Council Financial Statements

Supporting Information for the 2017/18 Annual Plan Consultation Document

Contents

Significant Forecasting Assumptions

The financial information in this Annual Plan is a forecast of Council's future expenditure and funding needs. The actual financial results for the financial year (ending 30 June) have formed the initial basis of financial forecasts of operating costs and operating revenues, asset values and liabilities, but they are also unavoidably and inherently based on several assumptions about the future.

The significant forecasting assumptions were developed and adopted as part of the 2015-2025 Long Term Plan (LTP). This Annual Plan is Year 3 of the 2015-2025 LTP and it is important to note that overtime the level of uncertainty and risk associated with the assumptions may increase. As such it is important that the forecasting assumptions are reviewed and revised during the development of LTPs and, where necessary, Annual Plans.

This section sets out the assumptions Council has made as part of developing this Annual Plan as well as the risk and level of uncertainty associated with each assumption. The main concentrations of risk are identified as arising from:

- Central Government imposing new responsibilities and compliance requirements.
- Changes in the economic environment such as changes in the current and recently prevailing ranges of inflation and interest rates.
- Asset costs, relating to unforeseen deterioration, maintenance contracts or resource consent conditions.
- The rate and location of growth within the District.

Given the number and range of necessary assumptions along with the potential for events turning out otherwise and presenting threats to the integrity of this Annual Plan, it is relevant to note that the Council does have various measures in place to mitigate the risks involved in dealing with these and other unforeseen adverse events including:

- A $250,000 sum within the Capital Projects Fund set aside for dealing with emergency events and civil defence emergencies.
- Civil defence and emergency management plans.
- Membership of the Local Authorities Protection Programme (LAPP)
- Insurance cover where appropriate and possible.
- Contingency plans for key assets and facilities.

Should significant adverse events occur, Council would need to reduce expenditures on some activities to allow for increased expenditure on recovery and rehabilitation work.

The significant forecasting assumptions have been summarised in the following table (please see the 2015-2025 LTP to view the significant forecasting assumptions for that period in full).

Issue	Assumption	Risk
Population Growth	Population is assumed to grow at a rate of less than 1% (0.4%) in the next year.	Population growth across the District is at a significantly different rate than assumed. Level of uncertainty: Moderate
Ageing Population	The District's population is ageing, with high growth predicted in the over 65 years age range and little growth occurring in the 20 years and 30 years age ranges.	Population growth for different age groups is substantially different from what is anticipated. Level of uncertainty: Low
Household Growth	Number of dwellings is assumed to grow by 135 dwellings over the next year to 15,546. The majority of this growth is anticipated to occur in the rural (or rural lifestyle) area. It is also assumed that occupancy rates will slightly increase, while average number of occupants per dwelling will slightly decrease.	Growth of dwellings, occupancy rates, and the decline of average number of occupants varies substantially from what was anticipated. Or that the growth becomes more highly concentrated in one or two areas rather than across the whole District. Level of uncertainty: Low to Moderate
Natural Hazards	That Council has the capacity to borrow any funds it may require to respond to and recover from a natural hazard event, should an event occur in the next year.	A natural hazard event occurs and the cost of the damage is more than the funds available to Council if it was to stay within its current debt limit set by the Local Government Funding Agency. Level of uncertainty: Low to Moderate
Climate Change	That although climate change may impact the District in the long term, it will not during this year.	Climate change occurs at a different rate to what has been projected with greater or lesser local implications. Level of uncertainty: Low to Moderate
Legislative Changes	Changes in legislation will not have a significant effect on Council's finances or levels of service.	Legislative reform could require Council to change plans, bylaws and regulatory processes. There is uncertainty around the cost implications and timing allowed to undertake changes associated with future reform.

<table>
<tr><th>Issue</th><th>Assumption</th><th>Risk</th></tr>
<tr><td></td><td></td><td>Level of uncertainty: Moderate</td></tr>
<tr><td>Asset Management Plans</td><td>Council's confidence in the underlying data for the Asset Management Plans as identified below:
<table>
<tr><th>Asset class</th><th>Data confidence grade*</th></tr>
<tr><td>Water</td><td>C</td></tr>
<tr><td>Wastewater</td><td>C</td></tr>
<tr><td>Stormwater</td><td>C</td></tr>
<tr><td>Land Transport</td><td>B</td></tr>
<tr><td>Solid Waste</td><td>C</td></tr>
<tr><td>Parks and Property</td><td>C</td></tr>
</table>
Refer to Long Term Plan for further information.</td><td>Information on the condition of underground assets is continually improving along with Council's understanding of what assets need to be renewed and when.

Level of uncertainty: Moderate</td></tr>
<tr><td>Asset Revaluations</td><td>Revaluation of assets will be in line with assumed rates of inflation relevant to local government and cost fluctuations.

Council is assuming that the expected useful lives of significant assets will remain the same.</td><td>Asset valuations could be higher or lower than assumed.

Level of uncertainty: Moderate</td></tr>
<tr><td>Useful Lives of Assets</td><td>That assets will last as long as estimated in Council's Asset Management Plans and Infrastructure Strategy.</td><td>Assets deteriorate at a faster or slower rate than anticipated, meaning that they need to be replaced earlier or later than forecast.

Level of uncertainty: Moderate</td></tr>
<tr><td>Sources of funds for replacement of significant assets</td><td>That funding for the replacement of significant assets will be in accordance with the Council's Revenue and Finance Policy and Financial and Infrastructure Strategies.</td><td>That there are insufficient funds available for the replacement of assets.

Level of uncertainty: Low</td></tr>
<tr><td>Interest costs</td><td>Council is assuming for the next year the interest rate for new borrowing will be approximately 4.75% which differs to the forecast rate of 6.0% that was assumed in the LTP for 2017/2018.</td><td>Interest rates may vary subject to market conditions.

Level of uncertainty: Moderate</td></tr>
<tr><td>Depreciation</td><td>By 2018 depreciation funds will be adequate to fund asset renewal expenditure.</td><td>The actual cost of renewals may be higher or lower than depreciation.

Level of uncertainty: Moderate</td></tr>
</table>

Issue	Assumption	Risk
Resource Consents	Council will obtain any resource consents required to ensure its water, wastewater, stormwater and solid waste activities will continue to operate. Also that these consents are granted within required timeframes and anticipated expenditure.	That it will take more time and be more expensive than anticipated to obtain resource consents and that the conditions are more stringent. Level of uncertainty: Moderate
Local Government Funding Agency (LGFA)	That LGFA remains in existence and is Council's preferred source of debt funding. Also that the deed guarantee obligations on default of any Council under the deed will not occur.	The risk of a local authority borrower defaulting is extremely low and highly unlikely given that borrowings are secured by rates. Level of uncertainty: Low
Asset Sales	Within first 3 years of the 2015-2025 LTP Council is assuming it will sell approximately $5 million of its non-core assets and that the revenue from the sales will be used to pay off some of Council's debt. Also that the Council will sell 6 sections this year at Foxton Beach subdivision.	Council sells more or less non-core assets and sections in Foxton Beach. Level of uncertainty: Moderate
Investment Revenue	Council is assuming that dividends will be zero (or immaterial) and that the rate of interest earned will be between 2.75% and 3.5% which is less than assumed in the 2015-2025 LTP.	Interest earned is higher or lower than is anticipated. Level of uncertainty: Low to Moderate
Inflation	Increases in inflation will be in accordance with the inflation adjusters that have been provided by Business and Economic Research Ltd (BERL) and endorsed for use by the Society of Local Government Managers (SOLGM).**	Future rates of inflation are subject to a large number of variables which are beyond Council's control and are difficult to forecast. Level of uncertainty: Low to Moderate
NZTA Subsidy (Funding Assistance Rates)	That roading subsidies will increase over the next year in line with the LTP assumption (52%).	NZTA may not approve the full subsidy Council requests or there may be a variation in the criteria for inclusion in the subsidised works programme. Level of uncertainty: Moderate
Development Contributions	Not currently charged.	Council may decide to re-introduce the requirement for some form of contribution to be charged depending on growth.

Issue	Assumption	Risk
		Level of uncertainty: Low
Financial Contributions	Note: Waiting on the outcome of the current Resource Management Act (RMA) reforms which propose the phasing out of financial contributions.	Financial Contributions are not introduced because they are phased out as a result of the reforms to the RMA. Level of uncertainty: Moderate

*"A" means little or no assumption in asset and condition data, "E" means all data is assumed.

**Below table.

BERL Inflation Forecast (% P.A.)

	Roading %	Property, Parks & Reserves %	Water %	Staff %	Other %
Year ending	**% pa change**				
June 2016	1.2	2.2	5.2	1.8	2.3
June 2017	1.4	2.4	3.8	1.9	2.5
June 2018	2.2	2.5	3.0	2.0	2.6

