Accounting Policies and

Supporting Financial Statements for Consultation Document 2018-28

Contents

ACCOUNTING POLICIES

REPORTING ENTITY

The Nelson City Council Group consists of Nelson City Council, its subsidiaries, associates and joint ventures.

The information provided in these prospective financial statements includes the operation of Nelson City Council ('Council') only, as Council considers that this provides the clearest and most relevant information about the cost of services provided to ratepayers and consequently the rates income that is required to fund those services. The level of rates funding required to provide core services is not affected by other members of the group except to the extent that Council receives distributions from, or further invests in, those other members. The effects of such transactions are included in the prospective financial statements of the Council.

BASIS OF PREPARATION

These prospective statements of Nelson City Council are for the 10 years from 1 July 2018. The draft forecast information was authorised for issue by Council on 20 March 2018.
This prospective financial information is based upon the financial statements as published in the June 2017 Annual Report, and adjusted to incorporate updated assumptions and council decisions made for the purpose of this Annual Plan. Actual financial results are likely to be different from these Prospective Financial Statements, and that difference may be material.

Statement of compliance

This forecast information has been prepared in accordance with the requirements of the Local Government Act 2002. With the exception of the Funding Impact Statements this forecast information has also been prepared in accordance with New Zealand Generally Accepted Accounting Practice (GAAP) as it relates to prospective financial information and PBE FRS 42 – prospective financial statements. They comply with Public Benefit Entity International Public Sector Accounting Standards (PBE IPSAS), and other applicable financial reporting standards, as appropriate for public benefit entities.

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

The Funding Impact Statements (FIS) do not comply with GAAP as they do not recognise depreciation and movements in the valuation of assets and also they do not show capital income (Subsidies and Development Contributions) as operating income. A reconciliation is provided between the FIS surplus/(deficit) of operating funding and the Statement of Comprehensive Revenue.

Presentation currency and rounding

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The measurement base adopted is that of historical cost, modified by the revaluation of certain assets.
The following particular accounting policies, which materially affect the anticipated results, have been applied.

REVENUE

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

Exchange and non-exchange transactions

An exchange transaction is one in which Council receives assets or services, or has liabilities extinguished, and directly gives approximately equal value in exchange. Non-exchange transactions are where Council receives value from another entity without giving approximately equal value in exchange.

Rates revenue

Rates are set annually by a resolution from Council and relate to a financial year. All ratepayers are invoiced within the financial year to which the rates have been set. All rates with the exception of water by meter are
non-exchange transactions. Water by meter charges are exchange transactions.

Government grants

Council receives government grants, in the main from the New Zealand Transport Agency, which subsidises part of 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. Government grants are generally non-exchange transactions.

Provision of commercially based services

Revenue from the rendering of services is recognised by reference to the stage of completion of the transaction at balance date, based on the actual service provided as a percentage of the total services to be provided. These are exchange transactions and include rents and resource and building consents.

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 Council are recognised as revenue when control over the asset is obtained. This is non-exchange revenue.

Sales of goods

Revenue from sales of goods is recognised when a product is sold to a customer. Sales of goods are exchange transactions.

Traffic and parking infringements

Traffic and parking infringements are recognised when tickets are paid. This is non-exchange revenue.

Interest and dividends

Interest income is recognised using the effective interest method. Dividends are recognised when the right to receive payment has been established. Interest and dividends are considered income from exchange transactions.

Development contributions

Development and financial contributions are recognised as revenue when Council provides, or is able to provide, the service for which the contribution was charged. Otherwise, development and financial contributions are recognised as liabilities until such a time as the Council provides, or is able to provide, the service. Development contributions are non-exchange transactions.

EXPENDITURE

Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

Foreign currency transactions

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

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the surplus or deficit.

Grants

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

Discretionary grants are those grants where Council has no obligation to award in receipt of the grant application and are recognised as expenditure when approved by Council and the approval has been communicated to the applicant. Council's grants awarded have no substantive conditions attached.

Operating leases

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset.

Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

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

CASH AND CASH EQUIVALENTS

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

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

RECEIVABLES

Short term debtors and other receivables are recorded at their face value, less any provision for impairment.

DERIVATIVE FINANCIAL INSTRUMENTS

The Council uses derivative financial instruments (interest rate swaps) to minimise its risk associated with interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which the derivative contract is entered into and subsequently re-measured to fair value at balance date. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. The valuation at balance date is performed by Hedgebook Limited.

Swaps are entered into with the objective of reducing the risk of rising interest rates. Any gains or losses arising from the changes in fair value of derivatives are taken directly to the surplus or deficit for the year.

The fair value of interest rate swaps is determined by reference to market values for similar instruments. The net differential paid or received on interest rate swaps is recognised as a component of interest expense or interest revenue over the period of the agreement.

Swaps are classified as non-current if the remaining maturity is more than twelve months, and as current if the remaining maturity is less than twelve months.

Although some members of the Group do so, the Council (parent) does not apply hedge accounting for its derivative financial instruments.

FIXED ASSETS

Property, plant and equipment consist of the following categories:

- **Operational Assets** – these include land, buildings, improvements, motor vehicles, plant and equipment, library books, forestry and the marina.
- **Restricted Assets** – restricted assets are land, buildings and improvements, which are owned by Council but which benefit or service the community.

- **Heritage Assets** – Heritage Assets – include museum artefacts, collections and historical buildings and monuments.
- **Infrastructure Assets** – infrastructure assets are the fixed utility systems owned by Council. These include the roading, water, sewer and stormwater networks.

Revaluation

All asset classes are carried at depreciated historical cost with the exception of infrastructure assets (apart from land under roads and operational and restricted land classes). These are re-valued with sufficient regularity to ensure that their carrying amount does not differ materially from fair value.

The carrying values of revalued assets are assessed annually to ensure that they do not differ materially from the assets' fair values. If there is a material difference then those asset classes are revalued.

Revaluations of property, plant and equipment are accounted for on a class of asset basis. The net revaluation results are credited or debited to other comprehensive revenue or expense and are accumulated to an asset revaluation reserve in equity for that class of asset. Where this would result in a debit balance in the asset revaluation reserve, this balance is not recognised in other comprehensive revenue and expense but is recognised in the surplus or deficit. Any subsequent increase on revaluation that reverses a previous decrease in value recognised in the surplus or deficit will be recognised first in the surplus or deficit up to the amount previously expensed and then recognised in other comprehensive revenue and expense.

Additions

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

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

New Council assets that are added between valuations are recorded at cost except when acquired through a non-exchange transaction. Where an asset is acquired through a non-exchange transaction, such as vested assets, it is recognised at fair value as at the date of acquisition. Vested assets are infrastructural assets such as roads, sewers and water mains, paid for by subdividers and vested in the City on completion of the subdivision. The fair value is based on the actual quantities of infrastructure components and the current "in the ground" cost of providing identical services.

Disposals

Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount of the asset. Gains and losses on disposals are reported net in the surplus or deficit. When re-valued assets are sold or otherwise disposed of, the amounts included in asset revaluation reserves in respect of those assets are transferred to accumulated funds.

Subsequent costs

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

Depreciation

Depreciation has been provided on a straight line basis on all fixed assets, other than forestry, heritage, operational land, restricted land, land under roads and the marina basin at rates that will write off the cost or valuation of the assets to their estimated residual values over their useful lives.

