ATTACHMENT 2h

2021-31

Draft Accounting Policies

Waitomo District Council

Waitomo
District Council

Accounting Policies

STATEMENT OF RESPONSIBILITY

The draft prospective financial statements, which form part of the consultation document and 2021-31 10YP, was adopted by Council on [date] for consultation.

The purpose of the plan is to provide a roadmap to the Council and community on the planned activities and expenditure of Council over the next ten years. The use of this information for purposes other than for which it is prepared may not be appropriate.

The Council is responsible for the draft prospective financial statements presented, including the appropriateness of the underlying assumptions and related disclosures. The draft prospective financial statements have been prepared in compliance with the PBE FRS 42 Prospective Financial Statements.

The Council, who are authorised to do so, believe the assumptions underlying the draft prospective financial statements are appropriate and as such, adopted the draft prospective financial statements on [date] for consultation.

No actual financial results have been incorporated within the draft prospective financial statements.

STATEMENT OF ACCOUNTING POLICIES

Reporting Entity

Waitomo District Council is a territorial local authority established under the Local Government Act 2002 (LGA) and is domiciled and operates in New Zealand. The relevant legislation governing the Council's activities is the LGA and the Local Government (Rating) Act 2002.

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

The draft prospective financial information contained within the 10YP may not be appropriate for purposes other than those described.

Basis of Preparation

The draft prospective financial statements are for Waitomo District Council (the Council) as a separate legal entity. Consolidated prospective financial statements comprising the Council and its controlled entities and associates have not been prepared.

STATEMENT OF COMPLIANCE

The draft prospective financial statements have been prepared in accordance with the requirements of the LGA, which includes the requirement to comply with generally accepted accounting practice in New Zealand (NZ GAAP).

The draft prospective financial statements have been prepared in accordance with Tier 1 PBE accounting standards.

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

PRESENTATION CURRENCY AND ROUNDING

The reporting period for these draft prospective financial statements is the 10 year period ending 30 June 2031. The draft prospective financial statements are presented in New Zealand dollars, rounded to the nearest thousand ($000's), unless otherwise stated.

MEASUREMENT BASIS

The measurement basis applied is historical cost, modified by the revaluation of land and buildings, certain infrastructural assets and financial instruments and investment property. The accrual basis of accounting has been used unless otherwise stated.

For the assets and liabilities recorded at fair value, fair value is defined as the amount for which an item could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction. For investment property, the fair value is determined by reference to market value. The market value of a property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction.

REVENUE

Revenue comprises rates, revenue from operating activities, grant revenue, interest revenue, and other revenue and is measured at the fair value of consideration received or receivable.

Revenue is recognised to the extent that is probable that the economic benefits will flow to the Council and the revenue can be reliably measured.

Revenue may be derived from either exchange or non-exchange transactions. These are defined as:

Exchange transactions

Exchange transactions are transactions where the Council receives assets (primarily cash) or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services, or use of assets) to another entity in exchange.

Non-exchange transactions

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, the Council either receives value from or gives value to another entity without directly giving or receiving approximately equal value in exchange.

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the Council satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

The following specific recognition criteria must also be met before revenue is recognised.

RATES REVENUE

Rates are set annually by resolution from the Council and relate to a particular financial year. All ratepayers are invoiced within the financial year for which the rates have been set. Rates arising from late payment penalties are recognised when rates become overdue. Rates revenue is classified as non-exchange revenue.

WAKA KOTAHI ROADING SUBSIDIES

The Council receives funding assistance from Waka Kotahi, which subsidises part of the costs of maintenance and capital expenditure on the local roading infrastructure. The subsidies are recognised as revenue upon entitlement, as conditions pertaining to eligible expenditure have been fulfilled. Roading subsidies are classified as non-exchange revenue.

OTHER SUBSIDIES AND GRANTS RECEIVED

Other subsidies and 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 grants are satisfied. Other grants received classified as non-exchange revenue.

FEES, LEVIES AND CHARGES

Other fees, levies and charges are recognised as revenue when the obligation to pay arises or, in the case of licence fees, upon renewal of the licence. Fees, levies and charges are classified as non-exchange revenue.

