Statement of accounting policies

March 2017

Reporting entity

Northland Regional Council is a local authority governed by the Local Government Act 2002 and the Local Government (Rating) Act 2002 and is domiciled and operates in New Zealand.

The council's group comprises the council and its subsidiaries, namely:

- Marsden Maritime Holdings Limited (NZ) Ltd (53.61% owned);
- Northland Inc. Limited (100% owned);

All Northland Regional Council subsidiaries and associates are incorporated and domiciled in New Zealand.

The primary objective of Northland Regional Council is to provide goods or services and perform regulatory functions for the community benefit rather than making a financial return. Accordingly, Northland Regional Council has designated itself and the group as Public Benefit Entities for financial reporting purposes.

Reporting period

The prospective financial statements are for Northland Regional Council and are prepared for the year ending 30 June 2018.

Judgements and estimates

The preparation of prospective financial statements in conformity with PBE Standards, which are based on International Public Sector Accounting Standards (IPSAS) and with the Local Government (Financial Reporting and Prudence) Regulations 2014 requires judgements, estimates and assumptions concerning the future that affect the application of policies and reporting amounts of assets and liabilities and income and expenses. Estimates and judgements 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.

Where material, information on the major assumptions is provided in the significant forecasting assumptions section of this annual plan or will be provided in the relevant notes to the prospective financial statements.

Basis of preparation

The prospective financial statements of Northland Regional Council 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's generally accepted accounting practice (NZ GAAP).

These prospective financial statements have been prepared in accordance with NZ GAAP. They comply with NZ PBE (Tier1), IPSAS and other applicable Financial Reporting Standards, as appropriate for public benefit entities.

In the interests of transparency we provide three sets of financial information:

1. The usual Generally Accepted Accounting Principles (GAAP) regulated statements of financial position, comprehensive revenue and expense and the like; and
2. A Funding Impact Statement (FIS).

3. Long-term plan disclosure statement as required by Schedule 6 of the Local Government (Financial Reporting and Prudence) Regulations 2014. This is under the heading Financial Prudence.

Key differences between these three sets of information are that the GAAP regulated financial statements – as the name suggests – must adhere to GAAP requirements.

The FIS is intended to make the sources and applications of council funds more transparent to its stakeholders than might be the case if only the usual GAAP financial statements were provided. The FIS is prescribed by the Local Government (Financial Reporting and Prudence) Regulations 2014 and is required by the Local Government Act 2002.

The long-term plan disclosure statement is to disclose the council's planned financial performance in relation to various benchmarks to enable the assessment of whether the council is prudently managing its revenues, expenses, assets, liabilities, and general financial dealings.

Statement of Compliance

The prospective financial statements of the council and group have been prepared in accordance with the requirements of the Local Government Act 2002, which include the requirement to comply with generally accepted accounting practice in New Zealand (NZ GAAP).

The prospective financial statements comply with Tier 1 PBE accounting standards.

Functional and presentation currency

The prospective financial statements are presented in New Zealand dollars which is the functional currency of Northland Regional Council. Standards issued and not yet effective and not early adopted

In 2015, the External Reporting Board issued Disclosure Initiative (Amendments to PBE IPSAS 1),

2015 Omnibus Amendments to PBE Standards, and Amendments to PBE Standards and Authoritative notice as a consequence of XRB A1 and other amendments. These amendments apply to PBEs with reporting periods beginning on or after 1 January 2016. Northland Regional Council will apply these amendments in preparing its 30 June 2017 financial statements. Northland Regional Council expects there will be no effect in applying these amendments.

Summary of significant accounting policies

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

Revenue

Revenue is measured at fair value.

Rates revenue

Rates are set annually by a resolution of 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 and brought to account when the rates are payable based on the council's best estimate of what is expected to be collected.

These transactions are classified as non-exchange transactions.

Fees and charges

Fees and charges are recognised by reference to the stage of completion of the transaction at balance date, based on the actual service provided as a percentage of the total services provided. The majority of this type of revenue is exchange transactions.

Grants and subsidies

Grants and subsidies are recognised as revenue when the primary conditions of entitlement have been met. These are non-exchange revenue transactions. Where a transfer is subject to conditions that, if unfulfilled, require the return of transferred resources, council recognises a liability until the condition is fulfilled.