Indicative Rates on Selected Properties

Locality	New Land Value	New Capital Value	Old Land Value	Old Capital Value	2016/17 Total	Indicative Rates 2017/18 General	Roading	Library	Rep & Gov	Pools	Solid Waste	Stormwtr	Water	Sewer	IndicTotal	Increase Reval Effect	Policy effect	Budget effect	Total	Total
	$	$	$	$	$	$	$	$	$	$	$	$	$	$	$	$	$	$	$	%
Hokio Bch	55,000	89,000	58,000	89,000	**964**	271	70	234	234	148	24	41	-	-	**1,022**	(35)	14	78	57	6.0%
Waikaw a Bch	155,000	275,000	155,000	260,000	**1,618**	765	217	234	234	148	24	126	-	-	**1,748**	(44)	41	133	129	8.0%
Waikaw a Bch	200,000	315,000	240,000	355,000	**2,124**	987	249	234	234	148	24	144	-	-	**2,020**	(308)	53	151	(104)	-4.9%
Ohau	146,000	405,000	146,000	385,000	**2,140**	720	320	234	234	148	24	185	407	-	**2,272**	(52)	38	146	132	6.2%
Manakau	220,000	450,000	220,000	490,000	**2,198**	1,086	355	234	234	148	24	205	-	-	**2,286**	(147)	58	177	88	4.0%
Waitarere Bch	82,000	195,000	78,000	180,000	**1,766**	405	154	234	234	148	24	89	-	593	**1,881**	(4)	22	96	115	6.5%
Waitarere Bch	113,000	230,000	108,000	220,000	**1,952**	558	182	234	234	148	24	105	-	593	**2,078**	(14)	30	110	126	6.4%
Waitarere Bch	295,000	400,000	295,000	395,000	**3,023**	1,456	316	234	234	148	24	183	-	593	**3,188**	(98)	78	184	164	5.4%
Foxton Bch	70,000	155,000	64,000	137,000	**1,966**	345	122	234	234	148	24	71	312	593	**2,083**	17	18	81	117	5.9%
Foxton Bch	99,000	180,000	90,000	155,000	**2,107**	488	142	234	234	148	24	82	312	593	**2,257**	30	26	94	150	7.1%
Foxton Bch	310,000	555,000	310,000	555,000	**3,605**	1,530	438	234	234	148	24	253	312	593	**3,766**	(127)	82	206	161	4.5%
Foxton Bch	75,000	215,000	68,000	195,000	**2,056**	370	170	234	234	148	24	98	312	593	**2,183**	16	19	93	127	6.2%
Tokomaru	58,000	205,000	53,000	195,000	**2,079**	286	162	234	234	148	24	94	407	593	**2,182**	(2)	15	90	102	4.9%
Tokomaru	70,000	245,000	70,000	240,000	**2,212**	345	193	234	234	148	24	112	407	593	**2,290**	(37)	18	97	78	3.5%
Vacant Lifestyle	102,000	107,000	102,000	107,000	**833**	157	84	234	234	148	17	-	-	-	**874**	(27)	-	68	41	5.0%
Rural	760,000	1,300,000	660,000	1,150,000	**2,450**	1,167	881	234	234	148	17	-	-	-	**2,681**	41	-	190	231	9.4%
Rural	6,650,000	7,660,000	6,525,000	7,450,000	**18,098**	10,214	5,193	936	936	592	68	-	-	-	**17,939**	(1,373)	-	1,214	(159)	-0.9%
Rural	570,000	1,460,000	500,000	1,420,000	**2,376**	875	990	234	234	148	17	-	-	-	**2,498**	(61)	-	183	122	5.1%
Rural	3,010,000	3,240,000	2,620,000	2,830,000	**6,803**	4,623	2,196	234	234	148	17	-	-	-	**7,452**	156	-	493	649	9.5%
Rural	3,220,000	3,332,000	2,800,000	2,900,000	**7,145**	4,946	2,259	234	234	148	17	-	-	-	**7,838**	177	-	516	693	9.7%
Rural	6,871,000	7,965,000	5,975,000	6,970,000	**16,870**	10,553	5,400	936	936	592	68	-	-	-	**18,485**	367	-	1,248	1,615	9.6%
Rural Residential	147,000	285,000	147,000	270,000	**1,443**	712	225	234	234	148	17	-	-	-	**1,570**	(36)	52	111	127	8.8%
Rural Residential	310,000	510,000	310,000	510,000	**2,761**	1,501	402	234	234	148	17	-	407	-	**2,943**	(94)	110	167	182	6.6%
Rural Residential	280,000	670,000	280,000	640,000	**2,733**	1,356	529	234	234	148	17		407	-	**2,925**	(77)	100	170	192	7.0%
Utility	0	35,900,000	0	41,200,000	**29,044**	-	24,337	234	234	148	17	-	-	-	**24,970**	(6,163)	0	2,089	(4,074)	-14.0%
Utility	0	19,950,000	0	12,470,000	**9,195**	-	13,525	234	234	148	17	-	-	-	**14,158**	3,778	-	1,185	4,963	54.0%
Levin - Business	32,000	92,000	29,000	75,000	**1,849**	178	62	234	234	148	24	42	407	593	**1,922**	17	(10)	66	73	3.9%
Levin - Vacant	97,000	100,000	88,000	91,000	**1,717**	539	79	234	234	148	24	46	204	297	**1,804**	27	(32)	92	87	5.1%
Levin	63,000	215,000	57,000	160,000	**3,722**	350	170	468	468	296	48	98	814	1,186	**3,898**	59	(20)	137	176	4.7%
Levin	87,000	220,000	79,000	180,000	**2,277**	484	174	234	234	148	24	100	407	593	**2,398**	47	(28)	102	121	5.3%
Levin	103,000	220,000	94,000	195,000	**2,383**	573	174	234	234	148	24	100	407	593	**2,487**	30	(33)	107	105	4.4%
Levin - Business	230,000	800,000	210,000	580,000	**3,464**	1,279	542	234	234	148	24	365	407	593	**3,826**	213	(74)	222	362	10.4%
Levin - Business	240,000	620,000	250,000	730,000	**3,864**	1,334	420	234	234	148	24	283	407	593	**3,677**	(310)	(77)	201	(187)	-4.8%
Foxton	32,000	85,000	40,000	94,000	**1,945**	178	67	234	234	148	24	39	407	593	**1,924**	(213)	(10)	201	(21)	-1.1%
Foxton	44,000	220,000	55,000	145,000	**2,095**	245	174	234	234	148	24	100	407	593	**2,159**	(146)	(14)	225	65	3.1%
Foxton	69,000	240,000	86,000	210,000	**2,355**	384	189	234	234	148	24	110	407	593	**2,323**	(243)	(23)	234	(33)	-1.4%
Shannon	38,000	123,000	33,000	116,000	**1,931**	211	97	234	234	148	24	56	407	593	**2,004**	13	(12)	71	73	3.8%
Shannon	68,000	115,000	59,000	96,000	**2,058**	378	91	234	234	148	24	52	407	593	**2,161**	45	(22)	81	104	5.0%
Shannon	55,000	160,000	48,000	149,000	**2,059**	306	126	234	234	148	24	73	407	593	**2,145**	20	(17)	82	86	4.2%

Funding Impact Statement

1. Revenue and Financing Sources Generally

The following revenue mechanisms will be used in 2017/2018 and are consistent with the 2015-2025 LTP:

- General rates
- Targeted rates
- Fees and charges
- Interest and dividends
- Grants and subsidies

2. Funding Mechanisms

The following funding mechanisms will be used in 2017/2018 and are consistent with the 2015-2025 LTP:

- Borrowing
- Proceeds from asset sales
- Reserves

Refer to the Council's Revenue and Financing Policy for further information on how these funding mechanisms will be used.

3. Definition of Separately Used or Inhabited Parts (SUIPs)

Several of the rates listed below are assessed on the basis of the number of SUIPs there are in a rating unit.

SUIPs are listed in Schedule 3 of the Local Government (Rating) Act 2002 as one of the factors that may be used in calculating liability for targeted rates and section 15(1)(b) allows SUIPs to be used as the basis for Uniform Annual General Charges (UAGCs) as well.

Where rates are calculated on each Separately Used or Inhabited Part of a rating unit, the following definitions will apply:

- A separately used or inhabited part of a rating unit includes any portion inhabited or used by the owner/a person other than the owner, and who has the right to use or inhabit that portion by virtue of a tenancy, lease, licence or other agreement.
- This definition includes separately used parts, whether or not actually occupied at any particular time, which are provided by the owner for rental (or other form of occupation) on an occasional or long term basis by someone other than the owner.

- Any part or parts of a rating unit that is used or occupied by the ratepayer for more than one single use.
- For the purpose of this definition, vacant land and vacant premises offered or intended for use or habitation by a person other than the owner and usually used as such are defined as 'used'.
- For the avoidance of doubt, a rating unit that has a single use or occupation is treated as having one separately used or inhabited part.

For clarity, Separately Used or Inhabited Parts include:

- On a residential property, each separate unit, flat, or house or apartment.
- On a commercial property, each separate space intended to be used as a shop or other retail or wholesale outlet other than that used by the owner.
- In an office block, each separate space intended to be used as an office that is or would be used by a different business from the owner.

A separate unit, flat, house or apartment is defined as having a separate entrance, cooking facilities, living facilities and toilet/bathroom facilities.

Council has recognised that there are certain instances where the above situations will occur, but in circumstances that do not give rise to separate uses or inhabitations. For clarity, Separately Used or Inhabited Parts do not include:

- A hotel room with or without kitchen facilities. A hotel room is defined as one or multiple rooms/units offered on an occasional basis for rental;
- A motel room with or without kitchen facilities. A motel room is defined as one or multiple rooms/units offered for on an occasional basis for rental; and
- A single residential unit in a non-residential property, that is an integral part of the commercial operation and is used for the commercial operation i.e. not separately tenanted (such as a single house in conjunction with a farm or a motel or a dairy).

4. Rates for the Year Ending 30 June 2018

4.1 General Information

Rating period - The rates described below are for the financial year 1 July 2017 to 30 June 2018.

Goods and services tax - The rates described below include GST. The revenues required are net of GST.

Rating information database - The information held to determine the liability for rates in 2017/2018 is available for inspection at Council's office at 126-148 Oxford Street, Levin during normal office hours. This information includes the rating valuations as at 1 August 2016 which form the basis of rating in 2017/2018 and the categories and factors for the various relevant rates described below in respect of

particular rating units.

4.2 General Rates

The General Rates are assessed to fund all activities not funded from Targeted Rates or other revenue sources or funding mechanisms. The activities funded from the General Rates include:

- Regulatory Services (liquor licensing, health licensing, building consents, resource consents, District Plan development, animal control, parking enforcement, and general regulatory services);
- Community Facilities and Services, except Library and Community Centres and Aquatic Centres (passive reserves, street beautification, sports fields, cemeteries, halls and community buildings, and public toilets);
- Community Support (emergency management and rural fire, community engagement, visitor information, and economic development);
- Property (commercial property, general property, Council buildings); and
- Treasury activities (investment and borrowing activities).

General Rates are to be set on a differential rate in the dollar on the land value (LV) of the land. Land values are assessed every three years, and were last assessed in 2016. These values will form the basis of rating from 1 July 2017.

The General Rates levied on LV are set differentially, so as to maintain the incidence of the rates between the categories of property. Council decided (as part of the Revenue and Financing Policy review for the 2009-2019 LTP) to dispense with all but the Rural Differential. However, in order to lessen the impact of such a change, Council agreed to phase out all other differentials over 10 years (2009/2010 – 2018/2019 incl.). Two years remain for this phasing to be complete.

Therefore in the ninth year (2017/2018):

- The Urban Category will contribute 6.42% (in comparison to 12.83% in 2016/2017) of General Rates, and applies to rating units in Levin, Shannon and Foxton urban areas, as shown on the maps defining those areas for rating purposes available at the Council office in Levin.
- The Township Category will contribute 0.97% (in comparison to 1.95% in 2016/2017) of General Rates, and applies to rating units in Waikawa Beach, Manakau, Ohau, Hokio Beach, Waitarere Beach, Foxton Beach and Tokomaru urban areas, as shown on the maps defining those areas for rating purposes available at the Council office in Levin.
- The Rural Residential Category will contribute 0.73% (in comparison to 1.45% in 2016/2017) of General Rates, and applies to rating units classified as ‘Lifestyle and Residential’ (other than those rating units identified as “vacant” or “bare”). These properties will be identified in the DVR using the “Property Category” codes from Appendix F of the Valuation Rules 2008, Promulgated by the Valuer General.

- The Rural Category are those rating units that are located in areas outside the urban and township category boundaries but not those rating units classified as Rural Residential. These rating units will contribute 25.00% (25.00% 2015/2016) of General Rates.
- A District Wide Differential (which will, at the end of the 10 year period, absorb all but the Rural Category) to apply to all rating units other than those in the Rural Category, will contribute 66.88% (in comparison to 58.77 % in 2016/2017).

Council is not setting a Uniform Annual General Charge (under section 15 of the Local Government (Rating) Act 2002 (LG(R)A)), preferring instead to set Targeted Rates as fixed amounts for Library Services and Community Centres, Representation and Community Leadership, Solid Waste, Aquatic Centres, Water Supply and Wastewater (refer below).

4.3 Targeted Rates for Roading

This rate funds all Roading (Land Transport) costs (maintenance, renewals and minor capital improvements of roads, streets, roadside signage, road marking, bridges, footpaths and roadside drainage) covered by the Land Transport Group of Activities.

The Roading Rate is to be set using Capital Value (CV) which is assessed every 3 years. These were last assessed in 2016 and it is those values that will form the basis of rating from 1 July 2017.

Therefore;

- The Business Differential will contribute 35% of Roading Rate and applies to those rating units identified as Arable, Commercial (including all rest homes/retirement villages other than those that have separate title for the individual units or houses), Dairy, Forestry (except protected forestry), Horticultural, Industrial, Mining, Pastoral, Specialist livestock, and Utilities using the “Property Category” codes from Appendix F of the Valuation Rules 2008, promulgated by the Valuer General.
- A District Wide Other Differential will contribute 65% of Roading Rate and applies to those rating units identified as Lifestyle, Residential (excluding all rest homes/retirement villages but including those that have separate title for the individual units or houses) and ‘Other’ using the “Property Category” codes from Appendix F of the Valuation Rules 2008, promulgated by the Valuer General.

4.4 Targeted Rates for Stormwater

This rate funds all stormwater costs within the Stormwater Group of Activities.

This rate is to be set using CV of all urban rating units. Urban rating units are defined as those rating units within the towns of Levin, Foxton, Shannon, Tokomaru, Foxton Beach, Waitarere Beach, Hokio Beach, Ohau, Waikawa Beach and Manakau as

shown on the maps defining those areas for rating purposes available at the Council office in Levin.

4.5 Targeted Rates for Library Services and Community Centres

This rate is assessed as a fixed charge of a uniform amount on the basis of the number of SUIPs of each rating unit within the District.

4.6 Targeted Rates for Representation and Community Leadership

This is a Targeted Rate to fund Representation and Community Leadership costs (Council and committees, consultation, advocacy and elections).

This rate is assessed as a fixed charge of a uniform amount on the basis of the number of SUIPs of each rating unit within the District.

4.7 Targeted Rates for Aquatic Centres (Swimming Pools)

This is a Targeted Rate to fund the cost of operating Council's public aquatic centres (swimming pools).

This rate is assessed as a fixed charge of a uniform amount on the basis of the number of SUIPs of each rating unit within the District.

4.8 Targeted Rates for Solid Waste Disposal

This rate funds the Solid Waste Group of Activities including the provision of the landfill, waste transfer stations, waste minimisation initiatives and recycling facilities.

