

# Section 6 - FINANCIAL PLANNING

## **In this section:**

- Introduction
- Prospective Statement of Financial Performance
- Prospective Statement of Changes in Equity
- Prospective Statement of Financial Position
- Prospective Statement of Consolidated Cash Flow
- Statement of Cost of Services
- Statement of Borrowing
- Statement of Accounting Policies
- Significant Forecasting Assumptions
- Capital Expenditure Programme
- Projects Considered but not Included in this Plan

# Introduction

---

---

## Statement of Prospective Financial Information

The financial information contained within this document is prospective financial information which complies with FRS42 which is the Financial Reporting Standard used to establish principals and to specify minimum disclosures for the preparation and presentation of general purpose prospective financial information. The purpose for which it has been prepared is to enable the public to participate in the decision-making process as to the services to be provided by Council over the financial years 2009-19, and to provide a broad accountability mechanism of Council to the Community. The financial information may not be appropriate for purposes other than those described.

In relation to the standard, the financial year 2009/10 is considered to be a 'forecast' and based on future events, which are expected to occur. The actual results achieved for the period are likely to vary from the information presented and may vary materially depending upon the circumstances that arise during the period.

The forecast financial information has been prepared in accordance with Council's current accounting policies which comply with the New Zealand International Financial Reporting Standards.

Council is responsible for the Prospective Financial Statements, including the appropriateness of the underlying assumptions and all other required disclosures, and will be authorising the issue of the Prospective Financial Statements on 30 June 2009. Council will not update the Prospective Financial Statements after that date, other than via a future year's Annual Plan process.

## Funding of Operating Expenditure

Section 100 of the Local Government Act 2002 requires Council to fund operating expenditure from operating revenue.

In preparing the 10-year Plan there are some instances where Council has resolved that it is financially prudent not to fully fund the operating expenses within the year in which they occur. Where operating expenses are not fully funded, this is shown in the Cost of Services Statement for each Significant Activity. The reasons for each of these are detailed below:

### Infrastructural Assets

The value of assets written off as a result of the renewal of infrastructural assets is not funded in the current or future years. The following Significant Activities are affected:

Transport Management	\$ 800,000
Stormwater	\$ 50,000
Water Treatment and Supply	\$ 100,000
Wastewater Treatment and Disposal	\$ 80,000

These estimates were based on trends relating to asset write-offs over the preceding three years.

### **Amenity and Support Services**

Council has resolved not to fund depreciation on buildings and improvements where future renewals would be from community sources or through raising new debt. The type of facility is primarily community occupied, has a life in excess of 50 years and renewal would only occur if future generations so decided. The amount of depreciation not funded is \$298,000 with a further amount of \$310,000 not funded relating to loss on sale of properties, and \$100,000 not funded relating to Council occupied buildings.

### **Water Treatment and Supply**

It has also been identified that \$160,000 of depreciation for the Cambridge and Pukerimu water scheme does not require funding. The Pukerimu components were all constructed in the late 1980's and are debt free, having been funded by capital contributions.

### **Rating Issues**

New targeted rates have been raised to cover the Cambridge Community Sports Hall from year 1 and the Cambridge Pool from year 5. There is also a new Hall Rate to be raised in each year relating to the Pirongia Sports and Recreation Centre after a survey resulted in 75% of residents in the area supporting it. Details of these rates can be found in the Funding Impact Statement attached to the Policy Section of the 10-year Plan.

### **Forestry**

Council has an investment in Forestry and generates income from logging sales and expenditure to maintain and manage the forest. The income and expenditure do not necessarily match each year, with some years having high sales and other years there may be minimal sales. To ensure that there is no flow on impact to ratepayers this activity will be managed through a reserve account which over a number of years should show a surplus.

### **Pensioner Housing**

Council has an investment in residential housing and generates income from rent and expenditure to maintain and manage the property. The income and expenditure do not necessarily match each year and to ensure that there is no flow on impact to ratepayers this activity is managed through a reserve account to ensure that any rents collected are used for the benefit of the property.

