HAWKE'S BAY
REGIONAL COUNCIL

Meeting of the Finance Audit & Risk Sub-committee

LATE ITEMS

Date: Wednesday 17 February 2021

Time: 9.00am

Venue: Council Chamber
Hawke's Bay Regional Council
159 Dalton Street
NAPIER

Agenda

HAWKE'S BAY REGIONAL COUNCIL

FINANCE AUDIT & RISK SUB-COMMITTEE

Wednesday 17 February 2021

Subject: 2019-20 ANNUAL REPORT ADOPTION DELAY

Reason for Report

1. This item updates the Finance, Audit and Risk Committee on the delay in the adoption of the 2019-20 Annual Report including the implications of adoption of the report outside of statutory timeframes.

Background

2. On 15 December 2020, Finance Audit and Risk Committee meet to review the 2019-20 Annual Report and recommended to Council that the Annual Report be adopted subject to final Audit clearance.
3. Following the meeting, officers were advised by Audit NZ on 21 December that a technical accounting policy issue had been identified during the peer review. There is a difference in the method between the value used for Council Land and Buildings and HBRIC Group Accounts that have the Port Land and Buildings consolidated into them.
4. The discrepancy arises as Council values Land and Buildings at fair value and the Port Land and Buildings are valued at cost and presenting them in the same asset classes does not comply with PBE IPSAS 17 Property Plant & Equipment.
5. This resulted in Council delaying the adoption of the 2019-20 Annual Report to resolve the issue.
6. This is the only issue raised by Audit with the 2019-20 Annual Report following the recommendation by the FARS committee to Council. Following the resolution of this issue the Annual Report audit opinion can be issued.
7. This has resulted in Council being outside the statutory deadline of 31 December 2020 for adoption of the 2019-20 Annual Report.

Discussion

Property Plant and Equipment issue

8. The issue raised by Audit NZ is a technical accounting policy difference. PBE IPSAS 17 Property Plant & Equipment requires the valuation of assets within a class to be the same. Council's accounting policy for Land and Buildings states that assets are included at fair valuation. The accounting policy of the Port states that Land and Buildings are valued at cost.
9. Officers have been discussing options available with Audit NZ since the 21 December to identify how the issue may be resolved.
10. This included:
    - 10.1. Require Napier Port to provide fair value valuations for all land and buildings for the 2018-19 and 2019-20 to enable the adjustments to be made to the Group Accounts. This was not practically able to be carried out and was discounted as an option by Audit NZ and officers.
    - 10.2. Continue with the adoption of the 2019-20 Annual Report with an audit qualification regarding the discrepancy with the Fixed Assets value and accounting policy. This was agreed to be a final option if no other options were identified.

10.3. Review the accounting policies and classification of assets against the requirements PBE IPSAS 17 Property Plant & Equipment to identify any available reclassification options.

11. Officers have worked through option 8.3 with Audit NZ and the following has been the outcome.

11.1. Council Land and Port Land will be split into two classes on the basis the nature/function of the Port land is sufficiently different to other land within the Group. Port Land will continue to be valued at cost and Council Land will continue to be valued at fair value.

11.2. Port Cargo buildings will be separated into a different class due to a different use to other buildings within the Group and will be valued at cost.

11.3. Port Admin Buildings will be included within the Council Buildings class and will be required to be valued at fair value. Audit NZ will note in the management report to Council that Council is outside its accounting policy for 2019-20 Annual Report and will require the 2020-21 Annual Report to have the Port Admin Building valued at fair value. This will not result in a qualified audit opinion.

11.4. Consolidation of the asset classes for Vehicles, Plant and Equipment will be required to bring the Council assets and Group assets into line.

12. Officers have worked through the required policy and presentation adjustments with Audit NZ and the adjusted Note for Fixed Assets and Accounting Policy are attached for reference.

13. Officers have received notification by Audit NZ that Council can adopt the 2019-20 Annual Report at the Council Meeting on 24 February 2021.

14. A copy of the updated Annual Report and draft audit opinion will be tabled at the Finance, Audit and Risk Committee meeting.

15. Therefore the Finance, Audit and Risk Committee is not required to amend its recommendation to Council to adopt the Annual Plan from the 15 December 2020 meeting.

Late Adoption

16. Under Section 98 of the Local Government Act 2002, Council is required to adopt the annual report within 4 months after the end of the financial year.

17. As a result of the Covid-19 pandemic, parliament passed legislation on 5 August 2020 to extend the statutory reporting time frames by up to two months in order to ensure that there is no reduction in the quality of the financial reporting and the audit of the annual report. Therefor Council was required to adopt the 2019-20 Annual Report by 31 December 2020.

18. Due to the late identification of this issue, Council will adopt the Annual Report outside of the statutory deadline for adoption of the annual report and below are the consequences as a result.

18.1. Council must include a disclose that we are outside the statutory deadline and the reasons behind the non-compliance. As Council is self-disclosing there is no audit opinion implications.

18.2. Each year the Office of the Auditor General produces an annual review/insights document on local government which includes statistics for Council that have not adopted the annual report on time. Below is an extract from the 2019 publication.

Item 8

Sector results and activities

Audit and risk committees

76 councils have an audit and risk committee.
67 have independent committee members or chairpersons.
42 councils have independent chairpersons.

Climate-related actions

16 councils declared climate emergencies in the 2019 calendar year.

Some are putting new governance arrangements in place to consider climate-related actions.

Building and resource consents

34,754 **new** dwellings consented in the year ended 30 June 2019

How did councils perform against the 20-day timeliness requirements for consents?

42 of **67** councils reported 95% compliance, or better, in processing building consent applications.

41 of **67** councils reported 95% compliance, or better, in processing non-notified resource consent applications.

