

ACCOUNTING POLICIES

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Reporting entity

The Far North District Council is a territorial local authority governed by the Local Government Act 2002 (LGA). The relevant legislation governing the Council's operations includes the LGA and the Local Government (Rating) Act 2002. The prospective financial statements reflect the operations of Far North District Council and do not include the consolidated results of Council Controlled Trading Organisations (CCTO).

Council has not presented group prospective financial statements because it believes that the parent prospective financial statements are more relevant to users. The main purpose of the prospective financial statements in the LTP is to provide the reader with information about the core services that Council intends to provide.

Far North District Council has designated itself to be a Tier 1 public benefit entity (PBE) for the purposes of International Public Sector Accounting Standards (IPSAS). Council's primary objective is to provide local infrastructure, goods and services for community or social benefit and equity has been provided with a view to supporting that primary objective rather than for a financial return.

These financial statements are for the three years ended 30 June 2027 and were authorised by Far North District Council for consultation on 12 March 2024.

Accounting principles compliance

To meet all the requirements of local government legislation Council provides two sets of financial information:

- Generally Accepted Accounting Principles (GAAP) regulated statements of financial position, comprehensive revenue and expense, cashflow and changes in equity; and
- Non-GAAP compliant Funding Impact Statements (FIS's).

Key differences between these two sets of information are that GAAP regulated financial statements must adhere to GAAP requirements.

The intention of the FIS is to make the sources and applications of Council funds more transparent to its stakeholders which may not be achievable if only 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 (Schedule 10 Part 1).

A disclosure statement is required by Schedule 6 of the Local Government (Financial Reporting and Prudence) Regulations 2014 that discloses the Council's planned financial performance in relation to various benchmarks to enable an assessment of whether Council is prudently managing its revenues, expenses, assets, liabilities and general financial dealings.

Statement of compliance and basis of preparation

Statement of compliance

The prospective financial statements have been prepared in accordance with the requirements of the Local Government Act 2002: Part 6, Section 93 and Part 1 of Schedule 10, which includes the requirement to comply with New Zealand Generally Accepted Accounting Practice (NZ GAAP), and the Local Government (Financial Reporting and Prudence) Regulations 2014.

These prospective financial statements have been prepared in accordance with NZ GAAP. They comply with the PBE International Public Sector Accounting Standards (IPSAS), in particular these prospective financial statements have been prepared in accordance with PBE FRS42: Prospective Financial Statements, and other applicable Financial Reporting Standards, as appropriate for public benefit entities.

Council is responsible for the prospective financial statements included in the LTP 2024-27, including the appropriateness of the significant financial assumptions these are based on, and the other disclosures included in the document.

The prospective financial statements are for the period 1 July 2024 to 30 June 2027 and do not reflect any actual results. The actual results achieved for the period covered by this plan are likely to vary from the information presented in the document and these variations may be material. Council does not intend to update prospective financial statements after publication.

In the opinion of Council and the management of the Far North District Council, the prospective financial statements for the 3 year period ending 30 June 2027 fairly reflect the prospective financial position, performance and operations of the Far North District Council.

Measurement base

The prospective financial information has been prepared on a historical cost basis, modified by the revaluation of forestry assets, certain classes of property, plant and equipment, certain classes of intangible assets, and certain financial instruments (including derivatives).

Presentation currency and rounding

The prospective financial statements are presented in New Zealand dollars (NZD) and are rounded to the nearest thousand dollars (\$000's).

Changes in accounting policies

The following changes in accounting policies have been applied:

- Financial instruments - PBE IPSAS 41 PBE IPSAS 41 Financial Instruments was issued in March 2019. This standard supersedes PBE IFRS 9 Financial Instruments, which was issued as an interim standard. It is effective for reporting periods beginning on or after 1 January 2022. The group has adopted PBE IPSAS 41 Financial Instruments, and the adoption did not result in any significant impact on the group financial statements.
- Service Performance Reporting – PBE FRS 48 In November 2017, the XRB issued PBE FRS 48 - Service Performance reporting. This new standard is effective for annual periods beginning on or after 1 January 2022, with early application permitted. The new standard establishes principles and requirements for an entity to present service performance information that is useful for accountability and decision-making purposes in a general purpose financial report. This standard has been applied and adoption did not result in any material changes to the statement of service performance

Specific accounting policies

Cost allocation

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

Direct costs are those costs directly attributable to a significant activity. Indirect costs are those costs that cannot be identified in an economically feasible manner with a specific significant activity.

