Audit New Zealand
Mana Arotake Aotearoa

Model Financial Statements

Te Motu District Council

2020/21

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

August 2021

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Contents

FOREWORD

I am pleased to introduce our 2021 update to the model financial statements for local authorities, using the public benefit entity (PBE) accounting requirements for Tier 1 and Tier 2 entities.

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

Focus

Our focus for this 2021 update was to be forward looking to support Councils in the adoption of PBE IPSAS 41 *Financial Instruments*. The mandatory adoption date for PBE IPSAS 41 is for the 30 June 2023 financial statements. We have elected to early adopt this standard in the 30 June 2021 model so that Councils can see some of the impacts of this new standard before they are required to adopt.

This update also reflects:

- the new requirement from the Local Government (Rating of Whenua Māori) Amendment Act 2021 to disclose the amount of rates written off; and
- recent changes in other PBE Accounting Standards that were required to be applied in the prior year. In particular, the group-related accounting standards PBE IPSAS 34 to PBE IPSAS 38, and PBE IPSAS 39 *Employee Benefits*.

The main updates to the model financial statements are explained on page 6.

This model has been prepared to help guide Councils to prepare financial statements that comply with PBE Accounting Standards, with the aim of reducing the compliance costs and contributing to an efficient financial statements audit.

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

Future updates

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

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

Acknowledgements

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

Stephen Walker
Executive Director
August 2021

ABOUT THE MODEL FINANCIAL STATEMENTS

Objective

The objectives of this model are to guide local authorities in preparing financial statements that comply with the Tier 1 or Tier 2 PBE accounting requirements, and to provide an insight into evolving good practice in reporting.

The model includes certain legislative disclosure requirements of the Local Government Act 2002, the Local Government (Rating) Act 2002, and the Local Government (Financial Reporting and Prudence) Regulations 2014. The model does not include all the legislative disclosures that a Council is required to include in its Annual Report. A summary of the legislative disclosures that are included is provided in a table below.

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

Three waters reform

The model financial statements do not reflect the three waters reforms.

We intend to include further information on the three water reforms in appendix 2 at a later date.

Application of materiality to note disclosures

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

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

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

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

Tier 2 concessions

The model financial statements identify by green highlight disclosure concessions available under the reduced disclosure regime. We encourage local authorities to take advantage of the available concessions.

Main updates to the model

This 2021 update is the first local authority model financial statements we have published since the group suite of standards (PBE IPSAS 35 to PBE IPSAS 38) and PBE IPSAS 39 Employee Benefits were adopted in the 30 June 2020 financial statements. As first-time adoption was in the prior year, these model financial statements do not include disclosures about the effect of these transitions.

The model has been prepared with the early adoption of PBE IPSAS 41. PBE IPSAS 41 is required to applied at the latest in preparing the 30 June 2023 financial statements. Local authorities that have not early adopted PBE IPSAS 41 or PBE IFRS 9 can refer to the previous version of the local authority model financial statements for illustrative financial instrument disclosures that have been prepared under PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*.

The tables below explain the main updates to the model since it was previously published in 2017. We have separated those updates that relate to the early adoption of PBE IPSAS 41 and other updates.

PBE IPSAS 41 related updates

Page no.	Note no.	Description of changes
12	-	Statement of comprehensive revenue and expense – In the other comprehensive revenue and expense section, we have included a new line under the 'items that will not be reclassified to surplus/(deficit)' subheading. This is to reflect that the cumulative gains or losses on equity instruments, recognised in other comprehensive revenue and expense, are not reclassified to surplus or deficit upon disposal under PBE IPSAS 41. It should be noted the accounting requirements for the cumulative gains and losses recognised in other comprehensive revenue expense, upon disposal under PBE IPSAS 41, differs between equity instruments and debt instruments.
15	-	Statement of changes in equity – An adjustment has been made to the opening equity balance for the 2021 year for both the Council and group, to reflect remeasurements as a result of early adopting PBE IPSAS 41.
19	1	Statement of accounting policies – Standards issued but not yet effective that have been early adopted – Updated to reflect the early adoption of PBE IPSAS 41.
34	9	Receivables – The accounting policies and disclosures have been updated.
38-41	12	Derivative financial instruments – The hedge accounting related disclosures have been updated.
42-43	13	Other financial assets – The accounting policies and disclosures have been updated.
67	22	Borrowings and other financial liabilities – The disclosures have been updated for the measurement of financial guarantee contracts.
75	26	Contingencies – The Local Government Funding Agency contingency disclosure has been updated to reflect the revised measurement model for financial guarantees.
81-82	30A	Financial instruments – New section added for the transition to PBE IPSAS 41.
83	30B	Financial instrument categories – This has been updated to reflect the new financial instrument categories under PBE IPSAS 41.

Other updates

Page no.	Note no.	Description of changes
20	1	Statement of accounting policies – The standards issued and not yet effective, and not early adopted, disclosure has been updated to discuss: An amendment to PBE IPSAS 2 *Cash Flow Statements*; PBE IPSAS 40 *PBE Combinations*; and PBE FRS 48 *Service Performance Reporting*.
20	1	Statement of accounting policies – Basis of consolidation – Updated to include methodology for determining control over other entities as required by PBE IPSAS 38.
28	4	Personnel costs – The disclosures about the Defined Benefit Plan Contributors Scheme have been updated following the adoption of PBE IPSAS 39.
35	9	Receivables – Disclosures about rates write-offs have been added as required by section 90D of the LG(R)A 2002. This information is required to be disclosed in the notes to the financial statements.
47	14	Investment in associate – The disclosures have been updated to reflect the requirements of PBE IPSAS 38 and includes an update to the reconciliation between the associate's financial statements and the group's equity accounted share.
48	15	Investment in joint operation – Updated to reflect the classification and disclosure requirements of PBE IPSAS 37 for joint operations.
70	23	Employee entitlements – The accounting policies for short-term and long-term employee entitlements have been updated to reflect the amended short-term employee benefits definition of PBE IPSAS 39.
87	30C	Financial instrument risks – Liquidity risk – Included a disclosure regarding a new revolving credit line with the Local Government Funding Agency.
94	33	Impact of Covid-19 – This is a new note to explain the impact of Covid-19 on the Council's financial statements. Councils will need to ensure that their disclosure appropriately captures their specific circumstances.

Content

Included in the model are:

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

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

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

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

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

We have included references to specific standards, legislation, and regulations in the left margin of the model and a subject index on page 99 for easy searching.

We have used colour to highlight:

The accounting policies (a blue background)

and

Critical accounting estimates and judgements (an orange background)

from the other information contained in the notes.

We have included a **hyperlink** where there is a reference to a note to the financial statements.

PBE Accounting Standards not covered by the model financial statements

The model does not consider the recognition, measurement, or disclosure requirements of the following PBE Accounting Standards:

- PBE IPSAS 10 *Financial Reporting in Hyperinflationary Economies;*
- PBE IPSAS 22 *Disclosure of Information About the General Government Sector;*
- PBE IPSAS 28 *Financial Instruments: Presentation;*
- PBE IAS 34 *Interim Financial Reporting;*
- PBE IFRS 3 *Business Combinations;*

- PBE FRS 42 *Prospective Financial Statements;*
- PBE FRS 43 *Summary Financial Statements;* and
- PBE FRS 45 *Service Concession Arrangements: Operator.*

PBE Accounting Standards and amendments issued after July 2021 are not included in the model financial statements.

Content required by legislation

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

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

LGA Schedule 10 requirement	Comment
Clause 23 – Groups of activities	Not included in these model financial statements.
Clause 24 – Capital expenditure for groups of activities	Not included in these model financial statements.
Clause 25 – Statement of service provision	Not included in these model financial statements.
Clause 26 – Funding impact statement for groups of activities	Included in the Appendix to these model financial statements for one activity (water).
Clause 27 – Internal borrowing	Not included in these model financial statements as we prefer to cross-reference to this information in the group of activities.
Clause 28 – Council-controlled organisations	Not included in these model financial statements.
Clause 29 – Financial statements	Included in these model financial statements.
Clause 30 – Funding impact statement	Included in the Appendix to these model financial statements.
Clause 30A – Rating base information	Included in the Appendix to these model financial statements.
Clause 31 – Reserve Funds	Included in these model financial statements.
Clause 31A – Insurance of assets	Included in the Appendix to these model financial statements.
Clause 32 – Remuneration issues	Included in these model financial statements.
Clause 32A – Employee staffing levels and remuneration	Included in these model financial statements.
Clause 33 – Severance payments	Included in these model financial statements.
Clause 34 – Statement of compliance	Included in these model financial statements.
Clause 34A – Additional information to be included in annual report of unitary authority with local boards	Not included in these model financial statements.
Clause 34B – Additional information: RFT schemes	Not included in these model financial statements.
Clause 35 – General (Māori contribution)	Not included in these model financial statements.

LG(FRP)R requirement	Comment
Part 1 – Financial Reporting:	
(5) Information to be disclosed in financial statements.	Included in these model financial statements. This is required to be disclosed in the financial statements.
(6) Information about core assets to be disclosed in financial statements in annual report.	Included in these model financial statements. This is required to be disclosed in the financial statements.
(7) and (8) Form of funding impact statement and directions for preparation of funding impact statements.	Included in the Appendix to these model financial statements.
Part 2 – Financial prudence	Not included in these model financial statements.

Abbreviations used in the model

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

LGA Sch 10.34

STATEMENT OF COMPLIANCE[1]

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

[Signature]	[Signature]
Mayor	**Chief Executive**
25 October 2021	25 October 2021

1 Schedule 10, clause 34(2) of the LGA requires the statement of compliance to be signed by the mayor or chairperson of the local authority and the chief executive of the local authority.

2 The financial statements are only part of what is required to be included in the local authority's annual report.

3 Alternatively, a statement displaying components of the surplus/deficit (a statement of financial performance) directly followed by a second statement beginning with surplus/deficit and displaying components of other comprehensive revenue and expense (a statement of other comprehensive revenue and expense) can be presented. Refer to PBE IPSAS 1.22.1.

4 Where there are discontinued operations, PBE IFRS 5.33(a) requires separate disclosure of the total post-tax gain or loss from discontinued operations and the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation.

5 The statement of comprehensive revenue and expense has been prepared using the nature of expense classification. Alternatively, a local authority can choose to present expenses based on the function of expense. PBE IPSAS 1.115 requires Tier 1 entities that classify expenses by function to disclose additional information on the nature of expenses, including depreciation and amortisation expense, and employee benefits expense.

6 Where an entity makes its approved budget publicly available, PBE IPSAS 1.21(e) requires a comparison of budget and actual amounts either as a separate additional financial statement or as a budget column in the financial statements.

7 PBE IPSAS 1.53 requires comparative information to be disclosed in respect of the previous year for all amounts reported in the financial statements. Comparative information shall also be included for narrative information when it is relevant to an understanding of the current year's financial statements.

8 PBE IPSAS 23.106(a) requires, either in the statement of comprehensive revenue and expense or the notes, that entities disclose the amount of revenue from non-exchange transactions by major classes, showing separately: (i) taxes, showing separately major classes of taxes; and (ii) transfers, showing separately major classes of transfer revenue. As the separate labelling of revenue as an exchange or non-exchange in most cases would not be considered material, we have decided to not label revenue as exchange or non-exchange in these model financial statements. We have, however, separately disclosed the major classes of revenue streams in Note 3.

9 For-profit entities are required to group items presented in other comprehensive revenue and expense on the basis of whether they are potentially reclassifiable to surplus or deficit in the future (reclassification adjustments). Although PBEs are not required to make this disclosure, we consider the disclosure to be good practice.

10 PBE IPSAS 1.103.2 requires Tier 1 entities to disclose the amount of income tax relating to each component of other comprehensive revenue and expense either in the statement of comprehensive revenue and expense or in the notes.

11 PBE IPSAS 1.148.1 requires an entity that has published general purpose prospective financial information for the period of the financial statements to present a comparison of the prospective financial information with the actual financial results being reported. Explanations for major variances shall be given.

PBE IPSAS 1.21(b)

TE MOTU DISTRICT COUNCIL
STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE
FOR THE YEAR ENDED 30 JUNE 2021[3,4,5]

Reference		Notes	Council Actual 2021 $000	Council Budget[6] 2021 $000	Council Actual[7] 2020 $000	Group Actual 2021 $000	Group Actual 2020 $000
PBE IPSAS 1.128							
	Revenue[8]						
LG(FRP)R 5(2)(a)	Rates	3	17,768	17,956	15,265	17,760	15,258
LG(FRP)R 5(2)(c)	Subsidies and grants	3	2,316	1,666	1,524	2,316	1,524
LG(FRP)R 5(2)(b)	Development and financial contributions	3	571	560	111	571	20
PBE IPSAS 1.98.3	Fees and charges	3	4,478	4,035	2,963	5,679	3,900
PBE IPSAS 9.39(b)(iii)	Interest revenue	3	753	700	541	643	431
PBE IPSAS 1.98.3	Other revenue	3	5,550	4,089	4,622	5,311	4,439
PBE IPSAS 1.99.1(a)	*Total revenue*		31,436	29,006	25,026	32,280	25,572
PBE IPSAS 1.109	**Expenses**						
	Personnel costs	4	4,598	4,432	4,321	4,898	4,628
	Depreciation and amortisation expense	16,17,18	4,334	4,102	3,095	4,742	3,254
PBE IPSAS 1.99.1(b)	Finance costs	5	2,317	2,456	2,276	2,450	2,390
	Other expenses	6	16,083	14,949	17,948	16,191	18,147
PBE IPSAS 1.98.3	*Total expenses*		27,332	25,939	27,640	28,281	28,419
PBE IPSAS 1.99.1(c)	Share of associate's surplus/(deficit)	14	0	0	0	12	10
PBE IPSAS 1.99.1(f)	Surplus/(deficit) before tax		4,104	3,067	(2,614)	4,011	(2,837)
PBE IPSAS 1.99.1(d)	Income tax expense	7	0	0	0	72	62
PBE IPSAS 1.99.1(f)	**Surplus/(deficit) after tax**		**4,104**	**3,067**	**(2,614)**	**3,939**	**(2,899)**
PBE IPSAS 1.98.2(a)	***Surplus/(deficit) attributable to:***						
	Te Motu District Council		4,104	3,067	(2,614)	3,898	(2,958)
	Non-controlling interest		0	0	0	41	59
PBE IPSAS 1.103.1	**Other comprehensive revenue and expense**						
Good practice[9]	***Items that could be reclassified to surplus/ (deficit)***						
PBE IPSAS 30.24(a)(viii)	Fair value movement of listed bonds	27	(177)	238	123	(177)	123
PBE IPSAS 30.28C(b)(i)	Cash flow hedges	27	120	0	162	162	162
PBE IPSAS 1.103.2	Tax on cash flow hedges[10]	27	0	0	0	(10)	0
Good practice	***Items that will not be reclassified to surplus/ (deficit)***						
PBE IPSAS 1.103.1 PBE IPSAS 41.24(a)(viii)	Fair value movement of listed and unlisted shares	27	34	0	6	34	6
PBE IPSAS 1.103.1	Property, plant, and equipment revaluations	27	2,541	0	0	2,541	0
PBE IPSAS 1.98.1(b)	Total other comprehensive revenue and expense		2,518	238	291	2,550	291
PBE IPSAS 1.98.1(c)	**Total comprehensive revenue and expense**		**6,622**	**3,305**	**(2,323)**	**6,489**	**(2,608)**
PBE IPSAS 1.98.2(b)	***Total comprehensive revenue and expense attributable to:***						
	Te Motu District Council		6,622	3,305	(2,323)	6,448	(2,667)
	Non-controlling interest		0	0	0	41	59

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

Footnotes 3 to 11 are presented on the previous page.

PBE IPSAS 1.21(a)

TE MOTU DISTRICT COUNCIL
STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2021[12]

PBE IPSAS 1.90, 93,128

Reference		Notes	Council Actual 2021 $000	Council Budget 2021 $000	Council Actual 2020 $000	Group Actual 2021 $000	Group Actual 2020 $000
	Assets						
PBE IPSAS 1.70,76	**Current assets**						
PBE IPSAS 1.88(i)	Cash and cash equivalents	8	957	2,574	1,540	4,376	4,607
PBE IPSAS 1.88(g),(h)	Receivables	9	4,557	3,361	1,822	4,337	1,955
PBE IPSAS 1.89	Prepayments		21	0	18	20	18
PBE IPSAS 1.88(f)	Inventory	10	1,142	403	335	1,195	447
PBE IPSAS 1.88.1(a)	Non-current assets held for sale	11	1,700	0	0	1,700	0
PBE IPSAS 1.88(d)	Derivative financial instruments	12	98	0	74	130	74
PBE IPSAS 1.88(d)	Other financial assets	13	5,197	4,420	4,447	5,197	4,447
PBE IPSAS 1.89	***Total current assets***		13,672	10,758	8,236	16,955	11,548
PBE IPSAS 1.70,76	**Non-current assets**						
PBE IPSAS 1.88(d)	Derivative financial instruments	12	408	0	162	408	162
PBE IPSAS 1.88(d)	Other financial assets:						
LG(FRP)R 5(3)	– Investment in CCOs and other similar entities[13]		4,242	4,242	4,212	1,242	1,212
	– Investment in other entities		2,930	2,883	2,448	2,930	2,448
PBE IPSAS 1.88(d)	Total other financial assets	13	7,172	7,125	6,660	4,172	3,660
PBE IPSAS 1.88(e)	Investment in associate	14	200	200	200	252	240
PBE IPSAS 1.88(a)	Property, plant, and equipment	16	219,452	217,937	215,036	223,852	219,247
PBE IPSAS 1.88(c)	Intangible assets	17	280	188	155	531	406
PBE IPSAS 1.89	Forestry assets	19	7,588	7,548	7,343	7,865	7,620
PBE IPSAS 1.88(b)	Investment property	20	8,092	7,421	8,040	8,092	8,040
PBE IPSAS 1.89	***Total non-current assets***		243,192	240,419	237,596	245,172	239,375
PBE IPSAS 1.89	**Total assets**		**256,864**	**251,177**	**245,832**	**262,127**	**250,923**
	Liabilities						
PBE IPSAS 1.70,80	**Current liabilities**						
PBE IPSAS 1.88(k),(j)	Payables and deferred revenue	21	3,195	3,480	3,860	4,669	4,989
PBE IPSAS 1.88(m)	Derivative financial instruments	12	262	0	25	262	25
PBE IPSAS 1.88(m)	Borrowings and other financial liabilities	22	8,889	6,061	3,220	9,889	3,220
PBE IPSAS 1.89	Employee entitlements	23	589	570	452	591	456
PBE IPSAS 1.88(l)	Provisions	24	472	26	462	472	462
PBE IPSAS 1.89	***Total current liabilities***		13,407	10,137	8,019	15,883	9,152

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

The accompanying notes form part of these financial statements.

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

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

PBE IPSAS 1.21(a)

TE MOTU DISTRICT COUNCIL
STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2021 (CONTINUED)

PBE IPSAS 1.90, 93,128

			Council			Group	
		Notes	Actual 2021 $000	Budget 2021 $000	Actual 2020 $000	Actual 2021 $000	Actual 2020 $000
PBE IPSAS 1.70,80	**Non-current liabilities**						
PBE IPSAS 1.88(k),(j)	Payables and deferred revenue	21	607	607	657	607	657
PBE IPSAS 1.88(m)	Derivative financial instruments	12	42	0	49	42	49
PBE IPSAS 1.88(m)	Borrowings and other financial liabilities	22	24,462	24,649	25,482	26,446	28,466
PBE IPSAS 1.89	Employee entitlements	23	293	280	243	309	259
PBE IPSAS 1.88(l)	Provisions	24	2,496	3,183	2,414	2,496	2,414
PBE IPSAS 1.89	Deferred tax liability	7	0	0	0	120	130
PBE IPSAS 1.89	*Total non-current liabilities*		27,900	28,719	28,845	30,020	31,975
PBE IPSAS 1.89	**Total liabilities**		**41,307**	**38,856**	**36,864**	**45,903**	**41,127**
PBE IPSAS 1.89	**Net assets (assets minus liabilities)**		**215,557**	**212,321**	**208,968**	**216,224**	**209,796**
PBE IPSAS 1.95	**Equity**						
PBE IPSAS 1.95(a)	Accumulated funds	27	159,273	157,941	154,344	159,038	154,327
PBE IPSAS 1.95(c)	Reserves	27	56,284	54,380	54,624	57,086	55,394
PBE IPSAS 1.88(o)	*Total equity attributable to the Council*		215,557	212,321	208,968	216,124	209,721
PBE IPSAS 1.88(n)	Non-controlling interest		0	0	0	100	75
PBE IPSAS 1.89	**Total equity**		**215,557**	**212,321**	**208,968**	**216,224**	**209,796**

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

The accompanying notes form part of these financial statements.

PBE IPSAS 1.21(c)

TE MOTU DISTRICT COUNCIL
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2021

PBE IPSAS 1.128

			Council		Group	
	Notes	Actual 2021 $000	Budget 2021 $000	Actual 2020 $000	Actual 2021 $000	Actual 2020 $000
Balance at 1 July		208,968	209,016	211,291	209,796	212,420
Adjustments on adoption of PBE IPSAS 41*	30A	(33)	0	0	(45)	0
Adjusted balance at 1 July		208,935	209,016	211,291	209,751	212,420
Total comprehensive revenue and expense for the year		6,622	3,305	(2,323)	6,489	(2,608)
Dividends to non-controlling interest		0	0	0	(16)	(16)
Balance at 30 June	27	**215,557**	**212,321**	**208,968**	**216,224**	**209,796**

PBE IPSAS 41.173; PBE IPSAS 1.118(a)

*remeasurements as a result of the Council's adoption of PBE IPSAS 41 have been recognised directly in accumulated funds – for more details refer to **Note 30A**.

PBE IPSAS 1.118(a)

Total comprehensive revenue and expense attributable to:					
Te Motu District Council	6,622	3,305	(2,323)	6,448	(2,667)
Non-controlling interest	0	0	0	41	59
Total comprehensive revenue and expense	**6,622**	**3,305**	**(2,323)**	**6,489**	**(2,608)**

PBE IPSAS 1.148.1

Explanations of major variances against budget are provided in **Note 31**.