Sales of goods

Revenue from the sale of goods is recognised when a product is sold to a customer. Sales are usually in cash or by credit card. The recorded revenue is the gross amount of the sale, including credit card fees payable for the transaction. Such fees are included in other expenses. Where revenue is derived by acting as an agent for another party, the revenue that is recognised is the commission or fee on the transaction.

Interest

Interest income is recognised using the effective interest method.

Other revenue – Dividends

Dividends are recognised when the right to receive payment has been established. Dividend income is budgeted at the cash amount received, being net of taxation imputation credits.

Rental revenue

Rental revenue from investment property is recognised in the surplus or deficit on a straight-line basis over the term of the lease.

Funds collected for other organisations

Funds are collected for other organisations, including central government. Any funds held at balance date are included in current liabilities. Amounts collected on behalf of third parties are not recognised as revenue, except for the commissions or fees earned.

Vested assets

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

Expenditure

Expenditure is recognised when goods and services have been received.

Borrowing costs

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

Grant expenditure

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

Discretionary grants are those grants where the council has no obligation to award the grant on receipt of the grant application and are recognised as expenditure when the grant conditions have been satisfied.

Leases

Operating leases

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term. All the leases of the council and group are operating leases.

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.

Debtors and other receivables

Short-term debtors and other receivables are recorded at their face value, less any provision for impairment.

Impairment of debtors and other receivables is explained under Impairment of financial Assets.

Other financial assets

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

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

The council and group classify its financial assets into the following four categories:

- Financial assets at fair value through surplus or deficit;
- Loans and receivables;
- Held-to-maturity investments; and
- Financial assets at fair value through other comprehensive revenue and expense.

The classification depends on the purpose for which the investments were/was acquired.

Financial assets at fair value through surplus or deficit

Financial assets at fair value through surplus or deficit include financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of short term profit taking. Derivatives are also categorised as held for trading unless they are designated in a hedge accounting relationship for which hedge accounting is applied.

Financial assets acquired principally for the purpose of selling in the short term or part of a portfolio classified as held for trading are classified as a current asset. The current/non-current classification of derivatives is explained in the derivatives accounting policy above.

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

Council's external managed funds are classified in this category as they are evaluated and reported on a quarterly basis against the corresponding statement of investment policy and objectives. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance date.

Loans and receivables

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

12 months after the balance date, which are included in non-current assets.

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

Held to maturity investments

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

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

Financial assets at fair value through other comprehensive revenue and expense

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

This category includes:

- Investments that are intended to be held long term but which may be realised before maturity; and
- Shareholdings that are held for strategic purposes.

After initial recognition, these investments are measured at their fair value, with gains and losses recognised directly in other comprehensive revenue and expense except for impairment losses, which are recognised in the surplus or deficit.

On de-recognition, the cumulative gain or loss previously recognised in other comprehensive revenue and expense is reclassified from equity to the surplus or deficit.

Impairment of financial assets

At each balance date the council assesses whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Loans and receivables, and held-to maturity investments

Impairment of a loan or a receivable is established when there is objective evidence that the council and group will not be able to collect amounts due according to the original terms. Significant financial difficulties of 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 assets' carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rates. For debtors and other receivables, the carrying amount is reduced through the use of an allowance account, and the amount of the loss is recognised in the surplus or deficit. When the receivable is uncollectable, it is written off against the allowance account. Overdue receivables that have been renegotiated are reclassified as current (that is, not past due). Impairment in term deposits, local authority stock, government stock and community loans are recognised directly against the instrument's carrying amount.

Financial assets at fair value through other comprehensive revenue and expense

For equity investments, a significant or prolonged decline in the fair value of the investment below its cost is considered objective evidence of impairment.

For debt investments, significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, and default in payments are considered objective indicators that the asset is impaired.

If impairment evidence exists for investments at fair value through other comprehensive revenue and expense, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the surplus or deficit) recognised in other comprehensive revenue and expense is reclassified from equity to the surplus or deficit.

Equity instrument impairment losses recognised in the surplus or deficit are not reversed through the surplus or deficit.

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

Prepayments

Prepayments comprise significant items of expenditure having a benefit to more than one accounting period and are written off over the period to which they relate.

