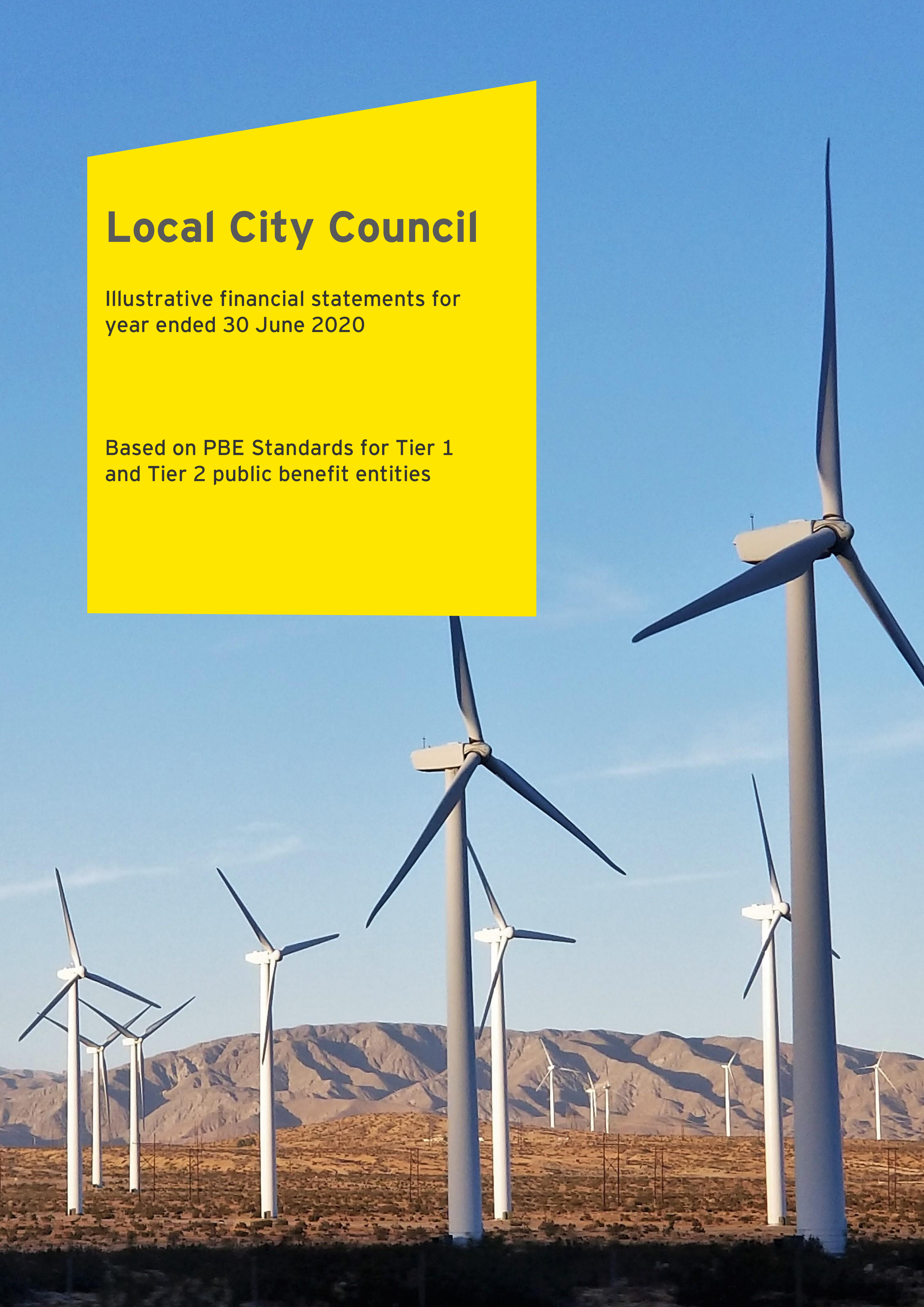
Local City Council

Illustrative financial statements for year ended 30 June 2020

Based on PBE Standards for Tier 1 and Tier 2 public benefit entities



Foreword

This publication has been designed to illustrate disclosure requirements for both Tier 1 public benefit entities (PBEs) reporting in accordance with Public Benefit Entity Standards (PBE Standards) and Tier 2 PBEs reporting in accordance with PBE Standards Reduced Disclosure Regime (PBE Standards RDR). Disclosures and related commentaries for which RDR disclosure concessions are available have been highlighted in this document in dark grey with white text. Tier 2 PBEs are not required to make these disclosures.

Certain disclosures are included in this publication merely for illustrative purposes. We, therefore, recommend that entities using this publication tailor the illustrative disclosures to reflect an entity's own facts and circumstances.

The Standards applied in these illustrative financial statements are those that are effective for annual periods beginning on or before 1 July 2019. The Group applied the new PBE Standards on the interest in other entities (PBE IPSAS 34 to PBE IPSAS 38) for the first time. The adoption of these and other new Standards has not had a material impact on the illustrative financial statements. Refer to Note 2(c) for more details.

Standards issued, but not yet effective, as at 1 July 2019 have not been early adopted. Refer to Note 44 for the discussion about the impact of adoption of these Standards.

PBEs that early adopted PBE IFRS 9 *Financial Instruments* or PBE IPSAS 41 *Financial Instruments* in the current financial year can find relevant disclosures in Appendix 12 and Appendix 13. These Appendixes provide illustrative examples of the new financial instruments disclosures. We recommend you contact one of the EY member firms' Assurance partners or a member of the EY Financial Accounting Advisory Services team for more information about the new financial instruments standard.

Caveat

The names of people and organisations included in these illustrative financial statements are fictitious and have been created for the purpose of illustration only. Any resemblance to any person or organisation is purely coincidental.

These financial statements are illustrative only and do not attempt to show all possible accounting and disclosure requirements. In case of doubt as to the requirements, it is essential to refer to the relevant source and, where necessary, to seek appropriate professional advice. Although the illustrative financial statements attempt to show the most likely disclosure requirements for a local authority, it should not be regarded as a comprehensive checklist of disclosure requirements.

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Abbreviations and key

Abbreviations

The following styles of abbreviation are used in the commentary pages of the Local City Council illustrative financial statements:

FMC 2013	Financial Markets Conduct Act 2013
FRA 2013	Financial Reporting Act 2013
FRA 1993	Financial Reporting Act 1993
LGA	Local Government Act 2002
LG (FRP)R	Local Government Financial Reporting and Prudence Regulation 2014
PFA	Public Finance Act 1989
IPSAS	International Public Sector Accounting Standards
IPSASB	International Public Sector Accounting Standards Board
PBE	Public Benefit Entity
PBE Standards	Public Benefit Entity Standards issued by the External Reporting Board (XRB) or the New Zealand Accounting Standards Board of the XRB
PBE IPSAS 3.9	Public Benefit Entity International Public Sector Accounting Standard No. 3, paragraph 9
PBE IFRS 3.2	Public Benefit Entity International Financial Reporting Standard 3, paragraph 2
PBE IAS 12.2	Public Benefit Entity International Accounting Standard No. 12, paragraph 2
PBE FRS 47.4	Public Benefit Entity Financial Reporting Standard No. 47, paragraph 4
XRB	External Reporting Board
NZASB	New Zealand Accounting Standards Board
NZ GAAP	New Zealand Generally Accepted Accounting Practice
Commentary	The commentary explains how the requirements of PBE Standards have been interpreted in arriving at the illustrative disclosure

Key

Each section of the illustrative financial statements of Local City Council is cross-referenced to commentary. Source references to the authoritative literature are also provided. The commentary follows the disclosure contained in each section of the financial statements and is intended to highlight disclosure requirements of the note or explain the particular decisions made in providing the illustrative disclosure in these financial statements.

Introduction

This document contains an illustrative set of consolidated financial statements for Local City Council and its controlled entities (the Group) that is prepared in accordance with PBE Standards as applicable to Tier 1 and Tier 2 PBEs under XRB A1 *Accounting Standards Framework* (XRB A1) issued by the XRB.

Local City Council is a fictitious local authority in New Zealand with a reporting date of 30 June 2020.

Objective

This set of consolidated financial statements is prepared to assist you in preparing your own financial statements. The illustration reflects some of the transactions, events and circumstances that we consider to be common for a broad range of entities within the public sector and the private not-for-profit sector. However, it does not address all possible transactions, events and arrangements. Therefore, additional disclosures may be required for the transactions, events or arrangements that are not addressed in these illustrative financial statements.

While these illustrative financial statements may serve as a useful reference, users of this publication are encouraged to prepare entity-specific disclosures to reflect the entity's own facts and circumstances. Such entity-specific disclosures enhance the relevance and usefulness of the financial information. Furthermore, certain disclosures are included in these financial statements merely for illustrative purposes even though they may be regarded as items or transactions that are not material or applicable to Local City Council.

As a general approach, these illustrative financial statements do not early adopt PBE Standards or amendments before their effective date.

How to use this publication

Applicability to public sector PBEs and not-for-profit PBEs

Although Local City Council is a public sector PBE, this publication is applicable to both public sector PBEs and not-for-profit PBEs.

To ensure relevance and ease of use for a wide range of public sector and not-for-profit PBEs, the main body of this publication contains only disclosures required by PBE Standards. The majority of statutory disclosures that are not required by PBE Standards, but which local authorities or other public sector PBEs are required to provide in their annual report by their specific governing legislation, are presented in the appendices. Local authorities and other public sector PBEs should refer to Appendices 7-11 for examples of such statutory disclosures.

Although PBE Standards are applicable to all PBEs across the public sector and private not-for-profit sector, a small number of standards contain requirements that are applicable only to not-for-profit PBEs. For example, PBE IPSAS 20 *Related Party Disclosures* requires not-for-profit PBEs to disclose all related party transactions, whereas public sector PBEs would usually be eligible for a disclosure exemption in this area. Also, PBE FRS 47 *First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRSs* has disclosure exemptions that are applicable to not-for-profit PBEs only.

Because Local City Council is a public sector PBE, the disclosure requirements that are specific to not-for-profit PBEs have not been disclosed in the main body of this publication. Instead, they are included in Appendix 6. The main body of this publication makes reference to this appendix where there are different disclosure requirements for not-for-profit PBEs. Not-for-profit PBEs using this publication should therefore refer to Appendix 6, in addition to the main body of the publication.

First-time adoption of PBE Standards

Upon transitioning to PBE Standards, PBEs must apply either PBE FRS 46 *First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRSs* (PBE FRS 46), or PBE FRS 47 *First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRSs* (PBE FRS 47). However, these two standards are only applicable to the first set of financial statements prepared under PBE Standards. The vast majority of Tier 1 and Tier 2 PBEs will have transitioned to PBE Standards in the 2015 or 2016 financial year. Therefore, we have not included illustrative disclosures for PBE FRS 46 and PBE FRS 47 in the main body of this publication.

However, for those PBEs that apply PBE Standards for the first time in the 2019/2020 financial year (for example, a PBE that has moved from Tier 3 (or Tier 4) to Tier 2 (or Tier 1) of the PBE accounting standards framework), we have included the disclosures required by PBE FRS 47 in Appendix 5. Disclosure requirements for the application of PBE FRS 46 are not covered by this publication, as it would be very unlikely for an entity applying PBE Standards for the first time in the 2019/2020 financial year to fall within the scope of PBE FRS 46. As PBE FRS 46 becomes less relevant, an amendment of *Revocation of PBE FRS 46* was issued in February 2020 to withdraw PBE

FRS 46. The amendment is effective for the period beginning on or after 1 January 2021. Early adoption is permitted.

Applicability to Tier 1 and Tier 2 PBEs

This publication has been designed to illustrate disclosure requirements for both Tier 1 PBEs reporting in accordance with PBE Standards, and Tier 2 PBEs reporting in accordance with PBE Standards RDR.

Disclosures and related commentaries for which RDR disclosure concessions are available have been highlighted in this document in dark grey with white text. Tier 2 entities are not required to make these disclosures.

Additional PBE Standards RDR disclosures required to be made by Tier 2 entities are contained in a dashed box and are not applicable to Tier 1 entities.

Commentaries and References to PBE Standards

Notations shown on the right-hand margin of each page are references to the relevant paragraphs in PBE Standards that describe the specific disclosure requirements.

Commentaries are provided to explain the basis for the disclosure or to address alternative disclosures not included in the illustrative financial statements. Where there is any uncertainty with regard to the requirements of PBE Standards, it is essential to refer to the relevant source material and, where necessary, to seek professional advice.

Accounting policy choices

In some cases, PBE Standards permit more than one accounting treatment for a transaction or event. Preparers of financial statements should select the treatment that is most relevant to their activities and the relevant circumstances as their accounting policy.

PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* requires an entity to select and apply its accounting policies consistently for similar transactions, events and/or conditions, unless a standard specifically requires or permits categorisation of items for which different policies may be appropriate. Where a standard requires or permits such categorisation, an appropriate accounting policy is selected and applied consistently to each category. Therefore, once a choice of one of the alternative treatments has been made, it becomes an accounting policy and must be applied consistently. Changes in accounting policy should only be made if required by a standard, or if the change results in the financial statements providing reliable and more relevant information.

In this publication, when a choice is permitted by PBE Standards, the Group has adopted one of the treatments as appropriate to the circumstances of the Group. In these cases, the commentary provides details of which policy has been selected, the reasons for this policy selection, and summarises the difference in the disclosure requirements.

Annual report disclosures required of public sector PBEs by legislation

Local authorities like Local City Council are required by their governing legislation (Local Government Act 2002) and related regulations (Local Government Financial Reporting and Prudence Regulations 2014) to provide certain disclosures that are not required by PBE Standards. Some of these statutory disclosures, especially if they are financial in nature, are normally presented by local authorities within the notes to the financial statements, together with disclosures that are required by PBE Standards.

To avoid confusion and improve ease of use for PBEs that are not local councils, as noted above, some of these statutory requirements are provided in the appendices, rather than in the main body of this publication. Please note that some – but not all – of these local authority statutory disclosures are also required for other public sector PBEs, such as government departments or Crown Entities, by their governing legislation. It is important that all PBEs (public sector and not-for-profits) refer to their respective legislation and governing documents to ascertain any disclosure requirements that are additional to those required under PBE Standards.

Further details about public sector statutory disclosures provided in this publication are outlined below.

Consolidated and separate financial statements

There is no requirement in PBE Standards for the separate financial statements of a controlling entity to accompany the consolidated financial statements of a group. However, the Local Government Act 2002 (Schedule 10, paragraph 29) does require both the separate financial statements of the local authority and the authority's consolidated financial statements to be included in the local authority's annual report. Therefore, Local City Council presents the Council's separate financial statements in addition to its consolidated financial statements.

Other public sector PBEs should refer to their governing legislation to ascertain whether they have a statutory requirement to present separate parent financial statements in addition to consolidated financial statements.

Budget

For many public sector entities, there is a statutory requirement to disclose a budgeted statement of comprehensive revenue and expense and a budgeted statement of financial position as part of the annual report. As a local authority, Local City Council is required to present these budgeted financial statements in its annual report by Schedule 10, section 29, paragraph 2 of the Local Government Act 2002. A similar requirement is contained in section 45B of the Public Finance Act 1989 for government departments, and in section 154(3)(c) of the Crown Entities Act for Crown entities.

In addition to the statutory requirement to disclose budgeted statements, PBE Standards also require certain disclosures in relation to budgeted statements, what is referred to general purpose prospective financial statements in PBE Standards. If an entity publishes its general purpose prospective financial statements (previously referred to as "approved budget"), PBE IPSAS 1.21(e) requires the entity to present a comparison of the prospective financial statements with the historical financial statements being reported. For a public sector PBE, this comparison must be disclosed on the face of the financial statements or as a separate statement. Local City Council has opted to present the comparison of the prospective financial statements with the historical financial statements of the face of its financial statements. When a not-for-profit PBE is required to present general purpose prospective financial statements, the comparison of the prospective financial statements with the historical financial statements must be presented on the face of the financial statements, in a separate statement or in the notes.

Statement of Service Performance

Many public sector PBEs are required by legislation to produce a Statement of Service Performance as part of their annual report. This is a requirement for local authorities under the Local Government Act 2002, for government departments under the Public Finance Act 1989, and for Crown Entities under the Crown Entities Act 2004.

The aim of the Statement of Service Performance is to provide a narrative and statistics on the entity's performance in supplying goods and services, and information on the effects on the community of the entity's existence and operations. At present PBE IPSAS 1 provides guidance around disclosures to be included in a statement of service performance.

According to PBE IPSAS 1, when a Statement of Service Performance is presented, it shall describe and disclose the outputs of an entity. The inputs and outcomes relevant to those outputs also need to be disclosed. Refer to Appendix 8 for an example of Local City Council's Statement of Service Performance.

In November 2017, New Zealand Accounting Standards Board (NZASB) issued PBE FRS 48 *Service Performance Reporting*. Under PBE FRS 48, all public sector PBEs whose legislation requires service performance reporting and all not-for-profit PBEs are required to present service performance information as per the requirements set out in this new standard. PBEs within the scope of PBE FRS 48 will need to provide users with: i) sufficient contextual information to understand why the entity exists, what it intends to achieve in board terms over the medium to long term, and how it goes about this; and ii) information about what the entity has done during the reporting period in working towards its broader aims and objectives. The Standard is effective for the period beginning on or after 1 January 2021. Early adoption is permitted. In May 2020, the NZASB published for public comment NZASB ED 2020-1 *Proposed 2020 Amendments to PBE FRS 48*. The amendment proposes to defer the effective date of PBE FRS 48 by one year (from 1 January 2021 to 1 January 2022). The standard remains available for early adoption.

This publication does not include the example of disclosure of service performance information required by PBE FRS 48. We recommend you contact one of the EY member firms' Assurance partners or a member of the EY Financial Accounting Advisory Services team for the recent publications on and more information about this new standard.

Other PBE annual report disclosures required by legislation

In addition to the items mentioned above, public sector PBEs are required by legislation to disclose additional information in their annual reports. For example, as a local authority, Local City Council is required to disclose in its annual report a statement of capital expenditure for groups of activities, a funding impact statement, a statement of internal borrowings, a statement of remuneration to the mayor or chairperson of the local authority, each member of the local authority and the CEO, and a report on staffing levels and staff remuneration. Other types of public sector PBEs will have different legislative requirements for their annual reports.

We have included some examples of the statutory annual report disclosures required of public sector PBEs in Appendices 7-11.

Public Benefit Entities Accounting Standards Framework

XRB A1 *Accounting Standards Framework* includes four tiers of reporting requirements for preparing general purpose financial statements for PBEs:

- Tier 1 PBE Accounting Requirements that include all the requirements in PBE Standards and authoritative notice (PBE Conceptual Framework) listed in Appendix C of XRB A1 except for any RDR paragraphs
- Tier 2 PBE Accounting Requirements including all the requirements in PBE Standards and authoritative notice (PBE Conceptual Framework) listed in Appendix C of XRB A1. A PBE that applies Tier 2 PBE Accounting Requirements may elect not to apply any or all of the disclosure requirements denoted with an asterisk (*)
- Tier 3 PBE Accounting Requirements that include the Tier 3 PBE Accounting Requirements to be applied by public sector public benefit entities or the Tier 3 PBE Accounting Requirements to be applied by not-for-profit public benefit entities, as relevant, as listed in Appendix D of XRB A1
- Tier 4 PBE Accounting Requirements that include the Tier 4 PBE Accounting Requirements to be applied by public sector public benefit entities or the Tier 4 PBE Accounting Requirements to be applied by not-for-profit public benefit entities, as relevant, as listed in Appendix E of XRB A1

This publication has been designed to illustrate Tier 1 PBE Accounting Requirements and Tier 2 PBE Accounting Requirements.

Tier 1 and Tier 2 criteria for PBEs

Tier 1 PBEs

A Tier 1 PBE is required to comply with PBE Standards in full.

A PBE shall report in accordance with Tier 1 PBE Accounting Requirements if it meets the following criteria:

- it has public accountability (as defined below) at any time during the reporting period; or
- it is large (as defined below); or
- the entity is eligible to report in accordance with accounting requirements of another tier but does not elect to report in accordance with that other tier

Definition of "public accountability":

A PBE has public accountability if it:

- meets the International Accounting Standards Board (IASB) definition of public accountability; or
- is deemed to be publicly accountable in New Zealand

Under the IASB definition, an entity is publicly accountable if:

- its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or
- it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. This is typically the case for banks, credit unions, insurance providers, securities brokers/dealers, mutual funds and investment banks

An entity is deemed to be publicly accountable in the New Zealand context if within the meaning of the Financial Markets Conduct Act 2013 it is:

- an issuer of equity securities or debt securities under a regulated offer;
- a manager of registered schemes (but only in respect of financial statements of a scheme or fund);
- a listed issuer;
- a registered bank;
- a licensed insurer;
- a credit union;
- a building society;

- an FMC reporting entity or class of FMC reporting entities that is considered to have a higher level of public accountability by a notice issued by the FMA under section 461L(1)(a) of the Financial Markets Conduct Act 2013; or

unless exempted by statute or regulation from the requirement to prepare general purpose financial reports in accordance with NZ GAAP.

Where the entity is a group in New Zealand, and the controlling entity of the group has public accountability, the group is deemed to have public accountability. A group shall not be considered to have public accountability solely by reason of a controlled entity having public accountability.

Definition of "large":

A PBE is large if it has total expenses over $30 million.

For the purpose of this definition, "total expenses" means the total expenses (including losses and grant expenses) recognised by an entity in accordance with Tier 1 PBE Accounting Requirements in its surplus or deficit, where surplus or deficit is defined as the total of revenue less expenses, excluding the components of other comprehensive revenue and expense. Where revenue and expense are offset as required or permitted by a relevant standard, any net expense is included in total expenses. Where the entity reporting is a group, total expenses is applied to the group comprising the controlling entity and all its controlled entities.

Tier 2 PBEs

The term "Tier 2 PBEs" refers to entities that qualify for and elect to report under Tier 2 PBE Accounting Requirements.

A PBE qualifies to report under Tier 2 PBE Accounting Requirements if it:

- does not have public accountability as defined above; and
- is not large as defined above.

PBE Standards applicable as at 30 June 2020

The Standards applied in these illustrative financial statements are the versions that were in issue as at 31 March 2020 and effective for annual periods beginning on or before 1 July 2019. Standards issued, but not yet effective, as at 1 July 2019, have not been early adopted. It is important to note that the illustrative financial statements in this document will require continual updating as standards are issued and/or revised by the XRB. Therefore, if you are using this publication to assist in the preparation of your financial report, it must be emphasised that this does not include changes arising from new and amended standards and interpretations issued after 31 March 2020.

In accordance with PBE IPSAS 3, specific disclosure requirements apply to Tier 1 PBEs for standards issued but not yet effective. Refer to Note 44.

Local City Council

Financial Statements

30 June 2020

Commentary:
The wording and content of the audit report will be different for different PBEs depending on the type of entity reporting. Hence, an illustrative auditor's report has not been included in this publication.

The audit report for a public sector PBE will be based on the relevant OAG template (available to the auditor on the OAG website via login). The audit report for not-for-profit PBEs in the private sector will be based on the audit firm's auditor's report template.

Please note: ISA (NZ) 700 (Revised) and key audit matters
For periods ending on or after 15 December 2016, International standard on auditing ISA (NZ) 700 (Revised) *Forming an Opinion and Reporting of Financial Statements* requires an auditor of a listed entity to disclose in its report key audit matters which, in the auditor's professional judgement, were of most significance in their audit of the consolidated financial statements of the current period. This requirement will also apply to other FMC Reporting Entities with higher public accountability in periods ending 31 December 2018 and onwards. In addition, ISA (NZ) 700 (Revised) requires reporting on other information in an entity's annual report as well as specific reporting requirements when a material uncertainty related to going concern exists. Although most public sector and not-for-profit PBEs are not listed entities or FMC Reporting Entities, certain PBEs may wish the audit report on their financial statements to comply with the requirements of ISA (NZ) 700 (Revised). However, this publication is not intended to provide guidance on the application of ISA (NZ) 700 (Revised).

Statement of compliance and responsibility

STATUTORY DISCLOSURE ONLY (required by LGA 2002 but not by PBE Standards)

Statement of compliance

LGA.Schedule 10.34

The Council and management of Local City Council confirm that all the statutory requirements in relation to this annual report, as outlined in the Local Government Act 2002, have been met.

Statement of responsibility

The Council and management accept responsibility for the preparation of the annual financial statements and judgements used in them, and hereby adopt the financial statements as presented. They also accept responsibility for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting and service performance reporting. In the opinion of the Council and management, the annual financial statements for the year ended 30 June 2020 fairly reflect the financial position, financial performance and service performance achievements of Local City Council and Group.

K O'Cork
Chief Executive

25 September 2020

G N Betten
Mayor

25 September 2020

Commentary

The Local Government Act 2002 requires local authorities to state in the annual report that all statutory requirements in relation to the annual report have been complied with. The statement must be signed by the mayor (or chairperson) and the chief executive of the local authority.

A statement of responsibility has also been included as good practice.

The Public Finance Act 1989 requires government departments to disclose a statement of responsibility. This statement needs to state the department's chief executive's responsibility for:

- the preparation of the department's financial statements and other statutory disclosures in the annual report
- having in place internal controls designed to provide reasonable assurance as to the integrity and reliability of financial reporting
- ensuring that end-of-year performance information on each appropriation administered by the department is provided (whether presented as part of the annual report or elsewhere) and
- the accuracy of any end-of-year performance information prepared by the department (whether presented as part of the annual report or elsewhere)

Statement of financial performance

PBE IPSAS 1.21(b)
PBE IPSAS 1.22.1(b)
PBE IPSAS 1.61

For the year ended 30 June 2020

PBE IPSAS 1.63(c)

	Note	Group		Council			
		2020 Actual	2019 Actual – restated*	2020 Actual	2020 Forecast	2019 Actual – restated*	*PBE IPSAS 1.63(b) PBE IPSAS 1.53 PBE IPSAS 1.21(e) LGA Schedule 10.29*
		$000	$000	$000	$000	$000	*PBE IPSAS 1.63(d) PBE IPSAS 1.63(e)*
Revenue from non-exchange transactions							*PBE IPSAS 23.106(a)*
Rates revenue	9	75,197	73,682	75,197	75,347	73,682	*LG(FRP)R.5(2)(a)*
Fines		920	768	920	1,070	768	
Government grants	10	10,503	8,132	10,503	9,520	8,132	*LG(FRP)R.5(2)(c)*
Concessionary loan	11	329	-	329	329	-	
Direct charges revenue - subsidised	12	13,476	12,704	12,976	12,872	12,204	
Property, plant and equipment acquired in non-exchange transactions	22	2,190	2,150	2,190	2,190	2,150	
Revenue from exchange transactions							*PBE IPSAS 9.39(b)*
Direct charges revenue – full cost recovery	13	107,341	92,517	720	550	1,871	
Development contributions		3,641	3,741	3,641	4,005	3,741	*LG(FRP)R.5(2)(b)*
Rental revenue	23	1,404	1,377	1,404	1,405	1,377	
Dividends		-	-	521	523	638	*PBE IPSAS 9.39(b)(v)*
Revenue from service concession arrangement	26	55	-	55	55	-	
Other revenue	18	1,382	2,007	132	139	501	
Total Revenue		**216,438**	**197,078**	**108,588**	**108,005**	**105,064**	*PBE IPSAS 1.99.1(a)*
Expenses							
Employee costs	14	(35,880)	(35,153)	(18,940)	(18,807)	(17,577)	
Remuneration of key management personnel	39	(538)	(527)	(538)	(539)	(527)	
Depreciation and amortisation	22, 24	(23,971)	(23,204)	(18,381)	(18,384)	(17,705)	
General expenses	15	(136,552)	(123,587)	(58,927)	(58,637)	(58,600)	
Other expenses	19	(2,231)	(300)	(664)	(697)	(300)	
Total Expenses		**(199,172)**	**(182,771)**	**(97,450)**	**(97,064)**	**(94,709)**	
Finance costs	17	(1,264)	(1,123)	(931)	(978)	(797)	*PBE IPSAS 1.99.1(b)*
Finance income	16	520	295	467	490	243	
Net finance costs		**(744)**	**(828)**	**(464)**	**(488)**	**(554)**	
Share of surplus of associate and joint venture	7,8	671	638	-	-	-	*PBE IPSAS 1.99.1(c)*
Surplus before income tax		**17,193**	**14,117**	**10,674**	**10,453**	**9,801**	
Income tax expense	21	(1,814)	(1,119)	-	-	-	*PBE IPSAS 1.99.1(d)*
Net surplus for the year		**15,379**	**12,998**	**10,674**	**10,453**	**9,801**	*PBE IPSAS 1.99.1(f)*
Surplus for the year is attributable to:							
Non-controlling interest		288	239	-	-	-	*PBE IPSAS 1.98.2(a)(i)*
Council		15,091	12,759	10,674	10,453	9,801	*PBE IPSAS 1.98.2(a)(ii)*
		15,379	**12,998**	**10,674**	**10,453**	**9,801**	

*Certain amounts shown here do not correspond to the 2019 financial statements and reflect adjustments made. Refer to Note 2(b) and Note 2(c).

The above statement of financial performance should be read in conjunction with the accompanying notes

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Commentary

PBE IPSAS 1.21 suggests titles for the primary financial statements, such as 'statement of comprehensive revenue and expense' and 'statement of financial position'. Entities are, however, permitted to use other titles (PBE IPSAS 1.22). Local City Council applies the titles suggested in PBE IPSAS 1.

Neither PBE IPSAS 1 nor PBE IPSAS 6(PS) requires the separate financial statements of the controlling entity to accompany the consolidated financial statements of the group. However, the Local Government Act 2002 does require both the separate financial statements of the local authority and the authority's consolidated financial statements to be included in the local authorities' annual report (LGA, Schedule 10.29(1)(a)-(b)). Therefore, Local City Council presents the Council's separate financial statements in addition to the consolidated financial statements.

As a local authority, Local City Council is required to present budgeted financial statements in its annual report by Schedule 10, section 29, paragraph 2 of the Local Government Act 2002. A similar requirement is contained in the Public Finance Act 1989 (section 45B) for government departments, and in the Crown Entities Act (section 154(3)(c) for Crown entities. In addition to statutory requirements to present budgeted information, PBE IPSAS 1.21(e) also requires an entity that makes its general purpose prospective financial statements (previously referred to as "approved budget") publicly available to present a comparison between the prospective financial statements and actual amounts. A public sector PBE is required to present this comparison either as a separate additional financial statement or as on the face of the financial statements (i.e. statement of comprehensive revenue and expense, statement of financial position, etc.). Local City Council has elected the latter option and presents prospective financial information in a forecast column of its primary financial statements. A not-for-profit PBE may present this comparison either as a separate financial statement, on the face of the primary financial statements or in the notes.

The requirement to present budgeted financial statements is applicable to the local authority under the Local Government Act 2002, i.e., to Local City Council, but not to the Group. Therefore, the comparison between prospective financial information and actual amounts is presented only for the Council in this publication.

There is no specific requirement to identify restatements to prior period financial statements on the face of the financial statements. PBE IPSAS 3 requires details to be provided only in the notes. Local City Council illustrates how an entity may supplement the requirements of PBE IPSAS 3 so that it is clear to the reader that amounts in the prior period financial statements have been adjusted in comparative period of the current period financial statements. The Group does this by labelling the prior year comparative columns in the financial statements as "restated". Also refer to commentary about restatement under the statement of financial position.

PBE IPSAS 1.99.1(a) requires disclosure of total revenue as a line item in the surplus or deficit section on the face of the statement comprehensive revenue and expense/statement of financial performance. The Group has elected to also present the various types of revenue on the face of the statement of financial performance. This information could also be presented in the notes (PBE IPSAS 1.108).

PBE IPSAS 1.88(g) and PBE IPSAS 1.88(h) require differentiation between receivables from exchange transactions and receivables from non-exchange transactions. PBE IPSAS 23.106(a) also requires revenue from non-exchange transactions to be disclosed separately, either on the face of the statement of financial performance or in the notes to the financial statements. Local City Council has elected to present this information on the face of the statement of financial performance.

PBE IPSAS 1.109 requires expenses to be analysed either by nature or by their function, whichever provides information that is reliable and more relevant. This analysis can be disclosed either on the face of the statement of comprehensive revenue and expense/statement of financial performance or in the notes. However, entities are encouraged to present this analysis on the face of the statement of comprehensive revenue and expense (PBE IPSAS 1.110), which Local City Council has done. Local City Council has presented the analysis of expenses by nature. In Appendix 2, the statement of surplus or deficit is presented with an analysis of expenses by function. If expenses are analysed by function, information about the nature of expenses must be disclosed in the notes.

Local City Council does not present operating surplus or operating revenue in the statement of financial performance, and the presentation of these subtotals is not required by PBE IPSAS 1. However, PBEs may present such subtotals if they wish. The term "operating surplus" or "operating revenue" are not defined in PBE Standards. However, a PBE may follow guidance from NZ IFRS, where in the Basis for Conclusion on IAS 1 the IASB recognises that an entity may elect to disclose the results of operating activities, or a similar line item, even though this term is not defined. The entity should, however, ensure the amount disclosed is representative of activities that would normally be considered to be 'operating' (IAS 1.BC56).

The remuneration of councillors relates to their services as the members of the governing body of the Council. PBE IPSAS 20.34 requires disclosure of the remuneration of members of key management personnel. Accordingly, inclusion of this line item aids in the fulfilment of the requirement of PBE IPSAS 20.

PBE IPSAS 1.99.1(c) requires 'share of the surplus or deficit of associates and joint ventures accounted for using the equity method' to be presented in a separate line item on the face of the statement of comprehensive revenue and expense/statement of financial performance. In complying with this requirement, Local City Council combines the share of surplus or deficit from associates and the share of surplus or deficit from joint ventures in one line item.

The Group have disclosed rates revenue, grant revenue and development contributions separately in the statement of financial performance, as this is a specific requirement of the Local Government (Financial Reporting and Prudence) Regulation 2014. This requirement does not apply to other types of PBEs.

NB: FIRST-TIME ADOPTERS OF PBE STANDARDS: Refer to Appendix 5 for additional requirement

Statement of comprehensive revenue and expense

PBE IPSAS 1.21(b)
PBE IPSAS 1.22.1(b)
PBE IPSAS 1.61

For the year ended 30 June 2020

PBE IPSAS 1.63(c)
PBE IPSAS 1.63(b)
PBE IPSAS 1.53
PBE IPSAS1.21(e)
LGA Schedule 10.29
PBE IPSAS 1.63(d)
PBE IPSAS1.63(e)

	Note	Group		Council			
		2020 Actual $000	2019 Actual - restated* $000	2020 Actual $000	2020 Forecast $000	2019 Actual - restated* $000	
Surplus for the year		**15,379**	**12,998**	**10,674**	**10,453**	**9,801**	*PBE IPSAS 1.98.1(a)*
							PBE IPSAS 1.103.3(a)
Other comprehensive revenue and expense, net of tax							*PBE IPSAS 1.103.1(a)*
Net gain/(loss) on available-for-sale financial assets	20	(57)	3	(57)	-	3	
Net movement in cash flow hedges	20	(512)	24	-	-	-	
Revaluation gain on property, plant and equipment		24,300	-	20,718	20,685	-	
Share of other comprehensive revenue and expense of an associate		11	-	11	10	-	*PBE IPSAS 1.103.1(b)*
Other comprehensive revenue and expense for the year, net of tax		**23,742**	**27**	**20,672**	**20,695**	**3**	*PBE IPSAS 1.98.1(b)*
Total comprehensive revenue and expense for the year, net of tax		**39,121**	**13,025**	**31,346**	**31,148**	**9,804**	*PBE IPSAS 1.98.1(c)*
Total comprehensive revenue and expense for the year is attributable to:							
Non-controlling interest		288	239	-	-	-	*PBE IPSAS 1.98.2(b)(i)*
Council		38,833	12,786	31,346	31,148	9,804	*PBE IPSAS 1.98.2(b)(ii)*
		39,121	**13,025**	**31,346**	**31,148**	**9,804**	

*Certain amounts shown here do not correspond to the 2019 financial statements and reflect adjustments made. Refer to Note 2(b) and Note 2(c).

The above statement of comprehensive revenue and expense should be read in conjunction with the accompanying notes.

Commentary

Local City Council has elected to present two statements, a statement of financial performance and a statement of comprehensive revenue and expense, rather than a single statement of comprehensive income combining the two elements. If a two-statement approach is adopted, the statement of financial performance must be followed directly by the statement of comprehensive revenue and expense. For illustrative purposes, the disclosure of a single statement of surplus or deficit and other comprehensive revenue is presented in Appendix 1.

The different components of comprehensive revenue and expense are presented on a net basis in the statement above. Therefore, an additional note is required to present the amount of reclassification adjustments to current year surplus or deficit (PBE IPSAS 1.103.4, PBE IPSAS 1.103.6). Alternatively, the individual components could have been presented within the statement of comprehensive revenue (PBE IPSAS 1.103.6).

PBE IPSAS 1.103.2 requires an entity to disclose the amount of income tax relating to each item of other comprehensive revenue and expense (OCRE), including reclassification adjustments, either in the statement of comprehensive revenue and expense or in the notes. The Group presented each item of OCRE net of the related tax effects in the statement above. The Group then disclosed the income tax effects of each item of OCRE in Note 21 and the reclassification adjustments in Note 20. Another alternative provided by PBE IPSAS 1.103.3(b) is to present the different items of OCRE before the related tax effects with one amount shown for the aggregate amount of income tax relating to those items. This alternative is illustrated in Appendix 1.

NB: FIRST-TIME ADOPTERS OF PBE STANDARDS: Refer to Appendix 5 for additional requirements

Statement of financial position

PBE IPSAS 1.21(a)
PBE IPSAS 1.61

As at 30 June 2020

PBE IPSAS 1.63(c)

	Note	Group		Council			
		2020 Actual $000	2019 Actual – Restated* $000	2020 Actual $000	2020 Forecast $000	2019 Actual – Restated* $000	*PBE IPSAS1.63(b)* *PBE IPSAS 1.53* *PBE IPSAS 1.21(e)* *LGA Schedule 10.29* *PBE IPSAS 1.63(d)* *PBE IPSAS1.63(e)*
ASSETS							
Non-current assets							*PBE IPSAS 1.70* *PBE IPSAS 1.76*
Property, plant and equipment	22	2,087,963	2,039,329	1,523,126	1,522,518	1,485,805	*PBE IPSAS 1.88(a)*
Investment properties	23	8,893	7,983	8,893	8,804	7,983	*PBE IPSAS 1.88(b)*
Intangible assets	24	6,019	2,513	2,558	2,669	2,283	*PBE IPSAS 1.88(c)*
Investments in CCOs and similar entities	5	-	-	19,242	19,100	10,334	*PBE IPSAS 1.88(d)* *LG(FRP)R 2014.5(3)* *PBE IPSAS 1.88(e)*
Investments in associates and joint ventures	7,8	3,187	2,516	2,185	2,141	2,185	
Non-current financial assets	27.1	6,425	3,491	4,323	4,237	2,338	*PBE IPSAS 1.88(d)*
		2,112,503	2,055,832	1,560,327	1,559,469	1,510,928	
Current assets							*PBE IPSAS 1.70* *PBE IPSAS 1.76*
Inventories	28	3,262	4,085	1,470	1,378	2,123	*PBE IPSAS 1.88(f)*
Receivables from non-exchange transactions	29	13,006	11,416	12,530	12,580	10,940	*PBE IPSAS 1.88(g)*
Receivables from exchange transactions	30	14,666	12,874	11,455	11,512	9,785	*PBE IPSAS 1.88(h)*
Prepayments		244	165	122	120	82	
Other current financial assets	27.1	551	153	501	491	103	*PBE IPSAS 1.88(d)*
Cash and cash equivalents	31	16,669	33,480	6,033	5,173	29,567	*PBE IPSAS 1.88(i)*
		48,398	**62,173**	**32,111**	**31,254**	**52,600**	
Assets classified as held for sale	32	154	-	-	-	-	*PBE IPSAS 1.88.1(a)*
		48,552	**62,173**	**32,111**	**31,254**	**52,600**	
TOTAL ASSETS		2,161,055	2,118,005	1,592,438	1,590,723	1,563,528	

*Certain amounts shown here do not correspond to the 2019 financial statements and reflect adjustments made. Refer to Note 2(b) and Note 2(c).

The above statement of financial position should be read in conjunction with the accompanying notes.

Statement of financial position *continued*

As at 30 June 2020

	Note	Group 2020 Actual $000	Group 2019 Actual – Restated* $000	Council 2020 Actual $000	Council 2020 Forecast $000	Council 2019 Actual – Restated* $000	
							PBE IPSAS 1.21(a) *PBE IPSAS 1.63(c)* *PBE IPSAS 1.53* *PBE IPSAS1.21(e)* *LGA Schedule 10.29* *PBE IPSAS 1.63(d)* *PBE IPSAS1.63(e)*
LIABILITIES							
Non-current liabilities							*PBE IPSAS 1.70* *PBE IPSAS 1.80*
Interest-bearing loans & borrowings	27.2	20,346	21,703	14,186	14,044	15,277	*PBE IPSAS1.88(m)*
Other non-current financial liabilities	27.2	806	-	-	-	-	*PBE IPSAS1.88(m)*
Service concession liability	26	495	550	495	495	550	
Provisions	33	1,950	1,290	1,769	1,857	1,290	*PBE IPSAS1.88(l)*
Deferred revenue	34	1,860	2,582	1,860	2,359	2,582	
Other liabilities		263	284	132	130	188	
Deferred tax liabilities	21	3,197	1,778	-	-	-	*PBE IAS 12.81(gXi*
		28,917	**28,187**	**18,442**	**18,885**	**19,887**	
Current liabilities							*PBE IPSAS 1.70* *PBE IPSAS 1.80*
Payables under exchange transactions	36	19,820	21,073	14,642	14,349	15,516	*PBE IPSAS 1.88(k)*
Interest-bearing loans & borrowings	27.2	2,460	2,775	2,377	2,329	2,724	*PBE IPSA S1.88(m)*
Other current financial liabilities	27.2	3,040	303	87	87	49	*PBE IPSAS 1.88(m)*
Deferred revenue	34	729	741	729	714	741	
Income tax payable		961	313	-	-	-	*PBE IPSAS 1.88(j)*
Employee benefits liability	35	3,050	2,977	1,830	1,793	1,786	
Provisions	33	850	85	245	240	85	*PBE IPSAS 1.88(l)*
		30,910	**28,267**	**19,910**	**19,512**	**20,901**	
TOTAL LIABILITIES		**59,827**	**56,454**	**38,352**	**38,397**	**40,788**	
NET ASSETS		**2,101,228**	**2,061,551**	**1,554,086**	**1,552,326**	**1,522,740**	
EQUITY							
Equity attributable to owners of the controlling entity							*PBE IPSAS 1.88(o)*
Accumulated comprehensive revenue and expense		943,397	928,445	751,130	749,327	740,405	*PBE IPSAS 1.95(b)*
Reserves:							*PBE IPSAS 1.95(c)*
Asset revaluation reserve	37	1,124,608	1,100,297	770,876	770,842	750,147	
Available for sale reserve	37	(54)	3	(54)	3	3	
Cash flow hedge reserve	37	(582)	(70)	-	-	-	
Targeted rates reserve	37	15,849	15,653	15,849	15,853	15,653	
Special projects reserve	37	16,285	16,532	16,285	16,301	16,532	
Total equity attributable to the Council		**2,099,503**	**2,060,860**	**1,554,086**	**1,552,326**	**1,522,740**	*PBE IPSAS 1.88(o)*
Non-controlling interest		1,725	691	-	-	-	*PBE IPSAS 1.88(n)* *PBE IPSAS 1.95(d)*
TOTAL EQUITY		**2,101,228**	**2,061,551**	**1,554,086**	**1,552,326**	**1,522,740**	

*Certain amounts shown here do not correspond to the 2019 financial statements and reflect adjustments made. Refer to Note 2(b) and Note 2(c).

The above statement of financial position should be read in conjunction with the accompanying notes.

For and on behalf of the Council, who authorise the issue of these financial statements on 25 September 2020:

K O'Cork
Chief Executive
25 September 2020

G N Betten
Mayor
25 September 2020

Commentary

For many public sector entities there is a statutory requirement to disclose a budgeted statement of comprehensive revenue and expense and budgeted statement of financial position as part of the annual report. Refer to the commentary on the statement of financial performance for an explanation of the forecast column.

There is no specific requirement to identify adjustments made retrospectively on the face of the financial statements, except for the effect of a retrospective application or restatement on each component of net assets/equity (PBE IPSAS 1.118(b), 124). PBE IPSAS 3 requires entities to disclose the amount of adjustments made to prior periods presented and prior periods before those presented as a result of the initial application of a PBE standard (PBE IPSAS 3.33(f)-(g)), retrospective application of a voluntary change in accounting policies PBE IPSAS 3.34(c)-(d), and prior period errors (PBE IPSAS 3.54(b)-(c)). However, there is no requirement to make these disclosures on the face of the financial statements, and the amounts of these adjustments can be given only in the notes. By labelling the comparatives 'Restated', the Group illustrates how an entity may supplement the requirements of PBE IPSAS 3 so that it is clear to the user that adjustments to the amounts in prior financial statements have been reflected in the comparative period as presented in the current period financial statements. It should be noted that the fact that the comparative information is restated does not necessarily mean that there were errors in the previous financial statements. Restatements may also arise due to other instances, for example, retrospective application of a new accounting policy (due to first-time application of a PBE standard or a voluntary change in accounting policies). In the case of Local City Council, there was an error in the previous period's financial statements as well as retrospective application of new accounting policies.

In accordance with PBE IPSAS 1.70, Local City Council has presented current and non-current assets, and current and non-current liabilities, as separate classifications in the statement of financial position. PBE IPSAS 1 does not require a specific order of the two classifications. Local City Council has elected to present non-current assets and liabilities before current. PBE IPSAS 1 requires entities to present assets and liabilities in order of liquidity when this presentation is reliable and more relevant.

In accordance with IPSAS 1.88, receivables from non-exchange transactions are presented separately to receivables from exchange transactions.

NB: FIRST-TIME ADOPTERS OF PBE STANDARDS: Refer to Appendix 5 for additional requirements.

Statement of changes in net assets/equity

PBE IPSAS 1.21(c)

For the year ended 30 June 2020

PBE IPSAS 1.63(c)

Group

	Note	Accumulated comprehensive revenue and expense	Asset revaluation reserve	Available-for-sale reserve	Cash flow hedge reserve	Targeted rates reserve	Special projects reserve	Total equity attributable to the Council	Non-controlling interest	Total equity	
											PBE IPSAS 1.63(b) PBE IPSAS 1.119(b) PBE IPSAS 1.119(c) PBE IPSAS 1.53
		$000	$000	$000	$000	$000	$000	$000	$000	$000	*PBE IPSAS 1.63(d) PBE IPSAS1.63(e)*
At 1 July 2019		**928,445**	**1,100,297**	**3**	**(70)**	**15,653**	**16,532**	**2,060,860**	**691**	**2,061,551**	*PBE IPSAS 1.118(b)*
Surplus for the year		15,091	-	-	-	-	-	15,091	288	15,379	
Other comprehensive revenue and expense	37	-	24,311	(57)	(512)	-	-	23,742	-	23,742	
Total comprehensive revenue and expense for the year		**15,091**	**24,311**	**(57)**	**(512)**	**-**	**-**	**38,833**	**288**	**39,121**	*PBE IPSAS 1.118(a)*
Net transfers to/from targeted rates reserve	37	(196)	-	-	-	196	-	-	-	-	
Net transfers to/from special projects reserve	37	247	-	-	-	-	(247)	-	-	-	
Transactions with owners in their capacity as owners:											*PBE IPSAS 1.119(a)*
Acquisition of controlled entity	6	-	-	-	-	-	-	-	1,547	1,547	
Acquisition of non-controlling interest	6	(190)	-	-	-	-	-	(190)	(801)	(991)	
At 30 June 2020		**943,397**	**1,124,608**	**(54)**	**(582)**	**15,849**	**16,285**	**2,099,503**	**1,725**	**2,101,228**	

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Statement of changes in net assets/equity *continued*

PBE IPSAS 1.21(c)
PBE IPSAS 1.53
PBE IPSAS 1.63(c)

For the year ended 30 June 2019 (Restated*)

Group

	Note	Accumulated comprehensive revenue and expense $000	Asset revaluation reserve $000	Available-for-sale reserve $000	Cash flow hedge reserve $000	Targeted rates reserve $000	Special projects reserve $000	Total equity attributable to the Council $000	Non-controlling interest $000	Total equity $000	*PBE IPSAS 1.63(b) PBE IPSAS 1.119(b) PBE IPSAS 1.119(c) PBE IPSAS 1.63(d) PBE IPSAS1.63(e)*
At 1 July 2018		915,046	1,100,297	-	(94)	15,770	16,805	2,047,824	148	2,047,972	
Adjustment for prior period error, net of tax	2(b)	250	-	-	-	-	-	250	-	250	*PBE IPSAS 1.118(b)*
Effect of adoption of new standards	2(c)	-	-	-	-	-	-	-	353	353	*PBE IPSAS 1.118(b)*
At 1 July 2018 (restated*)		915,296	1,100,297	-	(94)	15,770	16,805	2,048,074	501	2,048,575	
Surplus for the year as reported in 2018 financial statements		12,509	-	-	-	-	-	12,509	239	12,748	
Adjustment on correction of error	2(b)	250						250	-	250	*PBE IPSAS 1.118(b) PBE IPSAS 1.124*
Other comprehensive revenue and expense	37	-	-	3	24	-	-	27	-	27	
Total comprehensive revenue and expense for the year		12,759	-	3	24	-	-	12,786	239	13,025	*PBE IPSAS 1.118(a)*
Net transfers to/from targeted rates reserve	37	117	-	-	-	(117)	-	-	-	-	
Net transfers to/from special projects reserve	37	273	-	-	-		(273)	-	-	-	
Transactions with owners in their capacity as owners:											*PBE IPSAS 1.119(a)*
Dividend paid to non-controlling interest		-	-	-	-	-	-	-	(49)	(49)	
At 30 June 2019 (restated*)		928,445	1,100,297	3	(70)	15,653	16,532	2,060,860	691	2,061,551	

*Certain amounts shown here do not correspond to the 2019 financial statements and reflect adjustments made. Refer to Note 2(b) and Note 2(c).

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Statement of changes in net assets/equity *continued*

For the year ended 30 June 2020

PBE IPSAS 1.63(c)

Council

PBE IPSAS 1.63(b)
PBE IPSAS 1.119(b)
PBE IPSAS 1.119(c)

PBE IPSAS1.63(d)
PBE IPSAS1.63(e)

	Note	Accumulated comprehensive revenue and expense $000	Asset revaluation reserve $000	Available-for-sale reserve $000	Cash flow hedge reserve $000	Targeted rates reserve $000	Special projects reserve $000	Total $000	
At 1 July 2019		740,405	750,147	3	-	15,653	16,532	1,522,740	*PBE IPSAS 1.118(b)*
Surplus for the period		10,674	-	-	-			10,674	
Other comprehensive revenue and expense	37	-	20,729	(57)	-			20,672	
Total comprehensive revenue and expense for the period		**10,674**	**20,729**	**(57)**	**-**	**-**	**-**	**31,346**	*PBE IPSAS 1.118(a)*
Net transfers to/from targeted rates reserve	37	(196)	-	-	-	196	-	-	
Net transfers to/from special projects reserve	37	247	-	-	-	-	(247)	-	
At 30 June 2020		751,130	770,876	(54)	-	15,849	16,285	1,554,086	

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Statement of changes in net assets/equity *continued*

For the year ended 30 June 2019 (Restated*)

PBE IPSAS 1.53
PBE IPSAS 1.63(c)

Council

PBE IPSAS 1.63(b)

	Note	Accumulated comprehensive revenue and expense $000	Asset revaluation reserve $000	Available-for-sale reserve $000	Cash flow hedge reserve $000	Targeted rates reserve $000	Special projects reserve $000	Total $000	
									PBE IPSAS 1.119(b) *PBE IPSAS 1.119(c)* *PBE IPSAS1.63(d)* *PBE IPSAS1.63(e)*
At 1 July 2018		**729,964**	**750,147**	**-**	**-**	**15,770**	**16,805**	**1,512,686**	
Adjustment for prior period error, net of tax	2(b)	250	-	-	-	-	-	250	*PBE IPSAS 1.118(b)*
At 1 July 2018 (restated*)		**730,214**	**750,147**	**-**	**-**	**15,770**	**16,805**	**1,512,936**	
Surplus for the year as reported in the 2018 financial statements		9,551	-	-	-	-		9,551	
Adjustment on correction of error	2(b)	250	-	-	-	-	-	250	*PBE IPSAS 1.118(b)* *PBE IPSAS 1.124*
Other comprehensive revenue and expense	37	-	-	3	-	-	-	3	
Total comprehensive revenue and expense for the year		**9,801**	**-**	**3**	**-**	**-**	**-**	**9,804**	*PBE IPSAS 1.118(a)*
Net transfers to/from targeted rates reserve	37	117	-	-	-	(117)	-	-	
Net transfers to/from special projects reserve	37	273	-	-	-	-	(273)	-	
At 30 June 2019 (restated*)		**740,405**	**750,147**	**3**	**-**	**15,653**	**16,532**	**1,522,740**	

*Certain amounts shown here do not correspond to the 2019 financial statements and reflect adjustments made. Refer to Note 2(b).

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Commentary

The acquisition of an additional ownership interest in a controlled entity without a change of control is accounted for as a transaction in net assets/equity in accordance with PBE IPSAS 35 *Consolidated Financial Statements*. Any excess or deficit of consideration paid over the carrying amount of the non-controlling interests is recognised in net assets/equity of the controlling entity in transactions where the non-controlling interests are acquired or sold without loss of control. Local City Council has recognised this effect in accumulated comprehensive revenue and expense. With respect to the controlled entity to which these non-controlling interests relate, there were no accumulated components recognised in other comprehensive revenue and expense. If there had been such components, those would have been reallocated within net assets/equity of the controlling entity (e.g., foreign currency translation reserve or available-for-sale reserve).

PBE IFRS 5.38 requires items recognised in other comprehensive revenue and expense related to a discontinued operation to be separately disclosed. The Group does not have any discontinued operations therefore this disclosure has not been provided.

The amounts presented as changes in the asset revaluation surplus include a share of other comprehensive revenue of the associate, which relates to the revaluation of an office building. PBE IPSAS 1 specifically requires that entities must present the share of other comprehensive revenue items of their equity method investees, in aggregate, as a single line item. PBE IPSAS 36 *Investments in Associates and Joint Ventures*, PBE IPSAS 1 and PBE IPSAS 35 do not provide specific guidance on how the investor should present its accumulated share of other comprehensive revenue of equity-accounted investees. A PBE may follow guidance from NZ IFRS, where the Guidance on implementing NZ IAS 1 contains an example in which the accumulated property, plant and equipment revaluation gain of the investees is included in the revaluation surplus of the investor. The Group applies a similar presentation of accumulated items of other comprehensive revenue of its associate. However, as current PBE Standards do not contain specific requirements on this issue, other presentation approaches may also be acceptable.

NB: FIRST-TIME ADOPTERS OF PBE STANDARDS: Refer to Appendix 5 for additional requirements

Statement of cash flows

PBE IPSAS 1.21(d)

For the year ended 30 June 2020

PBE IPSAS 1.63(c)

	Note	Group 2020 Actual $000	Group 2019 Actual–Restated* $000	Council 2020 Actual $000	Council 2020 Forecast $000	Council 2019 Actual $000	PBE IPSAS 1.63(b) PBE IPSAS 1.53 LGA Schedule 10.29 PBE IPSAS 1.63(d) PBE IPSAS 1.63(e)
Cash flows from operating activities							PBE IPSAS 2.27(a)
Receipts from rates		74,617	73,580	74,617	74,990	73,580	PBE IPSAS 2.22(a)
Receipts from fines, penalties and levies		796	692	796	896	692	PBE IPSAS 2.22(a)
Receipts from other goods and services provided to customers – non-exchange transactions		13,839	13,257	14,339	12,855	11,757	PBE IPSAS 2.22(b)
Receipts from grants and subsidies		9,169	15,992	9,169	9,077	15,992	PBE IPSAS 2.22(c)
Receipts from other goods and services provided to customers – exchange transactions		109,869	95,348	2,370	3,382	4,772	PBE IPSAS 2.22(b)
Interest received		520	295	467	467	243	PBE IPSAS 2.40
Dividends received		-	-	521	522	638	PBE IPSAS 2.40
Payments to suppliers		(133,574)	(126,828)	(56,345)	(58,374)	(60,681)	PBE IPSAS 2.22(i)
Payments to employees		(36,345)	(35,748)	(19,434)	(19,337)	(18,162)	PBE IPSAS 2.22(j)
Grants, contributions and sponsorships paid		(1,580)	(1,679)	(1,780)	(1,771)	(1,879)	
Interest paid		(646)	(1,030)	(541)	(538)	(762)	PBE IPSAS 2.40
Income tax paid		(396)	(698)	-	-	-	PBE IPSAS 2.22(l) PBE IPSAS 2.44
Net cash flows from/(used in) operating activities	40	**36,269**	**33,181**	**24,179**	**22,169**	**26,190**	
Cash flows from investing activities							PBE IPSAS 2.31
Proceeds from sale of property, plant and equipment		1,208	2,336	1,406	1,266	779	PBE IPSAS 2.25(b)
Proceeds from sale of financial instruments		-	145	-	-	145	PBE IPSAS 2.25(d)
Purchase of property, plant and equipment		(46,282)	(41,959)	(34,387)	(33,205)	(30,537)	PBE IPSAS 2.25(a)
Purchase of investment property		(1,216)	(1,192)	(1,216)	(1,228)	(1,192)	PBE IPSAS 2.25(a)
Purchase of financial instruments		(3,054)	(225)	(2,399)	(2,424)	(107)	PBE IPSAS 2.25(c)
Purchase of intangibles		(449)	(630)	(449)	(453)	(630)	PBE IPSAS 2.25(a)
Acquisition of controlled entity		-	-	(7,687)	(7,557)	-	PBE IPSAS 2.49
Net cash flows used in investing activities		**(49,793)**	**(41,525)**	**(44,732)**	**(43,601)**	**(31,542)**	
Cash flows from financing activities							PBE IPSAS 2.31
Acquisition of non-controlling interest		(991)	-	(991)	(979)	-	
Proceeds from borrowings		2,496	8,526	654	661	8,326	PBE IPSAS 2.26(a)
Repayment of borrowings		(3,057)	(1,345)	(960)	(970)	(1,641)	PBE IPSAS 2.26(b)
Payment of finance lease liabilities		(51)	(76)	-	-	-	PBE IPSAS 2.26(c)
Dividends paid to non-controlling interest		-	(48)	-	-	-	PBE IPSAS 2.40
Net cash flows from/(used in) financing activities		**(1,603)**	**7,057**	**(1,297)**	**(1,288)**	**6,685**	
Net increase/(decrease) in cash and cash equivalents		(15,127)	(1,287)	(21,850)	(22,720)	1,333	
Cash and cash equivalents at beginning of year		30,830	32,117	26,917	26,917	25,584	
Cash and cash equivalents at end of year	31	**15,703**	**30,830**	**5,067**	**4,197**	**26,917**	

*Certain amounts shown here do not correspond to the 2019 financial statements and reflect adjustments made. Refer to Note 2(c).

The above statements of cash flows should be read in conjunction with the accompanying notes.

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PBE IPSAS 2.27 allows entities to report cash flows from operating activities using either the direct method or the indirect method. Local City Council presents its cash flows using the direct method. A statement of cash flows prepared using the indirect method for operating activities is presented in Appendix 3 for illustrative purpose. When an entity uses the direct method to present its statement of cash flows, PBE IPSAS 2.29 requires entities to provide a reconciliation of the net cash flow from operating activities to surplus (deficit) in the notes to the financial statements.

PBE IPSAS 2.40 permits interest paid to be shown as operating, financing or investing activities and interest received to be shown as operating or investing activities, as deemed relevant for the entity. Local City Council has elected to classify interest received and interest paid as cash flows from operating activities.

Order of presentation of disclosures
Public benefit entities may present disclosures or statements in a different order to Local City Council. For example, local authorities would usually present their funding impact statements straight after the statement of cash flows. However, for illustrative purposes, Local City Council's funding impact statement and other statutory disclosures that are required in addition to the requirements of PBE Standards are presented in the appendices

NB: FIRST-TIME ADOPTERS OF PBE STANDARDS: Refer to Appendix 5 for additional requirements

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Notes to the financial statements

PBE IPSAS 1.21(f)
PBE IPSAS 1.127-131
PBE IPSAS 1.63(a)

1. Reporting entity

Local City Council (the Council) is a local authority that is domiciled in New Zealand and governed by the Local Government Act 2002. Local City Council Group (the Group) consists of the Council (controlling entity) and its controlled entities Local Port Ltd, Local Museum Trust, Local Property Management Ltd and Local Port Services Ltd. *PBE IPSAS 1.150(a),(c)*

Local Port Ltd (100% owned) is a port company governed by the Port Companies Act 1988 and incorporated in New Zealand. The principal activity of Local Port Ltd is to facilitate export and import activities through Local City Port.

Local Museum Trust (100% owned) is a charitable trust governed by the Charitable Trusts Act 1957 and registered under the Charities Act 2005. The principal activity of Local Museum Trust is to manage, maintain and develop the museum of Local City.

Local Property Management Ltd (85% owned) is a company governed by the Companies Act 1993 and incorporated in New Zealand. The principal activity of Local Property Management Ltd is to manage the commercial properties owned by Local City Council.

Local Port Services Ltd (48% owned) is a company governed by the Companies Act 1993 and incorporated in New Zealand. The principal activities of Local Port Services Ltd is to manage certain operational activities on behalf of Local Port Ltd at Local City Port.

Pursuant to the Local Government Act 2002, Local Museum Trust and Local Property Management Ltd are council-controlled organisations.

The principal activity of Local City Council is the provision of local authority services, including resource management, biosecurity, transport services, hazard management, recreation and cultural services and regional representation to ratepayers and other residents of Local City. *PBE IPSAS 1.150(b)*

The financial statements of Local City Council and its controlled entities (collectively the Group) for the year ended 30 June 2020 were authorised for issue by the Council on 25 September 2020. *PBE IPSAS 14.26*

2 Summary of significant accounting policies

Commentary
Content of summary of significant accounting policies:
According to PBE IPSAS 1.132, a summary of significant accounting policies must include:

- The measurement basis (or bases) used in preparing the financial statements
- The extent to which the entity has applied any transitional provisions in any PBE Standards and
- The other accounting policies used that are relevant to an understanding of the financial statements

In deciding whether a particular accounting policy should be disclosed, management considers whether disclosure would assist users in understanding how transactions, other events, and conditions are reflected in the reported financial performance and financial position. Each entity considers the nature of its operations and the policies that the users of its financial report would expect to be disclosed for that type of entity (PBE IPSAS 1.134).

Disclosure of particular accounting policies is especially useful to users when those policies are selected from alternatives allowed in PBE Standards. An example is disclosure of whether an entity applies the fair value or cost model to its investment property (see PBE IPSAS 16 *Investment Property*). Some PBE Standards specifically require disclosure of particular accounting policies, including choices made by management between different policies allowed in those Standards. For example, PBE IPSAS 17 *Property, Plant and Equipment* requires disclosure of the measurement bases used for classes of property, plant and equipment. PBE IPSAS 5 *Borrowing Costs* requires disclosure of whether borrowing costs are recognised immediately as an expense, or capitalised as part of the cost of qualifying assets.

The illustrative disclosures in this section are comprehensive for illustrative purposes, and entities should assess whether the level of detail provided is necessary.

(a) Statement of compliance and basis of preparation

Statement of compliance:
The financial statements have been prepared in accordance with the Local Government Act 2002. The financial statements comply with generally accepted accounting practice in New Zealand (NZ GAAP).

PBE IPSAS 1.28.2(a)
LGA.111
PBE IPSAS 1.28.2(b)

As the primary objective of the Group is to provide goods or services for community and social benefit, rather than for making a financial return, the Group are public benefit entities for the purpose of complying with NZ GAAP.

PBE IPSAS 1.28.2(c)

The financial statements of the Group comply with Public Benefit Entity Standards (PBE Standards).

PBE IPSAS 1.28

The financial statements of the Group comply with PBE Standards Reduced Disclosure Regime (PBE Standards RDR) and disclosure concessions have been applied. The Group is eligible to report in accordance with PBE Standards RDR because it does not have public accountability and is are not large.

PBE IPSAS 1.RDR 28.1
PBE IPSAS 1.RDR 28.3

Measurement base:
The financial statements have been prepared on a historical cost basis, except for investment properties, some classes of property, plant and equipment, derivative financial instruments and available-for-sale investments, which have been measured at fair value.

PBE IPSAS 1.132(a)

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

PBE IPSAS 1.63(d)-(e)

2 Summary of significant accounting policies *continued*

Commentary

Basis of preparation

PBE IPSAS 1.28.2 requires an entity to disclose in the notes:

- the statutory base under which the financial statements are prepared
- a statement of whether the financial statements were prepared in accordance with GAAP and
- the fact that, for the purpose of complying with GAAP, it is a public benefit entity

Statement of compliance with PBE Standards

An entity whose financial statements and notes comply with PBE Standards or PBE Standards RDR shall make an explicit and unreserved statement of compliance with PBE Standards or PBE Standards RDR in the notes. The financial statements and notes shall not be described as complying with PBE Standards or PBE Standards RDR unless they comply with all the requirements of PBE Standards or PBE Standards RDR respectively (PBE IPSAS 1.28, PBE IPSAS 1.RDR 28.1).

If a Tier 2 PBE has elected to report in accordance with PBE Standards RDR, it also needs to disclose the criteria that establish the entity as eligible to report in accordance with PBE Standards RDR. An entity that meets Tier 2 criteria is eligible to report under PBE Standards RDR if it does not have public accountability and is not large (as defined by XRB A1).

Many public sector PBEs are required by legislation to prepare general purpose financial statements that comply with NZ GAAP. For local authorities like Local City Council, this requirement is contained in the Local Government Act 2002, section 111(1).

Similarly, for government departments and Crown entities, the source of this requirement is the Public Finance Act 1989 (section 45B (1)) and the Crown Entities Act 2004 (section 154(2)) respectively. In compliance with the Local Government Act 2002, Local City Council has asserted compliance with NZ GAAP.

For not-for-profit PBEs that are registered charities and meet the definition of "specified not-for-profit entity" (as defined in the Financial Reporting Act 2013), there is a similar requirement to prepare financial statements in accordance with NZ GAAP, which is included in section 42A of the Charities Act 2005.

The legislative definitions of NZ GAAP in the abovementioned four Acts all refer to the Financial Reporting Act 2013, which in turn defines NZ GAAP as financial reporting standards that have been approved by the XRB, which includes PBE Standards. PBE Standards include requirements and guidance specific to PBEs and provide reduced disclosures for entities that qualify to apply the RDR (i.e. Tier 2 entities). An entity asserting compliance with NZ GAAP therefore needs to describe the financial reporting standards that have been applied by the entity, i.e. either PBE Standards or PBE Standards RDR (PBE IPSAS 1.28.1 and PBE IPSAS 1.RDR.28.1).

