8

ANNUAL FINANCIAL REPORT

Annual Financial Report

CONTENTS

KEY	Judgements and estimates	Risks	COVID-19 impacts	Climate change impacts

Board Members' Report

The Board of The Northern SEQ Distributor-Retailer Authority trading as Unitywater (Unitywater) is pleased to submit this Annual Financial Report of the Unitywater Group (the Group) for the financial year ended 30 June 2021.

The Board Members' Report is as follows:

BOARD

The names of the Board members in office at any time during, or since the end of, the year are:

i. Michael Arnett – Chairman (appointed Chairman 1 October 2020)
ii. Jim Soorley – Chairman (ceased 30 September 2020)
iii. Sharon Doyle (ceased 30 September 2020)
iv. Mike Williamson
v. Fiona Waterhouse
vi. Megan Corfield (appointed 1 October 2020)
vii. Sarah Zeljko (appointed 1 October 2020)

These Board members have been in office since the start of the financial year to the date of this report, unless otherwise stated. Please refer to the Our Board section of the Unitywater Annual Report 2020-21 for details of Board members' qualifications, experience and special responsibilities.

PRINCIPAL ACTIVITIES

The principal activities of Unitywater during the financial year were water supply and sewage collection, transport and treatment services to the Moreton Bay, Sunshine Coast and Noosa communities.

OPERATING RESULTS

The profit of the Group after providing for income tax expense, amounted to $138,578,500 (2020: $143,410,500).

REVIEW OF OPERATIONS

A review of the Group's operations during the financial year and the results of those operations are contained in the Unitywater Annual Report 2020-21.

COVID-19

The world-wide economy continues to be significantly impacted by the COVID-19 virus. In acknowledgement of this uncertain time and the difficulties our customers may be facing, Unitywater offered a number of relief initiatives for both our residential and business customers. As a financially responsible statutory body with a robust Statement of Financial Position, Unitywater is equipped to support the community in this way whilst still meeting its current and future financial obligations.

CLIMATE CHANGE

Unitywater has developed a number of plans and is in the process of developing further plans in response to the impact of climate change. Potential impacts on the Group are outlined in Note 1.2.8. Further information can be found in the body of the Annual Report under Climate and variation within the Risk management and accountability section.

Board Members' Report

EVENTS AFTER THE REPORTING PERIOD

In the opinion of the Board members, there has not been any item, transaction or event of a material or an unusual nature that has arisen between the end of the financial year and the date of this report that is likely to significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

FUTURE DEVELOPMENTS

Unitywater will continue to pursue its objective of delivering high quality and affordable water supply and sewerage services for customers in the Sunshine Coast, Moreton Bay and Noosa regions.

ENVIRONMENTAL REGULATIONS

The Group's operations are subject to environmental regulations under both Commonwealth and State legislation. Unitywater's Board maintains oversight of key environmental risks and obligations and is committed to achieving a high standard of environmental performance. The Board has established appropriate governance arrangements in relation to the environment. The Group is responsible for the regular monitoring of environmental exposures, review of incident trends, environmental initiatives, endorsement of recommendations for environmental improvement policies, programs and investments, as well as compliance with environmental regulations.

SAFETY COMPLIANCE

Unitywater's operations are subject to Workplace Health and Safety legislation. The Board maintains oversight of key safety risks and obligations and is committed to keeping our people free from harm. Unitywater undertakes key programs of work to address key and emerging risks, and to continuously improve the organisation's safety management system. These programs include improving our safety culture through personal and collaborative responsibility for safety. This extends to our service delivery partners (contractors) where we developed a Collaborative Safety Agreement to drive common standards and improvements. Unitywater is accredited to ISO standard 45001 for management systems of occupational health and safety, with the goal of reducing injuries, diseases and protecting physical and mental health. The organisation does this through the provision of comprehensive health monitoring, health support and employee assistance programs that are delivered in conjunction with external partners. The Board monitors the organisations health and safety performance including progress on initiatives, emerging risks and incident trends.

PARTICIPATION RETURNS

Participation returns paid or declared by Unitywater during the 2021 financial year were:

	Total amount 2021 $'000	Total amount 2020 $'000
Final participation return	35,190	32,848

Refer to Note 5.2 of the consolidated financial statements for details of participation returns paid or payable.

Board Members' Report

REMUNERATION AND OTHER INTERESTS OF BOARD MEMBERS AND EXECUTIVES

Note 3.3 of the consolidated financial statements provides details of Board members' and executives' remuneration. Between 1 July 2020 and 30 June 2021, no Board member has received or become entitled to receive a benefit, other than as disclosed in that note. Any other interests Board members or executives have in Group transactions are outlined in Note 8.3 of the consolidated financial statements.

INDEMNIFICATION OF BOARD MEMBERS AND OFFICERS

Indemnification of Board members of Unitywater

Unitywater has agreed to indemnify Michael Arnett, Mike Williamson, Fiona Waterhouse, Megan Corfield and Sarah Zeljko, being current Board members of Unitywater, and other former Board members of Unitywater, against all liabilities to another person (other than Unitywater or a related body corporate) that may arise from their position as a Board member of Unitywater, except where the liability arises out of conduct involving a lack of good faith or liability against which Unitywater is not permitted by law to exempt or indemnify the Board member in accordance with the *South-East Queensland Water (Distribution and Retail Restructuring) Act 2009* and regulations.

Indemnification of Board members of Unitywater Group and officers appointed to boards and committees

Unitywater has agreed to indemnify any Board members or officers who are nominated by Unitywater's Board to represent Unitywater on boards, directorships and committees to the extent as follows:

i. Indemnities provided to former Board members continue for seven years following their resignation from that position, in accordance with the terms of the deed of indemnity.

ii. Other officers appointed to boards, directorships and committees are indemnified in accordance with the terms of Unitywater's directors' and officers' liability insurance policy.

Insurance premiums

Premiums have been paid on policies of insurance for former and current Board members and officers. Disclosure of the nature of the liability covered by and premiums paid under these contracts of insurance is prohibited by the terms of the insurance contracts.

Board Members' Report

BOARD MEMBERS' MEETINGS

The numbers of meetings of Unitywater's Board members and each Board committee held and attended by each Board member during the year ended 30 June 2021 were:

			Committee meetings									
Board Member	Board meetings		Audit and Risk		People and Culture		Sustainability and Innovation[1]		Capital Works[1]		Capital Investment and Innovation[1]	
(A)ttended / **(E)**ligible	A	E	A	E	A	E	A	E	A	E	A	E
Michael Arnett – Chairman[2]	10	10	4	4	1	1	-	-	1	1	6	6
Jim Soorley – Chairman[2]	3	3	-	-	1	1	-	1	1	1	-	-
Sharon Doyle[2]	3	3	1	1	1	1	-	-	-	-	-	-
Mike Williamson	10	10	-	-	-	-	1	1	1	1	6	6
Fiona Waterhouse	10	10	1	1	2	2	1	1	-	-	6	6
Megan Corfield[2]	7	7	3	3	2	2	-	-	-	-	-	-
Sarah Zeljko[2]	7	7	3	3	2	2	-	-	-	-	-	-

[1] *The Capital Works Committee combined with the Sustainability and Innovation Committee to form the Capital Investment and Innovation Committee in October 2020.*

[2] *As outlined at the beginning of the report, a number of Board Members were appointed or ceased to serve during the year. The eligible meetings above represent the number held while the Board Member was in office and eligible to attend.*

ROUNDING OF AMOUNTS

Amounts in the consolidated financial statements and Board members' report have been rounded to the nearest thousand dollars, unless otherwise stated.

Michael Arnett

Chairman
Unitywater
19 August 2021
Caboolture, Queensland

Consolidated Statement of Profit or Loss

for the year ended 30 June 2021

	Notes	2021 $'000	2020[1] $'000
Revenue			
Utility charges	2.1	581,200	578,791
Developer contributions	2.2	113,410	123,257
Other revenue	2.3	29,220	28,021
Total revenue		**723,830**	**730,069**
Expenses			
Bulk water purchases	2.4	(204,560)	(205,058)
Supplies and services	2.5	(84,801)	(82,893)
Employee expenses	3.1	(73,033)	(71,870)
Depreciation and amortisation	4.1, 4.2, 4.3	(90,830)	(83,927)
Borrowing costs	5.8	(64,693)	(70,264)
Other expenses	2.6	(7,997)	(11,308)
Total expenses		**(525,914)**	**(525,320)**
Profit before income tax expense		**197,916**	**204,749**
Income tax expense	7.1	(59,338)	(61,339)
Profit for the year		**138,578**	**143,410**

[1] *Comparatives restated (see Note 1.2.7).*

The Consolidated Statement of Profit or Loss should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position

as at 30 June 2021

	Notes	2021 $'000	2020[1] $'000
Current assets			
Cash and cash equivalents	5.3	135,173	102,162
Trade and other receivables	5.4	140,436	164,862
Other assets	8.1	8,720	7,985
Total current assets		**284,329**	**275,009**
Non-current assets			
Trade and other receivables	5.4	1,233	1,247
Property, plant and equipment	4.1	3,847,397	3,733,103
Intangible assets	4.2	44,130	31,890
Right of use assets	4.3	6,024	8,178
Other assets	8.1	10,239	3,970
Total non-current assets		**3,909,023**	**3,778,388**
Total assets		**4,193,352**	**4,053,397**
Current liabilities			
Trade and other payables	5.6	103,741	87,966
Contract liabilities	5.5	31,495	24,043
Employee benefits provision	3.4	21,019	21,239
Lease liabilities	5.7	2,258	2,224
Other liabilities	8.2	1,062	1,344
Total current liabilities		**159,575**	**136,816**
Non-current liabilities			
Contract liabilities	5.5	1,000	1,000
Employee benefits provision	3.4	1,832	1,584
Lease liabilities	5.7	4,727	7,201
Borrowings	5.8	1,557,652	1,557,652
Deferred tax liabilities	7.1	207,621	191,587
Other liabilities	8.2	582	582
Total non-current liabilities		**1,773,414**	**1,759,606**
Total liabilities		**1,932,989**	**1,896,422**
Net assets		**2,260,363**	**2,156,975**
Equity			
Contributed equity	5.2	1,434,782	1,434,782
Retained earnings		825,581	722,193
Total equity		**2,260,363**	**2,156,975**

[1] *Comparatives restated (see Note 1.2.7).*

The Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

for the year ended 30 June 2021

	Notes	Retained earnings $'000	Contributed equity $'000	Total $'000
Balance at 30 June 2019[1]		**602,892**	**1,434,782**	**2,037,674**
Adjustment on initial application of AASB 16 *Leases*, net of tax		(1,443)	-	(1,443)
Developer contributions - donated assets adjustment, net of tax	4.1	10,182	-	10,182
Restated balance at 1 July 2019		**611,631**	**1,434,782**	**2,046,413**
Total distribution to participants	5.2	(32,848)	-	(32,848)
Profit for the year		143,410	-	143,410
Balance at 30 June 2020[1]		**722,193**	**1,434,782**	**2,156,975**
Total distribution to participants	5.2	(35,190)	-	(35,190)
Profit for the year		138,578	-	138,578
Balance at 30 June 2021		**825,581**	**1,434,782**	**2,260,363**

[1] Comparatives restated (see Note 1.2.7).

The Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

for the year ended 30 June 2021

	Notes	2021 Inflow / (Outflow) $'000	2020[1] Inflow / (Outflow) $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		631,651	562,181
Developer contributions		61,857	55,443
Government grants and subsidies		3,583	3,799
Interest received		906	2,905
Goods and services tax refunded (net)		21,983	22,630
Payments to suppliers (inclusive of GST)		(304,771)	(305,760)
Payments to employees		(73,067)	(74,163)
Borrowing costs		(65,951)	(71,366)
Income tax payments		(37,227)	(38,591)
Net cash inflow from operating activities	5.3	**238,964**	**157,078**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		836	2,438
Payments for property, plant and equipment and intangibles		(160,060)	(160,305)
Payment for investment in associate		(6,274)	-
Net cash (outflow) from investing activities		**(165,498)**	**(157,867)**
Cash flows from financing activities			
Proceeds from borrowings (Queensland Treasury Corporation)		95,821	87,021
Proceeds from lease liabilities		22	94
Repayments of lease liabilities		(2,462)	(2,099)
Repayments of borrowings		(95,821)	(87,021)
Participation return payments		(38,015)	(34,428)
Net cash (outflow) from financing activities		**(40,455)**	**(36,433)**
Net increase / (decrease) in cash and cash equivalents		33,011	(37,222)
Cash and cash equivalents at the beginning of the year		102,162	139,384
Cash and cash equivalents at the end of the year	5.3	**135,173**	**102,162**

[1] *Comparatives restated (see Note 1.2.7).*

The Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

1 About this financial report

1.1 REPORTING AUTHORITY

The Northern SEQ Distributor-Retailer Authority trading as Unitywater has been established under the *South-East Queensland Water (Distribution and Retail Restructuring) Act 2009* (the Restructuring Act) and is a Queensland statutory body under the *Financial Accountability Act 2009* and the *Statutory Bodies Financial Arrangements Act 1982*.

Unitywater is governed by an independent Board under the *Northern SEQ Distributor-Retailer Authority Participation Agreement* (the Participation Agreement) and the Restructuring Act on behalf of its three participating Councils, Moreton Bay Regional Council, Sunshine Coast Council and Noosa Council (the participants).

In accordance with the Restructuring Act, Unitywater expires at the end of 99 years from when it was established on 3 November 2009 and the participants become the successor in law of the assets and liabilities in accordance with their participation rights at the expiry date of the Northern SEQ Distributor-Retailer Authority.

Unitywater is a for profit entity for the purpose of reporting and is required to provide commercial returns to its participants per the Participation Agreement based on each participant's share of the Regulated Asset Base, comprising debt and participation rights as agreed by the Participating Councils and Unitywater. Refer to Note 5.2 for participation rights allocation.

Unitywater's primary function is the provision of water and sewerage services for its geographic area as set out in Section 11(1) of the Restructuring Act.

1.2 BASIS OF PREPARATION

1.2.1 Basis of consolidation

The Group financial statements comprise the audited general purpose financial statements of Unitywater and the subsidiaries it controls (see Note 8.4), for the year ended 30 June 2021. Each member of the group uses the same reporting period and accounting policies. All material intra-group transactions and balances are eliminated on consolidation. Subsidiaries are consolidated from the date control commences, to the date it ceases.

1.2.2 Statement of compliance

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with:

i. Applicable Australian Accounting Standards (AAS) which include Interpretations, issued by the Australian Accounting Standards Board (AASB)
ii. The *Financial Accountability Act 2009*
iii. The *Financial and Performance Management Standard 2019*
iv. Queensland Treasury's *Financial Reporting Requirements for Queensland Government Agencies* (as applicable to statutory bodies)
v. *Statutory Bodies Financial Arrangements Act 1982*
vi. The exemptions under the *South-East Queensland Water (Distribution and Retail Restructuring) Act 2009*
vii. Other authoritative pronouncements

The consolidated financial statements were authorised for issue by the Board on 18 August 2021.

1 About this financial report

1.2 BASIS OF PREPARATION

1.2.3 Measurement basis

These consolidated financial statements have been prepared on an historical cost basis using the going concern assumption.

The Group has reviewed its ongoing operations in the light of COVID-19 and remains confident that application of the going concern assumption is appropriate.

Additionally, fair value is used for other measurement purposes. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Further information about the assumptions made in measuring fair value is included in Notes 2.2, 4.1, 4.4 and 6.1.

1.2.4 Classification as Current or Non-current

An asset or liability is current if the Group expects to realise or settle it within twelve months of the reporting period.

In addition, cash or cash equivalents, and liabilities which the Group does not have the unconditional right to defer for at least twelve months after the reporting period, are considered current.

All other assets and liabilities are classified as non-current.

1.2.5 Presentation currency

These consolidated financial statements are presented in Australian dollars. Amounts included in the financial statements have been rounded to the nearest thousand dollars, unless otherwise stated.

1.2.6 Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the Consolidated Statement of Financial Position.

Cash flows are included in the Consolidated Statement of Cash Flows on a gross GST basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

1 About this financial report

1.2 BASIS OF PREPARATION

1.2.7 Comparatives

Comparative information has been restated as follows:

i. Unitywater Group is now preparing consolidated financial statements comprising all its controlled entities as, from a qualitative perspective, this information is considered useful to stakeholders.

ii. The Group identified $6.2M during the year relating to Intangible Work in progress incorrectly classified as Property, plant and equipment Work in progress in 2020. This has been corrected in 2021 by restating each of the affected financial statement line items for prior periods.

iii. Adjustments have been made to lease straight-lining in accordance with the requirements of AASB16 *Leases*.

	Reference	As previously reported $'000	Adjustments $'000	As restated $'000
Consolidated Statement of Profit or Loss				
Other revenue	i, iii	(27,998)	(23)	(28,021)
Income tax expense	i, iii	61,332	7	61,339
Consolidated Statement of Financial Position				
Trade and other receivables - current	iii	164,898	(36)	164,862
Trade and other receivables - non-current	i, iii	1,807	(560)	1,247
Property, plant and equipment	ii	3,739,276	(6,173)	3,733,103
Intangible assets	ii	25,717	6,173	31,890
Other assets - non-current	i	2,284	1,686	3,970
Deferred tax liabilities	i, iii	(191,260)	(327)	(191,587)
Retained earnings	i, iii	(721,430)	(763)	(722,193)
Consolidated Statement of Cashflows				
Operating activities - interest received	i, iii	2,882	23	2,905
Investing activities - loan to controlled entity	i	(57)	57	-

1 About this financial report

1.2 BASIS OF PREPARATION

1.2.7 Comparatives

Use of estimates and judgements

The preparation of consolidated financial statements requires management to make estimates, judgements and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the consolidated financial statements are described in the following notes:

Note 1.2 Basis of preparation

Note 2.1 Utility charges

Note 2.2 Developer contributions

Note 2.4 Bulk water purchases

Note 3.4 Employee benefits provision

Note 4.1 Property, plant and equipment

Note 4.2 Intangible assets

Note 4.3 Right of use assets

Note 4.4 Impairment

Note 5.4 Trade and other receivables

Note 5.7 Lease liabilities

Note 6.3 Contingencies

Note 7.1 Income tax

1 About this financial report

1.2 BASIS OF PREPARATION

1.2.8 Climate change

Unitywater continues to develop its assessment of the emerging climate-related risks and opportunities that impact the business. Risks include climate extremes such as floods, droughts, heatwaves, bushfires and tide inundation.

Unitywater assesses the potential impact of the physical risks of climate change in line with Unitywater's Risk Management Framework, through the development of critical plans, including the Drought Management Plan, Emergency Response Plan, Business Continuity Plan, and Water Matters Plan. In limited circumstances, where proposed responses to risks identified in the critical plans are sufficiently mature, they have been incorporated into the forecast cash flows of Unitywater's assets.

During the year, Unitywater developed the Sustainability Pathway which focuses on the development of overarching sustainability goals and strategies to reduce our energy consumption and carbon footprint, and to improve the health of our waterways. The projects to support the Sustainability Pathway are not yet sufficiently mature to be incorporated into the forecast cash flows of Unitywater's assets.

If new risks are identified as part of ongoing climate-related assessment, Unitywater will continue to monitor and assess the impacts as they relate to financial results and the carrying values of assets and liabilities.

1.2.9 COVID-19

The COVID-19 pandemic has had a significant impact on both the Australian and global economy this year. It has had less of an impact on Unitywater's financial position and performance to date. Management currently has a response plan in place including a dedicated COVID-19 response team to co-ordinate communications, liaise with government, establish protocols, review processes requiring adjustment and monitor the situation. Unitywater will continue to review and assess the ongoing development, impacts on financial performance, financial position and cash flows, and respond accordingly.

More specific information on Unitywater's response to COVID-19 from a financial perspective is outlined in the following notes:

Note 1.2	Basis of preparation
Note 2.2	Developer contributions
Note 2.5	Supplies and services
Note 3.1	Employee expenses
Note 3.2	Superannuation
Note 4.4	Impairment
Note 5.4	Trade and other receivables
Note 6.1	Financial risk framework
Note 8.1	Other assets

2 Our performance

This section gives further insight into the financial performance of Unitywater by providing details of Unitywater's earnings and costs.

2.1 UTILITY CHARGES

	2021 $'000	2020 $'000
Revenue from contracts with customers		
Water access charges	107,189	105,737
Water volumetric charges	234,685	237,101
Sewerage access charges	200,511	197,391
Sewerage volumetric charges	38,815	38,562
Total utility charges	**581,200**	**578,791**

Utility revenue comprises variable usage (volumetric) and fixed access charges for the provision of water and sewerage services. It is recognised at the time of supply and customer consumption. Unitywater's performance obligations are met over time as the customer simultaneously receives and consumes the services provided (access to the network and provision of water and sewerage services). Revenue is measured at the price allocated to each service, whether it be access or usage.

Estimation of consumption - Unitywater estimates customer consumption where customer water meters are unread at reporting date. Volumetric estimates are based on historical usage patterns (including consideration of bulk water purchases). Access charge accruals are based upon each customers' access fees for the number of days from the last billing period to the end of the reporting period.

2.2 DEVELOPER CONTRIBUTIONS

	2021 $'000	2020 $'000
Revenue from contracts with customers		
Developer contributions – donated assets	54,723	67,755
Developer contributions – cash	58,687	55,502
Total developer contributions	**113,410**	**123,257**

Unitywater finances part of its capital works infrastructure program through cash contributions from developers. Contributions are also received in the form of donated assets. Cash contributions and donated assets are recognised at a point in time, when network capacity is made available to the developer. This is evidenced by the developer receiving the right to connect to the infrastructure network. Approval to connect constitutes fulfilment of Unitywater's performance obligation in relation to revenue being recognised. Where approval to connect is yet to be given, contributions are shown as a contract liability (refer to Note 5.5 Contract liabilities).

Estimation of developer contributions (donated assets) - The fair value of donated assets is estimated as: the amount that it would cost Unitywater to have the asset constructed (by applying standard market rates by unit), or the total market value of similar assets. This represents the amount recognised as developer contributions – donated assets.

2 Our performance

2.2 DEVELOPER CONTRIBUTIONS

There has not been a slow down in development activity due to uncertainty around the effects of the COVID-19 pandemic. In fact, there has been an increase in the volume of development applications, largely attributable to government initiatives e.g. HomeBuilder, which has resulted in an increase in developer cash contributions received not yet recognised as revenue, see Note 5.5 Contract liabilities.

2.3 OTHER REVENUE

	2021 $'000	2020[1] $'000
Revenue from contracts with customers		
Fees and charges	9,643	8,827
Private works	12,366	9,917
Other	335	332
	22,344	19,076
Other revenue		
Grants and subsidies	3,583	3,799
Interest	878	2,668
Other	2,415	2,478
	6,876	8,945
Total other revenue	**29,220**	**28,021**

[1] *Comparatives restated (see Note 1.2.7).*

2.4 BULK WATER PURCHASES

	2021 $'000	2020 $'000
Bulk water purchases	204,560	205,058
Total bulk water purchases	**204,560**	**205,058**

Bulk water purchases from Seqwater (the sole supplier of bulk water to Unitywater) are recognised as an expense in the period that the water is provided. The price Unitywater pays for bulk water is recommended by the Queensland Competition Authority and determined by the State government.

