Statement of Accounting Policies

Prospective Notes to the Financial Statement for the 10 Years to 30 June 2031

Reporting Entity

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

The primary objective of the Council is to provide goods or services for community or social benefits rather than making a financial return. The Council's principal activities are outlined within this annual plan. As a defined public entity under the Public Audit Act 2001, for the purposes of financial reporting, the Council is audited by the Auditor General, and is classed as a Public Sector Public Benefit Entity.

These forecast financial statements are for Wairoa District Council (the Council) as a separate legal entity. Consolidated forecast financial statements comprising the Council and its controlled entity have not been prepared.

Basis of Preparation

Statement of Compliance

The forecast financial statements have been prepared in accordance with the requirements of the LGA and the Local Government (Financial Reporting and Prudence) Regulations 2014, which include the requirement to comply generally accepted accounting practice in New Zealand (NZ GAAP).

The prospective financial statements have been prepared to comply with Public Benefit Entity Accounting Standards (PBE Standards) for a Tier 1 entity*.

The reporting period for these forecast financial statements is the 10-year period ending 30 June 2031. The forecast financial statements are presented in New Zealand dollars, rounded to the nearest thousand ($000), unless otherwise stated. The accounting policies set out below have been applied consistently to all periods presented in these forecast financial statements.

Measurement Base

The financial statements have been prepared on a historical cost basis, modified by the revaluation of certain assets and liabilities as identified in this summary of significant accounting policies. The accrual basis of accounting has been used unless otherwise stated.

For the assets and liabilities recorded at fair value, fair value is defined as the amount for which an item could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's-length transaction. For investment property, non-current assets classified as held for sale and items of property, plant and equipment which are revalued, the fair value is determined by reference to market value. The market value of a property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction. Amounts expected to be recovered or settled more than one year after the end of the reporting period are recognised at their present value. The present value of the estimated future cash flows is calculated using applicable inflation factors and a discount rate. The inflation rates used and the discount rate for forecasting the long-term cost of borrowing are as per the "Significant forecasting assumptions"

The preparation of prospective financial statements in conformity with PBE Standards requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The financial information has been prepared on the basis of best estimate assumptions as the future events which the Council expects to take place. The Council has considered factors that may lead to a material difference between information in the forecast financial statements and actual results. These factors, and the assumptions made in relation to the sources of uncertainty and potential effect, are outlined within this Long-term Plan. Actual results are likely to vary from the information presented, and the variations may be material.

New Accounting Policies

PBE IPSAS 41 Financial Instruments (PBE IPSAS 41) becomes effective for the year ending 30 June 2023. Council has decided to adopt this standard early with an effective date of 1 July 2021.

Judgements and estimates

The preparation of forecast financial statements using PBE accounting standards requires the use of judgements, estimates and assumptions. Where material, information on the main assumptions is provided in the relevant accounting policy. The estimates and assumptions are based on historical experience as well as other factors that are believed to be reasonable under the circumstances. Subsequent actual results may differ from these estimates and these variations may be material.

The estimates and assumptions are reviewed on an ongoing basis and adjustments are made where necessary.

Judgements that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in the relevant notes. Significant judgements and estimations include landfill post-closure costs, asset revaluations, certain fair value calculations and provisions.

Revenue

Revenue comprises rates, revenue from operating activities, contracting services, investment revenue, subsidies, petrol tax and fees and charges and is measured at the fair value of consideration received or receivable.
Revenue may be derived from either exchange or non-exchange transactions. Revenue is recognised to the extent that it is probable that the economic benefits or service potential will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made.

Exchange Transactions
Exchange transactions are transactions where the Council receives assets (primarily cash) or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services, or use of assets) to another entity in exchange. Exchange revenue received by the Council can be summarised into the following areas:

- **Rates Revenue from Water by Meter**

Water rates by meter are regulated in the same way as other rates and are taxes that use a specific charging mechanism to collect the rate. However, as the water rates are primarily charged on a per unit of consumption basis, water rates by meter are considered to be more in the nature of an exchange transaction. Water meter revenue is based on actual usage charged at the time of use.

