,557,365	3,318,086
Equity attributable to owners of the parent and non-controlling interest	3,709,209	3,438,924	7,148,133	3,604,966	3,469,273	7,074,239
Total equity and liabilities	4,656,527	6,180,237	10,836,764	4,365,687	6,026,638	10,392,325

Business unit cash flows

	WATER 2020 $000	WASTEWATER 2020 $000	TOTAL 2020 $000	WATER 2019 $000	WASTEWATER 2019 $000	TOTAL 2019 $000
Net cash inflows – operating activities	120,038	328,504	448,542	141,556	279,408	420,964
Net cash outflows – investing activities	(196,390)	(408,816)	(605,206)	(113,107)	(274,754)	(387,861)
Net cash (outflows) / inflows – financing activities	78,221	87,308	165,529	(27,988)	(2,565)	(30,553)
Net change in cash flows	1,869	6,996	8,865	461	2,089	2,550

5. Property, plant and equipment

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

			ESTIMATED REMAINING USEFUL LIVES IN YEARS	
ASSET CLASS	CATEGORY	SUBSEQUENT MEASUREMENT BASIS	2020	2019
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 98	up to 100
Pipelines	Infrastructure asset	Fair value which is deemed to be depreciated replacement cost, less accumulated depreciation	up to 165	up to 166
Tanks, tunnels, roads and reservoirs	Infrastructure asset	Fair value which is deemed to be depreciated replacement cost, less accumulated depreciation	up to 100 Tunnels: up to 822	up to 96 Tunnels: up to 823
Dams	Infrastructure asset	Fair value which is deemed to be depreciated replacement cost, less accumulated depreciation	up to 196	up to 196
Landfill	Infrastructure asset	Cost less accumulated depreciation and impairment losses	up to 16	up to 35
Machinery	Infrastructure asset	Fair value which is deemed to be depreciated replacement cost, less accumulated depreciation	up to 197	up to 196
Motor vehicles	Operational asset	Cost less accumulated depreciation and impairment losses	up to 18	up to 20
Office equipment	Operational asset	Cost less accumulated depreciation and impairment losses	up to 25	up to 27
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.

5. Property, plant and equipment (continued)

Reclassification

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

Revaluation

All PPE, except for landfill, motor vehicles, office equipment and capital work in progress, are revalued after initial recognition. Also refer to note 7, page 89 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 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 largely 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.

The most recent valuation for land and buildings was completed at 30 June 2018 by Beca Valuations Limited (Beca). The land valuation was based on relevant market prices using a comparable sales approach. For highly specialised buildings, which are rarely traded in the marketplace, the valuation was based on the depreciated replacement cost.

For the 2020 financial year, the movement in the fair value of land and buildings since 30 June 2018 was assessed at balance date using indices deemed suitable by management. The assessment indicated an increase of 1.3% in land value and 7.5% in buildings value at balance date, which was not considered material by management and accordingly the land and buildings assets were not revalued during the year. An independent revaluation of operational land and buildings will be completed in the 2021 financial year, in line with group policy of having revaluations carried out at least every three years.

The most recent valuation for all infrastructure assets was completed at 30 June 2018 by Beca. By the nature of Watercare's business the infrastructure assets are of a specialised nature, which are rarely traded in the marketplace; therefore, fair value is assessed by the optimised depreciated replacement cost (ODRC) approach. ODRC uses the assessment of replacement cost of an asset with a new or a modern equivalent asset and applies optimisation and depreciation to adjust for age, condition, performance and remaining useful life.

The revaluation process involves physical inspection of selected assets at various water and wastewater treatment plants and associated plants to note aspects such as condition, utilisation, replacement timing and asset optimisation to determine an assessed remaining useful life. If the assessed remaining useful lives are not accurate, the annual depreciation charge may be either higher or lower in the statement of comprehensive revenue and expense. To minimise the estimation risk of assets' useful lives, the group continually assesses the condition of infrastructural assets and their remaining useful lives. Physical inspections and condition assessments are also used by Watercare to ensure that the condition of major assets is understood and the carrying value of an asset reflects its actual condition.

The assumptions used in determining the depreciated replacement cost of infrastructure assets were:

- Construction costs based on recent contract-based construction work and the unit rates reflect the costs of replacing assets.
- The useful lives of assets are calculated as the lesser of their physical lives or at the point where the assets are to be replaced for economic reasons.
- The capital goods price index (CGPI) was used where indexation is appropriate (at the time of valuation, the CGPI was available to the March 2018 quarter and an estimate was made for the June 2018 quarter).
- Capitalised interest was applied to qualifying asset types in accordance with the estimated construction period and applicable cost of debt.

The movement in fair value of infrastructure assets since 30 June 2018 was assessed at balance date using indices deemed suitable by management. The assessment indicated an increase in infrastructure asset value of 4.39%, which was not considered material by management and accordingly the infrastructure assets were not revalued during the year. A revaluation of infrastructure assets will be completed in the 2021 financial year, in line with group policy of having revaluations carried out at least every three years.

Depreciation

Depreciation is provided on a straight-line basis on all 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.

5. 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 1 July 2018											
Cost or valuation	253,923	99,192	6,949,495	675,019	271,446	61,357	1,142,887	20,078	34,761	451,858	9,960,016
Accumulated depreciation	–	(40)	(1,003)	(141)	–	(8,666)	(8,210)	(9,548)	(18,643)	–	(46,251)
Net book value	253,923	99,152	6,948,492	674,878	271,446	52,691	1,134,677	10,530	16,118	451,858	9,913,765
Year ended 30 June 2019											
Additions to work in progress	–	–	–	–	–	–	–	–	–	448,005	448,005
Additions to PPE	–	–	62,104	2	–	1,194	53	–	–	–	63,353
Transfers from work in progress	3,903	25,786	99,303	16,428	318	31,794	87,936	2,248	4,621	(281,047)	(8,710)
Disposals	(1,689)	(96)	(8,621)	(41)	–	–	(1,551)	(119)	(17)	–	(12,134)
Revaluation	–	–	–	–	–	–	–	–	–	–	–
Impairment	–	–	–	–	–	–	–	–	(147)	(644)	(791)
Transfer from/(to) other classes	–	12	2,693	–	–	–	(2,705)	–	(230)	–	(230)
Depreciation	–	(2,457)	(152,156)	(13,629)	(2,481)	(2,185)	(60,742)	(2,240)	(4,199)	–	(240,089)
Closing carrying amount	256,137	122,397	6,951,815	677,638	269,283	83,494	1,157,668	10,419	16,146	618,172	10,163,169
Balance at 30 June 2019											
Cost or valuation	256,137	124,893	7,104,386	691,392	271,764	94,346	1,226,008	20,966	37,279	618,172	10,445,343
Accumulated depreciation	–	(2,496)	(152,571)	(13,754)	(2,481)	(10,852)	(68,340)	(10,547)	(21,133)	–	(282,174)
Carrying amount	256,137	122,397	6,951,815	677,638	269,283	83,494	1,157,668	10,419	16,146	618,172	10,163,169
Year ended 30 June 2020											
Additions to work in progress	–	–	–	–	–	–	–	–	–	615,530	615,530
Additions to PPE	750	–	59,292	–	–	9,366	3,454	37	248	–	73,147
Transfers from work in progress/ (to intangibles)	5,272	110	149,766	1,354	–	24,834	56,635	1,325	4,005	(321,248)	(77,947)
Disposals	(1,473)	–	(8,871)	–	–	–	(1,751)	(137)	(12)	–	(12,244)
Revaluation	–	–	–	–	–	–	–	–	–	–	–
Impairment	–	–	–	–	–	–	–	–	(32)	(361)	(393)
Transfer from/(to) other classes	–	–	–	–	–	–	–	–	–	–	–
Depreciation	–	(2,927)	(152,813)	(12,837)	(2,472)	(3,649)	(63,702)	(2,232)	(5,222)	–	(245,854)
Closing carrying amount	260,686	119,580	6,999,189	666,155	266,811	114,045	1,152,304	9,412	15,133	912,093	10,515,408
Balance at 30 June 2020											
Cost or valuation	260,686	125,003	7,302,790	692,746	271,764	128,546	1,284,327	22,192	41,922	912,093	11,042,069
Accumulated depreciation	–	(5,423)	(303,601)	(26,591)	(4,953)	(14,501)	(132,022)	(12,781)	(26,789)	–	(526,661)
Carrying amount	260,686	119,580	6,999,189	666,155	266,811	114,045	1,152,305	9,411	15,133	912,093	10,515,408

