Quality City Council

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

Illustrative financial statements for year ended 30 June 2022

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Foreword

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

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

The PBE Standards applied in these illustrative financial statements are those that are effective for annual periods beginning on or before 1 January 2021.

COVID-19 significantly impacted the world economy in 2021 and may continue to do so in the years to come. This publication provides a reminder of the existing disclosure requirements that should be considered when reporting on the financial effects of the COVID-19 pandemic in PBE Standards financial statements.

Stakeholders are increasingly interested in the impact of climate change on entities' business models, cash flows, financial position and financial performance. While PBE Standards do not explicitly refer to climate-related matters, entities must consider them in applying PBE Standards when the effect of those matters is material.

PBEs that early adopted PBE IPSAS 41 *Financial Instruments* in the current financial year can find relevant disclosures in Appendix 12, Appendix 13 and Appendix 14. These Appendices provide illustrative examples of the new financial instruments disclosures. We recommend you contact one of the EY member firms' Assurance partners or a member of the EY Financial Accounting Advisory Services team for more information about the new financial instruments standard.

Caveat

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

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

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Abbreviations and key

Abbreviations

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

FMC 2013	Financial Markets Conduct Act 2013
FRA 2013	Financial Reporting Act 2013
FRA 1993	Financial Reporting Act 1993
LGA	Local Government Act 2002
LG (FRP)R	Local Government Financial Reporting and Prudence Regulation 2014
IPSAS	International Public Sector Accounting Standards
IPSASB	International Public Sector Accounting Standards Board
NZASB	New Zealand Accounting Standards Board
NZ GAAP	New Zealand Generally Accepted Accounting Practice
PBE	Public Benefit Entity
PBE Standards	Public Benefit Entity Standards issued by the External Reporting Board (XRB) or the New Zealand Accounting Standards Board of the XRB
PBE IPSAS 3.9	Public Benefit Entity International Public Sector Accounting Standard 3, paragraph 9
PBE IFRS 5.6	Public Benefit Entity International Financial Reporting Standard 5, paragraph 6
PBE IAS 12.2	Public Benefit Entity International Accounting Standard 12, paragraph 2
PBE FRS 47.4	Public Benefit Entity Financial Reporting Standard 47, paragraph 4
PFA	Public Finance Act 1989
RDR	Reduced Disclosure Regime
XRB	External Reporting Board
Commentary	The commentary explains how the requirements of PBE Standards have been interpreted in arriving at the illustrative disclosure
COVID-19 Commentary	This edition of Quality City Council provides commentary on issues that an entity may need to consider due to the impact of the COVID-19 pandemic

Key

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

Introduction

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

Quality City Council is a fictitious local authority in New Zealand with a reporting date of 30 June 2022.

Objective

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

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

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

How to use this publication

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

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

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

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

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

First-time adoption of PBE Standards

Starting from 1 January 2021, upon transition to PBE Standards, PBEs must apply PBE FRS 47 *First-time Adoption of PBE Standards* (PBE FRS 47). PBE FRS 47 is only applicable to the first set of financial statements prepared under PBE Standards. The vast majority of Tier 1 and Tier 2 PBEs will have transitioned to PBE Standards in the 2015 or 2016 financial year. Therefore, we have not included illustrative disclosures for these standards in the main body of this publication.

However, for those PBEs that apply PBE Standards for the first time in the 2021/2022 financial year (for example, a PBE that has moved from Tier 3 (or Tier 4) to Tier 2 (or Tier 1) of the PBE accounting standards framework), we have included the disclosures required by PBE FRS 47 in Appendix 5.

Applicability to Tier 1 and Tier 2 PBEs

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

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

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

Commentaries and references to PBE Standards

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

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

Accounting policy choices

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

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

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

Annual report disclosures required of public sector PBEs by legislation

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

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

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

Consolidated and separate financial statements

There is no requirement in PBE Standards for the separate financial statements of a controlling entity to accompany the consolidated financial statements of a group. However, the LGA (Schedule 10, paragraph 29) does require both the separate financial statements of the local authority and the authority's consolidated financial statements to be included in the local authority's annual report. Therefore, Quality City Council presents the Council's separate financial statements in addition to its consolidated financial statements. Other public sector PBEs should refer to their governing legislation to ascertain whether they have a statutory requirement to present separate parent financial statements in addition to consolidated financial statements.

Budget

For many public sector entities, there is a statutory requirement to disclose a budgeted statement of comprehensive revenue and expense and a budgeted statement of financial position as part of the annual report. As a local authority, Quality City Council is required to present these budgeted financial statements in its annual report by Schedule 10, section 29, paragraph 2 of the LGA. A similar requirement is contained in section 45B of the Public Finance Act 1989 (PFA) for government departments, and in section 154(3)(c) of the Crown Entities Act 2004 for Crown entities.

In addition to the statutory requirement to disclose budgeted statements, PBE Standards also require certain disclosures in relation to budgeted statements, what is referred to general purpose prospective financial statements in PBE Standards. If an entity publishes its general purpose prospective financial statements (previously referred to as 'approved budget'), paragraph 21(e) of PBE IPSAS 1 *Presentation of Financial Statements* (PBE IPSAS 1) requires the entity to present a comparison of the prospective financial statements with the historical financial statements being reported. For a public sector PBE, this comparison must be disclosed on the face of the financial statements or as a separate statement. Quality City Council has opted to present the comparison of the prospective financial statements with the historical financial statements on the face of its financial statements. When a not-for-profit PBE is required to present general purpose prospective financial statements, the comparison of the prospective financial statements with the historical financial statements must be presented on the face of the financial statements, in a separate statement or in the notes.

Statement of Service Performance

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

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

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

In November 2017, New Zealand Accounting Standards Board (NZASB) issued PBE FRS 48 *Service Performance Reporting* (PBE FRS 48). Under PBE FRS 48, all public sector PBEs whose legislation requires service performance reporting and all not-for-profit PBEs are required to present service performance information as per the requirements set out in this new standard. PBEs within the scope of PBE FRS 48 will need to provide users with:

- Sufficient contextual information to understand why the entity exists, what it intends to achieve in broad terms over the medium to long term, and how it goes about this, and
- Information about what the entity has done during the reporting period in working towards its broader aims and objectives.

The standard is initially effective for reporting periods beginning on or after 1 January 2022. Early adoption is permitted. In August 2020, the NZASB published *2020 Amendments to PBE FRS 48 -* Deferral of effective date to 1 January 2022. The amendments defer the effective date of PBE FRS 48 by one year (from 1 January 2021 to 1 January 2022). The standard remains available for early adoption.

This publication includes the example of disclosure of service performance information required by PBE FRS 48 in Appendix 8.2. We recommend you contact one of the EY member firms' Assurance partners or a member of the EY Financial Accounting Advisory Services team for recent publications on and more information about this new standard.

Other PBE annual report disclosures required by legislation

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

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

Public Benefit Entities Application of the Accounting Standards Framework

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

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

- Tier 4 PBE Accounting Requirements that include the Tier 4 PBE Accounting Requirements to be applied by public sector PBEs or the Tier 4 PBE Accounting Requirements to be applied by not-for-profit PBEs, as relevant, as listed in Appendix E of XRB A1

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

Tier 1 and Tier 2 criteria for PBEs

Tier 1 PBEs

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

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

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

Definition of 'public accountability':

A PBE has public accountability if it:

- Meets the International Accounting Standards Board (IASB) definition of public accountability, or
- Is deemed to be publicly accountable in New Zealand

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

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

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

- An issuer of equity securities or debt securities under a regulated offer
- A manager of registered schemes (but only in respect of financial statements of a scheme or fund)
- A listed issuer
- A registered bank
- A licensed insurer
- A credit union
- A building society
- An FMC reporting entity or class of FMC reporting entities that is considered to have a higher level of public accountability by a notice issued by the FMA under section 461L(1)(a) of the FMC 2013

Unless exempted by statute or regulation from the requirement to prepare general purpose financial reports in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP).

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

Definition of 'large':

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

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

Tier 2 PBEs

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

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

- Does not have public accountability as defined above
- Is not large as defined above

PBE Standards applicable as at 30 June 2022

The PBE Standards applied in these illustrative financial statements are the versions that were in issue as at 31 March 2022 and effective for annual periods beginning on or before 1 July 2021. Standards issued, but not yet effective, as at 1 July 2021, have not been early adopted. It is important to note that the illustrative financial statements in this document will require continual updating as standards are issued and/or revised by the XRB. Therefore, if you are using this publication to assist in the preparation of your financial statements, it must be emphasised that this does not include changes arising from new and amended standards and interpretations issued after 31 March 2022.

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

Changes to PBE Standards

The following new standards and amendments became effective as at 1 July 2021:

- Amendments to PBE IPSAS 29, PBE IPSAS 30, PBE IPSAS 41, PBE IFRS 9 – *PBE Interest Rate Benchmark Reform – Phase 2*
- *2018 Omnibus Amendments to PBE Standards* - Amendments to PBE IPSAS 2
- PBE IPSAS 40 *PBE Combinations*
- *Revocation of PBE FRS 46*
- Amendments to PBE FRS 47 – *Withdrawal of PBE FRS 46*

Climate-related matters and financial reporting

Stakeholders are increasingly interested in the impact of climate change on entities' business models, cash flows, financial position and financial performance. While PBE Standards do not explicitly refer to climate-related matters, entities must consider them in applying PBE Standards when the effect of those matters is material.

While PBE Standards is still silent on climate-related matters, the IASB has released educational material on IFRS Standards and climate risks which entities could make reference to when they are preparing their financial statements under PBE Standards. Entities that are considering climate change in their financial statements could refer to our publication, *IFRS Developments: Effects of climate-related matters on financial statements* (https://www.ey.com/en_gl/ifrs-technical-resources/iasb-releases-educational-material-on-ifrs-standards-and-climate-risks) (November 2020).

A Climate-related Disclosure Framework for Aotearoa New Zealand

The External Reporting Board (XRB) is establishing a climate-related disclosure framework for Aotearoa New Zealand. The framework is enabled by the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Bill, which has been passed into law in late 2021. As a result, Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021 (the Act) was issued in Oct 2021.

The Act makes it mandatory for climate reporting entities to prepare climate statements in accordance with the climate-related disclosure framework issued by the XRB in their annual reports for accounting periods that commence on or after the date on which the XRB issues the first climate standard that applies to the entity. XRB expects entities will be required to disclose according to the standard for accounting periods that commence on or after 1 January 2023 based on the current timeline.

The climate-related disclosure framework will comprise at least two standards and one authoritative notice:

- *Aotearoa New Zealand Climate Standard 1: Climate-related Disclosures (NZ CS 1)*
- *Aotearoa New Zealand Climate Standard 2: Adoption of Climate-related Disclosures (NZ CS 2)*
- *Aotearoa New Zealand Climate-related Disclosures Concepts (NZ CRDC)*

The proposed NZ CS 1 consists of four sections: Governance, Strategy, Risk Management, and Metrics and Targets. The XRB issued the draft sections on Governance and Risk Management for consultation in October 2021 and draft sections on Strategy, and Metrics and Targets in March 2022, respectively. The XRB expects to issue a full exposure draft covering all sections in July 2022 and the final standards by December 2022.

The Governance section of NZ CS 1 aims to provide primary users with an understanding of both the board and management's role in overseeing, assessing and managing climate-related issues. An entity must disclose (a) a description of the board's oversight of climate-related risks and climate-related opportunities; and (b) a description of management's role in assessing and managing climate-related risks and climate-related opportunities.

The Risk Management section of NZ CS 1 aims to provide primary users with an understanding of the quality of the processes an entity uses for identifying, assessing and managing climate-related risks, and how these are integrated into an entity's overall risk management processes. An entity must disclose (a) a description of its processes for identifying and assessing climate-related risks, (b) a description of its processes for managing climate-related risks and (c) a description of how its processes for identifying, assessing, and managing climate-related risks are integrated into its overall risk management.

The Strategy section of NZ CS 1 is expected to provide primary users with an understanding of the actual and potential impacts of climate-related risks and opportunities on the entity's businesses, strategy, and financial planning where such information is material. An entity is expected to be required to disclose (a) the climate-related risks and opportunities the organisation has identified over the short, medium, and long term, (b) the impact of climate-related risks and opportunities on the entity's businesses, strategy, and financial reporting and (c) the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C higher or lower scenario.

The Metrics and Targets section of NZ CS 1 is expected to provide primary users with an understanding of the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material. An entity is expected to be required to disclose (a) the metrics used by the entity to assess climate-related risks and opportunities in line with its strategy and risk management process, (b) Scope 1, Scope 2 and, if appropriate Scope 3 greenhouse gas (GHG) emissions and the related risks, and (c) the targets used by the entity to manage climate-related risks and opportunities and performance against targets.

The proposed NZ CS 2 includes various adoption provisions for entities in relation to Strategy, and Metrics and Targets. The proposed NZ CRDC is an authoritative notice containing climate-related disclosure concepts. When the full exposure draft of NZ CS 1 is issued for comment (anticipated to be July 2022), the draft documents for NZ CS 2 and NZ CRDC will also be published.

COVID-19

The COVID-19 outbreak was first reported near the end of 2019. Since then, the virus has spread worldwide. On 11 March 2020, the WHO declared the COVID-19 outbreak to be a pandemic.

COVID-19 significantly impacted the world economy in 2020 and 2021 and may continue to do so in the years to come. Many countries have imposed travel bans on millions of people and additionally people in many locations are subject to quarantine measures. Businesses are dealing with lost revenue and disrupted supply chains. Countries have imposed lockdowns in response to the pandemic and, as a result of the disruption to businesses, millions of workers have lost their jobs. The COVID-19 pandemic has also resulted in significant volatility in the financial and commodities markets worldwide. Numerous governments have announced and implemented measures to provide both financial and non-financial assistance to the affected entities.

These developments have presented entities with challenges in preparing their PBE Standards financial statements. This publication provides a reminder of the existing disclosure requirements that should be considered when reporting on the financial effects of the COVID-19 pandemic in PBE Standards financial statements. However, as the impact largely depends on the nature of an entity's business and the extent to which it has been affected, the potential impact has not been illustrated in the numbers reported.

The COVID-19 pandemic affects the assumptions and estimation uncertainty associated with the measurement of assets and liabilities. Therefore, entities should carefully consider whether additional disclosures are necessary in order to help users of financial statements understand the judgements applied in their financial statements.

The purpose of the COVID-19 commentaries is to aid entities in making their assessments as to what the likely COVID-19 impact is on recognition, measurement, presentation, and disclosures. Entities should consider the latest guidance released by regulatory bodies together with those presented in Quality City Council.

In New Zealand, as part of the Government's COVID-19: *Economic Response Package*, depreciation deductions were reintroduced for new and existing industrial and commercial buildings, including hotels and motels. The change in tax legislation on depreciation deductions may have a significant impact on many entities preparing financial statements. Our publication *Deferred tax update – Reinstatement of tax depreciation on commercial and industrial buildings (Updated July 2020)* addresses the accounting impact.

Quality City Council

Financial Statements

30 June 2022

Commentary

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

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

Please note: International Standard on Auditing (ISA) (NZ) 700 (Revised) and key audit matters

For periods ending on or after 15 December 2016, ISA (NZ) 700 (Revised) *Forming an Opinion and Reporting of Financial Statements* requires an auditor of a listed entity to disclose in its report key audit matters which, in the auditor's professional judgement, were of most significance in their audit of the consolidated financial statements for the current period. This requirement will also apply to other FMC 2013 reporting entities with higher public accountability in periods ending 31 December 2018 and onwards. In addition, ISA (NZ) 700 (Revised) requires reporting on other information in an entity's annual report as well as specific reporting requirements when a material uncertainty related to going concern exists. Although most public sector and not-for-profit PBEs are not listed entities or FMC 2013 reporting entities, certain PBEs may wish the audit report on their financial statements to comply with the requirements of ISA (NZ) 700 (Revised). However, this publication is not intended to provide guidance on the application of ISA (NZ) 700 (Revised).

Statement of compliance and responsibility

Statutory disclosure only (required by LGA but not by PBE Standards)

LGA.Schedule 10.34

Statement of compliance

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

Statement of responsibility

The Council and management accept responsibility for the preparation of the annual financial statements and judgements used in them, and hereby adopt the financial statements as presented. They also accept responsibility for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting and service performance reporting. In the opinion of the Council and management, the annual financial statements for the year ended 30 June 2022 fairly reflect the financial position, financial performance and service performance achievements of Quality City Council and Group.

K O'Cork
Chief Executive
25 September 2022

G N Betten
Mayor
25 September 2022

Commentary

The LGA requires local authorities to state in their annual report that all statutory requirements in relation to their annual report have been complied with. The statement must be signed by the mayor (or chairperson) and the CEO of the local authority.

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

The PFA requires government departments and Crown entities to disclose a statement of responsibility. This statement needs to state the department's CEO's responsibility for:

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

Statement of financial performance

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

For the year ended 30 June 2022

PBE IPSAS 1.63(c)

	Note	Group 2022 Actual $000	Group 2021 Actual – restated* $000	Council 2022 Actual $000	Council 2022 Forecast $000	Council 2021 Actual – restated* $000	Reference
							PBE IPSAS 1.63(b); PBE IPSAS 1.53; PBE IPSAS 1.21(e); LGA Schedule 10.29; PBE IPSAS 1.63(d), (e)
Revenue from non-exchange transactions							*PBE IPSAS 23.106(a)*
Rates revenue	9	75,197	73,682	75,197	75,347	73,682	*LG(FRP)R.5(2)(a)*
Fines		920	768	920	1,070	768	
Government grants	10	10,503	8,132	10,503	9,520	8,132	*LG(FRP)R.5(2)(c)*
Concessionary loan	11	329	-	329	329	-	
Direct charges revenue – subsidised	12	13,476	12,704	12,976	12,872	12,204	
Property, plant and equipment acquired in non-exchange transactions	22	2,190	2,150	2,190	2,190	2,150	
Revenue from exchange transactions							*PBE IPSAS 9.39(b)*
Direct charges revenue – full cost recovery	13	107,341	92,517	720	550	1,871	
Development contributions		3,641	3,741	3,641	4,005	3,741	*LG(FRP)R.5(2)(b)*
Rental revenue	23	1,404	1,377	1,404	1,405	1,377	
Dividends		-	-	521	523	638	*PBE IPSAS 9.39(b)(v)*
Revenue from service concession arrangement	26	55	-	55	55	-	
Other revenue	18	1,382	2,007	132	139	501	
Total revenue		**216,438**	**197,078**	**108,588**	**108,005**	**105,064**	*PBE IPSAS 1.99.1(a)*
Expenses							*PBE IPSAS 1.113*
Employee costs	14	(35,880)	(35,153)	(18,940)	(18,807)	(17,577)	
Remuneration of key management personnel	39	(538)	(527)	(538)	(539)	(527)	
Depreciation and amortisation	22, 24	(23,971)	(23,204)	(18,381)	(18,384)	(17,705)	
General expenses	15	(136,552)	(123,587)	(58,927)	(58,637)	(58,600)	
Other expenses	19	(2,231)	(300)	(664)	(697)	(300)	
Total expenses		**(199,172)**	**(182,771)**	**(97,450)**	**(97,064)**	**(94,709)**	
Finance costs	17	(1,264)	(1,123)	(931)	(978)	(797)	*PBE IPSAS 1.99.1(b)*
Finance income	16	520	295	467	490	243	
Net finance costs		**(744)**	**(828)**	**(464)**	**(488)**	**(554)**	
Share of surplus of an associate and a joint venture	7, 8	671	638	-	-	-	*PBE IPSAS 1.99.1(c)*
Surplus before income tax		**17,193**	**14,117**	**10,674**	**10,453**	**9,801**	
Income tax expense	21	(1,814)	(1,119)	-	-	-	*PBE IPSAS 1.99.1(d)*
Surplus for the year		**15,379**	**12,998**	**10,674**	**10,453**	**9,801**	*PBE IPSAS 1.99.1(f)*
Surplus for the year is attributable to:							
Non-controlling interest		288	239	-	-	-	*PBE IPSAS 1.98.2(a)(i)*
Council		15,091	12,759	10,674	10,453	9,801	*PBE IPSAS 1.98.2(a)(ii)*
		15,379	12,998	10,674	10,453	9,801	

*Certain amounts shown here do not correspond to the 2021 financial statements and reflect adjustments made. Refer to Note 2(b).

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

Commentary

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

Neither PBE IPSAS 1 nor PBE IPSAS 34 *Separate Financial Statements* (PBE IPSAS 34) requires the separate financial statements of the controlling entity to accompany the consolidated financial statements of the Group. However, the LGA does require both the separate financial statements of the local authority and the authority's consolidated financial statements to be included in the local authorities' annual report (LGA, Schedule 10.29(1)(a)-(b)). Therefore, Quality City Council presents the Council's separate financial statements in addition to the consolidated financial statements.

As a local authority, Quality City Council is required to present budgeted financial statements in its annual report in accordance with Schedule 10, section 29, paragraph 2 of the LGA. A similar requirement is contained in the PFA (section 45B) for government departments, and in the Crown Entities Act 2004 (section 154(3)(c)) for Crown entities. In addition to statutory requirements to present budgeted information, PBE IPSAS 1.21(e) also requires an entity that makes its general purpose prospective financial statements (previously referred to as 'approved budget') publicly available to present a comparison between the prospective financial statements and actual amounts recorded. A public sector PBE is required to present this comparison either as a separate additional financial statement or on the face of the financial statements (i.e. statement of comprehensive revenue and expense, statement of financial position, etc.). Quality City Council has elected the latter option and presents prospective financial information in a forecast column of its primary financial statements. A not-for-profit PBE may present this comparison either as a separate financial statement, on the face of the primary financial statements or in the notes.

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

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

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

PBE IPSAS 1.88(g), (h) requires differentiation between receivables from exchange transactions and receivables from non-exchange transactions. Paragraph 106(a) of PBE IPSAS 23 *Revenue from Non-Exchange Transactions* (PBE IPSAS 23) also requires revenue from non-exchange transactions to be disclosed separately, either on the face of the statement of financial performance or in the notes to the financial statements. Quality City Council has elected to present this information on the face of the statement of financial performance.

PBE IPSAS 1.109 requires expenses to be analysed either by their nature or by their function – whichever one that provides information that is reliable and more relevant to users of the financial statements. This analysis can be disclosed either on the face of the statement of comprehensive revenue and expense, the statement of financial performance or in the notes. However, entities are encouraged to present this analysis on the face of the statement of comprehensive revenue and expense (PBE IPSAS 1.110), which Quality City Council has adopted.

Quality City Council has presented the analysis of expenses by nature. In Appendix 2, the statement of financial performance is presented with an analysis of expenses by function. If expenses are analysed by function, information about the nature of expenses must be disclosed in the notes.

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

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

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

The Group have disclosed rates revenue, grant revenue and development contributions separately in the statement of financial performance, as this disclosure is a specific requirement of the LG (FRP)R. This requirement does not apply to other types of PBEs.

NB: First-time Adopters of PBE Standards: Refer to Appendix 5 for additional requirements.

Statement of comprehensive revenue and expense

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

For the year ended 30 June 2022

PBE IPSAS 1.63(c)

	Note	Group		Council			
		2022 Actual $000	2021 Actual - restated* $000	2022 Actual $000	2022 Forecast $000	2021 Actual - restated* $000	*PBE IPSAS 1.63(b)* *PBE IPSAS 1.53* *PBE IPSAS 1.21(e)* *LGA Schedule 10.29* *PBE IPSAS 1.63(d), (e)*
Surplus for the year		**15,379**	**12,998**	**10,674**	**10,453**	**9,801**	*PBE IPSAS 1.98.1(a)*
Other comprehensive revenue and expense, net of tax							*PBE IPSAS 1.103.1(a)* *PBE IPSAS 1.103.3(a)*
Net gains/(losses) on available-for-sale financial assets	20	(57)	3	(57)	-	3	*PBE IPSAS 1.103.3(a)*
Net movement in cash flow hedges	20	(512)	24	-	-	-	
Revaluation gain on property, plant and equipment	22	24,300	-	20,718	20,685	-	
Share of other comprehensive revenue and expense of an associate		11	-	11	10	-	*PBE IPSAS 1.103.1(b)*
Other comprehensive revenue and expense for the year, net of tax		**23,742**	**27**	**20,672**	**20,695**	**3**	*PBE IPSAS 1.98.1(b)*
Total comprehensive revenue and expense for the year, net of tax		**39,121**	**13,025**	**31,346**	**31,148**	**9,804**	*PBE IPSAS 1.98.1(c)*
Total comprehensive revenue and expense for the year is attributable to:							
Non-controlling interest		288	239	-	-	-	*PBE IPSAS 1.98.2(b)(i)*
Council		38,833	12,786	31,346	31,148	9,804	*PBE IPSAS 1.98.2(b)(ii)*
		39,121	**13,025**	**31,346**	**31,148**	**9,804**	

*Certain amounts shown here do not correspond to the 2021 financial statements and reflect adjustments made. Refer to Note 2(b).

