Audit New Zealand
Mana Arotake Aotearoa

Model Financial Statements
Te Motu District Council
2016/17

Model financial statements for a local authority prepared under the Tier 1 and Tier 2 Public Benefit Entity Accounting Requirements

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

June 2017

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FOREWORD

I am pleased to introduce our 2017 update to the model financial statements for local authorities, using the public benefit entity (PBE) accounting requirements for Tier 1 and Tier 2 entities.

Audit New Zealand's model financial statements highlight our latest thinking on meeting financial reporting and legislative requirements, and providing essential information to users of financial statements.

Focus

This 2017 update to the model financial statements focuses on improving the presentation and disclosure of financial statements. Recently, a number of private and public sector organisations have made significant changes to the presentation of their financial statements to improve communication to readers. In this model, we have applied some of this evolving good practice, such as merging accounting policies into the relevant notes and improving disclosures of judgements, estimates, and uncertainties. Further information about these improvements is provided on page 5. The main changes to the model are explained on pages 6-7.

I encourage local authorities to consider how they can improve their financial statements, with a view to clear communication to the readers. Our auditors will be happy to discuss this with you, including the important judgements that entities need to make about materiality of note disclosures.

These model financial statements can be downloaded from our website **www.auditnz.govt.nz**.

Future updates

We will continue to update these model financial statements to reflect evolving good practice in presenting financial statements that meet the needs of users as well as any revised requirements from changes in accounting standards and legislation.

We welcome any feedback on the application of this model to local authorities or any other comments that may help with future updates of the model financial statements. If you have any feedback or comments, please pass these to your Audit New Zealand Manager or Director.

Acknowledgements

I would like to thank the Audit New Zealand staff who have contributed to these model financial statements.

Stephen Walker
Executive Director
June 2017

ABOUT THE MODEL FINANCIAL STATEMENTS

Objective

The objectives of this model are:

- to guide local authorities in preparing financial statements that comply with the Tier 1 or Tier 2 PBE accounting requirements; and
- to provide an insight into evolving good practice in preparing financial statements, by providing an alternative presentation of notes and accounting policies to that in our previous models.

These model financial statements have been prepared using a fictitious local authority, Te Motu District Council (the Council). The Council has three subsidiaries, an associate, and a jointly controlled operation.

Improving disclosures and presentation of financial statements

Standard-setting bodies, financial market regulators, and other accounting interest groups internationally and in New Zealand have recently undertaken projects and initiatives to consider how financial reporting can be improved and better meet the needs of users (for example, the International Accounting Standards Board's "Disclosure Initiative" project).

These model financial statements have been updated to reflect some of the examples in practice we have seen to improve financial reporting. This includes improving the readability of the financial statements by moving significant accounting policies to the notes to which they relate. Some accounting policy language has also been simplified. Estimates and judgement disclosures have also been enhanced to provide more useful information on those areas of the financial statements that require judgement by preparers. For example, more information has been provided in relation to the estimation of the fair value of property, plant, and equipment.

There are other ways a local authority might improve financial reporting. For example, there are different approaches to the ordering of the financial statement notes. The notes in these model financial statements generally follow the ordering of the primary statements. However, a local authority might order notes based on providing the most important notes first, or group notes together into themes, such as operations, resources, and financing.

We are also seeing increasing use of contents pages and sub-headings for notes as well as some use of graphics, keys, and colour to differentiate different parts of the note disclosures. In this model, we have:

- included a contents page at the start of the notes to the financial statements to help the user locate notes that they are interested in;
- used colour to highlight the accounting policies (a blue background) and critical accounting estimates and judgements (a red background) from the other information contained in the notes; and
- included subheadings within the notes to clearly indicate to the user what information is being disclosed within a note.

Application of materiality to note disclosures

The purpose of these model financial statements is to provide a comprehensive range of accounting policies and disclosures to help guide local authorities in preparing financial statements that comply with the PBE accounting standards. Because of this, the model contains many note disclosures. Many local authorities will not need to include all of these notes in their financial statements.

When preparing financial statements, professional judgement needs to be applied in determining what note disclosures are material to users of financial statements. The PBE Conceptual Framework provides the following guidance on materiality:

> *Information is material if its omission or misstatement could influence the discharge of accountability by the entity, or the decisions that users make on the basis of the entity's general purpose financial reports prepared for that reporting period. Materiality depends on both the nature and amount of the item judged in the particular circumstances of each entity.*

In some cases, assessing materiality of note disclosures is an on-balance judgement that requires discussion between the preparer and auditor. In making this judgement, key factors are the concepts of user needs and accountability, but it is also important that material information is not obscured by including too much information that is not important.

Tier 2 concessions

The model financial statements identify by green highlight disclosure concessions available under the reduced disclosure regime. We encourage local authorities to take advantage of the available concessions. Additional disclosure concessions may be available to a local authority in preparing its financial statements that are not identified by the model, as the model does not include all possible disclosures of the PBE accounting standards.

Main updates to the model

The table below explains the main updates to the model since it was previously published in 2015.

Page number	Note number	Description of change
General	–	Accounting policies that relate specifically to a note have been relocated from the statement of accounting policies to the note to which they relate. Accounting policies within the notes are shaded blue to differentiate the policy from other information within the note. Accounting policies that do not relate specifically to a note (for example, foreign currency transactions) remain in the statement of accounting policies (Note 1). Minor changes have been made to policies to improve their readability.
General	–	"Critical accounting estimates and assumptions" and "Critical judgements in applying accounting policies" have been relocated from the statement of accounting policies to the note to which they relate. These disclosures have been shaded red and are clearly labelled to differentiate the disclosures from the accounting policies and other information within the note. Some of these disclosures have also been enhanced to provide more useful information on those areas of the financial statements that require judgement by preparers.
General	–	The previous model included disclosures required by PBE FRS 46: *First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRS*, including a separate note outlining adjustments arising on transition to the new PBE accounting standards. These disclosures have been removed as they are not required to be presented in subsequent financial statements.
15	–	Statement of cash flows – The reconciliation of surplus/(deficit) after tax to net cash flow from operating activities is now located directly after the statement of cash flows. It was previously disclosed as a separate note.
17	Note 1	Statement of accounting policies – "Standards issued and not yet effective and not early adopted" and "Standards issued and not yet effective that have been early adopted" have been updated for relevant standards and amendments up to May 2017.
24	Note 4	Personnel costs – The disclosures required by Clause 32, 32A and 33 in Schedule 10 of the Local Government Act 2002 relating to the remuneration of the Chief Executive, elected representatives and Council employees have been relocated from a separate note to the personnel costs note.
23, 27	Note 3 Note 6	Operating leases – We have chosen to locate future minimum lease payments for non-cancellable operating leases as a lessor in Note 3 Revenue, and as lessee in Note 6 Other Expenses. These were previously included in a separate commitments note.
36	Note 13	Other financial assets – As an example of good practice, the shares in subsidiaries disclosure has been improved. We have included a description of the principal activities of each subsidiary, and broken down the value of investment in each subsidiary.
40, 47	Note 16	Property, plant, and equipment – The note has been amended as follows: • Estimating the fair value of land, buildings, and infrastructure – We have enhanced this disclosure as it is a key source of estimation uncertainty. This includes quantifying certain valuation assumptions to provide more useful information to the reader. In addition, a table comparing the carrying value of buildings revalued using depreciated replacement cost and market-based evidence has been included. • Early adoption of amendments to PBE IPSAS 32 *Service Concession Arrangements: Grantor*. The previously presented "service concession asset – sewerage facility" asset class has been reclassified into the "sewerage system" asset class. • Capital commitments – Capital commitments for the acquisition of property, plant, and equipment is now located in this note. It was previously included in a separate commitments note.

Page number	Note number	Description of change
64	Note 27	Equity – The capital management disclosure is now located in this note. It was previously in a separate note.
78	Appendix	The previous model included good practice disclosures for local authorities that early adopted the revised financial reporting provisions of the Local Government (Financial Reporting and Prudence) Regulations 2014. These disclosures have been removed as they are no longer relevant.

Content required by generally accepted accounting practice

Included in the model are:

- a statement of compliance;
- a statement of comprehensive revenue and expense;
- a statement of financial position;
- a statement of changes in equity;
- a statement of cash flows; and
- notes to the financial statements, which include a statement of accounting policies and other explanatory information.

Not all of the accounting policies and notes will be applicable to each local authority. Although it is not practical for this model to cover all of the possible financial reporting issues that could arise in a local authority, we have included a wide range of accounting policies and notes, including all those that are commonly used in the local authority sector.

The model illustrates a possible financial statement format for a local authority. For example, the statement of comprehensive revenue and expense has been prepared by classifying expenses based on the nature of the expenditure. Alternatively, expenses could be classified based on their function. This is just one example where there may be more than one way of disclosing the information required.

While the model provides guidance on disclosure matters, it does not deal with the underlying accounting treatment. Local authorities will need to make choices about the accounting policies and presentation options appropriate for their circumstances.

The model does not address all the possible recognition, measurement, presentation, and disclosure requirements of the PBE accounting standards. Local authorities should not use the model as a substitute for referring to individual accounting standards applicable to their specific circumstances.

We have included references to specific standards, legislation, and regulations in the left margin of the model and a subject index on page 81 for easy searching.

Standards not covered by the model

The model does not consider the recognition, measurement, or disclosure requirements of the following standards:

- PBE IPSAS 10 *Financial Reporting in Hyperinflationary Economies*;
- PBE IPSAS 22 *Disclosure of Information About the General Government Sector*;
- PBE IPSAS 28 *Financial Instruments: Presentation;*
- PBE IAS 34 *Interim Financial Reporting*;
- PBE IFRS 3 *Business Combinations;*
- PBE FRS 42 *Prospective Financial Statements;*
- PBE FRS 43 *Summary Financial Statements*; and
- PBE FRS 45 *Service Concession Arrangements: Operator*.

Standards and amendments issued after May 2017 are not included in the model financial statements.

Content required by legislation

Part 3 of Schedule 10 of the Local Government Act 2002 (LGA) and the Local Government (Financial Reporting and Prudence) Regulations 2014 (LG(FRP)R) require specific disclosures to be included in the annual report. These model financial statements do not cover the full annual report and therefore do not cover all of these disclosures.

The status of the model in respect of each of these disclosures is as follows:

LGA Schedule 10 requirement	**Comment**
Clause 23 – Groups of activities	Not included in these model financial statements.
Clause 24 – Capital expenditure for groups of activities	Not included in these model financial statements.
Clause 25 – Statement of service provision	Not included in these model financial statements.
Clause 26 – Funding impact statement for groups of activities	Included in the Appendix to these model financial statements for one activity (water).
Clause 27 – Internal borrowing	Not included in these model financial statements as we prefer to cross-reference to this information in the group of activities.
Clause 28 – Council-controlled organisations	Not included in these model financial statements.
Clause 29 – Financial statements	Included in these model financial statements.
Clause 30 – Funding impact statement	Included in the Appendix to these model financial statements.
Clause 30A – Rating base information	Included in the Appendix to these model financial statements.
Clause 31 – Reserve Funds	Included in these model financial statements.
Clause 31A – Insurance of assets	Included in the Appendix to these model financial statements.
Clause 32 – Remuneration issues	Included in these model financial statements.
Clause 32A – Employee staffing levels and remuneration	Included in these model financial statements.
Clause 33 – Severance payments	Included in these model financial statements.
Clause 34 – Statement of compliance	Included in these model financial statements.
Clause 34A – Additional information to be included in annual report of unitary authority with local boards	Not included in these model financial statements.
Clause 35 – General (Māori contribution)	Not included in these model financial statements.
LG(FRP)R requirement	**Comment**
Part 1 – Financial Reporting:	
• (5) Information to be disclosed in financial statements.	Included in these model financial statements. This is required to be disclosed in the financial statements.
• (6) Information about core assets to be disclosed in financial statements in annual report.	Included in these model financial statements. This is required to be disclosed in the financial statements.
• (7) and (8) Form of funding impact statement and directions for preparation of funding impact statements.	Included in the Appendix to these model financial statements.
Part 2 – Financial prudence	Not included in these model financial statements.

Abbreviations used in the model

ACC	Accident Compensation Corporation
CCO	Council-controlled organisation
FBT	Fringe Benefit Tax
GAAP	Generally accepted accounting practice
GST	Goods and Services Tax
IRD	Inland Revenue Department
LGA	Local Government Act 2002
LGFA	Local Government Funding Agency
LG(FRP)R	Local Government (Financial Reporting and Prudence) Regulations 2014
PBE	Public Benefit Entity
RDR	Reduced Disclosure Regime

LGA Sch 10.34

STATEMENT OF COMPLIANCE[1]

The Council of Te Motu District Council hereby confirms that all statutory requirements in relation to the annual report[2], as outlined in the Local Government Act 2002, have been complied with.

[Signature]	[Signature]
Mayor	**Chief Executive**
31 October 2017	31 October 2017

[1] Schedule 10, clause 34(2) of the LGA requires the statement of compliance to be signed by the mayor or chairperson of the local authority and the chief executive of the local authority.
[2] The financial statements are only part of what is required to be included in the local authority's annual report.
[3] Alternatively, a statement displaying components of the surplus/deficit (a statement of financial performance) directly followed by a second statement beginning with surplus/deficit and displaying components of other comprehensive revenue and expense (a statement of other comprehensive revenue and expense) can be presented. Refer to PBE IPSAS 1.22.1.
[4] Where there are discontinued operations, PBE IFRS 5.33(a) requires separate disclosure of the total post-tax gain or loss from discontinued operations and the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation.
[5] The statement of comprehensive revenue and expense has been prepared using the nature of expense classification. Alternatively, a local authority can choose to present expenses based on the function of expense. PBE IPSAS 1.115 requires Tier 1 entities that classify expenses by function to disclose additional information on the nature of expenses, including depreciation and amortisation expense, and employee benefits expense.
[6] Where an entity makes its approved budget publicly available, PBE IPSAS 1.21(e) requires a comparison of budget and actual amounts either as a separate additional financial statement or as a budget column in the financial statements.
[7] PBE IPSAS 1.53 requires comparative information to be disclosed in respect of the previous year for all amounts reported in the financial statements. Comparative information shall also be included for narrative information when it is relevant to an understanding of the current year's financial statements.
[8] PBE IPSAS 23.106(a) requires, either in the statement of comprehensive revenue and expense or the notes, that entities disclose the amount of revenue from non-exchange transactions by major classes, showing separately: (i) taxes, showing separately major classes of taxes; and (ii) transfers, showing separately major classes of transfer revenue. As the separate labelling of revenue as an exchange or non-exchange in most cases would not be considered material, we have decided to not label revenue as exchange or non-exchange in the model financial statements. We have, however, separately disclosed the major classes of revenue streams in Note 3.
[9] For-profit entities are required to group items presented in other comprehensive revenue and expense on the basis of whether they are potentially reclassifiable to surplus or deficit in the future (reclassification adjustments). Although PBEs are not required to make this disclosure, we consider the disclosure to be good practice.
[10] PBE IPSAS 1.103.2 requires Tier 1 entities to disclose the amount of income tax relating to each component of other comprehensive revenue and expense either in the statement of comprehensive revenue and expense or in the notes.
[11] PBE IPSAS 1.148.1 requires an entity that has published general purpose prospective financial information for the period of the financial statements to present a comparison of the prospective financial information with the actual financial results being reported. Explanations for major variances shall be given.

PBE IPSAS 1.21(b)

TE MOTU DISTRICT COUNCIL
STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE
FOR THE YEAR ENDED 30 JUNE 2017[3,4,5]

PBE IPSAS 1.128

Reference		Notes	Council Actual 2017 $000	Council Budget[6] 2017 $000	Council Actual[7] 2016 $000	Group Actual 2017 $000	Group Actual 2016 $000
	Revenue[8]						
LG(FRP)R 5(2)(a)	Rates	3	17,768	17,956	15,265	17,760	15,258
LG(FRP)R 5(2)(c)	Subsidies and grants	3	2,316	1,666	1,524	2,316	1,524
LG(FRP)R 5(2)(b)	Development and financial contributions	3	571	560	111	571	20
PBE IPSAS 1.98.3	Fees and charges	3	4,478	4,035	2,963	5,679	3,900
PBE IPSAS 9.39(b)(iii)	Interest revenue	3	753	700	541	643	431
PBE IPSAS 1.98.3	Other revenue	3	5,550	4,089	4,622	5,311	4,439
PBE IPSAS 1.99.1(a)	*Total revenue*		31,436	29,006	25,026	32,280	25,572
PBE IPSAS 1.109	**Expenses**						
	Personnel costs	4	4,598	4,432	4,321	4,898	4,628
	Depreciation and amortisation expense	16–18	4,334	4,102	3,095	4,742	3,254
PBE IPSAS 1.99.1(b)	Finance costs	5	2,317	2,456	2,276	2,450	2,390
	Other expenses	6	16,116	14,949	17,948	16,236	18,147
PBE IPSAS 1.98.3	*Total expenses*		27,365	25,939	27,640	28,326	28,419
PBE IPSAS 1.99.1(c)	Share of associate's surplus/(deficit)	14	0	0	0	12	10
PBE IPSAS 1.99.1(f)	Surplus/(deficit) before tax		4,071	3,067	(2,614)	3,966	(2,837)
PBE IPSAS 1.99.1(d)	Income tax expense	7	0	0	0	72	62
PBE IPSAS 1.99.1(f)	**Surplus/(deficit) after tax**		**4,071**	**3,067**	**(2,614)**	**3,894**	**(2,899)**
PBE IPSAS 1.98.2(a)	*Surplus/(deficit) attributable to:*						
	Te Motu District Council		4,071	3,067	(2,614)	3,853	(2,958)
	Non-controlling interest		0	0	0	41	59
PBE IPSAS 1.103.1	**Other comprehensive revenue and expense**						
Good practice[9]	*Items that could be reclassified to surplus/ (deficit)*						
PBE IPSAS 1.103.1	Financial assets at fair value through other comprehensive revenue and expense	27	(143)	238	129	(143)	129
PBE IPSAS 1.103.1	Cash flow hedges	27	120	0	162	162	162
PBE IPSAS 1.103.2	Tax on cash flow hedges[10]	27	0	0	0	(10)	0
Good practice	*Items that will not be reclassified to surplus/(deficit)*						
PBE IPSAS 1.103.1	Property, plant, and equipment revaluations	27	2,541	0	0	2,541	0
PBE IPSAS 1.98.1(b)	Total other comprehensive revenue and expense		2,518	238	291	2,550	291
PBE IPSAS 1.98.1(c)	**Total comprehensive revenue and expense**		**6,589**	**3,305**	**(2,323)**	**6,444**	**(2,608)**
PBE IPSAS 1.98.2(b)	*Total comprehensive revenue and expense attributable to:*						
	Te Motu District Council		6,589	3,305	(2,323)	6,403	(2,667)
	Non-controlling interest		0	0	0	41	59

PBE IPSAS 1.148.1 Explanations of major variances against budget are provided in Note 31.[11]

The accompanying notes form part of these financial statements.

Footnotes 3 to 11 are presented on the previous page.

PBE IPSAS 1.21(a)

TE MOTU DISTRICT COUNCIL
STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017[12]

PBE IPSAS 1.90, 93,128

Reference		Notes	Council Actual 2017 $000	Council Budget 2017 $000	Council Actual 2016 $000	Group Actual 2017 $000	Group Actual 2016 $000
	Assets						
PBE IPSAS 1.70,76	**Current assets**						
PBE IPSAS 1.88(i)	Cash and cash equivalents	8	957	2,574	1,048	4,376	4,115
PBE IPSAS 1.88(g),(h)	Receivables	9	4,557	3,361	2,314	4,337	2,447
PBE IPSAS 1.89	Prepayments		21	0	18	20	18
PBE IPSAS 1.88(f)	Inventory	10	1,142	403	335	1,195	447
PBE IPSAS 1.88.1(a)	Non-current assets held for sale	11	1,700	0	0	1,700	0
PBE IPSAS 1.88(d)	Derivative financial instruments	12	98	0	74	130	74
PBE IPSAS 1.88(d)	Other financial assets	13	5,197	4,420	4,447	5,197	4,447
PBE IPSAS 1.89	*Total current assets*		13,672	10,758	8,236	16,955	11,548
PBE IPSAS 1.70,76	**Non-current assets**						
PBE IPSAS 1.88(d)	Derivative financial instruments	12	408	0	162	408	162
PBE IPSAS 1.88(d)	Other financial assets:						
LG(FRP)R 5(3)	– Investment in CCOs and other similar entities[13]		4,242	4,242	4,212	1,242	1,212
	– Investment in other entities		2,930	2,883	2,448	2,930	2,448
PBE IPSAS 1.88(d)	Total other financial assets	13	7,172	7,125	6,660	4,172	3,660
PBE IPSAS 1.88(e)	Investment in associate	14	200	200	200	252	240
PBE IPSAS 1.88(a)	Property, plant, and equipment	16	219,452	217,937	215,036	223,852	219,247
PBE IPSAS 1.88(c)	Intangible assets	17	280	188	155	531	406
PBE IPSAS 1.89	Forestry assets	19	7,588	7,548	7,343	7,865	7,620
PBE IPSAS 1.88(b)	Investment property	20	8,092	7,421	8,040	8,092	8,040
PBE IPSAS 1.89	*Total non-current assets*		243,192	240,419	237,596	245,172	239,375
PBE IPSAS 1.89	**Total assets**		**256,864**	**251,177**	**245,832**	**262,127**	**250,923**
	Liabilities						
PBE IPSAS 1.70,80	**Current liabilities**						
PBE IPSAS 1.88(k),(j)	Payables and deferred revenue	21	3,195	3,480	3,860	4,669	4,989
PBE IPSAS 1.88(m)	Derivative financial instruments	12	262	0	25	262	25
PBE IPSAS 1.88(m)	Borrowings and other financial liabilities	22	8,889	6,061	3,220	9,889	3,220
PBE IPSAS 1.89	Employee entitlements	23	589	570	452	591	456
PBE IPSAS 1.88(l)	Provisions	24	472	26	462	472	462
PBE IPSAS 1.89	*Total current liabilities*		13,407	10,137	8,019	15,883	9,152

PBE IPSAS 1.148.1 Explanations of major variances against budget are provided in Note 31.

The accompanying notes form part of these financial statements.

[12] PBE IPSAS 1.88 requires in the statement of financial position that separate line items be presented for recoverables from non-exchange transactions, receivables from exchange transactions, taxes and transfers payable, and payables under exchange transactions. We consider that it will be rare that this is a material disclosure. Therefore, we have chosen to focus on providing a meaningful breakdown of receivables and payables in the notes to the financial statements. The illustrative financial statements in PBE IPSAS 1 do not separately disclose receivables and payables into exchange or non-exchange headings.

[13] Section 5(3) of the Local Government (Financial Reporting and Prudence) Regulations 2014 requires a local authority's statement of financial position to specify the sum of the authority's investments in CCOs and entities listed in section 6(4) of the LGA. If a local authority is unable to present a single CCO investment sum in the statement of financial position that also complies with PBE IPSAS 1 *Presentation of Financial Statements* (for example, because a local authority has an investment in a CCO that is an associate or jointly controlled entity that must be presented separately from other local authority investments), we recommend disclosing the total CCO investment amount directly below the statement of financial position or in the notes to the financial statements.

PBE IPSAS 1.21(a)

TE MOTU DISTRICT COUNCIL
STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017 (CONTINUED)

		Notes	Council			Group	
PBE IPSAS 1.90, 93,128			**Actual 2017 $000**	**Budget 2017 $000**	**Actual 2016 $000**	**Actual 2017 $000**	**Actual 2016 $000**
PBE IPSAS 1.70,80	**Non-current liabilities**						
PBE IPSAS 1.88(k),(j)	Payables and deferred revenue	21	607	607	657	607	657
PBE IPSAS 1.88(m)	Derivative financial instruments	12	42	0	49	42	49
PBE IPSAS 1.88(m)	Borrowings and other financial liabilities	22	24,462	24,649	25,482	26,446	28,466
PBE IPSAS 1.89	Employee entitlements	23	293	280	243	309	259
PBE IPSAS 1.88(l)	Provisions	24	2,496	3,183	2,414	2,496	2,414
PBE IPSAS 1.89	Deferred tax liability	7	0	0	0	120	130
PBE IPSAS 1.89	*Total non-current liabilities*		27,900	28,719	28,845	30,020	31,975
PBE IPSAS 1.89	**Total liabilities**		**41,307**	**38,856**	**36,864**	**45,903**	**41,127**
PBE IPSAS 1.89	**Net assets (assets minus liabilities)**		**215,557**	**212,321**	**208,968**	**216,224**	**209,796**
PBE IPSAS 1.95	**Equity**						
PBE IPSAS 1.95(a)	Accumulated funds	27	159,273	157,941	154,344	159,038	154,327
PBE IPSAS 1.95(c)	Reserves	27	56,284	54,380	54,624	57,086	55,394
PBE IPSAS 1.88(o)	*Total equity attributable to the Council*		215,557	212,321	208,968	216,124	209,721
PBE IPSAS 1.88(n)	Non-controlling interest		0	0	0	100	75
PBE IPSAS 1.89	**Total equity**		**215,557**	**212,321**	**208,968**	**216,244**	**209,796**

PBE IPSAS 1.148.1 Explanations of major variances against budget are provided in Note 31.