Criteria for direct and indirect costs

Direct costs are charged directly to significant activities. Indirect costs are charged to significant activities based on cost drivers and related activity / usage information. The

costs of internal services not directly charged to activities are allocated as overheads using appropriate cost drivers such as actual usage, staff numbers and floor area.

Revenue

Revenue is measured at the fair value of consideration received or receivable.

Rates revenue

For the purposes of rates revenue recognition the following policies have been applied:

- General rates, targeted rates (excluding water-by-meter), and uniform annual general charges are recognised at the start of the financial year to which the rates resolution relates. They are recognised at the amounts due. The Council considers the effect of payment of rates by instalments is not sufficient to require discounting of rates receivables and subsequent recognition of interest revenue.
- Revenue arising from late payment penalties is recognised as revenue when rates become overdue.
- Rates postponement applies where ratepayers meet the postponement policy criteria. Rates are shown as income in the year of postponement and recognised as an asset when it is probable that future economic benefits or service potential associated with the asset will flow to Council.
- Rates remissions are recognised as a reduction in rate revenue when the Council has received an application that satisfies its rate remission policy.
- Rates collected on behalf of the Northland Regional Council (NRC) are not recognised in the financial statements, as the Council is acting as an agent for the NRC.

Building and resource consent

Fees and charges for building and resource consent services are recognised on a percentage completion basis with reference to the recoverable costs incurred at balance date.

Landfill

Fees for disposing of waste at the Council's landfill are recognised as waste is disposed of by users.

Development contributions

The revenue recognition point for development contributions is when Council provides or is ready to provide the service for which the contribution is levied or the event that will give rise to a requirement for a development contribution under the legislation.

Subsidy

Subsidies are recognised as revenue upon entitlement once conditions pertaining to eligible expenditure have been fulfilled. Council receives funding assistance from Central Government from three main agencies:

- New Zealand Transport Authority (NZTA) subsidises the cost of maintenance and capital expenditure on the local roading network.
- Ministry of Health (MOH) subsidises the cost of capital expenditure on water and wastewater facilities
- Ministry of Business, Innovation and Employment (MBIE) subsidises applications such as tourism infrastructure.

Vested or donated physical assets

Assets received for zero or nominal consideration are recognised at fair value when Council obtains control of the asset. The fair value of the asset is recognised as revenue unless there is a use or return condition attached to the asset.

The fair value of vested or donated assets is usually determined by reference to the cost of constructing the asset. For assets received from property developments, the fair value is based on construction price information provided by the property developer.

For long lived assets that must be used for a specific use (e.g. land must be used as a recreation reserve), the Council immediately recognises the fair value of the asset as revenue. A liability is recognised only if the Council expects it will need to return or pass the asset to another party.

Grants

Grants are recognised as revenue when they become receivable, unless there is an obligation to return the funds if conditions of the grant are not met. If there is such an obligation, the grants are initially recorded as grants received in advance and recognised as revenue when conditions of the grant are satisfied.

Sale of goods

Revenue from sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer.

Rental revenue

Rental revenue is recognised in the financial statements on a straight-line basis over the term of the lease.

Dividends

Dividends are recognised on an accrual basis net of imputation credits when the right to receive the dividend is established.

Third party revenue

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 revenue is recognised using the effective interest method.

Borrowings and other financial liabilities

Borrowing

Borrowings are initially recognised at fair value. After initial recognition, all borrowings are measured at amortised cost.

Council classifies borrowings as Current Liabilities unless there is an unconditional right to defer settlement of the liability for at least twelve months after balance date.

Borrowing costs

Borrowing costs are expensed in the period they are incurred.

