Statement of Intent

For the year ended 30 June 2021

Contents

1. Introduction

This Statement of Intent (SOI) is prepared in accordance with Section 64(1) of the Local Government Act 2002 (LGA).

The SOI specifies for EcoCentral Limited (ECL), the objectives, the nature and scope of the activities to be undertaken, and the performance targets and other measures by which the performance of the company may be judged in relation to its objectives, amongst other requirements.

The process of negotiation and determination of an acceptable SOI is a public and legally required expression of the accountability relationship between the company and its Shareholder, Christchurch City Holdings Limited (CCHL) & its ultimate owner, being the Christchurch City Council (CCC).

ECL is made up of three divisions:

1. EcoSort – The materials recovery facility (MRF) that the Company owns and operates at Parkhouse Road. It processes recyclable materials collected from the wider Canterbury Region such as paper, glass, plastics, metals and sells the output product commercially to external parties. Ownership of the facility passes back to CCC in 2024.

2. EcoDrops – ECL is contracted to operate on behalf of CCC the three solid waste transfer stations at Parkhouse Road, Metro Place, and Styx Mill Road. The facilities are open to the public along with commercial customers for the disposal of most household waste and commercial general waste.

3. EcoShop – This provides a reuse retail warehouse which runs in conjunction with the EcoDrops. All types of previously-owned goods are collected from EcoDrops, carefully sorted, priced and then sold to the Christchurch public at our location on Blenheim Road.

The SOI is reviewed annually with CCHL & CCC, and covers a three-year period. EcoCentral Ltd is a Council-Controlled Trading Organisation (CCTO) for purposes of the Local Government Act 2002.

2. Contact Details

Address and Registered office
Level 1,
9 Baigent Way
Middleton
Christchurch 8442

Board
David Kerr (Chair)
Sinead Horgan
Mark Jordan
Ben Reed

Chief Executive
Craig Downie

Telephone
03 336 0080

Web
www.ecocentral.co.nz

Email
admin@ecocentral.co.nz

3. Objectives

EcoCentral Limited is responsible for the operation of the EcoSort (Materials Recovery Facility) and the refuse and recycling EcoDrops which includes drop-off centres that assist in the handling, separating and disposal of all waste types. These facilities receive refuse and provide recycling collection options throughout the city for both households and commercial premises.

Additionally, ECL operates the EcoShop on 191 Blenheim Road. This facility receives material from the EcoDrops, prepares that material for sale and retails products to the public, thereby diverting material from landfill.

The objectives of ECL are:

Health & Safety

- To protect and ensure the safety and wellbeing of all staff, customers and contractors visiting our sites by driving a safety focused culture, adopting best-practice processes and equipment available to the industry

Environment

- To process a high proportion of CCC controlled waste into usable resources in a commercial, sustainable and environmentally friendly manner, with the target of minimizing the residual waste sent to landfill.
- Ensuring that the EcoDrops, EcoSort and EcoShop are available and fully operational 7 days per week (excluding the five major public holidays) to facilitate this objective.
- To identify, develop and implement innovative recycling processes and technologies that help create a circular economy.
- Working with CCC and Canterbury regional councils supporting education strategies that encourage recycling and waste minimisation.
- Measure and Reduce our carbon footprint through adoption of new technologies and best operating practices.
- To operate all facilities in 100% compliance with the consents governing their operation.

Economic

- Ensure that ECL's operations generate annual operating surpluses allowing the Company to continue to invest in innovative technologies, implement sustainable practices and make a positive contribution against the capital employed.
- To undertake sound strategic & financial planning to ensure that capacity is available to meet the waste & recycling processing needs of Christchurch City in a commercially viable manner.

Community

- Assist CCC in empowering, educating and encouraging the community in recycling surplus resource and waste in the community.
- Working with CCC to encourage the users of the systems operated by ECL in Christchurch to understand and embrace the concept of waste minimization and resource recovery and assist in the development of a more sustainable community.
- To maintain strong relationships with local and regional councils to support, encourage and educate in material reuse, recycling and waste minimisation.
- Be a good employer and provide safe and clean facilities, demonstrating best practice in the industry.

