

## STATEMENT OF ACCOUNTING POLICIES

### Reporting Entity

Upper Hutt City Council is a territorial local authority governed by the Local Government Act 2002.

The Upper Hutt City Council Group (Upper Hutt City Council) consists of Upper Hutt City Council and its Council controlled charitable organisation Expressions Arts and Entertainment Trust. In addition Upper Hutt City Council shares with Hutt City Council an interest in the Hutt Valley Wastewater Scheme (refer to 13B in the Notes to the Financial Statements).

The primary objective of Upper Hutt City Council is to provide goods or services for the local community or social benefit rather than making a financial return. Accordingly, Upper Hutt City Council has designated itself and the group as public benefit entities for the purposes of New Zealand equivalents to International Financial Reporting Standards (NZIFRS).

The financial statements of Upper Hutt City Council are for the year ended 30 June 2008. The financial statements were adopted for issue by Council on 29 October 2008.

### Basis of Preparation

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

These financial statements have been prepared in accordance with NZ GAAP. They comply with NZIFRS, and other applicable Financial Reporting Standards, as appropriate for public benefit entities.

The financial statements have been prepared on a historical cost basis, modified by the revaluation of land and buildings, certain infrastructural assets, and financial instruments (including derivative instruments).

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand (\$'000). The functional currency of Upper Hutt City Council is New Zealand dollars.

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the Statement of Financial Performance.

### Standards, amendments and interpretations issued that are not yet effective and have not been early adopted

Standards, amendments and interpretations issued, but not yet effective, that have not been early adopted, and which are relevant to the Upper Hutt City Council include:

NZ IAS 1–Presentation of Financial Statements (revised 2007) replaces NZ IAS 1–Presentation of Financial Statements (issued 2004) and is effective for reporting periods beginning on or after 1 January 2009. The revised standard requires information in financial statements to be aggregated on the basis of shared characteristics and introduces a Statement of Comprehensive Income. The Statement of Comprehensive Income will enable readers to analyse changes in equity resulting from non-owner changes separately from transactions with owners. The revised standard gives the Upper Hutt City Council the option of presenting items of income and expense and components of other comprehensive income either in a single Statement of Comprehensive Income with subtotals, or in two separate statements (a separate Income Statement followed by a Statement of Comprehensive Income). The Upper Hutt City Council intends to adopt this standard for the year ending 30 June 2010, and is yet to decide whether it will prepare a single Statement of Comprehensive Income or a separate Income Statement followed by a Statement of Comprehensive Income.

NZ IAS 23–Borrowing Costs (revised 2007) replaces NZ IAS 23–Borrowing Costs (issued 2004) and is effective for reporting periods beginning on or after 1 January 2009. The revised standard requires all borrowing costs to be capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. The revised standard will also require borrowing costs to be considered when revaluing property, plant and equipment to fair value based on depreciated replacement cost. Any necessary adjustments to depreciated replacement cost carrying values will have a flow on effect to depreciation expense. The Upper Hutt City Council intends to adopt this standard for the year ending 30 June 2010 and has not yet quantified the potential impact of the new standard.

## STATEMENT OF ACCOUNTING POLICIES

### Subsidiary

Upper Hutt City Council consolidates its subsidiary Expressions Arts and Entertainment Centre, in the group financial statements. Upper Hutt City Council has the capacity to control their financing and operating policies so as to obtain benefits from the activities. This power exists where Upper Hutt City Council controls the majority voting power on the governing body or where such policies have been irreversibly predetermined by Upper Hutt City Council or where the determination of such policies is unable to materially impact the level of potential ownership benefits that arise from the activities of the subsidiary.

### Basis of Consolidation

The purchase method is used to prepare the consolidated financial statement, which involves adding together like-items for assets, liabilities, equity, income and expenses on a line-by-line basis. All significant intra-group balances, transactions income and expenses are eliminated on consolidation.

