



# Draft Long Term Plan

# Accounting Policies

# 2024-2034



# PROSPECTIVE ACCOUNTING POLICIES

## STATEMENT OF ACCOUNTING POLICIES

### REPORTING ENTITY

Ruapehu District Council (the Council or RDC) 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.

The group consists of:

- The ultimate parent, Ruapehu District Council.
- RDC Holdings Ltd (100% owned subsidiary) which is non-trading.
- Visit Ruapehu Limited (100% owned Council Controlled Organisation) CCO.
- Manawatū-Wanganui LASS Ltd (14.29% interest, equally with Horizons Regional Council, Manawatū District Council, Horowhenua District Council, Rangitikei District Council, Tararua District Council, and Whanganui District Council) which is equity accounted (an associate).
- Whanganui River Enhancement Charitable Trust, a CCO established on 10 July 2003 and incorporated as a Trust under the provisions of the Charitable Trusts Act 1957 (33.3% interest, equally with Wanganui District Council and Genesis Energy Limited).
- Manawatu-Wanganui Regional Disaster Relief Fund Trust, a CCO established on 16 March 2004 and incorporated as a Trust under the provisions of the Charitable Trusts Act 1957 (12.5% interest, equally with Horizons Regional Council, Manawatū District Council, Palmerston North City Council, Rangitikei District Council, Tararua District Council, and Whanganui District Council).

All subsidiaries and associated entities are established and domiciled in New Zealand.

The prospective financial statements reflect the consolidated results for Council and Group consisting of Council, RDC Holdings Ltd, and Visit Ruapehu Ltd. The only subsidiary of Council (RDC Holdings Limited) is non-active and has no revenue, expenditure, assets, or liabilities.

Visit Ruapehu Limited was incorporated on 23 August 2019, as a Council Controlled Organisation (CCO) with Ruapehu District Council being the 100% owner. This new organisation replaced the Ruapehu Regional Tourism Organisation (RTO) Trust, which was operating from 2009 until it was wound up by a Trustees resolution on 17 October 2019, under a Deed of Confirmation. The assets were transferred to Visit Ruapehu Limited, free of all charges and encumbrances and all the Trusts debts and liabilities were paid.

Council and Group provide local infrastructure, local public services, and perform regulatory functions. Council does not operate to make a financial return. Council has designated itself and the group as public benefit entities (PBEs) for financial reporting purposes.

The financial information contained within these documents is prospective financial information in terms of Financial Reporting Standard 42 Prospective Financial Statements (PBE). The purpose for which this has been prepared is to enable the public to participate in decision-making processes as to the services provided by Council over the next ten years and to provide broad accountability mechanism of Council to the community. The financial information in the Long term Plan may not be appropriate for purposes other than those described.

## **BASIS OF PREPARATION**

### **STATEMENT OF COMPLIANCE**

The reporting period for these prospective financial statements of Council is for the years 2024-2034 ending on 30 June each year. These prospective financial statements have been prepared on the going concern basis, and in accordance with the requirements of the Local Government Act 2002, which includes the requirement to comply with generally accepted accounting practice in New Zealand (NZ GAAP). Notwithstanding the above, prospective financial statements are a forecast based on best available information and assumptions at the time of preparation, and so it must be cautioned that actual results could differ materially from those presented here due to inherent future uncertainties.

### **PROSPECTIVE FINANCIAL STATEMENTS**

Prospective financial statements have been prepared in accordance with Tier 1 PBE FRS 42 – Prospective Financial Statements and using accounting policies that are consistent with those adopted by Council in preparing financial statements. Council's principal activities are outlined within this 2024-2034 Long Term Plan. Council authorised the prospective financial statements on **26 June 2024**.

It is a requirement of the Local Government Act 2002 to present prospective financial statements of the local authority for the financial year of which the Annual Plan relates. This provides an opportunity for ratepayers and residents to review the projected financial results and position of Council. Prospective financial statements are revised annually to reflect updated assumptions and costs.

