OUR FINANCIALS

These financial statements and the statement of service performance for Watercare Services Limited were approved and authorised for release for the year ended 30 June 2019.

Contents

Historical financial summary and key statistics

AS AT 30 JUNE

	2015	2016	2017	2018	2019
	$000	$000	$000	$000	$000
Financial Performance					
Total revenue	520,407	570,429	631,009	641,586	715,177
Operating expenses	204,572	209,894	213,480	217,625	226,484
Depreciation and amortisation	208,739	216,250	228,124	219,979	245,822
Finance costs	73,992	77,684	80,768	82,110	66,489
Total expenses	487,303	503,828	522,372	519,714	538,795
Operating surplus from trading operations	33,104	66,601	108,637	121,872	176,382
Net loss on disposal of and provision for redundant property, plant and equipment, and restructuring costs	(11,052)	(10,968)	(9,334)	(8,488)	(13,216)
Net (loss) / gain on revaluation of derivative financial instruments	(88,644)	(137,600)	87,546	(20,808)	–
Operating surplus / (deficit) before tax	(66,592)	(81,967)	186,849	92,576	163,166
Income tax (expense) / benefit	11,236	14,780	(62,163)	(38,145)	(55,547)
Net surplus / (deficit) after tax	(55,356)	(67,187)	124,686	54,431	107,619
Financial Position					
Current assets	79,692	80,857	82,621	94,761	120,528
Non-current assets	8,605,062	8,739,757	8,862,924	9,992,051	10,271,797
Total assets	8,684,754	8,820,614	8,945,545	10,086,812	10,392,325
Current liabilities	320,837	504,561	360,715	482,209	175,330
Non-current liabilities	2,488,916	2,482,163	2,626,254	2,855,681	3,142,756
Total liabilities	2,809,753	2,986,724	2,986,969	3,337,890	3,318,086
Total equity	5,875,001	5,833,890	5,958,576	6,748,922	7,074,239
Cash Flow					
Net cash inflows – operating activities	224,712	247,754	275,508	316,761	420,964
Net cash outflows – investing activities	(285,494)	(311,593)	(302,111)	(326,223)	(387,861)
Net cash inflows – financing activities	63,487	60,456	27,563	8,425	(30,553)
Net change in cash flows	2,705	(3,383)	960	(1,037)	2,550
Key Statistics					
Property, plant and equipment	8,528,217	8,654,122	8,777,049	9,913,765	10,163,169
Capital expenditure	286,913	296,101	301,632	342,426	448,005
Net debt	1,513,996	1,577,571	1,603,895	1,613,065	1,696,942
Increase in net debt	60,532	63,575	26,324	9,170	83,877
Increase in net debt to capex	22%	21%	9%	3%	19%
EBITDA to interest expense ratio	4.00	4.23	4.41	4.78	6.39
Funds flow from operations to interest ratio	3.40	3.70	3.94	4.19	4.93
Funds flow from operations to average net debt	20%	21%	22%	24%	26%
Number (headcount) of permanent employees	817	861	909	908	984

	2019 ACTUAL $000	2018 ACTUAL $000	2019 BUDGET $000	VARIANCE TO BUDGET	RESULT
Revenue	715,177	641,586	651,040	64,137	✓
Operating expenses	(226,484)	(217,625)	(218,922)	(7,562)	✗
Depreciation and amortisation	(245,822)	(219,979)	(252,300)	6,478	✓
Finance costs	(66,489)	(82,110)	(77,674)	11,185	✓
Total expenses	(538,795)	(519,714)	(548,896)	10,101	✓
Operating surplus from trading operations	176,382	121,872	102,144	74,238	✓
Net loss on disposal of and provision for redundant property, plant and equipment, and restructuring costs	(13,216)	(8,488)	(8,000)	(5,216)	✗
Net (loss) / gain on revaluation of derivative financial instruments	–	(20,808)	–	–	–
Operating surplus before tax	163,166	92,576	94,144	69,022	✓
Income tax expense	(55,547)	(38,145)	(38,549)	(16,998)	✗
Net surplus for the year	107,619	54,431	55,595	52,024	✓
Gain on revaluation of property, plant and equipment	–	735,915	–	–	–
Total comprehensive revenue and expense for the year, net of tax	107,619	790,346	55,595	52,024	✓

Key points

- Watercare's total revenue of $715.2 million exceeded the budget by $64.1 million. A hot summer and excess demand was largely responsible for the $7.6 million increase in water and wastewater revenue, whilst non-cash vested asset revenue contributed $42.1 million to this favourable variance. The infrastructure growth charge added $8.0 million revenue, reflecting the increased growth in the Auckland region.
- Operating costs were $7.6 million higher than budget. This was primarily due to Maintenance costs being $6.7 million being higher than budget due to unforeseen unplanned maintenance required on infrastructure assets and additional costs associated with higher than budgeted production demand.
- Finance costs were $11.2 million lower than budget due to lower spend on capital expenditure projects and a lower cost of funds than what was budgeted.
- Depreciation and amortisation was $6.5 million lower than budget. This was due to the budget assuming higher depreciation from asset capitalisations during the year.
- The company reports an operating surplus of $176.4 million compared with a budgeted operating surplus of $102.1 million, a favourable variance of $74.3 million. Both business units are reporting an operating surplus from trading operations being $46.3 million for water and $130.1 million for wastewater.
- The reported operating surplus from trading operations was prior to a non-cash loss on disposal of property, plant and equipment and restructuring costs of $13.2 million. This was $5.2 million higher than budget primarily due to the increase in new developments, where existing retail assets were disposed and replaced with vested assets.
- The resulting net surplus after tax of $107.6 million was compared with a budgeted net surplus of $55.6 million. (2018: net surplus after tax of $54.4 million).
- Total assets of the company have increased from $10.1 billion to $10.4 billion during the last year, reflecting the company's continued investment in new infrastructure assets.
- Net debt increased by $83.9 million during the year. Debt is used to fund capital expenditure that is directed at improving the quality of services provided by Watercare and service the effects of population and construction growth in Auckland.

Financial Statements

We have ensured that the financial statements fairly reflect the financial position of the company as at 30 June 2019 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 2019.

These financial statements and the statement of service performance for Watercare Services Limited for the year ended 30 June 2019 were approved and authorised for release on 30 August 2019.

For and on behalf of management:

R P Jaduram
Chief Executive

M A Bridge
Chief Financial Officer

For and on behalf of the Board of Directors:

M P Devlin
Chair

J C Hoare
Deputy Chair

Deloitte.

TO THE READERS OF WATERCARE SERVICES LIMITED GROUP'S FINANCIAL STATEMENTS AND STATEMENT OF SERVICE PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2019

The Auditor-General is the auditor of Watercare Services Limited (the Group). The Auditor-General has appointed me, Andrew Burgess, 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 64 to 103 that comprise the Statement of Financial Position as at 30 June 2019, 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 104 to 106

In our opinion:

- the financial statements of the Group on pages 64 to 103:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2019; 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 104 to 106 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 2019.

Our audit was completed on 30 August 2019. 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.

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.

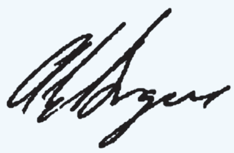
In connection with our audit of the financial statements and the statement of service performance, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the statement of service performance 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 taxation services, cyber and security risk advisory, probity services and limited assurance on selected non-financial information which are compatible with those independence requirements. In addition to these assignments, principals and employees of our firm deal with the Group on normal terms within the ordinary course of trading activities of the Group. These assignments and trading activities have not impaired our independence as auditor of the Group.

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



Andrew Burgess

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

Statement of comprehensive revenue and expense

FOR THE YEAR ENDED 30 JUNE 2019

	NOTES	2019 ACTUAL $000	2018 ACTUAL $000	2019 BUDGET $000
Revenue	NOTE 12, PAGE 89	715,177	641,586	651,040
Total revenue		715,177	641,586	651,040
Operating expenses				
Asset operating costs		(59,172)	(56,914)	(60,573)
Maintenance costs		(47,983)	(43,979)	(41,234)
Employee benefit expenses		(66,814)	(68,430)	(73,157)
Other expenses		(52,515)	(48,302)	(43,958)
Total operating expenses	NOTE 13, PAGE 91	(226,484)	(217,625)	(218,922)
Depreciation	NOTE 4, PAGE 74	(240,089)	(212,656)	(248,052)
Amortisation	NOTE 7, PAGE 80	(5,733)	(7,323)	(4,248)
Finance costs	NOTE 9, PAGE 83	(66,489)	(82,110)	(77,674)
Total expenses		(538,795)	(519,714)	(548,896)
Operating surplus from trading operations		176,382	121,872	102,144
Net loss on disposal of property, plant and equipment, and restructuring costs		(13,216)	(8,488)	(8,000)
Net (loss) / gain on revaluation of derivative financial instruments	NOTE 11, PAGE 89	–	(20,808)	–
Operating surplus before tax		163,166	92,576	94,144
Income tax expense	NOTE 15, PAGE 93	(55,547)	(38,145)	(38,549)
Net surplus for the year		107,619	54,431	55,595
Other comprehensive revenue and expense net of tax				
Gain on revaluation of property, plant and equipment	NOTE 6, PAGE 79	–	735,915	–
Other comprehensive revenue and expense for the year, net of tax		–	735,915	–
Total comprehensive revenue and expense for the year attributable to owners of the parent, net of tax		107,619	790,346	55,595

The financial statements should be read in conjunction with the notes on pages 68 to 102 inclusive.

Statement of financial position

AS AT 30 JUNE 2019

	NOTES	2019 ACTUAL $000	2018 ACTUAL $000	2019 BUDGET $000
Assets				
Current				
Cash and cash equivalents		2,058	126	–
Trade and other receivables from exchange transactions	NOTE 17, PAGE 95	82,128	71,843	68,283
Inventories	NOTE 18, PAGE 95	18,547	10,898	9,991
Prepaid expenses	NOTE 20, PAGE 96	14,611	2,778	1,954
Derivative financial instruments	NOTE 10, PAGE 83	–	9,116	–
Other financial assets	NOTE 21, PAGE 97	3,184	–	–
Total current assets		120,528	94,761	80,228
Non-current				
Property, plant and equipment	NOTE 4, PAGE 74	10,163,169	9,913,765	9,810,430
Intangible assets	NOTE 7, PAGE 80	46,447	43,289	83,067
Inventories	NOTE 18, PAGE 95	8,158	11,153	7,143
Prepaid expenses	NOTE 20, PAGE 96	28,698	23,844	22,552
Other financial assets	NOTE 21, PAGE 97	25,325	–	–
Total non-current assets		10,271,797	9,992,051	9,923,192
Total assets		10,392,325	10,086,812	10,003,420
Liabilities				
Current				
Bank overdraft		–	618	–
Borrowings	NOTE 8, PAGE 81	–	143,088	394
Derivative financial instruments	NOTE 10, PAGE 83	–	226,008	–
Trade and other payables for exchange transactions	NOTE 19, PAGE 96	18,017	16,637	19,930
Accrued expenses	NOTE 22, PAGE 97	146,358	84,783	74,847
Provisions	NOTE 23, PAGE 98	10,955	11,075	8,799
Total current liabilities		175,330	482,209	103,970
Non-current				
Borrowings	NOTE 8, PAGE 81	1,699,000	1,469,485	1,758,526
Deferred tax liability	NOTE 16, PAGE 94	1,418,091	1,362,544	1,336,139
Trade and other payables for exchange transactions	NOTE 19, PAGE 96	2,210	1,579	–
Accrued expenses	NOTE 22, PAGE 97	14,486	14,842	14,109
Provisions	NOTE 23, PAGE 98	8,969	7,231	7,718
Total non-current liabilities		3,142,756	2,855,681	3,116,492
Total liabilities		3,318,086	3,337,890	3,220,462
Equity attributable to owners of the parent				
Retained earnings		4,248,443	3,917,524	4,184,684
Revaluation reserves	NOTE 6, PAGE 79	2,565,103	2,570,705	2,337,581
Issued capital	NOTE 24, PAGE 99	260,693	260,693	260,693
Total equity		7,074,239	6,748,922	6,782,958
Total equity and liabilities		10,392,325	10,086,812	10,003,420

The financial statements should be read in conjunction with the notes on pages 68 to 102 inclusive.