The accompanying notes form part of these financial statements.

PBE IPSAS 1.21(c)

TE MOTU DISTRICT COUNCIL
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2017

PBE IPSAS 1.128

		Note	Council			Group	
			Actual 2017 $000	**Budget 2017 $000**	**Actual 2016 $000**	**Actual 2017 $000**	**Actual 2016 $000**
	Balance at 1 July		208,968	209,016	211,291	209,796	212,420
PBE IPSAS 1.118(a)	Total comprehensive revenue and expense for the year		6,589	3,305	(2,323)	6,444	(2,608)
	Dividends to non-controlling interest		0	0	0	(16)	(16)
	Balance at 30 June	27	**215,557**	**212,321**	**208,968**	**216,224**	**209,796**
PBE IPSAS 1.118(a)	*Total comprehensive revenue and expense attributable to:*						
	Te Motu District Council		6,589	3,305	(2,323)	6,403	(2,667)
	Non-controlling interest		0	0	0	41	59
	Total comprehensive revenue and expense		6,589	3,305	(2,323)	6,444	(2,608)

PBE IPSAS 1.148.1 Explanations of major variances against budget are provided in Note 31.

The accompanying notes form part of these financial statements.

PBE IPSAS 1.21(d)

TE MOTU DISTRICT COUNCIL
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2017

Reference		Note	Council			Group	
PBE IPSAS 1.128			**Actual 2017 $000**	**Budget 2017 $000**	**Actual 2016 $000**	**Actual 2017 $000**	**Actual 2016 $000**
PBE IPSAS 2.18,22,27	**Cash flows from operating activities**						
	Receipts from rates revenue		17,624	17,985	15,338	17,616	16,333
	Subsidies and grants received		2,016	1,666	1,924	2,016	1,924
	Development and financial contributions received		571	560	111	571	20
	Fees and charges received		4,078	3,958	3,374	5,578	4,274
PBE IPSAS 2.40	Interest received		753	541	541	643	541
PBE IPSAS 2.40	Dividends received		180	160	160	116	96
	Receipts from other revenue		890	2,115	2,744	1,559	1,623
	Payments to suppliers[14]		(16,717)	(18,369)	(19,841)	(17,366)	(20,119)
	Payments to employees		(4,452)	(4,013)	(3,000)	(4,627)	(3,106)
PBE IPSAS 2.40	Interest paid		(2,548)	(2,389)	(2,399)	(3,042)	(2,389)
PBE IPSAS 2.44	Income tax paid		0	0	0	(90)	(71)
	GST (net)		(95)	(61)	50	(78)	65
	Net cash flow from operating activities		2,300	2,153	(998)	2,896	(809)
PBE IPSAS 2.18,25	**Cash flows from investing activities**						
	Receipts from sale of property, plant, and equipment		1,479	571	2,053	1,479	2,053
	Receipts from sale of intangible assets		0	0	120	0	120
	Receipts from sale of investments		11,645	10,443	9,647	11,721	9,697
	Purchase of property, plant, and equipment[15]		(6,025)	(6,610)	(2,368)	(6,215)	(2,531)
	Purchase of intangible assets		(256)	(232)	0	(256)	0
	Purchase of investment property		(1,026)	0	0	(1,026)	0
	Acquisition of investments		(12,857)	(9,683)	(9,797)	(12,987)	(9,847)
	Net cash flow from investing activities		(7,040)	(5,511)	(345)	(7,284)	(508)
PBE IPSAS 2.18,26	**Cash flows from financing activities**						
	Proceeds from borrowings		5,078	2,950	2,950	5,078	2,950
	Repayment of borrowings		(2,895)	(717)	(1,922)	(2,879)	(1,906)
	Payments of principal for finance leases		(28)	(28)	(28)	(28)	(28)
PBE IPSAS 2.40	Dividends paid		0	0	0	(16)	(16)
	Net cash flow from financing activities		2,155	2,205	1,000	2,155	1,000
	Net (decrease)/increase in cash, cash equivalents, and bank overdrafts		(2,585)	(1,153)	(343)	(2,233)	(317)
	Cash, cash equivalents, and bank overdrafts at the beginning of the year		751	478	1,094	3,818	4,135
	Cash, cash equivalents, and bank overdrafts at the end of the year	8	**(1,834)**	**(675)**	**751**	**1,585**	**3,818**

PBE IPSAS 2.54 Equipment totalling $nil (2016: $81,000) was acquired by means of finance leases during the year.

PBE IPSAS 1.148.1 Explanations of major variances against budget are provided in Note 31.

The accompanying notes form part of these financial statements.

[14] We consider it good practice to separately disclose cash outflows from payments to employees and cash outflows from payments to suppliers, although the amounts could be presented in aggregate.

[15] We consider it good practice to separately disclose cash flows arising from the acquisition and disposal of property, plant, and equipment and intangible assets. Presenting these cash flows separately provides readers of the financial statements with a clearer linkage between the property, plant, and equipment and intangible asset movement schedules and cash flows arising from acquisition and disposals.

TE MOTU DISTRICT COUNCIL
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

PBE IPSAS 1.93

Reconciliation of surplus/(deficit) after tax to net cash flow from operating activities	Council		Group	
	2017 $000	2016 $000	2017 $000	2016 $000
Surplus/(deficit) after tax	4,071	(2,614)	3,894	(2,899)
Add/(less) non-cash items				
Share of associate's surplus	0	0	(12)	(10)
Depreciation and amortisation expense	4,334	3,095	4,742	3,254
Property, plant, and equipment impairment	98	0	98	0
Vested assets revenue	(3,655)	(2,075)	(3,655)	(2,075)
(Gains)/losses in fair value of forestry assets	(245)	(216)	(245)	(216)
(Gains)/losses in fair value of investment property	(71)	(314)	(71)	(314)
(Gains)/losses on derivative financial instruments	80	0	80	0
Net foreign exchange (gains)/losses	8	0	8	0
Total non-cash items	549	490	945	639
Add/(less) items classified as investing or financing activities				
(Gains)/losses on disposal of property, plant, and equipment	(5)	(319)	(5)	(319)
(Gains)/losses on disposal of investments classified as fair value through other comprehensive revenue and expense	(40)	0	(40)	0
Total items classified as investing or financing activities	(45)	(319)	(45)	(319)
Add/(less) movements in working capital items				
(Increase)/decrease in receivables[16]	(2,243)	(22)	(1,890)	(69)
(Increase)/decrease in prepayments	(3)	0	(2)	0
(Increase)/decrease in inventory	(807)	93	(748)	83
Increase/(decrease) in payables[17]	471	830	441	1,205
Increase/(decrease) in income tax payables	0	0	(4)	3
Increase/(decrease) in provisions	120	366	120	366
Increase/(decrease) in employee entitlements	187	178	185	182
Net movement in working capital items	(2,275)	1,445	(1,898)	1,770
Net cash inflow/(outflow) from operating activities	**2,300**	**(998)**	**2,896**	**(809)**

The accompanying notes form part of these financial statements.

[16] Any receivables for the sale of property, plant, and equipment will need to be excluded when calculating this movement.
[17] Any payables for capital expenditure will need to be excluded when calculating this movement.

PBE IPSAS 1.21(f),127, 128

TE MOTU DISTRICT COUNCIL
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

Notes index

1 Statement of accounting policies

REPORTING ENTITY

PBE IPSAS 1.150(a),(c)

Te Motu 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[18].

PBE IPSAS 6.62(a),64
PBE IPSAS 20.25

The group consists of the ultimate parent, Te Motu District Council, and its subsidiaries, Te Motu Holdings Limited (100% owned), Te Motu Civic Construction Limited (80% owned), and Te Motu Properties Limited (100% owned). The Council's 39% equity share of its associate Te Motu Quarries Limited is equity accounted into the group financial statements.

PBE IPSAS 1.150(b)

The Council and group provides local infrastructure, local public services, and performs regulatory functions to the community. The Council does not operate to make a financial return.

PBE IPSAS 1.28.2(c)

The Council has designated itself and the group as public benefit entities (PBEs) for the purposes of complying with generally accepted accounting practice.

PBE IPSAS 1.63(a)-(c)
PBE IPSAS 14.26

The financial statements of the Council and group are for the year ended 30 June 2017. The financial statements were authorised for issue by Council on 31 October 2017.

PBE IPSAS 1.127(a)

BASIS OF PREPARATION

Good practice
PBE IPSAS 1 Appendix B

The financial statements have been prepared on the going concern basis[19], and the accounting policies have been applied consistently throughout the year.

Statement of compliance

PBE IPSAS 1.28.2(a),(b)

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

PBE IPSAS 1.28,28.2(b), 28.4(a)

The financial statements have been prepared in accordance with and comply with PBE Standards.

PBE IPSAS 1 RDR 28.1, RDR 28.3, 28.4(b)

[Councils that report in accordance with the Tier 2 PBE accounting requirements (RDR) shall state "The financial statements have been prepared in accordance with and comply with PBE Standards RDR" and shall also disclose the criteria that establish them as eligible to report in accordance with PBE Standards RDR.]

Presentation currency and rounding

PBE IPSAS 1.63(d),(e)

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars ($000), other than the remuneration and the severance payment disclosures in Note 4, and the related party transaction disclosures in Note 28. The remuneration, severance payment, and related party transaction disclosures are rounded to the nearest dollar.

Standards issued and not yet effective that have been early adopted

Standards and amendments issued but not yet effective that have been early adopted are:

PBE IPSAS 3.33

2016 Omnibus Amendments – Service concession assets

In January 2017, the External Reporting Board (XRB) issued the *2016 Omnibus Amendments to PBE Standards*, which incorporates a range of amendments to the PBE Standards. A relevant amendment for the Council is to PBE IPSAS 32 *Service Concession Arrangements: Grantor*. This amendment requires that service concession assets be grouped with similar property, plant, and equipment assets for the purpose of subsequent measurement and disclosure under PBE IPSAS *17 Property, Plant and Equipment*.

PBE IPSAS 32.37.3

The Council has early adopted this amendment in preparing its 30 June 2017 financial statements. The previously presented "service concession asset – sewerage facility" asset class has been reclassified into the "sewerage system" asset class in Note 16. The comparative year disclosures are restated for this change.

PBE IPSAS 3.33

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.

PBE IPSAS 21.83.5

The Council has early adopted this amendment in preparing its 30 June 2017 financial statements. From the 30 June 2017 year onwards, 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.

PBE IPSAS 3.33,34

Other changes in accounting policies

There have been no other changes in accounting policies.

[18] PBE IPSAS 1.150 requires the following information to be included in the annual report, if not disclosed elsewhere in information published with the financial statements: domicile and legal form of the entity and the jurisdiction in which it operates, description of the entity's operations and principal activities, and reference to the relevant legislation governing the entity's operations. These disclosures are not required by the RDR.

[19] The going concern concept is assumed when preparing financial statements. If those responsible for preparing the financial statements are aware of conditions or events that cast doubt over the ability of the entity to continue as a going concern, those facts shall be disclosed. If the financial statements are not prepared on a going concern basis, that fact shall also be disclosed, together with the basis on which the financial statements are prepared and the reason why the entity is not regarded as a going concern (PBE IPSAS 1.38).

1 Statement of accounting policies (continued)

Standards issued and not yet effective, and not early adopted

PBE IPSAS 3.35,36

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

PBE IPSAS 1.132

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [20]

Significant accounting policies are included in the notes to which they relate.

Significant accounting policies that do not relate to a specific note are outlined below.

PBE IPSAS 1.132(c)

Basis of consolidation

PBE IPSAS 6.43,45

The consolidated financial statements are prepared by adding together like items of assets, liabilities, equity, revenue, expenses, and cash flows of entities in the group on a line-by-line basis. All intragroup balances, transactions, revenues, and expenses are eliminated on consolidation.

PBE IPSAS 1.132(c)

Foreign currency transactions

PBE IPSAS 4.24,32

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.

PBE IPSAS 1.132(c)

Goods and services tax

Items in the financial statements are stated exclusive of GST, except for receivables and payables, which are presented 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.

Good practice

Budget figures

The budget figures are those approved by the Council in its 2016/17 annual plan. The budget figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted by the Council in preparing these financial statements.

PBE IPSAS 1.140

Critical accounting estimates and assumptions [21]

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.

[20] PBE IPSAS 1.132(c) requires disclosure of accounting policies that are relevant to an understanding of the financial statements. The materiality of transactions should also be considered in deciding what accounting policies to disclose. In this model, we have chosen to disclose a comprehensive range of accounting policies. A local authority may not need to disclose all the accounting policies included in this model due to the transactions associated with a particular policy being immaterial.

[21] The examples provided are not intended to be exhaustive. Local authorities will need to consider their own circumstances to ensure that the disclosures for PBE IPSAS 1.140 and PBE IPSAS 1.137 are relevant and complete.

1 Statement of accounting policies (continued)

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:

- Estimating the fair value of land, buildings, and infrastructural assets – see Note 16.
- Estimating the retirement and long service leave obligations – see Note 23.
- Estimating the landfill aftercare provision – see Note 24.

PBE IPSAS 1.137

Critical judgements in applying accounting policies [21]

Management has exercised the following critical judgements in applying accounting policies:

- Suspensory loan from Housing New Zealand – see Note 3.
- Donated or vested land and buildings with use or return conditions – see Note 3.
- Classification of property – see Note 16.
- Classification of unoccupied land – see Note 20.

Good practice

2 Summary revenue and expenditure for group of activities

Accounting policy

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

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

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

There have been no changes to the cost allocation methodology during the year.

Breakdown of summary revenue and expenditure for group of activities

		Council	
	Actual 2017 $000	**Budget 2017 $000**	**Actual 2016 $000**
Revenue			
Activity 1 [22]	1,314	1,276	1,028
Activity 2	2,466	2,987	1,753
Activity 3	3,454	3,856	2,720
Activity 4	1,876	1,345	1,547
Activity 5	3,105	2,539	2,453
Activity 6	1,657	1,908	1,457
Activity 7	5,047	2,645	3,333
Total activity revenue	18,919	16,556	14,291
Less internal revenue	(268)	(250)	(199)
General rates [23]	12,785	12,700	10,934
Total revenue	**31,436**	**29,006**	**25,026**
Expenditure [24]			
Activity 1	1,902	2,012	3,105
Activity 2	5,193	5,120	4,532
Activity 3	4,290	4,351	4,695
Activity 4	3,856	3,156	3,536
Activity 5	4,557	3,855	4,430
Activity 6	1,492	1,645	1,327
Activity 7	6,343	6,050	6,214
Total activity expenditure	27,633	26,189	27,839
Less internal expenditure	(268)	(250)	(199)
Total expenditure	**27,365**	**25,939**	**27,640**

PBE IPSAS 1.150.4

[22] Actual activity names will need to be disclosed.
[23] Local authorities can elect to allocate general rates to activity revenue rather than presenting general rates as a single amount below activity revenue.
[24] PBE IPSAS 1 requires the cost of each output class to be disclosed when an entity prepares a statement of service performance (or equivalent information). We consider the presentation of a cost of service statement that includes the total cost for each significant activity of a Council is one way to meet this requirement.

2 Summary revenue and expenditure for group of activities (continued)

Each significant activity is stated gross of internal costs and revenues, and includes targeted rates attributable to activities (see Note 3). In order to fairly reflect the total external operations for the Council in the statement of comprehensive revenue and expense, these transactions are eliminated as shown above.

3 Revenue

PBE IPSAS 23.107(a),(b)

Accounting policy

PBE IPSAS 9.39(a)

Revenue is measured at fair value.

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

Rates revenue

The following policies for rates have been applied:

PBE IPSAS 23.107(b)

- 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 that the effect of payment of rates by instalments is not sufficient to require discounting of rates receivables and subsequent recognition of interest revenue.
- Rates arising from late payment penalties are recognised as revenue when rates become overdue.
- Revenue from water-by-meter rates is recognised on an accrual basis based on usage. Unbilled usage, as a result of unread meters at year-end, is accrued on an average usage basis.
- Rates remissions are recognised as a reduction of rates revenue when the Council has received an application that satisfies its rates remission policy.
- Rates collected on behalf of the Te Motu Regional Council (TMRC) are not recognised in the financial statements, as the Council is acting as an agent for the TMRC.

Development and financial contributions [25]

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

New Zealand Transport Agency roading subsidies

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

Other grants received

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

Building and resource consent revenue

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

Entrance fees

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

Landfill fees

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

Provision of commercially based services

Revenue derived through the provision of services to third parties in a commercial manner is recognised in proportion to the stage of completion at balance date. Generally, this is determined by the proportion of costs incurred to date bearing to the estimated total costs of providing the service.

Sales of goods

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

Infringement fees and fines

PBE IPSAS 23.107(b)

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

[25] In cases where contributions are collected in advance to fund a service that is not currently provided in an area, the contribution is initially recognised as revenue in advance. For example, where no water supply is available in an area and a new water supply scheme in planned that will be funded in part from the development contributions.

3 Revenue (continued)

Vested or donated physical assets

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

PBE IPSAS 23.107(b)

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 developments, 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 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.

Donated and bequeathed financial assets

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

Housing New Zealand suspensory loan

The Council considers that the suspensory loan from Housing New Zealand is, in substance, a grant with conditions, and so has recognised the funds received as a liability and releases the liability to revenue on a straight-line basis over the 20-year term of the agreement.

Interest and dividends

Interest revenue is recognised using the effective interest method.

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

PBE IPSAS 1.137

Critical judgements in applying accounting policies

Accounting for suspensory loan from Housing New Zealand

The Council's view is the suspensory loan from Housing New Zealand is in substance a grant with conditions attached and is therefore accounted for under PBE IPSAS 23 *Revenue from Non-Exchange Transactions*. The Council considers that there are two possible accounting treatments for the grant under PBE IPSAS 23, either recognising the grant as revenue when all conditions are satisfied in 2028, or recognising the grant evenly over the 20-year condition period. The Council has elected to recognise the grant evenly over the 20-year period as that better reflects the substance of the arrangement. Further information about the suspensory loan is included in Note 21.

Accounting for donated or vested land and buildings with use or return conditions

The Council has received land and buildings from non-exchange transactions that contain use or return conditions. If revenue is not recognised immediately for such assets when received, there is the possibility that a liability would be recognised in perpetuity and no revenue would ever be recognised for the asset received. The Council considers that an acceptable and more appropriate accounting treatment under PBE IPSAS 23 is to recognise revenue immediately for such transfers and a liability is not recognised until such time as it is expected that the condition will be breached.

(i) Breakdown of rates and further information

		Council		Group	
		2017 $000	**2016 $000**	**2017 $000**	**2016 $000**
	General rates	12,839	10,983	[26]12,833	10,978
	Targeted rates attributable to activities:				
LG(FRP)R 5(5)	– metered water supply	1,799	1,324	1,799	1,324
	– other water rates	551	450	551	450
	– sewerage	1,000	1,002	999	1,001
	– refuse and sanitation	1,436	1,248	1,435	1,247
	– marketing	129	245	129	245
	Rate penalties	68	62	68	62
	Rates remissions	(54)	(49)	(54)	(49)
	Total rates	**17,768**	**15,265**	**17,760**	**15,258**

[26] Rates paid or payable from subsidiaries shall be eliminated on consolidation into the group rates revenue.

3 Revenue (continued)

LGFA Guarantee and Indemnity Deed

The Council is required by the LGFA Guarantee and Indemnity Deed to disclose in its financial statements (or notes) its annual rates income. That Deed defines annual rates income as an amount equal to the total revenue from any funding mechanism authorised by the Local Government (Rating Act) 2002 together with any revenue received by the Council from other local authorities for services provided by that Council for which those other local authorities rate. The annual rates income of the Council for the year ended 30 June 2017 for the purposes of the LGFA Guarantee and Indemnity Deed disclosure is shown below:

	Council	
	2017 $000	**2016 $000**
Rates	17,768	15,265
Lump sum contributions (Note 3(v))	150	0
Total annual rates income	**17,918**	**15,265**

PBE IPSAS 1.127(c)

(ii) Breakdown of subsidies and grants

	Council		**Group**	
	2017 $000	**2016 $000**	**2017 $000**	**2016 $000**
New Zealand Transport Agency roading subsidies	1,954	1,374	1,954	1,374
Ministry of Health drinking water related subsidies	312	0	312	0
Housing New Zealand Suspensory loan (Note 21)	50	50	50	50
Other grants	0	100	0	100
Total subsidies and grants	**2,316**	**1,524**	**2,316**	**1,524**

PBE IPSAS 1.127(c)

(iii) Breakdown of fees and charges

		Council		**Group**	
		2017 $000	**2016 $000**	**2017 $000**	**2016 $000**
	Building and resource consent charges	2,445	1,228	2,445	1,228
	Landfill charges	887	549	887	549
	Swimming pool revenue	227	223	227	223
	Parking fees	57	61	57	61
PBE IPSAS 11.50(a)	Construction revenue	0	0	100	135
PBE IPSAS 9.39(b)(i)	Rendering of services	0	0	1,101	802
	Sale of goods	378	256	378	256
	Other fees and charges	484	646	484	646
	Total fees and charges	**4,478**	**2,963**	**5,679**	**3,900**

PBE IPSAS 1.127(c)

(iv) Breakdown of interest revenue

		Council		**Group**	
		2017 $000	**2016 $000**	**2017 $000**	**2016 $000**
	Interest revenue:				
	– term deposits	148	50	148	50
	– related party loans	110	110	0	0
	– community loans	45	45	45	45
	– listed bonds	450	336	450	336
PBE IPSAS 9.39(b)(iii) PBE IPSAS 30.24(b)	**Total interest revenue**	**753**	**541**	**643**	**431**

3 Revenue (continued)

PBE IPSAS 1.127(c)

(v) Breakdown of other revenue

Reference		Council 2017 $000	Council 2016 $000	Group 2017 $000	Group 2016 $000
PBE IPSAS 23.107(d)	Vested land and infrastructure from property development [27]	3,655	2,075	3,655	2,075
	Traffic and parking infringements	400	325	400	325
	Lump sum contributions	150	0	150	0
	Petrol tax	75	113	75	113
PBE IPSAS 23.107(d)	Bequests and other donations [27]	10	8	10	8
PBE IPSAS 16.86(f)(i)	Rental revenue from investment properties	492	476	492	476
PBE IPSAS 9.39(b)(v)	Dividend revenue	180	160	116	96
PBE IPSAS 17.89(d)	Insurance recoveries:				
	– plant and equipment	36	0	36	0
	– motor vehicles	12	0	12	0
PBE IPSAS 27.38	Forestry asset revaluation gains (Note 19)	245	216	245	216
	Investment property revaluation gains (Note 20)	71	314	71	314
PBE IPSAS 1.107(c)	Property, plant, and equipment gains on disposal	5	319	5	319
PBE IPSAS 30.24(a)(ii)	Gain on disposal of financial assets at fair value through other comprehensive revenue and expense (Note 27)	40	0	40	0
	Other	179	616	4	497
	Total other revenue	**5,550**	**4,622**	**5,311**	**4,439**

Operating leases as a lessor

PBE IPSAS 13.69(a),(c)

Investment property and property used for social housing are leased under operating leases. The majority of the investment property leases have a non-cancellable term of 36 months, with the exception of two leases that have a non-cancellable term of 72 months. Social housing leases are generally for terms of one year, with some leases for shorter durations. The future aggregate minimum lease payments to be collected under non-cancellable operating leases are as follows:

Reference		Council 2017 $000	Council 2016 $000	Group 2017 $000	Group 2016 $000
PBE IPSAS 13.69(a)(i)	Not later than one year	523	470	523	470
PBE IPSAS 13.69(a)(ii)	Later than one year and not later than five years	365	320	365	320
PBE IPSAS 13.69(a)(iii)	Later than five years	76	87	76	87
	Total non-cancellable operating leases	**964**	**877**	**964**	**877**

PBE IPSAS 13.69(b)

No contingent rents have been recognised during the year.

