

# PROSPECTIVE ACCOUNTING POLICIES

## Reporting Entity

The prospective financial statements of the Stratford District Council are for the years ended 30 June 2022 to 30 June 2031.

The Stratford District Council (Council) is a territorial local authority governed by the provisions of the Local Government Act 2002 (the Act) and is domiciled in New Zealand.

The financial statements in this Long Term Plan (LTP) are those of the Council as a separate legal entity and not of the Council group.

The primary objective of Council is to provide services or goods for the community for social benefit rather than making a financial return. Accordingly, having regard to the criteria set out in the Public Benefit Entity Internal Public Sector Accounting Standards (PBE IPSAS), as a defined public entity under the Public Audit Act 2001, the Council is audited by the Auditor – General and is classed as a Public Sector Benefit Entity (PBE) for financial reporting purposes. Council has designated itself as a Tier 2 entity.

The financial information contained within this document is in terms of FRS 42: Prospective Financial Information. It has been prepared to enable the public to participate in the decision making processes regarding the services to be provided by Council over the financial years 2021-2031 and to provide a broad accountability mechanism of Council to the community.

The operations of Council have been divided into the following Groups of Activities:

- Recreation and Facilities.
- Democracy.
- Community Development.
- Environmental Services.
- Roding.
- Stormwater.
- Wastewater (Sewerage)
- Solid waste.
- Water Supply.

Council also advise caution that the information in these statements may not be appropriate for purposes other than those described.

The prospective financial statements were authorised for issue by Council on 22 June 2021. The Mayor and Chief Executive that authorise the issue of the prospective financial statements by Council are responsible for the prospective financial statements presented, including the appropriateness of the assumptions underlying the prospective financial statements and all other required disclosures. No actual results have been incorporated in these prospective financial statements. It is not intended to update the prospective financial statements subsequent to presentation.

## Measurement Base

The measurement base adopted is that of historical cost, modified by the revaluation of certain assets.

## Accounting Policies

The following accounting policies which materially affect the measurement of results and financial position have been applied consistently to all years presented from 1 July 2021 unless otherwise stated.

## **1 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS**

The prospective financial statements have been prepared in accordance with the requirements of the Local Government Act 2002: Part 6, Section 93 and Part 1 of Schedule 10, which includes the requirement to comply with New Zealand generally accepted accounting practice (NZ GAAP).

These financial statements have been prepared in accordance with NZ GAAP. They comply with NZ PBE IPSAS, and other applicable Financial Reporting Standards, as appropriate for public benefit entities. Council is a tier 2 reporting entity using the public sector Public Benefit Entity Accounting Standards, as it has expenses between \$2.0m and \$30.00m, and is not publicly accountable.

Although Council is not publicly accountable, Council has included a separate Cost of Services Statement for each significant activity.

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

The financial statements have been prepared on a going concern basis and the accounting policies have been applied consistently throughout the period.

The 2020/21 Annual Plan adopted by the Council in June 2020 has been provided as a comparator for these prospective financial statements. The closing balance in this comparative differs from the opening position used to prepare these prospective financial statements, which is based on the most up-to-date forecast information.

## **2 BUDGET FIGURES**

The budget figures have been prepared in accordance with NZ GAAP and comply with NZ PBE IPSAS, and other applicable Financial Reporting Standards, using accounting policies that are consistent with those adopted in preparing these financial statements. Then as a tier 2 reporting entity, Council uses the public sector Public Benefit Entity Accounting Standards.

Council has not presented group prospective financial statements because it believes that the parent prospective financial statements are more relevant to users. The main purpose of prospective financial statements is to provide users with information about the core services that the Council intends to provide ratepayers, the expected cost of those services and as a consequence how much Council requires by way of rates to fund the intended levels of service. The level of rates funding required is not affected by subsidiaries except to the extent that Council obtains distributions from, or further invests in, those subsidiaries. Such effects are included in the prospective financial statements of Council.