Statement of cash flows

FOR THE YEAR ENDED 30 JUNE 2019

	NOTES	2019 ACTUAL $000	2018 ACTUAL $000	2019 BUDGET $000
Operating activities				
Cash was provided from:				
Receipts from customers		649,931	610,372	624,982
Dividends received		123	113	110
Interest received		488	10	–
Subvention receipt	NOTE 15, PAGE 93	5,920	6,671	6,174
		656,462	617,166	631,266
Cash was applied to:				
Employees and suppliers		(231,928)	(218,015)	(217,683)
Finance costs paid		(3,570)	(82,390)	(2,827)
		(235,498)	(300,405)	(220,510)
Net cash inflows – operating activities	NOTE 14, PAGE 92	420,964	316,761	410,756
Investing activities				
Cash was provided from:				
Sale of property, plant and equipment, and intangibles		8,063	9,115	–
		8,063	9,115	–
Cash was applied to:				
Purchase and construction of property, plant and equipment, and intangibles		(395,924)	(323,855)	(461,018)
Interest capitalised on construction of property, plant and equipment, and intangibles		–	(11,483)	–
		(395,924)	(335,338)	(461,018)
Net cash outflows – investing activities		(387,861)	(326,223)	(461,018)
Financing activities				
Cash was provided from:				
Proceeds from Auckland Council loans – related party	NOTE 24, PAGE 99	625,854	250,000	197,779
		625,854	250,000	197,779
Cash was applied to:				
Repay commercial paper (net)		–	(149,236)	–
Repay revolving credit facility (net)		(16,500)	(11,500)	(16,500)
Issued term loans		(30,000)	–	–
Repay medium-term notes issue		(125,000)	–	(125,000)
Repay loans from Auckland Council – related party		(484,907)	(80,839)	(6,017)
		(656,407)	(241,575)	(147,517)
Net cash (outflows) / inflows – financing activities		(30,553)	8,425	50,262
Net change in cash flows		2,550	(1,037)	–
Cash and cash equivalents / (overdraft) at the beginning of the year		(492)	545	–
Cash and cash equivalents / (overdraft) at the end of the year		2,058	(492)	–
Cash and cash equivalents comprises:				
Bank balances / (overdraft)		2,058	(492)	–
		2,058	(492)	–

The financial statements should be read in conjunction with the notes on pages 68 to 102 inclusive.

Statement of changes in equity

FOR THE YEAR ENDED 30 JUNE 2019

	NOTES	RETAINED EARNINGS $000	REVALUATION RESERVES $000	ISSUED CAPITAL $000	TOTAL $000
Balance at 1 July 2017		3,867,688	1,830,195	260,693	5,958,576
Comprehensive revenue and expense					
Net surplus for the year		54,431	–	–	54,431
Other comprehensive revenue and expense					
Novation of interest rate swaps and options to Auckland Council		–	–	–	–
Close out of interest rate swaps novated to Auckland Council		–	–	–	–
Gain on revaluation of property, plant and equipment	NOTE 6, PAGE 79	–	735,915	–	735,915
Transfer between reserves on disposal of property, plant and equipment	NOTE 6, PAGE 79	(4,595)	4,595	–	–
Total comprehensive revenue and expense for the year, net of tax		49,836	740,510	–	790,346
Balance at 30 June 2018		3,917,524	2,570,705	260,693	6,748,922

	NOTES	RETAINED EARNINGS $000	REVALUATION RESERVES $000	ISSUED CAPITAL $000	TOTAL $000
Balance at 1 July 2018		3,917,524	2,570,705	260,693	6,748,922
Comprehensive revenue and expense					
Net surplus for the year		107,619	–	–	107,619
Other comprehensive revenue and expense					
Novation of interest rate swaps and options to Auckland Council	NOTE 10, PAGE 83	216,892	–	–	216,892
Close out of interest rate swaps novated to Auckland Council	NOTE 24, PAGE 99	806	–	–	806
Gain on revaluation of property, plant and equipment	NOTE 6, PAGE 79	–	–	–	–
Transfer between reserves on disposal of property, plant and equipment	NOTE 6, PAGE 79	5,602	(5,602)	–	–
Total comprehensive revenue and expense for the year, net of tax		330,919	(5,602)	–	325,317
Balance at 30 June 2019		4,248,443	2,565,103	260,693	7,074,239

The financial statements should be read in conjunction with the notes on pages 68 to 102 inclusive.

1. Reporting entity and basis of preparation

Reporting entity

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

Watercare's primary objective is to manage its operations efficiently with a view to providing water and wastewater services at a minimum cost to the Auckland region (except Papakura district, which has been franchised to Veolia Water Services (ANZ) Pty Limited), and bulk wastewater services to parts of the Waikato region. Watercare, by legislation, must manage its operations efficiently to keep overall costs to its customers at minimum levels and is restricted from paying dividends to its shareholder. Any financial return is reinvested back into the business or used to repay debt.

Watercare's operations are 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, and the accounting policies have been applied consistently throughout the period. 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 25 June 2018. 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 4, page 74
- Unbilled revenue estimate, note 12, page 89
- Provisions, note 23, page 98

Implementation of new and amended standards

Early adoption of PBE International Financial Reporting Standard (IFRS) 9 Financial instruments

The group has early-adopted all of the requirements of PBE IFRS 9 Financial instruments as of 1 July 2018. PBE IFRS 9 supersedes part of PBE International Public Sector Accounting Standard (IPSAS) 29 Financial Instruments: Recognition and Measurement.

PBE IFRS 9 includes two areas of change that are related to the group:

- classification and measurement of financial instruments; and
- a single, forward-looking, 'expected credit loss' impairment model

Classification and measurement of financial instruments

The group classifies its financial instruments in the following categories:

- at fair value through surplus or deficit (FVTSD);
- at fair value through other comprehensive revenue and expenditure (FVTOCRE); or
- at amortised cost.

The group determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the group's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading (including all equity derivative instruments) are classified as FVTSD. For other equity instruments, on the day of acquisition the group can make an irrevocable election (on an instrument-by-instrument basis) to designate them as FVTOCRE.

Financial liabilities are measured at amortised cost, unless they are required to be measured at FVTSD (such as instruments held for trading or derivatives) or the group has opted to measure them at FVTSD.

The group completed a detailed assessment of its financial assets and liabilities as at 1 July 2018.

The requirements of PBE IPSAS 29 for classification and measurement of financial liabilities were carried forward in PBE IFRS 9, so the group's accounting policy with respect to financial liabilities is unchanged. There was no material impact arising as a result of remeasurement of financial assets that have been classified differently under PBE IFRS 9. The group has elected not to restate the comparatives to comply with PBE IFRS 9.

New impairment model

PBE IFRS 9 prescribes an 'expected credit loss' model instead of a previous incurred loss model, so it is no longer necessary for a trigger event to have occurred before recognising credit losses. NZ IFRS 9 requires the group to base the measurement of expected credit losses 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. The cumulative impact of the change has not been adjusted through opening accumulated funds, as the financial effects are not material. Refer to note 17 page 95 for further information.

PBE Standards on Interests in Other Entities

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

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

Management's preliminary assessment shows no material impact is expected.

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

The above-stated amendments were issued in April 2017 and will be effective for the reporting period beginning 1 January 2019. The group does not intend to early-adopt the above amendments. The transition to the revised standards is not expected to result in material adjustments to the financial statements for the following year.

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

	2019 ACTUAL $000	2019 BUDGET $000	VARIANCE $000	VARIANCE %
Revenue	715,177	651,040	64,137	9.9%
Maintenance costs	47,983	41,234	(6,749)	(16.4%)
Employee benefit expenses	66,814	73,157	6,343	8.7%
Other expenses	52,515	43,958	(8,557)	(19.5%)
Depreciation	240,089	248,052	7,963	3.2%
Finance costs	66,489	77,674	11,185	14.4%
Net loss on disposal of property, plant and equipment, and restructuring costs	13,216	8,000	(5,216)	(65.2%)

- Revenue was $64.1 million, or 9.9%, higher than budget. This was primarily due to non-cash vested assets revenue being $42.1 million higher than budget due to the timing of new developments around the Auckland region. In addition, the Infrastructure Growth Charge (IGC) revenue was higher than budget and is also attributed to the increase in development activity in the Auckland region. Water and wastewater revenue were higher due to higher usage volumes.
- Maintenance costs were $6.7 million over budget. This was mainly due to unforeseen unplanned maintenance required on infrastructure assets and the costs associated with higher water usage.
- Employee benefit expenses were $6.3 million lower than budget due to operating with a lower headcount throughout the year than budgeted.
- Other expenses were $8.6 million over budget due the group's $7.7 million efficiency target being held within other expenses. During the budget setting process the efficiency target was unable to be allocated across specific cost lines so it was held centrally within other expenses.
- Depreciation was $8.0 million lower than budget. The budget assumed a higher depreciation from asset capitalisations during the year.
- Finance costs were lower than budget by $11.2 million, or 14.4%, due to lower spend on capital expenditure projects during the year and a lower annual cost of funds than what was budgeted.
- Loss on disposal was $5.2 million higher than budget. This was mainly due to the increase in new developments, where existing retail assets are disposed and replaced with vested assets.