[27] PBE IPSAS 23.107(d) requires disclosure of the nature and type of major classes of bequests, gifts, and donations, showing separately major classes of goods in-kind received.

PBE IPSAS 1.127(c)

4 Personnel costs

PBE IPSAS 1.132(c)

Accounting policy

Superannuation schemes

PBE IPSAS 25.55

Defined contribution schemes

Employer contributions to KiwiSaver, the Government Superannuation Fund, and the State Sector Retirement Savings Scheme [28] are accounted for as defined contribution superannuation schemes and are expensed in the surplus or deficit as incurred.

PBE IPSAS 25.33(b)(i)

Defined benefit schemes

The Council makes employer contributions to the Defined Benefit Plan Contributors Scheme (the scheme), which is managed by the Board of Trustees of the National Provident Fund. The scheme is a multi-employer defined benefit scheme.

PBE IPSAS 25.33(b)(ii)

Insufficient information is available to use defined benefit plan accounting, as it is not possible to determine from the terms of the scheme the extent to which the scheme's surplus or deficit will affect future contributions by individual employers, as there is no prescribed basis for allocation. The scheme is therefore accounted for as a defined contribution scheme. Further information on this scheme is disclosed in Note 26.

Breakdown of personnel costs and further information

		Council		Group	
		2017 $000	**2016 $000**	**2017 $000**	**2016 $000**
	Salaries and wages	4,490	4,211	4,785	4,512
PBE IPSAS 25.57	Defined contribution plan employer contributions	98	94	104	102
	Increase/(decrease) in employee entitlements	10	16	9	14
	Total personnel costs	**4,598**	**4,321**	**4,898**	**4,628**

Chief Executive remuneration

LGA Sch 10.32

The total remuneration (including any non-financial benefits) paid or payable for the year to the Chief Executive was $197,521 (2016: $191,301)[29].

LGA Sch 10.32

Elected representatives' remuneration

Elected representatives received the following remuneration:

	Council		Group	
	2017 $	**2016 $**	**2017 $**	**2016 $**
Mayor [30]	70,145	69,435	*74,145	*73,435
Councillor	32,450	31,457	32,450	31,457
Councillor	19,450	19,450	19,450	19,450
Councillor	19,450	19,450	19,450	19,450
Councillor	19,450	19,450	19,450	19,450
Councillor	19,450	19,450	19,450	19,450
Councillor	19,450	19,450	19,450	19,450
Councillor	19,450	19,450	19,450	19,450
Total elected representatives' remuneration	**219,295**	**217,592**	**223,295**	**221,592**

* The Mayor is a Director of Te Motu Holdings Limited and Te Motu Properties Limited and also received Director fees of $4,000 (2016: $4,000).

[28] The schemes listed are not exhaustive. Local authorities may make contributions to other defined contribution schemes, including defined benefit schemes that are accounted for as defined contribution schemes.
[29] The Chief Executive's remuneration would include their salary, employer superannuation contributions, and non-financial benefits such as a vehicle, parking, and medical insurance.
[30] Actual Mayor and Councillor names will need to be disclosed.

4 Personnel costs (continued)

Council employee remuneration by band

		2017 Number	2016 Number
LGA Sch 10.32A(2),(3)	Total annual remuneration by band for employees as at 30 June:		
	< $60,000	18	19
	$60,000 – $79,999	13	12
	$80,000 – $99,999	6	6
	$100,000 – $199,999[31]	6	6
LGA Sch 10.32A (1)	**Total employees**	**43**	**43**

LGA Sch 10.32A (4) Total remuneration includes any non-financial benefits provided to employees.

LGA Sch 10.32A (2) At balance date, the Council employed 25 (2016: 26) full-time employees, with the balance of staff representing 9 (2016: 8) full-time equivalent employees. A full-time employee is determined on the basis of a 40-hour working week.

Severance payments

LGA Sch 10.33 For the year ended 30 June 2017, the Council made 3 (2016: 1) severance payments to employees totalling $45,000 (2016: $22,000).[32] The value of each of the severance payments was $22,000, $12,000, and $11,000.

5 Finance costs

PBE IPSAS 1.132(c) **Accounting policy**

PBE IPSAS 5.17,40(a) Borrowing costs are recognised as an expense in the financial year in which they are incurred.

Breakdown of finance costs

		Council		Group	
		2017 $000	2016 $000	2017 $000	2016 $000
	Interest expense:				
PBE IPSAS 30.24(b)	– interest on borrowings	2,378	2,000	2,378	2,000
	– interest on finance leases	10	9	10	9
PBE IPSAS 19.97(c)	– discount unwind on provisions (Note 24)	283	267	311	293
	Interest derivatives (presented net):				
PBE IPSAS 30.24(a)(i)	– held for trading interest rate swaps	(212)	0	(212)	0
PBE IPSAS 30.28(b)	– ineffectiveness on cash flow hedges	(20)	0	(20)	0
PBE IPSAS 30.27(d)	– transfer from equity for cash flow hedges	(122)	0	(182)	0
	Total finance costs	**2,317**	**2,276**	**2,450**	**2,390**

[31] This is an example of a combined band disclosure. Schedule 10, clause 32A of the LGA requires that, if the number of employees in any band is 5 or fewer, the number for that band must be combined with the next-highest band.

[32] The term severance payment includes non-monetary benefits but excludes salary, holiday pay, and superannuation contributions to which the employee was already entitled. The precise amount of each severance payment to each individual is required to be disclosed. Employees are not required to be named. However, clause 33(1)(a) of Schedule 10 of the LGA requires the severance payment made to a chief executive to be disclosed. For further guidance on the legal requirements to disclose severance payments, refer to Office of the Auditor-General (March 2012), "Severance payments: A guide for the public sector", Part 3.

PBE IPSAS 1.106

6 Other expenses

Accounting policy

PBE IPSAS 1.132(c)

Grant expenditure

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

PBE IPSAS 19 IG18.1

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.

PBE IPSAS 19 IG18.2

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.

Operating leases

PBE IPSAS 13.8,42,A5

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 a reduction of rental expense over the lease term.

Breakdown of other expenses and further information[33]

Reference		Council 2017 $000	Council 2016 $000	Group 2017 $000	Group 2016 $000
	Fees to auditors:				
PBE IPSAS 1.116.1(a)	– fees to Audit New Zealand for audit of financial statements	105	101	141	135
PBE IPSAS 1.116.1(b)	– fees to Audit New Zealand for other services[34]	12	5	12	5
PBE IPSAS 1.116.1(a)	– fees to Assurance CA firm for audit of the Council's subsidiaries' financial statements	0	0	8	7
	General grants	1,000	1,000	1,000	1,000
	Contractors	4,500	4,500	4,524	4,522
	Insurance premiums	500	500	551	540
	Consultants and legal fees	750	700	750	700
PBE IFRS 4 D 17.6.1	ACC Accredited Employers Programme (Note 24)	176	173	176	173
PBE IPSAS 12.47(d)	Inventory consumption	465	234	543	296
PBE IPSAS 30.24(e)	Impairment of receivables (Note 9)	284	258	284	258
PBE IPSAS 21.73(a)	Plant and equipment impairment (Note 16)	98	0	98	0
PBE IPSAS 31.125	Research and development expenditure	29	14	29	24
PBE IPSAS 13.44(c)	Operating lease expense	25	28	25	28
PBE IPSAS 4.61(a)	Net foreign exchange losses	8	0	8	0
PBE IPSAS 30.24(a)(i)	Net loss on foreign exchange derivatives	434	0	434	0
	Other operating expenses	7,730	10,435	7,653	10,459
	Total other expenses	**16,116**	**17,948**	**16,236**	**18,147**

PBE IPSAS 1.116.2

The fees paid to Audit New Zealand for other services in the year ending 30 June 2017 were for the audit of the Council's Amendment to the Long-Term Plan 2015-25 (2016: a contracting probity review performed over the library refurbishment project tender).

[33] PBE IPSAS 1.106 requires separate disclosure of the nature and amount of material items of expense or revenue.
[34] PBE IPSAS 1.116.1-116.2 requires fees to each auditor or reviewer for other services performed during the reporting period to be separately disclosed from fees related to the audit or review of the financial statements. An entity shall describe the nature of the other services provided.

6 Other expenses (continued)

Operating leases as lessee

PBE IPSAS 13.44(a) The Council and group lease buildings, and plant and equipment in the normal course of its business. The majority of these leases have a non-cancellable term of 36 months. The future aggregate minimum lease payments payable under non-cancellable operating leases are as follows:

		Council		Group	
		2017 $000	2016 $000	2017 $000	2016 $000
PBE IPSAS 13.44(a)(i)	Not later than one year	21	21	40	40
PBE IPSAS 13.44(a)(ii)	Later than one year and not later than five years	84	84	360	700
PBE IPSAS 13.44(a)(iii)	Later than five years	21	42	40	80
	Total non-cancellable operating leases	**126**	**147**	**440**	**820**

PBE IPSAS 13.44(b) The total minimum future sublease payments expected to be received under non-cancellable subleases at balance date is $nil (2016: $nil).

PBE IPSAS 13.44(d)(ii) Leases can be renewed at the Council and group's option, with rents set by reference to current market rates for items of equivalent age and condition. The Council and group has the option to purchase the asset at the end of the lease term.

PBE IPSAS 13.44 (d)(iii) There are no restrictions placed on the Council and group by any of the leasing arrangements.

7 Tax[35, 36, 37]

PBE IPSAS 1.132(c) **Accounting policy**

PBE IAS 12.6 Income tax expense includes components relating to current tax and deferred tax.

PBE IAS 12.5 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.

PBE IAS 12.5 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.

PBE IAS 12.15,24(a) Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised.

PBE IAS 12.15,24(a) 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 not taxable profit.

PBE IAS 12.46,47 Current tax and deferred tax are measured using tax rates (and tax laws) that have been enacted or substantively enacted at balance date.

PBE IAS 12.58(a),61A 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.

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

[36] Other tax-related disclosures that are required, if relevant, include:

- the amount of deductible temporary differences, and unused tax losses for which no deferred tax asset is recognised in the statement of financial position (PBE IAS 12.81(e)); and
- the amount of imputation credits available for use in subsequent reporting periods (PBE IAS 12.81.3). As local authorities are not permitted to maintain an imputation credit account, we do not consider that any disclosure of imputation credits is required.

[37] The transfer of tax losses by offset or subvention payment would typically be disclosed in the tax note or related party transactions note.

7 Tax (continued)

Breakdown of taxes and further information

		Council		Group	
		2017 $000	**2016 $000**	**2017 $000**	**2016 $000**
PBE IAS 12.79	**Components of tax expense**				
	Current tax	0	0	84	57
	Adjustments to current tax in prior years	0	0	8	0
	Deferred tax	0	0	(20)	5
	Tax expense	0	0	72	62
PBE IAS 12.81(c)	**Relationship between tax expense and accounting surplus**				
	Surplus/(deficit) before tax	4,071	(2,614)	3,966	(2,837)
	Tax at 28%	1,140	(732)	1,110	(794)
	Plus/(less) tax effect of:				
	Non-deductible expenditure	0	732	220	856
	Non-taxable revenue	(1,140)	0	(1,277)	0
	Deferred tax adjustment	0	0	11	0
	Prior year adjustment	0	0	8	0
	Tax expense	**0**	**0**	**72**	**62**

PBE IAS 12.81(g)		**Property, plant, and equipment $000**	**Financial instruments $000**	**Employee entitlements $000**	**Total $000**
	Deferred tax assets/(liabilities)				
	Council				
	Balance at 1 July 2015	0	0	0	0
	Charged to surplus or deficit	0	0	0	0
	Charged to other comprehensive revenue and expense	0	0	0	0
	Balance at 30 June 2016	0	0	0	0
	Charged to surplus or deficit	0	0	0	0
	Charged to other comprehensive revenue and expense	0	0	0	0
	Balance at 30 June 2017	0	0	0	0
	Group				
	Balance at 1 July 2015	(128)	0	3	(125)
	Charged to surplus or deficit	(7)	0	2	(5)
	Charged to other comprehensive revenue and expense	0	0	0	0
	Balance at 30 June 2016	(135)	0	5	(130)
	Charged to surplus or deficit	19	0	1	20
	Charged to other comprehensive revenue and expense	0	(10)	0	(10)
	Balance at 30 June 2017	**(116)**	**(10)**	**6**	**(120)**

PBE IPSAS 2.56

8 Cash and cash equivalents

Accounting policy

PBE IPSAS 2.57

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

Breakdown of cash and cash equivalents and further information

	Council		Group	
	2017 $000	**2016 $000**	**2017 $000**	**2016 $000**
Cash at bank and on hand	210	48	230	70
Term deposits with maturities of less than three months at acquisition	747	1,000	4,146	4,045
Total cash and cash equivalents	**957**	**1,048**	**4,376**	**4,115**

Assets recognised in a non-exchange transaction that are subject to restrictions

PBE IPSAS 23.106(d) [38]

The Council holds unspent funds, included in cash at bank and investments, of $4.21 million (2016: $5.03 million) that are subject to restrictions. These unspent funds relate to trusts and bequests received (see Note 27), waste minimisation reserve (see Note 27), lump sum contributions, and other funds received with restrictions where the spending of the funds is separately monitored. The restrictions generally specify how the funds are required to be spent. [39]

PBE IPSAS 2.56

Cash, cash equivalents, and bank overdrafts include the following for the purposes of the statement of cash flows:

		Council		Group	
		2017 $000	**2016 $000**	**2017 $000**	**2016 $000**
	Cash at bank and on hand	210	48	230	70
	Term deposits with maturities of less than three months at acquisition	747	1,000	4,146	4,045
PBE IPSAS 2.10	Bank overdrafts (Note 22)	(2,791)	(297)	(2,791)	(297)
	Total	**(1,834)**	**751**	**1,585**	**3,818**

PBE IPSAS 1.94(b)

9 Receivables

PBE IPSAS 30.25

Accounting policy

PBE IPSAS 29.45

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

PBE IPSAS 29, 72
PBE IPSAS 30 AG5

A receivable is considered to be uncollectable when there is evidence 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.

Breakdown of receivables and further information

		Council		Group	
		2017 $000	**2016 $000**	**2017 $000**	**2016 $000**
	Rates receivables	2,516	1,808	2,516	1,808
	Other receivables:				
	– receivables from subsidiaries and associates	331	100	0	0
PBE IPSAS 11. 53 (a)	– construction contract receivables (Note 25)	0	0	40	21
	– insurance receivable for weathertightness claims	250	250	250	250
	– other	1,752	420	1,823	632
	Other receivables (gross)	2,333	770	2,113	903
	Less: provision for uncollectability	(292)	(264)	(292)	(264)
	Net other receivables	2,041	506	1,821	639
	Total receivables	**4,557**	**2,314**	**4,337**	**2,447**

[38] PBE IPSAS 23.106(d) requires disclosure of the amounts of assets subject to restrictions and the nature of those restrictions.
[39] If a local authority holds a material amount of assets subject to restrictions that were received in a non-exchange transaction, more specific information about the nature of those restrictions shall be disclosed elsewhere in the financial statements.

9 Receivables (continued)

		Council		Group	
		2017 $000	2016 $000	2017 $000	2016 $000
	Total receivables comprise:				
PBE IPSAS 1.88(g) PBE IPSAS 23.106(b)	Receivables from non-exchange transactions – this includes outstanding amounts for rates, grants, infringements, and fees and charges that are partly subsidised by rates	3,512	1,938	3,512	1,938
PBE IPSAS 1.88(h)	Receivables from exchange transactions - this includes outstanding amounts for commercial sales and fees and charges that have not been subsidised by rates	1,045	376	825	509

Fair value

PBE IPSAS 30.29,35(a) Receivables are generally short-term and non-interest bearing. Therefore, the carrying value of receivables approximates their fair value.

Assessment for uncollectability

PBE IPSAS 30.43(c),44(c) The Council does not provide for any uncollectability on rates receivable, as it has various powers under the Local Government (Rating) Act 2002 to recover any outstanding debts. These powers allow the Council to commence legal proceedings to recover any rates that remain unpaid four months after the due date for payment. If payment has not been made within three months of the Court's judgment, then the Council can apply to the Registrar of the High Court to have the judgment enforced by sale or lease of the rating unit.

Ratepayers can apply for payment plan options in special circumstances. Where such repayment plans are in place, debts are discounted to their present value of future payments if the effect of discounting is material.

PBE IPSAS 30.44(a) The ageing profile of receivables at year-end is detailed below:

	2017			2016		
	Gross $000	Provision for uncollectability $000	Net $000	Gross $000	Provision for uncollectability $000	Net $000
Council						
Not past due	2,524	(0)	2,524	1,370	(0)	1,370
Past due 1-60 days	1,162	(58)	1,104	604	(53)	551
Past due 61-120 days	697	(88)	609	362	(79)	283
Past due > 120 days	466	(146)	320	242	(132)	110
Total	**4,849**	**(292)**	**4,557**	**2,578**	**(264)**	**2,314**
Group						
Not past due	2,415	(0)	2,415	1,437	(0)	1,437
Past due 1-60 days	1,107	(58)	1,049	637	(53)	584
Past due 61-120 days	664	(88)	576	382	(79)	303
Past due > 120 days	443	(146)	297	255	(132)	123
Total	**4,629**	**(292)**	**4,337**	**2,711**	**(264)**	**2,447**

All receivables more than 30 days in age are considered to be past due.[40]

PBE IPSAS 30.44(b) The provision for uncollectability has been calculated based on a review of specific overdue receivables and a collective assessment. The collective assessment is based on an analysis of past collection history and debt write-offs.

	Council		Group	
	2017 $000	2016 $000	2017 $000	2016 $000
Individual provision for uncollectability	175	158	175	158
Collective provision for uncollectability	117	106	117	106
Total provision for uncollectability	**292**	**264**	**292**	**264**

[40] When the amount is considered to be material, PBE IPSAS 30.43(d) requires Tier 1 entities to disclose the carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated.

9 Receivables (continued)

Individually impaired receivables have been determined to be impaired because of the significant financial difficulties being experienced by the debtor. An analysis of these individually impaired debtors is as follows:

	Council		Group	
	2017 $000	2016 $000	2017 $000	2016 $000
Past due 1-60 days	43	15	43	15
Past due 61-120 days	18	24	18	24
Past due > 120 days	114	119	114	119
Total individual provision for uncollectability	**175**	**158**	**175**	**158**

PBE IPSAS 30.20

Movements in the provision for uncollectability of receivables are as follows:

	Council		Group	
	2017 $000	2016 $000	2017 $000	2016 $000
Balance at 1 July	264	248	264	248
PBE IPSAS 30.24(e) Additional provisions made during the year	284	258	284	258
Provisions reversed during the year	(30)	(24)	(30)	(24)
Receivables written-off during the year	(226)	(218)	(226)	(218)
Balance at 30 June	**292**	**264**	**292**	**264**

PBE IPSAS 30.44(c)

The Council and group holds no other collateral as security or other credit enhancements over receivables that are either past due or uncollectable.

PBE IPSAS 12.47(b)

10 Inventory

PBE IPSAS 12.47(a)

Accounting policy

PBE IPSAS 12.15
PBE IPSAS 12.17(a)

Inventories are held for distribution or for 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 for a 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.

PBE IPSAS 12.17,35

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

PBE IPSAS 12.17,35

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

PBE IPSAS 12.16

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.

PBE IPSAS 12.44

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

PBE IPSAS 16.71

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

Breakdown of inventory and further information

	Council		Group	
	2017 $000	2016 $000	2017 $000	2016 $000
Non-commercial inventory:				
– water and sewerage reticulation spare parts	42	199	42	199
– street furniture	17	31	17	51
– water treatment chemicals	10	12	24	72
– other	16	77	55	109
Commercial inventory:				
– land being developed for sale	1,045	0	1,045	0
– held for use in the provision of services	12	16	12	16
Total inventory	**1,142**	**335**	**1,195**	**447**

10 Inventory (continued)

PBE IPSAS 12.47(e),(f)

The write-down of inventory during the year was $27,000 (2016: $26,000). There have been no reversals of write-downs (2016: $nil).[41]

PBE IPSAS 12.47(h)

No inventory is pledged as security for liabilities (2016: $nil). However, some inventory is subject to retention of title clauses.

11 Non-current assets held for sale

PBE IPSAS 1.132(c)

Accounting policy

PBE IFRS 5.6
PBE IFRS 5.15

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.

PBE IFRS 5.20

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

PBE IFRS 5.21

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

PBE IFRS 5.25

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).

Breakdown on non-current assets held for sale and further information

	Council		Group	
	2017 $000	**2016 $000**	**2017 $000**	**2016 $000**
Non-current assets held for sale are:				
– buildings	700	0	700	0
– land	1,000	0	1,000	0
Total non-currents asset held for sale	**1,700**	**0**	**1,700**	**0**

PBE IFRS 5.41

The Council-owned property on Owen Street has been presented as held for sale following the approval by the Council on 24 May 2017 to sell the premises. The Council has approved the sale of the premises, as it will provide no future use to the Council. The completion date of the sale is expected to be by November 2017.

PBE IFRS 5.38

The accumulated property revaluation reserve recognised in equity for the Owen Street property at 30 June 2017 is $177,000.

PBE IPSAS 1.127(c)

12 Derivative financial instruments

PBE IPSAS 30.25

Accounting policy

Derivative financial instruments are used to manage exposure to foreign exchange risks arising from the Council's operational activities and interest rate risks arising from the Council's financing activities. In accordance with its treasury policy, the Council does not hold or issue derivative financial instruments for trading purposes.

PBE IPSAS 29.45,48,49

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance date. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and, if so, the nature of the item being hedged.

PBE IPSAS 29.64 (a)

The associated gains or losses on derivatives that are not hedge accounted are recognised in the surplus or deficit

PBE IPSAS 30.25

The full fair value of a hedge accounted derivative is classified as non-current if the remaining maturity of the hedged item is more than 12 months, and as current if the remaining maturity of the hedged item is less than 12 months.

PBE IPSAS 30.25

The full fair value of a non-hedge accounted foreign exchange derivative is classified as current if the contract is due for settlement within 12 months of balance date; otherwise, foreign exchange derivatives are classified as non-current. The portion of the fair value of a non-hedge accounted interest rate derivative that is expected to be realised within 12 months of balance date is classified as current, with the remaining portion of the derivative classified as non-current.

Hedge accounting

PBE IPSAS 29.96(a),(b)

The Council and group designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or
- hedges of highly probable forecast transactions (cash flow hedge).

[41] If there has been a reversal of a previous write-down, disclose the circumstances or events that led to the reversal of the write-down (PBE IPSAS 12.47(g)). A Council that applies the RDR is not required to disclose this information.

12 Derivative financial instruments (continued)

PBE IPSAS 29.98

The Council and group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Council and group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

PBE IPSAS 29.99

Fair value hedge

The gain or loss from remeasuring the hedging instrument at fair value, along with the changes in the fair value on the hedged item attributable to the hedged risk, is recognised in the surplus or deficit. Fair value hedge accounting is applied only for hedging fixed interest risk on borrowings.

PBE IPSAS 29.103

If the hedge relationship no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the surplus or deficit over the period to maturity.

Cash flow hedge

PBE IPSAS 29.106

The portion of the gain or loss on a hedging instrument that is determined to be an effective hedge is recognised in other comprehensive revenue and expense, and the ineffective portion of the gain or loss on the hedging instrument is recognised in the surplus or deficit as part of "finance costs".

PBE IPSAS 29.108

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognised in other comprehensive revenue and expense are reclassified into the surplus or deficit in the same period or periods during which the asset acquired or liability assumed affects the surplus or deficit. However, if it is expected that all or a portion of a loss recognised in other comprehensive revenue and expense will not be recovered in one or more future periods, the amount that is not expected to be recovered is reclassified to the surplus or deficit.

PBE IPSAS 29.109

When a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, or a forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, the associated gains and losses that were recognised in other comprehensive revenue and expense will be included in the initial cost or carrying amount of the asset or liability.

PBE IPSAS 29.112

If a hedging instrument expires or is sold, terminated, exercised, or revoked, or it no longer meets the criteria for hedge accounting, the cumulative gain or loss on the hedging instrument that has been recognised in other comprehensive revenue and expense from the period when the hedge was effective will remain separately recognised in equity until the forecast transaction occurs. When a forecast transaction is no longer expected to occur, any related cumulative gain or loss on the hedging instrument that has been recognised in other comprehensive revenue and expense from the period when the hedge was effective is reclassified from equity to the surplus or deficit.

