FINANCIAL POLICIES

REVENUE & FINANCING POLICY

Introduction

This policy outlines the choices Council has made about the appropriate funding of operational and capital expenditure from the sources[1] of funds listed in the Local Government Act 2002 (LGA). The policy also shows how Council has complied with section 101(3)[2]. The comprehensive section 101(3) analysis is separately documented in the Funding Needs Analysis.

Determining the appropriate way to fund Council activities is complex. It is a process that takes account of many variables including, but not limited to, the following matters:

- Legal
- Social
- Competition
- Affordability
- Impact of change
- Efficiency
- Equity
- Cost
- Intergenerational equity
- Transparency
- Accountability
- Business
- Strategic Alignment
- Benefit

In determining the appropriate Revenue and Financing Policy, Council plans to meet the current and future needs of communities for good-quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost-effective for households and businesses.

Funding Principles

Council has determined the following basic principles to guide the appropriate use of funding sources.

- User charges are preferred when a private benefit can be identified and it is efficient to collect the revenue.
- Subsidies, grants and other income options are fully explored prior to rates being used.
- Each generation of ratepayers should pay for the services they receive and borrowing can assist to achieve this outcome.
- Capital expenditure to replace assets that reach their projected economic life is firstly funded from asset renewal reserves built up over time by funding depreciation, rates and then borrowing.
- Capital expenditure to upgrade or build new assets is funded firstly from other sources (e.g. subsidies, grants, fundraising, financial contributions) and then borrowing.

Complying with these principles can at times be challenging. The Council must apply judgment in assessing many options to determine appropriateness in its development of budgets or acquisition of assets and the choice of funding sources to implement these.

Related Policies

The Development and Financial Contributions Policy provides further analysis, as required by section 106(2)(c). This explains why Council has chosen to use financial contributions but not development contributions to fund the capital expenditure needed to meet increased demand for community infrastructure.

The Westland District Plan determines those matters that financial contributions are required for under the Resource Management Act 2001.

The Liability Management Policy places restrictions on the use of borrowing as a funding source.

The Investment Policy places conditions on how surplus funds should be invested, the reasons for holding investments, the type of investments that may be held, and how they might be used as a source of funds.

The Rating Policy, sits with the Funding Impact Statement, and further clarifies the funding requirements of Council by documenting matters not included in the Funding Impact Statement, rates resolution or this policy. It includes the allocation of activity rates requirements to different rate types, detailed definitions and maps for rating areas.

The Funding Impact Statement is included in each Long-term Plan and Annual Plan as required by clauses 15 or 20 of schedule 10. This statement shows the basis for the rates calculation for the following year.

Together the above documents form the necessary components to lawfully charge under the LGA for the revenue requirements of Council. Council must also comply with other legislation in regard to the setting of some fees and charges and the Local Government (Rating) Act 2002 for the setting of rates.

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1 The sources of funds are listed in section 103(2).

2 All legislative references are to the Local Government Act 2002 unless otherwise stated.

Previous reviews

In 2004/14 Council prepared its first Long Term Council Community Plan (later to be named the Long Term Plan). A requirement of the plan was to every three years review and consult on the Revenue and Financing Policy. The Funding Needs Analysis was incorporated in its entirety in these previous Revenue and Financing Policies, but is now separated, to enhance clarity of the separate requirements of the parts of the Act.

At each review Council has considered particular activities that may need re-analysis and made incremental changes. In 2013 it became apparent that Council needed to undertake a first principles review of its rating policies. This review was undertaken during 2014 culminating in December 2014 with a decision to change the rating system.

Following the 2014 review, this policy along with the Funding Needs Analysis will be effective from 1 July 2015.

Funding Sources for Operating Costs

Operating costs are the day to day spending that maintains the services delivered by Council. This includes contributions to the wear and tear on assets used (depreciation), interest charged on borrowing for capital projects and corporate overheads.

Council must consider the funding of each activity in a way that relates exclusively to that activity. Some activities may be best funded by user charges, such as swimming pool admission fees, others with targeted rates, such as a water rate, and others from the general rate, such as road maintenance. Distinct funding enables ratepayers or payers of other charges to assess more readily whether or not the cost of the service provided to them, either directly or indirectly, represents good value. They can also more easily determine how much money is being raised for the service and spent on the service, which promotes transparency and accountability.

The funding sources for operating costs include:

User charges

User charges are used for services where there is a benefit to an individual or group. Users charges is a broad group of revenue charged directly to an individual or entity. It includes:

- Entry fees
- Service charges
- Hire
- Rent, lease, licenses for land and buildings
- Regulatory charges
- Fines and penalties
- Connection fees
- Disposal fees
- Deposits
- Private works
- Memberships
- Planning and consent fees
- Statutory charges
- Retail sales

The price of the service is based on a number of factors, including:

- The cost of providing the service.
- The estimate of the users' private benefit from using the service.
- The impact of cost to encourage/ discourage behaviours.
- The impact of cost on demand for the service.
- Market pricing, including comparability with other councils.
- The impact of rates subsidies if competing with local businesses.
- Cost and efficiency of collection mechanisms.
- The impact of affordability on users.
- Statutory limits.
- Other matters as determined by Council.

Council's ability to charge user charges is limited by the powers conferred to it by many statutes and regulations. As a general rule fees for statutory functions should be set at no more than the cost of providing the service. In some cases legislation sets the fees at a level that is below cost and in other cases, where provided by legislation (e.g. Waste Minimisation Act 2008) Council may set fees at greater than the cost of providing the service. Council considers it appropriate to incorporate overhead charges in the determination of the cost of providing a service.

Where Council is charging for the sale of goods or services not required by statute, its preference is to charge a market price, having regard to the powers conferred by section 12. This includes leases, rents and licenses for land and buildings.

Fees and charges may be set by Council at any time and are reviewed by Council annually. A list of regular fees and charges is maintained on Council's website.

User charges revenue is allocated to the activity which generates the revenue.

Grants, sponsorship, subsidies and other income

Grants, sponsorship and subsidies are used where they are available. Many of these items are regular and predictable and therefore can be budgeted. Some items of other income are unexpected or unpredictable and may not be able to be prudently budgeted (e.g. reparation payments, Civil defence and other reimbursements, legal settlements and insurance payouts)

Council expects to continue receiving substantial subsidies for road maintenance from government or its agencies.

Investment income

Council has an Investment Policy which determines the types of investments Council has and procedures for the management of these. These investments generate income such as dividends, interest, forestry returns, rents and surpluses on disposal. The policy places some restrictions on the use of revenue generated from some investments.

Each source of income is receipted to the activity that owns the asset.

Council maintains reserves funds and much of the income received by Council is allocated to reserve balances and is not used to reduce rates requirements for operating costs.