5. 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 22, page 104. 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 1 July 2018			
Cost or valuation	181,477	4,742	186,219
Accumulated depreciation	(47)	–	(47)
Carrying amount	181,430	4,742	186,172
Year ended 30 June 2019			
Additions to PPE	18,753	–	18,753
Disposals	(683)	(244)	(927)
Revaluation	–	–	–
Depreciation	(4,347)	(176)	(4,523)
Closing carrying amount	195,153	4,322	199,475
Balance at 30 June 2019			
Cost or valuation	199,543	4,498	204,041
Accumulated depreciation	(4,390)	(176)	(4,566)
Carrying amount	195,153	4,322	199,475
Year ended 30 June 2020			
Additions to PPE	1,436	–	1,436
Disposals	(107)	–	(107)
Revaluation	–	–	–
Depreciation	(4,043)	(181)	(4,224)
Closing carrying amount	192,439	4,141	196,580
Balance at 30 June 2020			
Cost or valuation	200,866	4,498	205,364
Accumulated depreciation	(8,427)	(357)	(8,784)
Carrying amount	192,439	4,141	196,580

5. Property, plant and equipment (continued)

Capital work in progress

WORK IN PROGRESS RELATES TO THE FOLLOWING PROJECTS:	2020 $000	2019 $000
Water treatment plant	32,383	42,874
Wastewater treatment plant	241,059	144,391
Wastewater pump station and sewer	353,839	200,760
Watermains, pump stations and reservoirs	204,570	142,275
Dams and raw water transmission pipelines	5,630	2,081
Other	74,613	85,791
Total work in progress	912,094	618,172

6. 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.

No goodwill impairment was recognised for 30 June 2020.

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.

Notes to the financial statements (continued)
FOR THE YEAR ENDED 30 JUNE 2020

7. 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 and the asset cost is restated to the revalued amount. 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 2018	142,349	32,290	1,798,829	326,914	130,700	139,623	2,570,705
Transferred to retained earnings on disposal of property, plant and equipment (net of tax)	(877)	(69)	(4,270)	18	–	(404)	(5,602)
Balance at 30 June 2019	141,472	32,215	1,794,621	326,953	130,700	139,142	2,565,103

	LAND $000	BUILDINGS $000	PIPELINES $000	TANKS, TUNNELS, ROADS AND RESERVOIRS $000	DAMS $000	MACHINERY $000	TOTAL $000
Balance at 1 July 2019	141,472	32,215	1,794,621	326,953	130,700	139,142	2,565,103
Transferred to retained earnings on disposal of property, plant and equipment (net of tax)	–	–	752	–	–	1,753	2,505
Balance at 30 June 2020	141,472	32,215	1,795,373	326,953	130,700	140,895	2,567,608

8. Intangible assets

Measurement

Intangible assets are initially recorded at cost.

ASSET CLASS	SUBSEQUENT MEASUREMENT BASIS	ESTIMATED REMAINING USEFUL LIVES IN YEARS 2020	2019
Network models	Cost less accumulated amortisation and impairment losses	up to 10	up to 12
Computer software	Cost less accumulated amortisation and impairment losses	up to 10	up to 7
Resource consents	Cost less accumulated amortisation and impairment losses	up to 35	up to 35
Easement	Cost less impairment losses	Indefinite	Indefinite
Goodwill	Cost less impairment losses	Indefinite	–

8. Intangible assets (continued)

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.

CARRYING AMOUNT	NETWORK MODELS $000	COMPUTER SOFTWARE $000	RESOURCE CONSENTS $000	EASEMENTS $000	GOODWILL $000	TOTAL $000
Balance at 1 July 2018						
Cost	5,742	55,287	41,152	1,403	–	103,584
Accumulated amortisation	(2,698)	(46,930)	(10,667)	–	–	(60,295)
Carrying amount	3,044	8,357	30,485	1,403	–	43,289
Year ended 30 June 2019						
Transferred from work in progress	256	6,479	1,951	24	–	8,710
Impairment	–	(49)	–	–	–	(49)
Transfer from/(to) other classes	–	230	–	–	–	230
Amortisation	(694)	(3,565)	(1,474)	–	–	(5,733)
Closing carrying amount	2,606	11,452	30,962	1,427	–	46,447
Balance at 30 June 2019						
Cost	5,998	61,639	43,103	1,427	–	112,167
Accumulated amortisation	(3,392)	(50,187)	(12,141)	–	–	(65,720)
Carrying amount	2,606	11,452	30,962	1,427	–	46,447
Year ended 30 June 2020						
Transferred from work in progress	–	74,018	3,929	–	–	77,947
Acquisitions of a controlled entity	–	–	–	–	2,300	2,300
Impairment	(22)	(9)	(159)	–	–	(190)
Disposals	–	(2)	–	–	–	(2)
Additions to Intangibles	–	75	777	–	–	852
Amortisation	(506)	(9,078)	(1,455)	–	–	(11,039)
Closing carrying amount	2,078	76,456	34,054	1,427	2,300	116,315
Balance at 30 June 2020						
Cost or valuation	5,976	135,721	47,650	1,427	2,300	193,074
Accumulated amortisation	(3,898)	(59,265)	(13,596)	–	–	(76,759)
Carrying amount	2,078	76,456	34,054	1,427	2,300	116,315

9. 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 inter-company loan agreement for existing loans at 30 June 2018. The terms of both agreements commenced 1 July 2018 and are in place until 30 June 2021. Auckland Council treasury met all of their obligations under the terms of the SLA during the 2020 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 2018-2028, 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.

Covenants

The covenants agreed to in the annual plan were a budgeted net cash inflow from borrowings of $195.1 million for the year and a budgeted borrowings balance of $1,994.3 million as at 30 June 2020. The actual results for the year ended 30 June 2020 were $165.5 million and $1,953.5 million respectively. There have been no breaches of these covenants during the year.

From 1 July 2018 financing is made available through Auckland Council to meet both the debt projections included in Watercare's agreed statement of intent and in the Council's Long-Term Plan 2018-2028, as modified by any subsequent Annual Plan.

	2020		2019	
	FACE VALUE $000	CARRYING VALUE $000	FACE VALUE $000	CARRYING VALUE $000
Non-current				
Related party term loan (unsecured)	1,953,500	1,953,500	1,699,000	1,699,000
Total non-current borrowings	1,953,500	1,953,500	1,699,000	1,699,000
Total borrowings	1,953,500	1,953,500	1,699,000	1,699,000

The group had $2.0 million (2019: $2.0 million) of undrawn bank overdraft committed facilities.

From 1 July 2018 financing is made available through Auckland Council, in line with the SLA for the provision of treasury services, with the bank overdraft facility retained for liquidity.

10. 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 4.42% (2019: 5.36%) was used to determine the amount of capitalised interest. All other finance costs are expensed in the period in which they occur.

	2020 $000	2019 $000
Interest on bank overdraft and borrowings, paid and payable	81,688	86,178
Capitalised interest on construction of property, plant and equipment, and intangibles	(25,530)	(19,689)
Net finance costs	56,158	66,489

11. 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.

From 1 July 2018 the group is no longer exposed to 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 9, page 91.

Interest rate sensitivity

At 30 June 2020 there is no interest rate risk as interest rates are fixed annually (2019: 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 (2019: 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 2020 and 30 June 2019.

Foreign exchange sensitivity

The group had no exposure to foreign exchange risk at 30 June 2020 and 30 June 2019.

11. Financial instruments and risk management (continued)

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:

	2020			2019		
	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	36,017	(1,061)	34,956	31,976	(37)	31,939
Past due 1 to 30 days	9,715	(286)	9,429	11,017	(134)	10,883
Past due 30 to 60 days	2,437	(72)	2,365	1,842	(100)	1,742
Past due more than 60 days	9,598	(283)	9,315	6,582	(1,553)	5,029
Total	57,767	(1,702)	56,065	51,417	(1,824)	49,593

MOVEMENT IN THE PROVISION FOR DOUBTFUL DEBTS	2020 $000	2019 $000
Balance at 1 July	1,824	1,624
Additions during the year	500	430
Bad debts written off	(622)	(230)
Balance at 30 June	1,702	1,824

During year ended 30 June 2020, the group is also exposed to credit risk through a $50 million loan provided to the Central Interceptor contractor (2019: $30 million). 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 21, page 104, for further information.

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 2018-2028, as modified by any subsequent Annual Plan. This is a key requirement of the guarantee letter from Auckland Council.

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.