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

Commentary

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

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

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

NB: First-time adopters of PBE Standards: Refer to Appendix 5 for additional requirements.

Statement of financial position

PBE IPSAS 1.21(a)
PBE IPSAS 1.61

As at 30 June 2022

PBE IPSAS 1.63(c)

	Note	Group		Council			
		2022 Actual	2021 Actual – restated*	2022 Actual	2022 Forecast	2021 Actual – restated*	
		$000	$000	$000	$000	$000	
Assets							PBE IPSAS 1.63(b) PBE IPSAS 1.53 PBE IPSAS 1.21(e) LGA Schedule 10.29 PBE IPSAS 1.63(d), (e)
Non-current assets							PBE IPSAS 1.70 PBE IPSAS 1.76
Property, plant and equipment	22	2,087,963	2,039,329	1,523,126	1,522,518	1,485,805	PBE IPSAS 1.88(a)
Investment properties	23	8,893	7,983	8,893	8,804	7,983	PBE IPSAS 1.88(b)
Intangible assets	24	6,019	2,513	2,558	2,669	2,283	PBE IPSAS 1.88(c)
Investments in Council-controlled organisations (CCOs) and similar entities	5	-	-	19,242	19,100	10,334	PBE IPSAS 1.88(d) LG(FRP)R.5(3)
Investments in an associate and a joint venture	7, 8	3,187	2,516	2,185	2,141	2,185	PBE IPSAS 1.88(e)
Non-current financial assets	27.1	6,425	3,491	4,323	4,237	2,338	PBE IPSAS 1.88(d)
		2,112,503	2,055,832	1,560,327	1,559,469	1,510,928	
Current assets							PBE IPSAS 1.70 PBE IPSAS 1.76
Inventories	28	3,262	4,085	1,470	1,378	2,123	PBE IPSAS 1.88(f)
Receivables from non-exchange transactions	29	13,006	11,416	12,530	12,580	10,940	PBE IPSAS 1.88(g)
Receivables from exchange transactions	30	14,666	12,874	11,455	11,512	9,785	PBE IPSAS 1.88(h)
Prepayments		244	165	122	120	82	
Other current financial assets	27.1	551	153	501	491	103	PBE IPSAS 1.88(d)
Cash and cash equivalents	31	16,669	33,480	6,033	5,173	29,567	PBE IPSAS 1.88(i)
		48,398	62,173	32,111	31,254	52,600	
Assets classified as held for sale	32	154	-	-	-	-	PBE IPSAS 1.88.1(a) PBE IFRS 5.38
		48,552	62,173	32,111	31,254	52,600	
Total assets		2,161,055	2,118,005	1,592,438	1,590,723	1,563,528	

*Certain amounts shown here do not correspond to the 2021 financial statements and reflect adjustments made. Refer to Note 2(b).

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

Statement of financial position *continued*

As at 30 June 2022

	Note	Group 2022 Actual $000	Group 2021 Actual – restated* $000	Council 2022 Actual $000	Council 2022 Forecast $000	Council 2021 Actual – restated* $000	Reference
							PBE IPSAS 1.21(a) PBE IPSAS 1.63(c) PBE IPSAS 1.53 PBE IPSAS1.21(e) LGA Schedule 10.29 PBE IPSAS 1.63(d), (e)
Liabilities							
Non-current liabilities							PBE IPSAS 1.70 PBE IPSAS 1.80
Interest-bearing loans and borrowings	27.2	20,346	21,703	14,186	14,044	15,277	PBE IPSAS1.88(m)
Other non-current financial liabilities	27.2	806	-	-	-	-	PBE IPSAS1.88(m)
Service concession liability	26	495	550	495	495	550	
Provisions	33	1,950	1,290	1,769	1,857	1,290	PBE IPSAS1.88(l)
Deferred revenue	34	1,860	2,582	1,860	2,359	2,582	
Other liabilities		263	284	132	130	188	
Deferred tax liabilities	21	3,197	1,778	-	-	-	PBE IAS 12.81(g)(i)
		28,917	**28,187**	**18,442**	**18,885**	**19,887**	
Current liabilities							PBE IPSAS 1.70 PBE IPSAS 1.80
Payables under exchange transactions	36	19,820	21,073	14,642	14,349	15,516	PBE IPSAS 1.88(k)
Interest-bearing loans and borrowings	27.2	2,460	2,775	2,377	2,329	2,724	PBE IPSA S1.88(m)
Other current financial liabilities	27.2	3,040	303	87	87	49	PBE IPSAS 1.88(m)
Deferred revenue	34	729	741	729	714	741	
Income tax payable		961	313	-	-	-	PBE IPSAS 1.88(j)
Employee benefits liability	35	3,050	2,977	1,830	1,793	1,786	
Provisions	33	850	85	245	240	85	PBE IPSAS 1.88(l)
		30,910	**28,267**	**19,910**	**19,512**	**20,901**	
Total liabilities		**59,827**	**56,454**	**38,352**	**38,397**	**40,788**	
Net assets		**2,101,228**	**2,061,551**	**1,554,086**	**1,552,326**	**1,522,740**	
Equity							
Equity attributable to owners of the controlling entity							PBE IPSAS 1.88(o)
Accumulated comprehensive revenue and expense		943,397	928,445	751,130	749,327	740,405	PBE IPSAS 1.95(b)
Reserves:							PBE IPSAS 1.95(c)
Asset revaluation reserve	37	1,124,608	1,100,297	770,876	770,842	750,147	
Available-for-sale reserve	37	(54)	3	(54)	3	3	
Cash flow hedge reserve	37	(582)	(70)	-	-	-	
Targeted rates reserve	37	15,849	15,653	15,849	15,853	15,653	
Special projects reserve	37	16,285	16,532	16,285	16,301	16,532	
Total equity attributable to the Council		**2,099,503**	**2,060,860**	**1,554,086**	**1,552,326**	**1,522,740**	PBE IPSAS 1.88(o)
Non-controlling interest		1,725	691	-	-	-	PBE IPSAS 1.88(n) PBE IPSAS 1.95(d)
Total equity		**2,101,228**	**2,061,551**	**1,554,086**	**1,552,326**	**1,522,740**	

*Certain amounts shown here do not correspond to the 2021 financial statements and reflect adjustments made. Refer to Note 2(b).

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

For and on behalf of the Council, who authorise the issue of these financial statements on 25 September 2022:

K O'Cork
Chief Executive
25 September 2022

G N Betten
Mayor
25 September 2022

Commentary

For many PBEs, there is a statutory requirement to disclose both a budgeted statement of comprehensive revenue and expense and a budgeted statement of financial position as part of their annual report. Users should refer to the commentary on the statement of financial performance for an explanation of the forecast column.

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

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

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

NB: First-time adopters of PBE Standards: Refer to Appendix 5 for additional requirements.

Statement of changes in net assets/equity

PBE IPSAS 1.21(c)

For the year ended 30 June 2022

PBE IPSAS 1.63(c)

Group

PBE IPSAS 1.63(b)

PBE IPSAS 1.119(b), (c)
PBE IPSAS 1.53
PBE IPSAS 1.63(d), (e)

	Note	Accumulated comprehensive revenue and expense $000	Asset revaluation reserve $000	Available-for-sale reserve $000	Cash flow hedge reserve $000	Targeted rates reserve $000	Special projects reserve $000	Total equity attributable to the Council $000	Non-controlling interest $000	Total equity $000
As at 1 July 2021		928,445	1,100,297	3	(70)	15,653	16,532	2,060,860	691	2,061,551
Surplus for the year		15,091	-	-	-	-	-	15,091	288	15,379
Other comprehensive revenue and expense	37	-	24,311	(57)	(512)	-	-	23,742	-	23,742
Total comprehensive revenue and expense for the year		15,091	24,311	(57)	(512)	-	-	38,833	288	39,121
Net transfers (from)/to targeted rates reserve	37	(196)	-	-	-	196	-	-	-	-
Net transfers to/(from) special projects reserve	37	247	-	-	-	-	(247)	-	-	-
Transactions with owners in their capacity as owners:										
Acquisition of controlled entity	6	-	-	-	-	-	-	-	1,547	1,547
Acquisition of non-controlling interest	6	(190)	-	-	-	-	-	(190)	(801)	(991)
		(139)	-	-	-	196	(247)	(190)	746	556
As at 30 June 2022		943,397	1,124,608	(54)	(582)	15,849	16,285	2,099,503	1,725	2,101,228

PBE IPSAS 1.118(b)
PBE IPSAS 1.118(a)
PBE IPSAS 1.119(a)

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

Statement of changes in net assets/equity *continued*

PBE IPSAS 1.21(c)
PBE IPSAS 1.53

For the year ended 30 June 2021 (restated*) *PBE IPSAS 1.63(c)*

Group *PBE IPSAS 1.63(b)*

	Note	Accumulated comprehensive revenue and expense $000	Asset revaluation reserve $000	Available-for-sale reserve $000	Cash flow hedge reserve $000	Targeted rates reserve $000	Special projects reserve $000	Total equity attributable to the Council $000	Non-controlling interest $000	Total equity $000	*PBE IPSAS 1.63(b)* *PBE IPSAS 1.119(b), (c)* *PBE IPSAS 1.63(d), (e)*
As at 1 July 2020		915,046	1,100,297	-	(94)	15,770	16,805	2,047,824	501	2,048,325	
Adjustment for prior period error, net of tax	2(b)	250	-	-	-	-	-	250	-	250	*PBE IPSAS 1.118(b)*
As at 1 July 2020 (restated*)		915,296	1,100,297	-	(94)	15,770	16,805	2,048,074	501	2,048,575	
Surplus for the year as reported in 2020 financial statements		12,509	-	-	-	-	-	12,509	239	12,748	
Adjustment on correction of error	2(b)	250						250	-	250	*PBE IPSAS 1.118(b)* *PBE IPSAS 1.124*
Other comprehensive revenue and expense	37	-	-	3	24	-	-	27	-	27	
Total comprehensive revenue and expense for the year		12,759	-	3	24	-	-	12,786	239	13,025	*PBE IPSAS 1.118(a)*
Net transfers to/(from) targeted rates reserve	37	117	-	-	-	(117)	-	-	-	-	
Net transfers to/(from) special projects reserve	37	273	-	-	-		(273)	-	-	-	
Transactions with owners in their capacity as owners:											*PBE IPSAS 1.119(a)*
Dividend paid to non-controlling interest		-	-	-	-	-	-	-	(49)	(49)	
		390	-	-	-	(117)	(273)	-	(49)	(49)	
As at 30 June 2021 (restated*)		928,445	1,100,297	3	(70)	15,653	16,532	2,060,860	691	2,061,551	

*Certain amounts shown here do not correspond to the 2020 financial statements and reflect adjustments made. Refer to Note 2(b).

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

Statement of changes in net assets/equity *continued*

PBE IPSAS 1.21(c)
PBE IPSAS 1.53

For the year ended 30 June 2022 *PBE IPSAS 1.63(c)*

Council *PBE IPSAS 1.63(b)*

	Note	Accumulated comprehensive revenue and expense $000	Asset revaluation reserve $000	Available-for-sale reserve $000	Cash flow hedge reserve $000	Targeted rates reserve $000	Special projects reserve $000	Total $000	
									PBE IPSAS 1.119(b), (c) *PBE IPSAS1.63(d), (e)*
As at 1 July 2021		740,405	750,147	3	-	15,653	16,532	1,522,740	*PBE IPSAS 1.118(b)*
Surplus for the year		10,674	-	-	-			10,674	
Other comprehensive revenue and expense	37	-	20,729	(57)	-			20,672	
Total comprehensive revenue and expense for the year		10,674	20,729	(57)	-	-	-	31,346	*PBE IPSAS 1.118(a)*
Net transfers (from)/to targeted rates reserve	37	(196)	-	-	-	196	-	-	
Net transfers to/(from) special projects reserve	37	247	-	-	-	-	(247)	-	
		51	-	-	-	196	(247)	-	
As at 30 June 2022		751,130	770,876	(54)	-	15,849	16,285	1,554,086	

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

Statement of changes in net assets/equity *continued*

PBE IPSAS 1.53

For the year ended 30 June 2021 (restated*) *PBE IPSAS 1.63(c)*

Council *PBE IPSAS 1.63(b)*

	Note	Accumulated comprehensive revenue and expense	Asset revaluation reserve	Available-for-sale reserve	Cash flow hedge reserve	Targeted rates reserve	Special projects reserve	Total	*PBE IPSAS 1.119(b), (c)*
		$000	$000	$000	$000	$000	$000	$000	*PBE IPSAS1.63(d), (e)*
As at 1 July 2020		729,964	750,147	-	-	15,770	16,805	1,512,686	
Adjustment for prior period error, net of tax	2(b)	250	-	-	-	-	-	250	*PBE IPSAS 1.118(b)*
As at 1 July 2020 (restated*)		730,214	750,147	-	-	15,770	16,805	1,512,936	
Surplus for the year as reported in the 2020 financial statements		9,551	-	-	-	-		9,551	
Adjustment on correction of error	2(b)	250	-	-	-	-	-	250	*PBE IPSAS 1.118(b)*
Other comprehensive revenue and expense	37	-	-	3	-	-	-	3	*PBE IPSAS 1.124*
Total comprehensive revenue and expense for the year		9,801	-	3	-	-	-	9,804	*PBE IPSAS 1.118(a)*
Net transfers to/(from) targeted rates reserve	37	117	-	-	-	(117)	-	-	
Net transfers to/(from) special projects reserve	37	273	-	-	-	-	(273)	-	
		390	-	-	-	(117)	(273)	-	
As at 30 June 2021 (restated*)		740,405	750,147	3	-	15,653	16,532	1,522,740	

*Certain amounts shown here do not correspond to the 2021 financial statements and reflect adjustments made. Refer to Note 2(b).

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

Commentary

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

Paragraph 38 of PBE IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* (PBE IFRS 5) requires items recognised in OCRE related to a discontinued operation to be separately disclosed. Since the Group does not have any discontinued operations this disclosure has not been provided.

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

NB: First-time adopters of PBE Standards: Refer to Appendix 5 for additional requirements.

Statement of cash flows

PBE IPSAS 1.21(d)

For the year ended 30 June 2022

PBE IPSAS 1.63(c)

	Note	Group 2022 Actual $000	Group 2021 Actual $000	Council 2022 Actual $000	Council 2022 Forecast $000	Council 2021 Actual $000	Reference
							PBE IPSAS 1.63(b); PBE IPSAS 1.53; LGA Schedule 10.29; PBE IPSAS 1.63(d), (e)
Cash flows from operating activities							PBE IPSAS 2.27(a)
Receipts from rates		74,617	73,580	74,617	74,990	73,580	PBE IPSAS 2.22(a)
Receipts from fines, penalties and levies		796	692	796	896	692	PBE IPSAS 2.22(a)
Receipts from other goods and services provided to customers – non-exchange transactions		13,839	13,257	14,339	12,855	11,757	PBE IPSAS 2.22(b)
Receipts from grants and subsidies		9,169	15,992	9,169	9,077	15,992	PBE IPSAS 2.22(c)
Receipts from other goods and services provided to customers – exchange transactions		109,869	95,348	2,370	3,382	4,772	PBE IPSAS 2.22(b)
Interest received		520	295	467	467	243	PBE IPSAS 2.40
Dividends received		-	-	521	522	638	PBE IPSAS 2.40
Payments to suppliers		(133,574)	(126,828)	(56,345)	(58,374)	(60,681)	PBE IPSAS 2.22(i)
Payments to employees		(36,345)	(35,748)	(19,434)	(19,337)	(18,162)	PBE IPSAS 2.22(j)
Grants, contributions and sponsorships paid		(1,580)	(1,679)	(1,780)	(1,771)	(1,879)	
Interest paid		(646)	(1,030)	(541)	(538)	(762)	PBE IPSAS 2.40
Income tax paid		(396)	(698)	-	-	-	PBE IPSAS 2.22(l); PBE IPSAS 2.44
Net cash flows from operating activities	40	**36,269**	**33,181**	**24,179**	**22,169**	**26,190**	
Cash flows from investing activities							PBE IPSAS 2.31
Proceeds from sale of property, plant and equipment		1,208	2,336	1,406	1,266	779	PBE IPSAS 2.25(b)
Proceeds from sale of financial instruments		-	145	-	-	145	PBE IPSAS 2.25(d)
Purchase of property, plant and equipment		(46,282)	(41,959)	(34,387)	(33,205)	(30,537)	PBE IPSAS 2.25(a)
Purchase of investment property		(1,216)	(1,192)	(1,216)	(1,228)	(1,192)	PBE IPSAS 2.25(a)
Purchase of financial instruments		(3,054)	(225)	(2,399)	(2,424)	(107)	PBE IPSAS 2.25(c)
Purchase of intangibles		(449)	(630)	(449)	(453)	(630)	PBE IPSAS 2.25(a)
Acquisition of controlled entity		-	-	(7,687)	(7,557)	-	PBE IPSAS 2.49
Net cash flows used in investing activities		**(49,793)**	**(41,525)**	**(44,732)**	**(43,601)**	**(31,542)**	
Cash flows from financing activities							PBE IPSAS 2.31
Acquisition of non-controlling interest		(991)	-	(991)	(979)	-	
Proceeds from borrowings		2,496	8,526	654	661	8,326	PBE IPSAS 2.26(a)
Repayment of borrowings		(3,057)	(1,345)	(960)	(970)	(1,641)	PBE IPSAS 2.26(b)
Payment of finance lease liabilities		(51)	(76)	-	-	-	PBE IPSAS 2.26(c)
Dividends paid to non-controlling interest		-	(48)	-	-	-	PBE IPSAS 2.40
Net cash flows (used in)/from financing activities		**(1,603)**	**7,057**	**(1,297)**	**(1,288)**	**6,685**	
Net increase/(decrease) in cash and cash equivalents		(15,127)	(1,287)	(21,850)	(22,720)	1,333	
Cash and cash equivalents at beginning of year		30,830	32,117	26,917	26,917	25,584	
Cash and cash equivalents at end of year	31	**15,703**	**30,830**	**5,067**	**4,197**	**26,917**	

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

Commentary

Paragraph 27 of PBE IPSAS 2 *Cash Flow Statement* (PBE IPSAS 2) allows entities to report cash flows from operating activities using either the direct method or the indirect method. Quality City Council presents its cash flows using the direct method. A statement of cash flows prepared using the indirect method for operating activities is presented in Appendix 3 for illustrative purposes. When an entity uses the direct method to present its statement of cash flows, PBE IPSAS 2.29 requires entities to provide a reconciliation of the net cash flows from operating activities to the surplus or deficit before income tax in the notes to the financial statements.

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

Order of presentation of disclosures

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

NB: First-time adopters of PBE Standards: Refer to Appendix 5 for additional requirements.

Index to notes to the financial statements

Index to notes to the financial statements *continued*

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

1. Reporting entity

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

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

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

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

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

Pursuant to the LGA, Quality Museum Trust and Quality Property Management Ltd are council-controlled organisations.

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

The financial statements of the Council and its controlled entities (collectively the Group) for the year ended 30 June 2022 were authorised for issue by the Council on 25 September 2022. *PBE IPSAS 14.26*

Commentary

Content of summary of significant accounting policies

According to PBE IPSAS 1.132, a summary of significant accounting policies must include the following:

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

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

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

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

2. Summary of significant accounting policies

COVID-19 Commentary

Background

Entities need to consider the impact of COVID-19 in preparing their financial statements. While the specific areas of judgement may not change, the impact of COVID-19 resulted in the application of further judgement within those areas.

Although the financial year 2021 is the second annual reporting period impacted by the COVID-19 pandemic, the economic and financial impacts are still evolving, and further changes to estimates may need to be made in the measurement of entities' assets and liabilities still be necessary.

Entities should consider whether to disclose the measures they have taken, in line with the recommendations of the WHO and national health ministries, to preserve the health of their employees and support the prevention of contagion in their administrative and operational areas, such as working from home, reduced work shifts in operational areas to minimise the number of workers commuting, rigorous cleaning of workplaces, distribution of personal protective equipment, testing of suspected cases and measuring body temperature.

(a) Statement of compliance and basis of preparation

Statement of compliance

The financial statements have been prepared in accordance with the LGA. The financial statements comply with generally accepted accounting practice in New Zealand (NZ GAAP). *PBE IPSAS 1.28.2(a) LGA.111 PBE IPSAS 1.28.2(b)*

As the primary objective of the Group is to provide goods or services for community and social benefit, rather than for making a financial return, the Group are PBEs for the purpose of complying with NZ GAAP. *PBE IPSAS 1.28.2(c)*

The financial statements of the Group comply with Public Benefit Entity Standards (PBE Standards). *PBE IPSAS 1.28*

The financial statements of the Group comply with PBE Standards Reduced Disclosure Regime (PBE Standards RDR) and disclosure concessions have been applied. The Group is eligible to report in accordance with PBE Standards RDR because it does not have public accountability and is not large. *PBE IPSAS 1.RDR 28.1 PBE IPSAS 1.RDR 28.3*

Measurement base

The financial statements have been prepared on a historical cost basis, except for investment properties, some classes of property, plant and equipment, derivative financial instruments and available-for-sale investments, which have been measured at fair value. *PBE IPSAS 1.132(a)*

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars ($000) unless otherwise stated. *PBE IPSAS 1.63(d), (e)*

The Group has prepared the financial statements on the basis that it will continue to operate as a going concern.

Commentary

Basis of preparation

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

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

2. Summary of significant accounting policies *continued*

Commentary ***continued***

Statement of compliance with PBE Standards

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

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

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

Similarly, for government departments and Crown entities, the source of this requirement is the PFA (section 45B (1)) and the Crown Entities Act 2004 (section 154(2)) respectively. In compliance with the LGA, the Council has asserted compliance with NZ GAAP.

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

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

Going concern

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

Going concern disclosure

Under PBE IPSAS 1.38, an entity is required to disclose material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. When such material uncertainties exist, PBE IPSAS 1.41.1 requires the entity to disclose the following:

(a) that there are one or more material uncertainties related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern;
(b) information about the principal events or conditions giving rise to those material uncertainties;
(c) information about management's plans to mitigate the effect of those events or conditions; and
(d) that, as a result of those material uncertainties, it may be unable to realise its assets and discharge its liabilities in the normal course of business.

Further, when an entity prepares its financial statements on a going concern basis and management is aware of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, PBE IPSAS 1.41.2 requires the entity to disclose information about the significant judgements and assumptions made as part of its assessment of whether the going concern assumption is appropriate, if such information is not already disclosed in accordance with PBE IPSAS 1.137 and PBE IPSAS 1.140.

In the case of the Council, management is not aware of any material uncertainties that may cast significant doubt on the Council's ability to continue as a going concern. The financial statements have therefore been prepared on a going concern basis and no additional disclosures are made in these financial statements.

A statement that the financial statements are prepared on a going-concern basis is not a requirement of PBE Standards. However, it may be considered a "best practice" disclosure. Therefore, the Group decided to disclose the basis of preparation.

Entities should also considered the impact of climate-related matters on their going concern assessment. Climate-related matters may create material uncertainties related to events or conditions that cast significant doubt upon an entity's ability to continue as a going concern.

2. Summary of significant accounting policies *continued*

COVID-19 commentary

Going concern

Given the continued unpredictability of the impact of the COVID-19 outbreak, there may be material uncertainties that cast doubt on the entity's ability to operate as a going concern. PBE IPSAS 1.38 requires management, when preparing financial statements, to assess if an entity's ability to continue as a going concern, and whether the going concern assumption is appropriate. In assessing whether the going concern assumption is appropriate, the standard requires an entity to consider all available information about the future, which is at least, but not limited to, 12 months from the end of the reporting period. When an entity is aware, in making its going concern assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, it must disclose those uncertainties.