## **3 REVENUE**

Revenue is measured at the fair value of consideration received or receivable.

### ***Rates Revenue***

The following policies for rates have been applied:

- General rates, targeted rates (excluding water-by-meter), and uniform annual general charges are recognised at the start of the financial year to which the rates resolution relates. They are recognised at the amounts due. The Council considers the effect of payment of rates by instalments is not sufficient to require discounting of rates receivables and subsequent recognition of interest revenue.

- 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.
- Rates collected on behalf of the Taranaki Regional Council (TRC) are not recognised in the financial statements, as the Council is acting as an agent for the TRC.

#### Development and Financial Contributions

Development and financial contributions are recognised as revenue when the Council provides, or is able to provide, the service for which the contribution was charged. Otherwise, development and financial contributions are recognised as liabilities until such time as the Council provides, or is able to provide, the service.

#### New Zealand Transport Agency roading subsidies

The Council receives funding assistance from the New Zealand Transport Agency, which subsidises part of the costs of maintenance and capital expenditure on the local roading infrastructure. The subsidies are recognised as revenue upon entitlement, as conditions pertaining to eligible expenditure have been fulfilled.

#### Other grants received

Other grants are recognised as revenue when they become receivable unless there is an obligation in substance to return the funds if conditions of the grant are not met. If there is such an obligation, the grants are initially recorded as grants received in advance and recognised as revenue when conditions of the grant are satisfied.

#### Building and Resource Consent revenue

Fees and charges for building consent services are recognised on receipt of the fees, which is when the service is provided. Fees and charges for resource consent revenue is recognised on the provision of an invoice.

#### Entrance Fees

Entrance fees are fees charged to users of the Council's local facilities, such as the pool. Revenue from entrance fees is recognised upon entry to such facilities.

#### Transfer Station Fees

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

#### Sales of Goods

Revenue from the sale of goods is recognised when a product is sold to the customer.

#### Infringement Fees and Fines

Infringement fees and fines mostly relate to traffic and parking infringements and are recognised when the infringement notice is issued. The Council recognises revenue at an amount based on the probability of collecting fines, which is estimated by considering the collection history of fines over the preceding 2 year period.

#### 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.

#### Interest and Dividends

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.

#### Sale of Land

Revenue from the Sale of Land is recognised in full when the sale and purchase agreement becomes legally enforceable, as at the date the contract becomes unconditional.

### **4 INVENTORIES**

Inventories are held for distribution or for use in the provision of goods and services. The measurement of inventories held for commercial distribution, are measured at the lower of cost and net realisable value.

Council inventory is made up of land held for development and future resale.

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.

### **5 BORROWING COSTS**

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

### **6 GRANT EXPENDITURE**

Non-discretionary grants are those grants that are awarded if the grant application meets the specified criteria and are recognised as expenditure when an application that meets the specified criteria for the grant has been received.

Discretionary grants are those grants where the Council has no obligation to award on receipt of the grant application and are recognised as expenditure when approved by the Council and the approval has been communicated to the applicant. The Council's grants awarded have no substantive conditions attached.

### **7 INCOME TAX**

Income tax expense includes current tax and deferred tax.

Current tax is the amount of 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 surplus.

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.

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 revenue and expenses or directly in equity.

In general, local authorities are only subject to income tax on income derived from a council-controlled organisation and income derived as a port operator.

## **8 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, finance leases are recognised 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 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.

## **9 CASH AND CASH EQUIVALENTS**

Cash and cash equivalents includes cash on hand, deposits held with banks and other short term investments with maturities of three months or less, and bank overdrafts. Bank overdrafts are shown as a current liability in the statement of financial position. The carrying value of cash at bank and short-term deposits with original maturities less than three months approximates their amortised cost.

## **10 DEBTORS AND OTHER RECEIVABLES**

Debtors and other receivables are initially recorded at the amount due, less any provision for impairment (expected credit losses). Receivables are generally short-term and non-interest bearing and receipt is normally on 30 day terms.