74 councils

adopted their annual report by the statutory deadline.

Three councils that missed the deadline adopted by the end of November 2019, and **one council** adopted by the end of December 2019.

65 councils

had clear audit opinions, which meant that there was **positive assurance over their financial and non-financial performance**. Thirteen councils had modified audit opinions, which meant there were matters of concern or information we highlighted.

Appendix 1
When councils adopted their annual reports and released their annual reports and summary annual reports

When councils adopted their annual reports

When the annual report was adopted	Number adopted for financial year				
	2014/15	2015/16	2016/17	2017/18	2018/19
Within two months after the end of the financial year	1	0	0	0	0
Between two and three months after the end of the financial year	16	27	15	15	20
Between three and four months after the end of the financial year	59	49	60	56	54
Subtotal: Number meeting statutory deadline	**76**	**76**	**75**	**71**	**74**
Percentage of councils meeting statutory deadline	*97%*	*97%*	*96%*	*91%*	*95%*
Between four and five months after the end of the financial year	0	0	2	3	3
More than five months after the end of the financial year	1	1	1	2	1
Not issued as at the date of compilation	1	1	0	2	0
Total	**78**	**78**	**78**	**78**	**78**

Item 8

Decision Making Process

19. Council and its committees are required to make every decision in accordance with the requirements of the Local Government Act 2002 (the Act). Staff have assessed the requirements in relation to this item and have concluded:

    19.1. The decision does not significantly alter the service provision or affect a strategic asset, nor is it inconsistent with an existing policy or plan.

    19.2. The use of the special consultative procedure is not prescribed by legislation.

    19.3. The decision is not significant under the criteria contained in Council's adopted Significance and Engagement Policy.

    19.4. The decision is in accordance with the Finance, Audit and Risk Sub-committee Terms of Reference, specifically:

        19.4.1. The Finance, Audit and Risk Sub-committee is to satisfy itself that the financial statements and statements of service performance are supported by adequate management signoff and adequate internal controls and recommend adoption of the Annual Report by Council.

    19.5. Given the nature and significance of the issue to be considered and decided, and also the persons likely to be affected by, or have an interest in the decisions made, Council can exercise its discretion and make a decision without consulting directly with the community or others having an interest in the decision.

Recommendations

That the Finance, Audit and Risk Sub-committee receives and notes the *"2019-20 Annual Report Adoption Delay".*

Authored by:

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CHIEF FINANCIAL OFFICER

Approved by:

Jessica Ellerm
GROUP MANAGER CORPORATE SERVICES

Attachment/s

⇩**1** Note 9 - Property Plant and Equipment

⇩**2** Draft 2019-20 Annual Report Part 3 - Financials

Part 3- Financials | Pūrongo Pūtea

Note 9: Property, Plant & Equipment

	Note	Land $000	Admin Buildings $000	Vehicles, Plant & Equipment $000	Hydrology Equipment $000	Capital Work in Progress $000	Total $000
COUNCIL							
At 1 July 2018							
Cost or valuation		6,754	8,070	11,436	4,785	67	31,112
Accumulated depreciation		-	(873)	(6,879)	(1,907)	-	(9,659)
Net book amount		6,754	7,197	4,557	2,878	67	21,453
Year ended 30 June 2019							
Opening net book amount		6,754	7,195	4,557	2,878	67	21,451
Revaluation surplus / (deficit)		2,829	2,016	-	833	-	5,678
Transfers		-	-	-	-	-	-
Additions		-	224	1,582	544	101	2,451
Disposals		-	-	(146)	-	-	(146)
Depreciation charges		-	(450)	(1,086)	(427)	-	(1,963)
Asset impairment losses		-	-	-	-	-	-
		9,583	8,985	4,907	3,828	168	27,472
At 30 June 2019							
Cost or valuation		9,583	9,011	12,872	3,828	168	35,462
Accumulated depreciation		-	(26)	(7,965)	-	-	(7,991)
Net book amount		9,583	8,985	4,907	3,828	168	27,472
Year ended 30 June 2020							
Opening net book amount		9,583	8,985	4,907	3,828	168	27,472
Revaluation surplus / (deficit)		-	-	-	-	-	-
Transfers / reclassification		-	-	-	-	-	-
Additions		204	6	1,919	703	500	3,332
Disposals		-	-	(75)	(100)	-	(175)
Depreciation charges		-	(427)	(1,094)	(470)	-	(1,991)
Asset impairment losses		-	(65)	-	-	-	(65)
		9,787	8,499	5,657	3,961	668	28,574
At 30 June 2020							
Cost or valuation	9(a)	9,787	8,952	14,716	4,431	668	38,554
Accumulated depreciation		-	(453)	(9,059)	(470)	-	(9,982)
Net book amount		9,787	8,499	5,657	3,961	668	28,574

Note 9(a) Valuations

Council land and buildings were valued at 31 May 2019 to fair value on the basis of market value by independent valuer, Telfer Young (Hawke's Bay) Limited. The total fair value of property, plant and equipment valued by Telfer Young (Hawke's Bay) Ltd was $13,146,000.

Land used for forestry in the Lake Tutira Country Park and Tangoio Soil Conservation Reserve was valued at 31 May 2019 by Morice Limited, independent valuers. The total fair value of this land was $1,818,000.

Land used for carbon sequestration and wastewater disposal was valued at 31 May 2019 by Morice Limited, independent valuers. The total fair value of this land was $2,564,000.

While ownership of the Tangoio Soil Conservation Reserve is not vested in the Council, full managerial and financial control was transferred to Council in 1989 under section 16 of the Soil Conservation and Rivers Control Act 1941.

