

Financial Statements

The following financial statements contain budgets for the 2010/2011 financial year and the subsequent year. The statements show the short term direction of Council and must be read in conjunction with the long term financial statements in the LTP 2009/2019.

Council's Financial Statements show:

- Its ability to meet operating expenses from operating revenues (Income Statement)
- How Council's net resources are increasing over time (Changes in Equity)
- What Council owns and owes (Balance Sheet)
- The turnover of cash experienced by Council each year (Cash Flows)

Basis and Assumptions for Financial Information

The financial statements that are contained on pages 46 to 49 show the forecast of next year's budgets compared against last year's actual, this year's budget and the LTP budget adopted in 2009.

The major assumptions are:

1. Low population growth;
2. No increasing levels of service are budgeted;
3. Borrowings are planned to be repaid over 20 years;
4. Council will continue to review its LTP.

Financial Statements *Income Statement*

For the Year Ended 30 June

2010 Group Actual \$'000		2010/11 Group Annual Plan \$'000	2011/12 Group Annual Plan \$'000	2011/12 Council LTP \$'000
	Revenue			
14,856	Rates	15,059	15,673	16,327
609	Interest	296	296	362
5,575	Subsidies	6,373	6,310	6,896
2,151	Fees and Charges	2,504	2,630	3,081
90	Development Contributions	100	97	100
-	Dividends	50	50	50
500	Donation Income - Waipawa Municipal Theatre			
164	Sale of Assets	-	-	-
-355	Share of Undistributed Profits	-	-	-
23,590	Total Operating Revenue	24,382	25,056	26,816
	Expenditure			
509	Leadership/Governance	548	554	562
125	Economic Development	133	134	137
1,050	Regulatory	1,279	1,256	1,317
12,869	Roading	11,352	11,565	13,831
1,994	Solid Waste	2,238	2,330	2,612
1,897	Water	1,983	2,076	2,356
1,591	Waste Water	1,606	1,726	1,862
401	Stormwater	439	430	451
914	Parks/Reserves	893	922	1,002
159	Public Conveniences	166	167	180
282	Retirement Housing	187	190	193
439	Libraries	441	430	430
710	Theatres/Halls	377	452	525
177	Cemeteries	155	157	166
379	Property	264	270	270
254	Fair Value Adjustment on Investments	-	-	-
(184)	Fair Value Adjustment of Public Debt	-	-	-
23,566	Total Expenditure	22,063	22,661	25,895
24	Net Surplus/(Deficit)	2,319	2,395	921
-	Taxation		-	
24	Operating Surplus	2319	2,395	921
24	Net Surplus	2319	2,395	921
	Other Comprehensive Income			
144	Property, Plant and Equipment Revaluations	-4036	24,544	24544
-21	Share of associates Revaluation Reserve	-	-	-
147	Total Comprehensive Income	-1717	26,939	25465

Financial Statements *Changes in Equity*

For the Year Ended 30 June

2010 Group Actual \$'000		2010/11 Group Annual Plan \$'000	2011/12 Group Annual Plan \$'000	2011/12 Council LTP \$'000
656,855	Equity at Beginning of Year	722,564	655,285	737,968
24	Net surplus/(deficit)		2,395	
123	Other Comprehensive Income		24,544	
147	Total Comprehensive Income	-1,717		25,465
657,002	Public Equity at Year End	720,847	682,224	763,433
	Components of Equity			
241,107	Ratepayers Equity at the beginning of the year	241,197	241,412	244,410
-1,468	Net surplus/(deficit) for the year	1,773	1,952	254
239,639	Ratepayers Equity at end of year.	242,970	243,364	244,664
7,036	Special Funds at the beginning of the year	7,779	9,075	7,531
1,493	Transfers to/(from) Special Funds	546	443	667
8,529	Special Funds at end of year	8,325	9,518	8,198
183	Trust Funds at the beginning of the year	183	182	192
-1	Transfers to/(from) Trust Funds	0	0	0
182	Trust Funds at end of year	183	182	192
408,529	Revaluation Reserves at the beginning of the year	473,405	404,616	485,835
123	Transfers to/(from) Revaluation Reserves	-4,036	24,544	24,544
408,652	Revaluation Reserves at end of year.	469,369	429,160	510,379
657,002	Total Equity at end of year	720,847	682,224	763,433

Financial Statements *Balance Sheet*

As at 30 June

2010 Group Actual \$'000		2010/11 Council Annual Plan \$'000	2011/12 Group Annual Plan \$'000	2011/12 Council LTP \$'000
ASSETS				
Current Assets				
2,551	Accounts Receivable	3,307	2,362	2,054
7,188	Cash and Short Term Investment	5,875	5,013	2,470
81	Prepayments	150	150	90
-	Loan to Tamatea Limited	4,025	4,025	4028
-	Assets held for sale	-	-	-
9820	Total Current Assets	13,357	11,550	8,642
Non Current Assets				
6,289	Term Investments	6,221	6,221	4,870
4,428	Shares in Infracon Limited	-	-	-
652,708	Property Plant and Equipment	716,227	679,184	767,103
663,425	Total Non Current Assets	722,448	685,405	771,973
673,245	TOTAL ASSETS	735,805	696,955	780,615
LIABILITIES				
Current Liabilities				
3,660	Trade and other payables	2,120	2,093	2,131
257	Employees Entitlement	230	257	156
2,303	Current Portion of Public Debt	360	1,923	1,923
6,220	Total Current Liabilities	2,710	4,273	4,210
Non Current Liabilities				
9,916	Public Debt	12,141	10,351	12,760
107	Provision for Landfill Post-closure Costs	107	107	212
10,023	Total Non Current Liabilities	12,248	10,458	12,972
16,243	TOTAL LIABILITIES	14,958	14,731	17,182
PUBLIC EQUITY				
8,529	Special Funds	8,325	9,518	8,198
182	Trust Funds	183	182	192
408,652	Revaluation Reserve of Assets	469,369	429,160	510,379
239,639	Ratepayers' Equity	242,970	243,364	244,664
657,002		720,847	682,224	763,433
673,245	TOTAL LIABILITIES & PUBLIC EQUITY	735,805	696,955	780,615

Note - Council's investment in Infracon Limited is held in a 100% owned Council Controlled Organisation - Tamatea Limited. For Annual Plan purposes no consolidated financial statements have been prepared. As Tamatea Limited acts a conduit these financial statements have been prepared as if the investment in Infracon and the resultant dividend stream, were held directly by Council.

