Statement of significant accounting policies

June 2016

Statement of compliance

The prospective financial statements have been prepared in accordance with New Zealand generally accepted accounting practice (GAAP). GAAP comprises:

a. Accounting standards issued by the External Reporting Board (XRB), or its sub-Board the New Zealand Accounting Standards Board (NZASB), pursuant to section 12(a) of the Financial Reporting Act 2013; and
b. Authoritative notices issued by the XRB or the NZASB, pursuant to section 12(c) of the Financial Reporting Act 2013.

They comply with applicable Financial Reporting Standards, as appropriate for a Tier 1 Public Benefit Entity (PBE).

Reporting entity

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

The council's group comprises the council and its subsidiary and associate entities, namely:

- Marsden Maritime Holdings Limited (NZ) Ltd (53.61% owned) and its subsidiaries;
- Northland Inc. Limited (100% owned); and
- Regional Software Holdings Limited (16.75% shareholding).

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

The primary objective of Northland Regional Council is to provide goods or services for the community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than making a financial return. Accordingly, Northland Regional Council has designated itself and the group as Tier 1 Public Benefit Entities (based on size) for the purposes of the New Zealand External Reporting Board.

Reporting period

The prospective financial statements are prepared for the year ending 30 June 2017.

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.

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.

Measurement base

The prospective financial statements have been prepared on an historical cost basis, modified by the revaluation of certain property plant and equipment, investment property, forestry assets and available for sale financial assets and financial instruments (including derivative instruments).

Functional and presentation currency

The prospective financial statements are presented in New Zealand dollars. The functional currency of Northland Regional Council is New Zealand dollars.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Revenue and Expense except when deferred in equity as qualifying cash flow hedges.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at balance sheet date.

Changes in accounting policies

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

Standards, amendments and interpretations issued that have affected presentation of these prospective financial statements

The introduction of PBE IPSAS 9 Revenue from Exchange Transactions and PBE IPSAS 23 Revenue from Non-Exchange Transactions requires council to distinguish between these two types of revenue. An exchange transaction is one in which the entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value to the other party in the exchange. For non-exchange transactions these are defined as gross inflows of economic benefits or service potential received and receivable by the reporting entity, other than increases relating to contributions from owners. They are measured at the amount of the increase in net assets recognised by council.

PBE IPSAS 17 Property, Plant and Equipment prescribes the accounting treatment for property, plant and equipment.(PPE). For impairment of PPE the applicable standard depends on whether the PPE is designated to be cash generating or a non cash generating asset. PBE IPSAS 21 deals with the impairment of non-cash generating assets and PBE IPSAS 26 covers the impairment of cash generating assets. Council has determined the impairment of its assets based on these new standards.

Significant accounting policies

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

Subsidiaries

Northland Regional Council consolidates as subsidiaries in the group financial statements all entities over which the council may direct the governance policies so as to obtain benefits from the activities of the entity. This power generally exists where Northland Regional Council has an interest of 50% or more of council-controlled organisations or more than one-half of the voting rights on the governing body or where such policies have been irreversibly predetermined by council or where the determination of such policies is unable to materially impact on the level of potential ownership benefits that arise from the activities of the subsidiary.

The council will recognise goodwill where there is an excess of the consideration transferred over the net identifiable assets and liabilities assumed. This difference reflects the goodwill to be recognised by the council. If the consideration transferred is lower than the net fair value of the council's interest in the identifiable assets acquired and liabilities assumed, the difference will be recognised immediately in the surplus or deficit.

Associates

The council's associate investment is accounted for in the group financial statements using the equity method. An associate is an entity over which the council has significant influence and that is neither a subsidiary nor an interest in a joint venture. The investment in an associate is initially recognised at cost and the carrying amount in the group financial statements is increased or decreased to recognise the group's share of the surplus or deficit of the associate after the date of acquisition. Distributions received from an associate reduce the carrying amount of the investment.

If the share of deficits of an associate equals or exceeds its interest in the associate, the group discontinues recognising its share of further deficits. After the group's interest is reduced to zero, additional deficits are provided for, and a liability is recognised, only to the extent that the council has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports surpluses, the group will resume recognising its share of the surpluses only after its share of the surpluses equals the share of deficits not recognised.

When the group transacts with associate, surpluses or deficits are eliminated to the extent of the group's interest in the associate.

Dilution gains or losses arising from investments in associates are recognised in the surplus or deficit.

