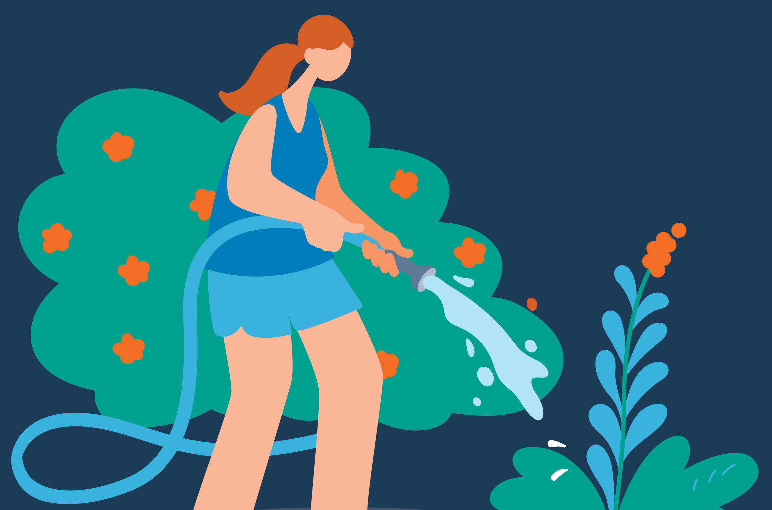
04

Financial report

Ngā pūrongo pūtea



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 2021.

Contents

Historical financial summary and key statistics

As at 30 June

	2017 $000	2018 $000	2019 $000	2020 $000	2021 $000
Financial Performance					
Total revenue	631,009	641,586	715,177	752,293	802,599
Operating expenses	213,480	217,625	226,484	268,560	291,869
Depreciation and amortisation	228,124	219,979	245,822	256,893	271,778
Finance costs	80,768	82,110	66,489	56,158	54,143
Total expenses	522,372	519,714	538,795	581,611	617,790
Operating surplus from trading operations	108,637	121,872	176,382	170,682	184,809
Net loss on disposal of and provision for redundant property, plant and equipment, and restructuring costs	(9,334)	(8,488)	(13,216)	(8,547)	(8,186)
Net (loss) / gain on revaluation of derivative financial instruments	87,546	(20,808)	–	–	–
Operating surplus / (deficit) before tax	186,849	92,576	163,166	162,135	176,623
Income tax (expense) / benefit	(62,163)	(38,145)	(55,547)	(88,306)	(48,423)
Net surplus / (deficit) after tax	124,686	54,431	107,619	73,829	128,200
Financial Position					
Current assets	82,621	94,761	120,528	141,589	140,898
Non-current assets	8,862,924	9,992,051	10,271,797	10,695,175	12,478,215
Total assets	8,945,545	10,086,812	10,392,325	10,836,764	12,619,113
Current liabilities	360,715	482,209	175,330	192,931	218,745
Non-current liabilities	2,626,254	2,855,681	3,142,756	3,495,700	4,154,116
Total liabilities	2,986,969	3,337,890	3,318,086	3,688,631	4,372,861
Total equity	5,958,576	6,748,922	7,074,239	7,148,133	8,246,252
Cash Flow					
Net cash inflows - operating activities	275,508	316,761	420,964	448,542	464,011
Net cash outflows - investing activities	(302,111)	(326,223)	(387,861)	(605,206)	(735,601)
Net cash inflows - financing activities	27,563	8,425	(30,553)	165,529	263,188
Net change in cash flows	960	(1,037)	2,550	8,865	(8,402)
Key Statistics					
Property, plant and equipment	8,777,049	9,913,765	10,163,169	10,515,408	12,300,209
Capital expenditure	301,632	342,426	448,005	615,530	800,953
Net debt	1,603,895	1,613,065	1,696,942	1,942,577	2,305,929
Increase in net debt	26,324	9,170	83,877	245,635	363,352
Increase in net debt to capex	9%	3%	19%	40%	45%
EBITDA to interest expense ratio	4.41	4.78	6.39	7.43	8.54
Funds flow from operations to interest ratio	3.94	4.19	4.93	5.11	5.24
Funds flow from operations to average net debt	22%	24%	26%	23%	22%
Number (headcount) of permanent employees	909	908	984	1,105	1,201
Year on year growth of operating expenses	1.7%	1.9%	4.1%	18.6%	8.7%
Average growth (4 years average)			2.6%	6.6%	8.3%

Financial commentary

For the year ended 30 June 2021

	2021 ACTUAL $000	2020 ACTUAL $000	2021 BUDGET $000	VARIANCE TO BUDGET $000	RESULT
Revenue	802,599	752,293	650,528	152,071	✓
Operating expenses	(291,869)	(268,560)	(270,048)	(21,821)	×
Depreciation and amortisation	(271,778)	(256,893)	(258,588)	(13,190)	×
Finance costs	(54,143)	(56,158)	(56,905)	2,762	✓
Total expenses	(617,790)	(581,611)	(585,541)	(32,249)	×
Operating surplus from trading operations	184,809	170,682	64,987	119,822	✓
Net loss on disposal of and provision for redundant property, plant and equipment, and restructuring costs	(8,186)	(8,547)	7,000	(15,186)	×
Operating surplus before tax	176,623	162,135	71,987	104,636	✓
Income tax expense	(48,423)	(88,306)	(10,380)	(38,043)	×
Net surplus for the year	128,200	73,829	61,607	66,593	✓
Gain on revaluation of property, plant and equipment	969,667	–	–	969,667	✓
Total comprehensive revenue and expense for the year, net of tax	1,097,867	73,829	61,607	1,036,260	✓

Key points

- Watercare's total revenue of $802.6 million exceeded the budget by $152.1 million. The increase was primarily driven by infrastructure growth charge which contributed $93.7 million to this favorable variance, reflecting continued growth in the Auckland region. The non-cash vested asset revenue added $27.0 million favorably to the revenue and balance was contributed by other revenues.
- Operating costs were $21.8 million higher than budget. This was primarily due to Maintenance costs ($8.6 million) and Employee benefit expenses ($8.4 million) being higher than budget. This was due to additional unplanned maintenance being required to address a higher volume of leaks reported resulting from the drought and the impact of complex repair jobs.
- Other expenses were also over budget by $9.8 million due to unbudgeted events and project costs, including additional consultancy and professional services for ongoing system implementation budgeted as capital expenditure, increase in provision for doubtful debts and one time write off for aged accounts and additional legal expenses for regulation reform readiness and other projects.
- Depreciation and amortisation were $13.2 million over budget. This was due to higher depreciation being recognized from revalued asset and capitalisations during the year.
- Finance costs were $2.8 million lower than budget due to lower borrowings required as a result of increased revenue.
- The company reports an operating surplus of $184.8 million compared with a budgeted operating surplus of $65.0 million, a favourable variance of $119.8 million. The water business unit reported an operating surplus from trading operations of $16.2 million and the wastewater business unit reported an operating surplus of $168.6 million.
- The reported operating surplus from trading operations was prior to a non-cash loss on disposal of property, plant and equipment of $8.2 million.
- The resulting net surplus after tax of $128.2 million was higher than the budgeted net surplus of $66.6 million. This was due to significant increase in revenue.
- Total assets of the company have increased from $10.8 billion to $12.6 billion during the year, reflecting the company's continued investment in new infrastructure assets and revaluation of assets.
- Net debt increased by $363.4 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.

Responsibility for the financial statements and statement of service performance

Financial Statements

We have ensured that the financial statements fairly reflect the financial position of the company as at 30 June 2021 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 2021.

These financial statements and the statement of service performance for Watercare Services Limited for the year ended 30 June 2021 were approved and authorised for release on 30 August 2021.

For and on behalf of management:

J Lamonte
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

To the Readers of Watercare Services Limited Group's Financial Statements and Statement of Service Performance for the Year Ended 30 June 2021

The Auditor-General is the auditor of Watercare Services Limited (the Group). The Auditor-General has appointed me, B E 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 78 to 120 that comprise the Statement of Financial Position as at 30 June 2021, 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 121 to 124.

In our opinion:

- the financial statements of the Group on pages 78 to 120:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2021; 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 121 to 124 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 2021.

Our audit was completed on 30 August 2021. 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

Without modifying our opinion, we draw attention to note 4 on page 90 to the financial statements, which outlines the Government's proposed Three Waters Reform programme. The likely outcome and impact on the Company is currently uncertain because no decisions have been made on how to progress the reforms announced by the Government on 30 June 2021.

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 overall presentation, structure and content of the financial statements and the Statement of Service Performance, including the disclosures, and whether the financial statements and the Statement of Service Performance represent the underlying transactions and events in a manner that achieves fair presentation.

We 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 Central Interceptor project assurance services, real water loss process assurance-related work, probity services, administrative services provided to the Corporate Taxpayers Group of which Watercare is a member, 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

B E Tomkins

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

Statement of comprehensive revenue and expense

For the year ended 30 June 2021

	Notes	2021 Actual $000	2020 Actual $000	2021 Budget $000
Revenue	NOTE 13, PAGE 106	802,599	752,293	650,528
Total revenue		802,599	752,293	650,528
Operating expenses				
Asset operating costs		(82,070)	(72,668)	(87,048)
Maintenance costs		(56,924)	(55,581)	(48,310)
Employee benefit expenses		(76,237)	(75,368)	(67,819)
Other expenses		(76,638)	(64,943)	(66,871)
Total operating expenses	NOTE 14, PAGE 108	(291,869)	(268,560)	(270,048)
Depreciation	NOTE 6, PAGE 93	(258,609)	(245,854)	(247,988)
Amortisation	NOTE 9, PAGE 99	(13,169)	(11,039)	(10,600)
Finance costs	NOTE 11, PAGE 102	(54,143)	(56,158)	(56,905)
Total expenses		(617,790)	(581,611)	(585,541)
Operating surplus from trading operations		184,809	170,682	64,987
Net loss on disposal of property, plant and equipment, and restructuring costs		(8,186)	(8,547)	7,000
Operating surplus before tax		176,623	162,135	71,987
Income tax expense	NOTE 16, PAGE 109	(48,423)	(88,306)	(10,380)
Net surplus for the year		128,200	73,829	61,607
Other comprehensive revenue and expense net of tax				
Gain on revaluation of property, plant and equipment	NOTE 8, PAGE 98	969,667	–	
Other comprehensive revenue and expense for the year, net of tax		969,667	–	
Total comprehensive revenue and expense for the year is attributable to:				
Owner of the parent, net of tax		1,098,281	73,817	61,607
Non-controlling interest, net of tax		(414)	12	–

The financial statements should be read in conjunction with the notes on pages 86 to 119 inclusive.

