

## **1 Statement of accounting policies**

### **1.1 Reporting entity**

Taupo District Council (the Council) is a territorial local authority established under 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 Council has not presented group prospective financial statements because the Council believes that the parent prospective statements are more relevant to the users.

The main purpose of prospective financial statements in the Long Term Plan is to provide users with information about core services that the Council intends to provide to ratepayers, the expected cost of those services and, as a consequence, how much the 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 the Council obtains distributions from, or further invests in, those subsidiaries. Such effects are included in the prospective financial statements presented.

The primary objective of the Council is to provide goods and services to the community for social benefit, rather than for making financial return. Accordingly the Council has designated itself as a public benefit entity (PBE) for financial reporting purposes.

## **2 Summary of significant accounting policies**

### **2.1 Statement of compliance and basis of preparation**

The prospective financial statements of the Council have been prepared in accordance with the requirements of the Local Government Act 2002 which includes the requirement to comply with New Zealand generally accepted accounting practice (NZGAAP). The prospective financial statements have been prepared in accordance with Tier 1 PBE accounting standards. The statements comply with *PBE FRS 42 Prospective Financial Statements* and other applicable Financial Reporting Standards as appropriate for public benefit entities. The prospective financial statement use opening balances from the period ending 30 June 2017; estimates have been restated accordingly if required. The prospective financial statements are prepared using the historical cost basis, except for assets and liabilities, which are recorded at fair value. These are detailed in the specific policies below.

The accounting policies set out below have been applied consistently to all periods presented in these prospective financial statements. 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.

#### **Standards issued and not yet effective and not early adopted**

Standards, interpretations, and amendments issued but not yet effective that have not been early adopted, and which are relevant to the Council are:

##### *Interests in other entities*

In January 2017, the XRB issued new standards for interests in other entities (PBE IPSAS 34-38). These new standards replace the existing standards for interests in other entities (PBE IPSAS 6-8). The new standards are effective for annual periods beginning on or after 1 January 2019, with early application permitted.

The Council plans to apply the new standards in preparing the 30 June 2020 financial statements. The Council has not yet assessed the effects of these new standards.

## *Financial instruments*

In January 2017, the XRB issued PBE IFRS 9 *Financial Instruments*. PBE IFRS 9 replaces PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*. PBE IFRS9 is effective for annual periods beginning on or after 1 January 2021, with early application permitted. The main changes under PBE IFRS 9 are:

- New financial asset classification requirements for determining whether an asset is measured at fair value or amortised cost
- A new impairment model for financial assets based on expected losses, which may result in the earlier recognition of impairment losses.
- Revised hedge accounting requirements to better reflect the management of risks.

The Council plans to apply this standard in preparing its 30 June 2022 financial statements. The Council has not yet assessed the effects of the new standard.

### **2.3 Foreign currency transactions**

Foreign currency transactions (including those subject to forward foreign exchange contracts) are translated into NZ\$ (the functional currency) using the spot exchange rate at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the surplus or deficit.

### **2.4 Goods and Services Tax (GST)**

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

The net amount of GST recoverable from, or payable to, the 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 cash flow in the statement of cash flows.

Commitments and contingencies are disclosed exclusive of GST

### **2.5 Cost allocation**

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

- Direct costs, are costs directly attributable to a significant activity, and are charged directly to that significant activity.
- Indirect costs, are costs which cannot be identified in an economically feasible manner, with a specific significant activity, and are charged to significant activities using appropriate cost drivers such as staff time, computer devices, staff numbers and floor area.

### **2.6 Critical accounting estimates and judgements**

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 estimates, judgements and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are:

- Estimating the fair value of land, buildings and infrastructural assets
- Estimating the retirement and long service leave obligations
- Estimating the landfill aftercare provision

### **Critical judgements in applying accounting policies**

- Classification of property

## **2.7 Revenue**

Revenue is measured at fair value.

The specific accounting policies for significant revenue items are explained below:

### **Rates revenue**

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 the 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.

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

Rates collected on behalf of Bay of Plenty Regional Council are not recognised in the financial statements, as the Council is acting as their agent.

### **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 subsidies and grants**

Other subsidies and 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.

### **Vested or donated physical assets**

For assets received for no or nominal consideration, the asset is recognised at its fair value when 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. The fair value of vested or donated assets is usually determined by reference to the cost of constructing the asset. For assets received from property developers, the fair value is based on construction price information provided by the property developer.

For long-lived assets that must be used for a specific use (for example, land that 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 that it will need to return or pass the asset to another party.

### **Sales of goods**

Revenue from the sales of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer.

### **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 Council's local facilities, such as pools, museum, and Superloo. Revenue from entrance fees is recognised upon entry to such facilities.