### Particular Accounting Policies

The particular accounting policies applied are as follows:

#### Budget Figures

The budget figures are those approved by Council at the beginning of the year after a period of consultation with the public as part of the Long Term Council Community Plan process. The budget figures have been prepared in accordance with NZ GAAP that is consistent with the accounting policies adopted by Upper Hutt City Council for the preparation of financial statements.

### Revenue Recognition

Revenue is measured at the fair value of consideration received.

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

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

Traffic and parking infringements are recognised when tickets are issued.

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

Revenue from the rendering of services provided at differing stages of completion are based on the actual service provided as a percentage of the total services to be provided.

Sale of goods is recognised when a product is sold to the customer. Sales are usually in cash or by credit card. The recorded revenue is the gross amount of the sale including credit card fees payable for the transaction. Such fees are included in other expenses.

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

Where revenue is derived by acting for another party, the revenue that is recognised is the commission or fees on the transactions.

Interest income is recognised using the effective interest method.

Dividends are recognised on an accrual basis net of imputation credits.

### Reserve Fund and Development Contributions

The revenue is recognised at the time of customer request for sub-division development. The contributions are collected and transferred into their respective special funds. These funds can only be used when the capital works in their respective areas can be fully funded.

### **Allocation of Overheads to Significant Activities**

The gross costs of Support Services have been allocated to individual significant activities. These overheads have been allocated at the most appropriate pre-determined basis e.g. actual usage, staff numbers, rates contribution, floor area etc. applicable to the service provided to each significant activity.

### **Internal Transactions**

Each significant activity is stated with the inclusion of internal costs and revenues. In order to present a true and fair view in the financial statements these transactions have not been eliminated. This method has no effect on the operating result for the year.

### **Taxation**

Upper Hutt City Council has a tax exemption in relation to the surplus or deficit for the period.

### **Cash and Cash Equivalents**

Cash and cash equivalents includes cash in hand, deposits held on call with a bank, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts.

### **Trade and Other Receivables**

Rates arrears and debtors, 'trade receivables' are initially measured at fair value less any provision for impairment.

Loans, including loans to community organisations made by Upper Hutt City Council at nil, or below market value 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 asset/investment. They are subsequently measured at amortised cost using the effective interest method.

The difference between face value and present value of expected future cash flow of the loan, is recognised in the Statement of Financial Performance as a grant.

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

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

The Financial Statements have been prepared exclusive of GST, with the exception of accounts payable and accounts receivable, which are stated as GST inclusive. Where GST is not recoverable as an input tax then it is recognised as part of the related asset or expense.

The net amount for GST recoverable from, or payable to the Inland Revenue Department (IRD) is included as part of receivables or payables in the Statement of Financial Position.

The net GST paid to, or received from the IRD, included 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 inclusive of GST.

### **Inventories**

Inventories held for consumption in the provision of services that are not supplied on a commercial basis are recorded at the lower of cost or current replacement cost.

The write down from cost to current replacement cost is recognised in the Statement of Financial Performance.

## STATEMENT OF ACCOUNTING POLICIES

### Financial Assets

Upper Hutt City Council classifies its financial assets into the following four categories:

- financial assets at fair value through profit or loss
- held to maturity investments
- loans and receivables
- and financial assets at fair value through equity.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

Financial assets and liabilities are initially measured at fair value plus transactions costs unless they are carried at fair value through profit or loss in which case the transaction costs are recognised in the Statement of Financial Performance.

Purchases and sales of investments are recognised on trade-date, the date on which Upper Hutt City Council commits to purchases 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 Upper Hutt City Council has transferred substantially all the risks and rewards of ownership.

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. Upper Hutt City Council uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The four categories for financial assets are:

- **Financial assets at fair value through profit or loss**

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

After initial recognition they are measured at their fair values. Gains or losses on re-measurement are recognised in the Statement of Financial Performance.

Financial assets in this category include shares and bonds.