Assets depreciated are as follows:

ASSET	DEPRECIABLE LIFE (YEARS)
Operational	
Buildings	50 – 100
Improvements	Nil – 20
Motor vehicles	7
Plant and equipment	2 – 30
Library books	3 – 10
Marina	30 - 50
Restricted	
Buildings	50 – 100
Improvements	Nil – 20
Roading	
Roads formation	n/a
Sub-base	n/a
Basecourse	5 – 80

ASSET	DEPRECIABLE LIFE (YEARS)
Surfacing (sealed)	1 – 50
Surfacing (unsealed)	n/a
Bridges	20 – 100
Retaining/sea walls	30 – 100
Box culverts	60 – 90
Footpaths	5 – 100
Streetlights	20 – 60
Signs	15
Water Supply	
Pipeline	55 – 120
Manholes	58 – 110
Reservoirs and tanks	100
Dams	10 – 200
Wastewater	
Pipeline	40 – 120
Manholes	80
Pump stations	10 – 50
Oxidation pond	15 – 151
Stormwater	
Pipeline	50 – 90
Bank protection	25 – 100
Manholes	90
Solid waste	
Pipes	60 – 90
Ponds and dam	100
Gas flare	20
Resource consents	24

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Property, plant and equipment and intangible assets subsequently measured at cost that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

If an asset's carrying amount exceeds its recoverable amount, the asset is regarded as impaired, and the carrying amount is written down to the recoverable amount. The total impairment loss is recognised in the surplus or deficit. The reversal of an impairment loss is recognised in the surplus or deficit.

OTHER FIXED ASSETS INCLUDING BIOLOGICAL ASSETS, INTANGIBLE ASSETS, INVESTMENT PROPERTY, AND WORK IN PROGRESS

Biological assets

Forestry assets are valued annually at fair value less estimated costs to sell for one growth cycle. The valuation methodology adopted is net present value based on the age and condition of the trees. The valuation was undertaken by PF Olsen on 30 June 2017. Changes in the valuation of the forestry assets are recognised in the surplus or deficit.
Forestry maintenance costs are recognised in the surplus or deficit when incurred.

Intangible assets

Software acquisition and development

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

Amortisation

The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised.
The amortisation charge for each period is recognised in the surplus or deficit. The useful lives and associated amortisation rates of major classes of intangible assets have been estimated as follows:

Intangible Asset	Useful life (years)	Amortisation rate
Computer software	3 - 10	10 – 33%

Inventory

Inventories are valued at cost or net realisable value, whichever is lower. For the purposes of arriving at the cost, the weighted average cost method is used.

Work in progress

Profits on contracts are recognised progressively over the period of each contract. The contract amount included in the surplus or deficit, and the value of work in progress, are established by assessment of individual contracts taking into account the proportion of work completed, cost analysis and estimated final results. When it is intended at the inception of the contract that contract costs are to be fully recovered from the parties to that contract, foreseeable losses on contracts are recognised immediately.

Investment property

Investment property is valued initially at its cost, including transaction costs.
Council's investment property is valued annually at fair value as at 30 June. Investment properties were valued based on open market evidence. The latest valuation was performed by Telfer Young (Nelson) Limited and changes in valuation are recognised in the surplus or deficit.

Other financial assets

Financial assets are initially recognised at fair value plus transaction costs unless they are carried at fair value through surplus or deficit in which case the transaction costs are recognised in the surplus or deficit.

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

For the purposes of measurement, financial assets of the Council and group are classified into the following categories:

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

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

Financial assets at fair value through surplus or deficit

Financial assets at fair value through surplus or deficit include financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of short term profit taking.

Derivatives are also classified as held for trading unless they are designated into a hedge accounting relationship for which hedge accounting is applied.

Financial assets acquired principally for the purpose of selling in the short term or part of a portfolio classified as held for trading are classified as a current asset.

The current/non-current classification of derivatives is explained in the derivatives accounting policy.

Loans and receivables

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

Trade and other receivables are initially measured at fair value, subsequently measured at amortised cost using the effective interest method less any provision for impairment and are stated at expected realisable value after providing for doubtful and uncollectable debts. Any accounts considered to be unrecoverable are written off at year end.

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

Held to maturity investments

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

With the exception of shares in the Local Government Insurance Corporation, which are recorded at their net asset value, investments other than in associated entities are measured after initial recognition at amortised cost, using the effective interest method, less impairment. Gains or losses when the asset is impaired or derecognised are recognised in surplus or deficit.

Financial Assets at fair value through other comprehensive revenue and expense

Financial assets at fair value through other comprehensive revenue and expense are those that are designated into the category at initial recognition or are not classified into any of the other categories above. They are included in non-current assets unless management intends to dispose of, or realise, the investment within twelve months of balance date. The Council and group may include in this category:

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

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

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

Impairment of financial assets

At each balance sheet date Council 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 surplus or deficit.

Impairment of a loan or a receivable is established when there is objective evidence that Council will not be able to collect amounts due according to the original terms. Significant financial difficulties of the debtor/issuer, probability that the debtor/issuer will enter into bankruptcy, receivership, or liquidation and default in payments are considered indicators that the asset is impaired. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate. For debtors and other receivables, the carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the surplus or deficit. When the receivable is uncollectable, it is written off against the allowance account.

Overdue receivables that have been renegotiated are reclassified as current (i.e. not past due).

For term deposits, local authority stock, government stock and community loans, impairment losses are recognised directly against the instruments carrying amount.

Impairment of term deposits, local authority, government stock and related party and community loans is established when there is objective evidence that the Council will not be able to collect amounts due according to the original terms of the instruments. Significant financial difficulties of the issuer, probability the issuer will enter into bankruptcy, and default in payments are considered indicators that the instrument is impaired.

Financial assets at fair value through other comprehensive revenue and expense

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

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

If impairment evidence exists for investments at fair value through other comprehensive revenue and expense, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the surplus or deficit) recognised in other comprehensive revenue and expense is reclassified from equity to the surplus or deficit.

Equity instrument impairment losses recognised in the surplus or deficit are not reversed through surplus or deficit.

Equity instrument impairment losses recognised in the surplus or deficit are not reversed through the surplus or deficit.

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

BORROWINGS

Borrowings are initially recognised at their face value plus transaction costs. After initial recognition, all borrowings are measured at amortised cost using the effective interest method. Borrowings are classified as current liabilities unless the Council or group has an unconditional right to defer settlement of the liability for at least twelve months after balance date.

CREDITORS AND OTHER PAYABLES

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

EMPLOYEE ENTITLEMENTS

Provision is made in respect of the Council's liability for annual leave, long service leave and retirement gratuities. Provision has been made for annual leave due and retirement gratuities calculated on an actual entitlement basis at current rates of pay. The provision for long service leave is based on an actuarial calculation at balance date.

SUPERANNUATION SCHEMES

Defined contribution schemes

Obligations for contributions to KiwiSaver are accounted for as defined contribution superannuation schemes and are recognised as an expense in the surplus or deficit when incurred.