The investment in the associate is carried at cost in the council's parent entity prospective financial statements.

Joint ventures

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Marsden Maritime Holdings Limited is party to several joint venture arrangements. For these and council's jointly controlled operations, council recognises in its financial statements the group's share of the assets, liabilities, revenues and expenses using the proportionate consolidation method.

Revenue

Revenue is measured at the fair value of the consideration received or receivable. This is now classified into exchange and non-exchange transactions.

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.

These transactions are classified as non-exchange transactions.

Other revenue

User fees and charges

User fees and charges are recognised and brought to account when invoices are issued for services provided and contracts completed. Revenue from the rendering of services is 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.

Government grants

Government 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

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 and dividends

Interest income is recognised using the effective interest method.

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

Rental income

Rental income from investment property is recognised in the surplus or deficit on a straight-line basis over the term of the lease. Lease incentives are recognised as part of the total rental revenue.

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.

Construction contracts

Contract revenue and contract costs are recognised as revenue and expenses, respectively, by reference to the stage of completion of the contract as at balance date. The stage of completion is measured by reference to the contract costs incurred, up to the balance date, as a percentage of total estimated costs for each contract.

Contract costs include all costs directly related to specific contracts, costs that are specifically chargeable to the customer under the terms of the contract and an allocation of overhead expenses incurred in connection with the group's construction activities in general. An expected loss on construction contracts is recognised immediately as an expense in the surplus or deficit.

Where the outcome of a contract cannot be reliably estimated, contract costs are recognised as an expense as incurred, and where it is probable that the costs will be recovered, revenue is recognised to the extent of costs incurred.

Construction work in progress is stated at the aggregate of contract costs incurred, to date, plus recognised profits less recognised losses and progress billings. If there are contracts in which progress billings exceed the aggregate costs incurred, plus profits less losses, the net amounts are presented as a liability.

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. Council has elected not to adopt the allowed alternative treatment which enables borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset to be capitalised as part of the cost of the asset.

Grant expenditure

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

Discretionary grants are those grants where the council has no obligation to award on receipt of the grant application and are recognised as expenditure when a successful applicant has been notified of the council's decision.

Foreign currency transactions

Foreign currency transactions (including those for which forward foreign exchange contracts are held) are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the surplus or deficit.

Income tax

The income tax expense includes both current and deferred tax.

Current tax is the amount of income tax payable based on the taxable profit for the current year, plus any adjustments to income tax payable in respect of prior years. Current tax is calculated using rates (land tax laws) that have been enacted or substantively enacted by balance date.

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable surplus.

Deferred tax is measured at the tax rates that are expected to apply when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at balance date. The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the entity expects to recover or settle the carrying amount of its assets and liabilities.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be used.

Deferred tax is not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of an asset and liability in a transaction that is not a business combination, and at the time of the transaction, affects neither accounting surplus nor taxable surplus.

Current tax and deferred tax is recognised against the surplus or deficit for the period, except to the extent that it relates to a business combination, or to transactions recognised in other comprehensive revenue and expenses or directly in equity.

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.

Finance leases

A finance lease is a lease that transfers to the lessee substantially all the risks and rewards incidental to ownership of an asset, whether or not title is eventually transferred.

At the commencement of the lease term, finance leases are recognised as assets and liabilities on the statement of financial position at the lower of the fair value of the leased item or the present value of the minimum lease payments.

The finance charge is charged to the surplus or deficit over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability.

The amount recognised as an asset is depreciated over its useful life. If there is no certainty as to whether the council will obtain ownership at the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life.

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 a receivable is established when there is objective evidence that the council will not be able to collect amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, receivership or liquidation, and default in payments are considered indicators that the debt is impaired. The amount of the impairment is the difference between the assets carrying amount and the present value of the estimated future cash flows, discounted using the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the surplus or deficit. When the receivable is uncollectable, it is written off against the allowance for receivables. Overdue receivables that have been renegotiated are reclassified as current (that is, not past due).

Derivative financial instruments and hedge accounting

Derivative financial instruments are used to manage exposure to foreign exchange and interest rate risks arising from financing activities. In accordance with its treasury policy, the council does not hold or issue derivative financial instruments for trading purposes.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value at each balance date. 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.

The associated gains or losses of derivatives that are not hedge accounted are recognised in the surplus or deficit.