- **Provision of 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.

- **Sale of Goods**

Sales of goods are recognised when a product is sold to the customer and all risks and rewards of ownership have transferred to the customer.

- **Construction Contracts**

Revenue on construction contracts is recognised progressively over the period of each contract. The amount included in the statement of comprehensive revenue and expenditure, and the value of the contract assets or liabilities are established by assessment of the individual contracts taking into account the proportion of work completed, cost analysis and estimated final results. When the contract income cannot be reliably measured, revenue is recognised only to the extent of the expenses recognised which are recoverable.

- **Interest Revenue**

Interest revenue is recognised on an accrual basis with movements in fair value profits and losses disclosed in the overall income statement as interest on investments.

- **Dividend Revenue**

Dividend revenue is recognised when the right to receive payment is established which is generally when shareholders approve the dividend.

- **Investment property lease rentals**

Lease rentals (net of any incentives given) are classified as exchange revenue and recognised on a straight line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which benefits derived from the leased asset is diminished.

Non-Exchange Transactions
Non-exchange transactions arise when the Group receives value from another entity without directly giving approximately equal value in exchange. Revenue received from a non-exchange transaction cannot be deferred unless there is both a performance obligation and a return obligation attached to it. For example, where grant or subsidy funding is received without performance obligation then revenue is recognised when receivable. Where a performance obligation exists, revenue is recognised upon satisfactory completion of the performance. Most of the services that the Council provides for a fee are subsidised by rates and therefore do not constitute an approximately equal exchange. Accordingly, most of the Council’s revenue is categorised as non-exchange.

Revenue from non-exchange transactions received by Group can be summarised as:

- **Rates Revenue**

Rates are set annually by a resolution from Council and relate to a financial year. All ratepayers are invoiced quarterly within the financial year to which the rates have been set.. Rates revenue is recognised in full as at the date when rate assessment notices are sent to the ratepayers. Rates are a tax as they are payable under the Local Government Ratings Act 2002 and are therefore defined as non-exchange.

- **Government Subsidies and Grants**

Council receives government grants from NZ Transport Agency, which subsidises part of Council's costs in providing the local roading infrastructure services along ith other subsidies and grants from Government agencies. Grants and subsidies are recognised as revenue immediately except to the extent a liability is also recognised in respect of the same grant or subsidy. A liability is recognised when the grant or subsidy received are subject to a condition such that the Council has the obligation to return those funds received in the event that the conditions attached to them are breached. As the Council satisfies the conditions, the carrying amount of the liability is reduced and an equal amount is recognised as revenue. Reimbursements (eg NZ Transport Agency roading claim payments) are recognised upon entitlement, which is when conditions relating to the eligible expenditure have been fulfilled.

- **Vested Assets**

Where a physical asset is acquired for nil or nominal consideration the fair value of the asset received is recognised as revenue. Assets vested in Council are recognised as revenue when control over the asset is obtained.

- **Fees and Charges for provision of services**

Non-exchange revenue from the rendering of services consists of services in activities where Council subsidise the activity. Such revenue 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 service to be provided, only when there are conditions attached that require the funds to be returned if performance does not occur. Where no conditions are attached revenue is recognised when receivable.

Expenses

Specific accounting policies for major categories of expenditure are outlined below:

Borrowing costs

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

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 Council has no obligation to award on receipt of the grant application and are recognised as expenditure when a successful applicant has been notified of the Council's decision.

Depreciation and amortisation

Depreciation of property, plant and equipment and amortisation of intangible assets are charged on a straight-line basis over the estimated useful life of the associated assets.

Taxation

The Council, as a local authority, is only liable for income tax on the surplus or deficit for the year derived from any Council controlled trading organisations and comprises current and deferred tax. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, plus any adjustment to tax payable in respect of previous periods. Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the assets and liabilities, and the unused tax losses using tax rates enacted or substantively enacted at the end of the reporting period. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which they can be utilised.