Statement of financial position – extract

	2019 ACTUAL $000	2019 BUDGET $000	VARIANCE $000	VARIANCE %
Total current assets	120,528	80,228	40,300	50.2%
Total non-current assets	10,271,797	9,923,192	348,605	3.5%
Total current liabilities	175,330	103,970	(71,360)	(68.6%)
Total non-current liabilities	3,142,756	3,116,492	(26,264)	(0.8%)
Total equity	7,074,239	6,782,958	291,281	4.3%

- Current assets were $40.3 million higher than budget. This was primarily due to an increase in trade receivables in line with increased revenue, inventory for capital projects and prepaid expenses relating to capital project advances and licensing fees.
- Non-current assets were $348.6 million higher than budget. This was mainly due to a higher 2018 asset revaluation than budgeted for property, plant and equipment and also as a result of the non-current loan receivable which was not in the budget (refer to note 21, page 97).
- Current liabilities were $71.4 million higher than budget and non-current liabilities were $26.3 million higher than budget, driven mainly from accrued expenses which include multiple large capital projects that are in progress and yet to be invoiced.
- Equity is higher than budget at year-end, primarily due to the higher total comprehensive revenue and expense for the year and also as a result of higher opening revaluation reserve than budgeted.

2. Explanation of major variances to budget (continued)

Statement of cash flows – extract

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

	2019 ACTUAL $000	2019 BUDGET $000	VARIANCE $000	VARIANCE %
Net cash inflows – operating activities	420,964	410,756	10,208	2.5%
Net cash outflows – investing activities	(387,861)	(461,018)	73,157	15.9%
Net cash (outflows) / inflows – financing activities	(30,553)	50,262	(80,815)	(160.8%)

- Net operating cash inflows were $10.2 million higher than budget, primarily due to higher receipts from customers during the year. (Refer to note 14 on page 92 for the reconciliation of net surplus after tax to operating cash flows.)
- The net cash outflow from investing activities was 15.9% lower than budget due to lower spend on capital expenditure projects during the year.
- The net cash outflows from financing activities were $80.8 million over budget. This was the result of lower borrowings required due to higher operating cash inflows and lower capital expenditure outflows.

3. 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 2019 $000	WASTEWATER 2019 $000	TOTAL 2019 $000	WATER 2018 $000	WASTEWATER 2018 $000	TOTAL 2018 $000
Revenue						
Water and wastewater	162,856	352,743	515,599	157,792	332,745	490,537
Other revenue	92,488	107,090	199,578	70,720	80,329	151,049
Total revenue	255,344	459,833	715,177	228,512	413,074	641,586
Operating expenses						
Asset operating costs	(20,657)	(38,515)	(59,172)	(19,583)	(37,331)	(56,914)
Maintenance costs	(24,059)	(23,924)	(47,983)	(22,805)	(21,174)	(43,979)
Employee benefit expenses	(23,049)	(43,765)	(66,814)	(24,081)	(44,349)	(68,430)
Other expenses	(17,247)	(35,268)	(52,515)	(16,467)	(31,835)	(48,302)
Total operating expenses	(85,012)	(141,472)	(226,484)	(82,936)	(134,689)	(217,625)
Depreciation	(111,271)	(128,818)	(240,089)	(98,251)	(114,405)	(212,656)
Amortisation	(1,528)	(4,205)	(5,733)	(2,053)	(5,270)	(7,323)
Finance costs	(11,226)	(55,263)	(66,489)	(12,930)	(69,180)	(82,110)
Total expenses	(209,037)	(329,758)	(538,795)	(196,170)	(323,544)	(519,714)
Operating surplus from trading operations	46,307	130,075	176,382	32,342	89,530	121,872
Net loss on disposal of property, plant and equipment, and restructuring costs	(7,363)	(5,853)	(13,216)	(4,211)	(4,277)	(8,488)
Net (loss) / gain on revaluation of derivative financial instruments	–	–	–	(3,526)	(17,282)	(20,808)
Operating surplus before tax	38,944	124,222	163,166	24,605	67,971	92,576
Income tax expense	(13,258)	(42,289)	(55,547)	(10,503)	(27,642)	(38,145)
Net surplus for the year	25,686	81,933	107,619	14,102	40,329	54,431
Other comprehensive revenue and expense net of tax						
Gain on revaluation of property, plant and equipment	–	–	–	326,458	409,457	735,915
Other comprehensive revenue and expense for the year, net of tax	–	–	–	326,458	409,457	735,915
Total comprehensive revenue and expense for the year attributable to owners of the parent, net of tax	25,686	81,933	107,619	340,560	449,786	790,346

3. Business unit reporting (continued)

Business unit financial position

	WATER 2019 $000	WASTEWATER 2019 $000	TOTAL 2019 $000	WATER 2018 $000	WASTEWATER 2018 $000	TOTAL 2018 $000
Assets						
Current						
Current assets	48,336	72,192	120,528	37,854	56,907	94,761
Total current assets	48,336	72,192	120,528	37,854	56,907	94,761
Non-current						
Property, plant and equipment	4,301,597	5,861,572	10,163,169	4,283,273	5,630,492	9,913,765
Intangible assets	11,279	35,168	46,447	10,477	32,812	43,289
Inventories	4,475	3,683	8,158	4,280	6,873	11,153
Prepaid expenses	–	28,698	28,698	–	23,844	23,844
Other financial assets	–	25,325	25,325	–	–	–
Total non-current assets	4,317,351	5,954,446	10,271,797	4,298,030	5,694,021	9,992,051
Total assets	4,365,687	6,026,638	10,392,325	4,335,884	5,750,928	10,086,812
Liabilities						
Current						
Current liabilities	40,701	134,629	175,330	92,151	390,058	482,209
Total current liabilities	40,701	134,629	175,330	92,151	390,058	482,209
Non-current						
Borrowings	262,904	1,436,096	1,699,000	185,286	1,284,199	1,469,485
Deferred tax liability	447,701	970,390	1,418,091	438,039	924,505	1,362,544
Trade and other payables for exchange transactions	356	1,854	2,210	456	1,123	1,579
Accrued expenses	8,513	5,973	14,486	8,798	6,044	14,842
Provisions	546	8,423	8,969	552	6,679	7,231
Total non-current liabilities	720,020	2,422,736	3,142,756	633,131	2,222,550	2,855,681
Total liabilities	760,721	2,557,365	3,318,086	725,282	2,612,608	3,337,890
Equity attributable to owners of the parent	3,604,966	3,469,273	7,074,239	3,610,602	3,138,320	6,748,922
Total equity and liabilities	4,365,687	6,026,638	10,392,325	4,335,884	5,750,928	10,086,812

Business unit cash flows

	WATER 2019 $000	WASTEWATER 2019 $000	TOTAL 2019 $000	WATER 2018 $000	WASTEWATER 2018 $000	TOTAL 2018 $000
Net cash inflows – operating activities	141,556	279,408	420,964	121,693	195,068	316,761
Net cash outflows – investing activities	(113,107)	(274,754)	(387,861)	(62,709)	(263,514)	(326,223)
Net cash (outflows) / inflows – financing activities	(27,988)	(2,565)	(30,553)	(59,163)	67,588	8,425
Net change in cash flows	461	2,089	2,550	(179)	(858)	(1,037)

4. Property, plant and equipment

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

			ESTIMATED REMAINING USEFUL LIVES IN YEARS	
ASSET CLASS	CATEGORY	SUBSEQUENT MEASUREMENT BASIS	2019	2018
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 80
Pipelines	Infrastructure asset	Fair value which is deemed to be depreciated replacement cost, less accumulated depreciation	up to 166	up to 166
Tanks, tunnels, roads and reservoirs	Infrastructure asset	Fair value which is deemed to be depreciated replacement cost, less accumulated depreciation	up to 96	up to 98
Dams	Infrastructure asset	Fair value which is deemed to be depreciated replacement cost, less accumulated depreciation	up to 196	up to 200
Landfill	Infrastructure asset	Cost less accumulated depreciation and impairment losses	up to 35	up to 35
Machinery	Infrastructure asset	Fair value which is deemed to be depreciated replacement cost, less accumulated depreciation	up to 196	up to 200
Motor vehicles	Operational asset	Cost less accumulated depreciation and impairment losses	up to 20	up to 22
Office equipment	Operational asset	Cost less accumulated depreciation and impairment losses	up to 27	up to 28
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.

Reclassification

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

Revaluation

All PPE, except for landfill, motor vehicles, office equipment and capital work in progress, are revalued after initial recognition. Also refer to note 6, page 79 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.

4. Property, plant and equipment (continued)

Revaluation assumptions

The most recent valuation for land and buildings was completed at 30 June 2018 by Beca Valuations Limited (Beca). The land valuation was based on relevant market prices using a comparable sales approach. Buildings were valued using two methods: for highly specialised buildings, which are rarely traded in the marketplace, the valuation was based on the depreciated replacement cost and for other buildings, the valuation was based on relevant market prices using a comparable sales approach. For the 2019 financial year, the movement in the fair value of land and buildings since 30 June 2018 was assessed at balance date using indices deemed suitable by management. The assessment indicated an increase of 0.5% in land value and 2.5% in buildings value at balance date, which was not considered material by management and accordingly the land and buildings assets were not revalued during the year. A revaluation of operational land and buildings will be completed in the 2021 financial year, in line with group policy of having revaluations carried out at least every three years.

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

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

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

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

The movement in fair value of infrastructure assets since 30 June 2018 was assessed at balance date using indices deemed suitable by management. The assessment indicated an increase in infrastructure asset value of 3.47%, which was not considered material by management and accordingly the infrastructure assets were not revalued during the year. A revaluation of infrastructure assets will be completed in the 2021 financial year, in line with group policy of having revaluations carried out at least every three years.

Depreciation

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

4. 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 2017											
Cost or valuation	192,900	89,238	6,388,533	699,859	235,604	57,251	1,035,214	18,347	29,919	473,328	9,220,193
Accumulated depreciation	–	(2,179)	(284,901)	(22,499)	(3,977)	(6,671)	(97,856)	(7,808)	(17,253)	–	(443,144)
Net book value	192,900	87,059	6,103,632	677,360	231,627	50,580	937,358	10,539	12,666	473,328	8,777,049
Year ended 30 June 2018											
Additions to work in progress	–	–	–	–	–	–	–	–	–	342,426	342,426
Additions to PPE	–	118	28,889	131	–	–	1,063	–	–	–	30,201
Transfers from work in progress	7,784	4,858	87,904	9,258	394	4,106	232,654	2,446	6,887	(361,424)	(5,133)
Disposals	(3,750)	–	(8,876)	(521)	–	–	(2,130)	(116)	(176)	–	(15,569)
Revaluation	56,989	9,506	873,501	131	41,449	–	18,365	–	–	–	999,941
Impairment	–	–	–	–	–	–	–	–	(22)	(2,472)	(2,494)
Transfer from / (to) other classes	–	(101)	–	–	–	–	(974)	–	1,075	–	–
Depreciation	–	(2,288)	(136,558)	(11,481)	(2,024)	(1,995)	(51,659)	(2,339)	(4,312)	–	(212,656)
Closing carrying amount	253,923	99,152	6,948,492	674,878	271,446	52,691	1,134,677	10,530	16,118	451,858	9,913,765
Balance at 30 June 2018											
Cost or valuation	253,923	99,192	6,949,495	675,019	271,446	61,357	1,142,887	20,078	34,761	451,858	9,960,016
Accumulated depreciation	–	(40)	(1,003)	(141)	–	(8,666)	(8,210)	(9,548)	(18,643)	–	(46,251)
Carrying amount	253,923	99,152	6,948,492	674,878	271,446	52,691	1,134,677	10,530	16,118	451,858	9,913,765
Year ended 30 June 2019											
Additions to work in progress	–	–	–	–	–	–	–	–	–	448,005	448,005
Additions to PPE	–	–	62,104	2	–	1,194	53	–	–	–	63,353
Transfers from work in progress	3,903	25,786	99,303	16,428	318	31,794	87,936	2,248	4,621	(281,047)	(8,710)
Disposals	(1,689)	(96)	(8,621)	(41)	–	–	(1,551)	(119)	(17)	–	(12,134)
Revaluation	–	–	–	–	–	–	–	–	–	–	–
Impairment	–	–	–	–	–	–	–	–	(147)	(644)	(791)
Transfer from / (to) other classes	–	12	2,693	–	–	–	(2,705)	–	(230)	–	(230)
Depreciation	–	(2,457)	(152,156)	(13,629)	(2,481)	(2,185)	(60,742)	(2,240)	(4,199)	–	(240,089)
Closing carrying amount	256,137	122,397	6,951,815	677,638	269,283	83,494	1,157,668	10,419	16,146	618,172	10,163,169
Balance at 30 June 2019											
Cost or valuation	256,137	124,893	7,104,386	691,392	271,764	94,346	1,226,008	20,966	37,279	618,172	10,445,343
Accumulated depreciation	–	(2,496)	(152,571)	(13,754)	(2,481)	(10,852)	(68,340)	(10,547)	(21,133)	–	(282,174)
Carrying amount	256,137	122,397	6,951,815	677,638	269,283	83,494	1,157,668	10,419	16,146	618,172	10,163,169

