Kāpiti Coast
DISTRICT COUNCIL

**Draft long term plan 2018-38**

**Consultation - supporting information**

# Significant accounting policies

# Significant accounting policies

## Reporting entity

Kāpiti Coast District Council (the Council) is a territorial local authority domiciled in New Zealand and is governed by the Local Government Act 2002.

The primary objective of the Council is to provide goods and services for the community and social benefits to the residents of the Kāpiti coast, rather than making a financial return. Accordingly, the Council has designated itself as a public benefit entity (PBE) for the purposes of the accounting standards framework applicable to public sector entities.

The financial statements presented include a prospective statement of comprehensive revenue and expense, a prospective statement of changes in assets/equity, a prospective statement of financial position, and a prospective cash flow statement with supporting notes, encompassing all activities of the Council.

In order to meet its obligations of public accountability, the Council has also included separate prospective funding impact statements for the whole of the Council and for each activity.

### Statement of compliance

The prospective financial statements have been prepared in accordance with the requirements of the Local Government Act 2002 and comply with generally accepted accounting practice in New Zealand.

The prospective financial statements comply with the standards for public sector public benefit entities reporting under tier 1 of the framework and have been prepared in accordance with public benefit entity financial reporting standard 42; *Prospective Financial Statements (PBE FRS 42).*

### Basis of preparation

The prospective financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars ($000) unless otherwise stated. The functional currency of the Council is New Zealand dollars.

The prospective financial statements are required to be prepared in accordance with the accounting policies to be used in the future for reporting historical general purpose financial statements. These prospective financial statements are prepared on a historical cost basis, except for land and buildings, infrastructural assets, forestry assets, derivative financial instruments, provisions and employee entitlements which have been measured at fair value.

The Council, which is authorised to do so and believes that the assumptions underlying these prospective financial statements prepared in accordance with PBE FRS 42 are appropriate, has approved these prospective financial statements for distribution on XX June 2018.

The Council and its executive management team accept responsibility for the preparation of the prospective financial statements, including the appropriateness of the assumptions underlying the prospective financial statements and all other required disclosures.

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

The purpose for which the prospective financial statements have been prepared is to enable the public to participate in the decision-making processes around the services to be provided by council over the financial years from 2018/19 to 2037/38, to provide a broad accountability mechanism of the Council to the community and to comply with the reporting requirements of the Local Government Act 2002 in presenting the long term plan.

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

For further information see the significant forecasting assumptions contained in the long term plan.

### Accounting judgements and estimations

The preparation of the prospective financial statements requires management to make judgements, estimates and assumptions concerning the future that affect the application of policies and the reported amounts of assets, liabilities, revenue and expenses. These estimates and assumptions may differ from subsequent actual results. The judgements, estimates and assumptions are based on historical experience and other factors which are reviewed on an on-going basis.

Significant judgements, estimates and assumptions have been used for measuring the following:

- the cost of our environmental obligations in respect to the closure of "Otaihanga" Landfill,
- the valuation of infrastructural assets, forestry assets, parks assets,

- the determination of estimated useful lives and residual values for property, plant and equipment,
- the valuation of long term employee entitlements, and
- the valuation of financial derivatives.

## Revenue

Revenue is recognised to the extent that it is probable that the economic benefits or service potential will flow to the Council and the revenue can be reliably measured, regardless of when the payment is made.

Revenue is measured at the fair value of consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

### Revenue from non-exchange transactions

*Rates*

*General and targeted rates (excluding water meter volumetric charges)*

General and targeted rates are set annually by way of a resolution by the Council. The Council recognises revenue from rates when the rates are set and the rates assessments have been provided. Rates revenue is measured at the amount assessed, which is the fair value of the cash received or receivable. Rates are invoiced in quarterly instalments within the year.

*Rates collected on behalf of Greater Wellington Regional Council (GWRC)*

Rates collected on behalf of GWRC are not recognised in the prospective financial statements as the Council is acting as an agent for GWRC.

*Fees and charges*

*(i) Rendering of services*

Rendering of services at a price that is not approximately equal to the value of the service provided by the Council is considered a non-exchange transaction. This includes rendering of services where the price does not allow the Council to fully recover the cost of providing the service (such as resource consents, building consents, water connections, dog licensing, etc.), and where the shortfall is subsidised by income from other activities, such as rates. Generally, there are no conditions attached to such revenue.

Revenue from such subsidised services is recognised when council issues the invoice or bill for the service. Revenue is recognised at the amount of the invoice or bill, which is the fair value of the cash received or receivable for the service.