Hydrology equipment was valued at 31 May 2019 on the basis of depreciated replacement value. This valuation was carried out by Jack McConchie, an experienced hydrologist with independent consulting engineers, Opus International Consultants Limited.

Part 3- Financials | Pūrongo Pūtea

Note 9: Property, Plant & Equipment Continued

Note 9(b) Insurance of Assets

Insurance Contracts	Book Value	Maximum Insured Amount
Hawke's Bay Councils Programme	$,000	$,000
PP&E excl. vehicles	26,221	27,591
Pumpstations	4,671	14,151
Vehicles	2,353	4,110
Timber Crops	11,482	10,900
	44,727	56,752

HBRC uses an insurance broker who acts on behalf of all five Hawke's Bay Councils to leverage the best competitive prices for insurance. Although the insurance contracts are separate and not effected by claims from the other four Councils.

Infrastructure Insurance	Book Value	Maximum Insured Amount
	$,000	$,000
Infrastructure Assets*	172,019	220,544

* Infrastructure Assets exclude land

HBRC insure infrastructure assets through AON NewZealand. A report prepared by consultant Tonkin & Taylor in conjuction with AON assessed HBRCs maximum probable loss in a 1:2000 earthquake event at $65m. HBRC holds insurance to cover 40% of this loss (with central government meeting the remaining 60%), for up to two events in any one year. The excess associated with this policy is $1,500,000. The excess amount and any costs under the excess amount are self-insured by disaster damage reserves.

The balances of these reserves as at 30 June 2020 are:

Regional Disaster Damage Reserve (book value)	2,128,753
Scheme Disaster Damage Reserves	3,716,159
Total	5,844,912

Note 9(c)

An inconsistency in the Council's application of its accounting policies during consolidation has been identified in its treatment of the Vehicle, Plant and several other equipment asset classes. For consistency in disclosure, Council has consolidated its Plant, Vehicles, Technical Equipment, Computer Equipment, and Other Equipment & Furniture asset classes into a single asset class which is consistent with the Group disclosure.
All assets in these asset classes apply the same accounting policy.
In compliance with PBE IPSAS 3, the change has been applied to the current and prior periods presented.

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Note 9: Property, Plant & Equipment Continued

	Port Land $000	Site Improve-ments $000	Cargo & Other Buildings $000	Admin Buildings $000	Tugs $000	Dredging $000	Wharves & Jetties $000	Vehicles, Plant & Equipment $000	Cranes $000	Sea Defences $000	Capitalised Interest $000	Capital Work in Progress $000	Total $000
Subsidiaries													
At 1 July 2018													
Cost or valuation	38,656	61,298	24,985	3,664	24,100	16,623	45,681	60,802	34,775	89,629	(3,866)	5,462	401,809
Accumulated depreciation	-	(21,819)	(8,378)	(1,999)	(2,802)	(5,127)	(9,109)	(35,258)	(9,274)	(1,938)	(705)	-	(96,409)
Net book amount	38,656	39,479	16,607	1,665	21,298	11,496	36,572	25,544	25,501	87,691	(4,571)	5,462	305,400
Year ended 30 June 2019													
Opening net book amount	38,656	39,479	16,607	1,665	21,298	11,496	36,572	25,544	25,501	87,691	(4,571)	5,462	305,400
Revaluation surplus / (deficit)	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjustment for consolidation	-	(1,290)	(203)	-	-	(1,107)	(415)	(6,303)	-	-	3,153	7,654	1,489
Additions	-	2,081	224	-	-	625	2,162	9,043	-	123	-	11,159	25,417
Disposals	-	(1,666)	-	-	-	1,666	-	(455)	-	-	-	(14,108)	(14,563)
Depreciation charges	-	(1,352)	(524)	-	-	(569)	(469)	(4,506)	-	(275)	(3,153)	-	(10,848)
	38,656	37,252	16,104	1,665	21,298	12,111	37,850	23,323	25,501	87,539	(4,571)	10,167	306,895
At 30 June 2019													
Cost or valuation	38,656	60,423	25,006	3,664	24,100	18,363	47,428	63,087	34,775	89,752	(3,866)	10,167	411,555
Accumulated depreciation	-	(23,171)	(8,902)	(1,999)	(2,802)	(6,252)	(9,578)	(39,764)	(9,274)	(2,213)	(705)	-	(104,660)
Net book amount	38,656	37,252	16,104	1,665	21,298	12,111	37,850	23,323	25,501	87,539	(4,571)	10,167	306,895
Year ended 30 June 2020													
Opening net book amount	38,656	37,252	16,104	1,665	21,298	12,111	37,850	23,323	25,501	87,539	(4,571)	10,167	306,895
Revaluation surplus / (deficit)	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjustment for consolidation	-	966	(120)	-	-	(184)	(151)	(1,599)	-	(86)	(863)	2,115	78
Additions/Transfers	-	1,948	50	-	-	1,417	439	12,704	-	-	-	26,802	43,360
Disposals/Transfers/Impairment	-	(563)	(237)	-	-	-	-	(782)	-	(5,225)	-	-	(6,807)
Depreciation charges	-	(1,963)	(659)	-	-	(751)	(623)	(6,515)	-	(913)	-	-	(11,424)
	38,656	37,640	15,138	1,665	21,298	12,593	37,515	27,131	25,501	81,315	(5,434)	39,084	332,102
At 30 June 2020													
Cost or valuation	38,656	62,774	24,699	3,664	24,100	19,596	47,716	73,410	34,775	84,441	(4,729)	39,084	448,186
Accumulated depreciation	-	(25,134)	(9,561)	(1,999)	(2,802)	(7,003)	(10,201)	(46,279)	(9,274)	(3,126)	(705)	-	(116,084)
Net book amount	38,656	37,640	15,138	1,665	21,298	12,593	37,515	27,131	25,501	81,315	(5,434)	39,084	332,102

Note 9(d)

During the year the Company borrowed funds for the acquisition of new Property, Plant & Equipment. Interest incurred during the acquisition period of $862,675 (2019: $144,000) was capitalised.