Estimation of bulk water purchases – Unitywater estimates bulk water purchases where bulk water meters are unread at reporting date. Year-end estimates are provided by region, are typically for a short period of between 3 and 14 days, and are based on recent usage patterns for the region. The expense is measured at the estimated volume multiplied by the region-specific price.

2 Our performance

2.5 SUPPLIES AND SERVICES

	2021 $'000	2020 $'000
Materials and services	82,648	80,920
Consultants and legal fees	1,195	1,146
Other supplies and consumables	958	827
Total supplies and services	**84,801**	**82,893**

Supplies and services generally represent the day-to-day running costs incurred in normal operations. They are expensed in the reporting period in which they are incurred.

Consultants are classified according to the Queensland Government Procurement guidance definition.

As a result of COVID-19, Unitywater has experienced some delays in supply chains and incurring additional incremental operating costs such as information technology data expenses to support remote working and customer communications, preparing offices for COVID-19 measures e.g. social distancing, cleaning and sanitisation. Unitywater has however, managed to mitigate their impact on the overall performance of the entity.

2.6 OTHER EXPENSES

	2021 $'000	2020 $'000
Insurance	1,615	1,244
Audit fees (internal and external)[1]	690	589
Adjustment of expected credit losses	(30)	74
Indirect tax expenses	2,306	2,261
Loss on disposal of property, plant and equipment	2,807	6,210
Other	609	930
Total other expenses	**7,997**	**11,308**

[1] *Total external audit fees quoted by the Queensland Audit Office (QAO) relating to the 2021 consolidated financial statements are estimated to be $251,130 (2020: $251,130). There are no non-audit services included in this amount.*

2 Our performance

2.7 FINANCIAL SUSTAINABILITY

2.7.1 Financial sustainability ratios

The Group seeks to ensure it remains financially sustainable by ensuring that we can meet our financial obligations both current and future, managing and operating our water and sewerage infrastructure in order to meet our customer service obligations, environmental licence conditions and requirements for water quality, and by working to deliver our services to our customers at the lowest cost.

The following ratios reflect measures of financial sustainability and enable comparison with other water sector entities:

i. Operating ratio – Operating profit before income tax expense expressed as a proportion of total revenue. Ongoing positive results are one factor which indicate that sufficient revenue is being generated to fund operating and future capital expenditure.

ii. Capital replenishment ratio – Capital expenditure on construction or replacement of non-current assets divided by depreciation expense on non-current assets. An average above one, over time, indicates that assets are being built or replaced at or above the rate the non-current asset base is being depreciated.

iii. Debt to revenue ratio – Total loans and borrowings divided by total revenue. This indicates the ability to pay principal and interest on borrowings when they fall due, from the funds generated through operations. Based on an optimal gearing ratio of 60%, the benchmark for a water utility debt to revenue ratio would be no more than 3 times.

The results have been disclosed for the current and comparative year as below:

	2021	2020
Financial sustainability metrics		
Operating ratio	27%	28%
Capital replenishment ratio	x 2.4	x 2.6
Debt to revenue ratio	x 2.2	x 2.1

3 Our team

This section provides details of the costs of our employees, including key management personnel, and outlines our related obligations for employee benefits.

3.1 EMPLOYEE EXPENSES

	2021 $'000	2020[1] $'000
Employee benefits		
Salaries and wages	79,660	73,713
Employer superannuation contribution	7,743	7,586
Other employee benefits	588	516
	87,991	81,815
Employee related expenses		
Payroll tax	4,181	4,021
Workers compensation premium	878	1,126
Training	815	1,238
Recruitment	440	568
Other employee expenses	596	796
	6,910	7,749
Less allocations to capital expenditure	(21,868)	(17,694)
Total employee expenses	**73,033**	**71,870**

[1] *The presentation of the employee expenses table has been updated for both the current year and prior year comparatives to reflect gross employee expenses and an additional line added to reflect the allocation of such costs to capital expenditure.*

Employee expenses include costs related to employment. Other employee benefits include directors' fees and redundancy payments. Other employee related expenses include fringe benefits tax, conferences and seminars and employee health expenses. They are expensed in the period in which they are incurred unless they are directly attributable to capital projects in which case they are capitalised and depreciated over the life of the asset.

Unitywater continues to support staff in its response to COVID-19 with a focus on keeping employees connected, and ensuring their safety in the delivery of services across the region.

The number of employees as at 30 June including both full time and part time employees measured on a full time equivalent basis (reflecting Minimum Obligatory Human Resource Information (MOHRI)) is:

	2021	2020
Number of employees	690	682

3 Our team

3.2 SUPERANNUATION

Unitywater contributes to the Local Government Superannuation Scheme Qld (LGIAsuper) for employees under both a defined benefit scheme and an accumulation superannuation scheme. Unitywater has no liability to, or interest in, LGIAsuper other than the payment of the statutory contribution. Contributions are expensed when incurred.

A merger between LGIAsuper and Energy Super took place on 1 July 2021. The merger will see the two funds continue to operate under their existing brands within LGIAsuper. LGIAsuper also recently announced the planned acquisition of Suncorp's superannuation business, Suncorp Portfolio Services Ltd (SPSL). The expected completion date for the transaction is the second half of the 2022 financial year.

Local Government Superannuation Scheme – LGIAsuper

Unitywater contributes to the LGIAsuper Regional Defined Benefits Fund (the scheme), at the rate of 12% for each permanent employee who is a defined benefit member. This rate is set in accordance with the LGIAsuper trust deed and may be varied on the advice of an actuary. The Regional Defined Benefits Fund is a complying superannuation scheme for the purpose of the Commonwealth Superannuation Industry (Supervision) legislation and is also governed by the *Local Government Act 2009*.

The scheme is a pooled defined benefit plan and it is not in accordance with the deed to allocate obligations, plan assets and costs at the entity level.

Any amount by which the scheme is over or under funded may affect future contribution rate obligations, but has not been recognised as an asset or liability of Unitywater.

Unitywater may be liable to the scheme for a portion of another entities' obligations should that entity be unable to meet them. However, the risk of this occurring is extremely low and in accordance with the LGIAsuper trust deed, changes to Unitywater's obligations will only be made on the advice of an actuary.

The last completed actuarial assessment of the scheme as required under Superannuation Prudential Standard 160 was undertaken as at 1 July 2018. The actuary indicated that "At the valuation date of 1 July 2018, the net assets of the scheme exceeded the vested benefits and the scheme was in a satisfactory financial position as at the valuation date." The measure of vested benefits represents the value of benefit entitlements should all participating employees voluntarily exit the scheme. Unitywater is not aware of anything that has happened since that time that indicates the assets of the scheme are not sufficient to meet the vested benefits, as at the reporting date (including the impact of COVID-19).

COVID-19 has introduced more uncertainty into investment markets however the actuary for LGIA does not have any concerns regarding the financial position of the scheme and its sufficiency to cover defined benefit obligations at 30 June 2021.

No changes have been made to prescribed employer contributions which remain at 12% of employee salary or wages, and there are no known requirements to change the rate of contributions.

The next triennial actuarial review is not due until 1 July 2021.

3 Our team

3.2 SUPERANNUATION

Superannuation risks – The most significant risks that may result in LGIAsuper increasing the contribution rate, on the advice of the actuary, are:

Investment risk – The risk that the scheme's investment returns will be lower than assumed and additional contributions are needed to fund the shortfall.

Salary growth risk – The risk that wages or salaries will rise more rapidly than assumed, increasing vested benefits to be funded.

Legislative risk – The risk that the cost of providing the benefits will increase as a result of changes to legislation.

The amount of superannuation contributions by superannuation plan type and fund incurred by Unitywater is as follows:

	2021 $'000	2020 $'000
Superannuation plan		
Regional Defined Benefit Fund – LGIAsuper	416	494
Accumulation Benefit Fund – LGIAsuper	4,702	4,833
Other defined contribution funds	2,625	2,259
Total superannuation contributions	**7,743**	**7,586**

3.3 KEY MANAGEMENT PERSONNEL

3.3.1 Board members

Board members' remuneration is established under the Participation Agreement and is with the unanimous agreement of the participants. Board members' fees include fees paid for membership of Unitywater's Board and relevant Board committees. The Board members who were paid, or were due to be paid from Unitywater were:

	2021 $	2020 $
Remuneration		
Michael Arnett	112,370	51,951
Jim Soorley	31,228	124,912
Sharon Doyle	15,898	63,591
Mike Williamson	65,149	63,591
Fiona Waterhouse	63,179	63,591
Barry Casson	-	15,898
Megan Corfield	48,728	-
Sarah Zeljko	48,728	-
Total board members' remuneration	**385,280**	**383,534**

3 Our team

3.3 KEY MANAGEMENT PERSONNEL

3.3.2 Key executive management personnel

The following details for key executive management personnel include those positions that had authority and responsibility for planning, directing and controlling the activities of the Group during the year. Further information can be found in the body of the Annual Report under the section relating to Our Structure – Executive Leadership Team.

Position	Responsibilities
Chief Executive Officer	Accountable to the Board for the overall management and operation of the Group as well as ensuring the successful delivery of the Group's strategic direction.
Chief Financial Officer	Responsible for managing corporate strategy, new business investment strategy, corporate performance, financial reporting, tax, treasury, procurement, pricing and Unitywater's information technology environment.
Executive Manager Sustainable Infrastructure Solutions	Responsible for water and sewerage asset management including planning, design and capital delivery, drinking water quality monitoring, testing and assurance, and development services of Unitywater.
Executive Manager Customer Delivery	Responsible for managing all aspects of the day-to-day operation and maintenance of the water reticulation network, recycled water network, sewage collection network, pumping stations and sewage treatment plants of Unitywater as well as fleet operation, stores and non-regulated private works revenue.
Executive Manager Customer and Community	Responsible for ensuring Unitywater's commercial and regulatory obligations to customers, community and government are met through the effective management and leadership of communications, stakeholder engagement, customer service and revenue assurance.
Executive Manager People Culture and Safety	Responsible for workforce strategy, safety, environmental compliance, quality systems, workplace relations, human resources practices, policies and procedures of Unitywater, risk management and legal and governance.

3 Our team

3.3 KEY MANAGEMENT PERSONNEL

3.3.3 Remuneration for key executive management personnel

Remuneration and other terms of employment for Unitywater's key executive management personnel are determined by the Board and specified in individual employment contracts. The contracts provide for the provision of fixed term and performance-related cash payments, including:

i. Short-term employee benefits:

   - Monetary benefits include salaries and allowances paid and provided for during the year, performance payments paid during the year, and annual leave entitlements paid and provided for.
   - Non-monetary benefits relate to allocated parking spaces provided for the executive team.

ii. Post-employment benefits consist of superannuation contributions.

iii. Long term employee benefits represent long service leave entitlements paid and provided for.

iv. Termination benefits consist of additional payments made on termination of employment, such as severance packages.

Performance payments of key executive management are capped at 20% of Fixed Annual Remuneration (FAR). Amounts payable are tied to the achievement of pre-determined and documented organisational, business unit and individual performance targets as agreed by the Board and the Chief Executive Officer. Performance payments require endorsement by the People and Culture Committee and approval by the Board. No other non-cash benefits are provided to executives as the FAR concept captures various benefits structured within a total reward rather than a base salary plus benefits approach.

All remuneration component amounts are reviewed annually and annual increases in remuneration are in accordance with recommendations endorsed by the People and Culture Committee and approved by the Board.

Where employment is terminated due to Unitywater's operational requirements, a redundancy payment is payable in accordance with the *Fair Work Act 2009*. The payment is based on the individual's FAR figure and period of service.