PROVISIONS

The Regional Landfill Business Unit (a joint activity with Tasman District Council) has a legal obligation to provide ongoing maintenance and monitoring services at landfill sites after closure. This provision is calculated on the basis of discounting closure and post-closure costs into present day values. The calculation assumes no change in resource consent conditions for closure and post-closure treatment. Nelson City Council has consolidated its 50% share of this provision.

INCOME TAX

Income tax expense comprises both current tax and deferred tax, and is calculated using tax rates that have been enacted or substantively enacted by balance date. Current tax is the amount of income tax payable based on the taxable profit for the current year plus any adjustments to income tax payable in respect of prior years.

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the entity expects to recover or settle the carrying amount of its assets and liabilities.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised.

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

Deferred tax is recognised on taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the company can control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Current tax and deferred tax is charged or credited to the surplus or deficit, except when it relates to items charged or credited directly to equity, in which case the tax is dealt with in equity.

GOODS AND SERVICES TAX (GST)

All items in the financial statements are stated exclusive of GST except for debtors and creditors which are presented on a GST inclusive basis. Where GST is not recoverable as an input tax, it is recognised as part of the related asset or expense.
The net amount of GST recoverable from, or payable to, the IRD is included as part of receivables or payables in the statement of financial position.
The net GST paid to, or received from, the IRD, including the GST relating to investing and financing activities, is classified as an operating cash flow in the statement of cash flows.
Commitments and contingencies are disclosed exclusive of GST.

COST ALLOCATION

The cost of service for each significant activity of the Council has been derived using the cost allocation system outlined below.
Direct costs are those costs directly attributable to a significant activity. Indirect costs are those costs that cannot be identified in an economically feasible manner with a specific significant activity.
Direct costs are charged directly to significant activities. Indirect costs are charged to significant activities using appropriate cost drivers such as actual usage, staff numbers and floor area.

EQUITY

Equity is the community's interest in Council and is measured as the difference between total assets and total liabilities. Equity is disaggregated and classified into the following components:
- accumulated funds
- restricted reserves
- Council created reserves
- property revaluation reserves

RESERVES

Reserves are a component of equity generally representing a particular use to which various parts of equity have been assigned. Reserves may be:

Restricted reserves

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

Council created reserves

Part of the accumulated balance established at the will of Council. Council may alter them without reference to any third party or the Courts. Transfers to and from these reserves are at the discretion of Council.

Revaluation reserves

The results of revaluing land, infrastructural assets are credited or debited to an asset revaluation reserve for that class of asset. Where this results in a debit balance in the asset revaluation reserve for any class of asset, this is expensed in the surplus or deficit. To the extent that increases in value offset previous decreases debited to the surplus or deficit, the increase is credited to the surplus or deficit.

STATEMENT OF CASHFLOWS

Cash means cash balances on hand, held in bank accounts, demand deposits and other highly liquid investments in which Council or group invests as part of its day-to-day cash management.

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

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

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

CHANGES IN ACCOUNTING POLICIES

There are no standards, amendments, and interpretations that are not yet effective and have not been early adopted that are relevant to Council.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

In preparing this forecast information Council has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results.

Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations or future events that are believed to be reasonable under the circumstances.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Landfill after care costs

The Regional Landfill Business Unit (a joint activity with Tasman District Council) has a legal obligation to provide ongoing maintenance and monitoring services at the landfill site after closure.

The landfill post closure provision is recognised in accordance with New Zealand PBE IPSAS 19 Provisions, Contingent Liabilities and Contingent Assets. This provision is calculated on the basis of discounting closure and post closure costs into present day value.

The calculations assume no change in the legislative requirements for closure and post closure treatment. Nelson City Council has consolidated its 50% share of this provision.

Infrastructural assets

There are a number of assumptions and estimates used when performing depreciated replacement cost (DRC) valuations over infrastructural assets. These include:

- the physical deterioration and condition of an asset, for example Council could be carrying an asset at an amount that does not reflect its actual condition. This is particularly so for those assets that are not visible, for example stormwater, wastewater and water supply pipes that are underground. This risk is minimised by Council performing a combination of physical inspections and condition modelling assessments of underground assets;
- estimating any obsolescence or surplus capacity of an asset; and
- estimates are made when determining the remaining useful lives over which the asset will be depreciated. These estimates can be impacted by the local conditions, for example weather patterns and traffic growth. If useful lives do not reflect the actual consumption of the benefits of the asset, then Council could be over or under estimating the annual deprecation charge recognised as an expense in the Statement of Comprehensive Revenue and Expense. To minimise this risk Council's infrastructural asset useful lives have been determined with reference to the New Zealand Infrastructural Asset Valuation and Depreciation Guidelines published by the National Asset Management Steering Group, and have been adjusted for local conditions based on past experience. Asset inspections, deterioration and condition modelling are also carried out regularly as part of Council's asset management planning activities, which gives Council further assurance over its useful life estimates.
- Experienced independent valuers perform Council's infrastructural asset revaluations.

STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE

	Annual Plan 2017/18 ($000)	Long-term Plan 2018/19 ($000)	Long-term Plan 2019/20 ($000)	Long-term Plan 2020/21 ($000)	Long-term Plan 2021/22 ($000)	Long-term Plan 2022/23 ($000)	Long-term Plan 2023/24 ($000)	Long-term Plan 2024/25 ($000)	Long-term Plan 2025/26 ($000)	Long-term Plan 2026/27 ($000)	Long-term Plan 2027/28 ($000)
Revenue											
Rates other than metered water, net of remissions	61,606	63,968	67,308	70,777	73,654	76,326	78,725	81,286	84,436	86,542	89,608
Subsidies and grants	8,697	7,251	7,670	7,245	8,432	8,572	9,071	8,479	9,623	8,239	9,204
Fees and charges including metered water	26,906	28,432	28,148	28,812	30,288	30,582	31,830	32,536	32,635	33,208	33,923
Other Revenue	17,329	20,309	21,062	21,533	21,844	22,689	22,710	23,173	24,419	24,890	25,397
Interest received	52	10	9	9	10	9	9	9	9	10	9
Other gains/losses	21	49	36	29	26	28	30	31	33	35	37
Total Revenue	**114,610**	**120,019**	**124,233**	**128,405**	**134,254**	**138,206**	**142,375**	**145,514**	**151,155**	**152,924**	**158,178**
Expenses											
Wages and salaries	19,867	19,820	20,256	20,701	21,157	21,643	22,141	22,672	23,239	23,820	24,440
Finance costs	4,670	4,957	5,427	6,135	7,612	8,400	9,025	9,570	9,843	9,995	10,034
Depreciation and amortisation	24,542	25,439	26,275	27,202	28,456	29,722	30,865	32,044	33,186	34,280	35,474
Other expenses	49,743	57,762	58,948	66,280	61,194	62,099	63,229	64,883	66,981	68,231	71,004
Total Expenses	**98,822**	**107,978**	**110,906**	**120,318**	**118,419**	**121,864**	**125,260**	**129,169**	**133,249**	**136,326**	**140,952**
Net Surplus / (Deficit) before Taxation	**15,788**	**12,041**	**13,327**	**8,088**	**15,834**	**16,342**	**17,115**	**16,346**	**17,906**	**16,598**	**17,226**
Taxation	0	0	0	0	0	0	0	0	0	0	0
Net Surplus / (Deficit)	**15,788**	**12,041**	**13,327**	**8,088**	**15,834**	**16,342**	**17,115**	**16,346**	**17,906**	**16,598**	**17,226**
Increase in asset revaluation reserves	16,895	17,501	44,816	21,219	22,459	51,259	27,173	28,704	63,802	34,195	37,180
Total Other Comprehensive Revenue and Expense	**16,895**	**17,501**	**44,816**	**21,219**	**22,459**	**51,259**	**27,173**	**28,704**	**63,802**	**34,195**	**37,180**
Total Comprehensive Revenue and Expense	**32,683**	**29,542**	**58,143**	**29,307**	**38,293**	**67,601**	**44,288**	**45,050**	**81,708**	**50,793**	**54,406**

