

Part C Financial Statements and Supporting Information



Section 1 Financial Statements

long term financial management

The long term financial management goal is:

To achieve Council's long term aspirations as identified in the Ten Year Plan in a prudent manner by using councils financial management principles in a way that promotes the current and future interest of the community.

Financial management principles

Principle	Description
Integration	Council financial policies and practices will support the overall package of service levels and policy decisions taken.
Sustainability	Financial management policies and practices will be designed and operated in a way that delivers the agreed levels of service over the life of the asset, or period of the plan (for non-asset activities).
Robustness	Financial policies and practices will be based on current and forecast information that is complete, accurate, and based on the best information about the future circumstances available to your local authority.
Clarity	Financials information will be understandable to the 'reasonably informed' reader, and be understandable to the 'person in the street'.
Transparency	Financial policies and practices will demonstrate understanding of the 'what', 'why' and the 'how' questions of financial management.



long term financial management cont.

Objectives	Actions
Revenue	
Ensure future revenue levels can maintain current service levels while providing for inter-generational equity and funding consistent with the long term debt objective.	<ul style="list-style-type: none"> ■ Adopt prudent funding and financial policies to provide predictability and certainty about sources and levels of funding. ■ Ensure transparent decision making processes are in place to allow choices to be made about activities Council undertakes and funds. ■ Identify corporate-wide strategies/initiatives that add value to achieving community outcomes and/or make continuous efficiency gains.
Ensure revenue is sufficient to meet operating expenditure with predictability and certainty about sources and levels of funding.	<ul style="list-style-type: none"> ■ Recover an appropriate share of costs from users of services after taking into account factors such as fairness, equity, wellbeing and ability to pay, as scheduled in Council's revenue and Financing policy. ■ Maintain a long term consistent level of rating that keeps rates increases as close as possible to CPI and growth after factoring in the current generation's contribution towards major capital improvements. ■ Maintain long term stable price paths directed at ensuring infrastructure is provided with sufficient quality and capacity, when needed, at sustainable prices.
Expenses	
Ensure expenses are recognised to maintain agreed service level requirements.	<ul style="list-style-type: none"> ■ Maintain the capacity to provide agreed levels of service to meet the community's aspirations in economic, environment, social and cultural areas, balanced with the reality that Council has access to limited resources. ■ Maintain a focus on costs through ongoing procurement category reviews and an active supplier management programme.
Debt	
Recognise the need to take a long term (at least 10 years) view of debt levels and risk management strategies to ensure financing costs are minimised and sustainable, given revenue levels available to the Council.	<ul style="list-style-type: none"> ■ Manage total debt at prudent levels that comply with the Treasury policy (interest below 15% total income; net cashflow from operating activities exceeds interest expense by two times; no more than \$60 million or 50% of total debt refinanced in one year and total debt < 20% of total assets).
Net Worth	
Continue to increase net worth for current and future generations.	<ul style="list-style-type: none"> ■ Maintain asset infrastructural networks at sustainable levels now and into the future, to ensure the district has appropriate capacity and quality of assets at the right time and in the right place. ■ Balance the budget on a Council-wide basis each year by maintaining loans, rates and other revenue increases within the above policy constraints. Any years not meeting the above policy constraints will have formal approval by council for any exception to the above general policies.

balanced budget requirement and prudence

Balanced budget requirement and prudence

Section 100 of the Local Government Act 2002 requires council to budget each year for operating revenues at a level sufficient to meet the operating expenses budgeted for that year. This has become known as the balanced budget requirement.

The Local Government Act 2002 goes on to say that council may budget for a deficit if it resolves that it is financially prudent to do so having regard to the four matters outlined in s100(2).

Section 100 local government act 2002 balanced budget requirement –

- (1) a local authority must ensure that each year's projected operating revenues are set at a level sufficient to meet that year's projected operating expenses.
- (2) despite subsection (1), a local authority may set projected operating revenues at a different level from that required by that subsection if the local authority resolves that it is financially prudent to do so, having regard to –
 - (a) the estimated expenses of achieving and maintaining the predicted levels of service provision set out in the long-term council community plan, including the estimated expenses associated with maintaining the service capacity and integrity of assets throughout their useful life; and
 - (b) the projected revenue available to fund the estimated expenses associated with maintaining the service capacity and integrity of assets throughout their useful life; and
 - (c) the equitable allocation of responsibility for funding the provision and maintenance of assets and facilities throughout their useful life; and
 - (d) the funding and financial policies adopted under section 201.

Council is projecting operating surpluses for each year of the 2009-19 Ten Year Plan, which means that Council is technically complying with the requirements of Section 100 Local Government Act 2002. However, included in the operating revenue figures is projected income which is to fund specific capital projects. If the funding for these capital projects is deducted Council has operating deficits (see overleaf).

Council believes it has set its revenue prudently, which ensures:

- Assets are adequately maintained throughout the period of the Ten Year Plan.
- Levels of service are maintained.
- There is intergeneration equity between current and future ratepayers.
- Consistent with recommendations in Shand report.



balanced budget requirement and prudence

The following table shows the annual operating surplus/(deficit) to 2019 after deducting the funding for capital projects:

For the year ending 30 June (\$000s)	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Surplus	13,810	23,694	26,705	23,999	19,765	25,737	20,767	21,367	20,333	20,347
Add back half share roading depreciation	2,494	2,901	3,003	3,076	3,371	3,642	3,706	4,107	4,272	4,395
	16,304	26,595	29,708	27,075	23,136	29,379	24,473	25,474	24,605	24,742
Less Capital Revenue										
Capital Contributions	20	4,020	7,970	2,020	20	20	20	20	20	20
Development Contributions	2,512	3,244	4,140	4,684	5,594	6,219	6,888	7,095	7,308	7,527
Grants Subsidies & Donations Capital	12,821	14,467	9,665	10,177	11,050	3,830	254	1,329	1,329	5
Capital Rates for Sewerage Schemes	255	226	3,684	4,988	1,979	429	3,510	3,324	2,055	2,840
Land Transport NZ Capital Revenue	2,877	6,830	3,954	3,369	2,812	16,459	9,337	7,567	5,159	3,185
Financial Contributions	600	618	637	656	675	696	716	738	760	783
	19,086	29,406	30,049	25,894	22,130	27,652	20,726	20,073	16,632	14,360
Vested Assets	1,790	1,843	1,898	1,955	2,014	2,075	2,137	2,201	2,267	2,335
Operating Surplus/(Deficit) excluding capital revenue	(4,571)	(4,654)	(2,240)	(774)	(1,008)	(348)	1,610	3,200	5,706	8,047

significant forecasting assumptions

Introduction

In preparing any forecasts, both financial and non-financial, there is a need to provide assumptions to address the uncertainties of the future. This is important for a number of reasons, including:

- allowing the reader of the forecasts to understand the basis that financial information has been prepared on.
- providing a means of explaining differences that will inevitably occur between the actual result and that which was forecast.
- ensuring risks faced by the organisation in the future have been appropriately identified and evaluated.

The following societal trends have been used as a basis for preparing the draft ten year plan:

- There will be an increasing proportion of Maori residents
- Rotorua's population will become more multi-cultural, including increases in residents from Pacific Islands and Asia over the next twenty years.
- The number of people aged 75 and over is expected to increase over the next twenty years
- More than half of Rotorua's young people are of Maori descent and this is expected to continue though the number of young people in the district is expected to decrease over the next twenty years.

The purpose of this section is to:

- comment on the process used to develop assumptions
- analyse legislation
- understand best practice
- set out the major assumptions
- outline any continuous improvement that may be required.

Integrated Risk Management (IRM)

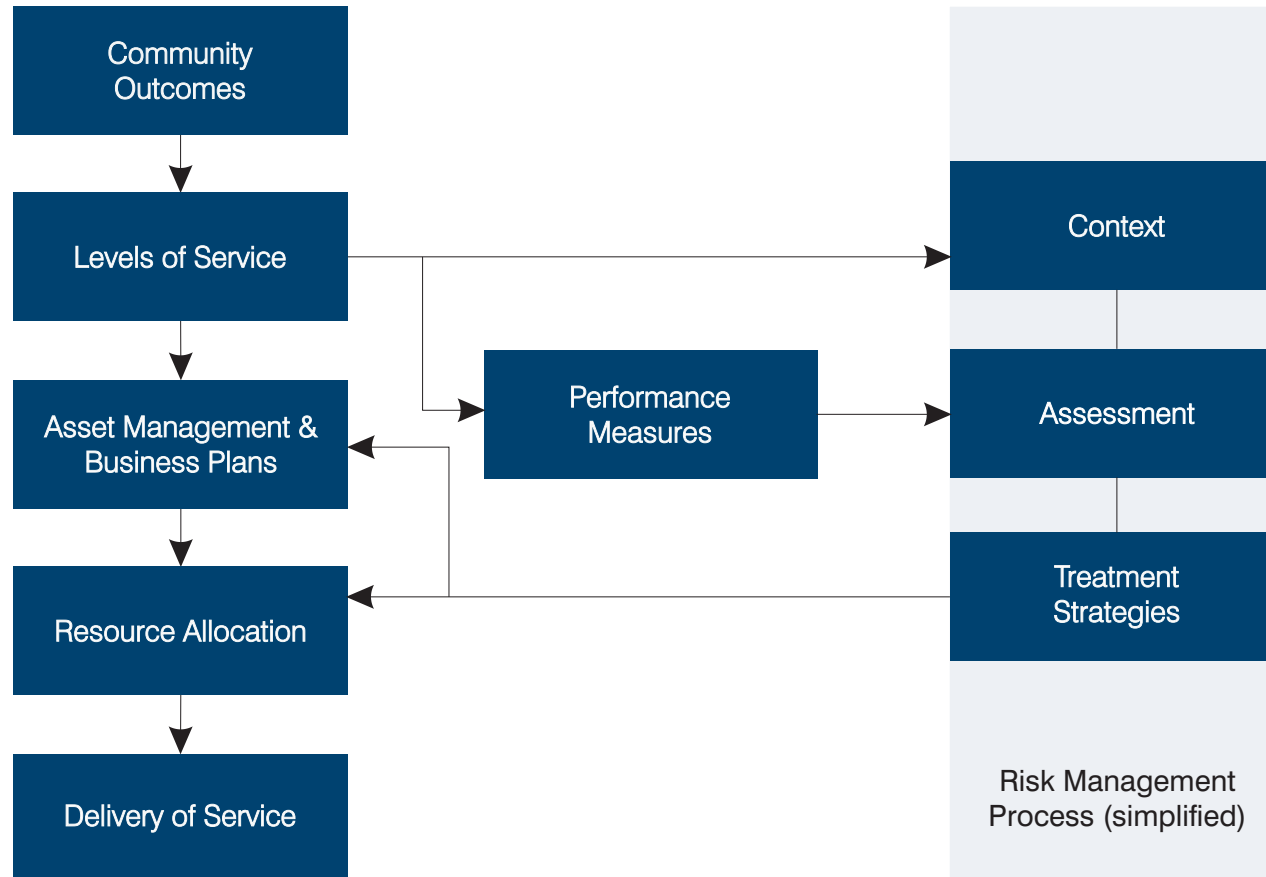
Council has adopted an Integrated Risk Management (IRM) framework and process as the means for managing risk within the organisation. The IRM process and framework is intended to demonstrate responsible stewardship by RDC on behalf of its customers and stakeholders. It ensures that risk is managed from an organisational perspective, facilitating the effective and transparent allocation of resources to where they will have most affect on the organisation successfully in delivering its services. The process is integrated into the 2009–19 Ten Year Plan as illustrated in Figure 1.