All executives were employed for the entire financial year unless otherwise disclosed.

3 Our team

3.3 KEY MANAGEMENT PERSONNEL

3.3.3 Remuneration for key executive management personnel

Remuneration for key executive management personnel comprises the following components:

1 July 2020 - 30 June 2021

Position	Short term benefits		Post employment benefits	Long term employment benefits	Total remuneration
	Monetary $	Non-monetary $	$	$	$
Chief Executive Officer	501,504	5,500	20,994	30,229	558,227
Chief Financial Officer	364,120	5,500	20,904	20,714	411,238
Executive Manager Sustainable Infrastructure Solutions	309,826	5,500	20,722	4,956	341,004
Executive Manager Customer Delivery	306,663	5,500	21,694	4,311	338,168
Executive Manager Customer and Community	274,160	5,500	21,392	18,002	319,054
Executive Manager People, Culture and Safety	292,388	5,500	20,904	11,992	330,784
Total remuneration	**2,048,661**	**33,000**	**126,610**	**90,204**	**2,298,475**

1 July 2019 - 30 June 2020

Position	Short term benefits		Post employment benefits	Long term employment benefits	Total remuneration
	Monetary $	Non-monetary $	$	$	$
Chief Executive Officer	554,333	5,500	21,003	48,809	629,645
Chief Financial Officer	421,154	5,500	21,003	35,483	483,140
Executive Manager Sustainable Infrastructure Solutions (acting 1 July 2019 - 7 July 2019, appointed 8 July 2019)	314,956	5,500	21,003	5,277	346,736
Executive Manager Customer Delivery (15 July 2019 - 30 June 2020)	294,189	5,500	21,003	2,753	323,445
Executive Manager Customer and Community	304,131	5,500	21,003	18,634	349,268
Executive Manager People, Culture and Safety	321,029	5,500	21,003	28,149	375,681
Total remuneration	**2,209,792**	**33,000**	**126,018**	**139,105**	**2,507,915**

3.3.4 Performance payments

Individual performance payments are based upon achievement of corporate, business unit and individual targets. The performance assessment process occurs after the end of the financial year when performance reviews are completed and endorsed by the People and Culture Committee and approved by the Board. Payment of performance bonuses then occurs in the year following actual performance. No performance bonuses were paid to key executive management personnel this financial year.

	2021 $	2020 $
Performance payments paid	-	168,101

3 Our team

3.4 EMPLOYEE BENEFITS PROVISION

	2021 $'000	2020 $'000
Current		
Accrued salaries and wages	2,449	4,857
Annual leave liability	6,677	6,435
Long service leave liability	11,744	9,746
Leave in lieu liability	149	201
Total current employee benefits provision	**21,019**	**21,239**
Non-current		
Long service leave liability	1,832	1,584
Total non-current employee benefits provision	**1,832**	**1,584**

A liability is recognised for benefits accruing to employees for salaries and wages, annual leave, leave in lieu and long service leave up to the reporting date when it is probable that settlement will be required, and the liability is capable of being measured reliably. Employee benefits are recognised as a current liability where Unitywater does not have an unconditional right to defer settlement of these liabilities.

i. **Salaries and wages**

A liability for salaries and wages is recognised and measured as the amount unpaid at the reporting date at current salary and wage rates in respect of employees' service up to that date.

ii. **Annual leave and long service leave**

A liability for annual leave and long service leave expected to be settled within 12 months of the reporting date is recognised in respect of employee's service up to the reporting date and is measured at current salary and wage rates and includes related employee on-costs. Leave expected to be settled more than 12 months after the reporting date is measured at the present value of expected future payment eligibility in respect of services provided by employees up to the reporting date. For long service leave, consideration is also given to expected future wage and salary levels, staff retention and periods of service.

Leave provision estimations – Expected future payments relating to such leave is discounted using corporate bond market yield at the reporting date.

iii. **Leave in lieu**

A liability for leave in lieu is accrued up to the end of the reporting period and represents the amount unpaid at the reporting date at current salary and wage rates and includes related employee on-costs.

iv. **Sick leave**

As sick leave is non-vesting, an expense is recognised for this leave as taken.

4 Our assets

This section outlines the key assets we use to support delivery of our water and sewerage services.

4.1 PROPERTY, PLANT AND EQUIPMENT

4.1.1 Movement in carrying amounts

	Land $'000	Buildings $'000	Infrastructure $'000	Plant and equipment $'000	Work in progress[1] $'000	Total $'000
Cost	56,021	16,480	3,962,531	69,498	154,323	4,258,853
Developer contributions - donated assets adjustment[3]	-	-	14,546	-	-	14,546
Less accumulated depreciation[2]	-	(2,042)	(628,228)	(25,564)	-	(655,834)
Net book value at 1 July 2019	**56,021**	**14,438**	**3,348,849**	**43,934**	**154,323**	**3,617,565**
Additions	-	-	-	-	135,900	135,900
Transfers between classes	-	306	(306)	-	-	-
Transfers from assets held for sale	334	-	-	-	-	334
Transfers to investment property	(2,284)	-	-	-	-	(2,284)
Transfers from work in progress	1,415	-	118,356	3,691	(123,462)	-
Donated assets	-	-	68,300	-	-	68,300
Disposals	(1,629)	-	(6,182)	(743)	-	(8,554)
Depreciation						
Depreciation expensed	-	(269)	(71,929)	(5,329)	-	(77,527)
Depreciation capitalised	-	(41)	(41)	(549)	-	(631)
Net book value at 30 June 2020	**53,857**	**14,434**	**3,457,047**	**41,004**	**166,761**	**3,733,103**
Cost	53,857	16,786	4,152,648	69,591	166,761	4,459,643
Less accumulated depreciation[2]	-	(2,352)	(695,601)	(28,587)	-	(726,540)
Net book value at 30 June 2020	**53,857**	**14,434**	**3,457,047**	**41,004**	**166,761**	**3,733,103**
Additions	-	-	-	-	144,922	144,922
Transfers from investment property	5	-	-	-	-	5
Transfers from work in progress	872	625	143,097	5,145	(149,739)	-
Donated assets	-	4	57,458	56	-	57,518
Disposals	-	-	(2,669)	(974)	-	(3,643)
Depreciation						
Depreciation expensed	-	(277)	(78,119)	(5,432)	-	(83,828)
Depreciation capitalised	-	(42)	(42)	(596)	-	(680)
Net book value at 30 June 2021	**54,734**	**14,744**	**3,576,772**	**39,203**	**161,944**	**3,847,397**
Cost	54,734	17,458	4,342,662	68,822	161,944	4,645,620
Less accumulated depreciation[2]	-	(2,714)	(765,890)	(29,619)	-	(798,223)
Net book value at 30 June 2021	**54,734**	**14,744**	**3,576,772**	**39,203**	**161,944**	**3,847,397**

[1] *Comparatives restated (see Note 1.2.7).*

[2] *Including accumulated impairment losses/reversals.*

[3] *During the 2020 financial year donated assets recognised with a value of $14,545,751 were identified as having been accepted on maintenance in prior periods but not previously recognised within property, plant and equipment nor as developer contributions revenue. An adjustment of $10,182,026 to reflect this balance net of tax of $4,363,725 was booked against retained earnings on 1 July 2019. The tax impact is shown in Note 7.1.*

4 Our assets

4.1 PROPERTY, PLANT AND EQUIPMENT

4.1.1 Movement in carrying amounts

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation and impairment losses. Items of property, plant and equipment with a total value in excess of the following thresholds are recognised in the year of acquisition:

Asset type	Threshold
Land	$1
Buildings	$5,000
Plant and equipment – fleet	$5,000
Plant and equipment – other	$1,000
Infrastructure	$1

Infrastructure assets are defined as a group of separately identifiable assets which, when considered together, are operating to achieve the objectives of the provision of a particular service. For example, individual components of a pumping station.

All infrastructure assets deemed to form part of a major network (for example water supply and sewerage services) will be recorded as an asset regardless of the cost of the individual asset.

i. **Initial recognition of property, plant and equipment**

Acquisitions of property, plant and equipment are initially recorded at cost. Cost is determined as the fair value of the assets given as consideration plus costs incidental to the acquisition.

Constructed assets include the cost of purchased services, materials, direct labour, borrowing costs and an appropriate proportion of overheads attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Assets under construction not commissioned at the reporting date are reported as work in progress.

Assets donated by developers are initially recorded at fair value when Unitywater obtains control of the assets and then AASB 116 *Property, Plant and Equipment* rules apply after that as if that value had been their cost.

Expenditure on property, plant and equipment is capitalised where it is probable that the expenditure will produce future service potential for Unitywater. Costs incurred subsequent to initial recognition are capitalised when the expenditure improves the condition of the asset beyond its originally assessed standard of performance or capacity.

Complex assets comprise separately identifiable components (or groups of components) of significant value, that require replacement at regular intervals and at different times to other components comprising the complex asset. Components are separately recorded and valued on the same basis as the asset class to which they relate.

Unitywater's complex assets are its infrastructure distribution networks.

4 Our assets

4.1 PROPERTY, PLANT AND EQUIPMENT

4.1.1 Movement in carrying amounts

Estimation of donated property, plant and equipment – The initial value of donated assets is estimated as: the amount that it would cost Unitywater to have the asset constructed (by applying standard market rates by unit), or the total market value of similar assets.

ii. **Asset valuation**

Property, plant and equipment is measured at historical cost less accumulated depreciation and accumulated impairment losses.

iii. **Depreciation**

Assets are depreciated from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and commissioned ready for use. Land is not depreciated as it has an indefinite life.

Property, plant and equipment is depreciated on a straight-line basis over the estimated useful life of each item of property, plant and equipment.

Where assets have separately identifiable components that are subject to regular replacement, these components are assigned useful lives distinct from the asset to which they relate and are depreciated accordingly. Any expenditure that increases the originally assessed capacity or service potential of an asset is capitalised and the new depreciable amount is depreciated over the remaining useful life of the asset.

Major spares purchased specifically for particular assets are capitalised and depreciated on the same basis as the asset to which they relate.

Depreciation methods, estimated useful lives and residual values of property, plant and equipment are reviewed annually and adjusted if appropriate.

The **estimated useful lives** for each class of depreciable assets are:

Buildings	40 - 60 years
Infrastructure assets	
– Water infrastructure assets	10 - 120 years
– Sewer infrastructure assets	5 - 180 years
Plant and equipment	2 - 25 years

iv. **Gains and losses on disposal**

Gains and losses on disposals are determined by comparing proceeds with the carrying amount of the asset at the time of disposal. These gains and losses are included in the Consolidated Statement of Profit or Loss.

4 Our assets

4.2 INTANGIBLE ASSETS

4.2.1 Movement in carrying amounts

	Software $'000	Work in progress[1] $'000	Total $'000
Cost	59,585	4,815	64,400
Accumulated amortisation	(40,593)	-	(40,593)
Net book value at 1 July 2019	**18,992**	**4,815**	**23,807**
Additions[2]	-	13,490	13,490
Transfers from work in progress	3,646	(3,646)	-
Disposals	(92)	-	(92)
Amortisation	(5,315)	-	(5,315)
Net book value at 30 June 2020	**17,231**	**14,659**	**31,890**
Cost	57,108	14,659	71,767
Accumulated amortisation	(39,877)	-	(39,877)
Net book value at 30 June 2020	**17,231**	**14,659**	**31,890**
Additions[2]	-	18,193	18,193
Transfers from work in progress	28,725	(28,725)	-
Amortisation	(5,953)	-	(5,953)
Net book value at 30 June 2021	**40,003**	**4,127**	**44,130**
Cost	83,690	4,127	87,817
Accumulated amortisation	(43,687)	-	(43,687)
Net book value at 30 June 2021	**40,003**	**4,127**	**44,130**

[1] *Comparatives restated (see Note 1.2.7).*
[2] *See Note 4.2.1i.*

Intangible assets with a cost greater than $1,000 are capitalised. Subsequent expenditure is capitalised when it increases the future economic benefits embodied in the specific asset to which it relates.