Entities will need to disclose the significant judgements made in the assessment of the existence of a material uncertainty.

When making that assessment, management takes into consideration the existing and anticipated effects of the outbreak on the entity's activities. Management should consider all available information about the future that was obtained after the reporting date, up until the date of which the financial statements are issued in their assessment of going concern. This includes, but is not limited to, measures taken by governments and banks to provide relief to affected entities. These disclosures are equally as important, if not even more so, in situations when the going concern assumption is still applied but there is some doubt as to situations when the going concern assumption is not applied.

Considerations that an entity might disclose to address its going concern basis include:

- Whether the entity has sufficient cash and/or headroom in its credit facilities to support any downturn whilst noting that the evolving nature of the COVID-19 pandemic means that uncertainties will remain, and it may not be able to reasonably estimate the future impact
- Actions that the entity has taken to mitigate the risk that the going concern assumption is not appropriate such as activities to preserve liquidity
- Consideration of the entity's business model and related risks
- Any challenges of the underlying data and assumptions used to make the going concern assessment

Further, the XRB issued an XRB Alert 2020-3 *Spotlight on Going Concern Disclosures* in July 2020, which provides an overview of the requirements in the existing accounting standards for not-for-profit entities in relation to the going concern disclosures under uncertain environments caused by COVID-19.

2. Summary of significant accounting policies *continued*

(b) Correction of an error

PBE IPSAS 3.54(a)

In the previous two financial years (2020 and 2021), funding was received from the Crown for the upgrade of the Council's community centre building. The amounts of funding received were $250,000 in 2020 and $250,000 in 2021. Both of these amounts were recognised as deferred revenue as at 30 June 2021, as this project had not yet commenced, and it was understood that there was a return obligation attached to the funding. However, as a result of a legal review of the contract, it is now understood that although the contract stipulated that the funding must be used for a specific upgrade programme, these stipulations did not include a return obligation.

Therefore, there are no specific conditions (as defined by PBE IPSAS 23) attached to the grants, and both amounts of funding should have been recognised as revenue upon receipt. As a consequence, revenue was understated in 2020 and 2021, and liabilities were overstated. The error was corrected by restating the opening net assets/equity as at 1 July 2020 and each of the affected financial statement items for the year ended 30 June 2021, as shown below:

Impact on statement of financial performance

PBE IPSAS 3.54(b), (c)

	Group and Council 30 June 2021 $000
Increase in government grants revenue	250
Net impact on surplus for the year	**250**
Attributable to:	
Council	250
Non-controlling interest	-

Impact on net assets/equity

	Group and Council 30 June 2021 $000
Increase in opening accumulated comprehensive revenue and expense (as at 1 July 2020)	250
Increase in surplus (as at 30 June 2021)	250
Total impact on net assets/equity	**500**
Attributable to:	
Council	500
Non-controlling interest	-

Impact on financial position

	Group and Council	
	30 June 2021 $000	1 July 2020 $000
Decrease in deferred revenue	(500)	(250)
Total impact on liabilities	**(500)**	**(250)**

(c) Changes in accounting policies and disclosures

There have been no changes in the accounting policies of the Group in the year ended 30 June 2021, other than the adoption of new PBE Standards and amendments to PBE Standards as disclosed below. Other than the changes disclosed below, all accounting policies and disclosures are consistent with those applied by the Group in the previous financial year.

New and amended standards and interpretations

PBE IPSAS 3.33

The Group applied, for the first time, certain standards and amendments, which are effective for annual periods beginning on 1 July 2021, as described below.

2. Summary of significant accounting policies *continued*

(c) Changes in accounting policies and disclosures *continued*

Commentary

For illustrative purposes, the Council has disclosed information about the new and amended standards and interpretations that are effective from 1 July 2021, regardless of whether these new and amended standards and interpretations have any impact on the Council's financial statements. However, entities should consider disclosing information about the standards that have an impact on the Council's financial position, performance and/or disclosures.

2018 Omnibus Amendments to PBE Standards

This amendment amended the following standard:

PBE IPSAS 2 *Cash Flow Statement*
The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. No requirement exists to provide comparative information for preceding reporting periods for the first time adoption. Application of amendments resulted additional disclosures provided by the Group.

Interest Rate Benchmark Reform – Phase 2

The amendments affect PBE IPSAS 29, PBE IPSAS 30, PBE IPSAS 41 and PBE IFRS 9.

The amendments address the accounting issues that arise when financial instruments that reference interbank offered rates (IBOR) transition to nearly risk-free rates. The main elements of the amendments are that the effective interest rate on financial instruments must be adjusted, and hedge accounting will continue on transition to risk free rates, but only to the extent that the modifications made to financial instruments are those necessary to implement IBOR Reform and that the new basis for calculating cash flows is 'economically equivalent' to the previous basis.

The amendments also introduced some significant new disclosure requirements.

These amendments had no impact on the consolidated financial statements of the Group. The Group intends to use the practical expedients in future periods if they become applicable.

PBE IPSAS 40 *PBE Combinations*

This Standard was issued in July 2019 and replaces PBE IFRS 3 *Business Combinations*.

PBE IFRS 3 excludes combinations under common control and combinations arising from local authority reorganisations from its scope.

The new Standard has a broader scope, and establishes requirements for accounting for both acquisitions and amalgamations (using the modified pooling of interests method).

In general, the standard is to be applied prospectively to PBE combinations for which the amalgamation date or acquisition date is on or after 1 January 2021.

The new standard will impact combinations take place after the effective implementation date of the standard, and it had no impact to the Group's financial statements.

Revocation of PBE FRS 46 and Withdrawal of PBE FRS 46 (Amendments to PBE FRS 47)

PBE FRS 46 *First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRSs* (PBE FRS 46) and PBE FRS 47 *First-time Adoption of PBE Standards* (PBE FRS 47) were developed to address the needs of entities adopting PBE Standards for the first time. Now very few entities fall within the scope of PBE FRS 46 (i.e. entities that previously applied NZ IFRS and are transitioning to PBE Standards).

Further, the increasing differences between NZ IFRS and PBE Standards mean that the approach taken in PBE FRS 46 is no longer the most appropriate approach for entities moving from NZ IFRS to PBE Standards.

Consequently, in February 2020 following the withdrawal of PBE FRS 46, the New Zealand Accounting Standards Board (NZASB) issued both Revocation of PBE FRS 46 and Amendments to PBE FRS 47. The Amendments to PBE FRS 47 mainly include a change in scope meaning that PBE FRS 47 will be the sole standard for first-time adoption of PBE Standards by Tier 1 and Tier 2 PBEs.

The revocation and amendments had no impact to the Group's financial statements.

2. Summary of significant accounting policies *continued*

(d) Basis of consolidation

Group

The financial statements comprise the financial statements of Quality City Council (the Council) and its controlled entities (the Group) as at 30 June 2022. Control is achieved when the Group is exposed, or has rights, to variable benefits from its involvement with the other entity and has the ability to affect the nature or amount of those benefits through its power over the other entity. Specifically, the Group controls another entity if and only if the Group has: *PBE IPSAS 35.19*

- Power over the other entity (i.e. existing rights that give it the current ability to direct the relevant activities of the other entity) *PBE IPSAS 35.20*
- Exposure, or rights, to variable benefits from its involvement with the other entity
- The ability to use its power over the other entity to affect the nature and amount of the benefits from its involvement with the other entity

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of another entity, the Group considers all relevant facts and circumstances in assessing whether it has power over another entity, including: *PBE IPSAS 35.AG36*

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

The Group reassesses whether or not it controls another entity if facts and circumstances indicate that there are changes to one or more of the three elements of control. *PBE IPSAS 35.AG82*

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

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

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

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

Council

Investments in controlled entities held by the Council are accounted for at cost less any impairment charges in the separate financial statements of the Council. *PBE IPSAS 34.12 PBE IPSAS 34.20(c) PBE IPSAS 34.RDR 20.1*

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

2. Summary of significant accounting policies *continued*

(d) Basis of consolidation *continued*

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

(e) PBE combinations and goodwill

PBE combinations are classified as an amalgamation or an acquisition. *PBE IPSAS 40.1*

PBE combinations classified as amalgamations are accounted for using the modified pooling of interests method and a resulting entity is identified for each amalgamation. *PBE IPSAS 40.16 PBE IPSAS 40.17*

The modified pooling of interests method involves the resulting entity recognising in the combined operation's financial statements the assets, liabilities and any non-controlling interests of the combining operations as of the amalgamation date. The assets and liabilities of the combining operations are measured at their carrying amounts in the financial statements of the combining operations as of the amalgamation date. No goodwill arises from the amalgamation. For each amalgamation, the Group measures the non-controlling interest in a combining operation at its carrying amount in the financial statements of that combining operation as of the amalgamation date. Acquisition-related costs are expensed as incurred, and included in administrative expenses. *PBE IPSAS 40.21 PBE IPSAS 40.22 PBE IPSAS 40.26 PBE IPSAS 40.36 PBE IPSAS 40.29 PBE IPSAS 40.53*

The resulting entity classifies or designates the assets and liabilities received in an amalgamation using the classifications or designations previously applied by the combining operations. The resulting entity shall retain such classifications or designations unless required to do so by other PBE Standards. *PBE IPSAS 40.24*

PBE combinations classified as acquisitions are accounted for using the acquisition method. The acquisition method involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values. The cost of an acquisition is measured as the aggregate of the consideration transferred (measured at acquisition date fair value) and the amount of any non-controlling interests in the acquiree. For each business combination, the Group measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred, and included in administrative expenses. *PBE IPSAS 40.58 PBE IPSAS 40.64 PBE IPSAS 40.72 PBE IPSAS 40.85(a) PBE IPSAS 40.73 PBE IPSAS 40.111*

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. *PBE IPSAS 40.69 PBE IPSAS 40.70*

If the acquisition is achieved in stages any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in surplus or deficit. It is then considered in the determination of goodwill. *PBE IPSAS 40.100*

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of PBE IPSAS 29, is measured at fair value with changes in fair value recognised either in surplus or deficit or as a change to other comprehensive revenue and expense (OCRE). If the contingent consideration is not within the scope of PBE IPSAS 29, it is measured in accordance with the appropriate PBE Standard. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity. *PBE IPSAS 40.39 PBE IPSAS 40.117*

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2. Summary of significant accounting policies *continued*

(e) PBE combinations and goodwill *continued*

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

PBE IPSAS 40.85

PBE IPSAS 40.88
PBE IPSAS 40.90

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

PBE IPSAS 26.90A

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

PBE IPSAS 26.90G

2. Summary of significant accounting policies continued

(f) Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of another entity, but is not control or joint control over those policies. *PBE IPSAS 36.8*

A joint venture is a joint arrangement whereby the parties have joint control of the arrangement have rights to the net assets of the arrangement. Joint control is the agreed sharing of control of an arrangement by way of a binding arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. *PBE IPSAS 36.8*

Group

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

Under the equity method, an investment in an associate or joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise post-acquisition changes in the Group's share of net assets of the associates or joint ventures since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not tested for impairment separately. *PBE IPSAS 36.16* *PBE IPSAS 36.35(a)*

The Group's share of an associate's or joint venture's surplus or deficit is recognised in the statement of financial performance. Any change in the associate or joint venture's OCRE is presented as part of the Group's OCRE. The cumulative movements are adjusted against the carrying amount of the investment. In addition, when there has been a change recognised directly in the net assets/equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in net assets/equity. Unrealised gains or losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the Group's interest in the associate or joint venture. *PBE IPSAS 36.29-32*

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

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group. *PBE IPSAS 36.37*

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on the Group's investment in its associate or joint venture. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate or joint venture is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the 'share of surplus of an associate and a joint venture' in the statement of financial performance. *PBE IPSAS 36.43-48*

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

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

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

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2. Summary of significant accounting policies *continued*

(f) Investments in associates and joint ventures *continued*

Council

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

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

Commentary

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

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

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

(g) Foreign currency translation

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

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

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

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

(h) Cash and cash equivalents

PBE IPSAS 2.57

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. *PBE IPSAS 2.8-9*

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

2. Summary of significant accounting policies *continued*

(i) Financial instruments – initial recognition and subsequent measurement

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

Financial assets

Initial recognition and measurement *PBE IPSAS 29.45*

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

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

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

Subsequent measurement *PBE IPSAS 29.47*

For the purpose of subsequent measurement financial assets are classified in four categories:

- Financial assets at fair value through surplus or deficit
- Loans and receivables
- Held-to-maturity investments
- Available for sale financial assets

Financial assets at fair value through surplus or deficit *PBE IPSAS 29.10*

Financial assets at fair value through surplus or deficit include financial assets held for trading and financial assets designated upon initial recognition at fair value through surplus or deficit.

Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by PBE IPSAS 29.

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

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

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

Loans and receivables

This category of financial assets is the most relevant to the Group. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. *PBE IPSAS 29.10* *PBE IPSAS 29.48(a)* *PBE IPSAS 29.AG18* *PBE IPSAS 29.65*

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

2. Summary of significant accounting policies *continued*

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

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

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

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

Held-to-maturity investments

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

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

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

PBE IPSAS 29.65

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

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

The Group did not have any held-to-maturity investments during the years ended 30 June 2021 or 30 June 2022.

Available for sale financial assets

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

PBE IPSAS 29.10

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

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

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

PBE IPSAS 29.76

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

PBE IPSAS 29.64(b)

Derecognition

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

PBE IPSAS 29.19

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

PBE IPSAS 29.20-22

2. Summary of significant accounting policies continued

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a 'pass-through' arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained. *PBE IPSAS 29.22(b)* *PBE IPSAS 29.32-33*

Impairment of financial assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. *PBE IPSAS 29.67-68*

Financial assets carried at amortised cost (loans and receivables)

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. Collectability of trade receivables is reviewed on an ongoing basis at an operating unit level. An impairment provision is recognised when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts more than 60 days overdue are considered objective evidence of impairment. *PBE IPSAS 29.73*

If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment. *PBE IPSAS 29.73*

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in surplus or deficit. *PBE IPSAS 29.72*

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

Individual trade receivable balances that are known to be uncollectible are written off when identified, along with associated allowances. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. *PBE IPSAS 29.AG126*

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

2. Summary of significant accounting policies *continued*

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

Available for sale financial assets

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

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

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

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

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

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

If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in surplus or deficit, the impairment loss is reversed through surplus or deficit. *PBE IPSAS 29.79*

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Financial liabilities at fair value through surplus or deficit

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

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

Gains or losses on liabilities held for trading are recognised in surplus or deficit. *PBE IPSAS 29.64(a)*

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2. Summary of significant accounting policies *continued*

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

Financial liabilities designated upon initial recognition at fair value through surplus or deficit are designated at the initial date of recognition, and only if the criteria in PBE IPSAS 29 are satisfied. The Group has not designated any financial liability as at fair value through surplus or deficit. *PBE IPSAS 29.10*

Financial liabilities at amortised cost
This is the category of financial liabilities that is most relevant to the Group. After initial recognition, trade and other payables and interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. *PBE IPSAS 29.49*

Gains or losses are recognised in surplus or deficit when the liabilities are derecognised as well as through the effective interest rate amortisation process. The effective interest rate amortisation is included as finance costs in the statement of financial performance. *PBE IPSAS 29.65*

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

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. *PBE IPSAS 29.10*

This category generally applies to payables and interest-bearing loans and borrowings. For more information refer to Note 27.2.

Financial guarantee contracts
Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount initially recognised less cumulative amortisation. *PBE IPSAS 29.10, PBE IPSAS 29.45, PBE IPSAS 29.49(c)*

Derecognition
A financial liability is derecognised when the obligation under the liability is discharged, waivered, cancelled, or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, then such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of financial performance. *PBE IPSAS 29.41-43*

Offsetting of financial instruments
Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if: (a) currently there is an enforceable legal right to set off the recognised amounts; and (b) there is an intention either to settle on a net basis, or to realise the asset and settle the liability simultaneously. *PBE IPSAS 28.47*

Fair value of financial instruments
The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. In the absence of an active market, the fair value of financial instruments is measured using valuation techniques with the objective of estimating what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. *PBE IPSAS 29.51, PBE IPSAS 30.31, PBE IPSAS 30.RDR 31.1*

Commentary

Early adopters of PBE IFRS 9 or PBE IPSAS 41: Refer to Appendix 12 for the significant accounting policies for financial instruments.

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2. Summary of significant accounting policies *continued*

(j) Derivative financial instruments and hedging

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

PBE IPSAS 29.45
PBE IPSAS 29.48

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

PBE IPSAS 1.76
PBE IPSAS 1.80

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

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

PBE IPSAS 30.31
PBE IPSAS 30.RDR 31.1

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

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

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

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

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

PBE IPSAS 29.98

2. Summary of significant accounting policies *continued*

(j) Derivative financial instruments and hedging *continued*

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

(i) Fair value hedges

The change in the fair value of a hedging derivative is recognised in surplus or deficit as finance costs. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the surplus or deficit as finance costs. *PBE IPSAS 29.99(a)*

For fair value hedges relating to items carried at amortised cost, any adjustment to carrying value is amortised through surplus or deficit over the remaining term of the hedge using the effective interest rate method. Effective interest rate amortisation may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. *PBE IPSAS 29.103*

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

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

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

(ii) Cash flow hedges

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

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

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

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

Commentary

Early adopters of PBE IFRS 9 and PBE IPSAS 41: Refer to Appendix 12 for the significant accounting policies for derivative financial instruments and hedge accounting.

2. Summary of significant accounting policies *continued*

(k) Inventories

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

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

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

The Group's raw materials and consumables inventory includes botanical supplies and maintenance items.

Finished goods and work-in-progress – cost of direct materials and labour and a proportion of variable and fixed manufacturing overheads based on normal operating capacity, but excluding borrowing costs. Costs are assigned on the basis of weighted average costs. *PBE IPSAS 12.18*

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

After initial recognition, inventories held for resale are valued at the lower of cost and net realisable value. However, inventory held for distribution or deployment at no charge or for a nominal charge is measured at cost, adjusted when applicable for any loss of service potential. *PBE IPSAS 12.15 PBE IPSAS 12.17*

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution. *PBE IPSAS 12.9*

Commentary

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

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

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

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

(l) Non-current assets held for sale

The Group classifies non-current assets as held for sale or for distribution to owners if their carrying amounts will be recovered principally through a sale or distribution rather than through continuing use. Such non-current assets classified as held for sale or as held for distribution are measured at the lower of their carrying amount and fair value less costs to sell or to distribute. Costs to sell (or distribute) are the incremental costs directly attributable to the sale (or distribution), excluding the finance costs and income tax expense. *PBE IFRS 5.6 PBE IFRS 5.15-15A PBE IFRS 5.5B1*

2. Summary of significant accounting policies continued

(l) Non-current assets held for sale *continued*

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset is available for immediate distribution in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the sale will be withdrawn. Management must be committed to the distribution expected within one year from the date of the classification. Similar considerations apply to assets or a disposal group held for distribution. *PBE IFRS 5.7-5.8*

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale or as held for distribution. *PBE IFRS 5.25*

Assets and liabilities classified as held for sale or for distribution are presented separately from other assets and liabilities in the statement of financial position. *PBE IFRS 5.38*

Commentary

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

(m) Property, plant and equipment

Initial recognition and subsequent expenditure

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

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

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

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

Measurement subsequent to initial recognition

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

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

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2. Summary of significant accounting policies continued

(m) Property, plant and equipment *continued*

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

A revaluation surplus is recorded in other comprehensive revenue and expense and credited to the asset revaluation reserve in net assets/equity. However, to the extent that it reverses a revaluation deficit of the same class of asset previously recognised in surplus or deficit, the increase is recognised in surplus or deficit. A revaluation deficit is recognised in the surplus or deficit, except to the extent that it offsets an existing surplus on the same asset class recognised in the asset revaluation reserve. *PBE IPSAS 17.44* *PBE IPSAS 17.54-55*

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

Depreciation

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

PBE IPSAS 17.88(c)

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

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year end. In particular, the Group considers the impact of health, safety and environmental legislation in its assessment of expected useful lives and estimated residual values. *PBE IPSAS 17.67*

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

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits or service potential are expected from its use or disposal. Gains or losses on disposals are determined by comparing proceeds with the carrying amount. These are included in surplus or deficit. *PBE IPSAS 17.82* *PBE IPSAS 17.86* *PBE IPSAS 17.83*

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

Commentary

Property, plant and equipment acquired in a non-exchange transaction

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

2. Summary of significant accounting policies *continued*

Commentary ***continued***

Subsequent measurement: cost model vs revaluation model

PBE IPSAS 17.42

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

Transfers between asset revaluation reserve and accumulated revenue and expense

PBE IPSAS 17.57

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

Service concession assets

PBE IPSAS 32.13

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

PBE IPSAS 32.BC 6

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

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

Refer to Note 2(q) below for the Group's specific accounting policy on service concession arrangements.

Bearer plants

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

(n) Investment properties

PBE IPSAS 16.24-26

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

PBE IPSAS 16.27

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

PBE IPSAS 16.86(a)
PBE IPSAS 16.39
PBE IPSAS 16.42
PBE IPSAS 16.47
PBE IPSAS 16.54
PBE IPSAS 16.44

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

PBE IPSAS 16.77
PBE IPSAS 16.80

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

PBE IPSAS 16.66

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

2. Summary of significant accounting policies *continued*

(n) Investment properties *continued*

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

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

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

(o) Leases

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

(i) Group as a lessee

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

Subsequent to initial recognition, lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as finance costs in surplus or deficit. *PBE IPSAS 13.34*

Contingent rents shall be charged as expenses in the period in which they are incurred.

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

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

(ii) Group as a lessor

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term. Rent received from an operating lease is recognised as income on a straight-line basis over the lease term. Contingent rents are recognised as revenue in the period in which they are earned. *PBE IPSAS 13.13* *PBE IPSAS 13.65* *PBE IPSAS 13.63*

(p) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. *PBE IPSAS 31.31* *PBE IPSAS 31.39.1*

2. Summary of significant accounting policies *continued*

(p) Intangible assets *continued*

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred. *PBE IPSAS 31.73* *PBE IPSAS 31.52*

The useful lives of intangible assets are assessed as either finite or indefinite. *PBE IPSAS 31.87*

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

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits or service potential embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. *PBE IPSAS 31.96* *PBE IPSAS 31.103*

The amortisation expense on intangible assets with finite lives is recognised in surplus or deficit as the expense category that is consistent with the function of the intangible assets. *PBE IPSAS 31.96*

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis. *PBE IPSAS 31.106-108*

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in surplus or deficit when the asset is derecognised. *PBE IPSAS 31.112*

Research and development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate: *PBE IPSAS 31.52* *PBE IPSAS 31.55*

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

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of the expected future benefit. During the period of development, the asset is tested for impairment annually. *PBE IPSAS 31.96* *PBE IPSAS 31.107*

Licences

The Group made upfront payments to purchase licences. The licences held by the Group pertain to the usage of historical film footage relating to local culture and important events in the history of Quality City. The licences may be renewed at little or no cost to the Group. As a result, those licences are assessed as having an indefinite useful life. They are not amortised, but are tested for impairment annually. *PBE IPSAS 31.93* *PBE IPSAS 31.IE10-11*

Carbon credits

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

Software

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

2. Summary of significant accounting policies *continued*

(p) Intangible assets *continued*

Purchased software is recognised and measured at the cost incurred to acquire the software. Developed software is recognised and measured during the development stage in accordance with the Research and development costs paragraph above. Costs that are directly associated with the development of the software, including employee costs, are capitalised as an intangible asset. *PBE IPSAS 31.64* *PBE IPSAS 31.65(c)*

Staff training costs and costs associated with maintaining computer software are recognised as expenses in surplus or deficit when incurred.