This rate is set differentially as a fixed charge of a uniform amount on the basis of the number of SUIPs of each rating unit using the urban and rural differential categories.

For all rating units located in the urban areas a differential of 80% of the solid waste costs. Urban rating units are defined as those rating units within the towns of Levin, Foxton, Shannon, Tokomaru, Foxton Beach, Waitarere Beach, Hokio Beach, Ohau, Waikawa Beach and Manakau as shown on the maps defining those areas for rating purposes available at the Council's Levin office.

For all rating units located in the rural area a differential of 20% of the solid waste costs. Rural areas are defined as all areas within the District that are outside the defined "urban" differential described above.

4.9 Targeted Rates for Water Supply

This rate funds the cost of operating, maintaining and improving the supply of reticulated potable water to various communities within this District.

This rate is set differentially as a fixed charge of a uniform amount on the basis of the number of SUIPs of each rating unit. Council also charges for metered supplies.

Connected Differential

Council sets a fixed charge rate on all rating units for which connection to a reticulated potable water supply is available. This does not include Moutoa, Waikawa or Kuku schemes, which are not potable supplies. A reticulated potable water supply is available to a rating unit if a lateral or laterals exist for the purpose of delivering water from the trunkmain to the rating unit and there is a connection from the land within the rating unit to that lateral/s or trunkmain.

Liability for the rate will be assessed on;

(a) each rating unit, or
(b) the number of SUIPs of each rating unit, or
(c) the number of connections of each rating unit;

whichever is the greater.

The Foxton Beach charge is reduced by an allowance to account for the universal metering of Foxton Beach.

Availability Differential

A fixed charge rate on any rating unit not connected to, but within 100 metres of a trunkmain for a reticulated potable water supply that is available to the rating unit. A reticulated potable water supply is available to a rating unit if a lateral or laterals exist for the purpose of delivering water from the trunkmain to the rating unit or, if no lateral exists, if Council will allow the rating unit to be connected. This rate is set at 50% of the fixed charge for a connected rating unit.

Water by meter

In all schemes (except Foxton Beach) the additional fees for metered supplies are subject to an allowance of 91 cubic metres (m^3) per quarter. A charge per m^3 will be made for water consumed in excess of $91m^3$ per quarter on any rating unit connected to any water supply; except Foxton Beach where a meter is used to measure consumption on the network.

The charge per m^3 of water consumed in excess of $91m^3$ per day on any rating unit connected to the Shannon untreated bore water supply where a meter is used to measure consumption on the network during the period will be half that charged for treated water.

Foxton Beach water supply will be charged by cubic metre (in addition to the fixed charge described above) using a three step system:

Step 1 - A charge per m^3 for the first $50m^3$ of water consumed per quarter on any rating unit or SUIP of a rating unit connected to the Foxton Beach water supply network during the period.

Step 2 - A charge per m^3 for the second $50m^3$ of water consumed per quarter in excess of $50m^3$ on any rating unit or SUIP of a rating unit connected to the Foxton Beach water supply network. This will be set at 200% of the rate set in step 1.

Step 3 - A charge per m^3 for the balance of water consumed per quarter in excess of $100m^3$ on any rating unit or SUIP of a rating unit connected to the Foxton Beach water supply network. This will be set at 300% of the rate set in step 1.

4.10 Targeted Rates for Wastewater Disposal

The Wastewater rate will fund the cost of providing reticulated wastewater disposal for various communities in this District according to whether a property is connected or serviceable.

This rate is set differentially as a fixed charge of a uniform amount on the basis of the number of SUIPs of each rating unit.

Connected Differential

Council sets a fixed charge rate on all rating units across the District for which connection to a reticulated wastewater disposal system is available. A reticulated wastewater disposal system is available to a rating unit if a lateral or laterals exist for the purposes of accepting wastewater from the rating unit to the wastewater trunkmain and where there is a connection from the land within the rating unit to that lateral/s or trunkmain.

Liability for the fixed-sum rate will be assessed on;

(a) each rating unit, or
(b) the number of SUIPs of each rating unit, or
(c) the number of connections of each rating unit;

whichever is the greater.

Availability Differential

A fixed charge rate on any rating unit that is not connected to a reticulated wastewater disposal system, but is within 30m of a trunkmain that is available to take waste from the rating unit. A reticulated wastewater disposal system is available to a rating unit if a lateral or laterals exist for the purpose of accepting wastewater from the rating unit to the wastewater trunkmain or, if no lateral exists, if Council will allow the rating unit to be connected. This rate is set at 50% of the fixed charge for a connected rating unit.

Funding Impact Statement 2017/18

Rating Mechanisms

Annual Report 2015/16		Rating Basis	Rate in the $ GST Incl 2017/18	Annual Plan Forecast 2016/17	LTP Forecast 2016/17	LTP Forecast 2017/18	Annual Plan Forecast 2017/18	Variance 2017/18
$000					$000	$000	$000	$000
	General rate							
2,048	Rural differential	Land value	0.00153594	2,161	2,033	2,132	2,288	156
1,583	Urban differential	Land value	0.00090646	1,109	1,044	546	588	42
249	Township differential	Land value	0.00028110	169	159	85	89	4
177	Rural residential differential	Land value	0.00019009	125	118	60	67	7
4,188	District wide differential	Land value	0.00465302	5,080	4,780	5,705	6,121	416
8,245	**Total general rate**			**8,644**	**8,134**	**8,528**	**9,153**	**625**
	Roading rate							
1,252	Business use differential	Capital value	0.00067792	1,316	1,564	1,664	1,436	(228)
2,326	District wide other differential	Capital value	0.00078921	2,444	2,903	3,090	2,667	(423)
3,578	**Total roading rate**			**3,760**	**4,467**	**4,754**	**4,103**	**(651)**
923	Stormwater rate	Capital value	0.00045646	982	970	1,470	1,186	(284)
3,189	Library and community centre rate	SUIP	234.40	3,433	3,425	3,508	3,610	102
2,834	Representation and community leadership	SUIP	233.50	3,036	2,891	3,166	3,597	431
2,167	Aquatic centre rate	SUIP	147.90	2,062	2,172	2,408	2,277	(131)
	Solid waste rate							
62	Rural differential	SUIP	17.10	92	71	68	68	-
258	Urban differential	SUIP	23.60	367	285	274	270	(4)
320	**Total solid waste rate**			**459**	**356**	**342**	**338**	**(4)**
	Water supply rate							
3,755	Water supply district wide connected (excl Foxton Beach)	SUIP	406.90	4,047	3,944	4,388	4,050	(338)
71	Water supply district wide availability	SUIP	203.45	73	75	83	67	(16)
391	Foxton Beach connected	SUIP	311.70	386	448	508	389	(119)
4,217	**Total water supply rate**			**4,506**	**4,467**	**4,979**	**4,506**	**(473)**
	Waste water rate							
6,007	Waste water district wide connected	SUIP	592.60	6,273	6,322	6,618	6,271	(347)
115	Waste water district wide availability	SUIP	296.30	123	99	103	113	10
6,122	**Total waste water rate**			**6,396**	**6,421**	**6,721**	**6,384**	**(337)**
31,595	**Total rates required**			**33,278**	**33,303**	**35,876**	**35,154**	**(722)**
621	Penalties			615	615	631	600	(31)
(192)	Remissions			-	-	-	-	-
1,195	Water by meter rate			1,188	1,215	1,251	1,257	6
33,219	**Total rates revenue**			**35,081**	**35,133**	**37,758**	**37,011**	**(747)**

Additional tables to Rating Mechanisms

Rating base					
Total Rates GST Inclusive $000	38,270	38,298	41,257	40,427	(830)
Rateable Rating Units	17,658	17,889	18,024	17,475	(549)
Average Rate $	2,167	2,141	2,289	2,313	24
Total number of Rating Units LGA Schedule 10 Part 1 Clause 15a	18,059	18,315	18,450	18,059	(391)

*The rateable properties have decreased following a rationalisation of contiguous rate assessments that were amalgamated with the parent assessment of rural properties, predominantly used for agricultural purposes.

Water-by-Metre rates are set as follows		
District Wide Except Foxton Beach	Cubic metre	$1.70
Shannon untreated bore water supply	Cubic metre	$0.85
Foxton Beach Step 1	Cubic metre	$0.72
Foxton Beach Step 2	Cubic metre	$1.44
Foxton Beach Step 3	Cubic metre	$2.16

Funding Impact Statement 2017/18

Annual Report 2015/16		LTP Forecast 2016/17	LTP Forecast 2017/18	Annual Plan Forecast 2017/18	Variance 2017/18
$000		$000	$000	$000	$000
	Sources of operating funding				
8,865	General rates, uniform annual general charges, rates penalties	8,749	9,159	9,753	594
24,354	Targeted rates	26,385	28,599	27,258	(1,341)
1,530	Subsidies and grants for operating purposes	1,271	1,296	1,585	289
5,290	Fees and charges	5,205	4,654	5,155	501
127	Interest and dividends from investments	154	158	70	(88)
2,925	Local authorities fuel tax, fines, infringement fees, and other receipts	2,699	2,762	3,293	531
43,091	**Total operating funding (A)**	**44,463**	**46,628**	**47,114**	**486**
	Applications of operating funding				
30,977	Payments to staff and suppliers	30,611	31,041	34,531	3,490
4,087	Finance costs	4,379	4,787	3,658	(1,129)
-	Other operating funding applications	-	-	-	-
35,064	**Total applications of operating funding (B)**	**34,990**	**35,828**	**38,189**	**2,361**
8,027	**Surplus (deficit) of operating funding (A - B)**	**9,473**	**10,800**	**8,925**	**(1,875)**
	Sources of capital funding				
2,050	Subsidies and grants for capital expenditure	4,049	1,730	3,587	1,857
381	Development and financial contributions	-	-	-	-
5,000	Increase (decrease) in debt	9,639	(2,478)	5,000	7,478
1,421	Gross proceeds from sale of assets	655	7,721	8,766	1,045
-	Lump sum contributions	-	-	-	-
-	Other dedicated capital funding	-	-	-	-
8,852	**Total sources of capital funding (C)**	**14,343**	**6,973**	**17,353**	**10,380**
	Applications of capital funding				
	Capital expenditure				
1,276	- to meet additional demand	2,227	848	2,354	1,506
10,283	- to improve the level of service	13,140	6,857	11,106	4,249
9,662	- to replace existing assets	10,353	9,988	13,156	3,168
(4,388)	Increase (decrease) in reserves	-	-	(418)	(418)
46	Increase (decrease) of investments	(1,904)	80	80	-
16,879	**Total applications of capital funding (D)**	**23,816**	**17,773**	**26,278**	**8,505**
(8,027)	**Surplus (deficit) of capital funding (C - D)**	**(9,473)**	**(10,800)**	**(8,925)**	**1,875**
-	**Funding balance ((A-B)+(C-D))**	**-**	**-**	**-**	**-**
11,536	Depreciation	12,109	12,970	11,627	(1,343)

Loans

	Total
	$000
Anticipated Loan balances at 1/07/2017	77,000
Raised during the year	13,400
Repaid during the year	(8,400)
Anticipated Loan balances 30/06/2018	**82,000**
Budgeted Interest expense	3,658