Intangible assets are recognised and carried at cost less accumulated amortisation and accumulated impairment losses.

i. **Software**

Costs associated with the development and implementation of new systems and software are capitalised. The cost of software includes the cost of all materials, direct labour, other directly attributable costs, borrowing costs (if applicable) and an appropriate proportion of overheads attributable during the configuration of the software.

In April 2021, the IFRS Interpretations Committee (IFRIC) published an agenda decision for configuration and customisation costs incurred related to implementing Software as a Service (SaaS) arrangements. The Group is currently assessing the impact of the agenda decision on its current accounting policy, which may result in previously capitalised costs needing to be recognised as an expense.

The process to quantify the impact of the decision is ongoing. External technical accounting advice is being sought and a timeline has been determined. Investigation is ongoing due to the effort required in obtaining the underlying information from historical records covering multiple arrangements and assessing the nature of each of the costs. As at 30 June 2021, the carrying value of potential SaaS arrangements is estimated at $27.5M. The impact of adopting the change in accounting policy is expected to be finalised by 31 December 2021. As the change is required to be accounted for retrospectively, the impact of costs previously capitalised in a prior year needing to be recognised as an expense, will result in a reduction to opening retained earnings in the 2022 consolidated financial statements.

4 Our assets

4.2 INTANGIBLE ASSETS

4.2.1 Movement in carrying amounts

ii. Amortisation

Amortisation is recognised on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The useful lives of intangible assets are reviewed annually and adjusted if appropriate.

The estimated useful lives for intangible assets are:

Software	3 - 20 years

4.3 RIGHT OF USE ASSETS

4.3.1 Movement in carrying amounts

	Land $'000	Buildings $'000	Total $'000
Cost	-	-	-
Less accumulated depreciation	-	-	-
Net book value at 1 July 2019	**-**	**-**	**-**
Transition additions	163	10,091	10,254
Reassessments[1]	3	91	94
Depreciation			
Depreciation expensed	(4)	(1,081)	(1,085)
Depreciation capitalised	-	(1,085)	(1,085)
Net book value at 30 June 2020	**162**	**8,016**	**8,178**
Cost	193	21,556	21,749
Less accumulated depreciation	(31)	(13,540)	(13,571)
Net book value at 30 June 2020	**162**	**8,016**	**8,178**
Reassessments[1]	-	22	22
Depreciation			
Depreciation expensed	(4)	(1,045)	(1,049)
Depreciation capitalised	-	(1,127)	(1,127)
Net book value at 30 June 2021	**158**	**5,866**	**6,024**
Cost	193	21,578	21,771
Less accumulated depreciation	(35)	(15,712)	(15,747)
Net book value at 30 June 2021	**158**	**5,866**	**6,024**

[1] *CPI adjustments as per lease contracts.*

Unitywater leases office premises in the Sunshine Coast and Moreton Bay regions and wetlands in the Sunshine Coast. A right of use asset is recognised when control of the use of a specific asset for a length of time is conveyed by a lease contract in exchange for consideration. Except in the case of short-term leases or leases of low-value assets (which are expensed through the Consolidated Statement of Profit or Loss), such right of use assets are capitalised at cost on the commencement date of the lease.

4 Our assets

4.3 RIGHT OF USE ASSETS

4.3.1 Movement in carrying amounts

Estimation of cost of right of use assets – The cost of right of use assets comprises the initial lease liability adjusted for initial direct costs, lease payments prior to commencement, lease incentives and estimated make good costs. The assets are subsequently held at cost less accumulated depreciation and impairment losses, and remeasured in line with lease liabilities as a result of CPI adjustments. They are depreciated on a straight-line basis over the lesser of the various lease terms and the assets' estimated useful lives, with any extension clause options being taken up where reasonably certain.

Refer to Note 5.7 Lease liabilities for details of the financing of these assets.

4.4 IMPAIRMENT

4.4.1 Impairment testing

The carrying amounts of Unitywater's non-current assets (including intangible assets and right of use assets) are reviewed annually to determine whether there is any indication of impairment. If there is an indication of impairment, an impairment test is performed to determine whether the assets carrying value exceeds their recoverable amount. An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount.

Estimation of fair value of non-current assets – The recoverable amount of an asset is the higher of its net selling price (fair value less costs to sell) and the value to be realised through using the assets (value in use). In assessing value in use, the estimated future cash flows are discounted to their present value using a Weighted Average Cost of Capital (WACC) as the discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The fair value of Unitywater's assets has been estimated using an income based approach and assessed against carrying amount.

Impairment losses are recognised as an expense. An impairment loss is reversed when there is an indication the impairment loss may no longer exist and there has been a change in the estimate used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Estimation of fair value of non-current assets – Unitywater undertook an impairment review during the financial year. Internal indicators of impairment including obsolescence and physical damage, significant changes with an adverse effect and internal reporting concerning economic performance of an asset were considered, together with external sources of information such as changes in technological, market, economic or legal environment, changes in regulated environment, policy and/or legislative changes and market interest rate changes.

Impacts of the high growth in Unitywater's service region (which drives developer contributions - cash and assets) combined with the prevailing low inflation environment were also assessed in the impairment review.

Unitywater's review of asset valuation in 2021 concluded that the fair value range remains supportive of the assets' carrying value and hence no impairment is indicated. Other than mentioned below, there are no material indicators of impairment at the time the financial statements were authorised for issue.

Based on this review, no impairment (2020: $Nil) was recognised in relation to property, plant and equipment, intangibles and right of use assets in the Statement of Profit or Loss.

COVID-19 has been considered a trigger for impairment and its potential effects incorporated in Unitywater's impairment review under two valuation scenarios. Those scenarios both represent a 10% drop in consumption across the customer base, impacting on both water and sewerage revenue.

5 Our funding

This section provides information on funding our daily operations and the related costs.

5.1 CAPITAL MANAGEMENT

Unitywater group manages its finances to maintain a stable and appropriate capital structure given the financial risk profile and regulated nature of its business, whilst delivering returns to its Participating Councils (Moreton Bay Regional Council, Sunshine Coast Council and Noosa Council) and to ensure it can fund its ongoing operations.

Unitywater's capital comprises contributed equity, retained earnings and net debt.

	Notes	Parent 2021 $'000	Parent 2020 $'000
Contributed equity	5.2	1,434,782	1,434,782
Retained earnings		825,581	722,278
Total equity		2,260,363	2,157,060
Borrowings	5.8	1,557,652	1,557,652
Less: cash and cash equivalents	5.3	(135,173)	(102,162)
Net debt		1,422,479	1,455,490
Net capital		**3,682,842**	**3,612,550**
Gearing ratio		**39%**	**40%**

The gearing ratio represents the degree to which an entity's activities are funded through debt versus equity. This is calculated by dividing the net debt by the net capital as shown above.

Unitywater's capital usage is monitored using key credit metrics and ratios which also form part of our funding arrangements with Queensland Treasury Corporation (QTC).

	Parent 2021	Parent 2020
Key credit metrics		
EBITDA[1] interest coverage >= 2.5	21.2	20.3
EBIT[2] interest coverage >= 1.75	13.1	13.0
Funds from operations interest coverage >= 2.25	17.9	16.9
Net debt to fixed assets <= 60%	7%	8%

[1] *Earnings before interest, tax, depreciation and amortisation.*

[2] *Earnings before interest and tax.*

As indicated above, Unitywater is in compliance with the facility covenants. Its implied credit rating, as determined by QTC, is BBB+. Note that the definition of interest expense and net debt under the Participating Local Government (PLG) Loan Agreements and QTC Master Facility Agreements excludes any debt or interest payable under the PLG Loan Agreements. These metrics also exclude developer contributions (cash and donated assets).

5 Our funding

5.2 EQUITY

5.2.1 Contributed equity

On 1 July 2010, the Moreton Bay Regional Council and the Sunshine Coast Council transferred their water businesses to Unitywater. The transfer comprised assets, liabilities and employees of the participant Councils' water distribution and sewerage operations.

On 19 December 2013 the Minister for Energy and Water Supply approved the amendments to the Participation Agreement required to accommodate Noosa Council as a participant from 1 January 2014.

The resulting participation rights of each council are as follows:

	%	2021 $'000	2020 $'000
Moreton Bay Regional Council	58.24%	835,591	835,591
Sunshine Coast Council	37.51%	538,213	538,213
Noosa Council	4.25%	60,978	60,978
Total contributed equity	**100.00%**	**1,434,782**	**1,434,782**

5.2.2 Participation returns

In accordance with the Restructuring Act, the participating Councils have entered into an agreement (the Participation Agreement) to determine each entity's participation rights in Unitywater Group. The Participation Agreement specifies the participants' rights to participate in a distribution of profits of Unitywater Group in proportion to the percentage set out next to the participant's name in the Register of Participation Rights. During the period from 15 March to 15 April in each financial year Unitywater Group must give to the participants an estimate of Unitywater Group's net profit for the financial year; and the amount of the participation return to be paid for the financial year, including the amount payable for different participation rights.

A liability for participation return payable is made for the amount of any participation return declared by the Board on or before the end of the financial year but not distributed at the end of the reporting period. A participation return may only be paid out of current year net profits after tax of Unitywater Group (excluding developer contributions in excess of a progressively decaying cap on developer contributions through to 2021-22, because developer contributions are a form of funding for Unitywater's capital expansion). If insufficient adjusted profits are available to meet agreed returns, there is provision for a special dividend to be made.

The following participation returns have been paid or are payable at 30 June 2021:

	2021 $'000	2020 $'000
In accordance with the Participation Agreement, an interim participation return was declared on 21 January 2021 and paid on 15 February 2021	20,365	15,198
The Board declared the full year participation return on 28 June 2021	14,825	17,650
Total participation return paid/payable	**35,190**	**32,848**
Moreton Bay Regional Council	20,495	19,131
Sunshine Coast Council	13,199	12,321
Noosa Council	1,496	1,396
Total	**35,190**	**32,848**

5 Our funding

5.3 CASH AND CASH EQUIVALENTS

	2021 $'000	2020 $'000
Cash at bank and on hand	135,173	102,162
Total cash and cash equivalents in the Consolidated Statement of Cash Flows	**135,173**	**102,162**

Cash and cash equivalents comprise cash on hand and at bank, cheques receipted not banked, deposits held on call, and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

5.3.1 Reconciliation of cash flows from operating activities

	2021 $'000	2020[1] $'000
Cash flows from operating activities		
Profit for the year	138,578	143,410
Non-cash items included in operating result:		
Depreciation and amortisation	90,830	83,927
Loss on disposal of property, plant and equipment	2,807	6,210
Donated assets	(57,518)	(68,300)
Credit losses on trade and other receivables	(30)	74
Changes in assets and liabilities:		
Decrease / (Increase) in trade and other receivables	24,470	(38,303)
(Increase) in inventories held for use	(1,093)	(742)
Decrease / (Increase) in prepayments	358	(399)
Increase in trade and other payables	17,330	7,806
Increase in contract liabilities	7,452	816
Increase in employee benefits provision	28	2,625
(Decrease) / Increase in other liabilities	(282)	101
Increase in deferred tax liabilities	16,034	19,853
Net cash inflow from operating activities	**238,964**	**157,078**

[1] *Comparatives restated (see Note 1.2.7).*

5 Our funding

5.4 TRADE AND OTHER RECEIVABLES

	2021 $'000	2020[1] $'000
Current		
Trade debtors and accrued receivables	137,556	163,011
Less: expected credit losses	(559)	(621)
	136,997	162,390
GST receivables	3,342	2,341
Other receivables	97	131
Total current	**140,436**	**164,862**
Non-current		
Other receivables	1,233	1,247
Total non-current	**1,233**	**1,247**
Total trade and other receivables	**141,669**	**166,109**

[1] *Comparatives restated (see Note 1.2.7).*

Trade debtors are amounts due from customers for the provision of water, sewerage, trade waste and other services performed in the ordinary course of business. Accrued receivables are recognised for water and sewerage charges and other works and services where performance obligations have been satisfied but not yet invoiced.