Statement of financial position

As at 30 June 2021

	Notes	2021 Actual $000	2020 Actual $000	2021 Budget $000
Assets				
Current				
Cash and cash equivalents		2,521	10,923	10,530
Trade and other receivables from exchange transactions	NOTE 18, PAGE 112	88,800	82,641	78,308
Inventories	NOTE 19, PAGE 112	15,254	25,597	11,921
Prepaid expenses	NOTE 21, PAGE 113	7,120	8,462	8,460
Other financial assets	NOTE 22, PAGE 114	27,203	13,966	–
Total current assets		140,898	141,589	109,219
Non-current				
Property, plant and equipment	NOTE 6, PAGE 93	12,300,209	10,515,408	11,750,548
Intangible assets and goodwill	NOTE 9, PAGE 99	112,024	116,315	104,289
Inventories	NOTE 19, PAGE 112	5,582	3,619	3,619
Prepaid expenses	NOTE 21, PAGE 113	24,477	25,647	24,061
Other financial assets	NOTE 22, PAGE 114	35,923	34,186	–
Total non-current assets		12,478,215	10,695,175	11,882,517
Total assets		12,619,113	10,836,764	11,991,736
Liabilities				
Current				
Trade and other payables for exchange transactions	NOTE 20, PAGE 113	24,170	17,227	20,376
Accrued expenses	NOTE 23, PAGE 114	155,318	154,884	162,218
Provisions	NOTE 24, PAGE 115	39,257	20,820	17,316
Total current liabilities		218,745	192,931	199,910
Non-current				
Borrowings	NOTE 10, PAGE 101	2,308,450	1,953,500	2,307,667
Deferred tax liability	NOTE 17, PAGE 111	1,807,559	1,506,397	1,718,954
Trade and other payables for exchange transactions	NOTE 20, PAGE 113	4,982	2,859	–
Accrued expenses	NOTE 23, PAGE 114	13,793	14,213	17,099
Provisions	NOTE 24, PAGE 115	19,332	18,731	19,047
Total non-current liabilities		4,154,116	3,495,700	4,062,767
Total liabilities		4,372,861	3,688,631	4,262,677
Equity				
Equity attributable to owners of the parent				
Retained earnings		4,453,573	4,319,755	4,380,918
Revaluation reserves	NOTE 8, PAGE 98	3,532,335	2,567,608	3,087,448
Issued capital	NOTE 25, PAGE 116	260,693	260,693	260,693
Total equity attributable to owners of the parent		8,246,601	7,148,056	7,729,059
Non-controlling interest		(349)	77	–
Total equity		8,246,252	7,148,133	7,729,059
Total equity and liabilities		12,619,113	10,836,764	11,991,736

The financial statements should be read in conjunction with the notes on pages 86 to 119 inclusive.

Statement of cash flows

For the year ended 30 June 2021

	Notes	2021 Actual $000	2020 Actual $000	2021 Budget $000
Operating activities				
Cash was provided from:				
Receipts from customers		777,916	696,707	660,010
Dividends received		112	121	–
Interest received		88	322	–
Subvention receipt	NOTE 16, PAGE 109	–	1,600	–
		778,116	698,750	660,010
Cash was applied to:				
Employees and suppliers		(314,100)	(250,203)	(298,140)
Finance costs paid		(5)	(5)	(1,458)
		(314,105)	(250,208)	(299,598)
Net cash inflows – operating activities	NOTE 15, PAGE 109	464,011	448,542	360,412
Investing activities				
Cash was provided from:				
Sale of property, plant and equipment, and intangibles		9,790	5,586	–
		9,790	5,586	–
Cash was applied to:				
Purchase and construction of property, plant and equipment, and intangibles		(730,354)	(588,252)	(696,658)
Acquisition of subsidiaries, associates and jointly-controlled entities		–	(2,540)	–
Issued term loans	NOTE 22, PAGE 114	(15,037)	(20,000)	15,000
		(745,391)	(610,792)	(681,658)
Net cash outflows – investing activities		(735,601)	(605,206)	(681,658)
Financing activities				
Cash was provided from:				
Proceeds from Auckland Council loans – related party	NOTE 25, PAGE 116	807,579	696,893	271,247
		807,579	696,893	271,247
Cash was applied to:				
Repay loans from Auckland Council – related party	NOTE 25, PAGE 116	(544,391)	(531,364)	–
		(544,391)	(531,364)	–
Net cash inflows/(outflows) – financing activities		263,188	165,529	271,247
Net change in cash flows		(8,402)	8,865	(49,999)
Cash and cash equivalents/(overdraft) at the beginning of the year		10,923	2,058	–
Cash and cash equivalents/(overdraft) at the end of the year		2,521	10,923	(49,999)
Cash and cash equivalents comprises:				
Bank balances/(overdraft)		2,521	10,923	10,530
		2,521	10,923	10,530

The financial statements should be read in conjunction with the notes on pages 86 to 119 inclusive.

Statement of changes in equity

For the year ended 30 June 2021

	Notes	Retained earnings $000	Revaluation reserves $000	Issued capital $000	Non-controlling Interest $000	Total $000
Balance at 1 July 2020		4,319,755	2,567,608	260,693	77	7,148,133
Comprehensive revenue and expense						
Net surplus for the year		128,614	–	–	(414)	128,200
Other comprehensive revenue and expense						
Gain on revaluation of property, plant and equipment	NOTE 8, PAGE 98		969,667	–	–	969,667
Transfer between reserves on disposal of property, plant and equipment	NOTE 8, PAGE 98	5,204	(4,940)	–	–	264
Share of associate reserve		–	–	–	(12)	(12)
Total comprehensive revenue and expense for the year, net of tax		133,818	964,727	–	(426)	1,098,119
Balance at 30 June 2021		4,453,573	3,532,335	260,693	(349)	8,246,252

	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 8, PAGE 98	(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

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 July 2020. 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 8, page 98
- Unbilled revenue estimate, note 13, page 106
- Provisions, note 24, page 115

1. Reporting entity and basis of preparation (continued)

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 25, page 116.

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 accounting standards that are effective for the reporting period beginning 1 January 2021 with early application being permitted:

- PBE IPSAS 40 Combinations
- PBE Interest Rate Benchmark Reform – Phase 2

And those that are effective for reporting period beginning 1 January 2022 with early application being permitted:

- PBE IPSAS 41 Financial Instruments
- PBE FRS 48 Service Performance Reporting

The group has not early adopted these new or amended standards in preparing the consolidated financial statements. The impact of these standards on the group are being assessed.

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

	2021 Actual $000	2021 Budget $000	Variance $000	Variance %
Revenue	802,599	650,528	152,071	23.4%
Asset operating costs	82,070	87,048	4,978	5.7%
Maintenance costs	56,924	48,310	(8,614)	(17.8%)
Employee benefit expenses	76,237	67,819	(8,418)	(12.4%)
Other expenses	76,638	66,871	(9,767)	(14.6%)
Depreciation	258,609	247,988	(10,621)	(4.3%)
Finance costs	54,143	56,905	2,762	4.9%
Net loss on disposal of property, plant and equipment, and restructuring costs	8,186	(7,000)	(15,186)	216.9%

- Revenue was $152.1 million, or 23.4%, higher than budget. This increase was driven by Infrastructure Growth Charge revenue being $93.7 million and non-cash vested assets revenue being $27 million higher than budget due to the timing of new developments around the Auckland region.
- Asset operating costs were $5.0 million, or 5.7%, lower than budget. The main driver for the favourable budget variance is an underspend on Waikato District Council's (WDC's) capital works programme. Long lead times on equipment orders impacted by COVID-19 have resulted in deferred asset operating costs under WDC's contract with Watercare.
- Maintenance costs were $8.6 million, or 17.8%, 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.
- Other expenses were $9.8 million over budget due to unbudgeted events and project costs, including:
  - Additional Consultancy and Professional Services cost of $7.1 million was incurred for ongoing systems implementation that was budgeted as capital expenditure.
  - Increase in provision for doubtful debts against budget by $1.9 million represented by one-time write-offs for old aged accounts.
  - Legal expenses were $1.1 million over budget, primarily due to regulation reform readiness and other projects.
- Finance costs were better than budget by $2.7 million, or 4.9%, due to lower borrowings required as a result of increased revenue.

2. Explanation of major variances to budget (continued)

Statement of financial position – extract

	2021 Actual $000	2021 Budget $000	Variance $000	Variance %
Total current assets	140,898	109,219	31,679	29.0%
Total non-current assets	12,478,215	11,882,517	595,698	5.0%
Total current liabilities	218,745	199,910	(18,835)	(9.4%)
Total non-current liabilities	4,154,116	4,062,767	(91,349)	(2.2%)
Total equity	8,246,252	7,729,059	517,193	6.7%

- Current assets were $31.7 million higher than budget. This was primarily due to an increase in receivables and an additional loan advanced ($20.0 million) to the Central Interceptor project.
- Non-current assets were $595.7 million higher than budget. This was mainly due to revaluation of land, building and infrastructure assets.
- Current liabilities were $18.8 million higher than budget. The variance against budget was mainly driven by provisions for multiple large capital projects.
- Equity was higher than budget at year-end, primarily due to the higher total comprehensive revenue and expense for the year and significant uplift in revaluation reserve.

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 during the year.

	2021 Actual $000	2021 Budget $000	Variance $000	Variance %
Net cash inflows – operating activities	464,011	360,412	103,599	28.7%
Net cash outflows – investing activities	(735,601)	(681,658)	(53,943)	(7.9%)
Net cash inflows / (outflows) – financing activities	263,188	271,247	(8,059)	(3.0%)

- Net operating cash inflows were $103.6 million better than budget, primarily due to the higher collections for Infrastructure Growth Charges revenue.
- The net cash outflow from investing activities was 7.9% higher than budget due to increased capital expenditure during the year, which was partly driven by projects brought forward as a response to the drought.
- The net cash inflows from financing activities were $8.1 million lower than budget. This was due to lower borrowing requirements from Auckland Council, resulting from increased revenue from Infrastructure Growth Charges and new connections.

3. Business update

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.

Construction contract variations

Capital projects in progress during lockdown periods incurred insignificant delays and therefore immaterial contractual variation payments to compensate construction contractors under the terms of each agreement.

Revaluation of property, plant and equipment

The group has historically considered the revaluation of property, plant and equipment a critical accounting estimate and judgment. The impact of COVID-19 has created additional reliance on estimation over the group's assumptions in considering whether property, plant and equipment is recorded at fair value given the yet unknown impacts on the domestic and global construction industry. The group has taken all practical steps and engaged experts where necessary to ensure all estimates and judgments are reasonable. Refer to note 6, page 93.

IFRIC update on Software as a Service

In April 2021, the IFRS Interpretations Committee published an agenda decision clarifying how configuration and customisation costs incurred in implementing Software-as-a-Service (SaaS) must be accounted for.