The strategic goal is to integrate risk management into Council's organisational decision making so that it can achieve its strategic goals cost effectively, while optimising opportunities and reducing threats.



significant forecasting assumptions cont.

Figure 1: IRM within the Ten Year Plan process



significant forecasting assumptions cont.

Summary of Significant Assumptions

The following assumptions have been used in preparation of estimated financial statements in this Ten Year Plan.

Assumptions, Risks and Uncertainties for 2009 - 2019 Ten Year Plan Risk assessment Matrix				
No.	Assumption	Likelihood	Consequence	Overall Risk
1	Useful lives of significant assets	Unlikely	Minor	Low
2	Sources of funds for the future replacement of significant assets	Very unlikely	Medium	Moderate
3	Projected growth change factors	Possible	Minor	Moderate
4	Cost factors	Possible	Medium	High
5	Subsidy rate	Very unlikely	Medium	Moderate
6	Revaluation of non-current assets	Possible	Medium	High
7	Forecast return on investments	Unlikely	Negligible	Negligible
8	Expected interest rates on borrowing	Possible	Medium	High
9	Depreciation rates on planned asset acquisitions	Unlikely	Minor	Low
10	Resources consents	Possible	Medium	High
11	Currency movement and related asset values	Likely	Negligible	Low
12	Renewability or otherwise of external funding	Very unlikely	Medium	Moderate
13	Other statements relied upon in preparing the forecast financial statements	Unlikely	Minor	Low
14	Representation and governance arrangements	Possible	Minor	Moderate
15	Legislative demands on council resources	Possible	Medium	High
16	Levels of services	Unlikely	Medium	Moderate
17	Demand for services	Possible	Minor	Moderate
18	Contractor service failures	Very unlikely	Negligible	Negligible
19	Methods of services delivery	Possible	Minor	Moderate
20	Information Technology disasters	Possible	Medium	High
21	Public/private partnerships	Unlikely	Minor	Low
22	Airport development	Possible	Medium	High
23	Procurement review	Very unlikely	Medium	Moderate
24	Climate change	Unlikely	Medium	Moderate
25	Emissions Trading	Unlikely	Medium	Moderate

significant forecasting assumptions cont.

Forecasting Assumptions Commentary

1. Useful lives of significant assets

Assumption

Council holds a number of assets that are significant to its operations and provision of services. These include water supplies, waste water, parks and reserves, storm water, airport, roads, library, museum, buildings, plant and equipment. The assumption is that assets will function as expected for the duration of their estimated useful lives. The useful lives of these assets are referred to in Council's Statement of Accounting Policies and are summarised below for the reader's convenience.

Assets	Years
Water supplies	15 to 100
Waste water	10 to 110
Parks and reserves	15 to 100
Storm water	70 to 100
Airport	10 to 50
Roads	15 to 100
Buildings	50
Plant and equipment	3 to 50

Risk

The risk is that the assets will not last as long as forecast and will need replacement earlier than forecast.

There will always be some uncertainty as to exactly how long an asset will last before it is required to be replaced or alternatively becomes obsolete. The uncertainty applies equally to assets that are estimated to last 4 years, such as

computers, as it does for a water main that is estimated to have a useful life of around 45 years, although the reason for failure will obviously be different. Professionally qualified staff and consultants have been engaged over the years to advise on this risk. The risk is now well understood and considered to be low.

2. Sources of funds for the future replacement of significant assets

Assumption

Significant assets are those assets that are considered strategic in Council's Policy on Significance and include:

- roading network
- wastewater network and treatment plant
- water supply network
- stormwater network
- district library, museum, pensioner housing, community halls, event facilities, international stadium, aquatic facilities, parks and reserves, nursery, cemeteries and crematorium
- shares in Rotorua Regional Airport Limited
- Rotorua Regional Airport infrastructure
- waste management infrastructure consisting of:
 - Rotorua Landfill
 - In-Town Recycling Centre
 - transfer stations

The major sources of funding for replacement of significant assets are:

- General rates
- Targeted rates for water supplies, sewerage schemes, landfill, etc
- Development and financial contributions
- Subsidies
- Grants
- Other operating revenue
- Previous year's surpluses.

The exact mix of these funding sources is dependent on a number of factors. The two main factors are:

- Whether the asset replacement creates additional capacity and where contributions from developers are appropriate.
- Council's approach to the overall level of corporate debt and whether a contribution through rates or debt is appropriate.

The details of asset funding are included in the Asset Activity Statement and Funding Impact Statement.

Risk

The risk is that there will be insufficient funds available from the correct sources to fund replacement of the significant asset.

This risk will be relatively low over the next 10 years because Council has advanced level Asset Management Plans (AMPs) for all infrastructure ie significant assets. Within these AMP's are capital renewal/replacement programmes. These renewals are all included in the financial forecasting models which then go to determine the cost of services, and hence funding arrangements for each activity.

A new funding source Council is increasingly using is private sector and philanthropic grants made over a number of years. There is a risk that this funding will not be available at the time agreed to by Council and the donor. This risk applies more to funding of new assets rather than replacement of existing significant assets. The assumptions around this type on funding are discussed under the Rotorua Partner Programme assumption.

significant forecasting assumptions cont.

3. 2008 Growth Assumptions

Assumption

The 2008 Growth Assumptions developed by Council provide estimates of growth over the next 42 years to 2051. They provide for an increase in the district's population, new residential dwellings, more visitors to the district and additional industrial retail land.

In order to prepare the 2008 Rotorua Growth Assumptions, the district was analysed in a number of planning units. Drivers for growth, both positive and negative, were then developed. The resultant aggregate growth for the district was then tested against other known estimates such as Statistic New Zealand forecasts.

Readers can refer to the 2008 Rotorua Growth Assumptions for more details, in particular the boundaries of planning units and model methodology.

Risk

There are a number of risks associated with this assumption, including:

- i. that population will be higher or lower than projected
- ii. that the number of new dwellings will be higher or lower than projected
- iii. that visitor numbers will be different from the assumptions
- iv. that the increase in the rating base will be different from the assumptions
- v. that there will be insufficient industrial and retail land zoned and available to meet the district's economic demand.

% growth in Population and Household Unit Equivalents (HUEs) for the period 2006 to 2019 extrapolated from the 2008 Growth Assumptions

	Population	Dwellings (in HUEs)	Employment Land (in HUEs)	Retail Land (in HUEs)	Visitor Nights (in HUEs)	Total HUEs
City	-2%	4%	3%	3%	9%	4%
Eastern Suburbs	36%	32%	3%	3%	9%	25%
Rotokawa	7%	10%	3%	0%	9%	7%
Eastern Lakes	10%	6%	0%	3%	9%	7%
Rural	0%	5%	3%	3%	9%	4%
Northern	28%	31%	0%	0%	9%	30%
Established Lakeside Settlements	7%	14%	0%	0%	9%	13%
Hamurana	12%	19%	0%	0%	9%	17%
Ngongataha	-1%	4%	3%	3%	9%	4%
Total district growth	4%	9%	3%	3%	9%	7%



significant forecasting assumptions cont.

Adjusters: % per annum change

Years ending 30 June:	2011	2012	2013	2014	2015	2016	2017	2018	2019
BERL adjusters									
Roading	2.9%	2.9%	2.4%	2.3%	2.2%	2.3%	2.4%	2.4%	2.2%
Property	3.1%	2.6%	2.8%	2.8%	2.9%	3.0%	2.6%	2.2%	2.3%
Water	3.0%	2.8%	2.7%	3.3%	2.9%	3.5%	3.1%	3.2%	3.3%
Energy	2.3%	2.6%	3.0%	2.9%	3.3%	3.3%	3.3%	3.4%	3.5%
Staff	2.7%	2.7%	2.5%	2.5%	2.5%	2.6%	3.2%	2.7%	3.1%
Other	3.3%	2.3%	2.4%	2.1%	2.2%	2.3%	2.3%	2.4%	2.5%
Pipelines	3.2%	3.1%	3.2%	3.1%	3.2%	3.8%	3.9%	3.5%	3.6%
Earthmoving	3.5%	3.4%	3.4%	3.7%	3.8%	3.4%	3.1%	3.2%	3.3%
Labour (Private sector)	3.2%	2.5%	2.4%	2.4%	3.4%	2.6%	2.6%	2.7%	2.3%
Other adjusters									
CPI	3%	3%	3%	3%	3%	3%	3%	3%	3%

4. Cost Factors

Assumption

In preparing financial estimates for the 2009-2019 Ten Year Plan there is a requirement to comply with Generally Accepted Accounting Practice (GAAP). New Zealand International Financial Reporting Standards (NZIFRS) requires prospective financial information to be prepared based on best estimates. Best estimates are what Council realistically expects to eventuate. To be supportable, best estimate assumptions need to be based on known events and the prevailing economic environment. This effectively means that financial statements need to include inflation over the ten years of the budget.

To ensure GAAP compliance, Business and Economic Research Ltd (BERL) price adjusters (see above table) have been used to prepare the financial statements and activity plan budgets.