# Prospective Statement of Financial Performance

2008/09 Budget \$000		2009/10 Budget \$000	2010/11 Budget \$000	2011/12 Budget \$000	2012/13 Budget \$000	2013/14 Budget \$000	2014/15 Budget \$000	2015/16 Budget \$000	2016/17 Budget \$000	2017/18 Budget \$000	2018/19 Budget \$000
<b>OPERATING INCOME</b>											
32,281	Rates	34,790	37,943	41,099	44,062	47,456	50,204	53,548	56,803	59,405	62,284
1,158	Reserve contributions	1,019	1,051	1,450	1,520	1,585	1,647	1,715	1,870	1,930	2,041
3,094	Development contributions	2,160	2,406	5,238	13,046	13,188	6,044	6,260	6,758	6,718	8,444
945	Gain on revaluation of investment properties & forestry	817	821	879	938	929	977	1,022	915	796	853
7,242	Vested assets	2,312	1,639	2,399	2,136	2,341	2,517	2,839	2,810	2,751	3,659
651	Finance Income	650	650	650	650	650	650	650	650	650	650
20,497	Other revenue	19,678	18,645	20,535	26,209	24,298	28,117	27,490	24,749	25,686	27,264
65,868	<b>Total Operating Income</b>	61,426	63,155	72,250	88,561	90,447	90,156	93,524	94,555	97,936	105,195
<b>OPERATING EXPENDITURE</b>											
12,262	Employee benefit expenses	13,682	14,534	15,742	16,701	18,055	18,965	19,576	20,204	20,949	21,668
13,053	Depreciation & amortisation	13,988	14,710	15,166	16,299	17,887	18,547	19,487	20,890	21,233	22,332
23,179	Other expenses	28,586	28,023	29,351	30,626	31,216	34,876	36,168	37,392	40,601	43,348
1,566	Finance costs	1,800	2,236	3,126	3,654	4,392	4,800	5,034	5,394	5,064	5,088
50,060	<b>Total Operating Expenditure</b>	58,056	59,503	63,385	67,280	71,550	77,188	80,265	83,880	87,847	92,436
15,808	* <b>OPERATING SURPLUS</b>	3,370	3,652	8,865	21,281	18,897	12,968	13,259	10,675	10,089	12,759

## Prospective Statement of Changes in Equity

Forecast 2008/09 \$000		2009/10 Budget \$000	2010/11 Budget \$000	2011/12 Budget \$000	2012/13 Budget \$000	2013/14 Budget \$000	2014/15 Budget \$000	2015/16 Budget \$000	2016/17 Budget \$000	2017/18 Budget \$000	2018/19 Budget \$000
933,213	Balance at 1 July 2009	1,099,036	1,134,425	1,149,886	1,237,087	1,275,889	1,308,147	1,375,490	1,405,956	1,429,772	1,495,812
	Property Plant and Equipment										
165,111	Revaluation gains/(losses) taken to equity	31,576	11,445	78,015	17,207	13,282	54,375	17,207	13,141	55,951	17,916
(1,399)	Cash flow hedges	443	364	321	314	79	-	-	-	-	-
163,712	Net income recognised directly to equity	32,019	11,809	78,336	17,521	13,361	54,375	17,207	13,141	55,951	17,916
2,111 *	Surplus for the year	3,370	3,652	8,865	21,281	18,897	12,968	13,259	10,675	10,089	12,759
165,823	Total recognised income for the year ending 30 June	35,389	15,461	87,201	38,802	32,258	67,343	30,466	23,816	66,040	30,675
<b>1,099,036</b>		<b>1,134,425</b>	<b>1,149,886</b>	<b>1,237,087</b>	<b>1,275,889</b>	<b>1,308,147</b>	<b>1,375,490</b>	<b>1,405,956</b>	<b>1,429,772</b>	<b>1,495,812</b>	<b>1,526,487</b>

\* The budgeted surplus of \$15.808 million has been reforecast to a surplus of \$2.111 million, with the main variations being a reduction in revenue from vested assets, reduction in external funding for the Karapiro project and the Cambridge pool and operating expenses for both projects budgeted as capital. This forecast has been used to estimate the first year of the Statement of Financial Position.

# Prospective Statement of Financial Position

Forecast 2008/09 \$000	Note	2009/10 Budget \$000	2010/11 Budget \$000	2011/12 Budget \$000	2012/13 Budget \$000	2013/14 Budget \$000	2014/15 Budget \$000	2015/16 Budget \$000	2016/17 Budget \$000	2017/18 Budget \$000	2018/19 Budget \$000
<b>ASSETS</b>											
<b>Current Assets</b>											
3,580		2,530	2,315	4,280	2,073	2,320	2,050	1,815	1,068	3,231	2,617
4,435		2,260	2,160	2,060	1,860	1,860	1,460	1,660	1,560	1,660	1,760
8,015		4,790	4,475	6,340	3,933	4,180	3,510	3,475	2,628	4,891	4,377
<b>Non Current Assets</b>											
1,094,733		1,143,169	1,169,995	1,263,248	1,320,112	1,358,368	1,429,656	1,464,201	1,482,812	1,545,895	1,569,921
643		776	927	796	1,042	902	761	908	757	666	887
1,942		2,028	2,118	2,211	2,310	2,372	2,429	2,476	2,525	2,563	2,603
733		2,603	2,603	2,603	2,603	2,603	2,603	2,603	2,603	2,603	2,603
27,075		27,806	28,537	29,322	30,161	31,028	31,948	32,923	33,789	34,547	35,360
1,125,126		1,176,382	1,204,180	1,298,180	1,356,228	1,395,273	1,467,397	1,503,111	1,522,486	1,586,274	1,611,374
1,133,141		1,181,172	1,208,655	1,304,520	1,360,161	1,399,453	1,470,907	1,506,586	1,525,114	1,591,165	1,615,751
<b>LIABILITIES</b>											
<b>Current Liabilities</b>											
6,013		9,388	9,288	9,488	9,388	9,688	9,888	9,088	9,288	9,288	8,688
78		78	78	78	47	47	47	47	47	47	47
884		908	932	957	983	1,010	1,037	1,066	1,095	1,125	1,155
10,000	1	9,000	11,000	19,000	18,600	17,200	25,100	16,800	16,400	19,100	14,000
-		-	-	-	79	-	-	-	-	-	-
16,975		19,374	21,298	29,523	29,097	27,945	36,072	27,001	26,830	29,560	23,890
<b>Non Current Liabilities</b>											
1,520		1,077	713	392	-	-	-	-	-	-	-
610		696	658	618	575	561	545	529	512	493	474
15,000	1	25,600	36,100	36,900	54,600	62,800	58,800	73,100	68,000	65,300	64,900
17,130		27,373	37,471	37,910	55,175	63,361	59,345	73,629	68,512	65,793	65,374
34,105		46,747	58,769	67,433	84,272	91,306	95,417	100,630	95,342	95,353	89,264
<b>EQUITY</b>											
309,602		308,387	309,780	314,779	322,833	326,850	332,102	337,468	339,105	340,336	342,402
789,434		826,038	840,106	922,308	953,056	981,297	1,043,388	1,068,488	1,090,667	1,155,476	1,184,085
1,099,036		1,134,425	1,149,886	1,237,087	1,275,889	1,308,147	1,375,490	1,405,956	1,429,772	1,495,812	1,526,487