Going concern

When preparing financial statements, management shall make an assessment of an entity's ability to continue as a going concern. Financial statements shall be prepared on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties relating to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, those uncertainties shall be disclosed. When the financial report is not prepared on a going concern basis, that fact shall be disclosed, together with the basis on which the financial report is prepared and the reason why the entity is not regarded as a going concern (PBE IPSAS 1.38).

In the case of Local City Council, management is not aware of any material uncertainties that may cast significant doubt on Local City Council's ability to continue as a going concern. The financial statements have therefore been prepared on a going concern basis.

(b) Correction of an error

In the previous two financial years (2018 and 2019), funding was received from the Crown for the upgrade of Local City Council's community centre building. The amounts of funding received were $250,000 in 2018 and $250,000 in 2019. Both of these amounts were recognised as deferred revenue as at 30 June 2019, as this project had not yet commenced, and it was understood that there was a return obligation attached to the funding. However, as a result of a legal review of the contract, it is now understood that although the contract stipulated that the funding must be used for a specific upgrade programme, these stipulations did not include a return obligation. *PBE IPSAS 3.54(a)*

Therefore, there are no specific conditions (as defined by PBE IPSAS 23) attached to the grants, and both amounts of funding should have been recognised as revenue upon receipt. As a consequence, revenue was understated in 2018 and 2019, and liabilities were overstated. The error was corrected by restating the opening net assets/equity as at 1 July 2018 and each of the affected financial statement items for the year ended 30 June 2019, as shown below:

Impact on statement of financial performance: *PBE IPSAS 3.54(b)-(c)*

	Group and Council 30 June 2019 $000
Increase in government grants revenue	250
Net impact on net surplus/deficit	**250**
Attributable to:	
Council	250
Non-controlling interest	-

2 Summary of significant accounting policies *continued*
(b) Correction of an error *continued*

Impact on net assets/equity:	Group and Council 30 June 2019 $000
Increase in opening accumulated comprehensive revenue and expense (as at 1 July 2018)	250
Increase in net surplus (as at 30 June 2019)	250
Total impact on net assets/equity	**500**
Attributable to:	
Council	500
Non-controlling interest	-

Impact on financial position:	Group and Council	
	30 June 2019 $000	1 July 2018 $000
Decrease in deferred revenue	(500)	(250)
Total impact on liabilities	**(500)**	**(250)**

(c) Changes in accounting policies and disclosures

There have been no changes in the accounting policies of the Group in the year ended 30 June 2020, other than the adoption of new PBE Standards and amendments to PBE Standards as disclosed below. Other than the changes disclosed below, all accounting policies and disclosures are consistent with those applied by the Group in the previous financial year.

New and amended standards and interpretations

The Group applied, for the first time, certain standards and amendments, which are effective for annual periods beginning on 1 July 2019, as described below. *PBE IPSAS 3.33*

Commentary

For illustrative purposes, Local City Council has disclosed information about the new and amended standards and interpretations that are effective from 1 July 2019, regardless of whether these have any impact on Local City Council's financial statements. However, entities should consider disclosing information about the standards that have an impact on the Local City Council's financial position, performance and/or disclosures.

PBE Standards on interests in other entities

The Group applied PBE IPSAS 34-38 retrospectively, with the date of initial application of 1 July 2019 and adjusting the comparative information for the period beginning 1 July 2028. The nature and impact of adoption of each standard is as follows.

PBE IPSAS 34 Separate Financial Statements

PBE IPSAS 34 *Separate Financial Statements* supersedes PBE IPSAS 6 *Consolidated and Separate Financial Statements*. The standard sets out the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements. The requirements of PBE IPSAS 34 are substantially the same as the previous requirements for separate financial statements contained in PBE IPSAS 6. The adoption of the standard does not have any impact on the Council's financial statements.

PBE IPSAS 35 Consolidated Financial Statements

PBE IPSAS 35 *Consolidated Financial Statements* supersedes PBE IPSAS 6 *Consolidated and Separate Financial Statements*. The standard introduces a new definition of control that requires both power and exposure to variable benefits. The standard provides detailed guidance on the control principle, including additional guidance on substantive and protective rights and guidance on factors to consider when determining whether an investor has control (is the principal) or is acting as an agent. The mixed group guidance contained in PBE IPSAS 6 has also been incorporated into PBE IPSAS 35, with minimal changes. Upon adoption of PBE IPSAS 35, the Group determined whether it controls any entities. The application of PBE IPSAS 35 affected the accounting for the Group's investment in 48% of the equity shares in Local Port Services Ltd. For all financial years up to 30 June 2019, Local Port Services Ltd was considered to be an associate under previously existing guidance in PBE IPSAS 7 *Investments in Associates* and was accounted for using equity method. At the date of initial application of PBE IPSAS 35 (1 July 2019), the Group assessed that it controls Local Port Services Ltd based on the factors explained in Note 3 below.

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2. Summary of significant accounting policies *continued*

PBE IPSAS 35.74

On adoption of PBE IPSAS 35, the assets, liabilities and equity of Local Port Services Ltd have been retrospectively consolidated in the financial statements of the Group. Non-controlling interest has been recognised at a proportionate share of the net assets of the controlled entity. The opening balances at 1 July 2018 and comparative information for year ended 30 June 2019 have been restated in the consolidated financial statements. There was no impact on the Council's financial statements.

PBE IPSAS 35.66

The effect of applying PBE IPSAS 35 is as follows:

Impact on statement of financial performance:

PBE IPSAS 3.33(f)-(g)

	Group 30 June 2019 $000
Increase in direct charges revenue – full cost recovery	4,450
Increase in employee costs	(1,807)
Increase in depreciation expense	(808)
Increase in general expenses	(770)
Decrease in share of surplus of associate and joint venture	(487)
Increase in surplus before tax	**578**
Increase in income tax expense	(83)
Net impact on net surplus/deficit	**495**
Attributable to:	
Council	-
Non-controlling interest	495

Impact on statement of financial position:

	Group At 30 June 2019 $000	Group At 1 July 2018 $000
Increase in property, plant and equipment	2,143	1,951
Decrease in investments in an associate	(713)	(331)
Net increase on total non-current assets	**1,430**	**1,620**
Increase in cash and cash equivalents and other current assets	1,182	938
Net increase on total assets	**2,612**	**2,558**
Increase in non-current interest-bearing loans	987	1,025
Increase in payables under exchange transactions (current liabilities)	887	1,180
Net increase on total liabilities	**1,874**	**2,205**
Net impact on equity	**738**	**353**
Attributable to:		
Council	-	-
Non-controlling interest	738	353

Impact on statement of cash flows:

	Group 30 June 2019 $000
Increase in cash flows from operating activities	144
Increase in cash flows from investing activities	-
Decrease in cash flows from investing activities	(100)

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2. Summary of significant accounting policies *continued*

Commentary
PBE IPSAS 3.33(f) requires disclosure of effect of application of a PBE Standard for the current period and each prior period presented, to the extent practicable. PBE IPSAS 35.66 partly relaxes this requirement. It states that an entity needs only present the quantitative information required under PBE IPSAS 3.33(f) for the annual period immediately preceding the date of initial application of PBE IPSAS 35 (the 'immediately preceding period'). An entity may also present this information for the current period or for earlier comparative periods, but is not required to do so.

The Group has opted to make the quantitative disclosures of the effect of application of PBE IPSAS 35 for the immediately preceding period (year ended 30 June 2019) only.

PBE IPSAS 35 also provides an exception from consolidation for investment entities. This exception also applies to the parent of an investment entity that is not itself an investment entity. The Group and its controlled entities are not investment entities.

PBE IPSAS 36 Investments in Associates and Joint Ventures

PBE IPSAS 36 *Investments in Associates and Joint Ventures* supersedes PBE IPSAS 7 *Investments in Associates*. The new standard requires the use of the equity method in accounting for all interests in associates and joint ventures and eliminates the option of using proportionate consolidation for jointly controlled entities. The adoption of PBE IPSAS 36 does not have an impact on the consolidated financial statements.

PBE IPSAS 37 Joint Arrangements

PBE IPSAS 37 *Joint Arrangements* replaces PBE IPSAS 8 *Interests in Joint Ventures*. PBE IPSAS 37 introduces a new classification of joint arrangements: (i) joint operations; and (ii) joint ventures based on whether the investor has rights to assets and obligations for the liabilities or rights to the net assets of the arrangement. The standard sets out the accounting requirements for each type of arrangement and removes the option of using proportionate consolidation for jointly controlled entities. Instead joint arrangements that meet the definition of joint venture under PBE IPSAS 37 must be accounted for using equity method.

Upon adoption of PBE IPSAS 37, the Group determined the classification of its joint arrangements. The application of the new standard impacted the classification of the Group's interest in Local Waste Recycling Limited. For all financial years up to 30 June 2019, Local Waste Recycling Limited was classified as a jointly controlled entity under guidance in PBE IPSAS 8 and was accounted for using equity method. At the date of initial application of PBE IPSAS 37 (1 July 2019), the Group determined its interest in Local Waste Recycling Limited to be classified as a joint venture under the new standard. The Group will continue to account for this interest using the equity method in the Group's financial statements. The adoption of PBE IPSAS 37 does not have an impact of the consolidated financial statements.

Commentary
Under previously existing guidance the Group accounted for its interest in jointly controlled entities using the equity method. Upon adoption of PBE IPSAS 37 the Group classifies its investments in jointly controlled entities as joint ventures and continues to account for these interests using equity method. If the entity accounted for its interest in joint arrangements using the proportionate consolidation method under PBE IPSAS 8, refer to Appendix 14 for the example of disclosures of transition from the proportionate consolidation to the equity method.

PBE IPSAS 38 Disclosure of Interests in Other Entities

PBE IPSAS 38 *Disclosure of Interests in Other Entities* sets out the requirements for disclosures relating to an entity's interests in controlled entities, joint arrangements, associates and structured entities. The requirements in PBE IPSAS 38 are more expansive than the previously existing disclosure requirements for controlled entities, for example, where another entity is controlled with less than a majority of voting rights. While the Group has a controlled entity with material non-controlling interests, there are no unconsolidated structured entities. PBE IPSAS 38 disclosures are provided in Notes 5, 7 and 8.

Impairment of Revalued Assets (Amendments to PBE IPSAS 21 Impairment of Non-Cash-Generating Assets and PBE IPSAS 26 Impairment of Cash-Generating Assets)

The amendments change the scope of PBE IPSAS 21 *Impairment of Non-Cash-Generating Assets* and PBE IPSAS 26 *Impairment of Cash-Generating Assets* to include assets measured at revalued amounts under the revaluation model in PBE IPSAS 17 *Property, Plant and Equipment* and PBE IPSAS 31 *Intangible Assets* ("revalued assets"). As a result of the amendments, revalued assets are subject to the same impairment assessment requirements as assets that are measured using the cost model.

The amendments do not have any impact on the Group and Council's financial statements.

2. Summary of significant accounting policies *continued*

PBE IPSAS 39 Employee Benefits

PBE IPSAS 39 *Employee Benefits* replaces the current standard on employee benefits, PBE IPSAS 25. PBE IPSAS 39 removes the option to defer the recognition of certain actuarial gains and losses arising from defined benefit plans. It eliminates some of the presentation options for actuarial gains and losses arising from defined benefit plans and introduces the net interest approach, which is to be used when determining the defined benefit cost for defined benefit plans. PBE IPSAS 39 also structures the disclosures for defined benefit plans according to explicit disclosure objectives for defined benefit plans.

The new standards do not have any impact on the Group' and Council's financial statements as they do not have defined benefit plans.

2018 Omnibus Amendments to PBE Standards

PBE IPSAS 4 *The Effects of Changes in Foreign Exchange Rates*

The amendments to PBE IPSAS 4 provide guidance on determining the date of a transaction where an entity had paid or received advance consideration in foreign currency prior to recognising the asset, revenue or expense. The interpretation clarifies that, for the purpose of determining the exchange rate to use on initial recognition of the asset, expense or income (or part of it), the date of the transaction is the date on which the entity initially recognised the related non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The amendments do not have any impact on the Group and Council's financial statements.

PBE IPSAS 5 *Borrowing Costs*

The amendments to PBE IPSAS 5 clarify that borrowings made specifically to develop a qualifying asset are included in general borrowings when the asset is ready for its intended use or sale.

The amendments do not have any impact on the Group and Council's financial statements.

PBE IPSAS 16 *Investment Property*

The amendments to PBE IPSAS 16 clarify that a change in use of a property occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. The amendments also clarify that a change in management's intentions for the use of a property does not, by itself, provide evidence of a change in use. In addition, the list of examples of evidence of change in use provided in the standard is re-characterised as non-exhaustive.

The amendments do not have any impact on the Group and Council's financial statements.

PBE IPSAS 34 *Separate Financial Statements*

The amendment to PBE IPSAS 34 aligns the requirements in PBE IPSAS 34 with the corrected requirements in IPSAS 34 in relation to a controlling entity with controlled investment entities which is not itself an investment entity. The amendment clarifies that in its separate financial statements the controlling entity is required to measure its investment in the controlled investment entity at cost, fair value or using the equity method.

The amendment does not have any impact on the Council's financial statements.

PBE IPSAS 36 *Investments in Associates and Joint Ventures*

The amendments to PBE IPSAS 36 clarify that a venture capital organisation, or a mutual fund, unit trust and similar entities may elect, on initial recognition, to measure investments in an associate or joint venture at fair value through surplus or deficit separately for each associate or joint venture.

The amendment does not have any impact on the Group and Council's financial statements.

PBE IPSAS 37 *Joint Arrangements*

The amendment to PBE IPSAS 37 clarifies that when an entity obtains control of a business that is a joint operation, then the entity does not remeasure previously held interests in that business.

The amendment does not have any impact on the Group and Council's financial statements.

PBE IPSAS 39 *Employee Benefits*

The amendments to PBE IPSAS 39 clarify that, in the event of a plan amendment, curtailment or settlement during a reporting period, an entity is required to use updated actuarial assumptions to determine current service cost and net interest for the period following such an event when the entity remeasures its net defined benefit liability (asset) in accordance with PBE IPSAS 39.

The amendment does not have any impact on the Group and Council's financial statements.

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2. Summary of significant accounting policies *continued*

PBE IFRS 3 *Business Combinations*

The amendments to PBE IFRS 3 clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value.

The amendment does not have any impact on the Group and Council's financial statements.

PBE FRS 47 *First-time Adoption of PBE Standards by Entities other than those Previously Applying NZ IFRS*

The standard amends PBE FRS 47 to incorporate the requirements of IFRIC 22 (included in Appendix A of PBE IPSAS 4) and associated amendments. The amendment introduces an exemption whereby a first-time adopter need not apply Appendix A of PBE IPSAS 4 to assets, expenses and revenue in the scope of Appendix A initially recognised before the date of transition to PBE Standards.

The amendment does not have any impact on the Group and Council's financial statements.

PBE IAS 12 *Income Taxes*

The amendments to PBE IAS 12 clarify that the requirements to recognise the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in surplus or deficit, other comprehensive revenue and expense or net assets/equity according to where the entity originally recognised those past transactions or events.

The amendments do not have any impact on the Group and Council's financial statements.

PBE IPSAS 38 *Disclosure of Interests in Other Entities*

The amendments clarify that the disclosure requirements of PBE IPSAS 38 (other than the requirement in paragraphs B10-B16 of the standard to disclose summary financial information) apply to interests in other entities that are classified as held for sale or discontinued operations under PBE IFRS 5.

The amendments do not have any impact on the Group and Council's financial statements

(d) Basis of consolidation

PBE IPSAS 35.19

Group:

The financial statements comprise the financial statements of Local City Council (the Council) and its controlled entities (the Group) as at 30 June 2020. Control is achieved when the Group is exposed, or has rights, to variable benefits from its involvement with the other entity and has the ability to affect the nature or amount of those benefits through its power over the other entity. Specifically, the Group controls another entity if and only if the Group has:

PBE IPSAS 35.20

- Power over the other entity (i.e. existing rights that give it the current ability to direct the relevant activities of the other entity)
- Exposure, or rights, to variable benefits from its involvement with the other entity
- The ability to use its power over the other entity to affect the nature and amount of the benefits from its involvement with the other entity

PBE IPSAS 35 AG36

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of another entity, the Group considers all relevant facts and circumstances in assessing whether it has power over another entity, including:

- The power to appoint or remove a majority of the members of the board of directors (or other governing body) and control of the other entity is by that board or by that body
- The binding arrangement with the other vote holders of the other entity
- Rights arising from other binding arrangements
- The Group's voting rights and potential voting rights

PBE IPSAS 35 AG82

The Group reassesses whether or not it controls another entity if facts and circumstances indicate that there are changes to one or more of the three elements of control.

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2. Summary of significant accounting policies *continue*

Consolidation of a controlled entity begins when the Group obtains control over the controlled entity and ceases when the Group loses control of the entity. Assets, liabilities, revenue and expenses of a controlled entity acquired or disposed of during the year are included in the financial statements from the date the Group gains control until the date the Group ceases to control the controlled entity. *PBE IPSAS 35.39 PBE IPSAS 35.40*

Surplus or deficit and each component of other comprehensive of revenue and expense are attributed to the owners of the controlling entity and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of controlled entities to bring their accounting policies into line with the Group's accounting policies. All intra-economic entity assets and liabilities, net assets/equity, revenue, expenses and cash flows relating to transactions between entities of the economic entity are eliminated in full on consolidation. *PBE IPSAS 35.49 PBE IPSAS 35.41 PBE IPSAS 35.40*

A change in the ownership interest of a controlled entity that does not result in a loss of control, is accounted for as an equity transaction. *PBE IPSAS 35.51*

If the Group loses control over a controlled entity, it derecognises the assets (including goodwill) and liabilities, any non-controlling interests and other components of net assets/equity, while resulting gain or loss is recognised in surplus or deficit. Any investment retained in the former controlled entity is recognised at fair value. *PBE IPSAS 35.54*

Council: *PBE IPSAS 34.12 PBE IPSAS 34.20(c) PBE IPSAS 34 RDR 20.1*

Investments in controlled entities held by the Council are accounted for at cost less any impairment charges in the separate financial statements of the Council.

Dividends and other distributions from controlled entities are recognised as revenue in the Council's separate statement of financial performance, but only to the extent that these distributions are received and receivable from the controlled entity's accumulated comprehensive revenue and expense arising after acquisition. Such distributions do not impact the recorded cost of the investment. *PBE IPSAS 34.16*

At the end of each reporting period, the Council assesses whether there are any indicators that the carrying value of the investment in controlled entities may be impaired. Where such indicators exist, to the extent that the carrying value of the investment exceeds its recoverable amount, an impairment loss is recognised. *PBE IPSAS 26.22 PBE IPSAS 21.26*

(e) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The acquisition method involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values. The cost of an acquisition is measured as the aggregate of the consideration transferred (measured at acquisition date fair value) and the amount of any non-controlling interests in the acquiree. For each business combination, the Group measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred, and included in administrative expenses. *PBE IFRS 3.4 PBE IFRS 3.10 PBE IFRS 3.18 PBE IFRS 3.32(a) PBE IFRS 3.19 PBE IFRS 3.53*

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. *PBE IFRS 3.15 PBE IFRS 3.16*

If the business combination is achieved in stages any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in surplus or deficit. It is then considered in the determination of goodwill. *PBE IFRS 3.42*

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*, is measured at fair value with changes in fair value recognised either in surplus or deficit or as a change to other comprehensive revenue and expense. If the contingent consideration is not within the scope of PBE IPSAS 29, it is measured in accordance with the appropriate PBE standard. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity. *PBE IFRS 3.39 PBE IFRS 3.58*

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2. Summary of significant accounting policies *continued*

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in surplus or deficit.

PBE IFRS 3.32

PBE IFRS 3.34
PBE IFRS 3.36

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

PBE IPSAS 26.90.1

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

(f) Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of another entity but is not control or joint control over those policies.

PBE IPSAS 36.8

A joint venture is a joint arrangement whereby the parties have joint control of the arrangement have rights to the net assets of the arrangement. Joint control is the agreed sharing of control of an arrangement by way of a binding arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

PBE IPSAS 36.8

Group:
The Group's investment in its associates and joint ventures is accounted for using the equity method of accounting in the consolidated financial statements.

Under the equity method, an investment in an associate or joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise post-acquisition changes in the Group's share of net assets of the associates or joint ventures since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not tested for impairment separately.

PBE IPSAS 36.16

PBE IPSAS 36.35(a)

The Group's share of an associate's or joint venture's surplus or deficit is recognised in the statement of financial performance. Any change in the associate or joint venture's other comprehensive revenue and expense is presented as part of the Group's other comprehensive revenue and expense. The cumulative movements are adjusted against the carrying amount of the investment. In addition, when there has been a change recognised directly in the net assets/equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in net assets/equity. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the Group's interest in the associate or joint venture.

PBE IPSAS 36.29-32

The aggregate of the Group's share of surplus or deficit of associates or joint ventures is shown on the face of the statement of financial performance. This is the surplus attributable to equity holders of the associate or joint venture and therefore is surplus after tax and non-controlling interests in the controlled entities of the associates and joint ventures.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

PBE IPSAS 36.37

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on the Group's investment in its associate or joint venture. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate or joint venture is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the "share of surplus of an associate and joint venture" in the statement of financial performance.

PBE IPSAS 36.43-48

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2. Summary of significant accounting policies *continued*

Goodwill included in the carrying amount of the investment in associate is not tested for impairment separately; rather the entire carrying amount of the investment is tested as a single asset.

When the Group's share of losses in an associate or joint venture equals or exceeds its interest in the associate or joint venture, including any unsecured long-term receivables and loans, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate or joint venture. *PBE IPSAS 36.41-42*

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any remaining investment at its fair value, and accounts for the remaining investments in accordance with PBE IPSAS 29. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in surplus or deficit. *PBE IPSAS 36.26(b)*

Council:

The Council's investment in associates and joint ventures is accounted for at cost in the Council's separate financial statements. *PBE IPSAS 34.12(a)*

In the Council's separate statement of financial performance, dividends receivable from associates or joint ventures are recognised in as revenue. *PBE IPSAS 34.16*

Commentary

PBE IPSAS 37 identifies two types of joint arrangements – a joint operation or joint venture. The classification of a joint arrangement depends upon the rights and obligations of the parties to the arrangement. *PBE IPSAS 37.19*

The Group does not have an interest in a joint operation. If the Group has an interest in a joint operation, the following illustrative accounting policy would be relevant as per PBE IPSAS 37.7, 23-25:

The Group has an interest in a joint operation. A joint operation is a joint arrangement whereby the Group has rights to the assets and obligations for the liabilities, relating to the arrangement. The Group recognises its interest in the joint operation by recognising its interest in the assets and the liabilities of the joint operation. The Group also recognises the expenses that it incurs and its share of revenue that it earns from the sale of the output by the joint operation. *PBE IPSAS 37.7* *PBE IPSAS 37.23*

(g) Foreign currency translation

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. *PBE IPSAS 4.24*

Monetary assets and liabilities denominated in foreign currency are reported at the statement of financial position reporting date by applying the exchange rate on that date. Exchange differences arising from the settlement of monetary items, or translating monetary items at rate different from those at which they were translated on initial recognition during the period or on previous financial statements, are recognised as surplus or deficit in the period in which they arise. *PBE IPSAS 4.27(a)* *PBE IPSAS 4.32*

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive revenue and expenses or surplus or deficit are also recognised in comprehensive revenue and expenses or surplus or deficit, respectively). *PBE IPSAS 4.27(b)-(c)* *PBE IPSAS 4.35*

In determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of advance consideration. *PBE IPSAS 4.A8-A9*

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2. Summary of significant accounting policies *continued*

(h) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. *PBE IPSAS 2.57 PBE IPSAS 2.8 PBE IPSAS 2.9*

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts as they considered an integral part of the Group's cash management. Bank overdrafts are included within interest-bearing loans and borrowings in current liabilities on the statement of financial position. *PBE IPSAS 2.10*

(i) Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. *PBE IPSAS 28.9*

Financial assets
Initial recognition and measurement
Financial assets are classified, at initial recognition, as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through surplus or deficit, transaction costs that are attributable to the acquisition of the financial asset. *PBE IPSAS 29.45*

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset. *PBE IPSAS 29.40*

The Group's financial assets include: cash and short term deposits, trade and other receivables, loans and other receivables; quoted and unquoted financial instruments; and derivative financial instruments.

Subsequent measurement
For the purpose of subsequent measurement financial assets are classified in four categories: *PBE IPSAS 29.47*
- Financial assets at fair value through surplus or deficit
- Loans and receivables
- Held to maturity investments
- Available for sale financial assets

<u>Financial assets at fair value through surplus or deficit</u>
Financial assets at fair value through surplus or deficit include financial assets held for trading and financial assets designated upon initial recognition at fair value through surplus or deficit. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by PBE IPSAS 29. *PBE IPSAS 29.10*

The Group has not designated any financial assets at fair value through surplus or deficit.

Financial assets at fair value through surplus or deficit are carried in the statement of financial position at fair value with net changes in fair value presented as other expenses (negative net changes in fair value) or other revenue (positive net changes in fair value) in the statement of surplus or deficit. *PBE IPSAS 29.48 PBE IPSAS 29.64(a)*

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value though surplus or deficit. These embedded derivatives are measured at fair value with changes in fair value recognised in surplus or deficit. Re-assessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through surplus or deficit. *PBE IPSAS 29.12 PBE IPSAS 29.B5*

2. Summary of significant accounting policies *continued*

(i) Financial instruments – initial recognition and subsequent measurement *continued*

Loans and receivables

This category of financial assets is the most relevant to the Group. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

PBE IPSAS 29.10
PBE IPSAS 29.48(a)
PBE IPSAS 29.AG18
PBE IPSAS 29.65

After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

The effective interest rate amortisation is included in finance income in the statement of financial performance.

The losses arising from impairment are recognised in the statement of financial performance in finance costs for loans and in cost of sales or other operating expenses for receivables.

This category generally applies to trade and other receivables. For more information on receivables, refer to Notes 29 and 30.

Held to maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity.

PBE IPSAS 29.10
PBE IPSAS 29.48(b)
PBE IPSAS 29.AG18

PBE IPSAS 29.65

After initial measurement, held to maturity investments are measured at amortised cost using the effective interest rate method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

The effective interest rate amortisation is included as finance income in the statement of financial performance.

The losses arising from impairment are recognised in the statement of financial performance as finance costs.

The Group did not have any held-to-maturity investments during the years ended 30 June 2018 or 30 June 2019.

Available for sale financial assets

Available for sale (AFS) financial assets include equity investments and debt securities. Equity investments classified as AFS are those that are neither classified as held for trading nor designated at fair value through surplus or deficit. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

PBE IPSAS 29.10

PBE IPSAS 29.48(a)
PBE IPSAS 29.64(b)

After initial measurement, AFS financial investments are subsequently measured at fair value with unrealised gains or losses recognised in other comprehensive revenue and expense and accumulated in the AFS reserve until:

- the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income or
- the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to the statement of financial performance in finance costs.

PBE IPSAS 29.76

Interest earned whilst holding AFS financial assets is reported as interest income using the effective interest rate method.

PBE IPSAS 29.64(b)

2. Summary of significant accounting policies *continued*

(i) Financial instruments – initial recognition and subsequent measurement *continued*

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised (i.e. removed from the Group's statement of financial position) primarily when:

PBE IPSAS 29.19

- The rights to receive cash flows from the asset have expired or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

PBE IPSAS 29.20
PBE IPSAS 29.21
PBE IPSAS 29.22

When the Group has transferred its rights to receive cash flows from an asset or has entered into a 'pass-through' arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

PBE IPSAS 29.22(b)
PBE IPSAS 29.32-33

Impairment of financial assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

PBE IPSAS 29.67
PBE IPSAS 29.68

Financial assets carried at amortised cost (loans and receivables)

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. Collectability of trade receivables is reviewed on an ongoing basis at an operating unit level. An impairment provision is recognised when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts more than 60 days overdue are considered objective evidence of impairment.

PBE IPSAS 29.73

If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

PBE IPSAS 29.73

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in surplus or deficit.

PBE IPSAS 29.72

Interest income (recorded as finance income in the statement of financial performance) continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Individual trade receivable balances that are known to be uncollectible are written off when identified, along with associated allowances. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

PBE IPSAS 29.AG126

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2. Summary of significant accounting policies *continued*

(i) Financial instruments – initial recognition and subsequent measurement *continued*

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the statement of financial performance. *PBE IPSAS 29.74*

Available for sale financial assets
For AFS financial assets, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. *PBE IPSAS 29.67*

In the case of equity investments classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. *PBE IPSAS 29.70*

When there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in surplus or deficit – is removed from net assets/equity and recognised in surplus or deficit. *PBE IPSAS 29.76*

Impairment losses on equity investments are not reversed through surplus or deficit; increases in their fair value after impairment are recognised in other comprehensive revenue and expense. *PBE IPSAS 29.78*

In the case of debt instruments classified as AFS, the impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in surplus or deficit. *PBE IPSAS 29.77*

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income.

If, in a subsequent year, 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 in surplus or deficit, the impairment loss is reversed through surplus or deficit. *PBE IPSAS 29.79*

Financial liabilities
Initial recognition and measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through surplus or deficit, payables, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of payables and loans and borrowings, net of directly attributable transaction costs. *PBE IPSAS 29.45*

The Group's financial liabilities include trade and other payables, loans and borrowings (including bank overdrafts), financial guarantee contracts and derivative financial instruments.

Subsequent measurement
The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through surplus or deficit
Financial liabilities at fair value through surplus or deficit include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through surplus or deficit. *PBE IPSAS 29.10*

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by PBE IPSAS 29. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

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2. Summary of significant accounting policies *continued*

PBE IPSAS 29.64(a)

(i) Financial instruments – initial recognition and subsequent measurement *continued*

Gains or losses on liabilities held for trading are recognised in surplus or deficit.

Financial liabilities designated upon initial recognition at fair value through surplus or deficit are designated at the initial date of recognition, and only if the criteria in PBE IPSAS 29 are satisfied. The Group has not designated any financial liability as at fair value through surplus or deficit.

PBE IPSAS 29.10

Financial liabilities at amortised cost
This is the category of financial liabilities that is most relevant to the Group. After initial recognition, trade and other payables and interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method.

PBE IPSAS 29.49

Gains and losses are recognised in surplus or deficit when the liabilities are derecognised as well as through the effective interest rate amortisation process. The effective interest rate amortisation is included as finance costs in the statement of financial performance.

PBE IPSAS 29.65

Trade and other payables are unsecured and are usually paid within 30 days of recognition. Due to their short-term nature they are not discounted.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

PBE IPSAS 29.10

This category generally applies to payables and interest-bearing loans and borrowings. For more information refer Note 27.

Financial guarantee contracts
Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount initially recognised less cumulative amortisation.

PBE IPSAS 29.10
PBE IPSAS 29.45
PBE IPSAS 29.49(c)

Derecognition
A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in surplus or deficit.

PBE IPSAS 29.41
PBE IPSAS 29.42
PBE IPSAS 29.43

Offsetting of financial instruments
Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if (a) currently there is an enforceable legal right to set off the recognised amounts and (b) there is an intention either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

PBE IPSAS 28.47

Fair value of financial instruments
The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. In the absence of an active market, the fair value of financial instruments is measured using valuation techniques with the objective of estimating what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations.

PBE IPSAS 29.51
PBE IPSAS 30.31
PBE IPSAS 30.RDR 31.1

Commentary

EARLY ADOPTERS OF PBE IFRS 9 or PBE IPSAS 41: Refer to Appendix 12 for the significant accounting policies for financial instruments.

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2. Summary of significant accounting policies *continued*

(j) Derivative financial instruments and hedging

The Group uses derivative financial instruments, such as forward currency contracts, forward commodity contracts and interest rate swaps to mitigate risks associated with foreign currency, commodity price risks and interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value.

PBE IPSAS 29.45
PBE IPSAS 29.48

Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Derivative assets and liabilities are classified as non-current when the remaining maturity is more than 12 months, or current when the remaining maturity is less than 12 months.

PBE IPSAS 1.76
PBE IPSAS 1.80

The purchase contracts that meet the definition of a derivative under PBE IPSAS 29 are recognised in the statement of financial performance as cost of sales. Commodity contracts that are entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Group's expected purchase, sale or usage requirements are held at cost.

The fair values of forward currency contracts are calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair values of interest rate swaps are determined using a valuation technique based on cash flows discounted to present value using current market interest rates.

PBE IPSAS 30.31
PBE IPSAS 30.RDR 31.1

Any gains or losses arising from changes in the fair value of derivatives are taken directly to surplus or deficit, except for the effective portion of derivatives designated in cash flow hedges, which is recognised in other comprehensive revenue and expense and later reclassified to surplus or deficit when the hedged item affects surplus or deficit.

PBE IPSAS 29.64(a)
PBE IPSAS 29.99
PBE IPSAS 29.106

For the purposes of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment that is attributable to a particular risk and could affect surplus and deficit. Local City Council currently has a fair value hedge in relation to the fair value of borrowings and debt instruments subject to fixed interest rate. *PBE IPSAS 29.96(a)*
- Cash flow hedges when hedging the exposure to variability in cash flows that is attributable either to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or to the foreign currency risk in an unrecognised firm commitment, which could affect surplus or deficit. Local City Council Group currently has cash flow hedges attributable to foreign currency payments for purchases of property, plant and equipment, and payment of floating interest on borrowings. *PBE IPSAS 29.96(b)*
- Hedges of a net investment in a foreign operation. Group does not have any hedges of net investment. *PBE IPSAS 29.96(c)*

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

PBE IPSAS 29.98

Derivatives that are designated in a hedging relationship and meet the strict criteria for hedge accounting are accounted for as follows:

(i) Fair value hedges

The change in the fair value of a hedging derivative is recognised in surplus or deficit as finance costs. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the surplus or deficit as finance costs.

PBE IPSAS 29.99(a)

PBE IPSAS 29.103

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2. Summary of significant accounting policies *continued*

(j) Derivative financial instruments and hedging *continued*

For fair value hedges relating to items carried at amortised cost, any adjustment to carrying value is amortised through surplus or deficit over the remaining term of the hedge using the effective interest rate method. Effective interest rate amortisation may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in surplus or deficit. *PBE IPASA 29.104*

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation. If the hedged item is derecognised, the unamortised fair value is recognised immediately in surplus or deficit. *PBE IPSAS 29.102*

The Group has an interest rate swap that is used as a hedge for the exposure of changes in the fair value of its 8.25% fixed rate secured loan. See Note 27 for more details.

(ii) Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive revenue and expense and accumulated in the cash flow hedge reserve, while any ineffective portion is recognised immediately in surplus or deficit as other operating expenses. *PBE IPSAS 29.106*

The Group uses forward currency contracts as hedges of its exposure to foreign currency risk in forecast transactions and firm commitments, as well as forward commodity contracts for its exposure to volatility in the commodity prices. The ineffective portion relating to foreign currency contracts is recognised in finance costs and the ineffective portion relating to commodity contracts is recognised in other operating income or expenses. Refer to Note 27.3 for more details. *PBE IPSAS 29.108-110*

Amounts recognised as other comprehensive revenue and expense are transferred to surplus or deficit when the hedged transaction affects surplus or deficit, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs. When the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised as other comprehensive revenue and expense are transferred to the initial carrying amount of the non-financial asset or liability. *PBE IPSAS 29.112(c)*

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognised in other comprehensive revenue and expense remains separately in net assets/equity until the forecast transaction occurs or the foreign currency firm commitment is met. *PBE IPSAS 29.112(a)-(b) PBE IPSAS 29.112 (d)*

Commentary
EARLY ADOPTERS OF PBE IFRS 9 and PBE IPSAS 41: Refer to Appendix 12 for the significant accounting policies for derivative financial instruments and hedge accounting.

(k) Inventories

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition. The Group does not receive significant donated goods. *PBE IPSAS 12.47(a) PBE IPSAS 12.16*

Costs of inventories comprise all costs of purchase, costs of conversion and other costs incurred in bringing each product to its present location and condition. Costs of inventories are accounted for as follows:

Raw materials and consumables – purchase cost on a first-in, first-out basis. *PBE IPSAS 12.35*
The cost of purchase comprises the purchase price including the transfer from reserves of gains and losses on qualifying cash flow hedges of purchases of raw materials, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), transport, handling and other costs directly attributable to the acquisition of raw materials. Volume discounts and rebates are included in determining the cost of purchase. *PBE IPSAS 29.109(b) PBE IPSAS 12.19*
The Group's raw materials and consumables inventory includes botanical supplies and maintenance items.

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2. Summary of significant accounting policies *continued*

PBE IPSAS 12.18

(k) Inventories *continued*

Finished goods and work-in-progress – cost of direct materials and labour and a proportion of variable and fixed manufacturing overheads based on normal operating capacity, but excluding borrowing costs. Costs are assigned on the basis of weighted average costs.

The Group's finished goods inventory includes items held for resale, such as Council rubbish bags and items sold at the museum shop, as well as items held for distribution, such as recycle bins.

After initial recognition, inventories held for resale are valued at the lower of cost and net realisable value. However, inventory held for distribution or deployment at no charge or for a nominal charge is measured at cost, adjusted when applicable for any loss of service potential.

PBE IPSAS 12.15
PBE IPSAS 12.17

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

PBE IPSAS 12.9

Commentary

Under PBE IPSAS 12 para 16, a PBE is allowed not to recognise donated inventory (i.e. inventory received "in-kind") if it is not practicable to measure reliably the fair value of those goods at the date of acquisition because the costs of recognising the goods at the date of acquisition outweigh the benefits.

This will often be the case for entities that receive high-volume, low-value, second-hand goods in-kind for resale or distribution. For example, a not-for-profit PBE that receives a high volume of second-hand goods from public donations and re-sells these goods or distributes them free of charge may find it impracticable to reliably determine the fair value of the received goods and services for the purpose of recognising them as inventory. Such a PBE may choose not to recognise the donated goods as inventory upon receipt. If the PBE sells the goods, it will still need to recognise revenue upon sale.

Neither Local City Council nor its controlled entities receive significant donated goods; therefore, this exemption is not reflected in Local City Council's inventory accounting policy above. For entities that receive large volumes of donated goods, the first sentence of the above accounting policy for inventory can be replaced by the following illustrative disclosure:

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition, unless it is not practicable to determine fair value, in which case the inventory is not recognised.

(l) Non-current assets held for sale

The Group classifies non-current assets as held for sale or for distribution to owners if their carrying amounts will be recovered principally through a sale or distribution rather than through continuing use. Such non-current assets classified as held for sale or as held for distribution are measured at the lower of their carrying amount and fair value less costs to sell or to distribute. Costs to sell (or distribute) are the incremental costs directly attributable to the sale (or distribution), excluding the finance costs and income tax expense.

PBE IFRS 5.6
PBE IFRS 5.15-15A
PBE IFRS 5.5B1

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset is available for immediate distribution in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the sale will be withdrawn. Management must be committed to the distribution expected within one year from the date of the classification. Similar considerations apply to assets or a disposal group held for distribution.

PBE IFRS 5.7
PBE IFRS 5.8

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale or as held for distribution.

PBE IFRS 5.25

Assets and liabilities classified as held for sale or for distribution are presented separately from other assets and liabilities in the statement of financial position.

PBE IFRS 5.38

Commentary

The Group does not have any discontinued operations and therefore no disposal groups associated with discontinued operations. It is not usual for a local authority, government department or Crown entity to have discontinued operations. As there are no significant differences between PBE IFRS 5 and NZ IFRS 5, refer to the EY publication *Good Group New Zealand Limited* (refer to our website for the latest publication) for an example accounting policy and other required disclosures for discontinued operations.

2. Summary of significant accounting policies *continued*

(m) Property, plant and equipment

Initial recognition and subsequent expenditure

Property, plant and equipment is measured initially at cost. Cost includes expenditure that is directly attributable to the acquisition of the items. The cost of an item of property plant and equipment is recognised only when it is probable that future economic benefit or service potential associated with the item will flow to the Group, and if the item's cost or fair value can be measured reliably. *PBE IPSAS 17.26 PBE IPSAS 17.14 PBE IPSAS 17.30*

The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met. Refer to significant accounting judgements, estimates and assumptions (Note 3) and provisions (Note 33) for further information about the recorded landfill environmental decommissioning provision. *PBE IPSAS 17.30(c)*

Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value. *PBE IPSAS 17.27*

Subsequent costs that meet the recognition criteria above are recognised in the carrying value of the item of property, plant and equipment. Such cost includes the cost of replacing part of the property, plant and equipment if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in surplus or deficit as incurred. *PBE IPSAS 17.24 PBE IPSAS 17.25 PBE IPSAS 17.23*

Measurement subsequent to initial recognition

Subsequent to initial recognition, property, plant and equipment are measured using either the cost model or the revaluation model, as described below: *PBE IPSAS 17.88(a) PBE IPSAS 17.42*

Land and buildings (including the service concession asset), roading assets, water assets and wastewater assets are measured at fair value, less impairment losses and accumulated depreciation on buildings recognised after the date of the revaluation. The fair value of land and buildings is their market value as determined by a registered valuer. The fair value of the roading assets, water assets and wastewater assets is measured using depreciated replacement cost. Revaluation is performed on a class-by-class basis. If an item of property, plant and equipment is revalued, the entire class to which the asset belongs is revalued. *PBE IPSAS 17.44 PBE IPSAS 17.45 PBE IPSAS 17.48 PBE IPSAS 17.51*

Valuations are performed with sufficient frequency to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. The valuation cycle for revalued asset classes is normally three years.

A revaluation surplus is recorded in other comprehensive revenue and expense and credited to the asset revaluation reserve in net assets/equity. However, to the extent that it reverses a revaluation deficit of the same class of asset previously recognised in surplus or deficit, the increase is recognised in surplus or deficit. A revaluation deficit is recognised in the surplus or deficit, except to the extent that it offsets an existing surplus on the same asset class recognised in the asset revaluation reserve. *PBE IPSAS 17.44 PBE IPSAS 17.54 PBE IPSAS 17.55*

Plant and equipment and leased equipment under finance leases (including Port machinery, office equipment, vessels and vehicles), and heritage assets (museum exhibits) are measured at cost, net of accumulated depreciation and impairment losses, if any. *PBE IPSAS 17.43*

Depreciation

Depreciation is charged on a straight-line basis over the useful life of the asset. Depreciation is charged at rates calculated to allocate the cost or valuation of the asset less any estimated residual value over its remaining useful life: *PBE IPSAS 17.66 PBE IPSAS 17.88(b)*

PBE IPSAS 17.88(c)

Land	not depreciated
Buildings	20 to 50 years
Service concession assets (recreation centre building)	20 years
Roading	10 to 100 years
Water, stormwater and wastewater assets	10 to 200 years
Plant and equipment	5 to 15 years
Leased equipment	8 to 10 years
Cultural and heritage assets	not depreciated

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2. Summary of significant accounting policies *continued*

(m) Property, plant and equipment *continued*

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year end. *PBE IPSAS 17.67*

For revalued assets, any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amounts of the assets and the net amounts are restated to the revalued amounts of the assets. *PBE IPSAS 17.50(b)*

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits or service potential are expected from its use or disposal. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in surplus or deficit. *PBE IPSAS 17.82 PBE IPSAS.17.86 PBE IPSAS17.83*

Upon disposal or derecognition, any revaluation reserve relating to the particular asset being sold is transferred to accumulated comprehensive revenue and expense. *PBE IPSAS 17.57*

Commentary

Property, plant and equipment acquired in a non-exchange transaction *PBE IPSAS 17.27*

PBE IPSAS 17.27 requires property, plant and equipment that are acquired through non-exchange transactions to be measured at the fair value thereof at the date of acquisition. In this case, the corresponding credit is recognised as income in the statement of financial performance, unless there are conditions on the asset's use, in which case, income is deferred as a liability. The fair value of the item (at initial recognition) is therefore adopted as the deemed cost of the item received. Similar requirements exist for other assets acquired through non-exchange transactions such as investment property (PBE IPSAS 16.27) and intangible assets (PBE IPSAS 31.43).

Subsequent measurement: cost model vs revaluation model *PBE IPSAS 17.42*

Under PBE IPSAS 17, an entity has a policy choice for the measurement of property, plant and equipment after initial recognition. An entity may choose either the cost model or the revaluation model for entire classes of property, plant and equipment. The Group has elected to use the revaluation model for land and buildings, infrastructure assets, and water, storm water and wastewater assets, while other classes of property, plant and equipment are measured using the cost model.

Transfers between asset revaluation reserve and accumulated revenue and expense *PBE IPSAS 17.57*

The Group has also elected to transfer the revaluation surplus relating to an asset to accumulated comprehensive revenue and expense in full upon the disposal of the asset. Alternatively, the amount recognised in the revaluation reserve could have either been transferred to accumulated comprehensive revenue and expenses as the asset was being used over its useful life, or not transferred at all.

Service concession assets *PBE IPSAS 32.13*

PBE IPSAS 32.13 requires service concession assets to be accounted for under PBE IPSAS 17 (or PBE IPSAS 31 for intangible service concession assets).

Service concession assets should be grouped with similar assets as a class of assets for the purpose of subsequent measurement, consistently with PBE IPSAS 17 and PBE IPSAS 31, and dissimilar service concession assets cannot be accounted for as a class of assets. *PBE IPSAS 32.BC 6*

After initial recognition, service concession assets are measured using either the cost model or the revaluation model, as per PBE IPSAS 17. Similarly, the depreciation requirements of PBE IPSAS 17 also apply to service concession assets. The Group recognises a service concession asset with respect to a recreation centre that is built and operated for a specified time period by a private sector operator. Consistently with the Group's measurement policy for buildings, the recreation centre building is measured using the revaluation model, is revalued every three years and is depreciated over a useful life of 20 years. Refer to Note 2(q) below for the Group's specific accounting policy on service concession arrangements.

Bearer plants

The Group does not have any bearer plants. For the examples of disclosures required for bearer plants, refer to Appendix 4.

(n) Investment properties

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met, and excludes the costs of day-to-day maintenance of an investment property. *PBE IPSAS 16.26 PBE IPSAS 16.25 PBE IPSAS 16.24*

Investment property acquired through a non-exchange transaction is measured at its fair value at the date of acquisition. *PBE IPSAS 16.27*

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2. Summary of significant accounting policies *continued*

Subsequent to initial recognition, investment properties are measured at fair value, which is based on active market prices, adjusted if necessary, for any difference in the nature, location or condition of the specific asset at the reporting date. Gains or losses arising from changes in the fair values of investment properties are recognised in surplus or deficit in the year in which they arise. *PBE IPSAS 16.86(a) PBE IPSAS 16.39 PBE IPSAS 16.42 PBE IPSAS 16.47 PBE IPSAS 16.54 PBE IPSAS 16.44*

Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit or service potential is expected from its disposal. *PBE IPSAS 16.77* Any gains or losses on the retirement or disposal of an investment property are recognised in surplus or deficit in the year of retirement or disposal. *PBE IPSAS 16.80*

Transfers are made to and from investment property when, and only when, there is a change in use. A change in use occurs when a property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. For example, property is transfer to investment property when it is evidenced by ending of owner-occupation or commencement of an operating lease to another party. Properties are transferred out of investment property, for example, on commencement of owner-occupation or commencement of development with a view to sale. *PBE IPSAS 16.66*

For a transfer from investment property to owner-occupied property or inventories, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. *PBE IPSAS 16.71*

If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use. At the date of the change in use, any difference between the carrying amount of the property and its fair value is recognised is surplus or deficit, in the same way as a revaluation under this policy. *PBE IPSAS 16.72*

For a transfer from inventories to investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognised in surplus or deficit. *PBE IPSAS 16.74*

(o) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at inception date. The substance of the arrangement depends on whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement. *PBE IPSAS 13.C6-C9*

(i) Group as a lessee

Finance leases are leases that transfer substantially all of the risks and benefits incidental to ownership of the leased item to the Group. Assets held under a finance lease are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the future minimum lease payments. The Group also recognises the associated lease liability at the inception of the lease, at the same amount as the capitalised leased asset. *PBE IPSAS 13.13 PBE IPSAS 13.28*

Subsequent to initial recognition, lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as finance costs in surplus or deficit. Contingent rents shall be charged as expenses in the period in which they are incurred. *PBE IPSAS 13.34*

An asset held under a finance lease is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership of the asset by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term. *PBE IPSAS 13.36*

Operating leases are leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased item to the Group. Operating lease payments are recognised as an operating expense in surplus or deficit on a straight-line basis over the lease term. *PBE IPSAS 13.13 PBE IPSAS 13.42*

2. Summary of significant accounting policies *continued*

(o) Leases *continued*

(ii) Group as a lessor

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term. Rent received from an operating lease is recognised as income on a straight-line basis over the lease term. Contingent rents are recognised as revenue in the period in which they are earned.

PBE IPSAS 13.13
PBE IPSAS 13.65
PBE IPSAS 13.63

(p) Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition.

PBE IPSAS 31.31
PBE IPSAS 31.39.1

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred.

PBE IPSAS 31.73
PBE IPSAS 31.52

The useful lives of intangible assets are assessed as either finite or indefinite.

PBE IPSAS 31.87

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits or service potential embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

PBE IPSAS 31.96
PBE IPSAS 31.103

The amortisation expense on intangible assets with finite lives is recognised in surplus or deficit as the expense category that is consistent with the function of the intangible assets.

PBE IPSAS 31.96

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

PBE IPSAS 31.106-108

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in surplus or deficit when the asset is derecognised.

PBE IPSAS 31.112

Research and development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- Its intention and ability to complete and use or sell the asset
- How the asset will generate future economic benefits or service potential
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

PBE IPSAS 31.52
PBE IPSAS 31.55

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. During the period of development, the asset is tested for impairment annually.

PBE IPSAS 31.96
PBE IPSAS 31.107

Licences

The Group made upfront payments to purchase licences. The licences held by the Group relate to the usage of historical film footage relating to local culture and important events in the history of Local City. The licences may be renewed at little or no cost to the Group. As a result, those licences are assessed as having an indefinite useful life. They are not amortised, but are tested for impairment annually.

PBE IPSAS 31.93
PBE IPSAS 31.IE10-11

2. Summary of significant accounting policies *continued*

(p) Intangible Assets *continued*

Carbon credits

The Group participates in the New Zealand Emission Trading Scheme. Purchased carbon credits are recognised at cost on acquisition, and carbon credits received from the Government are recognised at fair value as at the date of transfer. Carbon credits have an indefinite useful life and therefore are not amortised, but are tested for impairment annually.

Software

The Group holds several computer software packages for internal use, including purchased software and software developed in-house by the Group.

Purchased software is recognised and measured at the cost incurred to acquire the software. Developed software is recognised and measured during the development stage in accordance with the *Research and Development* paragraph above. Costs that are directly associated with the development of the software, including employee costs, are capitalised as an intangible asset. Staff training costs and costs associated with maintaining computer software are recognised as expenses in surplus or deficit when incurred.

PBE IPSAS 31.64
PBE IPSAS 31.65(c)

A summary of the policies applied to the Group's intangible assets is, as follows:

PBE IPSAS 31.117(a)
PBE IPSAS 31.117(b)

	Software	Licence	Carbon credits
Useful life	Finite: 10 years	Indefinite	Indefinite
Amortisation method	Straight line basis	Not amortised	Not amortised
Internally-generated or acquired	Some acquired and some internally generated	Acquired	Acquired

Commentary

<u>Subsequent measurement: cost model vs revaluation model</u>

Under PBE IPSAS 31, an entity may choose either the cost model or the revaluation model for the measurement of intangible assets after initial recognition. *PBE IPSAS 31.71*

However, PBE IPSAS 31 explicitly states that for the purpose of the revaluation model, the fair value of an intangible asset must be determined with reference to an active market. *PBE IPSAS 31.74*

It is uncommon for an active market to exist for an intangible asset, and this is recognised by PBE IPSAS 31. Therefore, in the majority of cases, an entity is unable to use the revaluation model and must measure intangible assets at cost less accumulated amortisation after initial recognition. *PBE IPSAS 31.77*

The Group have applied the cost model to all intangible assets.

(q) Service concession arrangements

A service concession arrangement is a binding arrangement between a grantor and an operator, in which: *PBE IPSAS 32.8*

- the operator uses the service concession asset to provide a public service on behalf of the grantor for a specified period of time and
- the operator is compensated for its services over the period of the service concession arrangement

The Group is a grantor in a service concession arrangement concerning a new recreation centre. The recreation centre building is recognised and measured as a separate class within property plant and equipment (refer to accounting policy in Note 2(m)). *PBE IPSAS 32.9*

The Group analyses all aspects of service concession arrangements that it enters into in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, the Group recognises that asset when, and only when:

- The Group controls or regulates the services that the operator must provide using the asset, to whom the operator must provide these services, and at what price and
- In the case of assets other than 'whole-of-life' assets, the Group controls – through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the arrangement

PBE IPSAS 32.11
PBE IPSAS 32.13

Any assets so recognised are measured initially at their fair value and are recognised as a separate asset class within property, plant and equipment or intangible assets, as appropriate. Subsequent to initial recognition, service concession assets are measured using either the cost model or the revaluation model, as per PBE IPSAS 17 or PBE IPSAS 31.

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2. Summary of significant accounting policies *continued*

(q) Service concession arrangements *continued*

To the extent that a service concession asset has been recognised, the Group also recognises a corresponding liability, adjusted by any cash consideration paid to the operator or received from the operator. The liability is initially recognised at the same amount as the service concession asset.

Subsequent to initial recognition, if the Group has an obligation to pay cash (or transfer another financial asset) to the operator for the construction or operation of the service concession asset, the liability is accounted for as a financial liability. *PBE IPSAS 32.14 PBE IPSAS 32.15 PBE IPSAS 32.18*

In the absence of such an obligation, and where the operator has the right to earn revenue from the use of the service concession asset, the liability is measured using the "grant of a right to the operator" model. Under this model, the liability is accounted for as the unearned portion of the revenue arising from the exchange of the service concession asset, and is reduced over the term of the service concession arrangement in accordance with the economic substance of the arrangement. The reduction in the liability is recognised as revenue. The Group uses the "grant of a right to the operator" model to measure the liability associated with its service concession arrangement. *PBE IPSAS 32.24 PBE IPSAS 32.25*

(r) Impairment of non-financial assets

Impairment of cash generating assets

For non-financial cash-generating assets, the Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case recoverable amount is determined for the cash generating unit (CGU) to which the asset belongs. An asset's or CGU's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. *PBE IPSAS 26.22 PBE IPSAS 26.35 PBE IPSAS 26.31 PBE IPSAS 26.72*

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators. *PBE IPSAS 26.43-44 PBE IPSAS 26.68 PBE IPSAS 26.39-40*

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year. *PBE IPSAS 26.46*

Impairment losses of continuing operations are recognised in the statement of financial performance, except for assets previously revalued with the revaluation taken to other comprehensive revenue and expense. For such assets the impairment is recognised in other compressive revenue and expense up to the amount of any previous revaluation and is treated in the same way as a revaluation decrease. *PBE IPSAS 26.73 PBE IPSAS 26.73A*

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in surplus or deficit unless the asset is carried at a revalued amount, in which case, the reversal is treated in the same manner as a revaluation increase. *PBE IPSAS 26.99 PBE IPSAS 26.103 PBE IPSAS 26.106 PBE IPSAS 26.111 PBE IPSAS 26.108 PBE IPSAS 26.108A*

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2. Summary of significant accounting policies *continued*

(r) Impairment of non-financial assets *continued*

The following assets have specific characteristics for impairment testing:

Goodwill PBE IPSAS 26.23.1(b)

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired.

PBE IPSAS 26.90.11
PBE IPSAS 26.111.1

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets with indefinite useful life PBE IPSAS 26.23.1(a)

Intangible assets with indefinite useful lives are tested for impairment annually at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

Impairment of non-cash-generating assets

For non-financial non-cash-generating assets the Group assesses at each reporting date whether there is an indication that a non-cash-generating asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable service amount. An asset's recoverable service amount is the higher of the non-cash-generating asset's fair value less costs to sell and its value in use. PBE IPSAS 21.26 PBE IPSAS 21.26A PBE IPSAS 21.35

Where the carrying amount of an asset exceeds its recoverable service amount, the asset is considered impaired and is written down to its recoverable service amount. PBE IPSAS 21.52

In assessing value in use, the Group has adopted the depreciation replacement cost approach. Under this approach, the present value of the remaining service potential of an asset is determined as the depreciated replacement cost of the asset. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset. PBE IPSAS 21.45

In determining fair value less costs to sell, the price of the asset in a binding agreement in an arm's length transaction, adjusted for incremental costs that would be directly attributed to the disposal of the asset, is used. If there is no binding agreement, but the asset is traded on an active market, fair value less cost to sell is the asset's market price less cost of disposal. If there is no binding sale agreement or active market for an asset, the Group determines fair value less cost to sell based on the best available information. PBE IPSAS 21.40 PBE IPSAS 21.41 PBE IPSAS 21.42

Impairment losses are recognised immediately in surplus or deficit, except for assets previously revalued with the revaluation taken to other comprehensive revenue and expense. For such assets, the impairment is recognised in other compressive revenue and expense up to the amount of any previous revaluation in the same manner as a revaluation decrease. PBE IPSAS 21.54 PBE IPSAS 21.54A

For each asset, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's recoverable service amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable service amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in surplus or deficit unless the asset is carried at a revalued amount, in which case, the reversal is treated in the same manner as a revaluation increase. PBE IPSAS 21.59 PBE IPSAS 21.65 PBE IPSAS 21.68 PBE IPSAS 21.69 PBE IPSAS 21.69A

Commentary

Timing of goodwill impairment testing PBE IPSAS 26.90.12

PBE IPSAS 26.90.12 permits the annual impairment test for a CGU to which goodwill has been allocated to be performed at any time during the year, provided it is at the same time each year. Different CGUs and intangible assets may be tested at different times.

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2. Summary of significant accounting policies *continued*

Commentary *continued*

Cash-generating assets vs non-cash-generating assets: classification — *PBE IPSAS 21.16*

The classification of assets as non-cash generating assets is a highly judgmental matter. It should be noted that PBE IPSAS 21.16 clarifies that cash-generating assets are those assets that are held with the primary objective of generating a commercial return. Therefore, non-cash generating assets would be those assets from which the Group does not intend (as its primary objective) to realise a commercial return.

Non-cash-generating assets: value in use calculation methods — *PBE IPSAS 21.44*

PBE IPSAS 21 provides three approaches for determining the value in use of a non-cash-generating asset if there is an indication that the asset is impaired. The three approaches are:

PBE IPSAS 21.45
PBE IPSAS 21.46

- *Depreciated replacements cost (DRC):*
  DRC is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset. The replacement cost and reproduction cost of an asset are determined on an optimised basis after adjusting (i.e. deducting) for all forms of obsolescence, overcapacity and overdesign.

PBE IPSAS 21.48

- *Restoration cost (RC):*
  RC is the cost of restoring the service potential of an asset to its pre-impaired level. Under this approach, the present value of the service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset (DRC) before impairment.

PBE IPSAS 21.49

- *Service units (SU):*
  Under SU approach, the present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment to conform to the reduced number of service units expected from the asset in its impaired state. Similar to RC, the current cost of the remaining potential of the asset before impairment is the DRC.

PBE IPSAS 21.50

However, the use of the three approaches is not a free choice. PBE IPSAS 21 requires a PBE to consider whether the approach is appropriate depending on the availability of data and nature of the impairment.

If impairment is caused by significant long-term changes in the technological, legal, or government policy environment, or if it is caused by significant long-term change in the extent or manner of use of the asset, then the appropriate approach under PBE IPSAS 21 is either the DRC method or the SU method.

On the other hand, if impairment arises due to physical damage to the asset, then the appropriate approach under PBE IPSAS 23 is either the DRC method or the RC method.

The DRC method is appropriate for all three types of impairment, and is the method that is usually used by the Group for calculating value in use for the purpose of impairment testing of non-cash-generating assets. Therefore, the only value in use calculation approach that the Group mentions in its impairment accounting policy above is the DRC method.

(s) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. *PBE IPSAS 19.22*

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. *PBE IPSAS 19.63*

The expense relating to any provision is presented in the statement of financial performance net of any reimbursement. *PBE IPSAS 19.64*

Rehabilitation provision – landfill

The Council has a resource consent to operate the Local City landfill. Under this resource consent, the Council has a legal obligation to provide ongoing maintenance and monitoring of the landfill site after its closure.

The Group records a provision for post-closure rehabilitation costs that are expected to be incurred in connection with the closure of the landfill. Rehabilitation costs are provided at the present value of expected costs to settle the obligation using estimated cash flows and are recognised as part of the cost of the landfill asset. *PBE IPSAS 19.44* *PBE IPSAS 19.53*

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2. Summary of significant accounting policies *continued*

(s) Provisions *continued*

The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the rehabilitation liability. The unwinding of the discount is expensed as incurred and recognised in surplus or deficit as a finance cost. The estimated future costs of rehabilitation are reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the asset.

PBE IPSAS 19.56
PBE IPSAS 19.70
PBE IPSAS 19.69
PBE IPSAS 19.A3(a)
PBE IPSAS 19.A4(b)

Weathertightness provision

The Group recognises a provision for the Council's estimated liability relating to the settlement of weathertightness claims. The provision relates to claims made under the Weathertight Homes Resolution Services Act 2006, as well as civil proceedings directly against the Council.

The provision calculation includes the estimated net settlement that the Council is expected to make on:

- All claims that are currently actively managed by the Council
- All claims that have been lodged with Weathertight Home Resolution Services but are not yet actively managed by the Council and
- Estimated future claims that are not yet identified or reported

Estimated cash flows relating to settlement are discounted to present value at a pre-tax rate reflecting the risks specific to the weathertightness provision. The unwinding of the discount is expensed as incurred and recognised in surplus or deficit as a finance cost. Estimated future settlements are reviewed annually and adjusted as appropriate. Changes in estimated future settlements or in the discount rate are recognised in surplus or deficit.

PBE IPSAS 19.56
PBE IPSAS 19.70
PBE IPSAS 19.69

Restructuring provisions

Restructuring provisions are recognised only when the recognition criteria for provisions are fulfilled. The Group has a constructive obligation that gives rise to a restructuring provision only when:

PBE IPSAS 19.83

- A detailed formal plan identifies the operating unit or part of the operating unit concerned, the location and number of employees affected, a detailed estimate of the associated costs, and an appropriate timeline and
- The employees affected have been notified of the plan's main features and therefore have a valid expectation that the plan will be implemented

If the effect of the time value of money is material, the estimated restructure costs are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

PBE IPSAS 19.56
PBE IPSAS 19.70
PBE IPSAS 19.69

Commentary

PBE IPSAS 19.44-46 requires provisions to be measured as the best estimate of the present value of the amount required to settle the obligation. In making this estimate the Group considers the probability of the various uncertain outcomes of the obligation.

(t) Employee benefits

Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries (including non-monetary benefits), annual leave and accumulating sick leave are recognised in surplus or deficit during the period in which the employee rendered the related services, and are generally expected to be settled within 12 months of the reporting date. The liabilities for these short-term benefits are measured at the amounts expected to be paid when the liabilities are settled. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

PBE IPSAS 39.11

Long service leave

Employees of the Group become eligible for long service leave after a certain number of years of employment, depending on their contract. The liability for long service leave is recognised and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. The Group's liability is based on an actuarial valuation. Actuarial gains and losses on the long-term incentives are fully accounted for in the statement of financial performance.

PBE IPSAS 39.158
PBE IPSAS 39.156

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2. Summary of significant accounting policies *continued*

(u) Borrowing costs

All borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that the Group incurs in connection with the borrowing of funds. The Group have chosen not to capitalise borrowing costs directly attributable to the acquisition, construction or production of assets.

PBE IPSAS 5.5
PBE IPSAS 5.14

(v) Equity

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

Equity is made up of the following components:

Accumulated comprehensive revenue and expense
Accumulated comprehensive revenue and expense is the Group's accumulated surplus or deficit since the formation of the Council, adjusted for transfers to/from specific reserves.

Reserves:
(i) Asset revaluation reserve
This reserve is for the revaluation of those items of property, plant and equipment that are measured at fair value after initial recognition.

PBE IPSAS 1.95(c)

(ii) Available for sale reserve
This reserve is for the revaluation of available for sale financial assets, which are measured at fair value through other comprehensive revenue and expense after initial recognition.

(iii) Cash flow hedge reserve
This reserve is for the revaluation of derivatives designated as cash flow hedges. It consists of the cumulative effective portion of net changes in the fair value of these derivatives.

PBE IPSAS 29.106(a)

(iv) Targeted rates reserve
This is a restricted equity reserve that comprises funds raised by the Council through targeted rates. The use of these funds is restricted to the specific purpose for which the targeted rates were levied. The amount of total targeted rates revenue for the year, less total expenses incurred in performing the specific activities for which these targeted rates were levied, is transferred from accumulated comprehensive revenue and expense to the targeted rates reserve via the statement of changes in net assets/equity.

(v) Special projects reserve
This is a restricted equity reserve created by the Council for the purpose of financing special projects, such capital replacement of water and infrastructure assets. The use of these funds is restricted to the specific purpose of the projects. Amounts determined in accordance with the Council's policy are transferred on an annual basis from accumulated comprehensive revenue and expense to the special projects reserve via the statement of changes in net assets/equity. Whenever an asset is purchased or expenses are incurred as part of the execution of a special project, an amount equal to the cost of the asset or the amount of the expense is transferred from the special projects reserve to accumulated comprehensive revenue and expense via the statement of changes in net assets/equity.

(w) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits or service potential will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made.

PBE IPSAS 23.31
PBE IPSAS 9.19
PBE IPSAS 23.42

Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

The specific recognition criteria described below must also be met before revenue is recognised.

<u>Revenue from non-exchange transactions</u>

PBE IPSAS 23.107(a)

General and targeted rates
General and targeted rates are set annually and invoiced within the year. The Group recognises revenue from rates when the Council has struck the rate and provided the rates assessment.

PBE IPSAS 23.31
PBE IPSAS 23.42
PBE IPSAS 23.48

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2. Summary of significant accounting policies *continued*

(w) Revenue recognition *continued*

Rates revenue is measured at the amount assessed, which is the fair value of the cash received or receivable.

Government grants and funding

Revenues from non-exchange transactions with the Government and government agencies is recognised when the Group obtains control of the transferred asset (cash, goods, services, or property), and:

PBE IPSAS 23.31
PBE IPSAS 23.44
PBE IPSAS 23.32
PBE IPSAS 23.48
PBE IPSAS 23.49

- It is probable that the economic benefits or service potential related to the asset will flow to the Group and can be measured reliably and
- The transfer is free from conditions that require the asset to be refunded or returned to the Government if the conditions are not fulfilled

Revenue from government grants and funding is measured at the fair value of the assets (cash, goods, services, or property) transferred over to the Group at the time of transfer.

To the extent that there is a condition attached that would give rise to a liability to repay the grant amount or to return the granted asset, a deferred revenue liability is recognised instead of revenue. Revenue is then recognised only once the Group has satisfied these conditions.

PBE IPSAS 23.55

Concessionary loans

When the Group receives a loan at an interest rate that is lower than market terms (concessionary loan), the difference between the loan proceeds and the fair value of the loan (calculated using market terms) is recognised as revenue if there are no conditions attached to the loan.

PBE IPSAS 23.105A
PBE IPSAS 23.105B

To the extent that there are conditions attached to the loan that would result in early repayment of the loan if these conditions are not satisfied, a deferred revenue liability for the amount of the difference between the loan proceeds and the fair value of the loan is recognised. Revenue is then recognised as the Group satisfies these conditions.