The Council and group apply the simplified ECL model of recognising lifetime ECL for receivables. In measuring ECLs, receivables have been grouped into rates receivables, and other receivables, and assessed on a collective basis as they possess shared credit risk characteristics. They have then been grouped based on the days past due. A provision matrix is then established based on historical credit loss experience, adjusted for forward looking factors specific to the debtors and the economic environment.

Rates are "written-off":

- when remitted in accordance with the Council's rates remission policy; and
- in accordance with the write-off criteria of sections 90A (where rates cannot be reasonably recovered) and 90B (in relation to Māori freehold land) of the Local Government (Rating) Act 2002.

Other receivables are written-off when there is no reasonable expectation of recovery.

## 11 NON-CURRENT ASSETS HELD FOR SALE

Non-current assets held for sale are classified as such if their carrying amount will be recovered principally through a sale transaction, not through continuing use. Non-current assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Non-current assets are not depreciated or amortised while they are classified as held for sale.

## 12 PROPERTY, PLANT AND EQUIPMENT

Items of a capital nature over \$2,000 are treated as property, plant and equipment. Property, plant and equipment are classified into two categories:

**Unrestricted** Council is able to sell these assets without restrictions.

**Restricted** The disposal of these assets is limited by legislation, or in the manner in which they were vested, or cannot be physically uplifted and sold.

In most instances, an item of property, plant or 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.

Property, plant and equipment classes of assets whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.

If there is no market-based evidence of fair value because of the specialised nature of the item of property, plant or equipment, Council will carry those classes of assets at its cost less any accumulated depreciation and any accumulated impairment losses value.

Property, plant and equipment are valued as follows:

<b>Class</b>	<b>Method of Valuation</b>
Land	Fair Value
Buildings	Optimised Depreciated Replacement Cost
Roads, Bridges and Footpaths	Depreciated Replacement Cost
Water Supply Reticulation	Optimised Depreciated Replacement Cost
Water Supply Treatment	Optimised Depreciated Replacement Cost
Wastewater Reticulation	Optimised Depreciated Replacement Cost
Wastewater Treatment	Optimised Depreciated Replacement Cost
Stormwater system	Optimised Depreciated Replacement Cost

### Revaluation

Unless stated valuations are carried out or reviewed by independent qualified valuers and are carried out at least on three yearly cycles. Valuations will be undertaken more regularly if necessary to ensure no individual item of property, plant or equipment within a class has a carrying value that is materially different from its fair value.

Council's land and building assets have been revalued by Telfer Young (Taranaki) Limited, independent valuers as at 1 January 2020 at fair value as determined from market-based evidence.

Council's infrastructure assets consisting of Stormwater, Waste Water and Water Supply were revalued by Infrastructure Associates Ltd, independent valuers, as at 1 July 2018 in accordance with Financial Reporting Standard (PBE IPSAS 17) and the New Zealand Infrastructure Asset Valuation and Depreciation Guidelines.

Roading assets (except land under roads) have been revalued by the independent valuers, Calibre Consultants Ltd, as at 1 July 2018.

Roading Corridor Land is valued on the fair value of adjacent land. This assumes land in its bare state without the benefit of roading, water supply, sewer etc. The valuation takes into consideration the sale of vacant land in the area which is suitably adjusted to reflect an unimproved state.

Land under roads was valued based on fair value provided by previous valuations in 2016 of the Roothing Network. This valuation was carried out by Calibre Consultants Ltd. Council elected to use the fair value of Land under Roads as at 1 July 2016 as the deemed cost. Land under roads is no longer revalued.