Guarantees

Accounting Standards require the council to initially recognise the guarantee liability by applying the 12-month expected credit loss model (as fair value could not be reliably

measured) and subsequently at the higher of the provision for impairment at balance date determined by the expected credit loss model and the amount initially recognised. At the end of financial year, the council have assessed the 12-month expected credit losses of the guarantee liability, based on market information of the underlying assets held by the NZLGFA. The estimated 12-month expected credit losses are immaterial due to the extremely low probability of default by the NZLGFA in the next 12 months, and therefore, the council have not recognised a liability.

Grants

Non-discretionary grants are those grants that are awarded if the grant application meets the specific 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 approved by the Council and the approval has been communicated to the applicant. The Council's grants awarded have no substantive conditions attached.

Income tax

Income tax expense includes components relating to current tax.

Current tax is the expected income tax payable on the taxable income for the year plus any adjustment to income tax payable in respect of previous years. It is calculated using tax rates (and tax laws) that have been enacted (or substantively enacted) at balance date.

Current 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 expense or directly in equity.

Goods and Services Tax (GST)

Items in the financial statements are stated exclusive of GST, except for receivables which are presented on a GST-inclusive basis. Where GST is not recoverable as input tax, it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, Inland Revenue is included as part of receivables or payables in the statement of financial position.

The net GST paid to, or received from the Inland Revenue, including 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.

Leases

Operational lease

Where the lessor effectively retains substantially all the risks and benefits of ownership of the leased items, an operational lease is recognised.

Payments under this type of lease are charged as expenses in the periods in which they are incurred.

Cash and cash equivalents

Cash and cash equivalents include 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 stated at the amount due, less any provision for impairment.

Creditors and other payables

A liability is recognised when the service has been received or the goods received or when it has been established that the rewards of ownership have been transferred from the seller / provider to Council and when it is certain that an obligation to pay arises. Short term creditors and other payables are recorded at face value.

Employee benefits

Short term employee entitlements

Employee benefits expected to be settled within twelve months after the end of the period in which the employee provides the related service are based on accrued entitlements at current rates of pay.

These include salaries and wages accrued up to balance date, annual leave earned but not yet taken at balance date, and sick leave.

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

A liability and an expense are recognised for bonuses where Council has a contractual obligation or where there is a past practice that has created a constructive obligation.

Presentation of employee entitlements

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

Defined contribution schemes

Obligations for contributions to Kiwisaver are accounted for as defined contribution superannuation schemes and are recognised as an expense and reflected in either the surplus or (deficit) when incurred.

Property, plant and equipment

Property, plant and equipment is shown at cost or valuation, less accumulated depreciation and impairment losses. When significant parts of property, plant and equipment are required to be replaced at intervals, Council recognises such parts as individual assets / components with specific useful lives and depreciates them accordingly.

Property, plant and equipment consists of:

- Operational assets

These include land, buildings, improvements to leased assets, plant and equipment, and motor vehicles.

- Restricted assets

Restricted assets are parks and reserves owned by Council that provide a benefit or service to the community and cannot be disposed of because of legal or other restrictions.

- Infrastructure assets

Infrastructure assets are the fixed utility systems owned by Council. Each asset type includes all items that are required for the network to function; for example, sewer reticulation includes reticulation piping and sewer pump stations.

Revaluations

Council accounts for revaluations of property, plant and equipment on a class of asset basis.

Valuations are performed with sufficient regularity to ensure that the carrying amount is not materially different to the fair value. If there is a material difference then a revaluation is performed.

All assets are valued at historical cost, except the following assets which are shown at fair value, based on periodic valuations by independent valuers, less subsequent depreciation:

- Roading infrastructure assets
- Stormwater infrastructure assets
- Water and sewerage infrastructure assets
- Maritime assets
- Footpaths and footbridges
- Carparks
- Refuse transfer stations
- Library books
- Ferry assets
- Heritage assets
- Parks and reserves
- Land
- Community facilities buildings.