Risk

The risk is that the actual price of inputs and outputs in the financial statements will not change at the rate assumed in this assumption, and that the actual cost of services and value of assets and debt, will be higher or lower than that included in the 2009-2019 Ten year Plan, at any time during the next ten years.

significant forecasting assumptions cont.

5. Subsidy Rate

Assumption

Council receives subsidies from New Zealand Transport Agency (NZTA) for local roads within the district. This subsidy is termed Financial Assistance Rates (FARs) and is arrived at using criteria such as district valuation, kilometres of roads, and other 'ability to pay' measures. Current Council FARs are:

Financial Assistance Rates	%
General maintenance	46
Emergency works	46
Capital expenditure	56
Strategic studies	75
Renewals	46
Community assistance	75

It is assumed that these FARs will continue for the period of the Ten Year Plan.

Risk

The risk is that the FAR will be reviewed downward due to either the current criteria or a national review of the FAR model



significant forecasting assumptions cont.

6. Revaluation of non-current assets

Assumption

The measurement base for perspective financial information is historic cost modified for revaluation of certain assets. Each category of assets is revalued every three years using the following rolling programme.

Valuation adjusters for rolling revaluations	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Water supplies	13.0%			22.9%			35.1%			43.8%
Parks and reserves	5.0%			14.2%			24.5%			33.6%
Land	5.0%			14.2%			24.5%			33.6%
Buildings	5.0%			14.2%			24.5%			33.6%
Roads		11.6%			20.3%			28.8%		
Stormwater		9.9%			20.6%			34.1%		
Footpaths, street lights, meters etc			14.8%			23.0%			31.9%	
Landfill			11.1%			20.8%			30.6%	
Waste water schemes			13.4%			24.4%			38.8%	

*Source: BERL report

The assumption is that the estimated revaluation of certain assets will not be materially different to the actual revaluations at the time of the revaluation.

Risk

The risk is that there will be a material difference between the revaluation of assets as estimated in this Ten Year Plan and the actual 3-yearly revaluations on a rolling basis.

significant forecasting assumptions cont.

7. Forecast return on investments

Assumption

This assumption relates to short term cash investments held by Council. It does not refer to the shareholding in Rotorua Regional Airport Ltd which has its own separate assumptions.

It is assumed cash investment will net 5.5% return on short term cash investments over the duration of the 2009-19 Ten Year Plan. Although the interest earned on short term cash investments will fluctuate considerably over the 10 years to 2019, it is not considered material and so a single assumption for all of the ten years has been used.

Risk

The risk is that Council will obtain lower returns on its cash investments.

8. Expected interest rates on borrowing

Assumption

Council has an actual portfolio of fixed interest rate debt that matures at various times over the next 6 years. The weighted average cost was 7.4% at November 2008. As these loans mature they will be refinanced at lower rates.

In addition Council has a large capital expenditure programme for:

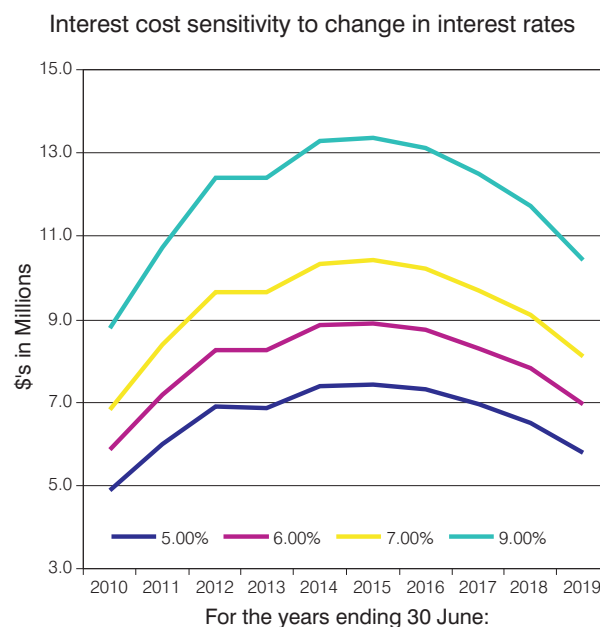
- lake shore sewerage schemes
- upgrade and extension of Rotorua Regional Airport
- other renewal works, backlog, increased LOS and growth that will be financed in part with new debt.

It has been assumed that this debt can be raised with a weighted average rate of 7.0%.

Risk

The risk is that interest rates will be in excess of the 7.0% assumption.

Over recent years Council has improved the sophistication of its treasury management and now has better risk management tools to ensure it is able to make best use of opportunities to minimise the cost of debt.



This graph shows the effect of changing interest rates across a four percent range. The graph shows that if the borrowing program proposed in the Ten Year Plan is followed and interest rates were to reach 9% Council's interest cost would be \$13.4 million in 2015 and correspondingly be as low as \$7.4 million in that same year if the interest rate were to drop to 5%.

9. Depreciation rates on planned asset acquisitions

Assumption

Depreciation rates used for assets planned to be acquired or built over the next ten years have been calculated on the expected life of the respective asset. These are set out in the Statement of Accounting Policies relating to assets.

Risk

The risks are that the assets' life may be longer or shorter than that assumed in the Ten Year Plan.

10. Resource consents/designations

Assumption

Council will need to apply for numerous resource consents, designations etc, for new projects over the next ten years. Major activities that will require consents (or district plan change) are:

- Land fill extension
- Airport operations
- Water supply sources
- Transfer station sites.
- New cemetery site
- Rooding

It is assumed that all necessary consents will be granted when required with reasonable conditions.

significant forecasting assumptions cont.

Risk

The risk is that consents:

- will take longer to be granted and therefore not be available at the time identified within the Ten Year Plan for commencement of the development,
- will include conditions that are more onerous than anticipated and the development becomes substantially more expensive, potentially to the extent that it becomes uneconomic to proceed,
- are not granted.

11. Currency movement and related asset values

Assumption

It is assumed that currency exchange rates, particularly US and Australian dollars, will not fluctuate significantly during the period on the Ten Year Plan. The exchange rates used is the BNZ 10 year average as at January 2009.

NZD is 0.57 cents USD
NZD is 0.86 cents AUD

This assumption applies to the purchase of refuse collection bags which are quoted for supply in USD. Much of the new library book purchases, some computer software, accommodation and expenses associated with overseas travel, are in USD. Council has no exposure to currency movement risk in respect of significant assets or liabilities. All revenue from significant assets is received in NZD.

Risk

The risk is that the currency movement will be volatile and in an unfavourable direction relative to the NZD.

12. Renewability or otherwise of external funding

Assumption

It is assumed that Council's portfolio of debt, which has differing maturity dates from 1 to 6 years and new funding required, will be raised on favourable terms.

Risk

The risk is that Council will not be able to raise new debt to repay maturing debt on favourable terms.

13. Other statements relied upon in preparing the Forecast Financial Statements

Assumption

A comprehensive review and update of the Policy Manual was undertaken three years ago to include new policies, remove obsolete policies or those that relate to operational matters, and remove matters that simply restated statutes or other similar external documents.

The assumption is that all of Council's, and other organisations' policies, plans and strategies that are relevant to the Ten year Plan have been applied accurately and consistently.

Risk

The risk is that that not all Council's and other organisations' policies, plans and strategies that are relevant to the Ten Year Plan, will be applied accurately and consistently.

14. Democracy

Assumption

It is assumed that the representation and governance structures currently in place will continue in their present form for the ten year period, ie, no change to the number or type of units of local government in the Bay of Plenty.

Risk

The risk is that the estimated cost of democracy will increase as a result of any representation review.

15. Legislative Demands on Council Resources

Assumption

Over the past decade there has been a substantial increase in the level of delegation from central government to local government through legislative reforms. In almost all cases there has been no funding provided to develop the policy and/or deliver these new services. This has meant that the services have had to be funded from efficiency gains, local user charges, and an increase in rates, or combination of all these mechanisms. In some instances there has been a need to increase resources, such as staff, consultants and contractors.

Examples of recent new costs include: legislative changes to the Building Act, registration and inspection of brothels, and the rates rebate scheme.

The assumption is that any legislative reform or amendments will not require Council to assume responsibilities that require additional resources and hence additional cost.

Risk

The major risk is that there will be significant change to legislation that will cause a material change in operations and costs.

significant forecasting assumptions cont.

16. Levels of Service

Assumption

The level of service delivered within each activity determines the overall cost of that service. It is assumed that the levels of service proposed in the Ten Year Plan will not vary significantly over the period of the Plan.

Risk

The risk is that there will be demand for an increase in level of service for activities that will have a significant financial impact, or that unplanned new services will be introduced.

17. Demand for Services

Assumption

The assumption is that Council has accurately estimated the demand for each service within activity plans.

Risk

The risk is that demand for services will be significantly different to that estimated over the period of the Ten Year Plan.

18. Contractor Service Failures

Assumption

Most of Council's capital works are undertaken by the private sector through contractual arrangements, using a competitive tendering process. As part of that tendering process, tenderers are required to have previous experience, track record, and appropriate resources. These matters are all taken into consideration when appointing contractors to undertake work for Council. The assumption is that contractors engaged to provide service will do so within the agreed standards, on time and within price.

Risk

The risk is that contractors will not deliver services and/or products to the agreed standard/specification within time and the agreed cost.

19. Methods of Service Delivery

Assumption

This assumption has been included for completeness only and is not really of material matter in terms of the effect of its uncertainty on the financial estimates. The assumption is that the methods of service delivery will continue over the period of the Ten Year Plan. However, Council is continually reviewing methods of service delivery and where an alternative proves to be more cost effective, improves level of service, or reduces risk, that will be explored and implemented.

Risk

The risk is that new methods of service delivery will be implemented increasing costs, reducing services and adding risk.

20. Information Technology Disasters

Assumption

Council runs a complex business and has a statutory responsibility to capture and retain data. In addition, Council needs to be able to provide technology support for some 86 different businesses. Without the support of Information and Communication Technology (ICT) infrastructure many of Council's services could not be provided. The assumption is, in the event of an ICT disaster, all services will continue to be provided and alternative support is available. There are a range of mitigation measures adopted by Council to further reduce the likelihood of a major disaster including:

- sharing servers with other local authorities, such as at the library

- a server virtualisation project that allows servers to be replicated in the event of a failure of any one of the servers
- the OZONE platform which is used by 15 other local authorities which would provide a level of support
- server room environment optimised for long life of servers
- hardware renewal programme that ensures replacement before failure.