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

### **CAUTIONARY NOTE**

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

### **OTHER CHANGES IN ACCOUNTING POLICIES**

Software-as-a-Service (SaaS) arrangements In April 2021, the International Financial Reporting Interpretations Committee (IFRIC), a committee supporting profit-oriented reporting, published an agenda decision clarifying how configuration and customisation costs incurred in implementing SaaS should be accounted for.

The IFRIC concluded that SaaS arrangements are service contracts providing the customer with the right to access the SaaS provider's application software over the contract period. Costs incurred to configure or customise software in a cloud computing arrangement, can be recognised as intangible assets only if the activities create an intangible asset that the entity controls and the intangible asset meets the recognition criteria.

Some of these costs incurred are for the development of software code that enhances or modifies, or creates additional capability to, existing on-premises systems and meets the definition of and recognition criteria for an intangible asset. These costs are recognised as intangible software assets and amortised over the useful life of the software on a straight-line basis. The useful lives are reviewed at least at the end of each financial year, and any change accounted for prospectively as a change in accounting estimate.

Costs that do not result in intangible assets are expensed as incurred unless they represent payment for future services to be received. In which case a prepayment is initially recognised and then expensed as those subsequent services are received.

The New Zealand Accounting Standards Board has not issued similar guidance, however, in the absence of a PBE standard specifically dealing with such costs, management considers the IFRIC decision relevant to

the accounting for similar types of arrangements of the group in accordance with PBE IPSAS 31 Intangible assets.

The group revised its accounting policy in relation to configuration and customisation costs incurred in implementing SaaS arrangements from 1 July 2021 to be consistent with the IFRIC agenda decision.

The impact of the change in accounting policy is that some of previously capitalised intangible assets no longer meet the criteria for capitalisation and have therefore been expensed.

## **MEASUREMENT BASE**

The reporting period for these prospective financial statements is the year ended **30 June 2025**. The functional currency of Council is New Zealand dollars, and the statements are presented in New Zealand dollars, rounded to the nearest thousand (\$000), unless otherwise stated.

The prospective financial statements have been prepared based on the historical cost basis, modified by the revaluation of certain assets and liabilities as identified in these statements of significant accounting policies.

The prospective financial statements do not disclose audit fees or imputation credits, and no comment is included regarding the effect on the community of Council's existence or operations. This information is fully disclosed in the Annual Report.

## **PLANNING ASSUMPTIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The preparation of prospective financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. The significant planning and forecasting assumptions with risks underlying the financial estimates are identified in Council's Long Term Plan 2024-2034 pages **[to be added]**.

Additionally, Council also applies a number of accounting policies and treatments to this forecast, and a summary of the significant accounting policies can be found in Council's Long Term Plan 2024-2034 pages **[to be added]**.

## **BASIS OF CONSOLIDATION**

The consolidated prospective financial statements have been prepared by adding together like items of assets, liabilities, equity, revenue, and expenses of entities of the Group on a line by line basis. All intragroup balances, transactions, revenue and expenses are eliminated on consolidation.

CCOs and subsidiaries are entities controlled by the group. Control is achieved when the group has the power to govern their financial and operating policies. In order to establish control, the controlling entity presently have exercisable power to govern decision making to be able to benefit from the activities of the other entity.

Consolidation of a subsidiary begins when the group obtains control over the subsidiary and ceases when the group loses control of the subsidiary. Assets, liabilities, income, and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statements from the date the group gains control until the date the group ceases to control the subsidiary. The accounting policies of controlled entities are consistent with the policies adopted by the controlling entity, or if not, adjustments are made to the consolidated financial statements to bring alignment of subsidiaries with the group's accounting policies. All intra-group balances, transactions, income, expenses, and cash flows relating to transactions between members of the group are eliminated in full on consolidation.