Sea defences were revalued in 2017 by AECOM New Zealand Ltd and the revalued amounts included in the statement of financial position. The valuation has been prepared on an optimized depreciation replacement cost basis in accordance with NZ Infrastructure Asset Valuation and Depreciation Guidelines published by the NAMS group of IPWEA and Public Benefit Entity International Public Sector Accounting Standard 17.

Note 9(e)

An inconsistency in the Council's application of its accounting policies during consolidation has been identified in its treatment of the Land and Buildings asset classes.

The Subsidiary asset class Land has been re-titled to Port Land to reflect the different nature and function of the land held by Port of Napier Limited in comparison to the Council's Land asset class.

The port administration building has been separated from the Cargo & Admin Buildings asset class due to its similarity in nature and function with Council buildings.

The Other Buildings asset class and the remaining buildings in the Cargo & Admin Buildings asset class have been consolidated into a single asset class due to their similiarity in nature and function.

Council notes that all subsidiary buildings are valued at historical cost less accumulated depreciation and as a result of the recognition of the nature and function of the port administration building as being consistent with Council administration buildings requires the port administration building to be revalued at consolidation. Council has reviewed the guidance in PBE IPSAS 3 on changes in accounting policy and Council has determined that it is impracticable to determine the retrospective effects of this change in policy and will apply the change prospectively for future reporting periods.

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Note 9: Property, Plant & Equipment Continued

GROUP TOTALS	Council	Council Subsidiaries	Group total
At 1 July 2018			
Cost or valuation	31,112	401,809	432,921
Accumulated depreciation	(9,659)	(96,409)	(106,068)
Net book amount	**21,453**	**305,400**	**326,853**
Year ended 30 June 2019			
Opening net book amount	21,453	305,400	326,853
Revaluation surplus / (deficit)	5,678	-	5,678
Consolidation adjustments	-	1,489	1,489
Transfers	-	-	-
Additions	2,451	25,417	27,868
Disposals	(146)	(14,563)	(14,709)
Depreciation charges	(1,963)	(10,848)	(12,811)
Asset impairment losses	-	-	-
	27,473	**306,895**	**334,367**
At 30 June 2019			
Cost or valuation	35,462	411,555	447,017
Accumulated depreciation	(7,991)	(104,660)	(112,651)
Net book amount	**27,471**	**306,895**	**334,367**
Year ended 30 June 2020			
Opening net book amount	27,471	306,895	334,366
Revaluation surplus / (deficit)	-	-	-
Consolidation adjustments	-	78	78
Transfers	-	-	-
Additions	3,332	43,360	46,692
Disposals	(175)	(6,807)	(6,982)
Depreciation charges	(1,991)	(11,424)	(13,415)
Asset impairment losses	(65)	-	(65)
	28,574	**332,102**	**360,676**
At 30 June 2020			
Cost or valuation	38,554	448,186	486,740
Accumulated depreciation	(9,982)	(116,084)	(126,066)
Net book amount	**28,574**	**332,102**	**360,676**

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Note 1: Statement of Accounting Policies

1.1 Reporting Entity

The Hawke's Bay Regional Council (Council) is a regional local authority governed by the Local Government Act 2002 (LGA) and is domiciled and operates in New Zealand. The relevant legislation governing the Council's operations includes the LGA and the Local Government (Rating) Act 2002.

The Hawke's Bay Regional Council group (the Group) consists of the ultimate parent, the Council, and its subsidiaries. The council owns 100% (2018/19: 100%) of Hawke's Bay Regional Investment Company Limited (HBRIC) which, in turn, owns 55% (2018/19: 0%) of Napier Port Holdings Limited (NPHL). NPHL is the holding company parent of Port of Napier Limited (PoNL). HBRIC owned 100% of PoNL at 30 June 2019. PoNL is a Port Company as defined in the Port Companies Act 1988.

These companies are incorporated and domiciled in New Zealand.

For the purposes of the LGA, HBRIC is a Council Controlled Trading Organisation as it is a Council Controlled Organisation whose purpose is to return a profit. On 20 August 2019, HBRIC sold 45% of its shareholding in NPHL via an Initial Public Offering listing on the New Zealand Stock Exchange (NZX).

The primary objective of Council is to provide services and social benefits for the community rather than make a financial return. The Council has designated itself and the group as public benefit entities (PBEs) for financial reporting purposes.

These financial statements of the Council and group are for the year ended 30 June 2020.

1.2 Basis of Preparation

The financial statements have been prepared on the going concern basis, and the accounting policies have been applied consistently throughout the period.

(1.2.1) Statement of compliance

The financial statements of the Council and group have been prepared in accordance with the requirements of the Local Government Act 2002, 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 (LG(FRP)R).

The financial statements have been prepared in accordance with Tier 1 PBE accounting standards.

These financial statements comply with PBE Standards.

The statements have been prepared under the historic cost convention, as modified by the revaluation of land and buildings, infrastructure assets, hydrological equipment, sea defences, investment property, forestry assets and certain financial instruments measured at fair value.

(1.2.2) Presentation and Currency

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars ($'000).

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(1.2.3) Changes in Accounting Standards

Certain new accounting standards and interpretations have been published that are mandatory for the current year end's reporting periods and have been adopted by the Council. The adoption of these standards has not materially affected the financial statements.