Currently, Upper Hutt City Council does not hold any financial assets in this category.

- **Loans and receivables**

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

After initial recognition they are measured at amortised cost using the effective interest method. Gains and losses when the asset is impaired or derecognised are recognised in the Statement of Financial Performance. Loans and receivables are classified as "Trade and Other Receivables" in the Statement of Financial Position.

Investments in this category include term deposits.

- **Held to maturity investments**

Held to maturity investments are assets with fixed or determinable payments and fixed maturities that Upper Hutt City Council has positive intention and ability to hold to maturity.

After initial recognition they are measured at amortised cost using the effective interest method. Gains and

losses when the asset is impaired or derecognised are recognised in the Statement of Financial Performance. Investments in this category include local authority and government stock. Currently, Upper Hutt City Council does not hold any financial assets in this category.

- **Financial assets at fair value through equity**

Financial assets at fair value through equity are those that are designated as fair value through equity or are not classified in any of the other categories above. This category encompasses:

- Investment that Upper Hutt City Council intends to hold long term but which may be realised before maturity; and
- Shareholdings that Upper Hutt City Council holds for strategic purposes.

After initial recognition these investments are measured at their fair value.

Gains and losses are recognised directly in equity except for impairment losses which are recognised in the Statement of Financial Performance. In the event of impairment, any cumulative losses previously recognised in equity will be removed from equity and recognised in the Statement of Financial Performance even though the asset has not been derecognised.

On de-recognition, the cumulative gain or loss previously recognised in equity is recognised in the Statement of Financial Performance.

### **Impairment of financial assets**

At each balance sheet date Upper Hutt City Council assess whether there is any objective evidence that financial asset of group of assets is impaired. Any impairment losses are recognised in the Statement of Financial Performance.

### **Accounting for Derivative Financial Instruments**

Upper Hutt City Council uses derivative financial instruments to hedge exposure to interest rate risks arising from financial activities. In accordance with its treasury policy, Upper Hutt City Council does not hold or issue derivative financial instruments for trading purposes.

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

Upper Hutt City Council has a series of policies providing risk management for interest rates and the concentration of credit risk. Upper Hutt City Council is risk averse and seeks to minimise exposure from its treasury activities. Upper Hutt City Council has an established Borrowing and Investment policy specifying what transactions can be entered into. The policy does not allow any transactions that are speculative in nature to be entered into.

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. This could particularly impact on the cost of borrowing or the return from an investment.

The interest rates on Upper Hutt City Council investments are disclosed in Note 9, Notes to the Financial Statements.

In regard to term loans, there are five interest rate swap agreements in place at 30 June 2008 (2007: 5). These agreements are in place to cover interest rates on a portion of term loan facilities. Refer to Notes 9, 17 and 18, Notes to the Financial Statements.

The actual management policies are set out in the separate policy document, 'Borrowing and Investment Management Policy'.

Credit risk is the risk that a third party will default on its obligation to Upper Hutt City Council, causing Upper Hutt City Council to incur a loss.

The maximum amount of credit risk for each class is the carrying amount in the Statement of Financial Position.

Upper Hutt City Council has minimal credit risk in its holdings of various financial instruments. These financial instruments include bank balances, local authority stock and accounts receivable.

## STATEMENT OF ACCOUNTING POLICIES

Upper Hutt City Council invests funds only in deposits with registered banks and local authority stock and limits the amount of credit exposure to any one institution or organisation. Accordingly, the Upper Hutt City Council does not require any collateral or security to support the financial instruments with organisations it deals with.

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable, willing parties, in an arm's length transaction.

### Investment Properties

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

Investment property is measured initially at its costs, including transactions costs.

After initial recognition, Upper Hutt City Council measures all investment property at fair value as determined annually by an independent valuer. At 30 June 2008, Upper Hutt City Council held no investment properties.

Gains and losses arising from a change in the fair value of investment property are recognised in the Statement of Financial Performance.