The substantive subsidiary within the group is Visit Ruapehu Limited. Visit Ruapehu Limited was incorporated on 23 August 2019, as a Council Controlled Organisation (CCO) with Ruapehu District Council being the 100% owner. This new organisation replaced the Ruapehu Regional Tourism Organisation (RTO) Trust, which was operating from 2009 until it was wound up by a Trustees resolution on 17 October 2019 under a Deed of Confirmation. The assets were transferred to Visit Ruapehu Limited, free of all charges and

encumbrances and all the Trusts debts and liabilities were paid. Its principal activities involve the development and marketing of tourism in the Ruapehu District.

The following parts of the group are exempt activities:

- RDC Holdings Ltd (100% owned subsidiary) which is non-trading.
- Visit Ruapehu Limited (100% owned Council Controlled Organisation) CCO.
- Manawatū-Wanganui LASS Ltd (14.29% interest, equally with Horizons Regional Council, Manawatū District Council, Horowhenua District Council, Rangitikei District Council, Tararua District Council, and Whanganui District Council) which is equity accounted (an associate).
- Whanganui River Enhancement Charitable Trust, a CCO established on 10 July 2003 and incorporated as a Trust under the provisions of the Charitable Trusts Act 1957 (33.3% interest, equally with Wanganui District Council and Genesis Energy Limited).
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## **BASIS OF REPORTING**

The New Zealand Accounting Standards Board issued these standards to incorporate the equivalent standards issued by the International Public Sector Accounting Standards Board into PBE Standards. These standards replace PBE IPSAS 6 Consolidated and Separate Financial Statements, PBE IPSAS 7 Investments in Associates and PBE IPSAS 8 Interests in Joint Ventures.

The group adopted these standards with effect from 1 July 2019. The key changes introduced by the new standards and the expected impact on the group are as follows:

- (a) Control: The new standards introduce an amended definition of control including extensive guidance on this definition, which if applicable, result in consolidation of entities that are not owned by virtue of shareholding. The adoption of new standards has not resulted in the consolidation of additional entities.
- (b) Investment entities: The standards introduce the concept of an “investment entity”. They exempt investment entities from consolidating controlled entities and instead require investment entities to recognise controlled entities at fair value through surplus or deficit. These requirements do not apply to the group, as neither Council nor any of its controlled entities meet the definition of an investment entity.
- (c) Joint arrangements: PBE IPSAS 37 introduces a new classification of joint arrangements, sets out the accounting requirements for each type of arrangement (joint operations and joint ventures), and removes the option of using the proportionate consolidation method. These requirements do not apply to the group, none of Councils controlled entities meet the definition of an joint arrangement.
- (d) Disclosures of interests in other entities: The standards require PBEs to disclose information of their interests in other entities, including some additional disclosures that are not currently required under PBE IPSAS 6, 7 and 8. This will result in additional disclosures for the group regarding the group’s controlled entities, associates, and joint arrangements.

## **INVESTMENT IN SUBSIDIARIES**

Investment in subsidiaries includes the investment in CCOs. These investments are carried at cost less any accumulated impairment.

## **INVESTMENTS IN ASSOCIATES**

Investments in associates are accounted for using the equity method in the group and the council financial statements. The investment is initially recognised at cost and the carrying amount is increased or decreased to recognise the share of the surplus or deficit of the associate or joint venture after the date of acquisition. Distributions received reduce the carrying amount of the investment. Where necessary, adjustments are made to the financial statements of associates and joint ventures to bring their accounting policies in line with the group.

## **REVENUE**

Revenue is measured at fair value of consideration received or receivable. Revenue may be derived from either exchange or non-exchange transactions.

## **EXCHANGE TRANSACTIONS**

Exchange transactions are transactions where Council receives assets or services, or has liabilities extinguished, and directly gives approximately equal value to another entity in exchange.

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.

Revenue from asset management services is recognised when provided to the customer. Interest revenue is recognised using the effective interest method. Interest revenue on an impaired financial asset is recognised using the original effective interest rate.