The decision clarifies that certain configuration and customisation activities that are undertaken in implementing SaaS arrangements may give rise to a separate asset where the customer controls it; in such instances, these costs are capitalised as per PBE IPSAS 31.

In all other cases, it is expensed as the services are received or over the term of the SaaS contract. The clarification now makes it harder for companies to capitalise the costs of implementing SaaS arrangements as intangible assets. As a result, all companies are now expected to reassess the accounting treatment of any recently implemented SaaS arrangements and make any retrospective adjustments as required.

In the financial year ended 30 June 2020, Watercare capitalised costs associated with the Strategic Transformation Program (STP) and other cloud-based digital projects amounting to $69 million. The STP involved a two-year implementation of a cloud-based enterprise resource planning (ERP) solution. These implementation costs include the cost of development, configuration and customisation of the ERP solution. After considering the volume and complexity of the STP program and the limited time available to carry out an accurate assessment this financial year, management will complete the assessment and recognise any relevant adjustments by 31 December 2021.

4. Three Waters Reform

In July 2020, the Government launched the Three Waters Reform Programme – a three-year programme to reform local government three waters service delivery arrangements. Currently 67 different councils own and operate the majority of the drinking water, wastewater and stormwater services across New Zealand. The proposed reform programme is being progressed through a partnership-based approach with the local government sector, alongside iwi/Māori as the Crown's Treaty Partner.

If the reform programme proceeds, it proposes to transfer three water delivery from the 67 councils to 4 Water Services Entities. On 30 June 2021 the Government announced the proposed regional boundaries for each entity. Auckland Council Group, including Watercare, would be part of "Entity A", together with Kaipara District Council, Far North District Council and Whangārei District Council.

Watercare's activities includes working with Auckland Council in respect of the proposed transition. In addition, Auckland Council and Watercare are sharing information with the Northern Councils. At the date this report was approved for issue, there is considerable uncertainty in respect of the extent of potential impacts on Watercare. This includes whether the reforms will ultimately progress as currently proposed by the Government and whether Watercare would continue in its current form, be wound up, or subsumed as part of "Entity A". At this stage, it is not possible to assess the likely outcome and impacts on Watercare with any certainty.

5. Business unit reporting

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

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

Business unit comprehensive revenue and expense

	Water 2021 $000	Wastewater 2021 $000	Total 2021 $000	Water 2020 $000	Wastewater 2020 $000	Total 2020 $000
Revenue						
Water and wastewater	157,473	353,220	510,693	166,647	367,408	534,055
Other revenue	89,123	202,783	291,906	63,728	154,510	218,238
Total revenue	246,596	556,003	802,599	230,375	521,918	752,293
Operating expenses						
Asset operating costs	(35,379)	(46,691)	(82,070)	(31,235)	(41,433)	(72,668)
Maintenance costs	(24,394)	(32,530)	(56,924)	(23,486)	(32,095)	(55,581)
Employee benefit expenses	(16,643)	(59,594)	(76,237)	(33,761)	(41,607)	(75,368)
Other expenses	(29,223)	(47,415)	(76,638)	(21,461)	(43,482)	(64,943)
Total operating expenses	(105,639)	(186,230)	(291,869)	(109,943)	(158,617)	(268,560)
Depreciation	(102,879)	(155,730)	(258,609)	(109,261)	(136,593)	(245,854)
Amortisation	(2,632)	(10,537)	(13,169)	(2,385)	(8,654)	(11,039)
Finance costs	(19,205)	(34,938)	(54,143)	(11,877)	(44,281)	(56,158)
Total expenses	(230,355)	(387,435)	(617,790)	(233,466)	(348,145)	(581,611)
Operating (loss) / surplus from trading operations	16,241	168,568	184,809	(3,091)	173,773	170,682
Net loss on disposal of property, plant and equipment, and restructuring costs	(3,787)	(4,399)	(8,186)	(3,468)	(5,079)	(8,547)
Operating (loss) / surplus before tax	12,454	164,169	176,623	(6,559)	168,694	162,135
Income tax benefit / (expense)	(3,414)	(45,009)	(48,423)	3,573	(91,879)	(88,306)
Net (loss) / surplus for the year	9,040	119,160	128,200	(2,986)	76,815	73,829
Other comprehensive revenue and expense net of tax						
Gain on revaluation of property, plant and equipment	385,752	583,915	969,667	–	–	–
Other comprehensive revenue and expense for the year, net of tax	385,752	583,915	969,667	–	–	–
Total comprehensive revenue and expense for the year attributable to owners of the parent, net of tax	394,792	703,075	1,097,867	(2,986)	76,815	73,829

5. Business unit reporting (continued)

Business unit financial position

	Water 2021 $000	Wastewater 2021 $000	Total 2021 $000	Water 2020 $000	Wastewater 2020 $000	Total 2020 $000
Assets						
Current						
Current assets	36,913	103,985	140,898	43,954	97,635	141,589
Total current assets	36,913	103,985	140,898	43,954	97,635	141,589
Non-current						
Property, plant and equipment	4,966,669	7,333,540	12,300,209	4,583,099	5,932,309	10,515,408
Intangible assets	22,392	89,632	112,024	25,855	90,460	116,315
Inventories	5,582	–	5,582	3,619	–	3,619
Prepaid expenses	–	24,477	24,477	–	25,647	25,647
Other financial assets	–	35,923	35,923	–	34,186	34,186
Total non-current assets	4,994,643	7,483,572	12,478,215	4,612,573	6,082,602	10,695,175
Total assets	5,031,556	7,587,557	12,619,113	4,656,527	6,180,237	10,836,764
Liabilities						
Current						
Current liabilities	72,013	146,732	218,745	52,910	140,021	192,931
Total current liabilities	72,013	146,732	218,745	52,910	140,021	192,931
Non-current						
Borrowings	820,158	1,488,292	2,308,450	415,900	1,537,600	1,953,500
Deferred tax liability	555,641	1,251,918	1,807,559	469,191	1,037,206	1,506,397
Trade and other payables for exchange transactions	200	4,782	4,982	295	2,564	2,859
Accrued expenses	8,223	5,570	13,793	8,407	5,806	14,213
Provisions	686	18,646	19,332	615	18,116	18,731
Total non-current liabilities	1,384,908	2,769,208	4,154,116	894,408	2,601,292	3,495,700
Total liabilities	1,456,921	2,915,940	4,372,861	947,318	2,741,313	3,688,631
Equity attributable to owners of the parent and non-controlling interest	3,574,635	4,671,617	8,246,252	3,709,209	3,438,924	7,148,133
Total equity and liabilities	5,031,556	7,587,557	12,619,113	4,656,527	6,180,237	10,836,764

Business unit cash flows

	Water 2021 $000	Wastewater 2021 $000	Total 2021 $000	Water 2020 $000	Wastewater 2020 $000	Total 2020 $000
Net cash inflows – operating activities	122,096	341,915	464,011	120,038	328,420	448,458
Net cash outflows – investing activities	(256,006)	(479,595)	(735,601)	(196,390)	(408,816)	(605,206)
Net cash (outflows) / inflows – financing activities	130,926	132,262	263,188	78,221	87,308	165,529
Net change in cash flows	(2,984)	(5,418)	(8,402)	1,869	6,912	8,781

6. Property, plant and equipment

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

Asset class	Category	Subsequent measurement basis	Estimated remaining useful lives in years 2021	2020
Land	Operational asset	Land at fair value that reflects current market value and forestry assets at fair value less costs to sell	–	–
Buildings	Operational asset	Highly specialised buildings at fair value which is deemed to be depreciated replacement cost, less accumulated depreciation Other buildings at fair value that reflects current market value, less accumulated depreciation	Up to 100	up to 98
Pipelines	Infrastructure asset	Fair value which is deemed to be depreciated replacement cost, less accumulated depreciation	Up to 164	up to 165
Tanks, tunnels, roads and reservoirs	Infrastructure asset	Fair value which is deemed to be depreciated replacement cost, less accumulated depreciation	Tanks: up to 95 Tunnels: up to 822	Tanks: up to 100 Tunnels: up to 822
Dams	Infrastructure asset	Fair value which is deemed to be depreciated replacement cost, less accumulated depreciation	up to 195	up to 196
Landfill	Infrastructure asset	Cost less accumulated depreciation and impairment losses	up to 15	up to 16
Machinery	Infrastructure asset	Fair value which is deemed to be depreciated replacement cost, less accumulated depreciation	up to 196	up to 197
Motor vehicles	Operational asset	Cost less accumulated depreciation and impairment losses	up to 17	up to 18
Office equipment	Operational asset	Cost less accumulated depreciation and impairment losses	up to 24	up to 25
Capital work in progress	Infrastructure assets mainly	Cost less accumulated impairment losses	–	–

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

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

6. Property, plant and equipment (continued)

Revaluation

All PPE, except for landfill, motor vehicles, office equipment and capital work in progress, are revalued after initial recognition. Also refer to note 8, page 98, Revaluation Reserves.

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

Revaluation assumptions

The group has taken all practical steps and engaged experts where necessary to ensure all estimates and judgments are reasonable in respect of the impact of COVID-19 on the valuation of property, plant and equipment.

The most recent revaluation for land and buildings was completed at 30 June 2021 by Beca Valuations Limited (Beca). The land valuation was based on relevant market prices using a comparable sales approach. Beca completed kerbside inspections on land parcels with book values at or above $800,000 and primary inspections were undertaken at the main treatment plants. For highly specialised buildings, which are rarely traded in the marketplace, the valuation was based on the depreciated replacement cost. The valuation included desktop assessments and site visits for six treatment plants, a laboratory, one dam and two pump stations.

A comprehensive desktop assessment was carried out for all infrastructure assets as at 30 June 2021 by Beca. As part of the assessment, Beca gathered data on equipment prices and other infrastructure cost information relative to modern-day equivalent assets to assess replacement rates; updated asset schedules with 2021 optimised replacement costs (ORC), optimised depreciated replacement costs (ODRC) and annual financial depreciation for assets. 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 ODRC approach. Few buildings that are non-specialised are revalued based on market value 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 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 2021 quarter and an estimate was made for the June 2021 quarter).

A full revaluation of infrastructure assets will be completed in the 2022 financial year.

The revaluation and desktop assessment gave rise to an overall increase of 13.5% in infrastructure and property assets.

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.

