

Statement of Accounting Policies

1. Reporting Entity

Central Hawkes Bay District Council (Council) is a territorial local authority governed by the Local Government Act 2002.

The Central Hawkes Bay District Council Group (CHBDC) consists of Central Hawkes 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 2008.

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). 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).

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.

The preparation of financial statements in conformity with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Statement of Accounting Policies

2.3 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.

Any excess of the cost of the business combination over Council's interest in the fair value of the identifiable assets, liabilities and contingent liabilities is recognised as goodwill. If Council's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised exceeds the carrying value of the investment, the difference is immediately recognised in the Income Statement.

2.4 Basis of consolidation

The purchase method is used to prepare the consolidated financial statements, which involves 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

2.5 Investment in Associate

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

An Associate is an entity over which CHBDC, through its subsidiary Tamatea, 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 income statement. Distributions received from the associate reduce the carrying value of the investment.

Specific Accounting Policies

The following particular accounting policies have a material effect on the measurement of results and Balance Sheet.

2.6 Equity

Equity is the community's interest in the Council 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 the Council make of its accumulated surpluses.

The components of equity are:

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

Statement of Accounting Policies

2.7 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.

2.7.1 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.

2.7.2 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 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.

2.9 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 are recognised as revenue when struck.

Revenue from the sale of goods and services is recognised in the income statement 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.

Revenue from developer contributions is recognised when it is acknowledged that the liability of payment exists to the Council based on the issue of the compliance certificate and when conditions of the servicing agreements have been met.

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.

Statement of Accounting Policies

2.10 Valuation

2.10.1 Current Assets

Accounts receivable are stated at estimated net realisable value, after providing for doubtful and uncollectible debts.

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.

2.10.2 Non Current Assets

(a) Investments:

Investments consist of Local Authority Stock, Debt Securities and Bank Notes and are classified as financial assets and accounted for at fair value as determined by reference to market evidence. Any resulting gain or loss is recognised in the Income Statement.

(b) 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.

(c) 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.

The results of revaluing are credited or debited to an asset revaluation reserve for that class of asset. Where this results in a debit balance in the asset revaluation reserve, this balance is expensed to the income statement.

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

Statement of Accounting Policies

(d) 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.

(e) 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 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.

2.11 Depreciation

2.11.1 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.

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	

Statement of Accounting Policies

2.11.2 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, Tobies	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

Statement of Accounting Policies

(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

Statement of Accounting Policies

2.12 Borrowings

Borrowings are classified as financial liabilities and accounted for at fair value. Any resulting gain or loss is recognised in the Income Statement.

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

2.13 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 has no fixed terms of repayment.

2.14 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.

2.15 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.

2.16 Financial Instruments

Financial Instruments are limited to bank balances, short term investments, accounts receivable, accounts payable, and public debt; all of which are included in the financial statements at their estimated fair value.

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.

Statement of Accounting Policies

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 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 income statement 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 CHBDC's taxable earnings is such that it does not give rise to deferred tax assets or liabilities.