Risk

The risk is that in the event of an ICT disaster, services provided by Council will not be able to be delivered.

21. Public/Private Partnerships

Assumption

In recent times Council has built relationships with private organisations to help deliver services, fund infrastructure and promote policy. Council has a public/private partnership policy as required under the Local Government Act that includes the following:

- governance
- funding
- management and operations
- protection of the wider public interest
- specific risk management mechanisms
- termination/exit arrangements

Although not specifically covered by Council's partnership policy, there has been a significant engagement with philanthropic and private sector businesses to develop the 'Rotorua Partners Programme'. This has led to the development of a significant new asset for the community in the Energy Events Centre.

The assumption is that partnerships with the private sector will endure over the term of the agreements.

Risk

The risk is that public/private partnerships over extended periods of time may not endure.

significant forecasting assumptions cont.

22. Airport Development

Assumption

Council owns the Rotorua Regional Airport infrastructure including land, runways, buildings and their fit-out. The asset is then leased to Rotorua Regional Airport Ltd (RRAL) through a long-term operation lease which has provision for lease payments back to Council that are based on either RRAL's turnover or net profit.

Council has made a significant funding commitment to the airport development to make the airport trans-Tasman capable. It is expected that runway lengthening and strengthening capital works will be completed and available for use by September 2009.

There are a number of assumptions associated with this investment. However the main assumptions are around the demand for trans-Tasman services by both passengers travelling from Australia to Rotorua and passengers from the wider Bay of Plenty catchment travelling to Australia. Airline demand is difficult to gauge because airlines are not inclined to provide any contractual commitment until the airport is trans-Tasman capable. Passenger demand is easier to determine. A Rotorua Regional Airport Trans-Tasman Demand and Economic Impact Assessment was undertaken in 2005 and then again in 2008, and it provides a reasonable level of certainty about the demand for a trans-Tasman service.

The other assumption is that of funding. Whilst the project could be funded entirely from debt raised by Council, it is thought appropriate to make application to Environment Bay of Plenty for some funding from its contestable infrastructure fund. It is also thought equitable to invite the community to assist with funding by way of a share issue. Both these funding sources are new and therefore have some uncertainty.

Risk

The main risk is that airlines will not establish scheduled Trans-Tasman services; passengers from either Australia or the wider Bay of Plenty region will not use the services; and the growth in demand will not occur at the rate provided for over the next 10 years.

Another risk is that funding sources for the airport development will not be secured within the timeframes provided for in the Ten Year Plan. Consequently there will be increased interest costs for the airport activity as the development will be funded from borrowing.

23. Procurement Review

Assumption

The assumption is that the procurement review, currently underway, will provide for more efficient service delivery, more competitive purchasing, and will also generate significant cost savings.

Risk

The main risk associated with this assumption is that the savings will not be realised to the extent provided for in the Ten Year Plan.

24. Climate Change Effects

Assumption

Council acknowledged the findings of the Inter-Government Panel on Climate Change which predicts that during the 21st century New Zealand's climate will be warmed, sea levels will rise, and there will be an increase in extreme weather events such as flooding, droughts and storm surges. Council's future planning will need to recognise the possible impact of climate change and design its infrastructure accordingly.

Risk

The impacts and timeframe of the climate change scenarios are greater or less than Council anticipates, and has planned for, and consequently there will be some negative consequences for residents of the district.

25. Emissions Trading Scheme

Assumption

The Emissions Trading Scheme (ETS) was passed by the previous government. However the new government has indicated it may amend the scheme. Council has included in the Ten Year Plan 2009-19 estimated costs and income (arising from carbon credits) of establishing a gas flaring plant at the landfill, which will operate from 2010 to 2013. However, other possible costs that might arise from the ETS have not been included because of the uncertainty and difficulty in quantifying costs.

Risk

That the ETS (either retained in its present form or amended) will require Council to incur costs on behalf of residents during the period of the Ten Year Plan 2009-19.

purpose of financial statements

Prospective Statement of Comprehensive Income

This statement discloses the net surplus or deficit and their components, arising from activities or events during the year that are significant for assessing past and future financial performance.

Prospective Statement of Changes in Equity

This financial statement presents a measure of comprehensive income. Equity is measured as the difference between the total value of assets and total liabilities. Accumulated Equity represents the community's investment in publicly owned assets resulting from past surpluses.

Prospective Statement of Financial Position

Information about economic resources controlled by Council and its capacity to modify those resources is useful in assessing Council's ability to generate cash and/or provide services in the future. Information about the financing structure is useful in assessing future borrowing needs, and how future surpluses and cashflows may be distributed. The information is also useful in assessing how successful the council is likely to be in raising further finance.

Prospective Statement of Cashflows

This statement reflects Council's prospective cash receipts and cash payments during the year and provides useful information about Council's activities in generating cash through operations to:

- Repay debt; or
- Reinvest to maintain or expand operating capacity.

Statement of Accounting Policies

The accounting policies adopted by Council can have a significant impact on financial and service performance, financial position and cashflows that are reported in its financial reports. Therefore, for an appreciation of those reports, users need to be aware of:

- a) the measurement system underlying preparation of financial reports; and
- b) the accounting policies followed in respect of individual items in the financial reports, especially where there are acceptable alternatives for dealing with such items; and
- c) any changes in the measurement system, assumptions or particular accounting policies.

Notes to the Financial Statements

These provide further explanation of accounting policies adopted by the council and the assumptions used in preparing the financial statements. Some rounding differences may occur.



prospective statement of comprehensive income

A forecast for the 10 years ending 30 June 2019

Description (\$'000s)	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
General Rates	33,828	35,387	37,016	38,908	40,696	42,564	44,516	46,556	48,688	50,916
Total Rates	33,828	35,387	37,016	38,908	40,696	42,564	44,516	46,556	48,688	50,916
Castlecorp Business Unit	148	152	157	162	167	172	177	182	188	193
Corporate Wide	1,790	1,843	1,898	1,955	2,014	2,075	2,137	2,201	2,267	2,335
Environmental & Regulatory	5,282	5,451	5,599	5,764	5,929	6,112	6,279	6,488	6,659	6,884
Governance & Strategic Direction	832	858	886	914	943	973	1,004	1,036	1,070	1,104
Infrastructural	48,536	59,714	61,655	63,815	63,453	70,955	66,902	68,101	66,725	67,326
Social & Cultural	16,027	15,098	11,470	12,815	12,818	12,744	13,237	13,742	14,069	14,286
Tourism & Economic Development	6,444	10,189	16,951	12,238	10,344	10,635	10,848	11,045	11,249	11,459
Less Water by Meter used internally	(174)	(178)	(183)	(188)	(194)	(200)	(207)	(213)	(221)	(228)
Total Other Revenue	78,885	93,127	98,433	97,475	95,474	103,466	100,377	102,582	102,006	103,359
Total Revenue	112,713	128,514	135,449	136,383	136,170	146,030	144,893	149,138	150,694	154,275
OPERATING EXPENDITURE										
Castlecorp Business Unit	148	152	157	192	192	185	374	182	262	193
Corporate Wide	849	874	900	927	955	984	1,013	1,044	1,075	1,107
Environmental & Regulatory	10,249	10,188	10,086	10,259	10,495	10,769	10,981	11,309	11,656	12,032
Governance & Strategic Direction	4,245	4,496	4,429	4,622	4,901	4,923	5,054	5,829	5,262	5,421
Infrastructural	43,633	47,401	50,066	52,807	55,349	58,103	60,478	62,285	64,277	66,212
Social & Cultural	31,299	32,280	33,475	34,306	35,307	36,049	36,907	37,681	38,310	39,338
Tourism & Economic Development	9,474	10,427	10,634	10,279	10,220	10,300	10,346	10,475	10,560	10,673
Less Internal Charges included in Operating Expenses	(994)	(998)	(1,003)	(1,008)	(1,014)	(1,020)	(1,027)	(1,034)	(1,041)	(1,048)
Total Operating Expenditure	98,903	104,820	108,744	112,384	116,405	120,293	124,126	127,771	130,361	133,928
Operating Surplus	13,810	23,694	26,705	23,999	19,765	25,737	20,767	21,367	20,333	20,347
Income Taxation	-	-	-	-	-	-	-	-	-	-
NET SURPLUS	13,810	23,694	26,705	23,999	19,765	25,737	20,767	21,367	20,333	20,347
OTHER COMPREHENSIVE INCOME										
Gains/(Loss) on property revaluation	23,564	40,184	23,195	32,676	32,293	18,984	37,389	33,439	24,519	31,522
Total Other Comprehensive Income	23,564	40,184	23,195	32,676	32,293	18,984	37,389	33,439	24,519	31,522
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	37,374	63,878	49,900	56,675	52,058	44,721	58,156	54,806	44,852	51,869
Footnote 1:- Included in the above Operating Expenditure										
Finance Costs	7,184	9,575	10,973	11,634	11,593	12,183	11,794	11,120	10,379	9,133
Depreciation/Amortisation	23,823	24,856	25,743	26,315	27,715	28,649	28,684	29,463	30,238	31,379
Footnote 2:- Included in the above Revenue										
Remission Costs (netted off total rates)	440	460	480	500	520	540	555	580	600	630

prospective statement of changes in equity

Description (\$000s)	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Opening Equity	787,964	825,339	889,216	939,116	995,791	1,047,851	1,092,570	1,150,726	1,205,532	1,250,383
Net Surplus for the Period	13,810	23,694	26,705	23,999	19,765	25,737	20,767	21,367	20,333	20,347
Asset Revaluation Changes	23,564	40,184	23,195	32,676	32,293	18,984	37,389	33,439	24,519	31,522
	825,338	889,217	939,116	995,791	1,047,851	1,092,570	1,150,726	1,205,532	1,250,383	1,302,252
RATEPAYERS EQUITY										
General Reserves	786,237	822,990	848,799	866,955	891,300	918,688	928,145	939,514	954,480	959,776
Self Funding Accounts	(56,791)	(65,356)	(64,456)	(58,743)	(64,331)	(59,821)	(49,142)	(41,109)	(35,711)	(27,152)
Council Created Reserves	31	33	36	38	41	44	47	50	53	57
Restricted	1,769	562	1,207	1,835	2,302	2,783	3,618	4,253	596	1,336
Revaluation Reserves	99,775	139,959	163,154	195,830	228,123	247,107	284,496	317,935	342,454	373,975
Fair Value Reserve	230	230	230	230	230	230	230	230	230	230
Development Contributions	(5,912)	(9,202)	(9,854)	(10,354)	(9,814)	(16,461)	(16,668)	(15,341)	(11,719)	(5,970)
TOTAL RATEPAYERS EQUITY	825,339	889,216	939,116	995,791	1,047,851	1,092,570	1,150,726	1,205,532	1,250,383	1,302,252