4. Property, plant and equipment (continued)

Service concession assets – included in the previous page

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 entire network in Papakura so that at the end of the contract period (initial term of 30 years ending on 30 June 2027 with a 20-year right of renewal), the network shall be in a better overall condition than that which existed at the time the contract was commenced in 1997. At the commencement of the contract, a franchise fee was paid in exchange for the rights to operate the assets as detailed in note 22, page 97. Watercare retains ownership of the infrastructure assets franchised to Veolia.

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

	PIPELINES $000	MACHINERY $000	TOTAL $000
Balance at 1 July 2017			
Cost or valuation	163,738	4,868	168,606
Accumulated depreciation	(7,026)	(347)	(7,373)
Carrying amount	156,712	4,521	161,233
Year ended 30 June 2018			
Additions to PPE	1,976	–	1,976
Disposals	(5)	–	(5)
Revaluation	22,794	221	23,015
Depreciation	(47)	–	(47)
Closing carrying amount	181,430	4,742	186,172
Balance at 30 June 2018			
Cost or valuation	181,477	4,742	186,219
Accumulated depreciation	(47)	–	(47)
Carrying amount	181,430	4,742	186,172
Year ended 30 June 2019			
Additions to PPE	18,753	–	18,753
Disposals	(683)	(244)	(927)
Revaluation	–	–	–
Depreciation	(4,347)	(176)	(4,523)
Closing carrying amount	195,153	4,322	199,475
Balance at 30 June 2019			
Cost or valuation	199,543	4,498	204,041
Accumulated depreciation	(4,390)	(176)	(4,566)
Carrying amount	195,153	4,322	199,475

4. Property, plant and equipment (continued)

Capital work in progress (WIP)

WORK IN PROGRESS RELATES TO THE FOLLOWING PROJECTS:	2019 $000	2018 $000
Water treatment plant	42,874	42,639
Wastewater treatment plant	144,391	124,187
Wastewater pump station and sewer	200,760	139,95
Watermains, pump stations and reservoirs	142,275	87,019
Dams and raw water transmission pipelines	2,081	2,100
Other	85,79	55,960
Total work in progress	618,172	451,858

5. Impairment of property, plant and equipment, and intangible assets

Non-financial assets other than revalued assets, primarily consisting of landfill, motor vehicles, office equipment, work in progress and intangibles, 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. Where the carrying amount of the CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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.

6. Revaluation reserves

The group maintains a revaluation reserve for each class of assets. The changes in the value of each class of PPE as a result of revaluations 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 previously charged as an expense in determining the surplus or deficit for the year. Any accumulated depreciation at the date of the revaluation is transferred to the gross carrying amount of the asset and the asset cost is restated to the revalued amount. When revalued assets are disposed of, the amounts included in other reserves are transferred 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 2017	88,202	24,732	1,168,207	325,255	100,856	122,943	1,830,195
Revaluation during the year – net of deferred tax	56,989	6,844	628,921	94	29,844	13,223	735,915
Transfer from / (to) other classes	–	735	–	–	–	(735)	–
Transferred to retained earnings on disposal of property, plant and equipment (net of tax)	(2,842)	(21)	1,701	1,565	–	4,192	4,595
Balance at 30 June 2018	142,349	32,290	1,798,829	326,914	130,700	139,623	2,570,705

	LAND $000	BUILDINGS $000	PIPELINES $000	TANKS, TUNNELS, ROADS AND RESERVOIRS $000	DAMS $000	MACHINERY $000	TOTAL $000
Balance at 1 July 2018	142,349	32,290	1,798,829	326,914	130,700	139,623	2,570,705
Revaluation during the year – net of deferred tax	–	–	–	–	–	–	–
Transfer (to) / from other classes	–	(6)	62	21	–	(77)	–
Transferred to retained earnings on disposal of property, plant and equipment (net of tax)	(877)	(69)	(4,270)	18	–	(404)	(5,602)
Balance at 30 June 2019	141,472	32,215	1,794,621	326,953	130,700	139,142	2,565,103

7. Intangible assets

Measurement

Intangible assets are initially recorded at cost.

ASSET CLASS	SUBSEQUENT MEASUREMENT BASIS	ESTIMATED REMAINING USEFUL LIVES IN YEARS 2019	2018
Network models	Cost less accumulated amortisation and impairment losses	up to 12	up to 10
Computer software	Cost less accumulated amortisation and impairment losses	up to 7	up to 10
Resource consents	Cost less accumulated amortisation and impairment losses	up to 35	up to 35

Amortisation

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

CARRYING AMOUNT	NETWORK MODELS $000	COMPUTER SOFTWARE $000	RESOURCE CONSENTS $000	EASEMENTS $000	TOTAL $000
Balance at 1 July 2017					
Cost	5,299	56,297	38,244	1,188	101,028
Accumulated amortisation	(2,287)	(44,000)	(9,177)	–	(55,464)
Carrying amount	3,012	12,297	29,067	1,188	45,564
Year ended 30 June 2018					
Transferred from work in progress	739	1,269	2,908	215	5,131
Impairment	(17)	(66)	–	–	(83)
Amortisation	(690)	(5,143)	(1,490)	–	(7,323)
Closing carrying amount	3,044	8,357	30,485	1,403	43,289
Balance at 30 June 2018					
Cost	5,742	55,287	41,152	1,403	103,584
Accumulated amortisation	(2,698)	(46,930)	(10,667)	–	(60,295)
Carrying amount	3,044	8,357	30,485	1,403	43,289
Year ended 30 June 2019					
Transferred from work in progress	256	6,479	1,951	24	8,710
Impairment	–	(49)	–	–	(49)
Transfer from/(to) other classes	–	230	–	–	230
Amortisation	(694)	(3,565)	(1,474)	–	(5,733)
Closing carrying amount	2,606	11,452	30,962	1,427	46,447
Balance at 30 June 2019					
Cost or valuation	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

8. Borrowings

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

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

From 1 July 2018 Watercare and its parent, Auckland Council, entered into a service level agreement (SLA) for the provision of treasury services and an inter-company loan agreement for existing loans at 30 June 2018. The terms of both agreements commenced 1 July 2018 and are in place until 30 June 2021. Auckland Council treasury met all of their obligations under the terms of the SLA during the 2019 financial year.

The key objective of the centralised treasury function is to achieve cost savings and efficiencies. Under the agreement, Auckland Council now provides all of Watercare's financing needs to meet both the debt projections included in Watercare's latest annual Statement of Intent and the debt projections for Watercare included in the Council's Long-Term Plan 2018-2028, as modified by any subsequent Annual Plan. The treasury function also provides risk management of the weighted average interest rate; liquidity and funding risk management; treasury reporting; and foreign exchange transacting. The agreement relinquishes Watercare from maintaining its own treasury policy for liquidity and financial risk management.

On 1 July 2018, all the existing external borrowings, except medium-term notes, were refinanced by Auckland Council and all external interest rate swaps and the interest rate 'collar' option were novated to Auckland Council. Auckland Council will effectively take responsibility for contractual cash flow payments through the novation of these derivative financial instruments. The medium-term notes were repaid on maturity in October 2018 and no further notes were issued.

Covenants

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

Prior to 1 July 2018, all borrowings were unsecured. Providers of bank loans and holders of medium-term notes and short-term commercial paper received the benefit of a negative pledge undertaking from the group. This undertaking limited the extent to which the group could give security to lenders and required the group to ensure that the following financial ratios were achieved at all times:

- Total liabilities were not to exceed 60% of total tangible assets.
- Total liabilities plus total contingent liabilities were not to exceed 65% of total tangible assets.
- Shareholder's funds were not less than $500 million.
- Earnings before interest, tax, depreciation and amortisation was greater than 1.75 times interest expense.
- Total tangible assets of the group were to be greater than 90% of total tangible assets of the borrowing group.

All of these ratios were met for the year ended 30 June 2018, when the group had an agreement with Auckland Council, under which Auckland Council guaranteed repayment of the group's external borrowings and obligations relating to interest rate swaps.

	2019			2018		
	FACE VALUE $000	UNAMORTISED COST $000	CARRYING VALUE $000	FACE VALUE $000	UNAMORTISED COST $000	CARRYING VALUE $000
Current						
Related party term loan (unsecured)	–	–	–	1,491	–	1,491
Medium-term notes (unsecured)	–	–	–	125,000	97	125,097
Bank loan (unsecured)	–	–	–	16,500	–	16,500
Total current borrowings	–	–	–	142,991	97	143,088
Non-current						
Related party term loan (unsecured)	1,699,000	–	1,699,000	1,469,485	–	1,469,485
Total non-current borrowings	1,699,000	–	1,699,000	1,469,485	–	1,469,485
Total borrowings	1,699,000	–	1,699,000	1,612,476	97	1,612,573

8. Borrowings (continued)

INTEREST RATES AT BALANCE DATE:	NOTE	2019 %	2018 %
Related-party term loan			
Weighted average		5.26	3.18
Average including interest rate swaps	NOTE 10, PAGE 84	5.26	6.19
Medium-term notes			
Weighted average		–	5.49
Weighted average including interest rate swaps		–	3.41
Bank loan			
Weighted average		–	2.51
Weighted average including interest rate swaps		–	2.51
Total debt			
Weighted average		5.26	3.35
Weighted average including interest rate swaps		5.26	5.94

The group had the following undrawn committed facilities available:

	2019 $000	2018 $000
Bank overdraft facility; expires on cancellation	2,000	1,377
Revolving advances (expired 1 July 2018)	–	43,500
Commercial paper stand-by facility (expired 1 July 2018)	–	150,000
Total undrawn committed facilities	2,000	194,877

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

Prior to 1 July 2018 the commercial paper issued by the group was represented by multiple tranches that spread funding risk. As each tranche matured, the group replaced it with a new issue, if required. The provider of the commercial paper stand-by facility acted as a lender of last resort, should the group be unable to reissue new commercial paper as it matures. The group's treasury policy requires that sufficient stand-by facilities be maintained to meet 50% of outstanding commercial paper and other uncommitted short-term debt repayable within 60 days. The group complied with this requirement during the year ended 30 June 2018.