A summary of the policies applied to the Group's intangible assets is as follows. *PBE IPSAS 31.117(a)-(b)*

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

Commentary

Subsequent measurement: cost model vs revaluation model *PBE IPSAS 31.71*

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

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

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

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

(q) Service concession arrangements

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

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

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

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

- The Group controls or regulates the services that the operator must provide using the asset, to whom the operator must provide these services, and at what price, and *PBE IPSAS 32.11* *PBE IPSAS 32.13*
- In the case of assets other than 'whole-of-life' assets, the Group controls – through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the arrangement

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

2. Summary of significant accounting policies *continued*

(q) Service concession arrangements *continued*

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

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

PBE IPSAS 32.14
PBE IPSAS 32.15
PBE IPSAS 32.18

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

PBE IPSAS 32.24
PBE IPSAS 32.25

(r) Impairment of non-financial assets

Impairment of cash-generating assets

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

PBE IPSAS 26.22
PBE IPSAS 26.35
PBE IPSAS 26.31
PBE IPSAS 26.72

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

PBE IPSAS 26.43-44
PBE IPSAS 26.68
PBE IPSAS 26.39-40

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

PBE IPSAS 26.46

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

PBE IPSAS 26.73
PBE IPSAS 26.73A

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

PBE IPSAS 26.99

PBE IPSAS 26.103
PBE IPSAS 26.106
PBE IPSAS 26.111
PBE IPSAS 26.108

PBE IPSAS 26.108A

2. Summary of significant accounting policies *continued*

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

The following assets have specific characteristics for impairment testing:

Goodwill *PBE IPSAS 26.23.1(b)*

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

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods. *PBE IPSAS 26.90.11 PBE IPSAS 26.111.1*

Intangible assets with indefinite useful lives

Intangible assets with indefinite useful lives are tested for impairment annually at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired. *PBE IPSAS 26.23.1(a)*

Impairment of non-cash-generating assets

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

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

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

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

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

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

The Group assesses where climate-related risks could have a significant impact, for example, the introduction of Emission Reduction Plan may increase operating costs. These risks in relation to climate-related matters are included as key assumptions where they materially impact the measurement of the recoverable amount, These assumptions have been included in the cash-flow forecasts in assessing value-in-use amounts.

2. Summary of significant accounting policies *continued*

Commentary

Timing of goodwill impairment testing

Paragraph 90.12 of PBE IPSAS 26 *Impairment of Cash-Generating Assets* (PBE IPSAS 26) permits the annual impairment test for a CGU to which goodwill has been allocated to be performed at any time during the year, provided the timing is at the same time each year. Different CGUs and intangible assets may be tested at different times. *PBE IPSAS 26.90.12*

Cash-generating assets vs non-cash-generating assets: classification

The classification of assets as non-cash-generating assets is a highly judgemental matter. It should be noted that paragraph 16 of PBE IPSAS 21 *Impairment of Non-Cash-Generating Assets* (PBE IPSAS 21) clarifies that cash-generating assets are those assets that are held with the primary objective of generating a commercial return. Therefore, non-cash-generating assets would be those assets from which the Group does not intend (as its primary objective) to realise a commercial return. *PBE IPSAS 21.16*

Non-cash-generating assets: value in use calculation methods

PBE IPSAS 21 provides three approaches for determining the value in use of a non-cash-generating asset if there is an indication that the asset is impaired. The three approaches are as follows: *PBE IPSAS 21.44*

- *Depreciated replacements cost (DRC):*
  DRC is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset. The replacement cost and reproduction cost of an asset are determined on an optimised basis after adjusting (i.e. deducting) for all forms of obsolescence, overcapacity and overdesign. *PBE IPSAS 21.45 PBE IPSAS 21.46*
- *Restoration cost (RC):*
  RC is the cost of restoring the service potential of an asset to its pre-impaired level. Under this approach, the present value of the service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset (DRC) before impairment. *PBE IPSAS 21.48*
- *Service units (SU):*
  Under the SU approach, the present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment to conform to the reduced number of service units expected from the asset in its impaired state. Similar to RC, the current cost of the remaining potential of the asset before impairment is the DRC. *PBE IPSAS 21.49*

However, the use of the three approaches is not a free choice. PBE IPSAS 21 requires a PBE to consider whether the approach is appropriate depending on the availability of data and nature of the impairment. *PBE IPSAS 21.50*

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

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

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

(s) Provisions

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

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

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

2. Summary of significant accounting policies *continued*

(s) Provisions *continued*

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

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

The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the rehabilitation liability. The unwinding of the discount is expensed as incurred and recognised in surplus or deficit as a finance cost. The estimated future costs of rehabilitation are reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the asset. *PBE IPSAS 19.56* *PBE IPSAS 19.69-70* *PBE IPSAS 19.A3(a)* *PBE IPSAS 19.A4(b)*

The impact of climate-related matters on remediation of environmental damage is considered when determining the rehabilitation provision which has been disclosed in Note 33.

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

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

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

Estimated cash flows relating to settlement are discounted to present value at a pre-tax rate reflecting the risks specific to the weathertightness provision. The unwinding of the discount is expensed as incurred and recognised in surplus or deficit as a finance cost. Estimated future settlements are reviewed annually and adjusted as appropriate. Changes in estimated future settlements or in the discount rate are recognised in surplus or deficit. *PBE IPSAS 19.56* *PBE IPSAS 19.69-70*

Restructuring provisions
Restructuring provisions are recognised only when the recognition criteria for provisions are fulfilled. The Group has a constructive obligation that gives rise to a restructuring provision only when: *PBE IPSAS 19.83*

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

If the effect of the time value of money is material, the estimated restructure costs are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost. *PBE IPSAS 19.56* *PBE IPSAS 19.69-70*

Commentary

Paragraphs 44-46 of PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* (PBE IPSAS 19) require provisions to be measured as the best estimate of the present value of the amount required to settle the obligation. In making this estimate the Group considers the probability of the various uncertain outcomes of the obligation.

2. Summary of significant accounting policies *continued*

(t) Employee benefits

Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries (including non-monetary benefits), annual leave and accumulating sick leave are recognised in surplus or deficit during the period in which the employee rendered the related services, and are generally expected to be settled within 12 months of the reporting date. The liabilities for these short-term benefits are measured at the amounts expected to be paid when the liabilities are settled. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable. *PBE IPSAS 39.11*

Long-service leave

Employees of the Group become eligible for long-service leave after a certain number of years of employment, depending on their contract. The liability for long-service leave is recognised and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. The Group's liability is based on an actuarial valuation. Actuarial gains or losses on the long-term incentives are fully accounted for in the statement of financial performance. *PBE IPSAS 39.158* *PBE IPSAS 39.156*

(u) Borrowing costs

All borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that the Group incurs in connection with the borrowing of funds. The Group has chosen not to capitalise borrowing costs directly attributable to the acquisition, construction or production of assets. *PBE IPSAS 5.5* *PBE IPSAS 5.14*

(v) Equity

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

Equity is made up of the following components:

Accumulated comprehensive revenue and expense

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

Reserves *PBE IPSAS 1.95(c)*

(i) Asset revaluation reserve

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

(ii) Available-for-sale reserve

This reserve is for the revaluation of AFS financial assets, which are measured at fair value through other comprehensive revenue and expense after initial recognition.

(iii) Cash flow hedge reserve

This reserve is for the revaluation of derivatives designated as cash flow hedges. It consists of the cumulative effective portion of net changes in the fair value of these derivatives. *PBE IPSAS 29.106(a)*

(iv) Targeted rates reserve

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

2. Summary of significant accounting policies *continued*

(v) Equity *continued*

(v) Special projects reserve

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

(w) Revenue recognition

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

PBE IPSAS 23.31
PBE IPSAS 9.19
PBE IPSAS 23.42

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

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

Revenue from non-exchange transactions

PBE IPSAS 23.107(a)

General and targeted rates

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

PBE IPSAS 23.31
PBE IPSAS 23.42
PBE IPSAS 23.48

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

Government grants and funding

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

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

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

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

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

PBE IPSAS 23.55

Concessionary loans

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

PBE IPSAS 23.105A-B

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

Fines

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

PBE IPSAS 23.89

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2. Summary of significant accounting policies *continued*

(w) Revenue recognition *continued*

Direct charges – subsidised

(i) Rendering of services – subsidised

Rendering of services at a price that is not approximately equal to the value of the service provided by the Council or Group is considered a non-exchange transaction. This includes rendering of services where the price does not allow the Council to fully recover the cost of providing the service (e.g. resource consents, building consents, water connections, dog licensing, etc.), and where the shortfall is subsidised by income from other activities, such as rates. Generally, there are no conditions attached to such revenue. *PBE IPSAS 23.11*

Revenue from such subsidised services is recognised when the Council or Group issues the invoice or bill for the service. Revenue is recognised at the amount of the invoice or bill, which is the fair value of the cash received or receivable for the service. *PBE IPSAS 23.31 PBE IPSAS 23.42 PBE IPSAS 23.48*

In situations where conditions exist (where the Council or Group has to refund cash, or the customer can withhold payment, if the service is not completed), revenue is recognised by reference to the stage of completion of the service. *PBE IPSAS 23.49*

(ii) Sale of goods – subsidised

A sale of goods at a price that is not approximately equal to the value of the goods provided by the Council or Group is considered a non-exchange transaction. *PBE IPSAS 23.11*

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

Revenue from the sale of such subsidised goods is recognised when the Council or Group issues the invoice or bill for the goods. Revenue is recognised at the amount of the invoice or bill, which is the fair value of the cash received or receivable for the goods. *PBE IPSAS 23.31 PBE IPSAS 23.42 PBE IPSAS 23.48*

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

Direct charges – full cost recovery

(i) Rendering of other services – full cost recovery

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

(ii) Sale of goods – full cost recovery

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

Development contributions

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

Interest revenue

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

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

2. Summary of significant accounting policies *continued*

(w) Revenue recognition *continued*

Dividends

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

Rental revenue

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

Other revenue and expenses

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

Commentary

Revenue from exchange transactions vs revenue from non-exchange transactions

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

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

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

Non-exchange transactions: revenue vs deferred revenue liability

The general recognition principle of PBE IPSAS 23 is that revenue is recognised for an asset recorded from an inflow of resources from a non-exchange transaction, except to the extent that a liability is also recognised in respect of the same inflow. Establishing whether or not a non-exchange transaction results in the recognition of a liability is an important question for PBEs as it will impact the timing of revenue recognition. A condition attached to the non-exchange transaction that requires the entity to either consume the asset as specified or return it to the transferor gives rise to the recognition of a liability until the point that the entity satisfies the condition. Therefore, to the extent that such conditions are attached to grants received from the Government and Government departments, and to concessionary loans, such grants and concessionary loans are recognised as deferred revenue (i.e. a liability), rather than revenue. Revenue is then recognised as the Group satisfies the abovementioned conditions.

Sale of subsidised goods and services

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

(x) Income tax and other taxes

Current income tax *PBE IAS 12.46*

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

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of financial performance. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate. *PBE IAS 12.61A*

2. Summary of significant accounting policies *continued*

(x) Income tax and other taxes *continued*

Deferred income tax

PBE IAS 12.5

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

Deferred income tax liabilities are recognised for all taxable temporary differences except: *PBE IAS 12.15*

- When the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting surplus or deficit nor taxable surplus or deficit *PBE IAS 12.22(c)*

- In respect of taxable temporary differences associated with investments in controlled entities, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future *PBE IAS 12.39*

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable surplus will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except: *PBE IAS 12.24* *PBE IAS 12.34*

- When the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting surplus or deficit nor taxable surplus or deficit *PBE IAS 12.24*

- In respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable surplus will be available against which the temporary differences can be utilised *PBE IAS 12.44*

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable surplus will be available to allow all or part of the deferred income tax asset to be utilised. *PBE IAS 12.56*

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. *PBE IAS 12.37* *PBE IAS 12.47*

In assessing the recoverability of deferred tax assets, the Group relies on the same forecast assumptions used elsewhere in the financial statements and in other management reports, which, among other things, reflect the potential impact of climate-related development on the operation, such as increased operating costs as a result of measures to reduce carbon emission.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. *PBE IAS 12.61A*

Deferred tax relating to items recognised outside of the surplus or deficit is recorded outside surplus or deficit. Deferred tax items are recognised in correlation to the underlying transaction in other comprehensive revenue and expense.

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

2. Summary of significant accounting policies *continued*

(x) Income tax and other taxes *continued*

Deferred income tax *continued*

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

Goods and services tax (GST)

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

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

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

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

(y) Forecast information

The forecast figures presented in these financial statements are those included in the Council's 2020/2021 Annual Plan and Long-term Plan 2017-2026. The Annual Plan budget figures are for the Council as a separate entity, and do not include forecast information relating to controlled entities or associates. These figures are approved by the Council at the beginning of each financial year following a period of consultation with the public as part of the Annual Plan process. These figures do not include any additional expenditure subsequently approved by the Council outside the Annual Plan process. The Annual Plan figures have been prepared in accordance with NZ GAAP and are consistent with the above accounting policies adopted by the Council for the preparation of these financial statements. An explanation of major variances between actual results and forecasted figures is provided in Note 43.

Commentary

As a local authority, the Council is required to present budgeted financial statements in its annual report by Schedule 10, section 29, paragraph 2 of the LGA. A similar requirement is contained in the PFA (section 45B) for government departments, and in the Crown Entities Act 2004 (section 154(3)(c) for Crown entities. Section 111 of the LGA requires all information presented in a Council's annual report to be prepared in accordance with NZ GAAP. In addition to the statutory requirement to disclose budgeted statements, PBE IPSAS 1.21(e) requires an entity that makes its general purpose prospective financial statements (previously referred to as 'approved budget') publicly available to present a comparison between the forecast and actual amounts. To facilitate comparison between forecasted and actual results, as required by LGA 2002 and by PBE IPSAS 1, the Council presents forecasted figures as an additional column in each of the financial statements, and discloses explanations for significant variances between budgeted and actual figures in Note 43. *PBE IPSAS 1.21(e)*

(z) Cost allocation

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

Direct costs

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

2. Summary of significant accounting policies *continued*

(z) Cost allocation *continued*

Indirect costs

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

Commentary

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

PBE IPSAS 1 recognises that in the context of service performance, supplying outputs within the agreed or proposed cost is a key performance measure for PBEs (PBE IPSAS 1.C61). *PBE IPSAS 1.C61-62*

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

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

Refer to Appendix 8 for the Council's Statement of Service Performance.

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3. Significant accounting judgements, estimates and assumptions

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

PBE IPSAS 1.137
PBE IPSAS 1.140

Judgements

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

PBE IPSAS 1.137

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

The Group considers that it controls Quality Port Services Ltd even though it owns less than 50% of the voting rights. This is because the Group is the single largest shareholder of Quality Port Services Ltd with a 48% equity interest. The remaining 52% of the equity shares in Quality Port Services Ltd are widely held by a number of other shareholders, none of which individually holds more than 5% of the equity shares (as recorded in the company's shareholders' register from 1 October 2014 to 30 June 2022). Since 1 October 2014, which is the date of acquisition of Quality Port Services Ltd, there is no history of the other shareholders collaborating to exercise their votes collectively or to outvote the Group.

PBE IPSAS 35.AG41-42
PBE IPSAS 38.12(a)
PBE IPSAS 38.13
PBE IPSAS 38.14

Commentary

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

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

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

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

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

Entities should also consider the impact of climate-related matters if those matters create uncertainties that affect assumptions used to develop estimates. PBE IPSAS 1 requires disclosure of information about the assumptions an entity makes about the future that have a significant risk of resulting in a material adjustment within the next financial year. This information is intended to allow users to understand the judgements entities make about the future.

Operating lease commitments – Group as lessor

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

3. Significant accounting judgements, estimates and assumptions *continued*

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

PBE IPSAS 21.72A

For the purpose of assessing impairment indicators and impairment testing, the Group classifies non-financial assets as either cash-generating or non-cash-generating assets. The Group classifies non-financial assets as cash-generating assets if the primary objective of the asset is to generate commercial return. All other assets are classified as non-cash-generating assets, refer to Note 2(s).

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

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

Impairment of available for sale financial assets

PBE IPSAS 29.70

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

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

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

Estimates and assumptions

PBE IPSAS 1.140

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

Commentary

Entities should also consider the impact of climate-related matters if those matters create uncertainties that affect assumptions used to develop estimates. PBE IPSAS 1 requires disclosure of information about the assumptions an entity makes about the future that have a significant risk of resulting in a material adjustment within the next financial year. This information is intended to allow users to understand the judgements entities make about the future.

Fair value measurement of financial instruments

PBE IPSAS 30.31
PBE IPSAS 30.RDR 31.1

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

3. Significant accounting judgements, estimates and assumptions *continued*

Revaluation of property, plant and equipment and investment properties

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

The Group engaged an independent valuation specialist to assess fair value as at 30 June 2022 for investment properties, and for revalued land, buildings, infrastructure assets and water assets. *PBE IPSAS 17.92(b)* *PBE IPSAS 16.86(e)*

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

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

Impairment of non-financial assets – cash-generating assets

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

COVID-19 commentary

As the current environment remains uncertain, it is important that entities continue to provide detailed disclosure of the assumptions made, including any updates since prior period, the evidence they are based on and the impact of a change in the key assumptions (i.e. sensitivity analysis).

Given the inherent level of uncertainty and the sensitivity of judgements and estimates, disclosures of the key assumptions used, and judgements made in estimating recoverable amounts is important.

It is possible that the COVID-19 pandemic is a triggering event for some entities that requires them to perform an impairment test in accordance with PBE IPSAS 26. Entities will need to assess the key assumptions used to determine the recoverable amount for the different CGUs. Key inputs to both the value in use and the fair value less cost of disposal models used to undertake the impairment assessment should be reassessed to factor in any impact.

The non-financial assets that are likely to be subject to such impairment triggers include: property, plant and equipment; intangible assets (including those with indefinite lives); goodwill; and inventories.

To the extent that the impact of the COVID-19 is less severe than originally anticipated and the economic environment is recovering, entities may need to consider whether any impairments recognised in the previous year as a result of the situation at that time should be reversed as required by PBE IPSAS 26.99.

3. Significant accounting judgements, estimates and assumptions *continued*

Impairment of non-financial assets – non-cash-generating assets

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

Useful lives and residual values

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal: *PBE IPSAS 17.73*

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

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

3. Significant accounting judgements, estimates and assumptions *continued*

Provisions

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

Provision for landfill restoration:

In determining the fair value of the provision, assumptions and estimates are made in relation to discount rates, the expected cost of the post-closure restoration and monitoring of the landfill site and the expected timing of those costs. Expected costs and timing of closure are based on the estimated remaining capacity of the landfill, based on the advice and judgement of qualified engineers. The estimates are discounted at a pre-tax discount rate that reflect current market assessments of the time value of money. The carrying amount of the provision as at 30 June 2022 was $829,000 (2021: $720,000). If the estimated pre-tax discount rate used in the calculation had been 1% higher than management's estimate, then the carrying amount of the provision would have been $54,000 lower. *PBE IPSAS 1.144(b)*

Provision for weathertightness:

In determining the fair value of the provision, assumptions and estimates are made in relation to discount rates, the percentage of known claims that are likely to be successful, and the number of current unreported claims. The carrying amount of the provision as at 30 June 2022 was $719,000 (2021: $655,000). If the success rate was 1% higher than management's estimate, then the carrying amount of the provision would have been $48,000 higher. If the estimated pre-tax discount rate used in the calculation had been 1% higher than management's estimate, then the carrying amount of the provision would have been $55,000 lower. *PBE IPSAS 1.144(b)*

Commentary

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

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

COVID-19 commentary

Given the level of uncertainty and the sensitivity of judgements and estimates, clear disclosure of the key assumptions used, and judgements made is particularly important in financial statements prepared during the COVID-19 pandemic. Although assumptions may already have been updated for the impact of the COVID-19 pandemic in the previous year, entities should again carefully scrutinise their existing judgements and estimates as they may find additional areas in which they will need to make further judgements and estimates.

4. Capital management

For the purpose of the Group's capital management, the Group's capital is its equity, including accumulated comprehensive revenue and expense and all equity reserves attributable to the Council. Equity is represented by net assets. *PBE IPSAS 1.148A PBE IPSAS 1.118B*

LGA 2002.101

The Council manages the Group's capital largely as a by-product of managing its revenue, expenses, assets, liabilities and general financial dealings. The LGA requires the Council to manage its revenue, expenses, assets, liabilities and general financial dealings in a manner that promotes the current and future interests of the community. In addition, the LG (FRP)R sets out a number of benchmarks for assessing whether the Council is managing its revenue, expenses, assets and liabilities prudently. *LG(FRP)R.9*

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

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

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

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

No changes were made in the objectives, policies or processes for managing capital during the financial years ended 30 June 2022 and 2021. *PBE IPSAS 1.148B(c)*

Commentary

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

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5. Group information

Controlled entities

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

Name of controlled entity	Country of incorporation	Percentage equity interest 2022	Percentage equity interest 2021	Council Carrying value of investment (at cost) 2022 $000	Council Carrying value of investment (at cost) 2021 $000
Quality Port Limited	New Zealand	100%	92.6%	10,975	9,986
Quality Museum Trust (CCO)	New Zealand	100%	100%	300	300
Quality Property Management Limited (CCO)	New Zealand	85%	-	7,919	-
Quality Port Services Limited*	New Zealand	48%	48%	48	48
				19,242	10,334

PBE IPSAS 34.20(b)
PBE IPSAS 38.17(a)(i)
LG(FRP)R.5(3)
LG(FRP)R.5(3)

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

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

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

Associates

As at 30 June 2022, the Group had 25% equity interest in Quality Region Tourism Limited, a company that promotes tourism in the Quality Region, where Quality City is situated (2021: 25%). *PBE IPSAS 38.36(a)*

Joint arrangement in which the Group is a joint venturer

PBE IPSAS 38.36(a)

As at 30 June 2022, the Group had 50% equity interest in Quality Waste Recycling Limited, a joint venture that runs the main waste recycling plant in Quality City (2021: 50%).

Commentary

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

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

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

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

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6. PBE combinations and acquisition of non-controlling interests

Commentary

PBE IPSAS 40 *PBE Combinations* (PBE IPSAS 40) establishes requirements for accounting for amalgamations (using the modified pooling of interests method). Since the Group did not have any amalgamations during the current period or prior period, disclosures have not been provided for an amalgamation.

6.1. Acquisition of Quality Property Management Limited

PBE IPSAS 40.119(a)
PBE IPSAS 40. RDR 119.1

On 1 January 2022, the Group acquired 85% of the voting shares of Quality Property Management Limited, an unlisted company based in New Zealand and specialising in property management. *PBE IPSAS 40.120(a)-(c)*

The Group acquired Quality Property Management Limited for the purpose of managing the Council's rental properties. *PBE IPSAS 40.120(d)*

The Group has elected to measure the non-controlling interests in the acquiree at fair value. *PBE IPSAS 40.120(p)(i)*

Assets acquired and liabilities assumed

The fair values of the identifiable assets and liabilities of Quality Property Management Limited as at the date of acquisition were: *PBE IPSAS 40.120(i)*

PBE IPSAS 40.120(f)

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

PBE IPSAS 40.120(p)(i)

Purchase consideration

The purchase consideration of $7,917,000 was made up of cash of $7,203,000 and contingent consideration of $714,000. *PBE IPSAS 40.120(f)*

As at 30 June 2022, the fair value of the trade receivables amounted to $1,716,000. The gross amount of trade receivables was $1,754,000. However, none of the trade receivables have been impaired and it is expected that the full contractual amounts can be collected. *PBE IPSAS 40.120(h)*

As at 30 June 2022, goodwill of $2,231,000 comprised the value of expected synergies arising from the acquisition and the expertise of Quality Property Management Limited in the area of property management. None of the goodwill recognised is expected to be deductible for income tax purposes. *PBE IPSAS 40.120 (e), (k)*

A contingent liability with a fair value of $380,000 was recognised at the acquisition date resulting from a claim made by a tenant in relation to a lease agreement. The claim is subject to legal arbitration and is expected to be finalised in late 2022. As at the reporting date, the contingent liability has been re-assessed and was determined to be $400,000, based on the expected probable outcome (refer to Note 33). The charge to surplus or deficit has been recognised. *PBE IPSAS 40.120(j)*

6. PBE combinations and acquisition of non-controlling interests *continued*

The fair value of the non-controlling interest in Quality Property Management Limited has been estimated by applying a discounted earnings technique. Quality Property Management Limited is an unlisted company and the fair value measurements are based on significant inputs that are not observable in the market. The fair value estimate is based on: *PBE IPSAS 40.120(p)(ii)*

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

From the date of acquisition, Quality Property Management Limited has contributed $1,857,000 of revenue and $750,000 to the surplus before income tax of the Group. If the combination had taken place at the beginning of the reporting period, total revenue for the Group would have been $216,582,000 and the surplus before income tax for the Group would have been $15,485,000. *PBE IPSAS 40.120(r)(i)-(ii)*

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

Contingent consideration

PBE IPSAS 40.120(g)(ii)

As part of the purchase agreement with the previous owner of Quality Property Management Limited, contingent consideration has been agreed. There will be additional cash payments to the previous owner of Quality Property Management Limited of: *PBE IPSAS 40.120(g)(iii)*

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

(b) $1,125,000, if the entity generates $1,500,000 or more of surplus before income tax in a 12-month period after the acquisition date *PBE IPSAS 40.120 (g)(i)*

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

Significant unobservable valuation inputs are provided below:

Assumed probability-adjusted profit before tax of Quality Property Management Limited	$1,000,000 - $1,500,000	*PBE IPSAS 40.124(b)(iii)*
Discount rate	14%	
Discount for own non-performance risk	0.05%	

A significant increase (or decrease) in the surplus after income tax of Quality Property Management Limited would result in a higher (or lower) fair value of the contingent consideration liability, while a significant increase (or decrease) in the discount rate and own non-performance risk would result in a lower (or higher) fair value of the liability.