# Prospective Cash Flow Statement

Forecast 2008/09 \$000	2009/10 Budget \$000	2010/11 Budget \$000	2011/12 Budget \$000	2012/13 Budget \$000	2013/14 Budget \$000	2014/15 Budget \$000	2015/16 Budget \$000	2016/17 Budget \$000	2017/18 Budget \$000	2018/19 Budget \$000
<b>Cash Flows from Operating Activities</b>										
32,281	34,790	37,943	41,099	44,062	47,456	50,204	53,548	56,803	59,405	62,284
826	650	650	650	650	650	650	650	650	650	650
21,208	25,031	22,201	27,325	40,976	39,071	36,209	35,266	33,477	34,233	37,651
(42,307)	(37,443)	(41,330)	(43,880)	(46,445)	(47,929)	(52,599)	(55,502)	(56,354)	(60,509)	(64,593)
(894)	(1,800)	(2,236)	(3,126)	(3,654)	(4,392)	(4,800)	(5,034)	(5,394)	(5,064)	(5,088)
<b>11,114</b>	<b>21,228</b>	<b>17,228</b>	<b>22,068</b>	<b>35,589</b>	<b>34,856</b>	<b>29,664</b>	<b>28,928</b>	<b>29,182</b>	<b>28,715</b>	<b>30,904</b>
<b>Cash Flows from Investing Activities</b>										
-	1,000	1,000	1,000	-	-	-	-	-	-	-
(60)	(320)	(341)	(64)	(443)	(66)	(68)	(358)	(71)	(133)	(446)
(30,218)	(30,688)	(30,602)	(29,839)	(54,653)	(41,343)	(33,766)	(34,805)	(24,358)	(26,419)	(25,572)
-	(1,870)	-	-	-	-	-	-	-	-	-
<b>(30,028)</b>	<b>(31,878)</b>	<b>(29,943)</b>	<b>(28,903)</b>	<b>(55,096)</b>	<b>(41,409)</b>	<b>(33,834)</b>	<b>(35,163)</b>	<b>(24,429)</b>	<b>(26,552)</b>	<b>(26,018)</b>
<b>Cash Flows from Financing Activities</b>										
10,000	19,600	21,500	19,800	36,300	25,400	21,100	31,100	11,300	16,400	13,600
(1,610)	(10,000)	(9,000)	(11,000)	(19,000)	(18,600)	(17,200)	(25,100)	(16,800)	(16,400)	(19,100)
<b>8,390</b>	<b>9,600</b>	<b>12,500</b>	<b>8,800</b>	<b>17,300</b>	<b>6,800</b>	<b>3,900</b>	<b>6,000</b>	<b>(5,500)</b>	<b>-</b>	<b>(5,500)</b>
(10,524)	(1,050)	(215)	1,965	(2,207)	247	(270)	(235)	(747)	2,163	(614)
14,104	3,580	2,530	2,315	4,280	2,073	2,320	2,050	1,815	1,068	3,231
<b>3,580</b>	<b>2,530</b>	<b>2,315</b>	<b>4,280</b>	<b>2,073</b>	<b>2,320</b>	<b>2,050</b>	<b>1,815</b>	<b>1,068</b>	<b>3,231</b>	<b>2,617</b>