Financial Statements

Forecast Statement of Comprehensive Revenue and Expense

Annual Report 2015/16		Notes	LTP Forecast 2016/17	LTP Forecast 2017/18	Annual Plan Forecast 2017/18	Variance 2017/18
$000			$000	$000	$000	$000
	Revenue					
33,219	Rate revenue	1	35,133	37,758	37,010	(748)
3,578	Grants & subsidies		5,320	3,026	5,171	2,145
127	Finance revenue		154	158	70	(88)
8,217	Other revenue		7,905	7,416	8,448	1,032
381	Development contributions		-	-	-	-
156	Gain disposal of assets		184	189	180	(9)
258	Gain on revaluations		110	68	179	111
100	Vested assets		-	-	-	-
46,036	**Total revenue**		**48,806**	**48,615**	**51,058**	**2,443**
	Expenditure					
9,532	Employee benefit expenses		9,894	10,316	13,174	2,858
4,087	Finance costs		4,379	4,787	3,658	(1,129)
11,536	Depreciation & amortisation		12,109	12,970	11,627	(1,343)
21,445	Other expenses		20,717	20,726	21,356	630
147	Loss disposal of assets		-	1,053	-	(1,053)
-	Loss on revaluations		-	-	-	-
115	Increase/(decrease) in landfill provsion		(13)	(13)	95	108
46,862	**Total expenses**		**47,086**	**49,839**	**49,910**	**71**
(826)	**Operating surplus/(deficit) before taxation**		**1,720**	**(1,224)**	**1,148**	**2,372**
	Income tax expense		-	-	-	-
(826)	**Operating surplus/(deficit) after taxation**		**1,720**	**(1,224)**	**1,148**	**2,372**
	Other comprehensive revenue and expense					
-	Gain/(loss) fixed assets valuation		33,037	-	6,024	6,024
-	Gain/(loss) financial assets		-	-	-	-
-	**Total net other comprehensive revenue and expense/(deficit) for the year**		**33,037**	**-**	**6,024**	**6,024**
(826)	**Total comprehensive revenue and expense/(deficit) for the year attributable to Horowhenua District Council**		**34,757**	**(1,224)**	**7,172**	**8,396**
1,195	Note 1 - Water by meter rates included in the rates revenue		1,215	1,251	1,257	6

Financial Statements

Reconciliation between Forecast Cost of Service Statements and the Forecast Statement of Comprehensive Revenue and Expense

Annual Report 2015/16		LTP Forecast 2016/17	LTP Forecast 2017/18	Annual Plan Forecast 2017/18	Variance 2017/18
$000		$000	$000	$000	$000
	Revenue				
	Prospective statement of comprehensive revenue and expense				
46,036	**Total operating revenue**	**48,806**	**48,615**	**51,058**	**2,443**
	Summary funding impact statement				
	Sources of operating funding				
43,091	Total operating funding	44,463	46,628	47,114	486
	Add sources of capital funding				
2,050	Subsidies and grants for capital expenditure	4,049	1,730	3,585	1,855
381	Development and financial contributions	-	-	-	-
156	Gain disposal of assets	184	189	180	(9)
258	Gain on changes in fair value of investment property and revaluation of financial assets	110	68	179	111
100	Vested assets	-	-	-	-
46,036	**Total revenue**	**48,806**	**48,615**	**51,058**	**2,443**
	Expenditure				
	Prospective statement of comprehensive revenue and expense				
46,862	**Total operating expenditure**	**47,086**	**49,839**	**49,910**	**71**
	Summary funding impact statement				
	Application of operating funding				
35,064	Total application of operating funding	34,990	35,829	38,188	2,359
147	Loss on disposal of assest	-	1,053	-	(1,053)
-	Loss on changes in fair value of investment property and revaluation of financial assets	-	-	-	-
115	Increase/(decrease) in provisions	(13)	(13)	95	108
11,536	Depreciation & amortisation expense	12,109	12,970	11,627	(1,343)
46,862	**Total expenditure**	**47,086**	**49,839**	**49,910**	**71**

Financial Statements

Forecast Statement of Financial Position as at 30 June 2017

Annual Report 2015/16		LTP Forecast 2016/17	LTP Forecast 2017/18	Annual Plan Forecast 2017/18	Variance 2017/18
$000		$000	$000	$000	$000
	Assets				
	Current assets				
7,400	Cash & cash equivalents	6,512	6,559	6,186	(373)
5,960	Debtors & other receivables	6,347	6,210	6,045	(165)
285	Assets held for sale	393	393	285	(108)
350	Other financial assets	10	10	-	(10)
13,995	**Total current assets**	**13,262**	**13,172**	**12,516**	**(656)**
	Non-current assets				
952	Biological assets	696	714	1,010	296
1,718	Intangible assets	1,682	1,557	1,608	51
5,926	Commercial property	2,753	3,176	6,219	3,043
1,836	Council controlled	2,185	2,264	1,285	(979)
-	Other financial assets	117	118	-	(118)
43,397	Operational assets	49,859	41,592	42,969	1,377
394,713	Infrastructural assets	439,350	444,045	421,963	(22,082)
38,664	Restricted assets	45,204	44,666	41,545	(3,121)
487,206	**Total non-current assets**	**541,846**	**538,132**	**516,599**	**(21,533)**
501,201	**Total assets**	**555,108**	**551,304**	**529,115**	**(22,189)**
	Liabilites				
	Current liabilities				
11,779	Creditors & other payables	8,282	8,192	11,985	3,793
940	Employee benefit liabilities	585	585	993	408
920	Provisions	1,003	1,003	940	(63)
16,000	Borrowings	11,000	-	14,000	14,000
29,639	**Total current liabilities**	**20,870**	**9,780**	**27,918**	**18,138**
	Non-current liabilities				
161	Employee benefit liabilities	224	224	161	(63)
2,240	Provisions	2,979	2,966	2,431	(535)
49,000	Borrowings	74,791	83,313	68,000	(15,313)
2,419	Other	-	-	2,452	2,452
53,820	**Total non-current liabilities**	**77,994**	**86,503**	**73,044**	**(13,459)**
83,459	**Total liabilities**	**98,864**	**96,283**	**100,962**	**4,679**
417,742	**Net assets**	**456,244**	**455,021**	**428,153**	**(26,868)**
	Equity				
263,345	Rate payers equity	268,893	266,870	266,309	(561)
147,449	Revaluation reserves	180,484	180,484	153,471	(27,013)
6,948	Other reserves	6,867	7,667	8,373	706
417,742	**Total equity**	**456,244**	**455,021**	**428,153**	**(26,868)**

Financial Statements

Forecast Statement of Changes in Net Assets/Equity

Annual Report 2015/16		LTP Forecast 2016/17	LTP Forecast 2017/18	Annual Plan Forecast 2017/18	Variance 2017/18
$000		$000	$000	$000	$000
418,568	Equity balance at 1 July	421,487	456,244	420,981	(35,263)
(826)	Total comprehensive revenue and expense for the year	34,757	(1,224)	7,172	8,396
417,742	**Equity balance at 30 June**	**456,244**	**455,020**	**428,153**	**(26,867)**
	Components of equity				
264,909	Retained earnings at 1 July	267,350	268,893	265,862	(3,031)
(1,564)	Net surplus/(deficit) net of reserve transfers	1,543	(2,024)	447	2,471
263,345	**Retained earnings 30 June**	**268,893**	**266,869**	**266,309**	**(560)**
147,449	Revaluation reserves at 1 July	147,447	180,484	147,447	(33,037)
-	Revaluation gains/(losses)	33,037	-	6,024	6,024
147,449	**Revaluation reserves 30 June**	**180,484**	**180,484**	**153,471**	**(27,013)**
6,210	Council created reserves at 1 July	6,690	6,867	7,672	805
738	Transfers to/(from) reserves	177	800	701	(99)
6,948	**Council created reserves 30 June**	**6,867**	**7,667**	**8,373**	**706**
417,742	**Equity balance at 30 June**	**456,244**	**455,020**	**428,153**	**(26,867)**

Financial Statements

Forecast Cash Flow

Annual Report 2015/16 $000		LTP Forecast 2016/17 $000	LTP Forecast 2017/18 $000	Annual Plan Forecast 2017/18 $000	Variance 2017/18 $000
	Cashflow from operating activities				
	Cash was provided from:				
33,384	Revenue from rates	35,267	37,896	37,010	(886)
178	Finance revenue	154	158	70	(88)
11,402	Other revenue	13,224	10,443	13,620	3,177
44,964		**48,645**	**48,497**	**50,700**	**2,203**
	Cash was disbursed to:				
29,684	Payments staff & suppliers	30,768	31,132	34,530	3,398
3,114	Finance costs	4,379	4,787	3,658	(1,129)
(273)	Net GST movement	-	-	-	-
32,525		**35,147**	**35,919**	**38,188**	**2,269**
12,439	**Net cashflow from operating activity**	**13,498**	**12,578**	**12,512**	**(66)**
	Cashflows from investing activities				
	Cash was provided from:				
1,233	Proceeds from asset sales	655	7,721	8,766	1,045
-	Proceeds from investments	2,048	-	-	-
1,233		**2,703**	**7,721**	**8,766**	**1,045**
	Cash was disbursed to:				
19,082	Purchase of assets	25,720	17,693	26,616	8,923
46	Purchases of investments	144	80	80	-
19,128		**25,864**	**17,773**	**26,696**	**8,923**
(17,895)	**Net cashflow from investing activity**	**(23,161)**	**(10,052)**	**(17,930)**	**(7,878)**
	Cashflows from financing activities				
	Cash was provided from:				
13,000	Loans raised	9,639	8,522	13,400	4,878
13,000		**9,639**	**8,522**	**13,400**	**4,878**
	Cash was disbursed to:				
8,000	Loan repayments	-	11,000	8,400	(2,600)
8,000		**-**	**11,000**	**8,400**	**(2,600)**
5,000	**Net cashflow from financing activity**	**9,639**	**(2,478)**	**5,000**	**7,478**
(456)	Net increase/(decrease) in cash held	(24)	48	(418)	(466)
7,856	Add opening cash bought forward	6,536	6,512	6,604	92
7,400	**Closing cash balance**	**6,512**	**6,560**	**6,186**	**(374)**
7,400	Closing balance made up of cash and cash equivalents	6,512	6,559	6,186	(373)

Reserve Funds

Reserves are held to ensure that funds received for a particular purpose are used for that purpose and any surplus created is managed in accordance with the reason for which the reserve was established. Surpluses held in reserves are credited with interest. Council holds 15 reserves, with four (4) being restricted reserves. Restricted reserves are reserves that have rules set by legal obligation that restrict the use that Council may put the funds towards. The remaining Council created reserves are discretionary reserves which the Council has established for the fair and transparent use of monies. Reserve balances are not separately held in cash and the funds are managed as part of the Council's treasury management.

Below is a list of current reserves outlining the purpose for holding each reserve and the Council activity to which each reserve relates, together with summary financial information across the year of the Annual Plan:

	Activity	LTP Forecast Closing Balance 30 June 2017	LTP Forecast Closing Balance 30 June 2018	AP Forecast Opening Balance 1 July 2017	Deposits for the period of the AP	Withdrawals for the period of the AP	Forecast Closing Balance 30 June 2018
		$000	$000	$000	$000	$000	$000
Restricted Reserves – Purpose of the Fund							
Foxton Beach Freeholding Fund Accumulated cash reserves from the Foxton Beach Endowment land sales under the separate Act gifting the land for the benefit of Foxton and Foxton Beach community projects.	Endowment Property	3,133	3,717	4,067	913	386	4,594
Reserve Land Reserve To hold funds derived from the sale of surplus reserve land to be spent on the future development of reserves under the Reserve Act.	Community Facilities and Services Activity	98	103	179	5	-	184

	Activity	LTP Forecast Closing Balance 30 June 2017	LTP Forecast Closing Balance 30 June 2018	AP Forecast Opening Balance 1 July 2017	Deposits for the period of the AP	Withdrawals for the period of the AP	Forecast Closing Balance 30 June 2018
		$000	$000	$000	$000	$000	$000
Wairarawa Stream Walkway To hold funding derived for the purpose of upgrading the walkway to be spent on the upgrade.	Community Facilities and Services Activity	51	53	52	2	0	54
Road Upgrade Reserve To fund transport network improvements as approved by the Council, from the accumulated funds of the former Horowhenua County Council subdivision contributions to roading.	Land Transport/ Roads and Footpaths Activity	768	798	755	23	-	778
Council created Reserves – Purpose of the Fund							
Financial and Capital contributions for Roading To fund transport network improvements, from the accumulated funds from financial and capital contributions under the District Plan prior to Development Contributions regime.	Land Transport/ Roads and Footpaths Activity	201	209	83	3	-	86

	Activity	LTP Forecast Closing Balance 30 June 2017	LTP Forecast Closing Balance 30 June 2018	AP Forecast Opening Balance 1 July 2017	Deposits for the period of the AP	Withdrawals for the period of the AP	Forecast Closing Balance 30 June 2018
		$000	$000	$000	$000	$000	$000
Financial and Capital contributions for Water Supplies To fund water supply improvement projects, from the accumulated funds from financial and capital contributions under the District Plan prior to Development Contributions regime.	Water Supply Activity	558	580	549	16	-	565
Financial and Capital contributions for Wastewater Schemes To fund Wastewater Scheme improvement projects, from the accumulated funds from financial and capital contributions under the District Plan prior to Development Contributions regime.	Wastewater Activity	138	143	136	4	-	140