Breakdown of derivative financial instruments and further information

		Council		Group	
		2017 $000	**2016 $000**	**2017 $000**	**2016 $000**
	Current asset portion				
PBE IPSAS 30.26(a),(b)	Interest rate swaps – cash flow hedges	98	74	130	74
	Total current asset portion	98	74	130	74
	Non-current asset portion				
PBE IPSAS 30.26(a),(b)	Interest rate swaps – cash flow hedges	248	162	248	162
	Interest rate swaps – not hedge accounted	160	0	160	0
	Total non-current asset portion	408	162	408	162
	Total derivative financial instrument assets	**506**	**236**	**538**	**236**
	Current liability portion				
PBE IPSAS 30.26(a),(b)	Interest rate swaps – cash flow hedges	22	25	22	25
	Forward foreign exchange contracts – not hedge accounted	240	0	240	0
	Total current liability portion	262	25	262	25
	Non-current liability portion				
PBE IPSAS 30.26(a),(b)	Interest rate swaps – cash flow hedges	42	49	42	49
	Total derivative financial instrument liabilities	**304**	**74**	**304**	**74**

12 Derivative financial instruments (continued)

PBE IPSAS 30.41(a)

The notional principal amounts of the outstanding interest rate swap contracts for the Council were $22.0 million (2016: $16.0 million) and for the group were $24.0 million (2016: $16.0 million). At 30 June 2017, the fixed interest rates of cash flow hedge interest rate swaps varied from 7.14% to 8.3% (2016: 7.05% to 7.95%).

PBE IPSAS 30.27(a)

Gains and losses recognised in the hedging reserve in equity (see Note 27) on interest rate swap contracts as at 30 June 2017 will be released to the surplus or deficit as interest is paid on the underlying debt.

The Council and group currently have no fair value hedges.

PBE IPSAS 30.41(a)

The notional principal amounts of outstanding forward foreign exchange contracts were $2.0 million (2016: $nil).

Fair value [42]

PBE IPSAS 30.29,31

The fair values of interest rate swaps have been determined by calculating the expected future cash flows under the terms of the swaps and discounting these values to present value. The inputs into the valuation model are from independently sourced market parameters such as interest rate yield curves. Most market parameters are implied from instrument prices.

PBE IPSAS 30.29,31

The fair values of forward foreign exchange contracts have been determined using a discounted cash flows valuation technique based on quoted market prices. The inputs into the valuation model are from independently sourced market parameters such as currency rates. Most market parameters are implied from instrument prices.

PBE IPSAS 1.127(c)

13 Other financial assets

PBE IPSAS 30.25

Accounting policy

PBE IPSAS 29.45

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 [43] in which case the transaction costs are recognised in the surplus or deficit.

Term deposits, loans to subsidiaries and associates, and community loans (loans and receivables)

PBE IPSAS 29 AG84-A90

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. For loans to community organisations, the difference between the loan amount and present value of the expected future cash flows of the loan is recognised in the surplus or deficit as a grant expense.

PBE IPSAS 29,45,48(a)

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

PBE IPSAS 29,72

At year-end, the assets are assessed for indicators of impairment. Impairment is established when there is evidence that the Council and group will not be able to collect amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, receivership or liquidation and default in payments are indicators that the asset is impaired.

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

Listed bonds (held-to-maturity) [44]

PBE IPSAS 29,45,48(b)

After initial recognition, listed bonds (designated as held to maturity) are measured at amortised cost using the effective interest method.

PBE IPSAS 29,72

At year-end, they 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 derecognised are recognised in the surplus or deficit.

Listed and unlisted shares, listed bonds (fair value through other comprehensive revenue and expense)

PBE IPSAS 29.10,45

Shares (other than shares in subsidiaries) and listed bonds (other than those designated as held to maturity) are designated at fair value through other comprehensive revenue and expense. [45]

PBE IPSAS 29.48.64(b)

After initial recognition, the shares and listed bonds are measured at their fair value, with gains and losses recognised in other comprehensive revenue and expense, except for impairment losses, which are recognised in the surplus or deficit. When sold, the cumulative gain or loss previously recognised in other comprehensive revenue and expense is transferred to the surplus or deficit.

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[42] Local authorities that apply the RDR are not required to disclose the fair value of instruments not measured at fair value. However, PBE IPSAS 30 RDR 31.1 requires for those instruments measured at fair value, disclosure of the basis for determining fair value, and when a valuation technique is used, disclosure of the assumption applied in determining fair value.

[43] The fair value through surplus or deficit category has two sub-categories: financial assets held for trading, and those designated at fair value through surplus or deficit at initial recognition. PBE IPSAS 30 AG5(a)(ii) requires the disclosure of the criteria an entity uses when designating financial assets into the fair value through surplus or deficit category at initial recognition.

[44] Shares cannot be classified in the held-to-maturity category because they have an indefinite life.

[45] The exact names as prescribed in PBE IPSAS 29 are not required to be used. Other descriptors can be used. For example, “fair value through other comprehensive revenue and expenses” may better describe a local authority’s intentions than the PBE IPSAS 29 title of “available-for-sale”. Similar investments could be categorised differently, depending on the purposes for which they were acquired.

13 Other financial assets (continued)

For shares, a significant or prolonged decline in the fair value of the shares below its cost is considered to be objective evidence of impairment. For listed bonds, 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.

If impairment evidence exists, the cumulative loss recognised in other comprehensive revenue and expense is transferred to the surplus or deficit.

PBE IPSAS 29.78 Impairment losses on shares recognised in the surplus or deficit are not reversed through the surplus or deficit.

PBE IPSAS 29.79 If in a subsequent period the fair value of listed bonds increases and the increase can be objectively related to an event after the impairment loss was recognised, the impairment loss is reversed in the surplus or deficit

Shares in subsidiaries

PBE IPSAS 6.20,28,30 The Council consolidates in the group financial statements all entities where the Council has the capacity to control their financing and operating policies so as to obtain benefits from the activities of the subsidiary. This power exists where the Council controls the majority voting power on the governing body or where such policies have been irreversibly predetermined by the Council or where the determination of such policies is unable to materially affect the level of potential ownership benefits that arise from the activities of the subsidiary.

PBE IPSAS 3.18,32,34 The Council will recognise goodwill where there is an excess of the consideration transferred over the net identifiable assets acquired and liabilities assumed. This difference reflects the goodwill to be recognised by the Council. If the consideration transferred is lower than the net fair value of the Council's interest in the identifiable assets acquired and liabilities assumed, the difference will be recognised immediately in the surplus or deficit.

PBE IPSAS 6.65(c) The investment in subsidiaries is carried at cost in the Council's parent entity financial statements.

Breakdown of other financial assets and further information

	Council		Group	
	2017 $000	**2016 $000**	**2017 $000**	**2016 $000**
Current portion				
Term deposits	2,500	1,069	2,500	1,069
Listed bonds	2,697	3,378	2,697	3,378
Total current portion	5,197	4,447	5,197	4,447
Non-current portion				
Investment in CCOs and similar entities				
Shares in subsidiaries (cost)	2,000	2,000	0	0
Loans to subsidiaries and associates	1,000	1,000	0	0
Listed shares in Port Te Motu Limited	992	967	992	967
Unlisted shares in LGFA	250	245	250	245
Total investment in CCOs and similar entities	4,242	4,212	1,242	1,212
Other investments				
Community loans	450	400	450	400
Unlisted shares in Te Motu Housing Limited	89	26	89	26
Listed bonds	2,391	2,022	2,391	2,022
Total other investments	2,930	2,448	2,930	2,448
Total non-current portion	7,172	6,660	4,172	3,660
Total other financial assets	**12,369**	**11,107**	**9,369**	**8,107**

Fair value[46]

Term deposits

PBE IPSAS 30.29,35(a) The carrying amount of term deposits approximates their fair value.

Listed bonds

PBE IPSAS 30.29,31 The fair value of listed bonds is $6.01 million (2016: $6.36 million). Fair value has been determined using quoted market bid prices from independently sourced market information for the listed bonds.

Community loans

PBE IPSAS 30.29,31 The fair value of community loans is $465,000 (2016: $407,000). Fair value has been determined using cash flows discounted at a rate based on the loan recipient's financial risk factors of between 8.4 and10% (2016: between 8.3 and 9.7%).

[46] Councils that apply the RDR are not required to disclose the fair value of instruments not measured at fair value. However, PBE IPSAS 30 RDR 31.1 requires for those instruments measured at fair value, disclosure of the basis for determining fair value, and when a valuation technique is used, the assumption applied in determining fair value.

13 Other financial assets (continued)

Loans to subsidiaries and associates

PBE IPSAS 30.29,31 The fair value of loans to related parties is $1.02 million (2016: $1.02 million). Fair value has been determined using cash flows discounted at a rate based on a market borrowing rate of 8.7% (2016: 8.6%).

Unlisted shares

PBE IPSAS 30.29,31 Unlisted shares are recognised at fair value.

PBE IPSAS 29.AG115(e) The fair value of unlisted shares in Te Motu Housing Limited has been determined using a valuation technique based on discounted cash flows using a rate based on the market interest rate and the risk premium specific to the unlisted shares of 12.3% (2016: 11.5%). The cash flow projections have been determined by reference to financial budgets approved by the Board of Directors and covers a five-year period. Cash flows beyond the five-year period have been extrapolated using an estimated growth rate of 1.3% (2016: 1.5%), which has been determined by reference to recent growth trends.

Due to the immaterial size and nature of the Council's investment in the LGFA, the Council has estimated the fair value of this investment based on the LGFA's net asset backing as at 30 June.

Listed shares

PBE IPSAS 30.29,31 Listed shares are recognised at fair value. The fair values of listed shares are determined by reference to published current bid price quotations in an active market.

Impairment

PBE IPSAS 30.24(e),44 Community loans has been impaired by $62,000 (2016: $nil) during the year, due to the significant financial difficulties of the debtor and a default in payments. The Council does not hold any collateral for the impaired loans. There were no other impairment expenses or provisions made for other financial assets.

Community loans[47]

PBE IPSAS 30.37(b) The face value of community loans is $1.09 million (2016: $998,000).

PBE IPSAS 30.37(a) Movements in the carrying value of community loans are as follows:

	Council		Group	
	2017 $000	**2016 $000**	**2017 $000**	**2016 $000**
At 1 July	400	405	400	405
Amount of new loans granted during the year	100	0	100	0
Fair value adjustment on initial recognition	(33)	0	(33)	0
Loans repaid during the year (principal and interest)	0	(50)	0	(50)
Impairment loss recognised during the year	(62)	0	(62)	0
Unwind of discount and interest charged	45	45	45	45
At 30 June	**450**	**400**	**450**	**400**

PBE IPSAS 30.37(c) The Council's community loan scheme is designed to help not-for-profit organisations in the Te Motu community to develop or improve new or existing facilities and other major projects. Only organisations with the ability to repay are granted loans. Loans are for a maximum of 10 years and interest is either nil or 3% per annum.

PBE IPSAS 30.37(d) The fair value of loans at initial recognition has been determined using cash flows discounted at a rate based on the loan recipient's assessed financial risk factors.

Shares in subsidiaries (cost)

Breakdown of shares in subsidiaries and further information is as follows:

Good practice

	Principal activity	**2017 $000**	**2016 $000**
Investment in Te Motu Holdings Limited (100% owned)	Monitors the operating performance of its subsidiaries (Te Motu Civic Construction Limited, Te Motu Properties Limited) in the interests of the Council	100	100
Investment in Te Motu Civic Construction Limited (80% owned)	Management, construction, operation, and maintenance of infrastructural assets	800	800
Investment in Te Motu Properties Limited (100% owned)	Owns and operates a portfolio of rental housing	1,100	1,100
Total		**2,000**	**2,000**

[47] PBE IPSAS 30 requires additional disclosures for concessionary loans granted, which are loans granted by a local authority below market terms. For example, loans provided to communication organisations at interest rates that are lower than what the community organisation would need to pay to borrow from a financial institution.

14 Investment in associate

Accounting policy

PBE IPSAS 7.7,17

An associate is an entity over which the Council has significant influence and that is neither a subsidiary nor an interest in a joint venture. The Council's associate investment is accounted for in the group financial statements using the equity method. The investment in an associate is initially recognised at cost and the carrying amount in the group financial statements is increased or decreased to recognise the group's share of the surplus or deficit of the associate after the date of acquisition. Distributions received from an associate reduce the carrying amount of the investment in the group financial statements.

PBE IPSAS 7.35,36

If the share of deficits of an associate equals or exceeds its interest in the associate, the group discontinues recognising its share of further deficits. After the group's interest is reduced to zero, additional deficits are provided for, and a liability is recognised, only to the extent that the group has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports surpluses, the group will resume recognising its share of those surpluses only after its share of the surpluses equals the share of deficits not recognised.

PBE IPSAS 7.28

Where the group transacts with an associate, surpluses or deficits are eliminated to the extent of the group's interest in the associate.

PBE IPSAS 6.64(c)

The investment in the associate is carried at cost in the Council's parent entity financial statements.

Breakdown of investment in associate and further information

Reference		Actual 2017 $000	Actual 2016 $000
	Council		
	Investment in Te Motu Quarries Limited	200	200
	Group		
	Equity accounted carrying amount	252	240
PBE IPSAS 7.43(b)	*Summarised financial information of associate presented on a gross basis* [48]		
	Assets	1,676	1,625
	Liabilities	1,030	990
	Revenues	124	98
	Surplus/(deficit)	31	27
	Group's interest	39%	39%
PBE IPSAS 7.46(a)	Share of associate's contingent liabilities incurred jointly with other investors	8,756	5,457
PBE IPSAS 7.46(b)	Contingent liabilities that arise because of several liability	0	8,478

PBE IPSAS 7.43(a)

Te Motu Quarries Limited is an unlisted company. [49]

15 Investment in joint venture

Accounting policy [50]

PBE IPSAS 8.6

A joint venture is a binding arrangement whereby two or more parties are committed to undertake an activity that is subject to joint control. Joint control is the agreed sharing of control over an activity.

PBE IPSAS 8.19

For jointly controlled operations, the Council and group recognises in its financial statements the assets it controls, the liabilities and expenses it incurs, and the share of revenue that it earns from the joint venture.

[48] These are the gross amounts from the associate's financial statements. An alternative presentation would be to show only the group's share. PBE IPSAS 7 does not specify which method of presentation is required.

[49] PBE IPSAS 7.43(a) requires disclosure of the fair value of investments in associates where there are published price quotations.

[50] There are two further joint venture classifications: jointly controlled entities and jointly controlled assets. Possible accounting policies for these categories are:

- *Jointly controlled entities* – The group recognises its interest in jointly controlled entities using the equity method. The investment in a jointly controlled entity is initially recognised at cost and the carrying amount is increased or decreased to recognise the group's share of the surplus or deficit of the jointly controlled entity after the date of acquisition. The group's share of the surplus or deficit of the jointly controlled entity is recognised in the surplus or deficit. Investments in jointly controlled entities are carried at cost in the local authority's parent entity financial statements.
- *Jointly controlled assets* – For jointly controlled assets, the local authority 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 revenue from the sale or use of its share of the output of the joint venture.

15 Investment in joint venture (continued)

Breakdown of investment in joint venture and further information

The Council's interest in the Te Motu Forestry joint venture is accounted for as a jointly controlled operation.

PBE IPSAS 8.63 The Council's interests in the jointly controlled operation are as follows:

		Council and Group	
		2017 $000	**2016 $000**
	Current assets	12	11
	Non-current assets	2,432	2,435
	Current liabilities	5	6
	Non-current liabilities	0	0
	Revenue	0	0
	Expenses	67	89
PBE IPSAS 8.62(a)	The Council's capital commitments in relation to the joint venture	4	3
PBE IPSAS 8.62(b)	Share of joint venture's commitments	2	2
PBE IPSAS 8.61(a)	The Council's contingent liabilities incurred in relation to the joint venture	0	0
PBE IPSAS 8.61(a)	Share of joint venture's contingent liabilities	30	30
PBE IPSAS 8.62(a)	Other venturers' contingent liabilities the Council is liable for	0	0
PBE IPSAS 8.62(b)	The Council's contingent assets arising in relation to the joint venture	0	0
PBE IPSAS 8.62(b)	Share of joint venture's contingent assets	0	0

16 Property, plant, and equipment

PBE IPSAS 1.132(c) **Accounting policy**

Property, plant, and equipment consist of:

Operational assets – These include land, buildings, landfill post-closure, library books, plant and equipment, and motor vehicles.

Restricted assets – Restricted assets are mainly parks and reserves owned by the Council and group that 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 and group. 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.

PBE IPSAS 17.88(a) Land (operational and restricted) is measured at fair value, and buildings (operational and restricted), library books, and infrastructural assets (except land under roads) are measured at fair value less accumulated depreciation. All other asset classes are measured at cost less accumulated depreciation and impairment losses.

Revaluation

PBE IPSAS 17.44 Land and buildings (operational and restricted), library books, and infrastructural assets (except land under roads) are revalued with sufficient regularity to ensure that their carrying amount does not differ materially from fair value and at least every three years.

PBE IPSAS 17.56 Revaluation movements are accounted for on a class-of-asset basis.

PBE IPSAS 17.54,55 The net revaluation results are credited or debited to other comprehensive revenue and expense and are accumulated to an asset revaluation reserve in equity for that class-of-asset. Where this would result in a debit balance in the asset revaluation reserve, this balance is not recognised in other comprehensive revenue and expense but is recognised in the surplus or deficit. Any subsequent increase on revaluation that reverses a previous decrease in value recognised in the surplus or deficit will be recognised first in the surplus or deficit up to the amount previously expensed, and then recognised in other comprehensive revenue and expense.

Additions

PBE IPSAS 17.14 The cost of an item of property, plant, and equipment is recognised as an asset only when it is probable that future economic benefits or service potential associated with the item will flow to the Council and group and the cost of the item can be measured reliably.

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

PBE IPSAS 17.26,27 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.

PBE IPSAS 17.14 Costs incurred subsequent to initial acquisition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to the Council and group and the cost of the item can be measured reliably.

PBE IPSAS 17.23,24 The costs of day-to-day servicing of property, plant, and equipment are recognised in the surplus or deficit as they are incurred.

16 Property, plant, and equipment (continued)

PBE IPSAS 17.57,83,86

Disposals

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

PBE IPSAS 17.88(b),(c)

Depreciation[51]

Depreciation is provided on a straight-line basis on all property, plant, and equipment 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. The useful lives and associated depreciation rates of major classes of assets have been estimated as follows:

Buildings	40 to 100 years	1% to 2.5%
Landfill post-closure	40 years	2.5%
Plant and equipment	5 years	20%
Motor vehicles	5 years	20%
Library books	5 years	20%
Infrastructural assets		
Roading network		
Top surface (seal)	5 to 18 years	5.5% to 20%
Pavement (base course)		
Sealed	25 to 60 years	1.6% to 4%
Unsealed	5 to 15 years	6.6% to 20%
Formation	-	not depreciated
Culverts	60 years	1.6%
Footpaths	80 years	1.25%
Kerbs	50 years	2%
Signs	10 to 15 years	6.6% to 10%
Streetlights	20 to 30 years	3.3% to 5%
Bridges	80 to 100 years	1% to 1.25%
Water system		
Pipes	60 to 80 years	1.25% to 1.6%
Valves, hydrants	25 years	4%
Pump stations	10 to 60 years	1.6% to 10%
Tanks	80 years	1.25%
Sewerage system		
Pipes	60 to 80 years	1.25% to 1.6%
Manholes	50 years	2%
Treatment plant	10 to 80 years	1.25% to 10%
Drainage network		
Pipes	70 to 90 years	1.1% to 1.4%
Manholes, cesspits	50 years	2%

PBE IPSAS 17.67

The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each balance date.

Service concession arrangement

PBE IPSAS 32.8

The Council may acquire infrastructural assets by entering into a service concession arrangement (SCA) with a private operator to build, finance, and operate an asset over a specified period.

PBE IPSAS 32.11-15

Assets acquired through an SCA are initially recognised at their fair value, with a corresponding liability. The asset is subsequently measured following the accounting policies above for property, plant, and equipment.

PBE IPSAS 32.21-23

The Council has only entered into SCAs whereby the Council pays for the services provided by the operator. The monthly payments to the operator are recognised according to their substance as a reduction in the liability for the build of the asset, a finance expense, and an expense for charges for services provided by the operator.

Impairment of property, plant, and equipment

PBE IPSAS 21.26
PBE IPSAS 26.22

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.

PBE IPSAS 21.35
PBE IPSAS 26.31

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.

[51] The useful lives and depreciation rates that have been listed above are only illustrative. Each local authority will need to set these based on their specific circumstances.

16 Property, plant, and equipment (continued)

PBE IPSAS 21.52,54
PBE IPSAS 26.72,73

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 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.

Value in use for non-cash-generating assets

PBE IPSAS 21.16-21
PBE IPSAS 26.14-18

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

PBE IPSAS 21.44-50

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

Value in use for cash-generating assets

PBE IPSAS 21.16-21
PBE IPSAS 26.14-18

Cash-generating assets are those assets that are held with the primary objective of generating a commercial return.

PBE IPSAS 26.43-70

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

PBE IPSAS 1.140

Critical accounting estimates and assumptions

Estimating the fair value of land, buildings, and infrastructure

PBE IPSAS 17.92(a),(b) [52]

The most recent valuation of land and buildings was performed by an independent registered valuer, R Holt SNZPI of Holt Valuers Limited. The valuation is effective as at 30 June 2017.

Land (operational, restricted, and infrastructural)

PBE IPSAS 17.92(c)

Land is valued at fair value using market-based evidence based on its highest and best use with reference to comparable land values.
Where there is a designation against the land or the use of the land is restricted because of reserve or endowment status, the valuation approach reflects the restriction in use. Such land is valued based on rural land value plus a location adjustment to reflect different zoning, which are based on the valuer's judgement.

Restrictions on the Council's ability to sell land would normally not impair the value of the land because the Council has operational use of the land for the foreseeable future and will substantially receive the full benefits of outright ownership.

Buildings (operational and restricted)

PBE IPSAS 17.92(c)

Specialised buildings are valued at fair value using depreciated replacement cost because no reliable market data is available for such buildings.

Depreciated replacement cost is determined using a number of significant assumptions. Significant assumptions used in the 30 June 2017 valuation include:

- The replacement costs of the specific assets are adjusted where appropriate for optimisation due to over-design or surplus capacity. There has been no optimisation adjustments for the most recent valuations.
- The replacement cost is derived from recent construction contracts of modern equivalent assets and Property Institute of New Zealand cost information. Construction costs range from $955 to $3,080 per square metre, depending on the nature of the specific asset valued.
- Independent structural engineers have estimated present-value costs of between $0.8 million and $1.2 million to strengthen the Council's earthquake-prone buildings. The mid-point of $1.0 million has been deducted off the depreciated replacement cost.
- The remaining useful life of assets is estimated after considering factors such as the condition of the asset, future maintenance and replacement plans, and experience with similar buildings.
- Straight-line depreciation has been applied in determining the depreciated replacement cost value of the asset.

Non-specialised buildings (for example, residential and office buildings) are valued at fair value using market-based evidence. Significant assumptions in the 30 June 2017 valuation include market rents and capitalisation rates.

- Market rents range from $457 to $585 per square metre.
- Capitalisation rates are market-based rates of return and range from 7% to 7.75%.

[52] Although it is not a requirement, we consider it good practice to disclose the name and qualification of property valuers.

16 Property, plant, and equipment (continued)

PBE IPSAS 17.92(d)

A comparison of the carrying value of buildings valued using depreciated replacement cost and buildings valued using market-based evidence is as follows:

	Council		Group	
	2017 $000	2016 $000	2017 $000	2016 $000
Operational buildings				
Depreciated replacement cost	11,723	9,783	12,982	11,058
Market-based evidence	4,624	3,859	5,121	4,362
Total carrying value of operational buildings	16,347	13,642	18,103	15,420
Restricted buildings				
Depreciated replacement cost	6,250	6,344	6,250	6,344
Market-based evidence	2,466	2,502	2,466	2,502
Total carrying value of restricted buildings	8,716	8,846	8,716	8,846

Infrastructural asset classes: sewerage, water, drainage, and roads

PBE IPSAS 17.92(a),(b)

The most recent valuation of infrastructural assets was performed by an independent registered valuer, K Tee ANZIV of Thompson Valuers Limited. The valuation is effective as at 30 June 2017.