Financial Statements *Cash flow*

For the Year Ended 30 June

2010 Group Actual \$'000	2010/11 Group Annual Plan \$'000	2011/12 Group Annual Plan \$'000	2011/12 Council LTP \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from			
14,719 Rates	15,059	15,673	16,327
5,697 Subsidies & Grants	6,373	6,310	6,896
608 Interest	296	296	362
2,274 User Charges	2,504	2,630	3,081
90 Developer Contributions	100	97	100
0 Dividends	50	50	50
23,388	24,382	25,056	26,816
Cash was applied to			
-8,774 Payments to Suppliers of Goods & Services	-10139	-12,558	-14,588
-3,137 Payments to employees	-2835	-3,206	-2,918
-727 Interest paid	-571	-571	719
-12,638	-13545	-16,335	-16,787
10,750 Net Cash from Operating Activities	10,837	8,721	10,028
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was provided from			
- Proceeds from Sale of Assets	-	-	-
- Realisation of Investments	-	-	-
Cash was applied to			
(9,505) Purchase of Fixed Assets	(8,928)	(10,421)	(10,625)
Realisation / (Purchase) of Investments	-	-	-
(9,505)	(8,928)	(10,421)	(10,625)
(9,505) Net Cash Flow from Investing Activities	(8,928)	(10,421)	(10,625)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was provided from			
1,552 Loans Raised	1,735	1,198	852
1,552	1,735	1,198	852
Cash was applied to			
- Repayment of Public Debt	-	(360)	(360)
-646 Increase In Investments	-	-	-
906	1,735	838	492
906 Net Cash Flow From Financing Activities	1,735	838	492
2,151 NET INCREASE/ (DECREASE) IN CASH HELD	3,644	(862)	(105)
5,037 PLUS TOTAL CASH RESOURCES AT 1 JULY	2,231	5,875	2,575
7,188 NET CASH RESOURCES AT 30 JUNE	5,875	5,013	2,470
Represented by			
- Bank Overdraft	-	-	-
7,188 Cash & Short Term Investments	5,875	5,013	2,470
7,188	5,875	5,013	2,470

Statement of Accounting Policies

1. Reporting Entity

Central Hawke's Bay District Council (CHBDC) is a territorial local authority governed by the Local Government Act 2002 and is domiciled in New Zealand.

The Central Hawke's Bay District Council Group consists of Central Hawke's Bay District Council and its subsidiary – Tamatea Limited (100% owned). Tamatea Limited (Tamatea) was incorporated in New Zealand on 26 October 2006.

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

The financial statements of CHBDC are for the year ended 30 June 2010. These financial statements were authorised for issue by Council on 30th September 2010.

2. Summary of Significant Accounting Policies

2.1 Statement of Compliance and basis of preparation

The financial statements of CHBDC have been prepared in accordance with the Local Government Act 2002, which includes the requirement to comply with Generally Accepted Accounting Practice in New Zealand (NZ GAAP).

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

The financial statements are presented in New Zealand Dollars (NZD). The functional currency of CHBDC is New Zealand Dollars.

2.2 Basis of Financial Statement Preparation and Measurement Base

In respect of CHBDC the measurement base adopted is that of historical cost basis modified by the revaluation of certain assets as specifically stated in these accounting policies.

2.3 Critical Accounting Estimates and Assumptions

In preparing these financial statements CHBDC has made estimates and assumptions 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 discussed below –

Landfill aftercare provision

Note 8 presents an analysis of the exposure of CHBDC in relation to the estimates and uncertainties surrounding the landfill aftercare provision.

Statement of Accounting Policies

Infrastructural assets

There are a number of assumptions and estimates used when performing DRC valuations over infrastructural assets. These include:

- the physical deterioration and condition of an asset, for example the Council could be carrying an asset at an amount that does not reflect its actual condition. This is particularly so for those assets, which are not visible, for example stormwater, wastewater and water supply pipes that are underground. This risk is minimised by Council performing a combination of physical inspections and condition modeling assessments of underground assets;
- estimating any obsolescence or surplus capacity of an asset; and
- estimates are made when determining the remaining useful lives over which the asset will be depreciated.

These estimates can be impacted by the local conditions, for example weather patterns and traffic growth. If useful lives do not reflect the actual consumption of the benefits of the asset, then CHBDC could be over or under estimating the annual depreciation charge recognised as an expense in the statement of financial performance. To minimise this risk CHBDC's infrastructural asset useful lives have been determined with reference to the NZ Infrastructural Asset Valuation and Depreciation Guidelines published by the National Asset Management Steering Group, and have been adjusted for local conditions based on past experience. Asset inspections, deterioration and condition modelling are also carried out regularly as part of the CHBDC's asset management planning activities, which gives CHBDC further assurance over its useful life estimates. Experienced independent valuers assist in performing the Council's infrastructural asset revaluations.

2.4 Investment in Subsidiary

Council consolidates its investment in its subsidiary – Tamatea – as it has the capacity to control that company's financing and operating policies so as to obtain benefits from the activities of the entity. This exists because Council, as the sole shareholder, controls the voting power of the governing body.