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.

Financial assets

Financial assets are initially recognised at fair value plus transaction costs unless they are carried at fair value through surplus or deficit in which case the transaction costs are recognised in surplus or deficit in the Statement of Comprehensive Revenue and Expense. Management determines the classification of its financial assets at initial recognition and re-evaluates this classification at each reporting date. The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used is the current bid price. The fair value of financial instruments that are not traded in an active market is determined using valuation techniques.

Purchases and sales of financial assets are recognised on trade-date, the date on which 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. At each balance sheet date 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 surplus or deficit in the Statement of Comprehensive Revenue and Expense.

Financial Assets at fair value through surplus or deficit
Financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Included in this category are short-term investments, which are valued at fair value. After initial recognition they are measured at their fair values. Gains or losses on re-measurement are recognised in the statement of comprehensive revenue and expenditure.

Financial Assets at Amortised Cost
Financial Assets at amortised cost 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. Council's Financial Assets at amortised cost comprise cash and cash equivalents, trade and other receivables and loans and deposits.

- **Cash and Cash Equivalents**

Cash and cash equivalents comprise cash balances and call deposits with maturity dates of 3 months or less..

- **Trade and Other Receivables**

Trade receivables are recognised initially at fair value and are subsequently measured at amortised cost using the effective interest method less an allowance for any uncollectable amounts. An allowance for uncollectable receivables is established when there is objective evidence that the Council will not be able to collect all amounts due according to the original terms of receivables. 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 debtor is impaired. When the receivable is uncollectible, it is written off against the provision account for receivables.

- **Loans and deposits**

Loans and deposits include loans to other entities (including subsidiaries and associates), and bank deposits with maturity dates of more than 3 months.

Available-for-sale financial assets
Available-for-sale (AFS) financial assets are non-derivatives that are either designated as available for sale or not designated in any of the other categories. After initial measurement, AFS financial assets are re-measured at fair value with unrealised gains or losses recognised in other comprehensive revenue and expense and accumulated in the AFS reserve in equity until:

- The investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income or
- The investment is determined to be impaired when the cumulative loss is reclassified from the AFS reserve to the statement of comprehensive revenue and expenditure in finance costs.

Interest earned whilst holding AFS financial assets is reported as interest income using the effective interest rate method.

Held to maturity investments
Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Council has the positive intention and ability to hold them to maturity.

After initial measurement, held to maturity investments are measured at amortised cost using the effective interest rate method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are integral to the effective interest rate.

The effective interest rate amortisation is included as finance income in the statement of comprehensive revenue and expenditure. Losses arising from impairment are recognised in the statement of comprehensive revenue and expenditure as finance costs.

Inventories
Raw materials are held at purchase cost on a first in first out basis. Finished goods are stated at the lower of cost and net realisable value with costs assigned on the basis of weighted average costs. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make

the sale.

Investment properties

Investment properties are properties that are held primarily to earn rental revenue or for capital growth or both. Investment properties exclude those properties held for strategic purposes or to provide a social service. This includes properties that generate cash inflows as the rental revenue is incidental to the purpose for holding the property. Such properties include the Council's social housing assets, which are held within operational assets in property, plant and equipment.

Investment property is measured initially at its cost including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met, and excludes the costs of day-to-day maintenance of an investment property.

After initial recognition, the Council measures all investment property at cost less accumulated depreciation. Depreciation is provided on a straight-line basis on all investment property other than land, at rates that will write-off the cost (or valuation) of the assets to their estimated residual values over their useful lives.

Property Plant and Equipment

Property, plant and equipment is shown at cost or valuation, less accumulated depreciation and impairment losses. Property, plant and equipment consist of:

- **Operational Assets**

These include land, buildings, the landfill post-closure asset, library books, plant and equipment and motor vehicles.