# Statement of Cost of Services

Budget 2008/09 \$000	Budget 2009/10 \$000	Budget 2010/11 \$000	Budget 2011/12 \$000	Budget 2012/13 \$000	Budget 2013/14 \$000	Budget 2014/15 \$000	Budget 2015/16 \$000	Budget 2016/17 \$000	Budget 2017/18 \$000	Budget 2018/19 \$000
<b>Revenue</b>										
29	30	75	30	30	78	30	30	81	30	30
2,825	3,007	3,226	3,418	3,559	3,681	3,805	3,936	4,068	4,210	4,357
866	1,054	1,208	1,239	1,284	1,702	1,989	2,031	2,213	2,269	2,327
1,214	1,415	1,477	1,507	2,378	1,633	1,754	1,531	1,836	1,602	1,642
5,690	7,857	6,960	7,440	8,640	8,823	10,959	10,968	10,674	11,362	12,387
3	3	3	3	3	4	4	4	4	4	4
2,764	3,144	3,295	3,446	3,600	3,783	3,962	4,171	4,377	4,596	4,834
375	376	406	438	472	510	551	598	646	698	756
9,852	11,801	12,453	13,379	14,247	14,608	15,566	15,767	16,132	17,102	17,636
23,618	28,687	29,103	30,900	34,213	34,822	38,620	39,036	40,031	41,873	43,973
9,431	11,409	12,048	12,964	13,822	14,127	15,074	15,264	15,618	16,524	17,044
14,187	17,278	17,055	17,936	20,391	20,695	23,546	23,772	24,413	25,349	26,929
<b>Expenditure</b>										
4,371	4,222	4,333	4,446	4,131	4,572	4,505	4,527	4,765	4,975	5,138
4,709	4,448	4,685	5,047	5,391	5,625	5,921	6,067	6,202	6,420	6,676
8,160	9,031	9,827	11,172	10,870	12,360	13,595	13,861	15,502	15,950	16,488
4,768	7,582	6,068	5,713	6,068	5,909	6,207	6,316	6,594	7,020	7,133
13,628	16,755	17,232	18,180	21,044	21,073	23,442	26,062	25,915	27,541	30,224
1,675	1,872	2,082	2,289	2,432	2,594	2,818	3,009	3,160	3,432	3,468
6,841	7,733	8,390	9,367	10,027	10,732	11,415	11,745	12,561	12,948	13,502
6,127	6,030	6,282	6,575	6,835	8,154	8,735	8,950	9,473	9,803	10,049
9,856	12,478	13,379	14,327	15,102	15,483	16,471	15,867	16,232	17,202	17,736
60,135	70,151	72,278	77,116	81,900	86,502	93,109	96,404	100,404	105,291	110,414
9,431	11,409	12,048	12,964	13,822	14,127	15,074	15,264	15,618	16,524	17,044
645	686	727	767	798	825	847	875	906	920	934
50,059	58,056	59,503	63,385	67,280	71,550	77,188	80,265	83,880	87,847	92,436

# Statement of Borrowing

2008/09 Forecast \$000		Budget 2009/10 \$000	Budget 2010/11 \$000	Budget 2011/12 \$000	Budget 2012/13 \$000	Budget 2013/14 \$000	Budget 2014/15 \$000	Budget 2015/16 \$000	Budget 2016/17 \$000	Budget 2017/18 \$000	Budget 2018/19 \$000
<b>Movements in Borrowings</b>											
16,610	Opening Balance	25,000	34,600	47,100	55,900	73,200	80,000	83,900	89,900	84,400	84,400
8,390	Net Loans Raised/(Repaid)	9,600	12,500	8,800	17,300	6,800	3,900	6,000	(5,500)	-	(5,500)
25,000	Closing Balance	34,600	47,100	55,900	73,200	80,000	83,900	89,900	84,400	84,400	78,900
10,000	Current Portion of External Debt	9,000	11,000	19,000	18,600	17,200	25,100	16,800	16,400	19,100	14,000
15,000	Term Portion of External Debt	25,600	36,100	36,900	54,600	62,800	58,800	73,100	68,000	65,300	64,900
25,000		34,600	47,100	55,900	73,200	80,000	83,900	89,900	84,400	84,400	78,900

The above represents the level of external borrowing but this could fluctuate depending on future use of reserves

<b>Policy Compliance</b>												
10.2	Net operating cashflow to interest expense	> 4	11.8	7.7	7.1	9.7	7.9	6.2	5.7	5.4	5.7	6.1
3.3%	Interest expense as % of rates and fees and charges revenue	15%	3.5%	4.1%	5.3%	5.7%	6.4%	6.5%	6.5%	6.6%	6.0%	5.7%
40,778	Dollar rates and fees and charges revenue	000's	52,067	54,997	59,034	64,451	68,148	73,749	77,317	81,215	84,754	89,212
1,343	Interest expense	000's	1,800	2,236	3,126	3,654	4,392	4,800	5,034	5,394	5,064	5,088
13,645	Net cashflow from operating activities	000's	21,228	17,228	22,068	35,589	34,856	29,664	28,928	29,182	28,715	30,904

# Statement of Accounting Policies

---

---

## Reporting Entity

Waipa District Council is a territorial local authority governed by the Local Government Act 2002. Council has no subsidiaries and the financial statements are for the single entity of Waipa District Council, domiciled in New Zealand.

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

## Basis of Preparation

The Financial Statements have been prepared in accordance with the requirements of the Local Government Act 2002: Part 6, Section 98 and Part 3 of Schedule 10, which includes the requirement to comply with New Zealand generally accepted accounting practice (NZ GAAP).

The 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 accounting policies set out below have been applied consistently to all periods presented in these financial statements.

The financial statements have been prepared on a historical cost basis, modified by the revaluation of land and buildings, infrastructural assets, investment property and forestry. The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (\$'000). The functional currency of Council is New Zealand dollars.