The council and group designate certain derivatives as either:

- Hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or
- Hedges of highly probably forecast transactions (cash flow hedge).

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

The full fair value of a hedge accounted derivative is classified as a non-current asset if the remaining maturity of the hedged item is more than 12 months and as a current asset if the remaining maturity of the hedged item is less than 12 months.

The full fair value of a non-hedge accounted foreign exchange derivative is classified as current if the contract is due for settlement within 12 months of balance date; otherwise, foreign exchange derivatives are classified as non-current. The portion of the fair value of a non-hedge accounted interest rate derivative that is expected to be realised within 12 months of the balance date is classified as current, with the remaining portion of the derivative classified as non-current.

Fair value hedge

The gain or loss from remeasuring the hedging instrument at fair value, along with the changes in the fair value on the hedged item attributable to the hedged risk, is recognised in the surplus or deficit. Fair value hedge accounting is only applied for hedging fixed interest risk on borrowings.

If the hedge relationship no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the surplus or deficit over the period to maturity.

Cash flow hedge

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive revenue and expense and the ineffective portion of the gain or loss on the hedging instrument is recognised in the surplus or deficit as part of “finance costs”.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognised directly as other comprehensive revenue and expense are reclassified into the surplus or deficit in the same period or periods during which the asset acquired, or liability assumed, affects the surplus or deficit. However, if the council or the group, expects that all, or a portion of a loss, recognised in other comprehensive revenue and expense will not be recovered in one or more future periods, the amount that is not expected to be recovered is reclassified in the surplus or deficit.

When a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, or a forecast transaction for a non-financial asset or a non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, then the associated gains and losses that were recognised in other comprehensive revenue and expense will be included in the initial cost or carrying amount of the asset or liability.

If a hedging instrument expires or is sold, terminated, exercised or revoked, or it no longer meets the criteria for hedge accounting, the cumulative gain or loss on the hedging instrument has been recognised in other comprehensive revenue and expense from the period when the hedge was effective will remain separately recognised in other comprehensive revenue and expense until the forecast transaction occurs. When the forecast transaction is no longer expected to occur, any related cumulative gain or loss on the hedging instrument that remains recognised in other comprehensive revenue and expense from the period when the hedge was effective will be from other comprehensive revenue and expense to the surplus or deficit.

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.

Northland Regional Council classifies 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 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 the surplus or deficit.

Financial assets in this category include investment in quoted shares and investments of the Community Investment Fund, Property Reinvestment Fund, and Infrastructure Investment Fund.

- ***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.

Council’s loans and receivables comprise cash and cash equivalents, debtors and other receivables, and term depositions. After initial recognition, they are measured at amortised cost using the effective interest method, less impairment. Loans and receivables issued with duration of less than

12 months are recognised at their nominal value. Gains or losses when the asset is impaired or derecognised are recognised in the surplus or deficit. Loans and receivables are classified as “trade and other receivables” in the Statement of Financial Position.

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.

- ***Held to maturity investments.***

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the council 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.

Council does not hold any held-to-maturity investments.

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 in quoted shares that have been designated in Treasury Management policy as being available for sale;
- Investments that are intended to be held long term but which may be realised before maturity; and
- Shareholdings that are held for strategic purposes.

The council’s investments in its subsidiary and associate entities are not included in this category as they are held at cost (as allowed by PBE IPSAS 7 Investments in Associates and PBE IPSAS 6 Consolidated and Separate Financial Statements).

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

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

Included in this category are the council's investments in Local Authority stocks. Fair value for these investments is provided by ETOS and is determined by reference to published price quotations in an active market.

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. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the surplus or deficit.

- ***Loans and other receivables, and held-to maturity investments.***

Impairment of a loan or a receivable is established when there is objective evidence that council 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.

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

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 production of goods and services on a commercial basis are valued at the lower of cost at 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.

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.

Marsden to Oakleigh rail corridor designation is made up of the costs directly attributable to securing the rail corridor designation. This inventory asset is held for distribution. The future economic benefit or service potential of this asset is not directly related to council's ability to generate future cash inflows. The value of this inventory is at cost and when applicable, will be adjusted for any loss of service potential. Council will transfer the rail corridor to KiwiRail once KiwiRail has entered into an unconditional contract for the construction of the entire Marsden Point Rail Link.

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.

Restricted assets – there are no restrictions on the assets of Northland Regional Council. Restrictions are outlined in note 23 on the assets of the Marsden Maritime Holdings Ltd.

