DRAFT Financial Statements for Whakatāne District Council Annual Plan 2019/20

SUPPORTING INFORMATION FOR THE ANNUAL PLAN CONSULTATION DOCUMENT

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WHAKATĀNE District Council

INDICATIVE FUNDING IMPACT STATEMENT

LTP 2018/19 $000		LTP 2019/20 $000	Proposed AP 2019/20 $000	Variance 2019/2020 $000
	OPERATIONAL			
	Sources of operating funding			
22,313	General rates, uniform annual general charges, rates penalties	22,627	23,036	409
22,592	Targeted Rates	23,567	23,886	319
4,087	Subsidies and grants for operating purposes	4,180	9,212	5,031
7,617	Fees and Charges	7,691	8,823	1,132
50	Interest and dividends from investments	46	45	(1)
1,786	Local authorities fuel tax, fines, infringement fees, and other receipts	1,881	1,965	84
58,445	**Total Sources of operating funding (A)**	**59,991**	**66,967**	**6,976**
	Applications of operating funding			
41,847	Payments to staff and suppliers	42,253	53,120	10,867
2,561	Finance costs	2,495	2,400	(95)
850	Other operating funding applications	908	930	22
45,257	**Total Applications of operating funding (B)**	**45,655**	**56,450**	**10,794**
13,188	**Surplus (deficit) of operating funding (A-B)**	**14,335**	**10,517**	**(3,819)**
	CAPITAL			
	Sources of capital funding			
15,814	Subsidies and grants for capital expenditure	7,561	17,078	9,517
1,064	Development and financial contributions	131	127	(3)
2,534	Increase (decrease) in debt	2,363	5,206	2,843
565	Gross proceeds from sale of assets	2,000	2,000	-
-	Lump Sum Contributions	-	-	-
-	Other dedicated capital funding	-	-	-
19,977	**Total Sources of capital funding (C)**	**12,055**	**24,411**	**12,356**
	Applications of capital funding			
	Capital expenditure			
3,051	- to meet additional demand	4,208	4,269	61
15,494	- to improve level of service	7,407	17,677	10,271
11,126	- to replace existing assets	11,127	13,334	2,207
3,495	Increase (decrease) in reserves	3,648	(352)	(4,000)
-	Increase (decrease) of investments			
33,166	**Total Applications of capital funding (D)**	**26,390**	**34,928**	**8,539**
(13,188)	**Surplus (deficit) of capital funding (C-D)**	**(14,335)**	**(10,517)**	**3,818**
-	**Funding Balance ((A-B) + (C-D))**	**-**	**-**	**-**

Prospective Statement of Comprehensive Revenue and Expense

LTP 2019 $000		LTP 2020 $000	AP 2020 $000	Variance 2020 $000
	REVENUE			
44,505	Rates	45,745	46,498	(753)
20,273	Subsidies and Grants	12,089	26,629	(14,540)
1,064	Development and Financial Contributions	131	127	4
6,480	Fees and Charges	5,822	6,514	(772)
50	Interest Revenue	46	43	3
1,433	Other Revenue	3,402	3,876	(452)
1,150	Gains		-	
74,955	**Total Revenue**	**67,235**	**83,687**	**(16,510)**
	EXPENSES			
16,960	Personnel Costs	17,007	17,456	(449)
15,464	Depreciation and Amortisation Expense	16,605	16,353	252
2,572	Finance Costs	2,508	2,400	119
26,951	Other Expenses	27,377	37,017	(9,640)
	Revaluation Losses		1,500	(1,500)
61,947	**Total Expenses**	**63,497**	**74,726**	**(11,218)**
13,008	**Surplus (Deficit) Before Tax**	**3,738**	**8,961**	**(5,292)**
	Income Tax Expense (Benefit)		(25)	25
13,008	**Surplus (Deficit) After Tax**	**3,738**	**8,986**	**(5,317)**
	OTHER COMPREHENSIVE REVENUE AND EXPENSE			
	Gains (Loss) on Property, Plant and Equipment Revaluations	2,862	14,000	(11,138)
	Tax on Revaluation Surplus		-	
30,724	**Total Comprehensive Revenue and Expense**	**6,600**	**22,986**	**(16,455)**