There are no standards, interpretations and amendments that have been issued, but are not yet effective, that Council has not yet applied.

## Revenue

Revenue is measured at the fair value of consideration received.

### Rates Revenue

Rates are set annually by a resolution from Council and relate to a financial year. All ratepayers are invoiced within the financial year to which the rates have been set. Rates revenue is recognised when payable.

## **Other Revenue**

Water billing revenue is recognised on an actual basis. Unbilled usage, as a result of unread meters at year end, is accrued on an average usage basis.

Council receives government grants from the New Zealand Transport Agency which subsidises part of Council's costs in maintaining the local roading infrastructure. The subsidies are recognised as revenue upon entitlement as conditions pertaining to eligible expenditure have been fulfilled.

Where a physical asset is acquired for nil or nominal consideration, the fair value of the asset received is recognised as income. Assets vested in Council are recognised as revenue when control over the asset is obtained.

Interest income is recognised using the effective interest method.

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

## **Development Contributions**

The revenue recognition point for development and financial contributions is at the point that settlement is received, either by payment or negotiated developer agreement.

## **Borrowing Costs**

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 Council has no obligation to award on receipt of the grant application and grants are recognised as expenditure on payment.

## **Cash and Cash Equivalents**

Cash and cash equivalents includes cash in 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.

## **Trade and other Receivables**

Trade 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.

Loans are initially recognised at the present value of their expected future cash flows, discounted at the current market rate of return of a similar asset/investment. They are subsequently measured at amortised cost using the effective interest method. The difference between the face value and present value of expected future cash flows of the loan is recognised in the Statement of Financial Performance as a grant.

A provision between the face value and present value of expected future cash flows of the loan is recognised in the Statement of Financial Performance as a grant.

A provision for impairment of receivables is established when there is objective evidence that Council will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the effective interest method.

## **Financial Assets**

Council classifies its investments in the following categories:

- Financial assets at fair value
- Loans and receivables
- Held-to-maturity investments

The classification depends on the reason behind acquiring the investment. Council decides how to classify its investments when they are acquired.

Purchases and sales of investments are recorded on the value date. Financial assets are no longer recognised when the right to receive cash flows from the financial assets has expired or has been transferred. The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active, Council establishes fair value through valuation techniques. At each year end Council assesses whether there is evidence that a financial asset or group of financial assets is impaired. Any impairment is recognised in the Statement of Financial Performance.

### **Financial Assets at Fair Value through Profit or Loss**

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss. A financial asset falls in this category if acquired principally to sell in the short-term or if designated this way by Council. After initial recognition, they are measured at fair value. These financial assets are classified as current assets if they are held for trading or expected to be realised within twelve months of the year end date.

### **Loans and Receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments not quoted in an active market. They arise when Council provides money, goods or services directly to a debtor with no intention of selling the receivable asset. After initial recognition, they are measured at amortised cost using the effective interest method. They are included in current assets, except for those with maturities greater than twelve months after the year end date, which are classified as non-current assets.

### **Held-to-Maturity Investments**

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that Council has the intention and ability to hold to maturity. After initial recognition, they are measured at amortised cost using the effective interest method.

## **Financial Assets at Fair Value through Equity**

Financial assets at fair value through equity are non-derivative assets designated in this category or not classified in the other categories. After initial recognition, they are measured at fair value. They are included in non-current assets unless Council intends to dispose of the asset within twelve months of year end.

## **Non Current Assets Held for Sale**

Non current assets held for sale are classified as held for sale if their carrying amount will be recovered principally through a sale transaction, not 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. These assets are not depreciated or amortised.

## **Property, Plant and Equipment**

Property, plant and equipment consists of:

- Operational assets which include land, buildings, library books, plant and equipment, and motor vehicles.
- Infrastructural assets which are the fixed utility systems. 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.
- Property, plant and equipment are shown at cost or valuation, less accumulated depreciation and impairment losses.

### **Additions**

The cost of an item of property, plant and equipment is recognised as an asset if it is probable that future economic benefits or service potential associated with the item will flow to Council and the cost of the item can be measured reliably. Additions are generally recognised at cost. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value at the date of acquisition.

### **Disposals**

Gains and losses on disposal are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are included in the Statement of Financial Performance. When revalued assets are sold, the amounts included in asset revaluation reserves in respect of those assets are transferred to retained earnings.

### **Subsequent Costs**

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

## Depreciation

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

	<b>Components</b>	<b>Years</b>
Water treatment	– structures	50 – 100
	– plant	10 – 25
	– pipes	60
Water reticulation	– pipes	30 – 80
	– fittings	25
Sewage treatment	– structures	50 – 100
	– plant	10 – 25
	– pipes	60
Sewerage reticulation	– pipes	50 – 80
	– manholes	50
Stormwater	– structures	50
	– pipes	50 – 100
	– manholes	50
		<b>Years</b>
Formation/carriageway and shoulder		Infinite
Pavement structure		30 – 50
Pavement surface (seal)		10 – 15
Catchpits and culverts		30 – 70
Bridges		20 – 80
Kerb and channel		50
Lighting		10
Footpaths		20 – 50
		<b>Years</b>
Buildings – not componentised		40
Building – structure		50 - 80
Building – fit-out		25 - 80
Building – services		40 - 80
Plant/motor vehicles		3 - 10
Furniture, fittings and equipment		3 - 10
Computer equipment		3 - 10
Intangibles		3 - 10

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

## **Revaluation**

Those asset classes that are revalued are valued on a three yearly cycle on the basis described below, with the exception of forestry assets and investment properties, which are valued annually. All other asset classes are carried at depreciated historical cost. The carrying values of revalued items are reviewed at each balance date to ensure that those values are not materially different to fair value.