11. Financial instruments and risk management (continued)

Gross contractual maturity analysis

2020	CURRENT 0–6 MONTHS $000	CURRENT 7–12 MONTHS $000	NON-CURRENT 1–2 YEARS $000	NON-CURRENT 2–3 YEARS $000	GROSS NOMINAL CASH OUTFLOW $000	CARRYING AMOUNT $000
Financial liabilities						
Trade and other payables for exchange transactions	20,086	–	–	–	20,086	20,086
Accrued expenses*	112,634	–	–	–	112,634	112,634
Borrowings	–	–	–	1,953,500	1,953,500	1,953,500
Total	132,720	–	–	1,953,500	2,086,220	2,086,220

2019	CURRENT 0–6 MONTHS $000	CURRENT 7–12 MONTHS $000	NON–CURRENT 1–2 YEARS $000	NON–CURRENT 2–3 YEARS $000	GROSS NOMINAL CASH OUTFLOW $000	CARRYING AMOUNT $000
Financial liabilities						
Trade and other payables for exchange transactions	20,227	–	–	–	20,227	20,227
Accrued expenses*	117,938	–	–	–	117,938	117,938
Borrowings	–	–	–	1,699,000	1,699,000	1,699,000
Total	138,165	–	–	1,699,000	1,837,165	1,837,165

* Excludes current and non-current revenue received in advance of $56.5 million (2019: $42.9 million) as it was not categorised as a financial liability; refer to note 22, page 104.

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 21, page 104.

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.

11. Financial instruments and risk management (continued)

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 2020 there are no derivative financial instruments (2019: None).

Financial assets and liabilities

	2020 CARRYING AMOUNT $000	2020 FAIR VALUE $000	2019 CARRYING AMOUNT $000	2019 FAIR VALUE $000
Financial assets - current				
Amortised cost				
Cash and cash equivalents	10,923	10,923	2,058	2,058
Trade and other receivables from exchange transactions	82,641	82,641	82,128	82,128
Other financial assets	13,966	13,966	3,184	3,184
Financial assets - non-current				
Amortised cost				
Other financial assets	34,186	34,186	25,325	25,325
Total financial assets	141,716	141,716	112,695	112,695
Financial liabilities - current				
Amortised cost				
Trade and other payables for exchange transactions	17,227	17,227	18,017	18,017
Accrued expenses*	112,634	112,634	117,938	117,938
Financial liabilities - non-current				
Amortised cost				
Trade and other payables for exchange transactions	2,859	2,859	2,210	2,210
Related party term loan (unsecured)	1,953,500	1,953,500	1,699,000	1,699,000
Total financial liabilities	2,086,220	2,086,220	1,837,165	1,837,165

* Excludes current and non-current revenue received in advance of $56.5 million (2019: $42.9 million) as it was not categorised as a financial liability; refer to note 22, page 104.

Capital management

The capital structure of the group consists of equity attributable to the owners of the parent, comprising issued capital, reserves and retained earnings as disclosed on page 77, and debt including borrowings and covenants compliance as disclosed in note 9, page 91.

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 2020 and 30 June 2019.

12. Revenue

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

Revenue from exchange transactions

Water and wastewater revenue

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

Revenue from rendering of services

Revenue from rendering of services is recognised at 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.

12. Revenue (continued)

	NOTE	2020 $000	2019 $000
Revenue from exchange transactions			
Revenue from sale of goods			
Water revenue – gross		168,714	164,936
Water leak remission		(2,072)	(2,080)
Water revenue – net of leak remissions		166,642	162,856
Revenue from sale of services			
Wastewater revenue – gross		372,270	358,228
Wastewater leak remission		(4,857)	(5,485)
Wastewater revenue – net of leak remissions		367,413	352,743
Total water and wastewater revenue – net of leak remissions		534,055	515,599
New meters and service connections		20,339	14,987
Laboratory revenue		7,115	7,091
Total revenue from sale of goods and services		561,509	537,677
Infrastructure Growth Charge revenue		109,773	103,754
Dividend income		121	114
Subvention income	NOTE 15, PAGE 100	–	3,778
Interest income		322	11
Other revenue		16,079	7,684
Total other revenue from exchange transactions		126,295	115,341
Total revenue from exchange transactions		687,804	653,018
Revenue from non-exchange transactions			
Vested assets revenue		64,489	62,159
Total revenue from non-exchange transactions		64,489	62,159
Total revenue		752,293	715,177

13. Operating expenses

	NOTES	2020 $000	2019 $000
Operating expenses include:			
Auditor's remuneration			
• annual audit and review of the financial statements - Deloitte		697	577
• audit of financial statements - Office of the Auditor-General (OAG) contribution		43	40
• other services - Deloitte		462	510
Directors and trustees' fees	NOTE 29, PAGES 110 & 111	507	467
Environmentally significant costs			
• chemicals		13,417	11,743
• energy		23,788	18,689
Cost of consumables and spare parts consumed	NOTE 18, PAGE 102	16,716	18,960
Operating leases and rent		7,091	6,447
Increase in provision for doubtful debts	NOTE 11, PAGE 93	500	430
Bad debts written off	NOTE 11, PAGE 93	622	230
Salaries and wages			
• paid to employees		98,550	86,250
• capitalised on construction of property, plant and equipment		(26,914)	(22,836)
• included in employee benefit expenses		71,636	63,414

Auditor's remuneration for other services relates to the cyber-security advice including incident response support, corporate taxpayers group membership fees, EDMS data migration review, management plan review, enterprise model probity, Central Interceptor project assurance services and CFO vantage programme. Prior year fees for other services provided by the auditors related to cyber-security advice including incident response support, Central Interceptor and enterprise model probity services.

All fees paid to the auditor were authorised in line with the Audit and Risk Committee Charter.

14. Reconciliation of operating cash flows

	2020 $000	2019 $000
Reconciliation of net surplus after tax to net cash flows from operating activities		
Net surplus for the year	73,829	107,619
Non-cash and non-operating items:		
Depreciation and amortisation	256,893	245,822
Net loss on disposal of and provision for redundant property, plant and equipment	8,711	12,393
Vested assets revenue	(64,489)	(62,159)
Capitalised interest on borrowings and assets	63,798	66,012
Medium-term notes interest paid (non-operating)	–	(3,553)
Medium-term notes premium amortisation and time value of money charges	–	(97)
Deferred tax	88,306	55,547
Movements in working capital:		
(Increase) / decrease in assets:		
Inventories	(1,456)	(176)
Trade and other receivables from exchange transactions	9,121	3,396
Prepaid expenses	8,085	(7,373)
Increase / (decrease) in liabilities:		
Trade and other payables for exchange transactions	1,699	1,021
Accrued expenses	1,382	2,362
Provisions	2,663	150
Net cash inflows from operating activities	448,542	420,964

15. Income tax expense

Current tax

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

Sale of tax losses

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

Tax loss offset

For the income year ended 30 June 2020, Watercare agreed to a maximum of tax losses to be sold to Auckland Council tax group of $27.0 million (2019: $35.0 million). However, no subvention payment or tax loss offset has been recorded.

In respect of the year ended 30 June 2020, Watercare received a cash payment of $1.6 million (2019: $5.9 million) from Auckland Council tax group with a tax impact of $13.0 million (2019: $46.9 million).

This has resulted in subvention income accrual reversal of $2.8 million from 30 June 2019.

	2020 $000	2019 $000
Operating surplus before tax	162,135	163,166
Income tax calculated at current tax rate of 28%	45,398	45,686
Increase / (decrease) in income tax due to:		
• Dividend and other income exempt from taxation	(361)	(1,441)
• Non-deductible expenses	422	822
• Imputation credits on dividends received	–	(43)
• Prior year and other adjustments	54,737	723
• Subvention income and tax loss offset with Auckland Council tax group	–	9,800
• Reintroduction of building tax depreciation	(11,890)	–
Tax effect of non-deductible items and prior period adjustments	42,908	9,861
Income tax expense	88,306	55,547
Represented by:		
Current tax	–	–
Deferred tax	88,306	55,547
Total income tax expense	88,306	55,547

The prior period adjustment of $54.7 million relates mostly to the finalisation of the tax treatment for the transfer of derivative assets and liabilities to Auckland Council on 1 July 2018. As at 30 June 2019, the tax treatment for this equity transaction was not finalised, and was subsequently confirmed in February 2020 during the submission of the Group's tax return for the previous period. This resulted in a $61.0 million adjustment to deferred tax. Offsetting this was a $6.0 million adjustment following the finalisation of subvention income payable to the Group during the completion of Auckland Council's tax return for the previous year in 2020.