PBE IPSAS 17.92(c)

Sewerage, water, drainage, and roading infrastructural assets are valued using the depreciated replacement cost method. There are a number of estimates and assumptions exercised when valuing infrastructural assets using the depreciated replacement cost method. These include:

- The replacement costs where appropriate reflect optimisation due to over-design or surplus capacity. The Council has determined that there is significant surplus capacity in the sewerage and water assets that service certain locations due to a declining population in those areas. The Council estimates that the necessary network capacity to service these areas is on average 50% of the existing capacity. The valuation of these assets therefore assumes the existing assets will be replaced with assets of smaller capacity.
- Estimating the replacement cost of the asset. The replacement cost of an asset is based on recent construction contracts in the region for modern equivalent assets, from which unit rates are determined. Unit rates have been applied to components of the network based on size, material, depth, and location. If recent contract cost information is considered out of date, it is indexed using Statistics New Zealand's Capital Goods Price Index (based on the March 2017 quarter index) for civil constructions to convert them to current dollar value at the valuation date.
- Estimates of the remaining useful life over which the asset will be depreciated. These estimates can be affected by the local conditions. For example, weather patterns and traffic growth. If useful lives do not reflect the actual consumption of the benefits of the asset, then the 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, infrastructural asset useful lives have been determined with reference to the New Zealand 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 asset management planning activities, which provides further assurance over useful life estimates.

PBE IPSAS 1.137

Critical judgements in applying accounting policies

Classification of property

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

PBE IPSAS 17.88(d),(e)[53]

16 Property, plant, and equipment (continued)

Movements in the carrying value for each class of property, plant, and equipment are as follows:

	Cost/ valuation 1.7.16	Accumulated depreciation and impairment 1.7.16	Carrying amount 1.7.16	Additions	Disposals[54]	Impairment	Depreciation	Revaluation surplus	Cost/ valuation 30.6.17	Accumulated depreciation and impairment 30.6.17	Carrying amount 30.6.17
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
COUNCIL 2017											
Operational assets											
Land	22,840	0	22,840	0	(859)	0	0	728	22,709	0	22,709
Buildings	15,579	(1,937)	13,642	3,685	(801)	0	(398)	219	16,347	0	16,347
Landfill post-closure	626	(421)	205	0	0	0	(20)	0	626	(441)	185
Library books	1,791	(649)	1,142	0	(108)	0	(248)	1	787	0	787
Plant and equipment	2,418	(732)	1,686	447	0	(98)	(709)	0	2,865	(1,539)	1,326
Motor vehicles	1,196	(402)	794	0	0	0	(316)	0	1,196	(718)	478
Total operational assets	44,450	(4,141)	40,309	4,132	(1,768)	(98)	(1,691)	948	44,530	(2,698)	41,832
Infrastructural assets											
Land	3,000	0	3,000	0	0	0	0	0	3,000	0	3,000
PBE IPSAS 32.13 Sewerage system	34,693	(3,247)	31,446	0	(986)	0	(320)	39	30,179	0	30,179
Water system	42,835	(2,980)	39,855	3,160	0	0	(639)	425	42,801	0	42,801
Drainage network	11,158	(935)	10,223	0	0	0	(139)	400	10,484	0	10,484
Roading network	62,975	(98)	62,877	1,651	0	0	(1,180)	410	63,758	0	63,758
Land under roads	1,011	0	1,011	0	0	0	0	0	1,011	0	1,011
Total infrastructural assets	155,672	(7,260)	148,412	4,811	(986)	0	(2,278)	1,274	151,233	0	151,233
PBE IPSAS 17.89(a) **Restricted assets**											
Land	17,469	0	17,469	0	(13)	0	0	215	17,671	0	17,671
Buildings	9,274	(428)	8,846	0	0	0	(234)	104	8,716	0	8,716
Total restricted assets	26,743	(428)	26,315	0	(13)	0	(234)	319	26,387	0	26,387
Total Council	**226,865**	**(11,829)**	**215,036**	**8,943**	**(2,767)**	**(98)**	**(4,203)**	**2,541**	**222,150**	**(2,698)**	**219,452**

[53] This is just one way of presenting the reconciliation required by PBE IPSAS 17 *Property, Plant and Equipment*.

[54] Disposals in this reconciliation are reported net of accumulated depreciation and include property, plant, and equipment classified as held for sale during the year. Where assets classified as held for sale are material, these should be separately disclosed in the reconciliation of the carrying amount at the beginning and end of the year.

16 Property, plant, and equipment (continued)

		Cost/ valuation 1.7.16	Accumulated depreciation and impairment 1.7.16	Carrying amount 1.7.16	Additions	Disposals	Impairment	Depreciation	Revaluation surplus	Cost/ valuation 30.6.17	Accumulated depreciation and impairment 30.6.17	Carrying amount 30.6.17
		$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
	GROUP 2017											
	Operational assets											
	Land	23,640	0	23,640	0	(859)	0	0	728	23,509	0	23,509
	Buildings	17,379	(1,959)	15,420	3,685	(801)	0	(420)	219	18,103	0	18,103
	Landfill post-closure	626	(421)	205	0	0	0	(20)	0	626	(441)	185
	Library books	1,791	(649)	1,142	0	(108)	0	(248)	1	787	0	787
	Plant and equipment	4,182	(933)	3,249	1,102	0	(98)	(830)	0	4,791	(1,861)	2,930
	Motor vehicles	1,421	(557)	864	435	0	0	(581)	0	1,856	(1,138)	718
	Total operational assets	49,039	(4,519)	44,520	5,222	(1,768)	(98)	(2,099)	948	49,672	(3,440)	46,232
	Infrastructural assets											
	Land	3,000	0	3,000	0	0	0	0	0	3,000	0	3,000
PBE IPSAS 32.13	Sewerage system	34,693	(3,247)	31,446	0	(986)	0	(320)	39	30,179	0	30,179
	Water system	42,835	(2,980)	39,855	3,160	0	0	(639)	425	42,801	0	42,801
	Drainage network	11,158	(935)	10,223	0	0	0	(139)	400	10,484	0	10,484
	Roading network	62,975	(98)	62,877	1,651	0	0	(1,180)	410	63,758	0	63,758
	Land under roads	1,011	0	1,011	0	0	0	0	0	1,011	0	1,011
	Total infrastructural assets	155,672	(7,260)	148,412	4,811	(986)	0	(2,278)	1,274	151,233	0	151,233
PBE IPSAS 17.89(a)	**Restricted assets**											
	Land	17,469	0	17,469	0	(13)	0	0	215	17,671	0	17,671
	Buildings	9,274	(428)	8,846	0	0	0	(234)	104	8,716	0	8,716
	Total restricted assets	26,743	(428)	26,315	0	(13)	0	(234)	319	26,387	0	26,387
	Total Group	**231,454**	**(12,207)**	**219,247**	**10,033**	**(2,767)**	**(98)**	**(4,611)**	**2,541**	**227,292**	**(3,440)**	**223,852**

16 Property, plant, and equipment (continued)

		Cost/ valuation 1.7.16	Accumulated depreciation and impairment 1.7.16	Carrying amount 1.7.16	Additions	Disposals	Impairment	Depreciation	Revaluation surplus	Cost/ valuation 30.6.17	Accumulated depreciation and impairment 30.6.17	Carrying amount 30.6.17
		$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
	COUNCIL 2016											
	Operational assets											
	Land	23,632	0	23,632	0	(792)	0	0	0	22,840	0	22,840
	Buildings	15,402	(1,568)	13,834	177	0	0	(369)	0	15,579	(1,937)	13,642
	Landfill post-closure	626	(401)	225	0	0	0	(20)	0	626	(421)	205
	Library books	1,486	(418)	1,068	305	0	0	(231)	0	1,791	(649)	1,142
	Plant and equipment	2,418	(48)	2,370	0	0	0	(684)	0	2,418	(732)	1,686
	Motor vehicles	978	(98)	880	218	0	0	(304)	0	1,196	(402)	794
	Total operational assets	44,542	(2,533)	42,009	700	(792)	0	(1,608)	0	44,450	(4,141)	40,309
	Infrastructural assets											
	Land	3,000	0	3,000	0	0	0	0	0	3,000	0	3,000
PBE IPSAS 32.13	Sewerage system	34,693	(2,845)	31,848	0	0	0	(402)	0	34,693	(3,247)	31,446
	Water system	42,185	(2,458)	39,727	650	0	0	(522)	0	42,835	(2,980)	39,855
	Drainage network	11,025	(811)	10,214	133	0	0	(124)	0	11,158	(935)	10,223
	Roading network	59,446	0	59,446	3,529	0	0	(98)	0	62,975	(98)	62,877
	Land under roads	1,011	0	1,011	0	0	0	0	0	1,011	0	1,011
	Total infrastructural assets	151,360	(6,114)	145,246	4,312	0	0	(1,146)	0	155,672	(7,260)	148,412
PBE IPSAS 17.89(a)	**Restricted assets**											
	Land	18,531	0	18,531	0	(1,062)	0	0	0	17,469	0	17,469
	Buildings	9,274	(215)	9,059	0	0	0	(213)	0	9,274	(428)	8,846
	Total restricted assets	27,805	(215)	27,590	0	(1,062)	0	(213)	0	26,743	(428)	26,315
	Total Council	**223,707**	**(8,862)**	**214,845**	**5,012**	**(1,854)**	**0**	**(2,967)**	**0**	**226,865**	**(11,829)**	**215,036**

16 Property, plant, and equipment (continued)

		Cost/ valuation 1.7.16	Accumulated depreciation and impairment 1.7.16	Carrying amount 1.7.16	Additions	Disposals	Impairment	Depreciation	Revaluation surplus	Cost/ valuation 30.6.17	Accumulated depreciation and impairment 30.6.17	Carrying amount 30.6.17
		$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
	GROUP 2016											
	Operational assets											
	Land	24,432	0	24,432	0	(792)	0	0	0	23,640	0	23,640
	Buildings	17,202	(1,568)	15,634	177	0	0	(391)	0	17,379	(1,959)	15,420
	Landfill post-closure	626	(401)	225	0	0	0	(20)	0	626	(421)	205
	Library books	1,486	(418)	1,068	305	0	0	(231)	0	1,791	(649)	1,142
	Plant and equipment	4,019	(169)	3,850	163	0	0	(764)	0	4,182	(933)	3,249
	Motor vehicles	1,203	(196)	1,007	218	0	0	(361)	0	1,421	(557)	864
	Total operational assets	48,968	(2,752)	46,216	863	(792)	0	(1,767)	0	49,039	(4,519)	44,520
	Infrastructural assets											
	Land	3,000	0	3,000	0	0	0	0	0	3,000	0	3,000
PBE IPSAS 32.13	Sewerage system	34,693	(2,845)	31,848	0	0	0	(402)	0	34,693	(3,247)	31,446
	Water system	42,185	(2,458)	39,727	650	0	0	(522)	0	42,835	(2,980)	39,855
	Drainage network	11,025	(811)	10,214	133	0	0	(124)	0	11,158	(935)	10,223
	Roading network	59,446	0	59,446	3,529	0	0	(98)	0	62,975	(98)	62,877
	Land under roads	1,011	0	1,011	0	0	0	0	0	1,011	0	1,011
	Total infrastructural assets	151,360	(6,114)	145,246	4,312	0	0	(1,146)	0	155,672	(7,260)	148,412
PBE IPSAS 17.89(a)	**Restricted assets**											
	Land	18,531	0	18,531	0	(1,062)	0	0	0	17,469	0	17,469
	Buildings	9,274	(215)	9,059	0	0	0	(213)	0	9,274	(428)	8,846
	Total restricted assets	27,805	(215)	27,590	0	(1,062)	0	(213)	0	26,743	(428)	26,315
	Total Group	**228,133**	**(9,081)**	**219,052**	**5,175**	**(1,854)**	**0**	**(3,126)**	**0**	**231,454**	**(12,207)**	**219,247**

16 Property, plant, and equipment (continued)

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Core infrastructure asset disclosures

Included within the Council infrastructure assets above are the following core Council assets:

	Closing book value	Additions: constructed by Council	Additions: transferred to Council	Most recent replacement cost estimate for revalued assets
	$000	$000	$000	$000
2017				
Water supply:				
– treatment plants and facilities	17,120	324	–	29,570
– other assets (such as reticulation systems)	25,681	339	2,497	44,022
Sewerage:				
– treatment plants and facilities	14,563	–	–	17,864
– other assets (such as reticulation systems)	15,616	–	–	35,714
Stormwater drainage	10,484	–	–	19,658
Flood protection and control works	–	–	–	–
Roads and footpaths	63,758	493	1,158	83,032
2016				
Water supply:				
– treatment plants and facilities	15,942	–	–	27,396
– other assets (such as reticulation systems)	23,913	399	251	41,068
Sewerage:				
– treatment plants and facilities	15,006	–	–	18,408
– other assets (such as reticulation systems)	16,440	–	–	37,598
Stormwater drainage	10,223	133	–	19,168
Flood protection and control works	–	–	–	–
Roads and footpaths	62,877	1,705	1,824	81,885

Land under roads

Land under roads was valued based on fair value of adjacent land determined by K Tee ANZIV of Thompson Valuers Limited, effective 30 June 2005. On transition to New Zealand equivalents to International Financial Reporting Standards on 1 July 2006, the Council elected to use the fair value of land under roads as at 30 June 2005 as deemed cost. Land under roads is no longer revalued.

Library collections

Library collections are valued at depreciated replacement cost in accordance with the guidelines released in 2002 by the New Zealand Library Association and the National Library. Library valuations are performed by the Head Librarian, G Reading, and are subject to an independent review by M C Smith. The most recent valuation was effective as at 30 June 2017.

PBE IFRS 5.41

Disposals[55]

During the year, the Council derecognised the Council-owned and occupied building on Stark Road. The building was assessed in March 2017 and identified as an earthquake-prone building. The Council has decided that it is uneconomical to complete the building strengthening required to bring the building to the required earthquake-strengthening standard and vacated the property in June 2017. The carrying amount of the building of $44,000 was recognised as a loss on the disposal of the building.

The Council sold a section of Council-owned land that was used as a plant nursery for the Council's landscaping and city beautification purposes. The Council will be sourcing plants from local businesses in future. The net gain on the disposal of the land was $47,000.

The Council donated a portion of its library collection to the National Library of New Zealand and local school libraries. The collections donated were identified as part of a review of the Library's lending history and capacity to store its collections. The carrying amount of the collections donated was $nil, as all items identified for donation had been fully depreciated.

The net gain on disposal of property, plant, and equipment ($5,000) has been recognised in the statement of comprehensive revenue and expense in the line item "Other revenue".

[55] The level of detail included in this disclosure of disposed non-current assets will depend on the significance of the disposals. A general narrative may be more appropriate for non-significant disposals.

16 Property, plant, and equipment (continued)

Impairment

PBE IPSAS 21.73,77
PBE IPSAS 17.89(d)

Impairment losses of $98,000 (2016: $nil) have been recognised for plant and equipment damaged due to flooding that occurred in April 2017. The recoverable amount of the plant and equipment was based on value in use using the restoration cost approach, which was determined by reference to the depreciated replacement cost of the asset less the costs to repair the damage. A total of $36,000 in compensation has been received from an insurance claim for the damaged plant and equipment and has been recognised in the statement of comprehensive revenue and expense in the line item “Other revenue”. The impairment loss has been recognised in the statement of comprehensive revenue and expense in the line item “Other expenses”.

Work in progress [56]

PBE IPSAS 17.89(b)

Property, plant, and equipment in the course of construction by class of asset is detailed below:

	Council and group	
	2017 $000	**2016 $000**
Water system	363	110
Roading network	338	479
Buildings	189	0
Total work in progress	**890**	**589**

Restrictions [57]

PBE IPSAS 17.89(a)

Land and buildings in the “Restricted Asset” category are subject to restrictions on either use or disposal, or both. This includes restrictions from legislation (such as land declared as a reserve under the Reserves Act 1977), or other restrictions (such as land or buildings acquired under a bequest or donation that restricts the purpose for which the assets can be used).

Leasing

PBE IPSAS 13.40(a)

The net carrying amount of plant and equipment held under finance leases is $37,000 (2016: $63,000). Note 22 provides further information about finance leases.

Service concession asset

PBE IPSAS 30.32

The Te Motu Point sewerage treatment plant is owned by the Council and operated by Waste Water Management Limited (WWML) under a design, build, finance, and operate service concession arrangement contract. WWML constructed the sewerage treatment plant and must operate the facility for a 25-year term until March 2022. WWML is responsible for maintaining and replacing components of the facility during this term and at expiry of the term the facility is required to have a future life expectancy of at least 25 years. The contract terminates either on the expiry of the 25-year term or on the occurrence of a contract default event caused by either party. There is no renewal option in the contract.

The carrying amount of the sewerage treatment plant is $12.07 million as at 30 June 2017 (2016: $12.58 million), and is included in the sewerage system asset class of property, plant, and equipment.

The Council pays a monthly charge to WWML that compensates WWML for the costs of building, financing, and operating the facility. The monthly payment is adjusted for changes in cost indices, interest rates, and may be reduced in the event of failure to meet pre-specified service delivery targets.

The financial liability for construction of the facility is included in the breakdown of borrowings in Note 22 and is $4.32 million as at 30 June 2017 (2016: $4.62 million).

Capital commitments

PBE IPSAS 17.89(c)

The amount of contractual commitments for acquisition of property, plant, and equipment is:

	Council and group	
	2017 $000	**2016 $000**
Capital commitments [58]		
Water system	1,222	2,102
Roading network	243	124
Buildings	345	2,240
Total capital commitments	**1,810**	**4,466**

[56] PBE IPSAS 17.89 requires disclosure of the carrying amount of property, plant, and equipment in the course of construction for each class of asset.
[57] PBE IPSAS 17.89 requires disclosure of the existence and amounts of restrictions on title, and property, plant, and equipment pledged as security for liabilities for each class of asset.
[58] PBE IPSAS 17.89 requires disclosure of the amount of contractual commitments for the acquisition of property, plant, and equipment for each class of asset.

17 Intangible assets

PBE IPSAS 1.132(c)

Accounting policy

Software acquisition and development

PBE IPSAS 31.34,35

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

PBE IPSAS 31.64,65

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

PBE IPSAS 31.36,65,67

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.

PBE IPSAS 31 AG8

Costs associated with development and maintenance of the Council's website are recognised as an expense when incurred.

Easements

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

Carbon credits

PBE IPSAS 31.31

Purchased carbon credits are recognised at cost on acquisition. Free carbon credits received from the Crown are recognised at fair value on receipt. They are not amortised, but are instead tested for impairment annually. They are derecognised when they are used to satisfy carbon emission obligations.

Goodwill

Goodwill on acquisition of businesses and subsidiaries is included in "intangible assets". Goodwill on acquisition of an associate is included in "investment in associate" and impairment is considered as part of the overall investment balance.

PBE IPSAS 26.90.1

Goodwill is allocated to cash-generating units for the purposes of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Amortisation

PBE IPSAS 31.96,117(b)

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 that the asset is derecognised. The amortisation charge for each financial year is recognised in the surplus or deficit.

PBE IAS 38.117(a)

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

Computer software	3 to 5 years	20% to 33.3%

PBE IPSAS 1.132(c)

Impairment of intangible assets

PBE IPSAS 21.26A
PBE IPSAS 26.23.1

Intangible assets that have an indefinite useful life, or are not yet available for use, are not subject to amortisation and are tested annually for impairment.

For further details, refer to the policy for impairment of property, plant, and equipment in Note 16. The same approach applies to the impairment of intangible assets.

Breakdown of intangible assets and further information

Movements in the carrying value for each class of intangible asset are as follows: [59]

	Council carbon credits	Council computer software	Council easement	Council total	Group goodwill	Group total
	$000	$000	$000	$000	$000	$000
Cost						
Balance at 1 July 2016	0	386	64	450	251	701
Additions	164	192	0	356	0	356
Disposals	(100)	0	0	(100)	0	(100)
Balance at 30 June 2017	64	578	64	706	251	957

[59] PBE IPSAS 31.117 requires entities to distinguish between internally generated intangible assets and other intangible assets. For example, internally developed software shall be distinguished from acquired software, when material.

17 Intangible assets (continued)

	Council carbon	Council computer software	Council easement	Council total	Group goodwill	Group total
	$000	$000	$000	$000	$000	$000
Balance at 1 July 2015	100	386	64	550	251	801
Additions	0	0	0	0	0	0
Disposals	(100)	0	0	(100)	0	(100)
Balance at 30 June 2016	0	386	64	450	251	701
Accumulated amortisation and impairment						
Balance at 1 July 2016	0	295	0	295	0	295
Amortisation charge	0	131	0	131	0	131
Disposals	0	0	0	0	0	0
Balance at 30 June 2017	0	426	0	426	0	426
Balance at 1 July 2015	0	167	0	167	0	167
Amortisation charge	0	128	0	128	0	128
Disposals	0	0	0	0	0	0
Balance at 30 June 2016	0	295	0	295	0	295
Carrying amounts						
Balance at 1 July 2015	100	219	64	383	251	634
Balance at 30 June and 1 July 2016	0	91	64	155	251	406
Balance at 30 June 2017	64	152	64	280	251	531

Restrictions

PBE IPSAS 31.121(d)

There are no restrictions over the title of intangible assets. No intangible assets are pledged as security for liabilities.

Capital Commitments

PBE IPSAS 31.121(e)

Intangible asset commitments include amounts payable on forward contracts of $50,000 to purchase carbon credits to be used to satisfy the Council's obligations under the Emissions Trading Scheme for landfill emissions (2016: $nil).

Impairment

Easements

Good practice

Easements are not cash-generating in nature, as they give the Council the right to access private property where infrastructural assets are located. As such, impairment of an easement is determined by considering the future service potential of the easement. No impairment losses have been recognised for easements, as they all have ongoing service potential.

PBE IPSAS 31.121(a)

Easements have been assessed as having an indefinite useful life because they provide the Council with access to infrastructural assets for an indefinite time period.

Carbon credits

Good practice

The Council considers that there is no impairment of carbon credits held, as they are expected to be fully utilised in satisfying carbon obligations from its landfill operations.

PBE IPSAS 31.121(a)

Carbon units have been assessed as having an indefinite useful life because they have no expiry date and will continue to have economic benefit for as long as the Emissions Trading Scheme is in place.

17 Intangible assets (continued)

Goodwill

PBE IPSAS 26.123(a.1)

Goodwill of $251,000 (2016: $251,000) has been allocated to the single cash-generating unit (CGU) of Te Motu Properties Limited. The synergies of the business combination in which the goodwill arose are expected to be realised only by the assets of Te Motu Properties Limited.

PBE IPSAS 26.123(c)
PBE IPSAS 26.123(c)(iii)

The recoverable amount of the CGU has been determined based on value in use calculations. These calculations use cash flow projections based on financial budgets approved by the Board of Directors and cover a five-year period. Cash flows beyond the five-year period have been extrapolated using an estimated growth rate.

PBE IPSAS 26.123(c)(i)

Key assumptions used for the goodwill value in use calculation

PBE IPSAS 26.123(c)(i)	– budgeted gross margin	48%
PBE IPSAS 26.123(c)(i)	– weighted average growth rate	1.3%
PBE IPSAS 26.123(c)(v)	– pre-tax discount rate	9.2%

PBE IPSAS 26.123(c) (ii)

These assumptions have been used for the analysis of the CGU of Te Motu Properties Limited. The Board has determined budgeted gross margin based on past performance and its expectations for the market. The weighted average growth rate used is consistent with the forecasts included in industry reports. The discount rate used is pre-tax and reflects specific risks relevant to the CGU.

PBE IPSAS 26.123(e)

The group believes that a reasonable possible change in any of the key assumptions would not cause the carrying amount of goodwill to exceed the recoverable amount.

LG(FRP)R 5(4)

18 Depreciation and amortisation expense by group of activity

	Council	
	Actual 2017 $000	**Actual 2016 $000**
Directly attributable depreciation and amortisation expense by group of activity		
Activity 1 [60]	0	0
Activity 2	311	308
Activity 3	292	263
Activity 4	86	96
Activity 5	1,240	107
Activity 6	145	134
Activity 7	2,024	1,976
Total directly attributable depreciation and amortisation by group of activity	4,098	2,884
Depreciation and amortisation not directly related to group of activities	236	211
Total depreciation and amortisation expense	**4,334**	**3,095**

[60] Actual activity names will need to be disclosed.