The accompanying notes form part of these financial statements.

PBE IPSAS 1.21(d)

TE MOTU DISTRICT COUNCIL
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2021

PBE IPSAS 1.128

		Council			Group	
	Note	Actual 2021 $000	Budget 2021 $000	Actual 2020 $000	Actual 2021 $000	Actual 2020 $000
Cash flows from operating activities (PBE IPSAS 2.18,22,27)						
Receipts from rates revenue		16,619	17,985	15,338	16,560	15,979
Subsidies and grants received		2,016	1,666	1,924	2,016	1,924
Development and financial contributions received		571	560	111	571	20
Fees and charges received		4,078	3,958	3,374	5,578	4,274
Interest received (PBE IPSAS 2.40)		753	541	541	643	541
Dividends received (PBE IPSAS 2.40)		180	160	160	116	96
Receipts from other revenue		890	2,115	2,744	1,559	1,623
Payments to suppliers [14]		(16,167)	(18,369)	(19,841)	(16,816)	(20,119)
Payments to employees		(4,411)	(4,013)	(3,000)	(4,586)	(3,106)
Interest paid (PBE IPSAS 2.40)		(2,548)	(2,389)	(2,399)	(3,042)	(2,389)
Income tax paid (PBE IPSAS 2.44)		0	0	0	(90)	(71)
GST (net)		(95)	(61)	50	(78)	65
Net cash flow from operating activities		1,886	2,153	(998)	2,431	(1,163)
Cash flows from investing activities (PBE IPSAS 2.18,25)						
Receipts from sale of property, plant, and equipment		1,895	571	2,053	1,895	2,053
Receipts from sale of intangible assets		0	0	120	0	120
Receipts from sale of investments		11,645	10,443	9,647	11,721	9,697
Purchase of property, plant, and equipment [15]		(4,416)	(6,610)	(2,368)	(4,606)	(2,531)
Purchase of intangible assets		(256)	(232)	0	(256)	0
Purchase of investment property		(1,026)	0	0	(1,026)	0
Acquisition of investments		(12,695)	(9,683)	(9,797)	(12,825)	(9,847)
Net cash flow from investing activities		(4,853)	(5,511)	(345)	(5,097)	(508)
Cash flows from financing activities (PBE IPSAS 2.18,26)						
Proceeds from borrowings		2,600	2,950	2,950	2,637	2,950
Repayment of borrowings		(2,682)	(717)	(1,380)	(2,652)	(1,364)
Payments of principal for finance leases		(28)	(28)	(28)	(28)	(28)
Dividends paid (PBE IPSAS 2.40)		0	0	0	(16)	(16)
Net cash flow from financing activities		(110)	2,205	1,542	(59)	1,542
Net (decrease)/increase in cash, cash equivalents, and bank overdrafts		(3,077)	(1,153)	199	(2,725)	(129)
Cash, cash equivalents, and bank overdrafts at the beginning of the year		1,243	478	1,044	4,310	4,135
Cash, cash equivalents, and bank overdrafts at the end of the year	8	(1,834)	(675)	1,243	1,585	4,310

PBE IPSAS 2.54 Equipment totalling $nil (2020: $81,000) was acquired by means of finance leases during the year.

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

The accompanying notes form part of these financial statements.

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

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

PBE IPSAS 1.93

TE MOTU DISTRICT COUNCIL
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2021 (CONTINUED)

Reconciliation of surplus/(deficit) after tax to net cash flow from operating activities

	Council		Group	
	2021 $000	**2020 $000**	**2021 $000**	**2020 $000**
Surplus/(deficit) after tax	4,104	(2,614)	3,939	(2,899)
Add/(less) non-cash items				
Share of associate's surplus	0	0	(12)	(10)
Depreciation and amortisation expense	4,334	3,095	4,742	3,254
Property, plant, and equipment impairment	98	0	98	0
Vested assets revenue	(3,655)	(2,075)	(3,655)	(2,075)
(Gains)/losses in fair value of forestry assets	(245)	(216)	(245)	(216)
(Gains)/losses in fair value of investment property	(71)	(314)	(71)	(314)
(Gains)/losses on derivative financial instruments	80	0	80	0
Net foreign exchange (gains)/losses	8	0	8	0
Total non-cash items	549	490	945	639
Add/(less) items classified as investing or financing activities				
(Gains)/losses on disposal of property, plant, and equipment	(5)	(319)	(23)	(319)
(Gains)/losses on disposal of investments classified as fair value through other comprehensive revenue and expense	(40)	0	(40)	0
Total items classified as investing or financing activities	(45)	(319)	(63)	(319)
Add/(less) movements in working capital items				
(Increase)/decrease in receivables [16]	(2,735)	(22)	(2,382)	(423)
(Increase)/decrease in prepayments	(3)	0	(2)	0
(Increase)/decrease in inventory	(762)	93	(748)	83
Increase/(decrease) in payables [17]	471	830	441	1,205
Increase/(decrease) in income tax payables	0	0	(4)	3
Increase/(decrease) in provisions	120	366	120	366
Increase/(decrease) in employee entitlements	187	178	185	182
Net movement in working capital items	(2,722)	1,445	(2,390)	1,416
Net cash inflow/(outflow) from operating activities	**1,886**	**(998)**	**2,431**	**(1,163)**

The accompanying notes form part of these financial statements.

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

PBE IPSAS 1.21(f),127, 128

TE MOTU DISTRICT COUNCIL

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

Notes index

1 Statement of accounting policies

REPORTING ENTITY

PBE IPSAS 1.150(a),(c)

Te Motu District Council (the Council) is a territorial local authority established under the Local Government Act 2002 (LGA) and is domiciled and operates in New Zealand. The relevant legislation governing the Council's operations includes the LGA and the Local Government (Rating) Act 2002 [18].

PBE IPSAS 38.17(a)(i)
PBE IPSAS 38.36(a),(b)

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

PBE IPSAS 1.150(b)

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

PBE IPSAS 38.18

The reporting date of the Council, controlled entities, and the associate is 30 June.

PBE IPSAS 1.28.2(c)

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

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

The financial statements of the Council and group are for the year ended 30 June 2021. The financial statements were authorised for issue by Council on 25 October 2021.

PBE IPSAS 1.127(a)

BASIS OF PREPARATION

Good practice
PBE IPSAS 1 Appendix B

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

Statement of compliance

PBE IPSAS 1.28.2(a),(b)

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

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

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

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

[Councils that report in accordance with the Tier 2 PBE accounting requirements (RDR) shall state "The financial statements have been prepared in accordance with and comply with PBE Standards RDR" and shall also disclose the criteria that establish them as eligible to report in accordance with PBE Standards RDR. For example, "The Council is eligible and has elected to apply the PBE Standards RDR because its expenses are less than $30 million and it does not have public accountability as defined by XRB A1 Application of the Accounting Standards Framework."]

Presentation currency and rounding

PBE IPSAS 1.63(d),(e)

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

Standards issued and not yet effective that have been early adopted

PBE IPSAS 3.34

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

PBE IPSAS 41 Financial Instruments

In March 2019, the External Reporting Board (XRB) issued PBE IPSAS 41 *Financial Instruments,* which supersedes both PBE IFRS 9 *Financial Instruments* and PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*. The Council has early adopted PBE IPSAS 41 and the main changes between PBE IPSAS 29 and PBE IPSAS 41 are:

- New financial asset classification requirements for determining whether an asset is measured at fair value or amortised cost.
- A new impairment model for financial assets based on expected credit losses, which may result in earlier recognition of impairment losses.
- Revised hedge accounting requirements to better reflect the management of risks.

Information about the transition to PBE IPSAS 41 is disclosed in **Note 30A**

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

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

1 Statement of accounting policies (continued)

PBE IPSAS 3.33,34

Other changes in accounting policies

There have been no other changes in accounting policies.

Standards issued and not yet effective, and not early adopted

PBE IPSAS 3.35,36

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

Amendment to PBE IPSAS 2 Cash Flow Statement

An amendment to PBE IPSAS 2 requires entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendment is effective for the year ending 30 June 2022, with early application permitted. This amendment will result in additional disclosures. The Council will not early adopt this amendment.

PBE IPSAS 40 PBE Combinations

PBE IPSAS 40 replaces PBE IFRS 3 *Business Combinations*. PBE IFRS 3 excluded from its scope combinations under common control and combinations arising from local authority reorganisations. These are now included within the scope of PBE IPSAS 40, through the inclusion of both acquisition and amalgamation accounting. This new standard is effective for the year ending 30 June 2022 and is applied prospectively. The Council will not early adopt this amendment.

PBE FRS 48 Service Performance Reporting

PBE FRS 48 replaces the service performance reporting requirements of PBE IPSAS 1 *Presentation of Financial Statements* and is effective for the year ending 30 June 2023, with early application permitted. The Council has not yet determined how application of PBE FRS 48 will affect its statement of service performance. It does not plan to adopt the standard early.

PBE IPSAS 1.132

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES[20]

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

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

PBE IPSAS 1.132(c)

Basis of consolidation

PBE IPSAS 35.40

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

PBE IPSAS 35.38,39

The consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. The consolidation of an entity begins from the date when the Council obtains control of the entity and ceases when the Council loses control of the entity.

PBE IPSAS 35.12

Control over an entity is determined when the Council has exposure, or rights, to variable benefits from its involvement with the entity and has the ability to affect the nature or amount of those benefits through its power over the other entity. The Council considers all relevant facts and circumstances in assessing whether it has power over another entity. For example, the ability to appoint or remove a majority of the entity's governance and management, binding arrangements the Council enters into, group voting rights, and pre-determination mechanisms. The Council reassesses whether or not it controls another entity if facts and circumstances change.

PBE IPSAS 3.18,32,34

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

PBE IPSAS 1.132(c)

Foreign currency transactions

PBE IPSAS 4.24,32

Foreign currency transactions (including those subject to forward foreign exchange contracts) are translated into New Zealand Dollars (the functional currency) using the spot exchange rate at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in surplus or deficit.

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

1 Statement of accounting policies (continued)

PBE IPSAS 1.132(c)

Goods and services tax

Items in the financial statements are stated exclusive of goods and services tax (GST), except for receivables and payables, which are presented on a GST-inclusive basis. Where GST is not recoverable as input tax, it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the IRD is included as part of receivables or payables in the statement of financial position.

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

Commitments and contingencies are disclosed exclusive of GST.

Good practice

Budget figures

The budget figures are those approved by the Council in its 2020/21 annual plan. The budget figures have been prepared in accordance with GAAP, using accounting policies that are consistent with those adopted by the Council in preparing these financial statements.

PBE IPSAS 1.140

Critical accounting estimates and assumptions[21]

In preparing these financial statements, estimates and assumptions have been made concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations or future events that are believed to be reasonable under the circumstances.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are:

- Estimating the fair value of land, buildings, and infrastructural assets – see **Note 16**.
- Estimating the fair value of forestry assets – see **Note 19**.
- Estimating the retirement and long service leave obligations – see **Note 23**.
- Estimating the landfill aftercare provision – see **Note 24**.

PBE IPSAS 1.137

Critical judgements in applying accounting policies[21]

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

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

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

Good practice

2 Summary revenue and expenditure for group of activities

Accounting policy

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

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

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

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

Breakdown of summary revenue and expenditure for group of activities

		Council	
	Actual 2021 $000	Budget 2021 $000	Actual 2020 $000
Revenue			
Activity 1[22]	1,314	1,276	1,028
Activity 2	2,466	2,987	1,753
Activity 3	3,454	3,856	2,720
Activity 4	1,876	1,345	1,547
Activity 5	3,105	2,539	2,453
Activity 6	1,657	1,908	1,457
Activity 7	5,047	2,645	3,333
Total activity revenue	18,919	16,556	14,291
Less internal revenue	(268)	(250)	(199)
General rates[23]	12,785	12,700	10,934
Total revenue	**31,436**	**29,006**	**25,026**
Expenses[24]			
Activity 1	1,902	2,012	3,105
Activity 2	5,193	5,120	4,532
Activity 3	4,290	4,351	4,695
Activity 4	3,823	3,156	3,536
Activity 5	4,557	3,855	4,430
Activity 6	1,492	1,645	1,327
Activity 7	6,343	6,050	6,214
Total activity expenses	27,600	26,189	27,839
Less internal expenses	(268)	(250)	(199)
Total expenses	**27,332**	**25,939**	**27,640**

PBE IPSAS 1.150.4

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

22 Actual activity names will need to be disclosed.
23 Local authorities can elect to allocate general rates to activity revenue rather than presenting general rates as a single amount below activity revenue.
24 PBE IPSAS 1.150.4 requires the cost of each output class to be disclosed when an entity prepares a statement of service performance (or equivalent information). We consider that the presentation of a cost of service statement that includes the total cost for each significant activity of a Council is one way to meet this requirement.

3 Revenue

PBE IPSAS 23.107(a),(b)

Accounting policy

PBE IPSAS 9.39(a)

Revenue is measured at fair value.

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

Rates revenue

The following policies for rates have been applied:

PBE IPSAS 23.107(b)

- General rates, targeted rates (excluding water-by-meter), and uniform annual general charges are recognised at the start of the financial year to which the rates resolution relates. They are recognised at the amounts due. The Council considers that the effect of payment of rates by instalments is not sufficient to require discounting of rates receivable and subsequent recognition of interest revenue.
- Rates arising from late payment penalties are recognised as revenue when rates become overdue.
- Revenue from water-by-meter rates is recognised on an accrual basis based on usage. Unbilled usage, as a result of unread meters at year-end, is accrued on an average usage basis.
- Rates remissions are recognised as a reduction of rates revenue when the Council has received an application that satisfies its Rates Remission Policy.
- Rates collected on behalf of the Te Motu Regional Council (TMRC) are not recognised in the financial statements, as the Council is acting as an agent for the TMRC.

Development and financial contributions[25]

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

Waka Kotahi (NZ Transport Agency) 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.

Other grants received

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

Building and resource consent revenue

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

Entrance fees

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

Landfill fees

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

Provision of commercially based services

PBE IPSAS 9.39(a)

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

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

3 Revenue (continued)

Sales of goods

PBE IPSAS 9.39(a)

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

Infringement fees and fines

PBE IPSAS 23.107(b)

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

Vested or donated physical assets

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

PBE IPSAS 23.107(b)

The fair value of vested or donated assets is usually determined by reference to the cost of constructing the asset. For assets received from property developments, the fair value is based on construction price information provided by the property developer.

For long-lived assets that must be used for a specific use (for example, land must be used as a recreation reserve), the Council immediately recognises the fair value of the asset as revenue. A liability is recognised only if the Council expects that it will need to return or pass the asset to another party.

Donated and bequeathed financial assets

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

Crown suspensory loans

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

Interest and dividends

Interest revenue is recognised using the effective interest method.

PBE IPSAS 41.102, AG222

Dividends are recognised when the right to receive payment has been established. Dividends are recognised in surplus or deficit unless the dividend clearly represents a recovery of part of the cost of the investment.

PBE IPSAS 1.137

Critical judgements in applying accounting policies

Accounting for suspensory loan from the Crown

The Council's view is the suspensory loan from the Crown is in substance a grant with conditions attached and is therefore accounted for under PBE IPSAS 23 *Revenue from Non-Exchange Transactions*. The Council considers that there are two possible accounting treatments for the grant under PBE IPSAS 23, either recognising the grant as revenue when all conditions are satisfied in 2034, or recognising the grant evenly over the 20-year condition period. The Council has elected to recognise the grant evenly over the 20-year period as that better reflects the substance of the arrangement. Further information about the suspensory loan is included in **Note 21**.

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

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

3 Revenue (continued)

(i) Breakdown of rates and further information

	Council		Group	
	2021 $000	2020 $000	2021 $000	2020 $000
General rates	12,839	10,983	[26]12,833	10,978
Targeted rates attributable to activities:				
LG(FRP)R 5(5) – metered water supply	1,799	1,324	1,799	1,324
– other water rates	551	450	551	450
– sewerage	1,000	1,002	999	1,001
– refuse and sanitation	1,436	1,248	1,435	1,247
– marketing	129	245	129	245
Rate penalties	68	62	68	62
Rates remissions	(54)	(49)	(54)	(49)
Total rates	**17,768**	**15,265**	**17,760**	**15,258**

LGFA Guarantee and Indemnity Deed

The Council is required by the LGFA Guarantee and Indemnity Deed to disclose in its financial statements (or notes) its annual rates income. The Multi-Issuer Deed defines annual rates income as an amount equal to the total revenue from any funding mechanism authorised by the Local Government (Rating) Act 2002 together with any revenue received by the Council from other local authorities for services provided by the Council for which those other local authorities rate. The annual rates income of the Council for the year ended 30 June 2021 for the purposes of the LGFA Guarantee and Indemnity Deed disclosure is shown below:

	Council	
	2021 $000	2020 $000
Rates	17,768	15,265
Lump sum contributions (**Note 3(v)**)	150	0
Total annual rates income	**17,918**	**15,265**

PBE IPSAS 1.127(c)

(ii) Breakdown of subsidies and grants

	Council		Group	
	2021 $000	2020 $000	2021 $000	2020 $000
Waka Kotahi roading subsidies	1,954	1,374	1,954	1,374
Ministry of Health drinking water related subsidies	312	0	312	0
Crown Suspensory loans (**Note 21**)	50	50	50	50
Other grants	0	100	0	100
Total subsidies and grants	**2,316**	**1,524**	**2,316**	**1,524**

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

3 Revenue (continued)

PBE IPSAS 1.127(c)

(iii) Breakdown of fees and charges

		Council		Group	
		2021 $000	2020 $000	2021 $000	2020 $000
	Building and resource consent charges	2,445	1,228	2,445	1,228
	Landfill charges	887	549	887	549
	Swimming pool revenue	227	223	227	223
	Parking fees	57	61	57	61
PBE IPSAS 11.50(a)	Construction revenue	0	0	100	135
PBE IPSAS 9.39(b)(i)	Rendering of services	0	0	1,101	802
PBE IPSAS 9.39(b)(ii)	Sale of goods	378	256	378	256
	Other fees and charges	484	646	484	646
	Total fees and charges	**4,478**	**2,963**	**5,679**	**3,900**

PBE IPSAS 1.127(c)

(iv) Breakdown of interest revenue

		Council		Group	
		2021 $000	2020 $000	2021 $000	2020 $000
PBE IPSAS 30.24(b)	*Interest earned from financial assets measured at amortised cost*				
	– term deposits	148	50	148	50
	– related party loans	110	110	0	0
	– community loans	45	45	45	45
PBE IPSAS 30.24(b)	*Interest earned from financial assets measured at FVTOCRE*				
	– listed bonds	450	336	450	336
	Total interest revenue	**753**	**541**	**643**	**431**

PBE IPSAS 1.127(c)

3 Revenue (continued)

(v) Breakdown of other revenue

Reference		Council 2021 $000	Council 2020 $000	Group 2021 $000	Group 2020 $000
PBE IPSAS 23.107(d)	Vested land and infrastructure from property development [27]	3,655	2,075	3,655	2,075
	Traffic and parking infringements	400	325	400	325
	Lump sum contributions	150	0	150	0
	Petrol tax	75	113	75	113
PBE IPSAS 23.107(d)	Bequests and other donations[27]	10	8	10	8
PBE IPSAS 16.86(f)(i)	Rental revenue from investment properties	492	476	492	476
PBE IPSAS 30.24(a)(viii)	Dividend revenue	180	160	116	96
PBE IPSAS 17.89(d)	Insurance recoveries:				
	– plant and equipment	36	0	36	0
	– motor vehicles	12	0	12	0
PBE IPSAS 27.38	Forestry asset revaluation gains (**Note 19**)	245	216	245	216
	Investment property revaluation gains (**Note 20**)	71	314	71	314
PBE IPSAS 1.107(c)	Property, plant, and equipment gains on disposal	5	319	5	319
PBE IPSAS 30.24(a)(viii)	Gain on disposal of debt instruments at fair value through other comprehensive revenue and expense (**Note 27**)	40	0	40	0
	Other	179	616	4	497
	Total other revenue	**5,550**	**4,622**	**5,311**	**4,439**

Operating leases as a lessor

PBE IPSAS 13.69(a),(c) Investment property and property used for social housing are leased under operating leases. The investment property leases have a non-cancellable term of 36 months, except for two leases that have a non-cancellable term of 72 months. Social housing leases are generally for terms of one year, with some leases for shorter durations. The future aggregate minimum lease payments to be collected under non-cancellable operating leases are as follows:

Reference		Council 2021 $000	Council 2020 $000	Group 2021 $000	Group 2020 $000
PBE IPSAS 13.69(a)(i)	Not later than one year	523	470	523	470
PBE IPSAS 13.69(a)(ii)	Later than one year and not later than five years	365	320	365	320
PBE IPSAS 13.69(a)(iii)	Later than five years	76	87	76	87
	Total non-cancellable operating leases	**964**	**877**	**964**	**877**

PBE IPSAS 13.69(b) No contingent rents have been recognised during the year.

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

PBE IPSAS 1.127(c)

4 Personnel costs

PBE IPSAS 1.132(c)

Accounting policy

Salaries and wages

Salaries and wages are recognised as an expense as employees provide services.

Superannuation schemes

PBE IPSAS 39.53

Defined contribution schemes

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

PBE IPSAS 39.150(d)(i)

Defined benefit schemes

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

PBE IPSAS 39.34
PBE IPSAS 39.150

Insufficient information is available to use defined benefit plan accounting, as it is not possible to determine from the terms of the scheme the extent to which the surplus or deficit in the plan 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.