Imputation credits

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

	2020 $000	2019 $000
Total imputation credits	30,564	30,564

16. Deferred tax liability

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

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

The 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

	2020 ASSETS $000	2019 ASSETS $000	2020 LIABILITIES $000	2019 LIABILITIES $000	2020 NET $000	2019 NET $000
Property, plant and equipment	–	–	(1,746,266)	(1,708,002)	(1,746,266)	(1,708,002)
Employee benefits and other provisions	3,778	3,055	–	–	3,778	3,055
Tax losses	271,254	314,876	–	–	271,254	314,876
Other	–	–	(35,163)	(28,020)	(35,163)	(28,020)
Total	275,032	317,931	(1,781,429)	(1,736,022)	(1,506,397)	(1,418,091)

(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 2018	1,661,467	(3,315)	(257,406)	22,528	1,362,544
Charged / (credited) to comprehensive revenue and expense	46,535	260	(57,470)	5,492	55,547
Charged to other comprehensive revenue and expense, resulting from revaluation	–	–	–	–	–
Balance as at 30 June 2019	1,708,002	(3,055)	(314,876)	28,020	1,418,091
Balance as at 1 July 2019	1,708,002	(3,055)	(314,876)	28,020	1,418,091
Charged / (credited) to comprehensive revenue and expense	38,264	(723)	43,622	7,143	88,306
Charged to other comprehensive revenue and expense, resulting from revaluation	–	–	–	–	–
Balance as at 30 June 2020	1,746,266	(3,778)	(271,254)	35,163	1,506,397

The Taxation and Social Assistance Urgent Measures Act (Covid-19 Act) which reintroduces tax depreciation on non residential buildings received the Royal Assent on 25 March 2020. The change in legislation is effective for the group for the year ended 30 June 2021. It allows tax depreciation to be claimed at 2% per annum diminishing value or 1.5% per annum straight line. Tax losses on the disposal of a building will remain non-deductible and should a building be sold more than its tax book value, tax depreciation previously claimed will be recoverable. The effect of this change in legislation is an $11.8 million adjustment to deferred tax to reflect the future deductibility of qualifying buildings for the year ended 30 June 2020.

17. Trade and other receivables from exchange transactions

Trade and other receivables from exchange transactions are initially recognised at fair value. These are generally due for settlement within 21 days (2019: 21 days). Debts which are known to be uncollectable are written off by reducing the carrying amount directly.

From 1 July 2018 the group has early-adopted PBE IFRS 9, which has an expected credit loss model for impairment of financial assets. 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. Refer to note 12, page 97.

CURRENT	2020 $000	2019 $000
Trade receivables	51,757	48,848
Trade receivables - related parties	3,685	2,569
Provision for doubtful debts	(1,702)	(1,824)
	53,740	49,593
Other receivables - related parties	2,326	5,019
Unbilled revenue accrual	26,575	27,516
Trade and other receivables from exchange transactions	82,641	82,128

18. Inventories

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

Spare parts and consumables are recorded at cost less an adjustment for the reduction in economic benefits due to obsolescence. The cost of spare parts is recorded as an expense when used for repairs and maintenance on existing plant and equipment or 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 $16.7 million (2019: $19.0 million).

	2020 $000	2019 $000
Spare parts at cost	2,227	6,783
Consumables at cost	8,763	3,743
Treated water at cost	925	850
Project stock	17,321	16,266
Provision for obsolescence	(20)	(937)
Total	29,216	26,705
Represented as:		
Current inventory	25,597	18,547
Non-current inventory	3,619	8,158
Total	29,216	26,705

19. Trade and other payables for exchange transactions

Trade and other payables for exchange transactions are unsecured and usually paid within 30 days (2019: 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 $8.5 million are held as cash on hand at 30 June 2020 (2019: $6.6 million). This is in line with the amendment to the Construction Contracts Act (CCA) 2002 which was effective from April 2017.

	2020 $000	2019 $000
Current		
Trade creditors	9,889	9,408
Trade creditors - related parties	107	505
Contract retentions	5,750	5,071
Other payables	1,481	3,033
Total current trade and other payables for exchange transactions	17,227	18,017
Non-current		
Contract retentions	2,859	2,210
Total non-current trade and other payables for exchange transactions	2,859	2,210
Total trade and other payables for exchange transactions	20,086	20,227

20. Prepaid expenses

	2020 $000	2019 $000
Current		
Puketutu Island lease	443	443
Other prepaid expenses	8,019	14,168
Total current prepaid expenses	8,462	14,611
Non-current		
Puketutu Island lease	19,965	20,408
Other prepaid expenses	5,682	8,290
Total non-current prepaid expenses	25,647	28,698
Total prepaid expenses	34,109	43,309

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 capital project advances of $1.1 million (2019: $9.3 million), prepaid insurance, a biosolids levy and software licensing fees.

21. Other financial assets

	2020 $000	2019 $000
Current		
Loan receivable	13,966	3,184
Non-current		
Loan receivable	34,186	25,325
Total other financial assets	48,152	28,509

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 fair value through profit and loss, where fair value has been determined using the projected cash flows discounted at a rate of 2.4%, which is based on the prevailing market interest rate for a similar investment (2019: 2.4%).

22. Accrued expenses

	2020 $000	2019 $000
Current		
Capital work in progress accruals	67,908	89,224
Interest payable	–	5,667
Revenue received in advance	42,250	28,420
Operating costs accruals	44,726	23,047
Total current accrued expenses	154,884	146,358
Non-current		
Revenue received in advance	14,213	14,486
Total non-current accrued expenses	14,213	14,486
Total accrued expenses	169,097	160,844

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

Revenue received in advance includes $7.0 million (2019: $7.3 million) relating to the amount received in accordance with the franchise fee agreement with the network operator Veolia Water Services (ANZ) Pty Limited. The $13.0 million fee received at the commencement of the agreement covers the right to use the assets for a 50-year period and is recognised as revenue evenly over the term of the agreement.

Accrued expenses above include related party accruals. Refer to note 24, page 107 for a breakdown of related party accruals.

23. 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.

	2020 $000	2019 $000
Current		
Employee entitlements	10,140	7,836
Decommissioning costs	–	9
Other provisions	10,680	3,110
Total current provisions	20,820	10,955
Non-current		
Employee entitlements	1,975	1,731
Decommissioning costs	16,756	7,238
Total non-current provisions	18,731	8,969
Total provisions	39,551	19,924

	EMPLOYEE ENTITLEMENTS $000	DECOMMISSIONING COSTS $000	OTHER PROVISIONS $000	TOTAL $000
Balance at 1 July 2019	9,567	7,247	3,110	19,924
Additions during the year	11,968	–	9,100	21,068
Reductions resulting from payments	(9,420)	–	(866)	(10,286)
Unused provisions reversed during the year	–	(229)	(664)	(893)
Increase in provision due to change in estimate	–	1,749	–	1,749
Increase in provision due to change in discount rate	–	7,617	–	7,617
Net present value adjustment	–	372	–	372
Balance at 30 June 2020	12,115	16,756	10,680	39,551

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 $22.2 million 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 $16.8 million (2019: $7.0 million). The change in the net present value is due to a reduction in the risk-free discount rate during the year and the 10-year period is now estimated to be between 2036 and 2045, instead of 2046 and 2055 financial years which was the previous estimate.

23. Provisions (continued)

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

- An average inflation rate over the 25-year provision period of 3.35%
- A range of risk-free discount rates from 0.16% to 1.86% have been applied in calculating the net present value (2019: from 1.72% to 4.54%)
- 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 $10.7 million relates to claims made by contractors in respect of capital projects (2019: $2.8 million).

24. 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 (2019: 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 11, page 95.

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

Subsidiaries

The consolidated financial statements comprise the financial statements of the controlling entity Watercare Services Limited and the 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.

Lutra Limited

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. The acquisition is detailed in note 25, page 108.

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.

Watercare Harbour Clean Up Trust

Watercare Harbour Clean Up Trust was set up in December 2002 by several local authorities and is a charitable trust 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 2020, two of the five trustees on the board were current Watercare employees.

Auckland City Water Limited and WCS Limited

Auckland City Water Limited and WCS Limited are 100% owned (2019: 100%) by Watercare and are non-trading companies.

24. Equity and related parties (continued)

Transactions with related parties

Watercare entered into borrowing arrangements with Auckland Council on the terms set out in note 9, page 91.

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

	2020 $000	2019 $000
Loans from Auckland Council, balance at 30 June	1,953,500	1,699,000
Interest receivable on loans from Auckland Council	2,326	–
Interest payable on loans from Auckland Council	–	5,667
Interest expense on loans from Auckland Council	80,978	82,184
Loans borrowed from Auckland Council during the year	696,893	625,854
Loans repaid to Auckland Council during the year	531,364	484,907

The group has a loss offset and subvention arrangement with Auckland Council tax group as detailed in note 15, page 100.