As at 30 June 2022, the key performance indicators of Quality Property Management Limited showed that it is highly probable that the target will be achieved due to a significant expansion of the business. The fair value of the contingent consideration determined at 30 June 2022 reflected this development, amongst other factors and a re-measurement charge has been recognised through surplus or deficit. *PBE IPSAS 40.124(b)(ii)*

A reconciliation of fair value measurement of the contingent consideration liability is provided below: *PBE IPSAS 40.124(b)(i)*

	$000
As at 1 July 2021	-
Liability arising on business combination	714
Unrealised fair value changes recognised in surplus or deficit	358
As at 30 June 2022	**1,072**

The fair value of the contingent consideration increased to $1,072,000 during the reporting period due to a significantly improved performance of Quality Property Management Limited compared to budget. The contingent consideration is due for final measurement and payment to the former shareholders on 28 March 2023.

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6. PBE combinations and acquisition of non-controlling interests *continued*

Commentary

Contingent consideration

The classification of a contingent consideration requires an analysis of the individual facts and circumstances. It may be classified as follows: equity or a financial liability in accordance with PBE IPSAS 28 *Financial Instruments: Presentation* (PBE IPSAS 28) and PBE IPSAS 29; a provision in accordance with PBE IPSAS 19; or in accordance with other standards, each resulting in different initial recognition and subsequent measurement. The Group has determined that it has a contractual obligation to deliver cash to the seller, and therefore, it has assessed the same to be a financial liability (PBE IPSAS 28.9). Consequently, the Group is required to re-measure that liability at fair value at each reporting date (PBE IPSAS 40.117(b)(i)).

As part of the business combination, making contingent payments to employees or selling shareholders are common methods of retention of key people for the combined entity. The nature of such contingent payments, however, needs to be evaluated in each individual circumstance as not all such payments qualify as contingent consideration, but are accounted for as a separate transaction. For example, contingent payments that are unrelated to the future service of the employee are deemed contingent consideration, whereas contingent payments that are forfeited when the employment is terminated are deemed remuneration. Paragraphs AG102-AG103 of PBE IPSAS 40 provide further guidance.

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

6.2. Acquisition of additional interest in Quality Port Limited

On 1 March 2022, the Group acquired an additional 7.4% interest in the voting shares of Quality Port Limited, increasing its ownership interest to 100%. Cash consideration of $991,000 was paid to the non-controlling shareholders. The carrying value of the net assets of Quality Port Limited (excluding goodwill on the original acquisition) was $10,824,000. The following table shows a schedule of additional interest acquired in Quality Port Limited:

PBE IPSAS 35.51

PBE IPSAS 38.25

PBE IPSAS 38.17(b)(iii)

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

Commentary

Non-controlling interest: measurement

The Group elected to value the non-controlling interest at fair value. This election can be made separately for each business combination, and is not a policy choice that determines an accounting treatment for all business combinations the Group will carry out (PBE IPSAS 40.73).

Classification of PBE Combinations

PBE Combinations can be classified as an acquisition or an amalgamation under PBE IPSAS 40. In the context of PBE IPSAS 40, the classification is following:

- If no party to a PBE combination gains control of one or more operations as a result of the combination, the combination shall be classified as an amalgamation
- If one party to a PBE combination gains control of one or more operations as a result of the combination, an entity shall consider the economic substance of the combination in classifying the combination as either an amalgamation or an acquisition. A combination in which one party gains control of one or more operations shall be classified as an acquisition, unless it has the economic substance of an amalgamation.

The acquisition of Quality Property Management Limited by the Council in the 2022 financial year is classified as an acquisition under PBE IPSAS 40. The Council did not have any amalgamation transaction in the current or prior financial year.

7. Interest in a joint venture

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

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

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

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

Summarised statement of financial position of Quality Waste Recycling Limited:	**2022**	**2021**	*PBE IPSAS 38.AG12-13*
	$000	**$000**	
Current assets, including cash and cash equivalents $989,000 (2021: $743,000) and prepayments $1,030,000 (2021: Nil)	3,226	2,808	
Non-current assets	2,864	2,964	
Current liabilities, including tax payable $89,000 (2021: $143,000)	(224)	(1,102)	
Non-current liabilities, including deferred tax liabilities $278,000 (2021: $325,000) and long-term borrowing $500,000 (2021: $500,000)	(1,020)	(1,000)	
Equity	**4,846**	**3,670**	
Proportion of the Group's ownership	50%	50%	
Goodwill	-	-	
Carrying amount of investment in the Group's financial statements	**2,423**	**1,835**	*PBE IPSAS 38.AG14(b)*

Summarised statement of financial performance of Quality Waste Recycling Limited:	**2021**	2020	
	$000	$000	
Revenue	60,094	58,876	
Cost of sales	(54,488)	(53,420)	
Administrative expenses, including depreciation $1,236,000 (2021: $1,235,000)	(2,638)	(2,586)	*PBE IPSAS 38.AG13*
Finance costs, including interest expense $204,000 (2021: $500,000)	(204)	(200)	*PBE IPSAS 38.AG13*
Surplus before income tax	**2,764**	**2,670**	
Income tax expense	(1,588)	(1,556)	*PBE IPSAS 38.AG13*
Surplus for the year	**1,176**	**1,114**	
Total comprehensive revenue and expense	**1,176**	**1,114**	*PBE IPSAS 38.AG14(b)*
Group's share of surplus (50%)	**588**	**557**	

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

	2022	**2021**
	$000	**$000**
Carrying amount of investment in Council's (parent) financial statements	**1,535**	**1,535**

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

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

Refer to Note 38 for details of the Group's commitments in relation to its joint venture. *PBE IPSAS 38.39(a) PBE IPSAS 38.AG18-AG19*

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7. Interest in a joint venture *continued*

Commentary

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

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

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

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

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

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

Entities will need to consider whether there is any impairment of their investments in joint ventures. Impairment charges relating to investments in joint ventures should be accounted for in accordance with the equity method under PBE IPSAS 36. The impairment test should be undertaken in accordance with the requirements of PBE IPSAS 21 or PBE IPSAS 26.

8. Investment in an associate

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

Quality Region Tourism Limited is a private entity that is not listed on any public exchange. The Group's interest in Quality Region Tourism Limited is accounted for using the equity method in the Group's financial statements. *PBE IPSAS 38.36(b)*

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

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

Summarised statement of financial position of Quality Region Tourism Limited:	**2022**	**2021**	*PBE IPSAS 38.AG12 - 13*
	$000	**$000**	
Current assets	6,524	6,324	
Non-current assets	13,664	12,828	
Current liabilities	(4,488)	(3,904)	
Non-current liabilities	(12,644)	(12,524)	
Equity	**3,056**	**2,724**	
Proportion of the Group's ownership	25%	25%	
Group's share in equity	**764**	**681**	
Goodwill	-	-	
Carrying amount of investment in the Group's financial statements	**764**	**681**	*PBE IPSAS 38.AG14(b)*

Summarised statement of financial performance of Quality Region Tourism Limited:	**2021**	**2020**	
	$000	$000	
Revenue	33,292	32,640	
Expenses	(31,960)	(31,335)	
Surplus before income tax	**1,332**	**1,305**	
Income tax expense	(1,000)	(981)	*PBE IPSAS 38.AG13*
Surplus for the year	**332**	**324**	
Other comprehensive revenue and expense	4	-	
Total comprehensive revenue and expense	**336**	**824**	
Group's share of surplus (25%)	**84**	**81**	*PBE IPSAS 38.AG14(b)*

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

	2021	**2020**
	$000	**$000**
Carrying amount of investment in Council's (parent) financial statements	650	650

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

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

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

Commentary

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

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

8. Investment in an associate *continued*

Commentary *continued*

Entities will need to consider whether there is any impairment of their investments in joint ventures. Impairment charges relating to investments in associates should be accounted for in accordance with the equity method under PBE IPSAS 36. The impairment test should be undertaken in accordance with the requirements of PBE IPSAS 21 or PBE IPSAS 26.

9. Rates

	Group		Council		
	2022 $000	2021 $000	2022 $000	2021 $000	*PBE IPSAS 23.106(a)(i)*
General rates	45,118	44,209	45,118	44,209	
Targeted rates:					
Water (excluding metered water)	9,211	9,026	9,211	9,026	
Sewerage	7,238	7,092	7,238	7,092	
Waste	9,870	9,671	9,870	9,671	
Targeted metered water rates	3,760	3,684	3,760	3,684	*LG(FRP)R.5(5)*
	75,197	**73,682**	**75,197**	**73,682**	

Commentary

Local authorities: Refer to Appendix 7 for additional disclosures

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

10. Grants revenue

	Group		Council	
	2022	2021 (restated*)	2022	2021 (restated*)
	$000	$000	$000	$000
NZTA grants	10,098	7,558	10,098	7,558
Government grant for upgrade of community centre building	-	250	-	250
Government grant for support of children's wellbeing in the community	405	324	405	324
	10,503	8,132	10,503	8,132

PBE IPSAS 23.106(a)(ii)

New Zealand Transport Agency (NZTA) grants

The Council receives grants from the NZTA, which reimburses part of the Council's costs of maintaining Quality City's roading infrastructure.

* ***Grant for the upgrade of community centre building – restatement of prior period error***

The Council received a grant of $500,000 from the Government in the previous two financial years (2020 and 2021) for the upgrade of Quality City's community centre building. The amounts received were $250,000 in 2020 and $250,000 in 2021. As at 30 June 2021, both of these amounts were recognised as deferred revenue as this project has not commenced, as it was understood that there is a return obligation attached to the funding. However, as a result of a legal review of the contract the Group have concluded that although the contract stipulated that the funds must be used for a specific upgrade programme, these stipulations did not include a return obligation. Therefore, there are no specific conditions (as defined by PBE IPSAS 23) attached to the grants, and both receipts should have been recognised as revenue upon receipt. Therefore, the grant amount of $250,000 received in 2021 was retrospectively recognised as revenue for 2021, the grant amount of $250,000 received in 2020 was retrospectively recognised in opening accumulated revenue and expense, and the entire amount of $500,000 was retrospectively reclassified out of deferred revenue liability.

Refer to Note 2(b) for further explanation.

Grant for the support of children's wellbeing in the community

The grant was received from the Ministry of Social Development for the purpose of funding a programme initiated by the Council to improve the wellbeing of children in the community. The amount received was $2,000,000 in 2020. One of the stipulations attached to the grant requires the Council to return any unused grant monies if any of the stages of the project is not completed within the timeframe specified in the grant agreement. Due to this return obligation, the Group have recognised the grant as deferred revenue. Revenue in relation to this grant is recognised as each stage of the project is completed. During the year ended 30 June 2022, $405,000 of this grant was recognised in revenue in the statement of financial performance (2021: $324,000).

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

	Group		Council	
	2022	2021	2022	2021
	$000	$000	$000	$000
Balance unspent at beginning of year	1,676	-	1,676	-
Current year receipts	-	2,000	-	2,000
Conditions met – transferred to revenue	(405)	(324)	(405)	(324)
Balance unspent at end of year (refer to Note 34)	**1,271**	**1,676**	**1,271**	**1,676**

Commentary

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

10. Grants revenue *continued*

COVID-19 commentary

In an attempt to mitigate the impact of the COVID-19 pandemic, the New Zealand Government introduced measures to financially assist entities. These measures included direct subsidies, off-market loans, reintroduction of tax depreciation for commercial and industrial buildings, etc.

Whilst some of these measures meet the definition of non-exchange revenue under PBE IPSAS 23 *Revenue from Non-Exchange Transactions* (PBE IPSAS 23), others do not. Accordingly, entities should analyse all facts and circumstances carefully to apply the appropriate relevant accounting standards which may include, for example, PBE IPSAS 29, PBE IAS 12 and PBE IPSAS 19.

PBE IPSAS 23.107 requires entities to disclose the following information:

- The accounting policies adopted for the recognition of revenue from non-exchange transactions
- For major classes of revenue from non-exchange transactions, the basis on which the fair value of inflowing resources was measured
- For major classes of taxation revenue that the entity cannot measure reliably during the period in which the taxable event occurs, any information about the nature of the tax

The nature and type of major classes of bequests, gifts, and donations, showing separately major classes of goods in-kind received.

11. Concessionary loan revenue

PBE IPSAS 23.106(a)(ii)

During the year ended 30 June 2021, the Council received a concessionary loan of $10,000,000 from the Government. The purpose of the loan was to fund the building of five Council social housing blocks. The loan is to be repaid over a period of five years at an interest rate of 3.5%. The market interest rate is 7.5%. At the date of the receipt of the loan from the Government, the difference between the $10,000,000 loan proceeds received by the Council and the contractual cash flows of the loan, discounted by the market interest rate, was $1,647,000. To the extent that the houses are not built in accordance with the timeframe stipulated in the loan agreement, the Council has an obligation of early repayment of the loan. Due to this return obligation, the Group have recognised a deferred revenue liability in relation to the difference between the loan proceeds received and the present value of the contractual cash flows of the loan. The remainder of the loan was recognised within interest-bearing loans and borrowings. Refer to Note 27.

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

	Group		Council	
	2022 $000	2021 $000	2022 $000	2021 $000
Deferred revenue on concessionary loan at beginning of year	1,647	-	1,647	-
Deferred revenue recognised on new concessionary loans entered into during the year	-	1,647	-	1,647
Conditions met – amounts transferred to revenue during the year	(329)	-	(329)	-
Deferred revenue on concessionary loan at end of year (refer to Note 34)	**1,318**	**1,647**	**1,318**	**1,647**

Commentary

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

12. Direct charges revenue – subsidised

PBE IPSAS 23.106(a)(ii)

	Group		Council	
	2022 $000	2021 $000	2022 $000	2021 $000
Building and resource consents	5,855	4,988	5,855	4,988
Landfill fees	1,920	1,871	1,920	1,871
Other sale of goods	1,240	1,269	1,040	1,069
Other rendering of services	4,461	4,576	4,161	4,276
	13,476	**12,704**	**12,976**	**12,204**

13. Direct charges revenue – full cost recovery

	Group		Council		
	2022	2021	2022	2021	
	$000	$000	$000	$000	*PBE IPSAS 9.39(b)*
Port services	103,664	90,646	-	-	
Property management fees	1,857	-	-	-	
Other sale of goods	971	998	371	998	
Other rendering of services	849	873	349	873	
	107,341	92,517	720	1,871	

COVID-19 commentary

Entities may need to use significant judgement to determine the effect of uncertainties related to the COVID-19 pandemic on their revenue accounting. Decisions made in response to the outbreak (e.g. modifying contracts, continuing transacting with customers despite collectability concerns, revising pricing etc.) may need to be disclosed. Entities may also need to consider the impact of delays in deliveries due to supply chain issues caused by the COVID-19 pandemic.

14. Employee costs

	Group		Council	
	2022	2021	2022	2021
	$000	$000	$000	$000
Wages and salaries	32,040	31,373	17,145	15,920
Termination benefits – severance	39	-	39	-
Other employee benefits	3,801	3,780	1,756	1,637
	35,880	35,153	18,940	17,557

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

Commentary

Local authorities: Refer to Appendix 7 for additional statutory disclosures

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

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

15. General expenses

	Group		Council		
	2022	2021	2022	2021	*PBE IPSAS 1.127(c)*
	$000	$000	$000	$000	
Costs on inventories recognised as an expense	48,823	46,480	21,508	24,798	*PBE IPSAS 12.47(d)*
Contracted services	26,260	24,635	8,361	7,036	
Grants and subsidies	1,580	1,679	1,780	1,879	
Administrative expenses	2,813	2,423	2,196	1,975	
Audit fees – EY (refer to Note 41)	340	351	226	237	*PBE IPSAS 1.116.1(a)*
Utilities and communication	14,490	13,664	6,455	6,035	
Consulting and legal fees	7,888	6,864	5,937	4,410	
Insurance	2,754	2,578	1,928	1,805	
Repairs and maintenance	10,946	9,673	5,473	5,837	
Bad and doubtful debts	(123)	254	18	201	*PBE IPSAS 30.24(e)*
Impairment of property, plant and equipment	-	301	-	-	*PBE IPSAS 26.115(a)*
Impairment of goodwill	200	-	-	-	*PBE IPSAS 26.115(a)*
Direct operating expenses (including repairs and maintenance) arising on investment properties	138	480	138	480	*PBE IPSAS 16.86(f)(ii)*
Research and development	235	34	235	34	*PBE IPSAS 31.125*
Net foreign exchange difference	(65)	(40)	-	-	*PBE IPSAS 4.61(a)*
Minimum lease payments recognised as operating lease expense	250	245	100	87	*PBE IPSAS 13.44(c)*
Write-down of inventories to net realisable value	286	242	-	-	*PBE IPSAS 12.47(e)*
Property management fees	557	658	557	658	
Other expenses	19,180	13,066	4,015	3,128	
	136,552	123,587	58,927	58,600	

16. Finance income

	Group 2022 $000	Group 2021 $000	Council 2022 $000	Council 2021 $000	
Interest income on a loan to an associate	20	-	20	-	
Interest income from AFS investments	316	211	316	211	
Interest income on term deposits	184	84	131	32	
	520	**295**	**467**	**243**	*PBE IPSAS 30.24(b)*

17. Finance costs

	Group 2022 $000	Group 2021 $000	Council 2022 $000	Council 2021 $000	
Interest on debts and borrowings	1,047	1,082	894	796	
Finance charges payable under finance leases and hire purchase contracts	40	40	-	-	
	1,087	**1,122**	**894**	**796**	*PBE IPSAS 30.24(b)*
Impairment loss on quoted AFS equity investments (refer to Note 27.1)	111	-	111	-	*PBE IPSAS 30.24(e)*
Unwinding of discount and effect of changes in discount rate on provisions (refer to Note 33)	43	1	37	1	*PBE IPSAS 19.97(e)*
Change in fair value of the forward points in commodity forward contracts (refer to Note 27.3)	23	-	-	-	
	1,264	**1,123**	**931**	**797**	

18. Other revenue

	Group 2022 $000	Group 2021 $000	Council 2022 $000	Council 2021 $000	
Net gain on disposal of property, plant and equipment	532	2,007	132	501	
Net gain on financial instruments at fair value through surplus or deficit	850	-	-	-	*PBE IPSAS 30.24(aXi)*
	1,382	**2,007**	**132**	**501**	

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

Commentary

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

19. Other expenses

	Group 2022 $000	Group 2021 $000	Council 2022 $000	Council 2021 $000	
Fair value loss on investment properties	306	300	306	300	*PBE IPSAS 16.87(d)*
Fair value adjustment of contingent consideration (refer to Note 6)	358	-	358	-	
Net loss on financial instruments at fair value through surplus or deficit	1,502	-	-	-	*PBE IPSAS 30.24(aXi)*
Ineffectiveness on forward commodity contracts designated as cash flow hedges (refer to Note 27.3)	65	-	-	-	*PBE IPSAS 30.28(b)*
	2,231	**300**	**664**	**300**	

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

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

19. Other expenses *continued*

Commentary

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

20. Components of other comprehensive revenue and expense

	Group 2022 $000	Group 2021 $000	Council 2022 $000	Council 2021 $000	*PBE IPSAS 1.103.4*
Cash flow hedges, net of tax					
Gains/(losses) arising during the year					
Currency forward contracts:					
Reclassification during the year to surplus or deficit	401	412	-	-	*PBE IPSAS 30.27(d) PBE IPSAS 30.RDR 27.1*
Net gains/(losses) during the year (except not-yet matured contracts)	(300)	(278)	-	-	
Net gains/(losses) during the year of the not-yet matured contracts	82	(101)	-	-	
Commodity forward contracts:					
Losses on not-yet matured commodity forward contracts	(915)	-	-	-	
	(732)	33	-	-	*PBE IPSAS 30.27(c)*
AFS financial assets, net of tax					
Gains/(losses) arising during the year	(57)	3	(57)	3	*PBE IPSAS 30.24(a)(ii)*

* This includes $183,000 that was removed from other comprehensive revenue and expense during the year and included in the carrying amount of the hedging items as a basis adjustment (2021: $33,000).

Commentary

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

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

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

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21. Income tax

The major components of income tax expense for the years ended 30 June 2022 and 2021 were: *PBE IAS 12.79*

	Group 2022 $000	Group 2021 $000	Council 2022 $000	Council 2021 $000	
Statement of financial performance					
Current income tax:					
Current income tax charge	1,728	1,223	-	-	*PBE IAS 12.80(a)*
Adjustments in respect of current income tax of previous year	(18)	(44)	-	-	*PBE IAS 12.80(b)*
Deferred tax:					
Relating to origination and reversal of temporary differences	104	(60)	-	-	*PBE IAS 12.80(c)*
Income tax expense reported in the statement of financial performance	**1,814**	**1,119**	-	-	
Statement of other comprehensive revenue and expense					
Deferred tax related to items recognised in other comprehensive revenue and expense during the year:					*PBE IAS 12.81(ab)*
Net gains/(losses) on revaluation of cash flow hedges	220	(9)	-	-	
Unrealised gains/(losses) on AFS financial assets	-	-	-	-	
Net loss on revaluation of property, plant and equipment	(1,535)	-	-	-	
Income tax charged to other comprehensive revenue and expense	**(1,315)**	**(9)**	-	-	*PBE IAS 12.RDR 81.1*

Commentary

Disclosure of tax on items of other comprehensive revenue and expense

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

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

Local authorities tax exemption

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

Deferred tax on asset revaluation

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

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21. Income tax *continued*

Commentary *continued*

Tax effect of cash flow hedge in other comprehensive revenue and expense

The tax effect of cash flow hedge instruments reflects the change in balances from 2021 to 2022 only for the effective portion (ineffectiveness has been accounted for directly in surplus or deficit). The reconciliation of these changes to the notes is difficult to directly observe. For illustrative purposes, a reconciliation is provided below (please note that the net change is also included in surplus or deficit and other comprehensive revenue and expense). This reconciliation relates to the Group only, because the Council does not hold cash flow hedges.

	Assets		Liabilities	
	2022 $000	2021 $000	2022 $000	2021 $000
Foreign exchange forward contract assets (refer to Note 27.1)	252	153	-	-
Foreign exchange forward contract liabilities (refer to Note 27.2)	-	-	170	254
Commodity forward contract (refer to Note 27.2)	-	-	980	-
Ineffectiveness of commodity contract (refer to Note 19)	-	-	(65)	-
	252	153	1,085	254
Net variation in comprehensive revenue and expense	99		831	
Net increase of cash flow hedge balances during 2022 (net liability and net loss)			732	
Tax rate			30%	
Tax gain			220	

Reconciliation of tax expense and the accounting surplus multiplied by the domestic tax rate for 2022 and 2021 *PBE IAS 12.81(c)(i)*

	Group		Council	
	2022 $000	2021 $000	2022 $000	2021 $000
Accounting surplus before income tax expense	**17,193**	**14,117**	**10,674**	**9,801**
At statutory income tax rate of 30% (2021: 30%)	5,158	4,235	3,202	2,940
Adjustments in respect of current income tax of previous years	(18)	(44)	-	-
Effect of non-taxable Council activities	(2,828)	(2,601)	(3,202)	(2,940)
Other non-taxable income	(480)	(299)	-	-
Utilisation of previously unrecognised tax losses	(481)	(339)	-	-
Non-deductible expenses for tax purposes:				
Impairment of goodwill	200	-	-	-
Contingent consideration re-measurement (refer to Note 6)	107	-	-	-
Other non-deductible expenses	156	167	-	-
Income tax expense reported in the statement of financial performance	**1,814**	**1,119**	**-**	**-**

The effective income tax rate is 11% for the Group (2021: 8%) and 0% for the Council (2021: 0%).