INTEREST REVENUE

Revenue is recognised using the effective interest rate method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument. Interest revenue is classified as exchange revenue.

SALE OF GOODS

The sale of goods is recognised when products are sold to the customer and all risks and rewards of ownership have transferred to the customer. This revenue is classified as exchange revenue.

PROPERTY RENTAL REVENUE

Rental revenue arising on property owned by the Council is accounted for on a straight-line basis over the lease term. Property rental revenue is generally classified as non-exchange with the exception of certain market based lease rentals.

DONATED, SUBSIDISED OR VESTED ASSETS

Where a physical asset is acquired for nil or nominal consideration, the fair value of the asset received is recognised when the control of the asset is transferred to Council. The fair value of this asset is recognised as revenue, unless there is a use or return condition attached to the asset and is classified as non-exchange revenue.

EXPENDITURE

Expenditure is recognised when the Council has been supplied with the service or has control of the goods supplied.

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

BORROWING COSTS

Borrowing costs are recognised in the period in which they are incurred.

DEPRECIATION AND AMORTISATION

Depreciation of property, plant and equipment and amortisation of intangible assets are charged on a straight-line basis over the estimated useful life of the associated assets.

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 substantially 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 substantially enacted at the balance sheet 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 the 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 of 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 into equity.

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.

INVENTORY

Inventory held for use in the provision of goods and services on a commercial basis are valued at the lower of cost and net realisable value. The cost of purchased inventory is determined using the FIFO method.

The amount of any write down from the loss of service potential or from cost to net realisable value is recognised in surplus or deficit in the period of the write down.

FINANCIAL ASSETS

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

Financial assets are classified into the following categories for the purpose of measurement:

- financial assets at fair value through surplus or deficit,
- loans and receivables, and
- available for sale

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet 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. The Council uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The three categories of financial assets are:

Financial Assets at Fair Value Through Surplus or deficit

This category has two sub-categories: financial assets held for trading, and those designated at fair value through surplus or deficit 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 into a hedging relationship.

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 sheet date.

After initial recognition they are measured at their fair values. Gains or losses on re-measurement are recognised in the surplus or deficit.

Derivative financial instrument assets are included in this class.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are classified as Receivables in the draft prospective statement of financial position.

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

Loans made at nil or below-market interest rates are initially recognised at the present value of their expected future cash flows, discounted at the current market rate of return for a similar asset. The difference between the face value and present value of expected future cash flows of the loan is recognised in the surplus or deficit. The loans are subsequently measured at amortised cost using the effective interest method.

A provision for impairment of receivables is established when there is objective evidence that the Council 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.

Available for Sale

Available for sale financial assets are those that are designated into the category at initial inception and 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. The Council includes the following in this category:

- Investments that the Council intends to hold long- term but which may be realised before maturity; and
- Shareholdings that the Council holds for strategic purposes. The Council's investment in Inframax Construction Limited is included in this category.

After initial recognition these investments are measured at their fair value.

Gains and losses arising from changes in fair value are recognised in other comprehensive revenue and expenses and accumulated as a separate component of equity in the available-for-sale revaluation reserve with the exception of impairment losses, which are recognised directly in surplus or deficit.

Where the Investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the available-for-sale revaluation reserve is reclassified from equity to the surplus or deficit (as a reclassification adjustment).

IMPAIRMENT OF FINANCIAL ASSETS

Financial assets are assessed for any evidence of impairment at each balance date. Any impairment losses are recognised in the surplus or deficit.

Loans and receivables

Impairment is established when there is evidence that the Council will not be able to collect amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, receivership, or liquidation and default in payments are indicators that the asset is impaired. The amount of the impairment is the difference between the assets carrying value and the present value of estimated future cash flows, discounted using the original effective interest rate.

Available for sale

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

If impairment evidence exists for available for sale assets, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment losses on that financial asset already recognised in the surplus or deficit) recognised in other comprehensive revenue and expense is reclassified from equity to the surplus or deficit.

DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

The Council designates certain derivatives as either:

- hedges of highly probable forecast transactions (cash flow hedge) or
- derivatives that do not qualify for hedge accounting

The 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. The Council also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedge transactions are highly effective in offsetting changes in fair values or cash flows of hedges items.

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

CASH FLOW HEDGE

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

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

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

DERIVATIVES THAT DO NOT QUALIFY FOR HEDGE ACCOUNTING

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are immediately in surplus or deficit.

PAYABLES

Payables are recognised at their face value when the Council becomes obligated to make future payments resulting from the purchase of goods or services.

Payables may be derived from either exchange or non-exchange transactions. These are defined as:

Exchange transactions

Exchange transactions are transactions where the Council receives assets (primarily cash) or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services, or use of assets) to another entity in exchange.

Payables from exchange transactions include payables to suppliers, retention monies and payables for elected members and directors' fees.

Non-exchange transactions

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, the Council either receives value from or gives value to another entity without directly giving or receiving approximately equal value in exchange.

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow. As the Council satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Non exchange payables include payables for GST, deposits and bonds held and deferred grant revenue.

BORROWINGS

Borrowings are initially recognised at their fair value net of transaction costs.

After initial recognition, all borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

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

GOOD AND SERVICE TAX (GST)

All items in the draft prospective 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 draft prospective statement of financial position.

Where the Council is not in possession of or issued a valid tax invoice at balance date, the GST portion is not accounted for in either Receivables or Payables.

Commitments and contingencies are disclosed exclusive of GST.

PROVISIONS

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 an outflow of future economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an interest expense and is included in finance costs.

LANDFILL POST CLOSURE COSTS

The Council has a legal obligation under the resource consents for open and closed landfills to provide for ongoing maintenance and monitoring services at the sites after closure. A provision for post closure costs is recognised as a liability when the obligation for post closure expenditure arises. The provision is a measure based on the present value of future cash flows expected to be incurred, taking into account future events including legal requirements and known improvements in technology. The provision includes all costs associated with landfill post closure.

Amounts provided for landfill post closure are capitalised to the landfill asset where they give rise to future economic benefits to be obtained. Components of the capitalised landfill asset are depreciated over their useful lives.

EMPLOYEE ENTITLEMENTS

Short-Term Employee Entitlements

Employee benefits expected to be settled within 12 months after the end of the period which the employee renders the related service are measured based on accrued entitlements at current rates of pay.

These include salaries and wages accrued up to balance date, annual leave earned to, but not yet taken at balance date, retiring and entitlements expected to be settled within 12 months, and sick leave.

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

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, finance leases recognised 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.

A 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 the Council will obtain ownership at the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life.

Operating leases

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

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of operational assets, infrastructural assets and restricted assets.

Operational assets

Operational assets are tangible assets, able to be dealt with as part of the operating strategy and include land, buildings, furniture and fittings, computer hardware, plant and equipment, library books, motor vehicles, and finance leases for office equipment.

Infrastructural assets

Infrastructural assets are the fixed utility systems providing an ongoing service to the community, but are not generally regarded as tradeable. They include infrastructural land, roads, water reticulation systems, solid waste systems, wastewater reticulation systems, stormwater systems, and land under roads.

Restricted assets

Restricted assets cannot be disposed of because of legal and other restrictions but provide a benefit or service to the community. These are mainly assets associated with reserves vested under the Reserves Act, endowments and other property held in Trust for specific purposes.

Land (operational, restricted and infrastructural) is measured at fair value. Buildings (operational and restricted) and all infrastructural are measured at fair value less accumulated depreciation. All other asset classes are measure at cost 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 the Council and the cost of the item can be measured reliably.

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

In most instances, an item of property, plant and equipment is initially recognised at its cost. Where an asset is acquired through a non-exchange transaction, it is recognised at 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 surplus or deficit. When revalued assets are sold, the amounts included in the property 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 the Council 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

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

Land, land under roads, archive books, certain road asset components, some resource consents and work in progress are not depreciated.