Revaluation results are credited or debited to an asset revaluation reserve for that class of asset. Where this results in a debit balance in the asset revaluation reserve, this balance is recognised in the surplus / (deficit). Any subsequent increase on revaluation that offsets a previous decrease in value recognised in the surplus / (deficit) will be recognised first in the surplus / (deficit) up to the amount previously expensed, and then credited to the revaluation reserve for that class of asset.

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 Council and the cost of the item can be measured reliably.

Work in progress is recognised at cost less impairment and is not depreciated.

Additions of property, plant and equipment between valuations are recorded at cost, except for vested assets.

Certain infrastructure assets and land have are vested in Council as part of the sub divisional consent process. Vested reserve land is valued at 50% of the surrounding residential land as per an appropriately certified government valuation. Vested infrastructure assets are valued based on the actual quantities of infrastructure components vested and the current unit rates for that component provided by the most recent valuation.

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 Council and the cost of the item can be measured reliably.

The costs of day-to-day maintenance of property, plant and equipment are recognised in the surplus or deficit as they are incurred.

Assets under construction

Assets under construction are not depreciated. The total cost of a project is transferred to the relevant asset class on its completion and then depreciated.

Disposals

Gains and losses are determined by comparing the proceeds of asset disposals with the carrying amount of the asset disposed of. Gains and losses are included in the surplus / (deficit). When revalued assets are sold, the amounts included in the asset revaluation reserves in respect of those assets are transferred to retained earnings.

Depreciation

Depreciation is calculated on a straight-line basis on all property, plant and equipment, other than land and roading formation, at rates that will write off the cost (or valuation) of the assets to their estimated residual values over their useful lives.

Assessed economic life is calculated using the methodology in the New Zealand Institute of Asset Management (NZIAM) manual.

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

	Useful life (Years)	Straight line depreciation (%)
Operational assets		
Runways	25	4
Buildings	15 – 120	0.83 – 6.67
Motor vehicles	3 – 5	20 – 33
Plant and machinery	1 – 40	2.5 – 100
Wharves (concrete)	10 - 85	1.17 – 10
Wharves (timber), moorings and ramps	10 – 50	2 – 10
Office furniture and equipment	5 – 15	6.67 – 20

	Useful life (Years)	Straight line depreciation (%)
Computers	3 - 7	14.28 – 33
Library books	3 – 40	2.5 – 33
Heritage assets	10 – 185	0.54 – 10
Leasehold improvements	3 – 25	4 - 33
Infrastructure assets		
Roads		
Top surface (seal)	5 - 50	2 – 20
Top surface (unsealed)	12	8.33
Pavement (base course) – sealed	35	2.85
Pavement (sub base) sealed	35 - 50	2 – 2.85
Pavement (sub base) sealed	50 - 80	1.25 - 2
Culverts, cesspits	15 - 100	1 – 6.7
Surface water channels	0 - 50	0 - 20
Footpaths	30 – 60	1.6 – 3.3
Kerbs	50 – 80	1.25 – 2
Streetlights	8– 60	1.67 – 12.5
Signs	20	5
Bridges	50 – 100	1 – 2
Railings	30 – 50	2 – 3.3
Water reticulation		
Pipes	50 – 100	1 – 2
Valves, hydrants	50 - 70	1.43 – 2
Pump stations	10 – 50	2 – 10
Treatment Plants	5 - 100	1 - 2
Tanks / dams	40 – 100	1. – 2.5
Sewerage reticulation		
Pipes	40 – 100	1 – 2.5
Manholes	80	1.25
Pump Stations	7 - 70	1.43 - 14.28
Treatment plant	5 – 70	1.43 – 20
Stormwater systems		
Pipes	40 – 100	1 – 2.5%
Manholes	100	1%
Refuse	5 - 100	1 - 20

Improvements to leased assets are depreciated over the shorter of the unexpired period

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

Land is not depreciated.

Impairment

Non-financial assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that have a finite life are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised as the amount by which the asset's carrying amount exceeds the recoverable amount. The recoverable amount is the higher of the asset's fair value (less costs to sell) and the value of the asset in use.

Value in use is depreciated replacement cost for an asset where the future economic benefits or service potential of an asset are not primarily dependent on the asset's ability to generate net cash inflows and where the entity would, if deprived of the asset, replace its remaining future economic benefits or service potential.