Commentary

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

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21. Income tax *continued*

COVID-19 commentary

Current income tax

Business disruption resulting from the COVID-19 pandemic may lead to an entity recognising asset impairments or forecasting future losses. These circumstances may introduce new uncertainties that an entity must consider in its analysis of the recoverability of deferred tax assets. Entities should update their projections of income for recent events. Tax losses that were otherwise expected to be utilised in the near term should be reviewed to determine if they might expire unutilised and how this would impact management's judgement on the amount of deferred tax asset to be recognised. Entities should further consider whether they need to provide additional disclosures to more fully explain the use of estimates or management's judgement in reaching its conclusions on the amount of unrecognised deferred tax assets.

Such judgements may include whether the tax laws were substantively enacted as at the reporting date and the determination of the accounting for income tax credits.

In applying judgement, entities should consider the amendments to PBE IAS 12. Although the amendment was not specifically developed to deal with a scenario such as the COVID-19 pandemic, it, nonetheless, provides helpful guidance to consider in accounting for the uncertainties that exist with respect to the application of complex tax legislation that was newly issued in response to the pandemic. It requires an entity to consider whether it is probable that the Inland Revenue will accept an uncertain tax treatment. If the entity concludes that the position is not probable of being accepted, the effect of the uncertainty needs to be reflected in the entity's accounting for income taxes.

21. Income tax *continued*

Deferred tax:

Deferred tax relates to the following:

PBE IAS 12.81(g)

	Group				Council			
	Statement of financial position		Statement of financial performance		Statement of financial position		Statement of financial performance	
	2022	2021	2022	2021	2022	2021	2022	2021
	$000	$000	$000	$000	$000	$000	$000	$000
Accelerated depreciation for tax purposes	(1,106)	(811)	295	107	-	-	-	-
Revaluations of investment properties to fair value	(1,535)	(1,422)	(92)	(90)	-	-	-	-
Revaluations of land and buildings to fair value	(35)	-	-	-	-	-	-	-
Revaluations of AFS investments to fair value	17	(1)	-	-	-	-	-	-
Employment benefits	102	59	(43)	(33)	-	-	-	-
Revaluation of an interest rate swap (fair value hedge) to fair value	11	-	(11)	-	-	-	-	-
Revaluation of cash flow hedges	251	31	-	-	-	-	-	-
Impairment on AFS unquoted debt instruments	27	-	(27)	-	-	-	-	-
Losses available for offsetting against future taxable income	383	365	(18)	(44)	-	-	-	-
Deferred tax expense/(income)			**104**	**(60)**			-	-
Net deferred tax assets/(liabilities)	**(1,697)**	**(1,778)**			-	-		
Deferred tax assets	383	365			-	-		
Deferred tax liabilities	(3,580)	(2,143)			-	-		
Deferred tax liability, net	**(3,197)**	**(1,778)**			-	-		

Commentary

Entities should assess the impact of climate-related matters on future taxable profits and whether they are sufficient to recover the deferred tax assets. The assumptions used in these estimations, should be consistent with those used elsewhere in the financial statements.

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21. Income tax *continued*

Reconciliation of deferred tax liabilities, net	Group 2022 $000	Group 2021 $000	Council 2022 $000	Council 2021 $000
Balance as at 1 July	(1,778)	(1,829)	-	-
Tax (expense)/income during the year recognised in surplus or deficit	(104)	60	-	-
Tax expense during the year recognised in other comprehensive revenue and expense	(1,315)	(9)	-	-
Balance as at 30 June	**(3,197)**	**(1,778)**	**-**	**-**

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

As at 30 June 2022, there was no recognised deferred tax liability (2021: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's controlled entities, associate or joint venture. *PBE IAS 12.81(f)*

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

Commentary

Reconciliation of deferred tax liability/asset

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

22. Property, plant and equipment

Group	Operational assets				Infrastructural assets				Restricted assets			Total	
	Land and buildings(1)	Plant and equipment(2)	Other operational assets	Total operational assets	Land and buildings	Water assets(3)	Roads and infra-structure	Total infra-structure assets	Land and building(4)	Cultural/ heritage assets	Total restricted assets		PBE IPSAS 17.88(e) PBE IPSAS 17.RDR 88.1
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	
Cost or valuation													
As at 1 July 2020	344,147	267,668	152,953	764,768	109,252	546,261	437,009	1,092,522	262,205	65,551	327,756	2,185,046	PBE IPSAS 17.88(d)
Additions	6,946	5,402	3,087	15,435	2,205	11,025	8,820	22,050	5,292	1,323	6,615	44,100	PBE IPSAS 17.88(e)(i)
Disposals	(540)	(420)	(240)	(1,200)	(172)	(858)	(686)	(1,716)	(412)	(103)	(515)	(3,431)	PBE IPSAS 17.88(e)(ii)
As at 30 June 2021	**350,553**	**272,650**	**155,800**	**779,003**	**111,285**	**556,428**	**445,143**	**1,112,856**	**267,085**	**66,771**	**333,856**	**2,225,715**	PBE IPSAS 17.88(d)
Additions	7,577	5,893	3,368	16,838	2,405	12,027	9,622	24,054	5,773	1,443	7,216	48,108	PBE IPSAS 17.88(e)(i)
Disposals	(773)	(447)	(344)	(1,564)	(245)	(1,227)	(982)	(2,454)	(589)	(147)	(736)	(4,754)	PBE IPSAS 17.88(e)(ii)
Reclassification to assets held for sale	-	(154)	-	(154)	-	-	-	-	-	-	-	(154)	PBE IPSAS 17.88(e)(ii)
Revaluation	9,046	-	-	9,046	1,292	6,462	5,169	12,923	3,861	-	3,877	25,830	PBE IPSAS 17.88(e)(iv)
Transfers(5)	(36)	-	-	(36)	(5)	(26)	(20)	(51)	(15)	-	(15)	(102)	PBE IPSAS 17.88(e)(ix)
As at 30 June 2022	**366,367**	**277,942**	**158,824**	**803,133**	**114,732**	**573,664**	**458,932**	**1,147,328**	**276,115**	**68,067**	**344,198**	**2,294,659**	PBE IPSAS 17.88(d)
Depreciation and impairment													
As at 1 July 2020	26,161	20,348	11,627	58,136	8,305	41,526	33,221	83,052	19,932	4,983	24,915	166,103	PBE IPSAS 17.88(d)
Depreciation charge for the year (restated*)	3,635	2,828	1,616	8,079	1,154	5,771	4,616	11,541	2,770	692	3,462	23,082	PBE IPSAS 17.88(e)(vii)
Impairment	-	301	-	301	-	-	-	-	-	-	-	301	PBE IPSAS 17.88(v)
Disposals	(488)	(380)	(217)	(1,085)	(155)	(775)	(620)	(1,550)	(372)	(93)	(465)	(3,100)	PBE IPSAS 17.88(e)(ii)
As at 30 June 2021	**29,308**	**23,097**	**13,026**	**65,431**	**9,304**	**46,522**	**37,217**	**93,043**	**22,330**	**5,582**	**27,912**	**186,386**	PBE IPSAS 17.88(d)
Depreciation charge for the year	3,748	2,915	1,666	8,329	1,190	5,949	4,759	11,898	2,856	714	3,570	23,797	PBE IPSAS 17.88(e)(vii)
Disposals	(536)	(417)	(238)	(1,191)	(170)	(850)	(680)	(1,700)	(408)	(102)	(510)	(3,401)	PBE IPSAS 17.88(e)(ii)
Transfers(5)	(36)	-	-	(36)	(5)	(26)	(20)	(51)	(15)	-	(15)	(102)	PBE IPSAS 17.88(e)(ix)
As at 30 June 2022	**32,484**	**25,595**	**14,454**	**72,533**	**10,319**	**51,595**	**41,276**	**103,190**	**24,763**	**6,194**	**30,957**	**206,680**	PBE IPSAS 17.88(d)
Net book value													
As at 30 June 2021	321,245	249,553	142,774	713,572	101,981	509,906	407,926	1,019,813	244,755	61,189	305,944	2,039,329	
As at 30 June 2022	333,883	252,347	144,370	730,600	104,413	522,069	417,656	1,044,138	251,379	61,873	313,241	2,087,963	

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

22. Property, plant and equipment *continued*

Council	Operational assets				Infrastructural assets				Restricted assets			Total	
	Land and buildings[1]	Plant and equipment[2]	Landfill	Total operational assets	Land and buildings	Water assets[3]	Roads and infra-structure	Total infra-structure assets	Land and building[4]	Cultural and heritage assets	Total restricted assets		*PBE IPSAS 17.88(e)* *PBE IPSAS 17.RDR 88.1*
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	
Cost or valuation													
As at 1 July 2020	217,084	123,868	128,831	469,783	92,022	460,112	368,089	920,223	147,008	17,589	164,597	1,554,603	*PBE IPSAS 17.88(d)*
Additions	4,564	2,604	2,709	9,877	1,935	9,674	7,740	19,349	3,091	370	3,461	32,687	*PBE IPSAS 17.88(e)(i)*
Disposals	(405)	(231)	(240)	(876)	(172)	(858)	(686)	(1,716)	(274)	(33)	(307)	(2,899)	*PBE IPSAS 17.88(e)(ii)*
As at 30 June 2021	221,243	126,241	131,300	478,784	93,785	468,928	375,143	937,856	149,825	17,926	167,751	1,584,391	*PBE IPSAS 17.88(d)*
Additions	5,037	2,874	2,989	10,900	2,135	10,676	8,541	21,352	3,411	408	3,819	36,071	*PBE IPSAS 17.88(e)(i)*
Disposals	(577)	(330)	(344)	(1,251)	(245)	(1,227)	(982)	(2,454)	(392)	(47)	(439)	(4,144)	*PBE IPSAS 17.88(e)(ii)*
Revaluation	6,304	-	-	6,304	1,202	6,012	4,810	12,024	2,390	-	2,401	20,718	*PBE IPSAS 17.88(e)(iv)*
Transfers[5]	(27)	-	-	(27)	(5)	(26)	(20)	(51)	(10)	-	(10)	(88)	*PBE IPSAS 17.88(e)(ix)*
As at 30 June 2022	**231,980**	**128,785**	**133,945**	**494,710**	**96,872**	**484,363**	**387,492**	**968,727**	**155,224**	**18,287**	**173,522**	**1,636,948**	*PBE IPSAS 17.88(d)*
Depreciation and impairment													
As at 1 July 2020	11,674	6,661	6,928	25,263	4,949	24,744	19,795	49,488	7,906	946	8,852	83,603	*PBE IPSAS 17.88(d)*
Depreciation charge for the year	2,457	1,403	1,459	5,319	1,042	5,210	4,168	10,420	1,665	199	1,864	17,603	*PBE IPSAS 17.88(e)(vii)*
Impairment	-	-	-	-	-	-	-	-	-	-	-	-	*PBE IPSAS 17.88(v)*
Disposals	(366)	(209)	(217)	(792)	(155)	(775)	(620)	(1,550)	(248)	(30)	(278)	(2,620)	*PBE IPSAS 17.88(e)(ii)*
As at 30 June 2021	13,765	7,855	8,170	29,790	5,836	29,179	23,343	58,358	9,323	1,115	10,438	**98,586**	*PBE IPSAS 17.88(d)*
Depreciation charge for the year	2,541	1,451	1,509	5,501	1,078	5,389	4,311	10,778	1,722	206	1,928	18,207	*PBE IPSAS 17.88(e)(vii)*
Disposals	(401)	(229)	(238)	(868)	(170)	(850)	(680)	(1,700)	(272)	(32)	(304)	(2,872)	*PBE IPSAS 17.88(e)(ii)*
Transfers[5]	(27)	-	-	(27)	(5)	(26)	(20)	(51)	(10)	-	(10)	(88)	*PBE IPSAS 17.88(e)(ix)*
As at 30 June 2022	**15,878**	**9,077**	**9,441**	**34,396**	**6,739**	**33,692**	**26,954**	**67,385**	**10,763**	**1,289**	**12,052**	**113,833**	*PBE IPSAS 17.88(d)*
Net book value													
As at 30 June 2021	207,478	118,386	123,130	448,994	87,949	439,749	351,800	879,498	140,502	16,811	157,313	1,485,805	
As at 30 June 2022	216,102	119,708	124,504	460,314	90,133	450,671	360,538	901,342	144,461	16,998	161,470	1,523,115	

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

Commentary

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

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

22. Property, plant and equipment *continued*

Impairment

PBE IPSAS 26.115(a)

During the year ended 30 June 2021, the impairment loss of $301,000 represented the write-down of certain port equipment to the recoverable amount as a result of technological obsolescence. This was recognised in the statement of financial performance within depreciation, amortisation and impairment.

The recoverable amount of $5,679,000 as at 30 June 2021 was based on value in use and was determined at the level of the CGU. The CGU consisted of the port plant and equipment held by Quality Port Limited, a controlled entity. In determining value in use for the CGU, the cash flows were discounted at a rate of 12.4% on a pre-tax basis. *PBE IPSAS 26.120*

Reclassification to assets held for sale

As at 30 June 2022, an item of port equipment with carrying value of $154,000 was classified as held for sale (2021: nil). Refer to Note 32 for further details.

Finance leases

The carrying value of property, plant and equipment held by the Group under finance leases and hire purchase contracts as at 30 June 2022 was $1,178,000 (2021: $1,486,000). This relates to port equipment held by the controlled entity. Additions during the year included $45,000 (2021: $54,000) of property, plant and equipment under finance leases and hire purchase contracts. Leased assets and assets under hire purchase contracts are pledged as security for the related finance lease and hire purchase liabilities. *PBE IPSAS 13.40(a)*

As at 30 June 2022, land and buildings with a carrying amount of $7,400,000 (2021: $5,000,000) were subject to a first charge to secure two of the Group's bank loans. Refer to Note 27.2 for further details. *PBE IPSAS 17.89(a)*

As at the reporting date the Council did not have any property, plant or equipment subject to a finance lease.

Assets under construction

Included in the Group's plant and equipment asset class within property, plant and equipment as at 30 June 2022 was an amount of $1,500,000 (2021: $1,750,000) relating to expenditure for a plant that was in the course of being constructed. *PBE IPSAS 17.89(b)*

Plant and equipment obtained in non-exchange transactions

PBE IPSAS 23.106(d)

In 2022, the Council recognised $2,190,000 (2021: $2,150,000) as equipment contributed by the New Zealand Government, which is subject to the restriction that it be used for the maintenance of roads in Quality City. The equipment was initially recognised at its fair value, which was estimated by reference to the market price of these assets on the date in which control was obtained. *PBE IPSAS 17.88(a)*

Revaluation of property, plant and equipment

PBE IPSAS 17.92(e)

Land, buildings, infrastructure assets and water assets are measured using the revaluation model and are revalued every three years. These assets were revalued on 30 June 2022. The revaluation resulted in a revaluation surplus of $25,846,000 for the Group (2021: Nil), and $20,729,000 for the Council (2021: Nil). This revaluation surplus was recognised in the asset revaluation reserve within the net assets/equity, via other comprehensive revenue and expense.

The details of the revaluation are as follows:

Land and buildings

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

PBE IPSAS 17.92(a), (b)

As at the date of revaluation of 30 June 2022, the properties' fair values were based on valuations performed by Chartered Surveyors & Co., an accredited independent valuer.

22. Property, plant and equipment *continued*

Water assets and roads and infrastructure assets

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

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

- The replacement asset would be using modern equivalents to the existing asset as at the date of valuation
- The replacement cost of the asset is determined with reference to recent construction contracts and the market buying price of components used to produce these assets
- The replacement cost of the asset is adjusted for any overcapacity or overdesign
- The replacement cost of the asset takes into account any planned earthquake strengthening costs
- Depreciation applied to the replacement cost of the asset in order to arrive at the depreciated replacement cost is calculated using the straight-line method
- Useful lives used for the purpose of calculating depreciation are estimated based on the current condition of the asset as well as local conditions in the area of Quality City in which the assets are located *PBE IPSAS 17.92(a) - (b)*

Revaluation of the Council's water assets and road and infrastructure assets was performed by Special Valuers Limited, an accredited independent valuer, as at 30 June 2022.

Commentary

Entities should consider the impact of climate-related matters on the life of property, plant and equipment. The introduction of legislation or other regulations may result in a reduction of the economic life of assets, compared to original forecasts. Entities may also need to assess deprecation rates to increase the rate of deprecation of these assets.

COVID-19 commentary

Many entities will have to assess property, plant and equipment for impairment. Entities may need to update their assumptions about the future use of an asset, specifically the remaining useful life and residual values. Property, plant and equipment may be under-utilised or idled for a period, which may lead entities to change plans and require a reassessment of the useful life estimates used in the depreciation calculations. Additionally, a weak economy may affect the residual value of property, plant and equipment that will also need to be included in any estimates of depreciation expense.

For further guidance, Audit New Zealand published *Guidance on the implications of COVID-19, for revaluations of property, plant and equipment, and investment property*.

23. Investment properties

	Group and Council		
	2022 $000	2021 $000	PBE IPSAS 16.87 PBE IPSAS 16.RDR 87.1
Balance as at 1 July	7,983	7,091	
Additions (subsequent expenditure)	1,216	1,192	PBE IPSAS 16.87(a) PBE IPSAS 16.RDR 87.2
Net loss from fair value adjustment	(306)	(300)	PBE IPSAS 16.87(d)
Balance as at 30 June	8,893	7,983	

Commentary

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

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

Reconciliation of net surplus on investment properties:	Group and Council 2022 $000	2021 $000	
Rental income derived from investment properties	1,404	1,377	PBE IPSAS 16.86(f)(i)
Direct operating expenses (including repairs and maintenance) generating rental income	(101)	(353)	PBE IPSAS 16.86(f)(ii)
Direct operating expenses (including repairs and maintenance) that did not generate rental income	(37)	(127)	PBE IPSAS 16.86(f)(iii)
Surplus arising from investment properties carried at fair value	1,266	897	

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

PBE IPSAS 16.86(e)

As at 30 June 2021 and 2022, the fair values of the properties were based on valuations performed by Chartered Surveyors & Co., an accredited independent valuer. Chartered Surveyors & Co. is a specialist in valuing the types of investment properties held by the Council. The valuation model in accordance with that recommended by the Property Institute of New Zealand has been applied.

PBE IPSAS 16.86(d)

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

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

23. Investment properties *continued*

Commentary

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

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

COVID-19 commentary

The impact on fair value measurement (FVM) arising from the COVID-19 pandemic and the continuing economic and market disruptions vary across countries, markets and industries. Uncertainty is likely to continue, even as some jurisdictions begin to ease the restrictions and open up their economies. When valuations are subject to significant measurement uncertainty due to the current environment and there is a wider range of possible estimates of FVM, the entity is required to apply judgement to determine the point within that range that is most representative of FVM in the circumstances.

While market volatility may suggest that the prices are aberrations and do not reflect fair value, it would not be appropriate for an entity to disregard market prices at the measurement date, unless those prices are from transactions that are not orderly.

A significant decrease in volume or activity in a market can also influence the valuation techniques used in the FVM. Entities will need to assess how those techniques are applied and whether inputs are observable at the measurement date.

For further guidance, Audit New Zealand published *Guidance on the implications of COVID-19, for revaluations of property, plant and equipment, and investment property*.

24. Intangible assets

	Group Software $000	Licence $000	Carbon credits $000	Goodwill $000	Total $000	*PBE IPSAS 31.117(e)*
Cost						
As at 1 July 2020	1,585	395	-	250	2,230	*PBE IPSAS 31.117(c)*
Additions - internally developed	630	-	-	-	630	*PBE IPSAS 31.117(eXi)*
As at 30 June 2021	**2,215**	**395**	**-**	**250**	**2,860**	*PBE IPSAS 31.117(c)*
Additions - internally developed	209	-	-	-	209	*PBE IPSAS 31.117(eXi)*
Additions - purchased	-	-	240	-	240	*PBE IPSAS 31.117(eXi)*
Acquisition of a controlled entity	1,200	-	-	2,231	3,431	*PBE IPSAS 31.117(eXi)*
As at 30 June 2022	**3,624**	**395**	**240**	**2,481**	**6,740**	*PBE IPSAS 31.117(c)*
Amortisation and impairment						
As at 1 July 2020	225	-	-	-	225	*PBE IPSAS 31.117(c)*
Amortisation	122	-	-	-	122	*PBE IPSAS 31.117(eXvi)*
As at 30 June 2021	**347**	**-**	**-**	**-**	**347**	*PBE IPSAS 31.117(c)*
Amortisation	174	-	-	-	174	*PBE IPSAS 31.117(eXvi)*
Impairment (refer to Note 25)	-	-	-	200	200	*PBE IPSAS 31.117(eXiv)*
As at 30 June 2022	**521**	**-**	**-**	**200**	**721**	*PBE IPSAS 31.117(c)*
Net book value						
As at 30 June 2021	1,868	395	-	250	2,513	
As at 30 June 2022	3,103	395	240	2,281	6,019	

	Council Software $000	Licence $000	Carbon credits $000	Total $000	*PBE IPSAS 31.117(e)*
Cost					*PBE IPSAS 31.117(c)*
As at 1 July 2020	1,585	395	-	1,980	*PBE IPSAS 31.117(eXi)*
Additions - internally developed	630	-	-	630	
As at 30 June 2021	**2,215**	**395**	**-**	**2,610**	*PBE IPSAS 31.117(c)*
Additions - internally developed	209	-	-	209	*PBE IPSAS 31.117(eXi)*
Additions - purchased	-	-	240	240	*PBE IPSAS 31.117(eXi)*
As at 30 June 2022	**2,424**	**395**	**240**	**3,059**	*PBE IPSAS 31.117(c)*
Amortisation and impairment					
As at 1 July 2020	225	-	-	225	*PBE IPSAS 31.117(c)*
Amortisation	102	-	-	102	*PBE IPSAS 31.117(eXvi)*
As at 30 June 2021	**327**	**-**	**-**	**327**	*PBE IPSAS 31.117(c)*
Amortisation	174	-	-	174	*PBE IPSAS 31.117(eXvi)*
As at 30 June 2022	**501**	**-**	**-**	**501**	*PBE IPSAS 31.117(c)*
Net book value					
As at 30 June 2021	1,888	395	-	2,283	
As at 30 June 2022	1,923	395	240	2,558	

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

Commentary

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

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

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

- Quality Port Limited
- Quality Property Management Limited

Carrying amount of goodwill allocated to each CGU:

	Quality Port Limited		Quality Property Management Limited		Total		
	2022 $000	2021 $000	2022 $000	2021 $000	2022 $000	2021 $000	
Total goodwill	50	250	2,231	-	2,281	250	*PBE IPSAS 26.123(a.1)*

The Group performed its annual goodwill impairment test in June 2021 and 2022.

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

Quality Port Limited
The recoverable amount of the Quality Port Limited's CGU of $37,562,000 as at 30 June 2022, has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. The projected cash flows have been updated to reflect slower growth in demand for port services than previously anticipated, due to businesses shifting away from delivery by sea in favour of delivery by road or air. The pre-tax discount rate applied to cash flow projections was 15.5% (2021: 12.1%) and cash flows beyond the five-year period are extrapolated using a 3.0% growth rate (2021: 5.0%) that is the same as the long-term average growth rate for ports in New Zealand. It was concluded that the fair value less costs of disposal did not exceed the value in use. *PBE IPSAS 26.115(a)*

As a result of this analysis, as at 30 June 2022, management had recognised an impairment charge of $200,000 against goodwill that had a carrying amount of $250,000 as at 30 June 2021. The impairment charge is recorded within general expenses in the statement of financial performance. The primary reason for the impairment is the abovementioned reduced demand for port services. *PBE IPSAS 26.120 (a), (b)*

Quality Property Management Limited
The recoverable amount of the Quality Property Management Limited's CGU was $7,917,000 as at 30 June 2022, was also determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. Quality Property Management Limited was acquired on 1 January 2022. The pre-tax discount rate applied to the cash flow projections is 14.4%. The growth rate used to extrapolate the cash flows of the unit beyond the five-year period is 2.9%. This growth rate is the same as the long-term average growth rate in the New Zealand property management sector. As a result of this analysis, no impairment has been recognised in relation to this CGU. *PBE IPSAS 26.123(b), (c)*

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

PBE IPSAS 26.123(c)

Key assumptions used in value in use calculations and sensitivity to changes in assumptions. The calculation of value in use for both Quality Port Limited and Quality Property Management Limited is most sensitive to the following assumptions:

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

Climate-related matters – The Group constantly monitors the latest government legislation in relation to climate-related matters. At the current time, no legislation has been passed that will impact the Group. The Group will adjust the key assumptions used in value-in-use calculations and sensitivity to changes in assumptions should a change be required.