Breakdown of personnel costs and further information

	Council		Group	
	2021 $000	**2020 $000**	**2021 $000**	**2020 $000**
Salaries and wages	4,490	4,211	4,785	4,512
Defined contribution plan employer contributions (PBE IPSAS 39.55)	98	94	104	102
Increase/(decrease) in employee entitlements	10	16	9	14
Total personnel costs	**4,598**	**4,321**	**4,898**	**4,628**

Further information

Defined benefit schemes

PBE IPSAS 39.150

The funding arrangements for the scheme are governed by section 44 of the National Provident Fund Restructuring Act 1990 and by a Trust Deed. This Act requires that any increase or decrease to the employer contribution rate should result in contributions being at a level that, on reasonable assumption, is likely to achieve neither a surplus nor a deficit in the trust fund of the DBP scheme at the time the last contributor to that scheme ceases to contribute. The Trust Deed specifies that immediately before the scheme is wound up, the assets and the interests of all contributors in the scheme will be transferred to the DBP Annuitants Scheme. Employers have no right to withdraw from the scheme.

In practice, at present, a single contribution rate is determined for all employers, which is expressed as a multiple of the contributions of members of the scheme who are employees of that employer. The current employer contribution rate is three times contributor contributions, inclusive of Employer Contribution Withholding Tax. The Actuary has recommended a stepped approach to changing the employer contribution rate, as follows:

- 1 April 2021 – 31 March 2022: Four times contributor contributions; and
- From 1 April 2022: Five times contributor contributions

PBE IPSAS 39.150.1

At 31 March 2020,[29] the scheme had a past service deficit of $2.8 million or 4.1% of the liabilities (exclusive of Employer Superannuation Contribution Tax (2019: $1.80 million or 1.9% of liabilities). This deficit was calculated using a discount rate equal to the expected return on assets, but otherwise the assumptions and methodology were consistent with the requirements of PBE IPSAS 39 *Employee Benefits*.

PBE IPSAS 39.150(d)(v)

The scheme had 110 members at 31 March 2020. Eleven of these are employees of the Council.

If other participating employers cease to participate in the scheme, the Council could be responsible for an increased share of any deficit.

28 The schemes listed are not exhaustive. Local authorities may make contributions to other defined contribution schemes, including defined benefit schemes that are accounted for as defined contribution schemes.

29 The actual information as at 31 March 2021 should be disclosed, if available from the National Provident Fund's website. The information in this disclosure is based on the actual 31 March 2020 information provided by NPF.

4 Personnel costs (continued)

Chief Executive remuneration

LGA Sch 10.32

The total remuneration (including any non-financial benefits) paid or payable for the year to the Chief Executive was $197,521 (2020: $191,301).[30]

LGA Sch 10.32

Elected representatives' remuneration

Elected representatives received the following remuneration:

	Council		Group	
	2021 **$**	**2020** **$**	**2021** **$**	**2020** **$**
Mayor[31]	70,145	69,435	*74,145	*73,435
Councillor	32,450	31,457	32,450	31,457
Councillor	19,450	19,450	19,450	19,450
Councillor	19,450	19,450	19,450	19,450
Councillor	19,450	19,450	19,450	19,450
Councillor	19,450	19,450	19,450	19,450
Councillor	19,450	19,450	19,450	19,450
Councillor	19,450	19,450	19,450	19,450
Total elected representatives' remuneration	**219,295**	**217,592**	**223,295**	**221,592**

* The Mayor is a Director of Te Motu Holdings Limited and Te Motu Properties Limited and also received Director fees of $4,000 (2020: $4,000).

Council employee remuneration by band

		2021 Number	**2020 Number**
LGA Sch 10.32A(2),(3)	Total annual remuneration by band for employees at 30 June:		
	< $60,000	18	19
	$60,000 – $79,999	13	12
	$80,000 – $99,999	6	6
	$100,000 – $199,999[32]	6	6
LGA Sch 10.32A (1)	**Total employees**	**43**	**43**

LGA Sch 10.32A (4)

Total remuneration includes any non-financial benefits provided to employees.

LGA Sch 10.32A (2)

At balance date, the Council employed 25 (2020: 26) full-time employees, with the balance of staff representing 9 (2020: 8) full-time equivalent employees. A full-time employee is determined on the basis of a 40-hour working week.

Severance payments

LGA Sch 10.33

For the year ended 30 June 2021, the Council made three severance payments to employees totalling $45,000 (2020: one payment, $22,000)[33] The value of each of the severance payments was $22,000, $12,000, and $11,000.

30 The Chief Executive's remuneration would include their salary, employer superannuation contributions, and non-financial benefits such as a vehicle, parking, and medical insurance.

31 Actual Mayor and Councillor names will need to be disclosed.

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

33 The term severance payment includes non-monetary benefits but excludes salary, holiday pay, and superannuation contributions to which the employee was already entitled. The precise amount of each severance payment to each individual is required to be disclosed. Employees are not required to be named. However, clause 33(1)(a) of Schedule 10 of the LGA requires the severance payment made to a chief executive to be disclosed. For further guidance on the legal requirements to disclose severance payments, refer to Office of the Auditor-General (June 2019), "**Severance payments: A guide for the public sector**", Part 3.

5 Finance costs

PBE IPSAS 1.132(c)

Accounting policy

PBE IPSAS 5.14,40(a)

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

Breakdown of finance costs

Reference		Council 2021 $000	Council 2020 $000	Group 2021 $000	Group 2020 $000
	Interest expense:				
PBE IPSAS 30.24(b)	– interest on borrowings (at amortised cost)	2,378	2,000	2,378	2,000
	– interest on finance leases	10	9	10	9
PBE IPSAS 19.97(c)	– discount unwind on provisions (**Note 24**)	283	267	311	293
	Interest derivatives (presented net):				
PBE IPSAS 30.24(a)(i)	– held for trading interest rate swaps	(212)	0	(212)	0
PBE IPSAS 30.28C(b)(ii)	– ineffectiveness on cash flow hedges	(20)	0	(20)	0
PBE IPSAS 30.28C(b)(iv)	– transfer from equity for cash flow hedges	(122)	0	(182)	0
	Total finance costs	**2,317**	**2,276**	**2,450**	**2,390**

PBE IPSAS 1.106

6 Other expenses

Accounting policy

PBE IPSAS 1.132(c)

Grant expenses

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

PBE IPSAS 19 IG18.1

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

PBE IPSAS 19 IG18.2

Discretionary grants are those grants where the Council has no obligation to award on receipt of the grant application and are recognised as an expense when approved by the Council and the approval has been communicated to the applicant.

Operating leases

PBE IPSAS 13.8,42,A5

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset. Lease payments under an operating lease are recognised as an expense on a straightline basis over the lease term. Lease incentives received are recognised in the surplus or deficit as a reduction of rental expense over the lease term.

6 Other expenses (continued)

Breakdown of other expenses and further information[34]

		Council		Group	
		2021 $000	2020 $000	2021 $000	2020 $000
	Fees to auditors:				
PBE IPSAS 1.116.1(a)	– fees to Audit NZ for audit of the financial statements and performance information	105	101	141	135
PBE IPSAS 1.116.1(b)	– fees to Audit NZ for audit of the Long-term plan for 2021-31	156	0	156	0
PBE IPSAS 1.116.1(b)	– fees to Audit New Zealand for other services[35]	12	5	12	5
PBE IPSAS 1.116.1(a)	– fees to Assurance CA firm for audit of the Council's subsidiaries' financial statements	0	0	8	7
	General grants	1,000	1,000	1,000	1,000
	Contractors	4,500	4,500	4,524	4,522
	Insurance premiums	500	500	551	540
	Consultants and legal fees	750	700	750	700
PBE IFRS 4 D 17.6.1	ACC Accredited Employers Programme (**Note 24**)	176	173	176	173
PBE IPSAS 12.47(d)	Inventory consumption	465	234	543	296
PBE IPSAS 30.24(e)	Expected credit loss allowance for receivables (**Note 9**)	262	234	282	234
PBE IPSAS 21.73(a)	Plant and equipment impairment (**Note 16**)	98	0	98	0
PBE IPSAS 31.125	Research and development expenditure	29	14	29	24
PBE IPSAS 13.44(c)	Operating lease expense	25	28	25	28
PBE IPSAS 4.61(a)	Net foreign exchange losses	8	0	8	0
PBE IPSAS 30.24(a)(i)	Net loss on foreign exchange derivatives	434	0	434	0
	Other operating expenses	7,563	10,459	7,459	10,483
	Total other expenses	**16,083**	**17,948**	**16,191**	**18,147**

PBE IPSAS 1.116.2 The fees paid to Audit New Zealand for other services in the year ended 30 June 2021 were for a review of Council's contract management and procurement policies (2020: a contracting probity review performed over the library refurbishment project tender).

Operating leases as lessee

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

		Council		Group	
		2021 $000	2020 $000	2021 $000	2020 $000
PBE IPSAS 13.44(a)(i)	Not later than one year	21	21	40	40
PBE IPSAS 13.44(a)(ii)	Later than one year and not later than five years	84	84	360	700
PBE IPSAS 13.44(a)(iii)	Later than five years	21	42	40	80
	Total non-cancellable operating leases	**126**	**147**	**440**	**820**

PBE IPSAS 13.44(b) The total minimum future sublease payments expected to be received under non-cancellable subleases at balance date is $nil (2020: $nil).

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

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

34 PBE IPSAS 1.106 requires separate disclosure of the nature and amount of material items of expense or revenue.

35 PBE IPSAS 1.116.1-116.2 requires fees to each auditor or reviewer for other services performed during the reporting period to be separately disclosed from fees related to the audit or review of the financial statements. An entity shall describe the nature of the other services provided.

7 Tax[36, 37, 38]

Accounting policy

PBE IPSAS 1.132(c)

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

PBE IAS 12.5 — Current tax is the amount of income tax payable based on the taxable profit for the current year, plus any adjustments to income tax payable in respect of prior years.

PBE IAS 12.5 — Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

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

PBE IAS 12.15,24(a) — Deferred tax is not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of an asset or liability in a transaction that affects neither accounting profit not taxable profit.

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

PBE IAS 12.58(a),61A — Current and deferred tax is recognised against the surplus or deficit for the period, except to the extent that it relates to items recognised in other comprehensive revenue and expense or directly in equity.

Breakdown of taxes and further information

		Council		Group	
		2021 $000	**2020 $000**	**2021 $000**	**2020 $000**
PBE IAS 12.79	**Components of tax expense**				
	Current tax	0	0	84	57
	Adjustments to current tax in prior years	0	0	8	0
	Deferred tax	0	0	(20)	5
	Tax expense	0	0	72	62
PBE IAS 12.81(c)	**Relationship between tax expense and accounting surplus**				
	Surplus/(deficit) before tax	4,071	(2,614)	3,966	(2,837)
	Tax at 28%	1,140	(732)	1,110	(794)
	Plus/(less) tax effect of:				
	Non-deductible expenditure	0	732	220	856
	Non-taxable revenue	(1,140)	0	(1,277)	0
	Deferred tax adjustment	0	0	11	0
	Prior year adjustment	0	0	8	0
	Tax expense	**0**	**0**	**72**	**62**

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

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

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

7 Tax (continued)

PBE IAS 12.81(g)

	Property, plant, and equipment $000	Financial instruments $000	Employee entitlements $000	Total $000
Deferred tax assets/(liabilities)				
Council				
Nil				
Group				
Balance at 1 July 2019	(128)	0	3	(125)
Charged to surplus or deficit	(7)	0	2	(5)
Charged to other comprehensive revenue and expense	0	0	0	0
Balance at 30 June 2020	**(135)**	**0**	**5**	**(130)**
Charged to surplus or deficit	19	0	1	20
Charged to other comprehensive revenue and expense	0	(10)	0	(10)
Balance at 30 June 2021	**(116)**	**(10)**	**6**	**(120)**

PBE IPSAS 2.56

8 Cash and cash equivalents

Accounting policy

PBE IPSAS 2.57

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

Breakdown of cash and cash equivalents and further information

	Council		Group	
	2021 $000	2020 $000	2021 $000	2020 $000
Cash at bank and on hand	210	540	230	562
Term deposits with maturities of less than three months at acquisition	747	1,000	4,146	4,045
Per Statement of Financial Position	**957**	**1,540**	**4,376**	**4,607**
Bank overdrafts (**Note 22**)	(2,791)	(297)	(2,791)	(297)
Per Statement of Cash Flows	**(1,834)**	**1,243**	**1,585**	**4,310**

PBE IPSAS 2.10

PBE IPSAS 30.42G

Although cash and cash equivalents at 30 June 2021 are subject to the expected credit loss requirements of PBE IPSAS 41, no loss allowance has been recognised because the estimated allowance is trivial.

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

PBE IPSAS 23.106(d)[39]

The Council holds unspent funds, included in cash at bank and investments, of $4.21 million (2020: $5.03 million) that are subject to restrictions. These unspent funds relate to trusts and bequests received (see **Note 27**), waste minimisation reserve (see **Note 27**), lump sum contributions, and other funds received with restrictions where the spending of the funds is separately monitored.

The restrictions generally specify how the funds are required to be spent.[40]

39 PBE IPSAS 23.106(d) requires disclosure of the amounts of assets subject to restrictions and the nature of those restrictions.

40 If a local authority holds a material amount of assets subject to restrictions that were received in a non-exchange transaction, more specific information about the nature of those restrictions shall be disclosed elsewhere in the financial statements.

PBE IPSAS 1.94(b)

9 Receivables

PBE IPSAS 30.25

Accounting policy

PBE IPSAS 41.60

Short-term receivables are recorded at the amount due, less an allowance for expected credit losses (ECL).

PBE IPSAS 41.87

The Council and group apply the simplified ECL model of recognising lifetime ECL for short-term receivables.

PBE IPSAS 30.42F(c)

In measuring ECLs, receivables have been grouped into rates receivables, and other receivables, and assessed on a collective basis as they possess shared credit risk characteristics. They have then been grouped based on the days past due. A provision matrix is then established based on historical credit loss experience, adjusted for forward looking factors specific to the debtors and the economic environment.

PBE IPSAS 30.42F(e)

Rates are "written-off":

- when remitted in accordance with the Council's rates remission policy; and
- in accordance with the write-off criteria of sections 90A (where rates cannot be reasonably recovered) and 90B (in relation to Māori freehold land) of the Local Government (Rating) Act 2002.

Other receivables are written-off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include the debtor being in liquidation or the receivable being more than one year overdue.

Previous accounting policy

PBE IPSAS 29.72

In the previous year, the allowance for credit losses was based on the incurred credit loss model. An allowance for credit losses was recognised only when there was objective evidence that the amount due would not be fully collected.

Breakdown of receivables and further information

		Council		Group	
		2021 $000	2020 $000	2021 $000	2020 $000
PBE IPSAS 1.88(g)	*Receivables from non-exchange transactions*				
PBE IPSAS 23.106(b)	Rates receivable	2,516	1,316	2,516	1,316
	Receivables from subsidiaries and associates	331	100	0	0
	Other receivables from non-exchange transactions	796	80	783	130
	Total receivables from non-exchange transactions	**3,643**	**1,496**	**3,299**	**1,446**
PBE IPSAS 1.88(h)	*Receivables from exchange transactions*				
PBE IPSAS 11. 53 (a)	Construction contract receivables (**Note 25**)	0	0	40	21
	Other receivables from exchange transactions	1,234	522	1,338	690
	Total receivables from exchange transactions	**1,234**	**522**	**1,378**	**711**
	Less: allowance for credit losses	(320)	(264)	(340)	(264)
	Total receivables	**4,557**	**1,822**	**4,337**	**1,955**

9 Receivables (continued)

Rates receivable

Good practice

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

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

LG(R)A 2002 s90D

The Chief Executive approved the write-off of rates receivable during the year under the LG(R)A 2002 as follows:

- Section 90A: $24,943 (2020: Nil)
- Section 90B: $74,231 (2020: Nil)

Other receivables

PBE IPSAS 30.42G(a),(b)

The ECL rates for other receivables at 30 June 2021 and 1 July 2020 are based on the payment profile of revenue on credit over the prior two years at the measurement date and the corresponding historical credit losses experienced for that period. The historical loss rates are adjusted for current and forward-looking macroeconomic factors that might affect the expected recoverability of receivables. Given the short period of credit risk exposure, the effects of macroeconomic factors are not considered significant.

PBE IPSAS 30.42G(c)

There have been no changes since 1 July 2020 in the estimation techniques or significant assumptions in measuring the loss allowance.

PBE IPSAS 30.42N,IG22D

The allowance for credit losses based on Council and the group's credit loss matrix is as follows:

			Other receivables' days past due			
		Current	1 to 30 days	31 to 90 days	More than 90 days	Total
	Council – 30 June 2021					
PBE IPSAS 30.42G(a)	Expected credit loss rate	0.90%	10.75%	24.01%	54.70%	-
	Gross receivable amount ($000)	998	456	779	128	2,361
	Lifetime ECL ($000)	9	49	187	75	320
	Group – 30 June 2021					
PBE IPSAS 30.42G(a)	Expected credit loss rate	1.05%	9.56%	23.30%	54.81%	-
	Gross receivable amount ($000)	667	481	867	146	2,161
	Lifetime ECL ($000)	7	46	202	85	340
PBE IPSAS 30.49P	**Council – 1 July 2020**					
PBE IPSAS 30.42G(a)	Expected credit loss rate	1.10%	10.71%	24.75%	54.08%	-
	Gross receivable amount ($000)	91	112	101	466	770
	Lifetime ECL ($000)	1	12	25	252	290
PBE IPSAS 30.49P	**Group – 1 July 2020**					
PBE IPSAS 30.42G(a)	Expected credit loss rate	1.08%	10.20%	22.37%	54.35%	-
	Gross receivable amount ($000)	182	98	152	471	903
	Lifetime ECL ($000)	2	10	34	256	302

9 Receivables (continued)

PBE IPSAS 30.42H

Movements in the allowance for credit losses as follows:

		Council		Group	
		2021 $000	2020 $000	2021 $000	2020 $000
	Balance at 1 July measured under PBE IPSAS 29	264	248	264	248
PBE IPSAS 41.173	ECL adjustment due to adoption of PBE IPSAS 41*	26	0	38	0
	Opening balance for credit losses at 1 July	290	248	302	248
	Additional provisions made during the year	269	258	289	258
	Provisions reversed during the year	(7)	(24)	(7)	(24)
PBE IPSAS 30.42I(c)	Receivables written off during the year	(232)	(218)	(244)	(218)
	Balance at 30 June	**320**	**264**	**340**	**264**

*remeasurements as a result of the Council's adoption of PBE IPSAS 41 have been recognised directly in accumulated funds – for more details refer to **Note 30A**.

PBE IPSAS 12.47(b)

10 Inventory

PBE IPSAS 12.47(a)

Accounting policy

PBE IPSAS 12.15
PBE IPSAS 12.17(a)

Inventories are held for distribution or for use in the provision of goods and services. The measurement of inventories depends on whether the inventories are held for commercial or noncommercial (distribution at no charge or for a nominal charge) distribution or use. Inventories are measured as follows:

- Non-commercial: measured at cost, adjusted for any loss of service potential.
- Commercial: measured at the lower of cost and net realisable value.

PBE IPSAS 12.17,35

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

PBE IPSAS 12.17,35

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

PBE IPSAS 12.16

Any write-down from cost to net realisable value or for the loss of service potential is recognised in surplus or deficit in the year of the write-down.

PBE IPSAS 12.44

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

PBE IPSAS 16.71

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

Breakdown of inventory and further information

	Council		Group	
	2021 $000	2020 $000	2021 $000	2020 $000
Non-commercial inventory:				
– water and sewerage reticulation spare parts	42	199	42	199
– street furniture	17	31	17	51
– water treatment chemicals	10	12	24	72
– other	16	77	55	109
Commercial inventory:				
– land being developed for sale	1,045	0	1,045	0
– held for use in the provision of services	12	16	12	16
Total inventory	**1,142**	**335**	**1,195**	**447**

PBE IPSAS 12.47(e),(f)

The write-down of inventory during the year was $27,000 (2020: $26,000). There have been no reversals of previous write-downs (2020: $nil).[41]

PBE IPSAS 12.47(h)

No inventory is pledged as security for liabilities (2020: $nil). However, some inventory is subject to retention of title clauses.

41 If there has been a reversal of a previous write-down, disclose the circumstances or events that led to the reversal of the write-down (PBE IPSAS 12.47(g)). Councils that apply the RDR are not required to disclose this information.

11 Non-current assets held for sale

PBE IPSAS 1.132(c)

Accounting policy

PBE IFRS 5.6
PBE IFRS 5.15

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. They are measured at the lower of their carrying amount and fair value less costs to sell.

PBE IFRS 5.20

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

PBE IFRS 5.21

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

PBE IFRS 5.25

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

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

	Council		Group	
	2021 $000	**2020 $000**	**2021 $000**	**2020 $000**
Non-current assets held for sale are:				
– buildings	700	0	700	0
– land	1,000	0	1,000	0
Total non-currents asset held for sale	**1,700**	**0**	**1,700**	**0**

PBE IFRS 5.41

The Council-owned property on Owen Street has been presented as held for sale following the approval by the Council on 24 May 2021 to sell the premises. The Council has approved the sale of the premises, as it will provide no future use to the Council. The completion date of the sale is expected to be by November 2021.

PBE IFRS 5.38

The accumulated property revaluation reserve recognised in equity for the Owen Street property at 30 June 2021 is $177,000.

PBE IPSAS 1.127(c)

12 Derivative financial instruments

PBE IPSAS 30.25

Accounting policy

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

PBE IPSAS 41.57,61,64

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

PBE IPSAS 41.101(a)

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

PBE IPSAS 30.25

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

PBE IPSAS 30.25

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

Hedge accounting

PBE IPSAS 29.96(a),(b)

The Council and group designates certain derivatives as either:

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

12 Derivative financial instruments (continued)

PBE IPSAS 41.179
PBE IPSAS 29.98

The Council and group have elected to not adopt the new hedge accounting requirements of PBE IPSAS 41 as permitted under the transitional provisions of PBE IPSAS 41. This means the Council and group continues to apply the hedge accounting requirements of PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*.

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

PBE IPSAS 29.99

Fair value hedge

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

PBE IPSAS 29.103

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

Cash flow hedge

PBE IPSAS 29.106

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

PBE IPSAS 29.108

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognised in other comprehensive revenue and expense are reclassified into 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 surplus or deficit.