Fines

The Group recognises revenue from fines (such as traffic and parking infringements) when the notice of infringement or breach is served by the Council or Group.

PBE IPSAS 23.89

Direct charges – subsidised

(i) Rendering of services - subsidised

Rendering of services at a price that is not approximately equal to the value of the service provided by the Council or Group is considered a non-exchange transaction. This includes rendering of services where the price does not allow the Council to fully recover the cost of providing the service (such as resource consents, building consents, water connections, dog licensing, etc.), and where the shortfall is subsidised by income from other activities, such as rates. Generally, there are no conditions attached to such revenue.

PBE IPSAS 23.11

Revenue from such subsidised services is recognised when the Council or Group issues the invoice or bill for the service. Revenue is recognised at the amount of the invoice or bill, which is the fair value of the cash received or receivable for the service.

PBE IPSAS 23.31
PBE IPSAS 23.42
PBE IPSAS 23.48

In situations where conditions exist (where the Council or Group has to refund cash, or the customer can withhold payment, if the service is not completed), revenue is recognised by reference to the stage of completion of the service.

PBE IPSAS 23.49

(ii) Sale of goods - subsidised

A sale of goods at a price that is not approximately equal to the value of the goods provided by the Council or Group is considered a non-exchange transaction.

PBE IPSAS 23.11

This includes sales of goods where the price does not allow the Council to fully recover the cost of producing the goods (such as the Council recycle bins), and where the shortfall is subsidised by income from other activities such as rates.

Revenue from the sale of such subsidised goods is recognised when the Council or Group issues the invoice or bill for the goods. Revenue is recognised at the amount of the invoice or bill, which is the fair value of the cash received or receivable for the goods.

PBE IPSAS 23.31
PBE IPSAS 23.42
PBE IPSAS 23.48

2. Summary of significant accounting policies *continued*

(w) Revenue recognition *continued*

Revenue from exchange transactions: *PBE IPSAS 9.39(a)*

Direct charges – full cost recovery

(i) Rendering of other services – full cost recovery

Revenue from the rendering of services (such as port services, etc.) is recognised by reference to the stage of completion of the service. Stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours for each contract. When the contract outcome cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered. *PBE IPSAS 9.19* *PBE IPSAS 9.25*

(ii) Sale of goods – full cost recovery

Revenue from the sale of goods (such as Council rubbish bags) is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods, and when the amount of revenue can be measured reliably and it is probable that the economic benefits or service potential associated with the transaction will flow to the Group. *PBE IPSAS 9.28*

Development contributions

Development contributions are recognised as revenue when the Council renders the services for which the contribution was levied. Development contributions that are received before the Council is able to provide the service for which they are levied are recognised as liabilities until the Council provides the services. *PBE IPSAS 9.19*

Interest revenue

For all financial instruments measured at amortised cost and interest-bearing financial assets classified as available for sale, interest income is recorded using the effective interest rate. Effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. *PBE IPSAS 9.34(a)*

Interest income is included in finance income in the statement of financial performance.

Dividends

Revenue is recognised when the Group or Council's right to receive the payment is established, which is generally when shareholders approve the dividend. *PBE IPSAS 9.34(c)*

Rental revenue

Rental revenue arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of financial performance due to its operating nature. *PBE IPSAS 13.63*

Other revenue and expenses

Other revenue and expenses includes fair value gains and losses on financial instruments at fair value through surplus or deficit, unrealised fair value gains and losses on the revaluation of investment properties, share of surplus or deficit of associates and joint venture, and realised gains and losses on the sale of property, plant and equipment held at cost.

Commentary

Revenue from exchange transactions vs revenue from non-exchange transactions

PBE Standards distinguish between revenue from exchange and revenue from non-exchange transactions. These two types of revenue are accounted for under two different accounting standards. PBE IPSAS 9 provides guidance on accounting for revenue from exchange transactions, and PBE IPSAS 23 provides guidance on accounting for revenue from non-exchange transactions.

As a consequence, in determining how to account for revenue, the first step is to determine whether the revenue arises from an exchange or non-exchange transaction, as this will determine which standard applies. In distinguishing between exchange and non-exchange revenues, substance rather than the form of the transaction should be considered. Professional judgement is exercised in determining whether the substance of a transaction is that of a non-exchange or an exchange transaction.

The Group has disclosed separately the accounting policies for revenue from exchange transactions and revenue from non-exchange transactions, as per the requirements of PBE IPSAS 9 and PBE IPSAS 23 respectively.

Non-exchange transactions: revenue vs deferred revenue liability

The general recognition principle of PBE IPSAS 23 is that revenue is recognised for an asset recognised from an inflow of resources from a non-exchange transaction, except to the extent that a liability is also recognised in respect of the same inflow. Establishing whether or not a non-exchange transaction results in the recognition of a liability is an important question for PBEs as it will impact the timing of revenue recognition. A condition attached to the non-exchange transaction that requires the entity to either consume the asset as specified or return it to the transferor gives rise to the recognition of a liability until the

2. Summary of significant accounting policies *continued*

Commentary ***continued***

point that the entity satisfies the condition. Therefore, to the extent that such conditions are attached to grants received from the Government and Government departments, and to concessionary loans, such grants and concessionary loans are recognised as deferred revenue (i.e. a liability), rather than revenue. Revenue is then recognised as the Group satisfies the abovementioned conditions.

Sale of subsidised goods and services
The sale of goods and the rendering of services are normally classified as exchange transactions. If, however, the transaction is conducted at a subsidised price, that is, a price that is not approximately equal to the fair value of the goods or services sold, that transaction falls within the definition of a non-exchange transaction.

(x) Income tax and other taxes

Current income tax

PBE IAS 12.46

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

PBE IAS 12.61A

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of surplus or deficit. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

PBE IAS 12.5

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

PBE IAS 12.15

Deferred income tax liabilities are recognised for all taxable temporary differences except:

PBE IAS 12.22(c)

- When the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting surplus or deficit nor taxable surplus or deficit

PBE IAS 12.39

- In respect of taxable temporary differences associated with investments in controlled entities, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

PBE IAS 12.24
PBE IAS 12.34

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable surplus will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

PBE IAS 12.24

- When the deferred income tax asset relating to the deductible temporary difference arises 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 the accounting surplus or deficit nor taxable surplus or deficit

PBE IAS 12.44

- In respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable surplus will be available against which the temporary differences can be utilised

PBE IAS 12.56

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable surplus will be available to allow all or part of the deferred income tax asset to be utilised.

PBE IAS 12.37

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

PBE IAS 12.47

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year 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 the reporting date.

2. Summary of significant accounting policies *continued*

(x) Income tax and other taxes *continued*

Deferred tax relating to items recognised outside surplus or deficit is recognised outside surplus or deficit. Deferred tax items are recognised in correlation to the underlying transaction in other comprehensive revenue and expense. *PBE IAS 12.61A*

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority. *PBE IAS 12.74*

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in surplus or deficit. *PBE IAS 12.68*

Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except:

- When the GST incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable and
- In the case of receivables and payables, which are stated with the amount of GST included

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

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows. *PBE IPSAS 2.44*

(y) Forecast information

The forecast figures presented in these financial statements are those included in the Council's 2019/2020 Annual Plan and Long Term Plan 2014-2023. The Annual Plan budget figures are for the Council as a separate entity, and do not include forecast information relating to controlled entities or associates. These figures are approved by the Council at the beginning of each financial year following a period of consultation with the public as part of the Annual Plan process. These figures do not include any additional expenditure subsequently approved by the Council outside the Annual Plan process. The Annual Plan figures have been prepared in accordance with NZ GAAP and are consistent with the above accounting policies adopted by the Council for the preparation of these financial statements. Explanation of major variances between actual results and forecasted figures is provided in Note 43.

Commentary

As a local authority, the Council is required to present budgeted financial statements in its annual report by Schedule 10, section 29, paragraph 2 of the Local Government Act 2002. A similar requirement is contained in the Public Finance Act 1989 (section 45B) for government departments, and in the Crown Entities Act (section 154(3)(c) for Crown entities. Section 111 of the Local Government Act 2002 requires all information presented in a Council's annual report to be prepared in accordance with NZ GAAP. In addition to the statutory requirement to disclose budgeted statements, PBE IPSAS 1.21(e) requires an entity that makes its general purpose prospective financial statements (previously referred to as "approved budget") publicly available to present a comparison between the forecast and actual amounts. To facilitate comparison between forecasted and actual results, as required by LGA 2002 and by PBE IPSAS 1, the Council presents forecasted figures as an additional column in each of the financial statements, and discloses explanations for significant variances between budgeted and actual figures in Note 43. *PBE IPSAS 1.21(e)*

(z) Cost allocation

The Council has derived the cost of service for each significant activity, as reported within the Statements of Service Performance, in the following way: *PBE IPSAS 1.C63*

Direct costs

Direct costs, which can be traced directly to a specific significant activity, are expensed directly to the relevant activity. *PBE IPSAS 1.C62*

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2. Summary of significant accounting policies *continued*

(z) Cost allocation *continued*

Indirect costs

Indirect costs relate to the overall costs of running the organisation and include staff time, office space and information technology costs. Indirect costs are allocated as overheads across all activities. The main driver used to allocate indirect costs to significant activities is employee costs.

Commentary

This accounting policy relates to the Statement of Service Performance (rather than to the primary financial statements).

PBE IPSAS 1.C61
PBE IPSAS 1.C62

PBE IPSAS 1 recognises that in the context of service performance, supplying outputs within the agreed or proposed cost is a key performance measure for public benefit entities (PBE IPSAS 1.C61).

According to PBE IPSAS 1.C62, the full cost of an output is the sum of the direct and indirect expenses – measured on a full accrual accounting basis – incurred in processing the output. This should include an allocation of all indirect costs relevant to the delivery of outputs. For example, the cost of providing advice to Councillors and servicing Council meetings should be allocated to the outputs delivered by a local authority. In general, all costs should be allocated to outputs. In some cases there will be costs that are neither directly nor indirectly related to the delivery of outputs (for example, costs relating to a major restructuring associated with a discontinued activity). Such costs should not be allocated to outputs.

PBE IPSAS 1 recommends the disclosure of cost allocation policies in the interests of transparency (PBE IPSAS 1.C63), therefore the Group discloses its cost allocation policy above. *PBE IPSAS 1.C63*

Refer to Appendix 8 for the Statement of Service Performance.

3 Significant accounting judgements, estimates and assumptions

PBE IPSAS 1.137
PBE IPSAS 1.140

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Judgements

PBE IPSAS 1.137

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Consolidation of entities in which the Group holds less than majority of voting rights (de facto control)

PBE IPSAS 35 AG41
PBE IPSAS 35 AG42
PBE IPSAS 38.12(a)
PBE IPSAS 38.13
PBE IPSAS 38.14

The Group considers that it controls Local Port Services Ltd even though it owns less than 50% of the voting rights. This is because the Group is the single largest shareholder of Local Port Services Ltd with a 48% equity interest. The remaining 52% of the equity shares in Local Port Services Ltd are widely held by a number of other shareholders, none of which individually holds more than 5% of the equity shares (as recorded in the company's shareholders' register from 1 October 2013 to 30 June 2020). Since 1 October 2013, which is the date of acquisition of Local Port Services Ltd, there is no history of the other shareholders collaborating to exercise their votes collectively or to outvote the Group.

Commentary

PBE IPSAS 1.140 requires an entity to disclose the judgements that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements. PBE IPSAS 38 adds to those general requirements by specifically requiring an entity to disclose all significant judgements and estimates made in determining the nature of its interest in another entity or arrangement, in determining the type of joint arrangement in which it has an interest, and in determining that it meet the definition of an investment entity, if applicable.

PBE IPSAS 38.12 requires that an entity disclose factors considered in determining that:

- it controls a specific entity (or similar category of entities) where the interest in the other entity is not evidenced by the holding of equity or debt instruments
- it does not control another entity (or category of entities) even though it holds more than half of the voting rights of the other entity (or entities)
- it controls another entity (or category of entities) even though it holds less than half of the voting rights of the other entity (or entities)
- it is an agent or a principal as defined by PBE IPSAS 35
- it does not have significant influence even though it holds 20 per cent or more of the voting rights of another entity
- it has significant influence even though it holds less than 20 per cent of the voting rights of another entity

The Group assessed that it controls Local Port Services Ltd, despite having less than a majority of the voting rights, based on the guidance under PBE IPSAS 38.AG44.

The Group does not have interest in unconsolidated structured entities and structured entities that are not consolidated. Disclosure requirements for interests in such entities are included in PBE IPSAS 38.21-24 and PBE IPSAS 38.40-48 respectively. Refer to Appendix 15 for examples of illustrative disclosures.

Operating lease commitments – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a substantial portion of the economic life of the commercial property, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

PBE IPSAS 21.72A

Classification of non-financial assets as cash generating assets or non-cash-generating assets

For the purpose of assessing impairment indicators and impairment testing, the Group classifies non-financial assets as either cash-generating or non-cash-generating assets. The Group classifies non-financial assets as cash-generating assets if the primary objective of the asset is to generate commercial return. All other assets are classified as non-cash-generating assets.

3 Significant accounting judgements, estimates and assumptions *continued*

All property, plant and equipment and intangible assets (excluding goodwill) held by the Council and by Local Museum Trust are classified as non-cash-generating assets. This includes assets that generate fee revenue or other cash flows for the Council and the Trust, as the cash flows generated as generally not sufficient to represent commercial return on the assets.

All property, plant and equipment and intangible assets held by Local Port Limited and Local Port Services Ltd are classified as cash-generating assets, as these entities are for-profit entities and the primary objective of their assets is to generate commercial return. Local Property Management Limited does not have non-current non-financial assets.

Impairment of available for sale financial assets *PBE IPSAS 29.70*
In determining the amount of impairment of available for sale financial assets, the Group has made judgements in identifying financial assets whose decline in fair value below cost is considered "significant" or "prolonged". A significant decline is assessed based on the historical volatility of the share price. The higher the historical volatility, the greater the decline in fair value required before it is likely to be regarded as significant. A prolonged decline is based on the length of time over which the share price has been depressed below cost. A sudden decline followed by immediate recovery is less likely to be considered prolonged compared to a sustained fall of the same magnitude over a longer period.

The Group considers a less than a 10% decline in fair value is unlikely to be considered significant for investments actively traded in a liquid market, whereas a decline in fair value of greater than 20% will often be considered significant. For less liquid investments that have historically been volatile (standard deviation greater than 25%), a decline of greater than 30% is usually considered significant.

Generally, the Group does not consider a decline over a period of less than 3 months to be prolonged. However, where the decline in fair value is greater than 6 months for liquid investments and 12 months for illiquid investments, it is usually considered prolonged.

Estimates and assumptions
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur. *PBE IPSAS 1.140*

Fair value measurement of financial instruments *PBE IPSAS 30.31* *PBE IPSAS 30.RDR 31.1*
When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. See Note 27 for further disclosures.

Revaluation of property, plant and equipment and investment properties
The Group carries its investment properties at fair value, with changes in fair value being recognised in surplus or deficit. In addition, it measures land and buildings, infrastructure assets and water assets at revalued amounts with changes in fair value being recognised in other comprehensive revenue and expense.

The Group engaged an independent valuation specialist to assess fair value as at 30 June 2020 for investment properties and for revalued land, buildings, infrastructure assets and water assets. *PBE IPSAS 17.92(b)* *PBE IPSAS 16.86(e)*

For investment properties, a valuation methodology based on a discounted cash flow (DCF) model was used, as there is a lack of comparable market data because of the nature of the properties. *PBE IPSAS 16.86(d)*

Land and buildings were valued by reference to market-based evidence, using comparable prices adjusted for specific market factors such as nature, location and condition of the property. Infrastructure assets and water assets were revalued using the depreciated replacement cost (DRC) method, as there is no active market for such assets and therefore a lack of comparative market data. The key assumptions used to determine the fair value of these non-financial assets and sensitivity analyses are provided in Notes 22 and 23. *PBE IPSAS 17.92(d)*

3 Significant accounting judgements, estimates and assumptions *continued*

Impairment of non-financial assets – cash-generating assets
Impairment exists when the carrying value of an asset (other than investment properties measured at fair value) or cash generating unit (CGU) exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are disclosed and further explained in Note 25. *PBE IPSAS 26.123*

Impairment of non-financial assets – non-cash-generating assets
The Group reviews and tests the carrying value of non-cash-generating assets (other than investment properties measured at fair value) when events or changes in circumstances suggest that there may be a reduction in the future service potential that can reasonably be expected to be derived from the asset. Where indicators of possible impairment are present, the Group undertakes impairment tests, which require the determination of the asset's fair value less cost to sell and its recoverable service amount. The asset's fair value less costs to sell is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. In the absence of observable market evidence, fair value is measured using depreciated replacement cost (DRC). The value in use of the asset is calculated using DRC. DRC is determined by reference to the estimated cost of reproducing the asset or replacing the asset's service potential. The estimation of these inputs into the calculation relies on the use estimates and assumptions. Any subsequent changes to the factors supporting these estimates and assumptions may have an impact on the reported carrying amount of the related asset.

PBE IPSAS 17.73

Useful lives and residual values
The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts employed by the Group
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the asset
- Changes in the market in relation to the asset

The estimated useful lives of the asset classes held by the Group are listed in Note 2(m).

Provisions
Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note 33. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

<u>Provision for landfill restoration:</u>
In determining the fair value of the provision, assumptions and estimates are made in relation to discount rates, the expected cost of the post-closure restoration and monitoring of the landfill site and the expected timing of those costs. Expected costs and timing of closure are based on the estimated remaining capacity of the landfill, based on the advice and judgment of qualified engineers. The estimates are discounted at a pre-tax discount rate that reflect current market assessments of the time value of money. The carrying amount of the provision as at 30 June 2020 was $829,000 (2019: $720,000). If the estimated pre-tax discount rate used in the calculation had been 1% higher than management's estimate, the carrying amount of the provision would have been $54,000 lower. *PBE IPSAS 1.144(b)*

3 Significant accounting judgements, estimates and assumptions *continued*

Provision for weathertightness: *PBE IPSAS 1.144(b)*
In determining the fair value of the provision, assumptions and estimates are made in relation to discount rates, the percentage of known claims that are likely to be successful, and the number of current unreported claims. The carrying amount of the provision as at 30 June 2020 was $719,000 (2019: $655,000). If the success rate was 1% higher than management's estimate, the carrying amount of the provision would have been $48,000 higher. If the estimated pre-tax discount rate used in the calculation had been 1% higher than management's estimate, the carrying amount of the provision would have been $55,000 lower.

Commentary
PBE IPSAS 1.137 and PBE IPSAS 1.140 requires an entity to disclose significant judgements applied in preparing the financial statements and significant estimates that involve a high degree of estimation uncertainty. The disclosure requirements go beyond those requirements that already exist in some other PBE Standards such as PBE IPSAS 19. These disclosures represent a very important source of information in the financial statements because they highlight the areas in the financial statements that are most prone to change in the foreseeable future. Therefore, any information given should be sufficiently detailed to help the readers of the financial statements understand the impact of possible significant changes.

The Group has, for illustrative purposes, included disclosures about significant judgements and estimates beyond what is normally required. That is, it is only those judgements that have the most significant effect on the amounts recognised in the financial statements and those estimates that have a significant risk of resulting in material adjustments in respect of assets and liabilities that should be addressed in this section. It is important that entities carefully assess which judgements and estimates are the most significant ones in this context, and make disclosures accordingly, to allow the users of the financial statements to appreciate the impact of the judgements and uncertainties.

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4 Capital Management

For the purpose of the Group's capital management, the Group's capital is its equity, including accumulated comprehensive revenue and expense and all equity reserves attributable to the Council. Equity is represented by net assets.

PBE IPSAS 1.148A
PBE IPSAS 1.118B

LGA 2002.101

LG(FRP)R 2014.9

The Council manages the Group's capital largely as a by-product of managing its revenue, expenses, assets, liabilities and general financial dealings. The Local Government Act 2002 requires the Council to manage its revenue, expenses, assets, liabilities and general financial dealings in a manner that promotes the current and future interests of the community. In addition, The Local Government (Financial Reporting and Prudence) Regulation 2014 sets out a number of benchmarks for assessing whether the Council is managing its revenue, expenses, assets and liabilities prudently.

The primary objective of the Group's capital management is to achieve intergenerational equity, which is a principle promoted in the Local Government Act 2002 and applied by the Council. Intergenerational equity requires the Council to spread the funding of the cost of its assets over the current and future generations of ratepayers, such that:

- Current ratepayers are required to meet the cost of using the assets, but not the full cost of long term assets that will benefit ratepayers in future generations and
- Ratepayers in future generations are not required to meet the costs of deferred asset renewals and maintenance

In order to achieve this overall objective, the Council has in place asset management plans for major classes of assets, detailing renewals and programmed maintenance.

An additional objective of capital management is to ensure that the expenditure needs identified in the Council's Long-term Plan and Annual Plan are met in the manner set out in these plans. The Local Government Act 2002 requires the Council to make adequate and effective provision in its Long-term Plan and in its Annual Plan to meet the expenditure needs identified in those plans. The factors that the Council is required to consider when determining the most appropriate sources of funding for each of its activities are set out in the Local Government Act 2002. The sources and levels of funding are set out in the funding and financial policies in the Council's Long-term Plan. The Council monitors actual expenditure incurred against the Long-term Plan and Annual Plan.

No changes were made in the objectives, policies or processes for managing capital during the years ended 30 June 2020 and 2019.

PBE IPSAS 1.148B(c)

Commentary

PBE IPSAS 1.148A and PBE IPSAS 1.148B require entities to make qualitative and quantitative disclosures regarding their objectives, policies and processes for managing capital. As the Council's capital is its net assets/equity, no additional quantitative information is disclosed. The Council has disclosed intergenerational equity and compliance with the Long Term Plan and Annual Plan as the main objectives of capital management. Other types of PBEs are likely to have different objectives.

5 Group information

Controlled entities
The financial statements of the Group include the following controlled entities:

Name of controlled entity	Country of incorporation	Percentage equity interest		Council Carrying value of investment (at cost)		PBE IPSAS 34.20(b)
		2020	2019	2020	2019	PBE IPSAS 38.17(a)(i)
				$000	$000	
Local Port Limited	New Zealand	100%	92.6%	10,975	9,986	
Local Museum Trust (CCO)	New Zealand	100%	100%	300	300	LG(FRP)R 2014.5(3)
Local Property Management Limited (CCO)	New Zealand	85%	-	7,919	-	LG(FRP)R 2014.5(3)
Local Port Services Limited*	New Zealand	48%	48%	48	48	
				19,242	10,334	

* The Council consolidated this entity based on de facto control. See Note 3 for more details. PBE IPSAS 38. 14

The reporting date of the Council and all controlled entities is 30 June. PBE IPSAS 38.18

There are no significant restrictions on the ability of the controlled entities to transfer funds to the Council in the form of cash distributions or to repay loans or advances. PBE IPSAS 38.20

Associates
The Group has 25% equity interest in Local Region Tourism Limited, a company that promotes tourism in the Local Region, where Local City is situated (2019: 25%). PBE IPSAS 38.36(a)

Joint arrangement in which the Group is a joint venturer
The Group has 50% equity interest in Local Waste Recycling Limited, a joint venture that runs the main waste recycling plant in Local City (2019: 50%). PBE IPSAS 38.36(a)

Commentary

PBE IPSAS 38.17(a) requires entities to disclose information about the composition of the group. The list in the table above discloses information about all Group's controlled entities. PBEs need to note that this disclosure is required for material controlled entities only, rather than a full list of every controlled entity. The above illustrates one example as to how the requirements set out in PBE IPSAS 38 can be met. However, local legislation or listing requirements may require disclosure of a full list of all subsidiaries, whether material or not.

In addition to the disclosure about the composition of the group, PBE IPSAS 38 requires entities to disclose information that enables the users of the financial statements to understand the interest that non-controlling interests have in the Group's activities and cash flows (PBE IPSAS 38.19). This disclosure is required only in respect of controlled entities that have non-controlling interests that are material to the group. The Group concludes that there are no controlled entities with non-controlling interests that are material to the Group. Therefore, the Group does not provide this disclosure. Refer to Appendix 15 for the example of illustrative disclosures.

When there is a change in the ownership interest in a controlled entity, PBE IPSAS 38.25 requires disclosure of a schedule that shows the effects on the net assets/equity in its ownership interest in a controlled entity that do not result in a loss of control. PBE IPSAS 38.26 requires disclosure of information to enable the users to evaluate the consequences of losing control of a controlled entity during the period. The Group did not lose control over controlled entities during the period as well as there were no changes in the ownership.

When there are significant restrictions on the Group's or its controlled entities' ability to access or use the assets and settle the liabilities of the Group, PBE IPSAS 38.20 requires disclosure of the nature and extent of significant restrictions. The Group did not have any restriction.

6 Business combinations and acquisition of non-controlling interests

6.1. Acquisition of Local Property Management Limited

PBE IFRS 3.59(a)
PBE IFRS 3.RDR63.1
PBE IFRS 3.B64(a)
PBE IFRS 3.B64(b)
PBE IFRS 3.B64(c)

On 1 January 2020, the Group acquired 85% of the voting shares of Local Property Management Limited, an unlisted company based in New Zealand and specialising in property management.

The Group acquired Local Property Management Limited for the purpose of managing the Council's rental properties. PBE IFRS 3.B64(d)

The Group has elected to measure the non-controlling interests in the acquiree at fair value. PBE IFRS 3.B64(o)(i)

6 Business combinations and acquisition of non-controlling interests *continued*

Assets acquired and liabilities assumed
The fair values of the identifiable assets and liabilities of Local Property Management Limited as of the date of acquisition were: *PBE IFRS 3.B64(i)*

PBE IFRS 3.B64(f)

	Fair value at acquisition date $000
Assets	
Intangible assets - software (Note 24)	1,200
Cash and cash equivalents	230
Trade receivables	1,716
Bank deposits	5,409
	8,555
Liabilities	
Trade payables	(542)
Contingent liability (Note 33)	(380)
Provision for onerous operating lease costs (Note 33)	(400)
	(1,322)
Total identifiable net assets at fair value	**7,233**
Non-controlling interest measured at fair value	(1,547)
Goodwill arising on acquisition	2,231
Purchase consideration transferred	**7,917**

PBE IFRS 3.B64(oXi)

Purchase consideration
The purchase consideration of $7,917,000 was made up of cash of $7,203,000 and contingent consideration of $714,000. *PBE IFRS 3.B64 (f)*

The fair value of the trade receivables amounts to $1,716,000. The gross amount of trade receivables is $1,754,000. However, none of the trade receivables have been impaired and it is expected that the full contractual amounts can be collected. *PBE IFRS 3.B64(h)*

The goodwill of $2,231,000 comprises the value of expected synergies arising from the acquisition and the expertise of Local Property Management Limited in the area of property management. None of the goodwill recognised is expected to be deductible for income tax purposes. *PBE IFRS 3.B64(e)* *PBE IFRS 3.B64(k)*

A contingent liability at a fair value of $380,000 was recognised at the acquisition date resulting from a claim made by a tenant in relation to a lease agreement. The claim is subject to legal arbitration and is expected to be finalised in late 2020. As at the reporting date, the contingent liability has been re-assessed and is determined to be $400,000, based on the expected probable outcome (see Note 33). The charge to surplus or deficit has been recognised. *PBE IFRS 3.B64(j)*

The fair value of the non-controlling interest in Local Property Management Limited has been estimated by applying a discounted earnings technique. Local Property Management Limited is an unlisted company and the fair value measurements are based on significant inputs that are not observable in the market. The fair value estimate is based on: *PBE IFRS 3.B64 (oXii)*

- An assumed discount rate of 14%
- A terminal value, calculated based on long-term sustainable growth rates for the industry ranging from 2% to 4%, which has been used to determine income for the future years
- A reinvestment ratio of 60% of earnings

From the date of acquisition, Local Property Management Limited has contributed $1,857,000 of revenue and $750,000 to the surplus before tax of the Group. If the combination had taken place at the beginning of the year, total revenue for the Group would have been $216,582,000 and the surplus before tax for the Group would have been $15,485,000. *PBE IFRS 3.B64 (qXi)* *PBE IFRS 3.B64 (qXii)*

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6 Business combinations and acquisition of non-controlling interests *continued*

Analysis of cash flows on acquisition:	$000	
Transaction costs of the acquisition (included in cash flows from operating activities)	(7,203)	
Net cash acquired with the controlled entity (included in cash flows from investing activities)	230	*PBE IPSAS 2.50(c)*
Net cash flow on acquisition	**(6,973)**	

Contingent consideration

As part of the purchase agreement with the previous owner of Local Property Management Limited, contingent consideration has been agreed. There will be additional cash payments to the previous owner of Local Property Management Limited of: *PBE IFRS 3.B64(g)(ii)* *PBE IFRS 3.B64(g)(iii)*

(a) $675,000, if the entity generates up to $1,000,000 of profit before tax in a 12-month period after the acquisition date, or

(b) $1,125,000, if the entity generates $1,500,000 or more of profit before tax in a 12-month period after the acquisition date *PBE IFRS 3.B64(g)(i)*

As at the acquisition date, the fair value of the contingent consideration was estimated to be $714,000. The fair value is determined using the DCF method.

Significant unobservable valuation inputs are provided below: *PBE IFRS 3.B67(b)(iii)*

Assumed probability-adjusted profit before tax of Local Property Management Limited	$1,000,000 - $1,500,000
Discount rate	14%
Discount for own non-performance risk	0.05%

Significant increase (decrease) in the profit after tax of Local Property Management Limited would result in higher (lower) fair value of the contingent consideration liability, while significant increase (decrease) in the discount rate and own non-performance risk would result in lower (higher) fair value of the liability.

As at 30 June 2020, the key performance indicators of Local Property Management Limited show that it is highly probable that the target will be achieved due to a significant expansion of the business. The fair value of the contingent consideration determined at 30 June 2020 reflects this development, amongst other factors and a re-measurement charge has been recognised through surplus or deficit. *PBE IFRS 3.B67(b)(ii)*

A reconciliation of fair value measurement of the contingent consideration liability is provided below: *PBE IFRS 3.B67(b)(i)*

	$000
Opening balance as at 1 July 2019	–
Liability arising on business combination	714
Unrealised fair value changes recognised in surplus or deficit	358
As at 30 June 2020	1,072

The fair value of the contingent consideration increased to $1,072,000 in 2020 due to a significantly improved performance of Local Property Management Limited compared to budget. The contingent consideration is due for final measurement and payment to the former shareholders on 28 March 2021.

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6 Business combinations and acquisition of non-controlling interests *continued*

Commentary

Contingent consideration

The classification of a contingent consideration requires an analysis of the individual facts and circumstances. It may be classified as follows: equity or a financial liability in accordance with PBE IPSAS 28 and PBE IPSAS 29; a provision in accordance with PBE IPSAS 19; or in accordance with other standards, each resulting in different initial recognition and subsequent measurement. The Group has determined that it has a contractual obligation to deliver cash to the seller and therefore it has assessed the same to be a financial liability (PBE IPSAS 28.9). Consequently, the Group is required to re-measure that liability at fair value at each reporting date (PBE IFRS 3.58(b)(i)).

As part of the business combination, contingent payments to employees or selling shareholders are common methods of retention of key people for the combined entity. The nature of such contingent payments, however, needs to be evaluated in each individual circumstance as not all such payments qualify as contingent consideration, but are accounted for as a separate transaction. For example, contingent payments that are unrelated to the future service of the employee are deemed contingent consideration, whereas contingent payments that are forfeited when the employment is terminated are deemed remuneration. Paragraphs B54 – B55 of PBE IFRS 3 provide further guidance.

Under PBE IPSAS 30.33(e), for fair value measurement of financial assets and financial liabilities at Level 3 of the fair value hierarchy, if changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly, an entity is required state that fact and disclose the effect of changes. The entity is also required to state how the effect of a change to reflect a reasonably possible alternative assumption was calculated. For this purpose, significance shall be judged with respect to surplus or deficit, and total assets or total liabilities, or, when changes in fair value are recognised in other comprehensive revenue and expense, total net assets/equity. In case of the contingent consideration liability of the Group, the changes in unobservable inputs other than those disclosed in the note above, were assessed to be insignificant.

6.2. Acquisition of additional interest in Local Port Limited

PBE IPSAS 35.51
PBE IPSAS 38.25
PBE IPSAS 38.17(b)(iii)

On 1 March 2020, the Group acquired an additional 7.4% interest in the voting shares of Local Port Limited, increasing its ownership interest to 100%. Cash consideration of $991,000 was paid to the non-controlling shareholders. The carrying value of the net assets of Local Port Limited (excluding goodwill on the original acquisition) was $10,824,000. Following is a schedule of additional interest acquired in Local Port Limited:

	$000
Cash consideration paid to non-controlling shareholders	991
Carrying value of the additional interest in Local Port Limited	(801)
Difference recognised in accumulated revenue and expense within equity	**190**

Commentary

Non-controlling interest: measurement

The Group elected to value the non-controlling interest at fair value. This election can be made separately for each business combination, and is not a policy choice that determines an accounting treatment for all business combinations the Group will carry out (PBE IFRS 3.19).

Local authority reorganisation

Local authority reorganisation is not a business combination under PBE IFRS 3 and is explicitly excluded from the scope of this standard (PBE IFRS 3.24). In the context of PBE IFRS 3, any of the following events constitute local authority reorganisation (PBE IFRS 3.24):

- The union of districts or regions
- The constitution of a new district or region, including the constitution of a new local authority for that district or region
- The abolition of a district or region, including the dissolution or abolition of the local authority for that district or region
- The alteration of boundaries of any district or region
- The transfer of a statutory obligation from one local authority to another
- A proposal that a territorial authority assume the power of a regional council

The acquisition of Local Property Management Limited by the Council in the 2020 financial year is not a local authority reorganisation and so it is a business combination within the scope of PBE IFRS 3. The Council did not have any local authority reorganisations in the current or prior financial year.

7 Interest in a joint venture

The Group has a 50% interest in Local Waste Recycling Limited, a joint venture that runs the main waste recycling plant in Local City. *PBE IPSAS 38.35 PBE IPSAS 38.36(a)*

The Group's interest in Local Waste Recycling Limited is accounted for using the equity method in the Group financial statements. *PBE IPSAS 38.36(b)*

Summarised financial information of the joint venture and reconciliation with the carrying amount of the investment in the Group's financial statements are set out below.

The summarised financial information below is presented based on the financial statements of the joint venture which are prepared in accordance with PBE Standards. *PBE IPSAS 38.AG15*

Summarised statement of financial position of Local Waste Recycling Limited:	**2020**	**2019**	
	$000	**$000**	*PBE IPSAS 38.AG12* *PBE IPSAS 38.AG13*
Current assets, including cash and cash equivalents $989,000 (2019: $743,000) and prepayments $1,030,000 (2019: NIL)	3,226	2,808	
Non-current assets	2,864	2,964	
Current liabilities, including tax payable $89,000 (2019: $143,000)	(224)	(1,102)	
Non-current liabilities, including deferred tax liabilities $278,000 (2019: $325,000) and long-term borrowing $500,000 (2019: $500,000)	(1,020)	(1,000)	
Equity	**4,846**	**3,670**	
Proportion of the Group's ownership	50%	50%	
Goodwill	-	-	
Carrying amount of investment in the Group's financial statements	**2,423**	**1,835**	*PBE IPSAS 38.AG14(b)*

Summarised statement of financial performance of Local Waste Recycling Limited:	**2020**	2019	
	$000	$000	
Revenue	60,094	58,876	
Cost of sales	(54,488)	(53,420)	
Administrative expenses, including depreciation $1,236,000 (2019: $1,235,000)	(2,638)	(2,586)	*PBE IPSAS 38.AG13*
Finance costs, including interest expense $204,000 (2019: $500,000)	(204)	(200)	*PBE IPSAS 38.AG13*
Surplus before tax	**2,764**	**2,670**	
Income tax expense	(1,588)	(1,556)	*PBE IPSAS 38.AG13*
Surplus for the year	**1,176**	**1,114**	
Total comprehensive revenue and expense	**1,176**	**1,114**	*PBE IPSAS 38.AG14(b)*
Group's share of surplus (50%)	**588**	**557**	

The Council's investment in Local Waste Recycling Limited is accounted for at cost: *PBE IPSAS 34.23 PBE IPSAS 34.RDR 23.1*

	2020	**2019**
	$000	**$000**
Carrying amount of investment in Council's (parent) financial statements	**1,535**	**1,535**

The reporting date of Local Waste Recycling Limited is 30 June. *PBE IPSAS 38.38(b)*

There are no significant restrictions on the ability of the joint venture to transfer funds to the Council in the form of cash dividends or similar distributions, or to repay loans or advances. *PBE IPSAS 38.38(a)*

Refer to Note 38 for details of the Group's commitments in relation to its joint venture. *PBE IPSAS 38.39(a) PBE IPSAS 38.AG18-19*

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7 Interest in a joint venture *continued*

Commentary

PBE IPSAS 38.AG14(a) requires separate presentation of goodwill and other adjustments to the investments in joint ventures and associates in the above reconciliation. The Group does not have goodwill or other adjustments.

PBE IPSAS 38.36(a) requires the separate disclosure of information for joint operations, as it relates to all types of joint arrangements. The Group does not have any joint operations.

Tier 2 public benefit entities are provided certain disclosure concessions from the requirements of PBE IPSAS 38.36(a).

The Group has presented the summarised financial information of the joint venture based on its PBE Standard financial statements. PBE IPSAS 38.AG15 allows this information to be provided using alternative basis, if the entity measures its interest in the joint venture or associate at fair value, or if the joint venture or associate does not prepare NZ IFRS financial statements and preparation on that basis would be impracticable or cause undue cost. Applying both the impracticable and undue cost thresholds involves significant judgment and must be carefully considered in the context of the specific facts and circumstances. In either case, the entity is required to disclose the basis on which the information is provided.

PBE IPSAS 38.38(b) requires additional disclosures when the financial statements of the joint venture or associate used in applying equity method are as of a different date or for a different period from that of the entity. This is not applicable to the Group.

PBE IPSAS 38.38(c) requires disclosure of unrecognised share of losses of a joint venture and associate. This is not applicable to the Group.

8 Investment in an associate

The Group has a 25% interest in Local Region Tourism Limited, which is involved in promoting tourism in the Local Region, where Local City is situated. *PBE IPSAS 38.35* *PBE IPSAS 38.36(a)*

PBE IPSAS 38.36(b)

Local Region Tourism Limited is a private entity that is not listed on any public exchange. The Group's interest in Local Region Tourism Limited is accounted for using the equity method in the Group's financial statements.

Summarised financial information of the associate and reconciliation with the carrying amount of the investment in the Group's financial statements are set out below.

The summarised financial information below is presented based on the financial statements of the associate which are prepared in accordance with PBE Standards. *PBE IPSAS 38.AG15*

Summarised statement of financial position of Local Region Tourism Limited:	**2020**	**2019**	
	$000	**$000**	*PBE IPSAS 38.AG12* *PBE IPSAS 38.AG13*
Current assets	6,524	6,324	
Non-current assets	13,664	12,828	
Current liabilities	(4,488)	(3,904)	
Non-current liabilities	(12,644)	(12,524)	
Equity	**3,056**	**2,724**	
Proportion of the Group's ownership	25%	25%	
Group's share in equity	**764**	**681**	
Goodwill	-	-	
Carrying amount of investment in the Group's financial statements	**764**	**681**	*PBE IPSAS 38.AG14(b)*

Summarised statement of financial performance of Local Region Tourism Limited:	**2020**	2019	
	$000	$000	
Revenue	33,292	32,640	
Expenses	(31,960)	(31,335)	
Profit before tax	**1,332**	**1,305**	
Income tax expense	(1,000)	(981)	*PBE IPSAS 38.AG13*
Surplus for the year	**332**	**324**	
Other comprehensive revenue and expense	4	-	
Total comprehensive revenue and expense	**336**	**824**	
Group's share of surplus (25%)	**84**	**81**	*PBE IPSAS 38.AG14(b)*

The Council's investment in Local Region Tourism Limited is accounted for at cost: *PBE IPSAS 34 RDR 23.1* *PBE IPSAS 34.23*

	2020	**2019**
	$000	**$000**
Carrying amount of investment in Council's (parent) financial statements	650	650

The reporting date of Local Region Tourism Limited is 30 June. *PBE IPSAS 38.38(b)*

There are no significant restrictions on the ability of the associate to transfer funds to the Council in the form of cash dividends or similar distributions, or to repay loans or advances. *PBE IPSAS 38.38(a)*

Refer to Note 38 for details of guarantees provided by the Council in relation to its interest in the associate.

Commentary

PBE IPSAS 38.36(c) and PBE IPSAS 38.AG16 require separate disclosure of the aggregated information of associates and joint ventures that are accounted for using the equity method and are not individually material. The Group did not have any immaterial associates or joint ventures.

The Group has presented the summarised financial information of the associate based on their PBE Standard financial statements. PBE IPSAS 38.AG15 allows this information to be provided using alternative bases.

9 Rates

PBE IPSAS 23.106(a)(i)

	Group		Council	
	2020 $000	2019 $000	2020 $000	2019 $000
General rates	45,118	44,209	45,118	44,209
Targeted rates:				
Water (excluding metered water)	9,211	9,026	9,211	9,026
Sewerage	7,238	7,092	7,238	7,092
Waste	9,870	9,671	9,870	9,671
Targeted metered water rates	3,760	3,684	3,760	3,684
	75,197	**73,682**	**75,197**	**73,682**

LG(FRP)R.5(5)

Commentary

LOCAL AUTHORITIES: REFER TO APPENDIX 7 FOR ADDITIONAL DISCLOSURES

Local authorities that participate in the New Zealand Local Government Funding Agency ("LGFA") need to make an additional disclosure in relation to their annual rates income.

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10 Grants revenue

PBE IPSAS 23.106(a)(ii)

	Group		Council	
	2020	2019 (restated*)	2020	2019 (restated*)
	$000	$000	$000	$000
NZTA grants	10,098	7,558	10,098	7,558
Government grant for upgrade of community centre building	-	250	-	250
Government grant for support of children's wellbeing in the community	405	324	405	324
	10,503	8,132	10,503	8,132

NZTA grants:
The Council receives grants from the New Zealand Transport Agency (NZTA), which reimburses part of the Council's costs of maintaining Local City's roading infrastructure.

*Grant for the upgrade of community centre building – restatement of prior period error
The Council received a grant of $500,000 from the Government in the previous two financial years (2018 and 2019) for the upgrade of Local City's community centre building. The amounts received were $250,000 in 2018 and $250,000 in 2019. As at 30 June 2019, both of these amounts were recognised as deferred revenue as this project has not commenced, as it was understood that there is a return obligation attached to the funding. However, as a result of a legal review of the contract the Group have concluded that although the contract stipulated that the funds must be used for a specific upgrade programme, these stipulations did not include a return obligation. Therefore, there are no specific conditions (as defined by PBE IPSAS 23) attached to the grants, and both receipts should have been recognised as revenue upon receipt. Therefore, the grant amount of $250,000 received in 2019 was retrospectively recognised as revenue for 2019, the grant amount of $250,000 received in 2018 was retrospectively recognised in opening accumulated revenue and expense, and the entire amount of $500,000 was retrospectively reclassified out of deferred revenue liability.

Refer to Note 2(b) for further explanation.

Grant for the support of children's wellbeing in the community:
The grant was received from the Ministry of Social Development for the purpose of funding a programme initiated by Local City Council to improve the wellbeing of children in the community. The amount received was $2,000,000 in 2018. One of the stipulations attached to the grant requires the Council to return any unused grant monies if any of the stages of the project is not completed within the timeframe specified in the grant agreement. Due to this return obligation, the Group have recognised the grant as deferred revenue. Revenue in relation to this grant is recognised as each stage of the project is completed. $405,000 of this grant was recognised in revenue in 2020 (2019: $324,000).

The reconciliation below shows the deferred balance of this grant at the start and end of the year, and the revenue recognised during the year.

	Group		Council	
	2020	2019	2020	2019
	$000	$000	$000	$000
Balance unspent at the beginning of the year	1,676	-	1,676	-
Current year receipts	-	2,000	-	2,000
Conditions met - transferred to revenue	(405)	(324)	(405)	(324)
Balance unspent at the end of the year (see Note 34)	1,271	1,676	1,271	1,676

Commentary
Disclosure of the reconciliation of the conditional grant as provided above is not explicitly required by PBE IPSAS 23. However, this reconciliation is presented to facilitate a better understanding of the extent to which the conditional grant was released to revenue.

11 Concessionary loan revenue

PBE IPSAS 23.106(a)(ii)

In 2019, the Council received a concessionary loan of $10,000,000 from the Government. The purpose of the loan was to fund the building of five Council social housing blocks. The loan is to be repaid over a period of five years at an interest rate of 3.5%. The market interest rate is 7.5%. At the date of the receipt of the loan from the Government, the difference between the $10,000,000 loan proceeds received by the Council and the contractual cash flows of the loan, discounted by the market interest rate, was $1,647,000. To the extent that the houses are not built in accordance with the timeframe stipulated in the loan agreement, the Council has an obligation of early repayment of the loan. Due to this return obligation, the Group have recognised a deferred revenue liability in relation to the difference between the loan proceeds received and the present value of the contractual cash flows of the loan. The remainder of the loan was recognised within interest-bearing loans and borrowings. Refer to Note 27.

In relation to the deferred revenue portion of the concessionary loan, revenue is recognised in the statement of financial performance as the Council completes each stage of the building project as per the loan agreement. In the current year, $329,000 was recognised in revenue in relation to the concessionary loan.

	Group		Council	
	2020 $000	2019 $000	2020 $000	2019 $000
Deferred revenue on concessionary loan at the beginning of the year	1,647	-	1,647	-
Deferred revenue recognised on new concessionary loans entered into during the year	-	1,647	-	1,647
Conditions met – amounts transferred to revenue during the year	(329)	-	(329)	-
Deferred revenue on concessionary loan at the end of the year (see Note 34)	**1,318**	**1,647**	**1,318**	**1,647**

Commentary

Disclosure of the reconciliation of the deferred revenue on concessionary loan as provided above is not explicitly required by PBE IPSAS 23. However, this reconciliation is presented to facilitate a better understanding of the extent to which the deferred revenue on concessionary loan was released to revenue.

12 Direct charges revenue - subsidised

PBE IPSAS 23.106(a)(ii)

	Group		Council	
	2020 $000	2019 $000	2020 $000	2019 $000
Building and resource consents	5,855	4,988	5,855	4,988
Landfill fees	1,920	1,871	1,920	1,871
Other sale of goods	1,240	1,269	1,040	1,069
Other rendering of services	4,461	4,576	4,161	4,276
	13,476	12,704	12,976	12,204

13 Direct charges revenue – full cost recovery

PBE IPSAS 9.39(b)

	Group		Council	
	2020 $000	2019 (restated*) $000	2020 $000	2019 $000
Port services	103,664	90,646	-	-
Property management fees	1,857	-	-	-
Other sale of goods	971	998	371	998
Other rendering of services	849	873	349	873
	107,341	92,517	720	1,871

* Certain amounts shown here do not corresponding to the 2019 financial statements and reflect adjustment made due to change in accounting policies. See Note 2(c).

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14 Employee costs

	Group 2020	Group 2019 (restated*)	Council 2020	Council 2019
	$000	$000	$000	$000
Wages and salaries	32,040	31,373	17,145	15,920
Termination benefits - severance	39	-	39	-
Other employee benefits	3,801	3,780	1,756	1,637
	35,880	**35,153**	**18,940**	**17,557**

* Certain amounts shown here do not corresponding to the 2019 financial statements and reflect adjustment made due to change in accounting policies. See Note 2(c).

The amounts above do not include the remuneration of key management personnel. Refer to Note 39 for key management personnel remuneration.

Commentary

LOCAL AUTHORITIES: REFER TO APPENDIX 7 FOR ADDITIONAL STATUTORY DISCLOSURES

Local authorities are required to provide additional statutory disclosures about employee costs. The LGA requires local authorities to disclose information around severance payments, employee numbers and employee remuneration bands.

Please note that other public sector PBEs may have similar statutory disclosure requirements, and should review their governing legislation.

15 General expenses

	Group 2020	Group 2019 (restated*)	Council 2020	Council 2019	*PBE IPSAS 1.127(c)*
	$000	$000	$000	$000	
Costs on inventories recognised as an expense	48,823	46,480	21,508	24,798	*PBE IPSAS 12.47(d)*
Contracted services	26,260	24,635	8,361	7,036	
Grants and subsidies	1,580	1,679	1,780	1,879	
Admin fees	2,813	2,423	2,196	1,975	
Audit fees - EY (Note 41)	340	351	226	237	*PBE IPSAS 1.116.1(a)*
Utilities and communication	14,490	13,664	6,455	6,035	
Consulting and legal fees	7,888	6,864	5,937	4,410	
Insurance	2,754	2,578	1,928	1,805	
Repairs and maintenance	10,946	9,673	5,473	5,837	
Bad and doubtful debts	(123)	254	18	201	*PBE IPSAS 30.24(e)*
Impairment of property, plant and equipment	-	301	-	-	*PBE IPSAS 26.115(a)*
Impairment of goodwill	200	-	-	-	*PBE IPSAS 26.115(a)*
Direct operating expenses (including repairs and maintenance) arising on investment properties	138	480	138	480	*PBE IPSAS 16.86(f)(ii)*
Research and development	235	34	235	34	*PBE IPSAS 31.125*
Net foreign exchange difference	(65)	(40)	-	-	*PBE IPSAS 4.61(a)*
Minimum lease payments recognised as operating lease expense	250	245	100	87	*PBE IPSAS 13.44(c)*
Write-down of inventories to net realisable value	286	242	-	-	*PBE IPSAS 12.47(e)*
Property management fees	557	658	557	658	
Other expenses	19,180	13,066	4,015	3,128	
	136,552	**123,587**	**58,927**	**58,600**	

* Certain amounts shown here do not corresponding to the 2019 financial statements and reflect adjustment made due to change in accounting policies. See Note 2(c).

16 Finance income

	Group 2020	Group 2019	Council 2020	Council 2019	
	$000	$000	$000	$000	
Interest income on a loan to an associate	20	–	20	–	
Interest income from AFS investments	316	211	316	211	
Interest income on term deposits	184	84	131	32	
	520	**295**	**467**	**243**	*PBE IPSAS 30.24(b)*

17 Finance costs

	Group		Council		
	2020	2019	2020	2019	
	$000	$000	$000	$000	
Interest on debts and borrowings	1,047	1,082	894	796	
Finance charges payable under finance leases and hire purchase contracts	40	40	-	-	
	1,087	**1,122**	**894**	**796**	*PBE IPSAS 30.24(b)*
Impairment loss on quoted AFS equity investments (Note 27.1)	111	–	111	–	*PBE IPSAS 30.24(e)*
Unwinding of discount and effect of changes in discount rate on provisions (Note 33)	43	1	37	1	*PBE IPSAS 19.97e)*
Change in fair value of the forward points in commodity forward contracts (Note 27.3)	23	-	-	-	
	1,264	**1,123**	**931**	**797**	

18 Other revenue

	Group		Council		
	2020	2019	2020	2019	
	$000	$000	$000	$000	
Net gain on disposal of property, plant and equipment	532	2,007	132	501	
Net gain on financial instruments at fair value through surplus or deficit	850	–	–	–	*PBE IPSAS 30.24(a)(i)*
	1,382	**2,007**	**132**	**501**	

The net gain on financial instruments at fair value through surplus or deficit relates to foreign exchange forward contracts that did not qualify for hedge accounting and embedded derivatives which have been separated.

Commentary

According to PBE IPSAS 30.RDR 24.1, a Tier 2 PBE is not required to separately disclose gains and losses on financial instruments at fair value through surplus or deficit that have been designated as such upon initial recognition and on those classified as held for trading in accordance with PBE IPSAS 29. The only financial instruments at fair value through surplus or deficit that the Group holds are classified as held for trading. The Group does not hold any financial instruments that were designated as at fair value through surplus or deficit upon initial recognition.

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19 Other expenses

	Group 2020 $000	Group 2019 $000	Council 2020 $000	Council 2019 $000	
Fair value loss on investment properties	306	300	306	300	PBE IPSAS 16.87(d)
Fair value adjustment of contingent consideration (Note 6)	358	–	358	–	
Net loss on financial instruments at fair value through surplus or deficit	1,502	–	–	–	PBE IPSAS 30.24(a)(i)
Ineffectiveness on forward commodity contracts designated as cash flow hedges (Note 27.3)	65	–	–	–	PBE IPSAS 30.28(b)
	2,231	300	664	300	

Net loss on financial instruments at fair value through surplus or deficit relates to foreign exchange forward contracts that did not qualify for hedge accounting and embedded derivatives which have been separated.

Ineffectiveness resulting from cash flow hedges on foreign commodity contracts was incurred by Local Port Limited.

Commentary

According to PBE IPSAS 30.RDR 24.1, a Tier 2 PBE is not required to separately disclose gains and losses on financial instruments at fair value through surplus or deficit that have been designated as such upon initial recognition and on those classified as held for trading in accordance with PBE IPSAS 29. The only financial instruments at fair value through surplus or deficit that the Group holds are classified as held for trading. The Group does not hold any financial instruments that were designated as at fair value through surplus or deficit upon initial recognition.

20 Components of other comprehensive revenue and expense

PBE IPSAS 1.103.4

	Group 2020 $000	Group 2019 $000	Council 2020 $000	Council 2019 $000	
Cash flow hedges, net of tax:					
Gains/(losses) arising during the year:					
Currency forward contracts:					
- Reclassification during the year to surplus or deficit	401	412	–	–	PBE IPSAS 30.27(d) PBE IPSAS 30.RDR 27.1
- Net gain/(loss) during the year (except not-yet matured contracts)	(300)	(278)	–	–	
- Net gain/(loss) during the year of the not-yet matured contracts	82	(101)	–	–	
Commodity forward contracts:					
- Loss of not-yet matured commodity forward contracts	(915)	–	–	–	
	(732)	33	–	–	PBE IPSAS 30.27(c)
AFS financial assets, net of tax:					
Gains/(losses) arising during the year	(57)	3	(57)	3	PBE IPSAS 30.24(a)(ii)

* This includes $183,000 that was removed from other comprehensive revenue and expense during the year and included in the carrying amount of the hedging items as a basis adjustment (2019: $33,000).

Commentary

The purpose of this note is to provide an analysis of items presented net in the statement of financial performance and statement of other comprehensive revenue and expense which have been subject to reclassification. This is in accordance with PBE IPSAS 1.103.4, which requires an entity to disclose reclassification adjustments relating to components of other revenue and expense. The analysis above does not include the remaining items of other comprehensive revenue and expense, as those are either never reclassified to surplus or deficit or reclassification adjustments did not occur.

The total comprehensive balance of the cash flow hedge (net of tax) is provided for illustrative purposes in Note 37, where the split among the different equity reserves is shown.

Tier 2 PBEs are provided an RDR disclosure concession from PBE IPSAS 1.103.4 and are not required to disclose reclassification adjustments relating to components of other comprehensive revenue and expense. However, PBE IPSAS 30 RDR 27.1 requires a Tier 2 PBEs to disclose the total amount of cash flow hedges reclassified from net assets/equity and included in surplus or deficit for the period. Thus Tier 2 PBEs should consider providing this disclosure to comply with the requirements of PBE IPSAS 30.RDR 27.1.

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21 Income tax

The major components of income tax expense for the years ended 30 June 2020 and 2019 are: *PBE IAS 12.79*

	Group 2020	Group 2019 (restated*)	Council 2020	Council 2019	
Statement of financial performance	$000	$000	$000	$000	
Current income tax:					
Current income tax charge	1,728	1,223	–	–	*PBE IAS 12.80(a)*
Adjustments in respect of current income tax of previous year	(18)	(44)	–	–	*PBE IAS 12.80(b)*
Deferred tax:					
Relating to origination and reversal of temporary differences	104	(60)	–	–	*PBE IAS 12.80(c)*
Income tax expense reported in the statement of financial performance	**1,814**	**1,119**	**–**	**–**	
Statement of other comprehensive revenue and expense					
Deferred tax related to items recognised in other comprehensive revenue and expense during the year:					*PBE IAS 12.81(ab)*
Net gain/(loss) on revaluation of cash flow hedges	220	(9)	–	–	
Unrealised gain/(loss) on AFS financial assets	–	–	–	–	
Net loss on revaluation of property, plant and equipment	(1,535)	–	–	–	
Income tax charged to other comprehensive revenue and expense	**(1,315)**	**(9)**	**–**	**–**	*PBE IAS 12.RDR 81.1*

* Certain amounts shown here do not corresponding to the 2019 financial statements and reflect adjustment made due to change in accounting policies. See Note 2(c).

Commentary

Disclosure of tax on items of other comprehensive revenue and expense:

PBE IPSAS 1.103.2 requires an entity to disclose the amount of income tax relating to each item of other comprehensive revenue and expense either in the statement of comprehensive revenue and expense or in the notes. Local City Council decided to provide this disclosure in the notes.

According to PBE IAS 12.RDR 81.1, Tier 2 PBEs are required to disclose the aggregate amount of current and deferred income tax relating to items recognised in other comprehensive revenue and expense.

Local authorities tax exemption:

Local authorities such as Local City Council are exempt from income tax under the Income Tax Act 2007, except for income derived from Council-controlled organisations and from operating a port. As the Council itself has not derived income from its controlled entities (other than rates, etc.), and since the port of Local City is operated by a controlled entity (Local Port Limited) rather than the Council itself, none of the income or surplus derived by the Council is taxable. The Group's income is taxable and its expenses are deductible to the extent that they do not relate to the Council (or to Local Museum Trust, which is a charitable trust and therefore exempt from tax).

Deferred tax on asset revaluation:

Deferred taxes related to the revaluation of the Group's property, plant and equipment have been calculated on the basis of recovery by use at the tax rate of the jurisdiction in which they are located (30% of the total Group revaluation of $25,846,000, see Note 22), less the portion that relates to the Council (see previous paragraph).

21 Income tax *continued*

Commentary *continued*

<u>Tax effect of cash flow hedge in other comprehensive revenue and expense:</u>

The tax effect of cash flow hedge instruments reflects the change in balances from 2019 to 2020 only for the effective portion (ineffectiveness has been accounted for directly in surplus or deficit). The reconciliation of these changes to the notes is difficult to directly observe. For illustrative purposes, a reconciliation is provided below (please note that the net change is also included in surplus or deficit and other comprehensive revenue and expense). This is reconciliation relates to the Group only, as the Council does not hold cash flow hedges.

	Assets		Liabilities	
	2020	2019	2020	2019
	$000	$000	$000	$000
Foreign exchange forward contract assets (Note 27.1)	252	153	–	–
Foreign exchange forward contract liabilities (Note 27.2)	–	–	170	254
Commodity forward contract (Note 27.2)	–	–	980	–
Ineffectiveness of commodity contract (Note 19)	–	–	(65)	–
	252	153	1,085	254
Net variation in comprehensive revenue and expense	99		831	
Net increase of cash flow hedge balances during 2020 (net liability and net loss)			732	
Tax rate			30%	
Tax gain			220	

Reconciliation of tax expense and the accounting profit multiplied by the domestic tax rate for 2020 and 2019: *PBE IAS 12.81(c)(i)*

	Group		Council	
	2020	2019 (restated*)	2020	2019
	$000	$000	$000	$000
Accounting profit before income tax	**17,193**	**14,117**	**10,674**	**9,801**
At statutory income tax rate of 30% (2019: 30%)	5,158	4,235	3,202	2,940
Adjustments in respect of current income tax of previous years	(18)	(44)	–	–
Effect of non-taxable Council activities	(2,828)	(2,601)	(3,202)	(2,940)
Other non-taxable income	(480)	(299)	–	–
Utilisation of previously unrecognised tax losses	(481)	(339)	–	–
Non-deductible expenses for tax purposes:				
Impairment of goodwill	200	–	–	–
Contingent consideration re-measurement (Note 6)	107	–	–	–
Other non-deductible expenses	156	167	–	–
Income tax expense reported in the statement of financial performance	**1,814**	**1,119**	**–**	**–**

The effective income tax rate is 11% for the Group (2019: 8%) and 0% for the Council (2019: 0%).

* Certain amounts shown here do not corresponding to the 2019 financial statements and reflect adjustment made due to change in accounting policies. See Note 2(c).

Commentary

The statutory income tax rate of 30% has been used for illustrative purposes only and does not reflect the actual New Zealand statutory tax rate.

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21 Income tax *continued*

Deferred tax:

Deferred tax relates to the following:

PBE IAS 12.81(g)

	Group				Council			
	Statement of financial position		Statement of financial performance		Statement of financial position		Statement of financial performance	
	2020	2019	2020	2019	2020	2019	2020	2019
	$000	$000	$000	$000	$000	$000	$000	$000
Accelerated depreciation for tax purposes	(1,106)	(811)	295	107	–	–	–	–
Revaluations of investment properties to fair value	(1,535)	(1,422)	(92)	(90)	–	–	–	–
Revaluations of land and buildings to fair value	(35)	–	–	–	–	–	–	–
Revaluations of AFS investments to fair value	17	(1)	–	–	–	–	–	–
Employment benefits	102	59	(43)	(33)	–	–	–	–
Revaluation of an interest rate swap (fair value hedge) to fair value	11	–	(11)	–	–	–	–	–
Revaluation of cash flow hedges	251	31	–	–	–	–	–	–
Impairment on AFS unquoted debt instruments	27	–	(27)	–	–	–	–	–
Losses available for offsetting against future taxable income	383	365	(18)	(44)	–	–	–	–
Deferred tax expense/(income)			**104**	**(60)**			–	–
Net deferred tax assets/(liabilities)	**(1,697)**	**(1,778)**			–	–		
Deferred tax assets	383	365			–	–		
Deferred tax liabilities	(3,580)	(2,143)			–	–		
Deferred tax liability (net)	**(3,197)**	**(1,778)**			–	–		

21 Income tax *continued*

Reconciliation of deferred tax liabilities, net	Group 2020 $000	Group 2019 $000	Council 2020 $000	Council 2019 $000
Opening balance as of 1 July	(1,778)	(1,829)	–	–
Tax income/(expense) during the period recognised in surplus or deficit	(104)	60	–	–
Tax income/(expense) during the period recognised in other comprehensive revenue and expense	(1,315)	(9)	–	–
Closing balance as at 30 June	**(3,197)**	**(1,778)**	**–**	**–**

The Group offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority. *PBE IAS 12.74*

At 30 June 2020, there was no recognised deferred tax liability (2019: $Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's controlled entities, associate or joint venture. *PBE IAS 12.81(f)*

The Group has determined that undistributed profits of its controlled entities, joint venture or associate will not be distributed in the foreseeable future. The Group has an agreement with its associate that the surpluses of the associate will not be distributed until it obtains the consent of the Group. The parent does not foresee giving such a consent being given at the reporting date. Furthermore, the Group's joint venture did not distribute its profits until it obtains the consent from all venture partners.

Commentary

Reconciliation of deferred tax liability/asset

Although not specifically required by PBE IPSAS 1 or PBE IAS 12, the reconciliation of the net deferred tax liability may be helpful. As in some other disclosures included in this note, the cross reference with the amounts from which they are derived is not direct. Nevertheless, the reasonableness of each balance may be obtained from the respective notes by applying a 30% tax rate. All balances relating to the Council are nil, as income derived by the Council is not taxable.

22 Property, plant and equipment

Group:	Operational Assets				Infrastructural Assets				Restricted Assets			Total	
	Land and buildings[1]	Plant and equipment[2]	Other operational assets	Total operational assets	Land and buildings	Water assets[3]	Roads and infra-structure	Total infra-structure assets	Land and building[4]	Cultural/ heritage assets	Total restricted assets		*PBE IPSAS 17.88(e)* *PBE IPSAS 17 RDR 88.1*
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	
Cost or valuation													
As at 1 July 2018 (restated*)	344,147	267,668	152,953	764,768	109,252	546,261	437,009	1,092,522	262,205	65,551	327,756	2,185,046	*PBE IPSAS 17.88(d)*
Additions	6,946	5,402	3,087	15,435	2,205	11,025	8,820	22,050	5,292	1,323	6,615	44,100	*PBE IPSAS 17.88(e)(i)*
Disposals	(540)	(420)	(240)	(1,200)	(172)	(858)	(686)	(1,716)	(412)	(103)	(515)	(3,431)	*PBE IPSAS 17.88(e)(ii)*
As at 30 June 2019 (restated*)	**350,553**	**272,650**	**155,800**	**779,003**	**111,285**	**556,428**	**445,143**	**1,112,856**	**267,085**	**66,771**	**333,856**	**2,225,715**	*PBE IPSAS 17.88(d)*
Additions	7,577	5,893	3,368	16,838	2,405	12,027	9,622	24,054	5,773	1,443	7,216	48,108	*PBE IPSAS 17.88(e)(i)*
Disposals	(773)	(447)	(344)	(1,564)	(245)	(1,227)	(982)	(2,454)	(589)	(147)	(736)	(4,754)	*PBE IPSAS 17.88(e)(ii)*
Reclassification to assets held for sale	-	(154)	-	(154)	-	-	-	-	-	-	-	(154)	*PBE IPSAS 17.88(e)(ii)*
Revaluation	9,046	-	-	9,046	1,292	6,462	5,169	12,923	3,861	-	3,877	25,830	*PBE IPSAS 17.88(e)(iv)*
Transfers[5]	(36)	-	-	(36)	(5)	(26)	(20)	(51)	(15)	-	(15)	(102)	*PBE IPSAS 17.88(e)(ix)*
As at 30 June 2020	**366,367**	**277,942**	**158,824**	**803,133**	**114,732**	**573,664**	**458,932**	**1,147,328**	**276,115**	**68,067**	**344,198**	**2,294,659**	*PBE IPSAS 17.88(d)*
Depreciation and impairment:													
As at 1 July 2018 (restated*)	26,161	20,348	11,627	58,136	8,305	41,526	33,221	83,052	19,932	4,983	24,915	166,103	*PBE IPSAS 17.88(d)*
Depreciation charge for the year (restated*)	3,635	2,828	1,616	8,079	1,154	5,771	4,616	11,541	2,770	692	3,462	23,082	*PBE IPSAS 17.88(e)(vii)*
Impairment	-	301	-	301	-	-	-	-	-	-	-	301	*PBE IPSAS 17.88(v)*
Disposals	(488)	(380)	(217)	(1,085)	(155)	(775)	(620)	(1,550)	(372)	(93)	(465)	(3,100)	*PBE IPSAS 17.88(e)(ii)*
As at 30 June 2019 (restated*)	**29,308**	**23,097**	**13,026**	**65,431**	**9,304**	**46,522**	**37,217**	**93,043**	**22,330**	**5,582**	**27,912**	**186,386**	*PBE IPSAS 17.88(d)*
Depreciation charge for the year	3,748	2,915	1,666	8,329	1,190	5,949	4,759	11,898	2,856	714	3,570	23,797	*PBE IPSAS 17.88(e)(vii)*
Disposals	(536)	(417)	(238)	(1,191)	(170)	(850)	(680)	(1,700)	(408)	(102)	(510)	(3,401)	*PBE IPSAS 17.88(e)(ii)*
Transfers[5]	(36)	-	-	(36)	(5)	(26)	(20)	(51)	(15)	-	(15)	(102)	*PBE IPSAS 17.88(e)(ix)*
As at 30 June 2020	**32,484**	**25,595**	**14,454**	**72,533**	**10,319**	**51,595**	**41,276**	**103,190**	**24,763**	**6,194**	**30,957**	**206,680**	*PBE IPSAS 17.88(d)*
Net book value													
As at 30 June 2019	321,245	249,553	142,774	713,572	101,981	509,906	407,926	1,019,813	244,755	61,189	305,944	2,039,329	
As at 30 June 2020	333,883	252,347	144,370	730,600	104,413	522,069	417,656	1,044,138	251,379	61,873	313,241	2,087,963	

(1) Operational land and buildings include the service concession asset – refer to Note 26
(2) Operational plant and equipment includes leased equipment
(3) Water assets include wastewater and stormwater assets
(4) Restricted land and buildings include parks and reserves
(5) This transfer relates to the accumulated depreciation as at the revaluation date that was eliminated against the gross carrying amount of the revalued asset

* Certain amounts shown here do not corresponding to the 2019 financial statements and reflect adjustment made due to change in accounting policies. See Note 2(c).