Operational Assets

Operational assets are depreciated on a straight line basis. The estimated useful lives are as follows:

Operational buildings	15-100 years
Plant and equipment	4-13 years
Motor vehicles	5-7 years
Furniture and fittings	5-30 years
Computers	4-5 years
Library books	7 years
Archive books	No depreciated

Infrastructural Assets

Infrastructural assets are depreciated on a straight line basis. The estimated useful lives are as follows:

Roads and Footpaths

Pavement formation	Not depreciated
Pavement subbase	25 - 115 years or not depreciated
Pavement base	25 -120 years or not depreciated
Sealed surface	2 – 16 years
Metal surface	Not depreciated
Bridges and major culverts	30-100 years
Retaining walls and other structures	20-100 years
Footpaths and footpath crossings	18-80 years
Drainage and culvers	20-80 years
Kerbs and channels	80 years
Stormwater channels	Not depreciated
Road shoulders	Not depreciated
Guard rails	15-50 years
Street lights	20 years
Street poles	30-60 years
Road signs	15 years
Sign posts	Not depreciated
Resource consents	5-35 years

Water Supply Assets

Pipes	60-120 years
Fire hydrant valves	75 years
Meters	30 years
Tobies	60 years
Pump stations	20-100 years
Dam structures	100 years
Reservoir structures	80 years
Treatment plants	5-100 years
Resource consents	11-100 years or not depreciated

Wastewater Assets

Pipes	50-120 years
Manholes	100 years
Separator tanks	50 years
Pump stations	15-100 years
Treatment Plants	12-100 years
Resource consents	15-35 years

Stormwater Assets

Pipes	60-120 years
Manholes and Cesspits	100 years
Resource consents	20 years

Solid Waste Assets

Landfill cells and earthworks	Not depreciated
Building and shelters	10-60 years
Oxidation ponds	80 years
Roading & driveways	8-80 years
Weighbridges & automatic gates	15-50 years
Bins and containers	15-80 years
Retaining walls	25-100 years
Fencing and other assets	15-35 years
Resource consents	30 -34 years

The depreciation rates are applied at a component level and are dependent on the remaining useful life for each component. The residual value and useful life on an asset is reviewed and adjusted where applicable at each balance date.

Restricted Assets

Restricted assets are depreciated on a straight line basis as follows:

Restricted Buildings	15 – 100 years

REVALUATIONS

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

Land and buildings (operational and restricted) and infrastructural assets (except for land under roads) are revalued with sufficient regularity to ensure that their carrying value does not materially differ from fair value and at least every three years. The carrying values of revalued items are assessed annually to ensure that they do not differ materially from fair value. If there is a material difference, then that asset class is revalued earlier than the three yearly planned revaluation.

The net revaluation results are credited or debited to other comprehensive revenue and expense and are accumulated to a property revaluation reserve in equity for that class of asset. Where this should result in a debit balance in the 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 in other comprehensive revenue and expense.

REVALUATION OF RESTRICTED ASSETS

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

INTANGIBLE ASSETS

Computer Software

Computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. The costs associated with maintaining computer software are recognised as an expense as incurred. The costs associated with the development and maintenance of the Council's website are recognised as an expense as incurred. Staff training costs are recognised in the surplus or deficit when incurred.

Carbon Credits

Purchased carbon credits are recognised at cost on acquisition. They are not amortised, but are instead tested for impairment annually. They are de-recognised when they are used to satisfy carbon emission obligations.

Amortisation

The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life for software. 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 in the surplus or deficit.

The useful lives and associated amortisation rates for software have been estimated as follows:

Computer software	2 to 5 years

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. This condition is regarded as met only when the sale is highly probable and the assets (or disposal group) is available for immediate sale in its present condition and the sale of the asset (or disposal group) is expected to be completed within 12 months from the date of classification. 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 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. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

INVESTMENT IN UNLISTED SHARES

Council has an interest in a Council Controlled Organisation (CCO), Waikato Local Authority Shared Services Limited and an interest in New Zealand National Mutual Riskpool. Council has no significant influences on operational or financial policies of either entity.

As these investments are not traded on an active market, and quoted market prices of similar financial assets are not available, the fair value cannot be measured reliably. The investments are therefore measured at cost.