prospective statement of financial position

Description (\$000s)	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
CURRENT ASSETS										
Cash & Cash Equivalents	4,409	2,504	2,950	5,000	4,663	4,621	5,830	8,148	4,583	9,719
Trade & Other Receivables	17,479	19,712	20,616	20,204	20,490	22,904	22,174	22,615	22,797	23,284
Inventories	1,373	1,414	1,456	1,500	1,545	1,591	1,639	1,688	1,739	1,791
TOTAL CURRENT ASSETS	23,261	23,630	25,022	26,704	26,698	29,116	29,643	32,451	29,119	34,794
Less CURRENT LIABILITIES										
Trade and Other Payables	18,954	28,218	27,414	25,731	23,669	24,697	22,637	23,319	25,770	28,176
Provisions	453	467	481	495	510	525	541	557	574	591
Employee Benefit Liabilities	4,427	4,546	4,669	4,786	4,906	5,028	5,159	5,324	5,468	5,637
Current Portion Borrowings	41,091	42,324	43,593	44,901	46,248	47,635	49,065	50,536	52,053	53,614
TOTAL CURRENT LIABILITIES	64,925	75,555	76,157	75,913	75,333	77,885	77,402	79,736	83,865	88,018
WORKING CAPITAL	(41,664)	(51,925)	(51,135)	(49,209)	(48,635)	(48,769)	(47,759)	(47,285)	(54,746)	(53,224)
NON-CURRENT ASSETS										
Trade and Other Receivables	23	24	25	26	26	27	28	29	30	30
Other Financial Assets	2,778	3,078	3,378	3,678	3,978	4,278	4,578	4,878	5,178	5,478
Fixed Assets	961,649	1,054,579	1,110,464	1,163,050	1,221,198	1,258,409	1,303,870	1,345,710	1,378,422	1,408,784
Intangible Assets	1,983	1,983	1,983	1,983	1,983	1,983	1,983	1,983	1,983	1,983
Biological Assets (Forestry)	409	409	409	409	409	409	409	409	409	409
TOTAL NON-CURRENT ASSETS	966,842	1,060,073	1,116,259	1,169,146	1,227,594	1,265,106	1,310,868	1,353,009	1,386,022	1,416,684
LESS NON-CURRENT LIABILITIES										
Long Term Borrowings	97,633	116,707	123,761	121,879	128,826	121,460	110,057	97,838	78,516	58,803
Long Term Provisions	1,486	1,486	1,486	1,486	1,486	1,486	1,486	1,486	1,486	1,486
Employee Entitlements	720	740	760	779	798	818	839	866	890	917
TOTAL NON-CURRENT LIABILITIES	99,839	118,933	126,007	124,144	131,110	123,764	112,382	100,190	80,892	61,206
TOTAL NET ASSETS	825,339	889,216	939,116	995,791	1,047,851	1,092,570	1,150,726	1,205,532	1,250,383	1,302,252
Represented By:										
RATEPAYERS EQUITY										
General Reserves	786,237	822,990	848,799	866,955	891,300	918,688	928,145	939,514	954,480	959,776
Self Funding Accounts (Note 1)	(56,791)	(65,356)	(64,456)	(58,743)	(64,331)	(59,821)	(49,142)	(41,109)	(35,711)	(27,152)
Council Created Reserves (Note 2)	31	33	36	38	41	44	47	50	53	57
Restricted (Note 3)	1,769	562	1,207	1,835	2,302	2,783	3,618	4,253	596	1,336
Revaluation Reserves	99,775	139,959	163,154	195,830	228,123	247,107	284,496	317,935	342,454	373,975
Fair Value Reserve	230	230	230	230	230	230	230	230	230	230
Development Contributions (Note 4)	(5,912)	(9,202)	(9,854)	(10,354)	(9,814)	(16,461)	(16,668)	(15,341)	(11,719)	(5,970)
TOTAL RATEPAYERS EQUITY	825,339	889,216	939,116	995,791	1,047,851	1,092,570	1,150,726	1,205,532	1,250,383	1,302,252

prospective statement of cashflows

Description (\$000s)	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Cash Flows From Operating Activities:										
Cash was provided from:										
Rates*	65,788	69,073	74,973	76,098	80,804	80,555	85,356	87,886	89,728	93,540
General Revenue	44,278	56,168	56,799	52,651	49,025	64,365	54,794	53,504	52,218	51,025
Interest on Investments	60	57	147	176	129	208	54	51	49	46
	110,126	125,298	131,919	128,925	129,958	145,128	140,204	141,441	141,995	144,611
Cash was applied to:										
Payments to Employees & Councillors	32,394	33,241	34,139	35,019	35,927	36,808	37,765	38,986	40,033	41,264
Other Payments	31,974	33,868	35,814	35,164	39,289	36,479	44,611	42,387	40,953	42,909
Interest on Public Debt	7,184	9,575	10,973	11,634	11,593	12,183	11,794	11,120	10,379	9,133
	71,552	76,684	80,926	81,817	86,809	85,470	94,170	92,493	91,365	93,306
Net Cash Flows From Operating Activities	38,574	48,614	50,993	47,108	43,149	59,658	46,034	48,948	50,630	51,305
Cash Flow From Investing Activities:										
Cash was provided from :										
Proceeds from Sale of Fixed Assets	200	206	212	219	225	232	239	246	253	261
	200	206	212	219	225	232	239	246	253	261
Cash was applied to:										
Purchase of Fixed Assets	71,197	71,032	59,083	44,702	52,006	53,954	35,093	36,134	36,652	28,295
	71,197	71,032	59,083	44,702	52,006	53,954	35,093	36,134	36,652	28,295
Net Cash Used In Investing Activities	(70,997)	(70,826)	(58,871)	(44,483)	(51,781)	(53,722)	(34,854)	(35,888)	(36,399)	(28,034)
Cash Flows From Financing Activities:										
Cash was provided from :										
Proceeds from Borrowings	38,724	25,308	21,823	3,000	28,442	48,724	35,308	36,823	3,000	28,442
Cash was applied to:										
Repayment of Borrowings	4,000	5,000	13,500	3,574	20,147	54,702	45,278	47,566	20,796	46,579
Net Cash Used In Financing Activities	34,724	20,308	8,323	(574)	8,295	(5,978)	(9,970)	(10,743)	(17,796)	(18,137)
Net Increase (Decrease) in Cash	2,302	(1,905)	446	2,050	(337)	(42)	1,209	2,318	(3,565)	5,135
Opening Cash Brought Forward	2,107	4,409	2,504	2,950	5,000	4,663	4,621	5,830	8,148	4,583
CLOSING CASH CARRIED FORWARD	4,409	2,504	2,950	5,000	4,663	4,621	5,830	8,148	4,583	9,718

*rates above include both general rates and targeted rates



statement of accounting policies

Reporting Entity

The Rotorua District Council is a Local Authority governed by the Local Government Act 2002 and is domiciled within New Zealand.

The primary objective of Rotorua District Council is to provide goods or services for the community, or social benefit; rather than making a financial return. Accordingly, Rotorua District Council has designated itself and the group as Public Benefit Entities for the purposes of New Zealand equivalents to International Financial Reporting Standards (NZIFRS).

Financial information contained within the Ten Year Plan may not be appropriate for purposes other than those described.

Reporting Period

The reporting period for these financial statements is the ten years ending 30 June 2019. The Ten Year Plan budget figures included in these financial statements are for the Council as a separate entity and do not include budget information relating to the subsidiary. These figures are those approved by the Council at the beginning of the year following a period of consultation with the public as part of the Ten Year Plan process. These figures do not include any additional expenditure subsequently approved by the Council outside the Ten Year Plan process. The Ten Year Plan figures have been prepared in accordance with generally accepted accounting practice and are consistent with the accounting policies adopted by the Council for the preparation of these financial statements.

Statement of Compliance

The financial statements have been prepared in accordance with the generally accepted accounting practice in New Zealand as required under section 111 of the Local Government Act 2002 (LGA), and the Long Term Council Community Plan requirements of section 93 of the LGA. It is audited under section 94 of the Local Government Act 2002.

The financial statements comply with applicable Financial Reporting Standards, which include New Zealand equivalents to International Financial Reporting Standards (NZIFRS). The financial statements incorporated in the Long Term Council Community Plan have been prepared in accordance with Financial Reporting Standard (FRS) number 42; Prospective Financial Statements.

Rotorua District Council is a Public Benefit Entity (PBE) and has applied the PBE exemptions allowable under New Zealand equivalents to International Financial Reporting Standards (NZIFRS).

Accounting Policies

The financial statements of Rotorua District Council have been prepared in accordance with the requirements of the Local Government Act 2002. The financial statements have been prepared in accordance with New Zealand generally accepted accounting practice (NZ GAAP) and comply with NZ IFRS and other applicable Financial Reporting Standards, as appropriate for public benefit entities.

This set of financial statements has prepared based on NZ IFRS and opening balances for the year ended 30 June 2009. Estimates have been reinstated accordingly if required.

The measurement basis applied is historical cost, modified by the revaluation of certain assets and liabilities as identified in this statement of accounting policies.

The accrual basis of accounting has been used unless otherwise stated. These financial statements are presented in New Zealand dollars rounded to the nearest thousand, unless otherwise stated.

Where individual financial statements of subsidiaries, associates and joint ventures of Rotorua District Council are prepared using accounting policies different from those of the group, appropriate adjustments are made on consolidation, in order to ensure that uniform accounting policies have been applied.

Basis of Consolidation

Subsidiaries

For this Ten Year Plan the financial accounts are for the parent only. The Council has not presented group prospective financial statements because the Council believes that the parent prospective financial statements are more relevant to users. The main purpose of prospective financial statements in the Ten Year Plan is to provide users with information about the core services that the Council intends to provide ratepayers, the expected cost of those services and as a consequence how much the Council requires by way of rates to fund the intended levels of service. The level of rates funding required is not affected by subsidiaries except to the extent that the Council obtains distributions from, or further invests in, those subsidiaries. Such effects are included in the prospective financial statements of the Council.

statement of accounting policies cont.