	Activity	LTP Forecast Closing Balance 30 June 2017	LTP Forecast Closing Balance 30 June 2018	AP Forecast Opening Balance 1 July 2017	Deposits for the period of the AP	Withdrawals for the period of the AP	Forecast Closing Balance 30 June 2018
		$000	$000	$000	$000	$000	$000
Financial and Capital contributions for Parks and Reserves To fund Parks and Reserves improvement projects, from the accumulated funds from financial and capital contributions under the District Plan prior to Development Contributions regime.	Community Facilities and Services Activity	613	638	633	19	-	652
Election Fund To smooth the rating impact of election costs and fund any by-election	Representation and Governance Activity	3	45	(2)	41	0	39
Hockey Turf Replacement Fund To fund the replacement of the water turf at Donnelly Park on behalf of the Turf Trust.	Community Facilities and Services Activity	229	263	225	32	-	257
Shannon Rail Station. Set aside from grants to preserve the historic Shannon Railway Station.	Properties Activity	25	26	25	1	-	26

	Activity	LTP Forecast Closing Balance 30 June 2017	LTP Forecast Closing Balance 30 June 2018	AP Forecast Opening Balance 1 July 2017	Deposits for the period of the AP	Withdrawals for the period of the AP	Forecast Closing Balance 30 June 2018
		$000	$000	$000	$000	$000	$000
Esplanade Fund To provide a fund to construct or provide for possible public access ways to esplanade reserves created under the Resource Management Act.	Community Facilities and Services Activity	131	135	128	4	-	132
Capital Projects Fund To provide funds for strategic capital projects with the last $250,000 as a disaster relief working capital fund.	All Activities	901	938	837	25	-	862
Foxton Citizens Fund To provide a fund for awards in recognition of community service in Foxton.	Community Support Activity	4	4	4	0	-	4
Driscoll Reserves Fund To fund Manakau parks and reserves development projects.	Community Facilities and Services Activity	14	15	0	0	-	0
Total		**6,867**	**7,667**	**7,671**	**1,088**	**386**	**8,373**

Benchmarks Disclosure Statement

What is the purpose of this statement?

The purpose of this statement is to disclose the Council's planned financial performance in relation to various benchmarks to enable the assessment of whether the Council's prudently managing its revenues, expenses, assets, liabilities and general financial dealings.

The Council is required to include this statement in its Annual Plan in accordance with the Local Government (Financial Reporting and Prudence) Regulations 2014 (the regulations). Refer to the regulations for more information, including definitions of some of the terms used in this statement.

Benchmark	Limit	Planned	Met
Rates affordability benchmark			
-income	$35,346m	$35,154m	Yes
-increases	8.43%	7.84%	Yes
Debt affordability benchmark			
-net debt to operating revenue	175%	150%	Yes
-net interest to operating revenue	20%	7%	Yes
-net interest to rates revenue	25%	10%	Yes
Balanced budget benchmark	100%	102%	Yes
Essential services benchmark	100%	203%	Yes
Debt servicing benchmark	10%	7%	Yes

Notes

1 Rates affordability benchmark

(1) For this benchmark,—

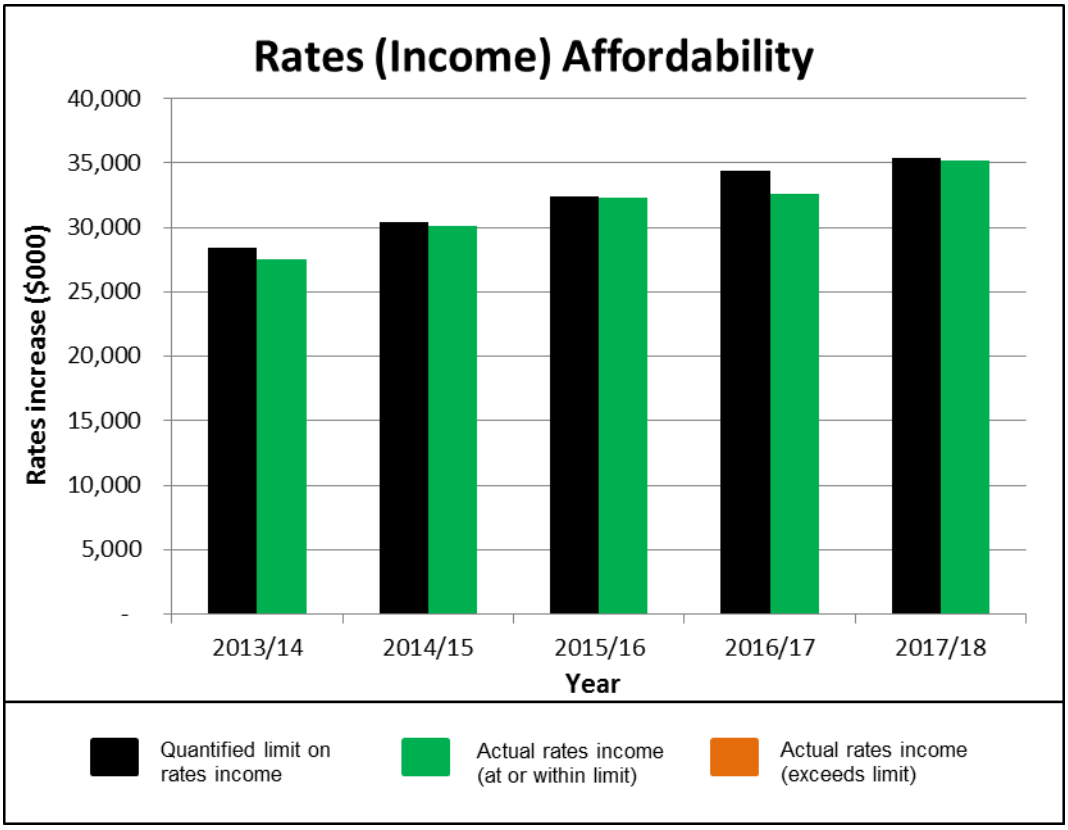
(a) the Council's planned rates income for the year is compared with quantified limits on rates contained in the Financial Strategy included in the Council's Long Term Plan; and

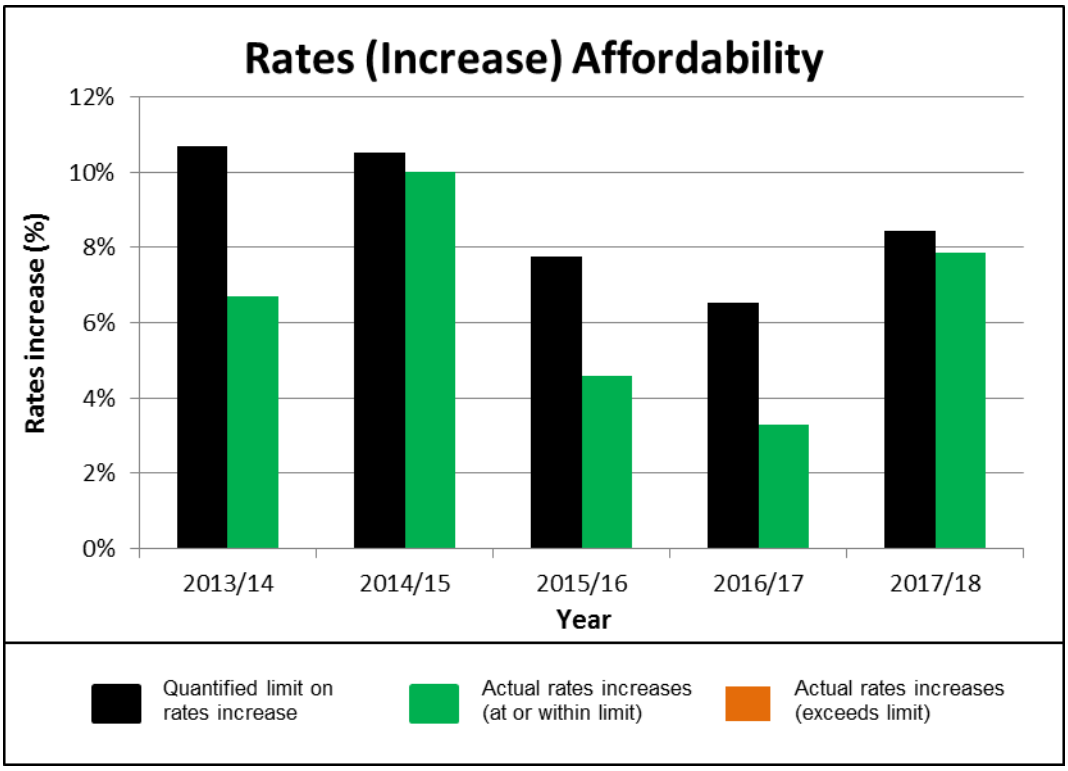
(b) the Council's planned rates increases for the year are compared with quantified limits on rates increases for the year contained in the Financial Strategy included in the Council's Long Term Plan.

(2) The Council meets the rates affordability benchmark if—

(a) its planned rates income for the year equals or is less than each quantified limit on rates; and

(b) its planned rates increases for the year equal or are less than each quantified limit on rates increases.