Dividends are recognised when the right to receive payment has been established. When dividends are declared from pre-acquisition surpluses, the dividend is deducted from the cost of the investment.

## **NON-EXCHANGE TRANSACTIONS**

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, Council either receives value from or gives value to another entity without directly giving or receiving approximately equal value in exchange or where the value given or received is not able to be accurately measured. This includes transactions for activities which are subsidised through rates.

An inflow of resources from a non-exchange transaction, whether this be an asset or revenue, is only recognised if a liability is not also recognised for that particular asset or revenue.

A liability is only recognised to the extent that the present obligations have not been satisfied. A liability in respect of a transferred asset is recognised only when the transferred asset is subject to a condition, such as a condition for the asset to be consumed as specified and / or that future economic benefits or service potential must be returned to the owner.

The specific accounting policies relating to significant revenue items follow.

## **RATES REVENUE**

The following policies for rates have been applied:

- General rates and targeted rates (excluding water-by-meter), 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 receivables and subsequent recognition of interest revenue.
- Rates arising from late payment penalties are recognised as revenue when rates become overdue.
- Revenue from water-by-meter rates is recognised on an accrual basis based on usage. Unbilled usage, as a result of unread meters at year end, is accrued on an average usage basis.
- Rates remissions are recognised as a reduction of rates revenue when the Council has received an application that satisfies its rates remission policy.

## **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. Otherwise, development and financial contributions are recognised as liabilities until such time as the Council provides, or is able to provide, the service.

## **WAKA KOTAHĪ NEW ZEALAND TRANSPORT AGENCY ROADING SUBSIDIES**

The Council receives funding assistance from the New Zealand Transport Agency (NZTA), 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.

## **LANDFILL FEES**

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

## **INFRINGEMENT FEES AND FINES**

Infringement fees and fines mostly relate to traffic and parking infringements and are recognised when the infringement notice is issued. The fair value of this revenue is determined based on the probability of collecting fines, which is estimated by considering the collection history of fines.

## **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.

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 (e.g. land must be used as a recreation reserve), the Council immediately recognises the fair value of the asset as revenue. A liability is recognised only if 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 released to revenue as the conditions are met (e.g. as the funds are spent for the nominated purpose).

## **LIABILITIES**

### **INCOME IN ADVANCE**

Income in Advance is predominantly made up of Central Government Grants for work that is yet to be completed and from rates and dog registrations paid in advance, these are non-exchange transactions.

### **BORROWING COSTS**

In accordance with PBE IPSAS 5 Borrowing Costs, all borrowing costs are recognised as an expense in the period in which they are incurred.

## **GRANT EXPENDITURE**

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

Discretionary grants are those grants where the Council has no obligation to award on receipt of the grant application and are recognised as expenditure when approved by the Council and the approval has been communicated to the applicant. The Council's grants awarded have no substantive conditions attached.

## LEASES

### OPERATING LEASES

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset.

Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

Lease incentives received are recognised in the surplus or deficit as a reduction of rental expense over the lease term.

### CASH AND CASH EQUIVALENTS

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.

## RECEIVABLES

Receivables are recorded at their face value, less any provision for impairment.

## OTHER FINANCIAL ASSETS

Financial assets are initially recognised at fair value plus transaction costs unless they are carried at fair value through surplus or deficit in which case the transaction costs are recognised in the surplus or deficit.

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

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

- fair value through surplus or deficit;
- loans and receivables;
- held-to-maturity investments; and
- fair value through other comprehensive revenue and expense.

The classification of a financial asset depends on the purpose for which the instrument was acquired.

### FINANCIAL ASSETS AT FAIR VALUE THROUGH SURPLUS OR DEFICIT

Financial assets at fair value through surplus or deficit include financial assets held for trading or is designated as such on initial recognition.