Financial contributions

Council collects financial contributions under the Reserve Management Act 2001. The purpose of these contributions is outlined in the Westland District Plan and Development and Financial Contributions Policy. Most contributions are made by vesting assets in Council. Some contributions are paid in cash and the Westland District Plan allows for some of these contributions to be used for operating expenses.

Council's approach is to deposit receipts into a reserve fund and to withdraw from that fund for specific projects. These projects are generally in addition to the normal operating budgets but may not meet the accounting definition of capital expenditure (e.g. the establishment of a garden).

Development contributions, proceeds from the sale of assets and lump sum contributions

Council does not collect revenue from lump sum contributions and development contributions to fund operating costs. Low value proceeds from sale of assets may be used to fund operating costs.

Reserve funds

Council maintains reserve funds. These cash reserves have generally come about from unspent rates, investment income, bequests or other revenue sources in a previous year. Many of these reserve funds are for capital expenditure however some of these reserve funds are available to meet operating costs.

Council generally uses these funds for the purposes that the reserve was created and usually for new projects additional to normal operating expenditure. Council at times may use these funds to minimise or smooth changes in rates.

Borrowing

Council may in exceptional circumstances borrow to fund operating costs where it is prudent to do so. Council has budgeted to not require borrowing for operating expenses, except as part of a major capital project, where accounting rules determine a project cost cannot be capitalised.

If an unexpected event occurs, Council has limited reserves and may during a financial year resolve to fund some operating expenses from borrowing.

Rates

Having been prudent and appropriately exhausting all other funding sources, Council funds its remaining operating expenses from rates. For many activities this is the main funding source.

Council must determine whether the portion of an activity to be funded from rates is to be funded from a general rate or a targeted rate.

In doing this, while considering all the matters of section 101(3), Council placed emphasis on developing a simple more easily understood rating system.

Council has taken the view that rates are more akin to a tax and are not a payment for services received. As a result the default stance is that an activity should be funded from the general rate, unless Council determines that a targeted rate is justified to more appropriately allocate the rates to a community, a sector or a connected property.

Summary of sources of funding for operating expenditure by activity

Council has developed preferences for the use of the funding sources after completing the activity analysis for each activity in its Funding Needs Analysis. Table 2 describes the extent each funding source is used expressed in ranges. These ranges are expressed as a percentage of the cost of the activity. A key to interpret the graphics follows the table.

Figure 21: Summary of funding sources by activity

Activity	User charges	Grants, subsidies & other	Invest. Income	Fin. Cont.	Reserve Funds	Borrowing	General Rates	Targeted rates
Leadership:								
Democracy	x	x	x	x	x	x	P	x
Corporate Services	P	x	x	x	x	x	P	x
Council Controlled Organisations	x	x	P	x	x	x	x	x
Planning & Regulatory Services:								
Inspections & Compliance	P	x	x	x	x	x	P	x
Resource Management	P	x	x	x	x	x	P	x
Emergency Management & Rural Fire	x	P	x	x	x	x	P	x
Animal Control	P	x	x	x	x	x	P	x
Community Services:								
Community Development & Assistance	x	P	x	x	x	x	P	P
Community Halls	P	x	x	x	x	x	P	P
Township Development Fund	x	P	x	x	x	x	x	P
Leisure Services & Facilities:								
Library	P	P	x	x	x	x	P	x
Museum	P	P	x	x	x	x	P	x
Swimming Pools	P	x	x	x	x	x	x	P
i-Site	P	x	x	x	x	x	x	P
Parks & Reserves	P	x	x	P	P	x	x	P
West Coast Wilderness Trail	x	x	x	x	x	x	x	P
Public Toilets	x	x	x	x	x	x	P	x
Land & Buildings	P	x	P	x	x	x	P	x
Cemeteries	P	x	x	x	x	x	P	x
Elderly Housing	P	x	x	x	P	x	P	x
Wild Foods Festival	P	P	x	x	x	x	P	x
Infrastructure:								
Transportation	x	P	x	x	x	x	P	P
Water Supply	x	x	x	x	x	x	x	P
Wastewater	P	x	x	x	x	x	x	P
Stormwater	x	x	x	x	x	x	x	P
Solid Waste	P	x	x	x	P	x	P	P

Key

Range Name	Range	Key
Unlikely	0	x
Minimal	0% -20%	P
Low	20% -40%	P
Moderate	40% - 60%	P
High	60% - 80%	P
Most	80% - 100%	P
All	100%	P

FINANCIAL POLICIES

As these ranges are expressed as a percentage of the cost of the activity they may change over time because of changes in expenditure rather than changes in revenue. Budgets are set within these ranges, it is however likely that actual funding sources may be different from budgeted funding sources due to unexpected events happening during a financial year. In years subsequent to 2015/16, if budgets were marginally outside these ranges, it is unlikely that Council will consider this to be a matter with a high degree of significance. As such Council is unlikely to update the policy. Significant changes are required to have the policy updated and these may require to be consulted upon.

Council will review and update this policy in 2018.

Funding Sources for Capital Costs

Capital costs are those costs associated with the purchase and improvement of assets and for the repayment of debt. The funding sources for capital costs include:

User charges

User charges are generally not available for capital costs as individual user contributions would generally be too large to be affordable. Borrowing and charging users annually for financing costs (interest and principal) via rates is often a more affordable method of charging users contributions.

Council does charge for capital works that are solely for private benefit (e.g. a network extension to a single dwelling) or where capital works are undertaken outside of asset management plans at the request of individuals (e.g. a rural seal extension for dust suppression).

Grants, subsidies, and other income

Council relies on a significant subsidy for capital works in its roads and bridges activity. Other activities are able to access grants and subsidies from time to time. Other income can be from many and varied sources and is unlikely to be predictable enough to budget for in advance. Other income used to fund capital expenditure could include bequests, insurance payouts, and legal settlements.

Grants, subsidies and other income are used wherever they are available.

Development contributions

Council has chosen not to collect development contributions.

Financial contributions

Council collects financial contributions under the Resource Management Act 2001. The purpose of these contributions is outlined in the Westland District Plan and Development and Financial Contributions Policy. Most contributions are received as revenue by the vesting of assets in Council; some contributions (reserve contributions) are paid to Council.

Council's approach is to deposit receipts into a reserve fund and to draw funds from that account for specific projects that meet the purpose for which the funds were collected.

Council has a Development and Financial Contributions Policy that, in addition to the requirements of sections 101(3) and 103 describes funding matters further as stipulated by section 106(2)(c).

Proceeds from the sale of assets

From time to time Council disposes of assets. Many of these are low value items and the revenue is received by the activity that owns the assets.