The carrying amounts of Council assets are reviewed at balance date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised when the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the surplus / (deficit). Impairment losses on revalued assets offset any balance in the asset revaluation reserve, with any remaining impairment loss being posted to the surplus / (deficit).

The reversal of an impairment loss on a revalued 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 / (deficit), a reversal of the impairment loss is also recognised in the surplus / (deficit).

For assets not carried at a revalued amount the reversal of an impairment loss is recognised in the surplus / (deficit).

Critical accounting estimates and assumptions

Infrastructural assets

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

- The physical deterioration and condition of an asset. Council may be carrying an asset at an amount that does not reflect its actual condition. This is particularly so for those assets which are not visible, such as stormwater, wastewater and water supply underground assets. This risk is minimised by Council performing physical inspections and assessments;
- Estimating any obsolescence or surplus capacity of an asset; and
- Estimates are made when determining the remaining useful lives over which the asset will be depreciated. If useful lives do not reflect the actual consumption of the benefits of the asset, Council could be over or underestimating the annual depreciation charge recognised as an expense in the statement of comprehensive revenue and expense.

To minimise this risk, Council's infrastructure asset useful lives have been determined with reference to the NZ Infrastructural Asset Valuation and Depreciation Guidelines published by the National Asset Management Steering Group and have been adjusted for local conditions based on past experience.

Experienced independent valuers perform Council's infrastructure asset revaluations.

Critical judgments in applying Council's accounting policies

Management has exercised the following critical judgments in applying the Council accounting policies for the three-year period ended 30 June 2027.

Classification of property

Council owns a number of properties which are maintained primarily to provide housing to pensioners. The receipt of market-based rental from these properties is incidental to holding these properties. These properties are held for service delivery objectives as part of the Council's social housing policy. These properties are accounted for as property, plant and equipment.

Intangible assets

Intangible assets are stated at cost less accumulated amortisation. Easements, resource consents, public access rights, software and electronic books are included in this category.

Computer software

Acquired computer software systems are capitalised on the basis of costs incurred to acquire and bring the software to use. Costs associated with developing or maintaining computer software programmes are recognised as expense when incurred.

Other intangible assets

Other intangible assets, excluding easements which are not amortised, are stated at cost less accumulated amortisation and impairment losses. The useful lives and associated amortisation classes of intangible assets have been estimated as follows:

	Years	%
Resource consents	5 – 30	3.33 – 20
Easements	Not amortised	0
IT software	3 – 10	10 – 33
Public access rights	10 – 50	2 – 10
Electronic books	5	20

Where Council invests at least \$100,000 in a project, but will not ultimately own an asset, the cost of the right will be treated as an intangible asset where:

- the community has the right to use the facility; and
- in terms of the contract, that right exists for longer than 12 months.

In all instances the cost will be amortised over the shorter of the expected life of the asset or the term of the contract rights.

Subsequent costs

Subsequent expenditure on capitalised intangible assets will be capitalised only when:

- it increases the future economic benefits embodied in the specific asset to which it relates; and
- it meets the definition of, and recognition criteria for, an intangible asset.

All other expenditure is expensed as incurred.

Amortisation

An intangible asset with a finite useful life is amortised:

- over the period of that finite life;
- annually assessed for indicators of impairment (and tested for impairment if indicators exist); and
- carried at cost less accumulated amortisation and accumulated impairment losses.

An intangible asset with an indefinite useful life is not amortised but is tested annually for impairment.

Forestry assets

Forestry assets are independently revalued to estimated market valuation. The net gain or loss arising from changes in the forest asset valuation is included in the surplus / (deficit). All gains and losses from harvesting are recognised in the statement of comprehensive revenue and expense when realised.

Forestry maintenance costs are expensed when incurred.

Equity

Equity is the community's interest in Council and is measured as the difference between total assets and liabilities.

Public equity is disaggregated and classified into a number of components to enable clear identification of the specified uses that Council makes of its accumulated surpluses:

- Retained earnings
- Restricted reserves
- Asset revaluation reserves
- Fair value through equity reserves
- Cash flow hedge reserve
- Capital reserves.