Inventories

Inventories (such as stores and materials) held for distribution or consumption in the provision of services that are not supplied on a commercial basis are measured at the lower of cost, or cost adjusted when applicable, for any loss of service potential. Where inventories are acquired at no cost or for nominal consideration, the cost is the current replacement cost at the date of acquisition.

Inventories held for use in the provision of goods and services on a commercial basis are valued at the lower of cost and net realisable value. The cost of purchased inventory is determined using the FIFO method.

The amount of any write-down for the loss of service potential or from cost to net realisable value is recognised in the surplus or deficit in the period of the write-down.

The Marsden to Oakleigh rail corridor designation is accounted for at the Council's share of the rail corridor component of the acquired land designation costs.

When land held for development and future resale is transferred from investment property/property, plant and equipment to inventory, the fair value of the land at the date of the transfer is its deemed cost.

Costs directly attributed to the development land are to be capitalised to inventory, with the exception of infrastructural asset costs which are capitalised to property, plant, and equipment.

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.

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

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

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.

Property, plant and equipment

Property, plant and equipment consist of:

Operational assets – these include land, buildings, amenities, plant and equipment, navigational aids, vehicles and vessels and dredging equipment.

Infrastructure assets – infrastructure assets are the assets that comprise the Awanui River flood management system and other river management schemes as they are developed, including stop-banks and floodgates.

Land is measured at fair value. Buildings (other than owner occupied building and forest land subject to the ETS) and infrastructure assets are measured at fair value less accumulated depreciation. Forest land subject to the ETS is the land under the forestry asset and is valued at historical cost.

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

Asset Movements

Additions

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

Capital projects in progress are recognised at cost less impairment and are not depreciated.

In most instances, an item of property, plant and equipment is recognised at its cost. Where an asset is acquired at no cost, or for nominal cost, it is recognised at fair value as at the date of acquisition.

Subsequent costs

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

Disposals

Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount of the asset. Gains and losses on disposals are reported in the surplus or deficit. When re-valued assets are sold, the amounts included in asset revaluation reserves in respect of those assets are transferred to accumulated funds.

Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment other than land, owner-occupied buildings and infrastructure assets (except for stop-banks as described below), 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 and amortisation rates of major classes of assets have been estimated as follows:

Buildings	5-100 years	1-20%
Amenities	5-100 years	1-20%
Plant and equipment	2-20 years	5-50%
Navigational aids	10-20 years	5-10%
Vehicles	4-8 years	12.5-25%
Vessels and dredging	10-25 years	4-10% equipment
Infrastructure assets	8-100 years	1-12.5%

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

Infrastructural assets components include gates, pipes, outlets and stop banks, depreciation is provided for on stop-bank components of the infrastructure assets. An asset management plan has been prepared for these schemes.

Intangible assets

Software acquisition and development

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

Costs that are directly associated with the development of software for internal use are recognised as an intangible asset. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

Staff training costs are recognised in the surplus or deficit when incurred.

Costs associated with maintaining computer software are recognised as an expense, when incurred.

Amortisation

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

The useful lives and associated amortisation rates for major classes of intangible assets have been estimated as follows:

Computer software	4-5 years	20-25%

New Zealand Units (Forestry) – Emissions Trading scheme

Compensation units received at no cost are recognised at fair value as at 30 June 2016.

Impairment of property, plant and equipment and intangible assets

Intangible assets that have an indefinite useful life, or are not yet available for use are not subject to amortisation and are tested annually for impairment. Assets that have a finite life are reviewed for indicators of 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. The recoverable amount is the higher of an asset's fair value, less costs to sell and value in use.

If an asset's carrying amount exceeds its recoverable amount, the asset is impaired and the carrying amount is written down to the recoverable amount.

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

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

Value in use for non-cash-generating assets

Non-cash-generating assets are those assets that are not held with the primary objective of generating a commercial return.

For non-cash-generating assets, value in use is determined using an approach based on either a depreciated replacement cost approach, restoration cost approach, or a service units approach. The most appropriate approach used to measure value in use depends on the nature of the impairment and availability of information.

Value in use for cash-generating assets

Cash-generating assets are those assets that are held with the primary objective of generating a commercial return.

The value in use for cash-generating assets and cash-generating units is the present value of expected future cash flows.