9. 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 5.36% (2018: 3.37%) was used to determine the amount of capitalised interest. All other finance costs are expensed in the period in which they occur.

	2019 $000	2018 $000
Interest on bank overdraft and borrowings, paid and payable	86,178	93,593
Capitalised interest on construction of property, plant and equipment, and intangibles	(19,689)	(11,483)
Net finance costs	66,489	82,110

10. 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	**2019:** Fixed interest rate agreement with Auckland Council **2018:** Interest rate swaps and interest rate options
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	**2019:** To remain within the debt projections in the agreement with Auckland Council **2018:** Availability of committed credit lines and borrowing facilities

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.

10. Financial instruments and risk management (continued)

Interest rate risk

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

From 1 July 2018 the group is no longer exposed to interest rate risk as this is now managed by Auckland Council. The group has a fixed interest rate agreement with Auckland Council. Also refer to note 8, page 81.

Prior to 1 July 2018 the risk was managed by the group through monitoring market interest rates and reviewing the impact of these on interest rate exposures. The group's borrowings comprised both fixed rates and floating rates of interest. It is the group's policy to ensure that a proportion of interest rate exposure is maintained on a fixed-rate basis. To achieve this, the group entered into contracts that allowed some of its floating interest rate exposure to be swapped to fixed rates, and vice versa. As interest rates change, these derivative financial instruments were revalued to fair value and the change in fair value is recorded in the surplus or deficit. The group's exposure to market interest rates related primarily to the group's debt obligations, which are disclosed in note 8, page 81. The notional amounts and fixed interest rates in place at balance date to manage interest rate risk were as follows:

	2019		2018	
INTEREST RATE SWAPS	FIXED INTEREST RATE %	NOTIONAL AMOUNT $000	FIXED INTEREST RATE %	NOTIONAL AMOUNT $000
Receivable maturities (fixed to floating):				
Within one year*	–	–	5.80	225,000
Payable maturities (floating to fixed):				
Within one year*	–	–	5.12	1,600,000

	2019			2018		
INTEREST RATE 'COLLAR' OPTION	CAP RATE %	FLOOR RATE %	NOTIONAL AMOUNT $000	CAP RATE %	FLOOR RATE %	NOTIONAL AMOUNT $000
Within one year*	–	–	–	5.25	4.35	50,000

* All interest rate swaps and the interest rate 'collar' option was novated to Auckland Council on 1 July 2018.

Interest rate sensitivity

The following sensitivity analysis is based on the group's interest rate risk exposures at balance date.

At 30 June 2019 there is no interest rate risk as interest rates are fixed.

At 30 June 2018, if interest rates had moved as illustrated in the table below with all other variables held constant, the post-tax surplus or deficit and equity would have been affected as follows:

	2019		2018	
SENSITIVITY TO POSSIBLE MOVEMENTS:	POST-TAX SURPLUS HIGHER / (LOWER) $000	EQUITY HIGHER / (LOWER) $000	POST-TAX SURPLUS HIGHER / (LOWER) $000	EQUITY HIGHER / (LOWER) $000
Interest paid				
1% (100 basis points) higher for the year	–	–	(803)	(803)
1% (100 basis points) lower for the year	–	–	803	803
Revaluation of derivative financial instruments				
1% (100 basis points) higher at year-end	–	–	67,625	67,625
1% (100 basis points) lower at year-end	–	–	(73,969)	(73,969)

10. Financial instruments and risk management (continued)

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 (2018: NZ$250,000), the group manages this risk with forward foreign exchange contracts or options.

The group had no forward foreign exchange contracts at 30 June 2019 and 30 June 2018.

Foreign exchange sensitivity

The group had no exposure to foreign exchange risk at 30 June 2019 and 30 June 2018.

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.

Prior to 1 July 2018 the group's cash and cash equivalents and derivatives were placed with major trading banks or other parties with a minimum A- long-term credit rating assigned by Standard & Poor's, or its Moody's equivalent.

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:

	2019			2018		
	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	31,976	(37)	31,939	33,285	–	33,285
Past due 1 to 30 days	11,017	(134)	10,883	4,392	(49)	4,343
Past due 30 to 60 days	1,842	(100)	1,742	1,805	(94)	1,711
Past due more than 60 days	6,582	(1,553)	5,029	6,175	(1,481)	4,694
Total	51,417	(1,824)	49,593	45,657	(1,624)	44,033

MOVEMENT IN THE PROVISION FOR DOUBTFUL DEBTS	2019 $000	2018 $000
Balance at 1 July	1,624	956
Additions during the year	430	797
Bad debts written off	(230)	(129)
Balance at 30 June	1,824	1,624

During year ended 30 June 2019, the group is also exposed to credit risk through a $30 million loan provided to a third party. The group has mitigated this risk by contractually securing the loan with bank bonds, which in the event of a default the group has the right to call on the bonds and have the loan repaid in full. Refer to note 21, page 97, for further information.

10. 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 2018-2028, as modified by any subsequent Annual Plan. This is a key requirement of the guarantee letter from Auckland Council.

Prior to 1 July 2018 the group's objective was to maintain a balance between continuity of funding through long-term borrowings, sourced mainly from Auckland Council but also comprising medium-term notes and term loans, and the flexibility provided by a bank overdraft, revolving credit facility and commercial paper. The liquidity risk associated with the commercial paper is mitigated by a stand-by facility of $150 million in 2018.

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

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

2018	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						
Bank overdraft	623	–	–	–	623	618
Trade and other payables for exchange transactions	15,772	865	1,579	–	18,216	18,216
Accrued expenses*	62,864	–	–	–	62,864	62,864
Interest rate swaps**	–	–	–	–	–	221,476
Interest rate 'collar' option**	–	–	–	–	–	4,532
Borrowings	143,751	–	–	1,602,135	1,745,886	1,612,573
Total	223,010	865	1,579	1,602,135	1,827,589	1,920,279

* Excludes current and non-current revenue received in advance of $42.9 million (2018: $36.8 million) as it was not categorised as a financial liability; refer to note 22, page 97.

** All interest rate swaps and interest rate 'collar' option were novated to Auckland Council effective 1 July 2018.

10. Financial instruments and risk management (continued)

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

Prior to 1 July 2018 the group monitored rolling forecasts of liquidity reserves on the basis of expected cash flow. At 30 June 2018 the group had $194.9 million of unused credit facilities (commercial paper stand-by facility, overdraft facility and revolving credit facility) available for immediate use.

Fair values

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

Financial assets at amortised cost (2018: Loans and receivables)

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 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.

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.

Prior to 1 July 2018, interest rate swaps and interest rate options were measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates. Forward foreign exchange contracts were measured using observable market forward exchange rates. The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to those used in the previous reporting period. No reclassification of financial assets was made during the year ended 30 June 2018.

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 2019 there are no derivative financial instruments.

Prior to 1 July 2018, the only financial assets and liabilities that were measured at fair value in the statement of financial position were derivative financial instruments. The valuation for derivative financial instruments was based on the level 2 fair value hierarchy. The derivative financial instruments that the group held at balance date comprised interest rate swaps, interest rate options and forward foreign exchange contracts. Watercare's derivative transactions under the International Swaps and Derivative Association (ISDA) Master Agreement did not meet the criteria for offsetting in the balance sheet, such as a default on the bank loans or other credit events. As Watercare did not have a legally enforceable right of set-off, these amounts were not offset in the balance sheet. At 30 June 2018, fair values were assessed using a range of market interest rates of between 2.06% and 3.28% derived from the interest rate swap curve.

10. Financial instruments and risk management (continued)

Financial assets and liabilities

	2019		2018	
	CARRYING AMOUNT $000	FAIR VALUE $000	CARRYING AMOUNT $000	FAIR VALUE $000
Financial assets – current				
Amortised cost (2018: Loans and receivables)				
Cash and cash equivalents	2,058	2,058	126	126
Trade and other receivables from exchange transactions	82,128	82,128	71,843	71,843
Other financial assets	3,184	3,184	–	–
Fair value through surplus or deficit				
Derivative financial instruments**	–	–	9,116	9,116
Financial assets – non-current				
Amortised cost (2018: Loans and receivables)				
Other financial assets	25,325	25,325	–	–
Total financial assets	112,695	112,695	81,085	81,085
Financial liabilities – current				
Amortised cost				
Trade and other payables for exchange transactions	18,017	18,017	16,637	16,637
Accrued expenses*	117,938	117,938	62,864	62,864
Bank overdraft (unsecured)	–	–	618	618
Related party term loan (unsecured)	–	–	1,491	1,491
Medium-term notes (unsecured)	–	–	125,097	127,773
Bank loan (unsecured)	–	–	16,500	16,501
Fair value through surplus or deficit				
Derivative financial instruments **	–	–	226,008	226,008
Financial liabilities – non-current				
Amortised cost				
Trade and other payables for exchange transactions	2,210	2,210	1,579	1,579
Related party term loan (unsecured)	1,699,000	1,699,000	1,469,485	1,476,028
Total financial liabilities	1,837,165	1,837,165	1,920,279	1,929,499

* Excludes current and non-current revenue received in advance of $42.9 million (2018: $36.8 million) as it was not categorised as a financial liability; refer to note 22, page 97.

** Derivative financial instruments comprising interest rate swaps and the interest rate 'collar' option totalling $217 million were novated to Auckland Council effective 1 July 2018

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 67, and debt including borrowings and covenants compliance as disclosed in note 8, page 81.

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 2019 and 30 June 2018.

11. Revaluation of derivative financial instruments

	2019 $000	2018 $000
Interest rate swaps contracts loss / (gain)	–	20,808
Net revaluation loss / (gain)	–	20,808

Interest rate swaps have been novated to Auckland Council effective 1 July 2018.

12. Revenue

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

Revenue from exchange transactions

Water and wastewater revenue

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

Revenue from rendering of services

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

Interest income

Interest income is recognised using the effective interest method.

Dividend income

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

Infrastructure Growth Charge revenue

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

12. Revenue (continued)

Revenue from non-exchange transactions

All non-exchange revenue earned by Watercare is from transfers.

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.