Council's property activity holds some higher value assets that are intended for sale. Unrestricted proceeds from the sale of these assets will be used to repay debt, unless resolved otherwise by Council. Restricted revenues will be placed in a reserve fund and used for the purpose required by the document that imposes the restriction (e.g. endowments).

Reserve funds

Council maintains various reserve funds for capital projects and will approve the use of the funds when a project meets the specific criteria for the reserve. These reserve funds may include bequests, depreciation or asset renewal reserves and financial contribution reserves.

Borrowing

For larger capital projects that provide a long-term benefit to the community, Council may determine that borrowing the funds is an appropriate method of allocating the costs of a project over time to users.

Borrowing, both the capital (principal) and interest components, is generally repaid by future rates. Council may resolve to capitalise interest repayments on some debt, where it considers it most likely (prudent) that another funding source (e.g. property sales or grants) will be able to repay the accumulating debt.

Where it is not practical to obtain third party revenue and where reserve funds haven't previously been set aside, Council prefers borrowing as a funding source. Borrowing spreads the cost of the project over a longer period, smoothing changes in rates and contributing to intergenerational equity.

Lump sum contributions

Council has the option when undertaking a major project to seek lump sum contributions to the capital cost of the project from those who are identified in the project's "capital project funding plan". Lump sum contributions are provided for in the Local Government (Rating) Act 2002 and have stringent requirements placed on how they are used. Where a lump sum payment option is proposed ratepayers choose to participate or not. Council has previously used these provisions and may do so in the future.

Council will consider for major projects, requiring funding from borrowing, whether it wishes to seek lump sum contributions.

Rates

Rates are used firstly to fund the day to day operational expenses including depreciation and borrowing interest costs. A portion of rates funds the capital (principal) repayments of debt, generally using table loan calculations. Rates will be used to fund some small items of capital expenditure. Rates are not a practicable method to fund large projects in the year of expenditure.

Council funds some capital projects, for maintaining service levels, in advance by collecting rates for depreciation (an operating expense). These funds are placed into depreciation or asset renewal reserve funds.

Analysis for capital expenditure by activity

Council has developed the above preferences for the use of the funding sources for capital costs after completing the activity analysis for each activity in its Funding Needs Analysis. Council will fund capital costs on the same basis as determined by the operating costs funding policy, unless Council resolves otherwise. Such a resolution that follows the following funding guidelines will be considered consistent with this policy and not require amendment to the policy. It is not practicable to determine a funding policy for an unknown future project at this time.

Council uses the following guidelines when considering the funding of capital projects:

- A Funding Needs Analysis will be completed.
- All projects are first funded from grants, subsidy or other income.
- Renewal projects that maintain the same service level are then funded from reserves set aside for this purpose.
- Other reserve funds (e.g. financial contributions) are considered.
- Lump sum rating options are considered.

Capital projects that have exhausted previous funding sources or are for new or increased service levels or for growth are then funded from borrowing.

A single project may have a mix of each of these funding options.

Generally it is not practical to create separate funding policies for each and every capital project. Council will only do this when a project is particularly large, affects a particular group or does not fit with an existing funding policy or activity. Whenever Council resolves to consider funding for a capital project Council will consider the sources of funds above and the guidelines for applying those to a capital project. Generally Council will resolve the funding policy at the time the project is proposed in an Annual Plan or Long-term Plan.

Overall Impact Funding Considerations

Council is required by section 101(3)(b) to consider the overall impact of the allocation of liability for revenue needs on the community. It allows Council, as a final measure, to modify the overall mix of funding in response to these considerations.

Council may use accounting provisions and reserve funds to spread the costs of activities over multiple years for the purpose of smoothing the cost to users and ratepayers.

While an unbalanced budget is neither prudent nor sustainable in the long term, Council may choose to not fund some operating costs in the short term:

- In order to phase costs and set rates at affordable levels.
- Where short term expenditure [projects] is expected to deliver long term savings

Council may waive or discount fees and charges where it considers it appropriate to do so. Some matters Council may consider in deciding whether it is appropriate to waive fees are for social reasons, for the promotion of events and facilities, for commercial reasons, or to compensate for poor service.

Council may remit rates where it considers it appropriate to do so and as documented in the Rates Remissions Policies. These policies address social matters as well as adjusting rates for benefits that differ for some rates assessments (e.g. additional or no provision of some services).

Council having determined to use a differentiated rate will modify the factors to adjust the rate for different rating categories. This adjustment is complex and takes account of the matters raised in paragraph two of the introduction to this policy.

Rates

Council's final consideration of revenue and financing policy for rates comes:

- After consideration of how the funding source will be used to fund operating and capital costs, and
- After that has been applied to activities in the Funding Needs Analysis, and
- After being adjusted for the overall funding considerations

The following section outlines the revenue and financing policy requirements that are relevant to setting rates. To have a full understanding of rates they should be read having regard to the analysis above and in conjunction with the Rating Policy, Funding Impact Statement and Rates Resolution.

General rates

Council has chosen to have two general rates; a uniform annual general charge (UAGC) and a general rate based on the value of the property.

Council has chosen capital value as the basis by which to calculate the general rate and to apply a differentiated general rate based on the use of a rating unit. The Rating Policy documents how Council calculates the general rate differentials.

Council has determined in its Funding Needs Analysis that all or part of the following activities should be funded from the general rate:

- Democracy
- Corporate services
- Inspections and compliance
- Resource management
- Emergency management
- Animal control
- Community development and assistance
- Library
- Museum
- Public toilets
- Land and buildings
- Cemeteries
- Transportation
- Solid Waste

The UAGC is assessed on each rateable rating unit and is used to fund all activities funded from general rates. The Rating Policy document describes how Council calculates the UAGC.

Targeted rates

Council has determined in its Funding Needs Analysis that all or part of the following activities should be funded from targeted rates:

- Community halls
- Township development fund
- Swimming pools
- i-Site
- West Coast Wilderness Trail
- Water supply
- Parks and Reserves
- Land and Buildings
- Transportation
- Wastewater
- Stormwater
- Solid Waste

In funding the above activities from targeted rates Council uses the following types of targeted rates. More information on the calculation of each rate, including the percentage of the rate requirement of an activity to be collected for each rate and the rating area maps, can be found in the Rating Policy.

Figure 22: Targeted rate types

Name	*Activities funded*
Community rates	Activities where Council considers every property in a community zone receives a benefit.
Tourism promotions rate	Tourism promotion activities where Council considers businesses should contribute a greater portion.
Refuse collection rate	To fund the cost of kerb-side refuse Na recycling collection, and transfer.
Water rates	To fund water supply.
Sewerage rates	To fund wastewater treatment and disposal.
Kokatahi / Kowhitirangi community rate	To fund projects in the Kokatahi / Kowhitirangi community.
Kaniere sewerage capital contribution rate	To recover the capital cost of the extension of the sewerage system to Kaniere.
Hokitika area promotions rate	To fund Enterprise Hokitika.
Emergency Management Fund rate	To accumulate a reserve in case of an emergency.
Hannahs Clearing water supply capital repayment rate	To recover the cost of installing water supplies.