Impairment of revalued assets (amendments to PBE IPSAS 17, 21 and 26)

The amendments bring revalued property, plant and equipment and intangible assets within the scope of PBE IPSAS 21 and PBE IPSAS 26. The amendments clarify that an impairment of an individual asset outside of the revaluation cycle will not necessitate the revaluation of the entire class of assets to which the impaired asset belongs and that the requirement to assess assets for impairment has been extended to include revalued assets.

PBE IPSAS 34 Separate financial statements

Supercedes PBE IPSAS 6 and does not affect the Council as the Council produces consolidated financial statements.

PBE IPSAS 35 Consolidated financial statements

Introduced a new definition of control requiring both power and exposure to variable benefits and includes more guidance on assessing control (including additional guidance on substantive and protective rights). Exceptions from consolidation are provided for investment entities and a parent of an investment entity. The standard also includes guidance on principal/agent relationships, network and partner agreements and on the application of consistent accounting policies when consolidating for-profit entities into a PBE group.

PBE IPSAS 36 Investments in Associates and Joint Ventures

Supercedes PBE IPSAS 7 and 8 and prescribes the accounting for investments in associates and joint ventures and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

PBE IPSAS 37 Joint Arrangements

Supercedes PBE IPSAS 8 and establishes principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (i.e. joint arrangements).

PBE IPSAS 38 Disclosure of interests in other entities

Requires the disclosure of information that enables users of financial statements to evaluate: 1) the nature of, and risks associated with, interests in controlled entities, unconsolidated controlled entities, joint arrangements and associates, and structured entities that are not consolidated; and 2) the effects of those interests on the financial position, financial performance and cash flows.

PBE IPSAS 39 Employee Benefits

PBE IPSAS 39 supersedes PBE IPSAS 25 Employee Benefits. The main change is the definition of short-term employee benefits has changed to be employee benefits expected to be settled (as opposed to 'due to be settled') wholly within 12 months after the end of the reporting period.

Note 2: Summary of Significant Accounting Policies

2.1 Basis of Consolidation

The consolidated financial statements are prepared by adding together like items of assets, liabilities, equity, revenue, and expenses of entities in the group on a line-by-line basis. All intragroup balances, transactions, revenues, and expenses are eliminated on consolidation.

(2.1.1) Subsidiaries

The Council consolidates in the group financial statements all entities where the Council has the capacity to control their financing and operating policies so as to obtain benefits from the activities of the subsidiary. This power exists where the Council controls the majority voting power on the governing body or where such policies have been irreversibly predetermined by the Council or where the determination of such policies is unable to materially affect 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 acquired 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.

In the parent entity's separate financial statements, the Council has elected to account for its investments in subsidiaries as financial instruments in accordance with PBE IPSAS 29 and, therefore, carries these at fair value.

Council's group financial statements are based on NPHL's special purpose financial statements for the year ended 30 June 2020.

HBRIC and NPHL are for-profit entities and report under the For-profit standards. The Council applies PBE standards to the financial reporting by its subsidiaries when consolidating the financial statements.

(2.1.1) Acquisition of Subsidiary Subject to Common Control

On 15 July 2019, NPHL acquired 100% of the issued share capital of PoNL from HBRIC. This constitutes a transaction under common control as both entities were ultimately controlled by the same party and as such the transaction is not within the scope of PBE IFRS 3 Business Combinations.

The pooling of interests method has been adopted to account for the acquisition as a business combination carried out under common control. Under this method pre-transaction carrying values have been used. Cash paid to HBRIC in conjunction with this reorganisation has been treated similar to a dividend and deducted from retained earnings.

The Group's financial statements have been prepared as if PONL and NPHL were consolidated for all of the periods presented. Historical information relates to PONL as NPHL was only incorporated shortly before the transaction and had not conducted any business prior to acquiring PONL.

2.2 Revenue Recognition

Revenue comprises the fair value for the sale of goods and services, net of GST, rebates and discounts and after elimination of sales within the Group. Revenue is recognised as follows.

(2.2.1) Rates Revenue

The following policies for rates have been applied:

- General rates, targeted rates and uniform annual general charges are recognised at the start of the financial year to which the rates resolution relates.
- Rates arising from late payment penalties are recognised as revenue when rates become overdue.
- Rate remissions are recognised as a reduction of rates revenue when the Council has received an application that satisfies its rates remission policy.

(2.2.2) Sales of Goods and Services

- Revenue from the sale of goods is recognised when a product is sold to the customer.
- Sales of services are recognised in the accounting period in which the services are rendered, by reference to the completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total service provided.

(2.2.3) Interest and Dividends

- Interest revenue is recognised using the effective interest method. Interest revenue on an impaired financial asset is recognised using the original effective interest rate.
- Dividends are recognised when the right to receive payment has been established. When dividends are declared from pre-acquisition surpluses, the dividend is deducted from the cost of the investment.

(2.2.4) Grants

Grants are recognised as revenue when they become receivable unless there is an obligation in substance 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.

2.3 Expenditure Recognition

(2.3.1) Borrowing Costs

Borrowing costs are recognised as an expense when incurred.

(2.3.2) Grant Expenditure

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

Discretionary grants are those grants where 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.

(2.3.3) Foreign Currency Transactions

Foreign currency transactions (including those for which forward foreign exchange contracts are held) are translated into NZ$ (the functional currency) using the spot exchange rate 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 surplus or deficit.

2.4 Income Tax

Income tax expense includes components relating to both current tax 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 tax rates (and tax laws) that have been enacted or substantively enacted at 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 statement of financial position and the corresponding tax bases used in the computation of taxable profit.

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

2.5 Leases

(2.5.1) 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 in 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.

(2.5.2) 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.

Lease incentives received are recognised in the surplus or deficit as a reduction of rental expense over the lease term.

2.6 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.