Financial assets acquired principally for the purpose of selling in the short-term or part of a portfolio classified as held for trading are classified as a current asset.

After initial recognition, financial assets in this category are measured at their fair values with gains or losses on re-measurement recognised in the surplus or deficit.

### LOANS AND RECEIVABLES

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance date, which are included in non-current assets.

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



## **HELD-TO-MATURITY INVESTMENTS**

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities and there is the positive intention and ability to hold to maturity. They are included in current assets, except for maturities greater than 12 months after balance date, which are included in non-current assets.

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

## **FAIR VALUE THROUGH OTHER COMPREHENSIVE REVENUE AND EXPENSE**

Financial assets at fair value through other comprehensive revenue and expense are those that are designated into the category at initial recognition or are not classified in any of the other categories above. They are included in non-current assets unless Council intends to dispose of, or realise, the investment within 12 months of balance date.

The Council and group includes in this category:

- Investments that it intends to hold long-term but which may be realised before maturity; and
- Shareholdings that it holds for strategic purposes.

These investments are measured at their fair value, with gains and losses recognised in other comprehensive revenue and expense, except for impairment losses, which are recognised in the surplus or deficit. On de-recognition, the cumulative gain or loss previously recognised in other comprehensive revenue and expense is reclassified from equity to the surplus or deficit.

## **IMPAIRMENT OF FINANCIAL ASSETS**

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

## **LOANS AND RECEIVABLES AND HELD-TO-MATURITY INVESTMENTS**

Impairment is established when there is evidence that the Council and group will not be able to collect amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, receivership, or liquidation and default in payments are indicators that the asset is impaired. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate. Overdue receivables that have been renegotiated are reclassified as current (that is, not past due). Impairment in term deposits, local authority stock, government bonds, and community loans, are recognised directly against the instrument's carrying amount.

## **FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE REVENUE AND EXPENSE**

For equity investments, a significant or prolonged decline in the fair value of the investment below its cost is considered objective evidence of impairment. For debt investments, significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy and default in payments, are objective indicators that the asset is impaired.

If impairment evidence exists for investments at fair value through other comprehensive revenue and expense, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the surplus or deficit) recognised in other comprehensive revenue and expense is reclassified from equity to the surplus or deficit. Equity instrument impairment losses recognised in the surplus or deficit are not reversed through the surplus or deficit.

If in a subsequent period the fair value of a debt instrument increases, and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed in the surplus or deficit.

## INVENTORY

Inventories held for distribution or consumption in the provision of services that are not supplied on a commercial basis are measured at cost (using the FIFO method), adjusted, when applicable, for any loss of service potential.

Inventories acquired through non-exchange transactions are measured at fair value at the date of acquisition. Inventories held for use in the provision of goods and services on a commercial basis are valued at the lower of cost (using the FIFO method) and net realisable value. The amount of any write-down for the loss of service potential or from cost to net realisable value is recognised in the surplus or deficit in the period of the write-down.

## ASSETS HELD FOR SALE

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

Any impairment losses for write-downs of assets held for sale are recognised in the surplus or deficit. Any increases in fair value (less costs to sell) are recognised up to the level of any impairment losses that have been previously recognised.

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

## PROPERTY, PLANT AND EQUIPMENT

Property, plant, and equipment consist of:

- **Operational Assets** – These include land, buildings, parks and reserves improvements, library books, plant vehicles, computer equipment and office equipment.
- **Restricted Assets** – Restricted assets are mainly parks and reserves owned by Council 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 Council. 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.
- **Land (operational and restricted)** – Is measured at fair value, and buildings (operational and restricted) and infrastructural assets (except land under roads) are measured at fair value less accumulated depreciation.

All other operational and restricted asset classes are measured at cost less accumulated depreciation and impairment losses.

## REVALUATION

Land and buildings (operational and restricted) and infrastructural assets (except land under roads) are revalued annually.