Restricted reserves

Restricted reserves are a component of equity representing a use to which various parts of the equity have been assigned.

Reserves may be legally restricted or created by Council.

Restricted reserves are those reserves subject to specific conditions accepted as binding by Council and which may not be revised by Council without reference to the Courts or a third party. Transfers from these reserves may be made only for certain specified purposes or when certain specified conditions are met.

Funds that are received or set aside for particular purposes, and have legislative restrictions placed upon them, are considered restricted funds. These include certain special funds or reserves and sinking funds created prior to the repeal of the Local Authorities Loans Act. The apportioned values of these funds not required in the current year have been shown as restricted funds.

Council created reserves are reserves established by Council decision. Council may alter them without reference to any third party or the Courts. Transfers to and from these

reserves are at the discretion of Council.

Property revaluation reserves

These reserves relate to the revaluation of property, plant and equipment to fair value.

Fair value through equity reserves

This reserve comprises the cumulative net change in fair value of equity assets.

Cash flow hedge reserves

This reserve comprises the effective portion of the cumulative net change in the fair value of derivatives designated as cash flow hedges.

Development costs

Expenditure on development projects is carried forward to be expended against expected future revenue from the project. Expenditure carried forward is expensed when Council determines that the project has ceased or that no identified future benefits are likely to be derived.

Financial assets

PBE Standards classify financial assets into three categories:

- i. Measured at amortised cost if:
 - the asset is held by the Group to collect the contractual cash flows; and
 - the contractual cash flows represent solely payments of principal and interest.

Financial assets in this category are initially recognised at fair value and subsequently are required to be measured at amortised cost.

- ii. Measured at fair value through other comprehensive revenue and expense if:
 - the objective of the Group's management model for holding the assets is to both collect contractual cash flows and to sell the financial assets; and
 - the asset's contractual cash flows represent solely payments of principal and interest.

Financial assets in this category are required to be measured at fair value with all changes taken through other comprehensive revenue and expenses.

- iii. Measured at fair value through surplus or deficit if:
 - the assets that do not meet the criteria for classification as at amortised cost or at fair value through other comprehensive revenue and expense.

Financial assets in this category are required to be measured at fair value with all changes in fair value recognised in surplus or deficit.

The classification depends on the Council's management model for the financial asset and the contractual cash flow characteristics of the financial asset. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

Financial assets are initially measured at fair value plus transaction costs unless they are measured at fair value through surplus or deficit, in which case the transaction costs are recognised in the surplus or deficit. Impairment of financial assets

Financial assets carried at amortised cost are assessed each reporting date for impairment. If there is objective evidence of impairment, the difference between the asset's carrying amount and the present value of estimated future cash flows, where

appropriate, is recognised in the surplus/(deficit).

Inventories

Inventories are valued at the lower of cost (determined on a first-in first-out basis) and net realisable value. This valuation includes allowances for slow-moving and obsolete inventories.

Inventories held for distribution at no charge, or for a nominal amount, are stated at the lower of cost and current replacement cost.

The write-down from cost to current replacement cost or net realisable value is recognised in the surplus / (deficit).

Investment properties

Investment properties are properties held to earn rental revenue, for capital appreciation, or for both. Investment property is measured initially at its cost, including transaction costs.

After initial recognition, Council measures all investment properties at fair value determined annually by an independent valuer. Fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Any gain or loss arising from a change in fair value is recognised in the surplus / (deficit). There is no depreciation on investment properties.

Rental revenue from investment property is accounted for as described in the accounting policy for revenue recognition.

When an item of property, plant and equipment is transferred to investment property following a change in its use, any differences arising at the date of transfer between the carrying amount of the item immediately prior to transfer and its fair value is recognised directly in equity if it is a gain. Upon disposal of the item the gain is transferred to accumulated comprehensive revenue and expense. Any loss arising in this manner is recognised immediately in the surplus / (deficit).

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment and its fair value at the date of reclassification becomes its cost for accounting purposes.