STATEMENT OF CHANGES IN NET ASSETS / EQUITY

	Annual Plan 2017/18 ($000)	Long-term Plan 2018/19 ($000)	Long-term Plan 2019/20 ($000)	Long-term Plan 2020/21 ($000)	Long-term Plan 2021/22 ($000)	Long-term Plan 2022/23 ($000)	Long-term Plan 2023/24 ($000)	Long-term Plan 2024/25 ($000)	Long-term Plan 2025/26 ($000)	Long-term Plan 2026/27 ($000)	Long-term Plan 2027/28 ($000)
Equity at beginning of year	1,371,261	1,440,537	1,470,079	1,528,221	1,557,528	1,595,822	1,663,423	1,707,711	1,752,761	1,834,469	1,885,261
Total comprehensive revenue and expense	32,683	29,542	58,143	29,307	38,293	67,601	44,288	45,050	81,708	50,793	54,406
Equity at end of year	**1,403,944**	**1,470,079**	**1,528,221**	**1,557,528**	**1,595,822**	**1,663,423**	**1,707,711**	**1,752,761**	**1,834,469**	**1,885,261**	**1,939,667**

The 2018/19 Annual Plan equity at the beginning of the year is based on 2016/17 Annual Report closing balance plus a forecast for 2017/18, and therefore is not equal to 2017/18 Annual Plan equity at end of year.

STATEMENT OF FINANCIAL POSITION

	Annual Plan 2017/18 ($000)	Long-term Plan 2018/19 ($000)	Long-term Plan 2019/20 ($000)	Long-term Plan 2020/21 ($000)	Long-term Plan 2021/22 ($000)	Long-term Plan 2022/23 ($000)	Long-term Plan 2023/24 ($000)	Long-term Plan 2024/25 ($000)	Long-term Plan 2025/26 ($000)	Long-term Plan 2026/27 ($000)	Long-term Plan 2027/28 ($000)
Current Assets											
Cash and cash equivalents	2,494	642	801	952	1,113	1,287	1,466	1,634	1,811	2,007	2,221
Inventories	0	0	0	0	0	0	0	0	0	0	0
Trade and other receivables	12,675	12,795	12,993	13,193	13,410	13,630	13,867	14,109	14,368	14,632	14,916
Other financial assets	744	786	637	431	390	422	456	489	451	462	500
Taxation	0	0	0	0	0	0	0	0	0	0	0
Derivative financial instruments	0	0	0	0	0	0	0	0	0	0	0
Total Current Assets	**15,913**	**14,223**	**14,431**	**14,576**	**14,913**	**15,339**	**15,789**	**16,232**	**16,630**	**17,101**	**17,637**
Non Current Assets											
Trade and other receivables	0	0	0	0	0	0	0	0	0	0	0
Investments accounted for using the equity method	36,663	36,663	36,663	36,663	36,663	36,663	36,663	36,663	36,663	36,663	36,663
Investment in subsidiaries	7,744	8,200	8,200	8,200	8,200	8,200	8,200	8,200	8,200	8,200	8,200
Investment properties	1,096	1,142	1,167	1,193	1,219	1,247	1,277	1,308	1,341	1,376	1,413
Other financial assets	4,234	4,282	4,142	4,470	4,490	4,506	4,682	4,698	4,709	4,718	4,718
Intangible assets	2,367	2,256	2,256	2,256	2,256	2,256	2,256	2,256	2,256	2,256	2,256
Biological assets	5,086	4,270	4,351	4,391	4,120	4,005	3,768	3,564	3,644	3,644	3,644
Property, plant, and equipment	1,483,391	1,530,766	1,600,709	1,652,578	1,705,115	1,781,154	1,834,733	1,880,155	1,959,613	2,004,589	2,061,316
Derivative financial instruments	0	25	25	25	25	25	25	25	25	25	25
Total Non Current Assets	**1,540,581**	**1,587,604**	**1,657,513**	**1,709,776**	**1,762,088**	**1,838,056**	**1,891,604**	**1,936,869**	**2,016,451**	**2,061,471**	**2,118,235**
Total Assets	**1,556,494**	**1,601,827**	**1,671,944**	**1,724,352**	**1,777,001**	**1,853,395**	**1,907,393**	**1,953,101**	**2,033,081**	**2,078,572**	**2,135,872**
Current Liabilities											
Bank overdraft	0	0	0	0	0	0	0	0	0	0	0
Trade and other payables	18,120	12,775	12,979	13,187	13,411	13,639	13,884	14,134	14,403	14,677	14,970
Employee benefit liabilities	1,872	2,181	2,222	2,258	2,296	2,335	2,377	2,420	2,466	2,513	2,563
Taxation payable	0	0	0	0	0	0	0	0	0	0	0
Current portion of borrowings	17,733	13,655	35,419	8,320	42,436	25,985	20,427	35,814	18,789	13,186	15,750
Derivative financial instruments	7	40	40	40	40	40	40	40	40	40	40
Total Current Liabilities	**37,732**	**28,652**	**50,661**	**23,805**	**58,184**	**42,000**	**36,729**	**52,409**	**35,698**	**30,415**	**33,324**
Non Current Liabilities											
Trade and other payables	819	813	754	695	636	577	518	459	400	341	282
Provisions	1,656	1,652	1,663	1,675	1,706	1,738	1,772	1,805	1,842	1,878	1,916
Employee benefit liabilities	227	231	244	248	252	257	261	266	271	276	282
Derivative financial instruments	8,405	5,401	5,401	5,401	5,401	5,401	5,401	5,401	5,401	5,401	5,401
Non-current portion of borrowings	103,709	95,000	85,000	135,000	115,000	140,000	155,000	140,000	155,000	155,000	155,000
Total Non-Current Liabilities	**114,817**	**103,097**	**93,062**	**143,019**	**122,995**	**147,973**	**162,952**	**147,931**	**162,914**	**162,896**	**162,881**
Total Liabilities	**152,549**	**131,748**	**143,723**	**166,824**	**181,179**	**189,973**	**199,681**	**200,340**	**198,612**	**193,311**	**196,205**
Net Assets	**1,403,945**	**1,470,079**	**1,528,221**	**1,557,528**	**1,595,822**	**1,663,423**	**1,707,712**	**1,752,761**	**1,834,469**	**1,885,261**	**1,939,667**
Ratepayer's Equity											
Accumulated comprehensive revenue and expense	423,473	473,528	531,714	561,065	600,239	667,793	712,542	757,296	839,075	889,688	943,679
Other reserves	980,472	996,551	996,507	996,463	995,583	995,630	995,170	995,465	995,394	995,573	995,988
Total Ratepayer's Equity	**1,403,945**	**1,470,079**	**1,528,221**	**1,557,528**	**1,595,822**	**1,663,423**	**1,707,712**	**1,752,761**	**1,834,469**	**1,885,261**	**1,939,667**

Opening balances for 2018/19 LTP have been derived from 2016/17 Annual Report closing balances plus a forecast for 2017/18, as this represents a more recent and accurate assessment than the 2017/18 Annual Plan closing balances.