Property, plant and equipment are shown at cost or valuation, less accumulated depreciation and impairment losses. As a result of the change in accounting standards PBE IPSAS 17 Property, Plant and Equipment now requires that these assets are disclosed as either cash generating assets or non-cash generating assets and impairment losses are disclosed under PBE IPSAS 26 for cash generating assets and PBE IPSAS 21 for non-cash generating assets.

Revaluation

All assets are initially recognised at cost. Those asset classes that are re-valued are re-valued with sufficient regularity to ensure that their carrying amount does not differ materially from fair value. Except for land and buildings and infrastructure assets, all other asset classes are carried at depreciated historical costs.

Land and buildings

Northland Regional Council re-values the land and buildings' asset class annually.

Infrastructure assets

Northland Regional Council re-values infrastructure assets class (River Management Schemes) every three years. Infrastructure assets are valued at depreciated replacement cost.

Infrastructure assets components include gates, pipes, outlets and stop banks. Depreciation is not provided for on stop-bank components of the infrastructure assets. An asset management plan has been prepared for this scheme and, in the absence of significant flood events, the stop-banks are not considered to deteriorate. The Awanui River flood management scheme assets are tested annually for impairment. The Awanui River flood management scheme will be revalued again in the financial year ending 30 June 2017.

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.

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 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 under the revaluation section), at rates that will write off the cost (or valuation) of the assets to their estimated residual values over their useful lives.

Owner occupied buildings are re-valued annually and no depreciation is charged on these assets.

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%
Forest	10 years	10%
Plant and equipment	2-20 years	5-50%
Navigational aids	10-20 years	5-10%
Vehicles	7-8 years	12.5-14.2%
Vessels and dredging equipment	10-25 years	4-10%
Infrastructure assets	50-80 years	1.25-2%
Computer software	4-5 years	20-25%

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

Land and buildings held by Northland Regional Council are re-valued annually at fair value, as determined by market-based evidence, by an independent valuer.

Capital projects in progress

Capital expenditure projects not completed by balance date are recorded at cost.

Intangible assets

Software acquisition and development

Acquired computer software licences 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 by council 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 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:

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 not yet available for use are recorded at cost in the capital projects in progress account. 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.

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. Council has no cash-generating property, plant and equipment assets and intangible assets.

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

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. For re-valued assets, the impairment loss is recognised against the revaluation reserve for that class of asset. Where that results in a debit balance in the revaluation reserve, the balance is recognised in the surplus or deficit.

For assets not carried at a re-valued amount, the total impairment loss is recognised in the surplus or deficit.

The reversal of an impairment loss on a re-valued asset is credited to the revaluation reserve. However, to the extent that an impairment loss for that class of asset was previously recognised in the surplus and deficit, a reversal of the impairment loss is also recognised in the surplus or deficit.

For assets not carried at a re-valued amount (other than goodwill), the reversal of an impairment loss is recognised in the surplus or deficit.

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.

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.

Forestry assets

Forestry assets are independently re-valued, annually, by Chandler Fraser Keating Ltd at fair value less estimated point-of-sale costs. Fair value is the amount for which the forest asset would be expected to exchange between a willing buyer and a willing seller in an arm's length transaction, after proper marketing, wherein the parties have each acted knowledgeably and without compulsion. Fair value is derived using a combination of the expectation value (or income) approach and the cost-based approach. Under the expectation value approach, the net present value is calculated by discounting to the present day the projected net cash flow of the forest in perpetuity. The calculated net present value is then linked to sales evidence through the application of a discount rate derived from the analysis of actual transactions. The cost-based approach is also employed in the valuation because the tree crop is a young, second rotation forest (80% by value are less than 10 years of age) and this approach better reflects how the market would likely view the tree crop value. A quantified description is provided to comply with PBE IPSAS 27.

Gains or losses arising on initial recognition of biological 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 surplus or deficit.

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

New Zealand Units (Forestry) – Emissions Trading scheme

Northland Regional Council has 291 hectares of pre-1990 forest land. This land is subject to the provisions of the New Zealand Emissions Trading Scheme (ETS). The implication of this for the prospective financial statements is two-fold:

- Should the land be deforested (that is, the land is changed from forestry to some other purpose), a deforestation penalty will arise; and
- As a result of the deforestation restriction, compensation units are being provided by the Government.