When Council begins to redevelop an existing investment property for continued future use as an investment property, the property remains an investment property and is not reclassified as property, plant and equipment during the redevelopment.

Provisions

A provision is recognised in the statement of financial position when Council has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits, the amount of which can be reliably estimated, will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Landfill post-closure costs

Council as an operator of both closed and operational landfills has a legal obligation under the Resource Management Act (1991) to provide ongoing maintenance and monitoring services at landfill sites after closure. A provision for post-closure costs is recognised as a liability when the obligation for post-closure costs arises.

The provision is based on the present value of future cash flows expected to be incurred, taking into account ongoing future events including new legal requirements and known improvements in technology. The provision includes all costs associated with landfill post closure.

Council measures landfill assets using the cost model with changes in the provision for decommissioning costs being added to, or deducted from, the asset value until closure of the asset, at which time all changes to the provision are taken to the surplus / (deficit).

The discount rate used is a pre-tax rate that reflects current market assessments of time value of money and risks specific to Council.

Statement of cash flows

Cash or cash equivalents refers to cash balances on hand, cash held in bank accounts, on-demand deposits of three months or less and other highly-liquid investments in which Council or its subsidiaries invest as part of its day-to-day cash management.

Operating activities include cash received from all revenue sources of Council and record cash payments made for the supply of goods and services.

Agency transactions (for example, the collection of regional council rates) are recognised as receipts and payments in the statement of cash flows, given that they flow through Council's main bank account.

Investing activities are those activities relating to the acquisition and disposal of non-current assets. Financing activities comprise the change in equity and debt capital structure of Council.

Non-current assets held for sale

Non-current assets are classified as held for sale and are stated at the lower of their carrying amount and fair value less costs to sell if the carrying amount will be recovered principally through a sale transaction rather than through continuing use.

An impairment loss is recognised for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset is recognised at the date of for accounting purposes.

Non-current assets are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities classified as held for sale continue to be recognised.

Non-current assets classified as held for sale are presented separately from other assets in the statement of financial position.

Critical accounting estimates and assumptions

In preparing these prospective financial statements, Council has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and judgments are continually evaluated and are based on historic experience and other factors, including expectations or future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Landfill aftercare provision

Council gained resource consents to operate landfills at Ahipara, Russell, Whangae and Kaikohe. The Council has responsibility under the Resource Management Act (1991) to provide ongoing maintenance and monitoring of the landfills after the sites are closed.

There are closure and post closure responsibilities such as the following:

- Final cover and vegetation.
- Drainage control features to minimise infiltration of stormwater.
- Completing facilities for leachate collection and treatment.
- Ongoing monitoring as per discharge consent conditions; and
- Completing facilities for monitoring of landfill gas and ensuring no hazard exists.

Post closure responsibilities:

- Treatment and monitoring of leachate.
- Ground water and surface water monitoring.
- Gas monitoring and flaring if require.
- Implementation of remedial measures such as needed for settlement and cracking of capping layer.
- Ongoing site maintenance for drainage systems, final cover and vegetation; and
- Ensure closed landfill is suitable for intended future use.

The management of the landfills will influence the timing of some liabilities – for example, the current landfill site of Russell will operate in two stages. A liability relating to stage 2 will only be created when that stage is commissioned and when refuse begins to accumulate in this stage.

The following major assumptions have been made in the calculation of the provision:

- Council approved the closure of the Russell landfill at a Council meeting on 11th August 2022, with no active landfill sites in operation.
 - Ahipara - nil
 - Russell - nil
- Estimates of the remaining lives have been made by Council's engineers based upon historical volume information. The future cash flows for the landfill post closures are expected to occur for the years between 2023 and 2049 and includes costs to immediately close the Russell landfill. The long-term nature of the liability means that there are inherent uncertainties in estimating costs that will be incurred. The future cashflows have been estimated taking into account existing technology. Risk-free Discount Rates published by the Treasury have been used to discount the estimated future cashflows. [https:// treasury. govt .nz/publications/guidance/reporting/accounting/discount-rates](https://treasury.govt.nz/publications/guidance/reporting/accounting/discount-rates)