Associates

Associates are entities in which the Council has significant influence, but not control, over their operating and financial policies. The Council's share of the assets, liabilities, income and expenditure of associates is included in the financial statements of the Group on an equity accounting basis. Dividends from associates are recognised in the parent's income statement, while in the consolidated financial statements they reduce the carrying amount of the investment.

Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group. The parent financial statements show investments in associates at cost.

Income

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

Rates Revenue

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

Revenue from water rates by meter is recognised on an accrual basis. Unbilled usage, as a result of unread meters at year-end is accrued on an average usage basis.

Development and Financial Contributions

The Council's development and financial contributions are governed under its development and financial contribution policies. Development and financial contributions are recognised as revenue when Council provides, or is able to provide, the service for which the contribution was charged. Development and financial contributions are classified as part of "Other Revenue".

Grants

Government grants are recognised when claimed on previously approved programmes, or when eligibility has been established by the grantor.

Government grants are received from the New Zealand Transport Agency, which subsidises part of the Rotorua District Council's costs in maintaining the local roading infrastructure. The subsidies are recognised as revenue upon entitlement as conditions pertaining to eligible expenditure have been fulfilled.

Donated, subsidised or vested assets

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

Interest

Interest Income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividends

Dividends are recognised when they are entitled to be received.

Parking Infringements

Parking Infringements are recognised when payment of the ticket is received.

Rental income

Rental income is recognised on a straight line basis over the term of the lease. Lease incentives granted are recognised evenly over the term of the lease as a reduction in total rental income.

Sales of goods

Revenue from the sale of goods is recognised when a product is sold to the customer.

Other income

All other revenue is recognised at the time goods and services are provided.

Donated Services

The Council benefits from the voluntary service of many community minded organisations and individuals in the delivery of its activities and services. Since these services are not purchased by the Council and because of the difficulty of determining their value with reliability, donated services are not recognised in these statements.

statement of accounting policies cont.

Expenses

Grants and Donations

Expenditure is classified as a grant if it results in a transfer of resources to another entity in return for past or future compliance with certain conditions relating to the operating activities of that entity. Grants expenditure includes any expenditure arising from a funding arrangement with another entity that has been entered into to achieve the objectives of the Council. Grants are distinct from donations which are discretionary charitable gifts.

Because grants and subsidies are discretionary until payment, the expense is generally recognised when the payment is made. Otherwise, the expense is recognised when the specified criteria have been fulfilled and notice has been given.

Interest

Interest expense is accrued using the effective interest rate method. The effective interest rate exactly discounts estimated future cash payments through the expected life of the financial liability to that liability's net carrying amount. The method applies this rate to the principal outstanding to determine interest expense each period.

Overhead/Support Services Allocation

Rotorua District Council has derived the cost of service for each Council activity using the following cost allocation system.

Direct costs are those costs directly attributable to a significant activity. Indirect costs are those costs which cannot be identified in an economically feasible manner for a specific Council activity. Direct Costs are charged directly to the Council activities that incur those costs. Indirect costs are charged to Council activities using appropriate cost drivers such as amount of floor space, staff time, direct use when available, volume of records used, level of activity areas supported and percentage of service utilised.

Interest Allocation

Council allocates the net cost of interest, being interest expense less interest income, to its various activities:

- a) Interest is credited to or allocated to self-funding activities based on the average annual balance of the self funding account according to whether the balances are in funds or overdrawn respectively.
- b) The balance of interest is allocated to other significant activities on the basis of the book value of fixed assets employed in the activity.

Leases

Finance Lease Payments

These are leases that transfer to the lessee substantially all the risks and rewards incidental to ownership of an asset, whether or not title is eventually transferred.

At the commencement of the lease term, Rotorua District Council recognises finance leases as assets and liabilities in the Prospective Statement of Financial Position at the lower of the fair value of the leased term or the present value of the minimum lease payments.

The finance charge is charged to the Prospective Statement of Comprehensive Income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability.

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

Operating Lease Payments

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

Rental income from operating leases is recognised on a straight line basis over the term of the relevant lease. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the lease asset and recognised over the lease term on the same basis as the lease income.

Prospective Statement of Cashflows

Operating activities include cash received from all income sources of the Council and record the cash payments made for the supply of goods and services. Agency transactions are not recognised as receipts and payments in the Prospective Statement of Cashflows.

Investing activities are those activities relating to the acquisition and disposal of non-current assets.

Financing activities comprise the change in equity and debt capital structure of the Council.

statement of accounting policies cont.

Cash and Cash Equivalents

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

Bank overdrafts are shown within borrowings in current liabilities in the Prospective Statement of Financial Position.

Trade and other receivables

Trade and other receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

Loans, including loans to community organisations made by the Group at nil, or below-market interest rates are initially recognised at the present value of their expected future cashflows, discounted at the current market rate of return for a similar asset/investment. They are subsequently measured at amortised cost using the effective interest method. The difference between the face value and present value of expected future cashflows of the loan is recognised in the Prospective Statement of Comprehensive Income as a grant.

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

Goods and Services Tax (GST)

All items in the financial statements are exclusive of GST, with the exception of receivables and payables, which are stated as GST inclusive. Where GST is not recoverable as an input tax (e.g. residential housing) then it is recognised as part of the related asset or expense.

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

The net GST paid to, or received from the IRD, including the GST relating to investing and financing activities, is classified as an operating cash flow in the Prospective Statement of Cashflows.

Financial Assets & Liabilities

The Group classifies its financial assets into the following categories: financial assets at fair value through profit and loss, loans and receivables, held-to-maturity investments and financial assets at fair value through equity. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

Financial assets and liabilities are initially measured at fair value plus transactions costs unless they are carried at fair value through Prospective Statement of Comprehensive Income in which case the transactions costs are recognised in the Prospective Statement of Comprehensive Income.

Purchases and sales of investments are recognised on trade-date, the date on which the Rotorua District Council Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cashflows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

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

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

The four categories of financial assets are:

1. Financial assets at fair value through profit and loss
This category has two sub-categories: financial assets held for trading, and those designated at fair value through Prospective Statement of Comprehensive Income at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

After initial recognition they are measured at their fair values. Gains or losses on remeasurement are recognised in the Prospective Statement of Comprehensive Income.

Currently, the Group does not hold any financial assets in this category.

statement of accounting policies cont.

2. Loans and receivables

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

After initial recognition they are measured at amortised cost using the effective interest method. Gains and losses when the asset is impaired or derecognised are recognised in the Prospective Statement of Comprehensive Income.

3. Held-to-maturity financial assets

Held to maturity investments are assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity.

After initial recognition they are measured at amortised cost using the effective interest method. Gains and losses when the asset is impaired or derecognised in the Prospective Statement of Comprehensive Income.

Currently the Group does not hold any financial assets in this category

4. Financial Assets at fair value through equity

Financial Assets at fair value through equity are those that are designated as fair value through equity or are not classified in any of the other categories above.

This category encompasses:

- Investments that the Group intends to hold long-term but which may not be realised before maturity; and
- Shareholdings that the Group holds for strategic purposes. The Council's investments in its subsidiary is not included in this category as they are held at cost (as allowed by NZ IAS 27 Consolidated and Separate Financial Statements) whereas this category is to be measured at fair value.

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

Gain and losses are recognised directly in equity except for impairment losses, which are recognised in the Prospective Statement of Comprehensive Income. In the event of impairment, any cumulative losses previously recognised in equity will be removed from equity and recognised in the Prospective Statement of Comprehensive Income irrespective that the asset has not been derecognised.

On derecognition the cumulative gain or loss previously recognised in equity is recognised in the prospective statement of comprehensive income.

Impairment

At each balance date the Group assesses whether there is any objective evidence that a financial asset or group of financial assets is impaired. Any impairment losses are recognised in the Prospective Statement of Comprehensive Income.

Inventory

Inventories (such as spare parts and other items) held for distribution or consumption in the provision of services that are not supplied on a commercial basis is measured at the lower of cost, adjusted where applicable, for any loss of service potential.

Inventories held for use in the production of goods and services on a commercial basis are valued at the lower of cost and net realisable value. The cost of purchased inventory is determined using the FIFO method.

The amount of any write-down for the loss of service potential or from cost to net realisable value is recognised in the Prospective Statement of Comprehensive Income in the period of the write down.

Biological Assets

The Council owns two stands located on the Tutukau Road and behind the Rotorua Landfill. The area of the stand on Tutukau Road measures 10 hectares of Pinus Radiata forest with a maturity of 5 years.

The area of the stand behind the Rotorua Landfill measures 14 hectares of Pinus Radiata forest with a maturity of 22 years.

Independent registered valuers Hammond Resource Management Ltd have valued forestry assets as at 30 June 2008. A pre-tax discount rate of 8% has been used in discounting the present value of expected cashflows.

Rotorua District Council is exposed to financial risks arising from changes in timber prices. The Council is a long-term forestry investor and does not expect timber prices to decline significantly in the foreseeable future. Therefore, no measures have been taken to manage the risk of a decline in timber prices. The Council reviews its outlook for timber prices regularly in considering the need for active financial risk management.

Tokorangi Forest (Redwood Forest)

In 1993 the Crown Forest Licence for the Tokorangi Forest (Redwood Forest) was transferred to Rotorua District Council from the Crown in recognition of the significant recreation resource with the valuable aesthetic and landscape features that the forest represents for the people of Rotorua, as well as its national and international visitors. There are covenants in place that restrict the licence to this effect.

The majority of the forest will therefore not be managed commercially. The land on which the forest grows is in the process of being transferred from the Crown to the new Central North Island Iwi Collective. Council has the licence to continue managing the forest for the next thirty five years. On these bases the Tokorangi Forest is valued at \$Nil.

statement of accounting policies cont.

Non-current assets held for sale

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

Any impairment losses for write-downs of non-current assets held for sale are recognised in the Prospective Statement of Comprehensive Income.

Any increases in fair value (less costs to sell) are recognised up to the level of any impairment losses that have been previously recognised.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Property, Plant and Equipment

Property, plant and equipment consist of:

Operational Assets

These include (but is not limited to) land, buildings, Convention Centre, Tourism Office, Library Building, International Stadium, Museum and Plant and Equipment.