### Non-Current assets held for Sale

Non-current assets held for resale are classified as held for sale if their carrying amount will be recovered principally through a sale transaction, not through continuing use. Non-current assets held for sale are measured at the lower of their carrying amount and fair value less cost of sales.

Any impairment losses for write down of non-current assets held for sale are recognised in the Statement of Financial Performance.

Any increases in fair value (less cost 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. Interest and other expenses attributed to the liabilities of a disposal group as held for sale continue to be recognised.

### Intangible assets

#### *Software acquisition and development*

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

Costs associated with maintaining computer software are recognised as an expense when incurred. Costs that are directly associated with the development of software for internal use by Upper Hutt City Council, are recognised as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads.

#### *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 uses and ceases at the date that the asset is derecognised. The amortisation charge for each period is recognised in the Statement of Financial Performance.

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

- Computer software      3 years                      33%

### Impairment of non-financial assets

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 useful life are reviewed for impairment whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amounts exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Value in use is depreciated replacement cost for an asset where the future economic benefits or service potential of the 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 value in use for cash-generating assets is the present value of expected future cash flows.

If an asset's carrying amount exceeds its recoverable amount the asset is impaired and the carrying amount is written down to the recoverable amount. For revalued assets the impairment loss is recognised against the revaluation reserve for that asset. Where that results in a debit balance in the revaluation reserve; that balance is recognised in the Statement of Financial Performance.

For assets not carried at a revalued amount, the total impairment loss is recognised in the Statement of Financial Performance.

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 was previously recognised in the Statement of Financial Performance, a reversal of the impairment loss is also recognised in the Statement of Financial Performance.

For assets not carried at revalued amount (other than goodwill) the reversal of an impairment loss is recognised in the Statement of Financial Performance.

## Property, Plant and Equipment

Property, plant and equipment include:

**Operational property, plant and equipment:** These include land, buildings, improvements, library books, plant and equipment and motor vehicles.

**Restricted property, plant and equipment:** Restricted property, plant and equipment are parks and reserves owned by the Council which provide a benefit or service to the community and cannot be disposed of because of legal restrictions.

**Infrastructure assets:** Infrastructure assets are the fixed utility network systems owned by Council and include roading, water, stormwater and wastewater piping.

Property, plant and equipment is shown at cost or valuation, less accumulated depreciation and impairment losses.

### Additions

The cost of an item of property, plant and equipment is recognised as an asset if, and only if it is probable that future economic benefits or service potential of the item will flow to Upper Hutt City Council and the cost of the item can be measured reliably. In most instances, an item of property, plant and equipment is recognised at its cost. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value as at the date of acquisition.

### Disposals

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

### Subsequent costs

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

## Valuations

- Those asset classes that are revalued are valued on a five yearly valuation cycle on the basis described below. All other asset classes are carried at depreciated historical costs. The carrying values of revalued items are reviewed at each balance date to ensure that those values are not materially different to fair value.