4. Key Initiatives and Innovation

A resilient EcoCentral is a key part of a waste and resource recovery system that minimizes waste generation, maximises resource recovery, and works towards zero waste going to landfill.
EcoCentral resilience is inherent in its commitment to continuous improvement through innovation and the introduction of new processes and technologies that improve the efficiency of the waste stream.
EcoCentral is aware of the essential service it provides Christchurch City and the need to ensure a stable, future focused waste minimization business.
Waste and recycling continues to undergo global change and EcoCentral recognizes that to be resilient and adopt new technologies, there may be commercial or partnership opportunities developed that benefit EcoCentral, CCHL and Canterbury. Some of these opportunities are being explored in the following strategy:

- EcoCentral is researching the materials processing requirements necessary for second stream residential paper recycling to meet the new stringent paper mill quality standards. This is a major project scoping exercise that will be undertaken in 2020/21.
- EcoCentral supports local plastic remanufacturing and currently provides a large proportion of recycled PET internally within New Zealand. The 3-7 plastics range creates the biggest recycling challenges and EcoCentral is working with central and local government, Plastics NZ and other industry providers to develop long term local reuse solutions for these less desirable plastics.
- EcoCentral is working with Christchurch City and regional waste stakeholders to help develop a regional Canterbury waste strategy that creates operational synergies with collaborative goals.
- EcoCentral is focused on reinforcing the residential recycling messaging produced by Christchurch City and the other regional councils, aligning our marketing message and enhancing public education.

5. Nature and Scope of Activities

ECL is a Council-Controlled Trading Organisation (CCTO) for the purposes of the Local Government Act 2002 and the Companies Act 1993.

ECL holds a contract with CCC to:

1. Operate the EcoSort. The ownership of this facility transfers back to council at the end of the contract term in 2024; and

2. Run the CCC owned three EcoDrops at Styx Mill Road, Metro Place and Parkhouse Road.

ECL also operates the EcoShop at 191 Blenheim Road which receives material from the recycling centres based at the EcoDrop sites. The EcoShop site is leased long term from a commercial third party.

ECL is regarded as a ‘for profit’ CCTO.

6. Governance

EcoCentral's Board of Directors is responsible for the corporate governance of the company. The Board and management are committed to ensuring the company operates to the recognised principles of best practice governance and adheres to high ethical standards.

This Statement presents an overview of the main corporate governance policies of the company.

Role of the Board of Directors

The Board is responsible for the proper direction and control of the company's activities. The Board guides and monitors the business and affairs of the company on behalf of the shareholder, CCHL, to whom it is accountable. CCHL is in turn responsible to its shareholder, CCC.

The primary function of the Board is to ensure that the company meets its objectives and requirements as listed in the SOI. Additionally, the Board has obligations under the Local Government Act 2002 to deliver an annual Statement of Intent and relevant half-yearly and annual reports to the Shareholder.

All Directors endorse and are required to comply with the New Zealand Institute of Directors' Code of Proper Practice for Directors.

Conflict of Interest
The Board is conscious of its obligations to ensure that Directors avoid conflicts of interest (both real and apparent) between the company and their interests. Where conflicts do exist, then the Directors concerned must disclose their interest, excuse themselves from any Board discussions and not receive any Board papers in respect of those interests.

Board Composition
The directors of ECL are appointed by the shareholder CCHL for terms of up to three years. Board membership currently consists of four non-executive directors.

The Board has delegated to the Chief Executive the day-to-day leadership and management of the company. The Chief Executive has formally delegated certain authorities to direct reports and has established a formal delegated authority framework for those direct reports to sub-delegate as appropriate.

The company may also make use of external advisors from time to time.

The Board is responsible for reviewing the company's accounting policies, reporting practices and resultant financial statements. It also considers external audit reports; audit relationship matters and fees as well as delegated authorities.

Board Committees

Audit & Risk Committee

Membership of the committee consists of two members of the Board, the committee is regulated by approved terms of reference that address membership, functions, responsibilities, authorities and reporting procedures. The committee is chaired by a director who is not the Board Chairman. The ECL Audit and Risk Committee monitors risk management processes, oversees the findings of external auditors and monitors legislative compliance.

Remuneration Committee

The Remuneration Committee is conducted by the full board. The committee convenes at least annually to review the performance of the Chief Executive and the recommended pay reviews of the Chief Executive's direct reports. The committee then makes recommendations to the board on the Chief Executive's remuneration package. In considering the remuneration policy, the Company is especially conscious of its public responsibilities in the setting of remuneration for senior executives, which is closely managed by the Board and made publicly available via the annual report.

ECL ensures remuneration levels are set at responsible limits to enable the Company to attract and retain the people it needs to manage and operate its business.