- **Infrastructure Assets**

Infrastructure assets are the fixed utility systems owned by Council. Each asset class includes all items that are required for the network to function, for example, sewer reticulation includes reticulation piping and sewer pump stations.

- **Intangible Assets**

These include software and trademarks.

- **Restricted Assets**

Restricted assets are parks and reserves owned by Council which provide a benefit or service to the community and cannot be disposed of because of legal or other restrictions.

Recognition

Expenditure is capitalised as property, plant and equipment when it creates a new asset or increases the economic benefits of an existing asset. Costs that do not meet the criteria for capitalisation are expensed.

Measurement

Property, plant and equipment is recognised initially at cost, unless acquired for nil or nominal cost (eg vested assets), in which case the asset is recognised at fair value at the date of transfer. The initial cost of property, plant and equipment includes the purchase consideration (or the fair value in the case of vested assets), and those costs that are directly attributable to bringing the asset into the location and condition necessary for its intended purpose.

Subsequent expenditure that extends or expands the asset's service potential is capitalised. Borrowing costs incurred during the construction of property, plant and equipment are not capitalised.

After initial recognition, certain classes of property, plant and equipment are revalued to fair value. Where there is no active market for an asset, fair value is determined by depreciated replacement cost. Specific measurement policies for categories of property, plant and equipment are shown below:

Infrastructure assets

Infrastructure assets (the roading network, water, waste and drainage reticulation networks) are valued at depreciated replacement cost on a regular basis or, whenever the carrying amount differs materially to fair value, by independent registered valuers. Infrastructure valuations are based on current quotes from actual suppliers. As such, they include ancillary costs such as breaking through seal, traffic control and rehabilitation. Between valuations, expenditure on asset improvements is capitalised at cost.

The carrying values of revalued property, plant and equipment are reviewed at the end of each reporting period to ensure that those values are not materially different to fair value.

Revaluations

The result of any revaluation of the Council's property, plant and equipment is recognised within other comprehensive revenue and expense and taken to the asset revaluation reserve. Where this results in a debit balance in the reserve for a class of property, plant and equipment, the balance is included in the surplus or deficit. Any subsequent increase on revaluation that offsets a previous decrease in value recognised within surplus or deficit will be recognised firstly, within surplus or deficit up to the amount previously expensed, with any remaining increase recognised within other comprehensive revenue and expense and in the revaluation reserve for that class of property, plant and equipment. Accumulated depreciation at the revaluation date is eliminated so that the carrying amount after revaluation equals the revalued amount. While assumptions are used in all revaluations, the most significant of these are in infrastructure. For example, where stormwater, wastewater and water supply pipes are underground, the physical deterioration and condition of assets are not visible and must therefore be estimated. Any revaluation risk is minimised by performing a combination of physical inspections and condition modelling assessments.

Impairment
The Council's assets are defined as cash generating if the primary purpose of the asset is to provide a commercial return. Non-cash generating assets are assets other than cash generating assets. The Council's assets are reviewed at least annually to determine if there is any indication of impairment. Where an asset's, or class of assets', recoverable amount is less than its carrying amount it will be reported at its recoverable amount and an impairment loss will be recognised. The recoverable amount is the higher of an item's fair value less costs to sell and value in use. A non-cash generating asset's value in use is the present value of the asset's remaining service potential. Losses resulting from impairment are reported within comprehensive revenue and expense., unless the asset is carried at a revalued amount in which case any impairment loss is treated as a revaluation decrease and recorded within other comprehensive revenue and expense.

Disposals
Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are included in the Statement of Comprehensive Revenue and Expense. When revalued assets are sold, the amounts included in asset revaluation reserves in respect of those assets are transferred to retained earnings.

Work in progress
The cost of projects within work in progress is transferred to the relevant asset class when the project is completed and then depreciated.