#### Public Benefit Entity Revaluation

Revaluation increases and decreases relating to individual assets within a class of assets are offset. Revaluation increases and decreases in respect of assets in different classes are not offset. Where the carrying amount of a class of assets is increased as a result of a revaluation, the net revaluation increase is credited to the revaluation reserve. The net revaluation increase shall be recognised in the Statement of Comprehensive Revenue and Expenses to the extent that it reverses a net revaluation decrease of the same class of assets previously recognised in the Statement of Comprehensive Revenue and Expense. A net revaluation decrease for a class of assets is recognised in the Statement of Comprehensive Revenue and Expense, except to the extent that it reverses a revaluation increase previously recognised in the revaluation reserve to the extent of any credit balance existing in the revaluation reserve in respect of the same class of asset.

#### Impairment

The carrying amount of Council's non-financial assets, other than investment property are reviewed at each Statement of Financial Position date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, Council estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Where the future economic benefits of an asset are not primarily dependant on the asset's ability to generate net cash flows, and where Council, if deprived of the asset, replaces its remaining future economic benefits, value in use shall be determined as the depreciated replacement cost of the asset.

Where Council accounts for revaluations of property, plant and equipment on a class of asset basis, an impairment loss on a revalued asset is recognised directly against any revaluation reserve in respect of the same class of asset to the extent that the impairment loss does not exceed the amount in the revaluation reserve for that same class of asset.

Where Council accounts for revaluations of property, plant and equipment on a class of asset basis, a reversal of an impairment loss on a revalued asset is credited directly to the revaluation reserve. However, to the extent that an impairment loss on the same class of asset was previously recognised in the Statement of Comprehensive Revenue and Expense, a reversal of that impairment loss is also recognised in the Statement of Comprehensive Revenue and Expense.

#### Disposals

Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount of the asset. Gains and losses on disposals are reported net 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.

#### Security

Council do not have any Property, Plant and Equipment pledged as security.

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

#### Additions

The cost of an item of property, plant and equipment is recognised as an asset 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.

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

In most instances, an item of property, plant, and equipment is initially recognised at its cost. Where an asset is acquired through a non-exchange transaction, it is recognised at its fair value as at the date of acquisition.

Costs incurred subsequent to initial acquisition are capitalised only when it is probable that future economic benefits for 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 in the surplus or deficit as they are incurred.

### **13 INTANGIBLE ASSETS**

Acquired software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

The carrying value of an intangible asset with a finite life is amortised on a straight line basis. The amortisation charge is recognised in the Statement of Comprehensive Revenue and Expense. The useful lives of intangible assets have been estimated as follows:

- Software 3-10 years.

### **14 DEPRECIATION**

Depreciation is calculated on a straight line basis on all property, plant and equipment, excluding land, at rates that will write off the value of the assets, less their estimated residual values, over their useful lives.

The useful lives of the classes of assets have been estimated as follows:

	<u>Years</u>
Buildings	10-100
Plant	5-10
Motor Vehicles	5
Fixtures and Fittings	5-10
Office Equipment	4-10
Roading Basecourse	15-80
Roading Seal	2-16



Roading Culverts	20-80
Roading Sumps	80
Signs	10
Bridges (including Tunnels)	60-100
Footpaths	20-80
Streetlights	30
Stormwater	20-80
Water Supply	50-120
Sewerage	40-80
Street Beautification	10-100

## **15 BUSINESS UNIT**

Business Unit gains or losses are recorded in the equity of the Stratford District Council.

## **16 GOODS AND SERVICES TAX (GST)**

All items in the financial statements are exclusive of GST, with the exception of receivables and payables which are stated as GST inclusive. When GST is not recoverable as an input tax, 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 (IRD) 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 cashflow in the statement of cashflows.

Commitments and contingencies are disclosed exclusive of GST.

## **17 COST OF SERVICE STATEMENTS**

The Cost of Service Statements report the net cost of services for significant activities of Council, and are represented by the costs of providing the service less all revenue that can be allocated to these activities.

### Cost Allocation

The Cost of Service Statements reflect the full cost of significant activities, by including direct costs, internal transfers, depreciation and indirect costs (overheads) allocated on the 'step' method, based on hours of service supplied to each activity.

'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.