Gross margins

PBE IPSAS 26.123(c)

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

PBE IPSAS 26.123(e)

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

Discount rates

PBE IPSAS 26.123(c)

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

PBE IPSAS 26.123(e)

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

Price inflation

PBE IPSAS 26.123(c)

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

PBE IPSAS 26.123(e)

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

Growth rate estimates

PBE IPSAS 26.123(c)

Rates are based on published industry research.

PBE IPSAS 26.123(e)

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

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

Intangible assets with unlimited useful life

Licences

PBE IPSAS 31.121(a)

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

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

PBE IPSAS 21.72A

PBE IPSAS 21.73(a)

The Group performed its annual impairment test for these licences in June 2021 and 2022.

As at 30 June 2022, no impairment loss had been recognised in relation to the licences (2021: Nil).

Carbon credits

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

PBE IPSAS 21.72A

As carbon credits are a non-cash-generating intangible asset, they were not allocated to a CGU for the purpose of impairment.

PBE IPSAS 21.73(a)

The Group performed its annual impairment test for these carbon credits in June 2021 and 2022. As at 30 June 2022, no impairment loss had been recognised in relation to the carbon credits (2021: Nil).

Commentary

The Group has determined recoverable amounts of its CGUs based on value in use under PBE IPSAS 26.

If the recoverable amounts are determined using fair value less cost of disposal, PBE IPSAS 26.123(d) requires disclosure of the valuation technique(s) and other information including the key assumptions used and a description of management's approach to each key assumption. Furthermore, if fair value less cost of disposal is determined using discounted cash flow projections, additional information such as period of cash flow projections, growth rate used to extrapolate cash flow projections and the discount rate(s) applied to the cash flow projections are required to be disclosed.

PBE IPSAS 26.123(c)(i) requires disclosure of key assumptions made for each CGU for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated is significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives. While the disclosures above have been provided for an illustrative purpose, companies need to evaluate the significance of each assumption used for the purpose of this disclosure.

PBE IPSAS 26.123(e) requires disclosures of sensitivity analysis for each CGU for which carrying amount of goodwill or intangible assets with indefinite lives allocated to that CGU is significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite lives. These disclosures are made if a reasonably possible change in a key assumption used to determine the CGU's recoverable amount would cause the CGU's carrying amount to exceed its recoverable amount. The Group has made these disclosures for all the key assumptions for the Quality Port Limited's CGU, since there is an impairment charge during the reporting period and the carrying amount equals recoverable amount. The Group believes that a reasonably possible change in the key assumptions will not cause impairment to the Quality Property Management Limited's CGU, and this has been disclosed above. Entities need to also take into account the consequential effect of a change in one assumption on other assumptions, as part of the sensitivity analyses when determining the point at which the recoverable amount equals the carrying amount (PBE IPSAS 26.123(e)(iii)). The Group has considered the above points while making the disclosures herein.

26. Service concession arrangements

In the previous reporting period, the Group entered into a service concession arrangement with a private company to construct a new recreation centre in Quality City in order to promote the health and wellbeing in the community. Under the service concession arrangement, the private-sector operator is required to construct, own and operate the recreation centre for a period of 10 years, with no option of extension or renewal. After 10 years, the ownership of the building will be transferred to the Council at no cost. During the 10-year period, the private operator will earn revenue (e.g. entry fees) from operating the recreation centre. The Council will regulate the services to be provided by the operator to members of the public at the recreation centre, as well as the prices charged to the public for these services. *PBE IPSAS 32.32(a)* *PBE IPSAS 32.32(b)* *PBE IPSAS 32.32(c)*

The construction of the recreation centre was completed on 30 June 2021. No fees were earned by the private operator before that date.

The estimated useful life of the recreation centre building is 20 years. Depreciation is calculated on a straight-line basis.

The following service concession assets and liabilities and related revenue and expenses have been recognised as at the reporting date:

	Group and Council		
	2022 $000	2021 $000	
Service concession asset (included in property, plant and equipment – infrastructure – refer to Note 22):			
Fair value of service concession assets on initial recognition	550	550	
Accumulated depreciation to date	(28)	-	
Net carrying amount	**522**	**550**	*PBE IPSAS 32.32(c)(iii)*
Service concession liability:			
Balance as at 1 July	550	550	
Service concession revenue recognised	(55)	-	
Balance as at 30 June	**495**	**550**	*PBE IPSAS 32.32(c)(vii)*

There have been no changes in the service concession arrangement during the current reporting period. *PBE IPSAS 32.32(d)*

Commentary

Disclosure of service concession arrangements by grantor

Paragraph 32 of PBE IPSAS 32 *Service Concession Arrangements: Grantor* (PBE IPSAS 32) requires consideration of all aspects of the service concession arrangement when determining the appropriate disclosures to be provided in the notes. PBE IPSAS 32.32(a)-(d) includes a list of broad disclosure items that are required. Since each service concession arrangement is likely to have unique characteristics, PBE IPSAS 32 implies a degree of judgement to ensure that the appropriate information is included.

27. Financial assets and financial liabilities

Commentary

Early adopters of PBE IFRS 9 or PBE IPSAS 41, please note: The Council did not early adopt PBE IFRS 9 or PBE IPSAS 41. Therefore, the disclosures in this note do not reflect the requirements of PBE IFRS 9 or PBE IPSAS 41 and its consequential amendments to PBE IPSAS 30. PBEs that adopted PBE IFRS 9 or PBE IPSAS 41 early should refer to Appendix 12, instead of this note.

27.1. Financial assets

	Group		Council		
					PBE IPSAS 30.9 *PBE IPSAS 30.10 - 11*
	2022 $000	2021 $000	2022 $000	2021 $000	
Derivatives designated as hedging instruments					
Cash flow hedges:					
Foreign exchange forward contracts	252	153	-	-	
	252	**153**	**-**	**-**	
Financial instruments at fair value through surplus or deficit					*PBE IPSAS 30.11(a)*
Derivatives not designated as hedges:					*PBE IPSAS 30.RDR 11.1*
Foreign exchange forward contracts	640	-	-	-	
Embedded derivatives	210	-	-	-	
	850	**-**	**-**	**-**	
AFS investments at fair value through other comprehensive revenue and expense					*PBE IPSAS 30.11(d)*
Unquoted equity shares	1,038	898	1,038	898	
Quoted equity shares	337	300	337	300	
Quoted debt securities	612	600	612	600	
	1,987	**1,798**	**1,987**	**1,798**	
Total financial instruments at fair value	**3,089**	**1,951**	**1,987**	**1,798**	
Loans and receivables (excluding cash– refer to Note 31)					*PBE IPSAS 30.11(c)*
Receivables from exchange transactions	14,666	12,874	11,455	9,785	
Receivables from non-exchange transactions	2,439	1,429	1,963	953	
Term deposits	3,674	1,685	2,624	635	
Loan to an associate	213	8	213	8	
	20,992	**15,996**	**16,255**	**11,381**	
Total financial assets (excluding cash)	**24,081**	**17,947**	**18,242**	**13,179**	
Represented by:					
Total current	17,656	14,456	13,919	10,841	
Total non-current	6,425	3,491	4,323	2,338	
	24,081	**17,947**	**18,242**	**13,179**	

Commentary

Although PBE IPSAS 30.9 requires disclosures by class of financial instrument, Tier 2 PBEs are not required to group financial instruments into classes; nor are Tier 2 PBEs required to provide sufficient information to permit a reconciliation to the line items presented in the statement of financial position. However, Tier 2 PBEs are required to disclose the carrying amount of each category of financial assets and liabilities, as required by PBE IPSAS 30.11.

According to PBE IPSAS 30.RDR 11.1, Tier 2 PBEs are not required to separately disclose financial assets at fair value through surplus or deficit that have been designated as such upon initial recognition and those financial assets should then be classified as held for trading in accordance with PBE IPSAS 29. The only financial instruments at fair value through surplus or deficit that the Group holds are held for trading. The Group does not hold any financial instruments at fair value through surplus or deficit that have been designated as such upon initial recognition.

27. Financial assets and financial liabilities *continued*

Commentary

Please note that in the disclosure above, which includes financial assets only, the amount of receivables from non-exchange transactions is not equal to the total receivables from non-exchange transactions as disclosed in the statement of financial position and in Note 29. This is because the Group's total receivables from non-exchange transactions include rates receivable, which generally represents a statutory right to receive cash, rather than a contractual right to do so. As such, rates receivable would not meet the definition of financial assets given in PBE IPSAS 28, PBE IFRS 9 or PBE IPSAS 41, and therefore, has been excluded from the financial assets disclosure above.

Derivatives designated as hedging instruments reflect the positive change in fair value of foreign exchange forward contracts, designated as cash flow hedges to hedge highly probable forecast sales in US dollar (USD) and purchases in pound sterling (GBP). *PBE IPSAS 30.9 - 10*

Derivatives not designated as hedging instruments reflect the positive change in fair value of those foreign exchange forward contracts that are not designated in hedge relationships, but are, nevertheless, intended to reduce the level of foreign currency risk for expected sales and purchases.

Loans and receivables are non-derivative financial assets carried at amortised cost which generate a fixed or variable interest income for the Group. The carrying value may be affected by changes in the credit risk of the counterparties.

PBE IPSAS 30.24(e)

AFS financial assets at fair value through other comprehensive revenue and expense include a significant portion of the AFS financial assets that are invested in equity shares of non-listed companies, namely the LGFA and Urban Developers Limited. The Group holds non-controlling interests (between 2% and 9%) in the entities. The purpose of the Council's investment in Urban Developers Limited is to further contribute to economic development in Quality City, as well as earn a return on the investment. The Group also has investments in listed equity and debt securities. Fair values of these quoted debt securities and equity shares are determined by reference to published price quotations in an active market.

As at 30 June 2022, the Group identified an impairment of $88,000 (2021: Nil) on AFS quoted debt securities and an impairment of $23,000 (2021: Nil) on AFS quoted equity securities. The impairment on AFS financial assets is recognised within finance costs in the statement of financial performance.

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27. Financial assets and financial liabilities *continued*

27.2 Financial liabilities

Interest-bearing loans and borrowings

	Effective interest rate	Maturity	Group 2022	Group 2021	Council 2022	Council 2021	
	%		$000	$000	$000	$000	*PBE IPSAS 30.9 - 10* *PBE IPSAS 30.11(f)*
Current interest-bearing loans and borrowings							
Obligations under finance leases and hire purchase contracts (refer to Note 38)	7.8	2023	83	51	-	-	
Bank overdrafts	BKBM+1.0	On demand	966	2,650	966	2,650	
Other current loans							
$1,500,000 bank loan (2021: $1,400,000)	BKBM+0.5	1 May 2023	1,411	-	1,411	-	
$2,200,000 bank loan	BKBM+0.5	30 Sep 2021	-	74	-	74	
			2,460	**2,775**	**2,377**	**2,724**	
Non-current interest-bearing loans and borrowings							
Obligations under finance leases and hire purchase contracts (refer to Note 38)	7.8	2024-2025	905	943	-	-	
8% debentures	8.2	2024-2030	523	3,054	-	-	
8.25% secured loan of USD1,600,000	*LIBOR+0.2	31 Nov 2027	2,246	-	-	-	
Secured bank loan	BKBM+2.0	30 Jun 2027	3,479	3,489	3,479	3,489	
Other non-current loans							
$1,500,000 bank loan (2021: $1,400,000)	BKBM+0.5	1 May 2023	-	1,357	-	1,357	
$2,750,000 bank loan (2021: $2,500,000)	BKBM+1.1	2024-2026	2,486	2,429	-	-	
$2,200,000 bank loan	BKBM+0.5	30 Sep 2024	2,078	2,078	2,078	2,078	
$10,000,000 concessionary loan	7.5	30 Jun 2024	8,629	8,353	8,629	8,353	
			20,346	**21,703**	**14,186**	**15,277**	
Total interest-bearing loans and borrowings			**22,806**	**24,478**	**16,563**	**18,001**	

* Includes the effects of related interest rate swaps

Commentary

PBE IPSAS 30.10 only requires disclosure of information that enables users of the financial statements to evaluate the significance of financial instruments for its financial position and performance. As the Group has a significant amount of interest-bearing loans and borrowings in its statement of financial position, it has decided to provide detailed information to the users of the financial statements about the effective interest rate as well as the maturity of the loans.

27. Financial assets and financial liabilities *continued*

PBE IPSAS 30.9- 10

Bank overdrafts

The bank overdrafts are secured by a portion of the Group's short-term deposits.

$1,500,000 bank loan

This loan is unsecured and is repayable in full on 1 May 2023.

8% debentures

The 8% debentures are repayable in equal annual instalments of $350,000 commencing on 1 July 2024.

USD 1,600,000 8.25% secured loan

As at 30 June 2022, the loan was secured by a first charge over certain of the Group's land and buildings with a carrying value of $2,400,000 (2021: Nil).

Secured bank loan

PBE IPSAS 1.84

This loan has been drawn down under a six-year multi-option facility (MOF). The loan is repayable within 12 months after the reporting date, but has been classified as long term because the Group expects and has the discretion to exercise its rights under the MOF to refinance this funding. Such immediate replacement funding is available until 30 June 2027. The total amount repayable on maturity is $3,500,000. The facility was secured by a first charge over certain of the Group's land and buildings, with a carrying value of $5,000,000 (2021: $5,000,000).

$2,750,000 bank loan

The Group increased its borrowings under this loan contract by $250,000 during the reporting period. This loan is repayable in two instalments of $1,250,000 due on 30 June 2024 and $1,500,000 due on 30 June 2026.

$2,200,000 bank loan

PBE IPSAS 30.37(c)

This loan is unsecured and is repayable in full on 30 September 2024. As at 30 June 2021, $74,000 was repayable on 30 September 2021.

$10,000,000 concessionary loan

PBE IPSAS 30.37(b)
PBE IPSAS 30.37(d)

This concessionary loan was advanced to the Council by the Government in order to fund the construction of five Council social houses. The loan was advanced on 30 June 2021 and is repayable in full on 30 June 2025. The nominal amount advanced was $10,000,000. Interest on this loan is payable annually at a concessionary rate of 3.5%. The effective interest rate is 7.5%, which is the market rate for an arm's length loan with similar characteristics. The loan was initially recognised at fair value of $8,353,000. The difference between this amount and the $10,000,000 received was recognised as non-exchange deferred revenue (refer to Note 34). As at 30 June 2022, the nominal value of the loan was $10,000,000, and the carrying value of the loan was $8,629,000 (2021: Nil). The loan is measured at amortised cost, using the effective interest rate method, with an effective interest rate of 7.5%. A reconciliation of the opening and closing balance of the concessionary loan is shown below:

	$000	
As at 1 July 2020	-	*PBE IPSAS 30.37(a)*
New loans at nominal value	8,353	*PBE IPSAS 30.37(a)(i)*
As at 30 June 2021 and 1 July 2021	**8,353**	
New loans at nominal value	-	*PBE IPSAS 30.37(a)(i)*
Fair value adjustments to new loans	-	*PBE IPSAS 30.37(a)(ii)*
Interest accrued during the year	626	*PBE IPSAS 30.37(a)(v)*
Repayments	(350)	*PBE IPSAS 30.37(a)(iii)*
As at 30 June 2022	**8,629**	

27. Financial assets and financial liabilities *continued*

Other financial liabilities

PBE IPSAS 30.9
PBE IPSAS 30.10 - 11

	Group 2022 $000	Group 2021 $000	Council 2022 $000	Council 2021 $000
Derivatives designated as hedging instruments				
Cash flow hedges:				
Foreign exchange forward contracts	170	254	-	-
Commodity forward contracts	980	-	-	-
Fair value hedges:				
Interest rate swaps	35	-	-	-
	1,185	**254**	-	-
Financial liabilities at fair value through surplus or deficit				
Contingent consideration (refer to Note 6)	1,072	-	-	-
Derivatives not designated as hedges:				
Foreign exchange forward contracts	720	-	-	-
Embedded derivatives	782	-	-	-
	2,574	-	-	-
Total financial liabilities at fair value	**3,759**	**254**	-	-
Other financial liabilities at amortised cost, other than interest-bearing loans and borrowings				
Payables under exchange transactions	19,820	21,073	14,349	15,516
Financial guarantee contracts	87	49	87	49
Total financial liabilities at amortised cost	**19,907**	**21,122**	**14,436**	**15,565**
Total financial liabilities	**23,666**	**21,376**	**14,436**	**15,565**
Represented by:				
Total current	22,164	21,376	14,436	15,565
Total non-current	1,502	-	-	-
Total financial liabilities	**23,666**	**21,376**	**14,436**	**15,565**

PBE IPSAS 30.11(e)

PBE IPSAS 30.11(f)

Commentary

Although PBE IPSAS 30.9 requires disclosures by class of financial instrument, Tier 2 PBEs are not required to group financial instruments into classes; nor are Tier 2 PBEs required to provide sufficient information to permit a reconciliation to the line items presented in the statement of financial position. However, Tier 2 PBEs are required to disclose the carrying amount of each category of financial assets and liabilities, as required by PBE IPSAS 30.11.

According to PBE IPSAS 30.RDR 11.2, Tier 2 PBEs are not required to separately disclose financial liabilities at fair value through surplus or deficit that have been designated as such upon initial recognition and those financial liabilities should then be classified as held for trading in accordance with PBE IPSAS 29. The only financial instruments at fair value through surplus or deficit that the Group holds are classified as held for trading. The Group does not hold any financial instruments at fair value through surplus or deficit that have been designated as such upon initial recognition.

Derivatives designated as hedging instruments reflect the change in fair value of foreign exchange forward contracts, designated as cash flow hedges to hedge highly probable future purchases in GBP.

PBE IPSAS 30.38

Derivatives not designated as hedging instruments also include the change in fair value of commodity forward contracts contracted during 2022. The Group is exposed to changes in the price of cooper on its forecast cooper purchases. The forward contracts do not result in physical delivery of cooper, but are designated as cash flow hedges to offset the effect of price changes in cooper. The Group hedges approximately 45% of its expected cooper purchases for the next reporting period. The remaining volume of cooper purchases is exposed to price volatility.

27. Financial assets and financial liabilities *continued*

Contingent consideration

PBE IPSAS 40.120(g)

As part of the purchase agreement with the previous owner of Quality Property Management Limited, a contingent consideration has been agreed upon. This consideration is dependent on the surplus before income tax of Quality Property Management Limited during a 12-month period. The fair value of the contingent consideration at the acquisition date was $714,000. The fair value increased to $1,072,000 as at 30 June 2022 due to a significantly enhanced performance compared to budget. The contingent consideration is due for final measurement and payment to the former shareholders on 28 March 2023. Refer to Note 6 for further details.

COVID-19 commentary

Entities may have obtained additional financing, amended the terms of existing debt agreements, or obtained waivers if they no longer satisfied debt covenants. In such cases, they will need to consider the guidance provided in PBE IPSAS 29 to determine whether changes to existing contractual arrangements represented a substantial modification or, potentially, a contract extinguishment, both of which would have accounting implications in each case. Furthermore, entities may need to determine whether a breach of covenants will require non-current liabilities to be reclassified as current liabilities in their financial statements.

Guarantees

Where guarantees are issued by governments for a below market rate fee, entities will have to assess whether this constitutes a concessionary loan to be accounted for and disclosed in accordance with PBE IPSAS 23 (refer to Note 11).

Where such guarantees are provided at below market rates by controlled entity or other Group entities, the initial benefit provided may need to be accounted for as an equity transaction between the Group entities.

27.3 Hedging activities and derivatives

PBE IPSAS 30.26

Derivatives not designated as hedging instruments

The Group uses foreign currency denominated borrowings and foreign exchange forward contracts to manage some of its transaction exposures. These foreign exchange forward contracts are not designated as cash flow hedges and are entered into for periods consistent with foreign currency exposures of the underlying transactions, generally from one to 24 months.

Cash flow hedges

Foreign currency risk

PBE IPSAS 30.26(a), (c)
PBE IPSAS 30.27(a)

Foreign exchange forward contracts measured at fair value through other comprehensive revenue and expense are designated as hedging instruments in cash flow hedges of forecast sales in USD and forecast purchases in GBP. These forecast transactions are highly probable, and they comprise about 25% of the Group's total expected sales in USD and about 65% of its total expected purchases in GBP.

PBE IPSAS 30.26(c)

While the Group also enters into other foreign exchange forward contracts with the intention to reduce the foreign exchange risk of expected sales and purchases, these other contracts are not designated in hedge relationships and are measured at fair value through surplus or deficit.

The foreign exchange forward contract balances vary with the level of expected foreign currency sales and purchases and changes in foreign exchange forward rates.

PBE IPSAS 30.26(b)

	Group			
	2022		2021	
	Assets $000	Liabilities $000	Assets $000	Liabilities $000
Foreign currency forward contracts designated as hedging instruments				
Fair value	252	(170)	153	(254)

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27. Financial assets and financial liabilities *continued*

The terms of the foreign currency forward contracts match the terms of the expected highly probable forecast transactions. As a result, no hedge ineffectiveness arises requiring recognition through surplus or deficit. Notional amounts are as provided in Note 27.2.

PBE IPSAS 30.27(b), (c)

PBE IPSAS 30.28(b)

The cash flow hedges of the expected future sales in July 2023 were assessed to be highly effective and a net unrealised gain of $252,000, with a deferred tax liability of $76,000 relating to the hedging instruments, is included in other comprehensive revenue and expense. Comparatively, the cash flow hedges of the expected future sales in 2022 were assessed to be highly effective and an unrealised gain of $153,000 with a deferred tax liability of $46,000 was included in other comprehensive revenue and expense in respect of these contracts.

The cash flow hedges of the expected future purchases in 2023 were assessed to be highly effective, and as at 30 June 2022, a net unrealised loss of $170,000, with a related deferred tax asset of $51,000 was included in other comprehensive revenue and expense in respect of these contracts. Comparatively, the cash flow hedges of the expected future purchases in 2022 were also assessed to be highly effective and an unrealised loss of $254,000, with a deferred tax asset of $76,000, was included in other comprehensive revenue and expense in respect of these contracts.

The amount removed from other comprehensive revenue and expense during the year and included in the carrying amount of the hedging items as a basis adjustment for the year ended 30 June 2022 is detailed in Note 20, totalled $183,000 (2021: $33,000). The amounts retained in other comprehensive revenue and expense as at 30 June 2022 were expected to mature and affect the statement of financial performance in 2022. Reclassifications to surplus or deficit during the year included in other comprehensive revenue and expense are shown in Note 20.

PBE IPSAS 30.27(a), d), (e)

Commodity price risk

The Group purchases cooper on an ongoing basis as its operating activities in Quality Port Limited division require a continuous supply of cooper for the production of its port devices. The increased volatility in copper price over the past 12 months has led to the decision to enter into commodity forward contracts.

These contracts, which commenced on 1 January 2022, are expected to reduce the volatility attributable to price fluctuations of copper. Hedging the price volatility of forecast copper purchases is in accordance with the risk management strategy outlined by the management. The hedging relationships are for a period between three and 12 months based on existing purchase agreements. The Group designated only the spot-to-spot movement of the entire commodity purchase price as the hedged risk. The forward points of the commodity forward contracts are therefore excluded from the hedge designation. Changes in fair value of the forward points recognised in the statement of financial performance in finance costs for the current year were $23,000 (refer to Note 17).

As at 30 June 2022, the fair value of outstanding commodity forward contracts amounted to a liability of $980,000 (2020: nil). The ineffectiveness recognised in other operating expenses in the statement of financial performance for the current year was $65,000 (refer to Note 19). The cumulative effective portion of $915,000 was reflected in other comprehensive revenue and expense and will affect the surplus or deficit in the first six months of 2023.