Depreciation
Depreciation is provided on a straight-line basis on all property, plant and equipment for WDC other than land at rates that will write-off the cost (or valuation) of the assets to their estimated residual values over their useful lives.

Application of the estimated useful economic lives of assets is subject to change depending on the individual circumstances of the asset, particularly when assets are revalued and the valuers provide an annual depreciation figure.

The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial year-end. For revalued assets, any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amounts of the assets and the net amounts are restated to the revalued amounts of the assets. An asset's carrying amount is written down immediately to its recoverable amount, or recoverable service amount, if the asset's carrying amount is greater than its estimated recoverable amount or recoverable service amount.

The useful lives and associated depreciation rates of major assets have been estimated as follows:

Category	**Estimated Life (Years)**
Quarries	30–40
Buildings	30–40
Other improvements	10–50
Plant, equipment and vehicles	4–10
Library collection	2–10
Office equipment, furniture & fittings	5–10
Computer equipment	4–5
Sewerage	
Structures	50
Oxidation ponds	40
Pipes	80-120
Manholes	80
Pumps	10-35

Plant	10-35
Resource consents	25
Stormwater	
Reticulation piping	50-100
Culverts	50-120
Manholes/sumps	50-100
Open drains	Not depreciated
Water Supply	
Structures	50
Pumps	15-35
Reticulation piping	60-120
Meters	20
Hydrants	40
Resource consents	20-25
Reservoirs	80-100
Roads	
Top surface (seal)	14
Basecourse	100-120
Formation	Not depreciated
Bridges	20-80
Footpaths	15-40
Kerbs	50
Streetlights (poles)	50

The large variations in the range of lives for infrastructural assets is due to these assets being managed and depreciated by individual component rather than as a whole asset. The useful lives are updated after each revaluation cycle and are reflected in the new depreciation rates that will apply.

Revaluations

Council accounts for revaluations of property, plant and equipment on a class of asset basis. Bridges, Roads, Wastewater, Stormwater and Water Supply assets are revalued every 3 years.

Council assesses the carrying values of its revalued assets 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.

The results of revaluing are credited or debited to an asset revaluation reserve for that class of asset. Where this results in a debit balance in the asset revaluation reserve, this balance is expensed in the Statement of Comprehensive Revenue and Expense. Any subsequent increase on revaluation that off-sets a previous decrease in value recognised in the Statement of Comprehensive Revenue and Expense will be recognised first in the Statement of Comprehensive Revenue and Expense up to the amount previously expensed, and then credited to the revaluation reserve for that class of asset.

Infrastructural Asset Classes: Roads and bridges

Roading assets are revalued at fair value determined on a depreciated replacement cost basis and reviewed by an independent valuer. The most recent valuation was performed by WSP as at 30 June 2020.

Infrastructural Asset Classes: Water, Sewerage and Stormwater Systems

Water, wastewater and stormwater infrastructure assets are revalued at fair value using the optimised depreciated replacement cost method. The most recent valuation was performed by WSP as at 30 June 2020.

Operational and Restricted Land and Buildings

Operational and restricted land and buildings are held at deemed cost and are not revalued.

Land Under Roads

Land under roads is based on cost less impairment.

Unformed or Paper Roads

An unformed or paper road is a term for a road that is legally established and recorded in survey plans, but has not been formed, and that ownership of the land associated with the paper road resides with Council. Council does not recognise land under unformed paper roads in the statement of financial position because there is no service potential from the majority of paper roads. The public good of having access routes is very difficult to value. In addition, there is a very limited market for sale to the surrounding or adjacent property owner, and cannot be measured reliably because of the small individual area of many paper roads to those adjacent or surrounding properties, and the high cost of sale.

Intangible Assets

Intangible assets comprise computer software and trademarks. They are recorded at cost less any subsequent amortisation and impairment losses. Computer software has a finite economic life and amortisation is charged to surplus or deficit on a straight-line basis over the estimated useful life of the asset. Trademarks are not amortised but tested annually for impairment.