Revenue is recognised by reference to the stage of completion of the service to the extent that the Council no longer has an obligation to refund the cash received from the service (or to the extent that the customer has the right to withhold payment from the Council for the service) if the service is not completed.

*Sale of goods*

Sale of goods or services at a price that is not approximately equal to the value of the goods provided by council is considered a non-exchange transaction. This includes sales of goods where the price does not allow the Council to fully recover the cost of producing the goods, and where the shortfall is subsidised by income from other activities such as rates.

Revenue from the sale of such subsidised goods is recognised when council issues the invoice or bill for the goods. Revenue is recognised at the amount of the invoice or bill, which is the fair value of the cash received or receivable for the goods.

*Government grants*

Revenues from non-exchange transactions with the government and government agencies are recognised when the Council obtains control of the transferred asset (cash, goods, services, or property), and:

- it is probable that the economic benefits or service potential related to the asset will flow to council and can be measured reliably: and
- the transfer is free from conditions that require the asset to be refunded or returned to the Government if the conditions are not fulfilled.

Revenue from government grants and funding is measured at the fair value of the assets (cash, goods, services, or property) transferred over to the Council at the time of transfer.

To the extent that there is a condition attached that would give rise to a liability to repay the grant amount or to return the granted asset, a deferred revenue liability is recognised instead of revenue. Revenue is recognised only once the Council has satisfied these conditions.

*Fines and penalties*

The Council recognises revenue from fines and penalties (such as traffic and parking infringements) when the notice of infringement or breach is served by council.

*Donated or vested assets*

Where a physical asset is acquired for nil or nominal consideration, the fair value of the asset received is recognised as revenue. Assets vested to council are recognised as revenue when control over the asset is transferred to council.

## Revenue from exchange transactions

*Rates*

*(i) Targeted water rates by meter (volumetric charge)*

Water rates are based on a fixed portion plus a volumetric charge for usage once the service has been delivered.

*Fees and charges*

*(ii) Sale of goods*

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods, and when the amount of revenue can be measured reliably, and it is probable that the economic benefits or service potential associated with the transaction will flow to the Council.

*Development and financial contributions*

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.

*Interest revenue*

Interest income is recognised when earned using the effective interest rate method.

*Rental revenue*

Rental revenue arising from operating leases is accounted for on a straight-line basis over the lease terms and is included in revenue in surplus or deficit in the statement of comprehensive revenue and expense due to its operating nature.

# Expenses

## Other operating expenses

*Grants and sponsorships*

Discretionary grants (where approval or rejection is at the Council's discretion) are recognised as expenditure when the Council approves the grant and communication to this effect is made to the applicant.

Non-discretionary grants (which are awarded if the criteria for the grant are met) are recognised as expenditure when the grant is approved.

*Borrowing costs*

Borrowing costs, including interest expense are recognised as expenditure in the period in which they are incurred.

*Operating leases (the Council as lessee)*

The Council leases certain property, plant and equipment under operating leases. Payments made under these leases (net of any incentives received from the lessor) are expensed on a straight-line basis over the term of the lease.

*Goods and services tax (GST)*

All items in the prospective financial statements are stated exclusive of GST except for receivables and payables, which include GST billed.

*Other gains and losses*

Other gains and losses include fair value adjustments on financial instruments at fair value through surplus or deficit.

# Assets

## Property, plant and equipment

Property, plant and equipment are categorised into:

*(i)* *operational assets* – these are used to provide core council services (e.g. buildings, plant and equipment, library books);

*(ii)* *infrastructural assets* – these are the fixed utility systems owned by council that are required for the infrastructure network to function. They include roading, water, wastewater and storm water networks; and

*(iii)* *restricted assets* – the use or transfer of these assets is legally restricted. They include parks and reserves.

The Council does not pledge any property, plant and equipment as collateral for borrowings and none are subject to finance leases.

*Initial recognition*

Property, plant and equipment are initially recognised at cost, or in the case of vested assets that are acquired for nil or nominal cost, at fair value. The initial cost includes all costs (other than borrowing costs) that are directly attributable to constructing or acquiring the asset and bringing it into the location and condition necessary for its intended use.

*Subsequent costs*

Subsequent expenditure that extends or expands the assets service potential is capitalised.

The costs of day-to-day servicing of property, plant and equipment are expensed as they are incurred.

*Carrying value*

Property, plant and equipment are carried at historical cost less accumulated depreciation and impairment, except for land, buildings and infrastructural assets which are carried at fair value less depreciation and impairment.