	NOTE	2019 $000	2018 $000
Revenue from exchange transactions			
Revenue from sale of goods			
Water revenue – gross		164,936	159,845
Water leak remission		(2,080)	(2,053)
Water revenue – net of leak remissions		162,856	157,792
Revenue from sale of services			
Wastewater revenue – gross		358,228	337,829
Wastewater leak remission		(5,485)	(5,084)
Wastewater revenue – net of leak remissions		352,743	332,745
Total water and wastewater revenue – net of leak remissions		515,599	490,537
New meters and service connections		14,987	11,972
Laboratory revenue		7,091	6,249
Total revenue from sale of goods and services		537,677	508,758
Infrastructure Growth Charge revenue		103,754	89,148
Dividend income		114	113
Subvention income	NOTE 15, PAGE 93	3,778	7,049
Interest income		11	10
Other revenue		7,684	6,307
Total other revenue from exchange transactions		115,341	102,627
Total revenue from exchange transactions		653,018	611,385
Revenue from non-exchange transactions			
Vested assets revenue		62,159	30,201
Total revenue from non-exchange transactions		62,159	30,201
Total revenue		715,177	641,586

13. Operating expenses

	NOTES	2019 $000	2018 $000
Operating expenses include:			
Auditor's remuneration			
• annual audit and review of the financial statements – Deloitte		577	619
• audit of financial statements – Office of the Auditor-General (OAG) contribution		40	39
• other services – Deloitte		510	466
Directors and trustees' fees	NOTE 28, PAGE 101 & 102	467	486
Environmentally significant costs			
• chemicals		11,743	11,513
• energy		18,689	17,891
Cost of consumables and spare parts consumed	NOTE 18, PAGE 95	18,960	15,952
Operating leases and rent		6,447	6,707
Increase in provision for doubtful debts	NOTE 10, PAGE 83	430	797
Bad debts written off	NOTE 10, PAGE 83	230	129
Salaries and wages			
• paid to employees		86,250	85,501
• capitalised on construction of property, plant and equipment		(22,836)	(20,621)
• included in employee benefit expenses		63,414	64,880

Auditor's remuneration for other services relates to cyber-security advice including incident response support, central interceptor and enterprise model probity services. Prior year fees for other services provided by the auditors relate to a review of ERP systems, cyber-security advice including planning and implementation, cyber strategy and framework advisory, central interceptor supplier procurement and tax advisory.

14. Reconciliation of operating cash flows

	2019 $000	2018 $000
Reconciliation of net surplus after tax to net cash flows from operating activities		
Net surplus for the year	107,619	54,431
Non-cash and non-operating items:		
Depreciation and amortisation	245,822	219,979
Net loss on disposal of and provision for redundant property, plant and equipment	12,393	7,031
Vested assets revenue	(62,159)	(30,201)
Capitalised interest on borrowings and assets	66,012	–
Net loss / (gain) on revaluation of derivative financial instruments	–	20,808
Medium-term notes interest paid (non-operating)	(3,553)	–
Medium-term notes premium amortisation and time value of money charges	(97)	(292)
Deferred tax	55,547	38,145
Movements in working capital:		
(Increase) / decrease in assets:		
Inventories	(176)	1,633
Trade and other receivables from exchange transactions	3,396	7,322
Prepaid expenses	(7,373)	(744)
Increase / (decrease) in liabilities:		
Trade and other payables for exchange transactions	1,021	(1,711)
Accrued expenses	2,362	(1,064)
Provisions	150	1,424
Net cash inflows from operating activities	420,964	316,761

15. Income tax expense

Current tax

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

Sale of tax losses

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

Tax loss offset

For the income year ended 30 June 2019, Watercare agreed to a maximum of tax losses to be sold to Auckland Council tax group of $35.0 million (2018: $52.0 million), of which $4.4 million (2018: $6.5 million) was accrued as subvention and the balance of $30.6 million (2018: $45.5 million) was recognised as an estimated loss offset with Auckland Council tax group.

For the year ended 30 June 2019, Watercare received a cash payment of $5.9 million (2018: $6.7 million) from Auckland Council tax group with a tax impact of $46.9 million (2018: $52.9 million).

This has resulted in subvention income of $3.8 million (net) being recognised in the financial statements reflecting the $4.4 million accrual at 30 June 2019 and $0.6 million reversal of accrual from 30 June 2018.

	2019 $000	2018 $000
Operating surplus before tax	163,166	92,576
Income tax calculated at current tax rate of 28%	45,686	25,921
Increase / (decrease) in income tax due to:		
• Dividend and other income exempt from taxation	(1,441)	(4,752)
• Assessable income	–	–
• Non-deductible expenses	822	1,481
• Imputation credits on dividends received	(43)	(43)
• Prior year and other adjustments	723	(119)
• Release of unused tax provision	–	(8)
• Subvention income and tax loss offset with Auckland Council tax group	9,800	15,665
Tax effect of non-deductible items and prior period adjustments	9,861	12,224
Income tax expense	55,547	38,145
Represented by:		
Current tax	–	(8)
Deferred tax	55,547	38,153
Total income tax expense	55,547	38,145

Imputation credits

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

	2019 $000	2018 $000
Total imputation credits	30,564	30,521

16. Deferred tax liability

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

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

The depreciation 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.

The provisions and accrued expenses temporary differences, principally related to the mark-to-market revaluation of financial instruments. These expenses were recognised for accounting purposes but cannot be deducted for tax purposes until the amounts 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

	2019 ASSETS $000	2018 ASSETS $000	2019 LIABILITIES $000	2018 LIABILITIES $000	2019 NET $000	2018 NET $000
Property, plant and equipment	–	–	(1,708,002)	(1,661,467)	(1,708,002)	(1,661,467)
Financial instruments	–	60,730	–	–	–	60,730
Employee benefits and other provisions	3,055	3,315	–	–	3,055	3,315
Tax losses	314,876	257,406	–	–	314,876	257,406
Other	–	–	(28,020)	(22,528)	(28,020)	(22,528)
Total	317,931	321,451	(1,736,022)	(1,683,995)	(1,418,091)	(1,362,544)

(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 2017	1,352,628	(54,904)	(2,890)	(253,702)	19,232	1,060,364
Charged / (credited) to comprehensive revenue and expense	44,812	(5,826)	(425)	(3,704)	3,296	38,153
Charged to other comprehensive revenue and expense, resulting from revaluation	264,027	–	–	–	–	264,027
Balance as at 30 June 2018	1,661,467	(60,730)	(3,315)	(257,406)	22,528	1,362,544
Balance as at 1 July 2018	1,661,467	(60,730)	(3,315)	(257,406)	22,528	1,362,544
Charged / (credited) to comprehensive revenue and expense	46,535	60,730	260	(57,470)	5,492	55,547
Charged to other comprehensive revenue and expense, resulting from revaluation	–	–	–	–	–	–
Balance as at 30 June 2019	1,708,002	–	(3,055)	(314,876)	28,020	1,418,091

17. Trade and other receivables from exchange transactions

Trade and other receivables from exchange transactions are initially recognised at fair value. These are generally due for settlement within 21 days (2018: 21 days). Debts which are known to be uncollectable are written off by reducing the carrying amount directly.

From 1 July 2018 the group has early-adopted PBE IFRS 9, which has an expected credit loss model for impairment of financial assets. The expected credit loss allowance provision for receivables was calculated using the new PBE IFRS 9 model. The cumulative impact of the change has not been adjusted through opening retained earnings, as the financial effects are not material.

Prior to 1 July 2018 a provision for impairment of trade receivables was recognised when there was objective evidence that the group would not be able to collect all amounts due. Impairment losses are recognised in surplus or deficit within other expenses.

Subsequent recoveries of amounts previously written off are recorded within other revenue. Refer to note 10, page 83.

CURRENT	2019 $000	2018 $000
Trade receivables	48,848	44,500
Trade receivables – related parties	2,569	1,157
Provision for doubtful debts	(1,824)	(1,624)
	49,593	44,033
Other receivables – related parties	5,019	6,555
Unbilled revenue accrual	27,516	21,255
Trade and other receivables from exchange transactions	82,128	71,843

18. Inventories

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

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

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

The cost of inventories recognised as an expense during the year was $19.0 million (2018: $16.0 million).

	2019 $000	2018 $000
Spare parts at cost	6,783	6,098
Consumables at cost	3,743	3,705
Treated water at cost	850	850
Project stock	16,266	12,335
Provision for obsolescence	(937)	(937)
Total	26,705	22,051
Represented as:		
Current inventory	18,547	10,898
Non-current inventory	8,158	11,153
Total	26,705	22,051

19. Trade and other payables for exchange transactions

Trade and other payables for exchange transactions are unsecured and usually paid within 30 days (2018: 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 $6.6 million are held as cash on hand at 30 June 2019 (2018: $2.9 million). This is in line with the amendment to the Construction Contracts Act (CCA) 2002 which was effective from April 2017.

	2019 $000	2018 $000
Current		
Trade creditors	9,408	7,982
Trade creditors – related parties	505	53
Contract retentions	5,071	4,273
Other payables	3,033	4,329
Total current trade and other payables for exchange transactions	18,017	16,637
Non-current		
Contract retentions	2,210	1,579
Total non-current trade and other payables for exchange transactions	2,210	1,579
Total trade and other payables for exchange transactions	20,227	18,216

20. Prepaid expenses

	2019 $000	2018 $000
Current		
Puketutu Island lease	443	443
Other prepaid expenses	14,168	2,335
Total current prepaid expenses	14,611	2,778
Non-current		
Puketutu Island lease	20,408	20,851
Other prepaid expenses	8,290	2,993
Total non-current prepaid expenses	28,698	23,844
Total prepaid expenses	43,309	26,622

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

Other prepaid expenses include capital project advances of $9.3 million (2018: $nil), prepaid insurance, a biosolids levy and software licensing fees.

21. Other financial assets

	2019 $000	2018 $000
Current		
Loan receivable	3,184	–
Non-current		
Loan receivable	25,325	–
Total other financial assets	28,509	–

The loan receivable was provided to the contractor as part of the Central Interceptor Main Works Contract and is secured against bank bonds. The loan was subsequently recorded at fair value through profit and loss, where fair value has been determined using the projected cash flows discounted at a rate of 2.4%, which is based on the prevailing market interest rate for a similar investment.

22. Accrued expenses

	2019 $000	2018 $000
Current		
Capital work in progress accruals	89,224	34,125
Interest payable	5,667	11,377
Revenue received in advance	28,420	21,919
Operating costs accruals	23,047	17,362
Total current accrued expenses	146,358	84,783
Non-current		
Revenue received in advance	14,486	14,842
Total non-current accrued expenses	14,486	14,842
Total accrued expenses	160,844	99,625

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

Revenue received in advance includes $7.3 million (2018: $7.5 million) relating to the amount received in accordance with the franchise fee agreement with the network operator Veolia Water Services (ANZ) Pty Limited. The $13.0 million fee received at the commencement of the agreement covers the right to use the assets for a 50-year period and is recognised as revenue evenly over the term of the agreement.

Accrued expenses above include related party accruals. Refer to note 24, page 99 for a breakdown of related party accruals.