## **18 FINANCIAL INSTRUMENTS**

Council is party to financial instruments as part of its normal operations. The 2020/21 comparative annual plan forecast information was prepared using different financial instrument accounting policies, due to IPSAS 41, than what was applied in the LTP forecast financials. Refer to the Annual Plan 2020/21 statement of accounting policies for a comparison. There is no significant impact to Council's reporting as a result of the policy change.

## **19 OTHER FINANCIAL ASSETS**

Financial assets (other than shares in subsidiaries) are initially recognised at fair value.

Purchases and 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.

Financial assets are classified into the following categories for the purpose of measurement:

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

The classification of a financial asset depends on the purpose for which the instrument was acquired. Transaction costs are included in the carrying value of the financial asset at initial recognition, unless it has been designated at FVTSD, in which case it is recognised in surplus or deficit.

The classification of a financial asset depends on its cash flow characteristics and the Council and group's management model for managing them. A financial asset is classified and subsequently measured at amortised cost if it gives rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal outstanding, and is held within a management model whose objective is to collect the contractual cash flows of the asset.

A financial asset is classified and subsequently measured at FVTOCRE if it gives rise to cash flows that are SPPI and held within a management model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

Financial assets that do not meet the criteria to be measured at amortised cost or FVTOCRE are subsequently measured at FVTSD. However, the Council and group may elect at initial recognition to designate an equity investment not held for trading as subsequently measured at FVTOCRE.

#### Initial recognition of concessionary loans

Loans made at nil or below-market interest rates are initially recognised at the present value of their expected future cash flows, discounted at the current market rate of return for a similar financial instrument. For loans to community organisations, the difference between the loan amount and present value of the expected future cash flows of the loan is recognised in surplus or deficit as a grant expense.

#### Subsequent measurement of financial assets at amortised cost

Financial assets classified at amortised cost are subsequently measured at amortised cost using the effective interest method, less any expected credit losses. Where applicable, interest accrued is added to the investment balance. Instruments in this category include term deposits, community loans, and loans to subsidiaries and associates. Included in this category is also the loan to the Agricultural and Pastoral Association.

#### *Subsequent measurement of financial assets at FVTOCRE*

Financial assets in this category that are debt instruments are subsequently measured at fair value with fair value gains and losses recognised in other comprehensive revenue and expense, except expected credit losses (ECL) and foreign exchange gains and losses are recognised in surplus or deficit. When sold, the cumulative gain or loss previously recognised in other comprehensive revenue and expense is reclassified to surplus and deficit. The Council and group do not hold any debt instruments in this category.

Financial assets in this category that are equity instruments designated as FVTOCRE are subsequently measured at fair value with fair value gains and losses recognised in other comprehensive revenue and expense. There is no assessment for impairment when fair value falls below the cost of the investment. When sold, the cumulative gain or loss previously recognised in other comprehensive revenue and expense is

transferred to accumulated funds within equity. The Council and group designate into this category all equity investments that are not included in its investment fund portfolio, and if they are intended to be held for the medium to long-term.

#### *Subsequent measurement of financial assets at FVTSD*

Financial assets in this category are subsequently measured at fair value with fair value gains and losses recognised in surplus or deficit.

Interest revenue and dividends recognised from these financial assets are separately presented within revenue.

Instruments in this category include the Council and group's investment fund portfolio (comprising of listed shares, bonds, and units in investment funds) and LGFA borrower notes.

#### *Expected credit loss allowance (ECL)*

The Council and group recognise an allowance for ECLs for all debt instruments not classified as FVTSD. ECLs are the probability-weighted estimate of credit losses, measured at the present value of cash shortfalls, which is the difference between the cash flows due to Council and group in accordance with the contract and the cash flows it expects to receive. ECLs are discounted at the effective interest rate of the financial asset.

ECLs are recognised in two stages. ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). However, if there has been a significant increase in credit risk since initial recognition, the loss allowance is based on losses possible for the remaining life of the financial asset (Lifetime ECL).