INVESTMENT PROPERTY

Investment property consists of miscellaneous housing properties. Investment property are held primarily for capital growth, rental or similar revenue. 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, it is measured at fair value, determined annually by an independent valuer. Gains or losses arising from a change in fair value are recognised within surplus or deficit.

COST ALLOCATION

The Council has derived the cost of service for each significant activity. Direct costs are expensed directly to the activity. Indirect costs relate to the overall costs of running the organisation and include staff time, office space and information technology costs. These costs are allocated to Council activities using appropriate cost drivers such as resource use, staff numbers and floor area. All overhead costs have been allocated to significant activities.

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Property, plant and equipment and intangible assets that have a finite useful life are reviewed annually 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 assets 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.

If an asset's carrying amount exceeds its recoverable amount the asset is regarded as impaired and the carrying amount is written down to the recoverable amount. For revalued assets the impairment loss is recognised against the revaluation reserve for that class of asset. Where that results in a debit balance in the revaluation reserve, the balance is recognised in the surplus or deficit.

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

Value in use for non-cash generating assets

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

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

Value in use cash generating assets

Cash generating assets are those assets that are held with the primary objective of generating a commercial return the value in use for cash generating assets and cash generating units is the present value of expected future cash flows.

EQUITY

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

- accumulated funds,
- other reserves and
- property revaluation reserves.

Other Reserves

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

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

Council created reserves are a combination of depreciation reserves and transfers of surplus or deficit from operations. The purpose of the reserves is to maintain balances of funded depreciation for future renewal of assets and to hold revenue streams in separate balances as required by Council.

Available for sale reserves consists of valuation gains associated with Council's investments, classified as available for sale.

Hedging reserves comprise the effective portion of the cumulative net change in the fair value of derivatives designated as cash flow hedges.

Property Revaluation Reserves

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

EMISSIONS TRADING SCHEME (ETS)

The regulations for landfill methane emissions under the New Zealand Emissions Trading Scheme (NZ ETS) require waste disposal facility operators to surrender New Zealand Units (NZU's) by 31 May of each year to match the remission from 1 January to 31 December of the preceding calendar year. The cost of meeting ETS obligations is mandatory and Council is required to surrender NZU's for the landfill methane emissions associated with the Waitomo District Landfill. NZU's that are purchased to meet these liabilities are recognised at cost and subsequently recognised at cost subject to impairment. Where there is an obligation to return units the expense and liability are recognised and are measured at the carrying value of units on hand plus the fair value of any additional units required.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of draft prospective financial statements using PBE standards requires the use of judgements, estimates and assumptions. Where material, information on the main assumptions is provided in the relevant accounting policy. The estimates and assumptions

are based on historical experience as well as other factors that are believed to be reasonable under the circumstances. Subsequent actual results may differ from these estimates. Further information on the forecasting assumptions used in the draft prospective financial statements can be found under the section called Significant Forecasting Assumptions.

The estimates and assumptions are reviewed on an ongoing basis and adjustments are made where necessary.

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 years are discussed below:

Landfill Aftercare Provision

The Council has a legal obligation under resource consents for open and closed landfills to provide ongoing maintenance and monitoring service at the sites after closure. A provision for post closure costs is recognised as a liability when the obligation for post closure arises.

The long term nature of the liability means that there are inherent uncertainties in estimating costs that will be incurred.

Infrastructural Assets

There are a number of assumptions and estimates used when performing discounted replacement cost 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 situated underground. This risk is minimised by the Council performing a combination of physical inspections and condition modelling 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 the Council could be over or under estimating the annual depreciation charge recognised as an expense in the surplus or deficit.

To minimise this risk the 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 and condition modelling are also carried out regularly as part of the Council's asset management planning activities, which gives the Council further assurance over its useful life estimates.

Experienced independent valuers perform the Council's infrastructural asset valuations on a three year basis.

Property, plant and equipment useful lives and residual values

At each balance date the Council reviews the useful lives and residual values of its property, plant and equipment. Assessing the appropriateness of useful life and residual value estimates of property, plant and equipment requires the Council to consider a number of factors such as the physical condition of the asset, expected period of use of the asset by the Council, and expected disposal proceeds from the future sale of the asset.

