

# Statement of accounting policies

This plan is prepared in accordance with section 93 of the Local Government Act 2002 and complies with the requirements of FRS 42.

Papakura District Council (PDC) is responsible for the prospective financial statements presented, including the appropriateness of the assumptions underlying the prospective financial statements and all other required disclosures.

The information contained in the financial statements is not able to be used for any purposes other than to give an indication of the magnitude of Council's financial requirements for the period of the plan.

There is a low to high level degree of uncertainty attached to the financial information as outlined in the forecasting assumptions. The financial statements are for the period covering 1 July 2008 through to 30 June 2019. The financial statements were authorised for issue by Council on 30 June 2009.

## Reporting entity

Papakura District Council is a territorial local authority governed by the Local Government Act 2002. It consists of Papakura District Council and its subsidiaries. All subsidiaries are 100% consolidated.

However, in accordance with Clause 8(2) of Schedule 10 of the Local Government Act 2002 the financial statements cover the activities of Council only.

The primary objective of PDC is to provide goods or services for the community or social benefit rather than making a financial return. Accordingly, PDC has designated itself and the group as public benefit entities for the purposes of New Zealand equivalents to International Financial Reporting Standards (NZIFRS).

## Basis of preparation

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

These financial statements have been prepared in accordance with NZ GAAP. They comply with NZ IFRS, and other applicable Financial Reporting Standards, as appropriate for public benefit entities.

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

The financial statements have been prepared on a historical cost basis, modified by the revaluation of infrastructural assets, investment property and financial instruments (including derivative instruments).

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest dollar. The functional currency of PDC is New Zealand dollars.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the statement of financial performance.

### Standards and interpretation issued and not yet adopted

There are no standards, interpretations, and amendments that have been issued, but are not yet effective, that PDC has not yet applied.

### Subsidiaries

PDC consolidates as subsidiaries in the group financial statements all entities where Council has the capacity to control their financing and operating policies so as to obtain benefits from the activities of the entity. This power exists where Council controls the majority voting power on the governing body or where such policies have been irreversibly predetermined by Papakura District Council or where the determination

of such policies is unable to materially impact the level of potential ownership benefits that arise from the activities of the subsidiary.

Council measures the cost of a business combination as the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, in exchange for control of the subsidiary plus any costs directly attributable to the business combination.

Any excess of the cost of the business combination over PDC's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is recognised as goodwill. If Council's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised exceeds the cost of the business combination, the difference will be recognised immediately in the statement of financial performance.

This Plan does not present information on any of Council's subsidiaries.

### Basis of consolidation

The purchase method is used to prepare the consolidated financial statements, which involves adding together like items of assets,

liabilities, equity, income and expenses on a line-by-line basis. All significant intragroup balances, transactions, income and expenses are eliminated on consolidation.

Council's investment in its subsidiaries are carried at cost in PDC's own "parent entity" financial statements.

This Plan does not present information on any of Council's subsidiaries and as a result no consolidated information is presented.

### Associates or joint ventures

PDC has no associate companies or joint venture entities.

### Revenue

Revenue is measured at the fair value of consideration received.

### Rates revenue

Rates are set annually by a resolution from Council and relate to a financial year. All ratepayers are invoiced within the financial year to which the rates have been set. Rates revenue is recognised when payable.

## Other revenue

Traffic and parking infringements are recognised upon receipt of payment.

Council receives government grants from Land Transport New Zealand, which subsidises part of PDC's costs in maintaining the local roading infrastructure. The subsidies are recognised as revenue upon entitlement as conditions pertaining to eligible expenditure have been fulfilled.

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.

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

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

Where revenue is derived by acting as an agent for another party, the revenue that is recognised is the commission or fee on the transaction.

Interest income is recognised using the effective interest method.

Dividends are recognised when the right to receive payment has been established.

## Financial and development contributions

The revenue recognition point for development and financial contributions is at the later of the point when Council is ready to provide the service for which the contribution was levied, or the event that will give rise to a requirement for a development or financial contribution under the legislation.

### Construction contracts

Council does not have any construction contracts.

### Borrowing costs

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

### 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 PDC has no obligation to award on receipt of the grant application and are recognised as expenditure when a successful applicant has been notified of the Council's decision.

## Income Tax

Income tax expense in relation to the surplus or deficit for the period comprises 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 rates that have been enacted or substantially enacted by 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 financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable 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 and liability in a transaction that is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is recognised on taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the company can control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, using tax rates that have been enacted or substantially enacted by balance date.

Current tax and deferred tax is charged or credited to the statement of financial

performance, except when it relates to items charged or credited directly to equity, in which case the tax is dealt with in equity.

## Leases

### Finance leases

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

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

### Operating leases

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

## Cash and cash equivalents

Cash and cash equivalents includes cash 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.