Notes to the financial statements (continued)

For the year ended 30 June 2021

6. Property, plant and equipment (continued)

	Land $000	Buildings $000	Pipelines $000	Tanks, tunnels, roads and reservoirs $000	Dams $000	Landfill $000	Machinery $000	Motor vehicles $000	Office equipment $000	Capital work in progress $000	Total $000
Balance at 1 July 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)
Net book value	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	–	–	–	–	–	–	–	–	–	615,531	615,531
Additions to PPE	750	–	59,292	–	–	9,366	3,454	37	248	–	73,147
Transfers from work in progress	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)	(138)	(12)	–	(12,245)
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	9,411	15,133	912,094	10,515,408
Balance at 30 June 2020											
Cost or valuation	260,686	125,003	7,302,790	692,746	271,764	128,546	1,284,326	22,192	41,922	912,094	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	1,152,304	9,411	15,133	912,094	10,515,408
Year ended 30 June 2021											
Additions to work in progress	–	–	–	–	–	–	–	–	–	800,953	800,953
Additions to PPE	(750)	–	48,752	–	–	–	532	–	–	–	48,534
Transfers from work in progress/(to) intangibles	7,251	8,780	161,411	66,261	154	10,799	287,314	1,012	7,867	(559,017)	(8,168)
Disposals	(6,676)		(10,501)		(40)	–	180	(144)	182	–	(16,999)
Revaluation	319,541	(10,730)	832,095	29,334	–	–	52,252	–	–	–	1,222,492
Impairment	–	–	–	–	–	–	–	–	(96)	(3,306)	(3,402)
Transfer from/(to) other classes	–	–	–	–	–	–	–	–	–	–	–
Depreciation	–	(3,116)	(154,447)	(13,511)	(2,461)	(3,856)	(72,549)	(2,515)	(6,154)	–	(258,609)
Closing carrying amount	580,052	114,514	7,876,499	748,239	264,464	120,988	1,420,033	7,764	16,932	1,150,724	12,300,209
Balance at 30 June 2021											
Cost or valuation	580,052	114,811	8,333,513	788,339	271,876	139,345	1,622,615	22,607	49,084	1,150,724	13,072,966
Accumulated depreciation	–	(297)	(457,014)	(40,100)	(7,412)	(18,357)	(202,582)	(14,843)	(32,152)	–	(772,757)
Carrying amount	580,052	114,514	7,876,499	748,239	264,464	120,988	1,420,033	7,764	16,932	1,150,724	12,300,209

6. Property, plant and equipment (continued)

Service concession assets – included in the above

Service concession assets are infrastructure assets owned by Watercare and operated by Veolia Water Services (ANZ) Pty Limited (Veolia) for the provision of water and wastewater services in the Papakura district. The franchise agreement stipulates the services Veolia must provide, to whom it must provide them and regulates the price. Veolia is responsible for upgrading and maintaining the network in Papakura so that at the end of the contract period (initial term of 30 years ending on 30 June 2027 with a 20-year right of renewal), the network shall be in a better overall condition than that which existed at the time the contract was commenced in 1997. At the commencement of the contract, a franchise fee was paid in exchange for the rights to operate the assets as detailed in note 23, page 114. 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, Watercare also recognises a liability at the same amount as the asset, where material the liability so recognised is reduced over the remaining period of the service concession arrangement.

	Pipelines $000	Machinery $000	Total $000
Balance at 30 June 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
Year ended 30 June 2021			
Additions to PPE	2,943	–	2,943
Disposals	(64)	–	(64)
Transfers	(1,195)	–	(1,195)
Revaluation	–	–	–
Depreciation	(3,913)	(166)	(4,079)
Closing carrying amount	190,209	3,975	194,185
Balance at 30 June 2021			
Cost or valuation	202,545	4,498	207,043
Accumulated depreciation	(12,336)	(523)	(12,858)
Carrying amount	190,209	3,975	194,185

6. Property, plant and equipment (continued)

Capital work in progress

Work in progress relates to the following projects:	2021 $000	2020 $000
Water treatment plant	169,136	32,383
Wastewater treatment plant	58,001	241,059
Wastewater pump station and sewer	498,204	353,839
Watermains, pump stations and reservoirs	299,678	204,570
Dams and raw water transmission pipelines	27,297	5,630
Other	98,408	74,613
Total work in progress	1,150,724	912,094

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

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

Cash-generating assets

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

Goodwill

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

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

No goodwill impairment was recognised for 30 June 2021.

Non-cash-generating assets

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

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

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

8. Revaluation reserves

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

Any accumulated depreciation at the date of the revaluation is transferred to the gross carrying amount of the asset, except for those assets on which a desktop assessment was performed, 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 2019	141,472	32,215	1,794,621	326,953	130,700	139,142	2,565,103
Revaluation during the year – net of deferred tax	–	–	–	–	–	–	–
Transfer (to)/from other classes	–	–	–	–	–	–	–
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

	Land $000	Buildings $000	Pipelines $000	Tanks, tunnels, roads and reservoirs $000	Dams $000	Machinery $000	Total $000
Balance at 1 July 2020	141,472	32,215	1,795,373	326,953	130,700	140,895	2,567,608
Revaluation during the year – net of deferred tax	319,541	(7,725)	599,108	21,121	–	37,622	969,667
Transfer (to)/from other classes	–	–	–	–	–	–	–
Transferred to retained earnings on disposal of property, plant and equipment (net of tax)	(1,100)	–	(2,614)	(547)	(43)	(636)	(4,940)
Balance at 30 June 2021	459,913	24,490	2,391,867	347,527	130,657	177,881	3,532,335

9. Intangible assets

Measurement

Intangible assets are initially recorded at cost.

		Estimated remaining useful lives in years	
Asset class	Subsequent measurement basis	2021	2020
Network models	Cost less accumulated amortisation and impairment losses	up to 9	up to 10
Computer software	Cost less accumulated amortisation and impairment losses	up to 9	up to 10
Resource consents	Cost less accumulated amortisation and impairment losses	up to 34	up to 35
Easement	Cost less impairment losses	Indefinite	Indefinite
Goodwill	Cost less impairment losses	Indefinite	Indefinite

Goodwill

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

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

Amortisation

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

9. Intangible assets (continued)

Carrying amount	Network models $000	Computer software $000	Resource consents $000	Easements $000	Goodwill $000	Total $000
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
Transfer from/(to) other classes	–	–	–	–	–	–
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
Year ended 30 June 2021						
Transferred from work in progress	233	7,887	48	–	–	8,168
Acquisitions of a controlled entity	–	–	–	–	–	–
Impairment	–	–	(374)	–	–	(374)
Disposals	–	(1)	–	–	–	(1)
Additions to Intangibles	–	1,085	–	–	–	1,085
Transfer from/(to) other classes	–	–	–	–	–	–
Amortisation	(430)	(11,234)	(1,505)	–	–	(13,169)
Closing carrying amount	1,881	74,193	32,223	1,427	2,300	112,024
Balance at 30 June 2021						
Cost or valuation	5,039	144,202	47,061	1,427	2,300	200,029
Accumulated amortisation	(3,158)	(70,009)	(14,838)	–	–	(88,005)
Carrying amount	1,881	74,193	32,223	1,427	2,300	112,024

10. Borrowings

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

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

From 1 July 2018 Watercare and its parent, Auckland Council, entered into a service level agreement (SLA) for the provision of treasury services and an 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 31 January 2023. Auckland council treasury met all of their obligations under the terms of the SLA during the 2021 financial year.

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

There is an expectation for Watercare to meet the long-term annual plan budgeted borrowing balance of $2,313.8 million. The actual results for the year ended 30 June 2021 were $2,308.5 million. A total of $1.4 million of borrowings pertains to unbudgeted housing infrastructure funding.

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

	2021		2020	
	Face value $000	Carrying value $000	Face value $000	Carrying value $000
Current				
Related party term loan (unsecured)	–	–	–	–
Medium-term notes (unsecured)	–	–	–	–
Bank loan (unsecured)	–	–	–	–
Total current borrowings	–	–	–	–
Non-current				
Related party term loan (unsecured)	2,308,450	2,308,450	1,953,500	1,953,500
Total non-current borrowings	2,308,450	2,308,450	1,953,500	1,953,500
Total borrowings	2,308,450	2,308,450	1,953,500	1,953,500

The group had $2.0 million (2020: $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.

11. Finance costs

Finance costs consist of interest and other costs that are incurred in connection with the borrowing of funds. Finance costs directly attributable to the acquisition, construction or production of a qualifying asset that necessarily takes more than 12 months to become ready for its intended use or sale are capitalised as part of the cost of that asset. During the year, an average interest rate of 4.15% (2020: 4.42%) was used to determine the amount of capitalised interest. All other finance costs are expensed in the period in which they occur.

	2021 $000	2020 $000
Interest on bank overdraft and borrowings, paid and payable	88,283	81,688
Capitalised interest on construction of property, plant and equipment, and intangibles	(34,140)	(25,530)
Net finance costs	54,143	56,158

12. Financial instruments and risk management

Risk management objectives and policies

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

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

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

Market risk

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

Interest rate risk

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

The group is no longer exposed to interest rate risk as this is now managed by Auckland Council. The group has a fixed interest rate agreement with Auckland Council. Also refer to note 10, page 101.

12. Financial instruments and risk management (continued)

Interest rate sensitivity

At 30 June 2021 there is no interest rate risk as interest rates are fixed annually (2020: 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 (2020: 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 2021 and 30 June 2020.

Foreign exchange sensitivity

The group had no exposure to foreign exchange risk at 30 June 2021 and 30 June 2020.

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:

			2021			2020
	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	49,711	–	49,711	36,017	(1,061)	34,956
Past due 1 to 30 days	4,264	–	4,264	9,715	(286)	9,429
Past due 30 to 60 days	4,271	(30)	4,241	2,437	(72)	2,365
Past due more than 60 days	10,301	(2,721)	7,580	9,598	(283)	9,315
Total	68,547	(2,751)	65,796	57,767	(1,702)	56,065

Movement in the provision for doubtful debts	2021 $000	2020 $000
Balance at 1 July	1,702	1,824
Additions during the year	2,023	500
Bad debts written off	(974)	(622)
Unused provisions reversed during the year	–	–
Balance at 30 June	2,751	1,702

During the year ended 30 June 2021, the group is also exposed to credit risk through a $70 million loan provided to the Central Interceptor contractor (2020: $50 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 22, page 114, for further information.

12. Financial instruments and risk management (continued)

Liquidity risk

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

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

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

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

Gross contractual maturity analysis

2021	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	29,152	–	–	–	29,152	29,152
Accrued expenses*	104,322	–	–	–	104,322	104,322
Borrowings	–	–	–	2,308,450	2,308,450	2,308,450
Total	133,474	–	–	2,308,450	2,441,924	2,441,924

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

* Excludes current and non-current revenue received in advance of $64.8 million (2020: $56.5 million) as it was not categorised as a financial liability; refer to note 23, page 114.

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

Fair values

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

Financial assets at amortised cost

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

The loan provided to the Central Interceptor contractor at nil market interest rate was initially recognised at the present value of the expected future cash flow, discounted at the current market rate of return for a similar financial instrument. After initial recognition, the loan is measured at amortised cost using the effective interest method. Refer to note 22, page 114.