Restricted Assets

Restricted Assets include heritage buildings, and parks and reserves land owned by Rotorua District Council, which provide a benefit or service to the community and cannot be disposed of because of legal or other restrictions.

Infrastructural Assets

Infrastructural assets are the fixed utility systems owned by Rotorua District Council including roads, footpaths, bridges and culverts, water, wastewater, storm water, refuse processing and disposal and reserve improvements.

Vested Assets

Vested assets are those assets where ownership and control is transferred to the Council from a third party (for example; infrastructure assets constructed by developers and transferred to the Council on completion of a subdivision).

Measurement

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

Vested assets are recognised within their respective asset classes at fair value.

Revaluations

Land (operational and restricted), buildings and infrastructural assets are revalued with sufficient regularity to ensure that their carrying amount does not differ materially from fair value, and at least every three years. All other classes of assets are carried at depreciated cost.

Rotorua District Council assesses the carrying values of its revalued assets annually to ensure that they do not differ materially from the assets' fair value. If there is a material difference, then the off-cycle asset classes are revalued.

Rotorua District Council accounts for revaluations of property, plant and equipment on a class of assets basis.

The result of any revaluation of the Council's property, plant and equipment is credited or debited to the asset revaluation reserve for that class of property, plant and equipment. Where this results in a debit balance in the

reserve for a class of property, plant and equipment, the balance is expensed in the Prospective Statement of Comprehensive Income. Any subsequent increase on revaluation that off-sets a previous decrease in value recognised in the Prospective Statement of Comprehensive Income, will be recognised firstly in the Prospective Statement of Comprehensive Income up to the amount previously expensed, and then secondly credited to the revaluation reserve for that class of property, plant and equipment.

Accumulated depreciation at revaluation date is eliminated against the gross carrying amount and the net amount is restated to the revalued amount.

Impairment

The carrying amounts of property, plant and equipment are reviewed at least annually to determine if there is any indication of impairment. Where an asset's recoverable amount is less than its carrying amount, it will be reported at its recoverable amount and an impairment loss will be recognised. The recoverable amount is the higher of an item's fair value less costs to sell and value in use. Losses resulting from impairment are reported in the Prospective Statement of Comprehensive Income, unless the asset is carried at a revalued amount in which case any impairment loss is treated first as a revaluation decrease and then as a charge to the Prospective Statement of Comprehensive Income to the extent that the impairment exceeds the amount in the revaluation reserve in respect of that asset.

Additions

The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to Rotorua District Council and the cost of the item can be measured reliably.

statement of accounting policies cont.

In most instances, an item of property, plant and equipment is recognised at its cost. Where an asset is acquired at not cost, or for a nominal cost, it is recognised at fair value as at the date of acquisition.

Disposals

Gains and losses arising from the disposal of property, plant and equipment are determined by comparing the proceeds with the carrying amount and are recognised in the Prospective Statement of Comprehensive Income in the period in which the transaction occurs. Any balance attributable to the disposed asset in the asset revaluation reserve is transferred to retained earnings.

Valuation

Operational Assets

Land and Buildings are recorded at fair value at highest and best use as at 1 July 2006. Quotable Value New Zealand Ltd has certified that these valuations are appropriate for financial reporting purposes.

Asset additions since 1 July 2006 are valued at historic cost. The fair value of Land and Buildings is reviewed at three yearly intervals.

The opening asset values in the prospective financial statements for land and buildings have been based upon estimated fair values as at 30 June 2009.

The library collection was valued at estimated depreciated replacement cost as at 1 July 2005 as estimated by Council's library staff. The basis of these in-house valuations has been certified as correct by an independent registered valuer. All library purchases since 1 July 2005 have been capitalised at historical cost. The value of the library collection is revised at three yearly intervals.

The collections of the Rotorua Museum of Art & History are valued at current market value as at 30 June 1992 by Gow, Landsford Fine Art Valuers and Peter Webb Galleries Limited, Estate & Fine Art Auctioneers & Valuers. Any additions since then have been capitalised at historic cost. Vested infrastructural assets have been valued based on the actual quantities of infrastructural components vested at the current "in the ground" cost of providing identical services. All other revenue is recognised when it is due and receivable.

Council purchased the Airport assets of Rotorua Regional Airport Limited on 30 June 2005. The Airport land, buildings and runway were re-valued as at 1 July 2006 by Quotable Value New Zealand Ltd at fair value.

All other fixed assets are valued at cost except where historic cost records were not available, in which case Council has estimated the cost.

Depreciation

Depreciation is provided on all fixed assets with certain exceptions. The exceptions are:

- Land is not depreciated.
- Roading, wastewater reticulation, stormwater systems and water reticulation assets are depreciated as noted below. A number of the components of the roading network such as excavation, sub base materials and compaction are not depreciated as these assets have an infinite life. Signs and markings are not depreciated as these assets are maintained to the same level.
- The useful lives of the Rotorua Museum of Art & History collections and the library reference collection are considered to be extremely long. Therefore, due to its insignificance, no depreciation has been brought to charge.

All other assets are depreciated on a straight line basis at rates that will write off their cost or valuation over their expected useful economic lives.

Vehicles are depreciated on the basis of diminishing value and at a rate of 20% calculated to allocate the motor vehicles cost over their estimated useful lives.

The expected lives of major classes of assets are:

General	Years
Bathhouse building	40
Buildings (other)	50
Plant and Equipment	10 to 15
Office Equipment	5
Furniture and Fittings	10 to 20
Computer Systems	3 to 5
Library Books (excl Reference)	2 to 15
Parking	10 to 50
Landfill Improvements	3 to 100
Wastewater Reticulation	
Man holes	110
Treatment Plant	10 to 100
Pump Stations	10 to 75
Pipes	100
Water Reticulation	Years
Pipes	50 to 90
Motors/Pumps	20 to 30
Reservoirs and other	
Water-Retaining Structures	50 to 100
Meters	15 to 100

statement of accounting policies cont.

Parks

Street and Outdoor Furniture	15
Street Signals	15
Fencing and Related Structures	15
Playgrounds	25
Jetties and Related Structures	20
Irrigation Pipes and Sprinklers	6 to 50
Park roads, paths	20 to 100
Kerbs	100
Bridges	70 to 100
Top surface (seal)	1 to 15
Pavement (basecourse)	20 to 100
Drainage	100
Shoulders/Feathers	20 to 100
Culverts	100
Footpaths (concrete)	100
Footpaths (bitumen)	10 to 15
Stormwater systems	
Pipes	70 to 100
Manholes, Cesspits	70 to 100
Service connections and outlets	70 to 100
Airport (other than buildings)	
Runway 150mm AC surface	10 to 15

Work in progress

The cost of projects within work in progress is transferred to the relevant asset class when the project is completed and then depreciated.

Intangible Assets

Software acquisition and development

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

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

Easements

Easements are not cash generating in nature, instead they give Rotorua District Council the right to access private property where infrastructural assets are located.

Rotorua District Council has not valued and recognised easements. It is believed the cost of providing the information about easements and their value outweighs the benefits of having this information.

Amortisation

The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. The amortisation charge for each period is recognised in Prospective Statement of Comprehensive Income.

The useful lives and associated amortisation rates of major classes of intangible assets has been estimated as follows;

Computer software: 3 years.



statement of accounting policies cont.

Employee Benefits

Provision is made in respect of the Council's liability for wages and salaries, annual leave, sick leave, long service leave and retirement gratuities.

Wages and salaries

Salaries and wages are recognised at their nominal amount and liabilities have been recognised where salaries have been incurred but employees have not been fully paid at balance date.

Annual Leave

Annual leave liabilities have been recognised at the nominal amount of the entitlement. At balance date, a provision has been recognised for annual leave but remains unpaid.

Sick Leave

Liabilities for accumulating short-term compensated absences (e.g., annual and sick leave) are measured as the amount of unused entitlement accumulated at the balance sheet date that the entity anticipates employees will use in future periods in excess of the days that they will be entitled to in each of those periods.

Long Service Leave

Long-service leave (not yet qualified for) and retirement gratuities have been calculated on an actuarial basis based on the likely future entitlements accruing to staff, after taking into account years of service, years to entitlement, the likelihood that staff will reach the point of entitlement, and other contractual entitlements information. Actuarial gains and losses are recognised immediately as income or expense in the Prospective Statement of Comprehensive Income.

Other Contractual Entitlements

Other contractual entitlements include termination benefits. Termination benefits are recognised in the Prospective Statement of Comprehensive Income only when there is a demonstrable commitment to either terminate employment prior to normal retirement date or to provide such benefits as a result of an offer to encourage voluntary redundancy. Termination benefits settled within 12 months are reported at the amount expected to be paid, otherwise they are reported as the present value of the estimated future cash outflows.

Landfill post closure costs

Rotorua District Council has resource consent to operate the Rotorua Landfill. The Council has responsibility under the resource consent to provide ongoing maintenance and monitoring of the landfill after the site is closed.

The management of the landfill will influence the timing of recognition of some liabilities. A liability relating to stage one will only be created when this stage is commissioned and when refuse begins to accumulate in this stage.

The cash outflows for landfill post-closure are expected to occur in about fifteen year's time. The long-term nature of the liability means that there are inherent uncertainties in estimating costs that will be incurred. The provision has been estimated taking into account existing technology and using a discount rate that reflects current market assessments of the time value of money and the risks specific to the Council.

Provisions

Rotorua District Council recognises a provision for future expenditure of uncertain amount or timing when there is a present obligation (either legal or constructive) as a result of a past event, it is probable that expenditures will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are not recognised for future operating losses.

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

Financial Guarantee Contracts

Rotorua District Council is listed as sole guarantor to a number of community organisation bank loans. Rotorua District Council is obligated under the guarantees to make loan payments in the event the organisation defaults on a loan agreement. The exercising of guarantees will be dependent on the financial stability of the community organisations, which will vary over time. The Council considers a provision for financial guarantees not appropriate as they are effectively offset via Council's conditions of the loan guarantees.

statement of accounting policies cont.