### **Landfill fees**

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

### **Rental revenue**

Rental revenue from investment property is recognised on a straight line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental revenue.

### **Development and financial contributions**

Development and financial contributions are recognised as revenue when 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.

### **Interest and dividends**

Interest revenue is recognised using the effective interest method.

Dividends are recognised when the shareholder's right to receive payment is established.

### **Third party transfer payment agencies**

Council collects monies for many organisations. Where collections are processed through Council books, any monies held are shown as trade payables in the statement of financial position. Amounts collected on behalf of third parties are not recognised as revenue, but commissions earned from acting as agent are recognised in revenue.

## **2.8 Borrowing costs**

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

## **2.9 Superannuation schemes**

### *Defined contribution schemes*

Employer contributions to KiwiSaver are accounted for as defined contribution superannuation schemes and are expensed in the surplus or deficit as incurred.

## **2.10 Grant expenditure**

The Council's grants awarded have no substantive conditions attached.

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 grants 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.

## **2.11 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. Lease incentives received are recognised in the surplus or deficit as expense reduction of rental expense over the lease term.

## **2.12 Income tax**

Local authorities are only subject to income tax on income derived from any council controlled organisation and as a port operator.

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

Current tax is the expected tax payable on the taxable income for the year, and any adjustment to income tax payable in respect of prior years.

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 amounts 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 surpluses will be available against which the deductible temporary differences or tax losses can be utilised.

Deferred tax is not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of an asset or liability in a transaction that affects neither, accounting profit or taxable profit.

Current and deferred tax are measured using tax rates (and tax laws) that have been enacted or substantively enacted at balance date.

Current and deferred tax is recognised against the surplus or deficit for the period, except to the extent that it relates to items recognised in other comprehensive revenue and expense or directly in equity.

## **2.13 Equity**

Equity is the community's interest in the Council as measured as the difference between total assets and total liabilities. Equity is disaggregated and classified into the following components:

- accumulated funds
- council created reserves
- asset revaluation reserves

- available-for-sale revaluation reserve

Reserves are a component of equity and represent a particular use to which parts of equity have been assigned. Reserves may be legally restricted or created by the Council. Council created reserves are reserves established 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 Council.

Asset revaluation reserves arise from certain asset classes being revalued, with these classes including land, buildings, infrastructural assets and restricted assets. The treatment of revaluation movements is detailed in 2.19 of the policies.

Available-for-sale revaluation reserves arise from available-for-sale investments being revalued to current fair value. The treatment of revaluation movements is detailed in 2.17 of the policies.

## **2.14 Cash and cash equivalents**

Cash and cash equivalents include cash on hand and 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 included as a component of cash and cash equivalents for the purpose of the statement of cash flows, and within borrowings in current liabilities on the statement of financial position.

## **2.15 Receivables**

Short-term receivables are recorded at the amount due, less any provision for uncollectability.

A receivable is considered uncollectable when there is evidence that Council that the amount due will not be fully collected. The amount that is uncollectable is the difference between the amount due and the present value of the amount expected to be collected.

## **2.16 Inventory**

Inventories are held for distribution or for the use in the provision of goods and services. The measurement of inventories depends on whether the inventories are held for commercial or non-commercial (distribution at no charge or nominal charge) distribution or use. Inventories are measured as follows:

- Commercial: measured at the lower of cost and net realisable value.
- Non-commercial: measured at cost, adjusted for any loss of service potential.

Cost is allocated using the first-in-first-out (FIFO) method, which assumes the inventories that were purchased first are distributed or used first.

Inventories acquired through non-exchange transaction are measured at fair value at the date of acquisition.

Any write-down from cost to net realisable value or for the loss of service potential is recognised in the surplus or deficit in the year of the write-down.

When sections of land for sale are transferred from non-current assets held for sale, investment property or property, plant and equipment to inventory, the fair value of the land at the date of transfer is its deemed cost.

## **2.17 Financial assets**

Financial assets (other than shares in subsidiaries) 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 the surplus or deficit.

### **Term deposits and community loans (Loans and receivables)**

Loans made at nil or below market interest rates are initially recognised at the present value of their expected future cash flow, discounted at the current market rate of return for a similar financial instrument.

After initial recognition, term deposits and community loans are measured at amortised cost using the effective interest method. Where applicable, interest accrued is added to the investment balance.

At year-end, the assets are assessed for indicators of impairment. Impairment is established when there is evidence that the Council 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 indicators that the asset is impaired.

If the assets are impaired, the amount not expected to be collected is recognised in the surplus or deficit.

### **Listed bonds (held-to-maturity)**

After initial recognition, listed bonds (designated as held to maturity) 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 statement of comprehensive revenue and expense.