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

The group provides retail water and wastewater services to Auckland Council and its controlled, jointly controlled and significantly influenced entities as well as to key management personnel of the company and its parent. These sales take place in the normal course of its business. The group also entered into 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.

	2020 $000	2019 $000
Sales to related parties	14,756	21,065
Trade receivables from exchange transactions - related parties	3,681	2,570
Purchases from related parties	4,437	5,022
Land rates - Auckland Council	2,439	2,415
Trade payables for exchange transactions - related parties	–	505
Receivables accruals - related parties	–	5,018
Payables accruals - related parties	4,684	2,440

25. Business combination

On 31 January 2020, Watercare Services Limited acquired 67% of the issued share capital of Lutra Limited, obtaining control of Lutra Limited. Lutra Limited is a Wellington-based engineering and cloud-based software company and qualifies as a business under PBE IFRS 3. Lutra Limited was acquired for its core software and the synergies it will bring to Watercare's operations.

The group accounts for business combinations using the acquisition method when control is transferred to the group. The acquisition method involves recognising at acquisition date the identifiable assets acquired, the liabilities assumed and any non-controlling interest, separate from goodwill. The consideration transferred in the acquisition is measured at fair value. At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date exclusive of transaction costs which are expensed.

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the date of the acquisition.

	FAIR VALUE AT ACQUISITION DATE $000
Financial assets	641
Property, plant and equipment	227
Financial liabilities	511
Total identifiable assets acquired and liabilities assumed	357
Goodwill arising on acquisition	2,300
Less: Non-controlling interest in 33% of Lutra Limited	117
Total consideration	2,540
Total consideration was satisfied by cash.	
Net cash outflow arising on acquisition:	
Cash consideration	2,540
Less: cash and cash equivalent balances acquired	41
	2,499

The acquisition may result in Watercare making additional payments of up to $4.1 million, depending on the financial performance of Lutra Limited and the ongoing employment of key staff. The payments will be recognised as an expense by Watercare in the same financial year as these conditions are achieved.

26. Commitments

	2020 $000	2019 $000
Capital expenditure		
The capital expenditure committed to, but not recognised in these financial statements at balance date, was:		
Buildings	2,354	2,568
Pipelines	890,071	1,027,999
Tanks, tunnels, roads and reservoirs	40,031	99,601
Intangibles	1,675	14,680
Other	34,342	27,232
Total capital expenditure commitments	968,473	1,172,080
Anticipated payment schedule		
Less than one year	349,400	448,622
One to two years	208,516	105,760
Two to five years	409,273	601,395
Beyond five years	1,284	16,303
Total capital expenditure commitments	968,473	1,172,080

At 30 June 2020 the Central Interceptor Main Works Contract is included within these capital commitments.

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

The major lease commitments relate to the long-term lease of the office premises in Newmarket, which expires in November 2025, and the long-term lease from Auckland Council of the land forming the water catchment areas, which expires in July 2092. The annual rental of $0.6 million (2019: $0.6 million) for the water catchment areas was included in these commitments at face value. Other leases include parks, reservoirs and office equipment.

	2020 $000	2019 $000
Operating leases		
Anticipated payments under non-cancellable operating leases:		
Less than one year	7,338	6,908
One to two years	7,326	6,565
Two to five years	21,898	19,673
Beyond five years	81,323	81,576
Total lease commitments	117,885	114,722

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 2020 was $2.5 million (2019: $2.3 million).

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, excluding directors and trustees, receiving remuneration from the group as key management personnel is 9 FTE (2019: 9 FTE). The aggregate remuneration received by the key management personnel is shown below:

	2020 $000	2019 $000
Employees' salaries and wages, directors' fees and trustees' fees	4,240	4,638
Post-employment benefits	–	–
Aggregate remuneration	4,240	4,638

29. Key management personnel (continued)

DIRECTORS' FEES	APPOINTED	2020 $000	2019 $000
Watercare Services Limited			
Margaret Devlin (Chair)	November 2016	104	108
Julia Hoare	November 2013	65	68
Nicola Crauford	April 2014	60	62
Brendon Green	November 2016	60	58
David Thomas	November 2014	52	54
Hinerangi Raumati-Tu'ua	August 2019	50	–
Frances Valintine	November 2019	34	–
David Chambers	November 2019	39	–
Catherine Harland (resigned Oct 2019)	April 2011	21	62
Annette King (resigned December 2018)	November 2017	–	31
Lutra Limited			
Jason Colton	January 2016	–	–
Rebecca Chenery	February 2020	–	–
Shane Morgan	February 2020	–	–
Total		485	443

TRUSTEES' FEES	APPOINTED	2020 $000	2019 $000
Watercare Utility Consumer Assistance Trust			
Jeff Morrison (Chair)	December 2015	8	8
Maureen Little	October 2011	5	5
Lauren Godsiff	October 2011	5	6
Emily Charlton-Rapana	July 2015	4	5
Total		22	24

30. Events occurring after balance date

On 4 August 2020, the funding for shovel-ready projects was announced by the Minister for Housing, three of which were projects to be delivered by Watercare. Total funding of up to $115.0 million will be provided by the government for these three projects.

On 12 August 2020, the Greater Auckland region was placed into COVID-19 level 3 lockdown. The impact of this lockdown to the group is expected to be similar to the lockdown during March and April 2020, depending on the length and severity of each lockdown. Refer to note 3, page 81 for details.

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.

	2020
EMPLOYEES' REMUNERATION RANGE ($)	NUMBER OF EMPLOYEES
100,000 – 110,000	75
110,001 – 120,000	62
120,001 – 130,000	68
130,001 – 140,000	28
140,001 – 150,000	22
150,001 – 160,000	21*
160,001 – 170,000	6
170,001 – 180,000	14
180,001 – 190,000	6
190,001 – 200,000	4
200,001 – 210,000	1
210,001 – 220,000	4
220,001 – 230,000	3
230,001 – 240,000	3
240,001 – 250,000	1
250,001 – 260,000	1
260,001 – 270,000	1
300,001 - 310,000	1
320,001 - 330,000	2
340,001 - 350,000	1
350,001 - 360,000	1
410,001 - 420,000	1
420,001 - 430,000	2
810,001 - 820,000	1

* During the year final payments were made to one staff member who left the company, whose payments fell within this remuneration range. The payments included outstanding annual leave and long-service leave entitlements and a redundancy payment.

Provide uninterrupted access to safe, clean and drinkable water

(i) The extent to which Watercare's drinking water supply complies with part 4 of the drinking water standards (Bacterial Compliance Criteria).

(SOI Target 2019/20: = 100% – Achieved: 100%; previous year: 100%)

Watercare met this target. Watercare continued to demonstrate 100% compliance with Drinking Water Standards New Zealand (DWSNZ) Bacterial Compliance Criteria across all water treatment plants and distribution networks. Compliance with DWSNZ is verified through a combination of continuous online analysers at various stages of the water treatment process and an extensive sampling and analysis programme by Watercare Laboratory Services. The results from this programme are independently assessed by a Ministry of Health-appointed drinking water assessor and published on the Drinking Water Online website. The reported result is for the period 1 July 2018 to 30 June 2019.

(ii) The extent to which Watercare's drinking water supply complies with part 5 of the drinking water standards (Protozoal Compliance Criteria).

(SOI Target 2019/20: = 100% – Achieved: 100%; previous year: 100%)

Watercare met this target. Watercare continue to demonstrate 100% compliance with Drinking Water Standards New Zealand (DWSNZ) Protozoal Compliance Criteria across all water treatment plants and distribution networks. Compliance with DWSNZ is verified through a combination of continuous online analysers at various stages of the water treatment process and an extensive sampling and analysis programme by Watercare Laboratory Services. The results from this programme are independently assessed by a Ministry of Health-appointed drinking water assessor and published on the Drinking Water Online website. The reported result is for the period 1 July 2018 to 30 June 2019.

(iii) Median response time for attendance to urgent call-outs: from the time that Watercare receives notification to the time that service personnel reach the site.

(SOI Target 2019/20: ≤ 60 mins – Achieved: 50 mins; previous year: 50 mins)

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

(iv) Median response time for resolution of urgent call-outs: from the time that Watercare receives notification to the time that service personnel confirm resolution of the fault or interruption.

(SOI Target 2019/20: ≤ 5 hours – Achieved: 2.9 hours; previous year: 2.8 hours)

Watercare met this target. The median response time for our maintenance crew to resolve urgent issues such as faults or interruptions was 2.9 hours, which is within the target of five hours or less.