*Revaluation*

Valuations for the Council's land, buildings and infrastructural assets are performed with sufficient regularity to ensure their carrying amounts are maintained at fair value. The valuations are performed by independent qualified valuers. In addition, the carrying values are assessed annually to ensure that they do not differ materially from the asset's fair values. If there is a material difference, off-cycle revaluations are performed on the relevant asset class.

Gains or losses arising on revaluation are recognised in other comprehensive revenue and expense and are accumulated in an asset revaluation reserve for the class of assets. Where this results in a debit balance in the reserve for a class of assets, the balance is expensed in surplus or deficit in the prospective statement of comprehensive revenue and expense. Any subsequent increase in value that offsets a previous decrease in value will be recognised firstly in surplus or deficit in the prospective statement of comprehensive revenue and expense up to the amount previously expensed, with any remaining increase recognised in the revaluation reserve.

*Work in progress*

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

The cost of assets within work in progress is transferred to the relevant asset class when the asset is in the location and condition necessary for its intended use.

*Disposal*

Gains and losses on the disposal of property, plant and equipment are recognised in surplus or deficit in

| Asset category | Useful life for new assets (years) | Estimated remaining average useful life (years) |
|---|---|---|
| *Operational assets* | | |
| Buildings | 3 – 75 | 5 – 59 |
| Computer equipment | 4 – 5 | 4 – 5 |
| Furniture and chattels | 3 – 25 | 3 – 25 |
| Heritage assets | 100 | 100 |
| Library collection | 5 – 7 | 5 – 7 |
| Motor vehicles, trucks, motorcycles | 10 | 5 – 10 |
| Office equipment | 3 – 10 | 4 – 10 |
| Other improvements | 4 – 100 | 2 – 45 |
| Public art | 10 – 75 | 10 – 75 |
| *Plant and machinery* | | |
| Tractors, trailers, heavy mowers | 5 – 10 | 5 – 10 |
| Other plant | 3 – 20 | 1 – 20 |
| Otaihanga Landfill post closure | 9 | 9 |
| *Infrastructural assets* | | |
| Bridges | 50 – 100 | 1 – 94 |
| *Seawalls* | | |
| Concrete, posts, rails, panels, rocks | 5 – 50 | 10 – 23 |
| *River control* | | |
| Bank protection | 50 | 40 – 70 |

| Asset category | Useful life for new assets (years) | Estimated remaining average useful life (years) |
|---|---|---|
| *Roading* | | |
| Footpaths | 50 – 60 | 38 – 52 |
| Surfacing | 14 – 20 | 7 – 12 |
| Traffic modelling | 10 | 10 |
| Signs, railings, street lights, traffic signals | 10 – 50 | 4 – 27 |
| Drainage, surface water channels, sumps, sump leads, traffic islands | 20 – 80 | 45 – 53 |
| *Stormwater* | | |
| Stormwater flood maps | 10 | 10 |
| Pump stations, manholes, | 10 – 100 | 19 – 75 |
| Pipes | 50 – 100 | 75 – 105 |
| *Wastewater* | | |
| Pump s and pump stations | 15 – 80 | 19 – 35 |
| Manholes, cleaning eyes | 90 | 55 – 59 |
| Pipes | 70 – 90 | 50 – 58 |
| Treatment plant | 5 – 50 | 5 – 37 |
| *Water* | | |
| Storage | 60 – 80 | 19 – 35 |
| Booster stations | 10 – 80 | 11 – 19 |
| Hydrants, valves, tobies | 50 – 70 | 56 – 68 |
| Meters | 25 | 19 – 22 |
| Pipes | 30 – 90 | 21 – 58 |
| Treatment plant | 3 – 80 | 10 – 28 |

the statement of comprehensive revenue and expense in the financial year in which they are sold. When revalued assets are sold, the amounts included in asset revaluation reserves in respect of those assets are transferred to accumulated funds.

*Depreciation*

Depreciation is charged on a straight-line basis at rates calculated to allocate the cost or valuation of an item of property, plant or equipment less any residual value, over its remaining useful life. The residual value and useful life of an asset is reviewed and adjusted if applicable, at each financial year end.

Depreciation is charged on all assets other than land, certain parts of roading, river control and seawalls, that are composed of at least 80% base course and/or rocks, as these assets are considered to have unlimited useful lives. Regular inspections of these assets are undertaken to check for impairment.

Depreciation is not charged on work in progress until such time as the asset under construction is in its intended location and in use.

## Forestry assets

Forestry assets are carried at fair value less estimated costs to sell. They are revalued annually by an independent, qualified valuer.