22 Property, plant and equipment *continued*

Council:	Operational Assets				Infrastructural Assets				Restricted Assets			Total	
	Land and buildings[1]	Plant and equipment[2]	Landfill	Total operational assets	Land and buildings	Water assets[3]	Roads and infra-structure	Total infra-structure assets	Land and building[4]	Cultural and heri-tage assets	Total restricted assets		*PBE IPSAS 17.88(e)* *PBE IPSAS 17 RDR 88.1*
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	
Cost or valuation													
As at 1 July 2018	217,084	123,868	128,831	469,783	92,022	460,112	368,089	920,223	147,008	17,589	164,597	1,554,603	*PBE IPSAS 17.88(d)*
Additions	4,564	2,604	2,709	9,877	1,935	9,674	7,740	19,349	3,091	370	3,461	32,687	*PBE IPSAS 17.88(e)(i)*
Disposals	(405)	(231)	(240)	(876)	(172)	(858)	(686)	(1,716)	(274)	(33)	(307)	(2,899)	*PBE IPSAS 17.88(e)(ii)*
As at 30 June 2019	221,243	126,241	131,300	478,784	93,785	468,928	375,143	937,856	149,825	17,926	167,751	1,584,391	*PBE IPSAS 17.88(d)*
Additions	5,037	2,874	2,989	10,900	2,135	10,676	8,541	21,352	3,411	408	3,819	36,071	*PBE IPSAS 17.88(e)(i)*
Disposals	(577)	(330)	(344)	(1,251)	(245)	(1,227)	(982)	(2,454)	(392)	(47)	(439)	(4,144)	*PBE IPSAS 17.88(e)(ii)*
Revaluation	6,304	-	-	6,304	1,202	6,012	4,810	12,024	2,390	-	2,401	20,718	*PBE IPSAS 17.88(e)(iv)*
Transfers[5]	(27)	-	-	(27)	(5)	(26)	(20)	(51)	(10)	-	(10)	(88)	*PBE IPSAS 17.88(e)(ix)*
As at 30 June 2020	**231,980**	**128,785**	**133,945**	**494,710**	**96,872**	**484,363**	**387,492**	**968,727**	**155,224**	**18,287**	**173,522**	1,636,948	*PBE IPSAS 17.88(d)*
Depreciation and impairment:													
As at 1 July 2018	11,674	6,661	6,928	25,263	4,949	24,744	19,795	49,488	7,906	946	8,852	83,603	*PBE IPSAS 17.88(d)*
Depreciation charge for the year	2,457	1,403	1,459	5,319	1,042	5,210	4,168	10,420	1,665	199	1,864	17,603	*PBE IPSAS 17.88(e)(vii)*
Impairment	-	-	-	-	-	-	-	-	-	-	-	-	*PBE IPSAS 17.88(v)*
Disposals	(366)	(209)	(217)	(792)	(155)	(775)	(620)	(1,550)	(248)	(30)	(278)	(2,620)	*PBE IPSAS 17.88(e)(ii)*
As at 30 June 2019	13,765	7,855	8,170	29,790	5,836	29,179	23,343	58,358	9,323	1,115	10,438	**98,586**	*PBE IPSAS 17.88(d)*
Depreciation charge for the year	2,541	1,451	1,509	5,501	1,078	5,389	4,311	10,778	1,722	206	1,928	18,207	*PBE IPSAS 17.88(e)(vii)*
Disposals	(401)	(229)	(238)	(868)	(170)	(850)	(680)	(1,700)	(272)	(32)	(304)	(2,872)	*PBE IPSAS 17.88(e)(ii)*
Transfers[5]	(27)	-	-	(27)	(5)	(26)	(20)	(51)	(10)	-	(10)	(88)	*PBE IPSAS 17.88(e)(ix)*
As at 30 June 2020	**15,878**	**9,077**	**9,441**	**34,396**	**6,739**	**33,692**	**26,954**	**67,385**	**10,763**	**1,289**	**12,052**	**113,833**	*PBE IPSAS 17.88(d)*
Net book value													
As at 30 June 2019	207,478	118,386	123,130	448,994	87,949	439,749	351,800	879,498	140,502	16,811	157,313	1,485,805	
As at 30 June 2020	216,102	119,708	124,504	460,314	90,133	450,671	360,538	901,342	144,461	16,998	161,470	1,523,115	

(1), (2), (3), (4), (5) refer to footnotes on previous page

Commentary

According to PBE IPSAS 17.RDR 88.1, Tier 2 PBEs are not required to disclosure the reconciliation specified by PBE IPSAS 17.88(e) for prior periods. However, Tier 2 PBEs are required to disclose the gross carrying amount and the accumulated depreciation at the beginning and end of the period, with prior period comparatives, as per PBE IPSAS 17.88(d).

Assets under construction: PBE IPSAS 17.88(e) requires the reconciliation of carrying amount of property, plant and equipment to be presented for each class, and PBE IPSAS 17.44 requires either the cost model or revaluation model to be applied to an entire class of property, plant and equipment. Therefore, for property, plant and equipment items that are measured at revalued amounts after completion, assets under construction (which is measured at cost and not depreciated) and completed items should be disclosed as separate classes in the reconciliation required by PBE IPSAS 17.88(e). For example, if the Group held buildings under construction, and their carrying amount (measured at cost) was material, these would have been disclosed as a separate class to the completed land and buildings (measured at their revalued amount). However, due to the fact that the Group does not have material balances of asset under construction, it does not present them as a separate class.

22 Property, plant and equipment *continued*

Impairment
In 2019, the impairment loss of $301,000 represented the write-down of certain port equipment to the recoverable amount as a result of technological obsolescence. This was recognised in the statement of financial performance within depreciation, amortisation and impairment. *PBE IPSAS 26.115(a)*

The recoverable amount of $5,679,000 as at 30 June 2019 was based on value in use and was determined at the level of the CGU. The CGU consisted of the port plant and equipment held by Local Port Limited, a controlled entity. In determining value in use for the CGU, the cash flows were discounted at a rate of 12.4% on a pre-tax basis. *PBE IPSAS 26.120*

Reclassification to assets held for sale
On 30 June 2020, an item of port equipment with carrying value of $154,000 was classified as held for sale. Refer to Note 32 for further details.

Finance leases
The carrying value of property, plant and equipment held by the Group under finance leases and hire purchase contracts at 30 June 2020 was $1,178,000 (2019: $1,486,000). This relates to port equipment held by the controlled entity. Additions during the year include $45,000 (2019: $54,000) of property, plant and equipment under finance leases and hire purchase contracts. Leased assets and assets under hire purchase contracts are pledged as security for the related finance lease and hire purchase liabilities. *PBE IPSAS 13.40(a)*

Land and buildings with a carrying amount of $7,400,000 (2019: $5,000,000) are subject to a first charge to secure two of the Group's bank loans. Refer to Note 27.2 for further details. *PBE IPSAS 17.89(a)*

The Council does not have any property, plant or equipment subject to a finance lease.

Assets under construction
Included in the Group's plant and equipment asset class within property, plant and equipment at 30 June 2020 was an amount of $1,500,000 (2019: 1,750,000) relating to expenditure for a plant in the course of construction. *PBE IPSAS 17.89(b)*

Plant and equipment obtained in non-exchange transactions
In 2020, the Council recognised $2,190,000 (2019: $2,150,000) as equipment contributed by the New Zealand Government, which is subject to the restriction that it be used for the maintenance of roads in Local City. The equipment was initially recognised at its fair value, which was estimated by reference to the market price of these assets on the date in which control was obtained. *PBE IPSAS 23.106(d)* *PBE IPSAS 17.88(a)*

Revaluation of property, plant and equipment
Land, buildings, infrastructure assets and water assets are measured using the revaluation model and are revalued every three years. These assets were revalued on 30 June 2020. The revaluation resulted in a revaluation surplus of $25,846,000 for the Group (2019: Nil), and $20,729,000 for the Council (2019: Nil). This revaluation surplus was recognised in the Asset Revaluation Reserve within the net assets/equity, via other comprehensive revenue and expense. *PBE IPSAS 17.92(e)*

The details of the revaluation are as follows:
Land and buildings:
Fair value of the land and buildings was determined by using a market comparable method. This means that valuations performed by the valuer are based on active market prices and market-based yields, significantly adjusted for difference in the nature, location or condition of the specific property. *PBE IPSAS 17.92(c)* *PBE IPSAS 17.92(d)*

As at the date of revaluation 30 June 2020, the properties' fair values are based on valuations performed by Chartered Surveyors & Co., an accredited independent valuer. *PBE IPSAS 17.92(a)* *PBE IPSAS 17.92(b)*

22 Property, plant and equipment *continued*

Water assets and roads and infrastructure assets:

Fair value of water assets and roads and other infrastructure assets was determined by using the depreciated replacement cost, as market-based evidence is not available for such assets due to their specialised nature. *PBE IPSAS 17.92(c) PBE IPSAS 17.48*

The following significant assumptions are used in determining the depreciated replacement cost of these assets: *PBE IPSAS 17.92(c) PBE IPSAS 17.92(d)*

- the replacement asset would be using modern equivalents to the existing asset as at the date of valuation
- the replacement cost of the asset is determined with reference to recent construction contracts and the market buying price of components used to produce these assets
- the replacement cost of the asset is adjusted for any overcapacity or overdesign
- the replacement cost of the asset takes into account any planned earthquake strengthening costs
- depreciation applied to the replacement cost of the asset in order to arrive at the depreciated replacement cost is calculated using the straight-line method
- useful lives used for the purpose of calculating depreciation are estimated based on the current condition of the asset as well as local conditions in the area of Local City in which the assets are located

Revaluation of the Council's water assets and road and infrastructure assets was performed by Special Valuers Limited, an accredited independent valuer, as at 30 June 2020. *PBE IPSAS 17.92(b) PBE IPSAS 17.92(a)*

23 Investment properties

	Group and Council		
	2020 $000	2019 $000	*PBE IPSAS 16.87 PBE IPSAS 16.RDR 87.1*
Opening balance at 1 July	7,983	7,091	
Additions (subsequent expenditure)	1,216	1,192	*PBE IPSAS 16.87(a) PBE IPSAS 16.RDR 87.2*
Net loss from fair value adjustment	(306)	(300)	*PBE IPSAS 16.87(d)*
Closing balance at 30 June	**8,893**	**7,983**	

Commentary

According to PBE IPSAS 16.RDR 87.1, Tier 2 PBEs are not required to disclosure the reconciliation specified by PBE IPSAS 16.87 for prior periods.

According to PBE IPSAS 16.87.2, Tier 2 PBEs are not required to disclose separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognised in the carrying amount of an asset in accordance with PBE IPSAS 16.87(a).

Reconciliation of net surplus on investment properties:	Group and Council		
	2020 $000	2019 $000	
Rental income derived from investment properties	1,404	1,377	*PBE IPSAS 16.86(f)(i)*
Direct operating expenses (including repairs and maintenance) generating rental income	(101)	(353)	*PBE IPSAS 16.86(f)(ii)*
Direct operating expenses (including repairs and maintenance) that did not generate rental income	(37)	(127)	*PBE IPSAS 16.86(f)(iii)*
Surplus arising from investment properties carried at fair value	1,266	897	

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23 Investment properties *continued*

The Group has no restrictions on the realisability of its investment properties and no contractual obligations to either purchase, construct or develop investment properties or for repairs maintenance and enhancements. *PBE IPSAS 16.86(g) PBE IPSAS 16.86(h)*

PBE IPSAS 16.86(e)

As at 30 June 2019 and 2020, the fair values of the properties are based on valuations performed by Chartered Surveyors & Co., an accredited independent valuer. Chartered Surveyors & Co. is a specialist in valuing the types of investment properties held by the Council. The valuation model in accordance with that recommended by the Property Institute of New Zealand has been applied.

The fair value of the investment properties was determined using the discounted cash flow (DCF) method. Under the DCF method, fair value is estimated using assumptions regarding the benefits and costs of ownership over the asset's life including an exit or terminal value. This method involves the projection of a series of cash flows on a real property interest. To this projected cash flow series, a market-derived discount rate is applied to establish the present value of the income stream associated with the asset. The exit yield is normally separately determined and differs from the discount rate. *PBE IPSAS 16.86(d)* *PPBE IPSAS 16.RDR.86.1*

The duration of the cash flows and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related re-letting, redevelopment, or refurbishment. The appropriate duration is typically driven by market behaviour that is a characteristic of the class of real property. Periodic cash flow is typically estimated as gross income less vacancy, non-recoverable expenses, collection losses, lease incentives, maintenance cost, agent and commission costs and other operating and management expenses. The series of periodic net operating income, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted.

Commentary

The Group has elected to value investment properties at fair value in accordance with PBE IPSAS 16.

PBE IPSAS 16 permits investment properties to be carried at historical cost less provision for depreciation and impairment. If the Group accounted for investment properties at cost, information about the cost basis and depreciation rates (similar to the requirement under PBE IPSAS 17 for property, plant and equipment) would be required. The Group would have still had to disclose the fair value of the investment properties as at the reporting date even if it had accounted for the investment properties at cost as required by PBE IPSAS 16.90(e).

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24 Intangible assets

	Group					
	Software	Licence	Carbon credits	Goodwill	Total	*PBE IPSAS 31.117(e)*
	$000	$000	$000	$000	$000	
Cost						
At 1 July 2018	1,585	395	-	250	2,230	*PBE IPSAS 31.117(c)*
Additions – internally developed	630	-	-	-	630	*PBE IPSAS 31.117(e)(i)*
At 30 June 2019	**2,215**	**395**	**-**	**250**	**2,860**	*PBE IPSAS 31.117(c)*
Additions – internally developed	209	-	-	-	209	*PBE IPSAS 31.117(e)(i)*
Additions – purchased	-	-	240	-	240	*PBE IPSAS 31.117(e)(i)*
Acquisition of a controlled entity	1,200	-	-	2,231	3,431	*PBE IPSAS 31.117(e)(i)*
At 30 June 2020	**3,624**	**395**	**240**	**2,481**	**6,740**	*PBE IPSAS 31.117(c)*
Amortisation and impairment						
At 1 July 2018	225	-	-	-	225	*PBE IPSAS 31.117(c)*
Amortisation	122	-	-	-	122	*PBE IPSAS 31.117(e)(vi)*
At 30 June 2019	**347**	**-**	**-**	**-**	**347**	*PBE IPSAS 31.117(c)*
Amortisation	174	-	-	-	174	*PBE IPSAS 31.117(e)(vi)*
Impairment (Note 25)	-	-	-	200	200	*PBE IPSAS 31.117(e)(iv)*
At 30 June 2020	**521**	**-**	**-**	**200**	**721**	*PBE IPSAS 31.117(c)*
Net book value						
At 30 June 2019	1,868	395	-	250	2,513	
At 30 June 2020	3,103	395	240	2,281	6,019	

	Council				
	Software	Licence	Carbon credits	Total	*PBE IPSAS 31.117(e)*
	$000	$000	$000	$000	
Cost					*PBE IPSAS 31.117(c)*
At 1 July 2018	1,585	395	-	1,980	*PBE IPSAS 31.117(e)(i)*
Additions – internally developed	630	-	-	630	
At 30 June 2019	**2,215**	**395**	**-**	**2,610**	*PBE IPSAS 31.117(c)*
Additions – internally developed	209	-	-	209	*PBE IPSAS 31.117(e)(i)*
Additions – purchased	-	-	240	240	*PBE IPSAS 31.117(e)(i)*
At 30 June 2020	**2,424**	**395**	**240**	**3,059**	*PBE IPSAS 31.117(c)*
Amortisation and impairment					
At 1 July 2018	225	-	-	225	*PBE IPSAS 31.117(c)*
Amortisation	102	-	-	102	*PBE IPSAS 31.117(e)(vi)*
At 30 June 2019	**327**	**-**	**-**	**327**	*PBE IPSAS 31.117(c)*
Amortisation	174	-	-	174	*PBE IPSAS 31.117(e)(vi)*
At 30 June 2020	**501**	**-**	**-**	**501**	*PBE IPSAS 31.117(c)*
Net book value					
At 30 June 2019	1,888	395	-	2,283	
At 30 June 2020	1,923	395	240	2,558	

Amortisation of intangible assets is recognised within depreciation and amortisation in the statement of financial performance. *PBE IPSAS 31.117(d)*

Commentary
According to PBE IPSAS 31.RDR 117.1, Tier 2 PBEs are not required to disclosure the reconciliation specified by PBE IPSAS 31.117(e) for prior periods. However, Tier 2 PBEs are required to disclose the gross carrying amount and any accumulated amortisation at the beginning and end of the period, with prior period comparatives, in accordance with PBE IPSAS 31.117(c).

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25 Impairment testing of goodwill and intangible assets with indefinite useful life

Goodwill acquired through business combinations has been allocated to the two profit-oriented controlled entities below, which the Group considers to be cash generating units (CGUs):

- Local Port Limited
- Local Property Management Limited

Carrying amount of goodwill allocated to each CGU:

	Local Port Limited		Local Property Management Limited		Total		
	2020 $000	2019 $000	2020 $000	2019 $000	2020 $000	2019 $000	
Goodwill	50	250	2,231	-	2,281	250	*PBE IPSAS 26.123(a.1)*

The Group performed its annual goodwill impairment test in June 2019 and 2020.

Local Port Limited

The recoverable amount of the Local Port Limited CGU, $37,562,000 as at 30 June 2020, has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. The projected cash flows have been updated to reflect slower growth in demand for port services than previously anticipated, due to businesses shifting away from delivery by sea in favour of delivery by road or air. The pre-tax discount rate applied to cash flow projections is 15.5% (2019: 12.1%) and cash flows beyond the five-year period are extrapolated using a 3.0% growth rate (2019: 5.0%) that is the same as the long-term average growth rate for ports in New Zealand. It was concluded that the fair value less costs of disposal did not exceed the value in use.

PBE IPSAS 26.120(d)
PBE IPSAS 26.123(b)
PBE IPSAS 26.123(c)
PBE IPSAS 26.115(a

As a result of this analysis, as at 30 June 2020 management has recognised an impairment charge of $200,000 against goodwill that had a carrying amount of $250,000 as at 30 June 2019. The impairment charge is recorded within general expenses in the statement of financial performance. The primary reason for the impairment is the abovementioned reduced demand for port services.

PBE IPSAS 26.120(b)
PBE IPSAS 26.120(a)
PBE IPSAS 26.123(b)
PBE IPSAS 26.123(c)

Local Property Management Limited

The recoverable amount of the Local Property Management Limited CGU, $7,917,000 as at 30 June 2020, is also determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. Local Property Management Limited was acquired on 1 January 2020. The pre-tax discount rate applied to the cash flow projections is 14.4%. The growth rate used to extrapolate the cash flows of the unit beyond the five-year period is 2.9%. This growth rate is the same as the long-term average growth rate in the New Zealand property management sector. As a result of this analysis, no impairment has been recognised in relation to this CGU.

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25 Impairment testing of goodwill and intangible assets with indefinite useful life *continued*

Key assumptions used in value in use calculations and sensitivity to changes in assumptions *PBE IPSAS 26.123(c)*

The calculation of value in use for both Local Port Limited and Local Property Management Limited is most sensitive to the following assumptions:

- Gross margins
- Discount rates
- Price inflation
- Growth rates used to extrapolate cash flows beyond the forecast period

Gross margins *PBE IPSAS 26.123(c)*

Gross margins are based on average values achieved in the three years preceding the beginning of the budget period. These are increased over the budget period for anticipated efficiency improvements. An increase of 1.5% per annum was applied for the Local Port Limited CGU and 2% per annum for the Local Property Management Limited CGU.

PBE IPSAS 26.123(e)

A decreased demand can lead to a decline in gross margin. A decrease in gross margin to 1.0% would result in a further impairment of $10,000 in the Local Port Limited CGU. The Group believes that a reasonably possible change in any of the key assumptions would not cause the carrying amount of goodwill allocated to Local Property Management Limited CGU to exceed the recoverable amount.

Discount rates *PBE IPSAS 26.123(c)*

Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group.

PBE IPSAS 26.123(e)

A rise in pre-tax discount rate to 16.0% (i.e. +0.5%) in the Local Port Limited CGU would result in a further impairment of $5,000. The Group believes that a reasonably possible change in any of the key assumptions would not cause the carrying amount of goodwill allocated to the Local Property Management Limited CGU to exceed the recoverable amount.

Price inflation *PBE IPSAS 26.123(c)*

Estimates are obtained from published inflation indices. Forecast figures are used if data is publicly available (principally for New Zealand), otherwise past experience is used as an indicator of future price movements.

PBE IPSAS 26.123(e)

Management has considered the possibility of greater than forecast increases in price inflation in relation to the Local Port Limited and Local Property Management Limited CGUs. Forecast price inflation lies within a range of 1.9%-2.3% for the Local Port Limited CGU, and 2.1%-2.5% for the Local Property Management Limited CGU. If price inflation increases above forecast price inflation and the Group is unable to pass on or absorb these increases through efficiency improvements, then the Group will have further impairment. For the Local Port Limited CGU, a 0.1% increase in price inflation would result in further impairment of $4,000. The Group believes that a reasonably possible change in any of the key assumptions would not cause the carrying amount of goodwill allocated to the Local Property Management Limited CGU to exceed the recoverable amount.

Growth rate estimates *PBE IPSAS 26.123(c)*

Rates are based on published industry research.

PBE IPSAS 26.123(e)

A reduction of 0.5% in the long-term growth rate of the Local Port Limited CGU would result in further impairment of $6,000. The Group believes that a reasonably possible change in any of the key assumptions would not cause the carrying amount of goodwill allocated to Local Property Management Limited CGU to exceed the recoverable amount.

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25 Impairment testing of goodwill and intangible assets with indefinite useful life *continued*

Intangible assets with unlimited useful life

Licences:

The licences held by the Group relate to the usage of historical film footage relating to local culture and important events in the history of Local City. The licences have been acquired with the option to renew at the end of the period at little or no cost to the Group, which has allowed the Group to determine that these assets have indefinite useful lives. *PBE IPSAS 31.121(a)*

The film footage to which the licences relate are screened at the local museum of Local City for educational purposes and for the purpose of promoting local culture. The films are shown to visitors of the museum free of charge. Therefore, the licences are classified as non-cash-generating intangible assets, and are not allocated to a CGU for the purpose of impairment testing. *PBE IPSAS 21.72A*

The Group performed its annual impairment test for these licences in June 2019 and 2020. As at 30 June 2020, no impairment loss has been recognised in relation to the licences (2019: Nil). *PBE IPSAS 21.73(a)*

Carbon credits:

During the year, the Council acquired carbon credits in relation to carbon emissions from its landfill operations. Unused carbon credits for emissions must be forfeited following the end of each calendar year.

As carbon credits are a non-cash-generating intangible asset, it was not allocated to a cash generating unit for the purpose of impairment. *PBE IPSAS 21.72A*

The Group performed its annual impairment test for these carbon credits in June 2019 and 2020. As at 30 June 2020, no impairment loss has been recognised in relation to the carbon credits (2019: Nil). *PBE IPSAS 21.73(a)*

Commentary

The Group has determined recoverable amounts of its CGUs based on value in use under PBE IPSAS 26.

If the recoverable amounts are determined using fair value less cost of disposal, PBE IPSAS 26.123(d) requires disclosure of the valuation technique(s) and other information including the key assumptions used and a description of management's approach to each key assumption. Furthermore, if fair value less cost of disposal is determined using discounted cash flow projections, additional information such as period of cash flow projections, growth rate used to extrapolate cash flow projections and the discount rate(s) applied to the cash flow projections are required to be disclosed.

PBE IPSAS 26.123(c)(i) requires disclosure of key assumptions made for each CGU for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated is significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives. While the disclosures above have been provided for an illustrative purpose, companies need to evaluate the significance of each assumption used for the purpose of this disclosure.

PBE IPSAS 26.123(e) requires disclosures of sensitivity analysis for each CGU for which carrying amount of goodwill or intangible assets with indefinite lives allocated to that CGU is significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite lives. These disclosures are made if a reasonably possible change in a key assumption used to determine the CGU's recoverable amount would cause the CGU's carrying amount to exceed its recoverable amount. The Group has made these disclosures for all the key assumptions for the Local Port Limited CGU, since there is an impairment charge during the year and the carrying amount equals recoverable amount. The Group believes that a reasonably possible change in the key assumptions will not cause impairment to the Local Property Management Limited CGU, and this has been disclosed above. Entities need to also take into account the consequential effect of a change in one assumption on other assumptions, as part of the sensitivity analyses when determining the point at which the recoverable amount equals the carrying amount (PBE IPSAS 26.123(e)(iii)). The Group has considered this in the disclosures herein.

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26 Service concession arrangements

In the previous reporting period, the Group entered into a service concession arrangement with a private company to construct a new recreation centre in Local City in order promote health and wellbeing in the community. Under the service concession arrangement, the private-sector operator is required to construct, own and operate the recreation centre for a period of 10 years, with no option of extension or renewal. After 10 years, the ownership of the building will be transferred to the Council at no cost. During the 10 year period, the private operator will earn revenue (such as entry fees) from operating the recreation centre. The Council will regulate the services to be provided by the operator to members of the public at the recreation centre, as well as the prices charged to the public for these services. *PBE IPSAS 32.32(a)* *PBE IPSAS 32.32(b)* *PBE IPSAS 32.32(c)*

The construction of the recreation centre was completed on 30 June 2019. No fees were earned by the private operator before that date.

The estimated useful life of the recreation centre building is 20 years. Depreciation is calculated on a straight line basis.

The following service concession assets and liabilities and related revenue and expenses have been recognised as at the reporting date:

	Group and Council		
	2020	2019	
	$000	$000	
Service concession asset (included in property, plant and equipment – infrastructure – see Note 22):			
Fair value of service concession assets on initial recognition	550	550	
Accumulated depreciation to date	(28)	-	
Net carrying amount	**522**	**550**	*PBE IPSAS 32.32(c)(iii)*
Service concession liability:			
Opening balance	550	550	
Service concession revenue recognised	(55)	-	
Closing balance	**495**	**550**	*PBE IPSAS 32.32(c)(vii)*

There have been no changes in the service concession arrangement during the current period. *PBE IPSAS 32.32(d)*

Commentary

Disclosure of service concession arrangements by grantor:

PBE IPSAS 32.32 requires consideration of all aspects of the service concession arrangement when determining the appropriate disclosures to be provided in the notes. PBE IPSAS 32.32(a)-(d) includes a list of broad disclosure items that are required. Since each service concession arrangement is likely to have unique characteristics, IPSAS 32 implies a degree of judgment to ensure that the appropriate information is included.

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27 Financial assets and financial liabilities

Commentary

EARLY ADOPTERS OF PBE IFRS 9 or PBE IPSAS 41, PLEASE NOTE: Local City Council did not early adopt PBE IFRS 9 *Financial Instruments* or PBE IPSAS 41 *Financial Instruments*. Therefore, the disclosures in this note do not reflect the requirements of PBE IFRS 9 or PBE IPSAS 41 and its consequential amendments to PBE IPSAS 30 *Financial Instruments: Disclosures*. PBEs that adopted PBE IFRS 9 and PBE IPSAS 41 early should refer to Appendix 12, instead of this note.

27.1. Financial assets

	Group		Council		
	2020 $000	2019 $000	2020 $000	2019 $000	*PBE IPSAS 30.9* *PBE IPSAS 30.10* *PBE IPSAS 30.11*
Derivatives designated as hedging instruments					
Cash flow hedges:					
Foreign exchange forward contracts	252	153	–	–	
	252	**153**	**–**	**–**	
Financial instruments at fair value through surplus or deficit					*PBE IPSAS 30.11(a)*
Derivatives not designated as hedges:					*PBE IPSAS 30.RDR 11.1*
Foreign exchange forward contracts	640	–	–	–	
Embedded derivatives	210	–	–	–	
	850	**–**	**–**	**–**	
AFS investments at fair value through other comprehensive revenue and expense					*PBE IPSAS 30.11(d)*
Unquoted equity shares	1,038	898	1,038	898	
Quoted equity shares	337	300	337	300	
Quoted debt securities	612	600	612	600	
	1,987	**1,798**	**1,987**	**1,798**	
Total financial instruments at fair value	**3,089**	**1,951**	**1,987**	**1,798**	
Loans and receivables (excluding cash –refer to Note 31)					*PBE IPSAS 30.11(c)*
Receivables from exchange transactions	14,666	12,874	11,455	9,785	
Receivables from non-exchange transactions	2,439	1,429	1,963	953	
Term deposits	3,674	1,685	2,624	635	
Loan to an associate	213	8	213	8	
	20,992	**15,996**	**16,255**	**11,381**	
Total financial assets (excluding cash)	**24,081**	**17,947**	**18,242**	**13,179**	
Total current	17,656	14,456	13,919	10,841	
Total non-current	6,425	3,491	4,323	2,338	

Commentary

When PBE IPSAS 30.9 requires disclosures by class of financial instrument, Tier 2 PBEs are not required to group financial instruments into classes. Nor are Tier 2 PBEs required to provide sufficient information to permit a reconciliation to the line items presented in the statement of financial position. However, Tier 2 PBEs are required to disclose the carrying amount of each category of financial assets and liabilities, as required by PBE IPSAS 30.11.

According to PBE IPSAS 30.RDR 11.1, Tier 2 PBEs are not required to separately disclose financial assets at fair value through surplus or deficit that have been designated as such upon initial recognition and those classified as held for trading in accordance with PBE IPSAS 29. The only financial instruments at fair value through surplus or deficit that the Group holds are held for trading. The Group does not hold any financial instruments at fair value through surplus or deficit that have been designated as such upon initial recognition.

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27. Financial assets and financial liabilities *continued*

Commentary

Please note that in the disclosure above, which includes financial assets only, the amount of receivables from non-exchange transactions does not equal to the total receivables from non-exchange transactions as disclosed in the statement of financial position and in Note 29. This is because the Group's total receivables from non-exchange transactions include rates receivable, which generally represents a statutory right to receive cash, rather than a contractual right to do so. As such, rates receivable would not meet the definition of financial assets as per PBE IPSAS 28 or PBE IFRS 9 or PBE IPSAS 41, and have therefore been excluded from the financial assets disclosure above.

Derivatives designated as hedging instruments reflect the positive change in fair value of foreign exchange forward contracts, designated as cash flow hedges to hedge highly probable forecast sales in US dollar (USD) and purchases in pound sterling (GBP). *PBE IPSAS 30.9* *PBE IPSAS 30.10*

Derivatives not designated as hedging instruments reflect the positive change in fair value of those foreign exchange forward contracts that are not designated in hedge relationships, but are, nevertheless, intended to reduce the level of foreign currency risk for expected sales and purchases.

Loans and receivables are non-derivative financial assets carried at amortised cost which generate a fixed or variable interest income for the Group. The carrying value may be affected by changes in the credit risk of the counterparties.

AFS financial assets at fair value through other comprehensive revenue and expense include a significant portion of the AFS financial assets that are invested in equity shares of non-listed companies, namely the New Zealand Local Government Funding Agency ("LGFA") and Urban Developers Limited. The Group holds non-controlling interests (between 2% and 9%) in the entities. The purpose of the Council's investment in Urban Developers Limited is to further contribute to economic development in Local City, as well as earn a return on the investment. The Group also has investments in listed equity and debt securities. Fair values of these quoted debt securities and equity shares are determined by reference to published price quotations in an active market. *PBE IPSAS 30.24(e)*

The Group identified an impairment of $88,000 (2019: Nil) on AFS quoted debt securities and an impairment of $23,000 (2019: Nil) on AFS quoted equity securities. The impairment on AFS financial assets is recognised within finance costs in the statement of financial performance.

27. Financial assets and financial liabilities *continued*

27.2 Financial liabilities

Interest-bearing loans and borrowings

PBE IPSAS 30.9
PBE IPSAS 30.10
PBE IPSAS 30.11(f)

	Effective Interest rate	Maturity	Group 2020	Group 2019	Council 2020	Council 2019
	%		$000	$000	$000	$000
Current interest-bearing loans and borrowings						
Obligations under finance leases and hire purchase contracts (Note 38)	7.8	2021	83	51	–	–
Bank overdrafts	BKBM+1.0	On demand	966	2,650	966	2,650
Other current loans						
$1,500,000 bank loan (2019: $1,400,000)	BKBM+0.5	1 May 2021	1,411	–	1,411	–
$2,200,000 bank loan	BKBM+0.5	30 Sep 2019	–	74	–	74
			2,460	2,775	2,377	2,724
Non-current interest-bearing loans and borrowings (restated)**						
Obligations under finance leases and hire purchase contracts (Note 38)	7.8	2022-2023	905	943	–	–
8% debentures	8.2	2022-2028	523	3,054	–	–
8.25% secured loan of USD1,600,000	*LIBOR+0.2	31 Nov 2025	2,246	–	–	–
Secured bank loan	BKBM+2.0	30 Jun 2025	3,479	3,489	3,479	3,489
Other non-current loans						
$1,500,000 bank loan (2019: $1,400,000)	BKBM+0.5	1 May 2021	–	1,357	–	1,357
$2,750,000 bank loan (2019: $2,500,000)	BKBM+1.1	2022-2024	2,486	2,429	–	–
$2,200,000 bank loan	BKBM+0.5	30 Sep 2022	2,078	2,078	2,078	2,078
$10,000,000 concessionary loan	7.5	30 Jun 2022	8,629	8,353	8,629	8,353
			20,346	21,703	14,186	15,277
Total interest-bearing loans and borrowings			22,806	24,478	16,563	18,001

* Includes the effects of related interest rate swaps
** Certain amounts shown here do not corresponding to the 2019 financial statements and reflect adjustment made due to change in accounting policies. See Note 2(c).

Commentary

PBE IPSAS 30.10 only requires disclosure of information that enables users of the financial statements to evaluate the significance of financial instruments for its financial position and performance. As the Group has a significant amount of interest-bearing loans and borrowings on its statement of financial position, it has decided to provide detailed information to the users of the financial statements about the effective interest rate as well as the maturity of the loans.

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Notes to the financial statements

27. Financial assets and financial liabilities *continued*

Bank overdrafts
The bank overdrafts are secured by a portion of the Group's short-term deposits. *PBE IPSAS 30.9* *PBE IPSAS 30.10*

$1,500,000 bank loan
This loan is unsecured and is repayable in full on 1 May 2021.

8% debentures
The 8% debentures are repayable in equal annual instalments of $350,000 commencing on 1 July 2022.

USD 1,600,000 8.25% secured loan
The loan is secured by a first charge over certain of the Group's land and buildings with a carrying value of $2,400,000 (2019: Nil).

Secured bank loan
This loan has been drawn down under a six-year multi-option facility (MOF). The loan is repayable within 12 months after the reporting date, but has been classified as long term because the Group expects and has the discretion to exercise its rights under the MOF to refinance this funding. Such immediate replacement funding is available until 30 Jun 2025. The total amount repayable on maturity is $3,500,000. The facility is secured by a first charge over certain of the Group's land and buildings, with a carrying value of $5,000,000 (2019: $5,000,000). *PBE IPSAS 1.84*

$2,750,000 bank loan
The Group increased its borrowings under this loan contract by $250,000 during the reporting period. This loan is repayable in two instalments of $1,250,000 due on 30 June 2022 and $1,500,000 due on 30 June 2024.

$2,200,000 bank loan
This loan is unsecured and is repayable in full on 30 September 2022. As of 30 June 2019, $74,000 was repayable on 30 September 2019.

$10,000,000 concessionary loan
This concessionary loan was advanced to the Council by the Government in order to fund the construction of five Council social houses. The loan was advanced on 30 June 2019 and is repayable in full on 30 June 2023. The nominal amount advanced was $10,000,000. Interest on this loan is payable annually at a concessionary rate of 3.5%. The effective interest rate is 7.5%, which is the market rate for an arm's length loan with similar characteristics. The loan was initially recognised at fair value of $8,353,000. The difference between this amount and the $10,000,000 received was recognised as non-exchange deferred revenue. Refer to Note 34. As at 30 June 2020, the nominal value of the loan is $10,000,000, and the carrying value of the loan is $8,629,000. The loan is measured at amortised cost, using the effective interest rate method, with an effective interest rate of 7.5%. A reconciliation of the opening and closing balance of the concessionary loan is shown below: *PBE IPSAS 30.37(c)* *PBE IPSAS 30.37(b)* *PBE IPSAS 30.37(d)*

	$000	
As at 1 July 2019	**8,353**	*PBE IPSAS 30.37(a)*
New loans at nominal value	–	*PBE IPSAS 30.37(a)(i)*
Fair value adjustments to new loans	–	*PBE IPSAS 30.37(a)(ii)*
Interest accrued during the year	626	*PBE IPSAS 30.37(a)(v)*
Repayments	(350)	*PBE IPSAS 30.37(a)(iii)*
As at 30 June 2020	**8,629**	

27. Financial assets and financial liabilities *continued*

Other financial liabilities

PBE IPSAS 30.9
PBE IPSAS 30.10
PBE IPSAS 30.11

	Group 2020 $000	Group 2019 $000	Council 2020 $000	Council 2019 $000
Derivatives designated as hedging instruments				
Cash flow hedges:				
Foreign exchange forward contracts	170	254	–	–
Commodity forward contracts	980	–	–	–
Fair value hedges:				
Interest rate swaps	35	–	–	–
	1,185	**254**	**–**	**–**
Financial liabilities at fair value through surplus or deficit *(PBE IPSAS 30.11(e))*				
Contingent consideration (Note 6)	1,072	–	–	–
Derivatives not designated as hedges:				
Foreign exchange forward contracts	720	–	–	–
Embedded derivatives	782	–	–	–
	2,574	**–**	**–**	**–**
Total financial liabilities at fair value	**3,759**	**254**	**–**	**–**
Other financial liabilities at amortised cost, other than interest-bearing loans and borrowings *(PBE IPSAS 30.11(f))*				
Payables under exchange transactions	19,820	21,073	14,349	15,516
Financial guarantee contracts	87	49	87	49
Total financial liabilities at amortised cost	**19,907**	**21,122**	**14,436**	**15,565**
Total financial liabilities	**23,666**	**21,376**	**14,436**	**15,565**
Total current	22,164	21,376	14,436	15,565
Total non-current	1,502	–	–	–

Commentary

When PBE IPSAS 30.9 requires disclosures by class of financial instrument, Tier 2 PBEs are not required to group financial instruments into classes. Nor are Tier 2 PBEs required to provide sufficient information to permit a reconciliation to the line items presented in the statement of financial position. However, Tier 2 PBEs are required to disclose the carrying amount of each category of financial assets and liabilities, as required by PBE IPSAS 30.11.

According to PBE IPSAS 30.RDR 11.2, Tier 2 PBEs are not required to separately disclose financial liabilities at fair value through surplus or deficit that have been designated as such upon initial recognition and those classified as held for trading in accordance with PBE IPSAS 29. The only financial instruments at fair value through surplus or deficit that the Group holds are classified as held for trading. The Group does not hold any financial instruments at fair value through surplus or deficit that have been designated as such upon initial recognition.

PBE IPSAS 30.38

Derivatives designated as hedging instruments reflect the change in fair value of foreign exchange forward contracts, designated as cash flow hedges to hedge highly probable future purchases in GBP.

Derivatives not designated as hedging instruments also include the change in fair value of commodity forward contracts contracted during 2020. The Group is exposed to changes in the price of cooper on its forecast cooper purchases. The forward contracts do not result in physical delivery of cooper, but are designated as cash flow hedges to offset the effect of price changes in cooper. The Group hedges approximately 45% of its expected cooper purchases in the next reporting period. The remaining volume of cooper purchases is exposed to price volatility.

27. Financial assets and financial liabilities *continued*

Contingent consideration

PBE IFRS 3.B64(g)

As part of the purchase agreement with the previous owner of Local Property Management Limited, a contingent consideration has been agreed. This consideration is dependent on the surplus before tax of Local Property Management Limited during a 12-month period. The fair value of the contingent consideration at the acquisition date was $714,000. The fair value increased to $1,072,000 as at 30 June 2020 due to a significantly enhanced performance compared to budget. The contingent consideration is due for final measurement and payment to the former shareholders on 28 March 2021. Refer to Note 6 for further details.

27.3. Hedging activities and derivatives

PBE IPSAS 30.26

Derivatives not designated as hedging instruments

The Group uses foreign currency denominated borrowings and foreign exchange forward contracts to manage some of its transaction exposures. These foreign exchange forward contracts are not designated as cash flow hedges and are entered into for periods consistent with foreign currency exposure of the underlying transactions, generally from one to 24 months.

Cash flow hedges

Foreign currency risk

PBE IPSAS 30.26(a)
PBE IPSAS 30.27(a)
PBE IPSAS 30.26(c)

Foreign exchange forward contracts measured at fair value through other comprehensive revenue and expense are designated as hedging instruments in cash flow hedges of forecast sales in USD and forecast purchases in GBP. These forecast transactions are highly probable, and they comprise about 25% of the Group's total expected sales in USD and about 65% of its total expected purchases in GBP.

PBE IPSAS 30.26(c)

While the Group also enters into other foreign exchange forward contracts with the intention to reduce the foreign exchange risk of expected sales and purchases, these other contracts are not designated in hedge relationships and are measured at fair value through surplus or deficit.

The foreign exchange forward contract balances vary with the level of expected foreign currency sales and purchases and changes in foreign exchange forward rates.

PBE IPSAS 30.26(b)

	Group			
	2020		2019	
	Assets $000	Liabilities $000	Assets $000	Liabilities $000
Foreign currency forward contracts designated as hedging instruments				
Fair value	252	(170)	153	(254)

PBE IPSAS 30.27(b)
PBE IPSAS 30.28(b)

The terms of the foreign currency forward contracts match the terms of the expected highly probable forecast transactions. As a result, no hedge ineffectiveness arises requiring recognition through surplus or deficit. Notional amounts are as provided in Note 27.2.

PBE IPSAS 30.27(c)

The cash flow hedges of the expected future sales in July 2021 were assessed to be highly effective and a net unrealised gain of $252,000, with a deferred tax liability of $76,000 relating to the hedging instruments, is included in other comprehensive revenue and expense. Comparatively, the cash flow hedges of the expected future sales in 2020 were assessed to be highly effective and an unrealised gain of $153,000 with a deferred tax liability of $46,000 was included in other comprehensive revenue and expense in respect of these contracts.

The cash flow hedges of the expected future purchases in 2021 were assessed to be highly effective, and as at 30 June 2020, a net unrealised loss of $170,000, with a related deferred tax asset of $51,000 was included in other comprehensive revenue and expense in respect of these contracts. Comparatively, the cash flow hedges of the expected future purchases in 2020 were also assessed to be highly effective and an unrealised loss of $254,000, with a deferred tax asset of $76,000, was included in other comprehensive revenue and expense in respect of these contracts.

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27. Financial assets and financial liabilities *continued*

PBE IPSAS 30.27d)
PBE IPSAS 30.27(e)
PBE IPSAS 30.27(a)

The amount removed from other comprehensive revenue and expense during the year and included in the carrying amount of the hedging items as a basis adjustment for 2020 is detailed in Note 20, totalling $183,000 (2019: $33,000). The amounts retained in other comprehensive revenue and expense at 30 June 2020 are expected to mature and affect the statement of financial performance in 2020. Reclassifications to surplus or deficit during the year gains or losses included in other comprehensive revenue and expense are shown in Note 20.

Commodity price risk

The Group purchases cooper on an ongoing basis as its operating activities in Local Port Limited division require a continuous supply of cooper for the production of its port devices. The increased volatility in copper price over the past 12 months has led to the decision to enter into commodity forward contracts.

These contracts, which commenced on 1 January 2020, are expected to reduce the volatility attributable to price fluctuations of copper. Hedging the price volatility of forecast copper purchases is in accordance with the risk management strategy outlined by the Board of Directors. The hedging relationships are for a period between three and 12 months based on existing purchase agreements. The Group designated only the spot-to-spot movement of the entire commodity purchase price as the hedged risk. The forward points of the commodity forward contracts are therefore excluded from the hedge designation. Changes in fair value of the forward points recognised in the statement of financial performance in finance costs for the current year were $23,000 (see Note 17).

As at 30 June 2020, the fair value of outstanding commodity forward contracts amounted to a liability of $980,000. The ineffectiveness recognised in other operating expenses in the statement of financial performance for the current year was $65,000 (see Note 19). The cumulative effective portion of $915,000 is reflected in other comprehensive revenue and expense and will affect the surplus or deficit in the first six months of 2021.

Fair value hedge

PBE IPSAS 30.26(a)-(c)

At 30 June 2020, the Group had an interest rate swap agreement in place with a notional amount of USD1,600,000 ($2,246,000) (2019: Nil) whereby the Group receives a fixed rate of interest of 8.25% and pays interest at a variable rate equal to LIBOR+0.2% on the notional amount. The swap is being used to hedge the exposure to changes in the fair value of its 8.25% secured loan.

PBE IPSAS 30.28(a)

The decrease in fair value of the interest rate swap of $35,000 (2019: Nil) has been recognised in finance costs and offset with a similar gain on the bank borrowings. The ineffectiveness recognised in 2019 was immaterial.

Embedded derivatives

PBE IPSAS 29.AG46(d)

In 2020, the Group entered into long-term sale contracts with a customer in Canada. The functional currency of the customer is USD. The selling price in the contracts is fixed and set in Canadian dollars (CAD). The contracts require physical delivery and will be held for the purpose of the delivery of the commodity in accordance with the buyer's expected sale requirements. The contracts have embedded foreign exchange derivatives that are required to be separated.

The Group also entered into various purchase contracts for brass and chrome (for which there is an active market) with a number of suppliers in South Africa and Russia. The prices in these purchase contracts are linked to the price of electricity. The contracts have embedded commodity swaps that are required to be separated.

The embedded foreign currency and commodity derivatives have been separated and are carried at fair value through profit or loss. The carrying values of the embedded derivatives at 30 June 2020 amounted to $210,000 (other financial assets) and $782,000 (other financial liabilities) (2019: both Nil). The effects on surplus or deficit are reflected in finance income and finance costs, respectively.

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27. Financial assets and financial liabilities *continued*

27.4 Fair values

Set out below, is a comparison by class of the carrying amounts and fair value of the Group's and Council's financial instruments, other than those with carrying amounts are reasonable approximations of fair values:

PBE IPSAS 30.29
PBE IPSAS 30.30

	Group			
	Carrying amount		Fair value	
	2020	2019	2020	2019
Financial assets	$000	$000	$000	$000
Other financial assets:				
Loans	3,887	1,693	3,741	1,654
AFS financial investments	1,987	1,798	1,987	1,798
Foreign exchange forward contracts	640	–	640	–
Embedded derivatives	210	–	210	–
Derivatives in effective hedges	252	153	252	153
	6,976	**3,644**	**6,830**	**3,605**
Financial liabilities				
Interest-bearing loans and borrowings:				
Obligations under finance leases and hire purchase contracts	(988)	(994)	(1,063)	(1,216)
Floating rate borrowings*	(12,666)	(11,877)	(12,666)	(11,877)
Fixed rate borrowings	(9,152)	(11,607)	(9,321)	(11,944)
Financial guarantee contracts	(87)	(49)	(87)	(49)
Contingent consideration	(1,072)	–	(1,072)	–
Derivatives not designated as hedges:				
Foreign exchange forward contracts	(720)	–	(720)	–
Embedded derivatives	(782)	–	(782)	–
Derivatives in effective hedges	(1,185)	(254)	(1,185)	(254)
	(26,652)	**(24,781)**	**(26,896)**	**(25,340)**

	Council			
Financial assets				
Other financial assets:				
Loans	2,837	643	2,741	604
AFS financial investments	1,987	1,798	1,987	1,798
	4,824	**2,441**	**4,728**	**2,402**
Financial liabilities				
Interest-bearing loans and borrowings:				
Floating rate borrowings*	(7,934)	(9,648)	(7,914)	(9,648)
Fixed rate borrowings	(8,629)	(8,353)	(8,621)	(8,444)
Financial guarantee contracts	(87)	(49)	(87)	(49)
	(16,650)	**(18,050)**	**(16,622)**	**(18,141)**

** Includes an 8.25% secured loan carried at amortised cost adjusted for the fair value movement due to the hedged interest rate risk*

The management assessed that cash and short-term deposits, trade receivables, trade payables, bank overdrafts and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

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27. Financial assets and financial liabilities *continued*

The following methods and assumptions were used to estimate the fair values:

PBE IPSAS 30.31

- Long-term fixed-rate and variable-rate receivables/borrowings are evaluated by the Group based on parameters such as interest rates, specific country risk factors, individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, allowances are taken into account for the expected losses of these receivables. As at 30 June 2020, the carrying amounts of such receivables, net of allowances, were not materially different from their calculated fair values.
- Fair value of the quoted notes and bonds is based on price quotations at the reporting date. The fair value of unquoted instruments, loans from banks and other financial liabilities, obligations under finance leases, as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

PBE IPSAS 30.RDR.31.1

- Fair value of the unquoted ordinary shares has been estimated using a DCF model. The valuation requires management to make certain assumptions about the model inputs, including forecast cash flows, the discount rate, credit risk and volatility. The probabilities of the various estimates within the range can be reasonably assessed and are used in management's estimate of fair value for these unquoted equity investments.
- Fair value of remaining AFS financial assets is derived from quoted market prices in active markets.
- The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Derivatives valued using valuation techniques with market observable inputs are mainly interest rate swaps and foreign exchange forward contracts and commodity forward contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves and forward rate curves of the underlying commodity. All derivative contracts are fully cash collateralised, thereby eliminating both counterparty and the Group's own non-performance risk. Therefore, as at 30 June 2020, the marked-to-market value of derivative asset positions excludes a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationships and other financial instruments recognised at fair value.
- Embedded foreign currency and commodity derivatives are measured similarly to the foreign currency forward contracts and commodity derivatives. The embedded derivatives are commodity and foreign currency forward contracts which are separated from long-term sales contracts where the transaction currency differs from the functional currencies of the involved parties. However, as these contracts are not collateralised, the Group also takes into account the counterparties' non-performance risks (for the embedded derivative assets) or the Group's own non-performance risk (for the embedded derivative liabilities). As at 30 June 2020, the Group assessed these risks to be insignificant.
- Fair values of the Group's interest-bearing borrowings and loans are determined by using the DCF method using discount rate that reflects the issuer's borrowing rate as at the end of the reporting period. The own non-performance risk as at 30 June 2020 was assessed to be insignificant.

27. Financial assets and financial liabilities *continued*

Fair value hierarchy

The Group uses various methods in estimating the fair value of a financial instrument. The methods comprise:

Level 1 – the fair value is calculated using quoted prices in active markets
Level 2 – the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)
Level 3 – the fair value is estimated using inputs for the asset or liability that are not based on observable market data

PBE IPSAS 30.32(a)
PBE IPSAS 30.32(b)
PBE IPSAS 30.32(c)

The following tables provides the fair value measurement hierarchy of the Group's financial assets and liabilities as at 30 June 2020:

PBE IPSAS 30.33(a)

	Group				Council			
	Total $000	Level 1 $000	Level 2 $000	Level 3 $000	Total $000	Level 1 $000	Level 2 $000	Level 3 $000
Financial assets carried at fair value								
AFS financial assets								
Quoted equity shares:								
Local Regional Airport	337	337	–	–	337	337	–	–
Unquoted equity shares:								
New Zealand Local Government Funding Authority (LGFA)	675	–	–	675	675	–	–	675
Urban Developers Limited	363	–	–	363	363	–	–	363
Quoted debt securities:								
New Zealand government bonds	368	368	–	–	368	368	–	–
Corporate bonds	244	244	–	–	244	244	–	–
Derivatives financial assets								
Foreign exchange forward contracts	892	–	892	–	–	–	–	–
Embedded foreign exchange derivatives JPY	210	–	210	–	–	–	–	–
Financial liabilities measured at fair value								
Derivative financial liabilities								
Interest rate swaps	35	–	35	–	–	–	–	–
Foreign exchange forward contracts	1,870	–	1,870	–	–	–	–	–
Embedded foreign exchange derivatives (JPY)	782	–	782	–	–	–	–	–
Contingent consideration liability (Note 6)	1,072	–	–	1,072	–	–	–	–

There have been no transfers between Level 1 and Level 2 during the year.

PBE IPSAS 30.33(b)

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27. Financial assets and financial liabilities *continued*

The following tables provides the fair value measurement hierarchy of the Group's financial assets and liabilities as at 30 June 2019:

	Group				Council			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Financial assets carried at fair value								
AFS financial assets								
Quoted equity shares:								
Local Regional Airport	300	300	–	–	300	300	–	–
Unquoted equity shares:								
New Zealand Local Government Funding Authority (LGFA)	498	–	–	498	498	–	–	498
Urban Developers Limited	400	–	–	400	400	–	–	400
Quoted debt securities:								
New Zealand government bonds	200	200	–	–	200	200	–	–
Corporate bonds	400	400	–	–	400	400	–	–
Derivatives financial assets								
Foreign exchange forward contracts	153	–	153	–	–	–	–	
Financial liabilities measured at fair value								
Derivative financial liabilities								
Foreign exchange forward contracts	254	–	254	–	–	–	–	

There have been no transfers between Level 1 and Level 2 during the year.

27. Financial assets and financial liabilities *continued*

Sensitivity analysis:

The inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy together with a quantitative sensitivity analysis as at 30 June 2020 and 2019 are as shown below:

PBE IPSAS 30.33(e)

	Valuation technique	Inputs	Range (weighted average)	Sensitivity of the input to fair value
AFS assets in unquoted equity shares: **LGFA**	DCF method	Long-term growth rate for cash flows for subsequent years	**2020:** 3.1% - 5.2% (4.2%) **2019:** 3.1% - 5.1% (4.0%)	5% increase (decrease) in the growth rate would result in increase (decrease) in fair value by $17,000
		Long-term operating margin	**2020:** 5.0% - 12.1% (8.3%) **2019:** 5.2% - 12.3% (8.5%)	15% increase (decrease) in the margin would result in increase (decrease) in fair value by $21,000
		WACC	**2020:** 11.2% - 14.3% (12.6%) **2019:** 11.5% - 14.1% (12.3%)	1% increase (decrease) in the WACC would result in decrease (increase) in fair value by $10,000
		Discount for lack of marketability	**2020:** 5.1% - 15.6% (12.1%) **2019:** 5.4% - 15.7% (12.3%)	Increase (decrease) in the discount would decrease (increase) the fair value.
AFS assets in unquoted equity shares: **Urban Developers Limited**	DCF method	Long-term growth rate for cash flows for subsequent years	**2020:** 4.4% - 6.1% (5.3%) **2019:** 4.6% - 6.7% (5.5%)	3% increase (decrease) in the growth rate would result in increase (decrease) in fair value by $23,000
		Long-term operating margin	**2020:** 10.0% - 16.1% (14.3%) **2019:** 10.5% 16.4% (14.5%)	5% increase (decrease) in the margin would result in increase (decrease) in fair value by $12,000
		WACC	**2020:** 12.1% - 16.7% (13.2%) **2019:** 12.3% - 16.8% (13.1%)	1% increase (decrease) in the WACC would result in decrease (increase) in fair value by $21,000
		Discount for lack of marketability	**2020:** 5.1% - 20.2% (16.3%) **2019:** 5.3% - 20.4% (16.4%)	Increase (decrease) in the discount would decrease (increase) the fair value.

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27. Financial assets and financial liabilities *continued*

Discount for lack of marketability represents the amounts that the Group has determined that market participants would take into account these premiums and discounts when pricing the investments.

In case of AFS assets, the impairment charge in the surplus or deficit would depend on whether the decline is significant or prolonged. An increase in the fair value would only impact equity (through other comprehensive revenue and expense) and would not have an effect on surplus or deficit.

Reconciliation of fair value measurement of AFS assets in unquoted equity shares: *PBE IPSAS 30.33(c)*

	Group and Council			
	LGFA	Urban Developers Ltd	Total	
	$000	$000	$000	
As at 1 July 2019	**498**	**400**	**898**	
Re-measurement recognised in other comprehensive revenue and expense	150	(175)	**(25)**	
Purchases	125	188	**313**	*PBE IPSAS 30.33(cXii)*
Sales	(98)	(50)	**(148)**	*PBE IPSAS 30.33(cXiii)*
As at 30 June 2020	**675**	**363**	**1,038**	

27.5 Financial risk management objectives and policies

PBE IPSAS 30.38

The Group's principal financial liabilities, other than derivatives, comprise of loans and borrowings, trade and other payables, and financial guarantee contracts. The main purpose of these financial liabilities is to finance and provide guaranteed support for the Group's operations and commitments. The Group's principal financial assets include loans, trade and other receivables, and cash and short-term deposits that derive directly from its operations. The Group also hold AFS investments, and the Group enters into derivative transactions.

The Group is exposed to market risk, credit risk and liquidity risk. The Council's senior management oversees the management of these risks. The Council's senior management is supported by a Financial Risk Committee that advises on financial risks and the appropriate financial risk governance framework for the Group. The Financial Risk Committee provides assurance to the Group's senior management that the Group's financial risk activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with the Group's policies and risk objectives. All derivative activities for risk management purposes are carried out by specialist teams that have the appropriate skills, experience and supervision. It is the Group's policy that no trading in derivatives for speculative purposes may be undertaken. The Council's Board of Directors reviews and agrees policies for managing each of these risks, which are summarised below.

Market risk

PBE IPSAS 30.40

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprise three types of risk: interest rate risk, currency risk and other price risk, such as equity price risk and commodity risk. Financial instruments affected by market risk include loans and borrowings, deposits, AFS investments and derivative financial instruments.

PBE IPSAS 30.47

The sensitivity analyses in the following sections relate to the position as at 30 June 2020 and 2019. The sensitivity analyses have been prepared on the basis that the amount of net debt, the ratio of fixed to floating interest rates of the debt and derivatives and the proportion of financial instruments in foreign currencies are all constant and on the basis of the hedge designations in place at 30 June 2020.

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27. Financial assets and financial liabilities *continued*

The analyses exclude the impact of movements in market variables on provisions and the non-financial assets and liabilities.

The following assumptions have been made in calculating the sensitivity analyses:

- The statement of financial position sensitivity relates to derivatives and AFS debt instruments
- The sensitivity of the relevant statement of financial performance item is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held at 30 June 2020 and 2019 including the effect of hedge accounting
- The sensitivity of equity is calculated by considering the effect of any associated cash flow hedges at 30 June 2020 for the effects of the assumed changes of the underlying risk

PBE IPSAS 30.40

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

PBE IPSAS 30.26(c)

The Group manage their interest rate risk by having a balanced portfolio of fixed and variable rate loans and borrowings. The Group's policy is to keep between 40% and 60% of its borrowings at fixed rates of interest. To manage this, the Group enters into interest rate swaps, in which it agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal. At 30 June 2020, after taking into account the effect of interest rate swaps, approximately 40% of the Group's borrowings are at a fixed rate of interest (2019: 47%). For the Council, approximately 42% of all borrowings as at 30 June 2020 are at a fixed rate of interest (2019: 44%).

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of loans and borrowings affected, after the impact of hedge accounting. With all other variables held constant, the Group's surplus before tax is affected through the impact on floating rate borrowings, as follows:

PBE IPSAS 30.47(a)

	Group		Council	
	Increase/ (decrease) in basis points	Effect on surplus before tax $000	Increase/ (decrease) in basis points	Effect on surplus before tax $000
2020				
NZD	+45	(48)	+45	(28)
USD	+60	(13)	+60	–
NZD	-45	33	-45	23
USD	-60	12	-60	–
2019				
NZD	+10	(19)	+10	(11)
USD	+15	–	+15	–
NZD	-10	12	-10	8
USD	-15	–	-15	–

The assumed movement in basis points for the interest rate sensitivity analysis is based on the currently observable market environment, showing a significantly higher volatility than in prior years.

PBE IPSAS 30.47(b)

27. Financial assets and financial liabilities *continued*

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the operating activities of Local Port Limited (when revenue or expense is denominated in a different currency from the Group's presentation currency) and the capital purchases of specialised property plant and equipment by Local Port Limited. The Council does not normally have material exposure to foreign currency risk. *PBE IPSAS 30.40* *PBE IPSAS 30.26(c)*

The Group manages its foreign currency risk by hedging transactions that are expected to occur within a maximum 24-month period.

When a derivative is entered into for the purpose of being a hedge, the Group negotiates the terms of those derivatives to match the terms of the hedged exposure. For hedges of forecast transactions the derivatives cover the period of exposure from the point the cash flows of the transactions are forecasted up to the point of settlement of the resulting receivable or payable that is denominated in the foreign currency.

At 30 June 2019 and 2020, the Group hedged 75% and 70%, respectively, of its foreign currency sales for which highly probable forecasted transactions existed at the reporting date.

Commentary

For hedges of forecast transactions, useful information to help users understand the nature and extent of such risks may include:

- Time bands in which the highly probable forecast transactions are grouped for risk management purposes
- The entity's policies and processes for managing the risk (for example, how the cash flows of the hedging instruments and the hedged items may be aligned, such as using foreign currency bank accounts to address differences in cash flow dates)

Entities should tailor these disclosures to the specific facts and circumstances of the transactions.

Foreign currency sensitivity

The following tables demonstrate the sensitivity to a reasonably possible change in USD and GBP exchange rates, with all other variables held constant. The impact on the Group's surplus before tax is due to changes in the fair value of monetary assets and liabilities including non-designated foreign currency derivatives and embedded derivatives. The impact on the Group's equity is due to changes in the fair value of forward exchange contracts designated as cash flow hedges. The Group's exposure to foreign currency changes for all other currencies is not material.
The Council does not have any material exposure to foreign currency risk.

	Change in USD rate	Effect on surplus before tax $000	Effect on equity/net assets $000
2020	+5%	(30)	(154)
	-5%	20	172
2019	+4%	(40)	(146)
	-4%	40	158

PBE IPSAS 30.47(a)

	Change in GBP rate	Effect on surplus before tax $000	Effect on equity/net assets $000
2020	+5%	26	102
	-5%	(15)	(113)
2019	+4%	31	92
	-4%	(28)	(96)

PBE IPSAS 30.47(a)

27. Financial assets and financial liabilities *continued*

The movement in the post-tax effect is a result of a change in the fair value of derivative financial instruments not designated in a hedge relationship and monetary assets and liabilities denominated in USD, where the functional currency of the entity is a currency other than USD. Although the derivatives have not been designated in a hedge relationship, they act as an economic hedge and will offset the underlying transactions when they occur.

The movement in equity arises from changes in USD borrowings (net of cash and cash equivalents).

Commodity price risk

The Group is affected by the price volatility of certain commodities. Its operating activities require the ongoing purchase and manufacture of electronic parts and therefore require a continuous supply of copper. Due to the significantly increased volatility of the price of the copper, the Group also entered into various purchase contracts for brass and chrome (for which there is an active market). The prices in these purchase contracts are linked to the price of electricity.

The Group's Board of Directors has developed and enacted a risk management strategy regarding commodity price risk and its mitigation.

Based on a 12-month forecast of the required copper supply, the Group hedges the purchase price using forward commodity purchase contracts. The forecast is considered to be highly probable.

Forward contracts with a physical delivery that qualify for normal purchase, sale or usage and that are therefore not recognised as derivatives are disclosed in Note 27.3.

Commodity price sensitivity

The following table shows the effect of price changes in copper net of hedge accounting impact. *PBE IPSAS 30.47(a)*

	Change in year-end price	Effect on surplus before tax	Effect on net assets/equity
2020		$000	$000
Copper	+15%	(220)	(585)
	-15%	220	585
Brass	+4%	(8)	(8)
	-4%	8	8
Chrome	+2%	(10)	(10)
	-2%	10	10

Equity price risk

PBE IPSAS 30.40

The Group's listed and unlisted equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. The majority of these investment securities are held for strategic reasons and therefore the equity price risk associated with these securities is not managed. However, the Group manages some of the equity price risk through diversification and by placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the Group's senior management on a regular basis. The Group's Board of Directors reviews and approves all equity investment decisions.

At the reporting date, the exposure to unlisted equity securities at fair value was $1,038,000. Sensitivity analyses of these investments have been provided in Note 27.4. *PBE IPSAS 30.47*

At the reporting date, the exposure to listed equity securities at fair value was $337,000. A decrease of 10% on the NZX market index could have an impact of approximately $55,000 on the surplus or equity/net assets attributable to the Group, depending on whether the decline is significant or prolonged. An increase of 10% in the value of the listed securities would only impact equity/net assets, but would not have an effect on surplus.

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27. Financial assets and financial liabilities *continued*

Credit risk

PBE IPSAS 30.40

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

Trade receivables from exchange transactions

PBE IPSAS 30.40
PBE IPSAS 30.43
PBE IPSAS 30.41(c)

Customer credit risk in relation to trade receivables from exchange transactions is managed by the Council and each Council-controlled organisation subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of a customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables are regularly monitored. At 30 June 2020, the Group had 45 customers (2019: 46 customers) that owed the Group more than $200,000 each and accounted for approximately 58% (2019: 65%) of all the receivables outstanding. The Council was not subject to material credit concentration in relation to trade receivables.

An impairment analysis is performed at each reporting date on an individual basis for major clients. In addition, a large number of minor receivables are grouped into homogenous groups and assessed for impairment collectively. The calculation is based on actual incurred historical data. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in Notes 29 and 30. The Group does not hold collateral as security. The Group evaluates the concentration of risk with respect to trade receivables as low, as its customers are located in several jurisdictions and industries and operate in largely independent markets.

The majority of the Group's receivables from non-exchange transactions arise from the Council's statutory functions. The Group are not exposed to material concentration of credit risk around rates and other receivables from non-exchange transactions as there is a large number of ratepayers and customers, and the Council has a statutory right to recover outstanding funds under the Local Government (Rating) Act 2002.

Financial instruments and cash deposits

PBE IPSAS 30.40
PBE IPSAS 30.43

Credit risk from balances with banks and financial institutions is managed in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed by the Council's Finance Committee on an annual basis, and may be updated throughout the year subject to approval of the Group's Finance Committee. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty's failure to make payments. The Group's maximum exposure to credit risk for the components of the statement of financial position at 30 June 2020 and 2019 is the carrying amounts as illustrated in Notes 29 and 30, except for financial guarantees and derivative financial instruments. The Council is exposed to credit risk as a guarantor of all of the LGFA's borrowings. This guarantee becomes callable in the event of the LGFA failing to pay its obligations as they fall due. The Group's maximum exposure for financial guarantees and financial derivative instruments is noted in the liquidity table below.