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

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

## **ADDITIONS**

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

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

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

## **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 in the surplus or deficit. When revalued assets are sold, the amounts included in asset revaluation reserves in respect of those assets are transferred to accumulated funds.

## **SUBSEQUENT COSTS**

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

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

## **DEPRECIATION**

Property, plant and equipment depreciation is provided on a straight line (SL) or diminishing value (DV) basis at rates that will write off the cost (or valuation) of the assets to their estimated residual values over their useful lives.

Infrastructure asset depreciation rates are based on the remaining useful life for each individual asset component. These rates are on a straight line basis.

The revaluation approach, useful lives and associated depreciation rates of major classes of assets have been estimated as per the next page.

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

Any work undertaken on infrastructure assets to reinstate (termed “renewal”) or add to the service potential of the asset is capitalised.

The useful lives and associated depreciation rates of major classes of assets have been estimated as per the following table:

## USEFUL LIVES AND DEPRECIATION RATES

Property, Plant and Equipment		Measurement Basis (*1)	Estimated Life	Depreciation Rate
Buildings (Excluding Investment Property)		RAD	10 – 100 Years	1 - 20% SL
Other Improvements		CAD	10 – 100 Years	1 – 17.5% SL
Computer Equipment		CAD	2.5 Years	40% DV
Office Equipment, Furniture and Fittings		CAD	5 Years	20% DV
Library Books		CAD	10 Years	10% SL
Plant and Vehicles		CAD	3.33 – 10 Years	5 – 25% SL
Roads and Footpaths		Measurement Basis (*1)	Estimated Life	Depreciation Rate
Top Surface (Seal)		RAD	15 Years	6.67% SL
Pavement (Base Course)		RAD	100 Years	1% SL
Culverts		RAD	70 – 100 Years	1 – 1.43% SL
Footpaths		RAD	20 – 80 Years	1.25 – 5% SL
Kerbs		RAD	80 – 100 Years	1 – 1.25% SL
Signs		RAD	10 Years	10 – 11.1% SL
Street Lights		RAD	20 – 25 Years	4 – 5% SL
Bridges		RAD	70 – 100 Years	1 – 2.77% SL
Pipes		RAD	50 – 100 Years	1 – 2% SL
Valves and Hydrants		RAD	15 – 70 Years	1 – 6.67% SL
Pump Stations		RAD	10 – 60 Years	1.25 – 10% SL
Tanks		RAD	25 – 80 Years	1 – 6.67% SL
Treatment Plants		RAD	5 – 104 Years	0.96% – 20% SL
Pipes		RAD	50 – 100 Years	1 – 2% SL
Manholes and Cesspits		RAD	50 – 75 Years	1.33 – 4% SL
Pump Stations		RAD	10 – 60 Years	0.88 – 33.3% SL
Treatment Plants		RAD	10 – 200 Years	0.5 – 33.3% SL
Stormwater		Measurement Basis (*1)	Estimated Life	Depreciation Rate
Pipes		RAD	40 – 100 Years	1 – 50% SL
Manholes and Cesspits		RAD	75 Years	1.33 – 20% SL
Various		RAD	20 – 75 Years	1.33 - 6% SL
Land		REV		
Formation Costs for Roding		COST		
Stop Banks		REV		
Work In Progress and Assets Under Construction		COST		
*1	CAD	=	Cost Less Accumulated Depreciation And Impairment Losses.	
	RAD	=	Revaluation Less Subsequent Depreciation.	
	REV	=	Revaluation (Not Depreciated).	
	COST	=	Cost.	

## INTANGIBLE ASSETS

### SOFTWARE ACQUISITION AND DEVELOPMENT

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

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

### AMORTISATION

The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. The amortisation charge for each period is recognised in the surplus or deficit. The useful lives and amortisation rates have been estimated as follows:

Amortisation Rates Intangibles	Estimated Life	Amortisation Rate
Computer Software	3 years	33.3% SL
Pipiriki Wastewater Treatment Plant Resource Consent	22 years	5% SL

## IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

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

Property, plant and equipment and intangible assets subsequently measured at cost that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

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. The total impairment loss is recognised in the surplus or deficit. The reversal of an impairment loss is recognised in the surplus or deficit.

