

Prospective Accounting Policies

1. Reporting Entity

The prospective financial statements of the Horowhenua District Council are for the year ended 30 June 2019 and for the subsequent nineteen years, ending 30 June 2038.

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 Shannon Community Development 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 have designated themselves as PBE for financial reporting purposes.

The prospective financial statements contained in the ten year 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
- Community Support

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

The prospective financial statements were authorised by issue by Council on 20 June 2018. 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 2019 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, Sec 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 bases. 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 statement 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 instalments is not sufficient to require discounting of rates receivables and subsequent recognition of interest revenue.
- Rates arising from late payment penalties are recognised as revenue when rates become overdue.
- Revenue from water-by-meter rates is recognised on an accrual basis based on usage. Unbilled usage, as a result of unread meters at year end, is accrued on an average usage basis.
- 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.

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

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 Council'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: 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 in which case 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 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 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.

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 Income 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 and Group 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, 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:

	Useful Life	Depreciation Rate
Operational assets		
Land	N/A	N/A
Buildings:		
Structure	50 to 100 years	1% to 2%
Roofing	40 years	2.5%
Electricals	40 years	2.5%
Plant, equipment and vehicles	4 to 25 years	4% to 25%
Library assets	10 years	10%
Solid waste management:		
Building structure	50 to 100 years	1% to 2%
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		
Land	N/A	N/A
Buildings:		
Structure	50 to 100 years	1% to 2%
Roofing	40 years	2.5%
Electricals	40 years	2.5%
Infrastructural assets		
Roading: (average lives and depreciation rates)		

	Useful Life	Depreciation Rate
of major components)		
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 to 100 years	1% to 2.5%
Drainage	88 years	1.13%
Sealed pavement	78 years	1.29%
Basecourse	60 years	1.66%
Footpaths - concrete	60 years	1.66%
Footpaths - metal	100 years	1.0%
Crossings	50 years	2.0%
Streetlights – poles	30 years	3.33%
Streetlights – lights	25 years	4.0%
Signage	12 years	8.33%
Surfacing	1 to 25 years	4% to 100%
Stormwater:		
Pump stations	60 years	1.67%
Manholes	60 years	1.67%
Sumps	60 years	1.67%
Pipes	30 to 80 years	1.25% to 3.33%
Pumps	10 years	10%
Water:		
Land	N/A	N/A
Buildings:		
Structure	50 to 100 years	1% to 2%
Roofing	40 years	2.5%
Electricals	40 years	2.5%
Treatment facilities	8 to 100 years	1% to 12.5%
Pipes	20 to 80 years	1.25% to 5%
Laterals	80 years	1.25%
Tobies	60 years	1.67%
Valves	60 years	1.67%
Hydrants	60 years	1.67%
Meters	20 years	5%
Sewer:		
Land	N/A	N/A
Buildings:		
Structure	25 to 70 years	4% to 1.43%
Roofing	40 years	2.5%

	Useful Life	Depreciation Rate
Electricals	40 years	2.5%
Treatment and disposal facilities	10 to 100 years	10% to 1%
Pipes	60 to 80 years	1.67% to 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 each financial year-end.

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 2017.

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 2017.

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, wastewater assets, water supply assets and stormwater assets were valued as at 1 July 2016 using unit rates reviewed by Robert Berghuis (NZCE, REA) of Beca and Harrison Grierson. The valuation calculations were performed by Council. Land and buildings associated with the water supply and wastewater activities was valued by B D Lavender (ANZIV, SNZPI) of Blackmore Associates and the valuation is effective as at 30 June 2017.

Land under the roads is valued at deemed cost. The landfill infrastructure was valued in two parts, both as at 30 June 2017. 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 to ensure that their carrying amount does not differ materially from fair value and at least every three years.

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%.

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%

Other software – 60% diminishing value.

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 its 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

Entitlements that are payable beyond 12 months after the end of 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;
- the 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 when incurred.

19. Creditors and Other Payables

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

20. 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 not recognised for future operating losses.

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.

21. 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.

22. 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.

Asset revaluation reserves

These reserves relates to the revaluation of property, plant and equipment to fair value.

23. 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.

24. 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.

25. 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 or future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

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. HDC