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27. Financial assets and financial liabilities *continued*

Liquidity risk

PBE IPSAS 30.40
PBE IPSAS 30.46(c)

Liquidity risk is the risk that the Group may encounter difficulties in meeting financial liabilities as they fall due. The Group monitor and manage this risk in accordance with the Council's Liability Management Policy.

PBE IPSAS 30.41(c)

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans and facilities, debentures, finance leases and hire purchase contracts. The Group's policy is that not more than 25% of borrowings should mature in the next 12-month period. Approximately 10% of the Group's debt will mature in less than one year at 30 June 2020 (2019: 11%) based on the carrying value of borrowings reflected in the financial statements. The Group assessed the concentration of risk with respect to refinancing its debt and concluded it to be low. Access to sources of funding is sufficiently available and debt maturing within 12 months can be rolled over with existing lenders.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

PBE IPSAS 30.46(a)
PBE IPSAS 30.46(b)

	Group					
30 June 2020	On demand $000	Less than 3 months $000	3 to 12 months $000	1 to 5 years $000	> 5 years $000	Total $000
Interest-bearing borrowings	966	21	1,578	11,230	10,324	24,119
Contingent consideration	–	–	1,125	–	–	1,125
Other financial liabilities	–	–	–	150	–	150
Trade and other payables	3,620	15,030	1,170	–	–	19,820
Financial guarantee contracts*	105	–	–	–	–	105
Derivatives and embedded derivatives	1,970	2,740	391	1,191	1,329	7,621
	6,661	17,791	4,264	12,571	11,653	52,940

* Based on the maximum amount that can be called for under the financial guarantee contract

27. Financial assets and financial liabilities *continued*

Group

30 June 2019	On demand $000	Less than 3 months $000	3 to 12 months $000	1 to 5 years $000	> 5 years $000	Total $000
Interest-bearing borrowings	2,650	18	133	9,496	13,976	26,273
Trade and other payables	4,321	14,696	2,056	–	–	21,073
Other financial liabilities	–	–	–	202	–	202
Financial guarantee contracts*	68	–	–	–	–	68
Derivatives and embedded derivatives	549	1,255	–	–	–	1,804
	7,588	15,969	2,189	9,698	13,976	49,420

Council

PBE IPSAS 30.46(a)
PBE IPSAS 30.46(b)

30 June 2020	On demand $000	Less than 3 months $000	3 to 12 months $000	1 to 5 years $000	> 5 years $000	Total $000
Interest-bearing borrowings	966	21	1,578	6,554	9,000	18,119
Trade and other payables	1,120	11,570	1,952	–	–	14,642
Financial guarantee contracts*	105	–	–	–	–	105
	2,191	11,591	4,655	6,704	9,000	34,141

30 June 2019	On demand $000	Less than 3 months $000	3 to 12 months $000	1 to 5 years $000	> 5 years $000	Total $000
Interest-bearing loans and borrowings	2,650	18	133	8,872	11,600	23,273
Trade and other payables	3,321	11,139	1,056	–	–	15,516
Financial guarantee contracts*	68	–	–	–	–	68
	6,039	11,157	1,189	9,074	11,600	39,059

* *Based on the maximum amount that can be called for under the financial guarantee contract.*

Collateral

PBE IPSAS 2.59
PBE IPSAS 30.18
PBE IPSAS 30.45

The Group has pledged part of its short-term deposits in order to fulfil the collateral requirements for the derivatives contracts. At 30 June 2020 and 2019, the fair values of the short-term deposits pledged were $5 million and $2 million, respectively. The counterparties have an obligation to return the securities to the Group.

PBE IPSAS 30.19
PBE IPSS 30.43(b)

The Group also holds deposit in respects of derivative contracts $565,000 as at 30 June 2020 (2019: $385,000). The Group has an obligation to repay the deposit to the counterparties upon settlement of the contracts. There are no other significant terms and conditions associated with the use of collateral.

28 Inventories

PBE IPSAS 12.47(b)
PBE IPSAS 1.94(c)

	Group 2020 $000	Group 2019 $000	Council 2020 $000	Council 2019 $000
Inventory held for distribution or provision of services at no charge or nominal charge:				
Raw materials and consumables (at cost)	1,290	1,513	995	1,335
Work in progress (at cost)	223	231	-	-
Finished goods (at cost less adjustments for loss of service potential)	564	761	-	-
	2,077	2,505	995	1,335
Inventory held for sale or provision of services at commercial terms:				
Raw materials and consumables (at cost)	906	1,112	475	788
Work in progress (at cost)	142	150	-	-
Finished goods (at lower of cost and net realisable value)	137	318	-	-
	1,185	1,580	475	788
	3,262	4,085	1,470	2,123

During 2020, $286,000 (2019: $242,000) was recognised as an expense in relation to inventory write-down to net realisable value. This is recognised in general expenses. *PBE IPSAS 12.47(e)*

Commentary
PBE IPSAS 12.47(b) requires the carrying amounts of inventories to be presented in classifications appropriate to the entity. PBE IPSAS 12 also distinguishes between the measurement of inventories held for distribution or held for use in the provision of services at no charge or nominal charge, and the measurement of other inventories held for sale or for use in the provision of services at commercial terms. As the Group holds both types of inventory, the Council deemed it appropriate to present these types of inventory separately.

29 Receivables from non-exchange transactions

PBE IPSAS 30.10
PBE IPSAS 23.106(b)

	Group 2020 $000	Group 2019 $000	Council 2020 $000	Council 2019 $000
Rates receivable	10,567	9,987	10,567	9,987
Other receivables from non-exchange transactions	3,089	2,003	2,589	1,503
Less provision for impairment	(650)	(574)	(626)	(550)
	13,006	11,416	12,530	10,940

Receivables from non-exchange transactions are non-interest bearing and are generally on terms of 30 to 90 days.

For terms and conditions relating to related party receivables, refer Note 39.

Impairment:
The provision for impairment relates mainly to fines receivable.
As the Council has various powers under the Local Government (Rating) Act 2002 to recover outstanding rates, the Group does not provide for any impairment of rates receivable.
As 30 June 2020, receivables from non-exchange transactions of an initial value of $650,000 (2019: $574,000) were impaired and fully provided for by the Group.
As 30 June 2020, receivables from non-exchange transactions of an initial value of $626,000 (2019: $550,000) were impaired and fully provided for by the Council.

29 Receivables from non-exchange transactions *continued*

See below for the movements in the provision for impairment of receivables:

PBE IPSAS 30.20

Commentary
The below reconciliation is only required to be disclosed when the entity records the impairment of receivables in a separate account (e.g., an allowance account used to record individual impairments or a similar account used to record a collective impairment of assets) rather than directly reducing the carrying amount of the asset. If the entity does record impairment of receivables in separate accounts, the below reconciliation is not required.

PBE IPSAS 30.20

	Individually impaired $000	Collectively impaired $000	Total $000
Group			
At 1 July 2018	**148**	**347**	**495**
Charge for the year	38	74	112
Utilised	(6)	(17)	(23)
Unused amounts reversed	(8)	(2)	(10)
At 30 June 2019	**172**	**402**	**574**
Charge for the year	70	96	166
Utilised	(8)	(27)	(35)
Unused amounts reversed	(29)	(26)	(55)
At 30 June 2020	**205**	**445**	**650**
Council			
At 1 July 2018	**168**	**327**	**495**
Charge for the year	12	110	122
Utilised	(16)	(31)	(47)
Unused amounts reversed	(2)	(18)	(20)
At 30 June 2019	**162**	**388**	**550**
Charge for the year	60	122	182
Utilised	(14)	(39)	(53)
Unused amounts reversed	(13)	(40)	(53)
At 30 June 2020	**195**	**431**	**626**

As at 30 June, the ageing analysis of receivables from non-exchange transactions is, as follows: *PBE IPSAS 30.44*

	Total	Neither past due nor impaired	Past due but not impaired <30 days	30-60 days	61-90 days	>90 days
	$000	$000	$000	$000	$000	$000
Group						
2020	**13,006**	11,566	720	360	216	144
2019	**11,416**	10,487	465	232	139	93
Council						
2020	**12,530**	11,067	732	366	219	146
2019	**10,940**	10,037	452	226	135	90

Commentary
EARLY ADOPTORS OF PBE IFRS 9 or PBE IPSAS 41: Refer to Appendix 12 for the illustrative disclosure in relation to impairment of financial assets.

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30 Receivables from exchange transactions

PBE IPSAS 30.10

	Group 2020 $000	Group 2019 $000	Council 2020 $000	Council 2019 $000
Trade receivables	15,468	14,132	11,394	10,027
Receivables from related parties:				
Controlled entities	-	-	551	582
Associates	300	440	300	440
Joint ventures	320	110	320	110
Less provision for impairment	(1,422)	(1,808)	(1,110)	(1,374)
	14,666	**12,874**	**11,455**	**9,785**

Trade receivables include mainly receivables from port charges and rent receivable.
Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days.
For terms and conditions relating to related party receivables, refer Note 39.

Impairment:
As 30 June 2020, trade receivables of an initial value of $422,000 (2019: $808,000) were impaired and fully provided for by the Group.

As 30 June 2020, receivables from exchange transactions of an initial value of $110,000 (2019: $374,000) were impaired and fully provided for by the Council.

See below for the movements in the provision for impairment of receivables:

PBE IPSAS 30.20

Commentary
The below reconciliation is only required to be disclosed when the entity records the impairment of receivables in a separate account (e.g., an allowance account used to record individual impairments or a similar account used to record a collective impairment of assets) rather than directly reducing the carrying amount of the asset. If the entity does record impairment of receivables in separate accounts, the below reconciliation is not required.

PBE IPSAS 30.20

	Individually impaired $000	Collectively impaired $000	Total $000
Group			
At 1 July 2018	**535**	**219**	**754**
Charge for the year	56	166	222
Utilised	(36)	(62)	(98)
Unused amounts reversed	(15)	(55)	(70)
At 30 June 2019	**540**	**268**	**808**
Charge for the year	123	176	299
Utilised	(45)	(107)	(152)
Unused amounts reversed	(466)	(67)	(533)
At 30 June 2020	**152**	**270**	**422**
Council			
At 1 July 2018	319	54	373
Charge for the year	51	99	150
Utilised	(36)	(62)	(98)
Unused amounts reversed	(13)	(38)	(51)
At 30 June 2019	**321**	**53**	**374**
Charge for the year	-	177	177
Utilised	(45)	(108)	(153)
Unused amounts reversed	(221)	(67)	(288)
At 30 June 2020	**55**	**55**	**110**

30 Receivables from exchange transactions *continued*

As at 30 June, the ageing analysis of trade receivables is, as follows:

PBE IPSAS 30.44

			Past due but not impaired			
	Total	Neither past due nor impaired	<30 days	30-60 days	61-90 days	>90 days
	$000	$000	$000	$000	$000	$000
Group						
2020	**14,666**	9,740	2,463	1,231	939	293
2019	**12,874**	9,156	1,859	929	758	172
Council						
2020	**11,455**	7,608	1,923	962	777	185
2019	**9,785**	6,959	1,413	706	624	83

See Note 27 on credit risk of trade receivables, which explains how the Group manages and measures credit quality of trade receivables that are neither past due nor impaired.

Commentary

EARLY ADOPTORS OF PBE IFRS 9 or PBE IPSAS 41: Refer to Appendix 12 for the illustrative disclosure in relation to impairment of financial assets.

31 Cash and cash equivalents

PBE IPSAS 2.56

	Group		Council	
	2020	2019 (restated*)	2020	2019
	$000	$000	$000	$000
Cash at bank and on hand	10,653	22,634	4,383	19,091
Short term deposits	6,016	10,846	1,650	10,476
	16,669	**33,480**	**6,033**	**29,567**

* Certain amounts shown here do not corresponding to the 2019 financial statements and reflect adjustment made due to change in accounting policies. See Note 2(c).

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

At 30 June 2020, the Group had available $5,740,000 (2019: $1,230,000) of undrawn committed borrowing facilities.

PBE IPSAS 2.61(a)

The Group has pledged a part of its short-term deposits to fulfil collateral requirements. Refer to Note 27.5 for further details.

PBE IPSAS 2.59

The cash and cash equivalents balance of the Group includes an amount of $1.2m (2019: $1.9m) that relates to unspent grant funds that are subject to restrictions. The unspent funds relate to upgrading the Local City community centre building, improving the wellbeing of children in the community, and building five community housing blocks. The restrictions attached to these grants specify that the grants must be spent for the aforementioned respective purposes, and provide a timeframe within which the agreed-upon deliverables required for achieving the purpose of the grants must be completed.

An additional $3.8m of cash and cash equivalents held by the Council (2019: $17m) has a restriction such that these funds can only be spent on specific rateable services.

PBE IPSAS 23.106(d)

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following at 30 June:

PBE IPSAS 2.56

	Group		Council	
	2020	2019	2020	2019
Cash at bank and on hand	$000	$000	$000	$000
Short term deposits	10,653	22,634	4,383	19,091
Bank overdrafts	6,016	10,846	1,650	10,476
Cash and cash equivalents for the purpose of the statement of cash flows	(966)	(2,650)	(966)	(2,650)
	15,703	**30,830**	**5,067**	**26,917**

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32 Non-current assets held for sale

On 30 June 2020, a piece of port equipment held by the Group was classified as held for sale. Prior to reclassification, the piece of equipment was recognised within the Group's property, plant and equipment as part of operational plant and equipment class. Several items of port machinery were upgraded during this year, and as a result of this upgrade this piece of equipment is no longer required. The carrying value of the equipment as at 30 June 2020 was $154,000. As the fair value of the equipment less cost to sell is not materially different to the carrying value, no impairment loss was recognised upon the reclassification of the equipment as held for sale. The sale of the equipment is expected to be completed by December 2020. The Group did not have any non-current assets held for sale in 2019.

PBE IFRS 5.38
PBE IFRS 5.41

The Council does not have any non-current assets held for sale (2019: Nil).

33 Provisions

Movements in provisions

Movements in each class of provision during the financial year, other than provisions relating to employee benefits, are set out below:

	Rehabilitation - landfill $000	Weather-tightness $000	Re-structuring $000	Onerous operating lease $000	Contingent liability $000	Total $000	
Group							
At 1 July 2019	720	655	–	–	–	1,375	*PBE IPSAS 19.97(a)*
Acquisition of controlled entity (Note 6)	–	–	–	400	380	780	
Arising during the year	102	138	500	–	20	760	*PBE IPSAS 19.97(b)*
Utilised	–	(79)	(39)	(20)	–	(138)	*PBE IPSAS 19.97(c)*
Unused amounts reversed	(8)	(6)	(6)	–	–	(20)	*PBE IPSAS 19.97(d)*
Unwinding and discount rate adjustment	15	11	11	6	–	43	*PBE IPSAS 19.97(e)*
At 30 June 2020	**829**	**719**	**466**	**386**	**400**	**2,800**	*PBE IPSAS 19.97(a)*
2020							
Current	–	145	100	205	400	850	
Non-current	829	574	366	181	–	1,950	
	829	**719**	**466**	**386**	**400**	**2,800**	
2019							
Current	–	85	–	–	–	85	
Non-current	720	570	–	–	–	1,290	
	720	**655**	–	–	–	**1,375**	

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33 Provisions *continued*

Council	Rehabilitation – landfill	Weather-tightness	Re-structuring	Onerous operating lease	Contingent liability	Total	
	$000	$000	$000	$000	$000	$000	
At 1 July 2019	720	655	–	–	–	1,375	*PBE IPSAS 19.97(a)*
Arising during the year	102	138	500	–	–	740	*PBE IPSAS 19.97(b)*
Utilised	–	(79)	(39)	–	–	(118)	*PBE IPSAS 19.97(c)*
Unused amounts reversed	(8)	(6)	(6)	–	–	(20)	*PBE IPSAS 19.97(d)*
Unwinding and discount rate adjustment	15	11	11	–	–	37	*PBE IPSAS 19.97(e)*
At 30 June 2020	**829**	**719**	**466**	–	–	**2,014**	*PBE IPSAS 19.97(a)*
2020							
Current	–	145	100	–	–	245	
Non-current	829	574	366			1,769	
	829	**719**	**466**	–	–	**2,014**	
2019							
Current	–	85	–	–	–	85	
Non-current	720	570	–	–	–	1,290	
	720	**655**	–	–	–	**1,375**	

Rehabilitation - landfill *PBE IPSAS 19.98(a)*

The Group recognised a provision for post-closure rehabilitation costs that are expected to be incurred in connection with the closure of the Local City landfill. The provision is calculated as the present value of expected costs to settle the obligation, using estimated cash flows and a pre-tax rate that reflects the risks specific to the rehabilitation liability.

PBE IPSAS 19.98(b)
PBE IPSAS 19.RDR 98.1

The following key assumptions have been used in calculating the landfill rehabilitation provision:

- Estimated time of closure: 2021
- Estimated remaining capacity: 500,000m^3
- Length of post-closure monitoring period: 20 years
- Total expected cash outflow – undiscounted: $2,000,000
- Discount rate: 6.5%

The unwinding of the discount during the year has been recognised as an expense within finance costs.

Weathertightness *PBE IPSAS 19.98(a)*

The Group recognised a provision for the Council's estimated liability relating to the settlement of weathertightness claims made under the Weathertight Homes Resolution Services Act 2006 and via civil proceedings.

The provision is calculated as estimated cash flows relating to settlement, discounted at to present value at a pre-tax rate reflecting the risks specific to the weathertightness provision.

PBE IPSAS 19.98(b)
PBE IPSAS 19.RDR 98.1

The following key assumptions have been used in calculating the weathertightness provision:

- Value of actively managed claims: $950,000
- Value of claims not yet actively managed and expected future claims: $1,050,000
- Timing of payment: the majority of payments is expected to be made in the next 5 years
- Discount rate: 6.5%

The Council has also estimated the percentage of successful claims for current actively managed claims, reported claims that are yet to be actively managed and future expected claims. This is based on historic success rates.

The unwinding of the discount during the year has been recognised as an expense within finance costs.

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33 Provisions *continued*

Restructuring
The Council recorded a restructuring provision in relation to the reorganisation of its finance and administration department. The restructuring plan was drawn up and announced to the employees of the Council in 2020. The restructuring is expected to be completed by 2020.

PBE IPSAS 19.98(a)
PBE IPSAS 19.98(b)

Onerous operating lease
On acquisition of Local Property Management Limited, a provision was recognised for the fact that the lease premiums on the operating lease were significantly higher than the market rate at acquisition. The provision has been calculated based on the difference between the market rate and the rate paid.

PBE IPSAS 19.98(a)
PBE IPSAS 19.98(b)

Contingent liability
A contingent liability at a fair value of $380,000 was initially recognised at the acquisition date of Local Property Management Limited. The claim is subject to legal arbitration and only expected to be finalised in late 2020. At the reporting date, the provision was re-assessed and increased to $400,000.

PBE IFRS 3.56(a)

34 Deferred revenue from non-exchange transactions

	Group 2020 $000	Group 2019 (restated*) $000	Council 2020 $000	Council 2019 (restated*) $000	
Deferred grant revenue	1,271	1,676	1,271	1,676	*PBE IPSAS 23.106(c)*
Deferred revenue on concessionary loan	1,318	1,647	1,318	1,647	*PBE IPSAS 23.106(cA)*
	2,589	**3,323**	**2,589**	**3,323**	
Current					
Deferred grant revenue	419	421	419	421	
Deferred revenue on concessionary loan	310	320	310	320	
	729	**741**	**729**	**741**	
Non-current					
Deferred grant revenue	852	1,255	852	1,255	
Deferred revenue on concessionary loan	1,008	1,327	1,008	1,327	
	1,860	**2,582**	**1,860**	**2,582**	
	2,589	**3,323**	**2,589**	**3,323**	

Deferred grant revenue
Deferred grant revenue relates to a grant received from the Ministry of Social Development for the purpose of a programme initiated by Local City Council to support children's wellbeing in the community. The amount received was $2,000,000 in 2019. One of the stipulations attached to the grant requires the Council to return any unused grant monies if any of the stages of the programme is not completed within the timeframe specified in the grant agreement. Due to this return obligation, the Group have recognised the grant as deferred revenue. Revenue in relation to this grant is recognised as each stage of the project is completed. $405,000 of this grant was recognised in revenue in 2020.

*The 2019 deferred grant revenue figure has been restated due to the correction of a prior period error. Refer to Note 2(b) and Note 10 for further explanation.

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34 Deferred revenue from non-exchange transactions *continued*

Deferred revenue on concessionary loan

In 2019, Local City Council received a concessionary loan of $10,000,000 from the Government. The purpose of the loan was to fund the building of additional Council social houses. The loan is to be repaid over a period of five years at an interest rate of 3.5%. The market interest rate is 7.5%. At the date of the receipt of the loan from the Government, the difference between the $10,000,000 loan proceeds received by the Council and the contractual cash flows of the loan, discounted by the market interest rate, was $1,647,000. To the extent that the houses are not built in accordance with the timeframe stipulated in the loan agreement, the Council has an obligation of early repayment of the loan. Due to this return obligation, the Group has recognised a deferred revenue liability in relation to the difference between the loan proceeds received and the present value of the contractual cash flows of the loan. The remainder of the loan was recognised within interest-bearing loans and borrowings. Refer to Note 27.

In relation to the deferred revenue portion of the concessionary loan, revenue is recognised in the statement of financial performance as the Council completes each stage of the building project as per the loan agreement. In the current year, $329,000 was recognised in revenue in relation to the concessionary loan.

35 Employee benefits liability

PBE IPSAS 1.94(e)
PBE IPSAS 39.25
PBE IPSAS 39.161

	Group		Council	
	2020	2019	2020	2019
	$000	$000	$000	$000
Annual leave	1,943	1,716	1,194	1,199
Long service leave	541	545	340	254
Accrued salaries and wages	432	568	240	278
Other employee benefit liabilities	134	148	56	55
	3,050	2,977	1,830	1,786

36 Payables under exchange transactions

	Group		Council	
	2020	2019 (restated*)	2020	2019
	$000	$000	$000	$000
Trade payables	17,528	18,945	12,813	13,848
Other payables and accruals	2,249	1,859	1,756	1,457
Interest payable	43	269	33	189
Related parties payables	-	-	40	22
	19,820	21,073	14,642	15,516

* Certain amounts shown here do not corresponding to the 2019 financial statements and reflect adjustment made due to change in accounting policies. See Note 2(c).

Terms and conditions of the above financial liabilities:

PBE IPSAS 30.46(a)

- Trade payables are non-interest bearing and are normally settled on 60-day terms
- Development contributions are non-interest bearing and have an average term of six months
- Other payables are non-interest bearing and have an average term of six months
- Interest payable is normally settled quarterly throughout the financial year
- Related party payables mainly relate to property management fees payable by the Council to Local Property Management Limited. For terms and conditions with related parties, refer to Note 39.

For explanations on the Group's credit risk management processes, refer to Note 27.

PBE IPSAS 30.46(c)

37 Ratepayers' equity and reserves

The disaggregation of changes arising from other comprehensive revenue and expense for each type of reserve and transfers between reserves is shown below. The amounts are shown net of tax, to the extent that they do not relate to the Council's activities (as the Council's income is not taxable).

Group	Accumulated comprehensive revenue and expense $000	Asset re-valuation reserve $000	Available-for-sale reserve $000	Cash flow hedge reserve $000	Targeted rates reserve $000	Special projects reserve $000	Total $000
At 30 June 2020							
Currency forward contracts	–	–	–	(640)	–	–	(640)
Commodity forward contracts	–	–	–	(154)	–	–	(154)
Reclassified to surplus or deficit	–	–	–	282	–	–	282
Gain/(loss) on AFS financial assets	–	–	(57)	–	–	–	(57)
Net transfer to targeted rates reserve	(196)	–	–	–	196	–	–
Net transfer from special projects reserve	247	–	–	–	–	(247)	–
Revaluation of land and buildings	–	24,311	–	–	–		24,311
	51	**24,311**	**(57)**	**(512)**	**196**	**(247)**	**23,742**

Group	Accumulated comprehensive revenue and expenses $000	Asset re-valuation reserve $000	Available-for-sale reserve $000	Cash flow hedge reserve $000	Targeted rates reserve $000	Special projects reserve $000	Total $000
At 30 June 2019							
Currency forward contracts	–	–	–	(265)	–	–	(265)
Reclassified to surplus or deficit	–	–	–	289	–	–	289
Gain/(loss) on AFS financial assets	–	–	3	–	–	–	3
Net transfer to targeted rates reserve	117	–	–	–	(117)	–	–
Net transfer from special projects reserve	273	–	–	–	–	(273)	–
Revaluation of land and buildings	–	–	–	–	–		–
	390	**–**	**3**	**24**	**(117)**	**(273)**	**27**

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37 Ratepayers' equity and reserves *continued*

Council	Accumulated comprehensive revenue and expenses $000	Asset re-valuation reserve $000	Available-for-sale reserve $000	Cash flow hedge reserve $000	Targeted rates reserve $000	Special projects reserve $000	Total $000
At 30 June 2020							
Currency forward contracts	–	–	–	–	–	–	–
Reclassified to surplus or deficit	–	–	–	–	–	–	–
Gain/(loss) on AFS financial assets	–	–	(57)	–	–	–	(57)
Net transfer to targeted rates reserve	(196)	–	–	–	196	–	–
Net transfer from special projects reserve	247	–	–	–	–	(247)	–
Revaluation of land and buildings	–	20,729	–	–	–		20,729
	51	**20,729**	**(57)**	**–**	**196**	**(247)**	**20,672**

Council	Accumulated comprehensive revenue and expenses $000	Asset re-valuation reserve $000	Available-for-sale reserve $000	Cash flow hedge reserve $000	Targeted rates reserve $000	Special projects reserve $000	Total $000
At 30 June 2019							
Currency forward contracts	–	–	–	–	–	–	–
Reclassified to surplus or deficit	–	–	–	–	–	–	–
Gain/(loss) on available-for-sale financial assets	–	–	3	–	–	–	3
Net transfer to targeted rates reserve	117	–	–	–	(117)	–	–
Net transfer from special projects reserve	273	–	–	–	–	(273)	–
Revaluation of land and buildings	–	–	–	–	–	–	–
	390	**–**	**3**	**–**	**(117)**	**(273)**	**3**

Commentary

The disclosure above shows a single targeted rates reserve, a single special projects reserve and the net movement in these two reserves. However, a local authority would typically have a number of targeted rates reserves and special projects reserves. Section 31 of Schedule 10 of the Local Government Act 2002 requires a local authority to disclose the following for each such reserve: purpose of fund, activities to which the fund relates, amount of fund at the beginning and end of the year, the total amount deposited into the fund and the total amount withdrawn. PBEs should refer to relevant legislation for specific disclosure requirements regarding reserves within equity.

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38 Commitments and contingencies

Operating lease commitments – Group as a lessee

The Group has entered into commercial leases on certain motor vehicles and items of machinery. These leases have an average life of between three and five years, with no renewal option included in the contracts. There are no restrictions placed upon the Group by entering into these leases. *PBE IPSAS 13.44(d)*

Future minimum rentals payable under non-cancellable operating leases as at 30 June 2020 and 2019 are, as follows:

PBE IPSAS 13.44(a)

	Group		Council	
	2020	2019	2020	2019
	$000	$000	$000	$000
Within one year	255	250	104	99
After one year but not more than five years	612	600	303	290
More than five years	408	400	213	209
	1,275	1,250	620	598

Operating lease commitments – Group as a lessor

The Council has entered into commercial property leases on its investment property portfolio consisting of the Group's surplus office and manufacturing buildings. These non-cancellable leases have remaining terms of between five and 20 years. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions. *PBE IPSAS 13.69(c)*

Future minimum rentals receivable under non-cancellable operating leases as at 30 June 2020 and 2019 are, as follows:

PBE IPSAS 13.69(a)

	Group and Council	
	2020	2019
	$000	$000
Within one year	1,418	1,390
After one year but not more than five years	5,630	5,520
More than five years	5,901	5,864
	12,949	12,774

PBE IPSAS 13.RDR 69.1

Finance lease and hire purchase commitment – Group as a lessee

The Council does not have any finance leases and hire purchase contracts. The Group has finance leases and hire purchase contracts for various items of plant and machinery. These leases have terms of renewal, but no purchase options and escalation clauses. Renewals are at the option of the specific entity that holds the lease. Future minimum lease payments under finance leases and hire purchase contracts together with the present value of the net minimum lease payments are, as follows: *PBE IPSAS 13.40(f)*

PBE IPSAS 13.40(c)
PBE IPSAS 13.RDR40.1

	Group			
	2020		2019	
	$000	$000	$000	$000
	Minimum payments	Present value of payments	Minimum payments	Present value of payments
Within one year	85	83	56	51
After one year but not more than five years	944	905	1,014	943
More than five years	–	–	–	–
Total minimum lease payments	1,029	988	1,070	994
Less amounts representing finance charges	(41)	–	(76)	–
Present value of minimum lease payments	988	988	994	994

PBE IPSAS 13.40(b)

Commentary

According to PBE IPSAS 13 RDR 40.1, Tier 2 PBEs are not required to disclose the present value of the total of future minimum lease payments at the reporting date, as required by PBE IPSAS 13.40(c).

Tier 2 PBEs are also not required to disclose the reconciliation between the total of future minimum lease payments at the end of the reporting period, and their present value, as required by PBE IPSAS 13.40(b).

38 Commitments and contingencies *continued*

Commitments

At 30 June 2020, the Group had commitments of $2,310,000 (2019: $4,500,000) including $2,000,000 (2019: Nil) relating to the completion of a roading project (in relation to the roads and infrastructure asset class within infrastructural assets) and $310,000 (2019: $516,000) relating to the Group's interest in the joint venture.

PBE IPSAS 17.89(c)
PBE IPSAS 39.39(a)

Legal claim contingency

PBE IPSAS 19.100

A customer has commenced an action against the Council in respect of a resource consent application. The estimated pay-out is $850,000 should the action be successful. A trial date has not yet been set and therefore it is not practicable to state the timing of the payment, if any.

The Council has been advised by its legal counsel that it is only possible, but not probable, that the action will succeed. Accordingly, no provision for any liability has been made in these financial statements.

Guarantees

The Group has provided the following guarantees at 30 June 2020:

- Guarantee of 25% of the bank overdraft of the associate to a maximum amount of $500,000 (2019: $250,000), which is incurred jointly with other investors of the associate (carrying amounts of the related financial guarantee contracts were $67,000 and $34,000 at 30 June 2020 and 2019, respectively)

  PBE IPSAS 38.39(b)
  PBE IPSAS 20.28(i)

- Guarantee to an unrelated party for the performance in a contract by the joint venture. No liability is expected to arise

  PBE IPSAS 38.29(a)

- Guarantee of its share of $20,000 (2019: $13,000) of the associate's contingent liabilities which have been incurred jointly with other investors

  PBE IPSAS 38.39(b)

- Guarantee of LGFA's debt. The Council considers the risk of the LGFA defaulting on its debt to be low on the basis that the Council is not aware of any local authority debt default events in New Zealand. Therefore, a liability is not recognised

  PBE IPSAS 19.100
  PBE IPSAS 20.28

Contingent liabilities

PBE IPSAS 19.100

The Group recognised a contingent liability of $380,000 in the course of the acquisition of Local Property Management Limited. This liability was reassessed at year end and was determined to be $400,000 as at 30 June 2020. Refer to Note 6.

Commentary

LOCAL AUTHORITIES ONLY: LGFA guarantee

The New Zealand Local Government Funding Authority (LGFA) is currently owned by 30 local authorities, and its debts are guaranteed by 18 local authorities. Local City Council has a non-controlling interest in LGFA and is a guarantor of LGFA's debt. Therefore, the guarantee of LGFA's debt has been specifically disclosed. This disclosure is only relevant to local authorities that guarantee the debt of LGFA. PBEs need to disclose specific guarantees that they have provided, if material, under PBE IPSAS 19.100.

39 Related party transactions

Related party transactions other than remuneration of key management personnel *PBE IPSAS 20.25*
Note 5 provides information about the Group's structure including details of controlled entities and other investments.

PBE IPSAS 20.27

All related party transactions that the Group entered into during the year occurred within a normal client/supplier relationship and under terms equivalent to those that prevail in arm's length transactions in similar circumstances.

Commentary:
PUBLIC SECTOR PBEs ONLY:
Disclosures of related party transactions and balances:
In relation to related party transactions that are not remuneration of key management personnel, PBE IPSAS 20 requires public sector PBEs to disclose only those related party transactions and balances which have been entered into on terms other than arm's length. A public sector PBE does not need to disclose related parties transactions and balances that would have occurred within a normal supplier or client/recipient relationship, on terms and conditions no more or less favourable than those which the entity would have adopted if dealing with that party at arm's length in the same circumstances (PBE IPSAS 20.27).

All transactions between the Group and their related parties, and all of the outstanding balances between the Group and their related parties, are on terms equivalent to arm's length transactions and balances. Therefore, the Group did not disclose these transactions and balances.

If a public sector PBE enters into transactions with related parties on a non-arm's-length basis and/or has outstanding balances with related parties in relation to such transactions, PBE IPSAS 20 requires the entity to disclose the nature of the related party relationship, the type of transactions that have been entered into, and the elements of the transaction necessary to clarify the significance of the transaction and to provide relevant and reliable information (including the amount of the transactions and outstanding balances and the general terms of the transactions) (PBE IPSAS 20.27(a)-(c), PBE IPSAS 20.30). Examples of such disclosures are provided in Appendix 6 (note that even though Appendix 6 presents disclosures for not-for-profit entities, these disclosures would be similar for a public sector PBE that had related party transactions that were not on arm's length basis).

NOT-FOR-PROFIT PBEs: REFER TO APPENDIX 6
Not-for-profit PBEs do not have a similar exemption as public sector PBEs in regard to disclosure of arms-length transactions. Not-for-profit PBEs have to disclose the nature, type and aggregate amounts of all related party transactions and balances, regardless of whether terms and conditions are equivalent to arm's length transactions or not (PBE IPSAS 20.27.1). Refer to Appendix 6 for examples of related party disclosures for a not-for-profit entity. Note that the disclosures required by a public sector PBE where the transaction is not at arm's length are the same as those required by a not-for-profit PBE for all related party transactions.

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39 Related party transactions *continued*

Compensation of key management personnel
Key management personnel of the Group include the Chief Executive, Councillors and Executive Management Team. The total remuneration of members of the Council and the number of individuals, on a full-time equivalent (FTE) basis, receiving remuneration from the Group are:

	Group and Council		
	2020 $000	2019 $000	*PBE IPSAS 20.34(a)*
Councillors (6 FTE)	224	220	
Executive management (4 FTE)	314	307	
Total remuneration (10 FTE)	**538**	**527**	

The amounts disclosed in the table are the amounts recognised as an expense during the reporting period related to key management personnel. *PBE IPSAS 20.34(b)(i)*

PBE IPSAS 20.34(b)(ii)

Key management personnel did not receive any remuneration or compensation other than in their capacity as key management personnel (2019: Nil).

The Council did not provide any compensation at non-arm's length terms to close family members of key management personnel during the year (2019: Nil). *PBE IPSAS 20.34(c)*

The Council did not provide any loans to key management personnel or their close family members.

Commentary
Key management personnel disclosures: PBE IPSAS 20
PBE IPSAS 20 describes key management personnel (KMP) as all directors or members of the governing body of the entity and other persons having the authority and responsibility for planning, directing, and controlling the activities of the reporting entity (PBE IPSAS 20.4). The responsibilities of key management personnel may enable them to influence the benefits that flow to them or their related parties. Consequently, PBE IPSAS 20 requires specific disclosure to be made in aggregate about:

- The remuneration of KMP and close family members of KMP during the reporting period
- Loans made to them and
- The consideration provided to them for services they provide to the entity other than as a member of the governing body or an employee (Note: public sector PBEs need not disclose such consideration if the terms of the consideration are equivalent to those of an arm's length transaction)

Due to the nature of related party transactions, they may be considered qualitatively material despite the amount or size of the transaction.

LOCAL AUTHORITIES: REFER TO APPENDIX 7 FOR ADDITIONAL STATUTORY DISCLOSURES
In addition to the disclosures required by PBE IPSAS 20, the Local Government Act 2002 also requires the disclosure of the remuneration of specific key management personnel of local authorities.

Local authorities may provide these disclosures within their key management personnel notes. However, in this publication, the disclosures are provided in Appendix 7. Local authorities should refer to that appendix for further details.

Other PBEs that are not local authorities should consider if legislation applicable to them contains any similar additional requirements in relation to key management personnel.

40 Reconciliation of net cash flow from operating activities to surplus

	Group 2020	Group 2019 (restated*)	Council 2020	Council 2019	
	$000	$000	$000	$000	*PBE IPSAS 2.29*
Surplus before tax	17,193	14,117	10,674	9,801	
Adjustments for:					
Depreciation and impairment of property, plant and equipment	23,797	23,082	18,207	17,603	
Amortisation and impairment of intangible assets	374	122	174	102	
Property, plant and equipment acquired in non-exchange transactions	(2,190)	(2,150)	(2,190)	(2,150)	
(Gain)/loss on revaluation of investment properties	306	300	306	300	
Net (profit)/loss on disposal of property, plant and equipment	(532)	(2,007)	(132)	(501)	
Fair value adjustment of a contingent consideration	358	-	358	-	
Net gain on financial instruments at fair value through surplus or deficit	(850)	-	-	-	
Finance costs less interest paid	618	93	391	35	
Net loss on financial instruments at fair value through surplus or deficit	1,502	-	-	-	
Ineffectiveness of forward foreign exchange contracts designated as cash flow hedges	65	-	-	-	
Bad debts	206	121	206	145	
Doubtful debts	(329)	133	(188)	56	
Revenue from service concession arrangement	(55)	-	(55)	-	
Share of profit of an associate and a joint venture	(671)	(638)	-	-	
Changes in assets and liabilities					
(Increase)/decrease in trade and other receivables and prepayments	(3,461)	(3,087)	(3,300)	(2,986)	
(Increase)/decrease in inventories	823	701	653	583	
Increase/(decrease) in trade and other payables	(1,253)	(290)	(874)	(180)	
Increase/(decrease) in provisions, including employee provisions	1,498	32	683	32	
Increase/(decrease) in deferred revenue	(734)	3,350	(734)	3,350	
Income tax paid	(396)	(698)	-	-	
Net cash flows from operating activities	**36,269**	**33,181**	**24,179**	**26,190**	

* Certain amounts shown here do not corresponding to the 2019 financial statements and reflect adjustment made due to change in accounting policies. See Note 2(c).

41 Auditor remuneration

The auditor of Local City Council is EY.

	Group 2020 $000	Group 2019 $000	Council 2020 $000	Council 2019 $000	
Fees to EY for:					*PBE IPSAS 1.116.1(a)*
Audit of financial statements	340	330	226	216	
Audit of Long Term Plan	-	21	-	21	
	340	351	226	237	
Fees paid to non-EY audit firm for:					*PBE IPSAS 1.116.1(b) PBE IPSAS 1.116.2*
Audit of controlled entity's financial statements (Local Property Management Limited)	-	105			
Tax compliance services	75	72	-	-	
Other assurance services – payroll systems audit	19	17	-	-	
	94	194	-	-	

Commentary

Fees paid to each auditor or reviewer include fees paid to any network firm of the auditor or reviewer.

Tier 2 PBEs that are companies should be aware that although there is an RDR concession for disclosing audit fees, the disclosure of audit fees is still required by section 211(1)(j) of the Companies Act 1993.

42 Events after the reporting period

PBE IPSAS 14.30

There are no material non-adjusting events after the reporting date.

43 Explanation of major variances against forecast

PBE IPSAS 1.148.1

Major variations from the Council's forecast figures are explained below:

Statement of financial performance and statement of other comprehensive revenue and expense:
The Council's net surplus was $0.22m higher than forecasted, and total comprehensive revenue and expense was $0.20m higher than forecasted. The net effect of the following items contributed to this variation:

- Grant revenue was higher than forecasted by $0.98m. This is due to the Council's road maintenance expenditure exceeding forecasted expenditure and therefore higher NZTA reimbursements
- Development contributions were lower than forecasted by $0.36m. This is due to a large subdivision in Local City being unexpectedly delayed. This affected the timing of the development contribution associated with this subdivision, which was expected to be earned in 2020 and therefore included in the forecast
- Expenses were higher than forecasted by $0.42m. This is mainly due to general expenses and employee costs being higher than forecasted by $0.29m and $0.13m respectively. These increases are due to several short-term initiatives implemented by the Council during 2020 to respond to infrastructure maintenance and other operational needs as they arose

Statement of financial position:
The Council's net assets were $1.76m higher than forecasted.

This was mainly caused by the restatement of prior period equity due to retrospective recognition of $0.5m of revenue in relation to Government grants received in 2018 and 2019. The restatement occurred due to the correction of a prior period error. Refer to Note 2(b) for further explanation.

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43 Explanation of major variances against forecast *continued*

Other significant variances from forecast are detailed below:

- The property, plant and equipment balance was $0.61m higher than forecasted due to the timing of the Council's capital works, with some work that was expected to be carried out in the next financial year being carried out in 2020
- Cash was $0.27m higher than forecasted due to additional NZTA reimbursement grants received from the Government. Refer to statement of financial performance section above. The effect of this was somewhat offset by operational expenses as well as capital expenditure on property, plant and equipment being higher than forecasted, as explained above
- Total deferred revenue was $1.31m lower than forecasted, mainly due to the abovementioned retrospective revenue recognition of $0.5m in relation to grants that were previously treated as deferred revenue

44 Standards and Interpretations issued but not yet effective

PBE IPSAS 3.35
PBE IPSAS 3.36

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

Commentary

PBE IPSAS 3.35 requires disclosure of those standards that have been issued but are not yet effective. These disclosures are required to provide known or reasonably estimable information to enable users to assess the possible impact of the application of such PBE Standards on an entity's financial statements. For illustrative purposes, the Group has listed all standards and interpretations that are not yet effective. However, a preferred alternative would be to only list and address the ones expected to have an impact on the Group's financial position, performance, and/or disclosures.
For a listing of PBE Standards and Interpretations that have been issued but are not yet effective, refer to our quarterly New Accounting Standards and Interpretations publications. This publication is updated in March, June, September and December and is available from your local EY contact or on the IFRS page of the EY website (www.ey.com/en_nz/ifrs).

2018 Omnibus Amendments to PBE Standards

This amendment amended the following standard:
PBE IPSAS 2 *Statement of Cash Flows*

The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments are effective for annual periods beginning on or after 1 January 2021. Earlier application is permitted. There is no requirement to provide comparative information for preceding periods. Application of amendments will result in additional disclosures provided by the Group.

PBE FRS 48 *Service Performance Reporting*
This Standard was issued in November 2017 and establishes requirements PBEs to select and present service performance information.

PBEs within the scope of this Standard will need to provide users with:

- Sufficient contextual information to understand why the entity exists, what it intends to achieve in broad terms over the medium to long term, and how it goes about this and
- Information about what the entity has done during the reporting period in working towards its broader aims and objectives

This Standard applies to:

(a) All not-for-profit public benefit entities and
(b) Public sector public benefit entities required by legislation to provide information in respect of service performance in accordance with generally accepted accounting practice (GAAP). If an entity is required by legislation to report service performance information on only some of its activities, this Standard applies only to those activities.

44 Standards and Interpretations issued but not yet effective *continued*

PBE IFRS 48 is effective for annual periods beginning on or after 1 January 2021. Early application of the standard is permitted. The new standard will not impact the Group's financial statements as the Group is a public sector public benefit entities that is not required by legislation to provide information in respect of service performance in accordance with generally accepted accounting practice (GAAP).

***Uncertainty over Income Tax Treatments* (Amendment to PBE IAS 12 *Income taxes*)**
The amendments incorporate guidance based on that in NZ IFRIC 23 *Uncertainty over Income Tax Treatments* to clarify recognition and measurement requirements when there is uncertainty over income tax treatments.

The amendments address the following:

- Whether an entity considers uncertain tax treatments separately. An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.
- The assumptions an entity makes about the examination of tax treatments by taxation authorities.
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates.
- How an entity considers changes in facts and circumstances

The amendment is effective for annual periods beginning on or after 1 January 2020. Early application of the amendment is permitted. The amendment will not impact the Group's financial statements.

On first time adoption, entities can choose to apply these amendments either retrospectively (restating comparatives) by applying PBE IPSAS 3, or retrospectively by adjusting the impact via retained earnings at date of initial application with comparatives not being restated.

2019 Amendments to XRB A1 Application of the Accounting Standards Framework
This amendment updates XRB A1 Appendix A, which provides guidance on determining whether an entity is classified as a PBE.

The guidance on the definition of a PBE is amended to clarify that:

- Both parts of the definition of a PBE need to be assessed when determining an entity's classification.
- The classification as a PBE or for-profit entity is made at the entity level. As a result, the classification at the entity level may differ from the classification at the group level.
- It is possible for an entity to be classified as a for-profit entity for financial reporting purposes and to be a registered charity.

Other minor amendments have been made, and a new illustrative example has been added.

The amendment is effective for reporting periods beginning on or after 1 January 2020. Earlier application of the revised Appendix A is permitted. The amendment will not impact the Group's financial statements.

Interest Rate Benchmark Reform
This amending standard is based on amendments issued by the International Accounting Standards Board. The objective of the amendments is to provide temporary relief to enable hedge accounting to continue during a period of uncertainty before the replacement of an existing interest rate benchmark, such as interbank offered rates (IBORs), with an alternative nearly risk-free interest rate.

The amendments affect PBE IPSAS 29, PBE IPSAS 30, PBE IPSAS 41 and PBE IFRS 9 and modify some specific hedge accounting requirements.

44 Standards and Interpretations issued but not yet effective *continued*

Early adoption of the amending standard is permitted. In some cases where the amendments relate to standards that are not yet effective, the amendments are effective from 1 January 2020 or when an entity applies those standards, whichever comes first. The impact assessment of the aforementioned amendment is currently still ongoing.

PBE IPSAS 40 *PBE Combinations*
This Standard was issued in July 2019 and replaces PBE IFRS 3 *Business Combinations*.

PBE IFRS 3 excludes combinations under common control and combinations arising from local authority reorganisations from its scope.

The new Standard has a broader scope, and establishes requirements for accounting for both acquisitions and amalgamations (using the modified pooling of interests method).

In general, the Standard is to be applied prospectively to PBE combinations for which the amalgamation date or acquisition date is on or after 1 January 2021.

Earlier application of the standard is permitted. The new standard will impact combinations take place after the effective of the standard, and it will have no impact to the Group's financial statements.

***Revocation of PBE FRS 46* and *Withdrawal of PBE FRS 46* (Amendments to PBE FRS 47)**
PBE FRS 46 and PBE FRS 47 were developed to address the needs of entities adopting PBE Standards for the first time. There are now few entities that fall within the scope of PBE FRS 46 (i.e. entities that previously applied NZ IFRS and are transitioning to PBE Standards).

Further, the increasing differences between NZ IFRS and PBE Standards mean that the approach taken in PBE FRS 46 is no longer the most appropriate approach for entities moving from NZ IFRS to PBE Standards.

Consequently, the NZASB issued *Revocation of PBE FRS 46*, and issued Amendments to PBE FRS 47, as a result of the withdrawal of PBE FRS 46, in February 2020.

The Amendments to PBE FRS 47 mainly include a change in scope meaning that PBE FRS 47 will be the sole standard for first time adoption of PBE Standards by Tier 1 and Tier 2 PBEs.

The revocation and amendments are effective from 1 January 2021, with early application permitted. The revocation and amendments will not impact the Group's financial statements.

PBE IFRS 17 *Insurance Contracts*
This Standard was issued in July 2019 and establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts.

PBE IFRS 17 applies to not-for-profit PBEs ONLY and is applied to:
- Insurance contracts, including reinsurance contracts issued by an entity;
- Reinsurance contracts held by an entity; and
- Investment contracts with discretionary participation features issued by the entity, provided the entity also issues insurance contracts.

PBE IFRS 17 will be mandatory from 1 January 2022 for not-for-profit PBEs, with early adoption permitted for entities that apply PBE IPSAS 41 *Financial Instruments* on or before the date of initial application of PBE IFRS 17. The new standard will not impact the Group's financial statements.

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44 Standards and Interpretations issued but not yet effective *continued*

Commentary

The following new standards, PBE IFRS 9 and PBE IPSAS 41, are issued to updates the requirements in IPSAS for recognition and measurement of financial instruments and substantially aligns those requirements with the more recent requirements in IFRS 9 *Financial Instruments*.

The NZASB issued PBE IFRS 9 in January 2017 as an interim measure to mitigate the effect on mixed groups of differences between NZ IFRS and PBE Standards. The NZASB had been actively monitoring the IPSASB's work programme and was aware of the IPSASB's plans to develop a new standard dealing with the recognition and measurement of financial instruments but considered that the mixed group issues caused by differences between the two suites of standards required a more immediate solution. The NZASB therefore undertook a limited scope project to develop PBE IFRS 9. As a result, PBE IPSAS 41, of which intended applying the PBE Policy Approach, was issued in March 2019.

There are two general differences between PBE IFRS 9 and PBE IPSAS 41:

- PBE IPSAS 41 incorporated the narrow scope amendments to other IFRS Standards relating to financial instruments over recent years and interpretations
- PBE IPSAS 41 accompanied by non-integral illustrative examples or guidance

An entity could early adopt either PBE IFRS 9 or PBE IPSAS 41 until 31 December 2019. From 1 January 2020 onwards, an entity will only be able to early adopt PBE IPSAS 41 and once adopted PBE IPSAS 41, it will supersede PBE IFRS 9 completely.

PBE IFRS 9 *Financial Instruments* and *Effective Date of PBE IFRS 9*

In January 2017, the NZASB issued PBE IFRS 9 *Financial Instruments*. When applied, this standard supersedes parts of PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*. Compared with PBE IPSAS 29, PBE IFRS 9 introduces a number of changes to the recognition and measurement of financial instruments.

In March 2019, *Effective Date of PBE IFRS 9* is issued. It delays the effective date of PBE IFRS 9 by one year, from 1 January 2021 to 1 January 2022. This is to prevent PBE IFRS 9 from becoming mandatory before the effective date of PBE IPSAS 41. It also requires that any entities intending to early adopt PBE IFRS 9 do so before 1 January 2020. From 1 January 2020 an entity will only be able to early adopt PBE IPSAS 41.

PBE IFRS 9 is effective for annual periods beginning on or after 1 January 2022, with early application permitted. However all entities who report their financial statements (actuals and forecasts) in accordance with Crown accounting policies will be required to adopt the new accounting standard - PBE IFRS 9 - at the same time as the for-profit sector, for annual periods beginning on or after 1 January 2018, with early application permitted.

Except for hedge accounting, retrospective application is required in accordance with PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors*, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group plans to adopt the new standard before 1 January 2020 and will not restate comparative information. The Group is currently undertaking a detailed impact assessment of the impact of PBE IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2019 when the Group will adopt PBE IFRS 9.

The initial consideration of the impacts the implementation of PBE IFRS 9 is expected to have in the Group's financial statements is described below.

(a) *Classification and measurement*
The Group is currently assessing the impact on its statement of financial position and net assets/equity on applying the classification and measurement requirements of PBE IFRS 9. Currently, the Group classifies its investment in listed and non-listed equity shares and listed debt instruments as AFS financial assets. The assessment of possible changes in the classification of these financial instruments is on-going.

44 Standards and Interpretations issued but not yet effective *continued*

PBE IFRS 9 *Financial Instruments* and *Effective Date of PBE IFRS 9 continued*

For the equity shares currently classified as AFS assets, the Group expects to continue measuring them at fair value, but has not yet determined whether to apply the option to present fair value gains/losses in other comprehensive revenue and expense rather than in surplus or deficit.

The Group is still assessing whether the debt securities will meet the requirements for being held at amortised cost or if they will be carried at fair value.

The Group considers it likely that the debt securities will be classified and measured at amortised cost under PBE IFRS 9, whereby interest income calculated using the effective interest rate method is recognised through surplus or deficit and accretes to the debt securities' carrying amount.

Loans as well as receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under PBE IFRS 9. Therefore, reclassification for these instruments is not required.

(b) Impairment
PBE IFRS 9 requires the Group to record expected credit losses on all of its debt instruments classified at amortised cost or fair value through other comprehensive revenues and expense. For all of such assets except receivables, the Group expects to apply the general approach and record impairment losses initially on a 12-months basis, moving to a lifetime basis if there is a significant deterioration in credit risk. The Group expects to apply the simplified approach and record lifetime expected losses on all receivables. The Group has determined that, due to the unsecured nature of its loans and receivables, the loss allowance will increase by $100,000. The Group does not expect the application of PBE IFRS 9 to result in a significant impairment of its term deposits, or to its debt securities (if measured at amortised cost or fair value through other comprehensive revenue and expense under PBE IFRS 9).

(c) Hedge accounting
The Group determined that all existing hedge relationships that are currently designated in effective hedging relationships are expected to continue to qualify for hedge accounting under PBE IFRS 9. As PBE IFRS 9 does not change the general principles of how an entity accounts for effective hedges, applying the hedging requirements of PBE IFRS 9 will not have a significant impact on the Group's financial statements.

(d) Other adjustments
In addition to the adjustments described above, on adoption of PBE IFRS 9, other items of the primary financial statements such as deferred taxes and investments in the associate and joint venture, will be adjusted as necessary. The impact assessment of the aforementioned other items is currently still ongoing.

PBE IPSAS 41 *Financial Instruments*
In March 2019, the NZASB issued PBE IPSAS 41 *Financial Instruments*. When applied, this standard supersedes parts of PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*. Compared with PBE IPSAS 29, PBE IPSAS 41 introduces a number of changes to the recognition and measurement of financial instruments.

PBE IPSAS 41 is effective for annual periods beginning on or after 1 January 2022, with early application permitted. Once the entity adopted PBE IPSAS 41, it will supersede PBE IPSAS 29 and PBE IFRS 9.

Except for hedge accounting, retrospective application is required in accordance with PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors*, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

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44 Standards and Interpretations issued but not yet effective *continued*

PBE IPSAS 41 *Financial Instruments continued*

The Group plans to adopt the new standard on the required effective date and will not restate comparative information. The Group is currently undertaking a detailed impact assessment of the impact of PBE IPSAS 41. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2022 when the Group will adopt PBE IPSAS 41.

The initial consideration of the impacts the implementation of PBE IPSAS 41 is expected to have in the Group's financial statements is described below.

(a) Classification and measurement

The Group is currently assessing the impact on its statement of financial position and net assets/equity on applying the classification and measurement requirements of PBE IPSAS 41.

Currently, the Group classifies its investment in listed and non-listed equity shares and listed debt instruments as AFS financial assets. The assessment of possible changes in the classification of these financial instruments is on-going. For the equity shares currently classified as AFS assets, the Group expects to continue measuring them at fair value, but has not yet determined whether to apply the option to present fair value gains/losses in other comprehensive revenue and expense rather than in surplus or deficit.

The Group is still assessing whether the debt securities will meet the requirements for being held at amortised cost or if they will be carried at fair value. The Group considers it likely that the debt securities will be classified and measured at amortised cost under PBE IPSAS 41, whereby interest income calculated using the effective interest rate method is recognised through surplus or deficit and accretes to the debt securities' carrying amount.

Loans as well as receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under PBE IPSAS 41. Therefore, reclassification for these instruments is not required.

(b) Impairment

PBE IPSAS 41 requires the Group to record expected credit losses on all of its debt instruments classified at amortised cost or fair value through other comprehensive revenues and expense. For all of such assets except receivables, the Group expects to apply the general approach and record impairment losses initially on a 12-months basis, moving to a lifetime basis if there is a significant deterioration in credit risk. The Group expects to apply the simplified approach and record lifetime expected losses on all receivables. The Group has determined that, due to the unsecured nature of its loans and receivables, the loss allowance will increase by $100,000. The Group does not expect the application of PBE IPSAS 41 to result in a significant impairment of its term deposits, or to its debt securities (if measured at amortised cost or fair value through other comprehensive revenue and expense under PBE IPSAS 41).

(c) Hedge accounting

The Group determined that all existing hedge relationships that are currently designated in effective hedging relationships are expected to continue to qualify for hedge accounting under PBE IFRS 41. As PBE IFRS 41 does not change the general principles of how an entity accounts for effective hedges, applying the hedging requirements of PBE IFRS 41 will not have a significant impact on the Group's financial statements.

(d) Other adjustments

In addition to the adjustments described above, on adoption of PBE IFRS 41, other items of the primary financial statements such as deferred taxes and investments in the associate and joint venture, will be adjusted as necessary. The impact assessment of the aforementioned other items is currently still ongoing.

Appendix 1: Statement of comprehensive revenue and expense (example of a single statement)

PBE IPSAS 1.22.1(a)
PBE IPSAS 1.61

Commentary

The Group present the statement of financial performance and statement of other comprehensive revenue and expense as two separate statements. For illustrative purposes, a single statement of comprehensive revenue and expense is presented in this appendix.

For the year ended 30 June 2020

PBE IPSAS 1.63(c)

	Note	Group		Council			
		2020 Actual	2019 Actual – restated*	2020 Actual	2020 Forecast	2019 Actual – restated*	*PBE IPSAS 1.63(b)* *PBE IPSAS 1.53* *PBE IPSAS 1.21(e)* *LGA Schedule 10.29*
		$000	$000	$000	$000	$000	*PBE IPSAS1.63(d)*
Revenue from non-exchange transactions							*PBE IPSAS 1.98.1(a)* *PBE IPSAS1.63(e)* *PBE IPSAS 23.106(a)*
Rates revenue	9	75,197	73,682	75,197	75,347	73,682	*LG(FRP)R.5(2)(a)*
Fines		920	768	920	1,070	768	
Government grants	10	10,503	8,132	10,503	9,520	8,132	*LG(FRP)R.5(2)(c)*
Concessionary loan	11	329	-	329	329	-	
Direct charges revenue - subsidised	12	13,476	12,704	12,976	12,872	12,204	
Property, plant and equipment acquired in non-exchange transactions	22	2,190	2,150	2,190	2,190	2,150	
Revenue from exchange transactions							*PBE IPSAS 9.39(b)*
Development contributions		3,641	3,741	3,641	4,005	3,741	*LG(FRP)R.5(2)(b)*
Direct charges revenue – full cost recovery	13	107,341	92,517	720	550	1,871	
Rental revenue	23	1,404	1,377	1,404	1,405	1,377	
Dividends		-	-	521	523	638	*PBE IPSAS 9.39(b)(v)*
Revenue from service concession arrangement	26	55	-	55	55	-	
Other revenue	18	1,382	2,007	132	139	501	
Total Revenue		**216,438**	**197,078**	**108,588**	**108,005**	**105,064**	*PBE IPSAS 1.99.1(a)*
Expenses							
Employee costs	14	(35,880)	(35,153)	(18,940)	(18,807)	(17,577)	
Remuneration of key management personnel	39	(538)	(527)	(538)	(539)	(527)	
Depreciation and amortisation	22 24	(23,971)	(23,204)	(18,381)	(18,384)	(17,705)	
General expenses	15	(136,552)	(123,587)	(58,927)	(58,637)	(58,600)	
Other expenses	19	(2,231)	(300)	(664)	(697)	(300)	
Total Expenses		**(199,172)**	**(182,771)**	**(97,450)**	**(97,064)**	**(94,709)**	
Finance costs	17	(1,264)	(1,123)	(931)	(978)	(797)	*PBE IPSAS 1.99.1(b)*
Finance income	16	520	295	467	490	243	
Net finance costs		**(744)**	**(828)**	**(464)**	(488)	**(554)**	
Share of surplus of an associate and a joint venture	7,8	671	638	-		-	*PBE IPSAS 1.99.1(c)*
Surplus before income tax		**17,193**	**14,117**	**10,674**	**10,453**	**9,801**	

*Certain amounts shown here do not correspond to the 2019 financial statements and reflect adjustments made. Refer to Note 2(b) and Note 2(c)..

Appendix 1: Statement of comprehensive revenue and expense (example of a single statement) *continued*

For the year ended 30 June 2020

	Note	Group 2020 Actual $000	Group 2019 Actual – restated* $000	Council 2020 Actual $000	Council 2020 Forecast $000	Council 2019 Actual – restated* $000	
Income tax expense	21	(1,814)	(1,119)	-	-	-	*PBE IPSAS 1.99.1(d)*
Net surplus for the year		**15,379**	**12,998**	**10,674**	**10,453**	**9,801**	*PBE IPSAS 1.99.1(f)*
Other comprehensive revenue and expense (net of tax)							*PBE IPSAS 1.98.1(b)*
Net gain/(loss) on available-for-sale financial assets	20	(57)	3	(57)	-	3	*PBE IPSAS 1.103.3(a)*
Net movement in cash flow hedges	20	(512)	24	-	-	-	
Revaluation gain on property, plant and equipment	22	24,300	-	20,729	20,695	-	
Share of other comprehensive revenue and expense of an associate		11	-	-	-	-	
Other comprehensive revenue and expense for the year, net of tax		**23,742**	**27**	**20,672**	**20,695**	**3**	
Total comprehensive revenue and expense for the year		**39,121**	**13,025**	**31,346**	**31,148**	**9,804**	*PBE IPSAS 1.98.1(c)*
Surplus for the year is attributable to:							
Non-controlling interest		288	239	-	-	-	*PBE IPSAS 1.98.2(a)(i)*
Council		15,091	12,759	10,674	10,453	9,801	*PBE IPSAS 1.98.2(a)(ii)*
		15,379	12,998	10,674	10,453	9,801	
Total comprehensive income revenue and expense for the year is attributable to:							
Non-controlling interest		288	239	-	-	-	*PBE IPSAS 1.98.2(b)(i)*
Council		38,833	12,786	31,346	31,148	9,804	*PBE IPSAS 1.98.2(b)(ii)*
		39,121	13,025	31,346	31,148	9,804	

*Certain amounts shown here do not correspond to the 2019 financial statements and reflect adjustments made. Refer to Note 2(b) and Note 2(c).

Commentary

PBE IPSAS 1.103.4 requires the disclosure of reclassification adjustments relating to components of other comprehensive revenue and expense. Reclassification adjustments may be presented either in the statement of comprehensive revenue and expense or in the notes. The Group have elected to present components of other comprehensive revenue and expense on a net basis in the statement above. Therefore, an additional note is required to present the amount of reclassification adjustments and current year gains or losses (see Note 20). Alternatively, the individual components could have been presented within the statement of comprehensive revenue and expense.

In this Appendix, Local City Council has elected to present each component of other comprehensive revenue and expense gross of tax, separately disclosing the related tax effect (PBE IPSAS 1.103.2). Alternatively, an entity may present this information in the notes. Refer to the Statement of Comprehensive Revenue and Expense and related commentary in the main body of this publication.

Appendix 2: Statement of financial performance (example of expenses disclosed by function)

PBE IPSAS 1.22.1(b), PBE IPSAS 1.61

Commentary
The Group presents the statement of financial performance disclosing expenses by nature. For illustrative purposes, the statement of financial performance disclosing expenses by function is presented in this appendix.

For the year ended 30 June 2020

PBE IPSAS1.63(c)

	Note	Group 2020 Actual $000	Group 2019 Actual – restated* $000	Council 2020 Actual $000	Council 2020 Forecast $000	Council 2019 Actual – restated* $000	
							PBE IPSAS1.63(b)), PBE IPSAS 1.53, PBE IPSAS1.21(e), LGA Schedule 10.29, PBE IPSAS 1.63(d), PBE IPSAS1.63(e)
Revenue from non-exchange transactions							*PBE IPSAS 23.106(a)*
Rates revenue	9	75,197	73,682	75,197	75,347	73,682	*LG(FRP)R.5(2)(a)*
Fines		920	768	920	1,070	768	
Government grants	10	10,503	8,132	10,503	9,520	8,132	*LG(FRP)R.5(2)(c)*
Concessionary loan	11	329	-	329	329	-	
Direct charges revenue - subsidised	12	13,476	12,704	12,976	12,872	12,204	
Property, plant and equipment acquired in non-exchange transactions	22	2,190	2,150	2,190	2,190	2,150	
Revenue from exchange transactions							*PBE IPSAS 9.39(b)*
Development contributions		3,641	3,741	3,641	4,005	3,741	*LG(FRP)R.5(2)(b)*
Direct charges revenue – full cost recovery	13	107,341	92,517	720	550	1,871	
Rental revenue	23	1,404	1,377	1,404	1,405	1,377	*PBE IPSAS 9.39(b)(v)*
Dividends		-	-	521	522	638	
Revenue from service concession arrangement	26	55	-	55	55	-	
Other revenue	18	1,382	2,007	132	139	501	
Total Revenue		**216,438**	**197,078**	**108,588**	**108,005**	**105,064**	*PBE IPSAS 1.99.1(a)*
Expenses							*PBE IPSAS 1.113*
Planning, strategy and regulation		(1,936)	(1,886)	(1,936)	(1,927)	(1,886)	
Community support		(7,743)	(7,553)	(7,743)	(7,709)	(7,553)	
Economic development		(9,679)	(9,441)	(9,679)	(9,637)	(9,441)	
Building and resource consents		(12,679)	(12,368)	(12,679)	(12,624)	(12,368)	
Water, wastewater and stormwater		(18,873)	(18,410)	(18,873)	(18,792)	(18,410)	
Roading and other infrastructure		(19,841)	(19,354)	(19,841)	(19,755)	(19,354)	
Waste and recycling		(18,389)	(17,938)	(18,389)	(18,310)	(17,938)	
Culture, heritage and recreation		(5,762)	(7,587)	(7,162)	(7,131)	(6,987)	
Port operations		(100,441)	(86,347)	-	-	-	
Property management		(1,598)	(1,587)	(484)	(482)	(472)	
Other expenses	19	(2,231)	(300)	(664)	(697)	(300)	
Total expenses		**(199,172)**	**(182,771)**	**(97,450)**	**(97,064)**	**(94,709)**	
Finance costs	17	(1,264)	(1,123)	(931)	(978)	(797)	*PBE IPSAS 1.99.1(b)*
Finance income	16	520	295	467	490	243	
Net finance costs		**(744)**	**(828)**	**(464)**	**(488)**	**(554)**	

*Certain amounts shown here do not correspond to the 2019 financial statements and reflect adjustments made. Refer to Note 2(b) and Note 2(c).

Appendix 2: Statement of financial performance (example of expenses disclosed by function) *continued*

For the year ended 30 June 2020

	Note	Group 2020 Actual $000	Group 2019 Actual – restated* $000	Council 2020 Actual $000	Council 2020 Forecast $000	Council 2019 Actual – restated* $000	
Share of surplus of an associate and a joint venture	7,8	671	638	-	-	-	*PBE IPSAS 1.99.1(c)*
Surplus before income tax		**17,193**	**14,117**	**10,674**	**10,453**	**9,801**	
Income tax expense	21	(1,814)	(1,119)	-	-	-	*PBE IPSAS 1.99.1(d)*
Net surplus for the year		**15,379**	**12,998**	**10,674**	**10,453**	**9,801**	*PBE IPSAS 1.99.1(f)*
Surplus for the year is attributable to:							
Non-controlling interest		288	239	-	-	-	*PBE IPSAS 1.98.2(a)(i)*
Council		15,091	12,759	10,674	10,453	9,801	*PBE IPSAS 1.98.2(a)(ii)*
		15,379	**12,998**	**10,674**	**10,453**	**9,801**	

*Certain amounts shown here do not correspond to the 2019 financial statements and reflect adjustments made. Refer to Note 2(b) and Note 2(c).