## STATEMENT OF ACCOUNTING POLICIES

- Land, buildings, plant, furniture and equipment have been revalued as at 30 June 2003 by Ken Tonks, Registered Valuer of TSE Group Limited, except for minor structures, vehicles, computers and minor miscellaneous office equipment. Council has revalued land, building, plant and equipment of four Council assets known as Civic Administration Centre, Expressions, Library and H<sup>2</sup>O Xtream one year earlier than the programmed five yearly cycle. Civic Administration Centre, Expressions, Library and H<sup>2</sup>O Xtream were valued by Ken Tonks (ANZIV) and Richard A Papps (MPINZ) Registered Valuers of TSE Group Ltd on 31st July 2007. These asset valuations were greater than expected and will be included in the normal revaluations carried out on a five yearly basis. Minor structures, vehicles, computers and minor miscellaneous office equipment are valued at historical cost.
- Infrastructure assets are the fixed utility network systems owned by Council and include roading, water, stormwater, land under roads, reservoir reserve land and wastewater piping. These assets are valued on the depreciated replacement value basis as at 30 June 2008 by the City Engineers. The valuation of these assets was independently reviewed by two valuers. Infrastructural Assets under Stormwater, Wastewater, Telemetry and Roding was independently reviewed by Graham Hughson, Sector Director, Advisory services of Manusell Limited. Infrastructural Assets under Water was independently reviewed by Peter Ollivier of Duffill Watts Consulting Group. Revaluations are carried out five yearly.
- The Hutt Valley Wastewater Scheme was valued on the depreciated replacement value basis as at 1 July 2006. The valuation of these assets was independently reviewed by Graham Hughson, BE (Civil), DIP Mgmt, CPEng, MIPENZ, Senior Infrastructure Management Consultant of Maunsell Ltd.
- Land under roads was valued based on fair value. Under NZIFRS Upper Hutt City Council has elected to use the fair value of land under roads as at 30 June 2004 as deemed cost. Land under roads is no longer revalued.
- Restricted assets are assets that cannot be disposed of because of legal and other restrictions. These assets have been revalued as at 30 June 2003 by Ken Tonks, Registered Valuer of TSE Group Limited. Revaluations will be carried out five yearly.
- Library collection has been revalued at depreciated replacement cost as at 30 June 2007 in accordance with the guidelines released by the New Zealand Library Association and the National Library of NZ using the readily available market prices to determine fair value. Library valuations are performed by the City Librarian and the methodology is checked by Peter Trewern of New Zealand Book Auctions. The library collection and heritage book collection was revalued as at 30 June 2007 by the City Librarian. The valuation was independently checked by Peter Trewern in 2007. Revaluations are carried out four yearly.
- Vested assets have been valued on the actual quantities of infrastructure components vested and the current in the ground cost of providing identical services. The vested assets have been valued by the developer's engineers and council's engineering staff.

### Accounting for Revaluations

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

The results of revaluing are credited or debited to an asset revaluation reserve for that class of asset. Where this results in a debit balance in the asset revaluation reserve, this balance is expensed in the Statement of Financial Performance. Any subsequent increase or revaluation that offset a previous decrease in value is recognised in the Statement of Financial Performance up to the amount previously expensed, and then credited to the revaluation reserve for that class of asset.

### Depreciation

- All assets, except for land and road formations, have been depreciated on either a Straight Line or Diminishing Value basis at rates estimated to write off the cost of the assets over their estimated useful life.

Hutt Valley Wastewater Scheme assets are controlled by Hutt City Council. Upper Hutt City Council is entitled to a share in any sale proceeds of these assets. The Seaview wastewater treatment plant is depreciated at 20 years and sewerage pipelines at 40-80 years.

The specific rates of depreciation applied to major classes of Property, Plant and Equipment are:

<b>Depreciation</b>		
<b>Straight-line Depreciation</b>	<b>Years</b>	<b>Rate</b>
Bridges	50 to 100 years	1% to 2%
Buildings	40 to 100 years	1% to 2.5%
Buildings Fitout and Services	15 to 40 years	2.5% to 6.67%
Computer Equipment	3 years	33.30%
Furniture and Office Equipment	10 to 15 years	6.67% to 10%
Library Books	2 to 10 years	10% to 50%
Parks and Reserves Services	20 to 100 years	1% to 5%
Plant and Equipment	8 to 50 years	2% to 12.5%
<b>Infrastructure Assets</b>		
<b>Roading</b>		
Carparks	50 years	2%
Culverts	50 years	2%
Footpaths / Accessways	35 to 45 years	2.2% to 2.8%
Roads (except land and formation)	3 to 20 years	5% to 33%
Stormwater channels	35 to 45 years	2.2% to 2.8%
Street and Traffic Lights	8 to 50 years	2% to 12.5%
Street Furniture and other features	25 years	4%
Sumps	50 years	2%
<b>Water</b>		
Mechanical and electrical plant	20 to 25 years	4% to 5%
Pipe work, appurtenances and associated structures	50 to 80 years	1.25% to 2%
Reservoirs, intake Structure	100 years	1%
<b>Stormwater</b>		
Pipe work, appurtenances and associated structures	50 to 80 years	1.25% to 2%
<b>Wastewater</b>		
Wastewater Main, pipe work, appurtenances and associated structures	80 to 100 years	1% to 1.25%
<b>Telemetry</b>		
Electrical /electronic	15 to 25 years	4% to 6.67%
Telemetry huts, pipe work, appurtenances and associated structures	50 to 80 years	1.25% to 2%
<b>Diminishing Value Depreciation</b>		
Furniture and Office Equipment	2 to 15 years	6.67% - 50%
Vehicles and Plant	5 to 10 years	10% - 20%