Health and Safety

The issue of health & safety is deemed the responsibility of the full Board on a continuing basis.

Controlling and Managing Risk

The Board has a formal risk assessment framework identifying potential risks to the company and adopting appropriate mitigating measures to minimize or eliminate the risk.

Foreign Exchange Risk

A formal Treasury Policy in conjunction with the use of independent advice on products and levels of coverage is utilised by ECL to manage its foreign exchange risk due to sales of recyclable products being primarily in US currency.

7. Performance Targets

Financial Performance Targets

The financial performance targets for the company are as follows:

	2021 $'000	2022 $'000	2023 $'000
Total Revenue	33,236	33,568	33,904
Net Profit After Tax	310	245	176
Return on Equity	3.7%	2.9%	2.1%

The forecast returns reflect the continuing reduction in volumes at the EcoDrop, due to increased competition for commercial refuse. The EcoSort earnings have been forecast after taking into account the impact of declining commodity revenue from continual tightening contamination limits on sorted recycling being introduced by importing countries such as China, Indonesia and India.

The forecast ratio of Shareholders' funds to total assets for the next three years is:

	2021	2022	2023
Shareholders Equity%	66.4%	66.6%	66.5%

This is calculated as the equity of ECL divided by the total assets of ECL expressed as a percentage as at the end of the financial year.

The forecast capital structure for the next three years is:

	2021 $'000	2022 $'000	2023 $'000
Equity	8,487	8,481	8,408
Debt to CCHL	-	-	-
Total Assets	12,787	12,740	12,640

Operational Performance Targets

In addition to the above financial performance measures, ECL will use the following measures to assess its performance of the 2020/21 financial year:

Performance Targets	Performance Measure 2020 / 21
EcoDrop Waste Minimisation	 Investigate at least 2 new initiatives for diversion from waste stream
EcoSort MRF plant efficiency % Waste %	 75% 12.5%
EcoShop / Resource Recovery Number of Customer sales Total tonnes diverted from landfill	 112,000 per annum At least 8,000 tonnes
Health & Safety TRIFR (Total recordable incidents per 200,000 hours worked) ISO45001 Management System	 <18 Complete transition to ISO45001
Sustainable Business Practices Improve operational efficiency of machinery and plant to reduce greenhouse gas emissions	Reduced kilowatt hours per tonne Measure ECL Carbon Footprint Transition mobile plant to Bio-diesel

8. Accounting Policies

ECL has adopted accounting policies that are consistent with New Zealand International Financial Reporting Standards, generally accepted accounting practice and the policies adopted by the CCHL group.

The company's current Accounting Policies are attached to this Statement of Intent as Appendix One.

9. Distributions

ECL will consider a dividend to the shareholder CCHL from residual cash after operating cash flow is applied to necessary capital expenditure, finance costs and maintaining reserves sufficient to meet the company's future obligations. ECL recognises that a significant portion of its revenues are susceptible to commodity and foreign exchange price fluctuations. For this reason, the directors consider it prudent for the company to maintain cash reserves and/or borrowing capacity to ensure the company can withstand unfavourable short-term commodity and foreign exchange movements. The dividends payable to the shareholder CCHL will be determined by the ECL Board after consideration of the company's funding requirements and the requirement to meet the solvency test under the provisions of the Companies Act 1993.

The normal dividend policy is to forecast payments of one instalment in October of each financial year.

	2021 $'000	2022 $'000	2023 $'000
Dividend Paid	-	250	250

10. Information to be provided to the Shareholder

An annual report will be submitted to the Shareholders. The annual report will include audited financial statements and such other details as are necessary to permit an informed assessment of the company's performance and financial position during the reporting period provided to the Shareholder.

EcoCentral will provide regular updates to our shareholder on the ongoing performance of the entity which may include financial, strategic, risk and operational updates for any given period.

Half-yearly reports will also be provided to the Shareholder. These reports will contain unaudited information and comply with NZ IAS 34.

Annual reports will be produced and will provide

- a comparison of the performance of ECL with the statement of intent; and

- an explanation of any material variances between that performance and the statement of intent.

The statement of intent will be submitted to the Shareholder for consultation annually, as required by the Local Government Act 2002. The Directors will include any other information they consider appropriate. Where it is appropriate, revised forecasts will be submitted to the Shareholder.

The company will operate on a "no surprises" basis in respect of significant Shareholder-related matters, to the extent possible in the context of commercial sensitivity and confidentiality obligations.