Commentary

PBE IPSAS 1.109 requires expenses to be analysed either by nature or by their function within the statement of financial performance, whichever provides information that is reliable and more relevant. If expenses are analysed by function, information about the nature of expenses (including depreciation and amortisation expense and employee benefits expense) must be disclosed in the notes (PBE IPSAS 1.115).

Appendix 3: Statement of cash flows (example of the indirect method)

PBE IPSAS 1.21(d)

Commentary
PBE IPSAS 2.27 allows entities to report cash flows from operating activities using either the direct or indirect methods. The Group presents cash flows using the direct method. The statement of cash flows prepared using the indirect method for operating activities is presented in this appendix for illustrative purposes.

For the year ended 30 June 2020

PBE IPSAS 1.63(c)

PBE IPSAS1.63(b)

PBE IPSAS 1.53
LGA Schedule 10.29
PBE IPSAS 1.63(d)
PBE IPSAS 1.63(e)

	Note	Group		Council		
		2020 - Actual	2019 - Actual (restated)*	2020 - Actual	2020 - Forecast	2019 - Actual
		$000	$000	$000	$000	$000
Cash flows from operating activities						
Surplus before tax		**17,193**	**14,117**	**10,674**	**10,453**	**9,801**
Adjustments to reconcile surplus before tax to net cash flows:						
Depreciation and impairment of property, plant and equipment		23,797	23,082	18,207	17,807	17,603
Amortisation and impairment of intangible assets		374	122	174	157	102
Property, plant and equipment acquired in non-exchange transactions		(2,190)	(2,150)	(2,190)	(2,190)	(2,150)
Decrease in investment properties		306	300	306	312	300
Gain on disposal of property, plant and equipment		(532)	(2,007)	(132)	(119)	(501)
Fair value adjustment of a contingent consideration		358	-	358	-	-
Finance income		(520)	(295)	(467)	(490)	(243)
Finance costs		1,264	1,123	931	978	797
Net gain on financial instruments at fair value through surplus or deficit		(850)	-	-	-	-
Net loss on financial instruments at fair value through surplus or deficit		1,502	-	-	-	-
Ineffectiveness of forward foreign exchange contracts designated as cash flow hedges		65	-	-	-	-
Bad debts		206	121	206	185	145
Doubtful debts		(329)	133	(188)	(169)	56
Revenue from service concession arrangements		(55)	-	(55)	(50)	-
Share of surplus of an associate and a joint venture		(671)	(638)	-	-	-
Movements in provisions, including employee provisions		1,498	32	683	690	32
Movements in deferred revenue		(734)	3,350	(734)	(1,161)	3,350
Working capital adjustments:						
Increase in trade receivables and prepayments		(3,461)	(3,087)	(3,300)	(3,669)	(2,986)
Decrease in inventories		823	701	653	588	583
Increase in trade and other payables		(1,253)	(290)	(874)	(1,083)	(180)
		36,791	**34,614**	**24,252**	**22,239**	**26,709**

*Certain amounts shown here do not correspond to the 2019 financial statements and reflect adjustments made. Refer to Note 2(c).

Appendix 3: Statement of cash flows (example of the indirect method) *continued*

For the year ended 30 June 2020

	Note	Group 2020 - Actual $000	Group 2019 – Actual (restated)* $000	Council 2020 - Actual $000	Council 2020 - Forecast $000	Council 2019 – Actual $000	
Interest received		520	295	467	467	243	*PBE IPSAS 2.40*
Interest paid		(646)	(1,030)	(540)	(537)	(762)	*PBE IPSAS 2.40*
Income tax paid		(396)	(698)	-	-	-	*PBE IPSAS 2.22(l), PBE IPSAS 2.44*
Net cash flows from/(used in) operating activities	40	**36,269**	**33,181**	**24,179**	**22,169**	**26,190**	
Cash flows from investing activities							*PBE IPSAS 2.31*
Proceeds from sale of property, plant and equipment		1,208	2,336	1,406	1,266	779	*PBE IPSAS 2.25(b)*
Proceeds from sale of financial instruments		-	145	-	-	145	*PBE IPSAS 2.25(d)*
Purchase of property, plant and equipment		(46,282)	(41,959)	(34,387)	(33,205)	(30,537)	*PBE IPSAS 2.25(a)*
Purchase of investment property		(1,216)	(1,192)	(1,216)	(1,228)	(1,192)	*PBE IPSAS 2.25(a)*
Purchase of financial instruments		(3,054)	(225)	(2,399)	(2,424)	(107)	*PBE IPSAS 2.25(c)*
Purchase of intangibles		(449)	(630)	(449)	(453)	(630)	*PBE IPSAS 2.25(a)*
Acquisition of controlled entity		-	-	(7,687)	(7,557)	-	*PBE IPSAS 2.49*
Net cash flows from/(used in) investing activities		**(49,793)**	**(41,525)**	**(44,732)**	**(43,601)**	**(31,542)**	
Cash flows from financing activities							*PBE IPSAS 2.31*
Acquisition of non-controlling interest		(991)	-	(991)	(979)	-	
Proceeds from borrowings		2,496	8,526	654	661	8,326	*PBE IPSAS 2.26(a)*
Repayment of borrowings		(3,057)	(1,345)	(960)	(970)	(1,641)	*PBE IPSAS 2.26(b)*
Payment of finance lease liabilities		(51)	(76)	-	-	-	*PBE IPSAS 2.26(c)*
Dividends paid to non-controlling interest		-	(48)	-	-	-	*PBE IPSAS 2.40*
Net cash flows from/(used in) financing activities		**(1,603)**	**7,057**	**(1,297)**	**(1,288)**	**6,685**	
Net increase/(decrease) in cash and cash equivalents		(15,127)	(1,287)	(21,850)	(22,720)	1,333	
Cash and cash equivalents at the beginning of the year		30,830	32,117	26,917	26,917	25,584	
Cash and cash equivalents at the end of the year	31	**15,703**	**30,830**	**5,067**	**4,197**	**26,917**	

*Certain amounts shown here do not correspond to the 2019 financial statements and reflect adjustments made. Refer to and Note 2(c).

Commentary

The Group have reconciled surplus before tax to net cash flows from operating activities. However, reconciliation from surplus after tax is also acceptable under PBE IPSAS 2.

Appendix 4: Agricultural assets (example of disclosures)

Commentary

Local City Council and its controlled entities are not involved in agricultural activities and, therefore, do have biological assets. This Appendix was created to illustrate disclosures for biological assets, including bearer plants, as required by PBE IPSAS 17 *Property, Plant and Equipment* and PBE IPSAS 27 *Agriculture*. These illustrative disclosures are for a fictitious PBE (not related to Local City Council). The disclosures concern the management of vineyards, located in South Australia and the South Island of New Zealand, to grow grapes that are to be used in the production of wine. The Group to which these disclosures relate has a 30 June year end.

The disclosures are provided for the consolidated Group. Please note that if a PBE is required to present parent financial statements in addition to consolidated financial statements (as is the case for local authorities and certain other PBEs), the PBE will need to provide the disclosures required by PBE IPSAS 27 and PBE IPSAS 17 for both the parent and the Group.

Consolidated statement of financial performance (extract)

For the year ended 30 June 2020

	Note	Group 2020 $000	Group 2019 $000	
Gain/(loss) from changes in fair value of biological assets	xx	30,500	19,400	*PBE IPSAS 27.38*

Consolidated statement of financial position (extract)

As at 30 June 2020

	Note	Group 2020 $000	Group 2019 $000	
Assets				
Non-current assets				
Property, plant and equipment	xx	xx	xx	*PBE IPSAS 1.88(a)*
Current assets				
Biological assets – grapes growing on the vine	xx	87,700	72,400	*PBE IPSAS 1.89*

Consolidated statement of cash flows (extract)

For the year ended 30 June 2020

	Note	Group 2020 $000	Group 2019 $000
Operating activities			
…			
Adjustments to reconcile surplus before tax to net cash flows:			
Depreciation vineyard improvements	xx	xx	xx
Depreciation mature grape vines	xx	xx	xx
(Increase) decrease in fair value of grapes growing on the vine	xx	xx	xx
Investing activities			
…			
Development of new vineyards	xx	xx	xx
Additions to vineyard improvements	xx	xx	xx

Appendix 4: Agricultural assets (example of disclosures) *continued*

Commentary

A number of costs, such as fertilising, pruning and thinning are incurred after maturity and can improve the quality of the produce or extend the productive life of a bearer plant. Entities need to use judgement to determine whether these costs are maintenance costs or are considered to be improvements. In addition, after maturity, many costs are incurred to benefit both the bearer plant and the produce growing on the bearer plant. Entities need to carefully consider the basis on which to allocate costs between a bearer plant and the produce growing on a bearer plant when the costs are incurred in relation to both assets (e.g., fertilising costs).

An entity's policy in respect of such costs will impact the presentation of the statement of cash flows, as cash flows relating to maintenance costs will ordinarily be presented within operating activities and cash flows in respect of costs capitalised as part of bearer plants will ordinarily be presented within investing activities.

Notes to the financial statements (extract)

2 Summary of significant accounting policies (extract)

xx Inventory (extract)

The cost of grapes grown by the Group is the fair value less costs to sell at the time the grapes are harvested, which becomes the initial "cost". Thereafter this inventory is carried at the lower of cost and net realisable value. *PBE IPSAS 27.18*

xx Property, plant and equipment (extract)

Property, plant and equipment including grape vines are stated at cost, net of accumulated depreciation and accumulated impairment losses. Immature vines are stated at accumulated cost. Capitalisation of costs ceases when the vines reach maturity, which is when the grapes can be commercial harvested. Refer to significant accounting judgements, estimates and assumptions for further information (Note 3).

Vineyard improvements are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the vineyard improvements and borrowing costs for long-term construction projects if the recognition criteria are met.

Commentary

Under PBE IPSAS 17 an entity has a policy choice for the measurement of property, plant and equipment after initial recognition. An entity may choose either the cost model or the revaluation model for entire classes of property, plant and equipment. The Group has elected to the cost model for all classes of property, plant and equipment including bearer plants.

If an entity elects the revaluation model to its bearer plants, valuations are performed with sufficient frequency to ensure that the carrying amount of a revalued asset does not differ materially from its fair value. In accordance with PBE IPSAS 17.54, a revaluation surplus is recorded in other comprehensive revenue and expense and credited to the asset revaluation surplus in net asset/equity. However, in accordance with PBE IPSAS 17.55, to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss, the increase is recognised in profit and loss. A revaluation deficit is recognised in surplus or deficit, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation surplus.

In accordance with PBE IPSAS 17.56, revaluation increase and decrease relating to individual assets within a class of property, plant and equipment must be offset against one another within that class but must not be offset in respect of assets in different classes.

In accordance with PBE IPSAS 17.57, an entity would recognise an annual transfer from the asset revaluation surplus to accumulated comprehensive revenue and expense for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation surplus relating to the particular asset being sold is transferred to accumulated comprehensive revenue and expense.

PBE IPSAS 17.30(b) requires an entity to cease capitalising costs as part of the initial cost of a bearer plant when it reaches maturity (i.e., when it is in the 'location and condition necessary for it to be capable of operating in the manner intended by management'). The Group has determined that its vines are mature when the growing grapes can be commercially harvested.

Appendix 4: Agricultural assets (example of disclosures) *continued*

2 Summary of significant accounting policies (extract) *continued*

xx Property, plant and equipment (extract) *continued*

Depreciation commences when the grape vines are considered mature, which is when they produce their first commercially viable crop. *PBE IPSAS 17.88(b)* *PBE IPSAS 17.88(c)*

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

- Buildings — xx years
- Plant, machinery and equipment — xx years
- Mature grape vines — 30 years
- Vineyard improvements — xx years

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in surplus or deficit when the asset is derecognised.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

Commentary

On disposal of property, plant and equipment (including bearer plants):

- The date of disposal of the asset is the date that an entity has transferred to the purchaser the significant risks and rewards of ownership of the goods as mentioned in PBE IPSAS 9 (PBE IPSAS 17.84).
- The consideration receivable on disposal of an item of property, plant and equipment is recognised initially at its fair value. If payment for the item is deferred, the consideration received is recognised initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognised as interest revenue in accordance with PBE IPSAS 9, reflecting the effective yield on the receivable. (PBE IPSAS 17.87).

This appendix does not illustrate disclosures related to impairment of non-financial assets, such as property, plant and equipment.

xx Biological assets

Grapes growing on vines are accounted for as biological assets until the point of harvest. Biological assets are measured on initial recognition and at the end of each reporting period at its fair value less costs to sell. Changes in fair value of growing grapes are recognised in surplus or deficit. Costs related to growing the grapes and harvesting the grapes are expensed as incurred. *PBE IPSAS 27.16* *PBE IPSAS 27.30*

Harvesting of the grape crop is ordinarily performed in late March or early April. Costs incurred in growing the grapes, including any applicable harvest costs, are recognised as part of cost of inventories recognised as an expense. At the time of harvest, grapes are measured at fair value less costs to sell and transferred to inventories. *PBE IPSAS 27.18*

Methods used to measure fair value less costs to sell are provided in Note 3.

Commentary

Measurement of biological assets:

PBE IPSAS 27 requires a biological asset to be measured on initial recognition at fair value less costs to sell. This applies to biological assets acquired both in exchange transactions and in non-exchange transactions (PBE IPSAS 27.16-17). There is a presumption that fair value can be measured reliably for a biological asset (PBE IPSAS 27.34). This presumption can be rebutted only on initial recognition of a biological asset, and where market-determined prices or values are not available and for which alternative estimates of fair value are determined to be clearly unreliable. Once the fair value of such a biological asset becomes reliably measurable, it must be measured at fair value less costs to sell. Once a biological asset is held for sale in accordance with PBE IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, it is presumed that fair value can be measured reliably.

Appendix 4: Agricultural assets (example of disclosures) *continued*

3. Significant accounting judgements, estimates and assumptions (extract)

Judgements

PBE IPSAS 1.137

Allocation of cost between immature vines and grapes growing on them

Costs incurred in growing the grapes and maintaining the vines may benefit both the vines and the grapes. While the vines are immature, costs of pruning and approximately 70-80% of other viticulture costs (e.g., fertiliser) are capitalised as part of the cost of the vines. Such costs are expensed as incurred after the vines reach maturity. Any costs allocable to the grapes growing on the vines are expensed as incurred.

Distinction between immature and mature vines

The Group has determined that its vines are mature when the growing grapes can be commercially harvested, which is when the vineyards have produced approximately 50-60% of expected yield at full production. This normally takes approximately three years after planting the vines. This represents the point at which the Group ceases capitalisation of costs and the vines are reclassified as mature vines.

PBE IPSAS 17.30(b)

Commentary

PBE IPSAS 37.30(b) requires an entity to determine when a bearer plant reaches maturity, that is, when it is in the "location and
condition necessary for it to be capable of operating in the manner intended by management". This determination is important because it is when an entity must cease capitalising costs as part of the initial cost of the asset and begin depreciating the bearer plant.

The life cycles of plants can vary widely. Therefore, determining at what stage during biological transformation a bearer plant could be considered mature may require judgement. Alternatives could include, but are not limited to: when the bearer plant is capable of producing its first crop; when the produce is expected to be of sufficient quality to be sold; or when the growth phase of biological transformation is complete for the bearer plant (and is thereafter expected to degenerate or for its productive capacity to decline).

While PBE IPSAS 17 44-58 provides guidance that entities need to consider for bearer plants, there are differences between traditional plant and equipment and biological assets. As such, entities need to apply judgement in determining which costs can be capitalised. For example, as a plant is growing, an entity will incur costs related to water, fertiliser, greenhouses, etc. An entity needs to assess whether these costs are directly attributable to the bearer plant reaching maturity.

Costs incurred after maturity may benefit both the bearer plant and the produce growing on the bearer plant. The basis for allocation of costs between the bearer plant and the produce needs to be carefully considered by an entity.

Under PBE IPSAS 27, there is a presumption that the fair value of all biological assets (including produce growing on a bearer plant) can be measured reliably. This presumption can only be rebutted on initial recognition for a biological asset (not agricultural produce). Rebutting the presumption that fair value can be reliably measured is a judgement that may require significant judgement. To do so, PBE IPSAS 27.34 requires an entity to demonstrate both of the following:

- quoted market prices for the biological asset (including produce growing on a bearer plant) are not available
- alternative fair value measurements for the biological asset are determined to be clearly unreliable.

PBE IPSAS 27 presumes that the fair value of a non-current biological asset that meets the criteria to be classified as held for sale (or is included in a disposal group that is classified as held for sale) in accordance with PBE IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* can always be measured reliably.

If an entity rebuts the presumption and demonstrates that the fair value cannot be measured reliably, it applies the cost model to the biological asset until fair value becomes reliably measurable (PBE IPSAS 27.34). If an entity applies the cost model, the biological asset is measured at cost less any accumulated depreciation and any accumulated impairment losses. An entity that previously measured a biological asset at its fair value less costs to sell cannot revert to a cost-based measurement in a later period, even if a fair value can no longer be measured reliably (PBE IPSAS 27.35).

The Group does not hold any biological assets for which fair value could not be reliably measured.

Appendix 4: Agricultural assets (example of disclosures) *continued*

3. Significant accounting judgements, estimates and assumptions (extract)

Estimates and assumptions

PBE IPSAS 1.140

Fair value of biological assets

The Group measures its biological assets (growing grapes) and grape at the time of harvest (prior to being recorded in inventories) at fair value less costs to sell.

The fair value of grapes growing on the vines is determined by reference to market prices for grapes for that local area for each variety of grape grown, adjusted for expected costs to reach maturity, which is typically three to four months after the end of the reporting period. Significant estimates include the expected grape yields and quality, costs to incur until harvest and the expected market price for the harvested grapes.

The fair value of grapes at the point of harvest is determined by reference to the market prices for each variety of grape grown in the local area and the market price paid to independent grape growers. Any gains or losses on remeasuring fair value are included within in surplus or deficit as part of costs on inventory.

Key assumptions used to determine the fair value of biological assets are provided in Note XX.

Commentary

This appendix does not illustrate disclosures of judgements and estimates that may be relevant for bearer plants for which an entity applies the revaluation model under PBE IPSAS 27 or impairment under PBE IPSAS 22 or PBE IPSAS 26.

If an entity elects to apply the revaluation model to bearer plants, it would also need to consider which cash inflows are attributable to the bearer plant, rather than any produce currently growing on the bearer plant. Significant judgement and estimation may, therefore, be needed to measure the fair value of bearer plants.

IAS 1 requires an entity to disclose significant judgements applied in preparing the financial statements (PBE IPSAS 1.137) and significant estimates that involve a high degree of estimation uncertainty (PBE IPSAS 1.140). The disclosure requirements go beyond the requirements that exist in some other PBE Standards.

These disclosures represent a very important source of information in the financial statements because they highlight the areas in the financial statements that are most prone to change in the foreseeable future. Therefore, any information given should be sufficiently detailed to help readers of the financial statements understand the impact of possible significant changes.

The Group has, for illustrative purposes, included disclosures about significant judgements and estimates beyond what is normally required, and potentially also beyond what is decision-useful. Under PBE IPSAS 1, it is only those judgements that have the most significant effect on the amounts recognised in the financial statements and those estimates that have a significant risk of resulting in material adjustments in respect of assets and liabilities within the next financial year that should be addressed in this section.

It is important that entities carefully assess which judgements and estimates are most significant as required by PBE IPSAS 1 and make the disclosures accordingly, to allow the users of the financial statements to appreciate the impact of the judgements and estimation uncertainties. Disclosures of judgements and estimation uncertainties that do not have a significant risk of resulting in material adjustments may clutter the financial statements in a way that reduces the users' ability to identify the key judgements and estimation uncertainties.

Appendix 4: Agricultural assets (example of disclosures) *continued*

17. Property, plant and equipment (extract)

	Buildings $000	Plant and equipment $000	Immature grape vines $000	Mature grape vines $000	Vineyard improve-ments $000	Total $000	PBE IPSAS 17.88(e)
Cost							
At 1 July 2018	xx	xx	9,000	24,000	xx	xx	PBE IPSAS 17.88(d)
Additions	xx	xx	500	-	xx	xx	
Disposals	(xx)	(xx)	-	-	(xx)	(xx)	PBE IPSAS 17.RDR 88.1
Transfer	xx	xx	(5,000)	5,000	xx	xx	
At 30 June 2019	**xx**	**xx**	**4,500**	**29,000**	**xx**	**xx**	PBE IPSAS 17.88(d)
Additions	xx	xx	5,500	-	xx	xx	
Disposals	xx	xx	-	-	xx	xx	
Transfer	(xx)	(xx)	(5,000)	5,000	(xx)	(xx)	
At 30 June 2020	**xx**	**xx**	**5,000**	**34,000**	**xx**	**xx**	PBE IPSAS 17.88(d)
Depreciation and impairment							
At 1 July 2018	xx	xx	-	730	xx	xx	
Depreciation charge for the year	xx	xx	-	900	xx	xx	PBE IPSAS 17.RDR 88.1
Impairment	xx	xx	-	-	xx	xx	
At 30 June 2019	**xx**	**xx**	**-**	**1,630**	**xx**	**xx**	PBE IPSAS 17.88(d)
Depreciation charge for the year	xx	xx	-	1,100	xx	xx	
Impairment	xx	xx	-	-	xx	xx	
At 30 June 2020	**xx**	**xx**	**-**	**2,730**	**xx**	**xx**	PBE IPSAS 17.88(d)
Net book value							
At 30 June 2019	xx	xx	4,500	7,370	xx	xx	PBE IPSAS 17.RDR 88.1
At 30 June 2020	xx	xx	5,000	1,270	xx	xx	

Commentary

Tier 2 PBEs are not required to disclosure the reconciliation specified by PBE IPSAS 17.88(e) for prior periods (PBE IPSAS 17.RDR 88.1).

Appendix 4: Agricultural assets (example of disclosures) *continued*

xx Biological assets

The Group's biological assets consist of growing grapes. *PBE IPSAS 27.39*

Commentary
If an entity has bearer biological assets that do not meet the definition of "bearer plant" and are within the scope of PBE IPSAS 27 (for example, bearer animals), PBE IPSAS 27.39 requires the description of the entity's biological assets to distinguish between bearer biological assets and consumable biological assets. However, according to PBE IPSAS 27.RDR 39.1, a Tier 2 PBE is not required to distinguish between bearer biological assets and consumable biological assets when providing the description of biological assets as per PBE IPSAS 27.39.

The Group grows grapes to use in the production of wine, as part of its normal operations. Vineyards are located in South Australia, and in the South Island of New Zealand. Grapes are harvested between March and May each year. *PBE IPSAS 27.44(a)*

At 30 June 2020, the Group held 4 hectares of grapevines with growing grapes (2019: 3.5 hectares), of which 1.3 hectares were mature (2019: 1.35) and 2.7 hectares were immature (2019: 2.15). *PBE IPSAS 27.44(b)(i)*

During the year ended 30 June 2020, the Group harvested approximately 7,000 tonnes of grapes (2019: 6,000 tonnes) in New Zealand. The Group harvested 1,050 tonnes grapes in Australia (2019: 1,000 tonnes). *PBE IPSAS 27.44(b)(ii)*

A reconciliation of the changes in the carrying amount of biological assets between the beginning and end of the period is provided below: *PBE IPSAS 27.48* *PBE IPSAS 27.RDR 48.1*

	2020 $000	2019 $000	
Growing grapes:			
Carrying amount at 1 July	**72,400**	65,000	*PBE IPSAS 27.48*
Gain/(loss) from changes in fair value less costs to sell	30,500	19,400	*PBE IPSAS 27.48(a)*
Increate due to purchase of new vines	-	-	*PBE IPSAS 27.48(b)*
Acquisition of a controlled entity	-	-	*PBE IPSAS 27.48(g)*
Increase due to vines acquired in non-exchange transactions (received from the Government)	-	-	*PBE IPSAS 27.48(c)*
Grapes included in discontinued operations held for sale	-	-	*PBE IPSAS 27.48(d)*
Transfer of harvested grapes to inventories	(15,200)	(12,000)	*PBE IPSAS 27.48(f)*
Net foreign exchange	-	-	*PBE IPSAS 27.48(h)*
Carrying amount at 30 June	**83,142**	72,400	*PBE IPSAS 27.48*

Commentary
According to PBE IPSAS 27.RDR 48.1, a Tier 2 PBE is not required to disclose the reconciliation specified in PBE IPSAS 27.48 for prior periods. However, this reconciliation is still required for the current period presented.

A Tier 1 PBE that has bearer biological assets other than bearer plants (e.g. bearer animals) is required by PBE IPSAS 27.48(a) to disclose separately the gain or loss arising from changes in fair value less cost to sell for bearer biological assets and for consumable biological assets.

However, according to PBE IPSAS 27.RDR 48.2, a Tier 2 PBE is not required to disclose separately the gain or loss arising from changes in fair value less cost to sell for bearer biological assets and for consumable biological assets.

PBE IPSAS 27.52 requires all of the following information to be disclosed if the cost model is applied:

- a description of the biological assets
- an explanation of why fair value cannot be measured reliably
- if possible, the range of estimates within which fair value is highly likely to lie
- the depreciation method used
- the useful lives or the depreciation rates used
- the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period

Appendix 4: Agricultural assets (example of disclosures) *continued*

xx Biological assets *continued*

Commentary (continued)

If the entity held such assets at any point during the current period, PBE IPSAS 27.53 requires the following:

- Disclosure of any gain or loss recognised on disposal of such biological assets
- The entity's reconciliation of biological assets required by PBE IPSAS 27.48 must separately disclose amounts related to such biological assets and include the following amounts that were included in profit or loss related to those assets:
  - impairment losses
  - reversals of impairment losses
  - depreciation

If the entity held such assets and during the period their fair value became reliably measurable during the current period, the following must be disclosed in accordance with PBE IPSAS 27.54:

- a description of the biological assets
- an explanation of why fair value has become reliably measurable
- the effect of the change

Valuation of biological assets *PBE IPSAS 27.45*

The fair value less costs to sell of growing grapes is determined based on estimates of yield, costs to incur until harvest, expected grape market prices at harvest and grape quality. In 2020, grape market prices ranged from $1,050 to $3,100 per tonne (2019: $1,000 to $3,000 per tonne), depending on the variety sold, current vintage and grade quality of grapes in each region. Significant assumptions applied in this determination of fair value are:

		2020	2019
(i)	Grape market price per tonne	$1,050 - $3,100	$1,000 - $3,000
(ii)	Average annual yield per hectare of mature vineyards	6 tonnes	6 tonnes
(iii)	Average viticulture and harvest costs per hectare of mature vines	$5,300	$5,400

In 2020 and 2019 it was assumed that grape prices and vineyard maintenance costs will remain at current levels, adjusted for inflation.

The fair value less costs to sell of harvested grapes at point of harvest has been determined by reference to the local market price of similar grapes at the time of harvest. *PBE IPSAS 27.45*

Other disclosures

Grape vines with a carrying value of $500,000 for the Group (2019: $450,000) were pledged as security for non-current interest-bearing loans and borrowings, as disclosed in note XX. *PBE IPSAS 27.47(a)*

At 30 June 2020, the Group had the Group had no commitments in relation to its growing grapes (2019: Nil). *PBE IPSAS 27.47(c)*

Financial risk management strategies

The Group is exposed to risks arising from environmental changes, changes in grape prices as well as the financial risk in respect of agricultural activity. *PBE IPSAS 27.47(d)*

- The Group manages environmental risks, such as droughts, floods and disease outbreak, by diversifying its vineyards across New Zealand and Australian regions. Frost protection is provided on all vineyards to protect against the risk of crop loss or damage.
- The Group's exposure to fluctuations in the grape prices and sales volume is managed by entering into long term supply contracts for wine with major customers.

Appendix 4: Agricultural assets (example of disclosures) *continued*

xx Biological assets *continued*

Financial risk management strategies (continued)

- The primary financial risk associated with Group's agricultural activity occurs due to the length of time between expending cash on the purchase or planting and maintenance of grape vines and on harvesting grapes and making the wine, and ultimately receiving cash from the sale of wine to third parties. The Group's strategy to manage this financial risk is to actively review and manage its working capital requirements. In addition, the Group maintains credit facilities at a level sufficient to fund the Group's working capital during the period between cash expenditure and cash inflow. At 30 June 2020, the Group had unused credit facilities in the form of undrawn unsecured bank overdrafts of $582,000 (2019: $973,000).

No events occur in the current and prior periods that give rise to material items of income or expense as a result of climate, disease and other natural risks.

Commentary

Distinction between bearer biological assets (other than bearer plants) and consumable biological assets (not applicable to the entity in the illustrative disclosures above):

Bearer plants are accounted for in accordance with PBE IPSAS 17 instead of PBE IPSAS 27. However, bearer biological assets that do not meet the definition of bearer plants (for example, bearer animals) are still subject to the requirements of PBE IPSAS 27. The entity in the illustrative disclosures above does not have such assets. PBEs who hold bearer biological assets other than bearer plants should note that for the purpose of disclosure, PBE IPSAS 27 distinguishes between bearer biological assets and consumable biological assets.

Bearer biological assets are defined in PBE IPSAS 27.40 as biological assets that are used repeatedly or continuously for more than one year in an agricultural activity, and are not in themselves agricultural produce (and will not be harvested as such), and are not held for sale or distribution. Examples of bearer assets include breeding stocks (including fish and poultry), livestock from which milk is produced, sheep or other animals used for wool production.

On the other hand, consumable biological assets are defined in PBE IPSAS 27.40 as biological assets that are held for harvest as agricultural produce or for sale or distribution at no charge or for a nominal charge as biological assets. Examples of consumable biological assets include animals and plants kept for "one time use", such as livestock kept for the production of meat, livestock held for sale, fish in farms, crops like maize and wheat, produce on a bearer plant and trees grown for lumber.

PBE IPSAS 27.39 requires entities to disclose the description of biological asset balances, and this disclosure is to be made separately for bearer biological assets and for consumable biological assets.

In addition, PBE IPSAS 27.48, which requires entities to disclose a reconciliation of the carrying amount of biological assets at the beginning and end of the reporting period, specifies that the gain or loss arising from change in fair value less cost to sell for bearer biological assets and consumable biological assets are to be disclosed separately in this reconciliation.

In this illustrative disclosure, the only biological assets held by the Group are grapes on vines, which are consumable biological assets.

Distinction between biological assets held for sale and those held for distribution at no charge /nominal charge:
A consumable biological asset may be held by an entity either for sale or for distribution at no charge or minimal charge. PBE IPSAS 27.39 requires entities to disclose separately the description of biological assets held for sale and those held for distribution at no charge or a nominal charge. Similarly, PBE IPSAS 27.48 requires entities to disclose separately decreases in biological assets due to sale and decreases in biological assets due to distribution at no charge or nominal charge. In this illustrative disclosure, the Group does not hold any consumable biological assets and so does not need to make these disclosures.

Appendix 4: Agricultural assets (example of disclosures) *continued*

xx Biological assets *continued*

Commentary (continued)

Additional disclosures for biological assets where fair value cannot be measured reliably:

When measuring biological assets at cost less any accumulated depreciation and any accumulated impairment losses, following information need to be disclosed (PBE IPSAS 27.52):

(a) a description of the biological assets
(b) an explanation of why fair value cannot be measured reliably
(c) if possible, the range of estimates within which fair value is highly likely to lie
(d) the depreciation method used
(e) the useful lives or the depreciation rates used and
(f) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period

Appendix 5: First-time adoption of PBE Standards

Commentary

When a PBE reports under PBE Standards for the first time, the PBE needs to apply either PBE FRS 46 *First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRSs*, or PBE FRS 47 *First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRSs*. These standards contain transitional provisions and other requirements applicable upon first-time adoption of PBE Standards.

The vast majority of large and medium PBEs (in both the public sector and not-for-profit sector) already transitioned to PBE Standards either in 2015 or in 2016. Local City Council reported under PBE Standards for the first time in the year ended 30 June 2015. Therefore FRS 46 and FRS 47 are not applicable to Local City Council in the year ended 30 June 2020.

In very limited circumstances it is possible for a PBE to be applying PBE Standards for the first time in their 2019/2020 financial year or later. For example, a PBE that previously reported under Tier 3 or Tier 4 of the XRB's PBE accounting standards framework, but moves to Tier 1 or Tier 2 of the framework in 2020. Another example is a not-for-profit PBE which does not currently have a statutory requirement to prepare financial statements that comply with GAAP and has not done so in the past, but has chosen to start complying with GAAP in 2020 (and the PBE falls into Tier 1 or 2 of the XRB's PBE accounting standards framework).

In the two examples above, the applicable standard upon transition to PBE Standard will be PBE FRS 47.

The vast majority of public sector and not-for-profit PBEs applying PBE Standards for the first time in 2020 (or in a subsequent year) are expected to fall within the scope of PBE FRS 47. To assist PBEs reporting under PBE Standards for the first time, this appendix includes examples of disclosures required by PBE FRS 47 upon first-time adoption of PBE Standards. The disclosures are prepared for Local Charity First Time Adopter, a fictitious PBE that is reporting under PBE Standards for the first time in the year ended 30 June 2020.

PBE FRS 46 would apply to a first-time adopter of PBE Standards only in very limited circumstances, such as when a for-profit entity that previously applied NZ IFRS or NZ IFRS RDR is re-designated as a PBE. Therefore, we have not included illustrative disclosures for PBE FRS 46. Please note that the requirements of PBE FRS 46 are different to those of PBE FRS 47.

Please also note that due to the limited circumstances for entities to fall within the scope of PBE FRS 46 and the increasing differences between NZ IFRS and PBE Standards, the approach taken in PBE FRS 46 is no longer the most appropriate approach for entities moving from NZ IFRS to PBE Standards. Therefore, in Feb 2020 the NZASB issued *Revocation of PBE FRS 46* and *Amendments to PBE FRS 47*, as a result of the withdrawal of PBE FRS 46. The *Amendments to PBE FRS 47* mainly include a change in scope, meaning that PBE FRS 47 will be the sole standard for first time adoption of PBE Standards by Tier 1 and Tier 2 PBEs. The revocation and amendments are effective from 1 January 2021, with early application permitted.

Appendix 5: First-time adoption of PBE Standards *continued*

PBE FRS 47 – First time adoption: Disclosures applicable only to PBEs that previously applied standards/policies other than NZ IFRS or NZ IFRS RDR

Local Charity First Time Adopter

Statement of financial performance

For the year ended 30 June 2020

PBE FRS 47.RDR 27.2

	2020 $000	*Concession for Tier 2 NFPs only*[1] 2019 Restated* $000
Revenue from non-exchange transactions		
Donations and fundraising revenue	75,197	73,682
Bequests	4,561	4,509
Government grants	10,503	8,132
Concessionary loan	329	-
Direct charges revenue - subsidised	13,476	12,704
Property, plant and equipment acquired in non-exchange transactions	2,190	2,150
Revenue from exchange transactions		
Direct charges revenue – full cost recovery	107,341	92,517
Rental revenue	1,404	1,377
Dividends	55	-
Other revenue	1,382	2,007
Total Revenue (excluding gains)	**216,438**	**197,078**
Expenses		
Employee costs	(35,880)	(35,153)
Remuneration of Trustees	(538)	(527)
Depreciation and amortisation	(23,971)	(23,204)
General expenses	(136,552)	(123,587)
Other expenses	(2,231)	(300)
Total Expenses	**(199,172)**	**(182,771)**
Finance costs	(1,264)	(1,123)
Finance income	520	295
Net finance costs	**(744)**	**(828)**
Share of surplus of associate and joint venture	671	638
Surplus before income tax	**17,193**	14,117
Income tax expense	**(1,814)**	(1,119)
Net surplus for the year	**15,379**	**12,998**
Surplus for the year is attributable to:		
Non-controlling interest	288	239
Parent	15,091	12,759
	15,379	**12,998**

*Certain amounts shown here do not correspond to the 2019 financial statements and reflect adjustments made due to first time adoption of PBE Standards. Refer to Note XX.

[1] Only not-for-profit PBEs in Tier 2 may omit the disclosure of comparative information. This disclosure concession is not available to public sector PBEs in Tier 2.

Appendix 5: First-time adoption of PBE Standards *continued*

PBE FRS 47 – First time adoption: Disclosures applicable only to PBEs that previously applied standards/policies other than NZ IFRS or NZ IFRS RDR *continued*

Local Charity First Time Adopter

Statement of other comprehensive revenue and expense

For the year ended 30 June 2020

PBE FRS 47.RDR 27.2

		Concession for Tier 2 NFPs only[1]
	2020 Actual $000	2019 Restated* $000
Surplus for the year	**15,379**	12,998
Other comprehensive revenue and expense, net of tax:		
Net gain/(loss) on available-for-sale financial assert	(57)	3
Net movement in cash flow hedges	(512)	24
Revaluation gain on property, plant and equipment	24,311	-
Other comprehensive revenue and expense for the year, net of tax	**23,742**	27
Total comprehensive revenue and expense for the year	**39,121**	13,025
Total comprehensive revenue and expense for the year is attributable to:		
Non-controlling interest	288	239
Parent	38,833	12,786
	39,121	13,025

*Certain amounts shown here do not correspond to the 2019 financial statements and reflect adjustments made due to first time adoption of PBE Standards. Refer to Note XX.

Appendix 5: First-time adoption of PBE Standards *continued*

PBE FRS 47 – First time adoption: Disclosures applicable only to PBEs that previously applied standards/policies other than NZ IFRS or NZ IFRS RDR *continued*

Local Charity First Time Adopter

Statement of financial position

As at 30 June 2020

PBE FRS 47.RDR 27.2
PBE FRS 47.RDR 27.3

		Concession for Tier 2 NFPs only[1]	*Concession for all Tier 2 PBEs*[2]	*Only for Tier 2 NFPs with no comparatives*[3]
	30 June 2020 $000	30 June 2019 Restated* $000	1 July 2018 Restated* $000	1 July 2019 Restated* $000
ASSETS				
Non-current assets				
Property, plant and equipment	2,087,979	2,039,329	2,030,797	2,016,896
Investment properties	8,893	7,983	6,386	7,895
Intangible assets	6,019	2,513	2,010	2,485
Investments in associates and joint ventures	3,187	2,516	2,010	2,488
Non-current financial assets	6,425	3,491	2,793	3,453
Deferred tax assets	383	365	292	361
	2,112,886	**2,056,197**	**2,044,288**	**2,033,578**
Current assets				
Inventories	3,262	4,085	3,268	4,040
Receivables from non-exchange transactions	13,006	11,416	9,133	11,290
Receivables from exchange transactions	14,666	12,874	10,299	12,732
Prepayments	244	165	132	163
Other current financial assets	551	153	122	151
Cash and cash equivalents	16,669	33,480	26,784	33,112
	48,398	**62,173**	49,738	61,488
Assets classified as held for sale	154	-	-	-
	48,552	**62,173**	**49,738**	61,488
TOTAL ASSETS	**2,161,438**	**2,118,370**	2,094,026	**2,095,066**
LIABILITIES				
Non-current liabilities				
Interest-bearing loans & borrowings	20,346	21,703	17,362	21,464
Other non-current financial liabilities	806	-	-	-
Provisions	1,950	1,290	1,032	1,276
Deferred revenue	1,860	2,582	2,066	2,554
Other liabilities	758	834	667	823
Deferred tax liabilities	3,580	2,143	1,714	2,119
	29,300	**28,552**	22,841	**28,236**

[1] Only not-for-profit PBEs in Tier 2 may omit the disclosure of comparative information, as per PBE FRS 47.RDR 27.2. This disclosure concession is not available to public sector PBEs in Tier 2.

[2] PBEs in Tier 2 (both public sector and not-for-profit) need not present an opening statement of financial position as at the start of the comparative period.

[3] Only not-for-profit PBEs in Tier 2 who choose not to present comparative information, as per PBE FRS 47.RDR 27.2, must present an opening statement of financial position as at the start of the current period, as per PBE FRS 47.RDR 27.3. Please note that for such not-for-profit PBEs, the start of the current period, i.e. 1 July 2019, is the date of transition to PBE Standards. Had the not-for-profit PBE chosen to present comparative information, its date of transition to PBE Standards will have been 1 July 2018. Therefore the amounts presented in the opening statement of financial position as at 1 July 2019 may be different to the amounts that would have been presented as at 30 June 2019 had the entity chosen to present comparative information.

Appendix 5: First-time adoption of PBE Standards *continued*

PBE FRS 47 – First time adoption: Disclosures applicable to PBEs that previously applied standards/policies other than NZ IFRS or NZ IFRS RDR *continued*

Local Charity First Time Adopter

Statement of financial position *continued*

As at 30 June 2020

PBE FRS 47.RDR 27.2
PBE FRS 47.RDR 27.3

		Concession for Tier 2 NFPs only[1]	*Concession for all Tier 2 PBEs*[2]	*Only for Tier 2 NFPs with no comparatives*[3]
	30 June 2020 $000	30 June 2019 Restated* $000	1 July 2018 Restated* $000	1 July 2019 Restated* $000
Current liabilities				
Payables under exchange transactions	19,820	21,073	16,858	20,841
Interest-bearing loans & borrowings	2,460	2,775	2,220	2,744
Other current financial liabilities	3,040	303	242	300
Deferred revenue	729	741	593	733
Income tax payable	961	313	250	310
Employee benefits liability	3,050	2,977	2,382	2,944
Provisions	850	85	65	84
	30,910	**28,267**	**22,610**	**27,956**
TOTAL LIABILITIES	**60,210**	**56,819**	**45,451**	**56,192**
NET ASSETS	**2,101,228**	**2,061,551**	**2,048,575**	**2,038,874**
EQUITY				
Equity attributable to equity owners of the parent				
Accumulated comprehensive revenue and expense	943,397	928,445	915,296	918,232
Reserves				
Asset revaluation reserve	1,124,608	1,100,297	1,100,297	1,088,194
Available for sale reserve	(54)	3	0	3
Cash flow hedge reserve	(582)	(70)	(94)	(69)
Bequests reserve	32,134	32,185	32,575	31,831
Total equity attributable to the Parent	**2,099,503**	**2,060,860**	**2,048,074**	2,038,191
Non-controlling interests	1,725	691	501	683
TOTAL EQUITY	**2,101,228**	**2,061,551**	**2,048,575**	**2,038,874**

*Certain amounts shown here do not correspond to the 2018 financial statements and reflect adjustments made due to first time adoption of PBE Standards. Refer to Note XX.

[1] Only not-for-profit PBEs in Tier 2 may omit the disclosure of comparative information, as per PBE FRS 47.RDR 27.2. This disclosure concession is not available to public sector PBEs in Tier 2.

[2] PBEs in Tier 2 (both public sector and not-for-profit) need not present an opening statement of financial position as at the start of the comparative period.

[3] Only not-for-profit PBEs in Tier 2 who choose not to present comparative information, as per PBE FRS 47.RDR 27.2, must present an opening statement of financial position as at the start of the current period, as per PBE FRS 47.RDR 27.3. Please note that for such PBEs, the start of the current period, i.e. 1 July 2019, is the date of transition to PBE Standards. Had the PBE chosen to present comparative information, its date of transition to PBE Standards will have been 1 July 2018. Therefore the amounts presented in the opening statement of financial position as at 1 July 2019 may be different to the amounts that would have been presented as at 30 June 2019 had the entity chosen to present comparative information.

Appendix 5: First-time adoption of PBE Standards *continued*

PBE FRS 47 – First time adoption: Disclosures applicable only to PBEs that previously applied standards/policies other than NZ IFRS or NZ IFRS RDR *continued*

Local Charity First Time Adopter

Statement of changes in net assets/equity

For the year ended 30 June 2020

	Accumulated comprehensive revenue and expense	Asset revaluation reserve	Available-for-sale reserve	Cash flow hedge reserve	Bequests reserve	Total equity attributable to the Parent	Non-controlling interest	Total equity
	$000	$000	$000	$000	$000	$000	$000	$000
At 1 July 2019(restated*) [1]	928,445	1,100,297	3	(70)	32,185	2,060,860	691	2,061,551
Surplus for the period	15,091	-	-	-	-	15,091	288	15,379
Other comprehensive revenue and expense	-	24,311	(57)	(512)	-	23,742	-	23,742
Total comprehensive revenue and expense for the period	15,091	24,311	(57)	(512)	-	38,833	288	39,121
Net transfers to/from Bequests reserve	(51)	-	-	-	(51)	-	-	-
Transactions with owners in their capacity as owners:								
Acquisition of controlled entity	-	-	-	-	-	-	1,547	1,547
Acquisition of non-controlling interest	(190)	-	-	-		(190)	(801)	(991)
At 30 June 2020	943,397	1,124,608	(54)	(582)	32,134	2,099,503	1,725	2,101,228

*Certain amounts shown here do not correspond to the 2019 financial statements and reflect adjustments made due to first time adoption of PBE Standards. Refer to Note XX.

[1] For a Tier 2 not-for-profit PBE that has chosen not to present comparative information as per PBE FRS 47.RDR 27.2, the date of transition to PBE Standards would be 1 July 2019. However, for a PBE that presents comparative information, the date of transition would be 1 July 2018. Please note that because of this difference in dates of transition, the equity balances as at 1 July 2019 for a Tier 2 not-for-profit PBE that has chosen not to present comparative information may be different to the equity balances as at the same date for a PBE that presents comparative information. Our illustrative disclosure above has assumed that the date of transition to PBE Standards is 1 July 2018.

Appendix 5: First-time adoption of PBE Standards *continued*

PBE FRS 47 – First time adoption: Disclosures applicable only to PBEs that previously applied standards/policies other than NZ IFRS or NZ IFRS RDR *continued*

Local Charity First Time Adopter

Statement of changes in net assets/equity *continued*

For the year ended 30 June 2019 (Restated*)

Concession for Tier 2 NFPs only[1]

PBE FRS 47.RDR 27.2

	Accumulated comprehensive revenue and expense $000	Asset revaluation reserve $000	Available-for-sale reserve $000	Cash flow hedge reserve $000	Bequests reserve $000	Total equity attributable to the Parent $000	Non-controlling interest $000	Total equity $000
At 1 July 2018 (restated*)	915,296	1,100,297	-	(94)	32,575	2,048,074	501	2,048,575
Surplus for the period (restated*)	12,759	-	-	-	-	12,759	239	12,998
Other comprehensive revenue and expense	-	-	3	24	-	27	-	27
Total comprehensive revenue and expense for the period	12,759	-	3	24	-	12,786	239	13,025
Net transfers to/from bequests reserve	(390)	-	-	-	(390)	-	-	-
Transactions with owners in their capacity as owners:								
Dividend paid to non-controlling interest	-	-	-	-	-	-	(49)	(49)
At 30 June 2019	928,445	1,100,297	3	(70)	32,185	2,060,860	691	2,061,551

*Certain amounts shown here do not correspond to the 2019 financial statements and reflect adjustments made due to first time adoption of PBE Standards. Refer to Note XX.

[1] Only not-for-profit PBEs in Tier 2 may omit the disclosure of comparative information, as per PBE FRS 47.RDR 27.2. This disclosure concession is not available to public sector PBEs in Tier 2.

Appendix 5: First-time adoption of PBE Standards *continued*

PBE FRS 47 – First time adoption: Disclosures applicable only to PBEs that previously applied standards/policies that other than NZ IFRS or NZ IFRS RDR *continued*

Local Charity First Time Adopter

Statement of cash flows

For the year ended 30 June 2020

PBE FRS 47.RDR 27.2

	2020 $000	*Concession for Tier 2 NFPs only*[1] 2019 (restated*) $000
Cash flows from operating activities		
Receipts from donations and fundraising	74,617	73,580
Receipts from bequests	796	692
Receipts from other goods and services provided to customers – non-exchange transactions	13,839	13,257
Receipts from grants and subsidies	9,169	15,992
Receipts from other goods and services provided to customers – exchange transactions	109,869	95,348
Interest received	520	295
Dividends received	-	-
Payments to suppliers	(133,574)	(126,828)
Payments to employees	(36,345)	(35,748)
Grants, contributions and sponsorships paid	(1,580)	(1,679)
Interest paid	(646)	(1,030)
Income tax paid	(396)	(698)
Net cash flows from/(used in) operating activities	**36,269**	**33,181**
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	1,208	2,336
Proceeds from sale of financial instruments	-	145
Purchase of property, plant and equipment	(46,282)	(41,959)
Purchase of investment property	(1,216)	(1,192)
Purchase of financial instruments	(3,054)	(225)
Purchase of intangibles	(449)	(630)
Acquisition of controlled entity	-	-
Net cash flows from/(used in) investing activities	**(49,793)**	**(41,525)**
Cash flows from financing activities		
Acquisition of non-controlling interest	(991)	-
Proceeds from borrowings	2,496	8,526
Repayment of borrowings	(3,057)	(1,345)
Payment of finance lease liabilities	(51)	(76)
Dividends paid to non-controlling interest	-	(48)
Net cash flows from/(used in) financing activities	(1,603)	7,057
Net increase/(decrease) in cash and cash equivalents	(15,127)	(1,287)
Cash and cash equivalents at the beginning of the year	30,830	32,117
Cash and cash equivalents at the end of the year	**15,703**	**30,830**

*Certain amounts shown here do not correspond to the 2019 financial statements and reflect adjustment made due to first time adoption of PBE Standards. Refer to Note XX.

[1] Only not-for-profit PBEs in Tier 2 may omit the disclosure of comparative information, as per PBE FRS 47.RDR 27.2. This disclosure concession is not available to public sector PBEs in Tier 2.

Appendix 5: First-time adoption of PBE Standards *continued*

PBE FRS 47 – First time adoption: Disclosures applicable only to PBEs that previously applied standards/policies other than NZ IFRS or NZ IFRS RDR *continued*

Commentary

In order to explain the disclosure concessions available under PBE FRS 47 to Tier 2 PBEs that did not apply NZ IFRS or NZ IFRS RDR in the immediately preceding accounting period, we have included the full consolidated financial statements of Local Charity First Time Adopter in this Appendix. These financial statements also illustrate how restatements that arise upon first-time adoption of PBE Standards may be presented in the financial statements.

Disclosures for PBEs in Tier 1:

PBE FRS 47.25 requires a Tier 1 PBE to prepare an opening statement of financial position as at the "date of transition to PBE Standards", which is the beginning of the earliest period for which the entity presents full comparative information in its first set of financial statements under PBE Standards. As Local Charity First Time Adopter prepared its first set of financial statements under PBE Standards for the year ended 30 June 2020, and comparative information is for the year ended 30 June 2019, the opening statement of financial position for Local Charity First Time Adopter would be as at 1 July 2018. This opening statement of financial position needs to be prepared in accordance with PBE Standards.

For PBEs in Tier 1, PBE FRS 47 requires this opening statement of financial position to be disclosed (PBE FRS 47.25), either on the "face" of the statement of financial position, or in the notes (PBE FRS 47.26). Local Charity First Time Adopter has chosen the former option. The opening statement of financial position and the comparative period financial statements for the year ended 30 June 2019 have been restated due to adjustments on first-time application of PBE Standards, in accordance with PBE FRS 47. Refer to Note XX for details of the adjustments made on initial application of PBE Standards.

PBE FRS 47 requires disclosure of the adjustments made as a result of transition to PBE Standards (PBE FRS 47.29). However, there is no requirement to make these disclosures on the face of the financial statements, and the amounts of these adjustments can be given only in the notes. By labelling the comparatives 'Restated', the Local Charity First Time Adopter illustrates how an entity may supplement the requirements of PBE FRS 47 (and PBE IPSAS 3, if applicable – refer below) so that it is clear to the user that adjustments to the amounts in prior financial statements have been reflected in the comparative periods as presented in the current period financial statements.

Disclosure concessions for PBEs in Tier 2:

For PBEs in Tier 2, PBE FRS 47 contains disclosures concessions regarding the presentation of the primary financial statements. However, as shown in the illustrative financial statements above, these disclosure concessions are different for not-for-profit PBEs as compared to public sectors PBEs.

Not for-profit PBEs in Tier 2:

In terms of the presentation of primary financial statements, there are two disclosure concession options available to Tier 2 not-for-profit PBEs under PBE FRS 47:

- Option 1 (PBE FRS 47.RDR 27.1): The PBE is not required to present the opening statement of financial position as at the date of transition to PBE Standards (i.e. as at the start of the earliest comparative period for which financial statements are presented), although it must still prepare this statement and ensure that it complies with PBE Standards. Comparative information that complies with PBE Standards must still be presented in the primary financial statements. If Local Charity First Time Adopter applied this concession, it would present financial statements for the year ended 30 June 2020 and comparative financial statements for the year ended 30 June 2019. It would not present the opening statement of financial position as at 1 July 2018.

  OR

- Option 2 (PBE FRS 47.RDR 27.2-3): The PBE is not required to present comparative information that complies with PBE Standards in its primary financial statements. However, it is then required to present an opening statement of financial position as at the start of the current period. The PBE must also attach to the financial statements its prior period financial statements, which would have been prepared under the other standards previously applied by the PBE. If there are significant differences between the current period's accounting policies under PBE Standards and prior period's accounting policies, then the PBE must explain these differences in the notes to its current year financial statements. If Local Charity First Time Adopter applied this concession, it would present financial statements for the year ended 30 June 2020, and an opening statement of financial position as at 1 July 2019. Comparative financial statements that comply with PBE Standards for the year ended 30 June 2019 would not be presented.

Instead, Local Charity First Time Adopter would attach its financial statements as at 30 June 2019 that it prepared last year under the previously applied standards/policies, and explain in the current year's financial statements the significant differences between the previous year's and current year's accounting policies.

Please note that for a not-for-profit PBE applying this concession, the amounts in the opening statement of financial position as at 1 July 2018 may be different to the amounts that the PBE would have presented in its comparative statement of financial position as at 30 June 2019 had it chosen not to apply this concession. This is because the date of transition to PBE Standards for a not-for-profit PBE that applies this concession is the start of the current accounting period (in this case, 1 July 2019), whereas for a PBE that does not apply this concession the date of transition is the start of the comparative period (in this case, 1 July 2018).

Appendix 5: First-time adoption of PBE Standards *continued*

PBE FRS 47 – First time adoption: Disclosures applicable only to PBEs that previously applied standards/policies other than NZ IFRS or NZ IFRS RDR *continued*

Commentary *continued*

Refer to the commentary in Note XX below for more information on the date of transition to PBE Standards.

Public sector PBE Standards in Tier 2:
In terms of the presentation of the primary financial statements, public sector PBEs may apply the disclosure concession in PBE FRS 47.RDR 27.1, as described in Option 1 above. Public sector PBEs in Tier 2 need not present their opening statement of financial position as at the date of transition to PBE Standards (i.e. as at the start of the comparative period), although they must still prepare this statement. That is, if Local Charity First Time Adopter applied this concession, it would present financial statements for the year ended 30 June 2019 and comparative financial statements for the year ended 30 June 2018. It would not present the opening statement of financial position as at 1 July 2017. Please note that Option 2 above (i.e. PBE FRS 47.RDR 27.2-3) is not available to public sector PBEs in Tier 2 – it is only available to not-for-profit PBEs in Tier 2.

PBE IPSAS 3 – not applicable to Local Charity First Time Adopter
PBE FRS 47 specifically states that PBE IPSAS 3 does not apply to a PBE's first set of accounting standards under PBE Standards. Voluntary changes in accounting policies upon transition to PBE Standards are permitted by PBE FRS 47, and the standard deals with the disclosure of such changes, as well as prior period errors made under Old NZ GAAP (or any previous standards applied). However, PBE IPSAS 3 may be relevant if there have been prior period errors. Local Charity First Time Adopter did not have any prior period errors. Refer to the financial statements and notes of Local City Council for examples of disclosure required by PBE IPSAS 3 for a prior period error.

2 Summary of significant accounting policies (extract)

Effect of first-time adoption of PBE Standards on accounting policies and disclosures

This is the first set of financial statements of the Group that is presented in accordance with PBE Standards. The Group has previously prepared special purpose financial statements.

The impacts of adopting PBE Standards (or PBE Standards RDR) on the total net assets/equity and total comprehensive revenue and expense are illustrated below: *PBE FRS 47.29*

(a) Reconciliation of net assets/equity under the previously applied policies to PBE Standards: *PBE FRS 47.30(a)* *PBE FRS 47 RDR 30.1*

		Concession for Tier 2 NFPs only[1] 30 June 2019 $000	1 July 2018[2] $000
Net assets/equity under previously applied policies		2,100,828	2,048,275
Adjustments to accumulated comprehensive revenue and expense:			
Recognition of non-exchange revenue from grants received	[1]	250	250
Change in valuation of investments to fair value through surplus or deficit	[2]	150	50
Net assets/equity under PBE Standards		**2,101,228**	**2,048,575**

[1] Not-for-profit PBEs in Tier 2 that choose not to present comparative financial information in their first set of financial statements prepared under PBE Standards (as permitted by PBE FRS 47.RDR 27.2) do not need to present the above net assets/equity reconciliation as at the end of the comparative period. That is, the above reconciliation as at 30 June 2019 need not be presented. Please note that this disclosure concession is not available to public sector PBEs in Tier 2.

[2] For a not-for-profit PBE in Tier 2 that chooses not to present comparative information, the date of transition to PBE Standards will be the start of the current accounting period. That is, if the current accounting period is the year ended 30 June 2020, then the date of transition to PBE Standards in the reconciliation above would be 1 July 2019, and the above reconciliation needs to be disclosed for that date only. Please note that the balances and adjustments shown in the reconciliation as at 1 July 2019 may be different to the two reconciliations shown above as at 30 June 2019 and 1 July 2018.

Appendix 5: First-time adoption of PBE Standards *continued*

PBE FRS 47 – First time adoption: Disclosures applicable only to PBEs that previously applied standards/policies other than NZ IFRS or NZ IFRS RDR) *continued*

(b) Reconciliation of total comprehensive revenue and expense previously reported to that under PBE Standards:

PBE FRS 47.30(b)

		30 June 2019 $000
Prior year total comprehensive revenue and expense under previously applied standards/policies		12,598
Adjustments on transition to PBE Standards:		
Recognition of non-exchange revenue on grants received	[1]	250
Change in valuation of investments to fair value through surplus or deficit	[2]	150
Total comprehensive revenue and expense under PBE Standards		**12,998**

Notes to the reconciliations:

PBE FRS 47.31

[1] Recognition of non-exchange revenue from grants received

PBE FRS 47.C21

PBE IPSAS 23 prescribes the financial reporting requirements for revenue arising from non-exchange transactions. The application of this standard affected the Group's accounting for grant revenue. In the previous financial year, grants received in relation to the provision of a service or for a specific project were recognised as revenue on a percentage of completion basis. However, PBE IPSAS 23 requires revenue from non-exchange transactions, such as grants, to be recognised as revenue as soon as the inflow of resources can be recognised as an asset in the financial statements, unless the inflow of resources meets the definition of and recognition criteria for a liability. Non-exchange revenue from grants can only be deferred and recognised as a liability if there is a condition attached to the grant that requires an entity to use the grant as specified by the grantor or return of the cash (or other resources transferred under the grant) if the entity does not perform as specified.

In the previous two financial years (2019 and 2018), cash was received from the Crown for the upgrade of Local First Charity Time Adopter's community centre building. The amounts received were $250,000 in 2018 and $250,000 in 2019. Both of these amounts were recognised as deferred revenue as at 30 June 2019, as this project had not yet commenced. However, although the grant contracts stipulated that the funding must be used for a specific upgrade programme, these stipulations did not include a return obligation. Therefore, there are no specific conditions (as defined by PBE IPSAS 23) attached to the grants. As a result of the initial application of PBE IPSAS 23, both receipts must be recognised as revenue upon receipt. As a consequence, adjustments were made by restating the opening net assets/equity as at 1 July 2018 and each of the affected financial statement items for the year ended 30 June 2019, as shown below:

Impact on statement of financial performance	2019 $000
Increase in government grants revenue	250
Net impact on net surplus	**250**

Appendix 5: First-time adoption of PBE Standards *continued*

PBE FRS 47 – First time adoption: Disclosures applicable only to PBEs that previously applied standards/policies other than NZ IFRS or NZ IFRS RDR) *continued*

Impact on net assets/equity

	2019 $000
Increase in opening accumulated comprehensive revenue and expense as at 1 July 2018	250
Increase in net surplus as at 30 June 2019	250
Total impact on net assets/equity	**500**

Impact on financial position

	2019 $000
Decrease in deferred revenue	(500)
Total impact on liabilities	**(500)**

[2] Change in valuation of investments at fair value through surplus or deficit

The Group holds investments in unit trusts. In the previous year, under previous accounting policies, these investments were recognised at cost. However, under PBE IPSAS 29 these investments meet the definition of financial assets at fair value through surplus or deficit as they are held for trading. Therefore, under PBE Standards, these investments need to be measured at fair value, both on initial recognition and subsequently. In accordance with PBE FRS 47, the Group has designated these investments as financial asset at fair value through surplus or deficit as at 1 July 2019 (the date of transition to PBE Standards). The fair value of the investments as at that date was $540,000, as compared to the carrying amount of the investments under previous accounting policies, which was $490,000 as at 30 June 2019. This resulted in a fair value gain of $50,000 and an equivalent increase in investments as at 1 July 2019. The fair value of the investments as at 30 June 2019 was $690,000, which resulted in a fair value gain of $150,000 and equivalent increase in investments in the year ended 30 June 2019. The comparative figures in the 2019 statement of financial performance and 2019 statement of financial position have been retrospectively amended accordingly, as shown below:

PBE FRS 47.C16

PBE FRS 47.36

Impact on statement of financial performance

	2019 $000
Fair value gain on re-measurement of investment	150
Net impact on net surplus/deficit	**150**

Impact on net assets/equity

	2019 $000
Increase in fair value of investments as at 1 July 2018	50
Increase in net surplus as at 30 June 2019	150
Total impact on net assets/equity	**200**

Impact on financial position

	2019 $000
Increase in fair value of investments	200
Total impact on assets	**200**

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Appendix 5: First-time adoption of PBE Standards *continued*

PBE FRS 47 – First time adoption: Disclosures applicable only to PBEs that previously applied standards/policies other than NZ IFRS or NZ IFRS RDR) *continued*

(c) Use of deemed cost for the measurement of property, plant and equipment: *PBE FRS 47.C2* *PBE FRS 47.C3*

Under previous accounting policies, the Group carried its land and buildings at revalued amounts. Upon transition to PBE Standards, the Group decided to measure land and buildings using the cost method. As permitted by PBE FRS 47, the Group has used the valuation of the land and buildings under previous policies as at 30 June 2018 as the deemed cost of these assets as at 1 July 2018, as management believes that this value approximates the fair value of the assets as at that date. The deemed cost of the land and buildings as at 1 July 2018 was $800,000. As this was the carrying amount of the land and buildings under previous accounting policies, no adjustments were made to the carrying amount of land and buildings upon transition to PBE Standards. *PBE FRS 47.37*

(d) Other changes in presentation and disclosure only:

PBE IPSAS 1: Presentation of Financial Statements
The main changes in disclosure resulting from the application of PBE IPSAS 1 are the following:

Receivables from exchange and non-exchange transactions:
In the financial statements of the previous financial year, receivables were presented as a single total in the statement of financial position. However, PBE IPSAS 1 requires receivables from non-exchange transactions and receivables from exchange transactions to be presented separately in the statement of financial position. This requirement affected the presentation of both current and comparative receivables figures.

PBE IPSAS 2: Cash Flow Statements
In the previous financial year, the Group prepared special purpose financial statements and did not prepare a Cash Flow Statement. However, this is required under PBE Standards. Therefore the (2020) and a comparative cash flow statement for the previous year (2019). This change affects presentation and disclosure only.

Commentary

Applicability of PBE FRS 47 upon first-time adoption of PBE Standards:
For the purpose of this Appendix, it is assumed that Local Charity First Time Adopter previously prepared special purpose financial statements. PBEs that previously applied any other standards or policies that are not based on NZ IFRS, need to apply PBE FRS 47 upon transition to PBE Standards. The requirements of PBE FRS 47 are different to those of PBE FRS 46, which is to be applied by PBEs that previously reported under a version of NZ IFRS standards. Note that illustrative disclosures for PBE FRS 46 are not included in this publication.

Effect of first-time adoption of PBE Standards:
For PBEs that previously prepared special purpose financial statements (or reported under standards/policies other than NZ IFRS or NZ IFRS RDR), there may be many differences between the accounting policies previously applied and those that must be applied under PBE Standards. Moreover, these differences will vary from entity to entity.

PBEs that previously applied standard/policies other than NZ IFRS/NZ IFRS RDR are permitted by PBE FRS 47 to change their accounting policies upon transition to PBE Standards. In addition, Appendices B and C of PBE FRS 47 contain several exemptions from retrospective application of changes in accounting policies, which means that adjustments that arise on adoption of PBE Standards can be applied from the date of transition to PBE Standards, and do not need to be applied to transactions and balances before that date. Please note that for all PBEs, other than Tier 2 not-for-profit PBEs that apply the RDR concession in PBE FRS 47.RDR 27.2, the date of transition to PBE Standards is the start of the earliest comparative period presented. For Tier 2 not-for-profit PBEs that apply the RDR concession under PBE FRS 47.27.2, the date of transition to PBE Standards is the start of the current period (PBE FRS 47.9). For the purpose of the illustrative disclosures of first-time adoption adjustments shown above, it is assumed that Local Charity First Time Adopter did not apply the RDR concession in PBE FRS 47.RDR.27.2, and therefore the date of transition to PBE Standards is 1 July 2018.

The following is an example of the transitional provisions in PBE FRS 47: If a financial asset held by a PBE meets the definition of a financial asset at fair value through surplus or deficit or an AFS financial asset under PBE IPSAS 29, but the asset was measured at cost under the previous accounting policies, the PBE may designate these assets as either of these classifications and measure them at fair value (PBE FRS 47.C16). PBE FRS 47 allows the PBE to apply this designation, and the measurement at fair value, from the date of transition to PBE Standards and onwards. Local Charity First Time Adopter applied this in relation to its investments.

Appendix 5: First-time adoption of PBE Standards *continued*

PBE FRS 47 – First time adoption: Disclosures applicable only to PBEs that previously applied standards/policies other than NZ IFRS or NZ IFRS RDR *continued*

Commentary *continued*

Also, if a PBE changes its accounting policy for the measurement of property, plant and equipment upon transitioning to PBE Standards, they may establish fair value at the date of transition as the "deemed cost" of the relevant property, plant and equipment item as at the date of transition to PBE Standards (PBE FRS 47.C2). This would be the starting point for using either the cost method or revaluation method, regardless of the method applied previously. The "deemed cost" must be either its fair value as at the date of transition, or the asset's revalued amount under the standards/policies previously applied, if that amount is comparable to fair value, cost or depreciated cost in accordance with PBE Standards (PBE FRS 47.C3). Local Charity First Time Adopter changed its measurement policy for its land and buildings from the revaluation method to the cost method upon transitioning to PBE Standards, and used the revalued amount of these assets under the standards/policies previously applied as their "deemed cost" as at the date of transition. Further exemptions from retrospective application are listed in Appendices B and C of PBE FRS 47.