Compensation is to be provided to forestry owners, via the allocation of compensation units, known as New Zealand Units (NZU) in two tranches. Council received the first tranche of 6,693 units in December 2010 and received a further 10,767 NZU in January 2013.

Compensation units are recognised at deemed cost based on the fair value at the date of receipt (that is, historic value). The credits are recognised when they have been received and are recognised as income in the statement of comprehensive revenue and expense. Gains and losses on disposal are determined by comparing the disposal proceeds with the carrying amount of the NZU. Gains and losses on disposals are reported in the surplus or deficit.

If at the end of any financial year there has been some deforestation (such as harvesting) that is yet to be replanted, a contingent liability will be disclosed until such time as replanting has occurred. Council's Forest Management Plan prescribes replanting will always take place subsequent to any harvest.

Investment property

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

Investment property is measured initially at its cost, including transaction costs.

After initial recognition, council measures all investment property at fair value, as determined annually by Telfer Young (Northland) Ltd who are independent valuers, and who have recent experience in the location and category of the investment property being valued and hold a recognised and relevant professional qualification. Fair value is the price at which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction. The fair value of investment property reflects, among other things, rental income from current leases and reasonable and supportable assumptions that represent what knowledgeable, willing parties would assume about rental income from future leases in the light of current conditions.

Gains or losses arising from a change in the fair value of investment property are recognised in the surplus or deficit.

Creditors and other payables

Creditors and other payables are recorded at their face value.

Borrowings

All Borrowings are initially recognised at their fair value net of any transaction costs. Council's fixed rate notes will continue to be stated at fair value until their maturation when they will be repaid in full. Any other borrowings, after initial recognition, 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.

Long-term employee entitlements

Entitlements that are payable beyond 12 months, such as long service leave and retirement leave, have been calculated on an actuarial basis. The calculations are based on:

- Likely future entitlements accruing to staff, based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement and contractual entitlements information; and
- The present value of the estimated future cash flows.

These estimated amounts are discounted to their present value using the 10-year government bond rate.

Presentation of employee entitlements

Sick leave, annual leave, vested long service leave, and non-vested long service leave and retirement gratuities expected to be settled within 12 months of balance date, are classified as a current liability. All other employee entitlements are classified as a non-current liability.

Superannuation schemes

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

Provisions

A provision for future expenditure of uncertain amount or timing is recognised when there is a present obligation (either legal or constructive) as a result of a past event. 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 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 obligations. The increase in the provision due to the passage of time is recognised as an interest expense and is included in "finance costs".

Equity

Equity is the community's interest in 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 are:

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

Special reserves are a component of equity generally representing a particular use to which various parts of equity have been assigned. Reserves may be legally restricted or created by the council.

Restricted reserves include the Land Management Reserve, Priority Rivers Reserve, Hātea River Reserve, Recreational Facilities Reserve, Awanui River Management Reserve, Kaihū River Management Reserve, Whangārei Urban Rivers Reserve, Kaeo River Management Reserve, Infrastructure Facilities Reserve and Environment Fund Reserve. These reserves are restricted by law and reflect targeted rates that must be applied to the specific activities for which the rates were collected. Other reserves are established by the council and may be altered at the discretion of the council.

Goods and services tax (GST)

All items in the prospective 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.

Marsden Maritime Holdings Limited

The Northland Regional Council owns 22,142,907 25c shares, being 53.61% of the issued capital of Marsden Maritime Holdings Limited. The shares are recorded at $7,827,563 being the deemed cost of 21.7 million shares of $5,436,650.25 under the Northland harbour Board Port Plan 1988, plus the cost of a parcel of shares acquired in May 2005, less the 652,294 shares sold in February 2009 as part of the share buyback process. The company has several subsidiaries, associate companies and joint venture interests which are detailed in the notes to the accounts in the council's annual report.

Comparative figures

The comparative figures are those approved by the council at the beginning of the year in the long term plan or annual plan and the audited Annual Report 201415. The comparative figures for the opening balances are based on the Long Term Plan 2015-2025 and these are adjusted based on actual events to provide a more accurate opening position. The budget figures have been prepared in accordance with PBE IPSAS standards, using accounting policies that are consistent with those adopted by the council for the preparation of the prospective 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.

Inter-departmental direct costs are charged to the applicable department at the time the cost is incurred.

Indirect costs are charged to significant operating activities using appropriate cost drivers such as actual usage and staff numbers.