Differentiation by Use

Council has chosen to differentiate the general rate and each community rate using the following categories of use:

- Residential
- Rural Residential
- Commercial
- Rural

Each year Council will determine the rating differential factors when it adopts its Rating Policy prior to the adoption of the Funding Impact Statement as part of an Annual Plan or Long-term Plan.

When setting the differential Council shall consider the following matters to determine the appropriate rating differential factors:

- Council's approach to rates funding as documented in this Revenue and Financing Policy.
- The activities funded by each rate.
- The effect (if applicable) of changes in valuations.
- The rates differentials and revenue collected from each sector for the previous year and the implications of changing those differentials as it affects individual ratepayers.
- For community rates the mix of properties and nature of services funded in each community.

DEVELOPMENT & FINANCIAL CONTRIBUTIONS POLICY

General

Section 102(2) of the LGA 2002 requires, among other things, that a local authority must adopt a policy on development contributions or financial contributions. Details relating to the specific matters that must be covered in any policy on development contributions or financial contributions are specified in Section 106 and these matters are explained below.

Council considers at this stage that it will continue to rely solely on the financial contributions specified in the Westland District Plan 2002 which was prepared and made operative pursuant to the provisions of the Resource Management Act 1991. The community is accustomed to the provisions of District Plan and until that is reviewed Council does not intend to change this particular policy.

Under Section 106 (2) (c) of the LGA the Council is required to explain why it has chosen to use financial contributions (and not to use development contributions) to fund any capital expenditure needed to meet increased demand for community infrastructure. The reason is that Council expects a low amount of growth, as per the Statistics NZ medium population forecasts, and the trend in the district is for subdivision to drive that growth. Subdivisions can be charged financial contributions as per the District Plan. Some other types of growth not requiring resource consent (e.g. additional development on an existing lot) might suggest the need for development contributions, but at present this is not expected to be a significant growth component for the district.

The financial contributions regime, with its focus on environmental effects, is also well-suited for a low-growth district in comparison with the development contributions regime, which requires specific projects to be listed in a multi-year capital expenditure programme and distributed across the expected additional units of demand over time. In short, the financial contributions regime is preferable for its administrative simplicity and its suitability to the district's expected growth.

Currently, the financial contributions imposed on land subdividers and developers relate only to the actual costs incurred as a result of the land development or subdivision. The provisions within the District Plan provide for financial contributions to be paid on the grant of certain subdivision and land use consents.

Financial Contributions in the District Plan: Summary

Part 7 of the District Plan specifies the rules relating to financial contributions. The provisions of the District Plan on financial contributions relate to the subdivision or development of land. The relevant part of the District Plan specifies the circumstances and purposes under which financial contributions are required and the maximum amount is also specified. Financial contributions under the District Plan broadly fit into three categories:

- Services
- Amenity
- Recreation

Financial Contributions: Services

The District Plan requires the subdivider or land developer to be responsible for funding of work within the boundary of the subdivision or development that relates to the provision of services directly required by the subdivision or development. Financial contributions adopted in the District Plan are imposed to recoup actual costs associated with the construction and installation of new services, or any required upgrades to existing services.

For example, in the case of sewerage, the maximum amount payable where no sewerage system is available is the full actual cost of a disposal system including design and investigation, land acquisition and on-site sewerage. Where a sewerage system is available (and has adequate capacity to accommodate additional connections), the maximum amount payable is the full actual cost of connecting the allotments or buildings to that sewerage system. Where, however, the design capacity of the existing system is likely to need to be upgraded as a result of the subdivision, the contribution is limited to 50% of the cost for the upgrading of the system, to recognise potential benefits of the upgrade to other users.

Financial Contributions: Amenity

Land subdividers and developers can be required to undertake earthworks, landscaping, planting, fencing or screening as part of a subdivision or land development, to mitigate environmental effects. In some areas, particularly the Glacier region and Hokitika, off-street car parking is required to be provided. Where such car parking cannot readily be provided, a 'cash in lieu' contribution is provided for within the District Plan.

Financial Contributions: Recreation

The District Plan provides for financial contributions towards recreation facilities and also reflects the thrust of the Resource Management Act 1991 in terms of esplanade reserves. Council recognises that Westland is fortunate to have an abundance of open spaces which can be used for recreation purposes and Council considers that there is a limited need for additional recreation land. Council's policy direction in this regard is to upgrade existing recreational facilities. Contributions toward recreation facilities are detailed in the schedule of fees and charges.

Future Changes

The Westland District Plan is undergoing a complete review and the Financial Contributions section is currently scheduled to be reviewed in 2019. If any changes are proposed, this policy will be amended through a special consultative procedure and concomitantly with the District Plan. Likewise, any change to Council's current position of not imposing development contributions will see a change to this policy through a special consultative procedure as a precursor to a development contributions regime. Notwithstanding the above, this policy will be reviewed three yearly as part of the review of the Long Term Plan when the appropriateness of the policy will be assessed and changes recommended by Council.

STATEMENT OF ACCOUNTING POLICIES

PUBLIC BENEFIT ENTITY STANDARDS

As a Public Benefit Entity (PBE), Westland District Council's financial reporting is governed by the new reporting standards for the public sector. The Statement of Accounting Policies that follows is constructed after an assessment of the changes that the new standards prescribe and an assessment of the impact on the comparability with reports for previous periods that were prepared under NZ IFRS.

REPORTING ENTITY

Westland District Council (Council) is a territorial local authority governed by the Local Government Act 2002 (LGA) and is domiciled and operates in New Zealand. The relevant legislation governing the Council's operations includes the LGA and the Local Government (Rating) Act 2002.

The primary objective of Council is to contribute to the purpose of local government in the Westland District by:

- enabling democratic local decision-making and action by, and on behalf of, communities; and
- meeting the current and future needs of communities for good-quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost-effective for households and businesses.

By providing goods or services for the community rather than making a financial return, Council has designated itself as a public benefit entity (PBE) for the purposes of New Zealand equivalents to International Public Sector Accounting Standards (IPSAS).

The prospective financial statements are for Westland District Council only and do not include transactions related to the group.

BASIS OF PREPARATION

The financial statements are prospective information in terms of PBE FRS42: Prospective Financial Information. This standard will be applied throughout the ten year period of this plan. The purpose for which the information is prepared is to enable the public to participate in decision making processes as to the services to be provided by Council to the community. The prospective information may not be appropriate for purposes other than those described.