2.5 Basis of consolidation

The consolidated financial statements are prepared by adding together like items of assets, liabilities, equity, income and expenses on a line by line basis. All significant intragroup balances, transactions, income and expenses are eliminated on consolidation.

2.6 Investment in Associate

CHBDC accounts for its investment in Infracon Limited in the group financial statements using the equity method.

An Associate is an entity over which CHBDC has significant influence, and where this entity is neither a subsidiary nor Joint Venture. The investment is initially recognised at cost and the carrying value is increased or decreased to recognise CHBDC's share of the surplus or deficit of the associate after the date of acquisition. CHBDC's share of the surplus or deficit is recognised in CHBDC's profit and loss. Distributions received from the associate reduce the carrying value of the investment.

The investment is tested annually for impairment. Where the carrying amount exceeds its recoverable amount, an impairment loss is recognised in the profit or loss. The recoverable amount is the higher of the investment's fair value, less costs to sell and its value in use.

Statement of Accounting Policies

In testing for impairment, CHBDC has made estimates and assumptions concerning the future which may differ from subsequent actual results. Reliance has been placed on the independent audit of Infracon to provide assurance on the carrying value of its assets and the assumption that the company remains a going concern.

2.7 Equity

Equity is the community's interest in CHBDC and is measured as the difference between total assets and total liabilities. Public equity is disaggregated and classified into a number of reserves to enable clearer identification of the specified uses that CHBDC make of its accumulated surpluses.

The components of equity are:

- Accumulated funds
- General Reserves
- Trust Funds
- Revaluation Reserves

2.8 Reserves

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.

2.8.1 Council-created Reserves

These are reserves established 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.

2.8.2 Trust Funds

These are funds received by the Council over time, usually by way of donation or bequest, which restrict the use of the funds. All such funds are separately invested and are not available for any other purposes. The interest earned is credited to the funds.

2.8.3 Revaluation Reserves

These reserves relate to the revaluation of Property, Plant and Equipment to Fair Value.

2.9 Overhead Allocations

The costs of providing support services for the Council are accumulated and then allocated to each significant activity using appropriate allocation bases which reflect usage and/or capacity for each significant activity.

Statement of Accounting Policies

2.10 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to Council and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised –

Rates revenue is recognised when payable.

Revenue from the sale of goods and services is recognised in the profit and loss when the significant risks and rewards of ownership have been transferred to the buyer or the obligation to pay arises. In the case of Licence fees, upon renewal of the licence.

Revenue from services rendered is recognised when invoiced. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of the goods.

Government grants and subsidies are recognised as revenue when entitlement has been established by the grants agency, and are recognised at their fair value.

Dividends are recognised when the shareholder's right to receive payment is established.

Interest income is recognised using the effective interest method.

Revenue from developer contributions is recognised when it is acknowledged that the liability of payment exists to the Council based on the completion of the subdivision or connection to service.

Vested assets are recognised when the significant risks and rewards of ownership have been transferred to the Council and when the obligation to accept the transfer of the assets to the Council has been determined.

2.11 Valuation

2.11.1 Current Assets

Debtors and other receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

All other current assets are stated at cost.

Cash and Short Term Investments in the balance sheets comprise cash at bank and in hand and short term deposits with an original maturity of three months or less.

2.11.2 Financial Assets

Financial Assets are initially recognised at fair value plus transaction costs unless they are carried at fair value through the profit and loss in which case the transaction costs are recognised in the profit and loss.

Purchases and sales of financial assets are recognised on trade-date, the date on which CHBDC commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive

Statement of Accounting Policies

cash flows from the financial assets have expired or have been transferred and CHBDC has transferred substantially all the risks and rewards of ownership.

CHBDC classifies its financial assets into the following categories - fair value through the profit and loss, loans and receivables and available for sale. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

Financial assets at fair value through the profit and loss

Financial assets at fair value through the profit and loss include financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term.

After initial recognition they are measured at their fair values with gains or losses on remeasurement recognised in the profit and loss.

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. CHBDC's loans and receivables comprise cash and cash equivalents, debtors and other receivables.

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 profit and loss.

Fair value

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

2.11.3 Impairment of financial assets

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

Loans and other receivables

Impairment of a loan or a receivable is established when there is objective evidence that CHBDC will not be able to collect amounts due according to the original terms. Significant financial difficulties of

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the debtor/issuer, probability that the debtor/issuer will enter into bankruptcy, and default in payments are considered indicators that the asset is impaired. The amount of the impairment is the difference between the asset's carrying amount and the present value of 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 statement of financial performance. When the receivable is uncollectible, it is written off against the allowance account. Overdue receivables that have been renegotiated are reclassified as current (i.e. not past due). For term deposits, local authority stock, government stock and community loans, impairment losses are recognised directly against the instruments carrying amount.

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

2.11.4 Non Current Assets

Non-current 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. Non-current assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Any impairment losses for write-downs of non-current assets held for sale are recognised in the profit and loss.

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

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

(a) Work In Progress

Work in progress is treated as a non current asset on the basis that there is a high likelihood that it will be capitalised. This covers work on infrastructural assets, plant, property or equipment that is incomplete at balance date, and excludes borrowing costs.

On completion the total cost of the project is transferred to the relevant asset class and then depreciated.

(b) Land and Buildings

Land and Buildings are revalued on a maximum of a three yearly cycle, or more frequently where market evidence reflects that the current values of land and buildings is materially different to their fair value. The valuation uses the depreciated replacement cost method, based on currently accepted valuation methodology.