When determining whether the credit risk of a financial asset has increased significantly since initial recognition, the Council and group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Council and group's historical experience and informed credit assessment and including forward-looking information.

The Council and group considers a financial asset to be in default when the financial asset is more than 90 days past due. The Council and group may determine a default occurs prior to this if internal or external information indicates the entity is unlikely to pay its credit obligations in full.

## **21 PAYABLES**

Short-term creditors and other payables are recorded at the amount payable.

#### *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 or group has an unconditional right to defer settlement of the liability for at least 12 months after balance date.

#### *Employee entitlements*

##### **Short-term employee entitlements**

Employee benefits expected 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.

A liability and an expense are recognised for bonuses where the Council or group has a contractual obligation or where there is a past practice that has created a constructive obligation.

### **Long-term employee entitlements**

Employee benefits that are due to be settled beyond 12 months after the end of the period in which the employee renders the related service, such as long service leave and retirement gratuities, have been 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 entitlement information; and
- the present value of the estimated future cash flows.

### **Presentation of employee entitlements**

Annual leave is classified as a current liability. 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.

## **22 PROVISIONS**

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.

## **23 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 the following components:

- accumulated funds;
- restricted reserves;
- property revaluation reserve; and
- fair value through other comprehensive revenue and expense reserve.

### 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.

### Property revaluation reserve

This reserve relates to the revaluation of property, plant, and equipment to fair value.

### Fair value through other comprehensive revenue and expense reserve

This reserve comprises the cumulative net change in the fair value of assets classified as fair value through other comprehensive revenue and expense.

## **24 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS**

In preparing these financial statements Council has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and judgements are continually evaluated and

are based on historical experience and other factors that are believed to be reasonable under the circumstances.

As operator of the urban and rural landfills in the district, Council has a legal obligation to provide ongoing maintenance and monitoring services at the landfill sites after closure.

To provide for the estimated cost of aftercare, a provision has been created, and a charge is made each year based on the estimated value of restoration works over the number of years Council is required to maintain these sites.

A number of assumptions and estimates are used when performing depreciated replacement cost valuations over infrastructural assets. These include:

- The physical condition of the asset. This is particularly so for those assets which are not visible, for example stormwater, wastewater and water supply pipes that are underground. This risk is minimised by Council performing physical inspections and condition modelling assessments of underground assets.
- Estimating any obsolescence or surplus capacity of any asset.
- The remaining useful life over which the asset will be depreciated. These estimates can be impacted by local conditions, for example weather patterns and traffic growth. If useful lives do not reflect the actual consumption of the benefits of the asset, Council could be over or underestimating the depreciation charge recognised in the Statement of Comprehensive Revenue and Expense. To minimise this risk useful lives are determined with reference to the NZ Infrastructural Asset Valuation and Depreciation guidelines published by the National Asset Management Steering Group. Asset inspections and condition modelling are also carried out regularly as part of Council's asset management planning activities.
- The replacement cost of an asset is based on recent construction contracts in the region for modern equivalent assets, from which unit rates are determined. Unit rates have been applied to components of the network based on size, material, depth and location.

## **25 ROUNDING ERRORS**

Some rounding errors may occur in the financial statements due to stating dollar amounts to the nearest \$1,000.

## **26 CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

Management has exercised the following critical judgements in applying accounting policies for the year ended 30 June 2022:

### Classification of property

The Council owns a number of properties held to provide housing to pensioners. The receipt of market-based rental from these properties is incidental to holding them. The properties are held for service delivery objectives as part of the Council's social housing policy. The properties are therefore accounted for as property, plant, and equipment rather than as investment property.

## **27 CHANGES IN ACCOUNTING POLICIES**

Early adoption of PBE IPSAS 41, Financial Instruments, has been applied from 1 July 2021. See note 18 above for the impact on financial statements.

Other than the above, there have been no changes in accounting policies.