In preparing these prospective financial statements, estimates and assumptions have been made concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations or future events that are believed to be reasonable under the circumstances.

The information in the prospective financial statements is uncertain and its preparation requires the exercise of judgement. Actual financial results achieved are likely to vary from the information presented and the variations may be material. Events and circumstances may not occur as expected and may or may not have been predicted or the Council may subsequently take actions that differ from the proposed course of action on which the prospective financial statements are based.

The Council authorised the prospective financial statements on 30 June 2015. The Council, which is authorised to do so and believes that the assumptions underlying these prospective financial statements are appropriate, approved the long term plan after consultation. Council and management of Westland District Council accept responsibility for the preparation of the prospective financial statements, including the appropriateness of the assumptions underlying the prospective financial statements and all other required disclosures. No actual results have been incorporated within the prospective financial statements.

STATEMENT OF COMPLIANCE

The prospective financial statements of the Council have been prepared in accordance with the requirements of the Local Government Act 2002, which include the requirement to comply with New Zealand generally accepted accounting practice (NZ GAAP). The Financial Statements have been prepared in accordance with Tier 2 PBE Standards and disclosure concessions have been applied.

The criteria under which an entity is eligible to report in accordance with Tier 2 PBE Standards are:

- Expenses > $2m and < $30m
- Not publicly accountable

These financial statements comply with PBE Standards. These financial statements are the first financial statements presented in accordance with the new PBE accounting standards. There were no material adjustments arising on transition to the new PBE accounting standards.

Functional and Presentation Currency

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

Accounting Policies

The accounting policies have been applied consistently to all periods presented. There have been no significant changes to accounting policies as compared to the Long Term Plan 2012-22 or the Annual Report 2013-14.

SIGNIFICANT ACCOUNTING POLICIES

COST ALLOCATION POLICY

The cost of service for each significant activity of the Council has been derived using the cost allocation system outlined below.

- Direct costs are charged directly to significant activities.
- Indirect costs are charged to significant activities based on cost drivers and related activity/usage information.
- Direct costs are those costs directly attributable to a significant activity.
- Indirect costs are those costs which cannot be identified in an economically feasible manner with a specific significant activity.

The costs of internal services not directly charged to activities are allocated as overheads using appropriate cost drivers such as staff numbers, items processed, and/or based on level of support provided to each activity.

SUBSIDIARIES

Subsidiaries are those entities in which Council has control. Westland Holdings Ltd is Council's direct reporting subsidiary. This company controls three Council Controlled Organisations which are reporting entities under the Financial Reporting Act 1993. The Group consists of Westland District Properties Ltd, Hokitika Airport Ltd and Westroads Ltd.

Investments in subsidiaries are recorded at cost. Transactions with subsidiaries are at arm's length and under normal trading terms. Recharges are invoiced at cost.

Basis of consolidation

The Group (Westland District Council and Westland Holdings Ltd) consolidated accounts are prepared by combining like items of assets, liabilities, equity, revenue and expenses on a line-by-line basis. All significant intra-group balances, transactions, revenue and expenses are eliminated on consolidation.

Group prospective financial statements are prepared for annual reports, but Council has not presented these for the long term plan 2015-25 because it believes the parent prospective financial statements are more relevant to users. The main purpose of the prospective financial statements is to provide information about the core services that Council intends to provide to ratepayers, the expected cost of those services and thus the amount of rates that Council requires in order to fund the intended levels of service.

The CCOs' contribution is included to the extent that distributions received by Council from the subsidiaries are used to partially fund Council activities, thereby reducing the rates requirement.

While Council undertakes a governance role, in agreeing a statement of intent with Westland Holdings Ltd, it does not exercise control over the day to day operations of the subsidiaries.

REVENUE

Revenue is measured at the fair value of consideration received.

Rates revenue

Rates, other than water-by-mater rates, are set annually by a resolution of Council and relate to a financial year. All ratepayers are invoiced within the financial year to which the rates have been set. Rates revenue is recognised when payable.

Rates arising from late payment penalties are recognised as revenue when rates become overdue.

Revenue from water-by-meter rates is recognised on an accrual basis based on usage. Unbilled usage, as a result of unread meters at year end, is accrued on an average usage basis.

Rate remissions are recognised as a reduction of rates revenue when the Council has received an application that satisfies its rates remission policy.

Other revenue

Grants

Council receives government grants from New Zealand Transport Agency, which subsidises part of Council's costs in maintaining the local roading infrastructure. The subsidies are recognised as revenue upon entitlement as conditions pertaining to eligible expenditure have been fulfilled. Council also from time to time receives grants from other parties that are recognised on the same basis.

Building and resource consent revenue

Fees and charges for building and resource consent services are recognised on a percentage completion basis with reference to the recoverable costs incurred at balance date.

Entrance fees

Entrance fees are fees charged to users of the Council's local facilities and events, substantially the museum and Hokitika Wild Foods Festival. Revenue from entrance fees is recognised upon entry to such facilities, or when the event is held.

Landfill fees

Fees for disposing of waste at the Council's landfill are recognised as waste is disposed by users.

Provision of commercially based services

Revenue from the rendering of services is recognised by reference to the stage of completion of the transaction at balance date, based on the actual service provided as a percentage of the total services to be provided. The stage of completion is assessed by reference to surveys of work performed.

Sales of goods

Revenue from the sale of goods is measured at fair value of the consideration received or receivable, net of returns or allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

Where revenue is derived by acting as an agent for another party, the revenue that is recognised is the commission or fee on the transaction.

Vested or donated physical assets

For assets received for no or nominal consideration, the asset is recognised at its fair value when the Council obtains control of the asset. The fair value of the asset is recognised as revenue, unless there is a use or return condition attached to the asset.

For long-lived assets that must be used for a specific use (e.g. land must be used as a recreation reserve), the Council immediately recognises the fair value of the asset as revenue. A liability is recognised only if the Council expects it will need to return or pass the asset to another party.

Donated and bequeathed financial assets

Donated and bequeathed financial assets are recognised as revenue unless there are substantive use or return conditions. A liability is recorded if there are substantive use or return conditions and the liability released to revenue as the conditions are met e.g. as the funds are spent for the nominated purpose.

Revenue from investments

Interest revenue is recognised using the effective interest method. Interest revenue on an impaired financial asset is recognised using the original effective interest rate.

Dividends are recognised when the right to receive payment has been established. When dividends are declared from pre-acquisition surpluses, the dividend is deducted from the cost of the investment.