2.7 Receivables

Receivables are recorded at their face value, less any provision for impairment.

2.8 Derivative Financial Instruments and Hedging Accounting

Derivative financial instruments are used to manage exposure to foreign exchange arising from the Council's operational activities and interest rate risks arising from the Council's 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 remeasured to 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 on derivatives that are not hedge accounted are recognised in the surplus or deficit.

The Council and group designates 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 probable forecast transactions (cash flow hedge).

The Council and group 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 non-current if the remaining maturity of the hedged item is more than 12 months, and as current 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.

(2.8.1) 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 applied only 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.

(2.8.2) Cash flow hedge

The portion of the gain or loss on a 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 in 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 it is expected 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 to 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 non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, 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 that has been recognised in other comprehensive revenue and expense from the period when the hedge was effective will remain separately recognised in equity until the forecast transaction occurs. When a forecast transaction is no longer expected to occur, any related cumulative gain or loss on the hedging instrument that has been recognised in other comprehensive revenue and expense from the period when the hedge was effective is reclassified from equity to the surplus or deficit.

2.9 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 and group 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 and group has transferred substantially all the risks and rewards of ownership.

Financial assets are classified into the following categories for the purpose of measurement:

- fair value through surplus or deficit
- loans and receivables
- held-to-maturity investments, and
- fair value through other comprehensive revenue and expense.

The classification of a financial asset depends on the purpose for which the instrument was acquired.

(2.9.1) 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 it 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 into 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 with gains or losses on re-measurement recognised in the surplus or deficit.

(2.9.2) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance date, which are included in non-current assets.

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

Loans to community organisations made at nil or below-market interest rates are initially recognised at the present value of their expected future cash flows, discounted at the current market rate of return for a similar financial instrument. The loans are subsequently measured at amortised cost using the effective interest method. The difference between the face value and present value of the expected future cash flows of the loan is recognised in the surplus or deficit as a grant.

(2.9.3) Held-to-Maturity Investments

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

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

(2.9.4) 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, or realise, the investment within 12 months of balance date. The Council and group includes in this category:

- investments that it intends to hold long-term but which may be realised before maturity; and
- shareholdings that it holds for strategic purposes.

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

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

2.10 Impairment of Financial Assets

Financial assets are assessed for evidence of impairment at each balance date. Impairment losses are recognised in the surplus or deficit.

(2.10.1) Loans and receivables, and held-to-maturity investments

Impairment is established when there is evidence that the Council and group 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 asset is impaired. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate. For debtors and other receivables, 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 uncollectible, 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 bonds, and community loans, are recognised directly against the instrument's carrying amount.

(2.10.2) Financial assets at fair value through other comprehensive revenue and expense

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

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

If impairment evidence exists for investments at fair value through other comprehensive revenue and expense, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the surplus or deficit) recognised in other comprehensive revenue and expense is reclassified from equity to the surplus or deficit. Equity instrument impairment losses recognised in the surplus or deficit are not reversed through the surplus or deficit.

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

2.11 Inventory

Inventory held by the Council is for own use only and is stated at the lower of cost (using the weighted average cost method) and net realisable value.

2.12 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 rather than 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.

2.13 Property, Plant and Equipment

(2.13.1) Operational Assets

Council land and Group administration buildings are shown at fair value less subsequent accumulated depreciation, based on periodic, but at least triennial, valuations by independent, professionally qualified valuers.

Hydrological equipment is shown at fair value less subsequent accumulated depreciation, based on periodic, but at least triennial, valuations by suitably experienced Council employees, on the basis of depreciated replacement cost. Independent, professionally qualified valuers review all such valuations.

Sea defences are shown at fair value, based on periodic valuations by suitably qualified and experienced professionals, less accumulated depreciation and impairment. Revaluations are performed with sufficient regularity to ensure that the carrying value does not differ materially from its fair value.

PoNL land, PoNL cargo and other buildings, and all other operational assets are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

The costs of assets constructed by Council include the cost of all materials used in construction, direct labour on the project and an appropriate amount of directly attributed costs. Costs cease to be capitalised as soon as the asset is ready for productive use.

(2.13.2) Infrastructure Assets

Infrastructure assets are tangible assets that are necessary to fulfil the Council's obligations in respect of the Soil Conservation and Rivers Control Act 1941 and the Drainage Act 1908. Such assets usually show some or all of the following characteristics:

- They are part of a system or network that could not provide the required level of service if one component was removed.
- They enable the Council to fulfil its obligations to the region's communities in respect of flood control and drainage legislation.
- They are specialised in nature and do not have alternative uses.
- They are subject to constraints on removal.

Infrastructure assets are shown at fair value less subsequent accumulated depreciation, based on periodic, but at least triennial, valuations by suitably experienced Council employees, on the basis of depreciated replacement cost. Independent, professionally qualified valuers review all such valuations.

(2.13.3) 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 Group and the cost of the item can be measured reliably.

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

In most instances, an item of property, plant, and equipment is initially recognised at its cost. Where an asset is acquired through a non-exchange transaction, it is recognised at its fair value as at the date of acquisition.

(2.13.4) 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 net in the surplus or deficit. When revalued assets are sold, the amounts included in asset revaluation reserves in respect of those assets are transferred to accumulated funds.

(2.13.5) Subsequent Costs

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Council or

Group and the cost can be measured reliably. All other repairs and maintenance are charged to surplus or deficit during the financial period in which they are incurred.

(2.13.6) Revaluation Adjustments

Increases in carrying amounts arising from revalued assets are credited to revaluation reserves in equity. Decreases that offset previous increases of the same asset category are charged against revaluation reserves in equity. All other decreases are charged to the statement of comprehensive revenue and expense.