### VALUE IN USE FOR NON-CASH-GENERATING ASSETS

Non-cash-generating assets are those assets that are not held with the primary objective of generating a commercial return. For non-cash generating assets, value in use is determined using an approach based on either a depreciated replacement cost approach, restoration cost approach, or a service units approach. The most appropriate approach used to measure value in use depends on the nature of the impairment and availability of information.

## INVESTMENT PROPERTY

Properties leased to third parties under operating leases are classified as investment property unless the property is held to meet service delivery objectives, rather than to earn rentals or for capital appreciation. Investment property is measured initially at its cost, including transaction costs.

After initial recognition, 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 the surplus or deficit.

## **PAYABLES**

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

## **BORROWINGS**

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

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.

## **EMPLOYMENT ENTITLEMENTS**

### **SHORT-TERM EMPLOYEE ENTITLEMENTS**

Employee benefits expected to be settled within 12 months after the end of the period in which the employee renders the related service are measured based on accrued entitlements at current rates of pay. These include salaries and wages accrued up to balance date, annual leave earned to, but not yet taken at balance date.

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.

The Council expects all employee entitlements to be settled within 12 months of balance date.

## **SUPERANNUATION SCHEMES**

### **DEFINED CONTRIBUTION SCHEMES**

Obligations for contributions to KiwiSaver are accounted for as defined contribution superannuation schemes and are recognised as an expense in the surplus or deficit when incurred.

## **PROVISIONS**

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.

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

## **EQUITY**

Equity is the community's interest in the Council and is measured as the difference between total assets and total liabilities.

Equity is disaggregated and classified into the following components:

- Accumulated funds;
- Restricted reserves;
- Asset revaluation reserve;
- Fair value through other comprehensive revenue and expense reserve.

### **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.

#### **ASSET REVALUATION RESERVE**

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

#### **FAIR VALUE THROUGH OTHER COMPREHENSIVE REVENUE AND EXPENSE RESERVE**

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

#### **GOODS AND SERVICES TAX**

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

#### **COST ALLOCATION**

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 staff numbers and size of budgets.

#### **CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS**

In preparing these prospective 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 over the Long Term Plan period, are discussed in the following policies and strategies which form part of this document:

- Financial Strategy
- Infrastructure Strategy
- Revenue and Financing Policy

#### **CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

Management has exercised the following critical judgements in applying accounting policies for these prospective financial results.

## **CLASSIFICATION OF PROPERTY**

The Council owns a number of properties held to provide social housing. 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 classified as property, plant and equipment rather than as investment properties.

Parcels of land held for an undetermined future use that are classified as Investment Property may be re-classified in the future if the land use changes.

Taumarunui Airport and Ohakune Railway station are held for strategic reasons rather than for generation of revenue and are therefore classified as property, plant and equipment rather than as investment property.

## **ACCOUNTING STANDARDS ISSUES BUT NOT YET EFFECTIVE**

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the prospective financial statements are as follows:

2022 Omnibus Amendments to PBE Standards, issued June 2022.

- The 2022 Omnibus Amendments include several general updates and amendments to several Tier 1 and Tier 2 PBE accounting standards. The revised PBE standards are effective from the year ending 30 June 2024. They are not expected to have any significant impact on the group financial statements.
- PBE IFRS 17 Insurance Contracts (sub-heading) PBE IFRS 17 Insurance Contracts for public sectors was issued in June 2023. This standard establishes principles for the recognition, measurement, presentation, and disclosure of insurance contracts. It is effective for reporting periods beginning on or after 1 January 2026 with early adoption permitted. The group has not assessed in detail the effect of the new standard.

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