CASH FLOW STATEMENT

	Annual Plan 2017/18 ($000)	Long-term Plan 2018/19 ($000)	Long-term Plan 2019/20 ($000)	Long-term Plan 2020/21 ($000)	Long-term Plan 2021/22 ($000)	Long-term Plan 2022/23 ($000)	Long-term Plan 2023/24 ($000)	Long-term Plan 2024/25 ($000)	Long-term Plan 2025/26 ($000)	Long-term Plan 2026/27 ($000)	Long-term Plan 2027/28 ($000)
CASH FLOWS FROM OPERATING ACTIVITIES											
Cash was provided from:											
Receipts from rates revenue	69,597	72,331	75,982	79,768	83,250	86,178	89,047	92,030	95,385	97,739	101,021
Subsidies and grants received	8,698	7,251	7,670	7,245	8,432	8,572	9,071	8,479	9,623	8,239	9,204
Receipts from other revenue	21,398	25,774	25,940	26,454	27,313	27,870	28,309	28,701	29,447	29,841	30,404
Development and financial contributions	3,064	3,500	3,577	3,656	3,736	3,822	3,914	4,008	4,108	4,215	4,329
Interest Received	52	10	9	9	10	9	9	9	9	10	9
Dividends Received	3,333	3,854	3,619	3,677	3,739	3,803	3,871	3,941	4,016	4,092	4,174
	106,142	**112,720**	**116,798**	**120,809**	**126,480**	**130,255**	**134,221**	**137,168**	**142,588**	**144,137**	**149,142**
Cash was disbursed to:											
Payments to suppliers	49,126	57,676	58,802	66,360	60,688	61,907	63,176	64,508	66,667	67,968	70,707
Payments to employees	19,844	19,777	20,202	20,662	21,114	21,600	22,094	22,625	23,188	23,768	24,384
Interest Paid	4,670	4,957	5,427	6,135	7,612	8,400	9,025	9,570	9,843	9,995	10,034
Tax Paid/(refund)	0	0	0	0	0	0	0	0	0	0	0
	73,640	**82,410**	**84,431**	**93,156**	**89,415**	**91,906**	**94,295**	**96,702**	**99,699**	**101,732**	**105,125**
Net Cash Flows from Operating Activities	**32,502**	**30,310**	**32,366**	**27,653**	**37,065**	**38,348**	**39,926**	**40,466**	**42,889**	**42,405**	**44,016**
CASH FLOWS FROM INVESTING ACTIVITIES											
Cash was provided from:											
Sale of Investments and properties for resale	0	0	0	0	0	0	0	0	0	0	0
Repayment of LGFA borrower notes	0	0	80	160	480	80	480	160	160	480	240
Sale of biological assets	0	626	0	0	271	115	284	211	0	0	0
Sale of fixed assets	4,331	25	26	27	28	0	0	0	0	0	0
Repayment of community loans and advances	507	548	518	337	172	100	100	100	100	25	0
	4,838	**1,199**	**624**	**524**	**951**	**295**	**864**	**471**	**260**	**505**	**240**
Cash was disbursed to:											
Investments in LGFA* borrower notes	107	80	240	320	880	160	560	400	240	480	240
Community loans advanced	0	0	0	0	0	0	0	0	0	0	0
Other investments	0	0	0	0	0	0	0	0	0	0	0
Purchase of biological assets	0	248	81	40	0	0	46	7	80	0	0
Purchase of intangible assets	0	0	0	0	0	0	0	0	0	0	0
Purchase of fixed assets:											
Renewals	12,929	16,880	13,253	11,717	11,822	14,631	14,086	14,534	13,595	13,809	15,775
New works - growth	5,770	5,741	5,804	8,375	10,561	5,546	9,642	8,521	8,024	8,219	5,871
New works - Increased level of service	37,774	20,227	25,217	30,475	28,708	26,681	25,719	17,694	19,007	14,603	24,721
	56,580	**43,176**	**44,595**	**50,927**	**51,971**	**47,018**	**50,053**	**41,156**	**40,946**	**37,111**	**46,607**
Net Cash Flows from Investing Activities	**(51,742)**	**(41,977)**	**(43,971)**	**(50,403)**	**(51,020)**	**(46,723)**	**(49,189)**	**(40,685)**	**(40,686)**	**(36,606)**	**(46,367)**
CASH FLOWS FROM FINANCING ACTIVITIES											
Cash was provided from:											
Proceeds from borrowings	26,765	14,358	14,345	25,602	16,798	11,363	12,507	3,448	1,253	178	5,961
Cash was applied to:											
Repayment of borrowings	7,381	2,504	2,581	2,701	2,682	2,814	3,065	3,061	3,279	5,781	3,396
Net Cash Flows from Financing Activities	**19,384**	**11,854**	**11,764**	**22,901**	**14,116**	**8,549**	**9,442**	**387**	**(2,026)**	**(5,603)**	**2,565**
Net Increase/(Decrease) in Cash Held	144	187	159	151	161	174	179	168	177	196	214
Add Opening Cash Balance	2,350	455	642	801	952	1,113	1,287	1,466	1,634	1,811	2,007
Closing Balance	**2,494**	**642**	**801**	**952**	**1,113**	**1,287**	**1,466**	**1,634**	**1,811**	**2,007**	**2,221**
Represented by:											
Cash and Cash Equivalents	2,494	642	801	952	1,113	1,287	1,466	1,634	1,811	2,007	2,221

Opening balances for 2018/19 LTP have been derived from 2016/17 Annual Report closing balances plus a forecast for 2017/18, as this represents a more recent and accurate assessment than the 2017/18 Annual Plan closing balances.

* Local Government Funding Agency

FINANCIAL RESERVES ESTIMATES

The Local Government Act 2002 requires that councils provide a summary of the restricted reserves it holds.