19 Forestry assets

PBE IPSAS 1.132(c)

Accounting policy

PBE IPSAS 27.24,45

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

PBE IPSAS 27.30

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

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

Breakdown of forestry assets and further information

PBE IPSAS 27.48

	Council		Group	
	2017 $000	**2016 $000**	**2017 $000**	**2016 $000**
Balance at 1 July	7,343	7,127	7,620	7,404
Increases due to purchases	0	0	0	0
Gains/(losses) arising from changes attributable to physical changes[61]	324	194	324	194
Gains/(losses) arising from changes attributable to price changes	(79)	22	(79)	22
Decreases due to sales	0	0	0	0
Decreases due to harvest	0	0	0	0
Balance at 30 June	**7,588**	**7,343**	**7,865**	**7,620**

PBE IPSAS 27.44(a),(b)

The Council owns 1,187 hectares of pinus radiata forest, which are at varying stages of maturity ranging from 5 to 22 years. Te Motu Properties Limited owns 90 hectares of pinus radiata, which mature in 20 years. No trees have been harvested during the year (2016: nil).[62]

PBE IPSAS 27.47(a),(b)

There are no restrictions over the title of forestry assets. No forestry assets are pledged as security for liabilities.

Valuation assumptions

PBE IPSAS 27.45

Independent registered valuers, Forestry Valuation Limited, have valued forestry assets as at 30 June 2017. 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. The following significant valuation assumptions have been adopted in determining the fair value of forestry assets:

- a discount rate of 9.2% (2016: 9.0%) has been used in discounting the present value of expected future cash flows;
- notional land rental costs have been included for freehold land;
- the forest has been valued on a going concern basis and includes only the value of the existing crops on a single rotation basis;
- no allowance for inflation has been provided;
- costs are current average costs. No allowance has been made for cost improvements in future operations; and
- log prices are based on a three-year historical rolling average.

PBE IPSAS 27.47(d)

Financial risk management strategies

The Council and group is exposed to financial risks arising from changes in timber prices. The Council and group is a long-term forestry investor and does not expect timber prices to decline significantly in the foreseeable future. Therefore, no measures have been taken to manage the risks of a decline in timber prices. The Council and group review its outlook for timber prices regularly in considering the need for active financial risk management.

[61] Separating the increase in fair value less costs to sell between the portion attributable to physical changes and the portion attributable to price changes is encouraged but not required by PBE IPSAS 27 *Agriculture*.

[62] PBE IPSAS 27.44 requires disclosure of the non-financial measures or estimates of physical quantities of each group of the entity's biological assets at the end of the period, and output of agricultural produce during the period. A local authority that applies the RDR is not required to disclose this information.

20 Investment property

PBE IPSAS 1.132(c)

Accounting policy

PBE IPSAS 16.7

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.

PBE IPSAS 16.26

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

PBE IPSAS 16.42,44, 86(a)

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.

PBE IPSAS 1.137

Critical judgements in applying accounting policies

Classification of unoccupied land

The Council owns unoccupied land that had previously been occupied by the Council depot, which was classified as property, plant, and equipment. This land has been identified by the Council as a potential site for the construction of pensioner housing. The final decision as to the suitability of the site as pensioner housing is still dependent on the outcomes of community consultation and resource consent processes. If the site is not suitable for pensioner housing, then the Council will reassess the best use of the land, which could include commercial leases or disposal. Given the uncertainty over the future intended use of the land, the property has been classified as investment property.

Breakdown of investment property and further information

PBE IPSAS 16.87

	Council		Group	
	2017 $000	**2016 $000**	**2017 $000**	**2016 $000**
Balance at 1 July	8,040	7,726	8,040	7,726
Additions from acquisitions[63]	1,000	0	1,000	0
Additions from subsequent expenditure	26	0	26	0
Disposals	0	0	0	0
Transfer to inventory	(1,045)	0	(1,045)	0
Fair value gains/(losses) on valuation (Note 3)	71	314	71	314
Balance at 30 June	**8,092**	**8,040**	**8,092**	**8,040**

PBE IPSAS 16.86 (e)

The valuation of investment property was performed by I Trevor ANZIV, an independent valuer from Oppenheim Valuers Limited. Oppenheim Valuers Limited are experienced valuers with extensive market knowledge in the types and location of investment properties owned by the Council.

PBE IPSAS 16.86 (d)

The fair value of investment property has been determined using the capitalisation of net revenue and discounted cash flow methods. These methods are based upon assumptions including future rental revenue, anticipated maintenance costs, and appropriate discount rates.

- Net revenue, which takes into account future rental revenue and anticipated maintenance costs, ranges from $390 to $460 per square metre (2016: $360 to $460).
- Discount rates range from 6.7% to 7.7% (2016: 7.45% to 8.2%).

Information about the revenue and expenses in relation to investment property is detailed below:

		Council and Group	
		2017 $000	**2016 $000**
PBE IPSAS 16.86(f)	Rental revenue	492	476
PBE IPSAS 16.86(f)	Direct operating expenses from investment property generating revenue	22	14
PBE IPSAS 16.86(f)	Direct operating expenses from investment property not generating revenue	10	6
PBE IPSAS 16.86 (h)	Contractual obligations for capital expenditure	345	324
PBE IPSAS 16.86 (h)	Contractual obligations for operating expenditure	154	180

[63] PBE IPSAS 16 RDR 87.2 states that entities that apply the RDR are not required to distinguish additions between those resulting from acquisitions and those resulting from subsequent expenditure. Therefore, entities applying the RDR can present a single line for additions.

PBE IPSAS 1.93

21 Payables and deferred revenue

PBE IPSAS 30.25

Accounting policy

PBE IPSAS 29.45,49

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

Breakdown of payables and other information

Reference		Council 2017 $000	Council 2016 $000	Group 2017 $000	Group 2016 $000
	Current portion				
	Payables and deferred revenue under exchange transactions				
	Trade payables and accrued expenses	1,125	1,342	2,442	2,526
	Amounts due to subsidiaries and associates	145	145	0	0
	Development and financial contributions in advance	472	995	472	995
PBE IPSAS 11.53(b)	Amounts due to customers for contract work (Note 25)	0	0	7	8
PBE IPSAS 11.51(b)	Advances received for contract work (Note 25)	0	0	35	24
PBE IPSAS 1.88(k)	Total	1,742	2,482	2,956	3,553
	Payables and deferred revenue under non-exchange transactions				
	Income tax payable	0	0	2	6
	Other taxes payable (e.g. GST and FBT)	1,031	920	1,189	972
	Grants payable	48	56	148	56
PBE IPSAS 23.106(c)	Suspensory loan	50	50	50	50
PBE IPSAS 23.106(c)	Other grants and bequests received subject to substantive conditions not yet met	324	352	324	352
PBE IPSAS 1.88(j)	Total	1,453	1,378	1,713	1,436
	Total current portion	3,195	3,860	4,669	4,989
	Non-current portion				
	Payables and deferred revenue under non-exchange transactions				
PBE IPSAS 23.106(c)	Suspensory loan	607	657	607	657
	Total payables and deferred revenue	**3,802**	**4,517**	**5,276**	**5,646**

PBE IPSAS 30.29,35(a)

Payables are generally non-interest bearing and are normally settled on 30-day terms. Therefore, the carrying value of payables approximates their fair value.

Good practice

The Council received a 20-year suspensory loan of $1 million from Housing New Zealand that must be repaid if the Council makes certain decisions that affect the provision of its social housing (including selling properties) prior to 21 August 2028. The Council considers that the substance of the arrangement is the Council receives funding on condition that it provides social housing services over the 20-year term of the agreement. The current portion of the suspensory loan represents that amount of the loan that will be recognised as revenue over the next 12 months.

Good practice

Other grants and bequests include:

- a grant from the Ministry of Health of $250,000 (2016: $200,000) for the purpose of an upgrade of the Council's water treatment infrastructure; and
- bequests of $50,000 (2016: $60,000), which must be spent on the nominated purpose or returned to the transferor or a nominated party.

PBE IPSAS 1.93

22 Borrowings and other financial liabilities

PBE IPSAS 30.25

Accounting policy

PBE IPSAS 29.45,49

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.

PBE IPSAS 1.80

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

Finance leases

PBE IPSAS 13.8

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

PBE IPSAS 13.28

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.

PBE IPSAS 13.34

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.

PBE IPSAS 13.36

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.

Financial guarantee contracts

PBE IPSAS 29.10,AG4

A financial guarantee contract requires the Council or group to make specified payments to reimburse the holder of the contract for a loss it incurs because a specified debtor fails to make payment when due.

PBE IPSAS 29.45, AG92-97

Financial guarantee contracts are initially recognised at fair value. If a financial guarantee contract was issued in a stand-alone arm's-length transaction to an unrelated party, its fair value at inception is equal to the consideration received. When no consideration is received, the fair value of the liability is initially measured using a valuation technique, such as considering the credit enhancement arising from the guarantee or the probability that the Council will be required to reimburse a holder for a loss incurred discounted to present value. If the fair value of a guarantee cannot be reliably determined, a liability is recognised only when it is probable there will be an outflow under the guarantee.

PBE IPSAS 29.49(c)

Financial guarantees are subsequently measured at the higher of:

- the present value of the estimated amount to settle the guarantee obligation if it is probable that there will be an outflow to settle the guarantee; and
- the amount initially recognised less, when appropriate, cumulative amortisation as revenue.

Breakdown of borrowings and other financial liabilities and further information

	Council		Group	
	2017 $000	**2016 $000**	**2017 $000**	**2016 $000**
Current portion (PBE IPSAS 1.80)				
Bank overdraft	2,791	297	2,791	297
Secured loans	5,783	2,605	5,783	2,605
Service concession loan - secured	300	300	300	300
Debentures	0	0	1,000	0
Finance leases	15	18	15	18
Total current portion	8,889	3,220	9,889	3,220
Non-current portion (PBE IPSAS 1.80)				
Secured loans	20,046	20,770	20,046	20,770
Service concession loan - secured	4,020	4,320	4,020	4,320
Debentures	0	0	1,984	2,984
Finance leases	22	46	22	46
Financial guarantee contracts	374	346	374	346
Total non-current portion	24,462	25,482	26,446	28,466
Total borrowings and other financial liabilities	**33,351**	**28,702**	**36,335**	**31,686**

PBE IPSAS 30.38

Interest terms for secured loans

The Council's secured loans are mostly issued at floating rates of interest. For floating rate debt, the interest rate is reset quarterly based on the 90-day bank bill rate plus a margin for credit risk.

PBE IPSAS 30.38

Interest terms for debentures

The debentures are at a floating interest rate. The interest rate is reset quarterly based on the 90-day bank bill rate plus a margin for credit risk.

22 Borrowings and other financial liabilities (continued)

PBE IPSAS 30.38

Financial guarantee contracts

The Council is listed as sole guarantor for a number of community organisation bank loans. The Council is obligated under each guarantee to make loan payments in the event that the organisation defaults on a loan arrangement. The exercising of guarantees will be dependent on the financial stability of the community organisations, which will vary over time. At balance date, the Council expects that it will be called upon by banks for financial guarantees issued when loans fall due for repayment during 2018, 2019, and 2020.

Security

PBE IPSAS 30.10 The overdraft is unsecured.

PBE IPSAS 30.10 The Council's secured loans are secured over either separate or general rates of the Council.

PBE IPSAS 30.10
PBE IPSAS 17.89(a)
The debentures are secured by a floating charge over the land (carrying value of $800,000) and buildings (carrying value of $1.76 million) of the subsidiary companies that issued the debentures. The companies are free to acquire and dispose of assets provided that the net assets of the companies do not fall below $2.50 million.

PBE IPSAS 30.10
PBE IPSAS 17.89(a)
The service concession loan is secured over the service concession assets (carrying value of the sewerage facility infrastructure is $12.07 million).

Finance lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

Internal borrowings

LGA 2002 Sch 10.27 Information about internal borrowings is provided on pages 22 to 46 of the Council's annual report. Internal borrowings are eliminated on consolidation of activities in the Council's financial statements.

PBE IPSAS 30.29

Fair values

Due to interest rates on debt resetting to the market rate every three months, the carrying amounts of secured loans approximates their fair value.

The fair value of the service concession loan is $4.52 million. Fair value has been determined using contractual cash flows discounted using a rate based on market borrowing rates at balance date ranging from 6.6% to 7.2% (2016: 6.4% to 7.3%).

The fair value of finance leases is $36,000 (2016: $62,000). Fair value has been determined using contractual cash flows discounted using a rate based on market borrowing rates at balance date ranging from 5.6% to 6.2% (2016: 6.4% to 7.3%).

The carrying amount of financial guarantees approximates their fair value.

Analysis of finance leases

		Council		Group	
		2017 $000	2016 $000	2017 $000	2016 $000
PBE IPSAS 13.40(c)	**Total minimum lease payments payable**				
	Not later than one year	28	28	28	28
	Later than one year and not later than five years	43	56	43	56
	Later than five years	0	15	0	15
	Total minimum lease payments	71	99	71	99
PBE IPSAS 13.40(b)	Future finance charges	(34)	(36)	(34)	(36)
	Present value of minimum lease payments	37	63	37	63
PBE IPSAS 13.40(c)	**Present value of minimum lease payments payable**				
	Not later than one year	15	18	15	18
	Later than one year and not later than five years	22	35	22	35
	Later than five years	0	10	0	10
	Total present value of minimum lease payments	37	63	37	63

Finance lease as lessee

PBE IPSAS 13.40(a) Finance leases are for various items of plant and equipment. The net carrying amount of the plant and equipment held under finance leases is $37,000 (2016: $63,000).

PBE IPSAS 13.40 (f) Finance leases can be renewed at the Council's option, with rents set by reference to current market rates for items of equivalent age and condition. The Council does have the option to purchase the assets at the end of the lease terms.

PBE IPSAS 13.40(f) There are no restrictions placed on the Council by any of the finance leasing arrangements.

PBE IPSAS 1.93

23 Employee entitlements

PBE IPSAS 1.132(c)

Accounting policy

Short-term employee entitlements

PBE IPSAS 25.13

Employee benefits that are due to be settled within 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.

PBE IPSAS 25.20

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

Long-term employee entitlements

PBE IPSAS 25.147-152

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; and
- the present value of the estimated future cash flows.

Good practice

Presentation of employee entitlements

PBE IPSAS 1.80

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.

PBE IPSAS 1.140

Critical accounting estimates and assumptions

Estimating retirement and long service leave obligations

The present value of retirement and long service leave obligations depend on a number of factors that are determined on an actuarial basis. Two key assumptions used in calculating this liability include the discount rate and the salary inflation factor. Any changes in these assumptions will affect the carrying amount of the liability.

Expected future payments are discounted using forward discount rates derived from the yield curve of New Zealand government bonds. The discount rates used have maturities that match, as closely as possible, the estimated future cash outflows. The salary inflation factor has been determined after considering historical salary inflation patterns and after obtaining advice from an independent actuary. A weighted average discount rate of 5.8% (2016: 5.4%) and an inflation factor of 2.5% (2016: 2.5%) were used.

	Council		**Group**	
	2017 $000	**2016 $000**	**2017 $000**	**2016 $000**
Current portion				
Accrued pay	184	7	184	9
Annual leave	378	395	379	396
Sick leave	5	7	6	8
Retirement and long service leave	22	43	22	43
Total current portion	589	452	591	456
Non-current portion				
Retirement and long service leave	293	243	309	259
Total non-current portion	293	243	309	259
Total employee entitlements	**882**	**695**	**900**	**715**

PBE IPSAS 1.93

24 Provisions[64]

PBE IPSAS 1.132(c)

Accounting policy

PBE IPSAS 19.22

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.

PBE IPSAS 19.53,56

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” (see Note 5).

ACC Accredited Employers Programme

PBE IFRS 4.37(a)

The Council belongs to the ACC Accredited Employers Programme (the “Full Self Cover Plan”) whereby the Council accepts the management and financial responsibility for employee work-related illnesses and accidents. Under the programme, the Council is liable for all its claims costs for a period of two years after the end of their cover period in which the injury occurred. At the end of the two-year period, the Council pays a premium to ACC for the value of residual claims, and from that point the liability for ongoing claims passes to ACC.

The liability for the ACC Accredited Employers Programme is measured using actuarial techniques at the present value of expected future payments to be made in respect of the employee injuries and claims up to balance date. Consideration is given to anticipated future wage and salary levels and experience of employee claims and injuries. Expected future payments are discounted using market yields on government bonds at balance date with terms to maturity that match, as closely to possible, the estimated future cash outflows.

PBE IPSAS 1.140

Critical accounting estimates and assumptions

PBE IPSAS 19.98

Estimating the landfill aftercare costs

The Council has engaged an independent engineer, Engineering Associates Limited (EAL), to value the Council’s landfill aftercare provision. AEL has significant experience in performing such valuations.
The cash outflows for landfill post-closure costs are expected to occur in 5 to 25 years’ time (or between 2022 and 2042). The long-term nature of the liability means that there are inherent uncertainties in estimating costs that will be incurred. The future cash outflows for the provision have been estimated taking into account existing technology and known changes to legal requirements. The gross provision before discounting is $3.56 million (2016: $3.45 million).

The following significant assumptions have been made in estimating the provision:

- The remaining capacity of the site is 0.5 million cubic metres (refuse, clean fill, and cover).
- The estimated remaining life is 8 years, based on current projected waste volumes. Projected waste volumes have been estimated by using historical waste trend information.
- An annual inflation factor of 2.0% has been applied in estimating the future cash outflows.
- Discount rates ranging from 2.4% to 4.75% (2016: 2.87% to 4.75%) have been used to discount the estimated future cash outflows. These rates have been determined using New Zealand Government bond yield information and extrapolated beyond the available market data.

The management of the landfill will influence the timing of recognition of some liabilities. For example, the current landfill will operate in two stages. A liability relating to stage two will be created only when this stage is commissioned and when refuse begins to accumulate in this stage.

[64] The RDR does not require a disclosure of the major assumptions concerning future events used in measuring provisions (PBE IPSAS 19 RDR 98.1).

24 Provisions (continued)

Breakdown of provisions and further information

		Council		Group	
		2017 $000	**2016 $000**	**2017 $000**	**2016 $000**
PBE IPSAS 1.80	**Current portion**				
	Weathertightness claims	250	250	250	250
	Restructuring provision	50	45	50	45
PBE IFRS 4.37(b)	ACC Accredited Employers Programme	172	167	172	167
	Total current portion	472	462	472	462
PBE IPSAS 1.80	**Non-current portion**				
PBE IFRS 4.37(b)	ACC Accredited Employers Programme	74	55	74	55
	Landfill aftercare provision	2,422	2,359	2,422	2,359
	Total non-current portion	2,496	2,414	2,496	2,414
	Total provisions	**2,968**	**2,876**	**2,968**	**2,876**

PBE IPSAS 19.98

Weathertightness claims

Seven claims have been lodged with the Weathertight Homes Resolution Service (WHRS) as at 30 June 2017 (2016: Eight). These claims relate to weathertightness issues of homes in the Te Motu district and name the Council as well as other parties. The WHRS is a central government service established under the Weathertight Homes Resolution Services Act 2006. It also offers a funding assistance package (FAP) to eligible homeowners. This sees the Council contribution capped at 25% of eligible costs if the homeowner elects to use the FAP scheme. The Council has opted into the FAP scheme.

A provision for claims lodged at balance date has been established based on an actuarial assessment of claims based on historical average claim levels and other information held. The provision also includes an estimate for settlement of other civil proceedings (this includes those in relation to non-residential buildings) for weathertightness issues and for future claims relating to weathertightness issues not yet identified and reported. The Council has insurance in place that covers the provision recognised and has recognised a related receivable of $250,000 (2016: $250,000) which is presented as part of receivables in Note 9.

The provision is based on estimates and actuarial assessments and therefore actual costs to the Council may vary significantly from the amount of the provision currently recognised, particularly for estimations of unreported claims.

The significant assumptions used in the estimation of liability to the Council are explained below.

Percentage of successful claims

Historical data collected on the number of claims lodged allows assumptions to be made on the percentage of homes that may experience issues that will result in a successful weathertightness claim.

Settlement amount

This relates to the expected amount of settlement awarded from the resolution process and is based on amounts of previous settlements.

This represents the expected amount claimed by the homeowner and is based on the actual amounts for claims already settled.

Timing of claim payments

This is the expected time to settle claims and is based on historical settlement times.

Discount Rate

An average discount rate of 3% has been applied which has been determined using New Zealand government bond yield information.

PBE IPSAS 19.98

Restructuring

The Council approved a detailed and formal restructuring plan for the Te Motu Central Library, which was announced in April 2017. The restructuring commenced in June 2017. The restructuring will result in a reduction in full-time staff employed by the Te Motu Central Library. The restructuring plan and associated payments are expected to be completed in December 2017.

24 Provisions (continued)

ACC Accredited Employers Programme[65]

PBE IFRS 4 D17.7.1(a) Exposures arising from the programme are managed by promoting a safe and healthy working environment by:

- implementing and monitoring health and safety policies;
- induction training on health and safety;
- actively managing workplace injuries to ensure that employees return to work as soon as practical;
- recording and monitoring workplace injuries and near misses to identify risk areas and implementing mitigating actions; and
- identifying workplace hazards and implementation of appropriate safety procedures.

PBE IFRS 4 D17.7.1(c) The Council has chosen a stop loss limit of 200% of the industry premium. The stop loss limit means that the Council will only carry the total cost of claims of up to $300,000 for each year of cover, which runs from 1 April to 31 March. If claims for the year exceed the stop loss limit, the Council will continue to meet the cost of claims and will be reimbursed by ACC for the costs that exceed the stop loss limit.

PBE IFRS 4 D17.7.1(b)(ii) The Council is not exposed to any significant concentrations of insurance risk, as work-related injuries are generally the result of an isolated event involving an individual employee.

PBE IFRS 4 D17.8A An independent actuarial valuer, DW Smith BSc FIAA, has calculated the Council's liability, and the valuation is effective as at 30 June 2017. The valuer has attested that he is satisfied as to the nature, sufficiency, and accuracy of the data used to determine the outstanding claims liability. There are no qualifications contained in the valuer's report.

PBE IFRS 4 D17.8B(b),(c) Average inflation has been assumed as 2% for the year ending 30 June 2018 and 2.5% for the year ending 30 June 2019. A discount rate of 4.2% has been used for the years ending 30 June 2018 and 30 June 2019.

PBE IFRS 4 D17.6.1(d) Any changes in liability valuation assumptions will not have a material impact on the financial statements.

PBE IPSAS 19.97 Movements for each class of provision are as follows:[66]

	Council and group	Weather-tightness claims	Restructuring	ACC Accredited Employers Programme	Landfill	Total
		$000	$000	$000	$000	$000
Good practice	Balance at 1 July 2015	250	0	194	2,092	2,536
Good practice	Additional provisions	120	0	173	0	293
Good practice	Amounts used	(75)	0	(145)	0	(220)
Good practice	Unused amounts reversed	0	0	0	0	0
Good practice	Discount unwind (Note 5)	0	0	0	267	267
PBE IPSAS 19.97(a)	Balance at 30 June/1 July 2016	295	0	222	2,359	2,876
PBE IPSAS 19.97(b)	Additional provisions	25	81	176	0	282
PBE IPSAS 19.97(c)	Amounts used	(70)	(31)	(152)	0	(253)
PBE IPSAS 19.97(d)	Unused amounts reversed	0	0	0	(220)	(220)
PBE IPSAS 19.97(e)	Discount unwind (Note 5)	0	0	0	283	283
PBE IPSAS 19.97(a)	**Balance at 30 June 2017**	**250**	**50**	**246**	**2,422**	**2,968**

[65] Where the ACC Accredited Employers Programme liability is material to a local authority, the full disclosure requirements of PBE IFRS 4 *Insurance Contracts (Appendix D)* will need to be considered.
[66] Disclosure of comparative information for provisions is not required by PBE IPSAS 19.97. However, we consider it good practice for Tier 1 entities to disclose the comparative figures for provisions.

25 Construction contracts

PBE IPSAS 1.132(c)

Accounting policy

PBE IPSAS 11.30

Contract revenue and contract costs are recognised as revenue and expenses respectively by reference to the stage of completion of the contract at balance date. The stage of completion is measured by reference to the contract costs incurred up to balance date as a percentage of total estimated costs for each contract.

PBE IPSAS 11.23

Contract costs include all costs directly related to specific contracts, costs that are specifically chargeable to the customer under the terms of the contract, and an allocation of overhead expenses incurred in connection with the group's construction activities in general.