Notes to the financial statements (continued)

For the year ended 30 June 2021

12. Financial instruments and risk management (continued)

Financial liabilities at amortised cost

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

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

Fair value through profit and loss

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

Fair value hierarchy

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

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

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

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

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

From 1 July 2018 the group did not have any financial assets or liabilities that were measured at fair value in the statement of financial position. At 30 June 2021 there are no derivative financial instruments (2020: None).

Financial assets and liabilities

	2021 Carrying amount $000	2021 Fair value $000	2020 Carrying amount $000	2020 Fair value $000
Financial assets - current				
Amortised cost				
Cash and cash equivalents	2,521	2,521	10,923	10,923
Trade and other receivables from exchange transactions	88,800	88,800	82,641	82,641
Other financial assets	27,203	27,203	13,966	13,966
Financial assets - non-current				
Amortised cost				
Other financial assets	35,923	35,923	34,186	34,186
Total financial assets	154,447	154,447	141,716	141,716
Financial liabilities - current				
Amortised cost				
Trade and other payables for exchange transactions	24,170	24,170	17,227	17,227
Accrued expenses*	104,322	104,322	112,634	112,634
Financial liabilities - non-current				
Amortised cost				
Trade and other payables for exchange transactions	4,982	4,982	2,859	2,859
Related party term loan (unsecured)	2,308,450	2,308,450	1,953,500	1,953,500
Total financial liabilities	2,441,924	2,441,924	2,086,220	2,086,220

* Excludes current revenue received in advance of $51.0 million (2020: $42.3 million) and non-current revenue received in advance of $13.8 million (2020: $14.2 million) as it was not categorised as a financial liability; refer to note 23, page 114.

12. Financial instruments and risk management (continued)

Capital management

The capital structure of the group consists of equity attributable to the owners of the parent, comprising issued capital, reserves and retained earnings as disclosed on page 85, and debt including borrowings as disclosed in note 10, page 101.

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 2021 and 30 June 2020.

13. Revenue

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

Revenue from exchange transactions

Water and wastewater revenue

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

Revenue from rendering of services

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

Interest income

Interest income is recognised using the effective interest method.

Dividend income

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

Infrastructure Growth Charge revenue

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

Revenue from non-exchange transactions

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

Vested assets revenue

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

13. Revenue (continued)

	2021 $000	2020 $000
Revenue from exchange transactions		
Revenue from sale of goods		
Water revenue – gross	160,456	168,714
Water leak remission	(2,989)	(2,072)
Water revenue – net of leak remissions	157,467	166,642
Revenue from sale of services		
Wastewater revenue – gross	360,121	372,270
Wastewater leak remission	(6,895)	(4,857)
Wastewater revenue – net of leak remissions	353,226	367,413
Total water and wastewater revenue – net of leak remissions	510,693	534,055
New meters and service connections	26,137	20,339
Laboratory revenue	7,283	7,115
Total revenue from sale of goods and services	544,113	561,509
Infrastructure Growth Charge revenue	196,936	109,773
Dividend income	112	121
Interest income	88	322
Other revenue	10,761	16,079
Total other revenue from exchange transactions	207,897	126,295
Total revenue from exchange transactions	752,010	687,804
Revenue from non-exchange transactions		
Government grants	2,055	–
Vested assets revenue	48,534	64,489
Total revenue from non-exchange transactions	50,589	64,489
Total revenue	802,599	752,293

14. Operating expenses

	Notes	2021 $000	2020 $000
Operating expenses include:			
Auditor's remuneration			
– annual audit and review of the financial statements – Deloitte		698	697
– audit of financial statements – Office of the Auditor-General (OAG) contribution		45	43
– other services		384	462
Directors and trustees' fees	NOTE 30, PAGE 119	477	507
Environmentally significant costs			
– chemicals		13,356	13,417
– energy		25,329	23,788
Cost of consumables and spare parts consumed	NOTE 19, PAGE 112	18,104	16,716
Operating leases and rent		7,628	7,091
Increase in provision for doubtful debts	NOTE 12, PAGE 103	2,023	500
Bad debts written off	NOTE 12, PAGE 103	(974)	(622)
Salaries and wages			
– paid to employees		110,966	98,550
– capitalised on construction of property, plant and equipment		(38,935)	(26,914)
– included in employee benefit expenses		72,031	71,636

Auditor's remuneration for other services relates to the Central Interceptor project assurance services and probity services, a review of processes and controls in respect of real water loss, and assurance in respect of Watercare's GRI report. Prior year fees for other services provided by the auditors related to cybersecurity 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.

15. Reconciliation of operating cash flows

	2021 $000	2020 $000
Reconciliation of net surplus after tax to net cash flows from operating activities		
Net surplus for the year	128,200	73,829
Non-cash and non-operating items:		
Depreciation and amortisation	271,778	256,893
Net loss on disposal of and provision for redundant property, plant and equipment	8,172	8,711
Vested assets revenue	(48,534)	(64,489)
Capitalised interest on borrowings and assets	54,218	63,798
Deferred tax	48,423	88,306
Movements in working capital:		
(Increase) / decrease in assets:		
Inventories	(935)	(1,456)
Trade and other receivables from exchange transactions	2,026	9,121
Prepaid expenses	2,512	8,085
Increase / (decrease) in liabilities:		
Trade and other payables for exchange transactions	1,388	1,699
Accrued expenses	(3,469)	1,382
Provisions	232	2,663
Net cash inflows from operating activities	464,011	448,542

16. Income tax expense

Current tax

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

Sale of tax losses

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

Tax loss offset

For the income year ended 30 June 2021, Watercare agreed to a maximum of tax losses to be sold to Auckland Council tax group of $Nil (2020: $27.0 million). However, no subvention payment or tax loss offset has been recorded.

In respect of the year ended 30 June 2021, Watercare received no cash payment (2020: $1.6 million) from Auckland Council tax group with no tax impact (2020: $13.0 million).

16. Income tax expense (continued)

	2021 $000	2020 $000
Operating surplus before tax	176,623	162,135
Income tax calculated at current tax rate of 28%	49,454	45,398
Increase / (decrease) in income tax due to:		
– Dividend and other income exempt from taxation	(1,738)	(361)
– Non-deductible expenses	479	422
– Imputation credits on dividends received	(52)	–
– Prior year and other adjustments	279	54,737
– Reintroduction of building tax depreciation	–	(11,890)
Tax effect of non-deductible items and prior period adjustments	(1,031)	42,908
Income tax expense	48,423	88,306
Represented by:		
Current tax	–	–
Deferred tax	48,423	88,306
Total income tax expense	48,423	88,306

	2021 $000	2020 $000
Total imputation credits	30,616	30,564

Imputation credits

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

Notes to the financial statements (continued)
For the year ended 30 June 2021

17. Deferred tax liability

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

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

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

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

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

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

(i) Recognised deferred tax assets and liabilities

	2021 Assets $000	2020 Assets $000	2021 Liabilities $000	2020 Liabilities $000	2021 Net $000	2020 Net $000
Property, plant and equipment	–	–	(2,033,040)	(1,746,266)	(2,033,040)	(1,746,266)
Employee benefits and other provisions	4,429	3,778	–	–	4,429	3,778
Tax losses	265,814	271,254	–	–	265,814	271,254
Other	–	–	(44,762)	(35,163)	(44,762)	(35,163)
Total	270,243	275,032	(2,077,802)	(1,781,429)	(1,807,559)	(1,506,397)

(ii) Movement in deferred tax

	Property, plant and equipment $000	Financial instruments $000	Employee entitlements and other provisions $000	Tax losses $000	Other $000	Total $000
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
Balance as at 1 July 2020	1,746,266	–	(3,778)	(271,254)	35,163	1,506,397
Charged / (credited) to comprehensive revenue and expense	34,035		(651)	5,440	9,599	48,423
Charged to other comprehensive revenue and expense, resulting from revaluation	252,739	–	–	–	–	252,739
Balance as at 30 June 2021	2,033,040	–	(4,429)	(265,814)	44,762	1,807,559

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

18. Trade and other receivables from exchange transactions

Trade and other receivables from exchange transactions are initially recognised at fair value. These are generally due for settlement within 21 days (2020: 21 days). Debts which are known to be uncollectable are written off by reducing the carrying amount directly.

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

Subsequent recoveries of amounts previously written off are recorded within other revenue. Refer to note 12, page 103.

	2021 $000	2020 $000
Current		
Trade receivables	63,264	51,757
Trade receivables - related parties	5,283	3,685
Provision for doubtful debts	(2,751)	(1,702)
	65,796	53,740
Other receivables - related parties	–	2,326
Unbilled revenue accrual	23,004	26,575
Trade and other receivables from exchange transactions	88,800	82,641

19. Inventories

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

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

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

The cost of inventories recognised as an expense during the year was $18.1 million (2020: $16.7 million).

	2021 $000	2020 $000
Spare parts at cost	2,541	2,227
Consumables at cost	9,229	8,763
Treated water at cost	1,080	925
Project stock	8,006	17,321
Provision for obsolescence	(20)	(20)
Total	20,836	29,216
Represented as:		
Current inventory	15,254	25,597
Non-current inventory	5,582	3,619
Total	20,836	29,216

20. Trade and other payables for exchange transactions

Trade and other payables for exchange transactions are unsecured and usually paid within 30 days (2020: 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 $10.3 million are held as cash on hand at 30 June 2021 (2020: $8.5 million) by Auckland Council treasury. This is in line with the amendment to the Construction Contracts Act (CCA) 2002 which was effective from April 2017.

	2021 $000	2020 $000
Current		
Trade creditors	12,175	9,889
Trade creditors - related parties	5,782	107
Contract retentions	5,364	5,750
Other payables	849	1,481
Total current trade and other payables for exchange transactions	24,170	17,227
Non-current		
Contract retentions	4,982	2,859
Total non-current trade and other payables for exchange transactions	4,982	2,859
Total trade and other payables for exchange transactions	29,152	20,086

21. Prepaid expenses

	2021 $000	2020 $000
Current		
Puketutu Island lease	443	443
Other prepaid expenses	6,677	8,019
Total current prepaid expenses	7,120	8,462
Non-current		
Puketutu Island lease	19,523	19,965
Other prepaid expenses	4,954	5,682
Total non-current prepaid expenses	24,477	25,647
Total prepaid expenses	31,597	34,109

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

Other prepaid expenses include prepaid capital project insurance of $4.7 million (2020: $5.8 million), prepaid employee insurance, a biosolids levy and software licensing fees.

22. Other financial assets

	2021 $000	2020 $000
Current		
Loan receivable	27,203	13,966
Non-current		
Loan receivable	35,923	34,186
Total other financial assets	63,126	48,152

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 (2020: 2.4%).