Note 1 General Rates by Activity

LTP 2019 $000		LTP 2020 $000	AP 2020 $000	Variance 2020 $000
2,882	Leadership	2,873	2,867	6
2,453	Community Safety	2,394	3,023	(629)
1,963	Environmental Sustainability	1,839	1,868	(29)
1,036	District Growth	1,096	1,338	(242)
-	Arts & Culture	-	3,764	(3,764)
10,258	Recreation & Comm Facilities	10,420	5,640	4,780
-	Community Property	-	793	(793)
1,798	Waste	1,870	1,779	91
(24)	Transport & Network Systems		(25)	1
465	Water-related services	770	783	(13)
83	Reportable Council Controlled Organisations	84	85	(1)
781	Corporate Activities	673	542	131
840	Non Activity Related Income	815	1,381	(566)
22,533	**General Rates per Whole of Council FIS**	**22,810**	**23,838**	**(1,028)**
620	Less Penalties	632	800	(168)
21,913	**General Rates Levied per Rating Statement**	**22,178**	**23,038**	**(860)**

Note 2 Targeted Rates by Activity

LTP 2019 $000		LTP 2020 $000	AP 2020 $000	Variance 2020 $000
334	Leadership	339	340	(1)
723	District Growth	734	807	(73)
2,595	Waste	2,732	2,504	228
5,837	Transport & Network Systems	6,412	6,073	339
13,067	Water-related services	13,313	14,130	(817)
-	Corporate Activities	-	(430)	430
36	Reportable Council Controlled Organisations	37	36	1
22,592	**Total Targeted Rates per Whole of Council FIS**	**23,567**	**23,460**	**107**

Note 3 Depreciation

LTP 2019 $000		LTP 2020 $000	AP 2020 $000	Variance 2020 $000
44	Community Safety	44	48	(4)
69	District Growth	72	72	-
456	Arts & Culture	479	479	-
1,827	Recreation & Comm Facilities	1,885	1,954	(69)
372	Community Property	390	385	5
41	Waste	42	44	(2)
7,081	Transport & Network Systems	7,967	7,578	389
4,531	Water-related services		4,715	(9)
9	Reportable Council Controlled Organisations	17	8	9
1,030	Corporate Activities	999	1,066	(67)
4	Non Activity Related Income	4	4	-
15,464	**Total Depreciation and Amortisation**	**16,605**	**16,353**	**252**

Prospective Statement of Changes in Equity

LTP 2019 $000		LTP 2020 $000	AP 2020 $000	Variance 2020 $000
436,635	**Accumulated Funds at the start of the year**	449,642	441,798	7,844
13,008	Net Surplus for the year	3,738	9,055	(5,317)
449,643	**Accumulated Funds at the end of the year**	**453,380**	**450,853**	**2,527**
176,604	Asset Revaluation Reserve at the start of the year	194,320	205,533	(11,213)
17,716	Revaluation of Assets	2,862	14,000	(11,138)
194,320	**Asset Revaluation Reserve at the start of the year**	**197,182**	**219,533**	**(22,351)**
643,963	**Equity at the end of the year**	**650,562**	**670,386**	**(19,824)**