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The results of revaluing are credited or debited to an asset revaluation reserve included in other comprehensive income for that class of asset. Where revaluing results in a debit balance in the asset revaluation reserve for a particular class of asset, this balance is expensed to profit and loss rather than other comprehensive income.

Land under Roads is revalued annually based on the fair value of adjacent land.

(c) Property, Plant and Equipment (Fixed Assets)

On acquisition, all fixed assets are initially stated at cost.

Plant and Machinery are stated at historical cost less accumulated depreciation and any impairment in value.

Library Books are valued at historical cost. All subsequent and future additions are recognised at cost. Depreciation is provided over the asset's useful lives.

(d) Infrastructural Assets

Infrastructural Assets: water, stormwater, and waste/sewerage are revalued on a three yearly cycle, or more frequently where the value has changed significantly, using the depreciated replacement cost method, based on currently accepted valuation methodology.

The results of revaluing are credited or debited to an asset revaluation reserve included in other comprehensive income for that class of asset. Where revaluing results in a debit balance in the asset revaluation reserve for a particular class of asset, this balance is expensed to profit and loss rather than other comprehensive income.

The Landfill and Transfer Stations are revalued on a three yearly cycle, using the depreciated replacement cost method.

Roading and its networks are revalued each year using the depreciated replacement cost method.

All subsequent additions to Infrastructural Assets are stated at depreciated cost.

2.12 Depreciation

2.12.1 Property, Plant and Equipment (Excluding Infrastructural Assets)

Council's fixed assets, with the exception of infrastructural assets and land, are depreciated on a straight line basis at rates, which will write off their cost or value over their estimated useful economic lives. This depreciation charge is reflected in the appropriate cost of service statement.

Statement of Accounting Policies

The expected lives of major fixed asset classes are:

	Years
• Buildings	6 - 165
• Emergency Equip, Misc Plant, Computer Equip, Office Equip	4 - 5
• Office furniture, Library Books	4 - 10
• Land is considered to have an indefinite useful life and is not depreciated	

2.12.2 Infrastructural Assets

(a) Water, Sewerage and Stormwater Assets

Water, Sewerage and Stormwater Assets are the utility systems, which provide continuing services to the community and are not generally regarded as tradeable.

Depreciation is calculated using useful life of components as provided by Opus International Consultants Asset Valuation Reports and in accordance with the standard NZ Infrastructure Asset Valuation and Depreciation Guidelines (NZIAVDG).

The expected lives of major fixed asset classes are:

	Years
Water Systems	
• Pipes	40 - 100
• Valves, Hydrants, Meters, Tobbies	20 - 60
• Pump Stations	15 - 90
• Reservoirs	60 - 90
Sewerage Systems	
• Pipes	50 - 120
• Manholes	100
• Valves	25 - 40
• Pump Stations	25 - 90
• Treatment Plant	15 - 100
Stormwater Systems	
• Pipes	50 - 125
• Manholes	100
• Open Channels	50
• Service Laterals	80
• Sumps	75

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(b) Roading Assets

Roading Assets is the roading network, which provides continuing services to the community and is not generally regarded as tradeable.

Depreciation is calculated using useful life of components as provided by Opus International Consultants Asset Valuation Reports and in accordance with the standard NZ Infrastructure Asset Valuation and Depreciation Guidelines (NZIAVDG).

The expected lives of major fixed asset classes are:

	Years
• Pavement Maintenance - Unsealed	7
• Pavement Maintenance - Sealed	70
• Chip Seals	10
• Area Wide Pavement Treatment	
Surface	10
Base course	70
Sub base	Not depreciated
Wearing Course	7
• Bridges	50
• Traffic – pavement marking	1
• Traffic – signs	15
• Footpaths	50-70

(c) Landfill and Transfer Stations

The Landfill and Transfer Stations are the individual facilities which provides continuing services to the community and are not generally regarded as tradable. The expected future lives of the Landfill and Transfer Stations are 50 years.

2.13 Borrowings

Borrowings are initially recognised at their fair value net of transaction costs incurred. After initial recognition, borrowings are recognised at fair value through profit and loss with any resultant gains or losses recognised in profit and loss.

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

Statement of Accounting Policies

2.14 Loan to Tamatea

This loan arises from the transfer to Tamatea of the shares in Infracon Limited – formerly held directly by Council. The loan is interest free and is on call and carried at amortised cost.

2.15 Goods and Services Tax

These financial statements have been prepared exclusive of Goods and Services Tax (GST), except for receivables and payables that are stated inclusive of GST.

2.16 Employee Entitlements

Long term benefits

Provision is made in respect of the Council's liability for long service leave. Long service leave, has been calculated on a probability basis, which takes into consideration the likelihood that the Council will be obligated to make the payments.

Short term benefits

Wages, salaries, and annual leave are measured at nominal values on actual entitlement basis at current rates of pay.

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

2.17 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.

2.18 Landfill Post-Closure Provision

Council as operator of the district landfill has a legal obligation to apply for resource consents when the landfill reaches the end of its operating life. The resource consents will set out the closure requirements and requirements for ongoing maintenance and monitoring services at the landfill site after closure. A provision for post-closure costs is recognised as a liability when the obligation for post-closure arises. The provision is measured based on the present value of future cash flows expected to be incurred, taking into account future events including known changes to legal requirements and technological improvements.

The provision includes all costs associated with landfill post-closure: final cover application and vegetation, fencing off, completing facilities for leachate collection and the monitoring of gas systems, stormwater systems, and vegetation systems. Amounts provided for landfill post-closure are capitalised to the landfill asset where they give rise to future economic benefits or if they are incurred to enable future economic benefits to be

Statement of Accounting Policies

obtained. The capitalised landfill asset is depreciated over the life of the landfill based on the anticipated capacity used.