Related Parties

A party is related to the Council if:

- directly or indirectly through one or more intermediaries, the party:
 - controls, is controlled by, or is under common control with, the council
 - has an interest in the council that gives it significant influence over the council
 - has joint control over the council
- the party is an associate of the council
- the party is a joint venture in which the council is a venturer
- the party is a member of key management personnel (including any directors) of the council or its parent
- the party is a close member of the family of any individual referred to above
- the party is an entity controlled jointly or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to above

Councillors, including the Mayor, are considered directors as they occupy the position of a member of the governing body of the Council reporting entity. Directors' remuneration is any money, consideration or benefit received receivable or otherwise made available, directly or indirectly, to a director during the reporting period. Directors' remuneration does not include reimbursement of legitimate work expenses or the provision of work related equipment such as cell phones and laptops.

Critical Accounting Estimates and Assumptions

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

Cautionary Note

The information in the prospective financial statements is uncertain and the preparation requires the exercise of judgement. Actual financial results achieved for the period covered are likely to vary from the information presented, and the variations may be material. Events and circumstances may not occur as expected or may not have been predicted or the Council may subsequently take actions that differ from the proposed courses of action on which the prospective financial statements are based.

The information contained within these prospective financial statements may not be suitable for use in another capacity.

Assumptions underlying Prospective Financial Information

The financial information contained within these policies and documents is prospective financial information in terms of FRS42: Prospective Financial Information. The purpose for which it has been prepared is to enable the public to participate in the decision making processes as to the services to be provided by the Rotorua District Council over the financial years from 2009/2010 to 2019/2020, and to provide a broad accountability mechanism of the Council to the Community.

Borrowings

Borrowings are initially recognised at their fair value. After initial recognition, all borrowings are measured at amortised cost using the effective interest method where the difference to carrying value is material. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

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

Borrowing Costs

Borrowing Costs are recognised as an expense when incurred. The Council has not capitalised borrowing costs associated with funding capital works in progress which represents a departure from the treatment required under NZ IAS23 borrowing costs. However in line with the decision of the Accounting Standards Review Board to indefinitely defer the adoption of NZ IAS23, Borrowing Costs, for public benefit entities.

Third party transfer payment agencies

Rotorua District Council collects monies for many organisations. Where collections are processed through Rotorua District Council's books, any monies held are shown as Accounts Payable in the Prospective Statement of Financial Position. Amounts collected on behalf of third parties are not recognised as revenues, but commissions earned from acting as agent are recognised in revenue.

statement of accounting policies cont.

Equity

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

Ratepayers' Equity is disaggregated and classified into a number of components to enable clearer identification of the specified uses that the Council make of its accumulated surpluses.

The components of equity are:

- Accumulated Funds
- Council Created Reserves
- Restricted Reserves
- Self-funding Reserves
- Asset Revaluation Reserve
- Fair Value Through Equity Reserve

Reserves are a component of equity and represent a particular use to which parts of equity have been assigned. Reserves may be legally restricted or created by council.

Reserves

Reserves are comprised of

Accumulated Funds

The accumulated surpluses do not represent cash available to offset future rate increases, but rather it represents the community's investment in publicly owned assets resulting from past surpluses.

Council Created Reserves

Council Created Reserves are that part of the accumulated surpluses established by Council resolution. Council may alter Council Created Reserves without reference to any third party or the Courts. Transfers to and from these reserves are at the discretion of Council.

Restricted Reserves

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

Self-funding Reserves

Certain activities are undertaken by Council on the basis that the activities generate enough revenue over time to cover the cost of their operation. The net surplus or deficit held on behalf of these activities has been included in the Prospective Statement of Financial Position as Self-funding Reserves.

Asset Revaluation Reserves

Revaluations are credited or debited to an asset revaluation reserve for that class of asset. When this results in a debit balance in the asset revaluation reserve, this balance is expensed in the Prospective Statement of Comprehensive Income.

Fair Value Through Equity Reserves

Revaluations are credited or debited to an equity reserve for shares in Civic Assurance and shares in the Waikato Shared Valuation Data Services (SVDS). When this results in a debit balance in the revaluation reserve, this balance is expensed in the Prospective Statement of Comprehensive Income.

notes to financial statements

Note 1

Self Funding Reserve

Self Funding reserves are reserves established at Council's will for activities undertaken by Council on the basis that the activities will generate enough revenue over time to cover the cost of their operation. The reserve balance represents accumulated balances to date of such activities.

Negative is overdraft.

Self Funding Reserve (\$000s)	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Airport	(44,370)	(43,551)	(36,295)	(33,285)	(32,163)	(30,879)	(29,502)	(28,049)	(26,515)	(24,892)
Urban Water	417	539	1,774	3,465	5,328	7,478	10,179	13,088	16,526	20,315
Mamaku Water	(834)	(896)	(962)	(1,013)	(1,079)	(1,137)	(1,198)	(1,263)	(1,344)	(1,418)
Rotoiti Water	(29)	(17)	(13)	2	16	28	46	49	69	94
Rotoma Water	(49)	(52)	(56)	(90)	(96)	(100)	(106)	(110)	(116)	(120)
Kaharoa Water	(355)	(351)	(347)	(334)	(328)	(307)	(284)	(251)	(218)	(248)
Reporoa Water	(1,741)	(1,894)	(1,807)	(1,697)	(1,587)	(1,461)	(1,310)	(1,133)	(943)	(724)
Hamurana Water	(60)	(71)	(92)	(105)	(118)	(133)	(149)	(211)	(232)	(255)
Okareka Water	38	35	33	30	20	17	14	0	(5)	(19)
Waste Water Rural	(1,651)	(4,721)	(5,572)	(7,072)	(15,441)	(19,009)	(17,381)	(17,325)	(18,639)	(17,311)
Refuse Collection	341	337	326	313	302	291	284	274	269	262
Landfill	(2,588)	(1,900)	(8,392)	(7,465)	(7,263)	(7,157)	(6,633)	(6,312)	(6,090)	(5,540)
Waste Water Urban	3,382	(1,423)	(862)	1,030	1,002	5,657	10,180	13,827	15,378	16,623
Eastern Sewerage Scheme	(7,060)	(9,165)	(9,805)	(10,032)	(10,121)	(10,210)	(10,300)	(10,389)	(10,478)	(10,566)
Rotorua Energy Events Centre project	(3,544)	(3,589)	(3,638)	(3,893)	(4,165)	(4,457)	(4,769)	(5,102)	(5,460)	(5,842)
Pensioner housing	1,313	1,363	1,252	1,402	1,361	1,555	1,785	1,799	2,087	2,491
Grand Total	(56,791)	(65,356)	(64,457)	(58,743)	(64,331)	(59,821)	(49,142)	(41,109)	(35,710)	(27,152)

notes to financial statements

Note 2

Council Created Reserves

Council Created Reserves are established by Council resolution for specific purposes. Transfers to and from these reserves is at the discretion of Council.

Council Created Reserves (\$000s)	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Reporoa Domain	15	16	17	18	19	21	22	24	25	27
Waikite Domain	16	17	19	20	21	23	24	26	28	30
Grand Total	31	33	36	38	41	44	47	50	53	57

notes to financial statements

Note 3

Restricted Reserve

Restricted Reserves are the subject of specific conditions set either by legislation, trust or bequests and the purpose may not be changed without reference to the Courts or a third party.

(Note: Minor roundings to Prospective Statement of Financial Position)

Restricted Reserves (\$000s)	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Reserves Development	1,143	(108)	490	1,068	1,481	1,905	2,678	3,248	(480)	184
Creative NZ Reserve	37	39	42	45	48	51	55	59	63	67
Property Development	590	631	675	722	773	827	885	947	1,013	1,084
Grand Total	1,769	562	1,207	1,835	2,302	2,783	3,618	4,253	596	1,336

notes to financial statements

Note 4

Development Contribution Reserves

Development contributions are specifically to fund the increase in the overall demand for a service across the district or a catchment area. It is a requirement that Council will use the development contribution only on the activity for which they are collected. In order to track this, individual reserves have been established.

Negative is overdraft.

Development Contribution Reserves (\$'000s)	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Aquatic Centre	230	412	518	482	300	635	1,017	1,436	1,895	2,397
Cemeteries	22	23	25	27	28	30	33	35	37	40
Rotorua Energy Events Centre project	(1,268)	(1,224)	(1,129)	(1,009)	(859)	(681)	(474)	(244)	10	289
Public Gardens	(1,689)	(1,720)	(1,785)	(1,709)	(1,857)	(1,758)	(1,591)	(1,336)	(1,088)	(934)
Public Library	(83)	(56)	(15)	34	91	157	232	314	403	501
Rotorua museum Of Art & History	(72)	(49)	(14)	28	77	134	198	268	345	429
Land Drainage	199	388	595	822	1,070	1,342	1,639	1,962	2,314	2,698
Transport Subsidised	811	(1,644)	(1,929)	(1,765)	(1,080)	(10,995)	(16,007)	(19,899)	(21,984)	(22,582)
Transport Unsubsidised	(62)	(99)	(139)	(179)	(220)	(260)	(301)	(341)	(382)	(421)
Waste Water Urban	618	1,186	2,009	2,997	4,194	5,579	7,165	8,898	10,789	12,850
Waste Water Rural	(325)	(1,074)	(2,048)	(3,726)	(5,197)	(5,485)	(5,004)	(4,612)	(4,171)	(3,481)
Eastern Sewerage Scheme	(1,867)	(2,012)	(1,928)	(1,349)	(246)	1,067	2,543	4,165	5,943	7,891
Urban Water	(2,287)	(3,206)	(3,905)	(4,914)	(6,054)	(6,193)	(6,123)	(6,034)	(5,923)	(5,789)
Mamaku Water	(9)	(9)	(9)	(9)	(7)	(5)	(1)	4	8	13
Rotoiti water	(13)	(14)	(14)	(14)	(14)	(14)	(13)	(13)	(13)	(12)
Rotoma Water	(20)	(19)	(17)	(14)	(11)	(7)	(3)	2	7	12
Kaharoa Water	(11)	(12)	(12)	(13)	(14)	(15)	(16)	(17)	(19)	(20)
Reporoa Water	(77)	(68)	(52)	(33)	(11)	16	46	80	117	157
Hamurana Water	(6)	(6)	(6)	(7)	(7)	(7)	(7)	(7)	(8)	(8)
Grand Total	(5,912)	(9,202)	(9,854)	(10,354)	(9,815)	(16,460)	(16,667)	(15,341)	(11,719)	(5,969)