### **Operational Land and Buildings**

At fair value as determined from market-based evidence by an independent valuer. The most recent valuation was performed by Quotable Value New Zealand (registered valuers) and the valuation is effective as at 1 July 2008.

### **Infrastructural Assets**

At fair value determined on a depreciated replacement cost basis by an independent valuer. At balance date the carrying value of infrastructural assets is assessed to ensure that they do not differ materially from the assets' fair values. If there is a material difference, then a revaluation is undertaken. The most recent valuation was performed by Opus International Consultations Limited (registered valuers) and the valuation is effective as at 1 July 2006. All infrastructural asset classes at valuation were valued.

### **Land Under Roads**

Land under roads was valued based on fair value of adjacent land by Opus International Consultants Limited (registered valuers), effective 1 July 2006. Waipa District Council has elected to use the fair value of land under roads as at 1 July 2006 as deemed cost. Land under roads is no longer revalued.

### **Accounting for Revaluations**

Revaluations of property, plant and equipment are on a class of asset basis. 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 in the Statement of Financial Performance. Any subsequent increase in revaluation that off-sets a previous decrease in value recognised in the Statement of Financial Performance will be recognised first in the Statement of Financial Performance up to the amount previously expensed, and then credited to the revaluation reserve for that class of asset.

## **Intangible Assets**

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Costs associated with maintaining computer software 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 Statement of Financial Performance. The useful lives and associated amortisation rates of computer software have been estimated at 3-10 years (33% - 10%).

## **Impairment**

Intangible assets that have an indefinite useful life, or not yet available for use, are not subject to amortisation and are tested annually for impairment. Assets that have a finite useful life are reviewed for indicators of and are tested annually for impairment at each balance date. When there is an indicator of impairment the asset's recoverable amount is estimated. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

## **Forestry**

Forestry assets are independently revalued annually at fair value less estimated point of sale costs. Fair value is determined on the present value of expected net cash flows discounted at a current market pre-tax rate. The calculation is based on existing sustainable felling plans and assessments regarding growth, timber prices, felling costs and silvicultural costs and takes into consideration environmental, operational and market restrictions.

Gains or losses arising on initial recognition of forestry assets at fair value less estimated point of sale costs and from a change in fair value less estimated point of sale costs are recognised in the Statement of Financial Performance. The costs to maintain the forestry assets are included in the Statement of Financial Performance.

## **Investment Properties**

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.

Initially, investment properties are measured at cost including transaction costs. Subsequent to initial recognition investment properties are measured at fair value as determined annually by an independent valuer. Gains and losses on revaluation, acquisition, and disposal are recognised in the Statement of Financial Performance.

## **Employee Benefits**

Employee benefits expected to be settled within twelve months of balance date are measured at nominal values based on accrued entitlements at current rates of pay. These include salaries and wages accrued up to balance date, annual leave earned to, but not yet taken at balance date, and sick leave. 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 it is anticipated it will be used by staff to cover those future absences.

## Creditors and Other Payables

Creditors and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method.

## Provisions

Council recognises a provision 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, if it is probable that expenditures will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

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.

## Derivative Financial Instruments

Council uses derivative financial instruments to hedge its exposure to interest rate risks arising from financing activities. In accordance with the Treasury Management Policy, Council does not hold or issue derivative financial instruments for trading purposes.

Derivatives financial instruments are recognised initially at fair value. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on re-measurement to fair value is recognised immediately in the Statement of Financial Performance. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see Hedging Policy).

The fair value of interest rate swaps is the estimated amount that the Council would receive or pay to terminate the swap at the Statement of Financial Position date, taking into account current interest rates and the current credit worthiness of the swap counterparts.

## Hedging

Derivatives are first recognised at fair value on the date a contract is entered into and are subsequently re-measured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Council designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or (2) hedges of highly probable forecasted transactions (cash flow hedges).

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

## **Fair Value Hedge**

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Statement of Financial Performance, together with any changes in the fair value of the assets or liability that are attributable to the hedges risk.

## **Cash Flow Hedge**

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the Statement of Financial Performance.

Amounts accumulated in equity are recycled in the Statement of Financial Performance in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of the non financial assets (for example inventory) or a non financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost of carrying amount of the asset or liability.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at the time remains in equity and is recognised when the forecast transaction is ultimately recognised in the Statement of Financial Performance.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the Statement of Financial Performance.

## **Derivatives That Do Not Qualify For Hedge Accounting**

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that do not qualify for hedge accounting are recognised immediately in the Statement of Financial Performance.