2.19 Statement of Cash Flows

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Operating activities include cash received from all income sources and record the cash payments made for the supply of goods and services. Agency transactions are not recognised as receipts and payments in the Statement of Cash Flows as they do not represent transactions that Council can control.

Investing activities are those activities relating to the acquisition and disposal of non-current assets. Investing and financing activity transactions have had their respective sources and applications of cash netted off where rollover of financing has occurred and where there have been transfers between Council bank accounts.

Financing activities comprise activities that change the equity and debt capital structure of the Council.

2.20 Income Tax

The income tax expense recognised in the profit and loss is the estimated income tax payable in the current year, adjusted for any differences between the estimated and actual income tax payable in prior periods.

The nature of the Council's taxable earnings is such that it does not give rise to deferred tax assets or liabilities.

2.21 Capital Management Policy

The Council's capital is its equity (or ratepayers' funds), which comprise retained earnings and reserves. Equity is represented by net assets. The Local Government Act 2002 (the Act) 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. Ratepayer's 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 Act and applied by 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 programs, to ensure ratepayers in future generations are not required to meet the costs of deferred renewals and maintenance.

2.22 Changes in Accounting Policies

There have been no changes in accounting policies during the financial year.

CHBDC has adopted the following revisions to accounting standards during the financial year, which only have a presentational effect:

Statement of Accounting Policies

- *NZ IAS 1 Presentation of Financial Statements (Revised 2007)* replaces NZ IAS 1 Presentation of Financial Statements (issued 2004). The revised standard requires information in financial statements to be aggregated on the basis of shared characteristics and introduces a statement of comprehensive income. The statement of comprehensive income will enable readers to analyse changes in equity resulting from non – owner changes separately from transactions with owners. The Council and CHBDC has prepared a single statement of comprehensive income for the years ended 30 June 2009 and 2010 under the revised standard.
- Amendments to *NZ IFRS 7 Financial Instruments: Disclosures*. The amendments introduce a three level fair value disclosure hierarchy that distinguishes fair value measurements by the significance of valuation inputs used. A maturity analysis of financial assets is also required to be prepared if this information is necessary to enable users of the financial statements to evaluate the nature and extent of liquidity risk. The transitional provisions of the amendment do not require disclosure of comparative information in the first year of application.

Standards, amendments and interpretations issued but not yet effective that have not been early adopted, and which are relevant to CHBDC include –

- *NZ IFRS 9 Financial Instruments* will eventually replace NZ IAS 39 Financial Instruments: Recognition and Measurement. NZ IAS 39 is being replaced through the following 3 main phases: Phase 1 Classification and Measurement, Phase 2 Impairment Methodology, and Phase 3 Hedge Accounting. Phase 1 on the classification and measurement of financial assets has been completed and has been published in the new financial instrument standard NZ IFRS 9. NZ IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in NZ IAS 39. The approach in NZ IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the many different impairment methods in NZ IAS 39. The new standard is required to be adopted for the year ending 30 June 2014. CHBDC has not yet assessed the effect of the new standard and expects it will not be early adopted.

Funding Impact Statement

The purpose of the funding impact statement is to provide information about the income and funding streams we will use and an indication of the amount of funding we will generate from each stream.

Council will use a mix of revenue sources to meet operating expenses, with major sources being general rates, Land Transport subsidies and Fees and Charges.

Capital expenditure for new works will be funded from Loans and Developer Contributions, with capital renewals being funded from reserves set aside for this purpose.

Details of Council's expenditure and sources of funds are included on Page 49.

Council undertook a comprehensive rating review in 2008/09 and heard submissions on its proposed changes to rating structures in late 2008.

The following rating mechanisms are intended to be used in each of the years 2009/19.

Funding Impact Statement

2011/12 Rates Factors

The table below lists the rate factors for the 2011/12 year (1 July 2011 to 30 June 2012) that are proposed to be set by the Central Hawke's Bay District Council under the Local Government (Rating) Act 2002.

Key	Description	Differential	Rateable Basis	Factor **	Amount Sought including GST \$
Non Targeted Rates					
101	General	District	Capital Value	0.098	3,828,381
103 107 106 112	District Land Transport	District	Land Value	0.262	6,728,763
173	District UAC	UAC	Uniform Amount	\$286.000	1,778,062
Targeted Rates					
172	Economic Development	Property Usage - District	Uniform Amount	\$94.262	28,750
174	Ward-based main street upgrade	Ruataniwha Ward	Uniform Amount	\$30.775	87,431
110 111 115	Refuse Collection	Service Available	Uniform Amount	\$32.854	127,605
169	Recycling Collection	Service Available	Uniform Amount	\$58.353	169,048
150	Water Supply Operations	Service Available	Uniform Amount *	\$463.721	1,886,187
151-157	Water Supply Loans	Service Available	Uniform Amount *	\$82.184	334,285
120	Sewerage Operations	Service Available - Connection(s)	Uniform Amount *	\$398.612	1,595,844
121-133	Sewerage - Loans	Service Available - Connection(s)	Uniform Amount *	\$216.231	865,680
140	Stormwater Operations	Catchment Area	Capital Value	0.075	433,302
141-142	Stormwater Loans	Catchment Area	Capital Value	0.021	120,951
165	Drainage	Te Aute	Factor		40,250
Total Sought					\$18,024,539

* includes half charges

** Where no \$ sign shows, amounts are in cents

Funding Impact Statement

Rates

The following rates are proposed to be set and assessed on a District wide basis on all rateable property within the District for the years 2011/12:

1. General Rate

A general rate set under section 13 of the Local Government (Rating) Act 2002 for the purposes of providing all or some of the cost of:

- All regulatory activities, including planning, resource and subdivision consent costs, building control, public health, animal control, emergency management, and bylaws, litter and parking
- Solid waste
- Parks and reserves, public toilets, theatres and halls, cemeteries, and miscellaneous property costs

For the 2011/12 year this rate will be 0.098 cents in the dollar (including GST) based on the rateable capital value of all rateable property within the District.