PBE IPSAS 29.109

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

PBE IPSAS 29.112

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

When a forecast transaction is no longer expected to occur, any related cumulative gain or loss on the hedging instrument that has been recognised in other comprehensive revenue and expense from the period when the hedge was effective is reclassified from equity to surplus or deficit.

PBE IPSAS 30.26B(c)

Hedge ineffectiveness

Hedge ineffectiveness in a hedge relationship can arise from:

- Differences in the timing of cash flows of the hedged items and hedging instruments.
- Changes to the forecasted amount of cash flows of hedged items and hedging instruments.
- The counterparties credit risk effecting fair value movements of hedging instruments and hedged items.

12 Derivative financial instruments (continued)

Breakdown of derivative financial instruments and further information

		Council		Group	
		2021 $000	2020 $000	2021 $000	2020 $000
	Current asset portion				
PBE IPSAS 30.26B,28A	Interest rate swaps – cash flow hedges	98	74	130	74
	Total current asset portion	98	74	130	74
	Non-current asset portion				
PBE IPSAS 30.26B,28A	Interest rate swaps – cash flow hedges	248	162	248	162
	Interest rate swaps – not hedge accounted	160	0	160	0
	Total non-current asset portion	408	162	408	162
	Total derivative financial instrument assets	**506**	**236**	**538**	**236**
	Current liability portion				
PBE IPSAS 30.26B,28A	Interest rate swaps – cash flow hedges	22	25	22	25
	Forward foreign exchange contracts – not hedge accounted	240	0	240	0
	Total current liability portion	262	25	262	25
	Non-current liability portion				
PBE IPSAS 30.26B,28A	Interest rate swaps – cash flow hedges	42	49	42	49
	Total derivative financial instrument liabilities	**304**	**74**	**304**	**74**

PBE IPSAS 30.27B

Timing of nominal principal amounts and average fixed rates of interest rate swaps

		Less than 1 year	1-2 years	3-5 years	Total
	Council 2021				
	Interest rate swaps – hedge accounted				
	Nominal amount (in $000)	2,069	5,346	5,675	13,090
	Average fixed rate	2.13%	3.14%	4.15%	3.45%
Good practice	**Interest rate swaps – not hedge accounted**[42]				
	Nominal amount (in $000)	0	1,021	1,053	2,074
	Average fixed rate	2.21%	3.69%	4.31%	3.71%
	Group 2021				
	Interest rate swaps – hedge accounted				
	Nominal amount (in $000)	3,583	6,137	6,468	15,072
	Average fixed rate	2.10%	3.14%	4.15%	3.44%
Good practice	**Interest rate swaps – not hedge accounted**				
	Nominal amount (in $000)	0	1,021	1,053	2,074
	Average fixed rate	2.21%	3.69%	4.31%	3.71%

42 Information on the timing profile and average fixed rates for non-hedge accounted interest rate swaps is not required to be disclosed. We consider this information to be useful for those interest rate swaps that are not hedge accounted and used for managing interest rate risk.

12 Derivative financial instruments (continued)

	Less than 1 year	1-2 years	3-5 years	Total
Council and group 2020				
Interest rate swaps – hedge accounted				
Nominal amount (in $000)	1,965	5,079	5,391	12,435
Average fixed rate	2.12%	3.13%	4.14%	3.46%

The Council and group currently have no fair value hedges.

PBE IPSAS 30.41(a) The notional principal amounts of outstanding forward foreign exchange contracts were $2.0 million (2020: $nil).

Fair value[43]

PBE IPSAS 30.29,31 The fair values of interest rate swaps have been determined by calculating the expected future cash flows under the terms of the swaps and discounting these values to present value. The inputs into the valuation model are from independently sourced market parameters such as interest rate yield curves. Most market parameters are implied from instrument prices.

PBE IPSAS 30.29,31 The fair values of forward foreign exchange contracts have been determined using a discounted cash flows valuation technique based on quoted market prices. The inputs into the valuation model are from independently sourced market parameters such as currency rates. Most market parameters are implied from instrument prices.

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

PBE IPSAS 1.127(c)

13 Other financial assets

PBE IPSAS 30.25

Accounting policy

PBE IPSAS 41.10,39,57

Other financial assets (other than shares in subsidiaries) are initially recognised at fair value. They are then classified as, and subsequently measured under, the following categories:

- amortised cost;
- fair value through other comprehensive revenue and expense (FVTOCRE); and
- fair value through surplus and deficit (FVTSD).

PBE IPSAS 41.57

Transaction costs are included in the value of the financial asset at initial recognition unless the it has been designated at FVTSD, in which case it is recognised in surplus or deficit.

The classification of a financial asset depends on its cash flow characteristics and the Council and group's management model for managing them.

PBE IPSAS 41.40

A financial asset is classified and subsequently measured at amortised cost if it gives rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal outstanding and is held within a management model whose objective is to collect the contractual cash flows of the asset.

PBE IPSAS 41.41

A financial asset is classified and subsequently measured at FVTOCRE if it gives rise to cash flows that are SPPI and held within a management model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

PBE IPSAS 41.43

Financial assets that do not meet the criteria to be measured at amortised cost or FVTOCRE are subsequently measured at FVTSD. However, the Council and group may elect at initial recognition to designate an equity investment not held for trading as subsequently measured at FVTOCRE.

Initial recognition of concessionary loans

PBE IPSAS 41.AG118-127

Loans made at nil or below-market interest rates are initially recognised at the present value of their expected future cash flow, discounted at the current market rate of return for a similar financial instrument. For loans to community organisations, the difference between the loan amount and present value of the expected future cash flows of the loan is recognised in the surplus or deficit as a grant expense.

Subsequent measurement of financial assets at amortised cost

PBE IPSAS 41.61,69

Financial assets classified at amortised cost are subsequently measured at amortised cost using the effective interest method, less any expected credit losses (ECL). Where applicable, interest accrued is added to the investment balance. Instruments in this category include term deposits, community loans, and loans to subsidiaries and associates.

Subsequent measurement of financial assets at FVTOCRE

PBE IPSAS 41.111

Financial assets in this category that are debt instruments are subsequently measured at fair value with fair value gains and losses recognised in other comprehensive revenue and expense, except ECL and foreign exchange gains and losses are recognised in surplus or deficit. When sold, the cumulative gain or loss previously recognised in other comprehensive revenue and expense is reclassified to surplus and deficit.[44] Debt instruments in this category are the Council and group's listed bonds.

PBE IPSAS 41.41
PBE IPSAS 41.106
PBE IPSAS 41 AG222

Financial assets in this category that are equity instruments designated as FVTOCRE are subsequently measured at fair value with fair value gains and losses recognised in other comprehensive revenue and expense. There is no assessment for impairment when fair value falls below the cost of the investment. When sold, the cumulative gain or loss previously recognised in other comprehensive revenue and expense is transferred to accumulated funds within equity. The Council and group designate into this category all equity investments that are not held for trading as they are strategic investments that are intended to be held for the medium to long-term.

Subsequent measurement of financial assets at FVTSD

PBE IPSAS 41.61

Financial assets in this category are subsequently measured at fair value with fair value gains and losses recognised in surplus or deficit.

PBE IPSAS 30 AG5(e)

Interest revenue and dividends recognised from these financial assets are separately presented within revenue.

Other than for derivatives, the Council and group has no instruments in this category.

44 There is a difference in treatment of cumulative gains or losses previously recognised for financial assets at FVTOCRE. The treatment depends on whether the financial asset is a debt instrument or an equity instrument. If the financial asset is a debt instrument, the cumulative gains or losses previously recognised in other comprehensive revenue and expense is reclassified to surplus or deficit. If the financial asset is an equity instrument, the cumulative gains or losses previously recognised in other comprehensive revenue and expense is **not** reclassified to surplus or deficit; instead, it is transferred to accumulated funds.

13 Other financial assets (continued)

PBE IPSAS 41.73

Expected credit loss allowance (ECL)

The Council and group recognise an allowance for ECLs for all debt instruments not classified as FVTSD. ECLs are the probability-weighted estimate of credit losses, measured at the present value of cash shortfalls, which is the difference between the cash flows due to Council and group in accordance with the contract and the cash flows it expects to receive. ECLs are discounted at the effective interest rate of the financial asset.

PBE IPSAS 41.75-80

ECLs are recognised in two stages. ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). However, if there has been a significant increase in credit risk since initial recognition, the loss allowance is based on losses possible for the remaining life of the financial asset (Lifetime ECL).

PBE IPSAS 41 AG179-180

When determining whether the credit risk of a financial asset has increased significantly since initial recognition, the Council and group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Council and group's historical experience and informed credit assessment and including forward-looking information.

PBE IPSAS 30.42F(b)

PBE IPSAS 41 AG201

The Council and group consider a financial asset to be in default when the financial asset is more than 90 days past due. The Council and group may determine a default occurs prior to this if internal or external information indicates the entity is unlikely to pay its credit obligations in full.

PBE IPSAS 41.78

Council measure ECLs on loan commitments at the date the commitment becomes irrevocable. If the ECL measured exceeds the gross carrying amount of the financial asset, the ECL is recognised as a provision.

Shares in subsidiaries (at cost)

PBE IPSAS 34.23(c)

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

Previous accounting policy (summarised)

In the previous year, other financial assets were classified into the following categories:

- loans and receivables at amortised cost (included term deposits, related party loans, and community loans);
- held-to-maturity investments at amortised cost (included listed bonds); and
- fair value through other comprehensive revenue and expense (included shares and listed bonds).

The main differences for the prior year policies are:

- Impairment was recorded only when there was objective evidence of impairment. For equity investments, a significant or prolonged decline in the fair value of the investment below its cost was considered objective evidence of impairment. For debt investments, significant financial difficulties of the debtor, probability the debtor would enter into bankruptcy, receivership or liquidation, and default in payments were indicators the asset is impaired.
- Impairment losses on shares were recognised in the surplus or deficit.
- For shares, the cumulative gain or loss previously recognised in other comprehensive revenue and expense was transferred from equity to surplus or deficit on disposal of the investment.

13 Other financial assets (continued)

Breakdown of other financial assets and further information

	Council		Group	
	2021 $000	2020 $000	2021 $000	2020 $000
Current portion				
Term deposits	2,500	1,069	2,500	1,069
Listed bonds	2,697	3,378	2,697	3,378
Total current portion	5,197	4,447	5,197	4,447
Non-current portion				
Investment in CCOs and similar entities				
Shares in subsidiaries (cost)	2,000	2,000	0	0
Loans to subsidiaries and associates	1,000	1,000	0	0
Listed shares in Port Te Motu Limited	992	967	992	967
Unlisted shares in LGFA	250	245	250	245
Total investment in CCOs and similar entities	4,242	4,212	1,242	1,212
Other investments				
Community loans	450	400	450	400
Unlisted shares in Te Motu Housing Limited	89	26	89	26
Listed bonds	2,391	2,022	2,391	2,022
Total other investments	2,930	2,448	2,930	2,448
Total non-current portion	7,172	6,660	4,172	3,660
Total other financial assets	**12,369**	**11,107**	**9,369**	**8,107**

PBE IPSAS 30.29,31

Fair value disclosures[45]

Term deposits

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

Community loans

PBE IPSAS 30.29,31 The fair value of community loans is $465,000 (2020: $407,000). Fair value has been determined using cash flows discounted at a rate based on the loan recipient's financial risk factors of between 8.4% and 10% (2020: between 8.3% and 9.7%).

Loans to subsidiaries and associates

PBE IPSAS 30.29,31 The fair value of loans to related parties is $1.02 million (2020: $1.02 million). Fair value has been determined using cash flows discounted at a rate based on a market borrowing rate of 8.7% (2020: 8.6%).

Listed bonds

PBE IPSAS 30.29,31 Fair value has been determined using quoted market bid prices from independently sourced market information for the listed bonds.

Unlisted shares

PBE IPSAS 30.29,31 The fair value of unlisted shares in Te Motu Housing Limited has been determined using a valuation technique based on discounted cash flows using a rate based on the market interest rate and the risk premium specific to the unlisted shares of 12.3% (2020: 11.5%). The cash flow projections have been determined by reference to financial budgets approved by the Board of Directors and cover a five-year period. Cash flows beyond the five-year period have been extrapolated using an estimated growth rate of 1.3% (2020: 1.5%), which has been determined by reference to recent growth trends.
A discount of 30% has then been applied to the discounted cash flow value to reflect the Council's small shareholding.

Due to the immaterial size and nature of the Council's investment in the LGFA, the Council has estimated the fair value of this investment based on the LGFA's net asset backing at 30 June 2021.

Listed shares

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

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

13 Other financial assets (continued)

Community loans[46]

PBE IPSAS 30.37(b) The face value of community loans is $1.09 million (2020: $998,000).

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

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

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

		Council		Group	
		2021 $000	**2020 $000**	**2021 $000**	**2020 $000**
	At 1 July	400	405	400	405
PBE IPSAS 41.173	Adjustment due to the adoption of PBE IPSAS 41*	(7)	0	(7)	0
	Adjusted balance at 1 July	393	405	393	405
	Amount of new loans granted during the year	100	0	100	0
	Fair value adjustment on initial recognition	(26)	0	(26)	0
	Loans repaid during the year (principal and interest)	(54)	(50)	(54)	(50)
	Expected credit loss allowance recognised during the year	(8)	0	(8)	0
	Unwind of discount and interest charged	45	45	45	45
	At 30 June	**450**	**400**	**450**	**400**

*remeasurements as a result of the Council's adoption of PBE IPSAS 41 have been recognised directly in accumulated funds – for more details refer to **Note 30A**.

Credit risk, including ECLs

Term deposits

PBE IPSAS 30.42F(a) The Council and group consider there has not been a significant increase in credit risk for investments in term deposits because the banks continue to have low credit risk at balance date. Term deposits are held with banks that have a long-term AA- investment grade credit rating, which indicates the bank has a very strong capacity to meet its financial commitments.

No ECL has been recognised for term deposits as the loss allowance is trivial.

Community loans[47]

PBE IPSAS 30.42F(a) Council manages credit risk associated with community loans in accordance with its Treasury Management Policy.

To access community loans, applicants must demonstrate a reasonable credit history and ability to make repayments. As part of the application process, Council completes due diligence checks to confirm the credit risk associated with each applicant. Council does not enter into any loan agreements that result in credit-impaired loans on origination.

Council monitors increases in credit risk by performing regular credit checks, completing regular debtor payment performance analyses, and review of macroeconomic changes in the Te Motu District. Council considers a debtor's credit risk to have significantly increased if the information suggests they will be unable to make loan repayments.

Due to the immaterial nature of the cumulative ECL of $8,000 (2020: $7,000), no further information on impairment has been provided.

Other financial assets

PBE IPSAS 30.42F(a) Expected credit losses measured for other financial assets are trivial. They are low-risk and the Council has not identified any indications that credit risk associated with those instruments has significantly increased since initial recognition.

PBE IPSAS 30.42K(b) The Council does not hold any collateral for any of its loan assets.

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

47 PBE IPSAS 30.42H-L provide the detailed disclosure requirements for ECLs. For example, PBE IPSAS 30.42H requires a reconciliation between opening and closing balances of ECLs recognised. This reconciliation must be in a table format that separately presents the changes for 12-month ECLs and lifetime ECLs. The ECLs for community loans is not considered material to the financial statements, therefore this disclosure does not illustrate all the credit risk disclosure requirements of PBE IPSAS 30.

13 Other financial assets (continued)

Equity investments (other than shares in subsidiaries)[48]

PBE IPSAS 30.14A

The Council has designated all of its equity investments at FVTOCRE, other than shares in subsidiaries. This measurement basis is considered more appropriate than through surplus or deficit because the investments have been made for long-term strategic purposes rather than to generate a financial return through trading.

Equity instruments designated at FVTOCRE comprise of:

	Actual 2021 $000	Actual 2020 $000
Listed shares in Port Te Motu Limited	992	967
Unlisted shares in LGFA	250	245
Unlisted shares in Te Motu Housing Limited	89	26
Total equity investments at FVTOCRE	**1,331**	**1,238**

Shares in subsidiaries (cost)

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

Good practice

	Principal activity	2021 $000	2020 $000
Te Motu Holdings Limited	Monitors the operating performance of its subsidiaries (Te Motu Civic Construction Limited and Te Motu Properties Limited) in the interests of the Council	100	100
Te Motu Civic Construction Limited	Management, construction, operation, and maintenance of infrastructural assets	800	800
Te Motu Properties Limited	Owns and operates a portfolio of rental housing	1,100	1,100
Total		**2,000**	**2,000**

PBE IPSAS 38.20

There are no significant restrictions on the ability of the controlled entities to transfer funds to the Council in the form of cash distributions or to repay loans or advances.

Loan commitment to subsidiary

PBE IPSAS 30.42M

Council agreed to provide Te Motu Civic Construction Limited (TMCCL) with a $5 million loan facility that can be used as an option for TMCCL to use in the event it needs extra additional funds for capital projects. This facility is irrevocable and is available to the subsidiary until December 2030. The features of the facility are on commercial terms. The loan is currently undrawn. The ECL for this facility are trivial therefore the Council has not recognised an ECL.

48 PBE IPSAS 30.14B requires further information to be disclosed if an entity disposed of an equity investment measured at FVTOCRE.

14 Investment in associate

Accounting policy

PBE IPSAS 36.8,16

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

PBE IPSAS 36.41,42

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

PBE IPSAS 36.31

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

PBE IPSAS 34.23(c)

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

Breakdown of investment in associate

PBE IPSAS 38.36

The Council has a 39% interest in Te Motu Quarries Limited (the Quarry), which provides aggregate products and services based in Te Motu District. The investment enabled the Council to establish a strategic partnership to secure aggregates for Council projects.[49] The Council's interest is recorded in the Council's financial statements at cost of $200,000.

PBE IPSAS 38.AG14

The following table summarises the financial information of the Quarry in its own financial statements, adjusted for fair value adjustments at acquisition and differences in accounting policies. The table also reconciles the summarised financial information to the carrying amount of the Group's interest in the Quarry.

PBE IPSAS 38.AG12

		Actual 2021 $000	Actual 2020 $000
	Summarised statement of financial position of the associate		
	Current assets	528	517
	Non-current assets	1,148	1,111
	Current liabilities	219	198
	Non-current liabilities	811	792
	Net assets	646	635
	Summarised statement of comprehensive revenue and expense of the associate		
	Revenue	640	980
	Expense	477	804
	Tax expense	124	149
	Other comprehensive revenue and expense	8	-
	Total comprehensive revenue and expense	31	27
	Equity accounted share of entity's financial information		
	Net assets	646	635
	Proportion of Group's interest	39%	39%
	Elimination of unrealised surplus on downstream sale	0	(8)
	Equity accounted carrying amount	252	240
PBE IPSAS 36.39(b)	Share of associate's contingent liabilities incurred jointly with other investors	8,756	5,457
PBE IPSAS 36.39(b)	Contingent liabilities that arise because of several liability	0	8,478

49 PBE IPSAS 38.36(b)(iii) requires entities to disclose a quoted market price for investments in a joint venture or associate if it is available.

15 Investment in joint operations

Accounting policy[50]

PBE IPSAS 37.7

A joint arrangement is a binding arrangement that confers enforceable rights and obligations on the parties to the arrangement that is subject to joint control. Joint control is the agreed sharing of control where decisions about the relevant activities require the unanimous consent of the parties sharing control.

PBE IPSAS 38.12(c)

A joint arrangement is classified either as a joint operation or a joint venture. The classification depends on the rights and obligations of each party under the joint arrangement. The Council reviews the legal form, terms of the binding agreement, and other facts and circumstances relevant to its interest in determining the classification of the joint arrangement

PBE IPSAS 37.23,24

For joint operations, the Council and group recognises its direct right to the assets, liabilities, revenues and expense of joint operations and its share of any jointly held or incurred assets, liabilities, revenue, and expenses. Assets, liabilities, revenues, and expenses relating to Council's interest in a joint operation are accounted for in line with Council's accounting policies and included in the relevant line items of the Council and group financial statements.

Further information about the joint operation

PBE IPSAS 38.36

The Council has a joint arrangement with Te Takutai District Council (TTDC) for a forestry venture called Te Motu Ngahere (the Forestry). The Forestry operates across both the Te Motu and Te Takutai districts. It was established as a partnership between the two Councils, which provides employment opportunities across both districts and is expected to provide a financial return for both Councils in the near future. The two Councils have equal rights to assets of the partnership and are jointly and severally liable for the liabilities incurred by the partnership.

Good practice

The Council's interests in the joint operation are as follows:

	Council and Group	
	2021 $000	**2020 $000**
Current assets	12	11
Non-current assets	2,432	2,435
Current liabilities	5	6
Non-current liabilities	0	0
Revenue	0	0
Expenses	67	89

50 Joint ventures are accounted for using the equity method as described in Note 14 ***Investment in associate***. Disclosures for joint ventures are identical to the disclosures for an investment in an associate, with the addition of separately disclosing cash and cash equivalents, certain current and non-current financial liabilities, depreciation and amortisation expense, interest revenue and expense, and income tax expense (PBE IPSAS 38.AG13). Tier 2 entities are not required to make these disclosures.

16 Property, plant, and equipment

PBE IPSAS 1.132(c)

Accounting policy

Property, plant, and equipment consist of:

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

Restricted assets – Restricted assets are mainly parks and reserves owned by the Council and group that provide a benefit or service to the community and cannot be disposed of because of legal or other restrictions.

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

PBE IPSAS 17.88(a)

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

Revaluation

PBE IPSAS 17.44

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

PBE IPSAS 17.56

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

PBE IPSAS 17.54,55

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

Additions

PBE IPSAS 17.14

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

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

PBE IPSAS 17.26,27

In most instances, an item of property, plant, and equipment is initially recognised at its cost. Where an asset is acquired through a non-exchange transaction, it is recognised at its fair value as at the date of acquisition.