The company will provide information requested by the Shareholder in accordance with the requirements of the Local Government Act 2002.

11. Acquisition and Divestment Policy

The subscription or acquisition of securities in any company or organization, or a divestment of part of the existing business, will only be considered where it is consistent with the long-term commercial objectives of ECL.

When the subscription, acquisition or divestment is considered by Directors to be significant to the company's business operations, it will be subject to consultation with the Shareholder. Any significant investment or acquisition is subject to a post investment review.

12. Compensation Sought from Local Authority

At the request of the Shareholder, the Company may undertake activities that are not consistent with normal commercial objectives. Specific financial arrangements will be entered into to meet the full commercial cost of providing such activities.

Currently, no such activities are undertaken or envisaged.

13. Community Focus

Through its stewardship of Council resources, ECL plans to deliver the following to the local community:

- Management of infrastructure, assets and resources in a way that supports economic growth of the city providing employment for local staff, supporting local waste minimisation initiatives and seeking additional waste diversion opportunities.
- Ensuring infrastructure, assets and financial resources are well-managed and used efficiently.
- Identifying partnering opportunities to enhance educational outcomes to increase recycling in the community.
- Demonstrate environmental leadership by using infrastructure, assets and resources in a sustainable manner which values natural resources and aims to reduce waste to landfill.

14. Sustainable Business Practices

ECL will continue to pursue opportunities to innovate and improve efficiency within the EcoSort plant as equipment upgrades occur considering better energy consumption and efficiency. The pursuit of sustainable, reliable alternative mobile plant including electric and other fuel options will be part of the capital review programme for the Company in 2020, supporting the extensive changes already achieved in this area to date.

15. Innovative/Disruptive and New Technologies

ECL will continue to seek further opportunities to utilise technology and engineering improvements to enhance the efficiency and productivity of the EcoSort and to provide a better customer experience at the EcoDrops. It will also consider the opportunity to incorporate emerging optical and mechanical technologies to improve output quality control.

16. Estimate of Commercial Value

The Board estimates the commercial value of ECL to be at least that which is stated as shareholders' equity in the Company's audited financial statements.

Appendix One

Statement of Significant Accounting Policies

Reporting Entity

EcoCentral Limited is a Tier 1 for-profit entity, incorporated in New Zealand under the Companies Act 1993.

EcoCentral Limited is a wholly-owned subsidiary of Christchurch City Holdings Limited.

Basis of preparation

Statement of compliance

The financial statements of the Company have been prepared in accordance with the requirements of the Local Government Act 2002, which include the requirement to comply with generally accepted accounting practice in New Zealand (NZ GAAP).

These financial statements have been prepared in accordance with NZ GAAP. They comply with IFRS and NZ IFRS, and other applicable financial reporting standards, as appropriate for Council Controlled Trading Organisations (CCTOs).

Measurement base

The financial statements have been prepared on a historical cost basis, modified by the revaluation of certain financial instruments (including derivative instruments). The accounting policies have been consistently applied in determining the earnings and cash flows for the year ended 30 June 2019, and the financial position as at that date.

Functional and presentation currency

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars ($'000). The functional currency of the Company is New Zealand dollars.

Significant Accounting Policies

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short- term deposits with an original maturity 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.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Foreign currency transactions

Foreign currency transactions are translated at the foreign exchange rate that exists on the day of the transaction.

Foreign currency monetary assets and liabilities at the balance date are translated to NZ dollars at the rate that exists at that date.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the surplus or deficit.

Trade and other receivables

Trade receivables, which generally have 30-60 day terms, are recognised initially at fair value and subsequently less an allowance for impairment.

Collectability of trade receivables is reviewed on an on- going basis at an operating level. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that the Company will not be able to collect the receivable.

Inventories

Inventories including raw materials, work in progress and finished goods are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition is accounted for as follows:

Raw materials – purchase cost on a first-in, first-out basis.

Finished goods and work-in-progress – cost of direct materials and labour and a proportion of variable and fixed manufacturing overheads based on normal operating capacity. Costs are assigned on the basis of weighted average costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Derivative financial instruments and hedging

The Company uses derivative financial instruments (including forward currency contracts) to hedge its risks associated with foreign currency. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured to fair value at each reporting date.

Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Derivative assets and liabilities held for with the intention to reduce the foreign exchange risk of expected sales and purchases are classified as current in the statement of financial position. Derivative assets and liabilities are classified as non-current when the remaining maturity is more than 12 months, or current when the remaining maturity is less than 12 months.