2. District Land Transport Rate

A rate for the Council's land transport facilities set under section 13 of the Local Government (Rating) Act 2002. This rate is set for the purpose of funding the operation and maintenance of the land transport system.

For the 2011/12 year this rate will be 0.262 cents in the dollar (including GST) based on the land value of all rateable land in the district.

3. Uniform Annual General Charge

A rate set under section 15 of the Local Government (Rating) Act 2002 on each separately used or inhabited part of a rating unit within the District. See definition on page 68. This rate is for the purpose of providing:

- Community leadership, including administration, cost of democracy, community voluntary support grants, and economic development
- A portion of the cost of solid waste
- Libraries and swimming facilities

For the 2011/12 year this rate will be \$286.00 (including GST).

Targeted Rates

Definitions:

"Ruātaniwha Urban" and Waipawa Urban are each defined by maps held by the Council.

"Non Residential" is defined by reference to land use codes in the valuation database, being every code other than "residential" or "lifestyle".

"Non Rural" is defined by reference to land use codes in the valuation database, being every code other than farming.

"Separately used or inhabited part of rating unit" – see page 68.

Funding Impact Statement

4. Water Supply Operations and Loans Rates

Two targeted rate set under section 16 of the Local Government (Rating) Act 2002 for water supply operations of a fixed amount per separately used or inhabited part of a rating unit. The purpose of this rate is to fund water supplies for Otane, Takapau, Waipukurau, Waipawa, Kairakau, Pourerere, Porangahau and Te Paerahi.

- *Operations Rate.* The purpose of this rate is to fund the maintenance and operation of water supplies in those parts of the District where these systems are provided.
- *Loans rate.* The purpose of this rate is to fund capital upgrades of water supplies and treatment in those parts of the District where these systems are provided.

This rate is applied as follows:

- (a) a charge of per separately used or inhabited part of a rating unit for Otane, Takapau, Waipukurau, Waipawa, Kairakau, Porangahau, and Te Paerahi Beach connected.
- (b) a half charge per separately used or inhabited part of a rating unit which is serviceable for the above locations.

For this rate:

- "*Connected*" means a rating unit to which water is supplied.
- "*Serviceable*" means a rating unit to which water is not being supplied, but the property it is situated within 100 metres of the water supply.

For the 2011/12 year these rates will be:

	Charge	Operations Rate (incl GST)	Loan Rate (incl GST)
a	Connected	\$463.72	\$82.18
b	Serviceable, not connected	\$231.86	\$41.09

A targeted rate under section 19 of the Local Government (Rating) Act 2002 per cubic metre of water supplied, as measured by cubic meter, over 300 cubic metres per year. This is applied to water users deemed 'Extraordinary' where payment of the Water Operations rate above entitles extraordinary users to the first 300 cubic metres of water without additional charge. The Volume of water used over 300 cubic metres per year is charged at the rate set out in Council's Fees and Charges Schedule.

5. Sewerage Operations and Loans Rates

Two targeted rates set under section 16 of the Local Government (Rating) Act 2002 for the Council's sewage disposal function of a fixed amount per separately used or inhabited part of a rating unit in relation to all land in the district to which the Council's sewage disposal service is provided or available.

- *Operations Rate:* The purpose of this rate is to fund the maintenance and operation of sewerage collection, treatment and disposal systems in those parts of the District where these systems are provided.
- *Loans rate:* The purpose of this rate is to fund capital upgrades of sewerage collection, treatment and disposal systems in those parts of the District where these systems are provided.

These rates are applied as follows:

- (a) a charge per rating unit connected.

Funding Impact Statement

- (b) a charge per water closet or urinal within the rating unit, after the first one.
- (c) a charge per rating unit which is serviceable.

For the purposes of these rates:

- "Connected" means the rating unit is connected to a public sewerage system.
- "Serviceable" means the rating unit is not connected to a public sewerage drain but is within 30 metres of such a drain.
- A rating unit used primarily as a residence for one household is treated as not having more than one water closet.
- For commercial accommodation providers, each subsequent water closet or urinal will be rated at 50% of the charge.
- For those Clubs who qualify for a rebate of their General Rates under Council's Club Rebate Remission Policy, and who are connected to the sewerage network, each subsequent water closet or urinal will be rated at 50% of the Sewerage Operations and Loan Charge.

For the 2011/12 year these rates will be:

	Charge	Operations Rate (incl GST)	Loan Rate (incl GST)
a	First charge per rating unit connected	\$398.61	\$216.23
b	Additional charge per water closet	\$398.61	\$216.23
c	Serviceable, not connected	\$199.31	\$108.12
d	Additional charge per water closet – commercial accommodation provider, qualifying club	\$199.31	\$108.12

6. Stormwater Operations and Loans Rates

Two targeted rates set under section 16 of the Local Government (Rating) Act 2002 for the purpose of funding operations and maintenance, plus improvements and loan charges on the stormwater drainage as follows:

- Operation rate - A uniform targeted rate on the capital value of all rateable land in the Waipukurau and Waipawa Stormwater Drainage Areas.
For the 2011/12 year this rate will be 0.075 cents in the dollar (including GST).
- Loan rate - A uniform targeted rate on the capital value of all rateable land in the Waipukurau and Waipawa Stormwater Drainage Areas.
For the 2011/12 year this rate will be 0.021 cents in the dollar (including GST).

The Waipukurau and Waipawa Stormwater Drainage Areas are defined by reference to stormwater drainage area plans held by the Council.