## **Borrowings**

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

## **Equity**

Equity is the community's interest in Council and is measured as the difference between total assets and total liabilities. Equity is disaggregated and classified into a number of reserves, the components of which are retained earnings, reserves and special funds, and asset revaluation reserves.

## **Reserves and Special Funds**

Reserves and special funds are a component of equity representing a particular use to which various parts of equity have been assigned. Transfers from these reserves may be made only for certain specified purposes or when certain specified conditions are met.

## **Goods and Services Taxation (GST)**

All items in the financial statements are stated exclusive of GST, except for receivables and payables which are stated on a GST inclusive basis.

The net amount of GST recoverable from, or payable to, the Inland Revenue Department (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 is classified as an operating cash flow in the statement of cash flows.

Commitments and contingencies are disclosed exclusive of GST.

## **Budget Figures**

The budget figures are those approved by Council at the adoption of the 10-year Plan. The budget figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted by Council for the preparation of these financial statements.

## **Cost Allocation**

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

Direct costs are those costs directly attributable and charged to a significant activity. Indirect costs are those costs which cannot be identified in an economically feasible manner with a specific significant activity. Indirect costs are charged to significant activities using appropriate cost drivers such as computer equipment used, staff numbers and floor area.

## **Critical Accounting Estimates and Assumptions**

In preparing these financial statements, Council 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.

## **Income Tax**

Council is tax exempt for income tax purposes.

## Significant Forecasting Assumptions

FORECASTING ASSUMPTIONS	RISK	LEVEL OF UNCERTAINTY	REASON AND FINANCIAL EFFECT OF UNCERTAINTY
<p><b>Useful lives of significant assets</b></p> <p>The useful life will be in accordance with the information provided by registered valuers at each revaluation. The full list is shown in Accounting Policies above.</p>	Actual asset lives may vary from forecast	Low	Asset replacement plans are based on useful lives. As the useful lives form part of the assumptions used to value assets, it is unlikely that there will be any change over the 10 year period.
<p><b>Sources of funds for future replacement of significant assets</b></p> <p>Rates revenue includes a revenue stream to fund depreciation and this fund is available for the renewal of significant assets. Loans will be used to fund any additional replacement cost. Detailed information around funding sources is provided in the Revenue and Financing Policy under the Policy Section.</p>	Funds will not be available to replace assets	Low	The Revenue and Financing Policy provides some flexibility in the funding mix available and any changes to replacement plans will be considered when compiling each year's Annual Plan. Where a change is significant, it will be possible to defer or bring forward capital projects.
<p><b>Projected growth change factors</b></p> <p>Council will continue to provide services and perform functions to approximately the same standards as at present.</p> <p>The growth of rateable properties in the District has been estimated to increase by 2% per annum.</p> <p>Population growth has been estimated at 1.8% based on projections undertaken by the Waikato University for the Hamilton Sub-regional Growth Strategy.</p>	Growth is more or less than forecast	Medium	The global economic situation creates uncertainty around achievement of estimated growth. Based on recent growth rates, there is existing capacity to accommodate this level of growth for the next 3-5 years. The majority of growth related expenditure occurs in later years of the Plan. Council will continue to monitor actual rates of growth and if there is a significant change, appropriate amendments will be made to the 10-year Plan.

FORECASTING ASSUMPTIONS	RISK	LEVEL OF UNCERTAINTY	REASON AND FINANCIAL EFFECT OF UNCERTAINTY
<p><b>Cost factors</b></p> <p>Expenditure for the 2009/10 year is based on estimated costs. For all future years of the 10-year Plan costs and revenues have been adjusted to reflect inflation trends using financial indicators published by Business and Economic Research Limited (BERL) shown below. Staffing costs have been adjusted by 3% annually as this provides a closer reflection of Council's remuneration strategy than the BERL rates.</p>	<p>Price level changes will vary from those used.</p>	<p>High</p>	<p>The estimates of costs and revenue have been prepared based on price level adjustments recommended by BERL. Actual costs and revenues will change each year according to market forces, although this is not expected to have a significant impact. A 1% change from estimated to actual cost would be approximately \$0.6m.</p>
<p><b>NZTA subsidy rate</b></p> <p>NZTA subsidy rates are assumed to remain constant across the 10 years. The rates used are:</p> <ul style="list-style-type: none"> <li>▪ Renewal and maintenance: 48%</li> <li>▪ Minor improvements: 58%</li> <li>▪ Road safety: 75%</li> <li>▪ Level crossing warning devices: 100%</li> </ul>	<p>Subsidy rates vary</p>	<p>Low</p>	<p>There has been little variation to the rates over recent years, hence the assumption of continuity across 10 years. A reduction in rate would be managed by either reducing the programme of work, or an increase in borrowing.</p>