Name	Activity	Purpose	Balance July 2018	Deposits	Withdrawals	Balance June 2028
Nelson Institute Funds	Nelson Library	Bequest to Nelson Institute	8,560	5,446	-	14,006
L C Voller Bequest (ETL)	Nelson Library	Youth Section of Elma Turner Library	22,152	14,094	-	36,246
Nellie Nightingale Bequest	Tahuna Library	Maintenance and upkeep Library & restroom	145,839	-	145,839	-
Subdivisions Reserve	Reserve Contributions	Financial Contributions for Reserves	205,666	21,711,832	22,240,676	(323,178)
Nelson 2000 Trust	Esplanade Reserves	Wakefield Quay Development	164,607	104,725	-	269,332
Emergency Reserve	Emergency Response Fund	Funding unforeseen infrastructural damage	-	12,530,494	-	12,530,494
Insurance Reserve	Investment Management	To fund Insurance claim excess	957,308	609,050	-	1,566,358
Health & Safety Reserve	Admin and Meeting Support	OSH Compliance	28,590	-	-	28,590
Parking Reserve	Car parks	Self funded activity balance	-	3,180,651	3,180,651	-
Roading Contributions	Roading	Financial Contribution for capital works	110,863	-	-	110,863
Dog Control Reserve	Dog Control	Self funded activity balance	117,490	27,893	-	145,383
Sport & Rec Grants Reserve	Physical Activity Fund	Ex Hillary Commission fund for Sport and Recreation	13,101	-	-	13,101
Art Council Loan Fund	Physical Activity Fund	Ex Sport & Rec Grants	10,000	2,827	-	12,827
Events Contestable Fund Reserve	Economic Development	Unspent allocation held for eligible events	360,367	-	-	360,367
Pensioner Housing Reserve	Community Housing	Self funded activity balance	340,879	-	340,879	-
Founders Park Reserve	Founders	Founders development	172,252	1,209,268	1,256,894	124,626
Forestry Fund	Forestry	Self funded activity balance	-	1,499,335	1,369,667	129,668
Unused Depreciation Reserve	Various Activities	Special Reserve to track unused depreciation	6,845,509	9,297,496	5,596,880	10,546,125

Report on Financial Prudence

Long-term plan disclosure statement for the period commencing 1 July 2018

What is the purpose of this statement?

The purpose of this statement is to disclose the council's planned financial performance in relation to various benchmarks to enable the assessment of whether the council is prudently managing its revenues, expenses, assets, liabilities, and general financial dealings.

The council is required to include this statement in itslong-term plan in accordance with the Local Government (Financial Reporting and Prudence) Regulations 2014 (the **regulations**). Refer to the regulations for more information, including definitions of some of the terms used in this statement.

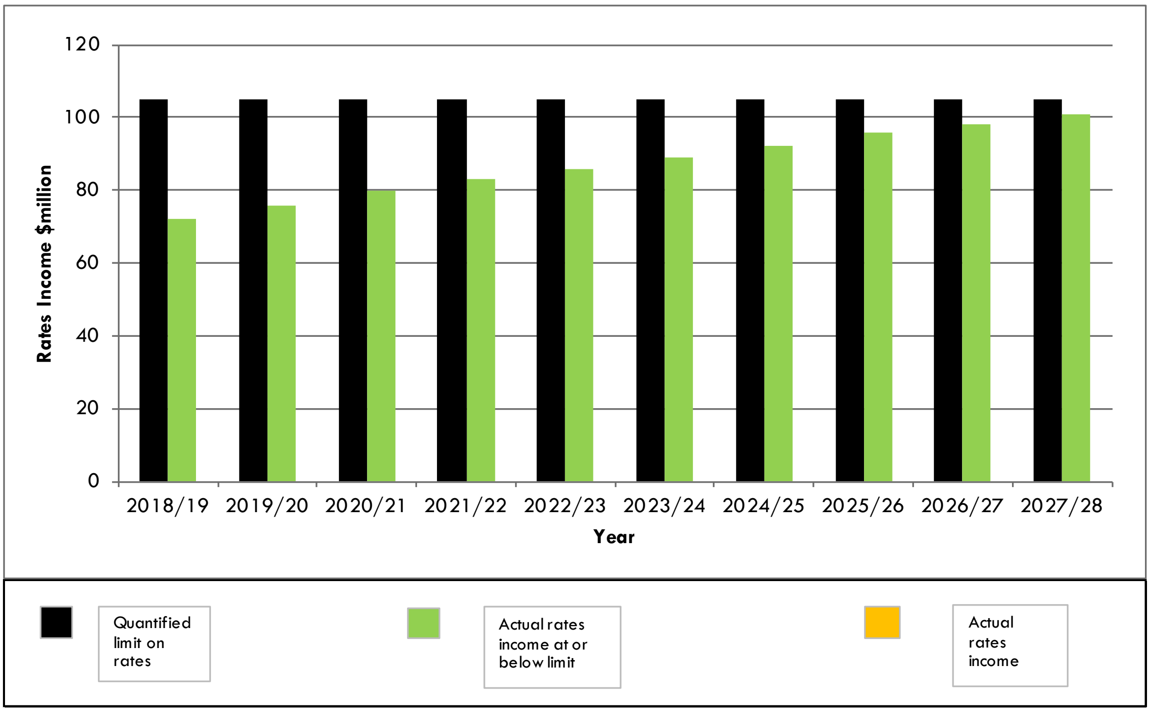
Rates affordability benchmark

The council meets the rates affordability benchmark if –

- Its planned rates income equals or is less than each quantified limit on rates; and
- Its planned rates increases equal or are less than each quantified limit on rates increases.