CONSTRUCTION CONTRACTS

Contract revenue and contract costs are recognised as revenue and expenses respectively by reference to the stage of completion of the contract at balance date. The stage of completion is measured by reference to the contract costs incurred up to balance date as a percentage of total estimated costs for each contract. Contract costs include all costs directly related to specific contracts, costs that are specifically chargeable to the customer under the terms of the contract, and an allocation of overhead expenses incurred in connection with the group's construction activities in general.

An expected loss on construction contracts is recognised immediately as an expense in the surplus or deficit.

Where the outcome of a contract cannot be reliably estimated, contract costs are recognised as an expense as incurred. When it is probable that the costs will be recovered, revenue is recognised to the extent of costs incurred.

Construction work in progress is stated at the aggregate of contract costs incurred to date plus recognised surpluses less recognised losses and progress billings. If there are contracts where progress billings exceed the aggregate costs incurred plus surpluses less losses, the net amounts are presented as a liability.

BORROWING COSTS

The Council and Group has elected to defer the adoption of NZ IAS 23 Borrowing Costs (Revised 2007) in accordance with its transitional provisions that are applicable to public benefit entities.

Borrowing costs are recognised as an expense in the period in which they are incurred.

INCOME TAX

Income tax expense in relation to the surplus or deficit for the period comprises current tax and deferred tax.

Current tax is the amount of revenue tax payable based on the taxable profit for the current year, plus any adjustments to revenue tax payable in respect of prior years. Current tax is calculated using rates that have been enacted or substantively enacted by 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 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 utilized.

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

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 measured at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, using tax rates that have been enacted or substantively enacted by 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.

Current tax and deferred tax is recognised against the surplus or deficit, except when it relates to a business combination, or to transactions recognised in other comprehensive revenue and expense or directly in equity.

LEASES

Finance leases

A finance lease is a lease that transfers to the lessee substantially all the risks and rewards incidental to ownership of an asset, whether or not title is eventually transferred.

At the commencement of the lease term, the Council and Group recognises finance leases as assets and liabilities in the Statement of Financial Position at the lower of the fair value of the leased item or the present value of the minimum lease payments.

The finance charge is charged to the surplus or deficit over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability.

The amount recognised as an asset is depreciated over its useful life. If there is no certainty as to whether the Council will obtain ownership at the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life.

Operating leases

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

FINANCIAL ASSETS

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

Bank overdrafts are shown within borrowings in current liabilities in the Statement of Financial Position.

Trade and other receivables

Receivables are recorded at their face value, less any provision for impairment.

Loans, including loans to community organisations made by Council at nil, or below-market interest rates are recognised at the present value of their expected future cash flows.

Other financial assets

The Council and Group classify its financial assets into the following four categories for the purpose of measurement: financial assets at fair value through the surplus or deficit, held-to-maturity investments, loans and receivables, and fair value through other comprehensive revenue and expense. The classification depends on the purpose for which the investments were acquired.

Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

Financial assets and liabilities are initially measured at fair value plus transaction costs unless they are carried at fair value through the surplus or deficit in which case the transaction costs are recognised therein.

Purchases or sales of financial assets are recognised on trade-date, the date on which the Council commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Council has transferred substantially all the risks and rewards of ownership.

The four categories of financial assets are:

- **Financial assets at fair value through surplus or deficit**

  Financial assets at fair value through surplus or deficit include financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated into a hedge accounting relationship for which hedge accounting is applied. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date. After initial recognition they are measured at their fair values. Gains or losses on re-measurement are recognised in the surplus or deficit where hedge accounting is not applied.

  Financial assets in this category include derivative financial instruments.

- **Loans and receivables**

  These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance date, which are included in non-current assets.

  After initial recognition they are measured at amortised cost using the effective interest method. Gains and losses when the asset is impaired or de-recognised are recognised in the surplus or deficit. Loans and receivables are classified as "trade and other receivables" in the Statement of Financial Position.

- **Held to maturity investments**

  Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Council has the positive intention and ability to hold to maturity. They are included in current assets, except for maturities greater than 12 months after balance date, which are included in non-current assets.

  After initial recognition they are measured at amortised cost using the effective interest method, less impairment. Gains and losses when the asset is impaired or de-recognised are recognised in the surplus or deficit.

  The Council currently holds a portfolio of bonds that have been classified as held to maturity investments.

- **Fair value through comprehensive revenue and expense**

  Financial assets at fair value through other comprehensive revenue and expense are those that are designated into the category at initial recognition or are not classified in any of the other categories above. They are included in non-current assets unless management intends to dispose of, or realise, the investment within 12 months of balance date. The Council and Group includes in this category:

  - Investments held for the long-term but which may be realised before maturity;
  - Share holdings held for strategic purposes.

  These investments are measured at their fair value, with gains and losses recognised in other comprehensive revenue and expense, except for impairment losses, which are recognised in the surplus or deficit.

  On derecognition, the cumulative gain or loss previously recognised in other comprehensive revenue and expense is reclassified from equity to the surplus or deficit.

  Council's investments in its subsidiaries are not included in this category as they are held at cost as allowed by NZ IAS 27 Consolidated and Separate Financial Statements.

- **Impairment of financial assets**

  At each balance sheet date, the Council assesses whether there is any objective evidence that a financial asset or group of financial assets is impaired. Any impairment losses are recognised in the surplus or deficit.

- **Loans and receivables, and held-to-maturity investments**

  Impairment is established when there is evidence that the Council and Group will not be able to collect amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, receivership, or liquidation and default in payments are considered indicators that the asset is impaired. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate. For debtors and other receivables, the carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the surplus or deficit. When the receivable is uncollectible, it is written-off against the allowance account. Overdue receivables that have been renegotiated are reclassified as current (that is, not past due). Impairment in term deposits, local authority stock, government bonds, and community loans, are recognised directly against the instrument's carrying amount.

- **Financial assets at fair value through other comprehensive revenue and expense**

  For equity investments, a significant or prolonged decline in the fair value of the investment below its cost is considered objective evidence of impairment.

  For debt investments, significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, and default in payments are considered objective indicators that the asset is impaired.

  If impairment evidence exists for investments at fair value through other comprehensive revenue and expense, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the surplus or deficit) recognised in other comprehensive revenue and expense is reclassified from equity to the surplus or deficit.

  Equity instrument impairment losses recognised in the surplus or deficit are not reversed through the surplus or deficit.

  If in a subsequent period the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed in the surplus or deficit.

INVENTORIES

Inventories are measured at the lower of cost or net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

The amount of any write-down for the loss of service potential or from cost to net realisable value is recognised in the surplus or deficit in the period of the write-down.

In the case of metal inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Metal inventory cost is calculated on a discounted sale value basis, as an approximation of weighted average cost.

When land held for development and future resale is transferred from investment property/ property, plant, and equipment to inventory, the fair value of the land at the date of the transfer is its deemed cost.