Any accumulated depreciation at the date of revaluation is eliminated against the carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

2.14 Intangible Assets

(2.14.1) Software Acquisition and Development

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Costs that are directly associated with the development of software for internal use are recognised as an intangible asset. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

Staff training costs are recognised in the surplus or deficit when incurred. Costs associated with maintaining computer software are recognised as an expense when incurred. Costs associated with development and maintenance of the Council's website are recognised as an expense when incurred.

(2.14.2) Carbon Credits

Purchased carbon credits are recognised at cost on acquisition.

Free carbon units received from the Crown are recognised at fair value on receipt. They are not amortised, but are instead tested for impairment annually. They are derecognised when they are used to satisfy carbon emission obligations.

(2.14.3) 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.

2.15 Depreciation and Amortisation Periods

Land and hard dredging are not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives.

Assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance date. Major depreciation and amortisation periods are:

Major Depreciation and Amortisation Periods	
Asset Category	**Years**
Buildings	3 - 60
Site Improvements	10 - 50
Hydrology Equipment including Weirs	5 - 100
Vehicles, Plant & Equipment	3 - 31
Dredging	8

Tugs	30
Wharves & Jetties	10 - 80
Sea Defences	100 - 200
Computer Software & Licences	3 - 50
Infrastructure Assets	5 - 100

Cranes are depreciated on a unit-of-production basis with estimated useful lives of 33,000 to 36,000 operating hours.

No depreciation is provided for stop banks, berm edge protection, sea or river groynes, drainage works or unsealed roads. These assets are not considered to deteriorate over time and, therefore, will provide a constant level of service unless subjected to a significant flood event.

2.16 Impairment of Non-Financial Assets

Assets that have an indefinite useful life are not subject to amortisation and are tested for impairment at each balance date. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

An impairment 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.

For revalued assets, an impairment loss is recognised in the statement of comprehensive revenue and expense against the revaluation reserve. Any impairment in excess of the reserve is recognised in surplus or deficit. Subsequent reversals of impairment are recognised in surplus or deficit to the extent initially recognised in surplus or deficit with any further reversals recognised in the statement of comprehensive revenue and expense.

For assets carried at cost, impairment and any reversals are recognised in surplus or deficit.

2.17 Investment Property

Investment property is leasehold land, commercial land and buildings held to earn rental revenue and for capital appreciation. Such property is initially recognised at cost. At each balance date investment property is measured at fair value, representing open market value determined annually by independent, professionally qualified valuers. A gain or loss in value is recorded in surplus or deficit for the period in which it arises.

2.18 Forestry Crops

Forestry crops are measured at their fair value less estimated point-of-sale costs each balance date by independent, professionally qualified valuers. Fair value is determined by the present value of expected net cash flows discounted by the current market-determined pre-tax rate. A gain or loss in value is recorded in surplus or deficit for the period in which it arises.

2.19 Payables

Short-term creditors and other payables are recorded at their face value.

2.20 Borrowings

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

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the balance date.

2.21 Employee Entitlements

(2.21.1) Short-term Employee Entitlements

Employee benefits expected to be settled within 12 months after the end of the period in which the employee renders the related service are measured based on accrued entitlements at current rates of pay. These include salaries and wages accrued up to balance date, annual leave earned to, but not yet taken at balance date, and sick leave.

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

(2.21.2) Long-term Employee Entitlements

Employee benefits that are due to be settled beyond 12 months after the end of the period in which the employee renders the related service, such as long service leave and retirement gratuities, 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 entitlement information; and
- the present value of the estimated future cash flows

2.22 Provisions

Provisions are recognised when:

- Council has a present legal or constructive obligation as a result of past events, and
- it is more likely than not that an outflow of resources will be required to settle the obligation, and
- the amount has been reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects the current market assessments of the time value of money and risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense and is included in "Finance costs".

Provisions are not recognised for future operating losses.

2.23 Equity

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

Equity is disaggregated and classified into the following components:

- accumulated funds;
- fair value reserves;

- cash flow hedge reserves; and
- other reserves;

(2.23.1) Fair Value Reserves

This reserve relates to the revaluation of land, buildings, hydrological assets, infrastructure assets and available-for-sale financial assets.

The available-for-sale assets are comprised of investments in both equity and debt instruments. They are designated as available-for-sale financial assets if they do not have fixed maturities and fixed or determinable payments, and management intends to hold them for the medium to long-term. Financial assets that are not classified into any of the other categories (at FVPL, loans and receivables or held-to-maturity investments) are also included in the available-for-sale category.

The financial assets are presented as non-current assets unless they mature, or management intends to dispose of them within 12 months of the end of the reporting period.

(2.23.2) Cash Flow Hedge Reserves

This reserve comprises the effective portion of the cumulative net change in fair value of cash flow hedge instruments, related to hedged transactions that have not yet occurred.

(2.23.3) Other Reserves

Other reserves are a component of equity generally representing a particular use to which various parts of equity have been assigned. Some of these other reserves are restricted by Council decision. Transfers to and from these reserves are at the discretion of the Council.

2.24 Goods and Services Tax

All items in the financial statements are stated exclusive of GST, except for receivables and payables, 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, the 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.

2.25 Budget Figures

The budget figures are those approved by the Council in its 2018-28 Long Term Plan and 2019-20 Annual Plan. The budget figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted in preparing these financial statements.

2.26 Basis of Allocation of Council's Indirect Costs

Clearly identifiable costs are directly charged against each activity. Indirect costs are allocated to cost centres in the first instance under a variety of methods including:

- Floor area occupied
- Number of full time equivalent employees

- Assessed use of various services provided.