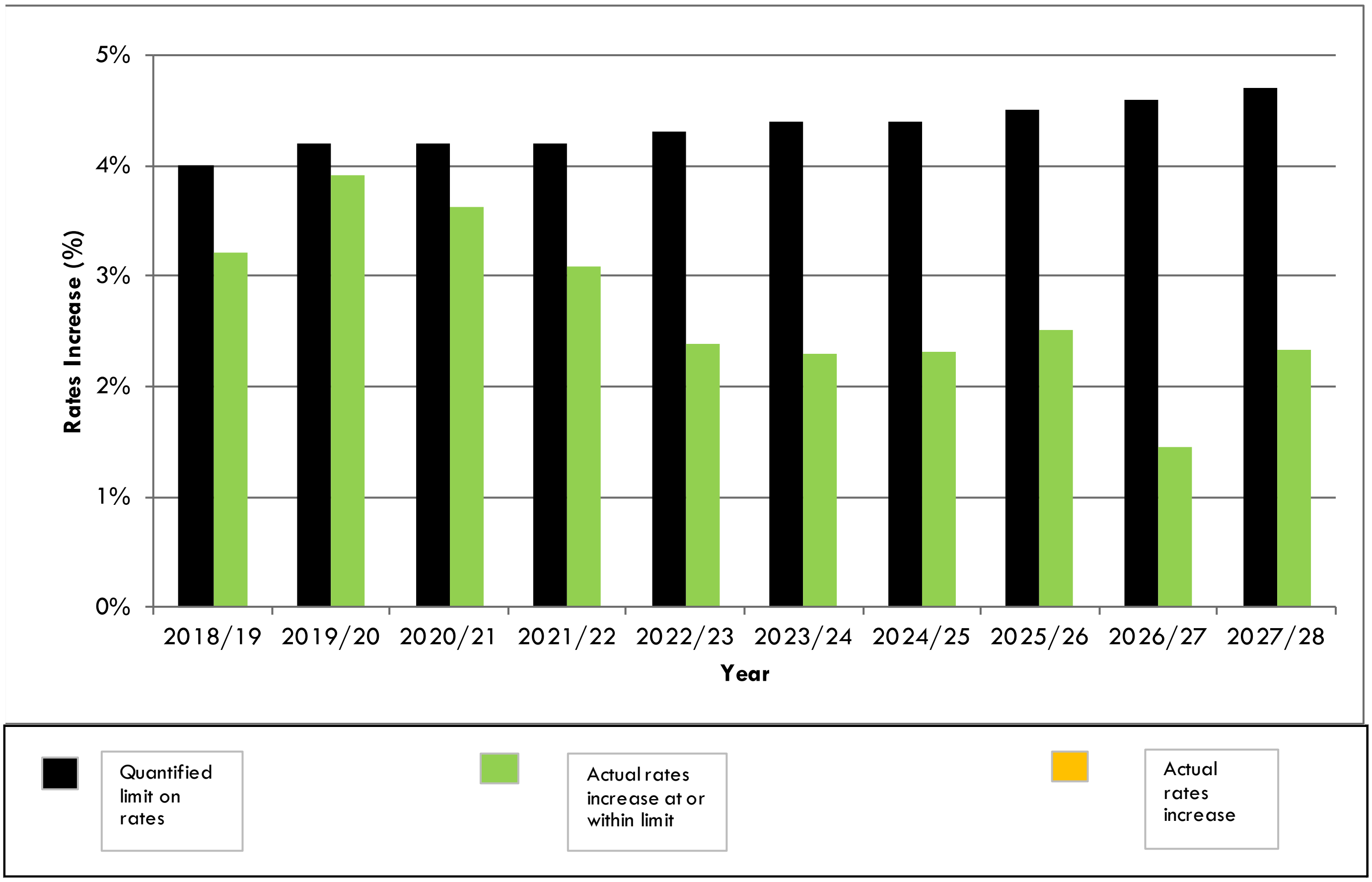
Rates (income) affordability

The following graph compares the council's planned rates income with a quantified limit on rates contained in the financial strategy included in this long term plan. The quantified limit is $105 million.



Rates (increases) affordability

The following graph compares the council's planned rates increases with a quantified limit on rates increases included in the financial strategy included in this long-term plan (LTP). The quantified limit is the local government cost index plus 2% for each year of the LTP.

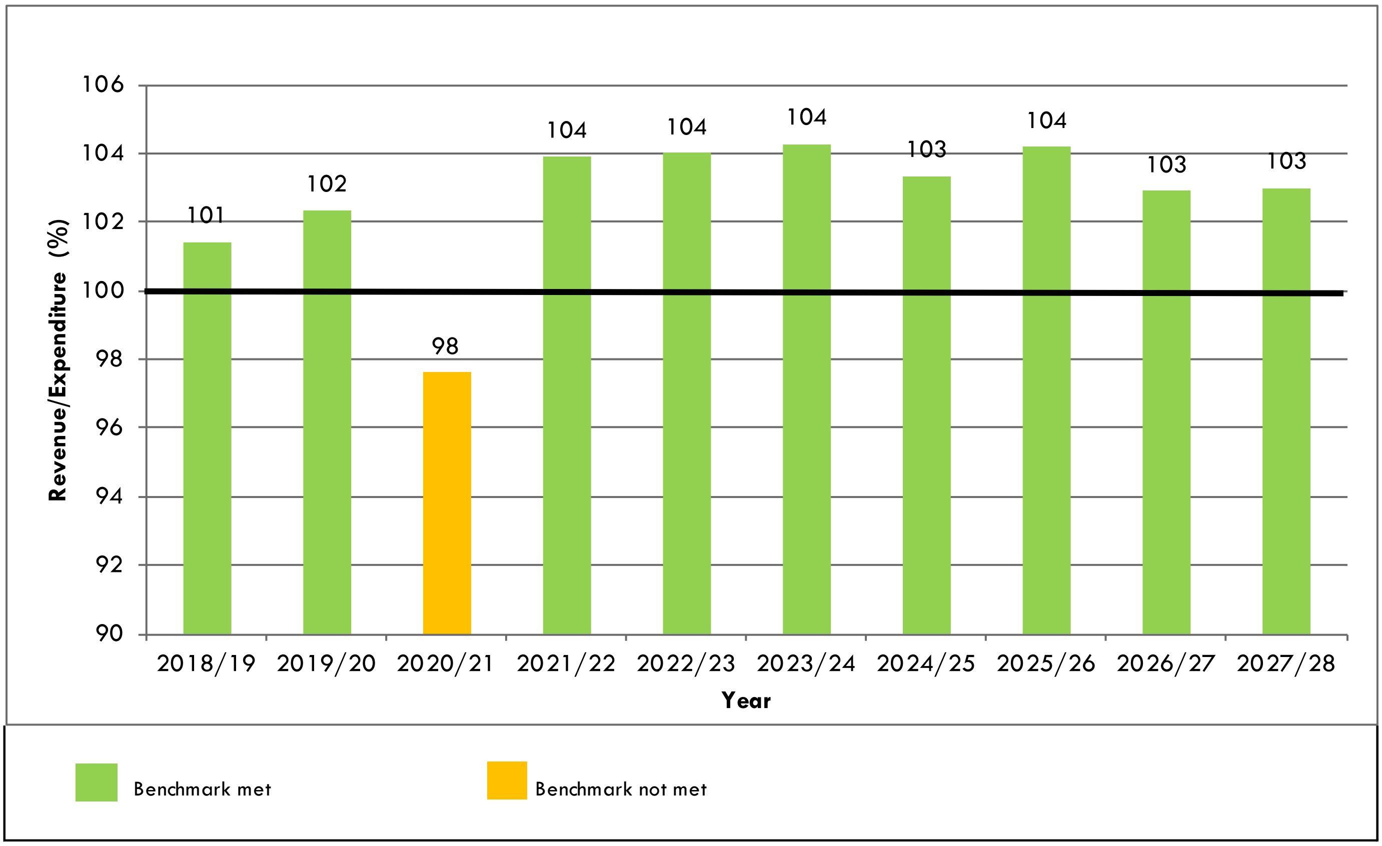


Balanced budget benchmark

The following graph displays the council's planned revenue (excluding development contributions, financial contributions, vested assets, gains on derivative financial instruments, and revaluations of property, plant or equipment) as a proportion of planned operating expenses (excluding losses on derivative financial instruments and revaluations of property, plant, or equipment).

The council meets this benchmark if its planned revenue equals or is greater than its planned operating expenses.