Funding Impact Statement

7. **Kerbside Recycling Rate**

A targeted rate set under section 16 of the Local Government (Rating) Act 2002 for the Council's collection of household recyclables for Waipukurau and Waipawa on each separately used or inhabited part of a rating unit to which the Council is prepared to provide the service.

For the 2011/12 year this rate will be \$58.35 (including GST).

8. **Refuse Collection Rate**

A targeted rate set under section 16 of the Local Government (Rating) Act 2002 for the collection of household and commercial refuse for Otane, Onga Onga, Takapau, Tikokino, Waipukurau, Waipawa, Porangahau, Te Paerahi, Blackhead Beach, Kairakau, Mangakuri, Aramoana and Pourerere Beach on each separately used or inhabited part of a rating unit to which the Council provides the service.

For the 2011/12 year this rate will be \$32.85 (including GST).

9. **Economic Development Rate**

A uniform targeted rate set under section 16 of the Local Government (Rating) Act 2002 to assist in the funding of Economic Development Activities within the district on each separately used or inhabited part of a rating unit that is Non Residential and Non Rural.

For the 2011/12 year this rate will be \$94.26 (including GST).

10. **Ruataniwha Ward Rate for Waipukurau and Waipawa Mainstreet upgrades**

A uniform targeted rate on all rateable land in the Ruataniwha Ward Urban set under section 16 of the Local Government (Rating) Act 2002 for the purposes of funding the Main Street Waipukurau and Waipawa improvements undertaken between 2001 and 2005.

For the 2011/12 year this rate will be \$30.77 (including GST).

11. **Te Aute Drainage Rate**

Te Aute Drainage rates are set on all rateable area of all rateable property within the designated area subject to a graduated scale for the purpose of funding the operations, loan charges and the repayment of loans of the Te Aute Drainage Scheme Area. Each hectare of land in each property is classified according to the susceptibility of that hectare to flooding as follows:

A (100 points), B (80 points), C (15 points), F (3 points), and G (0 points).

The total number of points is 73614. The total amount of funding required each year determines how much each of these points are worth. In this way, the total amount required is apportioned on a pro rata basis using the weightings on each hectare.

The total amount of funding required for 2011/12 is \$40,250

The Te Aute drainage scheme area is defined by reference to the classification list establishing the graduated scale.

Funding Impact Statement

Valuation Number	Hectares in each classification				Total Points	Amount
	A (100pts)	B (80pts)	C (15pts)	F (3pts)		
1092000300	0	11.3	8.15	31.63	1121	\$612.93
1092000800	0	32.83	74.69	23.42	3817	\$2,087.02
1092000900	0	0	0.83	2.15	19	\$10.39
1092001001	77.96	16.65	11.94	17.95	9361	\$5,118.32
1092001100	78.22	0	25.28	101.17	8505	\$4,650.29
1092001200	0	2.88	18.35	18.86	562	\$307.29
1092001201	0	20.25	19.15	12.31	1944	\$1,062.92
1092001400	0	0	0	14.16	42	\$22.96
1092001600	0	0	0	10.12	30	\$16.40
1092001700	38.74	51.06	36.24	45.12	8638	\$4,723.01
1092002100	188.81	0	0	23.93	18953	\$10,362.95
1092002200	84.02	4.14	1.16	6.45	8770	\$4,795.18
1092002300	41.02	5.2	20.43	22.8	4893	\$2,675.35
1092002900	0	0	0	0.81	2	\$1.09
1092003400	0	0	8.02	6.6	140	\$76.55
1092005800	0	18.63	0	4.93	1505	\$822.89
1092006100	0	65.81	0	15.84	5312	\$2,904.45
Total	508.77	228.75	224.24	358.25	73614	\$40,250.00

Separately Used or Inhabited Parts of a Rating Unit

Definition – for the purposes of the Uniform Annual Charge and the targeted rates above, a separately used or inhabited part of a rating unit is defined as –

Any part of a rating unit that is, or is able to be, separately used or inhabited by the owner or by any other person or body having the right to use or inhabit that part by virtue of a tenancy, lease, licence or other agreement.

Examples of separately used or inhabited parts of a rating unit include

- For residential rating units, each self contained household unit is considered a separately used or inhabited part. Each situation is assessed on its merits, but factors considered in determining whether an area is self contained would include the provision of independent facilities such as cooking/kitchen or bathroom, and its own separate entrance.
- Residential properties, where a separate area is used for the purpose of operating a business, such as a medical or dental practice. The business area is considered a separately used or inhabited part.

These examples are not considered inclusive of all situations.

Funding Impact Statement

Approach to Rating

Rates are levied under the Local Government (Rating) Act 2002 on all rateable rating units on the value of the land as supplied by Quotable Value New Zealand Limited. The last revaluation was carried out effective from 1 July 2010.

The objectives of the council's rating policy is to:

- spread the incidence of rates as fairly as possible
- be consistent in charging rates
- ensure all ratepayers pay their fair share for council services
- provide the income needed to meet the council's goals.

The Central Hawke's Bay District Council rating system provides for all user charges and other income to be taken into account first, with the rates providing the balance needed to meet the council's objectives.

Rating Base

The rating base will be the database determined by the contracted rating service provider. Because this database is constantly changing due to change of ownership, subdivision, regular revaluations, change of status from rateable to non-rateable (and reverse), the rating base is not described in detail in this policy.

Rating Information Database and Rates Records

Council's rating information database and rates records are available for public inspection at the Council offices in Waipukurau and Waipawa during normal office hours (Monday – Friday 8.00am to 4:30pm).

Due Dates for Rate Payments

Pursuant to Section 24 of the Local Government (Rating) Act 2002 the following dates are proposed to apply for assessing the amount of each instalment of rates for the year 1 July 2011 to 30 June 2012. Each instalment will be levied in four equal amounts, rounded.