Trade and other receivables are initially measured at fair value and are subsequently carried at amortised cost. Trade debtors (from contracts with customers) are generally due for settlement 30 days from invoice date and are therefore classified as current. Overpayments are reclassified to contract liabilities (see Note 5.5). Other receivables are due in accordance with their contractual terms.

Trade debtors are generally interest-bearing once they become due.

Receivables expected credit loss estimation – Collectability of trade receivables is reviewed on an ongoing basis with provision being made for impairment based on expected credit losses. This estimate considers future cash flows with regard to historical credit loss experience as well as forecast market outlook based on a provision matrix methodology. Individual debts that are uncollectible are written off when identified after obtaining the appropriate level of authorisation. Generally, trade receivables are written off where an amount is considered to be unrecoverable (i.e. bad debt, not economical to pursue, unable to locate customer or negotiated settlement). Movements in expected credit losses are recognised as an expense.

As a result of COVID-19, Unitywater introduced various measures to support the community over this time. These included the temporary extending of payment terms to 60 days as well as suspending interest on overdue accounts. Payment terms reverted back to normal from April 2021 resulting in receivables reverting to pre-COVID levels.

5 Our funding

5.4 TRADE AND OTHER RECEIVABLES

	2021 $'000	2020 $'000
Movement in expected credit losses		
Opening balance	621	574
(Decrease) / Increase in provision	(62)	47
Closing balance	**559**	**621**

Ageing of impaired, as well as unimpaired financial assets is disclosed in the following table:

	Expected Credit Loss Rate %	Gross $'000	Expected Credit Losses $'000	Total $'000
Trade and other receivables				
2021				
Accrued receivables	0.02%	93,251	16	93,235
Current billed	0.02%	37,074	6	37,068
Past due 0-30 days	0.08%	4,798	4	4,794
Past due 31-60 days	0.35%	2,308	8	2,300
Past due 61-90 days	0.69%	871	6	865
More than 91 days	13.22%	3,926	519	3,407
Total trade and other receivables		**142,228**	**559**	**141,669**
2020[1]				
Accrued receivables	0.02%	90,269	20	90,249
Current billed	0.02%	67,322	14	67,308
Past due 0-30 days	0.10%	3,070	3	3,067
Past due 31-60 days	0.00%	36	-	36
Past due 61-90 days	0.89%	1,010	9	1,001
More than 91 days	11.45%	5,023	575	4,448
Total trade and other receivables		**166,730**	**621**	**166,109**

[1] *Comparatives restated (see Note 1.2.7).*

5 Our funding

5.5 CONTRACT LIABILITIES

	2021 $'000	2020 $'000
Opening balance	25,043	24,227
Previously deferred revenue recognised during the period	(14,872)	(15,633)
Additional revenue deferred during the period	24,499	18,276
Refunds of balances previously deferred	(2,175)	(1,827)
Closing balance	**32,495**	**25,043**
Current	31,495	24,043
Non-current	1,000	1,000
Total contract liabilities	**32,495**	**25,043**

Contract liabilities represent customer receipts for which performance obligations have yet to be met. The majority of this balance reflects developer contributions/deposits where the right to connect has yet to be given. Obligations are generally met within 12 months of receipt of the funds.

In addition, refundable infrastructure offsets are also recognised as a contract liability where construction of the asset has been lawfully completed or in accordance with the agreement with the developer.

5.6 TRADE AND OTHER PAYABLES

	2021 $'000	2020 $'000
Current		
Trade creditors	21,467	30,525
Participation return payable	14,825	17,650
Interest payable	15,928	17,184
Accrued expenses	39,777	16,855
Income tax payable	8,995	2,918
Other	2,749	2,834
Total trade and other payables	**103,741**	**87,966**

Trade and other payables represent the value of goods and services provided to Unitywater prior to the end of the financial year that remain unpaid. Trade and other payables are recognised upon receipt of the goods or services ordered and are measured at the agreed purchase price less any applicable discounts. Amounts owing are unsecured and are generally settled on 30-day terms or as contractually required.

5 Our funding

5.7 LEASE LIABILITIES

	2021 $'000	2020 $'000
Lease liabilities		
Current	2,258	2,224
Non-current	4,727	7,201
Total lease liabilities	**6,985**	**9,425**

Discounted lease payments are recognised as lease liabilities at the commencement date of the lease. In determining the present value of the lease payments, Unitywater has used its incremental borrowing rate since the implied interest rate is not able to be readily determined. Subsequently, interest at this rate is added to the lease liability, and payments deducted, in order to reflect the carrying value of the lease liability. Where lease contracts incorporate CPI escalations, the lease liability and its corresponding right of use asset are adjusted to take this into account once the impact is known.

The total cash outflow for leases in 2021 was $2,677,536 (2020: $2,589,791).

Judgement and estimation regarding lease liabilities – The lease liability reflects an estimate of the present value of the lease payments since CPI adjustments are not accounted for until confirmed and the discounting is based on Unitywater's incremental borrowing rate. Management has used judgement when considering whether extension options will be exercised.

Refer to Note 4.3 Right of use assets for details of the assets covered by these leases.

5.8 BORROWINGS

5.8.1 Borrowing costs

	2021 $'000	2020 $'000
Interest on loans	64,566	69,921
Interest on lease liabilities	152	192
Other interest	(25)	151
Total borrowing costs	**64,693**	**70,264**

Borrowing costs comprise interest expense and related fees on bank overdrafts, short-term and long-term borrowings. They are recognised as an expense using the effective interest method in the period in which they are incurred. Borrowing costs that are not settled in the period in which they arise are accrued as interest payable. Where material, borrowing costs directly attributable to a specific capital project that takes more than 12 months to prepare for its intended use, are added to the cost of those assets.

No borrowings were used to fund capital projects in 2021 (2020: $Nil).

5 Our funding

5.8 BORROWINGS

5.8.2 Composition of borrowings

	2021 $'000	2020 $'000
Non-current		
Participating Councils		
Subordinated debt	1,160,652	1,160,652
Queensland Treasury Corporation		
Portfolio linked loan	397,000	397,000
Total borrowings	**1,557,652**	**1,557,652**

Borrowings are initially recognised at fair value, net of any transaction costs directly attributable to the borrowings, and then subsequently held at amortised cost using the effective interest method. Borrowing costs that are not settled in the period in which they arise are accrued as interest payable.

No assets have been pledged as security for any liabilities. All borrowings are in Australian dollar denominated amounts and carried at amortised cost. The fair value of the loans and borrowings subsequently measured at amortised cost is set out in Note 6.1. There have been no defaults or breaches of the loan agreements during the 2021 financial year (2020: none).

Principal repayments for debt funding with Queensland Treasury Corporation and the Participating Councils are due at the end of the life of the loans as per their terms and conditions. Participating Councils loans have a 20-year term, terminating on 30 June 2033 with an extension clause of 10 years. Debt is subordinated to Queensland Treasury Corporation with variable interest rates set annually on a portfolio-based approach. The maturity profile is disclosed in Note 6.1 along with Unitywater's other financial liabilities.

The weighted average rate of borrowings for the year is 4.13% (2020: 4.46%). Interest payments are made quarterly in arrears at rates ranging from 3.03% to 4.51% (2020: 3.09% to 4.86%).

5 Our funding

5.8 BORROWINGS

5.8.2 Composition of borrowings

Sensitivity analysis for variable rate instruments

The following sensitivity analysis depicts the outcome to profit and loss if interest rates would change by +/- 1% from the year end rates applicable to Unitywater's financial assets and liabilities. The calculations assume that the rate would be held constant over the next financial year, with the change occurring at the beginning of that year, except for the current year financial liabilities which assume periodic refinancing.

		Interest rate risk			
		-1%		+1%	
	Net carrying amounts $'000	Profit $'000	Equity $'000	Profit $'000	Equity $'000
2021					
Financial assets	135,117	(1,351)	(1,351)	1,351	1,351
Financial liabilities	(1,557,652)	808	808	(785)	(785)
Sensitivity (net)	**(1,422,535)**	**(543)**	**(543)**	**566**	**566**
2020					
Financial assets	101,776	(1,018)	(1,018)	1,018	1,018
Financial liabilities	(1,557,652)	809	809	(792)	(792)
Sensitivity (net)	**(1,455,876)**	**(209)**	**(209)**	**226**	**226**

5.8.3 Financing arrangements at balance date

	2021 $'000	2020 $'000
Unitywater has access available at balance date to the following facilities:		
Bank overdraft	50	50
Credit card	750	750
Working capital	50,000	50,000
Loans	1,557,652	1,557,652
Total facilities	**1,608,452**	**1,608,452**
Facilities not utilised at balance date:		
Bank overdraft	50	50
Credit card	740	735
Working capital	49,998	49,980
Total facilities not used	**50,788**	**50,765**

6 Our financial risks

This section outlines the valuation methodologies for our financial instruments, the framework used to manage the financial risks to our business, as well as our commitments and potential commitments.

6.1 FINANCIAL RISK FRAMEWORK

6.1.1 Financial instruments

Financial instruments are classified and measured as follows:

Financial instrument	Initial measurement	Subsequent measurement
Cash and cash equivalents	Fair value	Amortised cost
Trade receivables and lease receivables	Fair value	Amortised cost
Investment in associate	Cost	Cost plus/minus profits/losses
Payables	Fair value	Amortised cost
Borrowings	Fair value net of directly attributable transaction costs	Amortised cost (using the effective interest method)
Lease liabilities	Present value of unpaid lease payments at commencement date	Adjusted for lease payments, interest and lease modifications

Unitywater classifies its financial assets at amortised cost because they are held to collect contractual cash flows and those cash flows are solely principal and interest.

Financial assets are derecognised if the contractual rights to the cash flows from the financial assets expire, if the financial asset is transferred to another party without retaining control, or substantially all risks and rewards of the asset are transferred. Financial liabilities are derecognised if the obligations specified in the contract expire or are discharged or cancelled.

Borrowing costs that are not settled in the period in which they arise are accrued as interest payable.

Unitywater does not enter into transactions for speculative purposes, or for hedging.

6.1.2 Categorisation of financial instruments

Unitywater has the following categories of financial assets and financial liabilities:

Category	Notes	2021 $'000	2020[1] $'000
Financial assets			
Cash and cash equivalents	5.3	135,173	102,162
Trade and other receivables	5.4	138,327	163,768
Other assets	8.1	6,274	-
Total financial assets		**279,774**	**265,930**
Financial liabilities			
Trade and other payables	5.6	103,741	87,966
Lease liabilities	5.7	6,985	9,425
Borrowings	5.8	1,557,652	1,557,652
Total financial liabilities		**1,668,378**	**1,655,043**

[1] *Comparatives restated (see Note 1.2.7).*

GST is excluded from trade and other receivables as it does not arise from a contract with the ATO and is therefore not a financial asset.

6 Our financial risks

6.1 FINANCIAL RISK FRAMEWORK

6.1.3 Financial risk management

Risk management framework

The Board has overall responsibility for the establishment and oversight of the risk management framework. The Board established the Audit and Risk Committee, which is responsible for developing and monitoring risk management policies. The committee reports regularly to the Board on its activities.