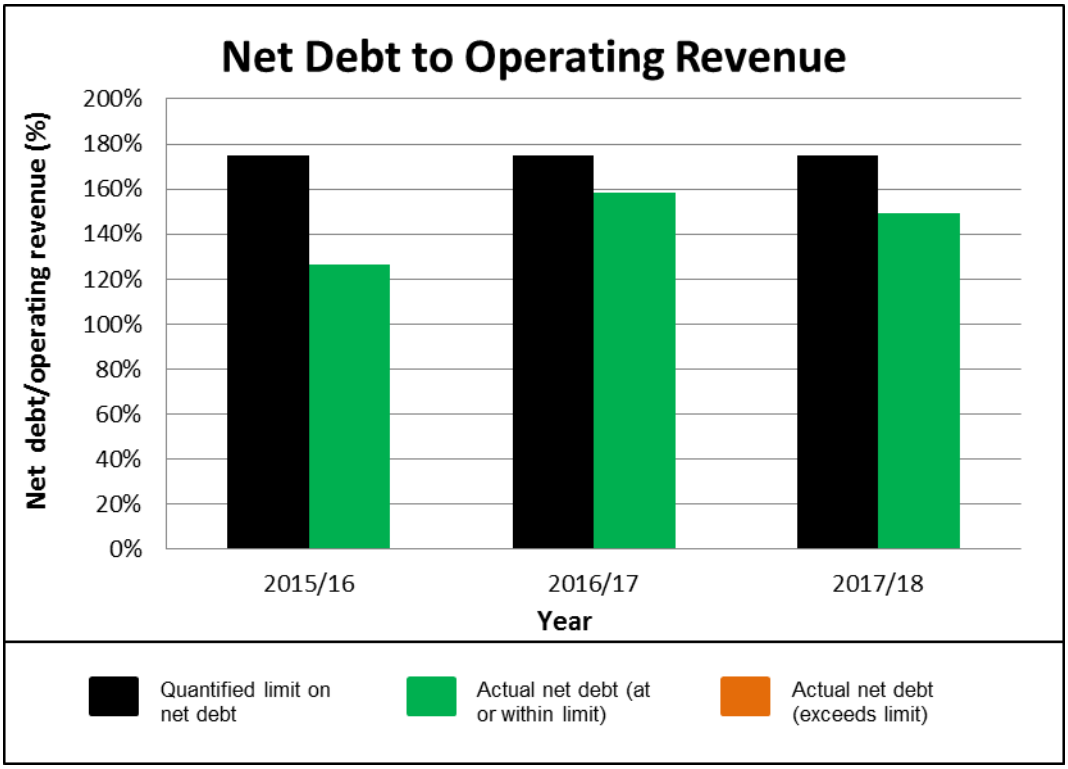


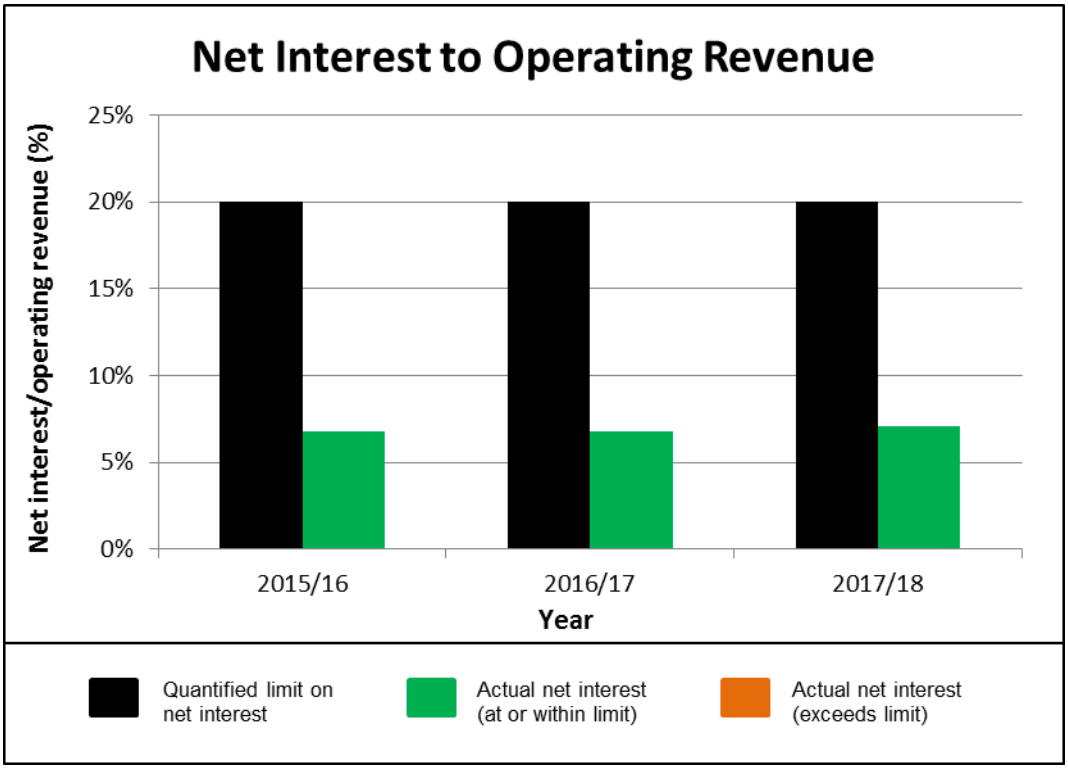


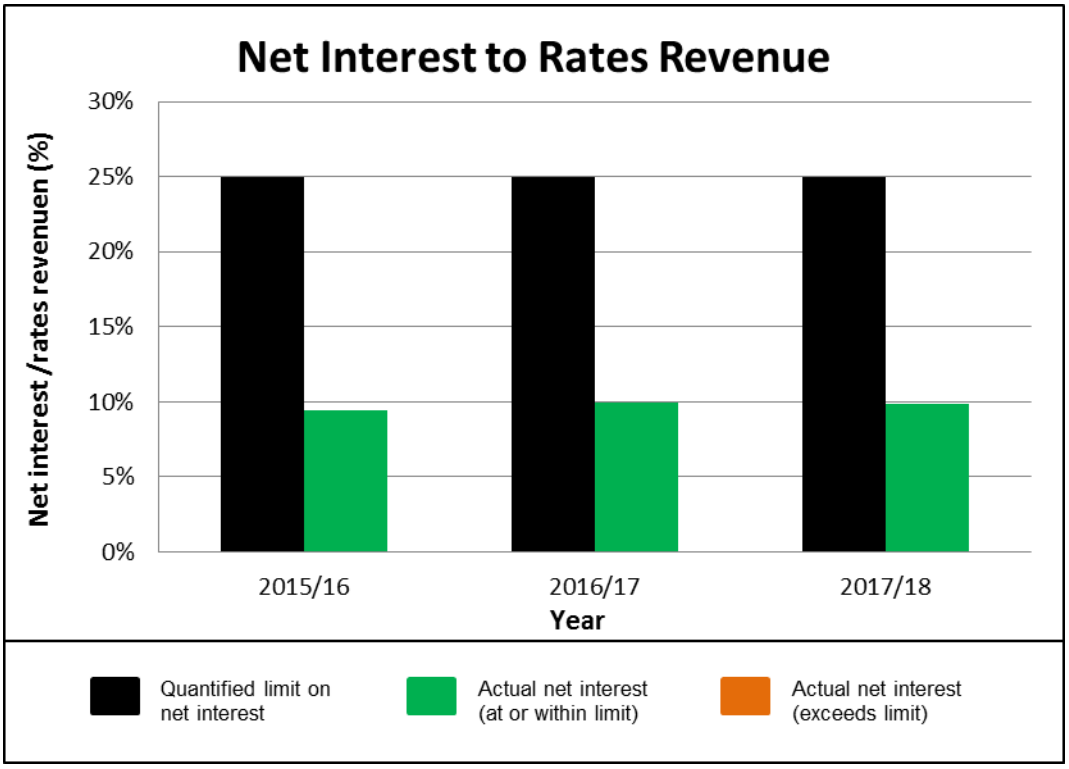
2 Debt affordability benchmark

(1) For this benchmark, the Council's planned borrowing is compared with quantified limits on borrowing contained in the Financial Strategy included in the Council's Long Term Plan.

(2) The Council meets the debt affordability benchmark if its planned borrowing is within each quantified limit on borrowing.



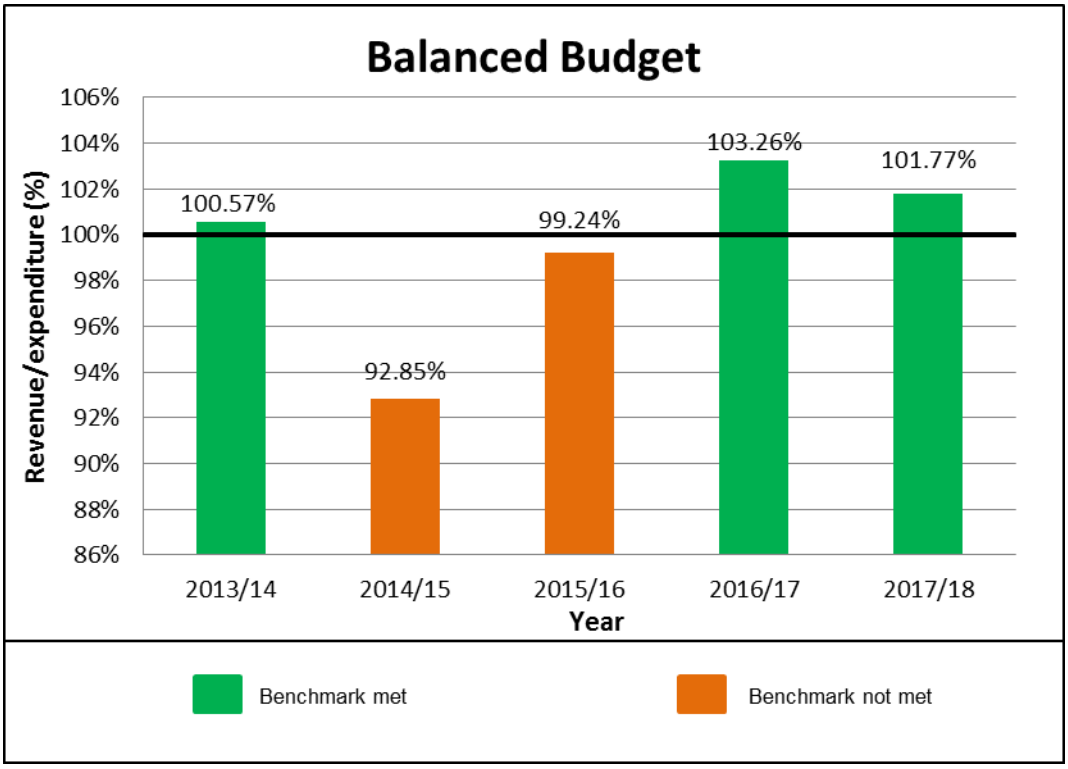



Net Interest to Rates Revenue
Net interest /rates revenuen (%)
30%
25%
20%
15%
10%
5%
0%
2015/16
2016/17
2017/18
Year
Quantified limit on net interest
Actual net interest (at or within limit)
Actual net interest (exceeds limit)

3 Balanced budget benchmark

(1) For this benchmark, the Council's planned revenue (excluding development contributions, vested assets, financial contributions, gains on derivative financial instruments, and revaluations of property, plant or equipment) is presented as a proportion of its planned operating expenses (excluding losses on derivative financial instruments and revaluations of property, plant or equipment).

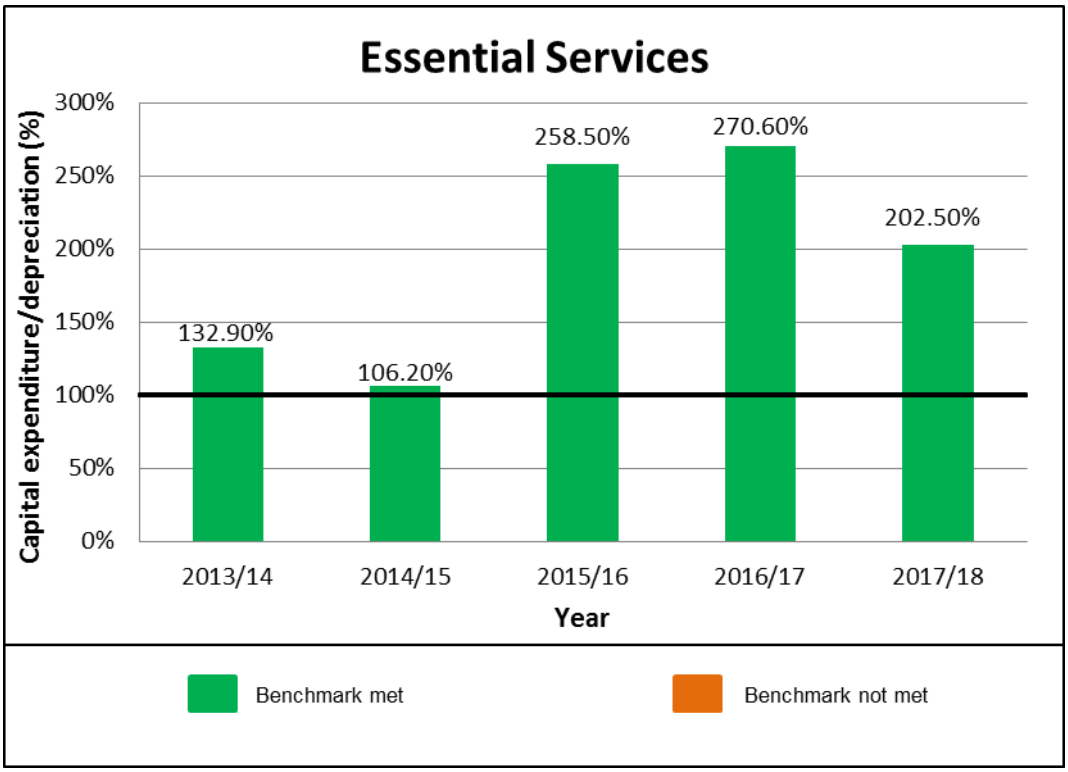
(2) The Council meets the balanced budget benchmark if its revenue equals or is greater than its operating expenses.



4 Essential services benchmark

(1) For this benchmark, the Council's planned capital expenditure on network services is presented as a proportion of expected depreciation on network services.