An incorrect estimate of the useful life or residual value will impact on the depreciable amount of an asset, therefore impacting on the depreciation expense recognised in the surplus or deficit, and carrying amount of the asset in the draft prospective financial statement of financial position. The Council minimises the risk of this estimation uncertainty with:

- physical inspection of assets;
- asset replacement programs;
- review of second hand market prices for similar assets; and
- analysis of prior asset sales

Council has not made significant changes to past assumptions concerning useful lives and residual values.

Valuation of Investment in Inframax Construction Limited

The investment in Inframax Construction Ltd was revalued at 30 June 2020 resulting in a loss on revaluation of $2.6 million. The valuation report indicated a valuation range of $7.7 million (lower) and $9.9 million (higher) for the investment. Council recognised the investment at the mid-point of $8.8 million. After consideration of the subsidiary's financial statements and financial forecasts, Council considers the mid-point of $8.8 million to fair value at 30 June 2020.

Experienced independent valuers perform the valuation of the investment in Inframax Construction Ltd. The valuers have used the capitalisation of earnings approach for the valuation which is consistent with the previous valuation. There are a number of estimates and assumptions used when performing the valuation of an investment. These includes assessing a suitable level of earnings and capitalising the earnings using a market-derived multiple. The valuation is also prepared using information from historical financial performance and forecast.

In deriving the valuation of the investment, the valuers noted that it was not possible to assess with any certainty the implications of COVID-19 on the subsidiary's financial performance or the economy as a whole, both generally in terms of how long the current crisis may last and more specifically in terms of its impact on the subsidiary or the wider economy. The valuers advice is subject to significant caveats and caution due to the uncertainty that exists for businesses including (amongst other matters) access to capital, supply chain disruption, the demand for products or services and the extent and duration of the measures implemented by various governments and authorities to contain or/prevent spread of COVID-19.

It has been assumed that there has been no change in the value of the investment in Inframax Construction Ltd over the life of the 10YP.

COMPARATIVES

To ensure consistency with the current year, certain comparative information is reclassified where appropriate. This could occur where:

- classifications have changed between periods;
- the Council has made additional disclosure in the current year, and where a greater degree of disaggregation of prior year amounts and balances is therefore required; and
- there has been a change of accounting policy.

The 20/21 year comparative forecast has been adjusted to remove the WDC rates paid/received on Council owned properties from revenue and expenditure. The reason for this is to align the forecast budgets with the same treatment adopted in the annual report where these entries are eliminated.

PUBLIC BENEFIT ENTITY FINANCIAL REPORTING STANDARD 42 PROSPECTIVE FINANCIAL STATEMENTS (PBE FRS 42)

The Council has complied with PBE FRS 42 in the preparation of these draft prospective financial statements. In accordance with PBE FRS 42, the following information is provided:

(i) Description of the nature of the entity's current operation and its principal activities

The Council is a territorial local authority, as defined in the Local Government Act 2002. The Council's principal activities are outlined within this 10YP.

(ii) Purpose for which the draft prospective financial statements are prepared

It is a requirement of the Local Government Act 2002 to present prospective financial statements that span 10 years and include them within the 10YP. This provides an opportunity for ratepayers and residents to review the projected financial results and position of the Council. Prospective financial statements are revised annually to reflect updated assumptions and costs.

(iii) Bases for assumptions, risks and uncertainties

The draft prospective financial information has been prepared on the basis of best estimate assumptions as the future events which the Council expects to take place. The Council has considered factors that may lead to a material difference between information in the draft prospective financial statements and actual results. These factors, and the assumptions made in relation to the sources of uncertainty and potential effect, are outlined within the 10YP.

(iv) Cautionary Note

The financial information is prospective. Actual results are likely to vary from the information presented and the variations may be material.

(v) Other Disclosures

The draft prospective financial statements were authorised for issue on [date] by Waitomo District Council.

The Council is responsible for the draft prospective financial statements presented, including the assumptions underlying draft prospective financial statements and all other disclosures. The information in the 10YP is prospective and as such contains no actual operating results.