23. Accrued expenses

	2021 $000	2020 $000
Current		
Capital work in progress accruals	74,438	67,908
Interest payable	4,146	–
Revenue received in advance	50,996	42,250
Operating costs accruals	25,738	44,726
Total current accrued expenses	155,318	154,884
Non-current		
Revenue received in advance	13,793	14,213
Total non-current accrued expenses	13,793	14,213
Total accrued expenses	169,111	169,097

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

Revenue received in advance includes $6.8 million (2020: $7.0 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 25, page 116, for a breakdown of related party accruals.

Notes to the financial statements (continued)

For the year ended 30 June 2021

24. Provisions

The group provides for the cost of employees' entitlements under the terms of their employment contracts. The liability is calculated as the present value of the expected future payments after allowing for wage and salary increases, the rate of employee 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.

	2021 $000	2020 $000
Current		
Employee entitlements	10,127	10,140
Other provisions	29,130	10,680
Total current provisions	39,257	20,820
Non-current		
Employee entitlements	2,233	1,975
Decommissioning costs	17,099	16,756
Total non-current provisions	19,332	18,731
Total provisions	58,589	39,551

	Employee entitlements $000	Decommissioning costs $000	Other provisions $000	Total $000
Balance at 1 July 2020	12,115	16,756	10,680	39,551
Additions during the year	12,528	–	27,821	40,349
Reductions resulting from payments	(12,283)	–	(9,371)	(21,654)
Net present value adjustment	–	343	–	343
Balance at 30 June 2021	12,360	17,099	29,130	58,589

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 $17.1 million (2020: $16.8 million).

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 (2020: from 0.16% to 1.86%)
- 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 $29.1 million relates to claims made by contractors in respect of capital projects (2020: $10.7 million).

25. Equity and related parties

Equity

Watercare is 100% owned by Auckland Council. The total number of authorised and issued shares at balance date was 260,693,164 (2020: 260,693,164) ordinary shares of $1 each. Every ordinary issued share was fully paid and carries equal voting rights to:

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

Under Section 57(1)(b) of the Local Government (Auckland Council) Act 2009, the company must not pay any dividend or distribute any surplus in any way, directly or indirectly, to its shareholder. The capital management policy of the group is detailed in note 12, page 103.

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

In the prior year, 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 26, page 117.

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 2021, 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 (2020: 100%) by Watercare and are non-trading companies.

Transactions with related parties

Watercare entered into borrowing arrangements with Auckland Council on the terms set out in note 10, page 101.

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

	2021 $000	2020 $000
Loans from Auckland Council, balance at 30 June	2,308,450	1,953,500
Interest receivable on loans from Auckland Council	–	2,326
Interest payable on loans from Auckland Council	4,146	–
Interest expense on loans from Auckland Council	88,143	80,978
Loans borrowed from Auckland Council during the year	807,579	696,893
Loans repaid to Auckland Council during the year	544,391	531,364

The group has a loss offset and subvention arrangement with Auckland Council tax group as detailed in note 16, page 109.

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

25. Equity and related parties (continued)

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

	2021 $000	2020 $000
Sales to related parties	14,442	14,756
Trade receivables from exchange transactions - related parties	5,547	3,681
Purchases from related parties	5,958	4,437
Land rates - Auckland Council	2,581	2,439
Payables accruals - related parties	1,507	4,684

26. Business combination

In the prior year, 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 $3.1 million, depending on the financial performance of Lutra Limited, the ongoing employment of key employees and delivery of software (ID2). The payments will be recognised as an expense by Watercare in the same financial year as these conditions are achieved.

27. Commitments

	2021 $000	2020 $000
Capital expenditure		
The capital expenditure committed to, but not recognised in these financial statements at balance date, was:		
Land and buildings	3,240	2,354
Pipelines	803,091	890,071
Tanks, tunnels, roads and reservoirs	30,769	40,031
Intangibles	3,043	1,675
Other	122,176	34,342
Total capital expenditure commitments	962,319	968,473
Anticipated payment schedule		
Less than one year	422,886	349,400
One to two years	276,118	208,516
Two to five years	259,486	409,273
Beyond five years	3,829	1,284
Total capital expenditure commitments	962,319	968,473

At 30 June 2021 the Central Interceptor Main Works Contract is included within these capital commitments. The above commitments includes capital commitments contracted and approved.

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

The major lease commitments relate to the long-term lease of the office premises in Newmarket, which expires in November 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 (2020: $0.6 million) for the water catchment areas was included in these commitments at face value. Other leases include parks, reservoirs and office equipment.

	2021 $000	2020 $000
Operating leases		
Anticipated payments under non-cancellable operating leases:		
Less than one year	7,400	7,338
One to two years	7,428	7,326
Two to five years	19,277	21,898
Beyond five years	77,140	81,323
Total lease commitments	111,245	117,885

28. Contingencies

There are no contingencies to report at balance date.

29. 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 2021 was $2.9 million (2020: $2.5 million).

Notes to the financial statements (continued)

For the year ended 30 June 2021

30. 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 10 FTE (2020: 9 FTE). The aggregate remuneration received by the key management personnel is shown below:

	2021 $000	2020 $000
Employees' salaries and wages, directors' fees and trustees' fees	4,487	4,240
Post-employment benefits	–	–
Aggregate remuneration	4,487	4,240

Directors' fees	Appointed	2021 $000	2020 $000
Watercare Services Limited			
Margaret Devlin (Chair)	November 2016	101	104
Julia Hoare (retired October 2020)	November 2013	18	65
Nicola Crauford	April 2014	58	60
Brendon Green	November 2016	58	60
David Thomas (retired February 2021)	November 2014	32	52
Hinerangi Raumati-Tu'ua	August 2019	58	50
Frances Valintine	November 2019	50	34
David Chambers	November 2019	58	39
Catherine Harland (resigned Oct 2019)	April 2011	–	21
Graham Darlow	February 2021	18	–
Lutra Limited			
Jason Colton	January 2016	–	–
Rebecca Chenery	February 2020	–	–
Shane Morgan (resigned August 2021)	February 2020	–	–
Total		451	485

Trustees' fees	Appointed	2021 $000	2020 $000
Watercare Utility Consumer Assistance Trust			
Jeff Morrison (Chair)	December 2015	8	8
Maureen Little	October 2011	6	5
Lauren Godsiff	October 2011	6	5
Emily Charlton-Rapana	July 2015	6	4
Total		26	22

31. Events occurring after balance date

Government mandated level four lockdown in August 2021 as a measure against COVID-19. During lockdown level four, Watercare's core business of providing water and wastewater services to Auckland continued. Management will monitor the costs incurred during the level four lockdown to ensure appropriate accounting of these costs. There are no changes to reported numbers as a result of this lockdown. There were no other subsequent events identified.

Statutory information

Employees' remuneration range

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

Employees' remuneration range ($)	2021 Number of employees
100,000 – 110,000	100
110,001 – 120,000	74
120,001 – 130,000	86
130,001 – 140,000	38
140,001 – 150,000	26
150,001 – 160,000	23
160,001 – 170,000	17
170,001 – 180,000	10
180,001 – 190,000	5
190,001 – 200,000	5
200,001 – 210,000	2
210,001 – 220,000	1
220,001 – 230,000	2
230,001 – 240,000	5
240,001 – 250,000	1
250,001 – 260,000	3
260,001 – 270,000	1
270,001 – 280,000	1
280,001 – 290,000	1
310,001 – 320,000	2
320,001 – 330,000	1
340,001 – 350,000	2
410,001 – 420,000	1
430,001 – 440,000	1
500,001 – 510,000	1
870,001 – 880,000	1

2021 Statement of Service Performance

(Non-Financial Performance Measures)

NATURAL ENVIRONMENT

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

a) abatement notices

b) infringement notices

c) enforcement orders

d) convictions

received by Watercare in relation to those resource consents.

(SOI Target 2020/21: 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 2020/21 year.

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

(SOI Target 2020/21: 262 +/- 2.5% – Achieved: 245.6; previous year: 268.6)

Watercare met this target. In 2020/21, the gross per capita consumption of water was 245.63 litres per person per day. Our target for 2020/21 was to maintain consumption within the 262 litres per person per day (+/- 2.5%) band, to meet the overall target of reducing demand by 15% by 2025, based on 2004 levels.

This significant reduction in water consumption is the result of the ongoing behavioural change from residential customers following the restrictions first announced in May 2020, as well as proactive efforts by businesses to reduce their water consumption and implement water-efficient processes and systems.

The challenge for us, as the city's public water supplier, is to collaborate with our customers and communities and embed these behaviours over the long term.

About our methodology: 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 2021 water connection data.

(iii) We will implement mitigation measures in line with our responsibility to keep global warming within 1.5°C.

(SOI Target 2020/21: By June 2021: Complete work on a plan to achieve reductions in operational emissions by 2030, including updating targets in line with Auckland Climate Action Plan (ACAP) – Achieved; new measure)

Watercare met this target. The main focus has been on a decarbonisation pathway to achieve the 2030 targets – the pathway will be used to establish annualised SOI targets. This work plan is the building block for future work and SOI targets.

The pathway has included analysis on the likely increase in emissions that we could experience from population growth and new infrastructure as well as reduction in emissions from our planned and proposed projects.

These known emission reduction opportunities have been identified to develop the pathway and have been divided into key emission areas – energy, travel etc. The emission reduction initiatives will be delivered through the traditional mechanisms of the asset management plan and operational budgets. In addition, investigations are taking place for further reductions and ways of financing these projects.

Watercare has reviewed its operational target in line with Te Tāruke-ā-Tāwhiri: Auckland's Climate Plan which was launched in December 2020 and replaces the previous Auckland Climate Action Plan (ACAP). Through this process Watercare has amended its operational target from a 45% reduction in scope 1 and 2 emissions by 2030 to 50% reduction to ensure alignment. This change has been made in our Statement of Intent 2021–2024 and will be reflected in the review of Watercare's Climate Change Strategy scheduled for 2022. It should be noted that this new target will be very challenging to achieve.

(iv) The average consumption of water per residential connection.

(SOI Target 2020/21: Baseline established – Achieved; new measure)

Watercare met this target. In 2020/21, we undertook work to establish the framework/targets for measuring consumption of water per residential connection as part of our Water Efficiency Plan 2021–2025. The baseline estimated for average water consumption per residential connection for 2020/21 is 504, with a target to reduce it further to 499 in 2021/22.

We will be measuring consumption per connection along with gross per capita consumption as it gives us a clearer indication of where water is lost in the network (rather than focusing only on the total amount of water supplied from our treatment plants). As we gain greater oversight of consumption (and loss) from source to tap, we will be better able to improve our network performance as well as our commercial and residential water efficiency initiatives.

(v) The average consumption of water per non-domestic connection.

(SOI Target 2020/21: 1 March 2021: Baseline established and sector targets published in our next SOI – In progress; new measure)

Watercare is on track to meet this target, which was delivered in September 2021. Water efficiency targets for three commercial sectors (food and beverage, education and Auckland Council) have been identified; the reporting methodology has been defined in a way that is meaningful to improve water efficiency in those sectors.