Exposure to financial risks is managed in accordance with Unitywater's approved policies on financial risk management. These policies focus on managing the volatility of financial markets and seek to minimise potential adverse effects on the financial performance of the Group.

Risk exposure

Unitywater Group's activities expose it to a variety of financial risks as set out below.

Credit risk is the risk of financial loss to Unitywater Group if a customer or another party fails to meet its obligations.

Unitywater Group is exposed to credit risk through its customers, investments with the Queensland Treasury Corporation (QTC) and deposits held with banks. It uses ageing analysis to measure this risk (see Note 5.4).

Unitywater has a concentration of credit risk from receivables due from its customers. The QTC Cash Fund is an asset management portfolio with investments in a wide variety of high credit rating counterparties. Deposits are capital guaranteed. Other investments are held with regulated financial institutions that have a credit rating of at least A+.

In respect of trade and other receivables, Unitywater is obliged to service all customers in its service area without regard to customer credit quality. Unitywater manages credit risk in accordance with its Credit Management Policy, which outlines credit collection processes, continuing service provision whilst minimising risks associated with fulfilling payment requirements, customer awareness regarding the use of appropriate payment options and plans to reduce likelihood of non-payment and provisions for those customers suffering genuine financial hardship. Exposure to credit risk is monitored on an ongoing basis.

With regard to cash and cash equivalents, Unitywater only deals with creditworthy counterparties and recognised financial intermediaries as a means of mitigating the risk of financial losses from default. Unitywater's Investment and Cash Management Policy provides a high-level framework which prescribes the credit rating of counterparties.

The maximum exposure to credit risk at 30 June 2021 in relation to each class of recognised financial asset is the gross carrying amount of those assets inclusive of any provision for impairment (see Notes 5.3 and 5.4).

No collateral is held as security and no credit enhancements relate to financial assets held by Unitywater.

No financial assets and financial liabilities have been offset and presented net in the Consolidated Statement of Financial Position.

As a result of COVID-19, Unitywater's debtor position remains higher than usual. This combined with the uncertain economic outlook exposes it to higher credit risk. The estimated impact of this on expected credit losses is included in Note 5.4 Trade and other receivables.

6 Our financial risks

6.1 FINANCIAL RISK FRAMEWORK

6.1.3 Financial risk management

Liquidity risk is the risk that Unitywater may encounter difficulty in meeting obligations associated with financial liabilities which are settled by delivering cash or another financial asset.

Unitywater is exposed to liquidity risk through its trading in the normal course of business, and through borrowings from the QTC for its working capital requirements. It uses maturity analysis to measure this risk (see below).

Unitywater manages its exposure to liquidity risk by maintaining sufficient cash deposits and undrawn facilities, both short and long-term, to cater for unexpected volatility in cash flows.

The following table sets out the liquidity risk of financial liabilities held by Unitywater at reporting date. It represents the contractual maturity of financial liabilities, including interest payments, calculated based on undiscounted cash flows.

Financial liabilities

	Carrying amount	Cash flow payable in			Total cash flows
	$'000	<1 year $'000	1-5 years $'000	>5 years $'000	$'000
2021					
Trade and other payables	103,741	103,741	-	-	103,741
PLG loans	1,160,652	48,776	190,347	1,505,525	1,744,648
QTC borrowings	397,000	11,464	45,815	397,000	454,279
Lease liabilities	6,985	2,706	4,719	291	7,716
Total financial liabilities	**1,668,378**	**166,687**	**240,881**	**1,902,816**	**2,310,384**
2020					
Trade and other payables	87,966	87,966	-	-	87,966
PLG loans	1,160,652	53,361	209,382	1,592,357	1,855,100
QTC borrowings	397,000	12,218	48,833	397,000	458,051
Lease liabilities	9,425	2,645	7,397	300	10,342
Total financial liabilities	**1,655,043**	**156,190**	**265,612**	**1,989,657**	**2,411,459**

6 Our financial risks

6.1 FINANCIAL RISK FRAMEWORK

6.1.3 Financial risk management

Market risk – Unitywater's market risk is primarily in relation to interest rate risk. This is the risk that a value of a financial instrument or cash flow associated with the instrument will fluctuate due to changes in market interest rates.

Unitywater is exposed to interest rate risk through its borrowings from QTC and Participating Councils, investment with QTC and cash deposited in interest-bearing accounts. It uses sensitivity analysis to measure this risk (see Note 5.8).

Unitywater does not trade in foreign currency and is not materially exposed to commodity price changes.

Unitywater manages this part of its portfolio by setting, monitoring and adjusting the terms and duration of its loan portfolio as allowed under its commercial financing contract, with QTC and the Participating Councils such that the desired interest rate risk exposure can be constructed.

6.1.4 Fair value

Unitywater Group does not carry any financial assets or financial liabilities at fair value.

Cash, trade and other receivables, and payables are carried at amortised cost which is assumed to approximate fair value – the value of the original transaction, less any allowance for impairment.

Borrowings are carried at amortised cost using the effective interest method. Fair value of interest-bearing borrowings is notified by QTC. It is calculated based on discounted expected future cash flows. The fair values of the borrowings, together with the carrying amounts, are as follows:

	Carrying amount $'000	Fair value $'000
2021		
Participating Councils		
Subordinated loans	1,160,652	1,410,921
QTC borrowings		
Portfolio linked loan	397,000	428,257
Total borrowings	**1,557,652**	**1,839,178**
2020		
Participating Councils		
Subordinated loans	1,160,652	1,523,747
QTC borrowings		
Portfolio linked loan	397,000	440,337
Total borrowings	**1,557,652**	**1,964,084**

6 Our financial risks

6.2 COMMITMENTS

6.2.1 Leases as lessor

Finance leases

Leases in which Unitywater Group transfers substantially all of the risks and rewards of ownership to another party are classified as finance leases. Unitywater Group does not at present have any such leases.

Non-cancellable operating leases

Where leases do not transfer substantially all of the risks and rewards of ownership, they are classified as operating leases. In this respect, Unitywater leases commercial land to businesses as well as other sites to telecommunication carriers for installation and operation of mobile telecommunication facilities. Commitments to Unitywater under non-cancellable operating leases at reporting date are receivable as follows:

	2021 $'000	2020 $'000
Within one year	1,721	1,750
Between one and five years	4,335	4,712
More than five years	4,502	5,078
Total commitments – leases as a lessor	**10,558**	**11,540**

6.2.2 Capital expenditure commitments

Material classes of capital expenditure commitments contracted for at reporting date but not recognised in the accounts as payable are as follows:

	2021 $'000	2020 $'000
Property, plant and equipment		
Within one year	37,445	43,822
One year and no later than five years	11,610	2,023
More than five years	-	64
Total commitments	**49,055**	**45,909**
Intangibles		
Within one year	1,319	12,680
One year and no later than five years	4	6
Total commitments	**1,323**	**12,686**

6.3 CONTINGENCIES

Legal claims

Judgement regarding legal claims – There is currently a dispute with a Unitywater contractor in relation to a design and construct contract. Both parties are seeking compensation, but at this stage, neither party has commenced proceedings. Unitywater does not admit liability.

6.4 SUBSEQUENT EVENTS

In July 2021 a contractor issued Unitywater with a revised claim, see Note 6.3. There have been no other subsequent events to date that may significantly affect the operations of Unitywater or materially impact the consolidated financial statements.

7 Our tax

This section breaks down our costs and obligations regarding income tax.

7.1 INCOME TAX

7.1.1 Income tax expense

Unitywater Group is subject to the Local Government Tax Equivalents Regime (LGTER). Under the LGTER Unitywater Group is required to make income tax equivalent payments to the Participating Councils in accordance with the requirements of its Participation Agreement.

Income tax equivalent expense (referred to as income tax expense) on the Consolidated Statement of Profit or Loss comprises current and deferred tax. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, less any instalments paid and any adjustment to tax payable in respect of the previous year. Taxable income differs from profit before tax reported in the Consolidated Statement of Profit or Loss, as it excludes items of income and expense that are taxable or deductible in other years, and also excludes any items that will never be taxable or deductible. Unitywater Group's liability for current tax expense is calculated using tax rates enacted at balance date.

	2021 $'000	2020[1] $'000
Income tax expense recognised in consolidated profit or loss		
Current tax expense		
Current income tax charge	43,217	41,486
Adjustments for current income tax of prior years	87	-
Current tax expense	43,304	41,486
Deferred tax expense		
Deferred income tax charge	16,121	19,853
Adjustments for current income tax of prior years	(87)	-
Deferred tax expense	16,034	19,853
Total income tax expense	**59,338**	**61,339**
Reconciliation of effective tax rate		
Consolidated profit (loss) before income tax expense	197,916	204,749
Income tax expense at 30%	59,375	61,425
Non-deductible expenses	33	16
Change in unrecognised temporary differences subject to initial recognition exemption	(70)	(102)
Income tax expense	**59,338**	**61,339**

[1] *Comparatives restated (see Note 1.2.7).*

7 Our tax

7.1 INCOME TAX

7.1.2 Deferred tax assets and liabilities

Deferred tax estimate – Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse. A deferred tax asset is recognised for unused tax losses, and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and deferred tax liabilities have been offset as there is a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on Unitywater Group.

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2021 $'000	2020[1] $'000	2021 $'000	2020[1] $'000	2021 $'000	2020[1] $'000
Property, plant and equipment	-	-	(203,439)	(187,930)	(203,439)	(187,930)
Right of use assets	-	-	(1,807)	(2,454)	(1,807)	(2,454)
Prepayments	-	-	(80)	(95)	(80)	(95)
Employee benefits	6,137	5,186	-	-	6,137	5,186
Other provisions and accruals	348	362	-	-	348	362
Lease liabilities	2,270	3,062	-	-	2,270	3,062
Accrued revenue	-	-	(374)	(363)	(374)	(363)
Other items	134	37	(10,810)	(9,392)	(10,676)	(9,355)
Tax asset/(liability)	8,889	8,647	(216,510)	(200,234)	(207,621)	(191,587)
Set off	(8,889)	(8,647)	8,889	8,647	-	-
Net tax liability	**-**	**-**	**(207,621)**	**(191,587)**	**(207,621)**	**(191,587)**

[1] *Comparatives restated (see Note 1.2.7).*

7 Our tax

7.1 INCOME TAX

7.1.3 Movements in deferred tax assets and liabilities

	Assets		Liabilities		Net	
	2021 $'000	2020[1] $'000	2021 $'000	2020[1] $'000	2021 $'000	2020[1] $'000
Opening balance	8,647	4,878	(200,234)	(172,866)	(191,587)	(167,988)
Developer contributions - donated assets adjustment[2]	-	-	-	(4,364)	-	(4,364)
Adjustment on initial application of AASB 16 *Leases*	-	3,694	-	(3,076)	-	618
Restated opening balance	8,647	8,572	(200,234)	(180,306)	(191,587)	(171,734)
Current year's income tax equivalent expense	242	75	(16,276)	(19,928)	(16,034)	(19,853)
Closing balance	**8,889**	**8,647**	**(216,510)**	**(200,234)**	**(207,621)**	**(191,587)**

[1] *Comparatives restated (see Note 1.2.7).*

[2] *During the 2020 financial year, donated assets with a value of $14,545,751 were identified as having been accepted on maintenance in prior periods but not previously recognised within property, plant and equipment nor as developer contributions revenue. An adjustment of $10,182,026 to reflect this balance net of tax of $4,363,725 was booked against retained earnings on 1 July 2019. The impact on property, plant and equipment is shown in Note 4.1.*

7.1.4 Unrecognised deferred tax assets and liabilities

Deferred tax assets and liabilities have not been recognised in respect of the following:

	Assets		Liabilities		Net	
	2021 $'000	2020 $'000	2021 $'000	2020 $'000	2021 $'000	2020 $'000
Depreciating assets transferred from Councils on 1 July 2010	-	-	(51)	(155)	(51)	(155)
Employee provisions transferred from Councils on 1 July 2010	-	512	(19)	-	(19)	512
Tax asset/(liability)	-	512	(70)	(155)	(70)	357
Set off	-	(155)	-	-	-	(155)
Net tax asset	**-**	**357**	**(70)**	**(155)**	**(70)**	**202**

As part of the restructure of the water entities, the Sunshine Coast and Moreton Bay Regional Councils transferred assets and employee leave provisions to Unitywater on 1 July 2010. The requirements of the initial recognition exceptions in relation to these assets and liabilities were satisfied such that any temporary differences arising on the acquisition of the transferred assets and leave balances were not recognised; and no temporary differences are recognised in the current period, or future periods in relation to these assets and leave balances.