Easements

Easements are recognised at cost, being the costs directly attributable to bringing the asset to its intended use. Easements have an indefinite useful life and are not amortised, but are instead tested for impairment annually. The cost of an easement is capitalised as part of the asset to which they relate.

Forestry assets

Forestry assets are independently re-valued, annually, at fair value less estimated point-of-sale costs. The expectation value method is the valuation approach applied, where by the net present value of the projected net cashflow of the tree crop is calculated. The net present value is linked to sales evidence through the application of a discount rate derived from the current market.

Forestry assets are presented at their fair value as at 30 June 2016.

The costs to maintain the forestry assets are included as an expense in the surplus or deficit when incurred.

Investment property

Properties leased to third parties under operating leases are classified as investment property unless the property is held to meet service delivery objectives rather than to earn rentals or for capital appreciation.

Creditors and other payables

Creditors and other payables are recorded at their face value.

Borrowings

Borrowings are initially recognised at their fair value plus any transaction costs. After initial recognition, borrowings are measured at amortised cost using the effective interest method. Borrowings are classified as current liabilities unless the council or group has an unconditional right to defer settlement of the liability for at least 12 months after balance date.

Employee entitlements

Short-term employee entitlements

Employee benefits that are expected to be settled within 12 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, retiring and long service leave entitlements expected to be settled within 12 months, and sick leave.

Council recognises a liability for sick leave 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 those future absences.

Council recognises a liability and an expense for bonuses where contractually obliged, or where there is a past practice that has created a constructive obligation.

Superannuation schemes

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

Equity

Equity is the community's interest in Northland Regional 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 equity in the prospective financial statements are:

- **Accumulated funds;**
- **Reserves**
    - Asset revaluation reserve;

- Fair value through other comprehensive revenue and expense reserve;
- Special 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.

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

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

Special reserves include reserves that are restricted by law and reflect targeted rates that must be applied to the specific activities for which the rates were collected, and other reserves established by the council (and may be altered at the discretion of council) to isolate funds put aside for a specific purpose.

Goods and services tax (GST)

All items in the financial statements are stated exclusive of GST, except for receivables, and creditors and other payables, which are stated on a GST inclusive basis. GST not recoverable as input tax is recognised as part of the related asset or expense.

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, including the GST relating to investing and financing activities, is classified as an operating cash flow in the Statement of Cash Flows.

Commitments and contingencies are disclosed exclusive of GST.

Comparative figures

The comparative figures are the year 2 budgets approved by the council in its 2015-25 long term plan, the 2016/17 Annual Plan, and the audited 2015/16 Annual Report. The comparative figures for the opening balances are based on the Annual Plan 2016/17 and these are adjusted based on actual events to provide a more accurate opening position. The budget figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted in preparing these financial statements.

Cost allocation

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

Direct costs are those costs directly attributable 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 operating activities using appropriate cost drivers such as actual usage and staff numbers.

Critical accounting estimates and assumptions

In preparing these prospective financial statements, estimates and assumptions have been made concerning the future. These estimated 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 a reasonable under the circumstances.

The estimation of the useful lives of assets has been predominantly based on historical experience. Useful lives are reviewed on an annual basis and adjustments are made when considered necessary.

Critical judgements in applying accounting policies

Management has exercised the following critical judgements in applying accounting policies for the year ended 30 June 2018.

Council has a number of leasehold properties and freehold properties they are in the process of selling directly to the lessee's or on the open market. These properties have therefore been accounted for as Assets held for resale rather than investment property as it is assumed these sales will occur within the next 12 months.

Council’s investment in Regional Software Holdings Limited has been treated as an associate as it is considered that council holds significant influence over the financial and operating policies of Regional Software Holdings Limited due to the fact that council’s CEO is on the board of directors of Regional Software Holdings Limited.

Prospective financial statements disclosures

The council publishes both parent entity and group financial statements for historical reporting purposes but does not publish group prospective financial statements. The council is required to disclose the reasons for not presenting group prospective financial statements.

The council has not prepared group prospective financial statements because:

- The primary focus of the annual plan is on the activities of the council (parent) and the consequent impact on rates.
- The financial impact of transactions with group entities is reflected with the annual plan for funding purposes.