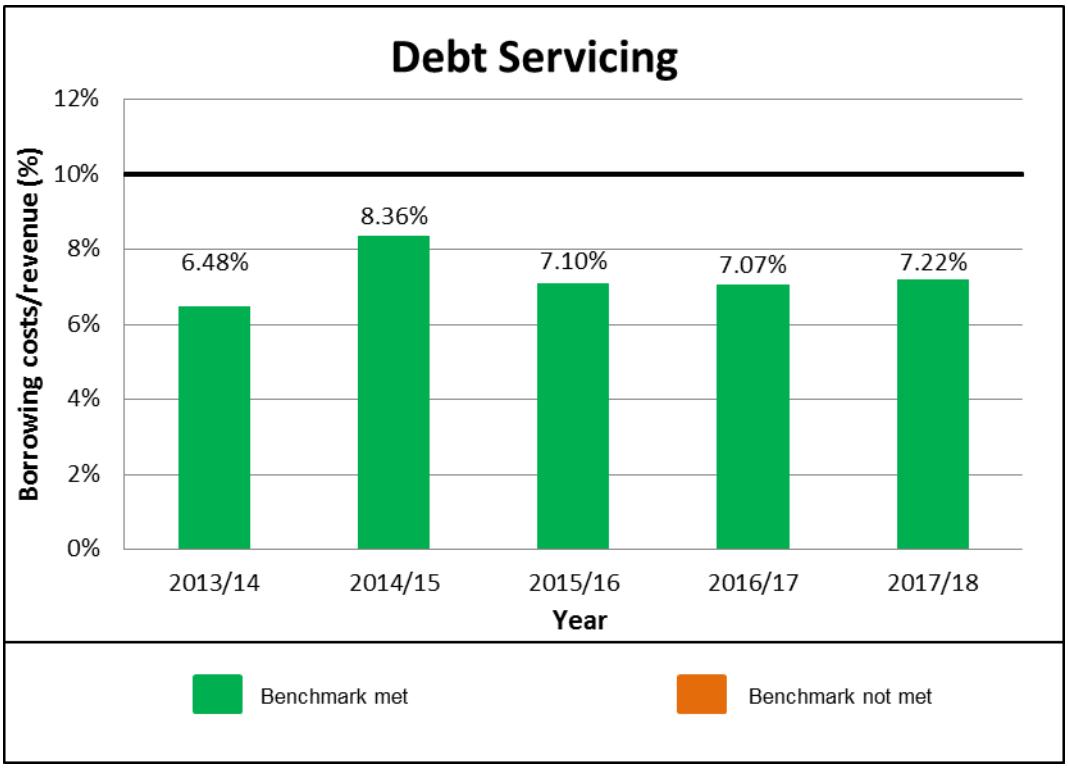
(2) The Council meets the essential services benchmark if its planned capital expenditure on network services equals or is greater than expected depreciation on network services.



5 Debt servicing benchmark

(1) For this benchmark, the Council's planned borrowing costs are presented as a proportion of planned revenue (excluding development contributions, financial contributions, vested assets, gains on derivative financial instruments, and revaluations of property, plant or equipment).

(2) Because Statistics New Zealand projects that the Council's population will grow slower than the national population growth rate, it meets the debt servicing benchmark if its planned borrowing costs equal or are less than 10% of its planned revenue.



Accounting Policies

1. Reporting Entity

The prospective financial statements of the Horowhenua District Council are for the year ended 30 June 2018.

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

The Horowhenua District Council group (HDC) consists of Horowhenua District Council and Te Horowhenua Trust (formerly Horowhenua Library Trust), both incorporated in New Zealand.

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

The prospective financial statements contained in the plan are in full compliance with FRS 42 Prospective Financial Statements.

The operations of HDC have been divided into the following activities:

- Land Transport (Roads and Footpaths)
- Stormwater
- Water Supply
- Wastewater Disposal
- Solid Waste
- Regulatory Services
- Community Facilities and Services
- Property
- Representation and Community Leadership
- Community Support

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

The prospective financial statements were authorised by issue by Council on 21 June 2017. The Mayor and Chief Executive that authorise the issue of the prospective financial statements by HDC are responsible for the prospective financial statements presented, including the appropriateness of the assumptions underlying the prospective financial statements and all other required disclosures. No actual results have been incorporated in these prospective financial statements. It is not intended to update the prospective financial statements subsequent to presentation.

Measurement Base

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

Accounting Policies

The following accounting policies which materially affect the measurement of results and financial position have been applied consistently to all years presented from 1 July 2015 unless otherwise stated.

2. Basis of Preparation

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

These financial statements have been prepared in accordance with NZ GAAP. They comply with NZ PBE IPSAS, and other applicable Financial Reporting Standards, as appropriate for public benefit entities. HDC is a tier 1 reporting entity using the public sector Public Benefit Entity Accounting Standards, as it has expenses greater than $30m, and is not publicly accountable.

Basis of Consolidation

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

The financial statements are presented in New Zealand Dollars. The functional currency of HDC is New Zealand Dollars. All values are rounded to the nearest one thousand dollars.

Budget Figures

The budget figures have been prepared in accordance with NZ GAAP and comply with NZ PBE IPSAS, and other applicable Financial Reporting Standards, using accounting policies that are consistent with those adopted in preparing these financial statements. Then as a tier 1 reporting entity HDC uses the public sector Public Benefit Accounting Standards.

HDC has not presented group prospective financial statements because it believes that the parent financial statements are more relevant to users. The main purpose of prospective financial statements is to provide users with information about the core services that the HDC intends to provide ratepayers, the expected cost of those

services and as a consequent how much HDC requires by way of rates to fund the intended levels of service. The level of rates funding required is not affected by subsidiaries except to the extent that HDC obtains distribution from, or further invests in, those subsidiaries. Such effects are included in the prospective financial statements of HDC.

3. Revenue

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

Rates Revenue

The following policies for rates have been applied:

- General Rates, Targeted Rates (excluding water-by-meter), and Uniform Annual General Charges are recognised at the start of the financial year to which the rates resolution relates. They are recognised at the amounts due. The Council considers the effect of payment of rates by installments is not sufficient to require discounting of rates receivables and subsequent recognition of interest revenue.
- Rates arising from late payment penalties are recognised as revenue when rates become overdue.
- Revenue from water-by-meter rates is recognised on an accrual basis based on usage. Unbilled usage, as a result of unread meters at year end, is accrued on an average usage basis.
- Rate remissions are recognised as a reduction of rates revenue when the Council has received an application that satisfies its Rates Remission Policy.

Infringement Fees Revenue

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

Subsidies Revenue

HDC receives revenue from New Zealand Transport Agency, which subsidises part of HDC's costs in maintaining the local roading infrastructure, is recognised as revenue upon entitlement as conditions pertaining to eligible expenditure have been fulfilled.

Grants Revenue

Revenue from 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.

Rendering of Services Revenue

Revenue from the rendering of services is recognised by reference to the stage of completion of the transaction at balance date, based on the actual service provided, as a percentage of the total services to be provided.

Sale of Goods Revenue

Revenue from the sale of goods is recognised when a product is sold to the customer. Sales are usually in cash or by credit card. The recorded revenue is the gross amount of the sale, including credit card fees payable for the transaction. Such fees are included in other expenses.

Vesting of Assets Revenue

Revenue from vesting of physical assets is recognised for assets received for no or nominal consideration, the asset is recognised at its fair value when the Council obtains control of the asset. The fair value of the asset is recognised as revenue, unless there is a use or return condition attached to the asset. For long-lived assets that must be used for a specific use (e.g. land must be used as a recreation reserve), the Council immediately recognises the fair value of the asset as revenue. A liability is recognised only if the Council expects it will need to return or pass the asset to another party.

Commission Revenue

Revenue from acting as an agent for another party is recognised in the form of the commission or fee on the transaction.

Interest Revenue

Revenue from interest is recognised using the effective interest method.

Revenue from dividends is recognised when the right to receive payment has been established.

Financial Contributions Revenue

Revenue from Financial Contributions is 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.

4. Borrowing Costs

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

5. Income Tax

Income tax expense includes components relating to both current tax and deferred tax. 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. Current tax is calculated using tax rates (and tax laws) that have been enacted or substantively enacted at balance date.

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the statement of financial position and the corresponding tax bases used in the computation of taxable profit.

Deferred tax is measured at the tax rates that are expected to apply when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at balance date. The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the entity expects to recover or settle the carrying amount of its assets and liabilities.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised.

Deferred tax is not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of an asset or liability in a transaction that is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit.

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

6. Grant Expenditure

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

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

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

7. Leases

Finance Leases

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

At the commencement of the lease term, HDC recognises finance leases as assets and liabilities in the Statement of Financial Position at the lower of the fair value of the leased item or the present value of the minimum lease payments.

The finance charge is charged to the surplus or deficit over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability.

The amount recognised as an asset is depreciated over its useful life. If there is no certainty as to whether HDC will obtain ownership at the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life.

Operating Leases

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

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

8. Cash and Cash Equivalents

Cash and cash equivalents includes cash in 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.

9. Trade and Other Receivables

Trade and other receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

A provision for impairment of receivables is established when there is objective evidence that HDC will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the estimated present value of the expected future cash flows, discounted using the effective interest method.

10. Financial Assets

HDC classifies its financial assets into four categories being: financial assets at fair value through surplus or deficit, held-to-maturity investments, loans and receivables and financial assets at fair value through other comprehensive revenue and expenses. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial acquisition and re-evaluates this designation at every reporting date.

Financial assets are initially measured at fair value plus transaction costs unless they are carried at fair value through surplus or deficit, in which case the transaction costs are recognised in the surplus or deficit.

Purchases and sales of financial assets are recognised on trade-date, the date on which HDC commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and HDC has transferred substantially all the risks and rewards of ownership.

The four categories of financial assets are:

Financial Assets at Fair Value through Surplus or Deficit

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

Financial assets acquired principally for the purpose of selling in the short-term or as part of a portfolio classified as 'held for trading' are classified as a current asset. The current/non-current classification of derivatives is explained in the derivatives accounting policy above.

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

Held-to-maturity Investments

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

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

Currently, HDC does not hold any financial assets in this category.

Loans and Receivables

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

After initial recognition they are measured at amortised cost using the effective interest method less impairment. Gains and losses when the asset is impaired or derecognised are recognised through surplus or deficit. Loans and receivables are classified as "trade and other receivables" in the Statement of Financial Position.

Loans, including loans to community organisations made by HDC at nil, or below-market interest rates are initially recognised at the present value of their expected future cash flows, discounted at the current market rate of return for a similar asset or investment. They are subsequently measured at amortised cost using the effective interest method. The difference between the face value and the present value of expected future cash flows is recognised in the Statement of Comprehensive Revenue and Expense as a grant.

Financial Assets at Fair Value through Other Comprehensive Revenue and Expenses

Financial assets at fair value through other comprehensive revenue and expenses are those that are designated as fair value through other comprehensive revenue and expenses or are not classified in any of the other categories above. They are included in non-current assets, unless management intends to dispose of, or realise, the investment within 12 months of balance date. After initial recognition these investments are measured at their fair value.

Gains and losses are recognised directly in other comprehensive revenue and expenses except for impairment losses which are recognised in the surplus or deficit.

On de-recognition the cumulative gain or loss previously recognised in equity is recognised in the surplus or deficit.

Financial assets in this category include investments HDC intends to hold long-term but which may be realised before maturity and shareholdings that HDC holds for strategic purposes.

Impairment of financial assets

At each balance sheet date HDC assesses whether there is any objective evidence that a financial asset or group of financial assets is impaired. Any impairment losses are recognised in the surplus or deficit.

Loans and Other Receivables and Held-to-maturity Investments

Impairment is established when there is objective evidence that the Council will not be able to collect amounts due according to the original terms of the debt. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy and default in payments are considered indicators that the asset is impaired. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate. For debtors and other receivables, the carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the surplus or deficit. When the receivable is uncollectible it is written off against the allowance account. Overdue receivables that have been renegotiated are reclassified as current (that is, not past due). Impairment in term deposits, local authority stock, government bonds and community loans are recognised directly against the instrument's carrying amount.

Financial Assets at Fair Value through Other Comprehensive Revenue and Expenses

For equity investments, a significant or prolonged decline in the fair value of the investment below its cost is considered objective evidence of impairment.

For debt investments, significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy and default in payments are considered objective indicators that the asset is impaired.

If impairment evidence exists for investments at fair value through other comprehensive revenue and expenses, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the surplus or deficit) recognised in other comprehensive revenue and expenses is reclassified from equity to the surplus or deficit.

Equity instrument impairment losses recognised in the surplus or deficit are not reversed through the surplus or deficit.

If in a subsequent period the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through surplus or deficit.

11. Non-Current Assets Held For Sale

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

Any impairment losses for write-downs of non-current assets held for sale are recognised through surplus or deficit.