At year-end, the assets are assessed for indicators of impairment. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, receivership or liquidation and default in payments is considered to be objective evidence of impairment.

Gains and losses when the asset is impaired or de-recognised are recognised in the surplus or deficit.

Council does not use this category presently.

### **Listed shares (fair value through surplus or deficit)**

This category has two sub categories: financial assets held for trading (Council does not use this category), and those designated at fair value through surplus or deficit at inception. A 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. 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 date. After initial recognition they are measured at their fair values. Gains or losses on re-measurement are recognised in the surplus or deficit.

Council's equity investments fall into this category.

### **Available for sale (fair value through other comprehensive revenue and expense)**

Financial assets available for sale 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 includes in this category:

- investments that it intends to hold long term but which may be realised before maturity; and
- shareholdings that it holds for strategic purposes.

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

On de-recognition, the cumulative gain or loss previously recognised in other comprehensive revenue is reclassified from equity to the surplus or deficit.

Council's shareholding in Civic Assurance and the holdings of Government and corporate bonds are currently classified as available for sale.

## **2.18 Non current assets held for sale**

Non current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. They are measured at the lower of their carrying amount and fair value, less costs to sell.

Any impairment losses for write downs of the asset are recognised in the surplus or deficit.

Any increases in fair value (less costs to sell) are recognised up to the level of any impairment losses that have been previously recognised.

Non current assets are not depreciated or amortised while they are classified as held for sale (including those that are part of a disposal group).

## **2.19 Property, plant and equipment**

Property, plant, and equipment consist of:

Operational assets – These include land, buildings, office furniture and fittings, library books, heritage assets, 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.

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

Land and land under roads (operational and restricted) is measured at fair value, and buildings (restricted and operational) and infrastructural assets (roads, water, wastewater and stormwater) are measured at fair value less accumulated depreciation. All other asset classes, excluding heritage assets, are measured at cost less accumulated depreciation and impairment losses. Heritage assets are measured at cost.

### **Revaluation**

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

Revaluation movements 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 reserves 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.



## Additions

The cost of an item of property, plant or 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 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 probably 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.

Additions between valuations are shown at cost, except vested assets. Certain infrastructural assets and land have been vested in Council as part of the subdivisional consent process. Vested land reserves are initially recognised at the most recent rating valuation. Vested infrastructural assets are valued based on the actual quantities of infrastructure components vested, and the current "in the ground" cost of providing identical services.

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

## Disposals

Gains and losses on disposal are determined by comparing the disposal proceeds with the carrying amount of the asset. These are included in the surplus or deficit. When revalued assets are sold, the amounts included in other reserves in respect of those assets are transferred to accumulated funds.

## Depreciation

Depreciation is provided on a straight-line or diminishing value basis on all property, plant and equipment other than land and heritage assets, 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:

<b>Class of asset depreciated</b>	<b>Estimated useful life</b>	<b>Depreciation rates</b>
<b>Operational assets:</b>		
Land	not depreciated	Nil
Buildings		
Site Value	13 years	7.69% SL
Structure	20 - 80 years	1.3% - 5% SL
Roof	20 - 40 years	2.5% - 5% SL
Services	20 - 45 years	2.5% - 5% SL
Internal fit-out	15 - 35 years	2.9% - 6.7% SL
Plant	20 - 30 years	3.3% - 5% SL
Machinery	2 - 20 years	5% - 50% SL
Computer equipment	4 years	25% SL
Office equipment	4 - 10 years	13.33% - 25% SL

Leased assets	3 - 5 years	20% - 33.3% SL
Furniture & fittings	2 - 10 years	10% - 50% SL
Park furniture	2 - 25 years	4% - 50% SL
Vehicles	4 - 10 years	10% - 25% SL
Library books	6.5 years	15.5% SL

**Infrastructural assets:**

<b>Buildings</b>		
Site Value	13 years	7.69% SL
Structure	20 - 80 years	1.3% - 5% SL
Roof	20 - 40 years	2.5% - 5% SL
Services	20 - 45 years	2.5% - 5% SL
Internal fit-out	15 - 35 years	2.9% - 6.7% SL
<b>Roads</b>		
Top surface	3 - 20 years	5% - 33% SL
Pavement	45 - 65 years	1.5% - 2.2% SL
Formation	not depreciated	Nil
Culverts	55 - 80 years	1.3% - 1.8% SL
Footpaths	50 - 80 years	1.3% - 2% SL
Kerbs	60 years	1.7% SL
Signs	15 years	6.7% SL
Street lights	25 - 60 years	1.7% - 4% SL
Bridges	90 - 100 years	1% - 1.1% SL
Land under roads	not depreciated	Nil
<b>Water reticulation</b>		
Pipes	45 - 100 years	1% - 2.2% SL
Valves, hydrants	40 years	2.5% SL
Pump stations	10 - 60 years	1.7% - 10% SL
Tanks	25 - 80 years	1.3% - 4% SL
<b>Sewerage reticulation</b>		
Pipes	65 - 100 years	1% - 1.5% SL
Manholes	80 years	1.3% SL
Treatment plant	5 - 80 years	1.3% - 20% SL
<b>Stormwater systems</b>		
Pipes	50 - 120 years	0.83% - 2% SL
Manholes, cesspits	75 - 100 years	1% - 1.3% SL
Flood control systems	50 - 100 years	1% - 2% SL
Solid waste	4 - 24 years	4.166% - 25%