PBE IPSAS 11.44

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

PBE IPSAS 11.40

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

PBE IPSAS 11.54,55

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

		Council		Group	
		2017 $000	**2016 $000**	**2017 $000**	**2016 $000**
	For contracts in progress as at 30 June:				
PBE IPSAS 11.51(a)	Contract costs incurred	0	0	82	74
PBE IPSAS 11.51(a)	Recognised surpluses/(deficits)	0	0	18	61
	Progress billings	0	0	67	79
PBE IPSAS 11.53(a)	Gross amounts due from customers (Note 9)	0	0	40	21
PBE IPSAS 11.53(b)	Gross amounts due to customers (Note 21)	0	0	7	8
PBE IPSAS 11.51(b)	Advances received (Note 21)	0	0	35	24
PBE IPSAS 11.51(c)	Retentions included in progress billings	0	0	26	29

26 Contingencies

PBE IPSAS 19.100

Contingent liabilities

	Council		Group	
	2017 $000	**2016 $000**	**2017 $000**	**2016 $000**
Te Motu Floodway	910	840	910	840
Building Act claims	35	32	35	32
Financial guarantees	81	109	81	109
Other legal proceedings	12	9	12	9
Total contingent liabilities	**1,038**	**990**	**1,038**	**990**

Te Motu Floodway

The Te Motu Floodway contingent liabilities are a claim in respect of completed capital works. The Council is contesting these claims.

Building Act claims

The Building Act 2004 imposes certain obligations and liabilities on local authorities relating to the issue of building consents and inspection of work done. At the date of these financial statements, four matters under that Act indicating potential liabilities had been brought to the Council's attention.

Unquantified claims

RiskPool provides public liability and professional indemnity insurance for its members. The Council is a member of RiskPool. The Trust Deed of RiskPool provides that, if there is shortfall (whereby claims exceed contributions of members and reinsurance recoveries) in any Fund year, then the Board may make a call on members for that Fund year. The Council received a notice during 2017 for a call for additional contributions in respect of the 2014/15 Fund year as those funds are exhibiting deficits. This notice also highlighted that it is possible that further calls could be made in the future. A liability will be recognised for the future calls when there is more certainty over the amount of the calls.

26 Contingencies (continued)

Superannuation schemes

PBE IPSAS 25.33(c)

The Council is a participating employer in the DBP Contributors Scheme (the Scheme), which is a multi-employer defined benefit scheme. If all the other participating employers cease to participate in the Scheme, the Council could be responsible for any deficit of the Scheme. Similarly, if only some employers cease to participate in the Scheme, the Council could be responsible for an increased share of any deficit.

As at 31 March 2016[67], the scheme had a past service surplus of $11.70 million (exclusive of Employer Superannuation Contribution Tax (2015: $16.2 million)). This surplus was calculated using a discount rate equal to the expected return on assets, but otherwise the assumptions and methodology were consistent with the requirements of PBE IPSAS 25.[68]

The actuary of the Scheme recommended previously that the employer contributions be suspended with effect from 1 April 2011. In the latest report, the actuary recommended that the employer contributions remain suspended.

Local Government Funding Agency[69]

The Council is a guarantor of the New Zealand Local Government Funding Agency Limited (LGFA). The LGFA was incorporated in December 2011 with the purpose of providing debt funding to local authorities in New Zealand. LGFA has a current credit rating from Fitch Ratings and Standard and Poor's of AA+ and a foreign currency rating of AA.

As at 30 June 2017, the Council is one of 30 local authority shareholders and 14 local authority guarantors of the LGFA. In that regard, it has uncalled capital of $1.0 million. When aggregated with the uncalled capital of other shareholders, $20.0 million is available in the event that an imminent default is identified. Also, together with the other shareholders and guarantors, the Council is a guarantor of all of the LGFA's borrowings. At 30 June 2017, the LGFA had borrowings totalling $7.50 billion (2016: $6.50 billion).

Financial reporting standards require the Council to recognise the guarantee liability at fair value. However, the Council has been unable to determine a sufficiently reliable fair value for the guarantee, and therefore has not recognised a liability. The Council considers the risk of the LGFA defaulting on repayment of interest or capital to be very low on the basis that:

- it is not aware of any local authority debt default events in New Zealand; and
- local government legislation would enable local authorities to levy a rate to raise sufficient funds to meet any debt obligations if further funds were required.

PBE IPSAS 19.105

Contingent assets

The Council operates a scheme whereby sports clubs are able to construct facilities (for example, club rooms) on reserve land. The clubs control the use of these facilities and the Council will gain control of the asset only if the club vacates the facility. Until this event occurs, the assets are not recognised as assets in the statement of financial position. As at 30 June 2017, there are 25 facilities having an approximate value of $17.0 million (2016: 24 facilities – $16.0 million). This estimate has been based on rating valuations for the area that were performed effective 30 June 2017.

27 Equity

Good practice

Accounting policy

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

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

PBE IPSAS 1.95(c)

Restricted reserves

Restricted reserves are a component of equity generally representing a particular use to which various parts of equity have been assigned. Reserves may be legally restricted or created by the Council.

Restricted reserves include those subject to specific conditions accepted as binding by the Council and which may not be revised by the Council without reference to the Courts or a third party. Transfers from these reserves may be made only for certain specified purposes or when certain specified conditions are met.

[67] The actual information as at 31 March 2017 should be disclosed, if available from the National Provident Fund's website. The quantitative information in this disclosure is based on the actual 31 March 2016 information provided by the NPF.
[68] PBE IPSAS 25.33(c) requires that, where there is a surplus or deficit in a scheme that may affect the amount of future contributions, an entity must disclose any available information about the surplus or deficit, the basis used to determine the surplus or deficit (the RDR does not require this disclosure), and the implications, if any, for the entity.
[69] The actual uncalled capital and total LGFA borrowing amounts as at 30 June 2017 must be used when disclosing information about the LGFA. The figures included in this disclosure are not the actual 30 June 2017 figures.

27 Equity (continued)

Also included in restricted reserves are reserves restricted by Council decision. The Council may alter them without reference to any third party or the Courts. Transfers to and from these reserves are at the discretion of the Council.

Property revaluation reserve

PBE IPSAS 1.95(c)

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

Fair value through other comprehensive revenue and expense reserve

PBE IPSAS 1.95(c)

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

Cash flow hedge reserve

PBE IPSAS 1.95(c)

This reserve comprises the effective portion of the cumulative net change in the fair value of derivatives designated as cash flows hedges.

Breakdown of equity and further information

		Council		Group	
		2017 $000	**2016 $000**	**2017 $000**	**2016 $000**
PBE IPSAS 1.119(c)	**Accumulated funds**				
	Balance at 1 July	154,344	156,799	154,327	157,126
	Transfers to restricted reserves	(3,331)	(3,840)	(3,331)	(3,840)
PBE IPSAS 17.57	Transfers from property revaluation reserves on disposal	153	178	153	178
	Transfers from restricted reserves	4,036	3,821	4,036	3,821
	Surplus/(deficit) for the year	4,071	(2,614)	3,853	(2,958)
	Balance at 30 June	**159,273**	**154,344**	**159,038**	**154,327**
PBE IPSAS 1.119(c)	**Restricted reserves**				
	Balance at 1 July	10,038	10,019	10,038	10,019
	Transfers to accumulated funds	(4,036)	(3,821)	(4,036)	(3,821)
	Transfers from accumulated funds	3,331	3,840	3,331	3,840
	Balance at 30 June	9,333	10,038	9,333	10,038
PBE IPSAS 1.119(c)	**Property revaluation reserve**				
	Balance at 1 July	44,217	44,395	44,987	45,165
	Net revaluation gains	2,541	0	2,541	0
	Transfer to accumulated funds on disposal of property	(153)	(178)	(153)	(178)
	Balance at 30 June	46,605	44,217	47,375	44,987
Good practice	Property revaluation reserves for each asset class consist of:				
	Operational assets:				
	– land	18,026	17,298	18,626	17,898
	– buildings	1,591	1,524	1,761	1,694
	– library books	125	124	125	124
	Infrastructural assets:				
	– sewerage system	5,456	5,417	5,456	5,417
	– water system	5,306	4,881	5,306	4,881
	– drainage network	3,589	3,189	3,589	3,189
	– roading network	7,409	6,999	7,409	6,999
	Restricted assets:				
	– land	4,458	4,243	4,458	4,243
	– buildings	645	542	645	542
	Total	46,605	44,217	47,375	44,987

27 Equity (continued)

PBE IPSAS 1.93

Reference		Council 2017 $000	Council 2016 $000	Group 2017 $000	Group 2016 $000
PBE IPSAS 1.119(c)	**Fair value through other comprehensive revenue and expense reserve**				
	Balance at 1 July	207	78	207	78
PBE IPSAS 30.24(a)(ii)	Net change in fair value	(103)	129	(103)	129
PBE IPSAS 30.24(a)(ii)	Transfer to surplus or deficit on disposal (Note 3)	(40)	0	(40)	0
	Balance at 30 June	64	207	64	207
PBE IPSAS 1.119(c)	**Cash flow hedge reserve**				
	Balance at 1 July	162	0	162	0
PBE IPSAS 30.27(c)	Fair value gains/(losses) in the year	282	162	384	162
PBE IAS 12.61A	Tax on equity items	0	0	(10)	0
PBE IPSAS 30.27(d)	Transfer to the surplus or deficit	(122)	0	(182)	0
PBE IPSAS 30.27(e)	Transfers to the carrying amount of assets	(40)	0	(40)	0
	Balance at 30 June	282	162	314	162
	Total reserves	**56,284**	**54,624**	**57,086**	**55,394**

Reference		Council 2017 $000	Council 2016 $000	Group 2017 $000	Group 2016 $000
PBE IPSAS 1.119(c)	**Non-controlling interest**				
	Balance at 1 July	0	0	75	32
	Share of surplus/(deficit)	0	0	41	59
	Dividend paid	0	0	(16)	(16)
	Balance at 30 June	**0**	**0**	**100**	**75**

Information about reserve funds held for a specific purpose is provided below:[70]

LGA Sch 10.31

Reserve	Activities to which the reserve relates	Balance 1-July $000	Transfers into fund $000	Transfers out of fund $000	Balance 30-June $000
2017					
Water reserve	Water	3,188	1,675	(1,901)	2,962
Waste minimisation reserve	Solid Waste	245	467	(675)	37
Te Motu Parks bequest	Community facilities	126	5	(10)	121
Larry Frank bequest	Recreation services	1,134	60	(450)	744
General disaster fund	All activities	5,345	1,124	(1,000)	5,469
Total restricted reserves		**10,038**	**3,331**	**(4,036)**	**9,333**
2016					
Water reserve	Water supply	4,375	656	(1,843)	3,188
Waste minimisation reserve	Solid Waste	356	845	(956)	245
Te Motu Parks bequest	Community facilities	123	25	(22)	126
Larry Frank bequest	Recreation services	0	1,134	0	1,134
General disaster fund	All activities	5,165	1,180	(1,000)	5,345
Total restricted reserves		**10,019**	**3,840**	**(3,821)**	**10,038**

Purpose of each reserve fund

Water reserve – The water reserve is used to separate all funding and expenditure for the water activity. This keeps surpluses/deficits in the water activity separate from other activities.

Waste minimisation reserve – The waste minimisation reserve is used for recording the funding and expenditure in relation to the Council's share of the waste disposal levy received from Central government under the Waste Minimisation Act 2008. The funds received are required to be expended on initiatives and projects to promote or achieve waste minimisation and in accordance with the Council's waste management and minimisation plan.

Te Motu Parks bequest – This bequest is for the specific purpose of beautification of parks in the Te Motu District.

Larry Frank bequest – This bequest is for the specific purpose of building sculptures in the Te Motu town centre.

[70] Section 31 of Schedule 10 of the LGA prescribes disclosures for reserve funds. A reserve fund is defined by the LGA as money set aside by a local authority for a specific purpose. Local authorities will need to carefully determine their reserve funds. Reserve funds could include amounts collected by targeted rates, development and financial contributions, or lump sum contributions.

27 Equity (continued)

General disaster fund – The general disaster fund is to cover uninsurable assets like roads and bridges or other assets that are uneconomic to insure.

Capital management

PBE IPSAS 1.148A

The Council's capital is its equity (or ratepayers' funds), which comprise accumulated funds and reserves. Equity is represented by net assets.

The LGA requires the Council to manage its revenues, expenses, assets, liabilities, investments, and general financial dealings prudently and in a manner that promotes the current and future interests of the community. Ratepayers' funds are largely managed as a by-product of managing revenues, expenses, assets, liabilities, investments, and general financial dealings.

The objective of managing these items is to achieve intergenerational equity, which is a principle promoted in the LGA and applied by the Council. Intergenerational equity requires today's ratepayers to meet the costs of utilising the Council's assets and not expecting them to meet the full cost of long-term assets that will benefit ratepayers in future generations. Additionally, the Council has in place asset management plans for major classes of assets detailing renewal and maintenance programmes, to ensure that ratepayers in future generations are not required to meet the costs of deferred renewals and maintenance.

The LGA requires the Council to make adequate and effective provision in its Long-Term Plan (LTP) and in its annual plan (where applicable) to meet the expenditure needs identified in those plans. The LGA also sets out the factors that the Council is required to consider when determining the most appropriate sources of funding for each of its activities. The sources and levels of funding are set out in the funding and financial policies in the Council's LTP.

The Council has the following Council-created reserves:

- reserves for different areas of benefit;
- self-insurance reserves; and
- trust and bequest reserves.

Reserves for different areas of benefit are used where there is a discrete set of rate or levy payers as distinct from payers of general rates. Any surplus or deficit relating to these separate areas of benefit is applied to the specific reserves.

Self-insurance reserves are built up annually from general rates and are made available for specific unforeseen events. The release of these funds can generally be approved only by the Council.

Trust and bequest reserves are set up where the Council has been donated funds that are restricted for particular purposes. Interest is added to trust and bequest reserves where applicable, and deductions are made where funds have been used for the purpose they were donated.

28 Related party transactions[71]

Good practice

Related party disclosures have not been made for transactions with related parties that are:

- within a normal supplier or client/recipient relationship; and
- on terms and condition no more or less favourable than those that it is reasonable to expect the Council and group would have adopted in dealing with the party at arm's length in the same circumstances.

Good practice

Further transactions with entities within the Council group (such as funding and financing flows), where the transactions are consistent with the normal operating relationships between the entities and are on normal terms and conditions for such group transactions.

Related party transactions required to be disclosed

PBE IPSAS 20.27,30,32

The Council entered into contracting arrangements with its subsidiary Te Motu Civic Construction Limited for the construction of Council infrastructure. The contract was not tendered for. The contract value of $1.10 million was considered to be significantly below market rates for similar contracts. No amounts were outstanding at balance date.

The Council has provided a guarantee over the bank borrowings of Te Motu Rugby Club to a maximum of $105,000. The Mayor is the chair of the Te Motu Rugby Club.

The Council purchased internal audit services totalling $84,456 (2016: $23,453) from ABC Accountants Limited, an accounting firm of which a Councillor is a Partner. The services were procured without going through a tender process, and the contracted hourly rates of the internal audit staff are at a significant discount compared to other recent internal audit service contracts the Council has entered into. An amount of $23,345 was outstanding at 30 June 2017 (2016: $6,546).

[71] The Local Authorities (Members' Interests) Act 1968 threshold of $25,000 is not relevant in determining the extent of any financial reporting disclosures for related party transactions.

28 Related party transactions (continued)

PBE IPSAS 20.34(a)

Key management personnel compensation[72,73]

	2017	2016
Councillors		
Full-time equivalent members	8	8
Remuneration	$219,295	$217,592
Senior Management Team, including the Chief Executive		
Full-time equivalent members	7	7
Remuneration	$679,050	$626,250
Total full-time equivalent personnel	15	15
Total key management personnel remuneration	$898,345	$843,842

Good practice

Due to the difficulty in determining the full-time equivalent for Councillors, the full-time equivalent figure is taken as the number of Councillors.[74]

An analysis of Councillor remuneration and further information on Chief Executive remuneration is provided in Note 4.

29 Events after balance date

PBE IPSAS 14.28,30

The Council refinanced $4 million of the current portion of its secured loans on 1 September 2017. The loans were refinanced for a five-year period. The Council anticipates that the remaining current portion will be refinanced on similar terms.

There were severe storm events during August 2017 that have caused significant damage to certain infrastructural assets. The Council has incurred expenditure up to the date the financial statements were authorised for issue of $521,675 for repairs and replacement of assets as a direct result of these events. The total cost for repairs and replacement of assets is not yet evident, as the Council continues to assess the damage caused by the storm. The Council expects that certain costs in repairing and replacing assets will be reimbursed by insurance.

[72] PBE IPSAS 20.4 defines key management personnel (KMP) as all directors or members of the governing body of the entity; and other persons having the authority and responsibility for planning, directing, and controlling the activities of the reporting entity. Where they meet this requirement, KMP include: i) where there is a member of the governing body of a whole-of-government entity who has the authority and responsibility for planning, directing, and controlling the activities of the reporting entity, that member; ii) key advisors of that member; and iii) the senior management group of the reporting entity. For a local authority, we would expect the compensation of Councillors, the Chief Executive, and members of the senior management team, or equivalent body, to be included in the KMP disclosures. There may also be other individuals who meet the KMP definition of PBE IPSAS 20. Local authorities will need to consider their specific facts and circumstances in determining the individuals that shall be included in the KMP compensation disclosures.
[73] PBE IPSAS 20.34(a) requires entities to disclose the aggregate remuneration of KMP and the number of individuals, determined on a full-time equivalent basis, receiving remuneration within this category, showing separately major classes of KMP and including a description of each class.
[74] Any local authorities that have information on hours worked by elected members (including work in the role of an elected member outside formal meetings) should consider whether it is sufficiently reliable to calculate a more meaningful full-time equivalent figure for disclosure.

30 Financial instruments

PBE IPSAS 30.11

30A Financial instrument categories

The carrying amounts of financial assets and liabilities in each of the financial instrument categories are as follows:

		Council		Group	
		2017 $000	**2016 $000**	**2017 $000**	**2016 $000**
	FINANCIAL ASSETS				
	Fair value through surplus or deficit – Held for trading[75]				
PBE IPSAS 30.11(a)(ii)	Derivative financial instrument assets – not hedge accounted	160	0	160	0
Good practice	**Derivatives that are hedge accounted**				
	Derivative financial instrument assets	346	236	378	236
PBE IPSAS 30.11(c)	**Loans and receivables**				
	Cash and cash equivalents	957	1,048	4,376	4,115
	Receivables	4,557	2,314	4,337	2,447
	Other financial assets:				
	– term deposits	2,500	1,069	2,500	1,069
	– community loans	450	400	450	400
	– loans to related parties	1,000	1,000	0	0
	Total loans and receivables	9,464	5,831	11,663	8,031
PBE IPSAS 30.11 (b)	**Held-to-maturity**				
	Listed bonds	3,626	4,633	3,626	4,633
PBE IPSAS 30.11(d)	**Fair value through other comprehensive revenue and expense**				
	Other financial assets:				
	– listed bonds	1,462	767	1,462	767
	– unlisted shares	339	271	339	271
	– listed shares	992	967	992	967
	Total fair value through other comprehensive revenue and expense	2,793	2,005	2,793	2,005
	FINANCIAL LIABILITIES				
PBE IPSAS 30.11(e)(ii)	**Fair value through surplus or deficit – Held for trading**				
	Derivative financial instrument liabilities – not hedge accounted	240	0	240	0
Good practice	**Derivatives that are hedge accounted**				
	Derivative financial instrument liabilities	64	74	64	74
PBE IPSAS 30.11(f)	**Financial liabilities at amortised cost**[76]				
	Payables[77]	2,349	2,463	3,781	3,560
	Borrowings:				
	– bank overdraft	2,791	297	2,791	297
	– secured loans	25,829	23,375	25,829	23,375
	– service concession loan	4,320	4,620	4,320	4,620
	– debentures	0	0	2,984	2,984
	Total financial liabilities at amortised cost	35,289	30,755	39,705	34,836

[75] A separate total must also be presented for financial assets and financial liabilities that have been designated at initial recognition at fair value through surplus or deficit. If a local authority applies the RDR, under PBE IPSAS 30 RDR 11.1 and 11.2 it can present a single total for financial assets and a single total for financial liabilities at fair value through surplus or deficit.

[76] Financial guarantee contracts have not been included in this table as they are not subsequently measured at amortised cost or fair value.

[77] Deferred revenue items are not included within the payables figures in the financial instrument notes because deferred revenue is not a financial instrument.

30B Fair value hierarchy

For those instruments recognised at fair value in the statement of financial position, fair values are determined according to the following hierarchy:

- Quoted market price (level 1) – Financial instruments with quoted prices for identical instruments in active markets.
- Valuation technique using observable inputs (level 2) – Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.
- Valuation techniques with significant non-observable inputs (level 3) – Financial instruments valued using models where one or more significant inputs are not observable.

PBE IPSAS 30.33(a)

The following table analyses the basis of the valuation of classes of financial instruments measured at fair value in the statement of financial position:[78]

		Valuation technique		
	Total	Quoted market price	Observable inputs	Significant non-observable inputs
	$000	$000	$000	$000
30 June 2017 – Council				
Financial assets				
Derivatives	506	0	506	0
Listed bonds	1,462	1,462	0	0
Shares	1,331	992	0	339
Financial liabilities				
Derivatives	304	0	304	0
30 June 2017 – Group				
Financial assets				
Derivatives	538	0	538	0
Listed bonds	1,462	1,462	0	0
Shares	1,331	992	0	339
Financial liabilities				
Derivatives	304	0	304	0
30 June 2016 – Council				
Financial assets				
Derivatives	236	0	236	0
Listed bonds	767	767	0	0
Shares	1,238	967	0	271
Financial liabilities				
Derivatives	74	0	74	0
30 June 2016 – Group				
Financial assets				
Derivatives	236	0	236	0
Listed bonds	767	767	0	0
Shares	1,238	967	0	271
Financial liabilities				
Derivatives	74	0	74	0

[78] A tabular format must be used in presenting the fair value hierarchy quantitative disclosures unless another format is more appropriate.

30B Fair value hierarchy (continued)

PBE IPSAS 30.33(b)

There were no transfers between the different levels of the fair value hierarchy.[79]

Valuation techniques with significant non-observable inputs (level 3)

PBE IPSAS 30.33 (c)

The table below provides a reconciliation from the opening balance to the closing balance for the level 3 fair value measurements:

	2017 $000	2016 $000
Balance at 1 July	271	0
Gain and losses recognised in the surplus or deficit	0	0
Gain and losses recognised in other comprehensive revenue and expense	34	6
Purchases	34	265
Sales	0	0
Transfers into level 3	0	0
Transfers out of level 3	0	0
Balance at 30 June	**339**	**271**

PBE IPSAS 30.33 (e)

Changing a valuation assumption to a reasonable possible alternative assumption would not significantly change fair value.[80]

30C Financial instrument risks[81]

PBE IPSAS 30.38

The Council's activities expose it to a variety of financial instrument risks, including market risk, credit risk, and liquidity risk. The Council and group has a series of policies to manage the risks associated with financial instruments and seeks to minimise exposure from its treasury activities. The Council has established Council-approved Liability Management and Investment policies. These policies do not allow any transactions that are speculative in nature to be entered into.

PBE IPSAS 30.40

Market risk

Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices. Equity securities price risk arises on listed share investments, which are classified as financial assets held at fair value through other comprehensive revenue and expense. This price risk arises due to market movements in listed shares. Equity securities price risk is not managed as the only quoted share investment is in Port Te Motu Limited, which is held for strategic reasons.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Council purchases plant and equipment associated with the construction of certain infrastructural assets from overseas, which require it to enter into transactions denominated in foreign currencies. As a result of these activities, exposure to currency risk arises.

It is the Council's policy to manage foreign currency risks arising from contractual commitments and liabilities that are above $100,000 by entering into forward foreign exchange contracts to manage the foreign currency risk exposure. This means that the Council is able to fix the New Zealand dollar amount payable prior to delivery of the plant and equipment from overseas.

Fair value interest rate risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. Borrowings and investments issued at fixed rates of interest expose the Council and group to fair value interest rate risk. The Council's Liability Management policy is to maintain approximately 80% of its borrowings in fixed rate instruments. Fixed to floating interest rate swaps are entered into to hedge the fair value interest rate risk arising where the Council has borrowed at fixed rates in excess of the 80% target.

[79] Significant transfers between the different fair value hierarchy levels must be identified and the reasons for those transfers disclosed. PBE IPSAS 30.33(b) requires transfers into each level shall be disclosed and discussed separately from transfers out of each level. Additionally, for measurements included in level 3 of the fair value hierarchy, PBE IPSAS 30.33(c) requires a reconciliation between the opening and closing balances to be presented.