Prospective Statement of Financial Position

LTP 2019 $000		LTP 2020 $000	AP 2020 $000	Variance 2020 $000
	EQUITY			
428,158	Accumulated Funds	430,479	429,517	962
21,485	Restricted Equity	22,901	21,336	1,565
194,320	Asset Revaluation Reserves	197,182	219,533	(22,351)
643,963	**TOTAL EQUITY**	**650,562**	**670,386**	**(19,824)**
	ASSETS			
	Current Assets			
2,508	Cash and Cash Equivalents	4,682	3,052	1,630
10,505	Receivables	9,439	12,762	(3,323)
	Derivatives Financial Instruments		-	-
	Goods and Services Tax		700	(700)
231	Inventory	243	243	-
2,000	Non-current Assets Held for Sale		500	(500)
15,244	**Total Current Assets**	**14,364**	**17,257**	**(2,893)**
	Non-Current Assets			
6,696	Non-current Assets Held for Sale	6,696	4,700	1,996
	Derivative Financial Instruments		-	-
703	Investment in CCOs and other similar entities	703	1,087	(384)
76,326	Operational Assets	77,398	76,988	410
525,166	Infrastructural Assets	532,544	562,069	(29,525)
384	Intangible Assets	390	511	(121)
88	Forestry Assets	90	90	(0)
34,820	Investment Property	34,987	35,819	(832)
38,582	Restricted Assets	39,124	43,254	(4,130)
15,391	Work in Progress	15,544	15,544	-
698,156	**Total Non-Current Assets**	**707,475**	**740,062**	**(32,587)**
713,400	**TOTAL ASSETS**		**757,319**	**(35,480)**
	LIABILITIES			
	Current Liabilities			
8,767	Payables and Deferred Revenue	9,585	9,395	190
	Derivatives Financial Instruments		-	-
9,000	Borrowings and Other Financial Liabilities	5,000	13,000	(8,000)
2,544	Employee Entitlements	2,551	2,755	(204)
40	Provisions	30	32	(2)
	Goods and Services Tax		-	
20,351	**Total Current Liabilities**	**17,166**	**25,182**	**(8,016)**
	Non-Current Liabilities			
3,050	Derivative Financial Instruments	3,050	4,744	(1,694)
45,000	Borrowings and Other Financial Liabilities LT	50,000	56,000	(6,000)
500	Employee Entitlements LT	520	526	(6)
486	Provisions LT	510	459	51
50	Deferred Tax Liability	30	22	8
49,086	**Total Non-Current Liabilities**	**54,110**	**61,751**	**(7,641)**
69,437	**TOTAL LIABILITIES**	**71,276**	**86,933**	**(15,657)**
643,963	**NET ASSETS (Assets minus Liabilities)**	**650,563**	**670,386**	**(19,823)**

Prospective Statement of Cashflows

LTP 2019 $000		LTP 2020 $000	AP 2020 $000	Variance 2020 $000
	CASH FLOWS FROM OPERATING ACTIVITIES			
54,784	Receipts from Rates Revenue	56,356	55,311	1,045
19,901	Subsidies and Grants Received	11,741	26,629	(14,888)
10,576	Fees and Charges and Other Revenue received		4,627	5,138
50	Interest Received	46	43	3
6	Dividends Received	6	6	-
(42,696)	Payments to Suppliers & Employees	(43,160)	(54,486)	11,326
(9,879)	Payments to Agencies	(10,163)	(9,956)	(207)
(2,572)	Interest paid	(2,508)	(2,400)	(108)
	GST (Net)		-	
30,170	**Net Cash Flow from Operating Activities**	**22,083**	**19,774**	**2,309**
	CASH FLOWS FROM INVESTING ACTIVITIES			
565	Receipts from Sale of Property, Plant and Equipment	2,000	2,000	-
(29,671)	Purchase of Property, Plant and Equipment	(22,742)	(26,460)	3,718
(129)	Acquisition of Investments	(167)	-	(167)
(29,235)	**Net Cash Flows from Investing Activities**	**(20,909)**	**(24,460)**	**3,551**
	CASH FLOWS FROM FINANCING ACTIVITIES			
8,000	Proceeds from Borrowings	6,000	2,000	4,000
(9,000)	Repayment of Borrowings	(5,000)	-	(5,000)
(1,000)	**Net Cash Flow from Financing Activities**	**1,000**	**2,000**	**(1,000)**
(65)	Net Increase (Decrease) in Cash, Cash Equivalents and Bank Overdrafts	2,174	(2,687)	4,861
2,573	Cash, Cash Equivalents and Bank Overdrafts at the Beginning of the year	2,508	5,739	(3,231)
2,508	**Cash, Cash Equivalents and Bank Overdrafts at the End of the Year**	**4,682**	**3,052**	**1,630**
	Represented by:			
2,508	**Cash at Bank**	**4,682**	**3,052**	**1,630**

Statement of Accounting Policies

These statements provide the principles that we have applied in preparing our prospective financial statements. They are designed to help you understand the detail behind our calculations and forecasts.