**Restricted assets:**

Land	not depreciated	Nil
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The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance date.

## **Impairment of property, plant and equipment**

Property, plant and equipment that have a finite useful life are reviewed for impairment at each balance date and 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 its value in use.

If an asset's carrying amount exceeds its recoverable amount, the asset is regarded as impaired and the carrying amount is written down to the recoverable amount. For revalued assets, the impairment loss is recognised against the revaluation reserve for that class of asset. Where that results in a debit balance in the revaluation reserve, the balance is recognised in the surplus or deficit.

For assets not carried at a revalued amount, the total impairment loss is recognised in the surplus or deficit.

The reversal of an impairment loss on a revalued asset is credited to other comprehensive revenue and expense and increases in the asset revaluation reserve for that class of asset. However, to the extent that an impairment loss for that class of asset was previously recognised in the surplus or deficit, a reversal of the impairment loss is also recognised in the surplus or deficit.

For assets not carried at a revalued amount, the reversal of an impairment loss is recognised in the surplus or deficit.

### **2.20 Forestry assets**

Forestry assets are predominantly standing trees which are managed on a sustainable yield basis.

Standing forestry assets are independently revalued annually at fair value less estimated costs to sell for one growth cycle.

Gains or losses arising on initial recognition of forestry assets at fair value less cost 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.

### **2.21 Intangible assets**

#### **Software acquisition and development**

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

Costs that are directly attributable to the development of the software for internal use are recognised as an intangible asset. Direct costs include the software development employee costs and appropriate portion of relevant overheads.

Staff training costs are recognised in the surplus or deficit when incurred.

Costs associated with maintaining computer software are recognised as an expense when incurred.

#### **Amortisation**

The carrying value of an asset with a finite life is amortised on a straight-line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is de-recognised. The amortisation charge for each financial year is recognised in the surplus or deficit.

The useful lives and associated amortisation rates of major classes of intangible assets have been estimated as follows:

Computer software	4 years	25%
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### **Impairment of intangible assets**

For further details, refer to the policy for impairment of property, plant and equipment in 2.19. The same approach applies to the impairment of intangible assets.

### **2.22 Investment property**

Properties leased to third parties under operating leases and properties held for capital appreciation 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 at each reporting date.

Gains or losses arising from a change in the fair value of investment property are recognised in the surplus or deficit.

### **2.23 Payables and deferred revenue**

Short term creditors and other payables are recorded at their face value.

### **2.24 Employee entitlements**

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

Employee benefits that are due to be settled with 12 months after the end of the year in which the employee provides 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 has a contractual obligation or where there is a past practice that has created a constructive obligation and a reliable estimate of the obligations can be made.

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

Employee benefits that are due to be settled beyond 12 months after the end of the year in which the employee provides the related service, such as retirement and long service leave, 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.
- the present value of the estimated future cash flows.

#### **Presentation of employee entitlements**

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

## **2.25 Provisions**

A provision is recognised 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 an outflow of future economic benefits, 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 the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessment of the time value of money and the risk 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".

## **2.26 Borrowings and other financial liabilities**

Borrowings on normal commercial terms are initially recognised at the amount borrowed plus transaction costs. Interest due on the borrowings is subsequently accrued and added to the borrowings balance.

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.

### **Finance leases**

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

At the start 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 and 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 reasonable 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.

## **2.27 Derivative financial instruments and hedge accounting**

Derivative financial instruments are used to manage exposure to interest rate risk arising from Council's financing activities. In accordance with its treasury policy, 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 to their fair value at each balance date. The associated gains or losses are recognised in the surplus or deficit.

## **3 Prospective financial information**

The financial information contained in this document is prospective financial information in terms of accounting standard PBE FRS42. The purpose for which it has been prepared is to enable ratepayers, residents and any other interested parties to obtain information about the expected future financial performance, position and cash flow of the Council. The actual results achieved for any particular year, are also likely to vary from the information presented and may vary materially depending in the circumstances that arise during the period. Estimates and judgements are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.