23. Provisions

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

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

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

	2019 $000	2018 $000
Current		
Employee entitlements	7,836	8,053
Decommissioning costs	9	27
Other provisions	3,110	2,995
Total current provisions	10,955	11,075
Non-current		
Employee entitlements	1,731	1,717
Decommissioning costs	7,238	5,514
Total non-current provisions	8,969	7,231
Total provisions	19,924	18,306

	EMPLOYEE ENTITLEMENTS $000	DECOMMISSIONING COSTS $000	OTHER PROVISIONS $000	TOTAL $000
Balance at 1 July 2018	9,770	5,541	2,995	18,306
Additions during the year	10,368	1,725	2,063	14,156
Reductions resulting from payments	(10,571)	(19)	(1,791)	(12,381)
Unused provisions reversed during the year	–	–	(157)	(157)
Balance at 30 June 2019	9,567	7,247	3,110	19,924

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 $23.3 million will be required evenly over the 10-year period covering the 2046 to 2055 financial years, with a net present value at balance date of $7.0 million (2018: $5.5 million).

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

- An average inflation rate over the 40-year provision period of 3.35%
- A range of risk-free discount rates from 1.72% to 4.54% have been applied in calculating the net present value (2018: 4.75%)
- An expected biosolids completion date of 30 years from 2015 (the date biosolid activity commenced)
- Aftercare activities will be required for a period spanning 10 years from completion
- The exact extent of work required to restore the site, along with quantities of materials and supplies, is unknown; therefore, an estimate has been made based on the information available at balance date.

Other provisions of $3.1 million relates to claims made by contractors in respect of capital projects and the restructuring provision (2018: $3.0 million).

24. Equity and related parties

Equity

Watercare is 100% owned by Auckland Council. The total number of authorised and issued shares at balance date was 260,693,164 (2018: 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 10, page 83.

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 first three controlled entities noted below. Consolidation involves adding together like items of assets, liabilities, equity, revenue and expenses on a line-by-line basis. All significant intra-group balances, transactions, revenues and expenses are eliminated on consolidation.

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

Water Utility Consumer Assistance Trust

Water Utility Consumer Assistance Trust was formed in October 2011 and is a charitable trust. 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. During 2010/11, Watercare became the primary funder of this trust and, at 30 June 2019, two of the five trustees on the board were current Watercare employees.

Auckland City Water Limited

Auckland City Water Limited is 100% owned (2018: 100%) by Watercare and it is a non-trading company.

Hūnua Forests Limited

On 14 May 2019 Hūnua Forests Limited was removed from the New Zealand Companies Office register; prior to this, Watercare Services Limited owned 100% of this company.

Transactions with related parties

Watercare entered into borrowing arrangements with Auckland Council on the terms set out in note 8, page 81. With the centralised treasury function effective from 1 July 2018, intercompany interest rate swaps with Auckland Council were closed out. Loss on the close-out of $0.8 million is recorded in the statement of comprehensive revenue and expense.

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

	2019 $000	2018 $000
Loans from Auckland Council, balance at 30 June	1,699,000	1,470,976
Interest payable on loans from Auckland Council	5,667	6,554
Interest expense on loans from Auckland Council	82,184	40,997
Loans borrowed from Auckland Council during the year	625,854	250,000
Loans repaid to Auckland Council during the year	484,907	80,839
Interest expense on swaps (net) with Auckland Council	–	361
Debt guarantee expense with Auckland Council	–	146

24. Equity and related parties (continued)

Transactions with related parties (continued)

The group has a loss offset and subvention arrangement with Auckland Council tax group as detailed in note 15, page 93.

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

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

	2019 $000	2018 $000
Sales to related parties	21,065	21,171
Trade receivables from exchange transactions – related parties	2,570	1,157
Purchases from related parties	5,022	2,998
Land rates – Auckland Council	2,415	2,165
Trade payables for exchange transactions – related parties	505	53
Receivables accruals – related parties	5,018	6,555
Payables accruals – related parties	2,440	1,528

25. Commitments

	2019 $000	2018 $000
Capital expenditure		
The capital expenditure committed to, but not recognised in these financial statements at balance date was:		
Buildings	2,568	2,836
Pipelines	1,027,999	142,914
Tanks, tunnels, roads and reservoirs	99,601	36,347
Intangibles	14,680	1,378
Other	27,232	33,863
Total capital expenditure commitments	1,172,080	217,338
Anticipated payment schedule		
Less than one year	448,622	113,730
One to two years	105,760	98,269
Two to five years	601,395	3,627
Beyond five years	16,303	1,712
Total capital expenditure commitments	1,172,080	217,338

At 30 June 2019 the Central Interceptor Main Works Contract is included within these capital commitments.

25. Commitments (continued)

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 (2018: $0.6 million) for the water catchment areas was included in these commitments at face value. Other leases include parks, reservoirs and office equipment.

	2019 $000	2018 $000
Operating leases		
Anticipated payments under non-cancellable operating leases:		
Less than one year	6,908	6,573
One to two years	6,565	6,503
Two to five years	19,673	18,523
Beyond five years	81,576	84,781
Total lease commitments	114,722	116,380

26. Contingencies

There are no contingencies to report at balance date.

27. 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 2019 was $2.3 million (2018: $2.2 million).

28. Key management personnel

The key management personnel of the group are the directors, the chief executive, the senior management team of Watercare, and the trustees of the subsidiaries, who together constitute the governing body of the group. The number of individuals, on a full-time equivalent (FTE) basis, excluding directors and trustees, receiving remuneration from the group as key management personnel is 9 FTE (2018: 10FTE). The aggregate remuneration received by the key management personnel is shown below:

	2019 $000	2018 $000
Employees' salaries and wages, directors' fees and trustees' fees	4,638	4,512
Aggregate remuneration	4,638	4,512

28. Key management personnel (continued)

DIRECTORS' FEES	APPOINTED	2019 $000	2018 $000
Margaret Devlin (Chair – appointed November 2016)	November 2016	108	108
Julia Hoare	November 2013	68	67
Catherine Harland	April 2011	62	66
Nicola Crauford	April 2014	62	56
Brendon Green	November 2016	58	54
David Thomas	November 2014	54	54
Annette King (resigned December 2018)	November 2017	31	39
Tony Lanigan (resigned October 2017)	April 2011	–	18
Total		443	462

TRUSTEES' FEES	APPOINTED	2019 $000	2018 $000
Watercare Utility Consumer Assistance Trust			
Jeff Morrison (Chairman)	December 2015	8	8
Maureen Little	October 2011	5	5
Lauren Godsiff	October 2011	6	6
Emily Charlton-Rapana	July 2015	5	5
Total		24	24
Watercare Harbour Clean Up Trust			
Peter Drummond (Chairman)	April 2015	–	–
Penny Whiting	April 2015	–	–
Brian Monk	April 2015	–	–
Mark Bourne	April 2015	–	–
Rob Fisher	April 2015	–	–
Total		–	–

DIRECTORS' FEES	APPOINTED	2019 $000	2018 $000
Hūnua Forests Limited (ceased 19 March 2019)			
Brian Monk	January 2017	–	–
Rob Fisher	January 2017	–	–
Total		–	–

29. Events occurring after balance date

On 16 August 2019 a long term agreement for the provision of water, wastewater and stormwater services to Waikato District Council by Watercare was executed, effective from 1 October 2019. The water assets will stay in the ownership of Waikato District Council and they will pay Watercare for the provision of both operational and capital delivery services.

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 ($)	2019 NUMBER OF EMPLOYEES
100,000 – 110,000	60*
110,001 – 120,000	64*
120,001 – 130,000	41*
130,001 – 140,000	17
140,001 – 150,000	20*
150,001 – 160,000	13
160,001 – 170,000	9*
170,001 – 180,000	5
180,001 – 190,000	2
190,001 – 200,000	6*
200,001 – 210,000	4
210,001 – 220,000	1
220,001 – 230,000	1
230,001 – 240,000	4*
240,001 – 250,000	1
250,001 – 260,000	1
290,001 – 300,000	2
300,001 – 310,000	2
310,001 – 320,000	1
350,001 – 360,000	1
370,000 – 380,000	1
380,000 – 390,000	1
430,000 – 440,000	1*
770,000 – 780,000	1

* During the year final payments were made to a total of fifteen staff who left the company. These payments included outstanding annual leave and long service leave entitlements and in some cases redundancy payments.

Provide uninterrupted access to safe, clean and drinkable water

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

(SOI Target 2018/19: = 100% – Achieved: 100%; previous year: 100%)

Watercare met this target. Water treated at all of our graded treatment plants met the Bacterial Compliance Criteria set by the Drinking Water Standards for New Zealand (DWSNZ). 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. The reported result is based on the grading achieved in November 2018, for the year beginning 1 July 2017 and ending 30 June 2018 inclusive. The 2018/19 result will be available after the grading in November 2019 for the year beginning 1 July 2018 and ending 30 June 2019.

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

(SOI Target 2018/19: =100% – Achieved: 100%; previous year: 100%)

Watercare met this target. Water treated at all of our graded treatment plants met the Protozoal Compliance Criteria set by the Drinking Water Standards for New Zealand (DWSNZ). 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. The reported result is based on the grading achieved in November 2018, for the year beginning 1 July 2017 and ending 30 June 2018 inclusive. The 2018/19 result will be available after the grading in November 2019 for the year beginning 1 July 2018 and ending 30 June 2019.

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

(SOI Target 2018/19: ≤ 60 mins – Achieved: 50 mins; previous year: 54 mins)

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

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

(SOI Target 2018/19: ≤ 5 hours – Achieved: 2.8 hours; previous year: 3 hours)

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

(v) Median response time for attendance of non-urgent call-outs: from the time that Watercare receives notification to the time that service personnel reach the site. (SOI Target 2018/19: ≤ 5 days – Achieved: 1.3 days; previous year: 3 days)

Watercare met this target. The median response time for our maintenance crew to attend to non-urgent water issues was 1.3 days, which met the target of five days or fewer.

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

(SOI Target 2018/19: ≤ 6 days – Achieved: 2.1 days; previous year: 3 days)

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

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

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

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

(SOI Target 2018/19: ≤ 10 – Achieved: 4.4; previous year: 4)

Watercare met this target. It relates to the volume of calls we received regarding water quality and supply issues for the year ended 30 June 2019. The number of complaints received per 1000 connections was 4.4, which is well within the target of 10 or fewer.

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

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

(SOI Target 2018/19: ≤ 10 – Achieved: 0.59; previous year: 0.3)

Watercare met this target. The number of wastewater overflows from our retail network during dry weather is a measure of the network's capability to meet current demand. The result for the year was 0.59 dry-weather overflows per 1000 connections, which is well under the target of 10 or fewer.

Dry-weather overflows are generally caused by incorrect disposal of fats, oils and grease down the wastewater network which lead to blockages in the pipes resulting in wastewater overflows.

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

a) abatement notices
b) infringement notices
c) enforcement orders
d) convictions

received by Watercare in relation to those resource consents.

(SOI Target 2018/19: 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 2018/19 year.