PBE IPSAS 17.14

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

PBE IPSAS 17.23,24

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

PBE IPSAS 17.57,83,86

Disposals

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

16 Property, plant, and equipment (continued)

PBE IPSAS 17.88(b),(c)

Depreciation[51]

Depreciation is provided on a straight-line basis on all property, plant, and equipment other than land, at rates that will write off the cost (or valuation) of the assets to their estimated residual values over their useful lives. The useful lives and associated depreciation rates of major classes of assets have been estimated as follows:

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

PBE IPSAS 17.67

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

Service concession arrangement

PBE IPSAS 32.8

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

PBE IPSAS 32.11-15

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

PBE IPSAS 32.21-23

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

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

16 Property, plant, and equipment (continued)

Impairment of property, plant, and equipment

PBE IPSAS 21.26 PBE IPSAS 26.22	Property, plant, and equipment that have a finite useful life are reviewed for impairment at each balance date and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.
PBE IPSAS 21.35 PBE IPSAS 26.31	An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.
PBE IPSAS 21.52,54 PBE IPSAS 26.72,73	If an asset's carrying amount exceeds its recoverable amount, the asset is regarded as impaired and the carrying amount is written down to the recoverable amount. For revalued assets, the impairment loss is recognised against the revaluation reserve for that class of asset. Where that results in a debit balance in the revaluation reserve, the balance is recognised in surplus or deficit.
	For assets not carried at a revalued amount, the total impairment loss is recognised in the surplus or deficit.
	The reversal of an impairment loss on a revalued asset is credited to other comprehensive revenue and expense and increases the asset revaluation reserve for that class of asset. However, to the extent that an impairment loss for that class of asset was previously recognised in surplus or deficit, a reversal of the impairment loss is also recognised in surplus or deficit.
	For assets not carried at a revalued amount, the reversal of an impairment loss is recognised in surplus or deficit.
	Value in use for non-cash-generating assets
PBE IPSAS 21.16-21 PBE IPSAS 26.14-18	Non-cash-generating assets are those assets that are not held with the primary objective of generating a commercial return.
PBE IPSAS 21.44-50	For non-cash-generating assets, value in use is determined using an approach based on either a depreciated replacement cost approach, a restoration cost approach, or a service units approach. The most appropriate approach used to measure value in use depends on the nature of the impairment and availability of information.
	Value in use for cash-generating assets
PBE IPSAS 21.16-21 PBE IPSAS 26.14-18	Cash-generating assets are those assets that are held with the primary objective of generating a commercial return.
PBE IPSAS 26.43-70	The value in use for cash-generating assets and cash-generating units is the present value of expected future cash flows.

16 Property, plant, and equipment (continued)

PBE IPSAS 1.140

Critical accounting estimates and assumptions

Estimating the fair value of land, buildings, and infrastructure

PBE IPSAS 17.92(a),(b)

The most recent valuation of land and buildings was performed by an independent registered valuer, R Holt SNZPI of Holt Valuers Limited.[52] The valuation is effective as at 30 June 2021.

Land (operational, restricted, and infrastructural)

PBE IPSAS 17.92(c)

Land is valued at fair value using market-based evidence based on its highest and best use with reference to comparable land values.

Where there is a designation against the land or the use of the land is restricted because of reserve or endowment status, the valuation approach reflects the restriction in use. Such land is valued based on rural land value plus a location adjustment to reflect different zoning, which are based on the valuer's judgement.

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

Buildings (operational and restricted)

PBE IPSAS 17.92(c)

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

Depreciated replacement cost is determined using a number of significant assumptions. Significant assumptions used in the 30 June 2021 valuation include:

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

Non-specialised buildings (for example, residential and office buildings) are valued at fair value using market-based evidence. Significant assumptions in the 30 June 2021 valuation include market rents and capitalisation rates.

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

PBE IPSAS 17.92(d)

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

	Council		Group	
	2021 $000	**2020 $000**	**2021 $000**	**2020 $000**
Operational buildings				
Depreciated replacement cost	11,723	9,783	12,982	11,058
Market-based evidence	4,624	3,859	5,121	4,362
Total carrying value of operational buildings	16,347	13,642	18,103	15,420
Restricted buildings				
Depreciated replacement cost	6,250	6,344	6,250	6,344
Market-based evidence	2,466	2,502	2,466	2,502
Total carrying value of restricted buildings	8,716	8,846	8,716	8,846

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

16 Property, plant, and equipment (continued)

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

PBE IPSAS 17.92(a),(b)

The most recent valuation of infrastructural assets was performed by an independent registered valuer, K Tee ANZIV of Thompson Valuers Limited. The valuation is effective as at 30 June 2021.

PBE IPSAS 17.92(c)

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

- The replacement costs where appropriate reflect optimisation due to over-design or surplus capacity. The Council has determined that there is significant surplus capacity in the sewerage and water assets that service certain locations due to a declining population in those areas. The Council estimates that the necessary network capacity to service these areas is on average 50% of the existing capacity. The valuation of these assets therefore assumes the existing assets will be replaced with assets of smaller capacity.
- Estimating the replacement cost of the asset. The replacement cost of an asset is based on recent construction contracts in the region for modern equivalent assets, from which unit rates are determined. Unit rates have been applied to components of the network based on size, material, depth, and location. If recent contract cost information is considered out of date, it is indexed using Statistics New Zealand's Capital Goods Price Index (based on the March 2021 quarter index) for civil constructions to convert them to current dollar value at the valuation date.
- Estimates of the remaining useful life over which the asset will be depreciated. These estimates can be affected by the local conditions. For example, weather patterns and traffic growth. If useful lives do not reflect the actual consumption of the benefits of the asset, then the Council could be over-or underestimating the annual depreciation charge recognised as an expense in the statement of comprehensive revenue and expense. To minimise this risk, infrastructural asset useful lives have been determined with reference to the New Zealand Infrastructural Asset Valuation and Depreciation Guidelines published by the National Asset Management Steering Group, and have been adjusted for local conditions based on past experience. Asset inspections, deterioration, and condition-modelling are also carried out regularly as part of asset management planning activities, which provide further assurance over useful life estimates.

PBE IPSAS 1.137

Critical judgements in applying accounting policies

Classification of property

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

16 Property, plant, and equipment (continued)

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

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

	Cost/ valuation 1.7.20 $000	Accumulated depreciation and impairment 1.7.20 $000	Carrying amount 1.7.20 $000	Additions $000	Disposals[54] $000	Impairment $000	Depreciation $000	Revaluation surplus $000	Cost/ valuation 30.6.21 $000	Accumulated depreciation and impairment 30.6.21 $000	Carrying amount 30.6.21 $000
COUNCIL 2021											
Operational assets											
Land	22,840	0	22,840	0	(859)	0	0	728	22,709	0	22,709
Buildings	15,579	(1,937)	13,642	3,685	(801)	0	(398)	219	16,347	0	16,347
Landfill post-closure	626	(421)	205	0	0	0	(20)	0	626	(441)	185
Library books	1,791	(649)	1,142	0	(108)	0	(248)	1	787	0	787
Plant and equipment	2,418	(732)	1,686	447	0	(98)	(709)	0	2,865	(1,539)	1,326
Motor vehicles	1,196	(402)	794	0	0	0	(316)	0	1,196	(718)	478
Total operational assets	44,450	(4,141)	40,309	4,132	(1,768)	(98)	(1,691)	948	44,530	(2,698)	41,832
Infrastructural assets											
Land	3,000	0	3,000	0	0	0	0	0	3,000	0	3,000
PBE IPSAS 32.13 Sewerage system	34,693	(3,247)	31,446	0	(986)	0	(320)	39	30,179	0	30,179
Water system	42,835	(2,980)	39,855	3,160	0	0	(639)	425	42,801	0	42,801
Drainage network	11,158	(935)	10,223	0	0	0	(139)	400	10,484	0	10,484
Roading network	62,975	(98)	62,877	1,651	0	0	(1,180)	410	63,758	0	63,758
Land under roads	1,011	0	1,011	0	0	0	0	0	1,011	0	1,011
Total infrastructural assets	155,672	(7,260)	148,412	4,811	(986)	0	(2,278)	1,274	151,233	0	151,233
PBE IPSAS 17.89(a) **Restricted assets**											
Land	17,469	0	17,469	0	(13)	0	0	215	17,671	0	17,671
Buildings	9,274	(428)	8,846	0	0	0	(234)	104	8,716	0	8,716
Total restricted assets	26,743	(428)	26,315	0	(13)	0	(234)	319	26,387	0	26,387
Total Council	**226,865**	**(11,829)**	**215,036**	**8,943**	**(2,767)**	**(98)**	**(4,203)**	**2,541**	**222,150**	**(2,698)**	**219,452**

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

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

16 Property, plant, and equipment (continued)

		Cost/ valuation 1.7.20 $000	Accumulated depreciation and impairment 1.7.20 $000	Carrying amount 1.7.20 $000	Additions $000	Disposals $000	Impairment $000	Depreciation $000	Revaluation surplus $000	Cost/ valuation 30.6.21 $000	Accumulated depreciation and impairment 30.6.21 $000	Carrying amount 30.6.21 $000
	GROUP 2021											
	Operational assets											
	Land	23,640	0	23,640	0	(859)	0	0	728	23,509	0	23,509
	Buildings	17,379	(1,959)	15,420	3,685	(801)	0	(420)	219	18,103	0	18,103
	Landfill post-closure	626	(421)	205	0	0	0	(20)	0	626	(441)	185
	Library books	1,791	(649)	1,142	0	(108)	0	(248)	1	787	0	787
	Plant and equipment	4,182	(933)	3,249	1,102	0	(98)	(830)	0	4,791	(1,861)	2,930
	Motor vehicles	1,421	(557)	864	435	0	0	(581)	0	1,856	(1,138)	718
	Total operational assets	49,039	(4,519)	44,520	5,222	(1,768)	(98)	(2,099)	948	49,672	(3,440)	46,232
	Infrastructural assets											
	Land	3,000	0	3,000	0	0	0	0	0	3,000	0	3,000
PBE IPSAS 32.13	Sewerage system	34,693	(3,247)	31,446	0	(986)	0	(320)	39	30,179	0	30,179
	Water system	42,835	(2,980)	39,855	3,160	0	0	(639)	425	42,801	0	42,801
	Drainage network	11,158	(935)	10,223	0	0	0	(139)	400	10,484	0	10,484
	Roading network	62,975	(98)	62,877	1,651	0	0	(1,180)	410	63,758	0	63,758
	Land under roads	1,011	0	1,011	0	0	0	0	0	1,011	0	1,011
	Total infrastructural assets	155,672	(7,260)	148,412	4,811	(986)	0	(2,278)	1,274	151,233	0	151,233
PBE IPSAS 17.89(a)	**Restricted assets**											
	Land	17,469	0	17,469	0	(13)	0	0	215	17,671	0	17,671
	Buildings	9,274	(428)	8,846	0	0	0	(234)	104	8,716	0	8,716
	Total restricted assets	26,743	(428)	26,315	0	(13)	0	(234)	319	26,387	0	26,387
	Total Group	**231,454**	**(12,207)**	**219,247**	**10,033**	**(2,767)**	**(98)**	**(4,611)**	**2,541**	**227,292**	**(3,440)**	**223,852**

16 Property, plant, and equipment (continued)

		Cost/ valuation 1.7.19 $000	Accumulated depreciation and impairment 1.7.19 $000	Carrying amount 1.7.19 $000	Additions $000	Disposals $000	Impairment $000	Depreciation $000	Revaluation surplus $000	Cost/ valuation 30.6.20 $000	Accumulated depreciation and impairment 30.6.20 $000	Carrying amount 30.6.20 $000
	COUNCIL 2020											
	Operational assets											
	Land	23,632	0	23,632	0	(792)	0	0	0	22,840	0	22,840
	Buildings	15,402	(1,568)	13,834	177	0	0	(369)	0	15,579	(1,937)	13,642
	Landfill post-closure	626	(401)	225	0	0	0	(20)	0	626	(421)	205
	Library books	1,486	(418)	1,068	305	0	0	(231)	0	1,791	(649)	1,142
	Plant and equipment	2,418	(48)	2,370	0	0	0	(684)	0	2,418	(732)	1,686
	Motor vehicles	978	(98)	880	218	0	0	(304)	0	1,196	(402)	794
	Total operational assets	44,542	(2,533)	42,009	700	(792)	0	(1,608)	0	44,450	(4,141)	40,309
	Infrastructural assets											
	Land	3,000	0	3,000	0	0	0	0	0	3,000	0	3,000
PBE IPSAS 32.13	Sewerage system	34,693	(2,845)	31,848	0	0	0	(402)	0	34,693	(3,247)	31,446
	Water system	42,185	(2,458)	39,727	650	0	0	(522)	0	42,835	(2,980)	39,855
	Drainage network	11,025	(811)	10,214	133	0	0	(124)	0	11,158	(935)	10,223
	Roading network	59,446	0	59,446	3,529	0	0	(98)	0	62,975	(98)	62,877
	Land under roads	1,011	0	1,011	0	0	0	0	0	1,011	0	1,011
	Total infrastructural assets	151,360	(6,114)	145,246	4,312	0	0	(1,146)	0	155,672	(7,260)	148,412
PBE IPSAS 17.89(a)	**Restricted assets**											
	Land	18,531	0	18,531	0	(1,062)	0	0	0	17,469	0	17,469
	Buildings	9,274	(215)	9,059	0	0	0	(213)	0	9,274	(428)	8,846
	Total restricted assets	27,805	(215)	27,590	0	(1,062)	0	(213)	0	26,743	(428)	26,315
	Total Council	**223,707**	**(8,862)**	**214,845**	**5,012**	**(1,854)**	**0**	**(2,967)**	**0**	**226,865**	**(11,829)**	**215,036**

16 Property, plant, and equipment (continued)

		Cost/ valuation 1.7.19 $000	Accumulated depreciation and impairment 1.7.19 $000	Carrying amount 1.7.19 $000	Additions $000	Disposals $000	Impairment $000	Depreciation $000	Revaluation surplus $000	Cost/ valuation 30.6.20 $000	Accumulated depreciation and impairment 30.6.20 $000	Carrying amount 30.6.20 $000
	GROUP 2020											
	Operational assets											
	Land	24,432	0	24,432	0	(792)	0	0	0	23,640	0	23,640
	Buildings	17,202	(1,568)	15,634	177	0	0	(391)	0	17,379	(1,959)	15,420
	Landfill post-closure	626	(401)	225	0	0	0	(20)	0	626	(421)	205
	Library books	1,486	(418)	1,068	305	0	0	(231)	0	1,791	(649)	1,142
	Plant and equipment	4,019	(169)	3,850	163	0	0	(764)	0	4,182	(933)	3,249
	Motor vehicles	1,203	(196)	1,007	218	0	0	(361)	0	1,421	(557)	864
	Total operational assets	48,968	(2,752)	46,216	863	(792)	0	(1,767)	0	49,039	(4,519)	44,520
	Infrastructural assets											
	Land	3,000	0	3,000	0	0	0	0	0	3,000	0	3,000
PBE IPSAS 32.13	Sewerage system	34,693	(2,845)	31,848	0	0	0	(402)	0	34,693	(3,247)	31,446
	Water system	42,185	(2,458)	39,727	650	0	0	(522)	0	42,835	(2,980)	39,855
	Drainage network	11,025	(811)	10,214	133	0	0	(124)	0	11,158	(935)	10,223
	Roading network	59,446	0	59,446	3,529	0	0	(98)	0	62,975	(98)	62,877
	Land under roads	1,011	0	1,011	0	0	0	0	0	1,011	0	1,011
	Total infrastructural assets	151,360	(6,114)	145,246	4,312	0	0	(1,146)	0	155,672	(7,260)	148,412
PBE IPSAS 17.89(a)	**Restricted assets**											
	Land	18,531	0	18,531	0	(1,062)	0	0	0	17,469	0	17,469
	Buildings	9,274	(215)	9,059	0	0	0	(213)	0	9,274	(428)	8,846
	Total restricted assets	27,805	(215)	27,590	0	(1,062)	0	(213)	0	26,743	(428)	26,315
	Total Group	**228,133**	**(9,081)**	**219,052**	**5,175**	**(1,854)**	**0**	**(3,126)**	**0**	**231,454**	**(12,207)**	**219,247**

16 Property, plant, and equipment (continued)

LG(FRP)R 6

Core infrastructure asset disclosures

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

	Closing book value $000	Additions: constructed by Council $000	Additions: transferred to Council $000	Most recent replacement cost estimate for revalued assets $000
2021				
Water supply:				
– treatment plants and facilities	17,120	324	–	29,570
– other assets (such as reticulation systems)	25,681	339	2,497	44,022
Sewerage:				
– treatment plants and facilities	14,563	–	–	17,864
– other assets (such as reticulation systems)	15,616	–	–	35,714
Stormwater drainage	10,484	–	–	19,658
Flood protection and control works	–	–	–	–
Roads and footpaths	63,758	493	1,158	83,032
2020				
Water supply:				
– treatment plants and facilities	15,942	–	–	27,396
– other assets (such as reticulation systems)	23,913	399	251	41,068
Sewerage:				
– treatment plants and facilities	15,006	–	–	18,408
– other assets (such as reticulation systems)	16,440	–	–	37,598
Stormwater drainage	10,223	133	–	19,168
Flood protection and control works	–	–	–	–
Roads and footpaths	62,877	1,705	1,824	81,885

Land under roads

Good practice

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

Library collections

PBE IPSAS 17.92(a)-(c)

Library collections are valued at depreciated replacement cost in accordance with the guidelines released in 2002 by the New Zealand Library Association and the National Library. Library valuations are performed by the Head Librarian, N Gillanders, and are subject to an independent review by T Tong. The most recent valuation was effective at 30 June 2021.

PBE IFRS 5.41

Disposals[55]

During the year, the Council derecognised the Council-owned and occupied building on Stark Road. The building was assessed in March 2021 and identified as an earthquake-prone building. The Council has decided that it is uneconomical to complete the building strengthening required to bring the building to the required earthquake-strengthening standard and vacated the property in June 2021. The carrying amount of the building of $44,000 was recognised as a loss on the disposal of the building.

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

16 Property, plant, and equipment (continued)

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

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

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

Impairment

PBE IPSAS 21.73,77
PBE IPSAS 17.89(d)

Impairment losses of $98,000 (2020: $nil) have been recognised for plant and equipment damaged due to flooding that occurred in April 2021. The recoverable amount of the plant and equipment was based on value in use using the restoration cost approach, which was determined by reference to the depreciated replacement cost of the asset less the costs to repair the damage. A total of $36,000 in compensation has been received from an insurance claim for the damaged plant and equipment and has been recognised in the statement of comprehensive revenue and expense in the line item "Other revenue". The impairment loss has been recognised in the statement of comprehensive revenue and expense in the line item "Other expenses".

Work in progress[56]

PBE IPSAS 17.89(b)

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

	Council and group	
	2021 $000	2020 $000
Water system	363	110
Roading network	338	479
Buildings	189	0
Total work in progress	**890**	**589**

Restrictions[57]

PBE IPSAS 17.89(a)

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

Leasing

PBE IPSAS 13.40(a)

The net carrying amount of plant and equipment held under finance leases is $37,000 (2020: $63,000). **Note 22** provides further information about finance leases.

Service concession asset

PBE IPSAS 30.32

The Te Motu Point sewerage treatment plant is owned by the Council and operated by Waste Water Management Limited (WWML) under a design, build, finance, and operate service concession arrangement contract. WWML constructed the sewerage treatment plant and must operate the facility for a 25year term until March 2026. WWML is responsible for maintaining and replacing components of the facility during this term and, at expiry of the term, the facility is required to have a future life expectancy of at least 25 years. The contract terminates either on the expiry of the 25 year term or on the occurrence of a contract default event caused by either party. There is no renewal option in the contract.

The carrying amount of the sewerage treatment plant is $12.07 million at 30 June 2021 (2020: $12.58 million), and is included in the sewerage system asset class of property, plant, and equipment.

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

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

16 Property, plant, and equipment (continued)

The financial liability for construction of the facility is included in the breakdown of borrowings in **Note 22** and is $4.32 million at 30 June 2021 (2020: $4.62 million).

Capital commitments

PBE IPSAS 17.89(c)

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

	Council and group	
	2021 $000	**2020 $000**
Capital commitments[58]		
Water system	1,222	2,102
Roading network	243	124
Buildings	345	2,240
Total capital commitments	**1,810**	**4,466**

58 PBE IPSAS 17.89 requires disclosure of the amount of contractual commitments for the acquisition of property, plant, and equipment for each class of asset.

17 Intangible assets

PBE IPSAS 1.132(c)

Accounting policy

Software acquisition and development

PBE IPSAS 31.34,35

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

PBE IPSAS 31.64,65

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

PBE IPSAS 31.36,65,67

Staff training costs are recognised in the surplus or deficit when incurred.

Costs associated with maintaining computer software are recognised as an expense when incurred.

PBE IPSAS 31 AG8

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

Easements

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

Carbon credits

PBE IPSAS 31.31

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

Goodwill

Goodwill on acquisition of businesses and subsidiaries is included in "intangible assets". Goodwill on acquisition of an associate is included in the "investment in associate" carrying value in **Note 14**, with impairment considered as part of the overall investment balance.

PBE IPSAS 26.90.1

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

Amortisation

PBE IPSAS 31.96,117(b)

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

PBE IAS 38.117(a)

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

Computer software	3 to 5 years	20% to 33.3%

PBE IPSAS 1.132(c)

Impairment of intangible assets

PBE IPSAS 21.26A
PBE IPSAS 26.23.1

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

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

Breakdown of intangible assets and further information

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

	Council carbon credits $000	Council computer software $000	Council easement $000	Council total $000	Group goodwill $000	Group total $000
Cost						
Balance at 1 July 2020	0	386	64	450	251	701
Additions	164	192	0	356	0	356
Disposals	(100)	0	0	(100)	0	(100)
Balance at 30 June 2021	**64**	**578**	**64**	**706**	**251**	**957**

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

17 Intangible assets (continued)

	Council carbon credits $000	Council computer software $000	Council easement $000	Council total $000	Group goodwill $000	Group total $000
Balance at 1 July 2019	100	386	64	550	251	801
Additions	0	0	0	0	0	0
Disposals	(100)	0	0	(100)	0	(100)
Balance at 30 June 2020	**0**	**386**	**64**	**450**	**251**	**701**
Accumulated amortisation and impairment						
Balance at 1 July 2020	0	295	0	295	0	295
Amortisation charge	0	131	0	131	0	131
Disposals	0	0	0	0	0	0
Balance at 30 June 2021	**0**	**426**	**0**	**426**	**0**	**426**
Balance at 1 July 2019	0	167	0	167	0	167
Amortisation charge	0	128	0	128	0	128
Disposals	0	0	0	0	0	0
Balance at 30 June 2020	**0**	**295**	**0**	**295**	**0**	**295**
Carrying amounts						
Balance at 1 July 2020	100	219	64	383	251	634
Balance at 30 June and 1 July 2020	0	91	64	155	251	406
Balance at 30 June 2021	64	152	64	280	251	531

Restrictions

PBE IPSAS 31.121(d)

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

Capital Commitments

PBE IPSAS 31.121(e)

Intangible asset commitments include amounts payable on forward contracts of $150,000 to purchase carbon credits to be used to satisfy the Council's obligations under the Emissions Trading Scheme for landfill emissions (2020: $nil).