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

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

12. Property, Plant and Equipment

Property, plant and equipment consist of:

Operational Assets - These include land, buildings, the landfill post closure, library collections, plant and equipment and motor vehicles.

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

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

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

Additions

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

In most instances, an item of property, plant and equipment is recognised at its cost. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value as at the date of acquisition.

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

Disposals

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are included through the surplus or deficit.

When revalued assets are sold, the amounts included in asset revaluation reserves in respect of those assets are transferred to accumulated funds.

Subsequent Costs

Costs incurred subsequent to initial acquisition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to HDC and the cost of the item can be measured reliably. The costs of day-to-day servicing of property, plant, and equipment are recognised in the surplus or deficit as they are incurred.

Depreciation

HDC's 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:

Operational Assets	Useful Life	Depreciation Rate
Land	N/A	N/A
Buildings		
Structure	50 to 100 years	2% - 1%
Roofing	40 years	2.5%
Electricals	40 years	2.5%
Plant, equipment and vehicles	4 to 25 years	25% - 4%
Library assets	10 years	10%
Solid waste management		
Building structure	50-100 years	2% - 1%
Building roofing	40 years	2.5%
Roading	50 years	2%
Cell site works and earthworks	33 years	3%
Cell lining, drainage and irrigation	33 years	3%
Cell electricals	10 years	10%

Restricted Assets	Useful Life	Depreciation Rate
Land	N/A	N/A
Buildings		
Structure	50 to 100 years	2% - 1%
Roofing	40 years	2.5%
Electricals	40 years	2.5%

Infrastructural Assets	Useful Life	Depreciation Rate
Roading (Land Transport) (average lives and depreciation rates of major components)	N/A	N/A
Land	N/A	N/A
Formation	N/A	N/A
Berms	110 years	0.91%
Surface water channels	90 years	1.1%
Bridges and culverts	40-100 years	1.12%
Drainage	88 years	1.13%
Sealed pavement	78 years	1.29%
Basecourse	60 years	1.66%
Footpaths	57 years	1.76%
Crossings	41 years	2.43%
Streetlights	12 years	8.57%
Surfacing	1-25 years	4 -100%
Stormwater		
Pump stations	60 years	1.67%
Manholes	60 years	1.67%
Sumps	60 years	1.67%
Pipes	30 to 80 years	3.33% - 1.25%
Pumps	10 years	10%
Water		
Land	N/A	N/A
Buildings		
Structure	50 to 100 years	2% to 1%
Roofing	40 years	2.5%
Electricals	40 years	2.5%
Treatment facilities	8 to 100 years	12.5% - 1%
Pipes	20 to 80 years	5% - 1.25%
Laterals	80 years	1.25%
Tobies	60 years	1.67%
Valves	60 years	1.67%
Hydrants	60 years	1.67%
Meters	20 years	5%

Infrastructural Assets	Useful Life	Depreciation Rate
Sewer		
Land	N/A	N/A
Buildings		
Structure	25 to 70 years	4% - 1.43%
Roofing	40 years	2.5%
Electricals	40 years	2.5%
Treatment and disposal facilities	10 to 100 years	10% - 1%
Pipes	60 to 80 years	1.67% - 1.25%
Laterals	60 years	1.67%
Pump stations	60 years	1.67%
Manholes	60 years	1.67%
Pumps	10 years	10%

The residual value and useful life of an asset is reviewed, and adjusted if applicable, at the end of each financial year.

Revaluation

Those asset classes that are revalued are valued on a three yearly valuation cycle on the basis described below. All other asset classes are carried at depreciated historical cost. The carrying values of revalued items are reviewed at each balance date to ensure that those values are not materially different to fair value.

Operational Land and Buildings

At “fair value” was determined from market-based evidence by an independent valuer. The most recent valuation was performed by B D Lavender (ANZIV, SNZPI) of Blackmore Associates and the valuation is effective as at 30 June 2014.

Restricted Land and Buildings: Parks, Cemeteries and Endowment Land

At “fair value” was determined from market-based evidence by an independent valuer. The most recent valuation was performed by B D Lavender (ANZIV, SNZPI) of Blackmore Associates and the valuation is effective as at 30 June 2014.

Infrastructural Asset Classes: Roads, Water Reticulation, Sewerage Reticulation and Stormwater Systems

At “fair value” was determined on a depreciated replacement cost basis by Council staff. At balance date HDC assesses the carrying values of its infrastructural assets to ensure that they do not differ materially from the assets' fair values. If there is a material difference, then the off-cycle asset classes are revalued.

Valuations completed by

The roading infrastructure was valued as at 30 June 2014 using unit rates reviewed by Robert Berghuis (NZCE, REA) of Beca. Wastewater assets, Water Supply assets and Stormwater assets were valued as at 1 July 2015 using unit rates provided by Harrison Grierson. The valuation calculations were performed by Council. Land and buildings associated with the Water Supply and Wastewater activities were valued by B D Lavender (ANZIV, SNZPI) of Blackmore Associates and the valuation is effective as at 30 June 2014.

Land under the roads is valued at deemed cost. The landfill infrastructure was valued in two parts, both as at 30 June 2014. The land and buildings were valued by B D Lavender (ANZIV, SNZPI) of Blackmore Associates. The remainder of the asset was valued by Phil Landmark (BScEng (Civil) CP Eng) of MWH New Zealand Ltd, and reviewed by Brian Smith (BCom (Acc & Eco.), CA) of MWH New Zealand Limited.

Accounting for Revaluations

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

The carrying values of revalued assets are assessed annually to ensure that they do not differ materially from the assets' fair values. If there is a material difference, then the off-cycle asset classes are revalued.

Revaluations of property, plant and equipment are accounted for on a class-of-asset basis.

The net revaluation results are credited or debited to other comprehensive revenue and expense and are accumulated to an asset revaluation 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.

13. Intangible Assets

Software Acquisition and Development

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

Costs associated with maintaining computer software are recognised as an expense when incurred. Costs that are directly associated with the development of software for internal use by HDC are recognised as an intangible asset. Direct costs include the software development, employee costs and an appropriate portion of relevant overheads.

Easements

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

Amortisation

HDC's 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 de-recognised. The amortisation charge for each period is recognised through the surplus or deficit.

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

Computer software: 10 years, 10%.

HDC's computer software licenses are amortised at 30% diminishing value including Koha Software. Kete Software is amortised at 60% diminishing value as set by Inland Revenue Department. Amortisation begins when the asset is available for use and ceases at the date that the asset is disposed of.

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

Kete Software - 4 years, 60%

Koha Software - 8 years, 30% HDC

14. Forestry Assets

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

Gains or losses arising on initial recognition of forestry assets at fair value less estimated point of sale costs and from a change in fair value less estimated point of sale costs are recognised through surplus or deficit.

The costs to maintain the forestry assets are included through surplus or deficit.

Emission Trading Scheme New Zealand Units (NZU's)

Council has been allocated and holds NZU's in respect of it forestry stands in the District. NZU's are initially recorded at cost and are subsequently measured at fair value each balance date. Any movement in fair value is recognised in surplus or deficit. Costs associated with maintaining NZU's are recognised as an expense when incurred.

15. Investment Property

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

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

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

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

16. Impairment of Non-Financial Assets

Non-financial assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

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

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

If an asset's carrying amount exceeds its recoverable amount, the asset is impaired and the carrying amount is written down to the recoverable amount. For 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 through the surplus or deficit.

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

The reversal of an impairment loss on a revalued asset is credited to the revaluation reserve. However, to the extent that an impairment loss for that class of asset was previously recognised through the surplus or deficit a reversal of the impairment loss is also recognised through the surplus or deficit. For assets not carried at a revalued amount (other than goodwill) the reversal of an impairment loss is recognised through the surplus or deficit.

17. Employee Benefits

Short-term Benefits

Employee benefits that HDC expects to be settled within 12 months of balance date are measured at nominal values based on accrued entitlements at current rates of pay. These include salaries and wages accrued up to balance date, annual leave earned to, but not yet taken at balance date, retiring and long service leave entitlements expected to be settled within 12 months.

HDC recognises a liability and an expense for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

Long-term Benefits

Long Service Leave and Retirement Leave

Entitlements that are payable beyond 12 months after the end of the period in which the employee renders the related service, such as long service leave and retiring leave have been calculated on an actuarial basis. The calculations are based on the 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 entitlements information and present value of the estimated future cash flows.

Superannuation Schemes

Defined Contribution Schemes

Obligations for contributions to defined contribution superannuation schemes are recognised as an expense through surplus or deficit.

Defined Benefit Schemes

HDC belongs 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.

Insufficient information is available to use defined benefit accounting, as it is not possible to determine from the terms of the Scheme the extent to which the 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.

18. Creditors and Other Payables

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

19. Provisions

HDC recognises a provision for future expenditure of uncertain amount or timing when there is a present obligation (either legal or constructive) as a result of a past event. It is probable that expenditures will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of 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.

Financial Guarantee Contracts

A financial guarantee contract is a contract that requires HDC to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due.

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 HDC 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 only recognised when it is probable there will be an outflow under the guarantee. The portion of the guarantee that remains unrecognised, prior to discounting to fair value, is disclosed as a contingent liability.

Financial guarantees are subsequently measured at the higher of:

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

20. Borrowings

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

Borrowings due to be settled within 12 months of balance date are treated as current liabilities. All other borrowing is classified as term liabilities.

21. Equity

Equity is the community's interest in HDC and is measured as the difference between total assets and total liabilities. Equity is disaggregated and classified into a number of reserves.

The components of equity are:

- Retained earnings
- Restricted reserves
- Asset revaluation reserves

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 HDC.

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

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

22. Goods and Services Tax

All items in the Financial Statements are stated exclusive of GST, except for receivables and payables which are stated on a GST inclusive basis. Where GST is not recoverable as input tax then it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the Statement of Financial Position.

The net GST paid to or received from the IRD, including the GST relating to investing and financing activities, is classified as an operating cash flow in the statement of cash flows.

Commitments and contingencies are disclosed exclusive of GST.

23. Cost Allocation

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

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

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

24. Critical Accounting Estimates and Assumptions

In preparing these financial statements HDC has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations for future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Landfill Aftercare Provision

The Statement of Financial Position discloses the exposure of HDC in relation to the landfill aftercare provision.

Infrastructural Assets

There are a number of assumptions and estimates used when performing depreciated replacement cost (DRC) valuations over infrastructural assets. These include:

- The physical deterioration and condition of an asset, for example the Council could be carrying an asset at an amount that does not reflect its actual condition. This is particularly so for assets that are not visible, for example stormwater, wastewater and water supply pipes that are underground. This risk is minimised by Council performing a combination of physical inspections and condition modelling assessments of underground assets.

- Estimating any obsolescence or surplus capacity of an asset.
- Estimates are made when determining the remaining useful lives over which the asset will be depreciated. These estimates can be impacted by the local conditions, for example, weather patterns and traffic growth. If useful lives do not reflect the actual consumption of the benefits of the asset, then HDC could be over or under estimating the annual depreciation charge recognised as an expense through surplus or deficit. To minimise this risk HDC's infrastructural asset useful lives have been determined with reference to the NZ Infrastructural Asset Valuation and Depreciation Guidelines published by the National Asset Management Steering Group and have been adjusted for local conditions based on past experience. Asset inspections, deterioration and condition modelling are also carried out regularly as part of the HDC's asset management planning activities, which gives HDC further assurance over its useful life estimates.

Experienced independent valuers perform the Council's infrastructural asset revaluations.

Re-Classification on Report in Current Years

Where reclassifications have been required for current reporting standards, the comparatives will be adjusted.

Critical Judgments in Applying Accounting Policies

Classification of Property

HDC owns a number of properties to provide housing for pensioners. The move towards market-based rental from these properties is incidental to holding these properties. These properties are held for service delivery objectives as part of the HDC's social housing policy. These properties are accounted for as property, plant and equipment.

Derivative Financial Instruments

HDC uses derivative financial instruments to hedge exposure to interest rate risks arising from financing activities. In accordance with its Treasury Policy, HDC does not hold or issue derivative financial instruments for trading.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value at each balance date.

The associated gains or losses of derivatives that are not hedged accounted are recognised in the surplus or deficit.