8 Other

This section covers remaining assets and liabilities of our business as well as disclosures to assist in understanding our consolidated financial statements.

8.1 OTHER ASSETS

	2021 $'000	2020 $'000
Current		
Prepayments	5,454	5,812
Inventories held for use (cost)	3,266	2,173
Total other current assets	**8,720**	**7,985**
Non-current		
Investment in associate	6,274	-
Investment property	3,965	3,970
Total other non-current assets	**10,239**	**3,970**

An amount of $3,883,898 (2020: $3,196,166) of inventory was recognised as an expense during the year.

Due to the supply chain delays mentioned in Note 2.5, and the need for additional consumables and hygiene products as a result of COVID-19, Unitywater has increased its stock of critical spares and consumables.

8.2 OTHER LIABILITIES

	2021 $'000	2020 $'000
Current		
Unearned revenue	932	1,113
Security deposits and retentions	118	168
Other payables	12	63
Total other current liabilities	**1,062**	**1,344**
Non-current		
Provision for restoration	582	582
Total other non-current liabilities	**582**	**582**

8 Other

8.3 RELATED PARTIES

8.3.1 Transactions and balances with Participating Councils

	Moreton Bay Regional Council		Sunshine Coast Council[1]		Noosa Council		Total	
	2021 $'000	2020 $'000	2021 $'000	2020 $'000	2021 $'000	2020 $'000	2021 $'000	2020 $'000
Revenue								
Utility charges	6,480	6,913	4,454	4,616	943	860	11,877	12,389
Developer contributions	(2,743)	3,187	256	987	-	4	(2,487)	4,178
Other revenue	2,131	1,257	707	549	326	420	3,164	2,226
	5,868	**11,357**	**5,417**	**6,152**	**1,269**	**1,284**	**12,554**	**18,793**
Expenses								
Supplies and services	137	364	583	1,410	126	9	846	1,783
Interest on loans	30,534	32,903	19,592	21,112	2,219	2,392	52,345	56,407
Taxation equivalents	26,479	25,477	17,054	16,409	1,932	1,859	45,465	43,745
Participation returns	20,495	19,131	13,199	12,321	1,496	1,396	35,190	32,848
	77,645	**77,875**	**50,428**	**51,252**	**5,773**	**5,656**	**133,846**	**134,783**
Amounts receivable								
Utility charges	777	852	681	728	105	104	1,563	1,684
Other receivables	58	63	69	54	1	9	128	126
	835	**915**	**750**	**782**	**106**	**113**	**1,691**	**1,810**
Contract liabilities								
Revenue deferred during the period	402	-	-	-	-	-	402	-
	402	**-**	**-**	**-**	**-**	**-**	**402**	**-**
Amounts payable								
Interest payable	7,633	8,226	4,898	5,278	555	598	13,086	14,102
Supplies and services	-	2	-	-	-	-	-	2
Taxation equivalents	6,497	3,014	4,184	1,942	474	220	11,155	5,176
Participation returns	8,634	10,279	5,561	6,621	630	750	14,825	17,650
	22,764	**21,521**	**14,643**	**13,841**	**1,659**	**1,568**	**39,066**	**36,930**
Borrowings								
Loans	677,025	677,025	434,409	434,409	49,218	49,218	1,160,652	1,160,652
	677,025	**677,025**	**434,409**	**434,409**	**49,218**	**49,218**	**1,160,652**	**1,160,652**

[1] SunCentral Maroochydore Pty Ltd is a wholly owned subsidiary of Sunshine Coast Council and is also a related party of Unitywater. Transactions between Unitywater and SunCentral Maroochydore Pty Ltd are included in Sunshine Coast Council in the table above.

Amounts owing are unsecured and are expected to be settled in cash.

8 Other

8.3 RELATED PARTIES

8.3.2 Transactions with associate entities

During the year, payments of $978,922 were made to associate entity Pipe Management Australia Pty Ltd for the provision of maintenance services for water and sewerage assets.

8.3.3 Key management personnel transactions

A number of the Board members and executive management personnel hold positions in other entities that may result in them having control or significant influence over the financial or operating policies of those entities. Resulting related party transactions with Unitywater are conducted at arm's length, on normal commercial terms, in line with Unitywater's Conflict of Interest Policy.

8.4 GROUP STRUCTURE

The Unitywater Group consists of the following entities:

Name of entity	Principal activity	Interest held by the Group 2021	Interest held by the Group 2020
Northern SEQ Distributor-Retailer Authority trading as Unitywater	Water and sewerage services		
Unitywater Properties Pty Ltd[1]	Property investment	100%	100%
Headworks Australia Pty Ltd[1]	Holding company	100%	100%
Pipe AI Pty Ltd[2]	Software services	30%	0%
Utility Management Group Pty Ltd[2]	Holding company	24%	0%
Pipe Management Australia Pty Ltd[2]	Water and sewerage services	24%	0%
IC Pipes Pty Ltd[2]	Water and sewerage services	24%	0%

[1] *Consolidated subsidiary*
[2] *Equity accounted associate*

All the above entities have fully paid up ordinary share capital. Ownership interests are a direct reflection of voting rights.

Unitywater supports its subsidiaries to ensure they can meet their obligations when they fall due.

8 Other

8.5 NEW AND REVISED ACCOUNTING STANDARDS

At the date of authorisation of the financial report, the following Australian accounting standards and interpretations have been issued but were not yet effective as at 30 June 2021. None of these have been early adopted and their impacts on the consolidated financial statements are not expected to be material.

Standard/Interpretation		Application date for Unitywater
AASB 2020-2	*Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities*	1 July 2021
AASB 2020-5	*Amendments to Australian Accounting Standards – Insurance Contracts*	1 July 2021
AASB 2020-7	*Amendments to Australian Accounting Standards – COVID 19 – Related Rent Concessions: Tier 2 Disclosures*	1 July 2021
AASB 2020-8	*Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform Phase 2*	1 July 2021
AASB 2020-9	*Amendments to Australian Accounting Standards – Tier 2 Disclosures: Interest Rate Benchmark Reform (Phase 2) and Other Amendments*	1 July 2021
AASB 2021-1	*Amendments to Australian Accounting Standards – Transition to Tier 2: Simplified Disclosures for Not-for-Profit Entities*	1 July 2021
AASB 1060	*General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities (Appendix C)*	1 July 2021
AASB 2014-10	*Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	1 July 2022
AASB 2020-3	*Amendments to Australian Accounting Standards – Annual Improvements 2018–2020 and Other Amendments*	1 July 2022
AASB 17	*Insurance Contracts (Appendix D)*	1 July 2023
AASB 2020-1	*Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current*	1 July 2023
AASB 2021-2	*Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates*	1 July 2023
AASB 2021-5	*Amendments to Australian Accounting Standards – Deferred Tax related to Assets and Liabilities arising from a Single Transaction*	1 July 2023

Unitywater applies standards and interpretations in accordance with their respective commencement dates.

Certificate of Unitywater Group for the year ended 30 June 2021

These general purpose consolidated financial statements have been prepared pursuant to s.62(1) of the *Financial Accountability Act 2009* (the Act), section 39 of the *Financial and Performance Management Standard 2019* and other prescribed requirements. In accordance with s.62(1)(b) of the Act we certify that in our opinion:

i. the prescribed requirements for establishing and keeping the accounts have been complied with in all material respects; and

ii. the consolidated financial statements have been drawn up to present a true and fair view, in accordance with prescribed accounting standards, of the transactions of Unitywater Group for the financial year ended 30 June 2021 and of the financial position at the end of that year; and

We acknowledge responsibility under s.7 and s.11 of the *Financial and Performance Management Standard 2019* for the establishment and maintenance, in all material respects, of an appropriate and effective system of internal controls and risk management processes with respect to financial reporting throughout the reporting period.

Michael Arnett
BCom, LLB

Chairman

19 August 2021

George Theo
MBA (Bus), BEng (Civil), CPEng, Ass Dip Mun (Eng), MIEAust, GAICD

Chief Executive Officer

19 August 2021

Pauline Thomson
BBus (Acc), FCPA, GAICD

Chief Financial Officer

19 August 2021

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INDEPENDENT AUDITOR'S REPORT

To the Board of Northern SEQ Distributor-Retailer Authority trading as Unitywater

Report on the audit of the financial report

Opinion

I have audited the accompanying financial report of Northern SEQ Distributor-Retailer Authority trading as Unitywater and its controlled entities (the group).

In my opinion, the financial report:

a) gives a true and fair view of the group's financial position as at 30 June 2021, and their financial performance and cash flows for the year then ended; and

b) complies with the *Financial Accountability Act 2009,* the Financial and Performance Management Standard 2019 and Australian Accounting Standards.

The financial report comprises the consolidated statement of financial position as at 30 June 2021, the consolidated statement of profit or loss, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements including summaries of significant accounting policies and other explanatory information, and the management certificate.

Basis for opinion

I conducted my audit in accordance with the *Auditor-General Auditing Standards,* which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of my report.

I am independent of the parent and group in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to my audit of the financial report in Australia. I have also fulfilled my other ethical responsibilities in accordance with the Code and the *Auditor-General Auditing Standards.*

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the entity for the financial report

The Board is responsible for the preparation of the financial report that gives a true and fair view in accordance with the *Financial Accountability Act 2009,* the Financial and Performance Management Standard 2019 and Australian Accounting Standards, and for such internal control as the Board determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

The Board is also responsible for assessing the parent's and group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless it is intended to abolish the parent or group or to otherwise cease operations.

Auditor's responsibilities for the audit of the financial report

My objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial report, 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 my 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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances. This is not done for the purpose of expressing an opinion on the effectiveness of the entity's internal controls, but allows me to express an opinion on compliance with prescribed requirements.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the group.
- Conclude on the appropriateness of the parent's and group's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent's or group's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify my opinion. I base my conclusions on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the parent or group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the financial report. I am responsible for the direction, supervision and performance of the audit of the group. I remain solely responsible for my audit opinion.

I communicate with the Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

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Report on other legal and regulatory requirements

Statement

In accordance with s.40 of the *Auditor-General Act 2009,* for the year ended 30 June 2021:

a) I received all the information and explanations I required.

b) I consider that, the prescribed requirements in relation to the establishment and keeping of accounts were complied with in all material respects.

Prescribed requirements scope

The prescribed requirements for the establishment and keeping of accounts are contained in the *Financial Accountability Act 2009,* any other Act and the Financial and Performance Management Standard 2019. The applicable requirements include those for keeping financial records that correctly record and explain the entity's transactions and account balances to enable the preparation of a true and fair financial report.

20 August 2021

Vaughan Stemmett
as delegate of the Auditor-General

Queensland Audit Office
Brisbane