Gains or losses arising on revaluation are recognised in surplus or deficit in the statement of comprehensive revenue and expense. Costs incurred to maintain the forests are expensed in the period they are incurred.

## Intangible assets

*Computer software*

Computer software is carried at cost, less any accumulated amortisation and impairment losses.

Computer software is initially capitalised on the basis of the costs incurred to either develop or acquire it and bring it to the location and condition required for its intended use. Amortisation on a straight-line basis over the period of useful life begins from the time the asset is available for use. The estimated useful life of computer software is three to five years.

Realised gains/losses on disposal of intangible assets are recognised in surplus or deficit in the statement of comprehensive revenue and expense.

*Carbon credits*

New Zealand Carbon Units were received at nil cost from the New Zealand Emission Trading Scheme (the scheme) in respect of our forestry assets, when the scheme was first established. The credits are recognised at fair value on acquisition.

Subsequent to initial recognition, they are not amortised but are instead carried at acquisition value less any impairment, which is considered annually.

*Inventories*

Inventories are valued at cost, adjusted when applicable, for any loss of service potential. The amount of write-down for the loss of service is recognised in surplus or deficit in the statement of comprehensive revenue and expense. Cost is determined on a weighted average basis.

*Non-current assets held for sale*

Non-current assets held for sale are measured at the lower of the carrying amount and fair value, less selling costs. Non-current assets are assessed to be 'held for sale' if it is highly probable that the asset is available for immediate sale in its present condition, the sale is expected to be completed within one year of balance date, and the carrying amount will be recovered through a sale transaction rather than through continuing use.

Any impairment losses for write-downs of non-current assets held for sale are recognised in surplus or deficit in the statement of comprehensive revenue and expense.

Non-current assets are not depreciated or amortised while they are classified as held for sale.

*Impairment*

The carrying value of assets held at historical cost less accumulated depreciation is reviewed at least annually to determine if there is an indication of impairment. Where an asset's recoverable amount is less than its carrying amount, it will be reported at its recoverable amount and an impairment loss will be recognised. The recoverable amount is the higher of an item's fair value less costs to sell and value in use. Losses resulting from impairment are reported in surplus or deficit within the statement of comprehensive revenue and expense.

*Non-cash-generating assets*

Non-cash-generating assets are those assets that are not held with the primary objective of generating a commercial return. For non-cash-generating assets, value-in-use is determined using an approach based on 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 the availability of information.

# **Liabilities**

## Employee benefit liabilities

*Short-term employee entitlements*

Employee entitlements for salaries and wages, annual leave, long service leave, sick leave, and other such benefits are recognised in surplus or deficit in the statement of comprehensive revenue and expense when they accrue to employees. Employee entitlements to be settled within 12 months are reported at the amount expected to be paid.

A liability for sick leave is recognised only to the extent that absences in the following financial year are expected to exceed the sick leave entitlements to be earned in that year. The liability represents the unused sick leave entitlement that can be carried forward at balance date, to cover those absences expected to exceed the annual entitlement.

*Long-term employee entitlements*

Employee benefits that are due to be settled beyond 12 months after the end of the period in which the employee renders the related service, such as long service leave and retirement gratuities, have been calculated on an actuarial basis. The calculations are based on the:

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

*Employer contributions to pension schemes*

Contributions to defined contribution retirement schemes such as KiwiSaver are recognised in surplus or deficit in the statement of comprehensive revenue and expense when they accrue to employees.

### Provisions

A provision is recognised in the statement of financial position when the Council has a present obligation as a result of a past event, it is probable that expenditure will be required to settle the obligation, and a reliable estimate of the obligation can be made. Provisions are measured at the level of expenditure expected to be required to settle the obligation. Material liabilities and provisions to be settled beyond 12 months are recorded at their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

### Landfill aftercare costs

The Council, as operator of the Otaihanga landfill, has a legal obligation under the resource consent to provide on-going maintenance and monitoring services at the landfill site post-closure.

The provision is based on the nominal value of future cash flows expected to be incurred, taking into account future events, including known change to legal requirements and technology. The provision includes all costs associated with landfill post-closure, including final cover application and vegetation, incremental drainage control features, completing facilities for leachate collection and monitoring, completing facilities for water quality monitoring, and completing facilities for monitoring and recovery of gas.

Amounts provided for landfill post-closure are capitalised to the landfill asset. The capitalised landfill asset is depreciated over its remaining useful life.

## Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets and liabilities include cash and cash equivalents, receivables (net of doubtful debt provisions), community loans, and other interest-bearing assets, investments in unlisted shares, trade and other payables and borrowings.