Costs directly attributable to the developed land are capitalised to inventory, with the exception of infrastructural asset costs which are capitalised to property, plant, and equipment.

Net realisable value is the estimated selling prices in the ordinary course of business, less the estimated costs of completion and selling expenses.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consistsv of:

- **Operational assets**

  These include land, buildings, improvements, museum artefacts, Jackson Bay Wharf, library books, plant and equipment, and motor vehicles.
- **Restricted assets**

  Restricted assets are parks and reserves owned by the Council which provide a benefit or service to the community and cannot be disposed of because of legal or other restrictions. These include land vested under the Reserves Act 1977 and endowments or other property held in trust for specific purposes.
- **Infrastructure assets**

  Infrastructural assets are the fixed utility systems owned by the Council.

  Property, plant and equipment is shown at cost or valuation, less accumulated depreciation and impairment losses. Each asset class includes all items that are required for the network to function.

  Land (operational and restricted) is measured at fair value, and buildings (operational and restricted), library books, and infrastructural assets (except land under roads) are measured at fair value less accumulated depreciation. All other asset classes are measured at cost less accumulated depreciation and impairment losses.
- **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 Council and Group and the cost of the item can be measured reliably.

  Work in progress is recognised at cost less impairment and is not depreciated.

  In most instances, an item of property, plant and equipment is recognised at its cost. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value as at the date of acquisition.
- **Disposals**

  Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the assets. Gains and losses on disposals are included in the surplus or deficit. When revalued assets are sold, the amounts included in asset revaluation reserves in respect of those assets are transferred to accumulated funds.
- **Subsequent costs**

  Costs incurred subsequent to initial acquisition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably.

  The costs of day-to-day servicing of property, plant, and equipment are recognised as an operating expense in the surplus or deficit as they are incurred.
- **Depreciation**

  Depreciation is provided on a straight-line basis on all property, plant and equipment other than land and museum artefacts, at rates that will write off the cost (or valuation) of the assets to their estimated residual values over their useful lives. The useful lives and associated depreciation rates of major classes of assets have been estimated as follows:

Category	*Depreciable life (years)*	*Depreciation Rates*
OPERATIONAL		
Buildings	50	2%
Furniture and Fittings	10	10%
Motor Vehicles	5	20%
Plant & Equipment (including computers)	3 to 10	10% - 33.3%
Library collection	8	12.5%
Jackson Bay Wharf	50	2%
RESTRICTED		
Buildings	5 to 50	2% - 20%
INFRASTRUCTURE		
Waste Transfer Stations	20	5%
Roads		
Formation	N/A	0%
Sub-Base	N/A	0%
Base Course	20 to 75	1.33% - 5%
Surfacing (sealed)	1 to 16	6.25% - 100%
Surfacing (unsealed)	5	20%
Bridges	60 to 150	0.67% - 1.67%
Box culverts/channels	60 to 150	0.67% - 1.67%
Footpaths	5 to 50	2% - 20%
Streetlights	16 to 40	2.5% - 6.25%
Signs	10	10%
Water		
Pipeline	60 to 80	1.25% – 1.67%
Connections	60	1.67%
Reservoirs & Tanks	20 to 50	2% - 5%
Pump Stations	15 to 20	5% - 6.67%
Sewer		
Pipeline	60 to 80	1.25% - 1.67%
Manholes	50 to 60	1.67% - 2%
Pump Stations	15 to 20	5% - 6.67%
Oxidation Ponds	60 to 100	1% - 1.67%
Stormwater		
Open Drains	N/A	0%
Pipeline	60 to 80	1.25% - 1.67%
Bank protection	50 to 100	1% - 2%
Manholes	50 to 60	1.67% - 2%
Pump Stations	15 to 20	5% - 6.67%
Runway	67	1.5%

The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial year end.

- **Revaluation**

  All valuations are carried out on a three to five-yearly cycle by independent qualified valuers, unless there is a significant change in carrying value, in which case they will be revalued as required. All other asset classes are carried at depreciated historical cost.

  Land and buildings (operational and restricted), library books, and infrastructural assets (except land under roads) are revalued with sufficient regularity to ensure that their carrying amount does not differ materially from fair value and at least every three years.

  The carrying values of revalued assets are assessed annually to ensure that they do not differ materially from the assets' fair values. If there is a material difference, then the off-cycle asset classes are revalued.

  Revaluations of property, plant, and equipment are accounted for on a class-of-asset basis.

The net revaluation results are credited or debited to other comprehensive revenue and expense and are accumulated to an asset revaluation reserve in equity for that class-of-asset. Where this would result in a debit balance in the asset revaluation reserve, this balance is not recognised in other comprehensive revenue and expense but is recognised in the surplus or deficit. Any subsequent increase on revaluation that reverses a previous decrease in value recognised in the surplus or deficit will be recognised first in the surplus or deficit up to the amount previously expensed, and then recognised in other comprehensive revenue and expense.

INTANGIBLE ASSETS

Software licences and similar assets that are acquired by the Council, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised in the surplus or deficit on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use.

IMPAIRMENT OF PROPERTY, PLANT & EQUIPMENT AND INTANGIBLE ASSETS

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Value in use is depreciated replacement cost for an asset where the future economic benefits or service potential of the asset are not primarily dependent on the assets ability to generate net cash inflows and where the entity would, if deprived of the asset, replace its remaining future economic benefits or service potential.

Value in use for non-cash-generating assets

Non cash generating assets are those assets that are not held with the primary objective of generating a commercial return.

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

Value in use for cash generating assets

Cash generating assets are those assets that are held with the primary objective of generating a commercial return. The value in use for cash generating assets is the present value of expected future cash flows.

If an asset's carrying amount exceeds its recoverable amount the asset is impaired and the carrying amount is written down to the recoverable amount. The total impairment loss is recognised in the surplus or deficit. The reversal of an impairment loss is recognised in the surplus or deficit.

For assets not carried at a revalued amount (other than goodwill) the reversal of an impairment loss is recognised in the surplus or deficit.

Forestry assets

Standing forestry assets are independently revalued annually at fair value less estimated costs to sell for one growth cycle. Fair value is determined based on the present value of expected net cash flows discounted at a current market determined rate. This calculation is based on existing sustainable felling plans and assessments regarding growth, timber prices, felling costs, and silvicultural costs and takes into consideration environmental, operational, and market restrictions.

Gains or losses arising on initial recognition of forestry assets at fair value less costs to sell and from a change in fair value less costs to sell are recognised in the surplus or deficit.

Forestry maintenance costs are recognised in the surplus or deficit when incurred.

INVESTMENT PROPERTY

Properties leased to third parties under operating leases are classified as investment property unless the property is held to meet service delivery objectives, rather than to earn rentals or for capital appreciation.