Instalment number	Instalment Start Date	Last day of payment without additional charge
1	1 July 2011	19 August 2011
2	1 October 2011	18 November 2011
3	1 January 2012	20 February 2012
4	1 April 2012	18 May 2012

Funding Impact Statement

Payment Options

Rate payments on instalments are to be received by Council no later than 4:30pm on the last day of payment detailed above. Payment options include:

- Online through Internet Banking.
- Direct Debit.
- Automatic Payments via your bank account, or Telephone Banking.
- Cheque sent by Post.
- At Council Offices in Waipukurau or Waipawa (Hours Monday – Friday 8am to 4:30pm). We accept Cash, Cheque and Eftpos.
- Online by Credit Card from our website. We currently do not accept payment by Credit Cards over the counter.

Penalty Charges

(Additional Charges on Unpaid Rates)

Pursuant to Section 58(1)(a) of the Local Government (Rating) Act 2002, an additional charge of 10% will be added to all rates remaining unpaid for each instalment after the last day of payment, shown above.

Pursuant to Section 58(1)(b) of the Local Government (Rating) Act, a further additional charge of 10% will be added on 1 July 2011 to the amount of rates levied in previous financial years and remaining unpaid as at 30 June 2011 (Section 58(1)(b)).

Glossary

Activity – Services, projects or goods provided by, or on behalf of, Council (eg libraries). These activities are then combined into groups of activities.

Annual Plan – The Annual Plan is produced in the intervening years between Long Term Council Community Plans. It includes the work programme for the year and financial statements.

Annual Report – Reports on the performance of Council against the objectives, policies, activities, performance measures, indicative costs, and sources of funds outlined in the Annual Plan and the Long Term Council Community Plan.

Asset – Something of value that Council owns on behalf of the people of Central Hawke's Bay such as roads, drains, parks and buildings.

Asset Management Plan – A long term plan for managing an asset to ensure that its capacity to provide a service is kept up and costs over the life of the asset are kept to a minimum.

Borrowing – Refers to the raising of loans for capital items, such as the sewerage scheme.

Capital Expenditure – Expenditure that will increase the value of Council's assets.

Capital Value – Value of land including any improvements.

Community Boards – Local elected bodies set up under the Local Government Act. Community Boards are consulted by Council and can represent community concerns to Council. Central Hawke's Bay District has no community boards.

Community Outcomes – Goals that the community believe are important for its present and future economic, social, cultural and environmental well-being.

Council Controlled Organisations – Council controlled organisations are organisations in which one or more local authorities control 50% or more of the voting rights or appoint 50% or more of the directors.

Financial Year – Council's financial year runs from 1 July to 30 June of the following year.

Prospective Cash Flow Statement – This describes the cash effect of transactions and is broken down into three components: operating, investing and financing activities.

Prospective Statement of Comprehensive Income – This can also be referred to as the Profit and Loss Statement, the Income Statement, or the Operating Statement. It shows the financial results of various Central Hawke's Bay District Council activities at the end of each period as either a surplus or deficit. It does not include asset purchases or disposals.

Prospective Balance Sheet – This shows the financial state of affairs at a particular time.

Prospective Statement in Changes in Equity – Shows how Council's resources are increasing in value over time.

General Rate – A rate levied across all properties for activities that benefit the whole District.

Group of Activities – Several activities combined together (eg cultural and community facilities).

Land Value – Value of land, excluding any improvements.

Local Government Act 2002 – The key legislation that defines the powers and responsibilities of local authorities like Central Hawke's Bay District Council.

Long Term Plan (LTP) – A ten year plan that sets out Council's response to community outcomes and how Council will manage its finances and the community's resources. The requirement for the LTP was introduced by the Local Government Act 2002.

Operating Expenditure – Money Council spends on such items as salaries, materials, electricity and plant hire.

Glossary

Operating Revenue – Money earned through the activities in return for a service provided, or by way of a grant or subsidy to ensure particular services or goods are provided. Examples include New Zealand Transport Agency subsidies, rental income, permits and fees.

Operating Surplus (Deficit) – The expressions 'operating surplus' and 'operating deficit' are accounting terms meaning the excess of income over expenditure and excess expenditure over income respectively. Income and expenditure in this context exclude 'capital' items such as the receipt or repayment of loans, the cost of capital works and transfers to and from Reserves. An operating surplus/deficit is inclusive of non-cash items such as income and expenditure owing but not paid (Debtors and Creditors) and depreciation.

Performance Measure – A measure that shows how well Council is doing in achieving the objectives it has set for itself.

Rates – Funds collected by Council from levies on property. These are based on the Capital and Land value of the property but the term is often used to include Uniform Annual General Charges and Targeted Rates.

Revenue and Financing Policy – This describes how the Council's work will be paid for and the mechanisms for gathering the funds (such as general rate, targeted rates, user charges, grants).

Significance – Degree of importance of the issue, proposal, decision or matter as assessed by the local authority in terms of its likely consequences for the current and future social, economic, environmental, or cultural wellbeing of the community.

Subsidies – Amounts received from other agencies for the provision of services (eg NZ Transport Agency roading subsidies).

Targeted Rates – Any rate levied other than the general rate, which is targeted at users of a service such as water supply, wastewater and solid waste.

Transfer to/from Reserves – Transfer of funds to reserves are generally surpluses on operations. Transfers from reserves assist to fund capital expenditure.

User Charges – The charges levied for use of Central Hawke's Bay District Council services (eg building consent fees, health inspections).

Working Capital – These are Council's net current assets that are held in cash or can be readily converted to cash, less liabilities due for payment within a year. This is indicative of Council's ability to meet its obligations as they become due.