Impairment

Easements

Good practice

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

PBE IPSAS 31.121(a)

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

Carbon credits

Good practice

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

PBE IPSAS 31.121(a)

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

17 Intangible assets (continued)

Goodwill

PBE IPSAS 26.123(a.1) Goodwill of $251,000 (2020: $251,000) has been allocated to the single cash-generating unit (CGU) of Te Motu Properties Limited. The synergies of the business combination in which the goodwill arose are expected to be realised only by the assets of Te Motu Properties Limited.

PBE IPSAS 26.123(c)
PBE IPSAS 26.123(c)(iii) The recoverable amount of the CGU has been determined based on a value in use calculation. This calculation uses cash flow projections based on financial budgets approved by the Board of Directors and cover a five-year period. Cash flows beyond the five-year period have been extrapolated using an estimated growth rate.

PBE IPSAS 26.123(c)(i) ***Key assumptions used for the goodwill value in use calculation***

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

PBE IPSAS 26.123(c) (ii) These assumptions have been used for the analysis of the CGU of Te Motu Properties Limited. The Board has determined budgeted gross margin based on past performance and its expectations for the market. The weighted average growth rate used is consistent with the forecasts included in industry reports. The discount rate used is pre-tax and reflects specific risks relevant to the CGU.

PBE IPSAS 26.123(e) The group believes that a reasonable possible change in any of the key assumptions would not cause the carrying amount of goodwill to exceed the recoverable amount.

LG(FRP)R 5(4)

18 Depreciation and amortisation expense by group of activity

	Council	
	Actual 2021 $000	**Actual 2020 $000**
Directly attributable depreciation and amortisation expense by group of activity		
Activity 1[60]	0	0
Activity 2	311	308
Activity 3	292	263
Activity 4	86	96
Activity 5	1,240	107
Activity 6	145	134
Activity 7	2,024	1,976
Total directly attributable depreciation and amortisation by group of activity	4,098	2,884
Depreciation and amortisation not directly related to group of activities	236	211
Total depreciation and amortisation expense	**4,334**	**3,095**

60 Actual activity names will need to be disclosed.

19 Forestry assets

Accounting policy

PBE IPSAS 1.132(c)

PBE IPSAS 27.24,45

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

PBE IPSAS 27.30

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

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

Critical accounting estimates and assumptions

Fair value of forestry assets

PBE IPSAS 27.45

Independent registered valuers, Forestry Valuation Limited, have valued forestry assets as at 30 June 2021. This valuation is based on existing sustainable felling plans and assessments regarding growth, timber prices, felling costs, and silvicultural costs. It takes into consideration environmental, operational, and market restrictions. The following significant valuation assumptions have been adopted in determining the fair value of forestry assets:

- a discount rate of 9.2% (2020: 9.0%) has been used in discounting the present value of expected future cash flows;
- notional land rental costs have been included for freehold land;
- the forest has been valued on a going concern basis and includes only the value of the existing crops on a single rotation basis;
- costs are current average costs. No allowance has been made for cost improvements in future operations; and
- log prices are based on a three-year historical rolling average.

Breakdown of forestry assets and further information

PBE IPSAS 27.48

	Council		Group	
	2021 $000	2020 $000	2021 $000	2020 $000
Balance at 1 July	7,343	7,127	7,620	7,404
Increases due to purchases	0	0	0	0
Gains/(losses) arising from changes attributable to physical changes[61]	324	194	324	194
Gains/(losses) arising from changes attributable to price changes	(79)	22	(79)	22
Decreases due to sales	0	0	0	0
Decreases due to harvest	0	0	0	0
Balance at 30 June	**7,588**	**7,343**	**7,865**	**7,620**

PBE IPSAS 27.44(a),(b)

The Council owns 1,187 hectares of pinus radiata forest, comprising trees that are at varying stages of maturity ranging from 5 to 22 years. Te Motu Properties Limited owns 90 hectares of pinus radiata, which mature in 20 years. No trees have been harvested during the year (2020: nil).[62]

PBE IPSAS 27.47(a),(b)

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

PBE IPSAS 27.47(d)

Financial risk management strategies

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

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

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

20 Investment property

PBE IPSAS 1.132(c)

Accounting policy

PBE IPSAS 16.7

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

PBE IPSAS 16.26

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

PBE IPSAS 16.42,44,86(a)

After initial recognition, all investment property is measured at fair value at each reporting date.

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

PBE IPSAS 1.137

Critical judgements in applying accounting policies

Classification of unoccupied land

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

Breakdown of investment property and further information

		Council		Group	
		2021 $000	2020 $000	2021 $000	2020 $000
PBE IPSAS 16.87	Balance at 1 July	8,040	7,726	8,040	7,726
	Additions from acquisitions[63]	1,000	0	1,000	0
	Additions from subsequent expenditure	26	0	26	0
	Disposals	0	0	0	0
	Transfer to inventory	(1,045)	0	(1,045)	0
	Fair value gains/(losses) on valuation (**Note 3**)	71	314	71	314
	Balance at 30 June	**8,092**	**8,040**	**8,092**	**8,040**

PBE IPSAS 16.86 (e)

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

PBE IPSAS 16.86 (d)

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

- Net revenue, which takes into account future rental revenue and anticipated maintenance costs, ranges from $390 to $460 per square metre (2020: $360 to $460).
- Capitalisation and discount rates range from 6.7% to 7.7% (2020: 7.4% to 8.2%).

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

		Council and Group	
		2021 $000	2020 $000
PBE IPSAS 16.86(f)	Rental revenue	492	476
PBE IPSAS 16.86(f)	Direct operating expenses from investment property generating revenue	22	14
PBE IPSAS 16.86(f)	Direct operating expenses from investment property not generating revenue	10	6
PBE IPSAS 16.86 (h)	Contractual obligations for capital expenditure	345	324
PBE IPSAS 16.86 (h)	Contractual obligations for operating expenditure	154	180

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

PBE IPSAS 1.93

PBE IPSAS 30.25

PBE IPSAS 41.57,60

21 Payables and deferred revenue

Accounting policy

Short-term creditors and other payables are measured at the amount payable.

Breakdown of payables and other information

		Council		Group	
		2021 $000	**2020 $000**	**2021 $000**	**2020 $000**
	Current portion				
	Payables and deferred revenue under exchange transactions				
	Trade payables and accrued expenses	1,125	1,342	2,442	2,526
	Amounts due to subsidiaries and associates	145	145	0	0
	Development and financial contributions in advance	472	995	472	995
PBE IPSAS 11.53(b)	Amounts due to customers for contract work (**Note 25**)	0	0	7	8
PBE IPSAS 11.51(b)	Advances received for contract work (**Note 25**)	0	0	35	24
PBE IPSAS 1.88(k)	Total	1,742	2,482	2,956	3,553
	Payables and deferred revenue under non-exchange transactions				
	Income tax payable	0	0	2	6
	Other taxes payable (e.g. GST and FBT)	1,031	920	1,189	972
	Grants payable	48	56	148	56
PBE IPSAS 23.106(c)	Suspensory loan	50	50	50	50
PBE IPSAS 23.106(c)	Other grants and bequests received subject to substantive conditions not yet met	324	352	324	352
PBE IPSAS 1.88(j)	Total	1,453	1,378	1,713	1,436
	Total current portion	3,195	3,860	4,669	4,989
	Non-current portion				
	Payables and deferred revenue under non-exchange transactions				
PBE IPSAS 23.106(c)	Suspensory loan	607	657	607	657
	Total payables and deferred revenue	**3,802**	**4,517**	**5,276**	**5,646**

PBE IPSAS 30.29,35(a)

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

Good practice

The Council received a 20-year suspensory loan of $1 million from the Crown that must be repaid if the Council makes certain decisions that affect the provision of its social housing (including selling properties) prior to 21 August 2034. The Council considers that the substance of the arrangement is the Council receives funding on condition that it provides social housing services over the 20-year term of the agreement. The current portion of the suspensory loan represents that amount of the loan that will be recognised as revenue over the next 12 months.

Good practice

Other grants and bequests include:

- a grant from the Provincial Growth Fund of $250,000 (2020: $200,000) for the purpose of an upgrade of the Council's water treatment infrastructure; and
- bequests of $50,000 (2020: $60,000), which must be spent on the nominated purpose or returned to the transferor or a nominated party.

PBE IPSAS 1.93

22 Borrowings and other financial liabilities

PBE IPSAS 30.25

Accounting policy

PBE IPSAS 41.57

Borrowings on normal commercial terms are initially recognised at the amount borrowed plus transaction costs. Interest due on the borrowings is subsequently accrued and added to the borrowings balance.

PBE IPSAS 1.80

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

Finance leases

PBE IPSAS 13.8

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

PBE IPSAS 13.28

At the start of the lease term, finance leases are recognised as assets and liabilities in the statement of financial position at the lower of the fair value of the leased item and the present value of the minimum lease payments.

PBE IPSAS 13.34

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

PBE IPSAS 13.36

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

Financial guarantee contracts

PBE IPSAS 41.9

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

PBE IPSAS 41.57, AG131-136

Financial guarantee contracts are initially recognised at fair value. If a financial guarantee contract was issued in a stand-alone arm's-length transaction to an unrelated party, its fair value at inception is equal to the consideration received. When no consideration is received, the fair value of the liability is initially measured using a valuation technique, such as considering the credit enhancement arising from the guarantee or the probability that the Council will be required to reimburse a holder for a loss incurred discounted to present value. If the fair value of a guarantee cannot be reliably determined at initial recognition, a liability is recognised at the amount of the loss allowance determined in accordance with the expected credit loss (ECL) model described in **Note 13**.

PBE IPSAS 41.45(c)

Financial guarantees are subsequently measured at the higher of:

- the amount determined in accordance with the ECL model described in **Note 13**; and
- the amount initially recognised less, when appropriate, cumulative amortisation as revenue.

22 Borrowings and other financial liabilities (continued)

Breakdown of borrowings and other financial liabilities and further information

		Council		Group	
		2021 $000	2020 $000	2021 $000	2020 $000
PBE IPSAS 1.80	**Current portion**				
	Bank overdraft	2,791	297	2,791	297
	Secured loans	5,783	2,605	5,783	2,605
	Service concession loan - secured	300	300	300	300
	Debentures	0	0	1,000	0
	Finance leases	15	18	15	18
	Total current portion	8,889	3,220	9,889	3,220
PBE IPSAS 1.80	**Non-current portion**				
	Secured loans	20,046	20,770	20,046	20,770
	Service concession loan - secured	4,020	4,320	4,020	4,320
	Debentures	0	0	1,984	2,984
	Finance leases	22	46	22	46
	Financial guarantee contracts	374	346	374	346
	Total non-current portion	24,462	25,482	26,446	28,466
	Total borrowings and other financial liabilities	**33,351**	**28,702**	**36,335**	**31,686**

PBE IPSAS 30.38

Interest terms for secured loans

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

PBE IPSAS 30.38

Interest terms for debentures

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

PBE IPSAS 30.38

Financial guarantee contracts

The Council is listed as sole guarantor for a number of community organisation bank loans. The Council is obligated under each guarantee to make loan payments in the event that the organisation defaults on a loan arrangement. The exercising of guarantees will be dependent on the financial stability of the community organisations, which will vary over time. At balance date, the Council expects that it will be called upon by banks to honour financial guarantees issued when loans fall due for repayment during 2025, 2026, and 2027.

Security

PBE IPSAS 30.10 — The overdraft is unsecured.

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

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

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

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

Internal borrowings

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

22 Borrowings and other financial liabilities (continued)

Fair values

PBE IPSAS 30.29

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

The fair value of the service concession loan is $4.52 million. Fair value has been determined using contractual cash flows discounted using a rate based on market borrowing rates at balance date ranging from 2.6% to 4.2% (2020: 2.4% to 3.3%).

The fair value of finance leases is $36,000 (2020: $62,000). Fair value has been determined using contractual cash flows discounted using a rate based on market borrowing rates at balance date ranging from 5.6% to 6.2% (2020: 6.4% to 7.3%).

The carrying amount of financial guarantees approximates their fair value.

Analysis of finance leases

		Council		Group	
		2021 $000	2020 $000	2021 $000	2020 $000
PBE IPSAS 13.40(c)	**Total minimum lease payments payable**				
	Not later than one year	28	28	28	28
	Later than one year and not later than five years	43	56	43	56
	Later than five years	0	15	0	15
	Total minimum lease payments	71	99	71	99
PBE IPSAS 13.40(b)	Future finance charges	(34)	(36)	(34)	(36)
	Present value of minimum lease payments	37	63	37	63
PBE IPSAS 13.40(c)	**Present value of minimum lease payments payable**				
	Not later than one year	15	18	15	18
	Later than one year and not later than five years	22	35	22	35
	Later than five years	0	10	0	10
	Total present value of minimum lease payments	37	63	37	63

Finance lease as lessee

PBE IPSAS 13.40(a) Finance leases are for various items of plant and equipment. The net carrying amount of the plant and equipment held under finance leases is $37,000 (2020: $63,000).

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

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

PBE IPSAS 1.93

23 Employee entitlements

PBE IPSAS 1.132(c)

Accounting policy

Short-term employee entitlements

PBE IPSAS 39.8,9,11

Employee benefits that are expected to be settled wholly within twelve months after the end of the year in which the employee provides the related service are measured based on accrued entitlements at current rates of pay. These include salaries and wages accrued up to balance date, annual leave earned to, but not yet taken at balance date, and sick leave.

PBE IPSAS 39.19

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

Long-term employee entitlements

PBE IPSAS 39.155-160

Employee benefits that are not expected to be settled wholly before twelve months after the end of the reporting period in which the employee provides the related service, such as retirement and long service leave, have been calculated on an actuarial basis. The calculations are based on:

- likely future entitlements accruing to employees, based on years of service, years to entitlement, the likelihood that employees will reach the point of entitlement, and contractual entitlement information; and
- the present value of the estimated future cash flows.

Good practice

Presentation of employee entitlements

Sick leave, annual leave, and vested long service leave are classified as a current liability. Non-vested retirement and long service leave expected to be settled within 12 months of balance date are also classified as a current liability. All other employee entitlements are classified as a non-current liability.

PBE IPSAS 1.140

Critical accounting estimates and assumptions

Estimating retirement and long service leave obligations

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

Expected future payments are discounted using forward discount rates derived from the yield curve of New Zealand Government bonds. The discount rates used have maturities that match, as closely as possible, the estimated future cash outflows. The salary inflation factor has been determined after considering historical salary inflation patterns and after obtaining advice from an independent actuary. A weighted average discount rate of 5.8% (2020: 5.4%) and an inflation factor of 2.5% (2020: 2.5%) were used.

	Council		Group	
	2021 $000	**2020 $000**	**2021 $000**	**2020 $000**
Current portion				
Accrued pay	184	7	184	9
Annual leave	378	395	379	396
Sick leave	5	7	6	8
Retirement and long service leave	22	43	22	43
Total current portion	589	452	591	456
Non-current portion				
Retirement and long service leave	293	243	309	259
Total non-current portion	293	243	309	259
Total employee entitlements	**882**	**695**	**900**	**715**

PBE IPSAS 1.93

24 Provisions[64]

PBE IPSAS 1.132(c)

Accounting policy

PBE IPSAS 19.22

A provision is recognised for future expenditure of uncertain amount or timing when:

- there is a present obligation (either legal or constructive) as a result of a past event;
- it is probable that an outflow of future economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

PBE IPSAS 19.53,56

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation and discounted using market yields on government bonds at balance date with terms to maturity that match, as closely as possible, the estimated future cash flows. The increase in the provision due to the passage of time is recognised as an interest expense and is included in "finance costs" (see **Note 5**).

ACC Accredited Employers Programme

PBE IFRS 4.37(a)

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

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

PBE IPSAS 1.140

Critical accounting estimates and assumptions

PBE IPSAS 19.98

Estimating the landfill aftercare costs

The Council has engaged an independent engineer, Engineering Associates Limited (EAL), to value the Council's landfill aftercare provision. EAL has significant experience in performing such valuations.

The cash outflows for landfill post-closure costs are expected to occur in 5 to 25 years' time (that is, between 2026 and 2046). The long-term nature of the liability means that there are inherent uncertainties in estimating costs that will be incurred. The future cash outflows have been estimated taking into account existing technology and known changes to legal requirements. The gross provision before discounting is $3.56 million (2020: $3.45 million).

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

- The remaining capacity of the current site is 0.5 million cubic metres (refuse, clean fill, and cover).
- The estimated remaining life is 8 years, based on current projected waste volumes. Projected waste volumes have been estimated by using historical waste trend information.
- An annual inflation factor of 2.0% has been applied in estimating the future cash outflows.
- Discount rates ranging from 2.4% to 4.75% (2020: 2.87% to 4.75%) have been used to discount the estimated future cash outflows. These rates have been determined using New Zealand Government bond yield information and extrapolated beyond the available market data.

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

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

24 Provisions (continued)

Breakdown of provisions and further information

		Council		Group	
		2021 $000	2020 $000	2021 $000	2020 $000
PBE IPSAS 1.80	**Current portion**				
	Weathertightness claims	250	250	250	250
	Restructuring provision	50	45	50	45
PBE IFRS 4.37(b)	ACC Accredited Employers Programme	172	167	172	167
	Total current portion	472	462	472	462
PBE IPSAS 1.80	**Non-current portion**				
PBE IFRS 4.37(b)	ACC Accredited Employers Programme	74	55	74	55
	Landfill aftercare provision	2,422	2,359	2,422	2,359
	Total non-current portion	2,496	2,414	2,496	2,414
	Total provisions	**2,968**	**2,876**	**2,968**	**2,876**

PBE IPSAS 19.98

Weathertightness claims

Seven claims have been lodged with the Weathertight Homes Resolution Service (WHRS) at 30 June 2021 (2020: eight) that relate to weathertightness issues of homes in the Te Motu district and name the Council as well as other parties. The WHRS is a central government service established under the Weathertight Homes Resolution Services Act 2006. It also offered a funding assistance package (FAP) to eligible homeowners, which expired to new claims received after 23 July 2016. This sees the Council contribution capped at 25% of eligible costs if the homeowner elects to use the FAP scheme. The Council opted into the FAP scheme.

A provision for claims lodged at balance date has been established based on an actuarial assessment of claims based on historical average claim levels and other information held. The provision also includes an estimate for settlement of other civil proceedings (this includes those in relation to non-residential buildings) for weathertightness issues and for future claims relating to weathertightness issues not yet identified and reported. The Council has insurance in place that covers the provision recognised and has recognised a related receivable of $250,000 (2020: $250,000) which is presented as part of receivables in **Note 9**.

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

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

Percentage of successful claims

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

Settlement amount

This relates to the expected amount of settlement awarded from the resolution process and is based on amounts of previous settlements and expert legal advice on current claims. It represents the expected amount claimed by the homeowner and is based on the actual amounts for claims already settled.

Timing of claim payments

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

Discount rate

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

PBE IPSAS 19.98

Restructuring

The Council approved a detailed and formal restructuring plan for the Te Motu Central Library, which was announced in April 2021. The restructuring started in June 2021. The restructuring will result in a reduction in full-time staff employed by the Te Motu Central Library. The restructuring plan and associated payments are expected to be completed in December 2021.

24 Provisions (continued)

ACC Accredited Employers Programme[65]

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

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

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

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

PBE IFRS 4 D17.8A An independent actuarial valuer, DW Smith BSc FIAA, has calculated the Council's liability, and the valuation is effective at 30 June 2021. The valuer has attested that he is satisfied as to the nature, sufficiency, and accuracy of the data used to determine the outstanding claims liability. There are no qualifications contained in the valuer's report.

PBE IFRS 4 D17.8B(b),(c) Average inflation has been assumed as 2% for the year ending 30 June 2022 and 2.5% for the year ending 30 June 2023. A discount rate of 1.2% has been used for the years ending 30 June 2022 and 30 June 2023.

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

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

	Council and group	Weather-tightness claims $000	Restructuring $000	ACC Accredited Employers Programme $000	Landfill $000	Total $000
Good practice	Balance at 1 July 2019	250	0	194	2,092	2,536
Good practice	Additional provisions	120	0	173	0	293
Good practice	Amounts used	(75)	0	(145)	0	(220)
Good practice	Unused amounts reversed	0	0	0	0	0
Good practice	Discount unwind (Note 5)	0	0	0	267	267
PBE IPSAS 19.97(a)	Balance at 30 June/1 July 2020	295	0	222	2,359	2,876
PBE IPSAS 19.97(b)	Additional provisions	25	81	176	0	282
PBE IPSAS 19.97(c)	Amounts used	(70)	(31)	(152)	0	(253)
PBE IPSAS 19.97(d)	Unused amounts reversed	0	0	0	(220)	(220)
PBE IPSAS 19.97(e)	Discount unwind (Note 5)	0	0	0	283	283
PBE IPSAS 19.97(a)	**Balance at 30 June 2021**	**250**	**50**	**246**	**2,422**	**2,968**

65 Where the ACC Accredited Employers Programme liability is material to a local authority, the full disclosure requirements of PBE IFRS 4 *Insurance Contracts (Appendix D)* will need to be considered.