Investment property is measured initially at its cost, including transaction costs. After initial recognition, all investment property is measured at fair value as determined annually by an independent valuer. Gains or losses arising from a change in the fair value of investment property are recognised in the surplus or deficit.

EMPLOYEE BENEFITS

Short-term benefits

Employee benefits that the Council expects to be settled within 12 months after the end of the period in which the employee renders the related service are measured based on accrued entitlements at current rates of pay. These include salaries and wages accrued up to balance date, annual leave earned to, but not yet taken at balance date and sick leave, retiring and long service leave entitlements expected to be settled within 12 months.

A liability for sick leave is recognised to the extent that absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The amount is calculated based on the unused sick leave entitlement that can be carried forward at balance date, to the extent it will be used by staff to cover those future absences.

The Council recognise a liability and an expense for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

Long-term benefits

Long service leave and retirement leave

Entitlements that are payable beyond 12 months, after the end of the period in which the employee renders the related service, such as long service leave and retiring leave; are calculated on an actuarial basis. The calculations are based on:

- Likely future entitlements accruing to staff, based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement and contractual entitlements information; and
- The present value of the estimated future cash flows. A discount rate of between 6.25% and 7.0%, and an inflation factor of 1.9% to 2.7% were used. The discount rate is based on the weighted average of central government interest rates for stock with terms to maturity similar to those of the relevant liabilities. The inflation factor is based on the expected long-term increase in remuneration for employees. The rates employed are taken from BERL forecasts.

Presentation of employee entitlements

Sick leave, annual leave, and vested long service leave are classified as a current liability. Non-vested long service leave and retirement gratuities expected to be settled within 12 months of balance date are classified as a current liability. All other employee entitlements are classified as a non-current liability.

Superannuation schemes

Defined contribution schemes

Obligations for contributions to defined contribution superannuation schemes are recognised as an expense in the surplus or deficit as incurred.

Council belongs to the Defined Benefit Plan Contributors Scheme (the scheme), which is managed by the board of trustees of the National Provident Fund. The scheme is a multi-employer defined benefit scheme. Insufficient information is available to use defined benefit accounting, as it is not possible to determine from the terms of the scheme, the extent to which the surplus/ deficit will affect future contributions by individual employers, as there is no prescribed basis for allocation. The scheme is therefore accounted for as a defined contribution scheme.

PROVISIONS

The Council recognises a provision for future expenditure of uncertain amount or timing when there is a present obligation (either legal or constructive) as a result of a past event, it is probable that expenditures will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an interest expense and is included in “finance costs”.

TRADE AND OTHER PAYABLES

Trade and other payables are initially measured at face value, and subsequently measured at amortised cost using the effective interest method.

BORROWINGS

Borrowings are initially recognised at their fair value, plus transaction costs. After initial recognition, all borrowings are measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Council has an unconditional right to defer settlement of the liability for at least 12 months after balance date or if the borrowings are expected to be settled within 12 months of balance date.

Accounting for derivative financial instruments and hedging activities

The Council uses derivative financial instruments to hedge exposure to interest rate risks arising from financing activities. The Council does not hold or issue derivative financial instruments for trading purposes.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value at each balance date. The movement in the fair value of the derivative contracts is recognised in the surplus or deficit.

EQUITY

Equity is the community’s interest in the Council and is measured as the difference between total assets and total liabilities. Equity is disaggregated and classified into a number of reserve funds. The components of equity are:

- Retained earnings
- Restricted Reserves (Trusts and Bequests)
- Council Created Reserves (Special Funds, Separate Funds)
- Asset revaluation reserves

Restricted Reserves

Restricted reserves are a component of equity generally representing a particular use to which various parts of equity have been assigned. Reserves may be legally restricted or created by the Council. Restricted reserves include those subject to specific conditions accepted as binding by the Council and which may not be revised by the Council without reference to the Courts or a third party. Transfers from these reserves may be made only for certain specified purposes or when certain specified conditions are met. Also included in restricted reserves are reserves restricted by Council decision. The Council may alter them without reference to any third party or the Courts. Transfers to and from these reserves are at the discretion of the Council.

GOODS AND SERVICES TAX (GST)

All items in the financial statements are stated exclusive of GST, except for receivables and payables, which are stated on a GST inclusive basis. Where GST is not recoverable as input tax then it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the Inland Revenue Department is included as part of receivables or payables in the Statement of Financial Position.

The net GST paid to, or received from, the IRD, including the GST relating to investing and financing activities, is classified as an operating cash flow in the statement of cash flows.

Commitments and contingencies are disclosed exclusive of GST.

BUDGET FIGURES

The budget figures are those approved by Council during workshops and as a result of the consultation for the Long Term Plan 2015-25. The budget figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted by Council for the preparation of the financial statements.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

In preparing the financial forecasts and statements the Council has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations or future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Landfill aftercare provision

The estimate of the provision for landfill post-closures is based on assumptions, which may be influenced by changes in technology and society's expectations and could affect future results.

Infrastructural assets

There are a number of assumptions and estimates used when performing DRC valuations over infrastructural assets. These include:

- The physical deterioration and condition of an asset, for example Council could be carrying an asset at an amount that does not reflect its actual condition. This is particularly so for those assets which are not visible, for example stormwater, wastewater and water supply pipes which are underground. This risk is minimised by Council performing a combination of physical inspections and condition modelling assessments of underground assets;
- Estimating any obsolescence or surplus capacity of an asset; and
- Estimates are made when determining the remaining useful lives over which the asset will be depreciated. These estimates can be affected by the local conditions, for example weather patterns and traffic growth. If useful lives do not reflect the actual consumption of the benefits of the asset, then Council could be over or under estimating the annual depreciation charge recognised as an expense in the surplus or deficit.

To minimise this risk, Council's infrastructural asset useful lives have been determined with reference to the NZ Infrastructural Asset Valuation and Depreciation Guidelines published by the National Asset Management Steering Group, and have been adjusted for local conditions based on past experience. Asset inspections, deterioration and condition modelling are also carried out regularly as part of Council's asset management planning activities, which gives Council further assurance over its useful life estimates.

Experienced independent valuers perform Council's infrastructural asset revaluations.

ACCOUNTING STANDARDS ISSUED FOR PUBLIC BENEFIT ENTITIES

The Council is subject to Tier 2 reporting requirements of the Accounting Standard for Public Benefit Entities.

The financial statements are compliant with the new International Public Sector Accounting Standards (IPSAS).

STANDARDS ISSUED BUT NOT YET EFFECTIVE

IPSAS is a comprehensive set of standards through which Council ensures compliance with appropriate accounting regulations and conventions.