Biological assets - Forestry

The Council's biological assets consist of forestry. Forestry assets are independently valued triennially 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 pre-tax rate. This calculation is based on existing sustainable felling plans and assessments regarding growth, timber prices, felling costs and silvicultural costs and taking into consideration environmental, operational and market restrictions.

Gains or losses arising on the initial recognition of biological assets at fair value less estimated sale costs and from a change in fair value less estimated point of sale costs are recognised in the statement of comprehensive revenue and expense. The costs to maintain forestry assets are included in the statement of comprehensive revenue and expense.

Creditors and Other Payables

Trade and other payables are measured by amortised cost using the effective interest method. Trade payables are usually paid within 30 days of recognition. Due to their short-term nature they are not discounted.

Employee Benefits

Short-term Employee Entitlements

Employee benefits which the Group expects to be settled within 12 months of balance date are measured at nominal values based on accrued entitlements at current rates of pay.

A provision for employee benefit liabilities is recognised as a liability when benefits are earned but not paid. This provision includes which includes salaries and wages accrued up to balance date, holiday leave earned, but not yet taken at balance date, retirement and long service leave entitlements expected to be settled within 12 months)

Holiday leave includes: annual leave, long service leave, statutory time off in lieu and ordinary time off in lieu. Annual leave is calculated on an actual entitlement basis in accordance with section 21(2) of the Holidays Act 2003.

Long-term Employee Entitlements

Retirement gratuities are calculated on an actuarial basis based on the likely future entitlements accruing to employees, after taking into account years of service, years to entitlement, the likelihood that employees will reach the point of entitlement, and other contractual entitlement information.

Defined contribution pension plan obligations are recognised as an expense in the statement of comprehensive revenue and expenditure as incurred.

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 measured at the present value of management's best estimate of the expenditure required to settle the obligation.

Landfill post-closure costs

Council has a resource consent issued by the Hawke's Bay Regional Council to operate the Wairoa landfill. Under this resource consent the Council has a legal obligation to provide ongoing maintenance and monitoring of the Wairoa landfill site until 2031. The Council has provided for aftercare of the Wairoa landfill where such a liability exists.

The management of the landfill will influence the timing of recognition of some liabilities. The long term nature of the liability means that there are inherent uncertainties in estimating costs that will be incurred. The cash outflows for landfill post-closure are expected to occur within the next 25 years. A provision for post-closure costs is recognised as a liability when the obligation for post-closure arises, which is when each stage of the landfill is commissioned and refuse begins to accumulate.

The provision is measured based on the present value of future cash flows expected to be incurred, taking into account future events including known changes to legal requirements and known improvements in technology. The provision includes all costs associated with landfill post-closure including final cover application and vegetation; incremental drainage control features; completing facilities for leachate collection and monitoring; completing facilities for water quality monitoring; completing facilities for monitoring and recovery of gas. Amounts provided for landfill post-closure are capitalised to the landfill asset. The capitalised landfill asset is depreciated over the life of the landfill based on the capacity used.

Borrowing

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

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 components to enable clearer identification of the specified uses of equity within the Council.

The components of equity are:

- Ratepayer's equity
- Revaluation reserves
- Special fund reserves

Special Funds and Council Created Reserves

Special fund reserves are reserves restricted by Council decision. The Council may alter them without references to any third party or the Courts. Transfers to and from these reserves are at the discretion of the Council.

Cost Allocation

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

- Direct costs, which can be traced directly to a specific significant activity, are expensed directly to the relevant activity.
- Indirect costs relate to the overall costs of running the organisation and include staff time, office space and information technology costs. These indirect costs are allocated as overheads across all activities.

Forecast Statement of Cash Flows

Cash and cash equivalents for the purposes of the forecast cashflow statement comprise bank balances, cash on hand and short-term deposits with a maturity of 3 months or lessC that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Operating activities include cash received from all non-financial revenue sources of the Council and the Group and record the cash payments made for the supply of goods and services. Investing activities relate to the acquisition and disposal of assets and investment revenue. Financing activities relate to activities that change the equity and debt capital structure of the Council and Group and financing costs.