[80] For fair value measurements in level 3 of the hierarchy, if changing one or more of the valuation inputs to reasonably possible alternative assumptions would change fair value significantly, an entity shall state that fact and disclose the effect of those changes. PBE IPSAS 30.33(c) requires entities to disclose how the effect of a change to a reasonable possible alternative assumption was calculated.

[81] For Tier 1 entities, under PBE IPSAS 30.41(b) particular financial instrument risk disclosures are not required where the risk is not material.

30C Financial instrument risks (continued)

Cash flow interest rate risk

Cash flow interest rate risk is the risk that the cash flows from a financial instrument will fluctuate because of changes in market interest rates. Borrowings and investments issued at variable interest rates expose the Council and group to cash flow interest rate risk.

Generally, the Council and group raises long-term borrowings at floating rates and swaps them into fixed rates using interest rate swaps in order to manage the cash flow interest rate risk. Such interest rate swaps have the economic effect of converting borrowings at floating rates into fixed rates that are generally lower than those available if the Council or group borrowed at fixed rates directly. Under the interest rate swaps, the Council and group agrees with other parties to exchange, at specified intervals, the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional principal amounts.

Credit risk

Credit risk is the risk that a third party will default on its obligation to the Council and group, causing it to incur a loss. Due to the timing of its cash inflows and outflows, surplus cash is invested into term deposits and listed bonds, which gives rise to credit risk. The Council also provides financial guarantees, which gives rise to credit risk.

PBE IPSAS 30.43(c)

The Council's Investment policy limits the amount of credit exposure to any one financial institution or organisation to no more than 20% of total investments held. Investments in other local authorities are secured by charges over rates. Other than other local authorities, the group invests funds only with entities that have a Standard and Poor's credit rating of at least A2 for short-term and A- for long-term investments.

PBE IPSAS 30.43(b),44(c)

The Council and group holds no collateral or credit enhancements for financial instruments that give rise to credit risk.

Maximum exposure to credit risk

PBE IPSAS 30.43(a), AG9

The Council's maximum credit risk exposure for each class of financial instrument is as follows:

	Council		Group	
	2017 $000	**2016 $000**	**2017 $000**	**2016 $000**
Cash at bank and term deposits	3,457	2,117	6,876	5,184
Receivables	4,557	2,314	4,337	2,447
Community and related party loans	1,450	1,400	450	400
Listed bonds	5,088	5,400	5,088	5,400
Derivative financial instrument assets	506	236	538	236
Financial guarantees [82]	455	455	455	455
Total credit risk	**15,513**	**11,922**	**17,744**	**14,122**

The Council is exposed to credit risk as a guarantor of all of the LGFA's borrowings. Information about this exposure is explained in Note 26.

[82] PBE IPSAS 30 AG10(c) specifies that the maximum exposure to credit risk for financial guarantees is the maximum amount an entity would have to pay if the guarantee is called on, which may be significantly more than the amount recognised as a liability.

PBE IPSAS 30.43(c)

PBE IPSAS 30 IG25,26

30C Financial instrument risks (continued)

Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to Standard and Poor's credit ratings (if available) or to historical information about counterparty default rates.

	Council		Group	
	2017 $000	2016 $000	2017 $000	2016 $000
COUNTERPARTIES WITH CREDIT RATINGS				
Cash at bank and term deposits				
AA	2,041	1,841	3,386	2,987
AA-	1,416	1,228	3,490	2,197
Total cash at bank and term deposits	3,457	3,069	6,876	5,184
Listed bonds				
AA+	2,348	2,520	2,348	2,520
AA	2,740	2,880	2,740	2,880
Total listed bonds	5,088	5,400	5,088	5,400
Derivative financial instrument assets				
AA	144	106	144	106
AA-	362	130	394	130
Total derivative financial instrument assets	506	236	538	236
COUNTERPARTIES WITHOUT CREDIT RATINGS				
Community and related party loans				
Existing counterparty with no defaults in the past	1,160	1,120	160	120
Existing counterparty with defaults in the past	290	280	290	280
Total community and related party loans	1,450	1,400	450	400

Receivables arise mainly from the Council's statutory functions. Therefore, there are no procedures in place to monitor or report the credit quality of receivables with reference to internal or external credit ratings. The Council has no significant concentrations of credit risk in relation to receivables, as it has a large number of credit customers, mainly ratepayers, and the Council has powers under the Local Government (Rating) Act 2002 to recover outstanding debts from ratepayers.

Liquidity risk

Management of liquidity risk

PBE IPSAS 30.46(c)

Liquidity risk is the risk that the Council will encounter difficulty raising liquid funds to meet commitments as they fall due. Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities, and the ability to close out market positions. The Council aims to maintain flexibility in funding by keeping committed credit lines available.

As part of meeting its liquidity requirements, the Council maintains a target level of investments that must mature within the next 12 months. The Council manages its borrowings in accordance with its funding and financial policies, which include a Liability Management policy.

The Council has a maximum amount that can be drawn down against its overdraft facility of $4.50 million (2016: $4.50 million). There are no restrictions on the use of this facility.

30C Financial instrument risks (continued)

Contractual maturity analysis of financial liabilities, excluding derivatives

PBE IPSAS 30.46(a)

The table below analyses the Council and group's financial liabilities (excluding derivatives) into relevant maturity groupings based on the remaining period at balance date to the contractual maturity date. Future interest payments on floating rate debt are based on the floating rate on the instrument at balance date. The amounts disclosed are the contractual undiscounted cash flows and include interest payments.[83]

	Carrying amount $000	Contractual cash flows $000	Less than 1 year $000	1-2 years $000	2-5 years $000	More than 5 years $000
Council 2017						
Payables	2,349	2,349	2,349	0	0	0
Bank overdraft	2,791	2,791	2,791	0	0	0
Secured loans	25,829	31,972	7,901	6,373	4,381	13,317
Service concession loan	4,320	5,973	318	318	954	4,383
Finance leases	37	71	28	43	0	0
Financial guarantees[84] (PBE IPSAS 30 AG15(c))	374	455	455	0	0	0
Total	**35,700**	**43,611**	**13,842**	**6,734**	**5,335**	**17,700**
Group 2017						
Payables	3,781	3,781	3,781	0	0	0
Bank overdraft	2,791	2,791	2,791	0	0	0
Secured loans	25,829	31,972	7,901	6,373	4,381	13,317
Service concession loan	4,320	5,973	318	318	954	4,383
Debentures	2,984	3,458	1,238	1,118	1,102	0
Finance leases	37	71	28	43	0	0
Financial guarantees	374	455	455	0	0	0
Total	**40,116**	**48,501**	**16,512**	**7,852**	**6,437**	**17,700**
Council 2016						
Payables	2,463	2,463	2,463	0	0	0
Bank overdraft	297	297	297	0	0	0
Secured loans	23,375	29,229	2,918	7,743	5,551	13,017
Service concession loan	4,620	6,273	318	318	954	4,683
Finance leases	63	99	28	28	28	15
Financial guarantees	346	455	455	0	0	0
Total	**31,164**	**38,816**	**6,479**	**8,089**	**6,533**	**17,715**
Group 2016						
Payables	3,560	3,560	3,560	0	0	0
Bank overdraft	297	297	297	0	0	0
Secured loans	23,375	29,229	2,918	7,743	5,551	13,017
Service concession loan	4,620	6,273	318	318	954	4,683
Debentures	2,984	3,601	328	1,218	2,055	0
Finance leases	63	99	28	28	28	15
Financial guarantees	346	455	455	0	0	0
Total	**35,245**	**43,514**	**7,904**	**9,307**	**8,588**	**17,715**

[83] PBE IPSAS 30 does not prescribe the time bands to use. Entities will need to exercise judgement in determining the appropriate time bands to use.
[84] PBE IPSAS 30 AG15(c) requires that the maximum amount of an issued financial guarantee contract is allocated to the earliest time band in which the guarantee could be called by the guarantee holder.

30C Financial instrument risks (continued)

The Council is exposed to liquidity risk as a guarantor of all of the LGFA's borrowings. This guarantee becomes callable in the event of the LGFA failing to pay its borrowings when they fall due. Information about this exposure is explained in Note 26.

Contractual maturity analysis of derivative financial instrument liabilities

PBE IPSAS 30.46(b)

The table below analyses the Council and group's derivative financial instrument liabilities into those that are settled on a net basis and those that will be settled on a gross basis[85] into their relevant maturity groupings based on the remaining period at balance date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

	Liability carrying amount	Asset carrying amount	Contractual cash flows	Less than 6 months	6-12 months	1-2 years
	$000	$000	$000	$000	$000	$000
Council and group						
2017						
Gross settled forward foreign exchange contracts:	240	0				
– outflow	-	-	2,000	1,000	500	500
– inflow	-	-	2,084	1,040	522	522
Net settled derivative liabilities	64	0	78	24	26	28
Council and group						
2016						
Gross settled forward foreign exchange contracts:	0	0				
– outflow	-	-	0	0	0	0
– inflow	-	-	0	0	0	0
Net settled derivative liabilities	74	0	90	19	23	48

PBE IPSAS 30 AG17

Contractual maturity analysis of financial assets[86]

The table below analyses the Council and group's financial assets into relevant maturity groupings based on the remaining period at balance date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows and include interest receipts.

	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	2-5 years	More than 5 years
	$000	$000	$000	$000	$000	$000
Council 2017						
Cash and cash equivalents	957	957	957	0	0	0
Receivables	4,557	4,557	4,557	0	0	0
Net settled derivative assets	506	595	101	242	252	0
Other financial assets:						
– term deposits	2,500	2,717	2,156	561	0	0
– community and related party loans	1,450	2,146	98	1,098	950	0
– listed bonds	5,088	6,250	2,915	1,709	1,626	0
Total	**15,058**	**17,222**	**10,784**	**3,610**	**2,828**	**0**

[85] All gross settled derivative financial instruments shall be included in the analysis whether their fair value is an asset or a liability.
[86] Entities are required to disclose a maturity analysis of financial assets they hold for managing liquidity risk if that information is necessary to enable users of their financial statements to evaluate the nature and extent of liquidity risk.

30C Financial instrument risks (continued)

	Carrying amount $000	Contractual cash flows $000	Less than 1 year $000	1-2 years $000	2-5 years $000	More than 5 years $000
Group 2017						
Cash and cash equivalents	4,376	4,376	4,376	0	0	0
Receivables	4,337	4,337	4,337	0	0	0
Net settled derivative assets	538	636	111	253	272	0
Other financial assets:						
– term deposits	2,500	2,717	2,156	561	0	0
– community and related party loans	450	950	0	0	950	0
– listed bonds	5,088	6,250	2,915	1,709	1,626	0
Total	**17,289**	**19,266**	**13,895**	**2,523**	**2,848**	**0**
Council 2016						
Cash and cash equivalents	1,048	1,048	1,048	0	0	0
Receivables	2,314	2,314	2,314	0	0	0
Net settled derivative assets	236	280	102	64	114	0
Other financial assets:						
– term deposits	1,069	1,109	1,109	0	0	0
– community and related party loans	1,400	2,244	98	98	2,048	0
– listed bonds	5,400	6,523	1,748	4,218	557	0
Total	**11,467**	**13,518**	**6,419**	**4,380**	**2,719**	**0**
Group 2016						
Cash and cash equivalents	4,115	4,115	4,115	0	0	0
Receivables	2,447	2,447	2,447	0	0	0
Net settled derivative assets	236	280	102	64	114	0
Other financial assets:						
– term deposits	1,069	1,109	1,109	0	0	0
– community and related party loans	400	950	0	0	950	0
– listed bonds	5,400	6,523	1,748	4,218	557	0
Total	**13,667**	**15,424**	**9,521**	**4,282**	**1,621**	**0**

PBE IPSAS 30.47

30C Financial instrument risks (continued)

SENSITIVITY ANALYSIS [87]

The tables below illustrate the potential effect on the surplus or deficit and equity (excluding accumulated funds) for reasonably possible market movements, with all other variables held constant, based on the Council and group's financial instrument market risk exposures at balance date.

COUNCIL

	2017 $000				2016 $000			
INTEREST RATE RISK		**-50bps**		**+100bps**		**-100bps**		**+100bps**
	Surplus	**Other equity**	**Surplus**	**Other equity**	**Surplus**	**Other equity**	**Surplus**	**Other equity**
Financial assets								
Cash and cash equivalents	(1)	0	2	0	(2)	0	2	0
Derivatives - held for trading	(160)	0	320	0	0	0	0	0
Derivatives - hedge accounted	(93)	(234)	186	567	0	0	0	0
Listed bonds	0	28	0	(56)	0	101	0	(101)
Financial liabilities								
Derivatives - hedge accounted	0	0	0	0	0	0	0	0
Bank overdraft	14	0	(28)	0	3	0	(3)	0
Secured loans	125	0	(250)	0	220	0	(220)	0
Total sensitivity	**(115)**	**(206)**	**230**	**511**	**221**	**101**	**(221)**	**(101)**
FOREIGN EXCHANGE RISK		**-10%**		**+10%**		**-10%**		**+10%**
	Surplus	**Other equity**	**Surplus**	**Other equity**	**Surplus**	**Other equity**	**Surplus**	**Other equity**
Financial liabilities								
Derivatives - held for trading	567	0	(434)	0	0	0	0	0
Payables	(27)	0	31	0	0	0	0	0
Total sensitivity	**540**	**0**	**(403)**	**0**	**0**	**0**	**0**	**0**
EQUITY PRICE RISK								
Financial assets								
Listed shares	0	(99)	0	99	0	97	0	(97)
Total sensitivity	**0**	**(99)**	**0**	**99**	**0**	**97**	**0**	**(97)**

[87] PBE IPSAS 30 does not prescribe the format for presenting the sensitivity analysis. These model financial statements illustrate one possible presentation that meets the requirements of PBE IPSAS 30.

30C Financial instrument risks (continued)

GROUP

	2017 $000				2016 $000			
INTEREST RATE RISK	**Surplus**	**-50bps Other equity**	**Surplus**	**+100bps Other equity**	**Surplus**	**-100bps Other equity**	**Surplus**	**+100bps Other equity**
Financial assets								
Cash and cash equivalents	(1)	0	2	0	(1)	0	1	0
Derivatives - held for trading	(244)	0	487	0	0	0	0	0
Derivatives - hedge accounted	(99)	(298)	198	597	0	0	0	0
Listed bonds	0	28	0	(56)	0	101	0	(101)
Financial liabilities								
Bank overdraft	14	0	(28)	0	3	0	(3)	0
Term loans	125	0	(250)	0	220	0	(220)	0
Debentures	10	0	(20)	0	30	0	(30)	0
Total sensitivity	**(195)**	**(270)**	**389**	**541**	**252**	**101**	**(252)**	**(101)**
FOREIGN EXCHANGE RISK	**Surplus**	**-10% Other equity**	**Surplus**	**+10% Other equity**	**Surplus**	**-10% Other equity**	**Surplus**	**+10% Other equity**
Financial liabilities								
Derivatives - held for trading	567	0	(434)	0	0	0	0	0
Payables	(29)	0	31	0	0	0	0	0
Total sensitivity	**538**	**0**	**(403)**	**0**	**0**	**0**	**0**	**0**
EQUITY PRICE RISK								
Financial assets								
Listed shares	0	(99)	0	99	0	97	0	(97)
Total sensitivity	**0**	**(99)**	**0**	**99**	**0**	**97**	**0**	**(97)**

30C Financial instrument risks (continued)

Explanation of interest rate risk sensitivity

The interest rate sensitivity is based on a reasonable possible movement in interest rates, with all other variables held constant, measured as a basis points (bps) movement. For example, a decrease in 50 bps is equivalent to a decrease in interest rates of 0.5%.

The sensitivity for derivatives (interest rate swaps) has been calculated using a derivative valuation model based on a parallel shift in interest rates of -50bps/+100bps (2016: -100bps/+100bps).

Explanation of foreign exchange risk sensitivity

The foreign exchange sensitivity is based on a reasonable possible movement in foreign exchange rates, with all other variables held constant, measured as a percentage movement in the foreign exchange rate.

The sensitivity for derivatives (forward foreign exchange contracts) has been calculated using a derivative valuation model based on movement in forward exchange rates of -10%/+10% (2016: -10%/+10%).

Explanation of other price risk sensitivity

The sensitivity for listed shares has been calculated based on a -10%/+10% (2016: -10%/+10%) movement in the quoted bid share price at year-end for the listed shares.

31 Explanations of major variances against budget[88]

PBE IPSAS 1.148.1

Explanations for major variations from the Council's budget figures in its 2016/17 annual plan are as follows:

Statement of comprehensive revenue and expense

Subsidies and grants were greater than budgeted by $650,000 due to the timing of roading capital expenditure and an increased subsidy rate of certain claims from the New Zealand Transport Agency.

Other revenue was greater than budgeted by $1.46 million due to revenue from vested subdivision assets being $950,000 greater than expected and the forestry valuation being $180,000 greater than expected.

Other expenses were greater than budgeted by $1.17 million due to:

- maintenance expenditure being over budget by $802,000 due to unanticipated severe storms during the year and the associated clean-up and repair costs of Council infrastructural assets;
- costs associated with the review of the Council's district plan being over budget by $304,000 due to the review progressing faster than expected; and
- rubbish disposal costs of $196,000 for transporting rubbish to another district. The Council has sought resource consent for an additional landfill that would operate in the southern part of the district and it was anticipated that the additional landfill would be operational during the year. However, the resource consent has not yet been obtained, meaning that the Council had to resort to transporting rubbish to another district.

Other comprehensive revenue and expense was greater than budgeted, as the Council did not anticipate a property revaluation for the year ended 30 June 2017.

Statement of financial position

Equity

The greatest movement within equity is in accumulated funds due to a larger than estimated net surplus.

Borrowings

There was higher than estimated current borrowings at year-end due to a greater than budgeted overdraft of $2.0 million, matched partly by a higher than estimated level of investments of $600,000 and receivables of $1.21 million.

[88] Schedule 10, clauses 25 and 28 of the LGA establish statutory reporting requirements in relation to significant variances against planning results. It may be appropriate to refer here to the sections of the annual report, which provide these statutory comparisons of actual against planned results.

32 Prior year error correction

PBE IPSAS 3.54

The Council and group has adjusted its comparative year financial statements for the year ended 30 June 2016 for the correction of a prior period error.

During 2016/17, the Council discovered that $450,000 in development contributions charged during 2015/16 was incorrectly accounted for as revenue for the year ended 30 June 2016. Because the service to be provided by the development contributions was not yet provided for, or able to be provided, the contributions should have been accounted for as revenue in advance as at 30 June 2016 in accordance with the Council's accounting policy. The financial statements for 2016, which are presented as comparative information in the 30 June 2017 financial statements, have been restated to correct this error.

The adjustments are shown in the table below.

	Actual 2016		
	Before adjustments $000	**Correction of error $000**	**After adjustments $000**
Council			
Revenue			
Development and financial contributions	561	(450)	111
Current liabilities			
Payables and deferred revenue	3,410	450	3,860
Equity			
Accumulated funds	154,794	(450)	154,344
Group			
Revenue			
Development and financial contributions	470	(450)	20
Current liabilities			
Payables and deferred revenue	4,539	450	4,989
Equity			
Accumulated funds	155,777	(450)	154,327

APPENDIX

OTHER LEGISLATIVE DISCLOSURES

LGA Sch 10.30
LG(FRP)R Form 5

1 Funding impact statement for whole of Council[89]

Te Motu District Council Funding Impact Statement for the year ended 30 June 2017 (whole of Council)

	2016 Annual plan $000	2016 Annual report $000	2017 Annual plan $000	2017 Actual $000
Sources of operating funding				
General rates, uniform annual general charges, rates penalties	10,902	10,996	12,900	12,853
Targeted rates	4,198	4,269	5,056	4,915
Subsidies and grants for operating purposes	456	324	333	426
Fees and charges	3,202	3,463	3,846	4,428
Interest and dividends from investments	605	701	880	933
Local authorities fuel tax, fines, infringement fees, and other receipts	980	1,038	1,012	1,204
Total operating funding (A)	20,343	20,791	24,027	24,759
Applications of operating funding				
Payments to staff and suppliers	16,879	17,815	15,505	16,294
Finance costs	2,014	2,276	2,456	2,317
Other operating funding applications	4,978	4,454	3,876	4,074
Total applications of operating funding (B)	23,871	24,545	21,837	22,685
Surplus/(deficit) of operating funding (A-B)	(3,528)	(3,754)	2,190	2,074
Sources of capital funding				
Subsidies and grants for capital expenditure	1,470	1,200	1,333	1,890
Development and financial contributions	120	111	560	571
Increase/(decrease) in debt	1,250	1,000	2,233	2,127
Gross proceeds from sale of assets	1,879	2,173	571	1,479
Lump sum contributions	-	-	130	150
Other dedicated capital funding	-	-	-	-
Total sources of capital funding (C)	4,719	4,484	4,827	6,217
Application of capital funding				
Capital expenditure:				
– To meet additional demand	600	474	1,368	1,461
– To improve the level of service	458	355	684	1,096
– To replace existing assets	1,504	1,539	4,789	4,750
Increase/(decrease) in reserves	110	142	246	346
Increase/(decrease) of investments	(1,481)	(1,780)	(70)	638
Total applications of capital funding (D)	1,191	730	7,017	8,291
Surplus/(deficit) of capital funding (C-D)	3,528	3,754	(2,190)	(2,074)
Funding balance ((A-B)+(C-D))	**0**	**0**	**0**	**0**

[89] The figures included in the illustrative funding impact statement are fictitious and may not necessarily reconcile to the figures included in the Te Motu District Council financial statements.

2 Funding impact statement for group of activities[90]

LGA Sch 10.26
LG(FRP)R Form 4

Te Motu District Council Funding Impact Statement for the year ended 30 June 2017 for water

	2016 Long-term plan $000	2017 Long-term plan $000	2017 Actual $000
Sources of operating funding			
General rates, uniform annual general charges, rates penalties	-	-	-
Targeted rates	2,185	2,310	2,350
Subsidies and grants for operating purposes	-	-	-
Fees and charges	-	-	-
Internal charges and overheads recovered	-	-	-
Local authorities fuel tax, fines, infringement fees, and other receipts	-	-	-
Total operating funding (A)	2,185	2,310	2,350
Applications of operating funding			
Payments to staff and suppliers	547	555	564
Finance costs	-	-	-
Internal charges and overheads applied	457	560	534
Other operating funding applications	-	-	-
Total applications of operating funding (B)	1,004	1,115	1,098
Surplus/(deficit) of operating funding (A-B)	1,181	1,195	1,252
Sources of capital funding			
Subsidies and grants for capital expenditure	214	145	145
Development and financial contributions	124	130	95
Increase/(decrease) in debt	17	1,783	1,668
Gross proceeds from sale of assets	-	-	-
Lump sum contributions	-	-	-
Other dedicated capital funding	-	-	-
Total sources of capital funding (C)	355	2,058	1,908
Application of capital funding			
Capital expenditure:			
– To meet additional demand	55	60	62
– To improve the level of service	245	145	156
– To replace existing assets	1,236	3,048	2,942
Increase/(decrease) in reserves	-	-	-
Increase/(decrease) of investments	-	-	-
Total applications of capital funding (D)	1,536	3,253	3,160
Surplus/(deficit) of capital funding (C-D)	(1,181)	(1,195)	(1,252)
Funding balance ((A-B)+(C-D))	**0**	**0**	**0**

[90] The figures included in the illustrative funding impact statement are fictitious and may not necessarily reconcile to the figures included in the Te Motu District Council financial statements.

3 Rating base information

LGA Sch 10.30A

The following rating base information for Te Motu District Council is disclosed based on the rating base information at the end of the **preceding** financial year:

	30 June 2016
Number of rating units	8,328
Total capital value of rating units	$3,873,200,725
Total land value of rating units	$2,174,456,425

4 Insurance of assets

LGA Sch 10.31A

The following information relates to the insurance of Council assets as at 30 June:[91,92]

	2017 $000	2016 $000
The total value of all Council assets covered by insurance contracts	5,392	3,736
The maximum amount to which insured assets are insured	7,159	5,986
The total value of all Council assets covered by financial risk-sharing arrangements	205,392	200,784
Maximum amount available to the Council under financial risk-sharing arrangements	225,784	220,791
Total value of assets that are self-insured	0	0
Value of funds maintained for self-insurance	0	0

In the event of natural disaster, central government may contribute up to 60% towards the restoration of water, drainage, and sewerage assets, and provide a subsidy towards the restoration of roads.

[91] While not required, local authorities could disaggregate the asset insurance information further, such as by class of asset. Extra contextual information should be provided where necessary.
[92] The net book value reflects the total value of the assets.

SUBJECT INDEX