### Financial assets

The Council's financial assets are classified into the following categories for the purpose of measurement:

*Financial assets at amortised cost*

*(i) Loans and receivables*

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

They are initially recognised at fair value. Loans and receivables with maturities beyond 12 months are subsequently measured at amortised cost using the effective interest method, less any impairment.

*(ii) Held to maturity investments*

These are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Council has the intention and ability to hold to maturity. They are initially recorded at fair value, and subsequently measured at amortised cost using the effective interest method, less any impairment. Gains or losses when the asset is impaired or settled are recognised in surplus or deficit in the statement of comprehensive revenue and expense.

*Financial assets at fair value through surplus or deficit*

Financial assets in this category include derivatives and financial assets that are held for trading. They are initially recognised at fair value and subsequent measurement is on the same basis, i.e. fair value. Gains or losses on revaluation or impairment are recognised in surplus or deficit in the statement of comprehensive revenue and expense.

*Financial assets at fair value through other comprehensive revenue and expense*

*(i) Available for sale financial assets*

These are non-derivative financial assets that are designated as available for sale or do not fall within any of the above classifications of (a) loans and receivables, (b) held-to-maturity investments, or (c) financial assets at fair value through operating surplus or deficit.

They are initially recorded at fair value plus transaction costs directly attributable to the acquisition or issue, and subsequently measured at fair value less any impairment.

If the asset is an equity instrument that does not have a quoted price in an active market and fair value cannot be reliably measured, the asset is measured at cost.

Any gains or losses are recognised in other comprehensive revenue and expense, except for impairment losses, which are recognised in surplus or deficit in the statement of comprehensive revenue and expense.

## Impairment of financial assets

Financial assets are assessed at each reporting period for impairment.

Impairment is assessed on an expected credit loss model.

For loans and receivables and held-to-maturity investments, impairment is established when there is evidence that the credit risk on a financial asset has increased significantly since initial recognition. When making the assessment, the Council uses the change in the risk of default occurring over the expected life of the financial asset. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, receivership, or liquidation, and default in payments are indicators that the asset is impaired.

For available for sale financial assets impairment is first recognised as a reversal of previously recorded revaluation reserve for that class of asset. Where no reserve is available, the impairment is recognised in the surplus/deficit) in the prospective statement of comprehensive revenue and expense.

The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate. For debtors and other receivables, the carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the surplus or deficit. When the receivable is uncollectible, it is written off against the allowance account.

## Financial liabilities

*Financial liabilities at amortised cost*

*(i) Trade and other payables*

Trade and other payables are initially recognised at fair value. Those with maturities beyond 12 months are subsequently measured at amortised cost using the effective interest rate method.

*(ii) Borrowings*

Borrowings are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest rate method.

*Financial liabilities at fair value through surplus or deficit*

*(i) Derivative financial instruments*

The Council uses derivative financial instruments in the form of interest rate swaps to manage interest rate risks arising from borrowing activities. In accordance with its treasury management policy, the Council does not hold or issue derivative financial instruments for trading purposes.

Derivatives are initially recognised at fair value based on quoted market prices, and subsequently remeasured to fair value at the end of each reporting period. Fair value is determined by reference to quoted prices for similar instruments in an active market.  Fair value gains or losses on revaluation are recognised in surplus or deficit in the prospective statement of comprehensive revenue and expense.

The Council has not adopted hedge accounting.

## Equity

Equity is the community's interest in the Council and is measured as the difference between total assets and total liabilities. Equity is disaggregated and classified into a number of components to enable clearer identification of the specified uses of equity.

The components of public equity are accumulated funds, reserves and special funds, and revaluation reserve.

*Reserves and special funds*

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

Council-created reserves are reserves created by a 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 Council's discretion.

## Other

### *Foreign currency translation*

Foreign currency transactions are translated into the New Zealand Dollar using the spot exchange rates prevailing at the date of the transaction.

The Council has minimal foreign currency transactions. These mainly include the purchase of library books, periodicals and computer software from overseas vendors.

### *Allocation of overheads to significant activities*

For the purposes of reporting performance by activity, all overhead costs from support service functions are allocated to the Council's significant activities. The costs of internal services not already charged to activities are allocated as overheads using appropriate cost drivers such as actual usage, staff numbers and floor area.

Individual significant activity operating revenue and expenditure is stated inclusive of any internal revenues and internal charges.

Governance and tāngata whenua (i.e. elected members' costs) is reported as a separate activity as it represents a direct public service that is in itself a significant activity.

### *Judgement and uncertainty*

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