REPORTING ENTITY

Whakatāne District Council is a territorial local authority governed by the Local Government Act 2002 and is domiciled in New Zealand. The principal accounting policies adopted in the preparation of this financial report are set out below. The financial report consists of the prospective financial statements of Whakatāne District Council (the Council) and includes the Whakatāne Airport, which is a 50/50 joint equity venture between the Council and the Ministry of Transport.

The primary objective of the Council is to provide goods or services for the community or social benefit rather than making a financial return. Accordingly, the Council has designated itself a public benefit entity for the purposes of New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

The prospective financial statements of the Council are for the year ended 30 June 2020. The financial statements were authorised for issue on 27 June 2019 by Council resolution. The Council is responsible for the prospective financial statements presented, including the appropriateness of the assumptions underlying the prospective financial statements and all other required disclosures.

BASIS OF PREPARATION

Statement of compliance

The financial statements 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 (NZ GAAP). They comply with FRS 42 Prospective Financial Statements, as appropriate for public benefit entities.

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

Measurement base

The financial statements use closing balances from the period ending 30 June 2018; estimates have been restated accordingly if required. These financial statements have been prepared on a historical basis, modified by the estimated revaluation of land and buildings, certain infrastructural assets, financial instruments (including derivative instruments) investment property, and forestry assets.

Functional and presentation currency

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars ($000). Some rounding variances may occur in the financial statements due to the use of decimal places in the underlying financial data. The functional currency of the Council is New Zealand dollars.

Standards, amendments and interpretations issued that are not yet effective and have not been early adopted

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

Impairment of Revalued Assets

In April 2017, the XRB issued Impairment of Revalued Assets, which now scopes in revalued property, plant, and equipment into the impairment accounting standards. Previously, only property, plant, and equipment assets measured at cost were scoped into the impairment accounting standards.

This Standard amends PBE IPSAS 21 Impairment of Non-Cash-Generating Assets and PBE IPSAS 26 Impairment of Cash-Generating Assets so that assets measured at revalued amounts under the revaluation model in PBE IPSAS 17 Property, Plant and Equipment and PBE IPSAS 31 Intangible Assets are within the scope of PBE IPSAS 21 and PBE IPSAS 26.

As a result of the amendments, the Council is required to assess at each reporting date whether there is any indication that an asset may be impaired. If any indication exists, the Council is required to assess the recoverable amount of that asset and recognise an impairment loss if the recoverable amount is less than the carrying amount. The Council can therefore impair a revalued asset without having to revalue the entire class-of-asset to which the asset belongs.
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 and group has not yet assessed the effects of these new standards.

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 and group 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 IFRS 9 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 and group has not yet assessed the effects of the new standard.

Joint ventures and associates
Council recognises in its financial statements its share of jointly controlled assets, the liabilities and expenses it incurs, its share of liabilities and expenses incurred jointly, and income from the sale or use of its share of the output of the joint venture.

Significant Accounting Policies

REVENUE RECOGNITION
Revenue is measured at fair value of the consideration received.

Rates
Rates are set annually by a resolution from the Council and relate to a financial year. All ratepayers are invoiced within the financial year to which the rates have been set. Rates revenue is recognised when payable.
Rates collected on behalf of the Bay of Plenty Regional Council (BOPRC) are not recognised in the financial statements as the Council is acting as an agent for BOPRC. Rates collected on behalf of the BOPRC are not included in the Prospective Statement of Comprehensive Income as it does not belong to the Council. It is however, included as a receipt and payment in the Prospective Statement of Cash Flows.
Revenue from water rates by meter is recognised on an accrual basis.

Licences and permits
Revenue derived from licences and permits is recognised on application.