Actual consumption targets (water used per pupil for schools, and water used per connection for Auckland Council, our largest commercial customer) for 2020/21 will factor into our calculation of numerical water efficiency targets for 2021/22. These targets will take into account the impacts of COVID-19 and drought restrictions on demand in 2020/21 against normal historical consumption patterns in those sectors.

The numerical targets were published in September 2021.

PEOPLE AND CULTURE

(i) We will improve our employee engagement (eNPS).

(SOI Target 2020/21: ≥ 20 – Achieved: 35.00; new measure)

Our eNPS score (a metric used to measure employee satisfaction) was well above our targeted score (35 against a target of 20 or above) and remained relatively stable from 36 in 2019/20 for the company, while showing positive increases for our operations and customer functions.

Two areas that continue to score well are the work environment and culture, and the work itself. Improved opportunities for career development were also cited as a reason to work here. Areas highlighted for improvement include prioritisation of business plan to reduce employee workload, adequately resourcing key functions and better cohesion between various business functions.

(ii) Improve gender workforce split in departments where the split is uneven.

(SOI Target 2020/21: Identify 2020/21 baselines and improve on baseline – Achieved; new measure)

Watercare met this target. The baseline for gender representation within each department was identified and the overall gender representation for Watercare also saw an improvement with an increase in female employees by 9% compared to 2019/20 levels.

Breakdown of employee gender at 30 June 2021

Department	Female	Male
Central Interceptor	55%	45%
Communications	75%	25%
Company Secretary	100%	0%
Customer	52%	48%
Digital	27%	73%
Executive	43%	57%
Finance	52%	48%
Infrastructure	31%	69%
Operations	18%	82%
People	70%	30%

Watercare's Board of Directors has the following gender breakdown: 57% female and 43% male.

Based on the above baseline for gender representation, we will implement appropriate hiring strategies and improve gender representation within departments going forward.

(iii) Attract a more diverse range of applicants to apply for jobs at Watercare.

(SOI Target 2020/21: Identify 2020/21 baselines and improve on baseline – Achieved: 6.4% Māori/Pasifika total applicants; new measure)

We have reviewed recruitment data to gather insights on our hiring process and attract a broader range of applicants and ultimately increase representation.

In 2020/21, 6.4% of total applicants identified as Māori/Pasifika. We have established this as the baseline for applicant diversity. Now that we have the ability to capture and analyse applicant data, we will use this to implement appropriate hiring strategies and improve the level of diversity.

CUSTOMER AND STAKEHOLDER RELATIONSHIPS

(i) Net promoter score

(SOI Target 2020/21: > 38 Achieved: 46; 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 via our website. Our NPS has increased this year to 46, from 43 in 2019/20.

Our ongoing focus on embedding extreme accountability for customer outcomes among all customer-facing-employees including contractors Citycare and Downer, is making a difference. Improved first-call resolution, prompt attendance to leaks and servicing customers through their channels of choice have reduced overall contacts to our front-line by 9%, compared to 2019/20.

(ii) We contribute to the delivery of Māori outcomes and deliver on the joint outcomes agreed by Council and CCOs.

(SOI Target 2020/21: = At least one kōrero with each of the 19 iwi every year and work with them to develop meaningful measures for Māori outcomes; result: Not Achieved; new measure)

Watercare did not meet this target. We met with 13 iwi groups at least once in 2020/21. While we continue to meet with many iwi entities on a one-on-one basis, our performance against this measure is also heavily influenced by iwi priorities and their varying levels of interest in meeting with us. Our main focus is on working together as partners to develop meaningful measures for Māori outcomes rather than merely achieving a target for meetings.

(iii) The extent to which Watercare's Drinking Water Supply complies with part 4 of the Drinking Water Standards (Bacterial Compliance Criteria).

(SOI Target 2020/21: 100% – Achieved: 100%; previous year: 100%)

Watercare met this target. Watercare continued to demonstrate 100% compliance with Drinking Water Standards of 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 and the annual report on Drinking Water Quality.

(iv) The extent to which Watercare's Drinking Water Supply complies with part 5 of the drinking water standards (Protozoal Compliance Criteria).

(SOI Target 2020/21: 100% – Achieved: 100%; previous year: 100%)

Watercare met this target. Watercare continue to demonstrate 100% compliance with Drinking Water Standards of 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

2021 Statement of Service Performance (continued)

(Non-Financial Performance Measures)

are independently assessed by a Ministry of Health-appointed drinking water assessor and published on the Drinking Water Online website and the annual report on Drinking Water Quality.

(v) 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 2020/21: ≤ 60 mins – Achieved: 56 mins; previous year: 50 mins)

Watercare met this target. The median response time for our maintenance crew to attend to urgent issues was 56 minutes, which is within the target of 60 minutes or less.

(vi) 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 2020/21: ≤ 5 hours – Achieved: 2.8 hours; previous year: 2.9 hours)

Watercare met this target. The median response time for our maintenance crews to resolve urgent issues such as faults or interruptions was 2.8 hours, which is within the target of 5 hours or less.

(vii) 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 2020/21: ≤ 5 days – Achieved: 1.0 day; previous year: 1.7 days)

Watercare met this target. The median response time for our maintenance crews to attend to non-urgent water issues was 1.0 days, which met the target of 5 days or fewer.

(viii) 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 2020/21: ≤ 6 days – Achieved: 1.3 days; previous year: 2.1 days)

Watercare met this target. The median response time for our maintenance crews to resolve non-urgent issues was 1.3 days, which is well within the target of 6 days or fewer.

(ix) 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 2020/21: ≤ 10 – Achieved: 9.0 previous year: 7.2)

Watercare met this target. This measure relates to the volume of calls we received regarding water quality and supply issues for the year ended 30 June 2021. The number of complaints received per 1000 connections was 9.0, which meets the target of 10 or fewer.

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

(SOI Target 2020/21: ≤ 60 mins – Achieved: 51 mins; previous year: 43 mins)

Watercare met this target. The median response time for our maintenance crews to attend to wastewater overflows or blockages was 51 minutes, which is within the target of 60 minutes or less.

(xi) 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 2020/21: ≤ 5 hours – Achieved: 2.5 hours; previous year: 2.4 hours)

Watercare met this target. The median response time for our maintenance crew to resolve wastewater overflows or blockages was 2.5 hours, which is within the target of 5 hours or less.

(xii) 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 2020/21: ≤ 50 – Achieved: 29.5; previous year: 20.1)

Watercare met this target. This measure relates to the volume of calls we received about wastewater odours, overflows, broken pipes and other network issues for the year ended 30 June 2021. The number of complaints received per 1000 connections was 29.5, which is well within the target of 50 or fewer.

ASSETS AND INFRASTRUCTURE

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

(SOI Target 2020/21: ≤ 13% – Not achieved: 13.7%; previous year: 13.2%)

Watercare did not meet this target, with water loss result (13.7%) exceeding 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 toilet 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 again reporting real water loss percentages for the period February 2020 to January 2021, to show the consumption patterns following on from the last reporting period (February 2019 to January 2020).

It must be noted that the reported real water loss percentage is not an accurate representation of our performance; the result reflects the proportion of water loss rather than the actual volume of water loss. If the overall demand is low (as it was, due to COVID-19 lockdowns and water use restrictions), conversely the proportion of real losses increases while the overall volumes stay relatively similar.

While leaks are unavoidable for all water networks around the world, we have been proactively working on reducing water loss through early detection and fixing of leaks. In 2020/21, we have:

- swept 5400km of water pipes out of a planned 6000km, proactively checking for leaks
- saved 9.1MLD that would have been lost to leaks
- replaced 30,000 domestic water meters as part of a planned replacement programme, to ensure accurate meter readings of consumption
- installed about 1100 smart meters for commercial customers to provide real-time information on water consumption and leaks.

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

(SOI Target 2020/21: ≤ 5 – Achieved: 0.86; previous year: 0.55)

Watercare met this target. The number of wastewater overflows from our network during dry weather is a measure of the network's capability to meet current demand. The result for the year was 0.86 dry-weather overflows per 1000 connections, which is well under the target of 5 or fewer.

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

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

(SOI Target 2020/21: ≤ 2 overflows per year – Achieved: 0.5; previous year: 1.5)

Watercare met this target. The number of wet-weather overflows for the transmission network (bulk mains) per number of discharge locations was 0.5, which is within the target of 2 or fewer overflows.

(iv) We will develop and use talent, processes and technologies to manage non-revenue water and ensure optimal supply efficiency.

(SOI Target 2020/21: Establish baseline and demonstrate continuous improvements on previous year; result: Achieved; new measure)

Watercare has met this target. Watercare has developed the appropriate talent, processes and technology to manage non-revenue water effectively. As part of this, a dedicated team of specialists is in place and reviewing the economic level of leakage (ELL), in conjunction with external consultants. ELL is the level of leakage beyond which the cost to reduce leakage outweighs its financial benefit. We have already developed a series of targets involving leak detection, district metered area construction, pressure management, meter replacements and asset renewals needed to bring non-revenue water within an economic level.

Our progress on these initiatives in 2020/21 includes:

- 5400km swept for leak detection out of a planned 6000km
- 9.1MLD saved from proactive leak detection
- 30,000 domestic meters replaced, meeting the target of planned replacements
- 1100 commercial customer smart meters installed out of a planned 2000 – installation of these smart meters was delayed and only commenced in February 2021 (instead of December 2020 as planned) due to supply chain delays caused by COVID-19.

We have reviewed and refined the methodology to monitor ELL which was released in August 2021.

INTELLECTUAL CAPITAL

(i) Establish and implement an Infrastructure Carbon Portal and corresponding toolkit to assess ways to reduce carbon emissions during the construction of water and wastewater assets.

(SOI Target 2020/21: Deliver and implement portal and toolkit. For the Enterprise Model, monitor and report on the target of a 40% reduction post 2024; result: Achieved; new measure)

Watercare has launched a carbon portal to provide insights into estimated carbon emissions for Watercare's capital works programme under the Enterprise Model. New insights and data are being added to the portal through internal and external feedback sessions. There are now 99 users across the business with access to the carbon portal.

(ii) Establish and implement an Infrastructure Cost toolkit across the programme and project to deliver new ways to reduce costs during the construction of water and wastewater assets.

(SOI Target 2020/21: Deliver and implement portal and toolkit. For the Enterprise Model, monitor and report on the target of a 20% reduction post 2024; result: Achieved; new measure)

An Enterprise Model toolkit has been developed. Recent tools added to the toolkit include a project scorecard and value-capture process to measure, capture and share performance and 40:20:20 ideas/progress.

FINANCIAL CAPITAL AND RESOURCES

(i) Percentage of household expenditure on water supply services relative to the average household income.