The number of call-outs in this category increased by 535 from 20,743 in 2018/19 to 21,278 in 2019/20 due to breakages caused by drought conditions.

(v) Median response time for attendance of non-urgent call-outs: from the time that Watercare receives notification to the time that service personnel reach the site.

(SOI Target 2019/20: ≤ 5 days – Achieved: 1.7 days; previous year: 1.3 days)

Watercare met this target. The median response time for our maintenance crews to attend to non-urgent water issues was 1.7 days, which met the target of five days or fewer. The number of call-outs in this category increased by 2,363 from 34,633 in 2018/19 to 36,996 in 2019/20 due to breakages caused by drought conditions.

(vi) Median response time for resolution of non-urgent call-outs: from the time that Watercare receives notification to the time that service personnel confirm resolution of the fault or interruption.

(SOI Target 2019/20: ≤ 6 days – Achieved: 2.1 days; previous year: 2.1 days)

Watercare met this target. The median response time for our maintenance crew to resolve non-urgent issues was 2.1 days, which is well within the target of six days or fewer.

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

a) drinking water clarity
b) drinking water taste
c) drinking water odour
d) drinking water pressure or flow
e) continuity of supply.

Watercare's response to any of these issues are expressed per 1000 connections to the local authority's networked reticulation system.

(SOI Target 2019/20: ≤ 10 – Achieved: 7.2; previous year: 7.7)

Watercare met this target. It relates to the volume of calls we received regarding water quality and supply issues for the year ended 30 June 2020. The number of complaints received per 1000 connections was 7.2, which is within the target of 10 or fewer.

Towards the end of this reporting year, we changed our information systems. As a result, the way we categorise complaints has changed. To ensure an accurate comparison with 2018/19 results, we have restated 2018/19 and 2019/20 results using the new method of categorisation of complaints.

Provide reliable wastewater services and manage discharges to maintain or improve the health of the environment

(i) The number of dry-weather overflows from Watercare's sewerage system, expressed per 1000 sewerage connections to that sewerage system.

(SOI Target 2019/20: ≤ 5 – Achieved: 0.55; previous year: 0.59)

Watercare met this target. The number of wastewater overflows from our retail network during dry weather is a measure of the network's capability to meet current demand. The result for the year was 0.55 dry-weather overflows per 1000 connections, which is well under the target of five or fewer.

Dry-weather overflows are generally caused by incorrect disposal of fats, oils and grease as well as wet-wipes down the wastewater network which 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.

(ii) Compliance with Watercare's resource consents for discharge from its sewerage system measured by the number of:

a) abatement notices
b) infringement notices
c) enforcement orders
d) convictions
received by Watercare in relation to those resource consents.

(SOI Target 2019/20: a) ≤ 2, b) ≤ 2, c) ≤ 2, d) = 0. Achieved: a) = 0, b) = 0, c) = 0, d) = 0; previous year: a) = 0, b) = 0, c) = 0, d) = 0)

Watercare met this target. There were no abatement, infringement or enforcement notices or convictions for the 2019/20 year.

(iii) Attendance at sewerage overflows resulting from blockages or other faults: median response time for attendance – from the time that Watercare receives notification to the time that service personnel reach the site.

(SOI Target 2019/20: ≤ 60 mins – Achieved: 43 mins; previous year: 43 mins)

Watercare met this target. The median response time for our maintenance crew to attend to wastewater overflows or blockages was 43 minutes, which is within the target of 60 minutes or less.

(iv) Attendance at sewage overflows resulting from blockages or other faults: median response time for resolution – from the time that Watercare receives notification to the time that service personnel confirm resolution of the blockage or other fault.

(SOI Target 2019/20: ≤ 5 hours – Achieved: 2.4 hours; previous year: 2.8 hours)

Watercare met this target. The median response time for our maintenance crew to resolve wastewater overflows or blockages was 2.4 hours, which is within the target of five hours or less.

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

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

Watercare's response to issues with its sewerage system expressed per 1000 connections to the Watercare sewerage system.

(SOI Target 2019/20: ≤ 50 – Achieved: 20.1; previous year: 22.7)

Watercare met this target. It relates to the volume of calls we received regarding wastewater odours, overflows, broken pipes and other network issues for the year ended 30 June 2020. The number of complaints received per 1000 connections was 20.1, which is well within the target of 50 or fewer.

Towards the end of this reporting year, we changed our information systems. As a result, the way we categorise complaints has changed. To ensure an accurate comparison with 2018/19 results, we have restated 2018/19 and 2019/20 results using the new method of categorisation of complaints.

(vi) Average number of wet-weather overflows per discharge location.

(SOI Target 2019/20: ≤ 2 – Achieved: 1.5; previous year: 1.2)

Watercare met this target. The number of wet-weather overflows for the transmission network (bulk mains) per number of discharge locations was 1.5, which is within the target of two or fewer overflows.

Customer satisfaction

(i) Net promoter score

(SOI Target 2019/20: > 33 – Achieved: 43; previous year: 43)

Watercare met this target. Net Promoter Score (NPS) is commonly used by utilities as a measure of customer loyalty. We use it to measure how satisfied our customers are with Watercare across all their interactions whether it is in person, by phone, email or on our website. Our NPS has stayed relatively stable this year (43 across 2018/19 and 2019/20), despite the challenges in 2019/20.

In the past year, the COVID-19 lockdown impacted the ability of many of our home-based, customer-facing teams' ability to receive phone enquiries. Customers had to rely on email to get in touch, which affected the response and resolution rate. The lockdown also meant we could not read customers' water meters for an extended period of time and used estimates to bill them. The ongoing drought and stage one water restrictions have had an impact on some businesses so we continued to engage with them and provide advice and support.

Effective management of resources

(i) The percentage of real water loss from Watercare's networked reticulation system.

(SOI Target 2019/20: ≤ 13% – Not achieved: 13.2%; previous year: 13.1%)

Watercare did not meet this target, with water loss over (13.2%) the specified target (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.

This year, we are reporting real water loss percentages for the period February 2019 to January 2020.* This is due to the lack of actual meter reading data during the national lockdown period and subsequent alert levels which meant our meter readers could not enter properties to access the water meters.

Leaks are unavoidable for all water networks around the world. There were more leaks on our water network this year compared to previous years. This was due to two factors: the extended hot and dry weather led to the ground contracting around the pipes causing more cracks and breaks; the amount of construction happening across Auckland and consequently more instances of third-party damage to our pipes.

We began a proactive programme of leak detection targeting the Maungakiekie, Māngere airport, Konini and Khyber bulk supply zones, since they have the has the highest percentage of non-revenue water in the network. Over 1140 kilometres of water pipes have been investigated for leaks using acoustic leak detection technology. We have identified and fixed leaks contributing to an estimated 2.35 million litres of water loss per day. We aim to have checked 6000 kilometres of pipes – almost two thirds of our network by July next year.

The table below is presented to summarise the scope and results of the leak detection programme.

BULK SUPPLY ZONE	KILOMETRES CHECKED	LEAKS FOUND	ESTIMATED VOLUME SAVED (MILLION LITRES DAY)
Māngere Airport	260	127	0.40
Maungakiekie	394	390	1.00
Konini	299	180	0.60
Khyber	187	121	0.35

We also introduced additional district metered areas (DMAs) in the Maungakiekie and Manukau bulk supply zone and more are planned for 2020/21. DMAs are discrete areas of a water distribution network. DMAs allow us to measure water consumption at a suburb level and enable more accurate total volume of water analysis, and better identification of unbilled uses.

*Although the meter reading data to June is sufficient to estimate unbilled revenue for the financial statements (refer note 12), the data is not sufficient for this measure as a full set of meter read data is required.

(ii) The average consumption of drinking water per day per resident.

(SOI Target 2019/20: 264 +/- 2.5% –Achieved: 268.6; previous year: 270.7)

Watercare met this target. In 2019/20, the gross per capita consumption of water was 268.6 litres per person per day. Our target for 2019/20 was to maintain consumption within the 266 litres per person per day (+/- 2.5%) band, to meet the overall demand management target of reducing demand by 15% by 2025, based on 2004 levels.

The demand for water from Aucklanders was higher than expected in 2019/20 as Auckland experienced a prolonged dry winter followed by a severe drought with 25 per cent less rainfall than normal.

Contributing to the high demand were two factors: the COVID-19 pandemic and subsequent lockdown led to increased residential demand during March, April and May; the extremely hot summer caused consumers on rainwater tanks to purchase more water from tanker operators during the warm and dry periods of the year.

This means that the water sold to tanker operators, which is supplied by our metropolitan network, is then distributed to consumers that are not connected to our metropolitan network.