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

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

Provision of services
Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Rental revenue
Rental revenue is recognised in the period that it relates to.

Interest income
Interest income is recognised using the effective interest method.

Dividend income
Dividend income is recognised when the right to receive payment is established.

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

Traffic and parking infringements
Traffic and parking infringements are recognised when tickets are paid.

Grants and subsidies
Grants and subsidies are recognised when the conditions of the grant or subsidy have been met.

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 a successful applicant has been notified of the Council's decision.

Government grants are received from the New Zealand Transport Agency, which subsidises part of the costs of maintaining the local roading infrastructure. The subsidies are recognised as revenue upon entitlement, as conditions pertaining to eligible expenditure have been fulfilled.

FINANCE COSTS
Borrowing costs are recognised as an expense in the period in which they are incurred. The Council has not capitalised borrowing costs associated with funding capital works in progress which represents a departure from NZ IAS 23:Borrowing Costs. However, it is in line with the decision of the Accounting Standards Review Board to indefinitely defer the adoption of NZ IAS 23 for public benefit entities.

INCOME TAX
Income tax expense comprises both current tax and deferred tax, and is calculated using tax rates that have been enacted or substantively enacted by balance date.

Current tax is the amount of income tax payable based on the taxable profit for the current year, plus any adjustments 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 amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

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 is not a business combination, and at the time of the transaction, affects neither accounting profit or taxable profit.
Deferred tax is recognised on taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the company can control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.
Current tax and deferred tax is charged or credited to the statement of financial performance, except when it relates to items charged or credited directly to equity, in which case the tax is dealt with in equity.

LEASES

Finance leases

A finance lease is a lease that transfers to the lessee substantially all the risks and rewards incidental to the ownership of an asset, whether or not the title is eventually transferred.
At the commencement of the lease term, the Council recognises finances leases as assets and liabilities in the statement of financial position at the lower of the fair value of the leased item or the present value of the minimum lease payments. The finance charge is charged to the statement of financial performance over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability.
The amount recognised as an asset is depreciated over its useful life. If there is no certainty as to whether the Council will obtain ownership at the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life.

Operating leases

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

CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the prospective statement of financial position.

TRADE AND OTHER RECEIVABLES

Debtors and other receivables are initially measured at fair value and subsequently measured at amortised cost, less any provision for impairment.

INVENTORIES

Inventories (such as spare parts and other items) held for distribution or consumption in the provision of services that are not supplied on a commercial basis are measured at cost.

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 the surplus or deficit.
Purchases and sales of financial assets are recognised on trade-date, the date on which the Council and group 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 and group has transferred substantially all the risks and rewards of ownership.
Financial assets are classified into the following categories for the purpose of measurement:

- loans and receivables;
- held-to-maturity investments; and
- fair value through other comprehensive income.

The classification of a financial asset depends on the purpose for which the instrument was acquired.

Financial assets at fair value through surplus or deficit

Financial assets at fair value through surplus or deficit include financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term or it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated into hedge accounting relationship for which hedge accounting is applied.

Financial assets acquired principally for the purpose of selling in the short-term or part of a portfolio classified as held for trading are classified as a current asset.

After initial recognition, financial assets in this category are measured at their fair values with gains or losses on remeasurement recognised in the surplus or deficit.

Loans and receivables

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

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

Loans to community organisations 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. The loans are subsequently measured at amortised cost using the effective interest method. The difference between the face value and present value of the expected future cash flows of the loan is recognised in the surplus or deficit as a grant.

Held-to-maturity investments

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

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

Fair value through other comprehensive revenue and expense

Financial assets at fair value through other comprehensive income 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 the share investment within 12 months of balance date or if the debt instrument is not expected to be realised within 12 months of balance date. The Council and group 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 income, except for impairment losses, which are recognised in the surplus or deficit. On derecognition, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to the surplus or deficit.

IMPAIRMENT OF FINANCIAL ASSETS

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

DERIVATIVE FINANCIAL INSTRUMENTS

The Council uses derivative financial instruments (interest rate swaps) to hedge exposure to interest rate risks arising from 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 remeasured at their fair value at each balance date.