The fair values of forward currency contracts are calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

Any gains or losses arising from changes in the fair value of derivatives, except for those that qualify as cash flow hedges, are taken directly to profit or loss for the year.

Property, plant and equipment

Property, plant and equipment are recognised at its historical cost or valuation less accumulated depreciation and any accumulated impairment losses.

Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation. All other repairs and maintenance are recognised in profit or loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated useful life of the specific assets as follows:

Buildings	8 – 20 years
Plant and equipment	2 – 15 years
Motor vehicles	3 – 10 years
IT Systems & Equipment	2 – 10 years
Furniture & Fittings	3 – 15 years

Additions

The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the Company and the cost of the item can be measured reliably.

Property, plant and equipment are recognised at its cost. Where an asset is acquired at nil cost, or for a nominal cost, it is recognised at fair value as at the date of acquisition.

The assets' residual values, useful lives and depreciation methods are reviewed annually, and adjusted if appropriate, at each financial year end.

Disposals

Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amounts of the asset. Gains and losses on disposals are reported net in the surplus or deficit.

An item of property, plant and equipment is de-recognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

EcoCentral Limited as a lessee

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

Trade and other payables

Trade and other payables are carried at amortised cost and due to their short-term nature, they are not discounted. They represent liabilities for goods and services provided to the Company prior to the end of the financial year that are unpaid and arise when the Company becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the loans and borrowings.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (i.e. an asset that necessarily takes a substantial period of time to get ready for its intended use or sale) are capitalised as part of the cost of that asset. All other borrowing costs are expensed in the period they occur.

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Provisions and employee benefits

Provisions are recognised when the entity has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the entity expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

Employee leave benefits

(i) Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled.

Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

(ii) Long service leave

EcoCentral's net obligation in respect of long service leave is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method and is discounted to its present value. The discount rate is the market yield on relevant New Zealand Government Stock at the balance sheet date.

The present value of retirement and long service leave obligations depend on a number of factors that are determined on an actuarial basis. Three key assumptions used in calculating this liability include the discount rate, staff turnover and the salary inflation factor. Any changes in these assumptions will affect the carrying amount of the liability. Expected future payments are discounted using forward discount rates derived from the New Zealand government 10 year bonds. The salary inflation factor has been determined after considering historical salary and wage inflation patterns.

Revenue recognition

Revenue is recognized when control of a good or service transfers to the customer and is based on the fulfilment of performance obligations.

(i) Processing of waste and recyclables

The company operates three refuse stations and a materials recovery facility for the processing of recyclable products. Revenue for the processing of waste and recyclables is recognised when the product or waste is received by the company. The company's performance obligations for each customer are satisfied at the time of delivery as no further work or processing is required, the quantity and quality of the goods has been determined and the price is fixed.

(ii) Sale of goods

The company receives revenue from the sale of its sorted recyclable products. Revenue is recognised for exported product when it is delivered to the port. Title for the goods pass to the customer at this point as all goods are shipped under 'free alongside ship (FAS) terms. Revenue for product metals sold within New Zealand is recognised once the product is delivered to the customer. Revenue for all other recyclable product sold within New Zealand is recognised once the goods are picked up by the customer. The company's performance obligations for each customer are satisfied at the time delivery or pick up has been made as no further work or processing is required.

The company runs a retail store that sells recycled goods that have been delivered by the public. Revenue is recognised when the company sells goods to the customer. Payment for each transaction is due immediately. The company offers a 60 day warranty for whiteware products over the value of $300. Based on accumulated experience, it is highly probably that a significant reversal in cumulative revenue recognised will not occur. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date.

(iii) Hazardous waste cost recoveries

The company has a contract with the Christchurch City Council to invoice for the cost of disposal of hazardous waste received at its refuse stations. Revenue is recognised when the costs of disposal have been determined and a customer invoice has been generated. The company's performance obligations for each transaction are satisfied when the hazardous waste is removed from EcoCentral's property by the respective contractor..

Income tax

Income tax expense includes components relating to both current tax and deferred tax.

Current tax is the amount of income tax payable based on the taxable profit for the current year, and any adjustments to income tax payable in respect of prior years. Current tax is calculated using tax rates (and tax laws) that have been enacted or substantively enacted at balance date

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax is measured at tax rates that are expected to apply when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at balance date. The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the entity expects to recover or settle the carrying amount of its assets and liabilities.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised.