Financial risk management objectives and polices

Council has a series of policies to manage the risks associated with financial instruments. Council is risk averse and seeks to minimise exposure from its treasury activities. Council has established liability management and investment policies. These policies are council approved and were included in the Long Term Plan 2015-2025 and annual plan. These policies do not allow any transactions that are speculative in nature to be entered into.

Details of the significant accounting policies and methods adopted include the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset. Financial liabilities are disclosed in the notes to the financial statements.

Market risk

Price risk

Price risk is the risk the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices. Equity securities price risk arises on listed share investments, which are classified as financial assets held at fair value through other comprehensive revenue and expense. For council, this only includes the former Northland Regional Council Community Trust fund investments. This price risk arises due to market movements in listed shares. Equity securities price risk is not managed.

Fair value interest rate risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. Northland Regional Council's exposure to fair value interest rate risk is limited to interest-bearing investments within the portfolio.

Cash flow interest rate risk

Cash flow interest rate risk is the risk that the cash flows from a financial instrument will fluctuate because of changes in market interest rates. Investments at variable interest rates expose Northland Regional Council and group to cash flow interest rate risk.

The policies of Northland Regional Council require a spread of investment maturity dates to limit exposure to short-term interest rate movements.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Council has some exposure to currency risk resulting from $4.9M (NZD) investment in Schroder's Equity Fund. Advice was sought and followed from an independent investment advisor and when deemed appropriate a hedge was taken out to protect council against risk of adverse movements.

Marsden Maritime Holdings Limited foreign exchange risk is considered minimal so, a sensitivity analysis has not been performed.

Credit risk

Credit risk is the risk that a third party will default on its obligation to the council and group, causing it to incur a loss. Due to the timing of its cash inflows and outflows, surplus cash is invested into term deposits, local authority stock, and government bonds which give rise to credit risk.

Northland Regional Council investments are invested in accordance with the Treasury Management Policy, which has a low risk profile. Investments are made with creditworthy institutions as determined by their Standard and Poor's credit rating. Investment of surplus cash is limited to Local Authority and Government Stock and approved corporate bonds and deposits with New Zealand registered banks.

Council manages its Community Investment Fund in accordance with a Statement of Investment Policies and Objectives (SIPO) that is approved by council. The SIPO ensures investment risk is managed within acceptable parameters.

Marsden Maritime Holdings Limited manages its credit exposure by only trading with recognised, credit worthy parties and by limiting the amount of funds placed with any one financial institute at any one time.

Accordingly, the group has no significant concentrations of credit risk.

Liquidity risk

Liquidity risk is the risk that Northland Regional Council will encounter difficulty raising liquid funds to meet commitments as they fall due. Prudent liquidity risk management implies maintaining sufficient cash and availability of funding through the investment portfolio. The vast majority of the investment portfolio is very liquid and able to be sold on the same day.

Capital management

The council's capital is its equity (or ratepayers' funds), which comprises retained earnings and reserves. Equity is represented by net assets.

The Local Government Act 2002 (the Act) requires the council to manage its revenues, expenses, assets, liabilities investments and general financial dealings prudently and in a manner that promotes the current and future interests of the community. Ratepayers' funds are largely managed as a by-product of managing revenues, expenses, assets, liabilities, investments, and general financial dealings.

The objective of managing these items is to achieve intergenerational equity, which is a principle promoted in the Act and applied by the council. Intergenerational equity requires today's ratepayers to meet the costs of using the council's assets and not expecting them to meet the full costs of long term assets that will benefit ratepayers in future generations. Additionally, the council has in place asset management plans for major classes of assets, detailing renewal and maintenance programmes to ensure ratepayers in future generations are not required to meet the costs of deferred renewals and maintenance.

The Act requires the council to make adequate and effective provision in its Long Term Plan and Annual Plan (where applicable) to meet the expenditure needs identified in those plans. The Act also sets out the factors that the council is required to consider when determining the most appropriate sources of funding for each of its activities. The sources and levels of funding are set out under funding and financial policies in council's Long Term Plan 2015-2025 and annual plan.

Reserves for different areas of benefit are used where there is a discrete set of rate or levy payers as distinct from the general rate. Any surplus or deficit relating to these separate areas of benefit is applied to the specific reserves. Self-insurance reserves are built up annually from general or sometimes targeted rates and are made available for specific unforeseen events. The release of these funds is approved by council.

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.