66 Disclosure of comparative information for provisions is not required by PBE IPSAS 19.97. However, we consider it good practice for Tier 1 entities to disclose the comparative figures for provisions.

25 Construction contracts

PBE IPSAS 1.132(c)

Accounting policy

PBE IPSAS 11.30

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

PBE IPSAS 11.23

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

PBE IPSAS 11.44

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

PBE IPSAS 11.40

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

PBE IPSAS 11.54,55

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

		Council		Group	
		2021 $000	2020 $000	2021 $000	2020 $000
	For contracts in progress at 30 June:				
PBE IPSAS 11.51(a)	Contract costs incurred	0	0	82	74
PBE IPSAS 11.51(a)	Recognised surpluses/(deficits)	0	0	18	61
	Progress billings	0	0	67	79
PBE IPSAS 11.53(a)	Gross amounts due from customers (**Note 9**)	0	0	40	21
PBE IPSAS 11.53(b)	Gross amounts due to customers (**Note 21**)	0	0	7	8
PBE IPSAS 11.51(b)	Advances received (**Note 21**)	0	0	35	24
PBE IPSAS 11.51(c)	Retentions included in progress billings	0	0	26	29

26 Contingencies

PBE IPSAS 19.100

Contingent liabilities

	Council		Group	
	2021 $000	2020 $000	2021 $000	2020 $000
Te Motu Floodway	910	840	910	840
Building Act claims	116	141	116	141
Other legal proceedings	12	9	12	9
Total contingent liabilities	**1,038**	**990**	**1,038**	**990**

Te Motu Floodway

The Te Motu Floodway contingent liabilities are a claim in respect of completed capital works. The Council is contesting these claims and Council's legal advice considers it not probable that this claim will succeed.

Building Act claims

The Building Act 2004 imposes certain obligations and liabilities on local authorities relating to the issue of building consents and inspection of work done. At the date of these financial statements, four matters under that Act indicating potential liabilities had been brought to the Council's attention. Council's initial legal advice considers it not probable that these claims will be successful.

26 Contingencies (continued)

***Local Government Funding Agency*[67]**

The Council is a guarantor of the New Zealand Local Government Funding Agency Limited (LGFA). The LGFA was incorporated in December 2011 with the purpose of providing debt funding to local authorities in New Zealand. LGFA has a current credit rating from Standard and Poor's of AAA for local currency and a foreign currency rating of AA+ as at 22 February 2021.[68]

As at 30 June 2021[69], the Council is one of 30 local authority shareholders and 54 local authority guarantors of the LGFA. The New Zealand Government also has a 20% shareholding in the LGFA. It has uncalled capital of $1.0 million. When aggregated with the uncalled capital of other shareholders, $20.0 million is available in the event that an imminent default is identified. Also, together with the other shareholders and guarantors, the Council is a guarantor of all of the LGFA's borrowings. At 30 June 2021, the LGFA had borrowings totalling $14.220 billion (2020: $12.220 billion).

PBE Accounting Standards require the Council to initially recognise the guarantee liability by applying the 12-month expected credit loss (ECL) model (as fair value could not be reliably measured at initial recognition), and subsequently at the higher of the provision for impairment at balance date determined by the ECL model and the amount initially recognised. The Council has assessed the 12-month ECL of the guarantee liability, based on market information of the underlying assets held by the LGFA. The estimated 12-month expected credit losses are immaterial due to the very low probability of default by the LGFA in the next 12 months. Therefore, the Council has not recognised a liability.

The Council considers the risk of the LGFA defaulting on repayment of interest or capital to be very low on the basis that:

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

PBE IPSAS 19.105

Contingent assets

The Council operates a scheme whereby sports clubs are able to construct facilities (for example, club rooms) on reserve land. The clubs control the use of these facilities and the Council will gain control of the asset only if the club vacates the facility. Until this event occurs, the assets are not recognised as assets in the statement of financial position. As at 30 June 2021, there are 25 facilities such having an approximate value of $17.0 million (2020: 24 facilities – $16.0 million). This estimate has been based on rating valuations for the district that were performed effective 30 June 2020.

67 The actual uncalled capital and total LGFA borrowing amounts as at 30 June 2021 must be used when disclosing information about the LGFA. The figures included in this disclosure are not the actual 30 June 2021 figures.

68 Entities should use credit ratings dated on the reporting date. If this is not available, the latest available credit rating information should be used.

69 The 2021 LGFA figures for local authority shareholders, local authority guarantors, LGFA's uncalled capital and LGFA's total borrowings are the 2020 figures from the LGFA's 30 June 2020 annual report. The information should be updated for the actual 2021 information from the LGFA's 30 June 2021 annual report when it is available.

27 Equity

Good practice

Accounting policy

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

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

PBE IPSAS 1.95(c)

Restricted reserves

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

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

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

Property revaluation reserve

PBE IPSAS 1.95(c)

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

Fair value through other comprehensive revenue and expense reserve

PBE IPSAS 1.95(c)

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

Cash flow hedge reserve

PBE IPSAS 1.95(c)

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

Breakdown of equity and further information

Reference		Council		Group	
		2021 $000	2020 $000	2021 $000	2020 $000
PBE IPSAS 1.119(c)	**Accumulated funds**				
	Balance at 1 July	154,344	156,799	154,327	157,126
PBE IPSAS 41.173	Adjustment due to adoption of PBE IPSAS 41*	(33)	0	(45)	0
	Adjusted balance at 1 July	154,311	156,799	154,282	157,126
	Transfers to restricted reserves	(3,331)	(3,840)	(3,331)	(3,840)
	Transfers from fair value through other comprehensive revenue and expense reserve	(0)	(0)	(0)	(0)
PBE IPSAS 17.57	Transfers from property revaluation reserves on disposal	153	178	153	178
	Transfers from restricted reserves	4,036	3,821	4,036	3,821
	Surplus/(deficit) for the year	4,104	(2,614)	3,898	(2,958)
	Balance at 30 June	**159,273**	**154,344**	**159,038**	**154,327**

*remeasurements as a result of the Council's adoption of PBE IPSAS 41 have been recognised directly in accumulated funds – for more details, refer to **Note 30A**.

Reference		Council 2021 $000	Council 2020 $000	Group 2021 $000	Group 2020 $000
PBE IPSAS 1.119(c)	**Restricted reserves**				
	Balance at 1 July	10,038	10,019	10,038	10,019
	Transfers to accumulated funds	(4,036)	(3,821)	(4,036)	(3,821)
	Transfers from accumulated funds	3,331	3,840	3,331	3,840
	Balance at 30 June	**9,333**	**10,038**	**9,333**	**10,038**

27 Equity (continued)

		Council		Group	
		2021 $000	2020 $000	2021 $000	2020 $000
PBE IPSAS 1.93					
PBE IPSAS 1.119(c)	**Property revaluation reserve**				
	Balance at 1 July	44,217	44,395	44,987	45,165
	Net revaluation gains	2,541	0	2,541	0
	Transfer to accumulated funds on disposal of property	(153)	(178)	(153)	(178)
	Balance at 30 June	**46,605**	**44,217**	**47,375**	**44,987**
Good practice	Property revaluation reserves for each asset class consist of:				
	Operational assets:				
	– land	18,026	17,298	18,626	17,898
	– buildings	1,591	1,524	1,761	1,694
	– library books	125	124	125	124
	Infrastructural assets:				
	– sewerage system	5,456	5,417	5,456	5,417
	– water system	5,306	4,881	5,306	4,881
	– drainage network	3,589	3,189	3,589	3,189
	– roading network	7,409	6,999	7,409	6,999
	Restricted assets:				
	– land	4,458	4,243	4,458	4,243
	– buildings	645	542	645	542
	Total	**46,605**	**44,217**	**47,375**	**44,987**
PBE IPSAS 1.119(c)	**Fair value through other comprehensive revenue and expense reserve**				
	Balance at 1 July	207	78	207	78
PBE IPSAS 30.24(a)(viii)	Net change in fair value	(103)	129	(103)	129
PBE IPSAS 30.24(a)(vii)	Transfer to accumulated funds on disposal of listed and unlisted shares	(0)	(0)	(0)	(0)
PBE IPSAS 30.24(a)(vii)	Transfer to surplus or deficit on maturity or sale of listed bonds (**Note 3**)	(40)	0	(40)	0
	Balance at 30 June	**64**	**207**	**64**	**207**
PBE IPSAS 1.119(c) PBE IPSAS 30.28E	**Cash flow hedge reserve – interest rate risk**				
	Balance at 1 July	162	0	162	0
	Fair value gains/(losses) in the year	282	162	384	162
	Tax on equity items	0	0	(10)	0
	Transfer to the surplus or deficit	(122)	0	(182)	0
	Transfers to the carrying amount of assets	(40)	0	(40)	0
	Balance at 30 June	**282**	**162**	**314**	**162**
	The cash flow hedge reserve balance consists of:				
PBE IPSAS 30.28B(ii)	– Continuing hedge relationships	230	127	250	127
PBE IPSAS 30.28B(iii)	– Discontinued hedge relationships	52	35	64	35
	Total reserves	**56,284**	**54,624**	**57,086**	**55,394**

27 Equity (continued)

PBE IPSAS 1.119(c)

	Council 2021 $000	Council 2020 $000	Group 2021 $000	Group 2020 $000
Non-controlling interest				
Balance at 1 July	0	0	75	32
Share of surplus/(deficit)	0	0	41	59
Dividend paid	0	0	(16)	(16)
Balance at 30 June	**0**	**0**	**100**	**75**

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

LGA Sch 10.31

Reserve	Activities to which the reserve relates	Balance 1-July $000	Transfers into fund $000	Transfers out of fund $000	Balance 30June $000
2021					
Water reserve	Water	3,188	1,675	(1,901)	2,962
Waste minimisation reserve	Solid Waste	245	467	(675)	37
Te Motu Parks bequest	Community facilities	126	5	(10)	121
Larry Frank bequest	Recreation services	1,134	60	(450)	744
General disaster fund	All activities	5,345	1,124	(1,000)	5,469
Total restricted reserves		**10,038**	**3,331**	**(4,036)**	**9,333**
2020					
Water reserve	Water supply	4,375	656	(1,843)	3,188
Waste minimisation reserve	Solid Waste	356	845	(956)	245
Te Motu Parks bequest	Community facilities	123	25	(22)	126
Larry Frank bequest	Recreation services	0	1,134	0	1,134
General disaster fund	All activities	5,165	1,180	(1,000)	5,345
Total restricted reserves		**10,019**	**3,840**	**(3,821)**	**10,038**

Purpose of each reserve fund

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

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

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

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

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

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

27 Equity (continued)

Capital management

PBE IPSAS 1.148A

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

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

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

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

28 Related party transactions[71]

Good practice

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

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

Good practice

Further, no disclosure has been made for transactions with entities within the Council group (such as funding and financing flows), where the transactions are consistent with the normal operating relationships between the entities and are on normal terms and conditions for such group transactions.

Related party transactions required to be disclosed

PBE IPSAS 20.27,30,32

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

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

The Council purchased internal audit services totalling $84,456 (2020: $23,453) from ABC Accountants Limited, an accounting firm of which a Councillor is a Partner. The services were procured without going through a tender process, and the contracted hourly rates of the internal audit staff are at a significant discount compared to other recent internal audit service contracts the Council has entered into. An amount of $23,345 was outstanding at 30 June 2021 (2020: $6,546).

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

28 Related party transactions (continued)

PBE IPSAS 20.34(a)

Key management personnel compensation[72,73]

	2021	2020
Councillors		
Full-time equivalent members	8	8
Remuneration	$219,295	$217,592
Senior Management Team, including the Chief Executive		
Full-time equivalent members	7	7
Remuneration	$679,050	$626,250
Total full-time equivalent personnel	**15**	**15**
Total key management personnel remuneration	**$898,345**	**$843,842**

Good practice

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

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

29 Events after balance date

PBE IPSAS 14.28,30

The Council refinanced $4 million of the current portion of its secured loans on 1 September 2021. The loans were refinanced for a five-year period. The Council anticipates that the remaining current portion will be refinanced on similar terms.

There were severe storm events during August 2021 that have caused significant damage to certain infrastructural assets. The Council has incurred expenditure up to the date the financial statements were authorised for issue of $521,675 for repairs and replacement of assets as a direct result of these events. The total cost for repairs and replacement of assets is not yet evident, as the Council continues to assess the damage caused by the storm. The Council expects that certain costs in repairing and replacing assets will be reimbursed by insurance.

72 PBE IPSAS 20.4 defines key management personnel (KMP) as all directors or members of the governing body of the entity; and other persons having the authority and responsibility for planning, directing, and controlling the activities of the reporting entity. Where they meet this requirement, KMP include: i) where there is a member of the governing body of a whole-of-government entity who has the authority and responsibility for planning, directing, and controlling the activities of the reporting entity, that member; ii) key advisors of that member; and iii) the senior management group of the reporting entity. For a local authority, we would expect the compensation of Councillors, the Chief Executive, and members of the senior management team, or equivalent body, to be included in the KMP disclosures. There may also be other individuals who meet the KMP definition of PBE IPSAS 20. Local authorities will need to consider their specific facts and circumstances in determining the individuals that shall be included in the KMP compensation disclosures.

73 PBE IPSAS 20.34(a) requires entities to disclose the aggregate remuneration of KMP and the number of individuals, determined on a full-time equivalent basis, receiving remuneration within this category, showing separately major classes of KMP and including a description of each class.

74 Any local authorities that have information on hours worked by elected members (including work in the role of an elected member outside formal meetings) should consider whether it is sufficiently reliable to calculate a more meaningful full-time equivalent figure for disclosure.

30A Financial Instruments – Early adoption of PBE IPSAS 41

PBE IPSAS 3.33(a)
PBE IPSAS 41.156

The Council and group have elected to early adopt PBE IPSAS 41.

PBE IPSAS 3.33(b)
PBE IPSAS 41.173

In accordance with the transitional provisions in PBE IPSAS 41, the Council and group have elected not to restate the comparative information. The comparative information continues to be reported under PBE IPSAS 29. Adjustments arising from the adoption of PBE IPSAS 41 are recognised in opening equity at 1 July 2020 (the date of initial application).

The accounting policies for the year ended 30 June 2021 have been updated to comply with PBE IPSAS 41. The main changes to the Council and group's accounting policies are:

- **Note 9** – Receivables – This policy has been updated to reflect that the impairment of short-term receivables is now determined by applying the simplified expected credit loss model.
- **Note 13** – Financial assets – This policy has been updated to reflect:
  - the new classification categories;
  - the measurement and recognition of loss allowances based on the new expected credit loss (ECL) model; and
  - the removal of impairment loss considerations for equity investments at FVTOCRE.

The derivatives accounting policies in **Note 12** – Derivatives remain unchanged as Council has not elected to apply the hedging requirements of PBE IPSAS 41.

PBE IPSAS 41 also significantly amended the financial instruments disclosures of PBE IPSAS 30. This has resulted in new or amended disclosures, mostly in relation to hedge accounting and credit risk.

PBE IPSAS 30.49I

On the date of initial of application of PBE IPSAS 41, the classification and carrying amounts of financial assets under PBE IPSAS 41 and PBE IPSAS 29 is outlined in the tables below.

	Measurement classification		30 June 2020 PBE IPSAS 29	1 July 2020 PBE IPSAS 41	Adoption adjustment
COUNCIL	**PBE IPSAS 29**	**PBE IPSAS 41**	**$000**	**$000**	**$000**
Financial assets					
Listed shares and unlisted shares	FVTOCRE	FVTOCRE	1,212	1,212	0
Derivatives	FVTSD	FVTSD	236	236	0
Cash and cash equivalents	Loans and receivables	Amortised cost	1,048	1,048	0
Receivables[75]	Loans and receivables	Amortised cost	506	480	(26)
Term deposits	Loans and receivables	Amortised cost	1,069	1,069	0
Community loans	Loans and receivables	Amortised cost[76]	400	393	(7)
Loans to related parties	Loans and receivables	Amortised cost	1,000	1,000	0[77]
Listed bonds	FVTOCRE/ Held-to-maturity	FVTOCRE	5,088	5,088	0

FVTOCRE = Fair value through other comprehensive revenue and expense
FVTSD = Fair value through surplus or deficit

75 Receivables in the financial instruments notes does not match the total receivables balances in Note 9 and in the Statement of Financial Position because it excludes rates receivables. Rates receivables are a statutory right, as opposed to a contractual right, therefore it does not meet the definition of a financial asset under PBE IPSAS 41 *Financial Instruments*.

76 As a result of the new financial asset classifications under PBE IPSAS 41, debt instruments such as community loans may not always meet the SPPI test. Entities should pay close attention to the contractual arrangements to identify whether the features of the loan agreements provide cash flows that are not consistent with basic lending arrangements. Contractual cash flows that are inconsistent with a basic lending arrangement fail to meet the SPPI test and must be classified at FVTSD.

77 Expected credit loss allowances should be provided for all debt instruments, including loans to related parties. In this case, we have estimated the expected credit loss allowance for loans to related parties as trivial therefore we have not remeasured the carrying value.

30A Financial Instruments – Early adoption of PBE IPSAS 41 (continued)

	Measurement classification		30 June 2020 PBE IPSAS 29	1 July 2020 PBE IPSAS 41	Variance
GROUP	**PBE IPSAS 29**	**PBE IPSAS 41**	**$000**	**$000**	**$000**
Financial assets					
Listed shares and unlisted shares	FVTOCRE	FVTOCRE	1,212	1,212	0
Derivatives	FVTSD	FVTSD	236	236	0
Cash and cash equivalents	Loans and receivables	Amortised cost	4,115	4,115	0
Receivables	Loans and receivables	Amortised cost	639	601	(38)
Term deposits	Loans and receivables	Amortised cost	1,069	1,069	0
Community loans	Loans and receivables	Amortised cost	400	393	(7)
Loans to related parties	Loans and receivables	Amortised cost	0	0	0
Listed bonds	FVTOCRE/ Held-to-maturity	FVTOCRE	5,400	5,400	0

The measurement categories and carrying amounts for financial liabilities have not changed on transition to PBE IPSAS 41.

Additional information in relation to subsequent measurement classification assessment

PBE IPSAS 41 requires debt instruments to be subsequently measured at FVTSD, amortised cost, or FVTOCRE. This classification is based on the business model for managing the debt instruments, and whether the payments are for solely payments of principal or interest on the principal amount outstanding.

Council assessed the business model for its classes of financial assets at the date of initial application. Debt instruments are held mainly to collect, except for the Council's listed bond portfolio which are held to collect and sell in accordance with the Council's Treasury Management Policy to meet capital requirements.

Council's debt instruments are solely comprised of contractual cash flows solely for payments of principal and interest, in line with basic lending arrangements. This assessment was based on the facts and circumstances as at the initial recognition of the assets.

PBE IPSAS 41 requires equity instruments to be classified at FVTSD. However, it permits entities to make an irrevocable election on transition to PBE IPSAS 41 to subsequently measure at FVTOCRE if the shares are not held for trading. The Council has elected to subsequently measure all of its shares at FVTOCRE.

30B Financial instrument categories

PBE IPSAS 30.11
PBE IPSAS 30.29

The following tables are comparisons of carrying amounts of the Group's financial assets and liabilities in each of the financial instrument categories:

		Council		Group	
		2021 $000	2020 $000	2021 $000	2020 $000
	FINANCIAL ASSETS				
PBE IPSAS 30.11(a)[78]	**Mandatorily measured at FVTSD (2020: Held for trading)**				
	Derivative financial assets – not hedge accounted	160	-	160	-
Good practice	**Derivatives that are hedge accounted**				
	Derivative financial assets	346	236	346	236
PBE IPSAS 30.11(f)	**Amortised cost (2020: Loans and receivables)**				
	Cash and cash equivalents	957	1,048	957	1,048
	Receivables[79]	2,041	506	1,821	639
	Term deposits	2,500	1,069	2,500	1,069
	Community loans	450	400	465	407
	Loans to related parties	1,000	1,000	1,020	1,020
	Total at amortised cost	9,464	5,831	11,663	8,031
PBE IPSAS 30.11(h)	**FVTOCRE**				
	Listed bonds	5,088	5,400	5,088	5,400
	Listed shares and unlisted	1,242	1,212	1,242	1,212
	Total at FVTOCRE	9,464	5,831	11,663	8,031
	FINANCIAL LIABILITIES				
PBE IPSAS 30.11(e)	**Mandatorily measured at FVTSD (2020: Held for trading)**				
	Derivative financial liabilities – not hedge accounted	240	-	240	-
Good practice	**Derivatives that are hedge accounted**				
	Derivative financial liabilities	64	74	64	74
PBE IPSAS 30.11(g)	**Amortised cost[80]**				
	Payables[81]	2,349	2,463	3,781	3,560
	Bank overdraft	2,791	297	2,791	297
	Secured loans	25,829	23,375	25,829	23,375
	Service concession loan	4,320	4,620	4,320	4,620
	Debentures	-	-	2,984	2,984
	Total financial liabilities at amortised cost	35,289	30,755	39,705	34,836

78 PBE IPSAS 41.11(a),(e) requires financial instruments to be separated between mandatory and elected (in line with para 152) classification at fair value through surplus and deficit. TMDC has not elected to classify instruments at fair value through surplus and deficit unless it has been required to do so.
79 The receivable amounts exclude rates receivable because they do not meet the definition of a financial instrument.
80 Financial guarantee contracts have not been included in this table as they are not subsequently measured at amortised cost or fair value.
81 Deferred revenue items are not included within the payables figures in the financial instrument notes because deferred revenue is not a financial instrument.