We continue to use Statistics NZ's 2018 medium population projections 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 median growth forecast and deducted the percentage of the population that is not connected to our water supply network using our 2020 water connection data.

Our engagement with customers on water efficiency increased in 2019/20. We launched a new outreach programme "Water is precious", with the objective of educating Aucklanders to value their water supply. This programme includes a portal with water efficiency resources and activation events where we engaged with the public on their water consumption behaviours and then subsequently on the drought and ways to make voluntary water savings.

Deloitte.

INDEPENDENT ACCOUNTANT'S ASSURANCE REPORT TO THE DIRECTORS OF WATERCARE SERVICES LIMITED

Report on sustainability content within the 2020 Annual Report

Watercare Services Limited's Annual Report for the year ended 30 June 2020 (the 'Annual Report') contains sustainability information which includes information that is prepared in accordance with the Global Reporting Initiative Sustainability Reporting Standards (the 'GRI Standards'): Core option. The specific GRI Standards reported against are set out in the Global Reporting Initiative Index (the 'GRI Index') on pages 119 to 121.

The subject of our limited assurance engagement is the 'sustainability content' which consists of the disclosures and indicators listed in the GRI Index and included on pages 6 to 65 of the Annual Report but does not cover forward looking statements, comparisons made against historical data or online supplements.

Conclusion

This conclusion has been formed on the basis of, and is subject to, the inherent limitations outlined elsewhere in this independent assurance report.

Based on the evidence obtained from the procedures we have performed, nothing has come to our attention that causes us to believe that the sustainability content has not been prepared, in all material respects, in accordance with the GRI Standards: Core option for the year ended 30 June 2020.

Basis for Conclusion

Our engagement has been conducted in accordance with International Standard on Assurance Engagements (New Zealand) 3000 (Revised): *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* ('ISAE (NZ) 3000 (Revised)') issued by the New Zealand Auditing and Assurance Standards Board.

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

Board of Directors' Responsibility

The Board of Directors is responsible for:

- determining Watercare Services Limited's objectives in respect of sustainability reporting;
- selecting the material topics;
- ensuring that the sustainability content is prepared in accordance with the GRI Standards: Core option and specifically those GRI Standards set out in the GRI Index;
- establishing and maintaining appropriate performance management and internal control systems in order to derive the selected sustainability information.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards)(New Zealand)* ('PES-1') issued by the New Zealand Auditing and Assurance Standards Board, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Other than this engagement and our role as auditor of the statutory financial statements, our firm carries out other assignments for Watercare Services Limited in the areas of taxation services, cyber and security risk advisory services, and probity services, which are compatible with those independence requirements.

In addition, principals and employees of our firm deal with Watercare Services Limited on arm's length terms within the ordinary course of trading activities of the entity. These services have not impaired our Independence as auditor of the Group. Other than these engagements and arm's length transactions, and in our capacity as auditor acting on behalf of the Auditor-General, we have no relationship with, or interests in, the entity.

The firm applies Professional and Ethical Standard 3 (Amended): *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements* issued by the New Zealand Auditing and Assurance Standards Board, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Independent Accountant's Responsibility

Our responsibility is to conduct a limited assurance engagement in order to express an opinion whether, based on the procedures performed, anything has come to our attention that causes us to believe that the sustainability content has not been prepared, in all material respects, in accordance with the GRI Standards: Core option.

We did not evaluate the security and controls over the electronic publication of the Annual Report.

In a limited assurance engagement, the assurance practitioner performs procedures, primarily consisting of discussion and enquiries of management and others within the entity, as appropriate, and observation and walk-throughs, and evaluates the evidence obtained. The procedures selected depend on our judgement, including identifying areas where the risk of material non-compliance with the GRI Standards is likely to arise.

Our procedures included:

- Obtaining an understanding of the internal control environment, risk assessment process and information systems relevant to the sustainability reporting process;
- A review of the materiality process followed to determine the material topics chosen for inclusion in the Annual Report;
- Analytical review and other test checks of the information presented;
- Checking whether the appropriate indicators have been reported in accordance with the GRI Standards: Core option;
- Evaluating whether the information presented is consistent with our overall knowledge and experience of sustainability reporting processes at Watercare Services Limited.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Accordingly, we do not express a reasonable assurance opinion about whether Watercare Services Limited's Annual Report has been prepared, in all material respects, in accordance with the GRI Standards: Core option.

Inherent Limitations

Because of the inherent limitations of any limited assurance engagement, it is possible that fraud, error or non-compliance may occur and not be detected. A limited assurance engagement is not designed to detect all instances of non-compliance with the GRI Standards: Core option as it generally comprises making enquiries, primarily of the responsible party, and applying analytical and other review procedures. The conclusion expressed in this report has been formed on the above basis.

A limited assurance engagement does not provide assurance on whether compliance with the GRI Standards will continue in the future.

Use of Report

Our assurance report is made solely to the directors of Watercare Services Limited in accordance with the terms of our engagement. Our work has been undertaken so that we might state to the directors those matters we have been engaged to state in this assurance report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the directors of Watercare Services Limited for our work, for this assurance report, or for the conclusions we have reached.

Deloitte Limited

Chartered Accountants
15 October 2020

Auckland, New Zealand

General disclosures

GRI 102: General disclosures 2016	
Organisational profile	
102-1	Watercare Services Limited
102-2	Water supply and wastewater services
102-3	Auckland, New Zealand
102-4	New Zealand
102-5	100% owned by Auckland Council
102-6	i. Auckland, New Zealand ii. Public sector iii. Auckland public
102-7	People and culture p.27 Reporting Scope p.Inside Cover Financials (Note 12) p.97 Natural environment p.17
102-8	People and culture p.27
102-9	Financial and capital resources p.49
102-10	Chair and chief executive's report p.6-8 Financial capital and resources p.47
102-11	Relevant legislation takes a precautionary principle based approach
102-12	Watercare has partnered with the Construction Sector Accord
102-13	Watercare is a member of the Water Services Association of Australia, Water New Zealand, the Sustainable Business Network and the Water Research Foundation.
Strategy	
102-14	Chair and chief executives report p.6-8
Ethics and integrity	
102-16	Governance p.57
Governance	
102-18	Leadership and Governance p.56-58
Stakeholder engagement	
102-40	Stakeholder and Materiality p.64-65
102-41	People and culture p.27
102-42	Stakeholder and Materiality p.64-65
102-43	Stakeholder and Materiality p.64-65
102-44	Stakeholder and Materiality p.64-65
Reporting practice	
102-45	Refer Financials p.67-112
102-46	Reporting Scope p.Inside Cover Stakeholder and Materiality p.64-65
102-47	Reporting Scope p.Inside Cover Stakeholder and Materiality p.64-65 Chair and chief executives report p.6-8 GRI Index p.119-121
102-48	Disclosed throughout the report where relevant
102-49	Stakeholder and Materiality p.64-65
102-50	1 July 2019 to 30 June 2020
102-51	September 2019
102-52	Annual reporting cycle
102-53	communications@water.co.nz
102-54	This report has been prepared in accordance with the GRI Standards: Core option

102-55	GRI index p.119-121
102-56	Annual report Assurance statements p.72-73, p.117-118
Material Topics	
103-1	Material topics have been selected as a result of Our value creation model p.4-5 and engagement with stakeholders Stakeholder and Materiality p.64-65
103-3	Delivering Our Strategy p.13-49
Category: Economic	
GRI 201: Economic performance 2016	
103-2	Chair and chief executives report p.6-8 Stakeholder and Materiality p.64
201-1	Financial capital and resources p.48 Financials p.67-112
201-2	Chair and chief executives report p.6-8 Stakeholder and Materiality p.64 Enterprise Risk Management p.59-61 Financial capital and resources p.46 Climate Change p.19 Natural environment p.14
201-4	Nil
GRI 203: Indirect economic impacts 2016	
103-2	Assets and infrastructure p.38-39 Financial capital and resources p.46 Stakeholder and Materiality p.64
203-1	Chair and chief executives report p.6-8 Natural environment p.14-16 Customer and Stakeholder Relationships p.31 Assets and infrastructure p.38-40 Financial capital and resources p.47 Reporting Scope p.Inside Cover
Category: Environmental	
GRI 302: Energy 2016	
103-2	Natural environment p.14-15 Stakeholder and Materiality p.64
302-1	Natural environment p.21
GRI 303: Water 2016	
103-2	Chair and chief executives report p.6-8 Stakeholder and Materiality p.64
303-1	Natural environment p.17
303-2	Natural environment p.17-18
GRI 304: Biodiversity 2016	
103-2	Natural environment p.18 Stakeholder and Materiality p.64
304-1	Natural environment p.18
GRI 305: Emissions 2016	
103-2	Natural environment p.19 Stakeholder and Materiality p.64
305-1	Natural environment p.19-20
305-2	Natural environment p.19-20
305-3	Natural environment p.19-20
GRI 307: Environmental compliance 2016	