Please note that there is no exemption from retrospective application with regards to revenue from non-exchange transactions – assets and liabilities arising from non-exchange transactions before the date of transition to PBE Standards must be measured in accordance with PBE Standards and recognised in net assets/equity (PBE FRS 47.C21). Therefore Local Charity First Time Adopter has made a retrospective adjustment to its previous year's opening net assets/equity balance for grant funds received before the date of transition to PBE Standards.

PBE FRS 47 requires entities to explain how the transition from other previous GAAP/policies to PBE Standards affected its reported financial position, statement of comprehensive revenue and expense and cash flows (PBE FRS 47.29). To comply with this requirement, entities must present the following reconciliations:

- All PBEs: A reconciliation of the entity's net asset/equity as previously reported to its net assets/equity under PBE Standards, as at the date of transition to PBE Standards (PBE FRS 47.30(a)(i)). In the illustrative disclosure above for Local Charity First Time Adopter, this reconciliation is prepared as at 1 July 2018. This is assuming that that Local Charity First Time Adopter did not apply the disclosure concession in PBE FRS 47.RDR 27.2, and therefore the date of transition to PBE Standards is 1 July 2018. Had Local Charity First Time Adopter chosen to apply PBE FRS 47.RDR 27.2 (assuming that it was a not-for-profit PBE and therefore eligible to do so), then it would have had to prepare this reconciliation of opening net assets/equity as at 1 July 2019.

- All PBEs except for not-for-profit PBEs in Tier 2 that apply PBE FRS.47.RDR 27.2: A reconciliation of the entity's net asset/equity as reported under previous GAAP/policies to its net assets/equity under PBE Standards, as at the end of the latest period covered by the entity's most recent financial statements prepared under previous GAAP/policies (PBE FRS 47.30(a)(ii)). For Local Charity First Time Adopter, this reconciliation is prepared as at 30 June 2019 (as this was the date of its most recent financial statements prepared under previous GAAP/policies). Please note that this reconciliation is not required for Tier 2 not-for-profit PBEs that apply the concession in PBE FRS 47.RDR 27.2. That is, had Local Charity First Time Adopter chosen to apply the concession in PBE FRS 47.RDR 27.2 (assuming that it was a not-for-profit PBE and therefore eligible to do so), then it would not need to present a reconciliation of net assets/equity as at 30 June 2019, as it would not be restating comparative period figures in accordance with PBE Standards. However, a reconciliation of net assets/equity as at the date of transition to PBE Standards would still be required (please see previous bullet point).

- All Tier 1 PBEs: A reconciliation of the entity's total comprehensive revenue and expense previous GAAP/policies to the total comprehensive revenue and expense figure under PBE Standards, as at the end of the latest period covered by the entity's latest financial statements prepared under previous GAAP/policies (PBE FRS 47.30(b)). Local Charity First Time Adopter's reconciliation is prepared as at 30 June 2019.

In addition to the reconciliations above, PBE FRS 47 also requires the following disclosures (PBE FRS 47.32-38):
- Amounts of impairment recognised or reversed as a result of the first-time adoption of PBE Standards
- Correction of prior period errors
- When financial instruments are designated as financial assets/liabilities at fair value through surplus or deficit or AFS financial assets, the fair value of these instruments as at the date of transition to PBE Standards and their carrying amount (and classification) under previous GAAP/policies
- For each line item where fair value was used as the item's deemed cost, the fair value amount recognised as at the date of transition to PBE Standards and the adjustment that was made to the carrying amount under previous GAAP/policies in order to reach this fair value
- For investments in controlled entities/associates/joint ventures where fair value or the previous carrying amount of the investment was used as deemed cost, the fair value or previous carrying amount of the investment, and any adjustments made to the carrying amount of the investments under previous GAAP/policies

Appendix 6: Specific disclosures for not-for-profit PBE

Commentary

Differences in requirements of PBE Standards for not-for-profit PBEs as compared to public sector PBEs

Although PBE Standards are applicable to all PBEs across the public sector and private not-for-profit sector, a small number of standards contain requirements that are applicable only to not-for-profit PBEs, i.e.:

- PBE IPSAS *20 Related Party Disclosures* requires not-for-profit PBEs to disclose all related party transactions, regardless of terms, whereas public sector PBEs need not disclose related party transactions (other than key management personnel remuneration) that have arm's length terms.
- PBE FRS 47 *First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRSs* contains some disclosure concessions that are only available to not-for-profit PBEs in Tier 2.

As Local City Council is a public sector PBE, the above-mentioned requirements that are specific to not-for-profit PBEs have not been disclosed in the main body of this publication. To assist not-for-profit PBEs in understanding these specific requirements, the relevant disclosures are presented in this appendix.

The disclosures are for Local Charity, a fictitious New Zealand charity registered under the Charities Act 2005. The principal activity of this charity is to operate shelters for stray animals in Local City and to promote animal welfare in the community.

xx. Related party transactions

Note 5 provides the information about the Group's structure including the details of the controlled entity and an investment in an associate. The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year.

PBE IPSAS 20.27.1

		Sales to related parties $000	Purchases from related parties $000	Amounts owed by related parties* $000	Amounts owed to related parties* $000
Associate: Animal Education Resources Limited	2020	90	–	30	–
	2019	10	–	44	–
Key management personnel of the Group: Other management interests	2020	–	22	–	10
	2019	–	13	–	10

* *The amounts are classified as trade receivables and trade payables, respectively (see Notes xx and xx).*

Terms and conditions of transactions with related parties

PBE IPSAS 20.27.1

The sales to and purchases from related parties are made on terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year-end are unsecured and interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 30 June 2020, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2019: Nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Other management interests

During both 2020 and 2019, the Group purchased consultancy services at market prices from Civil Engineering Consultancy Limited. The spouse of Executive Management Team member G Le Gruszby is a director and controlling shareholder of Civil Engineering Consultancy Limited. Total transactions with Civil Engineering Consultancy Limited amount to $225,000 in 2020 (2019: $135,000). This amount was included in general expenses for the Group. As at 30 June 2020, $10,000 was payable by the Group to this related party (2019: $10,000). This amount is included within the Group's payables balance.

Appendix 6: Specific disclosures for not-for-profit PBE *continued*

Commentary:

Disclosures of related party transactions and balances:

Not-for-profit PBEs have to disclose the nature, type and aggregate amounts of all related party transactions and balances, regardless of whether or not the terms and conditions are equivalent to arm's length transactions (PBE IPSAS 20.27.1).

Compensation of key management personnel

Key management personnel of the Group include the Board of Trustees of Local Charity and the Executive Management Team of Local Charity (which includes the Chief Executive). The total remuneration of key management personnel and number of individuals, on a full-time equivalent (FTE) basis, receiving remuneration from the Group are:

PBE IPSAS 20.34.1(a)

	2020 $000	2019 $000
Trustees (6 FTE)	224	220
Executive management team (4 FTE)	314	307
Total remuneration (10 FTE)	**538**	**527**

Key management personnel did not receive any remuneration or compensation other than in their capacity as key management personnel (2019: Nil). *PBE IPSAS 20.34(b)(i)*

PBE IPSAS 20.34.1(b)(ii)

Local Charity did not provide any compensation at non-arm's length terms to close family members of key management personnel during the year (2019: Nil). Local Charity provided compensation to an entity controlled by the spouse of a member of the Executive Management Team. Refer to *Other management Interests* disclosure above. The terms of these transactions were arm's length. *PBE IPSAS 20.34.1(c)*

Local Charity did not provide any loans to key management personnel or their close family members.

Commentary

Key management personnel disclosures: PBE IPSAS 20

PBE IPSAS 20 describes key management personnel (KMP) as all directors or members of the governing body of the entity and other persons having the authority and responsibility for planning, directing, and controlling the activities of the reporting entity (see PBE IPSAS 20.4 for details). The responsibilities of key management personnel may enable them to influence the benefits that flow to them or their related parties. Consequently, PBE IPSAS 20 requires specific disclosure to be made in aggregate about:

- The remuneration of KMP and close family members of KMP during the reporting period
- Loans made to them and
- The consideration provided to them for services they provide to the entity other than as a member of the governing body or an employee

Not-for-profit PBEs are required to make these disclosures regardless of whether or not the terms and conditions are equivalent to arm's length transactions.

Due to the nature of related party transactions, they may be considered qualitatively material despite the amount or size of the transaction.

Appendix 7: Statutory disclosures of a financial nature required by local authorities

Commentary
The Local Government Act 2002 requires local authorities, such as Local City Council, to provide in their annual report the disclosures included in this appendix. These disclosures are not required by PBE Standards. Nevertheless, as these disclosures are financial in nature (or relate to an item in the financial statements), local authorities usually provide these disclosures within the notes to the financial statements, together with those disclosures that are required by PBE Standards. However, to avoid confusion for PBEs that are not local authorities, we have included these statutory disclosures in this appendix, rather than in the main body of this publication. Please note that some – but not all – of these disclosures are also required by the governing legislation of other public sector PBEs, such as government departments and Crown Entities. PBEs should refer to their respective governing legislation to ascertain their statutory reporting requirements.

9 Rates (extract)

In addition to the disclosures provided in Note 9 (in the main body of the publication), local authorities that participate in the Local Government Funding Agency (LGFA) should disclose the following in relation to their rates:

LGFA Guarantee
For the year ended 30 June 2020 and 2019, the annual rates income of the Council for the purposes of the LGFA Guarantee and Indemnity Deed disclosure is the same as the total rates amount shown above.

LGFA Guarantee and Indemnity Deed.16.9(c)

Commentary
The LGFA Guarantee and Indemnity Deed requires participating local authorities to disclose in its financial statements or notes its annual rates income. That Deed defines annual rates income as an amount equal to the total revenue from any funding mechanism authorised by the Local Government (Rating Act) 2002 together with any revenue received by the Council from other local authorities for services provided by that Council for which those other Local Authorities rate.

14 Employee remuneration (extract)

In addition to the disclosures provided in Note 14 (in the main body of the publication), the Local Government Act 2002 requires local authorities to disclose the following in relation to employee remuneration:

Employee remuneration bands:
The table below show total annual remuneration by remuneration band for Council employees as at 30 June 2020 and 2019:

LGA 2002.Schedule 10.32A(1)-(2)

	Council	
	2020	2019
$100,000-$119,999	2	2
$80,000-$99,999	12	14
$60,000-$79,999	64	66
< $60,000	69	70
	147	**152**

Severance payments:
Termination benefits relate to severance amounts paid to four Council employees as a result of the reorganisation of the Council's finance and administration department. The total severance amount paid by the Council to these employees was $39,000. The individual payments were $12,000, $10,000, $9,000 and $8,000.

LGA 2002.Schedule 10.33(1)

Commentary
In relation to employee remuneration, the Local Government Act 2002 requires local authorities to disclose in their annual report the total number of employees as at the end of the current and previous year, as well as:
- The number of employees receiving total annual remuneration below $60,000
- The number of employees receiving total annual remuneration above $60,000, expressed in bands of $20,000.

Local authorities are also required to disclose the number of employees who received severance payments during the year, and the severance amount that was paid to each employee (and to the Chief Executive, if applicable).

Appendix 7: Statutory disclosures of a financial nature required by local authorities *continued*

39 Related party transactions (extract)

In addition to the disclosures provided in Note 39 (in the main body of the publication), the Local Government Act 2002 requires local authorities to disclose the following in relation to key management personnel remuneration:

Further details of the remuneration of key management personnel is provided below:

	2020 $000	2019 $000	
K O'Cork - Chief Executive			*LGA 2002.Schedule 10.32(1)(c)*
Short-term employee benefits	100	98	
Medical insurance	10	10	
Other benefits (vehicle and parking allowance)	20	20	
G N Betten - Mayor	61	62	*LGA 2002.Schedule 10.32(1)(a)*
Short-term employee benefits	2	1	
Medical insurance	3	2	
Other benefits (vehicle and parking allowance)			
L Murant - Councillor			*LGA 2002.Schedule 10.32(1)(a)*
Short-term employee benefits	28	27	
Medical insurance	1	1	
Other benefits (vehicle and parking allowance)	2	2	
D Capey – Councillor			*LGA 2002.Schedule 10.32(1)(a)*
Short-term employee benefits	28	27	
Medical insurance	1	1	
Other benefits (vehicle and parking allowance)	2	2	
A Van Zyke – Councillor			*LGA 2002.Schedule 10.32(1)(a)*
Short-term employee benefits	27	26	
Medical insurance	1	1	
Other benefits (vehicle and parking allowance)	–	–	
Y Tobogava – Councillor			*LGA 2002.Schedule 10.32(1)(a)*
Short-term employee benefits	27	26	
Medical insurance	1	1	
Other benefits (vehicle and parking allowance)	–	–	
Executive Management Team (4 people)			
Short-term employee benefits	212	208	
Medical insurance	7	7	
Other benefits (vehicle and parking allowance)	5	5	
Total compensation paid to key management personnel	**538**	**527**	

Commentary

Additional statutory disclosures for key management personnel of local authorities:

In addition to the disclosures required by PBE IPSAS 20, the Local Government Act 2002 also requires the disclosure of the remuneration of the following specific key management personnel of local authorities:

- The mayor of the local authority
- Each member of the local authority (i.e. each Councillor) and
- The chief executive of the local authority

Local City Council disclosed the remuneration of these individuals separately above.

Other PBEs that are not local authorities should consider if legislation applicable to them contains any similar additional requirements in relation to key management personnel.

Appendix 8: Statement of service performance

Commentary

The illustrative disclosures and commentary in this appendix are based on the guidance provided in PBE IPSAS 1 (Appendix C) on service performance reporting.

In November 2017, NZASB issued the PBE FRS 48 *Service Performance Reporting*. The requirements of this new standard will replace the guidance in PBE IPSAS 1 when it becomes effective from 1 January 2021. Early adoption of the standard is permitted. In May 2020, the NZASB published for public comment NZASB ED 2020-1 *Proposed 2020 Amendments to PBE FRS 48*. The amendment proposes to defer the effective date of PBE FRS 48 by one year (from 1 January 2021 to 1 January 2022). The standard remains available for early adoption. We recommend you contact one of the EY member firms' Assurance partners or a member of the EY Financial Accounting Advisory Services team for more information about the new service performance standard.

Community outcomes

The Local City Council's main community outcome areas are outline below:

1) Well-connected and well-built city – *Local City's infrastructure is improved and maintained at a high level*
2) Strong economy and high standard of living – *business activity in Local City is strengthened and living standards are raised or maintained*
3) Educated and culturally-aware community – *the community in Local City is better-educated and more culturally-aware*
4) Healthy, safe and inclusive community – *the health and safety of the community of Local City and inclusiveness within the community are maintained at a high level*
5) Clean, safe and sustainably-managed environment – *Local City's natural and built environment is cleaner and safer for the Local City community*

Commentary

Outcomes:

According to PBE IPSAS 1.150.4, outcomes are a key element of the statement of service performance. PBE IPSAS 1.C17 defines outcomes as the impacts on, or consequences for, the community resulting from the existence and operations of the entity. According to PBE IPSAS 1.C20, outcomes provide a public benefit entity with a rationale for action and are the basis on which the public benefit entity makes decisions regarding outputs. Outcomes are the reason for producing outputs.

The Local Government Act 2002 makes reference to "community outcomes", which are outcomes that a local authority aims to achieve in meeting the current and future needs of communities for good-quality local infrastructure, local public services, and performance of regulatory functions. This is more specific than – but consistent with – the definition in PBE IPSAS 1. Note that local authorities usually list community outcomes (and describe their overall achievement) at the start of the annual report, separately to the rest of the statement of service performance.

Groups of activities

The following groups of activities contribute to the Council's community outcomes:

Group of activities	Activities included within group	Outcome supported by group of activities
Planning, strategy and regulation	Provision of governance and democracy Local policy-making	1) Well-connected and well-built city 2) Strong economy and high standard of living 3) Educated and culturally-aware community 4) Healthy, safe and inclusive community 5) Clean, safe and sustainably-managed natural environment
Community support	Providing community housing for eligible persons Providing local community facilities Developing, implementing and supporting community development and safety programmes Providing emergency management services and promoting awareness of emergency management in the community Promoting public health and safety	3) Educated and culturally-aware community 4) Healthy, safe and inclusive community

Appendix 8: Statement of service performance *continued*

Group of activities	Activities included within group	Outcome supported by group of activities
Economic development	Developing and maintaining commercial areas Providing grants and incentives for new businesses	2) Strong economy and high quality of life
Building and resource consents	Processing and provision of building and resource consents Prevention of and response to weathertightness issues Maintaining and providing land and property information	1) Well-connected and well-built city 5) Clean, safe and sustainably-managed natural environment
Water, wastewater and stormwater	Planning, managing and maintaining water networks Planning, managing and maintaining stormwater networks Planning, managing and maintaining wastewater networks	1) Well-connected and well-built city 4) Healthy, safe and inclusive community 5) Clean, safe and sustainably-managed natural environment
Roading and other infrastructure	Providing and maintaining safe and efficient roading infrastructure Providing and maintaining footpaths and cycleways Maintaining parking facilities and enforcing parking regulations	1) Well-connected and well-built city
Waste and recycling	Providing waste collection and disposal services and landfill facilities Providing recycling services and facilities	4) Healthy, safe and inclusive community 5) Clean, safe and sustainably-managed natural environment
Culture, heritage and recreation	Providing and maintaining libraries and other educational facilities and programmes Providing and maintaining local visual and performing art centres Organising and supporting cultural events Providing recreational facilities Supporting the operation of the Local City Museum (through Council-controlled organisation Local Museum Trust)	3) Educated and culturally-aware community

Appendix 8: Statement of service performance *continued*

Commentary
Groups of activities
Schedule 10, paragraph 23 of the Local Government Act 2002 requires a local authority to disclose in its annual report the local authority's groups of activities, the activities within these groups and the outcomes towards which they contribute. As outcomes are a key element of the statement of service performance, the Council has made these disclosures as part of the statement of service performance. In addition, the section of the statement of service performance that shows actual levels of service provision against performance targets is organised by group of activities.

The above disclosure also meets the requirements of PBE IPSAS 1.150.6, which requires an entity to disclose the outcomes towards which its outputs contribute. The Council disclosed which outcomes its groups of activities contribute towards, and the outputs that are delivered as part of each group of activities is disclosed in the following section.

Other public benefit entities are not required to disclose groups of activities. However, they also need to disclose, where practicable, which outcomes their outputs or groups of outputs are intended to contribute towards.

Measurement of service performance by group of activities:

This section shows the Council's service performance during the year against the performance targets set in the Long Term Council Community Plan. For each group of activities, achievement of key service performance indicators as well as a statement of the cost of the activities is disclosed.

Commentary
Presentation and organisation of performance measurement disclosures for different types of PBEs:
The performance measurement section below is organised by group of activities, and discloses the delivery of outputs and impacts under each group of activities. As explained above, this is because local authorities like Local City Council are required by the Local Government Act 2002 to disclose groups of activities and their contribution to outcomes.

However, other types of PBEs may present their statements of service performance (or equivalent statement) in a different way, depending on the relevant legislative requirements. For instance, under the Public Finance Act 1989, Government departments and Crown entities have to report performance against targets under each appropriation that the department has received (PFA.19C)]. Therefore, the performance reporting of Government departments and Crown entities will be organised by appropriation, rather than by groups of activities.

Please consult the relevant legislation for the statutory requirements around service performance for specific types of public benefit entities.

Illustrative example for one group of activities:

For illustrative purposes, service performance information is disclosed below for only one of the Council's groups of activities, i.e. waste and recycling (please see below). A public benefit entity will need to disclose service performance information, including cost of inputs, for each of its groups of activities (if it is a local authority) or groups of outputs.

Appendix 8: Statement of service performance *continued*

Group of activities: Waste and recycling

Key performance indicators: Outputs

Level of service	Measure	Target	Result	Comment
Activity: Providing waste collection services, waste disposal services and landfill facilities				
Provide reliable waste collection services to all residential and commercial properties in Local City	Number of waste collections dispatched during the year in each area of Local City	52 collections (once a week) in all areas of Local City	52 collections (once a week) in all areas of Local City	Target achieved
	Percentage of waste collections completed in timely manner (i.e. where collection is completed on the collection day specified on the Council website, no later than within 2 hours of the specified time).	98%	99%	Target achieved
Provide reliable and accessible waste disposal services, including landfill	Landfill's ability to operate during specified opening hours	Landfill is open from 8am to 5pm, Monday to Saturday every week during the 2020 financial year	Landfill was open from 8am to 5pm, Monday to Saturday every week during the 2020 financial year, except for one day	Target not achieved. Landfill was closed during opening hours on 25 November 2019 due to a suspected spill of dangerous chemicals. The landfill re-opened on the following day without issue.
	Level of landfill customer satisfaction with service and accessibility of the Local City landfill (according to annual survey)	90%	90%	Target achieved
Activity: Providing recycling services and facilities				
Provide reliable recycling collection services to all residential and commercial properties in Local City	Percentage of recyclable waste collections completed in timely manner (i.e. where collection is completed on the collection day specified on the Council website, no later than within 2 hours of the specified time).	98%	99%	Target achieved
Facilitate effective recycling of waste	Percentage of collected recyclable waste that is recycled	99.9%	98%	Not achieved. Due to problems in the operations of the recycling plant in August 2019, some recyclable waste had to be redirected from the plant to the landfill.

Appendix 8: Statement of service performance *continued*

Key performance indicators: Impacts

Desired impact	Measure	Target	Result	Comment
Activity: Providing waste collection services, waste disposal services and landfill facilities				
The streets and buildings of Local City are clean and free from waste	Overall score out of 10 for street cleanliness per survey of Local City residents	**8/10**	**8/10**	Target achieved
Activity: Providing recycling services and facilities				
Recycling in Local City increases	Ratio of waste processed through recycling plant to waste processed through landfill	40:60	39:61	Target not achieved Achievement of this target is still in progress.
	Decrease in total volume of waste disposed by residential and commercial properties that is not marked for recycling	Decrease in volume of non-recyclable waste from 100kg per person to 95kg per person	Decrease in volume of non-recyclable waste from 100kg per person to 98kg per person	Not achieved. Although there was a decrease in non-recyclable waste disposed per person in 2020 compared to 2019, the achievement of this target is still in progress. The target should be achieved in the next financial year.

Commentary

Service performance measurement: outputs and impacts

The above section discloses the Council's performance during the year in terms of the provision of outputs and achievement of impacts. This is consistent with the requirements of PBE IPSAS 1.

Outputs are defined in PBE IPSAS 1.C17 as the goods and services produced by the entity. In the example above, Services such as the collection of waste, the provision of waste disposal facilities and the recycling of waste are all outputs of the Council.

In the table above, the Council's outputs are described using one or more of the following aspect:

- Quantity
- Quality
- Location
- Time

For example, within the activity "providing waste collection services, waste disposal services and landfill facilities", the first item relates to the provision of reliable waste collection services to all residential and commercial properties in Local City. The provision of this output is measured in terms of quantity (number of waste collections completed during the year), as well as quality and timeliness (reliability and timeliness of waste collection). The element of location ("all areas of Local City") also forms part of the measurement of the output.

PBE IPSAS 1.150.4 also requires an entity to measure and disclose the cost of its outputs. This is disclosed at an activity level in the Funding Impact Statement – refer to Appendix 9.2.
In addition to disclosing performance in terms of the delivery of outputs, the Council also discloses the impacts achieved by the provision of these outputs. Impacts are defined by PBE IPSAS 1.C17 as contributions made to outcomes by a specific set of outputs. Impacts are often referred to as "intermediate outcomes" as they represent the relatively immediate or direct effect on the stakeholders of the entity's outputs. For example, the impact "recycling in Local City increases" is caused by the outputs under the activity "providing recycling services and facilities", and in turn contributes to Outcome (5) of the Council, i.e. "clean, safe and sustainably managed environment".

Appendix 8: Statement of service performance *continued*

Commentary ***continued***

In addition to disclosing performance in terms of the delivery of outputs, the Council also discloses the impacts achieved by the provision of these outputs. Impacts are defined by PBE IPSAS 1.C17 as contributions made to outcomes by a specific set of outputs. Impacts are often referred to as "intermediate outcomes" as they represent the relatively immediate or direct effect on the stakeholders of the entity's outputs. For example, the impact "recycling in Local City increases" is caused by the outputs under the activity "providing recycling services and facilities", and in turn contributes to Outcome (5) of the Council, i.e. "clean, safe and sustainably managed environment".

Impacts and their achievement are described using similar parameters to those used for describing and measuring outputs.

According to PBE IPSAS 1, inputs are another key element of the statement of service performance. The funding impact statement by group of activities in Appendix 9.2 shows the inputs that were used by the Council during the year to produce the outputs and impacts detailed in the performance measurement section. This is consistent with PBE IPSAS 1.150.4, which requires an entity to disclose the cost of each output.

Contribution to outcomes

The waste and recycling group of activities contributes to Outcome 4: Healthy, safe and inclusive community and Outcome 5: Clean, safe and sustainably-managed natural environment. Service performance results in the following areas ensured that the Council has made progress in relation to these outcomes:

- Waste collection was performed consistently and in a timely manner throughout the year
- With the exception of one incident that caused the landfill to be closed for one day, the Council provided reliable and accessible waste disposal services
- The Council provided timely and reliable collection services for recyclable waste services

Evidence of progress towards the achievement of Outcomes 4 and 5 can be seen from the fact that Local City residents have given a high rating to the cleanliness of the streets and buildings of Local City. In addition, while the desired impact on the community's recycling effort was not achieved, there is evidence of improvement in this area, and the Council expects that the targets will be achieved in the next year.

Commentary

The Local Government Act 2002 requires a local authority to report in relation to each group of activities any measurements undertaken during the year of progress towards achievement of outcomes, and describe the effect that each group of activities has had on the community. Results of measurements of output delivery and impact achievement, which contribute towards the achievement of outcomes, have already been disclosed in the previous section. The above paragraph links the results of the measurement of outputs and impacts back to the outcomes towards which the group of activities (and the outputs within it) contributes.

This is also consistent with PBE IPSAS 1, which also encourages entities to demonstrate the link between the delivery of outputs and outcome achievement.

Appendix 9: Funding impact statement (example of disclosures for local authorities)

App 9.1: Funding impact statement – whole of Council

Commentary

In section 30 of schedule 10, the Local Government Act 2002 requires a local authority to present a funding impact statement for the financial year to which the annual report relates. The funding impact statement needs to show the amount of funds produced from each of the local authority's sources of funding, as well as how these funds were applied. The same information as per the local authority's annual plan also need to be shown for comparative purposes, as do previous financial year's actual and annual plan figures. Form 5 of the Local Government Financial Reporting and Prudence Regulations 2014 provide the format in which this statement is to be presented.

Funding impact statement for the year ended 30 June 2020: Whole of the Council

LGA Schedule 10.30
LG(FRP)R Sch 2Form 5

	2020 Actual $000	2020 Plan $000	2019 Actual $000	2019 Plan $000
Sources of operating funding				
General rates, uniform annual general charge, rates penalties	45,118	45,669	44,209	41,999
Targeted rates	30,079	29,678	29,473	27,999
Subsidies and grants for operating purposes	9,498	8,520	6,318	6,561
Fees and charges	13,466	13,214	13,687	13,824
Internal charges and overheads recovered	2,018	1,998	1,765	1,589
Local authorities fuel tax, fines, infringement fees, and other receipts	1,763	1,921	2,047	1,182
Total operating funding (A)	**101,942**	**101,000**	**97,499**	**93,154**
Applications of operating funding				
Payments to staff and suppliers	96,786	96,368	94,409	93,824
Finance costs	464	487	554	548
Internal charges and overheads applied	-	-	-	-
Other operating funding applications	664	697	300	297
Total applications of operating funding (B)	**97,914**	**97,552**	**95,263**	**94,669**
Surplus (deficit) of operating funding (A − B)	**4,028**	**3,448**	**2,236**	**(1,515)**
Sources of capital funding				
Subsidies and grants for capital expenditure	3,005	3,000	3,814	3,805
Development and financial contributions	3,641	4,005	3,741	3,722
Increase (decrease) in debt	(1,400)	(1,350)	890	886
Gross proceeds from sale of assets	1,406	1,266	779	775
Lump sum contributions	-	-	-	-
Other dedicated capital funding	-	-	-	-
Total sources of capital funding (C)	**6,652**	**6,921**	**9,224**	**9,188**
Application of capital funding				
Capital expenditure				
‣ to meet additional demand	5,059	4,900	3,915	3,895
‣ to improve the level of service	5,378	5,200	4,496	4,474
‣ to replace existing assets	2,301	2,100	1,098	1,093
Increase (decrease) in reserves	621	600	(387)	(385)
Increase (decrease) of investments	11,291	11,000	5,432	5,405
Total applications of capital funding (D)	**24,650**	**23,800**	**14,554**	**14,482**
Surplus (deficit) of capital funding (C − D)	**(17,998)**	**(16,879)**	**(5,330)**	**(5,294)**
Funding balance ((A − B) + (C − D))	**(13,970)**	**(13,431)**	**(3,094)**	**(6,809)**

Appendix 9: Funding impact statement (example of disclosures for local authorities) *continued*

App 9.2: Funding impact statement by group of activities

Commentary

In section 26 of schedule 10, the Local Government Act 2002 requires a local authority to present a funding impact statement for the financial year to which the annual report relates for each of the local authority's groups of activities. The funding impact statement of each group of activities needs to show the amount of funds produced from each of the local authority's sources of funding in relation to the group of activities, as well as how these funds were applied. The same information as per the local authority's annual plan also need to be shown for comparative purposes, as do previous financial year's actual and annual plan figures. Form 4 of the Local Government Financial Reporting and Prudence Regulations 2014 provide the format in which this statement is to be presented. For illustrative purposes, a funding impact statement for one of Local City Council's groups of activities – waste – is presented below.

Funding impact statement for the year ended 30 June 2020: Waste

LGA Schedule 10.26
LG(FRP)R Sch 2 Form 4

	2020 Actual $000	2020 Plan $000	2019 Actual $000	2019 Plan $000
Sources of operating funding				
General rates, uniform annual general charge, rates penalties	401	390	338	320
Targeted rates	240	235	201	199
Subsidies and grants for operating purposes	675	650	559	540
Fees and charges	255	242	221	200
Internal charges and overheads recovered	103	100	107	100
Local authorities fuel tax, fines, infringement fees, and other receipts	56	50	54	50
Total operating funding (A)	**1,730**	**1,667**	**1,480**	**1,409**
Applications of operating funding				
Payments to staff and suppliers	356	348	322	320
Finance costs	45	44	42	43
Internal charges and overheads applied	266	262	216	214
Other operating funding applications	-	-	-	-
Total applications of operating funding (B)	**667**	**654**	**580**	**577**
Surplus (deficit) of operating funding (A – B)	**1,063**	**1,013**	**900**	**832**
Sources of capital funding				
Subsidies and grants for capital expenditure	131	125	109	105
Development and financial contributions	198	190	187	188
Increase (decrease) in debt	-	-	-	-
Gross proceeds from sale of assets	43	-	-	-
Lump sum contributions	-	-	-	-
Other dedicated capital funding				
Total sources of capital funding (C)	**372**	**315**	**296**	**293**

Appendix 9: Funding impact statement (example of disclosures for local authorities) *continued*

App 9.2: Funding impact statement by group of activities *continued*

	2020 Actual $000	2020 Plan $000	2019 Actual $000	2019 Plan $000	
Application of capital funding					*LGA.Scehdule 10.24(1)*
Capital expenditure					
‣ to meet additional demand	201	200	196	195	*LGA.Scehdule 10.24(2)(a)*
‣ to improve the level of service	587	580	259	255	*LGA.Scehdule 10.24(2)(b)*
‣ to replace existing assets	130	118	182	180	*LGA.Scehdule 10.24(2)(c)*
Increase (decrease) in reserves	216	235	259	252	
Increase (decrease) of investments	301	195	300	243	
Total applications of capital funding (D)	**1,435**	**1,328**	**1,196**	**1,125**	
Surplus (deficit) of capital funding (C − D)	**(1,063)**	**(1,013)**	**(900)**	**(832)**	
Funding balance ((A − B) + (C − D))	-	-	-	-	

Appendix 10: Forecast financial statements (example of disclosures for government departments)

Commentary

Section 45(3) of the Public Finance Act 1989 requires government departments to include in their annual reports forecast financial statements, i.e. financial statements for the year after the financial year to which the annual report relates.

Section 45BA of the Public Finance Act requires the forecast financial statements of a government department to comply with GAAP, and to be accompanied by a statement of significant assumptions underlying the forecast financial statements. The requirement to comply with GAAP means that the forecast financial statements need to be prepared in accordance with PBE FRS-42 *Prospective Financial Statements*, which sets out disclosure requirements for forecast financial statements.

This appendix contains an illustrative statement of comprehensive revenue and expense, statement of financial position, statement of movements in equity, statement of cash flows and accounting policy note pertaining to the forecast financial statements. The financial statements are prepared for a fictional government department and therefore neither the names of items in the financial statements nor the amounts correspond to the Local City Council financial statements.

Although the illustrative forecast financial statements below are presented separately, the prospective figures alternatively can be presented in an additional column within the financial statements for the year to which the annual report relates.

Forecast statement of comprehensive revenue and expense
For year ended 30 June 2021

PBE FRS 42.28(b)

	Forecast $000	
Revenue		
Crown revenue	34,567	
Other revenue from non-exchange transactions	18,904	
Other revenue from exchange transactions	3,041	
Total revenue	**56,512**	*PBE FRS 42.31(a)*
Expenses		
Employee costs	(20,876)	
Depreciation and amortisation	(3,746)	*PBE FRS 42.31(c)*
Capital charge	(4,867)	
Finance cost	(101)	*PBE FRS 42.31(b)*
Other expenses	(20,954)	
Total expenses	**(50,544)**	
Net surplus	**5,968**	*PBE FRS 42.31(g)*
Other comprehensive revenue and expense		
Fair value gain/(loss) on property, plant and equipment	1,098	*PBE FRS 42.31(h)*
Other comprehensive revenue and expense for the year	**1,098**	
Total comprehensive revenue and expense for the year	**7,066**	*PBE FRS 42.31(j)*

Appendix 10: Forecast financial statements (example of disclosures for government departments) *continued*

Forecast statement of financial position
As at 30 June 2021

PBE FRS 42.28(a)

	Forecast $000	
ASSETS		
Current assets		*PBE FRS 42.29(a)*
Cash	2,134	
Receivables from non-exchange transactions	4,321	
Receivables from exchange transactions	2,341	
Prepayments	987	
Inventory	432	
Total current assets	**10,215**	
Non-current assets		*PBE FRS 42.29(b)*
Property, plant and equipment	41,876	
Intangible assets	12,567	
Total non-current assets	**54,443**	
LIABILITIES		
Current liabilities		*PBE FRS 42.29(c)*
Payables	(3,231)	
Return of operating surplus	(2,409)	
Provisions	(239)	
Provision for employee entitlements	(1,987)	
Finance lease	(103)	
Total current liabilities	**(7,969)**	
Non-current liabilities		*PBE FRS 42.29(d)*
Provision for employee entitlements	(965)	
Finance lease	(506)	
Total non-current liabilities	**(1,471)**	
Net Assets	**55,218**	
Equity		*PBE FRS 42.29(e)*
Crown capital and accumulated revenue and expense	52,098	
Asset revaluation reserve	2,123	
Memorandum accounts	997	
Total taxpayers' funds	**55,218**	

Appendix 10: Forecast financial statements (example of disclosures for government departments) *continued*

Forecast statement of movements in equity

For year ended 30 June 2021

	Crown Capital and Accumulated revenue and expense $000	Asset revaluation reserve $000	Memorandum accounts $000	Total equity $000	
As at 1 July 2020	26,792	1,025	1,109	28,926	*PBE FRS 42.28(c)*
Forecast surplus for the year	5,968	-	-	5,968	
Forecast other comprehensive revenue and expense				-	
Gain on property revaluation	-	1,098	-	1,098	
Total comprehensive revenue and expense for the year	**5,968**	**1,098**	-	**7,066**	*PBE FRS 42.34(a)*
Transfer of memorandum accounts net surplus/deficit	112	-	(112)	-	
Forecast transactions with owners in their capacity as owners:					*PBE FRS 42.34(b)*
Capital injections	21,300	-	-	21,300	
Return of surplus to Crown	(2,074)	-	-	(2,074)	
As at 30 June 2021	**52,098**	**2,123**	**997**	**55,218**	*PBE FRS 42.34(c)*

Forecast statement of cash flows

For year ended 30 June 2021

PBE FRS 42.28(d)

	Forecast $000	
Cash from operating activities		
Receipts from Crown	34,000	
Receipts from other revenue	20,401	
Payments to suppliers	(21,980)	
Payments to employees	(21,900)	
Payments for capital charge	(4,900)	
Net cash flow from operating activities	**5,621**	*PBE FRS 42.37(a)*
Cash flow from investing activities		
Proceeds from sale of property, plant and equipment	1,076	
Purchase of property, plant and equipment	(20,850)	
Purchase of intangible assets	(2,301)	
Net cash flow from investing activities	**(22,075)**	*PBE FRS 42.37(b)*
Cash flow from financing activities		
Capital injections from Crown	21,300	
Return of operating surplus to Crown	(2,074)	
Payment of finance lease	(1,709)	
Net cash from financing activities	**17,517**	*PBE FRS 42.37(c)*
Net forecast increase in cash and cash equivalents	1,063	*PBE FRS 42.38(d)*
Cash and cash equivalents at 1 July 2020	1,071	
Forecast cash and cash equivalents at 30 June 2021	2,134	

Appendix 10: Forecast financial statements (example of disclosures for government departments) *continued*

Notes to the financial statements (extract)

PBE FRS 42.28(e)

2 Summary of significant accounting policies (extract)

xx Forecast financial statements

The forecast financial statements are for the period of 1 July 2020 to 30 June 2021.

The forecast financial statements have been prepared for the purpose of meeting the Department's obligations under section 45(3) and 45BA of the Public Finance Act 1989. Use of this information for other purposes may not be appropriate. *PBE FRS 42.48*

The forecast financial statements are unaudited.

The main assumptions underlying the forecast figures are as follows: *PBE FRS 42.51 PBE FRS 42.49 PBE FRS 42.55*

- Existing government policies and Ministerial expectations at the time the statements were finalised will continue to be effective throughout 2020/2021. This is expected to be the case.
- The department's main activities will remain substantially the same as for the previous year. This is expected to be the case.
- Operating costs are based on historical experience. Based on experience, operating expenses are expected to grow by 2%. The general historical pattern is expected to continue.
- The following economic assumptions will eventuate:

Assumption (source: Treasury)	Level of uncertainty	Risk	Financial impact
Average change in CPI: +1.6%	Moderate	That actual inflation is higher than forecast inflation	Movements in market prices will impact the Department's costs and revenues. A 0.1% change in inflation would equate to approximately $5 million in operating expenditure.
Average change in Real GDP: +3.4%	Low	That GDP growth is lower than forecast growth	Lower economic growth could affect discretionary income and therefore cause the Department to reduce the fees charged of its services, thereby reducing the department's revenue.

The actual results achieved for the period covered by the forecast figures are likely to vary from actual results for the year 2020/2021, and these variances may be material. *PBE FRS 42.59*
Factors that could lead to material differences between the forecast financial statements and the 2020/2021 actual financial statements, in addition to the sources of uncertainty mentioned above, include changes to the baseline budget through new initiatives or technical adjustments. It is not intended that these forecast financial statements be updated subsequent to publication. *PBE FRS 42.55(c) PBE FRS 42.65(d) PFA.45BA*

The forecast figures have been prepared in accordance with NZ GAAP, and comply with Public Benefit Entity Standards (PBE Standards). The forecast financial statements comply with PBE FRS 42 *Prospective Financial Statements*.

The accounting policies that form the basis of the forecast financial statements are consistent with the current accounting policies underlying the preparation of the financial statements for the year ended 30 June 2020. *PBE FRS 42.60*

Appendix 11: Statutory disclosures not included in this publication

11.1 Local authorities:

Reference to Legislation	Disclosure	Description/Comment
LGA.Schedule 10.27	Internal borrowing	In relation to each group of activities of the local authority, a local authority's annual report must include a statement of the amount of internal borrowing used for the purpose of the group of activities, the amount of funds borrowed and repaid during the year, and the amount of interest (if any) paid in relation to the internal borrowing.
LGA.Schedule 10.28	Council-controlled organisations	A local authority's annual report must include, in relation to each Council-controlled organisation in which the local authority is a shareholder: ► A report on the extent to which the local authority's significant policies and objectives in regard to ownership and control of the organisation (as set out in the relevant long-term plan or annual plan) have been implemented or attained in the year to which the report relates; ► A comparison between the nature and scope of the activities intended to be provided by the organisation in the year to which the report relates (as set out in the relevant long-term plan or annual plan) and the nature and scope of the activities actually provided by the organisation in that year; and ► A comparison between actual performance and the key performance targets and other measures set out in the relevant long-term plan or annual plan.
LGA.Schedule 10.30A	Rating base information	A local authority's annual report must state the following: ► the number of rating units within the district or region of the local authority at the end of the preceding financial year; ► the total capital value of rating units within the district or region of the local authority at the end of the preceding financial year; and ► the total land value of rating units within the district or region of the local authority at the end of the preceding financial year.
LGA.Schedule 10.31A	Insurance of assets	A local authority's annual report must state, as at the end of the financial year: ► the total value of all assets of the local authority that are covered by insurance contracts, and the maximum amount to which they are insured; ► the total value of all assets of the local authority that are covered by financial risk sharing arrangements, and the maximum amount available to the local authority under those arrangements; and ► the total value of all assets of the local authority that are self-insured, and the value of any fund maintained by the local authority for that purpose.
LGA.Schedule 10.34A	Additional information to be included in annual report of unitary authority with local boards	This section includes additional information that must be included in the annual reports of a unitary authority of a district that has one or more local boards.

Appendix 11: Statutory disclosures not included in this publication *continued*

11.1 Local authorities *continued*:

Reference to Legislation	Disclosure	Description/Comment
LGA.Schedule 10.35	General	An annual report must include a report on the activities that the local authority has undertaken in the year to establish and maintain processes to provide opportunities for Māori to contribute to the decision-making processes of the local authority.
LG(FRP)R.12	Disclosure statement in annual report	A local authority's annual report must contain a disclosure statement that discloses actual performance for each benchmark specified in Regulation 10 of the Local Government (Financial Reporting and Prudence) Regulations 2014. The disclosure statement needs to cover actual performance in the year of the annual report and in each of the preceding four years.

11.2 Government departments:

Reference to Legislation	Disclosure	Description/Comment
PFA.45B(2)	Statement of departmental expenses and capital expenditure against appropriation	Government departments are required to present a comparison of actual operating and capital expenditure incurred in relation to each output class for which an appropriation from the Crown was received against the voted appropriation.
PFA.45B(2)	Statement of departmental unappropriated expenditure	Section 45B (2)(d) of the Public Finance Act 1989 requires government departments to provide an explanation for each unappropriated item reported.
Treasury instructions	Memorandum accounts	Memorandum accounts record the accumulated balance of surpluses and deficits incurred in the provision of certain outputs on a full cost-recovery basis. These accounts are used to separately disclose the cost of such outputs over the years, given that such information would otherwise just be aggregated as part of an entity's financial position. In general, full cost-recovery (including the capital charge) applies where departments supply services to third parties in the absence of competition or under a statutory monopoly. Note that the structure of each memorandum account is to be approved jointly by the Minister of Finance and the relevant Minister responsible for the relevant appropriation and Responsible Minister (if different). Refer to the Treasury Instructions for further details.

Appendix 11: Statutory disclosures not included in this publication *continued*

11.2 Government departments *continued*:

Reference to Legislation	Disclosure	Description/Comment
Treasury instructions	Non-departmental schedules: ▸ schedule of non-departmental income (with capital receipts included or in a separate statement); ▸ schedule of non-departmental expenses; ▸ schedule of non-departmental assets; ▸ schedule of non-departmental liabilities; ▸ schedule of non-departmental commitments; ▸ schedule of non-departmental contingent liabilities and contingent assets; and ▸ schedule of relevant non-departmental accounting policies.	In addition to the requirements of the Public Finance Act, Government Departments are also required by Treasury Instructions to disclose supplementary information on any Crown activities that the department manages. These disclosures need to be in the form of schedules, and must comply with GAAP and with the accounting policies of the Financial Statements of Government. As the non-departmental schedules are required to comply with GAAP, they need to comply with PBE Standards. Therefore, the disclosures requirements for these schedules would be the same as those illustrated in the main body of this publication.

11.3 Crown entities

Reference to Legislation	Disclosure
Crown Entities Act 151(1)(a),(2)	Information that is necessary to enable an informed assessment to be made on the Crown entity's operations and performance for the financial year, including an assessment against the intentions, measures, and standards set out in the statement of intent prepared at the beginning of the year
Crown Entities Act 151(1)(f)	Any direction given by a Minister in writing under any enactment during the financial year
Crown Entities Act 151(1)(g)	Information on compliance with the obligation to be a good employer (including a Crown entity's equal employment opportunity programme)
Crown Entities Act 151(1)(i)	Information required by section 20(3), which relates to the enforcement of certain natural person transactions
Crown Entities Act 151(1)(j)	Information required by section 68(6), which relates to permission to act despite being interested in a matter

Appendix 12: Early adoption of the Financial Instruments standards (example of disclosure with no restatement of comparatives)

Commentary

PBE IFRS 9 *Financial Instruments* was issued as an interim measure to address "mixed group" issues (i.e., the groups that contain both PBEs and for-profit entities) in the lead up to NZ IFRS 9 *Financial Instruments* becoming effective on 1 January 2018. At the time of writing of this publication, PBE IFRS 9 is effective for periods beginning on or after 1 January 2022.

Early adoption of PBE IFRS 9 for government entities

PBE IFRS 9 *Financial Instruments* was issued in January 2017 and replaces PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*. PBE IFRS 9 originally had an effective date of 1 January 2021. Due to the New Zealand Treasury's decision to adopt PBE IFRS 9 early, all government departments, and those Crown entities and public sector PBEs that form part of the New Zealand Government reporting entity were required to apply PBE IFRS 9 in the year ended 30 June 2019 and onwards..

Other early adopters of PBE IFRS 9 – Mixed Groups

PBEs may have chosen to adopt PBE IFRS 9 early. This might be because they are part of a "mixed group" (e.g. PBEs with for-profit controlled entities). which creates the complexity of unwinding the NZ IFRS 9 accounting in the consolidated PBE financial statements if PBE IFRS 9 is not adopted. PBEs that intend to early adopt PBE IFRS 9 are required to do so before 1 January 2020. From 1 January 2020 PBEs will only be able to early adopt PBE IPSAS 41.

Introduction of PBE IPSAS 41

In 2019, the IPSASB issued IPSAS 41, its own version of IFRS 9. The NZASB issued PBE IPSAS 41 in March 2019 and this standard will replace PBE IFRS 9 and PBE IPSAS 29 with an effective date of 1 January 2022. On issuing PBE IPSAS 41, the NZASB also issued an amendment to PBE IFRS 9 which limits the adoption of PBE IFRS 9 to only those reporting periods beginning before 1 January 2020 (see above). Periods beginning on or after 1 January 2020 are not allowed to early adopt PBE IFRS 9, they must instead early adopt PBE IPSAS 41.

Example disclosures in Appendix 12

This Appendix includes the disclosures required under PBE IFRS 9 to support PBEs that choose to early adopt the standard. In the majority of cases, it is expected that the disclosures required under PBE IFRS 9 will be the same as the disclosures in PBE IPSAS 41. Therefore, this appendix is applicable for entities transitioning from PBE IPSAS 29 to either PBE IFRS 9 or PBE IPSAS 41. For a discussion about the transition from PBE IFRS 9 to PBE IPSAS 41, please refer to Appendix 13. The references in this Appendix are to PBE IFRS 9.

The appendix provides illustrative disclosures that reflect:

- the measurement and recognition requirements of the new Financial Instruments standards (PBE IFRS 9 or PBE IPSAS 41)
- the disclosure requirements of PBE IPSAS 30 (and other standards) as amended by the new standards and
- other disclosures required upon first-time adoption of the new standards

Disclosure requirements which exist independently of the adoption of the Financial Instruments standards including fair value disclosures and financial risk management (except for the credit risk disclosures) and offsetting disclosures required by PBE IPSAS 30 are not illustrated as these can be found in the main body of this publication.

The illustrative disclosures are for a fictitious PBE – Local Group New Zealand Limited - and its controlled entities (together referred to as the Group), which is not related to Local City Council. The Group is not required to present parent financial statements in addition to consolidated financial statements. Entities that are required to present additional parent financial statements (for example, due to legislative requirements) will need to provide the relevant disclosures for the parent as well.

In compiling the illustrative disclosures, the **following assumptions have been made**:

- The Group has chosen 1 January 2019 as the date of initial application for the adoption of PBE IFRS 9
- The Group has not restated the comparative information (i.e., the financial statements for the year ended 30 June 2019), which continued to be reported under PBE IPSAS 29. As a result:
  - Adjustments to carrying amounts of financial assets and liabilities are recognised at the beginning of the current period with differences recognised directly in accumulated comprehensive revenue and expense
  - Financial assets are not reclassified in the statement of financial position for the comparative period
  - Provisions for impairment have not been restated in the comparative period
  - Disclosure requirements arising from the consequential amendments made to PBE IPSAS 30 and other standards by PBE IFRS 9 have not been presented in relation to the comparative period
- Group's receivables and other debt instruments (term deposits and loans), except for quoted debt securities, are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest (SPPI). These financial assets are therefore held at amortised cost.
- Group's quoted debt securities (regular government and corporate bonds) are held to collect contractual cash flows and sell a significant amount on a relatively frequent basis. The Group has not elected to designate its quoted debt securities as measured at initial recognition at fair value through surplus or deficit. These financial assets are therefore carried at fair value through other comprehensive revenue and expense.
- The Group has elected to classify irrevocably its non-listed equity investments at the date of initial application as measured at fair value through comprehensive revenue and expense as it intends to hold these investments for the foreseeable future

Appendix 12: Early adoption of the Financial Instruments standards (example of disclosure with no restatement of comparatives) *continued*

Commentary *continued*

- Listed equity securities are held for trading at fair value through surplus or deficit
- The Group has elected to adopt the simplified approach in calculating the expected credit losses for trade receivables
- The impairment provision for other debt instruments (term deposits and loans) and quoted debt securities is determined as 12 months expected credit losses under the general approach. The credit risk is assumed to have not increased since initial recognition.

The following financial statements and notes are affected by the adoption of PBE IFRS 9 and included in this appendix:

- Statement of comprehensive revenue and expense
- Statement of changes in net assets/equity
- Note 2(c), (i), (j), (v)
- Note 27.1, 27.2, 27.3, 27.5
- Note 29, Note 30
- Note 37

Appendix 12: Early adoption of the Financial Instruments standards (example of disclosure with no restatement of comparatives) *continued*

Statement of comprehensive revenue and expense

PBE IPSAS 1.21(b)
PBE IPSAS 1.22.1(b)
PBE IPSAS 1.61

For the year ended 30 June 2020

PBE IPSAS 1.63(c)

PBE IPSAS 1.63(b)

	Note	Group 2020	Group 2019	
		2020	2019	*PBE IPSAS 1.53 PBE IPSAS1.21(e) LGA Schedule 10.29*
		$000	$000	*PBE IPSAS 1.63(d) PBE IPSAS1.63(e)*
Surplus for the year		**15,379**	**12,998**	*PBE IPSAS 1.98.1(a)*
Other comprehensive revenue and expense, net of tax				*PBE IPSAS 1.103.3(a) PBE IPSAS 1.103.1(a)*
Net gain/(loss) on available-for-sale financial assets		–	3	
Net movement in cash flow hedges	37	(618)	24	
Net change in costs of hedging	37	(22)	– –	
Net loss on debt instruments at fair value through other comprehensive revenue and expense		(15)	– –	
Net loss on equity instruments at fair value through other comprehensive revenue and expense		(18)	– –	
Revaluation gain on property, plant and equipment		24,311	–	
Other comprehensive revenue and expense for the year, net of tax		**23,638**	**27**	*PBE IPSAS 1.98.1(b)*
Total comprehensive revenue and expense for the year, net of tax		**39,017**	**13,025**	*PBE IPSAS 1.98.1(c)*
Total comprehensive revenue and expense for the year is attributable to:				
Non-controlling interest		715	239	*PBE IPSAS 1.98.2(b)(i)*
Council		39,302	12,786	*PBE IPSAS 1.98.2(b)(ii)*
		39,017	13,025	

The above statement of other comprehensive revenue and expense should be read in conjunction with the accompanying notes.

Statement of changes in net assets/equity

PBE IPSAS 1.21(c)

For the year ended 30 June 2020

PBE IPSAS 1.63(c)

	Accumulated comprehensive revenue and expense	Asset revaluation reserve	Available-for-sale reserve	Cash flow hedge reserve	Cost of hedging reserve	Fair value reserve of financial assets at FVOCRE	Targeted rates reserve	Special projects reserve	Total equity attributable to the Council	Non-controlling interest	Total equity	*PBE IPSAS 1.63(b) PBE IPSAS 1.119(b) PBE IPSAS 1.119(c) PBE IPSAS 1.53 PBE IPSAS 1.63(d)*
	$000	$000	$000	$000	$'000	$'000	$000	$000	$000	$000	$000	*PBE IPSAS1.63(e)*
At 1 July 2019	928,445	1,100,297	3	(70)	-	-	15,653	16,532	2,060,860	691	2,061,551	*PBE IPSAS 1.118(b)*
Effect of adoption of PBE IFRS 9 (note 2(c))	(176)	-	(3)	-	-	8	-	-	(171)	(4)	(175)	
At 1 July 2019 (restated)	928,269	1,100,297	-	(70)	-	8	15,653	16,532	2,060,689	687	2,061,376	
Surplus for the year	15,091	-	-	-			-	-	15,091	288	15,379	
Other comprehensive revenue and expense	-	24,311	-	(618)	(22)	(33)	-	-	23,638	-	23,638	
Total comprehensive revenue and expense for the year (note 37)	15,091	24,311	-	(618)	(22)	(33)	-	-	38,729	288	39,017	*PBE IPSAS 1.118(a)*
Net transfers to/(from) reserve	(196)	-	-	-			196	-	-	-	-	
Net transfers to/(from) reserve	247	-	-	-			-	(247)	-	-	-	
Transactions with owners in their capacity as owners:												*PBE IPSAS 1.119(a)*
Acquisition of controlled entity	-	-	-	-			-	-	-	1,547	1,547	
Acquisition of non-controlling interest	(190)	-	-	-			-	-	(190)	(801)	(991)	
At 30 June 2020	943,221	1,124,608	-	(618)	(22)	(25)	15,849	16,285	2,099,228	1,721	2,100,949	

Statement of changes in net assets/equity *continued*

PBE IPSAS 1.21(c)
PBE IPSAS 1.53
PBE IPSAS 1.63(c)

For the year ended 30 June 2019

	Accumulated comprehensive revenue and expense $000	Asset revaluation reserve $000	Available-for-sale reserve $000	Cash flow hedge reserve $000	Targeted rates reserve $000	Special projects reserve $000	Total equity attributable to the Council $000	Non-controlling interest $000	Total equity $000	PBE IPSAS 1.63(b) PBE IPSAS 1.119(b) PBE IPSAS 1.119(c) PBE IPSAS 1.63(d) PBE IPSAS1.63(e)
At 1 July 2018	915,296	1,100,297	-	(94)	15,770	16,805	2,048,074	501	2,048,575	
Surplus for the year as reported in 2018 financial statements	12,509	-	-	-	-	-	12,509	239	12,748	
Adjustment on correction of error	250						250	-	250	PBE IPSAS 1.118(b) PBE IPSAS 1.124
Other comprehensive revenue and expense	-	-	3	24	-	-	27	-	27	
Total comprehensive revenue and expense for the year	**12,759**	**-**	**3**	**24**	**-**	**-**	**12,786**	**239**	**13,025**	PBE IPSAS 1.118(a)
Net transfers to/from targeted rates reserve	117	-	-	-	(117)	-	-	-	-	
Net transfers to/from special projects reserve	273	-	-	-		(273)	-	-	-	
Transactions with owners in their capacity as owners:										PBE IPSAS 1.119(a)
Dividend paid to non-controlling interest	-	-	-	-	-	-	-	(49)	(49)	
At 30 June 2019	**928,445**	**1,100,297**	**3**	**(70)**	**15,653**	**16,532**	**2,060,860**	**691**	**2,061,551**	

Appendix 12: Early adoption of the Financial Instruments standards (example of disclosure with no restatement of comparatives) *continued*

Notes to the financial statements

2. Summary of significant accounting policies

c. Changes in accounting policies and disclosures

New and amended standards and interpretations

PBE IFRS 9 Financial Instruments

PBE IFRS 9 *Financial Instruments* replaces parts of PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. *PBE IFRS 9.7.1.1 PBE IFRS 9.7.2.21*

The Group has elected to early adopt PBE IFRS 9. *PBE IFRS 9.7.1.1*

The Group applied PBE IFRS 9 prospectively, with an initial application date of 1 July 2019. The Group have not restated the comparative information, which continues to be reported under PBE IPSAS 29. Differences arising from the adoption of PBE IFRS 9 have been recognised directly in accumulated comprehensive revenue and expense and other components of net assets/equity. *PBE IFRS 9.7.2.1 PBE IFRS 9.7.2.22 PBE IPSAS 30.49Q*

The effect of adopting PBE IFRS 9 as at 1 July 2019 was, as follows: *PBE IPSAS 3.33(f)*

	Adjustments	Increase/ (decrease) $000
Assets		
Investment in associates and joint ventures	(d)	(6)
Receivables from exchange transactions	(b)	(200)
Receivables from non-exchange transactions	(b)	(29)
Total assets		**(235)**
Liabilities		
Deferred tax liabilities	(d)	(60)
Total liabilities		**(60)**
Total adjustment on net assets/equity:		
Accumulated comprehensive revenue and expense	(a),(b),(d)	(176)
Other components of net assets/equity	(a),(b)	5
Non-controlling interests	(d)	(4)
		(175)

The nature of these adjustments are described below:

(a) Classification and measurement

Under PBE IFRS 9, debt instruments are subsequently measured at fair value through surplus or deficit, amortised cost, or fair value through other comprehensive revenue and expense (OCRE). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding.

Appendix 12: Early adoption of the Financial Instruments standards (example of disclosure with no restatement of comparatives) *continued*

2 Summary of significant accounting policies *continued*

PBE IFRS 9.7.2.1
PBE IFRS 9.7.2.15

The assessment of the Group's business model was made as of the date of initial application, 1 July 2019. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

PBE IPSAS 30.49J

The classification and measurement requirements of PBE IFRS 9 did not have a significant impact to the Group. The Group continued measuring at fair value all financial assets previously held at fair value under PBE IPSAS 29. The following are the changes in the classification of the Group's financial assets:

- *Receivables from exchange and non-exchange transactions, term deposits and loan to an associate* classified as *Loans and Receivables* as at 30 June 2019 are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest (SPPI). These are classified and measured as *Debt instruments at amortised cost* beginning 1 July 2019
- The Group's *quoted debt securities* are regular government and corporate bonds that were classified as *Available-for-sale (AFS) financial assets* as at 30 June 2019. The quoted debt securities pass the SPPI test and the Group expects to hold the assets to collect contractual cash flows and sell a significant amount on a relatively frequent basis. These securities are classified and measured as *Debt instruments at fair value through OCRE* beginning 1 July 2019
- *Unquoted equity shares* were classified as *AFS financial assets* as at 30 June 2019. The Group elected to present in OCRE changes in fair value of all non-listed equity investments as it intends to hold these investments for the foreseeable future. Thus these investments are classified and measured as *Equity instruments designated at fair value through OCRE* beginning 1 July 2019
- *Quoted equity shares* were classified as *AFS financial assets* as at 30 June 2019. The Group are classified and measured these financial assets as *Financial assets at fair value through surplus or deficit* beginning 1 July 2019

As a result of the change in classification of the Group's listed equity investments, the AFS reserve of $1,000 related to those investments was reclassified to accumulated OCRE as at 1 July 2019. The remaining amount of AFS reserve of $2,000 was reclassified to Fair value reserve of financial assets at fair value through OCRE.

The Group has not designated any financial liabilities at fair value through surplus or deficit. There are no changes in classification and measurement for the Group's financial liabilities.

Appendix 12: Early adoption of the Financial Instruments standards (example of disclosure with no restatement of comparatives) *continued*

2 Summary of significant accounting policies *continued*

In summary, upon the adoption of PBE IFRS 9, the Group had the following required or elected reclassifications as at 1 July 2019.

PBE IPSAS 30.49I(a),(b)

	Measurement category		Carrying amount	
	PBE IPSAS 29	**PBE IFRS 9**	**PBE IPSAS 29 $000**	**PBE IFRS 9 $000**
Financials assets:				
Receivables from exchange transactions	Loans and receivables	Amortised cost	12,874	12,674*
Receivables from non-exchange transactions (excl. rates receivable)	Loans and receivables	Amortised cost	1,429	1,400*
Term deposits	Loans and receivables	Amortised cost	1,685	1,685
Loan to an associate	Loans and receivables	Amortised cost	8	8
Unquoted equity shares	AFS	FVOCRE	898	898
Quoted equity shares	AFS	FVTSD	300	300
Quoted debt securities	AFS	FVOCRE	600	600
Derivatives not designated as hedges:				
Foreign exchange forward contracts	FVTSD	FVTSD	-	-
Embedded derivatives	FVTSD	FVTSD	-	-
Financial liabilities:				
Interest-bearing loans and borrowings	Amortised cost	Amortised cost	24,478	24,478
Payables under exchange transactions	Amortised cost	Amortised cost	21,073	21,073
Other financial liabilities	Amortised cost	Amortised cost	284	284
Financial guarantee contracts	Amortised cost	Amortised cost	49	49
Contingent consideration	FVTSD	FVTSD	-	-
Derivatives not designated as hedges:				
Foreign exchange forward contracts	FVTSD	FVTSD	-	-
Commodity forward contracts	FVTSD	FVTSD	-	-
Embedded derivatives	FVTSD	FVTSD	-	-

* The change in carrying amount is a result of additional impairment allowance. See the discussion on impairment below.

FVTSD = fair value through surplus or deficit
FVOCRE = fair value through other comprehensive revenue and expense

Appendix 12: Early adoption of the Financial Instruments standards (example of disclosure with no restatement of comparatives) *continued*

2 Summary of significant accounting policies *continued*

(b) Impairment

The adoption of PBE IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing PBE IPSAS 29's incurred loss approach with a forward-looking expected credit loss (ECL) approach. PBE IFRS 9 requires the Group to recognise an allowance for ECLs for all debt instruments not held at fair value through surplus or deficit. *PBE IFRS 9.5.5.1*

Upon adoption of PBE IFRS 9 the Group recognised additional impairment on the Group's *Receivables from exchange transactions*, *Receivables from non-exchange transactions* and *Debt instruments at fair value through OCRE* of $200,000, $29,000 and $5,000, respectively. Impairment losses do not reduce the carrying amount of debt instruments at fair value through OCRE in the statement of financial position, which remains at fair value. An amount equal to the impairment allowance of $3,500 (net of tax) was included in *Other components of equity* under *Fair value reserve of financial assets at FVOCRE*. The adjustments result in a decrease in *Accumulated comprehensive revenue and expense* of $232,500 as at 1 July 2019.

Set out below is the reconciliation of the ending impairment allowances in accordance with PBE IPSAS 29 to the opening loss allowances determined in accordance with PBE IFRS 9: *PBE IPSAS 30.49P*

	Allowance for impairment under PBE IPSAS 29 as at 30 June 2019	**Remeasurement**	**ECL under PBE IFRS 9 as at 1 July 2019**
	$000	**$000**	**$000**
Loans and receivables under PBE IPSAS 29/Financial assets at amortised cost under PBE IFRS 9: *Receivables from exchange transactions*	1,808	200	2,008
Loans and receivables under PBE IPSAS 29/Financial assets at amortised cost under PBE IFRS 9: *Receivables from non-exchange transactions*	574	29	603
AFS financial assets under PBE IPSAS 29/Debt instruments at fair value through OCRE under PBE IFRS 9	-	5	5
	2,470	**234**	**2,704**

(c) Hedge accounting

At the date of initial application, all of the Group's existing hedging relationships were eligible to be treated as continuing hedging relationships. Before the adoption of PBE IFRS 9, the Group designated the change in fair value of the entire forward contracts in its cash flow hedge relationships. Upon adoption of the hedge accounting requirements of PBE IFRS 9, the Group designates only the spot element of forward contracts as hedging instrument. The forward element is recognised in OCRE and accumulated as a separate component of equity under *Cost of hedging reserve*. This change only applies prospectively from the date of initial application of PBE IFRS 9 and has no impact on the presentation of comparative figures. *PBE IFRS 9.6.5.16*

Under PBE IPSAS 29, all gains and losses arising from the Group's cash flow hedging relationships were eligible to be subsequently reclassified to surplus or deficit. However, under PBE IFRS 9, gains and losses arising on cash flow hedges of forecast purchases of non-financial assets need to be incorporated into the initial carrying amounts of the non-financial assets. This change also applies prospectively from the date of initial application of PBE IFRS 9 and has no impact on the statement of financial position as at 1 July 2019. *PBE IPSAS 1.103.8 PBE IFRS 9.6.5.11(d)(i)*

Appendix 12: Early adoption of the Financial Instruments standards (example of disclosure with no restatement of comparatives) *continued*

2 Summary of significant accounting policies *continued*

(d) Other adjustments

In addition to the adjustments described above, other items such as deferred taxes (relating to impairment provision), investment in an associate and a joint venture (arising from the financial instruments held by these entities), and non-controlling interests were adjusted to accumulated comprehensive revenue and expense as necessary upon adoption of PBE IFRS 9 as at 1 July 2019.

i) Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. *PBE IPSAS 28.9*

i) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive revenue and expense (OCRE), and fair value through surplus or deficit. *PBE IPSAS 30.25 PBE IFRS 9.4.1.1*

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. The Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through surplus or deficit, transaction costs. *PBE IFRS 9.4.1.1 PBE IFRS 9.5.1.1*

In order for a financial asset to be classified and measured at amortised cost or fair value through OCRE, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. *PBE IFRS 9.4.1.2(b)*

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. *PBE IFRS 9.B4.1.1*

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset. *PBE IFRS 9.3.1.2*

The Group's financial assets include: cash and term deposits, receivables from exchange and non-exchange transactions, loans, quoted and unquoted financial instruments and derivatives financial instruments.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories: *PBE IFRS 9.5.2.1*

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCRE with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCRE with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through surplus or deficit

Appendix 12: Early adoption of the Financial Instruments standards (example of disclosure with no restatement of comparatives) *continued*

2 Summary of significant accounting policies *continued*

Financial assets at amortised cost (debt instruments) *PBE IFRS 9.4.1.2*

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows and *PBE IFRS 9.4.1.2(a)*
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding *PBE IFRS 9.4.1.2(b)*

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in surplus or deficit when the asset is derecognised, modified or impaired. *PBE IFRS 9.5.4*

The Group's financial assets at amortised cost includes receivables from exchange transactions, receivables from non-exchange transactions, term deposits and loan to an associate included under other non-current financial assets.