The associated gains or losses of these derivatives are recognised in the prospective statement of comprehensive income.

NON-CURRENT ASSETS HELD FOR SALE

Non-current assets held for sale are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than 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.

Any impairment losses for write-downs of non-current assets held for sale are recognised in the prospective statement of comprehensive income. 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.

PROPERTY, PLANT AND EQUIPMENT

Property, Plant and Equipment consists of:

Operational assets

These include land, buildings, library books, plant and equipment, museum collection and motor vehicles.

Restricted assets

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

Infrastructural assets

Infrastructural 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.

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

Revaluation

Land, buildings (operational and restricted), library books, and infrastructural assets (except land under roads) are re-valued with sufficient regularity to ensure that their carrying amount does not differ materially from fair value and at least every three years. All other asset classes are carried at depreciated historical cost.

On transition to NZ IFRS, Whakatāne District Council elected to use the fair value of land under roads as at 1 July 2006 as deemed cost. Land under roads is no longer revalued.

The Council assesses the carrying values of its re-valued 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 re-valued.

The Council accounts for revaluations of property, plant and equipment on a class of asset basis.

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 prospective statement of comprehensive income. Any subsequent increase on revaluation that off-sets a previous decrease in value recognised in the statement of comprehensive income will be recognised first in the prospective statement of comprehensive income up to the amount previously expensed, and then credited to the revaluation reserve for that class of asset.

Additions

The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. In most instances, an item of property, plant and equipment is recognised at its cost. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value as at the date of acquisition.

Disposals

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are reported net in the prospective statement of comprehensive income. When revalued assets are sold, the amounts included in asset revaluation reserves in respect of those assets are transferred to retained earnings.

Depreciation

Depreciation is provided on a straight-line basis on all buildings, bridges and other structures and diminishing value for motor vehicles, plant and equipment, office equipment and furnishings. Land is non depreciable. The useful lives and associated depreciation rates of major classes of assets have been estimated as follows:
The expected lives, in years, of major classes of fixed assets are as follows:

INFRASTRUCTURE ASSETS	YEARS
Roading	
Land - Road reserve	Not Depreciated
Road formation	Not Depreciated
Basecourse	78
Sealed Pavement surface	15
Unsealed Wearing Course	5
Bridge Railings	10
Signs	16
Drainage	49
Large Culverts	51
Retaining Walls	74
Surface water Channel	54
Railings	22
Traffic Islands	50
Street lighting	26
Footpaths	47
Bridges	93
Car-parks	48
Water	
Treatment plant – Headworks	13
Pump stations	11
Reservoirs	38
Trunk Main	41
Main	49
Service Line	33
Harbour Assets	
Harbour Assets	14-15
Stormwater	
Gravity Main	45
Rising Main	46
Pump stations	12

Sewer	
Service lines	25
Gravity Main	40
Rising Main	57
Pump station	12
Treatment Plant	47
Outfall	28
OPERATIONAL ASSETS	**YEARS**
Museum assets	Not Depreciated
Land	Not Depreciated
Buildings	8-55
Vehicles	5-8
Plant and Equipment	4-33
Furniture and fittings	5-10
Library books	3-4
Office equipment	5-10
The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each financial year end.	

INTANGIBLE ASSETS

Software acquisition and development

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.
Cost associated with developing or maintaining computer software are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Council, and that will generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development, employee costs and an appropriate portion of relevant overheads.

Easements

Easements are recognised at cost, being purchase price and any directly attributable costs in bringing the asset to its intended use. Easements have an indefinite useful life and consequently are not amortised, but are instead tested for impairment annually.