## Debtors and other receivables

Debtors 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.

Loans, including loans to community organisations made by PDC 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/investment. They are subsequently measured at amortised cost using the effective interest method. The difference between the face value and present value of expected future cash flows of the loan is recognised in the statement of financial performance as a grant.

A provision for impairment of receivables is established when there is objective evidence that PDC 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 present value of estimated future cash flows, discounted using the effective interest method.

## Inventories

Council does not carry any inventories.

## Financial assets

Council classifies its financial assets into the following four categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and financial assets at fair value through equity. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

Financial assets and liabilities are initially measured at fair value plus transaction costs unless they are carried at fair value through profit or loss in

which case the transaction costs are recognised in the statement of financial performance.

Purchases and sales of investments are recognised on trade-date, the date on which Council 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 Council has transferred substantially all the risks and rewards of ownership.

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance date. The quoted market price used is the current bid price. The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. Council uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The four categories of financial assets are:

- 1. Financial assets at fair value through profit or loss**

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance date

After initial recognition they are measured at their fair values. Gains or losses on remeasurement are recognised in the statement of financial performance.

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

### 2. Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

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

statement of financial performance. Loans and receivables are classified as “trade and other receivables” in the statement of financial position.

### 3. Held to maturity investments

Held to maturity investments are assets with fixed or determinable payments and fixed maturities that Council has the positive intention and ability to hold to maturity.

After initial recognition they are measured at amortised cost using the effective interest method. Gains and losses when the asset is impaired or derecognised are recognised in the statement of financial performance.

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

### 4. Financial assets at fair value through equity

Financial assets at fair value through equity are those that are designated as fair value through equity or are not classified in any of the other categories above.

This category encompasses:

- Investments that PDC intends to hold long-term but which may be realised before maturity.

These are recognized at fair value which is deemed to equate to net asset backing; and

- Shareholdings that PDC holds for strategic purposes. Investments in its subsidiary and associate companies are not included in this category as they are held at cost (as allowed by NZ IAS 27 Consolidated and Separate Financial Statements and NZ IAS 28 Investments in Associates) whereas this category is to be measured at fair value
- After initial recognition these investments are measured at their fair value
- Gains and losses are recognised directly in equity except for impairment losses, which are recognized in the statement of financial performance. In the event of impairment, any cumulative losses previously recognised in equity will be removed from equity and recognised in statement of financial performance even though the asset has not been derecognised
- On derecognition the cumulative gain or loss previously recognised in equity is recognised in the statement of financial performance.

### Impairment of financial assets

At each balance sheet date Council assesses whether there is any objective evidence that a financial asset or group of financial assets is

impaired. Any impairment losses are recognised in the statement of financial performance.

### Impairment of financial assets

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

Impairment of a loan or a receivable is established when there is objective evidence that Council will not be able to collect amounts due according to the original terms. Significant financial difficulties of the debtor/issuer, probability that the debtor/issuer 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 the 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 a provision account, and the amount of the loss is recognised in the statement of financial performance. When the receivable is uncollectible, it is written off against the provision account. Overdue receivables that have been renegotiated are reclassified as

current (i.e. not past due). For term deposits, local authority stock, government stock and community loans, impairment losses are recognised directly against the instruments carrying amount.

Impairment of term deposits, local authority stock, government stock, and related party and community loans is established when there is objective evidence that Council will not be able to collect amounts due to the original terms of the instrument. Significant financial difficulties of the issuer, probability the issuer will enter into bankruptcy, and default in payments are considered indicators that the instrument is impaired. Impairment losses are recognised directly against the carrying amount.

### Accounting for derivative financial instruments and hedging activities

Council uses derivative financial instruments to hedge exposure to foreign exchange and interest rate risks arising from financing activities. In accordance with its treasury policy, PDC does not hold or issue derivative financial instruments for trading purposes.

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

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Council designates certain derivatives as either:

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

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

The full fair value of hedging derivatives is classified as a non-current asset if the remaining maturity of the hedged item is more than 12 months and as a current asset if the remaining maturity of the hedged item is less than 12 months.

- Fair value hedge  
The gain or loss from remeasuring the hedging instrument at fair value, along with the changes in the fair value on the hedged item attributable to the hedged risk, is recognised in the statement of financial performance.
- Cash flow hedge  
The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity through the statement of changes in equity and the ineffective portion of the gain or loss on the hedging instrument is recognised in the statement of financial performance.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognised directly in equity will be reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss. However, if Papakura District Council expects that all or a portion of a loss recognised directly in equity will not be recovered in one or more future periods, it will reclassify into profit or loss the amount that is not expected to be recovered.

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

For cash flow hedges other than those covered above, amounts that had been recognised directly in equity will be recognised in profit or loss in the same period or periods during which the hedged forecast transaction affects profit or loss (for example, when a forecast sale occurs).