These costs are then charged to projects on a labour standard costing basis. The allocation unit is each working hour charged by employees at a pre-determined rate. Variances arising from this method will be allocated on the same basis as for costs of a fixed nature referred to above. Project costs are then summarised for each activity and group of activities.

2.27 Critical Accounting Estimates and Assumptions

In preparing these financial statements, estimates and assumptions have been made concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations or future events that are believed to be reasonable under the circumstances. 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.

COVID-19

It is acknowledged there is significant uncertainty in how COVID-19 will impact the New Zealand economy and the Council in the future.

The Council considered the potential impact of COVID-19 as part of its impairment testing and valuation of its assets as at 30 June 2020. All assets that have been revalued based on quoted prices in an active market are considered to have been automatically adjusted by movement in the market (Fair Value Level 1) and is considered the most appropriate reflection of the value of an asset.

Property, Plant & Equipment and Infrastructure Assets	Management reviewed its assets for impairment and did not identify any issues with the existing balances. Infrastructure Assets were revalued at depreciated replacement cost and reviewed by an independent valuer as at 30 June 2020.
Investment property	Council's investment property is valued annually by an independent valuer. Refer to Note 11 for more details on valuation inputs and assumptions. Post COVID-19, indicators for the housing and commercial market sales have not yet shown any significant reduction in value with market performance indicators showing an upward trend.
Intangible assets – Computer Software	Council's intangible assets have been tested for impairment. No objective evidence has been identified that would indicate that the value of intangible assets may be impaired.
Intangible assets – Carbon Credits	Carbon credits were revalued based on the quoted price for carbon credits.
Forestry assets	Forestry assets were revalued by an independent valuer at 30 June 2020.
Managed funds, government bonds, and publicly listed shares	Other financial assets comprises managed funds, government bonds, and publicly listed shares which have all been revalued based on quoted prices.
Investment in Council-controlled organisations	The valuation of HBRIC consists of its shareholding in Napier Port, the investments in managed funds and its loan to Council. The valuation of its shareholding and investments is based on the quoted price for those holdings.

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Advances to Napier / Gisborne Rail	Kiwirail is a state owned enterprise and Council does not consider the repayment of the advance to be at risk.
Inventories	Inventories mainly relate to poles grown by the nursery that are used for planting and erosion control. These are measured at the lower of cost and NRV. These will be used internally at cost and there is no impact from COVID-19.
Rates Receivables and Community Loans	No impairment is required for community loans and rates receivable due to the powers under the Local Government (Rating) Act 2002 to recover outstanding rates debts.
Trade and other Receivables	Council's trade receivables have been assessed for impairment and there is no significant impact from COVID-19 on collectability. In light of the COVID-19 impact on credit risks at the reporting date, the Group has increased the expected credit loss allowance in respect of its trade receivable balance at 30 June 2020.
Cash and Cash Equivalents	All cash is held with Bank of New Zealand which has a credit rating of AA- (Standard & Poors).

Fair Value of Assets

Various assumptions have been made in determining fair value of assets. These assumptions are set out under the individual assets notes.

Useful Life of Assets

The useful life of assets that are depreciated or amortised is based on best estimates and prior knowledge but may not reflect the actual true useful life of individual assets.

2.28 Critical Judgments in Applying Accounting Policies

Management has exercised judgements in applying accounting policies for the year ended 30 June 2020 these are in accordance with the accounting standards and best practice.

In particular, significant areas of estimation and critical judgements in applying accounting policies that have a significant effect on the amounts recognised in the financial statements are as follows:

- Valuation of sea defences (Note 9)
- Valuation of Infrastructure Assets (Note 10)
- Valuation of Financial Instruments (Note 29)
- Estimation of useful lives and residual values for depreciation expense (Notes 9, 10, 12)
- Deferred taxes (Note 21)
- The application of pooling of interests method to transactions carried out under common control (Note 2.1.1)
- The allocation of IPO transactions and related costs between equity raising costs (deducted from equity) and those expenses (Note 19).

2.29 New Standards and Amendments issued and not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for the current year end's reporting periods and have not been early adopted by the Council. The Council and group's assessment of the impact of these new standards and interpretations is set out below.

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Financial instruments

In January 2017, the XRB issued PBE IFRS 9 Financial Instruments. PBE IFRS 9 replaces PBE IPSAS 29 Financial Instruments: Recognition and Measurement. PBE IFRS 9 was effective for annual periods beginning on or after 1 January 2021, with early application permitted. The main changes under PBE IFRS 9 are:

- New financial asset classification requirements for determining whether an asset is measured at fair value or amortised cost.
- A new impairment model for financial assets based on expected losses, which may result in the earlier recognition of impairment losses.
- Revised hedge accounting requirements to better reflect the management of risks.

In March 2019, NZASB issued PBE IPSAS 41 Financial Instruments which is mandatory for periods beginning on or after 1 January 2022. The NZASB subsequently deferred the effective date of PBE IFRS 9 to 1 January 2022 so that PBE IFRS 9 did not become mandatorily effective before PBE IPSAS 41. When applied, PBE IPSAS 41 supersedes PBE IFRS 9. The Council intends to apply PBE IPSAS 41 in the financial year beginning 1 July 2022. The Council has not yet assessed the effects of the new standard.

PBE FRS 48 Service Performance Reporting

PBE FRS 48 replaces the service performance reporting requirements of PBE IPSAS 1 and is effective for reporting periods beginning on or after 1 January 2021. Council has not yet determined how application of PBE FRS 48 will affect its statement of performance.

Amendments to PBE IPSAS 2 Statement of Cash Flows

Requires entities to provide additional disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. Effective for periods beginning 1 January 2021. This amendment will result in additional disclosure required and will not have any additional impact on the amounts disclosed.

The Council has not early adopted any of these standards. There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.