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

## STATEMENT OF ACCOUNTING POLICIES

### Employee Benefits

#### *Short term benefits*

Wages and salaries, annual leave and other entitlements that are expected to be settled within twelve months of reporting date are measured at nominal values on an actual entitlement basis at current rates of pay.

Upper Hutt City Council recognised a liability for sick leave to the extent that absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year.

The amount is calculated based on the unused sick leave entitlement that can be carried forward at balance date, to the extent that Upper Hutt City Council anticipates it will be used by staff to cover those future absences.

#### *Long term benefits*

Entitlements that are payable beyond twelve months, such as long service leave and retirement gratuity, have been calculated on an actuarial basis.

The calculations are based on:

- likely future entitlements accruing to staff, based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement and contractual entitlements information; and
- the present value of the estimated future cash flows. A discount rate of 8.68% and an inflation factor of 3.40% were used. The discount rate is based on the weighted average of Government interest rates for stock with terms to maturity similar to those of the relevant liabilities. The inflation factor is based on the expected long-term increase in remuneration for employees.

### Leases

#### *Finance Leases*

A finance lease is a lease that transfers to the lessee substantially all the risks and rewards incidental to the ownership of an asset, whether or not title is eventually transferred. At the commencement of the lease term, Upper Hutt City Council recognised finance lease as assets and liabilities in the Statement of Financial Position at the lower of the fair value of the leased items or the present value of the minimum lease payments.

The amount recognised as an asset is depreciated over its useful life. If there is no uncertainty as to whether Upper Hutt City 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.

#### *Operating Leases*

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

### Borrowings

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

### Equity

Equity is the community's interest as measured as the difference between total assets less total liabilities. Public equity is disaggregated and classified into a number of reserves to enable clearer identification of specified uses that Council makes of accumulated surpluses.

Components of equity are:

- Retained earnings
- Restricted reserves
- Asset revaluation reserve

## Reserves

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

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

Council created reserves are reserves established by Council decision. The Council is legally allowed to alter them without reference to any third party. Transfers to and from these reserves are at the discretion of the Council.

## Statement of Cash Flows

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

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 the Council.

## Critical accounting estimates and assumptions

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

### Infrastructural assets

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

- The physical deterioration and condition of an asset, for example the Council could 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, for example stormwater, wastewater and water supply pipes that are underground. This risk is minimised by Council performing a combination of physical inspections and condition modelling assessments of underground assets;
- 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. These estimates can be impacted by the local conditions, for example weather patterns and traffic growth. If the useful lives do not reflect the actual consumption of the benefits of the asset, then Upper Hutt City Council could be over or under estimating the annual depreciation charge recognised as an expense in the Statement of Financial Performance. To minimise this risk Upper Hutt City Council infrastructural 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. Asset inspections, deterioration and condition modelling are also carried out regularly as part of the Upper Hutt City Council's asset management planning activities, which gives Upper Hutt City Council further assurance over its useful life estimates.
- Experienced independent valuers perform the Council's infrastructural asset revaluations.