(SOI Target 2020/21: ≤ 1.5 % – Achieved: 0.84%; new measure)

In 2020/21, an average Auckland household* (comprising three people) spent less than 1% (0.84%) of its monthly income on water and wastewater charges.

* Average income for Auckland based on Statistics NZ data.

(ii) Watercare group's debt headroom

(SOI Target 2020/21: Set measure in conjunction with Auckland council and establish baseline of 3.54 or lower – Achieved: 2.89; new measure)

Watercare met this target. Debt headroom is the amount that Watercare can borrow in proportion to its revenue/assets. The baseline set for 2020/21 is 3.54 or lower. Any result below this number indicates there is positive headroom; our ratio for 2020/21 was 2.89, due to increased revenue from Infrastructure Growth Charges, new connections and wastewater charges.

Deloitte.

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

Report on sustainability content within the 2021 Annual Report

Watercare Services Limited Group's Annual Report for the year ended 30 June 2021 (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 127 to 130.

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 72 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 2021.

Emphasis of matter

Without modifying our opinion, we draw attention to note 4 on page 90 to the financial statements, which outlines the Government's proposed Three Waters Reform programme. The likely outcome and impact on the Company is currently uncertain because no decisions have been made on how to progress the reforms announced by the Government on 30 June 2021 and updated on 27 October 2021 (refer page 68 of the Annual Report).

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 Group'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 Group in the areas of Central Interceptor project assurance services, real water loss process assurance related work, probity services, administrative services provided to the Corporate Taxpayers Group of which Watercare is a member, and limited assurance on selected non-financial information, which are compatible with those independence requirements.

In addition, principals and employees of our firm deal with Watercare Services Limited Group 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.

Assurance Report (continued)

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 Group.

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 Group'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 Group 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 Group for our work, for this assurance report, or for the conclusions we have reached.

Deloitte Limited

29 October 2021
Auckland, New Zealand

GRI Index

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.31 Reporting Scope p.Inside Cover Financials (Note 13) p.107 Natural environment p.22
102-8	People and culture p.31, includes all staff under employment by Watercare.
102-9	Financial and capital resources p.53-54
102-10	Chair and chief executive's report p.8-11 No significant supply chain changes during the year.
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.8-11
Ethics and integrity	
102-16	Governance p.63
Governance	
102-18	Leadership and Governance p.62-64
Stakeholder engagement	
102-40	Stakeholder and Materiality p.72 Stakeholders include shareholder representatives, environmental groups, community groups, customers, staff, suppliers and business partners.
102-41	People and culture p.31
102-42	Stakeholder and Materiality p.72
102-43	Stakeholder and Materiality p.72
102-44	Stakeholder and Materiality p.72
Reporting practice	
102-45	Refer Financials p.75-124
102-46	Reporting Scope p.Inside Cover Stakeholder and Materiality p.72
102-47	Reporting Scope p.Inside Cover Stakeholder and Materiality p.72 Chair and chief executives report p.8-11 GRI Index p.127-130
102-48	Disclosed throughout the report where relevant
102-49	Stakeholder and Materiality p.72
102-50	1 July 2020 to 30 June 2021
102-51	October 2020
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.127-130
102-56	Annual report Assurance statements p.80-81, p.125-126
Material Topics	
103-1	Material topics have been selected as a result of Our value creation model p.6-7 and engagement with stakeholders Stakeholder and Materiality p.72
103-3	Delivering Our Strategy p.15-55
Category: Economic	
GRI 201: Economic performance 2016	
103-2	Financial capital and resources p.51, 53 Stakeholder and Materiality p.72
201-1	Financial capital and resources p.53 Financials p.75-124
201-2	Chair and chief executives report p.8-11 Enterprise Risk Management p.65-68 Financial capital and resources p.50 Climate Change p.24 Natural environment p.18-20 https://www.watercare.co.nz/About-us/Information-Hub/Future-planning-hub https://www.aucklandcouncil.govt.nz/plans-projects-policies-reports-bylaws/our-annual-reports/Pages/current-annual-report.aspx - Climate Change Risk Volume 4, p26-28
201-4	Financials p.107
GRI 203: Indirect economic impacts 2016	
103-2	Assets and infrastructure p.42-45 Financial capital and resources p.50-51 Stakeholder and Materiality p.72
203-1	Chair and chief executives report p.8-11 Natural environment p.18-21 Customer and Stakeholder Relationships p.36-37 Assets and infrastructure p.42-43 Financial capital and resources p.50-51 Reporting Scope p.Inside Cover Our operations and infrastructure projects have the potential to impact customers and communities in minor and major ways (noise, odour, traffic management, land purchase etc). We have a structured process of engagement, specifically with those impacted and the broader community/suburb before, during and after these works through a range of channels including face-to-face, written and cascaded through local boards and associations.
Category: Environmental	
GRI 302: Energy 2016	
103-2	Natural environment p.21, 25-26 Stakeholder and Materiality p.72
302-1	Natural environment p.26
GRI 303: Water 2018	
103-2	Chair and chief executives report p.10-11 Natural environment p.18 Customer and Stakeholder Relationships p.36-38 Stakeholder and Materiality p.72
303-1	Natural environment p.19, 22 Customer and Stakeholder Relationships p.37 Enterprise Risk Management p. 65-66
303-2	Natural environment p.19, 22-23 https://www.watercare.co.nz/Water-and-wastewater/Wastewater-collection-and-treatment
303-3	Natural environment p.22 By definition nothing in New Zealand is under stress based on WRI Aqueduct Water Risk Atlas GRI-303-3 (c) is not deemed material for disclosure.

303-5	Natural environment p.22 Statement of service performance p.121 By definition nothing in New Zealand is under stress based on WRI Aqueduct Water Risk Atlas GRI-303-3 (c) is not deemed material for disclosure.
GRI 304: Biodiversity 2016	
103-2	Natural environment p.19, 22-23 Stakeholder and Materiality p.72
304-1	Natural environment p.23
GRI 305: Emissions 2016	
103-2	Natural environment p.24 Stakeholder and Materiality p.72
305-1	Natural environment p.22, 24-25
305-2	Natural environment p.24-25
305-3	Natural environment p.24-25
GRI 307: Environmental compliance 2016	
103-2	Natural environment p.27 Stakeholder and Materiality p.72
307-1	Statement of service performance p.121-124 Natural environment p.27
Category: Social	
GRI 401: Employment 2016	
103-2	People and culture p.28-30 Stakeholder and Materiality p.72
401-1	People and culture p.31, 33 Stakeholder and Materiality p.72
401-3	People and culture p.33
GRI 403: Occupational health and safety 2018	(Occupational health services, non-occupational health services and promotional health services are not available for third party contractors. Third Party contractors are not part of the formal health and safety committees at Watercare.) However we consult, collaborate and cooperate to ensure worker safety on all Watercare sites.
103-2	Chair and chief executives report p.8-11, People and culture p.29, 34 Stakeholder and Materiality p.72
403-1	People and culture p.34 Stakeholder and Materiality p.72 Enterprise Risk Management p. 65-68 As per legal requirement, all OHS systems have been implemented and externally audited during the financial year by Telarc and ACC. To AS/NZS 4801:2001 and Watercare has accreditation for two years. Watercare is also in the process of upgrading our systems to ISO 45001.
403-2	People and culture p.29, 34 (partially reported to this GRI Standard) Watercare uses a variety of ways to keep workers safe including the elimination, substitution, isolation of hazards; influencing and promoting behaviours of workers and lastly the provision of personal protection equipment. Watercare also has policies such as an independently operated Whistle-blower policy for workers to use and stop work policies.
403-3	People and culture p.29, 30, 32, 34
403-4	People and culture p.34 HS&W Committee meetings are held on sites monthly.
403-5	People and culture p.34. Watercare has a comprehensive H&S Training plan delivered by externally accredited trainers and by other internal and external training. These include generic H&S trainings such as first-aid and induction for sites and hazard specific trainings for critical risks such as confined spaces, working at height, etc.
403-6	People and culture p.34. Watercare provides a comprehensive health and wellness promotion services such as Employee assistance via OCP and Vaccinations and Wellness support.
403-7	People and culture p.29, 34. Watercare prioritises the heath and safety of all workers both internal and external, including customers and communities.

403-9	People and culture p.34 Watercare uses a variety of ways to keep workers safe including the elimination, substitution, isolation of hazards; influencing and promoting behaviours of workers and lastly the provision of personal protection equipment. Watercare has identified critical risks and has comprehensive risk management in place. Employees – 2,115,834 hours (partially report to this GRI standard)
GRI 404: Training and education 2016	
103-2	People and culture p.29, 32 Stakeholder and Materiality p.72
404-2	People and culture p.29 Intellectual capital p.46-47 In addition to this employees continue to have access to Surf, Immerse, and Connexis for their professional development, learning and upgrading of skills
404-3	People and culture p.33 A new performance review platform was introduced in 2020, replacing E3. The introduction of the new system in FY20 coupled with the four-point rating scale is believed to have impacted the percentage of employees rated in a performance review in FY20.
GRI 405: Diversity and equal opportunity 2016	
103-2	People and culture p.32 Stakeholder and Materiality p.72
405-1	Leadership and Governance p.60-61 People and culture p.31-32 (partially reported to this GRI Standard)
GRI 413: Local communities 2016	
103-2	Reporting Scope p.Inside Cover, People and culture p. 38 Stakeholder and Materiality p.72 GRI Index p.127-130, 413-1
413-1	Stakeholder and Materiality p.72 Chair and chief executives report p.8-11 Customer and stakeholder relationships p.36-38 Environmental Advisory Group p.69 Mana Whenua Kaitiaki Forum p.70-71 Local boards provide governance at the local level within Auckland Council. They enable democratic decision making by, and on behalf of communities within the local board area. There are 21 local boards with between five and nine members elected to each board. Watercare operate 95% engagement across the local boards. https://www.watercare.co.nz/About-us/Information-Hub/Community-engagement-hub
413-2	Chair and chief executives report p.8-11, Customer and stakeholder relationships p.36-38 Assets and infrastructure p.42-45 Link to Watercares projects: https://www.watercare.co.nz/About-us/Projects-around-Auckland GRI Index p.127-130, 203-1
GRI 416: Customer health and safety 2016	
103-2	Chair and chief executives report p.8-11, Customer and stakeholder relationships p.39
416-1	Chair and chief executives report p.8-11, Customer and stakeholder relationships p.39
416-2	Statement of service performance p.121-124 Natural environment p.27
GRI 419: Socioeconomic compliance 2016	
103-2	Natural environment p.27 People & Culture p.34 Financial capital and resources p.50-51 Statement of service performance p.121-124
419-1	No non-compliance reported

Our Value Creation Model: full list of inputs and outcomes

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.

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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.

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