If a hedging instrument expires or is sold, terminated, exercised or revoked, or it no longer meets the criteria for hedge accounting, the cumulative gain or loss on the hedging instrument that remains recognized directly in equity from the period when the hedge was effective will remain separately recognised in equity until the forecast transaction occurs. When the forecast transaction is no longer expected to occur any related cumulative gain or loss on the hedging instrument that remains recognised directly in equity from the period when the hedge was

effective will be recognised in the statement of financial performance. Papakura District Council does not currently apply hedge accounting.

### 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 in the statement of financial performance. 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. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

## Property, plant and equipment

Property, plant and equipment consists of:

- Operational assets:  
These include land, buildings, landfill post closure, library books, plant and equipment, and motor vehicles.
- Restricted assets:  
Restricted assets are parks and reserves owned by Council which provide a benefit or service to the community and cannot be disposed of because of legal or other restrictions.
- Infrastructure assets:  
Infrastructure assets are the fixed utility systems owned by PDC. 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.
- Rights to franchise assets:  
Rights to franchise assets are the fixed utility systems owned by Council and operated by the franchise holder United Water International Pty Ltd for the provision of water and sewerage services in the district. Under the franchise agreement United Water is responsible for upgrading and maintaining the network so that at the end of the contract period (initial term 30 years); the network shall be in a

better overall condition than the condition at the time the contract was commenced. Each asset type includes all items that are required for the network to function

Property, plant and equipment is 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 Council and the cost of the item can be measured reliably.

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

### Disposals

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

### 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 Papakura District Council and the cost of the item can be measured reliably.

### Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment other than land and motor vehicles, at rates that will write off the cost (or valuation) of the assets to their estimated residual values over their useful lives.

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

Buildings	1-15% straight line
<b>Roading Infrastructure</b>	
Land, formation and sub base	0 - 1.6% straight line
Basecourse and unsealed roads	1.7-4.8% straight line
Road surfacing	1.7-9.4% straight line
Bridges and retaining walls	1% straight line
Footpaths	3.0-6.4% straight line
Kerb and channel, catch pits and minor culverts	1.4-2.1% straight line
Streetlighting	4-10% straight line
Traffic signals and signs	4-10% straight line
<b>Stormwater Infrastructure</b>	
Pipe assets	1.2% straight line
Other non-pipe assets	0-5% straight line
Studies and flowpath mapping	10% straight line
Water and sewer infrastructure	0.83-2% straight line
Finance lease assets	25-33% straight line
Plant and machinery	5-20% straight line
Motor vehicles	20% diminishing value
Office furniture and equipment	10-20% straight line
Library books	15% straight line

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

## Revaluation

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.

Infrastructural asset classes: roads, water reticulation, sewerage reticulation and stormwater systems:

At fair value determined on a depreciated replacement cost basis by an independent valuer. At balance date Council 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.

The most recent valuations performed were as follows:

- Roothing system infrastructure assets have been valued by J Thompson and G Morrow of Opus International Consultants Limited as at 30 June 2008, and independently reviewed by J Vessey of Opus International Consultants Limited. The valuation has established the optimised depreciated replacement cost of the assets, being the assessed cost of replacing the existing assets with replacement assets able to perform all the existing assets service outcomes. Roothing land is valued based on the average land value of the Papakura District as assessed by Quotable Value New Zealand Ltd in September 2000. Council does not intend to revalue rooting land in the future. Additions in the years between revaluations will be recorded at cost.
- Stormwater system infrastructure assets have been valued by A Singh of ANA Group Ltd as at 30 June 2008. The valuation has established the optimised depreciated replacement cost of the assets, being the assessed cost of replacing the existing assets with replacement assets able to perform all the existing assets service outcomes. Subsequent additions, Integrated Catchment Management Plans and catchment studies have been recorded at cost.
- Sewerage and water infrastructure assets have been valued by the franchise holder, United Water International Pty Ltd, as at 30 June 2008, and independently reviewed by valuers MWH New Zealand Ltd. The valuation has established the optimised depreciated replacement cost of the assets, being the assessed cost of replacing the existing assets with replacement assets able to perform all the existing assets service outcomes. Additions vested in Council by subdividers in the years between revaluations will be recorded at the amount determined by the cost to the subdivider.

#### Finance lease assets

Finance Lease assets are valued at the lower of the fair value of the asset or the present value of the minimum lease payments.

#### Land and buildings

Land and buildings owned prior to 1 October 1991 have been valued by Valuation New Zealand as at that date. Subsequent additions have been recorded at cost. Reserves vested in Council by subdividers have been recorded at the amount determined by the cost to the subdivider.

#### Office furniture and equipment, plant and machinery and library books

Office furniture and equipment, plant and machinery and library books are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

#### Motor vehicles and work in progress

Motor vehicles and work in progress are valued at cost.