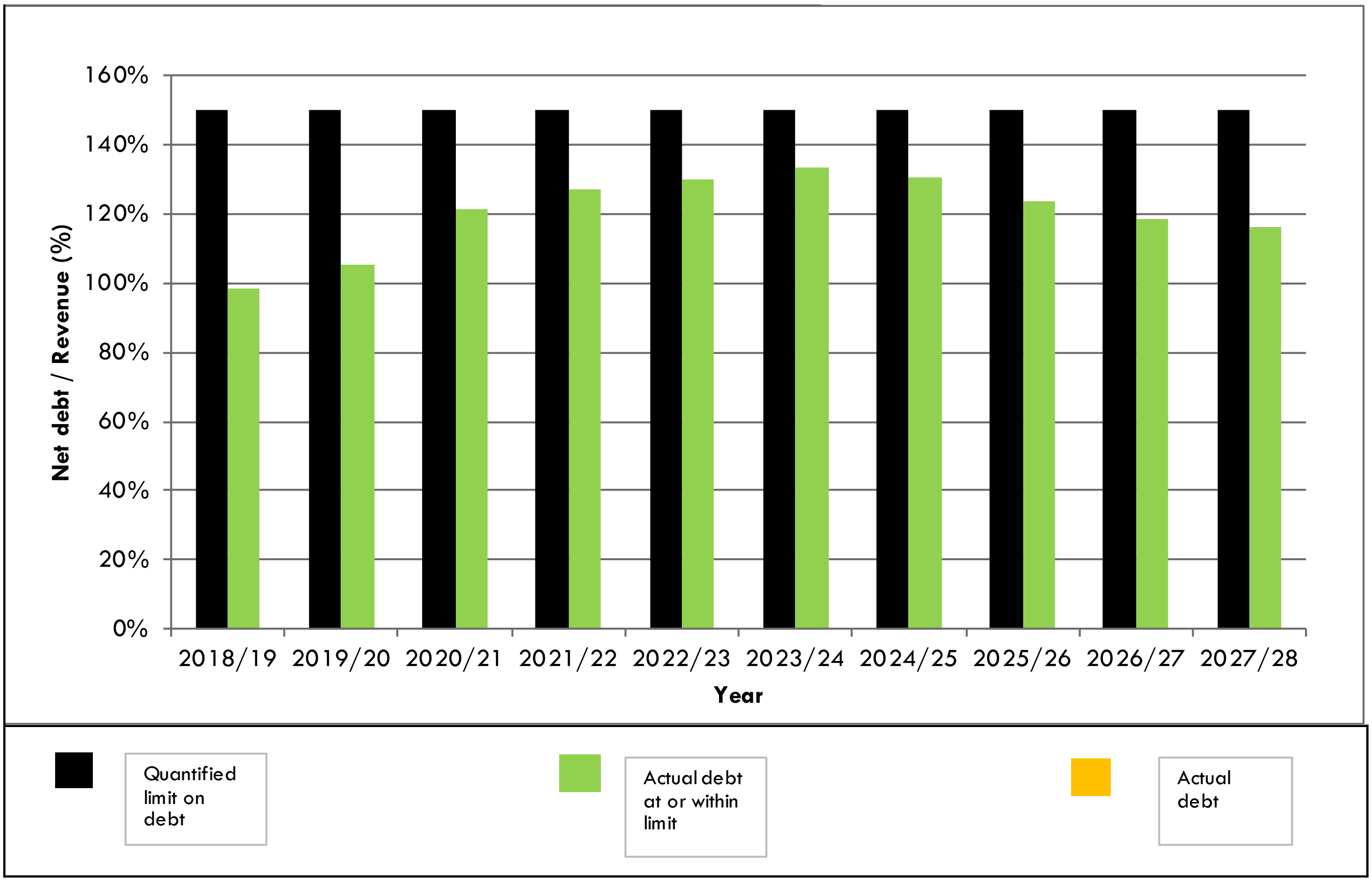
Council does not meet this benchmark in 2020/21 as the proposed contribution to the cost of the Waimea Dam of $5 million is designated as an operating rather than capital expense for Council. This benchmark is affected because Council intends to fund the expenditure from borrowings due to intergenerational equity considerations.



Debt affordability benchmark

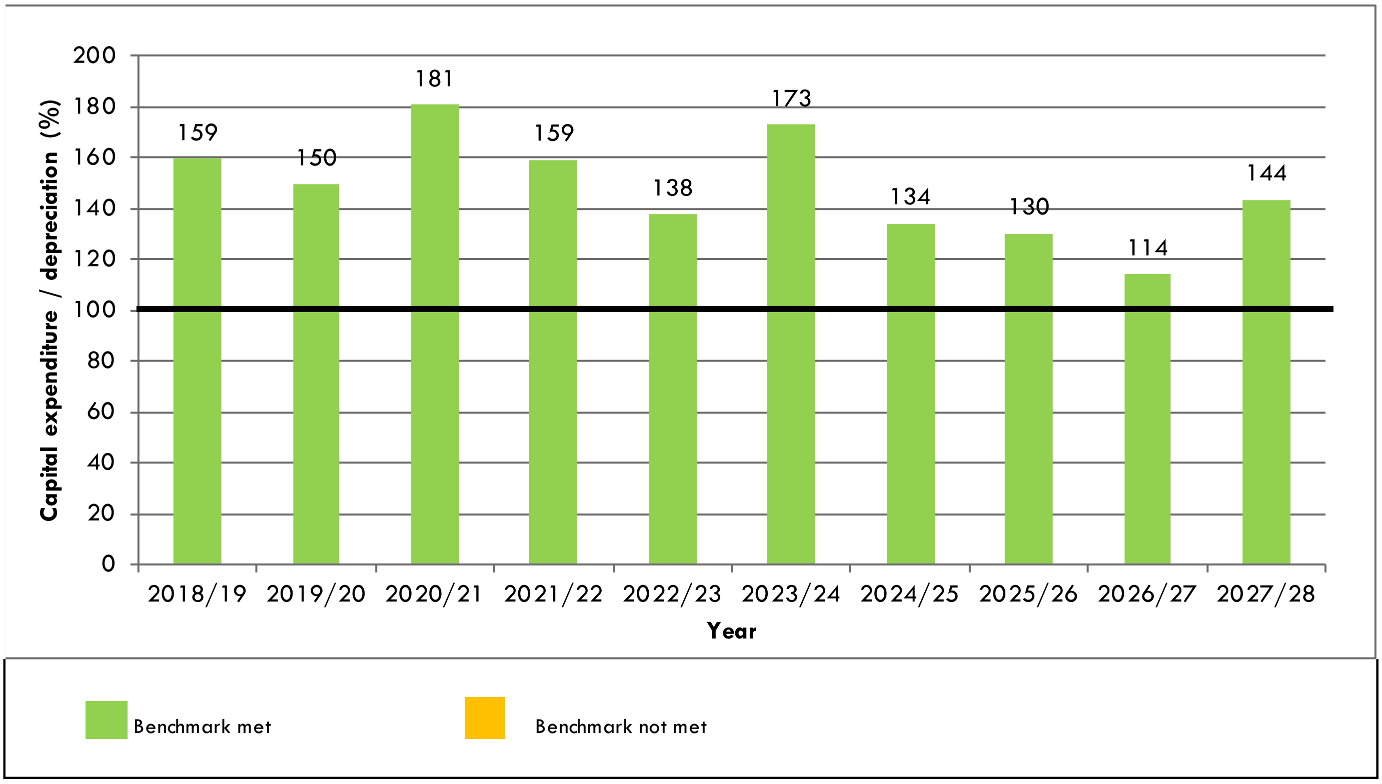
The council meets the debt affordability benchmark if its planned borrowing is within each quantified limit on borrowing.

The following graph compares the council's planned debt with a quantified limit on borrowing contained in the financial strategy included in this long-term plan. The quantified limit is that net external borrowings are not to exceed 150% of revenue. Net external borrowings are defined as external debt and overdraft less cash balances and deposits.



Essential services benchmark

The following graph displays the council's planned capital expenditure on network services as a proportion of expected depreciation on network services. The council meets this benchmark if its planned capital expenditure on network services equals or is greater than expected depreciation on network services.



Debt servicing benchmark

The following graph displays the council's planned borrowing costs as a proportion of planned revenue (excluding development contributions, financial contributions, vested assets, gains on derivative financial instruments, and revaluations of property, plant, or equipment).

Because Statistics New Zealand projects the council's population will not grow faster than the national population growth rate, it meets the debt servicing benchmark if its borrowing costs equal or are less than 10% of its revenue.