FORECASTING ASSUMPTIONS	RISK	LEVEL OF UNCERTAINTY	REASON AND FINANCIAL EFFECT OF UNCERTAINTY
<p><b>Revaluation of non-current assets</b></p> <p>Properties in the District will be revalued on a three yearly cycle.</p> <p>Infrastructural assets will be revalued on a three yearly cycle.</p> <p>Investment property will be revalued annually.</p> <p>The valuations for each year are based on the previous year's values, plus additions and then increased by the appropriate BERL adjuster.</p>	<p>Values will vary from forecast</p>	<p>Medium</p>	<p>The estimate of costs has been prepared based on price level adjustments provided by BERL. The cost of replacing or constructing assets will vary each year from the estimates according to market forces. Significant variations may require some projects to be rescheduled, either deferred or advanced.</p>
<p><b>Interest rates</b></p> <p>Interest on term debt is calculated using the known rate for existing debt which is 8% fixed over a 5 year period, with new debt at 6%.</p> <p>Interest on investments is calculated at 6%.</p>	<p>Interest rates will be higher or lower than forecast</p>	<p>Low</p>	<p>Interest rates will vary from estimates. Council will manage this through interest rate risk management instruments authorised in the Liability Management Policy and by using internal borrowing as much as possible. A 1% change in interest rates would result in a change of \$10,000 per \$1 million of debt. In year 1 this would increase or decrease the interest cost by \$60,000.</p>
<p><b>External funding</b></p> <p>Assumptions have been made around the ability to raise community funding for some major community projects and also the level achievable.</p>	<p>Funding of major projects will not be achievable</p>	<p>High</p>	<p>Levels of community fundraising will be affected by the global economic climate and it is possible that the funding levels required may not be achieved. Significant projects which are partially funded by community funding will not commence until the community funding has been committed.</p>

# BERL Price Adjusters

	ROADING	WATER	OTHER
	%	%	%
<b>2010/11</b>	2.9	3.0	
<b>2011/12</b>	2.9	2.8	3.3
<b>2012/13</b>	2.4	2.7	2.3
<b>2013/14</b>	2.3	3.3	2.4
<b>2014/15</b>	2.2	2.9	2.1
<b>2015/16</b>	2.3	3.5	2.2
<b>2016/17</b>	2.4	3.1	2.3
<b>2017/18</b>	2.4	3.2	2.4
<b>2018/19</b>	2.2	3.3	2.5

## Capital Expenditure Programme

	2009/10 Budget \$000	2010/11 Budget \$000	2011/12 Budget \$000	2012/13 Budget \$000	2013/14 Budget \$000	2014/15 Budget \$000	2015/16 Budget \$000	2016/17 Budget \$000	2017/18 Budget \$000	2018/19 Budget \$000
<b>Analysis of Capital Projects</b>										
Growth	5,790	7,682	9,036	20,719	14,999	8,529	8,129	6,453	8,475	7,043
Levels of Service/Renewal	23,878	21,922	18,839	33,347	25,381	24,276	26,004	16,946	17,046	17,962
Vested Assets	2,312	1,639	2,399	2,136	2,341	2,517	2,839	2,810	2,751	3,659
<b>Total Capital Expenditure</b>	<b>31,980</b>	<b>31,243</b>	<b>30,274</b>	<b>56,202</b>	<b>42,721</b>	<b>35,322</b>	<b>36,972</b>	<b>26,209</b>	<b>28,272</b>	<b>28,664</b>
<b>Projects</b>										
Amenities - Recreation	6,211	4,555	3,448	13,720	4,712	8,563	9,447	1,693	1,693	1,731
Amenities - Welfare & Facilities	70	36	53	54	44	45	52	47	48	50
Transport Management	11,856	10,897	11,126	12,620	20,018	16,907	15,189	14,159	15,715	18,200
Stormwater	3,346	1,584	2,397	2,017	3,494	2,376	3,287	2,217	2,901	2,920
Water Treatment and Supply	5,336	8,443	7,830	9,441	4,885	4,131	5,321	4,474	4,180	1,575
Wastewater Treatment and Disposal	3,341	4,173	4,298	16,674	8,216	2,026	1,912	2,497	2,159	2,517
Support Services	1,820	1,555	1,122	1,676	1,352	1,274	1,764	1,122	1,576	1,671
<b>Total Capital Projects</b>	<b>31,980</b>	<b>31,243</b>	<b>30,274</b>	<b>56,202</b>	<b>42,721</b>	<b>35,322</b>	<b>36,972</b>	<b>26,209</b>	<b>28,272</b>	<b>28,664</b>

## Projects Considered but not Funded

PROJECT	ESTIMATED 10YR COST \$000
Additional Treated Water Storage for Urban Areas	\$8,000
Back up Connection between Drinking Water Schemes	\$6,477
Cambridge 3 <sup>rd</sup> Bridge (land purchase)	\$4,688
Cambridge Town Hall Refurbishment	\$1,137
Carpark Improvements	\$583
District Wide Water Metering (Universal)	\$4,005
Extra Widening of Roads for Levels of Service (incl Cycling)	\$7,962
Heart of Te Awamutu Projects Adventure Playground Churchill Street Carpark Extension Events Centre Third Court Expansion Mahoe Street Upgrade SH3 External Gateways Wellness Centre	\$19,456
Leamington-Karapiro Cycleway	\$850
New Museum in Cambridge	\$3,507
Te Rore Water Scheme	\$2,503
Western Arterial Land Purchases	\$2,896