30C Fair value hierarchy

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

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

PBE IPSAS 30.33(a)

The following table analyses the basis of the valuation of classes of financial instruments measured at fair value in the statement of financial position:[82]

		Council		Group	
	Level	2021 $000	2020 $000	2021 $000	2020 $000
Financial assets					
Listed shares	1	992	967	992	967
Listed bonds	1	1,462	767	1,462	767
Derivative financial assets	2	506	236	538	236
Unlisted shares	3	339	271	339	271
Financial liabilities					
Derivative financial liabilities	2	304	74	-	74

PBE IPSAS 30.33(b)

There were no transfers between the different levels of the fair value hierarchy.[83]

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

PBE IPSAS 30.33 (c)

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

	2021 $000	2020 $000
Balance at 1 July	271	0
Gain and losses recognised in surplus or deficit	0	0
Gain and losses recognised in other comprehensive revenue and expense	34	6
Purchases	34	265
Sales	0	0
Transfers into level 3	0	0
Transfers out of level 3	0	0
Balance at 30 June	**339**	**271**

PBE IPSAS 30.33 (e)

Changing a valuation assumption to a reasonable possible alternative assumption would not significantly change fair value.[84]

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

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

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

PBE IPSAS 30.38

30C Financial instrument risks[85]

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

PBE IPSAS 30.40

Market risk

Price risk

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

Currency risk

PBE IPSAS 30.26A

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

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

PBE IPSAS 30.26B

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

Fair value interest rate risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. Investments issued at fixed rates of interest expose the Council and group to fair value interest rate risk. The Council and group do not actively manage fair value interest rate risk.

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

30C Financial instrument risks (continued)

Cash flow interest rate risk

PBE IPSAS 30.26A

Cash flow interest rate risk is the risk that the cash flows from a financial instrument will fluctuate because of changes in market interest rates. The Council and group's exposure to changes in market interest rates primarily arises from borrowings issued at variable interest rates.

PBE IPSAS 30.26B

Generally, the Council and group raises long-term borrowings at floating rates. The Council's liability management policy requires it to maintain at least 60% of its borrowings at fixed rates of interest. To achieve this, the Council and group uses interest rate swaps. Interest rate swaps have the economic effect of converting borrowings at floating rates into fixed rates that are generally lower than those available if the Council or group borrowed at fixed rates directly. Under the interest rate swaps, the Council and group agrees with other parties to exchange, at specified intervals, the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional principal amounts.

PBE IPSAS 30.40

Credit risk

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

PBE IPSAS 30.42F

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

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

PBE IPSAS 30.42K(b)
PBE IPSAS 30.43(b)

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

Maximum exposure to credit risk

PBE IPSAS 30.42K(a)
PBE IPSAS 30.43(a)

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

	Council		Group	
	2021 $000	**2020 $000**	**2021 $000**	**2020 $000**
Cash at bank and term deposits	3,457	2,117	6,876	5,184
Receivables	4,557	2,314	4,337	2,447
Community and related party loans	1,450	1,400	450	400
Listed bonds	5,088	5,400	5,088	5,400
Derivative financial instrument assets	506	236	538	236
Financial guarantees[86]	455	455	455	455
Loan commitment to subsidiary	5,000	0	0	0
Total credit risk	**20,513**	**11,922**	**17,744**	**14,122**

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

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

30C Financial instrument risks (continued)

PBE IPSAS 30.42M

Credit risk exposure by credit risk rating grades, excluding receivables

The gross carrying amount of financial assets, excluding receivables, by reference to Standard and Poor's credit ratings are provided below.

	Council		Group	
	2021 $000	**2020 $000**	**2021 $000**	**2020 $000**
COUNTERPARTIES WITH CREDIT RATINGS				
Cash at bank and term deposits				
AA	2,041	1,841	3,386	2,987
AA-	1,416	1,228	3,490	2,197
Total cash at bank and term deposits	3,457	3,069	6,876	5,184
Listed bonds				
AA+	2,348	2,520	2,348	2,520
AA	2,740	2,880	2,740	2,880
Total listed bonds	5,088	5,400	5,088	5,400
Derivative financial instrument assets				
AA	144	106	144	106
AA-	362	130	394	130
Total derivative financial instrument assets	506	236	538	236
COUNTERPARTIES WITHOUT CREDIT RATINGS				
Community and related party loans				
Existing counterparty with no defaults in the past	1,160	1,120	160	120
Existing counterparty with defaults in the past	290	280	290	280
Total community and related party loans	1,450	1,400	450	400

Liquidity risk

Management of liquidity risk

PBE IPSAS 30.46(c)

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

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

The Council has a maximum amount that can be drawn down against its overdraft facility of $4.50 million (2020: $4.50 million). There are no restrictions on the use of this facility.

The Council also entered an arrangement with the Local Government Funding Agency (LGFA) which provides a revolving credit line of $5 million to the Council. This facility has not been drawn against and has no restrictions on use.

30C Financial instrument risks (continued)

Contractual maturity analysis of financial liabilities, excluding derivatives

PBE IPSAS 30.46(a)

The table below analyses the Council and group's financial liabilities (excluding derivatives) into relevant maturity groupings based on the remaining period at balance date to the contractual maturity date. Future interest payments on floating rate debt are based on the floating rate on the instrument at balance date. The amounts disclosed are the contractual undiscounted cash flows and include interest payments.[87]

		Carrying amount $000	Contractual cash flows $000	Less than 1 year $000	1-2 years $000	2-5 years $000	More than 5 years $000
	Council 2021						
	Payables	2,349	2,349	2,349	0	0	0
	Bank overdraft	2,791	2,791	2,791	0	0	0
	Secured loans	25,829	31,972	7,901	6,373	4,381	13,317
	Service concession loan	4,320	5,973	318	318	954	4,383
	Finance leases	37	71	28	43	0	0
PBE IPSAS 30.AG15(b)	Loan commitment	0	5,000	5,000	0	0	0
PBE IPSAS 30 AG15(c)	Financial guarantees[88]	374	455	455	0	0	0
	Total	**35,700**	**48,611**	**13,842**	**6,734**	**5,335**	**17,700**
	Group 2021						
	Payables	3,781	3,781	3,781	0	0	0
	Bank overdraft	2,791	2,791	2,791	0	0	0
	Secured loans	25,829	31,972	7,901	6,373	4,381	13,317
	Service concession loan	4,320	5,973	318	318	954	4,383
	Debentures	2,984	3,458	1,238	1,118	1,102	0
	Finance leases	37	71	28	43	0	0
	Financial guarantees	374	455	455	0	0	0
	Total	**40,116**	**48,501**	**11,512**	**7,852**	**6,437**	**17,700**
	Council 2020						
	Payables	2,463	2,463	2,463	0	0	0
	Bank overdraft	297	297	297	0	0	0
	Secured loans	23,375	29,229	2,918	7,743	5,551	13,017
	Service concession loan	4,620	6,273	318	318	954	4,683
	Finance leases	63	99	28	28	28	15
	Financial guarantees	346	455	455	0	0	0
	Total	**31,164**	**38,816**	**6,479**	**8,089**	**6,533**	**17,715**
	Group 2020						
	Payables	3,560	3,560	3,560	0	0	0
	Bank overdraft	297	297	297	0	0	0
	Secured loans	23,375	29,229	2,918	7,743	5,551	13,017
	Service concession loan	4,620	6,273	318	318	954	4,683
	Debentures	2,984	3,601	328	1,218	2,055	0
	Finance leases	63	99	28	28	28	15
	Financial guarantees	346	455	455	0	0	0
	Total	**35,245**	**43,514**	**7,904**	**9,307**	**8,588**	**17,715**

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

30C Financial instrument risks (continued)

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

The Council has provided a $5 million loan facility to its subsidiary, Te Motu Civic Construction Limited (TMCCL) . It is in irrevocable facility that TMCCL can draw against, at any time, until December 2030.

PBE IPSAS 30.46(b)

Contractual maturity analysis of derivative financial instrument liabilities

The table below analyses the Council and group's derivative financial instrument liabilities into those that are settled on a net basis and those that will be settled on a gross basis[89] into their relevant maturity groupings based on the remaining period at balance date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

	Asset carrying amount $000	Contractual cash flows $000	Less than 6 months $000	6-12 months $000	1-2 years $000
Council and group					
2021					
Gross settled forward foreign exchange contracts:	0				
– outflow	-	2,000	1,000	500	500
– inflow	-	2,084	1,040	522	522
Net settled derivative liabilities	0	78	24	26	28
Council and group					
2020					
Gross settled forward foreign exchange contracts:	0				
– outflow	-	0	0	0	0
– inflow	-	0	0	0	0
Net settled derivative liabilities	0	90	19	23	48

PBE IPSAS 30 AG17

Contractual maturity analysis of financial assets[90]

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

	Contractual cash flows $000	Less than 1 year $000	1-2 years $000	2-5 years $000	More than 5 years $000
Council 2021					
Cash and cash equivalents	957	957	0	0	0
Receivables	4,557	4,557	0	0	0
Net settled derivative assets	595	101	242	252	0
Other financial assets:					
– term deposits	2,717	2,156	561	0	0
– community and related party loans	2,146	98	1,098	950	0
– listed bonds	6,250	2,915	1,709	1,626	0
Total	**17,222**	**10,784**	**3,610**	**2,828**	**0**

89 All gross settled derivative financial instruments shall be included in the analysis whether their fair value is an asset or a liability.

90 Entities are required to disclose a maturity analysis of financial assets they hold for managing liquidity risk if that information is necessary to enable users of their financial statements to evaluate the nature and extent of liquidity risk.

30C Financial instrument risks (continued)

		Contractual cash flows $000	Less than 1 year $000	1-2 years $000	2-5 years $000	More than 5 years $000
Group 2021						
Cash and cash equivalents	4,376	4,376	4,376	0	0	0
Receivables	4,337	4,337	4,337	0	0	0
Net settled derivative assets	538	636	111	253	272	0
Other financial assets:						
– term deposits	2,500	2,717	2,156	561	0	0
– community and related party loans	450	950	0	0	950	0
– listed bonds	5,088	6,250	2,915	1,709	1,626	0
Total	**17,289**	**19,266**	**13,895**	**2,523**	**2,848**	**0**
Council 2020						
Cash and cash equivalents	1,048	1,048	1,048	0	0	0
Receivables	2,314	2,314	2,314	0	0	0
Net settled derivative assets	236	280	102	64	114	0
Other financial assets:						
– term deposits	1,069	1,109	1,109	0	0	0
– community and related party loans	1,400	2,244	98	98	2,048	0
– listed bonds	5,400	6,523	1,748	4,218	557	0
Total	**11,467**	**13,518**	**6,419**	**4,380**	**2,719**	**0**
Group 2020						
Cash and cash equivalents	4,115	4,115	4,115	0	0	0
Receivables	2,447	2,447	2,447	0	0	0
Net settled derivative assets	236	280	102	64	114	0
Other financial assets:						
– term deposits	1,069	1,109	1,109	0	0	0
– community and related party loans	400	950	0	0	950	0
– listed bonds	5,400	6,523	1,748	4,218	557	0
Total	**13,667**	**15,424**	**9,521**	**4,282**	**1,621**	**0**

PBE IPSAS 30.47

30C Financial instrument risks (continued)

SENSITIVITY ANALYSIS[91]

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

COUNCIL

	2021 $000				2020 $000			
INTEREST RATE RISK	Surplus	-50bps Other equity	Surplus	+100bps Other equity	Surplus	-100bps Other equity	Surplus	+100bps Other equity
Financial assets								
Cash and cash equivalents	(1)	0	2	0	(2)	0	2	0
Derivatives - held for trading	(160)	0	320	0	0	0	0	0
Derivatives - hedge accounted	(93)	(234)	186	567	0	0	0	0
Listed bonds	0	28	0	(56)	0	101	0	(101)
Financial liabilities								
Derivatives - hedge accounted	0	0	0	0	0	0	0	0
Bank overdraft	14	0	(28)	0	3	0	(3)	0
Secured loans	125	0	(250)	0	220	0	(220)	0
Total sensitivity	**(115)**	**(206)**	**230**	**511**	**221**	**101**	**(221)**	**(101)**

FOREIGN EXCHANGE RISK	Surplus	-10% Other equity	Surplus	+10% Other equity	Surplus	-10% Other equity	Surplus	+10% Other equity
Financial liabilities								
Derivatives - held for trading	567	0	(434)	0	0	0	0	0
Payables	(27)	0	31	0	0	0	0	0
Total sensitivity	**540**	**0**	**(403)**	**0**	**0**	**0**	**0**	**0**
EQUITY PRICE RISK								
Financial assets								
Listed shares	0	(99)	0	99	0	97	0	(97)
Total sensitivity	**0**	**(99)**	**0**	**99**	**0**	**97**	**0**	**(97)**

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

30C Financial instrument risks (continued)

GROUP

	2021 $000				2020 $000			
INTEREST RATE RISK	**Surplus**	**-50bps Other equity**	**Surplus**	**+100bps Other equity**	**Surplus**	**-100bps Other equity**	**Surplus**	**+100bps Other equity**
Financial assets								
Cash and cash equivalents	(1)	0	2	0	(1)	0	1	0
Derivatives - held for trading	(244)	0	487	0	0	0	0	0
Derivatives - hedge accounted	(99)	(298)	198	597	0	0	0	0
Listed bonds	0	28	0	(56)	0	101	0	(101)
Financial liabilities								
Bank overdraft	14	0	(28)	0	3	0	(3)	0
Term loans	125	0	(250)	0	220	0	(220)	0
Debentures	10	0	(20)	0	30	0	(30)	0
Total sensitivity	**(195)**	**(270)**	**389**	**541**	**252**	**101**	**(252)**	**(101)**

FOREIGN EXCHANGE RISK	**Surplus**	**-10% Other equity**	**Surplus**	**+10% Other equity**	**Surplus**	**-10% Other equity**	**Surplus**	**+10% Other equity**
Financial liabilities								
Derivatives - held for trading	567	0	(434)	0	0	0	0	0
Payables	(29)	0	31	0	0	0	0	0
Total sensitivity	**538**	**0**	**(403)**	**0**	**0**	**0**	**0**	**0**

EQUITY PRICE RISK								
Financial assets								
Listed shares	0	(99)	0	99	0	97	0	(97)
Total sensitivity	**0**	**(99)**	**0**	**99**	**0**	**97**	**0**	**(97)**

30C Financial instrument risks (continued)

Explanation of interest rate risk sensitivity

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

The sensitivity for derivatives (interest rate swaps) has been calculated using a derivative valuation model based on a parallel shift in interest rates of -50bps/+100bps (2020: -100bps/+100bps).

Explanation of foreign exchange risk sensitivity

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

The sensitivity for derivatives (forward foreign exchange contracts) has been calculated using a derivative valuation model based on movement in forward exchange rates of -10%/+10% (2020: -10%/+10%).

Explanation of other price risk sensitivity

The sensitivity for listed shares has been calculated based on a -10%/+10% (2020: -10%/+10%) movement in the quoted bid share price at year-end for the listed shares.

31 Explanations of major variances against budget[92]

PBE IPSAS 1.148.1

Explanations for major variations from the Council's budget figures in its 2020/21 annual plan are as follows:

Statement of comprehensive revenue and expense

Subsidies and grants were greater than budgeted by $650,000 due to the timing of roading capital expenditure from the previous year that was deferred to the 2020/21 year due to Covid-19.

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

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

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

Other comprehensive revenue and expense was greater than budgeted, as the Council did not anticipate a property revaluation for the year ended 30 June 2021.

Statement of financial position

Equity

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

Borrowings

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

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

32 Prior year error correction

PBE IPSAS 3.54

The Council and group has adjusted its comparative year financial statements for the year ended 30 June 2020 for the correction of a prior period error.

During 2020/21, the Council discovered that $450,000 in development contributions charged during 2019/20 was incorrectly accounted for as revenue for the year ended 30 June 2020. Because the service to be provided by the development contributions was not yet provided for, or able to be provided, the contributions should have been accounted for as revenue in advance as at 30 June 2020 in accordance with the Council's accounting policy. The financial statements for 2020, which are presented as comparative information in the 30 June 2021 financial statements, have been restated to correct this error.

The adjustments are shown in the table below.

	Actual 2020		
	Before adjustments $000	**Correction of error $000**	**After adjustments $000**
Council			
Revenue			
Development and financial contributions	561	(450)	111
Current liabilities			
Payables and deferred revenue	3,410	450	3,860
Equity			
Accumulated funds	154,794	(450)	154,344
Group			
Revenue			
Development and financial contributions	470	(450)	20
Current liabilities			
Payables and deferred revenue	4,539	450	4,989
Equity			
Accumulated funds	155,777	(450)	154,327

33 Impact of Covid-19

During August and September 2020 and February and March 2021, Te Motu District moved into Alert Level 2 along with other parts of the country. In all other parts of the year, Te Motu District remained in Alert Level 1.

- At Alert Level 2, the Council enforced stronger social distancing practices and noted lowered patronage at community facilities such as the library, swimming pools, and use of community halls. There were no disruptions to infrastructure servicing. This did not materially affect the amount of user charges collected during the year.
- At Alert Level 1, the Council continued to run business as usual.

For the previous year's revaluation of investment property at 30 June 2020, the Council's external valuer included a statement in their valuation report that the assessed value was subject to "material valuation uncertainty" due to Covid-19. For the 30 June 2021 valuation, the valuer has noted that while some uncertainty about property values remain due to Covid-19, there was not a material valuation uncertainty at 30 June 2021.

APPENDIX 1
Other Legislative Disclosures

1.1.1 Funding impact statement for whole of Council[93]

Te Motu District Council Funding Impact Statement for the year ended 30 June 2021 (whole of Council)

LGA Sch 10.30
LG(FRP)R Form 5

	2020 Annual plan $000	2020 Annual report $000	2021 Annual plan $000	2021 Actual $000
Sources of operating funding				
General rates, uniform annual general charges, rates penalties	10,902	10,996	12,900	12,853
Targeted rates	4,198	4,269	5,056	4,915
Subsidies and grants for operating purposes	456	324	333	426
Fees and charges	3,202	3,463	3,846	4,428
Interest and dividends from investments	605	701	880	933
Local authorities fuel tax, fines, infringement fees, and other receipts	980	1,038	1,012	1,204
Total operating funding (A)	20,343	20,791	24,027	24,759
Applications of operating funding				
Payments to staff and suppliers	16,879	17,815	15,505	16,294
Finance costs	2,014	2,276	2,456	2,317
Other operating funding applications	4,978	4,454	3,876	4,074
Total applications of operating funding (B)	23,871	24,545	21,837	22,685
Surplus/(deficit) of operating funding (A-B)	(3,528)	(3,754)	2,190	2,074
Sources of capital funding				
Subsidies and grants for capital expenditure	1,470	1,200	1,333	1,890
Development and financial contributions	120	111	560	571
Increase/(decrease) in debt	1,250	1,000	2,233	2,127
Gross proceeds from sale of assets	1,879	2,173	571	1,479
Lump sum contributions	-	-	130	150
Other dedicated capital funding	-	-	-	-
Total sources of capital funding (C)	4,719	4,484	4,827	6,217
Application of capital funding				
Capital expenditure:				
– To meet additional demand	600	474	1,368	1,461
– To improve the level of service	458	355	684	1,096
– To replace existing assets	1,504	1,539	4,789	4,750
Increase/(decrease) in reserves	110	142	246	346
Increase/(decrease) of investments	(1,481)	(1,780)	(70)	638
Total applications of capital funding (D)	1,191	730	7,017	8,291
Surplus/(deficit) of capital funding (C-D)	3,528	3,754	(2,190)	(2,074)
Funding balance ((A-B)+(C-D))	**0**	**0**	**0**	**0**

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

1.1.2 Funding impact statement for group of activities[94]

Te Motu District Council Funding Impact Statement for the year ended 30 June 2021 for water

LGA Sch 10.26
LG(FRP)R Form 4

	2020 Long-term plan $000	2021 Long-term plan $000	2021 Actual $000
Sources of operating funding			
General rates, uniform annual general charges, rates penalties	-	-	-
Targeted rates	2,185	2,310	2,350
Subsidies and grants for operating purposes	-	-	-
Fees and charges	-	-	-
Internal charges and overheads recovered	-	-	-
Local authorities fuel tax, fines, infringement fees, and other receipts	-	-	-
Total operating funding (A)	2,185	2,310	2,350
Applications of operating funding			
Payments to staff and suppliers	547	555	564
Finance costs	-	-	-
Internal charges and overheads applied	457	560	534
Other operating funding applications	-	-	-
Total applications of operating funding (B)	1,004	1,115	1,098
Surplus/(deficit) of operating funding (A-B)	1,181	1,195	1,252
Sources of capital funding			
Subsidies and grants for capital expenditure	214	145	145
Development and financial contributions	124	130	95
Increase/(decrease) in debt	17	1,783	1,668
Gross proceeds from sale of assets	-	-	-
Lump sum contributions	-	-	-
Other dedicated capital funding	-	-	-
Total sources of capital funding (C)	355	2,058	1,908
Application of capital funding			
Capital expenditure:			
– To meet additional demand	55	60	62
– To improve the level of service	245	145	156
– To replace existing assets	1,236	3,048	2,942
Increase/(decrease) in reserves	-	-	-
Increase/(decrease) of investments	-	-	-
Total applications of capital funding (D)	1,536	3,253	3,160
Surplus/(deficit) of capital funding (C-D)	(1,181)	(1,195)	(1,252)
Funding balance ((A-B)+(C-D))	**0**	**0**	**0**

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

1.1.3 Rating base information

LGA Sch 10.30A

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

	30 June 2020
Number of rating units	8,328
Total capital value of rating units	$3,873,200,725
Total land value of rating units	$2,174,456,425

1.1.4 Insurance of assets

LGA Sch 10.31A

The following information relates to the insurance of Council assets as at 30 June:[95]

	2021 $000	2020 $000
The total value of all Council assets covered by insurance contracts	111,118	107,634
The maximum amount to which insured assets are insured	132,768	124,894
The total value of all Council assets covered by financial risk-sharing arrangements	0	0
Maximum amount available to the Council under financial risk-sharing arrangements	0	0
Total value of assets that are self-insured	4,769	4,681
Value of funds maintained for self-insurance	5,165	5,345

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

The Council self-insures any buildings with a value below $300,000.

95 While not required, local authorities could disaggregate the asset insurance information further, such as by class of asset. Extra contextual information should be provided where necessary.

APPENDIX 2
Three Waters Reform

We intend to include further information on three water reforms in this appendix at a later date.

SUBJECT INDEX