#### Accounting for revaluations:

Council accounts for revaluations of property, plant and equipment on a class of asset basis. The results of revaluing are credited or debited to an asset revaluation reserve for that class of asset. Where this results in a debit balance in the asset revaluation reserve, this balance is expensed in the statement of financial performance. Any subsequent increase on revaluation that off-sets a previous decrease in value recognised in the statement of financial performance will be recognised first in the statement of financial performance up to the amount previously expensed, and then credited to the revaluation reserve for that class of asset.

## Intangible assets

### Goodwill

Council does not have any assets in this category.

### 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 Council, 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

The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. The amortisation

charge for each period is recognised in statement of financial performance. The useful lives and associated amortisation rates of major classes of intangible assets have been estimated as follows:

Computer software 3 to 5 years 33%

## Forestry assets

Council does not have any assets in this category.

## 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, Council measures all investment property at fair value as determined annually by an independent valuer.

Gains or losses arising from a change in the fair value of investment property are recognised in the statement of financial performance.

## 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 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 it's 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 in the statement of financial performance.

For assets not carried at a revalued amount, the total impairment loss is recognised in the statement of financial performance. 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 in statement of financial performance, a reversal of the impairment loss is also recognised in the statement of financial performance. For assets not carried at a revalued amount (other than goodwill) the reversal of an impairment loss is recognised in the statement of financial performance.

## Employee benefits

### Short-term benefits

Employee benefits that Council expects to be settled within 12 months of balance date are measured at nominal values based on accrued entitlements at current rates of pay. These include salaries and wages accrued up to balance date, annual leave earned to, but not yet taken at balance date, long service leave entitlements expected to be settled within 12 months, and sick leave. Council recognises a liability for sick leave to the extent that absences in the coming year

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

### Long-term benefits

#### Long service leave

Council does not have any long service leave entitlements.

### Superannuation schemes

#### Defined contribution schemes

Obligations for contributions to defined contribution superannuation schemes are recognised as an expense in the statement of financial performance as incurred.

#### Defined benefit schemes

Council 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/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.

## Provisions

Council 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 PDC 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 a provision is recognised based on the probability Council will be required to reimburse a holder for a loss incurred, discounted to present value. 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 initial recognition amount less any amortisation, however if PDC assesses that it is probable that expenditure will be required to settle a guarantee, then the provision for the guarantee is measured at the present value of the future expenditure.

## Borrowings

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

## Creditors and other payables

Creditors and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method.

## Equity

Equity is the community's interest in PDC 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
- Council-created reserves
- Restricted reserves (including fair value, hedging reserves and asset revaluation reserves).

## Restricted and Council created reserves

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

Restricted reserves are those subject to specific conditions accepted as binding by

Council and which may not be revised by Council without reference to the courts or a third party. Transfers from these reserves may be made only for certain specified purposes or when certain specified conditions are met.

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

## Good and Service Tax (GST)

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.

## Budget figures

The budget figures are those approved by the Council at the beginning of the year in the annual plan. The budget figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted by Papakura District Council for the preparation of the financial statements.

## Cost allocation

PDC has derived the cost of service for each significant activity of Papakura District Council 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 actual usage, staff numbers and floor area.

## Critical accounting estimates and assumptions

In preparing these financial statements Council 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 opposite.

## Infrastructural assets

There are a number of assumptions and estimates used when performing 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 those assets, which 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 modeling assessments of underground assets;

- estimating any obsolescence or surplus capacity of an asset; and
- 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 PDC could be over or under estimating the annual depreciation charge recognised as an expense in the statement of financial performance. To minimise this risk Council'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 modeling are also carried out regularly as part of the Council's asset management planning activities, which gives Papakura District Council further assurance over its useful life estimates. Experienced independent valuers perform or review the Council's infrastructural asset revaluations.

## Landfill post-closure provision

PDC discloses an analysis of the exposure of Council in relation to the estimates and uncertainties surrounding the landfill post-closure provision.

### Critical judgments in applying Council's accounting policies

Management has exercised the following critical judgments in applying the Council's accounting policies for the periods ending 30 June 2010 through to 30 June 2019.

## Classification of property

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

## Cautionary Note

The information in the prospective financial statements is uncertain and the preparation requires the exercise of judgment. Actual financial results achieved for the period covered are likely to vary from the information presented, and the variations may be material. Events and circumstances may not occur as expected or may not have been predicted or the Council may subsequently take actions that differ from the proposed courses of action on which the prospective financial statements are based.

The information contained within these prospective financial statements may not be suitable for use in another capacity.

## Changes in Accounting Policies

There have been no significant changes in accounting policies from those adopted in the last audited financial statements. All policies have been applied on a basis consistent with the previous period.