Related parties

Related parties arise where one entity has the ability to affect the financial and operating policies of another through the presence of control or significant influence. Related parties include members of the Group and key management personnel. Key management personnel include the Mayor and Councillors as Directors, the Chief Executive and all members of the Executive Leadership Team being key advisors to the Directors and Chief Executive. The Mayor and Councillors are considered Directors as they occupy the position of a member of the governing body of the Council reporting entity. Directors' remuneration comprises any money, consideration or benefit received or receivable or otherwise made available, directly or indirectly, to a Director during the reporting period. Directors' remuneration does not include reimbursement of authorised work expenses or the provision of work-related equipment such as mobile phones and laptops.

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, 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:

- **Discount and inflation rates**
  The inflation rates used and the discount rate for forecasting the long-term cost of borrowing are as per the "Significant forecasting assumptions"

- **Overdue Receivables Provision**
  The appropriate note discloses an analysis of the exposure of Council in relation to the estimates and uncertainties surrounding impairment provision for overdue receivables.

- **Landfill Aftercare Provision**
  The appropriate note discloses an analysis of the exposure of Council in relation to the estimates and uncertainties surrounding the landfill aftercare provision.

- **Infrastructural Assets**
  There are a number of assumptions and estimates used when performing Depreciated Replacement Cost valuations over infrastructural assets. These include:
  - the physical deterioration and condition of an asset, for example the 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 that 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 impacted 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 Statement of Comprehensive Revenue and Expense.

  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 the Council's asset management planning activities, which gives Council further assurance over its useful life estimates. Experienced independent valuers are used in performing or reviewing the Council's infrastructural asset revaluations.

Critical Judgements in Applying Council's Accounting Policies

Management has exercised the following critical judgements in applying the Council's accounting policies for the periods ending 30 June 2022-2031.

- **Classification of Property**
  Council owns a number of properties, which are maintained primarily to provide housing to pensioners. The receipt of market-based rental from these properties is incidental to holding these properties. These properties are held for service delivery objectives as part of the Council's housing policy and as such are accounted for as property, plant and equipment.
- **Classification of Costs**
  Judgement is used over the classification of costs between capital and maintenance. Items are reviewed regularly to ensure the cost allocation is reasonable

Public Benefit Entity Financial Reporting Standard 42 *Prospective Financial Statements* (PBE FRS 42)

The Council has complied with PBE FRS 42 in the preparation of these forecast financial statements.

(i) Description of the nature of the entity's current operation and its principal activities
The Council is a territorial local authority, as defined in the Local Government Act 2002. The Council's principal activities are outlined within this Long-term Plan.

(ii) Purpose for which the forecast financial statements are prepared
It is a requirement of the Local Government Act 2002 to present forecast financial statements that span 10 years and include them within the Long-term Plan. This provides an opportunity for ratepayers, residents and any other interested parties to obtain information about the expected future financial performance, position and cashflows of Council. Forecast financial statements are revised annually to reflect updated assumptions and costs.

(iii) Basis for assumptions, risks and uncertainties
The financial information has been prepared on the basis of best estimate assumptions as the future events which the Council expects to take place. The Council has considered factors that may lead to a material difference between information in the forecast financial statements and actual results. These factors, and the assumptions made in relation to the sources of uncertainty and potential effect, are outlined within this Long-term Plan.

(iv) Cautionary note
The financial information is forecast. The forecast financial statements are prepared based on best estimates available at the time of preparing the accounts. The actual results achieved for any particular financial year is also likely to vary from the information presented, and may vary materially depending on the circumstances that arise during the period.

The Council is responsible for the forecast financial statements presented, including the assumptions underlying forecast financial statements and all other disclosures. The Long-term Plan is forecast and as such contains no actual operating results.