Amortisation

The carrying value of an intangible 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 the asset is derecognised. The amortisation charge for each period is recognised in the prospective statement of comprehensive income.
The useful lives and associated amortisation rates of major classes of intangible assets have been estimated as follows:
Computer software 4 - 5 years 20% - 25%

IMPAIRMENT OF NON-FINANCIAL ASSETS

Intangible assets that have an indefinite useful life, or not yet available for use, are not subject to amortisation and are tested annually for impairment. Assets that have a finite useful life are reviewed for indicators of impairment at each balance date. When there is an indicator of impairment the asset's recoverable amount is estimated. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Value in use is depreciated replacement cost for an asset where the future economic benefits or service potential of the asset are not primarily dependent on the asset's ability to generate net cash inflows and where the entity would, if deprived of the asset, replace its remaining future economic benefits or service potential.

The value in use for cash-generating assets and cash generating units is the present value of expected future cash flows.

If an asset's carrying amount exceeds its recoverable amount, the asset is impaired and the carrying amount is written down to the recoverable amount. For re-valued 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 statement of comprehensive income.

For assets not carried at a re-valued amount, the total impairment loss is recognised in the prospective statement of comprehensive income.

The reversal of an impairment loss on a re-valued asset is credited to the revaluation reserve. However, to the extent that an impairment loss for that class of asset was previously recognised in prospective statement of comprehensive income, a reversal of the impairment loss is also recognised in the prospective statement of comprehensive income.

For assets not carried at a re-valued amount the reversal of an impairment loss is recognised in the prospective statement of comprehensive income.

INVESTMENT PROPERTY

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

Investment property is measured initially at its cost, including transaction costs.

After initial recognition, the Council measures all investment property at fair value as determined annually by an independent valuer.

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

FOREST ASSETS

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

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

The costs to maintain forestry assets are included in the Prospective Statement of Comprehensive Income.

CREDITORS AND OTHER PAYABLES

Creditors and other payables are recorded at their face value.

BORROWINGS

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost using the effective interest method. Borrowings are classified as current liabilities unless the Council has an unconditional right to defer settlement of the liability for at least 12 months after the balance date.

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 assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an interest expense and is included in "finance costs".

EMPLOYEE ENTITLEMENTS

Short-term employee entitlements

Employee benefits that Council expects to be settled within 12 months of balance date are measured at nominal values 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, retiring and long service leave entitlements expected to be settled within 12 months, and sick leave.

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

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.

Long-term employee entitlements

Entitlements that are payable beyond 12 months, such as long service leave and retiring 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; and,
- The present value of the estimated future cash flows.

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Presentation of employee entitlements

Sick leave and long service leave are valued on an actuarial basis. The present value of retirement and long service leave obligations depend on a number of factors that are determined on an actuarial basis. Three key assumptions used in calculating this liability include the discount rate, salary escalation rates and resignation rates. Any changes in these assumptions will affect the carrying amount of the liability. Projected cashflows are discounted back to the valuation date at the valuation discount rates. The discount rates have been chosen in accordance with PBE IPSAS 25 and have been obtained from Treasury's published Risk-Free Discount Rates. A long term annual rate of salary growth of 3.0% per year has been used. Sick leave and long service leave are classified as both current and long term liabilities depending on predicted settlement. If the payment is likely to be made within 12 months of balance date the entitlement is classified as current. The balance of the valuation is classified as long term.

Superannuation scheme

PUBLIC EQUITY

Public 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 reserves. The components of equity are:

- Retained earnings;
- Restricted reserves;
- Asset revaluation 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 Council.

Restricted reserves are those subject to specific conditions accepted as binding by 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 references to any third party or the Courts. Transfers to and from these reserves are at the discretion of the Council.

Asset revaluation reserve

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

GOODS AND SERVICES TAX

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

The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the prospective 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 prospective statement of cash flows. Commitments and contingencies are disclosed exclusive of GST.

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 those costs directly attributable to the significant activity. Indirect costs are those costs that cannot be identified in an economically feasible manner with a specific significant activity.

Indirect costs are charged to significant activities using appropriate cost drivers such as usage, staff numbers, and floor area.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

In preparing these 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. Best estimates are used to predict what things will cost in the future, including inflation expectations. There is a risk that future interest rates and prices of actual inputs and outputs will not increase at the rate assumed.