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

(SOI Target 2018/19: ≤ 60 mins – Achieved: 43 mins; previous year: 48 mins)

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

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

(SOI Target 2018/19: ≤ 5 hours – Achieved: 2.8 hours; previous year: 3 hours)

Watercare met this target. The median response time for our maintenance crew to resolve wastewater overflows or blockages was 2.8 hours, which is within the target of five hours or less.

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

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

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

(SOI Target 2018/19: ≤ 50 – Achieved: 18.4; previous year: 19)

Watercare met this target. It relates to the volume of calls we received regarding wastewater odours, overflows, broken pipes and other network issues for the year ended 30 June 2019. The number of complaints received per 1000 connections was 18.4, which is well within the target of 50 or fewer.

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

(SOI Target 2018/19: ≤ 2 – Achieved: 1.2; previous year: 1.7)

Watercare met this target. The number of wet-weather overflows for the transmission network (bulk mains) per number of discharge locations was 1.2, which is within the target of two or fewer overflows.

Customer satisfaction

(i) Net promoter score.

(SOI Target 2018/19: >30 – Achieved: 43; new measure)

Net Promoter Score (NPS) is commonly used by utilities as a measure of customer loyalty. We use it to measure how satisfied our customers are with Watercare across all their interactions whether it is in person, by phone, email or on our website.

While our NPS of 43 is a great improvement on previous years, we will continue to raise the bar in our pursuit of winning the confidence and trust of all our customers. We will continue to invest time and effort to understand the root causes of the things that frustrate our customers, actively drive improvements in our processes and behaviours, adopting a more empathetic and resolution-driven approach.

Effective management of resources

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

(SOI Target 2018/19: ≤ 13% – Not achieved: 13.1%; previous year: 13.1%)

Watercare did not meet this target, with water loss over (13.1%) the specified target (13%). The water losses in this measure are calculated by deducting water sales volumes and unbilled water usage from the total volume of water produced.

These unbilled uses fall into three categories: operational usage (pipeline flushing, fire-fighting etc.); meter under-recording; and unauthorised usage. While leaks are one of the sources of water loss, we have evidence that water is being taken from our network illegally, through hydrants. A taskforce has been established to further investigate unauthorised usage and take all necessary steps to address this unauthorised use.

We continue to focus on improving the accuracy of measuring total volume of water produced, as detailed in the 2017/18 report. We are continuing to improve the accuracy of our Bulk Supply Points (BSP) and other opportunities to improve granularity of water supply data. We plan to establish district metered areas, which are discrete areas of a water distribution network. This will allow us to measure water consumption at a suburb level and enable more accurate total volume of water analysis, and better identification of unbilled uses.

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

(SOI Target 2018/19: 266 +/- 2.5% –achieved: 270.7; previous year: 278.4)

Watercare met this target, despite the 2018/2019 year being one of high demand. The gross per-capita consumption was 270.7 litres per day this year, against a target of 266 litres per day (+/- 2.5%). The demand for water from Aucklanders was higher than expected in 2018/19 as Auckland experienced unusually warm and dry summer and winter periods. Aucklanders used a record-breaking 544 million litres of water on 13 February 2019 (40 million litres more than the previous record in December 2017).

Contributing to the high demand is the fact that consumers that depend on rainwater tanks needed to purchase more water from tanker operators during the warm and dry periods of the year. This means that the water sold to tanker operators, which is supplied by our metropolitan network, is then distributed to consumers that are not connected to our metropolitan network.

This year, we have used the Statistic NZ 2018 medium projection which includes non-residents (e.g. consumers living in commercial rest homes, hotels and hospitals in the metropolitan area) for the population figure as non-residents also account for demand for water supply in the Auckland region.

To ensure we report water consumption accurately, we have used the most up to date number for water connections, based on 2018 percentage of people who are connected to our network, instead of the 2013 percentage used in previous years' calculations.

The water efficiency programme continued to engage with Aucklanders in various ways including social media, customer newsletters, public events like home and garden shows and in-house water audits as part of the Be Waterwise programme offered in partnership with EcoMatters.

Deloitte.

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

Report on sustainability content within the 2019 Annual Report

Watercare Services Limited's Annual Report for the year ended 30 June 2019 (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 109 to 111.

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 8 to 55 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 2019.

Basis for Conclusion

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

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

Board of Directors' Responsibility

The Board of Directors is responsible for:

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

Our Independence and Quality Control

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

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

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

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

Independent Accountant's Responsibility

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

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

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

Our procedures included:

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

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

Inherent Limitations

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

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

Use of Report

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

Deloitte Limited

Chartered Accountants
17 September 2019

Auckland, New Zealand

General disclosures

GRI 102: General disclosures 2016	
Organisational profile	
102-1	Watercare Services Limited
102-2	Water supply and wastewater services
102-3	Auckland, New Zealand
102-4	New Zealand
102-5	100% owned by Auckland Council
102-6	i. Auckland, New Zealand ii. Public sector iii. Auckland public
102-7	People and Culture p.22, Financial Capital and Resources p.40, Reporting Scope and Materiality p.Inside Cover, Materiality and Stakeholder Inclusiveness p.54-55, Financials p.65
102-8	People and Culture p.22
102-9	Financial and Capital Resources p.43
102-10	No change in size, structure or ownership over the reporting period
102-11	Governance p.46-51 (including Enterprise risk management p.51)
102-12	Watercare has not endorsed any external charters
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.49
Governance	
102-18	Reporting Scope and Materiality p.Inside Cover, Materiality and Stakeholder Inclusiveness p.54-55
Stakeholder engagement	
102-40	Reporting Scope and Materiality p.Inside Cover, Materiality and Stakeholder Inclusiveness p.54-55
102-41	People and Culture p.23
102-42	Reporting Scope and Materiality p.Inside Cover, Materiality and Stakeholder Inclusiveness p.54-55
102-43	Reporting Scope and Materiality p.Inside Cover, Materiality and Stakeholder Inclusiveness p.54-55
102-44	Reporting on what's important p.54
Reporting practice	
102-45	Refer Financials p.58-103
102-46	Reporting Scope and Materiality p.Inside Cover, Materiality and Stakeholder Inclusiveness p.54-55
102-47	Reporting Scope and Materiality p.Inside Cover, Materiality and Stakeholder Inclusiveness p.54-55, Chair and chief executives report p.8-11
102-48	No significant change
102-49	No significant change
102-50	1 July 2018 to 30 June 2019
102-51	September 2018
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.110-112
102-56	Annual report Assurance statements p.62-63, p.108-109

Material topics	
103-1	Material topics have been selected as a result of our Value Creation Model p.4-5 and engagement with stakeholders Materiality and stakeholder inclusiveness p.54-55
103-3	Becoming future fit p.12-43
Category: Economic	
GRI 201: Economic performance 2016	
103-2	Chair and chief executive's report p.8-11, Materiality and stakeholder inclusiveness p.54
201-1	Financial and capital resources p.40, Financials p.58-103
201-2	Chair and chief executive's report p.8-11, Materiality and stakeholder inclusiveness p.54, Enterprise risk management p.52, Financial capital and resources p.40, Climate change p.16
201-4	Nil
GRI 203: Indirect economic impacts 2016	
103-2	Assets and infrastructure p.32, Financial capital and resources p.40, Materiality and stakeholder inclusiveness p.54
203-1	Assets and infrastructure p.32, Financial capital and resources p.40
Category: Environmental	
GRI 302: Energy 2016	
103-2	Natural environment p.12-13, Materiality and stakeholder inclusiveness p.54
302-1	Natural environment p.18
GRI 303: Water 2016	
103-2	Chair and chief executive's report p.9 Materiality and stakeholder inclusiveness p.54
303-1	Natural environment p.14
303-2	Natural environment p.14-15
GRI 304: Biodiversity 2016	
103-2	Natural environment p.12-13, Materiality and stakeholder inclusiveness p.54
304-1	Natural environment p.15
GRI 305: Emissions 2016	
103-2	Natural environment p.17, Materiality and stakeholder inclusiveness p.54
305-1	Natural environment p.17
305-5	Natural environment p.17
GRI 307: Environmental compliance 2016	
103-2	Chair and chief executive's report p.8-11, Natural environment p.19 Materiality and stakeholder Inclusiveness p.54
307-1	Statement of service performance p.104-106 Natural Environment p.19

Category: Social	
GRI 401: Employment 2016	
103-2	People and culture p.20-21, Materiality and stakeholder inclusiveness p.54
401-1	People and culture p.22, p.24
401-3	People and culture p.24 (partially reported to this GRI Standard)
GRI 403: Occupational health and safety 2016	
103-2	People and culture p.25, Materiality and stakeholder inclusiveness p.54
403-1	People and culture p.25
403-2	People and culture p.25 (partially reported to this GRI Standard)
403-4	People and culture p.25
GRI 404: Training and education 2016	
103-2	People and culture p.20-21, Materiality and stakeholder inclusiveness p.54
404-2	People and culture p.21 and p.23
404-3	People and culture p.23
GRI 405: Diversity and equal opportunity 2016	
103-2	People and culture p.20-21, Materiality and stakeholder inclusiveness p.54
405-1	Leadership and governance p.44-45, People and culture p.22 (partially reported to this GRI Standard)
405-2	People and culture p.25
GRI 413: Local communities 2016	
103-2	Reporting Scope and Materiality - Inside cover Materiality and stakeholder inclusiveness p.54-55
413-1	Chair and chief executive's report p.8-11 Customer and stakeholder relationships p.27
413-2	Chair and chief executive's report p.8-11 Customer and stakeholder relationships p.27
GRI 416: Customer health and safety 2016	
103-2	Natural environment p.12-13
416-1	Performance snapshot p.7 People and culture p.25
416-2	Statement of service performance p.104-106 Natural environment p.19
GRI 419: Socioeconomic compliance 2016	
103-2	People and culture p.20, Financial capital and resources p.40
419-1	No non-compliance reported

Inputs – Value In

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

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

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

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

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

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

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

Outcomes – Value Out

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

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

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

Social and relationships capital
- We provide 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

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.
Strategic Transformation Programme	Watercare's enterprise-wide digital transformation programme that is being delivered using agile principles. It will improve productivity by delivering better systems and insights for staff, enabling them to make more informed decisions.
Subvention receipt	Amount received/receivable from a profit company by a loss company for the sale of tax losses.
Sustainability	Meeting current needs without compromising future generations' ability to meet their own needs.
Tāmaki Makaurau	The Auckland isthmus region (origin: Māori).
Tangata whenua	Indigenous people of the land (origin: Māori).
Trade waste	Any discharge into a sewer in the course of an industry or trade process.
Unaccounted-for water loss	Water that is lost before it reaches the customer. Losses can be real losses (through leaks) or apparent losses (e.g. through theft or metering inaccuracies).
Vested assets	Infrastructure assets transferred to Watercare by external parties: e.g. developers, New Zealand Transport Agency, Veolia Water Services (ANZ) Pty Limited.
Wastewater	Liquid or solid matter discharged into the sewerage network from domestic, commercial or industrial locations.

Watercare Services Limited
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Watercare
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