Commentary

The Group only has simple financial instruments. For entities that have complex financial instruments, the SPPI assessment can be particularly challenging. The application guidance for PBE IFRS 9 and the EY International GAAP 2020 publication provide specific examples of instruments that pass or fail the SPPI test. Such entities should also consider providing more detailed accounting policies in relation to their SPPI and business model assessments. Only equity instruments that meet the definition of equity from the issuer's perspective can be designated at fair value through OCRE at initial recognition. PBE IFRS 9 also allows entities to elect to designate non-financial contracts such as commodity contracts held for own use as financial assets at fair value through surplus or deficit under certain circumstances.

Financial assets at fair value through OCRE (debt instruments) *PBE IFRS 9.4.1.2A*

The Group measures debt instruments at fair value through OCRE if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling and *PBE IFRS 9.4.1.2A(a)*
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding *PBE IFRS 9.4.1.2A(b)*

For debt instruments at fair value through OCRE, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of surplus and deficit and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCRE. Upon derecognition, the cumulative fair value change recognised in OCRE is recycled to surplus and deficit. *PBE IFRS 9.5.7.10 PBE IFRS 9.5.7.11*

The Group's debt instruments at fair value through OCRE includes investments in quoted debt securities included under other non-current financial assets.

Appendix 12: Early adoption of the Financial Instruments standards (example of disclosure with no restatement of comparatives) *continued*

2 Summary of significant accounting policies *continued*

Financial assets designated at fair value through OCRE (equity instruments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCRE when they meet the definition of equity under PBE IPSAS 28 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

PBE IFRS 9.5.7.5

Gains and losses on these financial assets are never recycled to surplus or deficit. Dividends are recognised as revenue from exchange transaction in the statement of surplus or deficit when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCRE. Equity instruments designated at fair value through OCRE are not subject to impairment assessment. The Group elected to classify irrevocably its unquoted equity shares under this category.

PBE IPSAS 9.33
PBE IPSAS 9.34
PBE IFRS 9.B5.7.1

Financial assets at fair value through surplus or deficit

Financial assets at fair value through surplus or deficit include financial assets held for trading, financial assets designated upon initial recognition at fair value through surplus or deficit, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through surplus or deficit, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCRE, as described above, debt instruments may be designated at fair value through surplus or deficit on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

PBE IFRS 9.4.1.4
PBE IFRS 9.5.7.1

Financial assets at fair value through surplus or deficit are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of surplus or deficit.

This category includes derivative instruments and quoted equity shares which the Group had not irrevocably elected to classify at fair value through OCRE. Dividends on listed equity investments are also recognised as revenue from exchange transaction in the statement of surplus or deficit when the right of payment has been established.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through surplus or deficit.

PBE IFRS 9.4.3.3

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's statement of financial position) when:

- The rights to receive cash flows from the asset have expired or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

PBE IFRS 9.3.2.3(a)
PBE IFRS 9.3.2.4(a)
PBE IFRS 9.3.2.4(b)

Appendix 12: Early adoption of the Financial Instruments standards (example of disclosure with no restatement of comparatives) *continued*

2 Summary of significant accounting policies *continued*

PBE IFRS 9.3.2.6(a)
PBE IFRS 9.3.2.6(c)
PBE IFRS 9.3.2.4(b)

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay. *PBE IFRS 9.3.2.16*

Impairment of financial assets

PBE IFRS 9.5.5.1

Further disclosures relating to impairment of financial assets are also provided in the following notes:

Disclosures for significant assumptions	Note 3
Debt instruments at fair value through OCRE	Note 27.1
Receivables from non-exchange transactions	Note 29
Receivables from exchange transactions	Note 30

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through surplus or deficit. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms. *PBE IFRS 9.5.5.1*

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL). *PBE IFRS 9.5.5.3* *PBE IFRS 9.5.5.5*

For receivables from non-exchange transactions and receivables from exchange transactions, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. *PBE IFRS 9.5.5.15* *PBE IFRS 9.B5.5.35*

Appendix 12: Early adoption of the Financial Instruments standards (example of disclosure with no restatement of comparatives) *continued*

2 Summary of significant accounting policies *continued*

Commentary

An entity has a policy choice to apply either the simplified approach or the general approach for the following:

- All receivables from exchange transactions that result from transactions that are within the scope of PBE IPSAS 9
- All receivables from non-exchange transactions that result from transactions that are within the scope of PBE IPSAS 23
- All lease receivables that result from transactions that are within the scope of PBE IPSAS 13. The policy choice may be applied separately to finance and operating lease receivables.

For debt instruments at fair value through OCRE, the Group applies the low credit risk simplification. At every reporting date, the Group evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the internal credit rating of the debt instrument. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

PBE IFRS 9.5.5.3
PBE IFRS 9.5.5.5

The Group's debt instruments at fair value through OCRE comprise solely of quoted debt securities that are graded in the top investment category (Very Good and Good) by the Local Credit Rating Agency and, therefore, are considered to be low credit risk investments. It is the Group's policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. The Group uses the ratings from the Local Credit Rating Agency both to determine whether the debt instrument has significantly increased in credit risk and to estimate ECLs.

PBE IPSAS 30.42F(a)
PBE IPSAS 30.42G(a)(ii)
PBE IFRS 9.B5.5.22-27

Commentary

PBE IFRS 9 contains an important simplification that, if a financial instrument has a low credit risk, then an entity is allowed to assume at the reporting date that no significant increases in credit risk have occurred. The low credit risk concept was intended to provide entities relief from tracking changes in the credit risk of high quality financial instruments. This simplification is optional and the low credit risk simplification can be elected on an instrument-by-instrument basis.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

PBE IPSAS 30.42F(b)
PBE IFRS 9.5.5.9
PBE IFRS 9.B5.5.37

ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through surplus or deficit, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

PBE IPSAS 30.9
PBE IPSAS 30.25

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

PBE IFRS 9.5.1.1

The Group's financial liabilities include payables under exchange transactions, loans and borrowings including bank overdrafts, financial guarantee contracts, contingent consideration and derivative financial instruments.

Appendix 12: Early adoption of the Financial Instruments standards (example of disclosure with no restatement of comparatives) *continued*

2 Summary of significant accounting policies *continued*

Subsequent measurement
The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through surplus or deficit

Financial liabilities at fair value through surplus or deficit include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through surplus or deficit. *PBE IFRS 9.4.2.1(a)*

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by PBE IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the statement of surplus or deficit. *PBE IFRS 9.5.7.1*

Financial liabilities designated upon initial recognition at fair value through surplus or deficit are designated at the initial date of recognition, and only if the criteria in PBE IFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through surplus or deficit.

Loans and borrowings

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in surplus or deficit when the liabilities are derecognised as well as through the EIR amortisation process. *PBE IFRS 9.4.2.1 PBE IFRS 9.5.7.2*

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of surplus or deficit.

This category generally applies to interest-bearing loans and borrowings. For more information, refer to Note 27.2.

Derecognition
A financial liability is derecognised when the obligation under the liability is discharged or waived or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of surplus or deficit. *PBE IFRS 9.3.3.1 PBE IFRS 9.3.3.3 PBE IFRS 9.3.3.2*

iii) Offsetting of financial instruments
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously. *PBE IPSAS 28.47*

j) Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments, such as forward currency, forward commodity contracts and interest rate swaps, to hedge its foreign currency risks, interest rate risks and commodity price risks, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. *PBE IFRS 9.5.1.1 PBE IPSAS 28.25*

Appendix 12: Early adoption of the Financial Instruments standards (example of disclosure with no restatement of comparatives) *continued*

2 Summary of significant accounting policies *continued*

For the purpose of hedge accounting, hedges are classified as:

- *Fair value hedges* when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment *PBE IFRS 9.6.5.2(a)*
- *Cash flow hedges* when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment *PBE IFRS 9.6.5.2(b)*
- *Hedges of a net investment in a foreign operation* *PBE IFRS 9.6.5.2(c)*

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. *PBE IFRS 9.6.4.1*

Before 1 July 2019, the documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Beginning 1 July 2019, the documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements: *PBE IFRS 9.6.4.1*

- There is 'an economic relationship' between the hedged item and the hedging instrument
- The effect of credit risk does not 'dominate the value changes' that result from that economic relationship
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Hedges that meet all the qualifying criteria for hedge accounting are accounted for, as described below:

Fair value hedges

The change in the fair value of a hedging instrument is recognised in the statement of surplus or deficit as other expense. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the statement of surplus or deficit as other expense. *PBE IFRS 9.6.5.8 PBE IFRS 9.6.5.10*

For fair value hedges relating to items carried at amortised cost, any adjustment to carrying value is amortised through surplus or deficit over the remaining term of the hedge using the EIR method. The EIR amortisation may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If the hedged item is derecognised, the unamortised fair value is recognised immediately in surplus or deficit.

Appendix 12: Early adoption of the Financial Instruments standards (example of disclosure with no restatement of comparatives) *continued*

2 Summary of significant accounting policies *continued*

PBE IFRS 9.6.5.9

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in surplus or deficit.

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised in OCRE in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of surplus or deficit. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item. *PBE IFRS 9.6.5.11*

The Group uses forward currency contracts as hedges of its exposure to foreign currency risk in forecast transactions and firm commitments, as well as forward commodity contracts for its exposure in the commodity prices. The ineffective portion relating to foreign currency contracts is recognised as other expense and the ineffective portion relating to commodity contracts is recognised in other operating income or expenses. Refer to Note 27.3 for more details.

Before 1 July 2019, the Group designated all of the forward contracts as hedging instrument. Any gains or losses arising from changes in the fair value of derivatives were taken directly to surplus or deficit, except for the effective portion of cash flow hedges, which were recognised in OCRE and later reclassified to surplus or deficit when the hedge item affects surplus or deficit.

Beginning 1 July 2019, the Group designates only the spot element of forward contracts as a hedging instrument. The forward element is recognised in OCRE and accumulated in a separate component of net asset/equity under cost of hedging reserve. *PBE IFRS 9.6.5.16*

The amounts accumulated in OCRE are accounted for, depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in net asset/equity is removed from the separate component of net asset/equity and included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification adjustment and will not be recognised in OCRE for the period. This also applies where the hedged forecast transaction of a non-financial asset or non-financial liability subsequently becomes a firm commitment for which fair value hedge accounting is applied. *PBE IFRS 9.6.5.11*

For any other cash flow hedges, the amount accumulated in OCRE is reclassified to surplus or deficit as a reclassification adjustment in the same period or periods during which the hedged cash flows affect surplus or deficit.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in OCRE must remain in accumulated OCRE if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to surplus or deficit as a reclassification adjustment. After discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated OCRE must be accounted for depending on the nature of the underlying transaction as described above.

(v) Equity

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

Equity is made up of the following components:

Accumulated comprehensive revenue and expense

Accumulated comprehensive revenue and expense is the Group's accumulated surplus or deficit since the formation of the Council, adjusted for transfers to/from specific reserves.

Appendix 12: Early adoption of the Financial Instruments standards (example of disclosure with no restatement of comparatives) *continued*

2 Summary of significant accounting policies *continued*

Reserves: *PBE IPSAS 1.95(c)*

(i) Asset revaluation reserve
This reserve is for the revaluation of those items of property, plant and equipment that are measured at fair value after initial recognition.

(ii) Available for sale reserve
This reserve is for the revaluation of available for sale financial assets, which are measured at fair value through OCRE after initial recognition.

(iii) Cash flow hedge reserve
This reserve is for the revaluation of derivatives designated as cash flow hedges. It consists of the cumulative effective portion of net changes in the fair value of these derivatives. *PBE IFRS 9.6.5.11*

(iv) Cost of hedging reserve
This reserve is for the revaluation of a forward element of forward contracts. *PBE IPSAS 9.6.5.15* *PBE IFRS 9.6.5.16*

(v) Fair value reserve of financial assets at FVOCRE
This reserve is for the revaluation of debt instrument at fair value through OCRE, which are measured at fat value through OCRE after initial recognition.

(vi) Targeted rates reserve
This is a restricted equity reserve that comprises funds raised by the Council through targeted rates. The use of these funds is restricted to the specific purpose for which the targeted rates were levied. The amount of total targeted rates revenue for the year, less total expenses incurred in performing the specific activities for which these targeted rates were levied, is transferred from accumulated comprehensive revenue and expense to the targeted rates reserve via the statement of changes in net assets/equity.

(vii) Special projects reserve
This is a restricted equity reserve created by the Council for the purpose of financing special projects, such capital replacement of water and infrastructure assets. The use of these funds is restricted to the specific purpose of the projects. Amounts determined in accordance with the Council's policy are transferred on an annual basis from accumulated comprehensive revenue and expense to the special projects reserve via the statement of changes in net assets/equity. Whenever an asset is purchased or expenses are incurred as part of the execution of a special project, an amount equal to the cost of the asset or the amount of the expense is transferred from the special projects reserve to accumulated comprehensive revenue and expense via the statement of changes in net assets/equity.

Appendix 12: Early adoption of the Financial Instruments standards (example of disclosure with no restatement of comparatives) *continued*

27. Financial assets and financial liabilities

27.1. Financial assets

	2020 $000	2019 $000	
			PBE IPSAS 30.9 *PBE IPSAS 30.10*
Derivatives designated as hedging instruments			*PBE IPSAS 30.11*
Cash flow hedges:			
Foreign exchange forward contracts	251	153	
	251	**153**	*PBE IPSAS 30.28A(a)*
Financial instruments at fair value through surplus or deficit			
Derivatives not designated as hedges:			*PBE IPSAS 30.11(a)*
Foreign exchange forward contracts	640	–	
Embedded derivatives	210	–	
Quoted equity shares	337	–	
	1,187	**–**	*PBE IPSAS 30.RDR 11.1.A*
Equity instruments designated at fair value through OCRE			
Unquoted equity shares			
New Zealand Local Government Funding Agency	1,038	–	*PBE IPSAS 30.14A(a)*
Urban Developers Limited	–	–	
	1,038	**–**	*PBE IPSAS 30.11(h)*
Debt instruments designated at fair value through OCRE			
Quoted debt securities	612	–	
	612	**–**	*PBE IPSAS 30.11(h)*
Available-for-sale (AFS) investments at fair value through OCRE			
Unquoted equity shares	–	898	
Quoted equity shares	–	300	
Quoted debt securities	–	600	
	–	**1,798**	
Total financial assets at fair value	**3,089**	**1,951**	
Debt instruments at amortised cost (excluding cash – refer to Note 31)			
Receivables from exchange transactions	14,387	–	
Receivables from non-exchange transactions	2,317	–	
Term deposits	3,674	–	
Loan to an associate	213	–	
	20,992	**–**	*PBE IPSAS 30.11(f)*
Loans and receivables (excluding cash – refer to Note 31)			
Receivables from exchange transactions	–	12,874	
Receivables from non-exchange transactions	–	1,429	
Term deposits	–	1,685	
Loan to an associate	–	8	
	–	**15,996**	

Appendix 12: Early adoption of the Financial Instruments standards (example of disclosure with no restatement of comparatives) *continued*

27. Financial assets and financial liabilities *continued*

Total financial assets at amortised costs	**20,992**	**15,996**
Total financial assets (excluding cash)	**24,081**	**17,947**
Total current	17,356	14,456
Total non-current	6,756	3,491

Please note that in the disclosure above, which includes financial assets only, the amount of receivables from non-exchange transactions does not equal to the total receivables from non-exchange transactions as disclosed in the statement of financial position and in Note 29. This is because the Group's total receivables from non-exchange transactions include rates receivable, which generally represents a statutory right to receive cash, rather than a contractual right to do so. As such, rates receivable would not meet the definition of financial assets as per PBE IPSAS 28.9, and have therefore been excluded from the financial assets disclosure above.

Derivatives not designated as hedging instruments reflect the positive change in fair value of those foreign exchange forward contracts, which are not designated in hedge relationships, but are nevertheless intended to reduce the level of foreign currency risk for expected sales and purchases. *PBE IPSAS 30.9*

Derivatives designated as hedging instruments reflect the positive change in fair value of foreign exchange forward contracts designated as cash flow hedges to hedge highly probable forecast sales in US Dollars (USD). *PBE IPSAS 30.10*

Financial assets at fair value through surplus or deficit include investments in quoted equity shares. Fair values of these equity shares are determined by reference to published price quotations in an active market

Equity instruments designated at fair value through OCRE include investments in equity shares of unquoted companies, namely the New Zealand Local Government Funding Agency ("LGFA") and Urban Developers Limited. The Group holds non-controlling interests (between 2% and 9%) in these companies These investments were irrevocably designated at fair value through OCRE as the Group considers these investments to be strategic in nature. In 2020, the Group sold its equity interest in Urban Developers Limited as this investment no longer coincides with the Group's investment strategy. The fair value on the date of sale is $50,000 and the accumulated gain recognised in OCRE of $7,000 was transferred to accumulated comprehensive revenue and expense. In 2020, the Group received dividends in the amount of $3,000 from LGFA. *PBE IPSAS 30.24(a)(vii)*

Debt instruments designated at fair value through OCRE include investments in quoted government and corporate bonds. Fair values of these debt instruments are determined by reference to published price quotations in an active market.

Debt instruments at amortised cost are held to maturity and generate a fixed or variable interest income for the Group. The carrying value may be affected by changes in the credit risk of the counterparties.

AFS investments in the prior year included a significant portion of the AFS financial assets that are invested in equity shares of unquoted companies, LGFA and Urban Developers Limited. Such investment was reclassified as equity instruments designated at fair value through OCRE upon the adoption of PBE IFRS 9 on 1 July 2019. The Group also had investments in quoted equity and debt securities in prior year and such investments were reclassified to financial assets through surplus or deficit and debt instruments at amortised cost, respectively, upon the adoption of PBE IFRS 9 on 1 July 2019. Fair values of these quoted debt securities and equity shares are determined by reference to published price quotations in an active market.

No impairment on AFS investments was identified in the prior year.

Loans and receivables in the prior year are held to maturity and generate a fixed or variable interest income for the Group. The carrying value may be affected by changes in the credit risk of the counterparties.

Appendix 12: Early adoption of the Financial Instruments standards (example of disclosure with no restatement of comparatives) *continued*

27. Financial assets and financial liabilities *continued*

27.2 Financial liabilities

Other financial liabilities

	Group 2020 $000	2019 $000	
			PBE IPSAS 30.9 *PBE IPSAS 30.10* *PBE IPSAS 30.11*
Derivatives designated as hedging instruments			
Cash flow hedges:			
Foreign exchange forward contracts	170	254	
Commodity forward contracts	980	–	
Fair value hedges:			
Interest rate swaps	35	–	
	1,185	254	*PBE IPSAS 30.28A(a)*
Financial liabilities at fair value through surplus or deficit			*PBE IPSAS 30.11(e)*
Contingent consideration (Note 6)	1,072	–	
Derivatives not designated as hedges:			
Foreign exchange forward contracts	720	–	
Embedded derivatives	782	–	
	2,574	–	*PBE IPSAS 30.RDR11.1*
Total financial liabilities at fair value	3,759	254	
Other financial liabilities at amortised cost, other than interest-bearing loans and borrowings			*PBE IPSAS 30.11(g)*
Payables under exchange transactions	19,820	21,073	
Financial guarantee contracts	87	49	
Total financial liabilities at amortised cost	19,907	21,122	
Total financial liabilities	23,666	21,376	
Total current	22,164	21,376	
Total non-current	1,502	–	

Commentary

When PBE IPSAS 30.9 requires disclosures by class of financial instrument, Tier 2 PBEs are not required to group financial instruments into classes. Nor are Tier 2 PBEs required to provide sufficient information to permit a reconciliation to the line items presented in the statement of financial position. However, Tier 2 PBEs are required to disclose the carrying amount of each category of financial assets and liabilities, as required by PBE IPSAS 30.11.

According to PBE IPSAS 30.RDR 11.1, Tier 2 PBEs are only required to disclose the carrying amount of (i) financial assets measured at fair value through surplus or deficit and (ii) financial liabilities at fair value measured through surplus or deficit. The only financial instruments at fair value through surplus or deficit that the Group holds are classified as held for trading. The Group does not hold any financial instruments at fair value through surplus or deficit that have been designated as such upon initial recognition.

PBE IPSAS 30.38

Derivatives designated as hedging instruments reflect the negative change in fair value of foreign exchange forward contracts, designated as cash flow hedges to hedge highly probable future purchases in GBP. This also includes the changes in fair value of commodity forward contracts entered into during 2020.

Derivatives not designated as hedging instruments reflect the negative change in fair value of those foreign exchange forward contracts that are not designated in hedge relationships, but are, nevertheless, intended to reduce the level of foreign currency risk for expected sales and purchases.

Appendix 12: Early adoption of the Financial Instruments standards (example of disclosure with no restatement of comparatives) *continued*

27. Financial assets and financial liabilities *continued*

Contingent consideration

PBE IFRS 3.B64(g)

As part of the purchase agreement with the previous owner of Local Property Management Limited, a contingent consideration has been agreed. This consideration is dependent on the surplus before tax of Local Property Management Limited during a 12-month period. The fair value of the contingent consideration at the acquisition date was $714,000. The fair value increased to $1,071,500 as at 30 June 2020 due to a significantly enhanced performance compared to budget. The contingent consideration is due for final measurement and payment to the former shareholders on 31 March 2021. Refer to Note 6 for further details.

27.3. Hedging activities and derivatives

PBE IPSAS 30.26A

The Group is exposed to certain risks relating to its ongoing business operations. The primary risks managed using derivative instruments are foreign currency risk, commodity price risk, and interest rate risk.

The Group's risk management strategy and how it is applied to managing risk are explained in Note 27.5 below.

Commentary

The disclosure requirements for entities applying hedge accounting are set out in PBE IPSAS 30.25A-28G. The objective of the hedge accounting disclosures is for entities to disclose information about:

- The risk management strategy and how it is applied to manage risks
- How the risk management activities may affect the amount, timing and uncertainty of future cash flows
- The effect hedge accounting has had on the statement of financial position, the statement of comprehensive revenue and expense and the statement of changes in net assets/equity

In applying this objective, an entity has to consider the necessary level of detail, the balance between different disclosure requirements, the appropriate level of disaggregation and whether additional explanations are necessary to meet the objective.

The hedge accounting disclosures should be presented in a single note or a separate section of the financial statements. An entity may include information by cross-referencing to information presented elsewhere, such as a risk report, provided that information is available to users of the financial statements on the same terms as the financial statements and at the same time.

When paragraphs 26A–28F of PBE IPSAS 30 require the entity to separate by risk category the information disclosed, Tier 2 PBEs are not required to determine each risk category on the basis of the risk exposures an entity decides to hedge and for which hedge accounting is applied. Tier 2 PBEs are not required to determine risk categories consistently for all hedge accounting disclosures

A Tier 2 PBEs is not required to present the disclosures in a single note or separate section in its financial statements

Derivatives not designated as hedging instruments

PBE IPSAS 30.26B

The Group uses foreign currency denominated borrowings and foreign exchange forward contracts to manage some of its transaction exposures. The foreign exchange forward contracts are not designated as cash flow hedges and are entered into for periods consistent with foreign currency exposure of the underlying transactions, generally from one to 24 months.

Appendix 12: Early adoption of the Financial Instruments standards (example of disclosure with no restatement of comparatives) *continued*

PBE IPSAS 30.29B(a)

27. Financial assets and financial liabilities *continued*

Derivatives designated as hedging instruments

Cash flow hedges

Foreign currency risk

Foreign exchange forward contracts are designated as hedging instruments in cash flow hedges of forecast sales in USD and forecast purchases in GBP. These forecast transactions are highly probable, and they comprise about 25% of the Group's total expected sales in USD and about 65% of its total expected purchases in GBP. The foreign exchange forward contract balances vary with the level of expected foreign currency sales and purchases and changes in foreign exchange forward rates.

Commodity price risk

The Group purchases copper on an ongoing basis as its operating activities in the Port division require a continuous supply of copper for the production of its port devices. The increased volatility in copper price over the past 12 months has led to the decision to enter into commodity forward contracts.

These contracts, which commenced on 1 July 2019, are expected to reduce the volatility attributable to price fluctuations of copper. Hedging the price volatility of forecast copper purchases is in accordance with the risk management strategy outlined by the Board of Directors.

There is an economic relationship between the hedged items and the hedging instruments as the terms of the foreign exchange contracts match the terms of the expected highly probable forecast transactions (i.e., notional amount and expected payment date). The Group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risk of the foreign exchange contracts are identical to the hedged risk components. To test the hedge effectiveness, the Group uses the hypothetical derivative method and compares the changes in the fair value of the hedging instruments against the changes in fair value of the hedged items attributable to the hedged risks.

PBE IPSAS 30.26B(b)
PBE IPSAS 30.26B(c)
PBE IPSAS 30.26C

The hedge ineffectiveness can arise from:

- Differences in the timing of the cash flows of the hedged items and the hedging instruments
- Different indexes (and accordingly different curves) linked to the hedged risk of the hedged items and hedging instruments
- The counterparties' credit risk differently impacting the fair value movements of the hedging instruments and hedged items
- Changes to the forecasted amount of cash flows of hedged items and hedging instruments

PBE IPSAS 30.26C(b)

Appendix 12: Early adoption of the Financial Instruments standards (example of disclosure with no restatement of comparatives) *continued*

27. Financial assets and financial liabilities *continued*

The Group are holding the following foreign exchange contracts: *PBE IPSAS 30.27B*

	Maturity					
	Less than 1 month	**1 to 3 months**	**3 to 6 months**	**6 to 9 months**	**9 to 12 months**	**Total**
As at 30 June 2020*						
Foreign exchange forward contracts:						
(highly probable forecast sales)						
Notional amount (in $000)	2,950	3,000	3,150	3,450	3,250	**15,800**
Average forward rate (NZD/USD)	1.166	1.169	1.172	1.175	1.185	–
Foreign exchange forward contracts:						
(highly probable forecast purchases)						
Notional amount (in $000)	1,450	1,330	1,880	1,750	1,550	**7,960**
Average forward rate (NZD/GBP)	0.876	0.877	0.878	0.879	0.881	–
Commodity forward contracts						
Notional amount (in tonnes)	–	–	450	530	–	**980**
Notional amount (in $000)	–	–	2,600	3,000	–	**5,600**
Average hedged rate (in $000 per tonne)	–	–	5.77	5.66	–	–

*Please note comparatives are not presented.

The impact of the hedging instruments on the statements of financial position of the Group is, as follows: *PBE IPSAS 30.28A* *PBE IPSAS 30.28A(a), (b), (c), (d)*

	Notional amount $000	Carrying amount $000	Line item in the statement of financial position	Change in fair value used for measuring ineffectiv eness for the period $000
As at 30 June 2020*				
Foreign exchange forward contracts (NZD/USD)	15,800	252	Other current financial assets	386
Foreign exchange forward contracts (NZD/GBP)	7,960	(170)	Other current financial liabilities	(99)
Commodity forward contracts	5,600	(980)		(980)

*Please note comparatives are presented.

Commentary

A Tier 2 entity is not required to make the disclosures required by paragraph 28A of PBE IPSAS 30 in a tabular format. *PBE IPSAS 30 RDR 28A.1*

Appendix 12: Early adoption of the Financial Instruments standards (example of disclosure with no restatement of comparatives) *continued*

27. Financial assets and financial liabilities *continued*

The impact of hedged items on the statement of financial position of the Group is, as follows: *PBE IPSAS 30.28A*

PBE IPSAS 30.28B(b)

	30 June 2020*		
	Change in fair value used for measuring ineffectiveness	Cash flow hedge reserve	Cost of hedging reserve
	$000	$000	$000
Highly probable forecast sales	386	165	12
Highly probable forecast purchases	(99)	(110)	(9)
Cooper purchases	(915)	(617)	(23)

*Please note comparatives are not presented.

Commentary
A Tier 2 entity is not required to make the disclosures required by paragraph 28B of PBE IPSAS 30 in a tabular format. *PBE IPSAS 30 RDR 28B.1*

The effect of the cash flow hedge in the statements of surplus or deficit and other comprehensive revenue and expense of the Group is, as follows: *PBE IPSAS 30.28C(b)*

Year ended 30 June 2020*	Total hedging gain/(loss) recognised in OCRE	Ineffective-ness recognised in surplus or deficit	Line item in the statement of financial performance	Cost of hedging recognised in OCRE	Amount reclassified from OCRE to surplus or deficit	Line item in the statement of financial performance
	$000	$000		$000	$000	
Highly probable forecast sales	386	–	–	21	(283)	Revenue
Highly probable forecast purchases	(99)	–	–	(16)	–	–
Copper purchases	(915)	65		(33)		

*Please note comparatives are not presented.

Commentary
A Tier 2 entity is not required to make the disclosures required by paragraph 28C of PBE IPSAS 30 in a tabular format. *PBE IPSAS 30 RDR 28C.1*

Fair value hedge

PBE IPSAS 30.26B(a)

At 30 June 2020, the Group had an interest rate swap agreement in place with a notional amount of USD3,600,000 ($2,246,000) whereby the Group receives a fixed rate of interest of 8.25% and pays interest at a variable rate equal to LIBOR+0.2% on the notional amount. The swap is being used to hedge the exposure to changes in the fair value of its 8.25% secured loan.

PBE IPSAS 30.26C(a)

There is an economic relationship between the hedged item and the hedging instrument as the terms of the interest rate swap match the terms of the fixed rate loan (i.e., notional amount, maturity, payment and reset dates). The Group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risk of the interest rate swap is identical to the hedged risk component. To test the hedge effectiveness, the Group uses the hypothetical derivative method and compares the changes in the fair value of the hedging instrument against the changes in fair value of the hedged item attributable to the hedged risk.

Appendix 12: Early adoption of the Financial Instruments standards (example of disclosure with no restatement of comparatives) *continued*

27. Financial assets and financial liabilities *continued*

The hedge ineffectiveness can arise from:
- Different interest rate curve applied to discount the hedged item and hedging instrument
- Differences in timing of cash flows of the hedged item and hedging instrument
- The counterparties' credit risk differently impacting the fair value movements of the hedging instrument and hedged item

The impact of the hedging instrument on the statements of financial position of the Group as at 30 June 2020 is, as follows:

PBE IPSAS 30.28A

	Notional amount US$000	Carrying amount $000	Line item in the statement of financial position	Change in fair value used for measuring ineffectiveness for the period $000
Interest rate swap	3,600	35	Other current financial liability	35

PBE IPSAS 30.28A(a) *PBE IPSAS 30.28A(b)* *PBE IPSAS 30.28A(c)* *PBE IPSAS 30.28A(d)*

Commentary
A Tier 2 entity is not required to make the disclosures required by paragraph 28A of PBE IPSAS 30 in a tabular format. *PBE IPSAS 30 RDR 28A.1*

The impact of the hedged item on the statements of financial position of the Group as at 30 June 2020 is, as follows:

PBE IPSAS 30.28B(a)

	Notional amount $000	Accumulated fair value adjustments $000	Line item in the statement of financial position	Change in fair value used for measuring ineffectiveness for the period $000
Fixed-rate borrowing	2,246	35	Interest-bearing loans and borrowings	35

Commentary
A Tier 2 entity is not required to make the disclosures required by paragraph 28B of PBE IPSAS 30 in a tabular format. *PBE IPSAS 30 RDR28B.1*

Appendix 12: Early adoption of the Financial Instruments standards (example of disclosure with no restatement of comparatives) *continued*

27. Financial assets and financial liabilities continued

The ineffectiveness recognised in the statement of financial performance was immaterial.

Impact of hedging on net assets/equity

Set out below is the reconciliation of each component of net assets/equity and the analysis of other comprehensive revenue and expense:

PBE IPSAS 30.28E
PBE IPSAS 30.28F

	Cash flow hedge reserve $000	Cost of hedging reserve $000
As at 30 June 2019*	(70)	-
Effective portion of changes in fair value arising from:		
Foreign exchange forward contracts – forecast sales	365	21
Foreign exchange forward contracts – forecast purchases	(83)	(16)
Commodity forward contracts	(882)	
Amount reclassified to surplus or deficit	(283)	(4)
Amount transferred to inventories	180	3
Tax effect	211	9
As at 30 June 2020	**(562)**	**(20)**

* Please note comparatives are not presented

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Embedded derivatives

PBE IFRS 9.4.3.3

In 2020, the Group entered into long-term sale contracts with a customer in Canada. The functional currency of the customer is USD. The selling price in the contracts is fixed and set in Canadian dollars (CAD). The contracts require physical delivery and will be held for the purpose of the delivery of the commodity in accordance with the buyer's expected sale requirements. The contracts have embedded foreign exchange derivatives that are required to be separated.

The Group also entered into various purchase contracts for brass and chrome (for which there is an active market) with a number of suppliers in South Africa and Russia. The prices in these purchase contracts are linked to the price of electricity. The contracts have embedded commodity swaps that are required to be separated.

The embedded foreign currency and commodity derivatives have been separated and are carried at fair value through surplus or deficit. The carrying values of the embedded derivatives at 30 June 2020 amounted to $210,000 (other financial assets) and $782,000 (other financial liabilities). The effects on surplus or deficit are reflected in finance income and finance costs, respectively.

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Appendix 12: Early adoption of the Financial Instruments standards (example of disclosure with no restatement of comparatives) *continued*

27.5. Financial risk management objectives and policies

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily receivables from exchange transactions and receivables from non-exchange transactions) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

PBE IPSAS 30.40
PBE IPSAS 30.42B

Receivables from non-exchange transactions
The majority of the Group's receivables from non-exchange transactions arise from the Group's statutory functions. The Group is not exposed to material concentration of credit risk around rates receivables as the Group has a statutory right to recover outstanding funds.

Commentary
Please note that rates receivable, which generally represents a statutory right to receive cash, rather than a contractual right to do so would not meet the definition of financial assets as per PBE IPSAS 28.9.

The remaining balance of receivables from non-exchange transactions relates to fines receivables. Fines receivable are generally on terms of 30 days. Under the Group's policy outstanding balances are regularly monitored. Receivables are grouped into homogenous groups based on the specific debtor's factors and assessed for impairment collectively. The calculation is based on actual incurred historical data adjusted for looking forward economic factors. The maximum exposure to credit risk at the reporting date is the carrying value of fines receivable disclosed in Notes 29.

Gross carrying amount of fines receivable and the exposure to credit risk is set in the table below:

PBE IPSAS 30.42M
PBE IPSAS 30.42N

	Receivables from non-exchange transactions					
	Days past due					
	Current	**< 30 days**	**30 - 60 days**	**61 - 90 days**	**>91 days**	**Total**
	$000	$000	$000	$000	$000	$000
As at 30 June 2020*						
Expected credit loss rate	12%	20%	46%	65%	83%	
Estimated total gross carrying amount at default	1,649	720	360	216	144	**3,089**
Expected credit loss	198	149	16	140	120	**772**

* Please note comparatives are not presented.

Receivables from exchange transactions
Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of a customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables assets are regularly monitored. At 30 June 2020*, the Group had 25 customers that owed the Group more than $120,000 each and accounted for approximately 20%*of all the receivables outstanding. There were five customers* with balances greater than $250,000 accounting for just over 8%* of the total amounts receivable.

PBE IPSAS 30.43
PBE IPSAS 30.41(c)

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses.

Appendix 12: Early adoption of the Financial Instruments standards (example of disclosure with no restatement of comparatives) *continued*

27.5. Financial risk management objectives and policies continued

The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). *PBE IPSAS 30.42F9(c)*

The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Generally, trade receivables are written-off if past due for more than one year and are not subject to enforcement activity. *PBE IPSAS 30.42F(e)*

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in Note 30. The Group does not hold collateral as security. The letters of credit and other forms of credit insurance are considered integral part of trade receivables and considered in the calculation of impairment. *PBE IPSAS 30.42K*

At 30 June 2020*, 60% of the Groups trade receivables are covered by bank guarantees and other forms of credit insurance. These credit enhancements obtained by the Group resulted in a decrease in the ECL of $22,000 as at 30 June 2020*. The Group evaluates the concentration of risk with respect to trade receivables and contract assets as low, as its customers are located in several jurisdictions and industries and operate in largely independent markets.

PBE IPSAS 30.42M
PBE IPSAS 30.42N

	Receivables from exchange transactions					
		Days past due				
	Current	< 30 days	30 - 60 days	61 - 90 days	>91 days	Total
	$000	$000	$000	$000	$000	$000
As at 30 June 2020*						
Expected credit loss rate	6.3%	14.4%	22.7%	25.0%	45.0%	
Estimated total gross carrying amount at default	11,162	2,463	1,231	939	293	**16,088**
Expected credit loss	700	355	280	235	132	**1,701**

* Please note comparatives are not presented.

Financial instruments and cash deposits *PBE IPSAS 30.40* *PBE IPSAS 30.43*

Credit risk from balances with banks and financial institutions is managed by the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed by the Group's Finance Committee on an annual basis, and may be updated throughout the year subject to approval of the Group's Finance Committee. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty's failure to make payments.

The Group invests only on quoted debt securities with very low credit risk. The Group's debt instruments at fair value through OCRE comprised solely of quoted bonds that are graded in the top investment category (Very Good and Good) by the Local Credit Rating Agency and, therefore, are considered to be low credit risk investments.

Appendix 12: Early adoption of the Financial Instruments standards (example of disclosure with no restatement of comparatives) *continued*

27.5. Financial risk management objectives and policies continued

The Group recognised provision for expected credit losses on its debt instruments at fair value through OCRE in the amount of $7,000 in 2020*.

PBE IPSAS 30.20A

The Group's maximum exposure to credit risk for the components of the statement of financial position at 30 June 2020*is the carrying amounts as illustrated in Notes 27.1 except for financial guarantee and derivative financial instruments. The Group is exposed to credit risk as a guarantor of all of the LGFA's borrowings. This guarantee becomes callable in the event of the LGFA failing to pay its obligations as they fall due. The Group's maximum exposure for financial guarantees and financial derivative instruments is noted in the liquidity table.

* Please note comparatives are not disclosed due to the fact the Group elected not to present comparative figures on adoption of PBE IFRS 9.

29 Receivables from non-exchange transactions

PBE IPSAS 23.106(d)

	2020 $000	2019 $000
Rates receivable	10,567	9,987
Other receivables from non-exchange transactions	3,089	2,003
Less provision for impairment	-	(574)
Less allowance for expected credit losses	(772)	-
	12,884	**11,416**

Receivables from non-exchange transactions are non-interest bearing and are generally on terms of 30 to 90 days.

For terms and conditions relating to related party receivables, refer Note 39.

Impairment beginning 1 July 2019:

The Group has various powers under the Local Government (Rating) Act 2002 to recover outstanding rates. Thus the Group does not provide for any impairment of rates receivable.

The impairment assessment is performed mainly for fines receivable.

Appendix 12: Early adoption of the Financial Instruments standards (example of disclosure with no restatement of comparatives) *continued*

29 Receivables from non-exchange transactions *continued*

Set out below is the movement in the allowance for expected credit losses of fines receivable: *PBE IPSAS 30.42 H*

	2020* $000
As at 1 July	574
Effect of adoption of PBE IFRS 9 (Note 2(c))	29
As at 1 July (restated)	603
Provision for expected credit losses (Note 15)	223
Write-off	(54)
As at 30 June	772

PBE IPSAS 30.42I (c)

* Please note comparatives are not disclosed due to the fact the Group elected not to present comparative figures on adoption of PBE IFRS 9.

The information about the credit exposures are disclosed in Note 27.5.

Impairment before 1 July 2019:
The provision for impairment relates mainly to fines receivable. As 30 June 2019, receivables from non-exchange transactions of an initial value of $574,000 were impaired and fully provided for by the Group.

Appendix 12: Early adoption of the Financial Instruments standards (example of disclosure with no restatement of comparatives) *continued*

30 Receivables from exchange transactions

PBE IPSAS 30.10

	2020 $000	2019 $000
Trade receivables	15,468	14,132
Receivables from related parties:		
Controlled entities	-	-
Associates	300	440
Joint ventures	320	110
Less provision for impairment	-	(1,808)
Less allowance for expected credit losses	(1,701)	-
	14,387	12,874

Trade receivables include mainly receivables from port charges and rent receivable.
Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days.
For terms and conditions relating to related party receivables, refer Note 39.

Impairment beginning 1 July 2019:

Set out below is the movement in the allowance for expected credit losses of trade receivables:

PBE IPSAS 30.42H

	2020* $000
As at 1 July	1,808
Effect of adoption of PBE IFRS 9 (Note 2(c))	200
As at 1 July (restated)	2,008
Provision for expected credit losses (Note 15)	47
Write-off	(50)
Unused amount reversed	(304)
As at 30 June	1,701

PBE IPSAS 30.42I(c)

* Please note comparatives are not presented.

The information about the credit exposures are disclosed in Note 27.5.

Impairment before 1 July 2019:
As 30 June 2019, trade receivables of an initial value of $1,808,000 were impaired and fully provided for by the Group.

Appendix 12: Early adoption of the Financial Instruments standards (example of disclosure with no restatement of comparatives) *continued*

37 Ratepayers’ equity and reserves

The disaggregation of changes arising from other comprehensive revenue and expense for each type of reserve and transfers between reserves is shown below. The amounts are shown net of tax.

	Accumulated comprehensive revenue and expense	Asset re-valuation reserve	Cash flow hedge reserve	Cost of hedging reserve	Fair value reserve of financial assets at FVOCRE	Targeted rates reserve	Special projects reserve	Total
	$000	$000	$000	$000	$000	$000	$000	$000
At 30 June 2020*								
Currency forward contracts	–	–	197	4	–	–	–	201
Commodity forward contracts	–	–	(617)	(23)	–	–	–	(640)
Reclassified to surplus or deficit	–	–	(198)	(3)	(6)	–	–	(207)
Fair value loss on debt instruments at FVOCRE	–	–	–	–	(9)	–	–	(9)
Fair value loss on equity instruments at FVOCRE	–	–	–	–	(18)	–	–	(18)
Net transfer to targeted rates reserve	(196)	–	–	–	–	196	–	–
Net transfer from special projects reserve	247	–	–	–	–	–	(247)	–
Revaluation of land and buildings	–	24,311	–	–	–	–		24,311
	51	**24,311**	**(618)**	**(22)**	**(33)**	**196**	**(247)**	**23,638**

* Please note comparatives are not presented.

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Appendix 13: Transition from PBE IFRS 9 to PBE IPSAS 41

Commentary

PBE IFRS 9 *Financial Instruments* was issued as an interim measure to address "mixed group" issues (i.e., the groups that contain both PBEs and for-profit entities) in the lead up to NZ IFRS 9 *Financial Instruments* becoming effective (1 January 2018).

In March 2019, the NZASB issued PBE IPSAS 41 *Financial Instruments* which will withdraw PBE IFRS 9. PBE IPSAS 41 is effective for annual periods beginning on or after 1 January 2022. Early application is permitted.

The majority of the requirements in PBE IPSAS 41 are identical or almost identical to the requirements in PBE IFRS 9. However, there are some differences between the two Standards, for example:

- PBE IPSAS 41 requires simplified approach for impairment of receivables while PBE IFRS 9 provides accounting choices
- PBE IPSAS 41 incorporates some of the narrow scope amendments made to other NZ IFRS Standards relating to financial instruments over recent years or recent interpretations (e.g. prepayment features with negative compensation, offsetting financial assets and financial liabilities, disclosures on transfers of financial assets, treatment of long-term interests in associates and joint ventures)
- PBE IPSAS 41 includes illustrative examples and guidance
- RDR concessions provided in PBE IPSAS 41 are aligned with NZ IFRS 7

Transition requirements for entities that have early adopted PBE IFRS 9:

Specific transition provisions from PBE IFRS 9 to PBE IPSAS 41 include:

- Except as expressly permitted by PBE IPSAS 41, PBEs must continue to classify, recognise and measure financial instruments in the same way as before transition
- Where the requirements differ from PBE IFRS 9, there are specific transitional provisions, for example:
  - New requirements on prepayments with negative compensation applied retrospectively, but restatement of comparatives is not required
  - New requirements on offsetting and relevant disclosures apply to current and prior periods (but not before the date of application of PBE IFRS 9)
  - New disclosure on transferred assets required only from current period
- If a PBE has applied the new hedge accounting requirements in PBE IFRS 9, on adoption of PBE IPSAS 41 the entity must apply the hedge accounting requirements in PBE IPSAS 41. If the PBE has not applied the new PBE IPSAS 9 hedge accounting, on adoption of PBE IPSAS 41, the entity has a choice:
  - adopt the new requirements in PBE IPSAS 41, or
  - continue to apply the requirements in PBE IPSAS 29

It is expected that most of the entities that have early adopted PBE IFRS 9 in the previous periods, conclude that there is no impact on financial statements on transition to PBE IFRS 41. The below is an example of illustrative disclosures under PBE IPSAS 3 in relation to adoption of PBE IPSAS 41 when transitioning from PBE IFRS 9.

xx. Summary of significant accounting policies

(x). Changes in accounting policies and disclosures

New and amended standards and interpretations

PBE IPSAS 41 Financial Instruments

PBE IPSAS 41 *Financial Instruments* supersede PBE IFRS 9 *Financial Instruments*. The majority of the requirement of PBE IPSAS 41 are identical or almost identical to the requirements of PBE IFRS 9.

PBE IPSAS 41 incorporates some of the narrow scope amendments made to other IFRS standards relating to financial instruments. It also provides some illustrative examples and guidance.

The Group has elected to early adopt PBE IPSAS 41 and transited from PBE IFRS 9.

The Group applied the specific transition provisions from PBE IFRS 9 as required by PBE IPSAS 41, with an initial application date of 1 July 2019. The adoption of PBE IPSAS 41 do not have any impact on the Group.

Appendix 14: Illustrative disclosures for PBEs that previously accounted for joint arrangements using proportionate consolidation

Commentary

PBE IPSAS 37 *Joint Arrangements* replaced PBE IPSAS 8 *Interests in Joint Ventures.* Key features of the new Standard are as follows:

- Introduction of a new classification of joint arrangements: (i) joint operations; and (ii) joint ventures
- The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated
- Equity accounting is mandatory to account for joint ventures.

Previously under PBE IPSAS 8 the Group classified its interest in a joint arrangement as a jointly controlled entity and accounted for the interest using the equity method. On adoption of PBE IPSAS 37, the Group classifies its interest in the joint arrangement as a joint venture and continues the equity accounting. Therefore, there is no impact on the Group's financial statements on transition to PBE IPSAS 37.

If the Group accounted for its interest in a joint arrangement using the proportionate consolidated method, on adoption of PBE IPSAS 37 the Group is required to change its policy from proportionate consolidation to the equity method.

This Appendix provides illustrate disclosures of the impact of adoption of PBE IPSAS 37 for PBEs that account for joint arrangement using the proportionate consolidated method. These illustrative disclosures are for a fictitious PBE (not related to Local City Council). The Group to which these disclosures relate has a 30 June year end.

2 Summary of significant accounting policies

(c) Changes in accounting policies and disclosures

PBE Standards on interests in other entities

PBE IPSAS 37 Joint Arrangements

PBE IPSAS 37 *Joint Arrangements* replaces PBE IPSAS 8 *Interests in Joint Ventures*. PBE IPSAS 37 introduces a new classification of joint arrangements: (i) joint operations; and (ii) joint ventures based on whether the investor has rights to assets and obligations for the liabilities or rights to the net assets of the arrangement. The standard sets out the accounting requirements for each type of arrangement and removes the option of using proportionate consolidation for jointly controlled entities. Instead joint arrangements that meet the definition of joint venture under PBE IPSAS 37 must be accounted for using equity method.

The application of this new standard impacted the financial position of the Group by replacing proportionate consolidation of the joint venture in Local Swimming Pool Management Limited with the equity method of accounting.

The Group has a 50% interest in Local Swimming Pool Management Limited, that provide management services to the public swimming pools located in Local City. Under PBE IPSAS 8 (prior to the transition to PBE IPSAS 37), the Group's interest in Local Swimming Pool Management Limited was classified as a jointly controlled entity and the Group's share of the assets, liabilities, revenue, surplus and expenses were proportionately consolidated in the consolidated financial statements. Upon adoption of PBE IPSAS 37, the Group has determined its interest in Local Swimming Pool Management Limited to be classified as a joint venture under PBE IPSAS 37 and it is required to be accounted for using the equity method. During the current year, the Group changed its accounting policy to account for joint ventures retrospectively in accordance with the transitional provisions of PBE IPSAS 37. Accordingly, the comparative information for the immediately preceding period (year ended 30 June 2019) has been restated in these consolidated financial statements. There is no impact on the Council's financial statements.

Appendix 14: Illustrative disclosures for PBEs that previously accounted for joint arrangements using proportionate consolidation *continued*

Summary of significant accounting policies ***continued***

The effect of applying PBE IPSAS 37 is as follows:

Impact on statement of financial performance:

PBE IPSAS 3.33(f)-(g)

	Group 30 June 2019 $000
Decrease in direct charges revenue- full cost recovery	(29,438)
Decrease in employee costs	26,600
Decrease in depreciation expense	110
Increase in general expenses	1,393
Increase in share of surplus of a joint venture	778
Decrease in surplus before tax	**(557)**
Decrease in income tax expense	557
Net impact on net surplus/deficit	-

Impact on financial position:

	Group As at 30 June 2019 $000	Group As at 1 July 2018 $000
Decrease in property, plant and equipment	(1,482)	(1,445)
Increase in investments in a joint venture	1,835	1,278
Net increase on total non-current assets	**353**	**(167)**
Decrease in inventories	(1,404)	(1,088)
Net decrease on total current assets	**(1,404)**	**(1,088)**
Net decrease on total assets	**(1,051)**	**(1,255)**
Decrease in interest-bearing loans & borrowings	500	505
Net decrease on total non-current liabilities	**500**	**505**
Decrease in payables under exchange transactions	551	750
Net decrease on total current liabilities	**551**	**750**
Net increase on total liabilities	**1,051**	**1,088**
Net impact on equity	-	-

Impact on cash flows:

	Group 30 June 2019 $000
Decrease in cash flows from operating activities	(125)
Increase in cash flows from investing activities	-
Increase in cash flows from financing activities	125

Appendix 14: Illustrative disclosures for PBEs that previously accounted for joint arrangements using proportionate consolidation *continued*

Commentary

PBE IPSAS 3.33(f) requires disclosure of effect of application of an IFRS for the current period and each prior period presented, to the extent practicable. PBE IPSAS 37.31 partly relaxes this requirement. It states that an entity may present only the quantitative information required under PBE IPSAS 3.33(f) for the annual period immediately preceding the first annual period for which PBE IPSAS 37 is applied (the 'immediately preceding period'). An entity may also present this information for the current period or for earlier comparative periods, but is not required to do so.

The Group has opted to make the quantitative disclosures of the effect of application of PBE IPSAS 37 for the immediately preceding period (year ended 30 June 2019) only.

Appendix 15: PBE IPSAS 38 illustrative disclosures not included in this publication

15.1. Disclosures of the interest that non-controlling interest have in the Group's activities and cash flow (PBE IPSAS 38.19)

Commentary

PBE IPSAS 38.19 requires entities to disclose information that enables the users of the financial statements to understand the interest that non-controlling interests have in the Group's activities and cash flows. This disclosure is required only in respect of controlled entities that have non-controlling interests that are material to the group. A controlled entity may have significant non-controlling interest *per se* but disclosure is not required if that interest is not material at the group level. Similarly, these disclosures do not apply to the non-controlling interests that are material in aggregate but not individually. Also, it should be noted that the disclosure should be provided separately for each individual controlled entity with a material non-controlling interest.

The below is an example of illustrative disclosure under PBE IPSAS 38.19.

xx. Material partly-owned controlled entities

Financial information of controlled entities that have material non-controlling interests are provided below: *PBE IPSAS 38.17(a)(ii)*

Proportion of equity interest held by non-controlling interest: *PBE IPSAS 38.19(a)-(c)*

Name	Country of incorporation and operation	2020	2019
Local Port Limited	New Zealand	-	7.4%
Local Property Management Limited	New Zealand	15%	-
Local Port Services Limited	New Zealand	52%	52%

Accumulated balances of material non-controlling interests: *PBE IPSAS 38.19(f)*

	30 June 2020 $000	30 June 2019 $000
Local Port Limited	-	583
Local Property Management Limited	1,561	-
Local Port Services Limited	164	108

Surplus/(deficit) allocated to material non-controlling interests: *PBE IPSAS 38.19(e)*

Local Port Limited	-	170
Local Property Management Limited	14	-
Local Port Services Limited	56	75

Appendix 15: PBE IPSAS 38 illustrative disclosures not included in this publication *continued*

Summarised financial information in respect of each of the Group's controlled entities that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intra-group eliminations. *PBE IPSAS 38.19(g)*

Summarised statement of financial performance for 2020: *PBE IPSAS 38.AG10*

	Local Property Management Limited $000	**Local Port Services Limited $000**
Direct charge revenue – full cost recovery	1,857	600
Employee costs	(1,556)	(382)
Depreciation and amortisation	(23)	(16)
General expenses	(181)	(52)
Surplus before income tax	**97**	**150**
Income tax expense	(27)	(42)
Net surplus for the year	**70**	**108**
Total comprehensive revenue and expense for the year	**70**	**108**
Attributable to non-controlling interest	14	56
Dividend paid to non-controlling interest	-	5

Summarised statement of financial performance for 2019:

	Local Port Limited $000	**Local Port Services Limited $000**
Direct charge revenue – full cost recovery	12,578	450
Employee costs	(9,789)	(212)
Depreciation and amortisation	(867)	(8)
General expenses	(742)	(30)
Surplus before income tax	**1,180**	**200**
Income tax expense	(330)	(56)
Net surplus for the year	**850**	**144**
Total comprehensive revenue and expense for the year	**850**	**144**
Attributable to non-controlling interest	170	75
Dividend paid to non-controlling interest	49	-

Appendix 15: PBE IPSAS 38 illustrative disclosures not included in this publication *continued*

Summarised statement of financial position
As at 30 June 2020:

	Local Property Management Limited $000	Local Port Services Limited $000	*PBE IPSAS 38.19(g) PBE IPSAS 38.AG10*
Assets			
Intangible assets – software	1,177	-	
Property, plant and equipment	-	127	
Total non-current assets	**1,177**	**127**	
Trade receivables	1,956	-	
Cash and cash equivalent	5,546	190	
Total current assets	**7,502**	**190**	
Liabilities			
Trade and other payables	874	1	
Total current liabilities	**874**	**1**	
Net assets	**7,805**	**316**	
Attributable to the Council	6,244	152	
Attributable to non-controlling interests	1,561	164	

Summarised statement of financial position
As at 30 June 2019:

	Local Port Limited $000	Local Port Services Limited $000	*PBE IPSAS 38.19(g) PBE IPSAS 38.AG10*
Assets			
Property, plant and equipment	8,372	143	
Total non-current assets	**8,372**	**143**	
Trade receivables	689	82	
Cash and cash equivalent	256	82	
Total current assets	**945**	**82**	
Liabilities			
Trade and other payables	1,439	17	
Total current liabilities	**1,439**	**17**	
Net assets	**7,878**	**208**	
Attributable to the Council	7,295	100	
Attributable to non-controlling interests	583	108	

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Appendix 15: PBE IPSAS 38 illustrative disclosures not included in this publication *continued*

Summarised statement of cash flows For the year ended 30 June 2020:	Local Property Management Limited $000	Local Port Services Limited $000	*PBE IPSAS 38.19(g)* *PBE IPSAS 38.AG10*
Net cash flows from operating activities	87	108	
Net cash flows from/(used in) investing activities	(180)	-	
Net cash flows from financing activities	-	-	
Net increase/(decrease) in cash and cash equivalent	(93)	108	

Summarised statement of cash flows For the year ended 30 June 2019:	Local Port Limited $000	Local Port Services Limited $000	*PBE IPSAS 38.19(g)* *PBE IPSAS 38.AG10*
Net cash flows from operating activities	765	144	
Net cash used in investing activities	(676)	(100)	
Net cash flows from financing activities	-	-	
Net increase/(decrease) in cash and cash equivalent	89	44	

15.2. Disclosures of the Group's interest in structured entities

Commentary

PBE IPSAS 38 introduces the term "structured entities", which replaces and expands upon the concept of a 'special-purpose entity' that was previously used in PBE IPSAS 6. A structured entity is an entity that has been designed so that the conventional ways in which an entity is controlled are not the dominant factors in deciding who controls the entity. In the case of entities such as departments or ministries where administrative arrangements or legislation are often the dominant factors in deciding who has control of an entity, a structured entity is an entity that has been designed so that administrative arrangements or legislation are not the dominant factor in deciding who controls the entity. In the case of entities where voting or similar rights are normally the dominant factor in deciding who has control of an entity (which may be the case for some entities with profit objectives), a structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Although binding arrangements frequently occur between PBEs, binding arrangements are not normally the dominant factor in determining who controls an entity. Therefore, the use of binding arrangements to determine the relevant activities of an entity may indicate the existence of a structured entity. Paragraphs AG20–AG23 of PBE IPSAS 38 provide further information about structured entities.

The required disclosures for the interests in structured entities have been significantly expanded in PBE IPSAS 38. When specifying the required disclosures, the NZASB distinguished between those required for consolidated structured entities (i.e., controlled entities), and those that are not consolidated.

Appendix 15: PBE IPSAS 38 illustrative disclosures not included in this publication *continued*

15.2.1. Disclosures of the Group's interest in consolidated structured entities

Commentary

Under PBE IPSAS 38 an entity is required to disclose the nature and extent of, and changes in, the risks associated with its interests in consolidated structured entities. For example, an entity is required to disclose the terms of any arrangement that could require the entity to provide financial support, including events or circumstances that could expose the group to a loss (e.g., liquidity arrangements or credit rating triggers associated with obligations to purchase assets of the structured entity or provide financial support).

If an entity provides financial or other support to a consolidated structured entity without being obliged to do so, it is required to disclose the type and amount of support, the situation, reasons for providing the support, any change in control that resulted there from, and whether there is any current intention to provide further support.

Since a consolidated structured entity is also considered a controlled entity, the disclosure requirements of PBE IPSAS 38 in relation to controlled entities would be required if the non-controlling interest is material to the group (see section 15.1 above).

The below is an example of illustrative disclosures in relation to the Group's interests in the consolidated structured entities (PBE IPSAS 38.21-24).

xx. Significant accounting judgements, estimates and assumption

Consolidation of a structed entity

In February 2020, the Group and a third party partner formed an entity, Local Fire Equipment Test Lab Limited, to acquire land and construct and operate a fire equipment safety facility. The Group holds 20% of the voting shares in this entity. The third-party partner contributed approximately $2,700,000 in 2020, representing 80% of the voting shares, for the acquisition and construction of the fire safety test facility. The third-party partner is committed to provide approximately $1,000,000 in each of the following two years to complete the project. The construction is expected to be completed in 2023 at a total cost of approximately $4,700,000. The partner is entitled to a 22% return on the outstanding capital upon the commencement of operations. Under the contractual arrangement with the third party partner, the Group has a majority representation on the entity's board of directors and the Group's approval is required for all major operational decisions. At the end of the fourth annual period, the partner is entitled to a 100% capital return. The EIR is 11% and the interest accumulated on the contributed amount totalled $303,000 at 30 June 2020. *PBE IPSAS 38.24*

The Group is effectively guaranteeing the returns to the third-party partner. On completion of the construction, the operations of Local Fire Equipment Test Lab Limited will be solely carried out by the Group.

PBE IPSAS 38.12(a)
PBE IPSAS 38.14
PBE IPSAS 38.21

Based on the contractual terms, the Group assessed that the voting rights in Local Fire Equipment Test Lab Limited are not the dominant factor in deciding who controls the entity. Also, it is assessed that there is insufficient equity financing ($200,000) to allow the entity to finance its activities without the non-equity financial support of the Group. Therefore, the Group concluded Local Fire Equipment Test Lab Limited is a structured entity under PBE IPSAS 35 and that the Group controls it with no non-controlling interests. The voting shares of the third-party partner are accounted for as a financial liability. Therefore, Local Fire Equipment Test Lab Limited is consolidated in the Group's consolidated financial statements. The shares of the third-party partner are recorded as a long-term loan and the return on investment is recorded as interest expense.

Appendix 15: PBE IPSAS 38 illustrative disclosures not included in this publication *continued*

xx Group information

Controlled entities

The financial statements of the Group include the following controlled entities:

Name of controlled entity	Country of incorporation	Percentage equity interest 2020	Percentage equity interest 2019	Council Carrying value of investment (at cost) 2020 $000	Council Carrying value of investment (at cost) 2019 $000	
						PBE IPSAS 34.20(b) PBE IPSAS 38.17(a)(i)
Local Port Limited	New Zealand	100%	92.6%	10,975	9,986	
Local Museum Trust	New Zealand	100%	100%	300	300	
Local Fire Equipment Test Lab Limited	New Zealand	100%*	-	675	-	
Local Property Management Limited	New Zealand	85%	-	7,919	-	
Local Port Services Limited	New Zealand	48%	48%	48	48	
				19,242	10,334	

* The Group holds 20% of the equity in Local Fire Equipment Test Lab Limited, but consolidates 100% of this entity. See Note xx for details on interest held in Local Fire Equipment Test Lab Limited.

15.2.2. Disclosures of the Group's interest in unconsolidated structured entities

Commentary

Given the increased risk associated with structured entities that an entity is involved with, but does not consolidate, PBE IPSAS 38 requires several additional disclosures.

The below is an example of illustrative disclosures in relation to the Group's interests in the unconsolidated structured entities (PBE IPSAS 38.40-48).

Type of asset in unconsolidated entity	Total income for the year ended 2020 $000	2019 $000	2018 $000	PBE IPSAS 38.44(b)
Collateralised debt obligations	1,025	820	697	
Residential mortgage-backed securities	6,055	1,844	4,117	
Commercial mortgage-backed securities	878	703	597	
Assets under lease	332	265	226	
Credit card receivables	189	151	128	
	8,479	6,783	5,765	

Type of asset in unconsolidated entity	Carrying amount of assets transferred during the year ended 2020 $000	2019 $000	2018 $000	PBE IPSAS 38.44(c)
Collateralised debt obligations	14,650	11,720	9,962	
Residential mortgage-backed securities	86,500	69,200	58,820	
Commercial mortgage-backed securities	12,546	10,037	8,532	
Assets under lease	4,739	3,791	3,223	
Credit card receivables	2,695	2,159	1,833	
	121,130	96,904	82,370	

Appendix 15: PBE IPSAS 38 illustrative disclosures not included in this publication *continued*

Commentary

When evaluating whether an entity has an interest in a structured entity (to determine if the information required by paragraph 44 of PBE IPSAS 38 is required or not), an 'interest' refers to any contractual or non-contractual involvement that exposes it to variability of returns from the performance of the structured entity. For example, it includes:

- Equity or debt instruments
- Provision of funding, liquidity support, credit enhancement and guarantees
- Any means by which an entity has control, joint control, or significant influence over another entity

However, a typical customer/supplier relationship would generally not be considered an 'interest in another entity'.

Maximum exposure to loss in unconsolidated structured entities
At 30 June 2020

PBE IPSAS 38.46(a)(c)

$000	Maximum exposure to loss					
Type of asset in unconsolidated entity	Total	Investments	Credit guarantees	Liquidity commitments	Carrying amount in statement of financial position	
Originated by XYZ Bank					Assets	Liabilities
Collateralised debt obligations	196	196			196	-
Originated by other entities					Assets	Liabilities
Collateralised debt obligation	6,031	1,856	-	4,175	1,856	(167)
Real estate, credit-related and other investing	6,944	-	248	6,696	-	(285)
Assets under lease	512	43	-	469	43	(2)
Credit card receivables	1,260	1,260	-	-	1,260	-
	14,943	**3,355**	**248**	**11,340**	**3,355**	**(427)**

Commentary

The example above illustrates how an entity might provide the quantitative information required by PBE IPSAS 38.46(a) and (c). However, an entity also needs to disclose the qualitative information required by PBE IPSAS 38, as well as comparative information.

In addition to the disclosures required by PBE IPSAS 38, the entity is required to comply with the disclosure requirements of PBE IPSAS 20 *Related Party Disclosures*.

Key contacts

The EY member firms' Assurance Partners have the courage, integrity and knowledge to help you meet the challenging demands of business and financial reporting considerations consistently.

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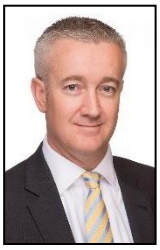

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Simon has extensive New Zealand and international experience working with a range of companies from the manufacturing, logistics, real estate and hospitality sectors. He has worked closely with listed, privately held and entrepreneurial companies. He has governance experience through Board roles and his previous experience of valuations, due diligence and independent appraisals gives a broad appreciation of commercial issues.

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Simon O'Connor is the Managing Partner at Ernst & Young, New Zealand and an Industry Leader in the EY Oceania Leadership Team. He has more than 20 years' experience in New Zealand, San Jose and New York. Simon is experienced in leading and managing the delivery of audit and transaction support services to major organisations, both in New Zealand and internationally, and is focused on providing audit services in the Financial Services, Media, Consumer Products and Telecommunications industries.

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Emma has more than 20 years' experience with EY member firm in New Zealand and Ireland and significant experience in auditing a wide variety of organisations. Emma is a partner in the Auckland Assurance practice at Ernst & Young, New Zealand and is experienced in the financial services industry. Emma's experience includes secondments to EY technical accounting team.

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David works in the International Financial Reporting Standards Professional Practice team at EY providing advice on the application of accounting standards across a range of technical topics and industries. David's areas of expertise include insurance, banking and capital markets. Prior to re-joining EY in 2011 David worked in London both for EY and an international investment bank. David currently leads EYs Asia Pacific Insurance subject matter group.

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David has experience leading the assurance and accounting services in New Zealand, London and Dublin. His experience includes coordinating assurance services for large multinationals spread across countries that have different accounting and legislative requirements. He currently provides assurance services to organisations across a wide range of sectors including Insurance, Technology and Media, Government and Public Sector and Not for Profit.

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Sam is a partner at Ernst & Young, New Zealand in the Wellington Office with more than 13 years experience working for EY member firm. He has served a range of clients including listed companies, multinationals, private businesses and public sector entities providing assurance and advisory services.
Sam has experience in a broad range of industries including technology, banking, asset management, aged care, energy and government estate.
Sam has extensive experience in accounting and auditing of valuations of financial instruments and non-financial assets.
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Lara has worked in the Financial Accounting Advisory Services team providing advice on the application of accounting standards across a range of technical issues and industry sectors for the past 14 years. Lara's areas of knowledge include income taxes, share-based payments, financial instruments and public benefit entity (PBE) Accounting. During her time with EY, Lara spent 2 years on the staff of the International Accounting Standards Board in London. Lara currently represents EY on the New Zealand Accounting Standards Boards Technical Reference Group.

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John has extensive audit experience working with a range of companies from issuers and large corporates through to private clients and not for profit organisations. His portfolio consists of clients from the agribusiness and technology sector and related manufacturing. John has audited numerous NZ IFRS compliant financial statements and provides IFRS and technical advice to clients. His clients include a number of US owned companies making John familiar with Sarbanes Oxley regulations and associated audit procedures along with US GAAP reporting.

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Bruce's clients range from significant New Zealand FMC Act registered groups, to foreign controlled companies and large family owned groups. As the most experienced Agri sector audit partner at Ernst & Young, New Zealand, Bruce understands the complexity of the sector and the significant current and future challenges the sector faces.

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Brendan brings over 15 years' experience in auditing clients both in New Zealand and internationally in a wide range of industries and from significant New Zealand FMC Act registered groups to family owned businesses. Brendan is currently focused on providing audit services in the Aged Care, Consumer Products, Agriculture and Manufacturing industries.

APAC no. NZ00001110
ED None