103-2	Chair and chief executives report p.6-8 Natural environment p.22 Stakeholder and Materiality p.64
307-1	Statement of Service Performance p.113-116 Natural environment p.22
Category: Social	
GRI 401: Employment 2016	
103-2	People and culture p.24-25 Stakeholder and Materiality p.64
401-1	People and culture p.27, p.29
401-3	People and culture p.28 (partially reported to this GRI Standard)
GRI 403: Occupational health and safety 2016	
103-2	People and culture p.29 Stakeholder and Materiality p.64
403-1	People and culture p.29
403-2	People and culture p.29 (partially reported to this GRI Standard)
403-4	People and culture p.29
GRI 404: Training and education 2016	
103-2	People and culture p.24-25 Stakeholder and Materiality p.64
404-2	People and culture p.25, p.28 Intellectual capital p.43
404-3	People and culture p.28 (partially reported to this GRI Standard)
GRI 405: Diversity and equal opportunity 2016	
103-2	People and culture p.24-25 Stakeholder and Materiality p.64
405-1	Leadership and Governance p.52-53 People and culture p.27 (partially reported to this GRI Standard)
GRI 413: Local communities 2016	
103-2	Reporting Scope p.Inside Cover, Stakeholder and Materiality p.64-65
413-1	Stakeholder and Materiality p.64-65 Assets and infrastructure p.40 People and culture p.29 Chair and chief executives report p.6-8 Customer and stakeholder relationships p.30-31 Environmental Advisory Group p.62 Mana Whenua Kaitiaki Forum p.63
413-2	Chair and chief executives report p.6-8, Customer and stakeholder relationships p.30-31 Assets and infrastructure p.38-39
GRI 416: Customer health and safety 2016	
103-2	Customer and stakeholder relationships p.33
416-1	Customer and stakeholder relationships p.33
416-2	Statement of Service Performance p.113-116 Natural environment p.22
GRI 419: Socioeconomic compliance 2016	
103-2	Natural environment p.22 Financial capital and resources p.46-47
419-1	No non-compliance reported

Inputs – Value In

Watercare's ability to carry out its activities is influenced by the following resources and relationships:

Natural capital
- Availability of and access to water sources
- Availability and access to discharge points for treated wastewater
- Ecosystem services
- Understanding of environmental dynamics

Human capital
- Access to the right people
- Staff training and development
- Positive organisational culture
- Understanding future workforce needs

Social and relationships capital
- Understanding of customer needs
- Understanding of community and environmental stakeholder expectations
- Engagement with owner, regulator and government
- Engagement with iwi
- Relationships with unions
- Relationships with contractors, suppliers, consultants and industry professionals

Manufactured capital
- Company assets (e.g. dams, plants, pump stations)
- Critical third-party infrastructure (e.g. roads, energy)
- Quality of wastewater
- Volume of stormwater
- Availability of construction materials
- Chemicals
- Energy

Intellectual capital
- Technology
- Business continuity and crisis management procedures
- Processes and systems
- Documented good practice
- Datasets

Financial capital
- Access to affordable capital and debt
- Access to sufficient free cash flow

Outcomes – Value Out

Through the provision of safe and reliable water and wastewater services, Watercare delivers the following:

Natural capital
- We mitigate the negative impact of our activities
- We protect and enhance the environment and ecosystems
- We use resources efficiently and reduce waste, leading to a circular economy

Human capital
- We have a productive and engaged workforce
- We develop talents and skills in the industry
- We are committed to the health and safety of our staff and contractors
- We are an employer of choice

Social and relationships capital
- We ensure continuity of service
- We create a positive customer experience and receive positive feedback
- We are trusted by our customers and stakeholders who understand our purpose and value our service
- We have a strong relationship with our shareholder
- We have strong relationships with iwi, regulators and government
- We contribute to public health and well-being
- We provide affordable water and wastewater services
- We enable the Auckland Plan supporting growth / development
- We are a client of choice for our suppliers

Manufactured capital
- We ensure our water and wastewater assets are well maintained and perform well
- We build and maintain resilient, fit-for-purpose infrastructure
- We plan and construct in a timely way

Intellectual capital
- We make robust decisions that are informed and effective
- We continually strive for process excellence
- We strive for continuous improvement, and to be a future-proofed organisation
- We are industry leaders

Financial capital
- We are a minimum-cost provider
- We are financially stable over the long term
- We optimise cash flow and interest cover
- We optimise asset value
- We are a commercially savvy business.

Glossary

Asset Management Plan (AMP)	A document that defines Watercare's best engineering judgment of the revenue and capital investment required to maintain the integrity of its asset base over a 20-year period.
Biogas	A by-product of the wastewater treatment process that comprises approximately 65% methane.
Biosolids	A treated solid by-product of the wastewater treatment process.
Capex	Capital expenditure.
Capitalised interest	The borrowing costs directly attributable to the acquisition or construction of qualifying assets, which are capital projects that span more than one financial year, added to the cost of those assets, until such time as the assets are substantially ready for their intended use.
Central Interceptor	A large tunnel that will collect and carry wastewater.
EBITDA	Operating surplus from trading operations before depreciation and amortisation, finance costs, vested assets revenue (non-cash) and developer and financial contributions (non-cash).
Global Reporting Initiative (GRI)	A non-profit organisation that works towards a sustainable global economy by providing sustainability reporting guidance.
Greenhouse gases	Gases that trap heat in the atmosphere. Examples of greenhouse gases are methane, perfluorocarbons and nitrous oxide.
Infrastructure assets	Assets that are mainly held and used for the purpose of treatment, storage and transmission of water and wastewater, such as watermains and sewers, and also treatment plants, tanks, dams and reservoirs.
Infrastructure Growth Charge (IGC)	Amount collected from property owners or developers applying for new connections to help fund new infrastructure required by growth.
Integrated Reporting	This is an internationally recognised framework for reports. It is a concise communication about how an organisation's strategy, governance, performance and prospects lead to the creation of value over the short, medium and long term.
Iwi	Tribal group(s) (origin: Māori).
Kaitiaki	Custodian (origin: Māori).
Mana whenua	Territorial rights; tribal connection to a geographic region; associated with possession and occupation (origin: Māori).
Mauri	A material symbol of life (origin: Māori).
Net finance costs	Interest paid/payable less interest received/receivable.
Operational assets	Assets that are mainly held and used for the purpose of administration and/or to support infrastructure assets and activities.
Opex	Operational expenditure.
Regional Demand Management Plan	A plan that outlines how Watercare intends to achieve a 15% reduction in gross per-capita water consumption by 2025. It is known as the Auckland Water Efficiency Strategy.
Resource efficiency	The maximising of the supply of money, materials, staff, and other assets that can be drawn on by a person or organisation in order to function effectively, with minimum wasted (natural) resource expenses.
Service concession arrangement	A binding arrangement between Watercare (grantor) and Veolia Water Services (ANZ) Pty Limited (operator) in which the operator uses the service concession asset to provide a public service on behalf of the grantor for a specified period of time; and the operator is compensated for its services over the period of the service concession arrangement.
Service Concession Assets	Assets owned and either provided by Watercare or upgraded for use by Veolia to provide public services in a service concession arrangement.
Statement of intent (SOI)	The SOI represents Watercare's public and legislative expression of accountability to its shareholder and establishes the agreement between the board and its shareholder.
Statement of Service Performance (SSP)	The SSP is a retrospective record of the performance of the company against the measures in its SOI.
Subvention receipt	Amount received/receivable from a profit company by a loss company for the sale of tax losses.
Sustainability	Meeting current needs without compromising future generations' ability to meet their own needs.
Tāmaki Makaurau	The Auckland isthmus region (origin: Māori).
Tangata whenua	Indigenous people of the land (origin: Māori).
Trade waste	Any discharge into a sewer in the course of an industry or trade process.
Unaccounted-for water loss	Water that is lost before it reaches the customer. Losses can be real losses (through leaks) or apparent losses (e.g. through theft or metering inaccuracies).
Vested assets	Infrastructure assets transferred to Watercare by external parties: e.g. developers, New Zealand Transport Agency, Veolia Water Services (ANZ) Pty Limited.
Wastewater	Liquid or solid matter discharged into the sewerage network from domestic, commercial or industrial locations.

Watercare Services Limited
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Watercare
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