Deferred tax is not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of an asset or liability in a transaction that affects neither accounting profit nor taxable profit.

Current and deferred tax is recognised against the profit or loss for the period, except to the extent that it relates to items recognised in other comprehensive income or directly in equity.

Goods and services tax

Revenues, expenses, cash flows and assets are recognised net of the amount of goods and services tax (GST), except for receivables and payables which are recognised inclusive of GST. Where GST is not recoverable as an input tax it is recognised as part of the related asset or expense. Cash flows in respect of payments to and receipts from the Inland Revenue Department are shown net in the statement of cash flows.

Significant accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

There are no estimates and assumptions that have a significant risk of causing a material misstatement within the next financial year.

Management has exercised the following critical judgement in applying accounting policies:

(i) Classification of leases
Determining whether a lease agreement is a finance lease or an operating lease requires judgement as to whether the agreement transfers substantially all the risks and rewards of ownership to the group. Classification as a finance lease means the asset is recognised in the statement of financial position as property, plant, and equipment, whereas for an operating lease no such asset is recognised. Management has exercised its judgement on the appropriate classification of leases, and has determined that all significant lease arrangements are operating leases.

New standards and interpretations adopted

In the current year, the Company has applied NZ IFRS 15 Revenue from contracts with customers and NZ IFRS 9 Financial Instruments, both effective 1 July 2018.

(i) NZ IFRS 15 - Revenue from contracts with customers

NZ IFRS 15 Revenue from Contracts with Customers introduced a new revenue recognition model that recognizes revenue either at a point in time or over time. It is based on the principle that revenue is recognized when control of a good or service transfers to the customer and is based on the fulfilment of performance obligations.

The Company has applied the modified approach on transitioning to NZ IFRS 15 and has applied the standard on initial application being 1 July 2018. No material impact on these financial statements has been recognized as a result of adopting this standard.

As the Company has the right to consideration corresponding directly with the value of performance completed to date, customer contract revenue is recognised consistent with the amount that the Company has a right to invoice. The Company is therefore exercising the practical expedient not to explain transaction prices allocated to unsatisfied performance obligations at the end of the reporting period.

Note 2 sets out a numerical disaggregation of revenue in accordance with the disclosure requirements of the new standard. An explanation of the types of revenue included in the note is set out in the revenue recognition policy.

(ii) NZ IFRS 9 Financial Instruments

NZ IFRS 9 replaces NZ IAS 39 and introduces new requirements for:

- The classification and measurement of financial assets and liabilities,
- Impairment of financial assets.

Details of these new requirements as well as their impact on the Company's financial statements are summarised below:

(i) *Classification and measurement*
NZ IFRS 9 includes revised guidance on the classification and measurement of financial statements. The standard divides all financial assets that are currently in the scope of NZ IAS 39 into two classifications – those measured at amortised cost and those measured at fair value.

As a result of the adoption of this standard, financial assets previously classified as loans and receivable are now classified as financial assets at amortised cost. The Company has no financial assets measured at fair value other than derivative financial instruments for which hedge accounting is applied.

There is no impact on the Company's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designed at fair value through profit or loss and the Company does not have such liabilities.

(ii) Impairment of financial assets
NZ IFRS 9 requires a new impairment model with impairment provisions based on expected credit losses rather than incurred credit losses under NZ IAS 39. The expected credit loss model requires the Company to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. The simplified approach has been applied to trade receivable to determine expected credit losses. The transitional increase/decrease in the impairment allowance as a result of this change in accounting policy is immaterial.

Changes in accounting policy and disclosures

The accounting policies detailed above have been applied in the preparation of these financial statements and have been consistently applied throughout the year.

The accounting policies adopted are consistent with those of the previous financial year, except for the changes relating to the adoption of NZ IFRS 9 & NZ IFRS 15 in the current year.

NZ IFRS Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Company for the annual reporting period ending 30 June 2019 are listed below:

	Effective
NZ IFRS 16 Leases	FY20

The Company expects to adopt these new or amended standards and interpretations in the period that application of the standard is required; however they are not expected to have a significant impact on the group's operations.

Under NZ IFRS 16 – Leases, all leases (including operating) will be recorded on the balance sheet. An asset for the right to use the leased item will be recognised and presented in the property plant and equipment category, but separately from the assets the Company owns. A liability for its obligation to pay rental will be recognised, and interest expense is recognised on the lease liability. The asset will be amortised through the statement of comprehensive income and tested for impairment.