Fair value hedge

PBE IPSAS 30.26(a)-(c)

As at 30 June 2022, the Group had an interest rate swap agreement in place with a notional amount of USD1,600,000 ($2,246,000) (2021: Nil) whereby the Group receives a fixed rate of interest of 8.25% and pays interest at a variable rate equal to LIBOR+0.2% on the notional amount. The swap is being used to hedge the exposure to changes in the fair value of its 8.25% secured loan.

PBE IPSAS 30.28(a)

As at 30 June 2022, the decrease in fair value of the interest rate swap of $35,000 (2021: Nil) had been recognised in finance costs in the statement of financial performance and offset with a similar gain on the bank borrowings. The ineffectiveness recognised in 2021 was immaterial.

27. Financial assets and financial liabilities *continued*

COVID-19 commentary

Hedging

An entity's transactions may be postponed or cancelled, or occur in significantly lower volumes than initially forecast as a result of the COVID-19 pandemic. If the entity designated such transactions as a hedged forecast transaction in a cash flow hedge, it would need to consider whether the transaction was still a 'highly probable forecast transaction'.

In other words, if the COVID-19 pandemic affects the probability of hedged forecast transactions occurring and/or the time period designated at the inception of a hedge, then an entity would need to determine whether it can continue to apply hedge accounting to the forecast transaction or a proportion of it, and whether any additional ineffectiveness has arisen for continuing hedges.

- If an entity determines that a forecast transaction is no longer highly probable, but still expected to occur, the entity must discontinue hedge accounting prospectively
- If an entity determines that the timing of a forecast transaction has changed, and the cash flows are now expected to occur at a different time than initially forecast, the outcome would depend on the nature of the hedged item and how the hedge relationship was documented and judgement will be needed in considering the appropriate accounting treatment
- If an entity determines that a forecast transaction is no longer expected to occur, in addition to discontinuing hedge accounting prospectively, it must immediately reclassify to surplus or deficit any accumulated gains or losses on the hedging instrument that has already been recognised in other comprehensive revenue and expense

Embedded derivatives

In 2022, the Group entered into long-term sale contracts with a customer in Canada. The functional currency of the customer is USD. The selling price in the contracts is fixed and set in Canadian dollars (CAD). The contracts require physical delivery and will be held for the purpose of the delivery of the commodity in accordance with the buyer's expected sale requirements. The contracts have embedded foreign exchange derivatives that are required to be separated. *PBE IPSAS 29.AG46(d)*

The Group also entered into various purchase contracts for brass and chrome (for which there is an active market) with a number of suppliers in South Africa and Russia. The prices in these purchase contracts are linked to the price of electricity. The contracts have embedded commodity swaps that are required to be separated.

The embedded foreign currency and commodity derivatives have been separated and are carried at fair value through surplus or deficit. The carrying values of the embedded derivatives as at 30 June 2022 amounted to $210,000 (other financial assets) and $782,000 (other financial liabilities) (2021: both Nil). The effects on surplus or deficit are reflected in finance income and finance costs, respectively.

27. Financial assets and financial liabilities *continued*

27.4. Fair values

A comparison by class of the carrying amounts and fair value of the Group's and Council's financial instruments, other than those with carrying amounts which are reasonable approximations of their fair values is set out below:

PBE IPSAS 30.29 - 30

	Group			
	Carrying amount		Fair value	
	2022	2021	2022	2021
Financial assets	$000	$000	$000	$000
Other financial assets:				
Loans	3,887	1,693	3,741	1,654
AFS financial investments	1,987	1,798	1,987	1,798
Foreign exchange forward contracts	640	-	640	-
Embedded derivatives	210	-	210	-
Derivatives in effective hedges	252	153	252	153
	6,976	3,644	6,830	3,605
Financial liabilities				
Interest-bearing loans and borrowings:				
Obligations under finance leases and hire purchase contracts	(988)	(994)	(1,063)	(1,216)
Floating rate borrowings*	(12,666)	(11,877)	(12,666)	(11,877)
Fixed rate borrowings	(9,152)	(11,607)	(9,321)	(11,944)
Financial guarantee contracts	(87)	(49)	(87)	(49)
Contingent consideration	(1,072)	-	(1,072)	-
Derivatives not designated as hedges:				
Foreign exchange forward contracts	(720)	-	(720)	-
Embedded derivatives	(782)	-	(782)	-
Derivatives in effective hedges	(1,185)	(254)	(1,185)	(254)
	(26,652)	(24,781)	(26,896)	(25,340)

	Council			
Financial assets				
Other financial assets:				
Loans	2,837	643	2,741	604
AFS financial investments	1,987	1,798	1,987	1,798
	4,824	2,441	4,728	2,402
Financial liabilities				
Interest-bearing loans and borrowings:				
Floating rate borrowings*	(7,934)	(9,648)	(7,914)	(9,648)
Fixed rate borrowings	(8,629)	(8,353)	(8,621)	(8,444)
Financial guarantee contracts	(87)	(49)	(87)	(49)
	(16,650)	(18,050)	(16,622)	(18,141)

* Includes an 8.25% secured loan carried at amortised cost which has been adjusted for the fair value movement due to the hedged interest rate risk

The management assessed that cash and short-term deposits, trade receivables, trade payables, bank overdrafts and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

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27. Financial assets and financial liabilities *continued*

The following methods and assumptions were used to estimate the fair values:

PBE IPSAS 30.31

- Long-term fixed-rate and variable-rate receivables/borrowings are evaluated by the Group based on parameters such as interest rates, specific country risk factors, individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, allowances are taken into account for the expected losses of these receivables. As at 30 June 2022, the carrying amounts of such receivables, net of allowances, were not materially different from their calculated fair values.
- Fair value of the quoted notes and bonds is based on price quotations at the reporting date. The fair value of unquoted instruments, loans from banks and other financial liabilities, obligations under finance leases, as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

PBE IPSAS 30.RDR 31.1

- Fair value of the unquoted ordinary shares has been estimated using a DCF model. The valuation requires management to make certain assumptions about the model inputs, including forecast cash flows, the discount rate, credit risk and volatility. The probabilities of the various estimates within the range can be reasonably assessed and are used in management's estimate of fair value for these unquoted equity investments.
- Fair value of remaining AFS financial assets is derived from quoted market prices in active markets.
- The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Derivatives valued using valuation techniques with market observable inputs are mainly interest rate swaps and foreign exchange forward contracts and commodity forward contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves and forward rate curves of the underlying commodity. All derivative contracts are fully cash collateralised, thereby eliminating both counterparty and the Group's own non-performance risk. Therefore, as at 30 June 2022, the marked-to-market value of derivative asset positions excludes a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationships and other financial instruments recognised at fair value.
- Embedded foreign currency and commodity derivatives are measured similarly to the foreign currency forward contracts and commodity derivatives. The embedded derivatives are commodity and foreign currency forward contracts which are separated from long-term sales contracts where the transaction currency differs from the functional currencies of the involved parties. However, as these contracts are not collateralised, the Group also takes into account the counterparties' non-performance risks (for the embedded derivative assets) or the Group's own non-performance risk (for the embedded derivative liabilities). As at 30 June 2022, the Group assessed these risks to be insignificant.
- Fair values of the Group's interest-bearing loans and borrowings are determined by using the DCF method using discount rate that reflects the issuer's borrowing rate as at the reporting date. The Group's non-performance risk as at 30 June 2022 was assessed to be insignificant.

27. Financial assets and financial liabilities *continued*

Fair value hierarchy

The Group uses various methods in estimating the fair value of a financial instrument. The methods comprise:

Level 1 – the fair value is calculated using quoted prices in active markets

Level 2 – the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)

PBE IPSAS 30.32(a)-(c)

Level 3 – the fair value is estimated using inputs for the asset or liability that are not based on observable market data

The following tables provide the fair value measurement hierarchy of the Group's financial assets and financial liabilities as at 30 June 2022:

PBE IPSAS 30.33(a)

	Group				Council			
	Total $000	Level 1 $000	Level 2 $000	Level 3 $000	Total $000	Level 1 $000	Level 2 $000	Level 3 $000
Financial assets carried at fair value								
AFS financial assets								
Quoted equity shares:								
Quality Regional Airport	337	337	-	-	337	337	-	-
Unquoted equity shares:								
LGFA	675	-	-	675	675	-	-	675
Urban Developers Limited	363	-	-	363	363	-	-	363
Quoted debt securities:								
New Zealand government bonds	368	368	-	-	368	368	-	-
Corporate bonds	244	244	-	-	244	244	-	-
Derivatives financial assets								
Foreign exchange forward contracts	892	-	892	-	-	-	-	-
Embedded foreign exchange derivatives JPY	210	-	210	-	-	-	-	-
Financial liabilities measured at fair value								
Derivative financial liabilities								
Interest rate swaps	35	-	35	-	-	-	-	-
Foreign exchange forward contracts	1,870	-	1,870	-	-	-	-	-
Embedded foreign exchange derivatives (JPY)	782	-	782	-	-	-	-	-
Contingent consideration liability (refer to Note 6)	1,072	-	-	1,072	-	-	-	-

PBE IPSAS 30.33(b)

There have been no transfers between Level 1 and Level 2 during the year.

27. Financial assets and financial liabilities *continued*

The following tables provide the fair value measurement hierarchy of the Group's financial assets and financial liabilities as at 30 June 2021:

	Group				Council			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Financial assets carried at fair value								
AFS financial assets								
Quoted equity shares:								
Quality Regional Airport	300	300	-	-	300	300	-	-
Unquoted equity shares:								
LGFA	498	-	-	498	498	-	-	498
Urban Developers Limited	400	-	-	400	400	-	-	400
Quoted debt securities:								
New Zealand government bonds	200	200	-	-	200	200	-	-
Corporate bonds	400	400	-	-	400	400	-	-
Derivatives financial assets								
Foreign exchange forward contracts	153	-	153	-	-	-	-	-
Financial liabilities measured at fair value								
Derivative financial liabilities								
Foreign exchange forward contracts	254	-	254	-	-	-	-	-

There have been no transfers between Level 1 and Level 2 during the year.

In determining fair value measurement, the impact of potential climate-related matters, including legislation, which may affect the fair value measurement of assets and liabilities in the financial statements has been considered. These risks in respect of climate- related matters are included as key assumptions where they materially impact the measure of recoverable amount, these assumptions have been included in the cash-flow forecasts in assessing value-in-use amounts.

At present, the impact of climate- related matters is not material to the Group's financial statements.

27. Financial assets and financial liabilities *continued*

Sensitivity analysis

The inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy together with a quantitative sensitivity analysis as at 30 June 2022 and 2021 are shown below:

PBE IPSAS 30.33(e)

	Valuation technique	Inputs	Range (weighted average)	Sensitivity of the input to fair value
AFS assets in unquoted equity shares: LGFA	DCF method	Long-term growth rate for cash flows for subsequent years	**2022**: 3.1% - 5.2% (4.2%) **2021**: 3.1% - 5.1% (4.0%)	5% (2021: 5%) increase (decrease) in the growth rate would result in increase (decrease) in fair value by $17,000 (2021: $15,000)
		Long-term operating margin	**2022**: 5.0% - 12.1% (8.3%) **2021**: 5.2% - 12.3% (8.5%)	15% (2021: 12%) increase (decrease) in the margin would result in increase (decrease) in fair value by $21,000 (2021: $19,000)
		Weighted average cost of capital (WACC)	**2022**: 11.2% - 14.3% (12.6%) **2021**: 11.5% - 14.1% (12.3%)	1% (2021: 2%) increase (decrease) in the WACC would result in decrease (increase) in fair value by $10,000 (2021: $15,000)
		Discount for lack of marketability	**2022**: 5.1% - 15.6% (12.1%) **2021**: 5.4% - 15.7% (12.3%)	2% (2021: 3%) increase (decrease) in the discount would decrease (increase) the fair value by $8,000 (2021: $9,000)
AFS assets in unquoted equity shares:	DCF method	Long-term growth rate for cash flows for subsequent years	**2022**: 4.4% - 6.1% (5.3%) **2021**: 4.6% - 6.7% (5.5%)	3% (2021: 3%) increase (decrease) in the growth rate would result in increase (decrease) in fair value by $23,000 (2021: $25,000)
Urban Developers Limited		Long-term operating margin	**2022**: 10.0% - 16.1% (14.3%) **2021**: 10.5% - 16.4% (14.5%)	5% (2021: 4%) increase (decrease) in the margin would result in increase (decrease) in fair value by $12,000 (2021: $13,000)
		WACC	**2022**: 12.1% - 16.7% (13.2%) **2021**: 12.3% - 16.8% (13.1%)	1% (2021: 2%) increase (decrease) in the WACC would result in decrease (increase) in fair value by $21,000 (2021: $22,000)
		Discount for lack of marketability	**2022**: 5.1% - 20.2% (16.3%) **2021**: 5.3% - 20.4% (16.4%)	1.5% (2021: 2%) increase (decrease) in the discount would decrease (increase) the fair value by $7,500 (2021: $8,200)
Contingent consideration liability	DCF method	Assumed probability-adjusted surplus before income tax of Extinguishers Limited	**2022**: $1,514,000 **2021**: Nil	10% decrease in the assumed probability-adjusted surplus before income tax of Quality Property Management Limited results in a decrease in fair value of the contingent consideration liability by $390,000 5% increase in the assumed probability-adjusted surplus before income tax of Quality Property Management Limited would not change fair value of the contingent consideration liability

27. Financial assets and financial liabilities *continued*

Discount for lack of marketability represents the amounts that the Group has determined that market participants would take into account these premiums and discounts when pricing the investments.

In case of AFS assets, the impairment charge in the surplus or deficit would depend on whether the decline is significant or prolonged. An increase in the fair value would only impact equity (through other comprehensive revenue and expense) and would not have an effect on surplus or deficit.

Reconciliation of fair value measurement of AFS assets in unquoted equity shares *PBE IPSAS 30.33(c)*

	Group and Council		
	LGFA $000	Urban Developers Limited $000	Total $000
As at 1 July 2020	492	398	894
Re-measurement recognised in other comprehensive revenue and expense	6	(2)	4
Purchases	-	-	-
Sales	-	-	-
As at 1 July 2021	498	400	898
Re-measurement recognised in other comprehensive revenue and expense	94	(175)	(81)
Purchases	181	188	369
Sales	(98)	(50)	(148)
As at 30 June 2022	675	363	1,038

PBE IPSAS 30.33(c)(ii), (iii)

27.5. Financial risk management objectives and policies

PBE IPSAS 30.38

The Group's principal financial liabilities, other than derivatives, comprise of loans and borrowings, trade and other payables, and financial guarantee contracts. The main purpose of these financial liabilities is to finance and provide guaranteed support for the Group's operations and commitments. The Group's principal financial assets include loans, trade and other receivables, and cash and short-term deposits that derive directly from its operations. The Group also hold AFS investments, and the Group enters into derivative transactions.

The Group is exposed to market risk, credit risk and liquidity risk. The Council's senior management oversees the management of these risks. The Council's senior management is supported by a Financial Risk Committee that advises on financial risks and the appropriate financial risk governance framework for the Group. The Financial Risk Committee provides assurance to the Group's senior management that the Group's financial risk activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with the Group's policies and risk objectives. All derivative activities for risk management purposes are carried out by specialist teams that have the appropriate skills, experience and supervision. It is the Group's policy that no trading in derivatives for speculative purposes may be undertaken. The Council's management reviews and approves policies for managing each of these risks, which are summarised below.

Market risk

PBE IPSAS 30.40

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises the following three types of risk: interest rate risk, currency risk and other price risk, such as equity price risk and commodity risk. Financial instruments affected by market risk include loans and borrowings, deposits, AFS investments and derivative financial instruments.

27. Financial assets and financial liabilities *continued*

The sensitivity analyses in the following sections relate to the position as at 30 June 2022 and 2021. The sensitivity analyses have been prepared both on the basis that the amount of net debt, the ratio of fixed to floating interest rates of the debt and derivatives, and the proportion of financial instruments in foreign currencies are all constant and on the basis of the hedge designations in place as at 30 June 2022. *PBE IPSAS 30.47*

The analyses exclude the impact of movements in market variables on provisions and the non-financial assets and liabilities.

The following assumptions have been made in calculating the sensitivity analyses:

- The statement of financial position sensitivity relates to derivatives and AFS debt instruments
- The sensitivity of the relevant statement of financial performance item is the effect of the assumed changes in respective market risks. This analysis is based on the financial assets and financial liabilities held as at 30 June 2022 and 2021 including the effect of hedge accounting
- The sensitivity of equity is calculated by considering the effect of any associated cash flow hedges as at 30 June 2022 for the effects of the assumed changes of the underlying risk

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates. *PBE IPSAS 30.40*

The Group manages their interest rate risk by having a balanced portfolio of fixed and variable rate loans and borrowings. The Group's policy is to keep between 40% and 60% of its borrowings at fixed rates of interest. To manage this, the Group enters into interest rate swaps, in which it agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal. As at 30 June 2022, after taking into account the effect of interest rate swaps, approximately 40% of the Group's borrowings are at a fixed rate of interest (2021: 47%). For the Council, approximately 42% of all borrowings as at 30 June 2022 are at a fixed rate of interest (2021: 44%). *PBE IPSAS 30.26(c)*

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of loans and borrowings affected, after the impact of hedge accounting. With all other variables held constant, the Group's surplus before income tax is affected through the impact on floating rate borrowings as shown below.

PBE IPSAS 30.47(a)

	Group		Council	
	Increase/ (decrease) in basis points	Effect on surplus before income tax $000	Increase/ (decrease) in basis points	Effect on surplus before income tax $000
2022				
NZD	+45	(48)	+45	(28)
USD	+60	(13)	+60	-
NZD	-45	33	-45	23
USD	-60	12	-60	-
2021				
NZD	+10	(19)	+10	(11)
USD	+15	-	+15	-
NZD	-10	12	-10	8
USD	-15	-	-15	-

27. Financial assets and financial liabilities *continued*

The assumed movement in basis points for the interest rate sensitivity analysis is based on the currently observable market environment, showing a significantly higher volatility than in prior years. *PBE IPSAS 30.47(b)*

(ii) Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the operating activities of Quality Port Limited (when either revenue or expense is denominated in a different currency from the Group's presentation currency) and the capital purchases of specialised property, plant and equipment by Quality Port Limited. The Council does not normally have material exposure to foreign currency risk. *PBE IPSAS 30.40* *PBE IPSAS 30.26(c)*

The Group manages its foreign currency risk by hedging transactions that are expected to occur within a maximum 24-month period.

When a derivative is entered into for the purpose of being a hedge, the Group negotiates the terms of those derivatives to match the terms of the hedged exposure. For hedges of forecast transactions, the derivatives cover the period of exposure from the point the cash flows of the transactions are forecasted up to the point of settlement of the resulting receivable or payable that is denominated in the foreign currency.

At 30 June 2021 and 2022, the Group hedged 75% and 70%, respectively, of its foreign currency sales for which highly probable forecasted transactions existed at the reporting date.

Commentary

For hedges of forecast transactions, the disclosure of useful information to help users of financial statements understand the nature and extent of such risks may include:

- Time bands in which the highly probable forecast transactions are grouped for risk management purposes
- The entity's policies and processes for managing the risk (for example, how the cash flows of the hedging instruments and the hedged items may be aligned, such as using foreign currency bank accounts to address differences in cash flow dates)

Entities should tailor these disclosures to the specific facts and circumstances of the transactions.

Foreign currency sensitivity

The following tables demonstrate the sensitivity to a reasonably possible change in USD and GBP exchange rates, with all other variables held constant. The impact on the Group's surplus before income tax is due to changes in the fair value of monetary assets and liabilities including non-designated foreign currency derivatives and embedded derivatives. The impact on the Group's equity is due to changes in the fair value of forward exchange contracts designated as cash flow hedges. The Group's exposure to foreign currency changes for all other currencies is not material.

The Council does not have any material exposure to foreign currency risk.

	Change in USD rate	Effect on surplus before income tax $000	Effect on equity/net assets $000	
2022	+5%	(30)	(154)	*PBE IPSAS 30.47(a)*
	-5%	20	172	
2021	+4%	(40)	(146)	
	-4%	40	158	

	Change in GBP rate	Effect on surplus before income tax $000	Effect on equity/net assets $000	
2022	+5%	26	102	*PBE IPSAS 30.47(a)*
	-5%	(15)	(113)	
2021	+4%	31	92	
	-4%	(28)	(96)	

27. Financial assets and financial liabilities *continued*

The movement in the post-tax effect is a result of a change in the fair value of derivative financial instruments not designated in a hedge relationship and monetary assets and liabilities denominated in USD, where the functional currency of the entity is a currency other than USD. Although the derivatives have not been designated in a hedge relationship, they act as an economic hedge and will offset the underlying transactions when they occur.

The movement in equity arises from changes in USD borrowings (net of cash and cash equivalents).

(iii) Price risk

Commodity price risk

The Group is affected by the price volatility of certain commodities. Its operating activities require the ongoing purchase and manufacture of electronic parts, and therefore, require a continuous supply of copper. Due to the significantly increased volatility of the price of the copper, the Group also entered into various purchase contracts for brass and chrome (for which there is an active market). The prices in these purchase contracts are linked to the price of electricity.

The Group's management has developed and enacted a risk management strategy regarding commodity price risk and its mitigation.

Based on a 12-month forecast of the required copper supply, the Group hedges the purchase price using forward commodity purchase contracts. The forecast is considered to be highly probable.

Forward contracts with a physical delivery that qualify for normal purchase, sale or usage and that are therefore not recognised as derivatives are disclosed in Note 27.3.

Commodity price sensitivity

PBE IPSAS 30.47(a)

The following table shows the effect of price changes in copper net of hedge accounting impact.

2022	Change in year-end price	Effect on surplus before income tax $000	Effect on net assets/equity $000
Copper	+15%	(220)	(585)
	-15%	220	585
Brass	+4%	(8)	(8)
	-4%	8	8
Chrome	+2%	(10)	(10)
	-2%	10	10

Equity price risk

PBE IPSAS 30.40

The Group's listed and unlisted equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. The majority of these investment securities are held for strategic reasons, and therefore, the equity price risk associated with these securities is not managed. However, the Group manages some of the equity price risk through diversification practices and by placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the Group's senior management on a regular basis. The Group's management reviews and approves all equity investment decisions.

PBE IPSAS 30.47

As at the reporting date, the exposure to unlisted equity securities at fair value was $1,038,000. Sensitivity analyses of these investments have been provided in Note 27.4.

As at the reporting date, the exposure to listed equity securities at fair value was $337,000. A decrease of 10% on the NZX market index could have an impact of approximately $55,000 on the surplus or deficit and on the equity/net assets attributable to the Group, depending on whether the decline is significant or prolonged. An increase of 10% in the value of the listed securities would only impact equity/net assets, but would not have an effect on surplus or deficit.

27. Financial assets and financial liabilities *continued*

Credit risk *PBE IPSAS 30.40*

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

Trade receivables from exchange transactions

PBE IPSAS 30.40
PBE IPSAS 30.43
PBE IPSAS 30.41(c)

Customer credit risk in relation to trade receivables from exchange transactions is managed by the Council and each Council-controlled organisation is subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of a customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables are regularly monitored. As at 30 June 2022, the Group had 45 customers (2021: 46 customers) that owed the Group more than $200,000 each and accounted for approximately 58% (202165%) of all the receivables outstanding. The Council was not subject to material credit concentration in relation to trade receivables.

An impairment analysis is performed as at each reporting date on an individual basis for major clients. In addition, a large number of minor receivables are grouped into homogenous groups and assessed for impairment collectively. The calculation is based on actual incurred historical data. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in Notes 29 and 30. The Group does not hold collateral as security. The Group evaluates the concentration of risk with respect to trade receivables as low, because its customers are located in several jurisdictions and industries and operate in largely independent markets.

The majority of the Group's receivables from non-exchange transactions arise from the Council's statutory functions. The Group is not exposed to material concentration of credit risk around rates and other receivables from non-exchange transactions as there is a large number of ratepayers and customers, and the Council has a statutory right to recover outstanding funds under the Local Government (Rating) Act 2002.

Financial instruments and cash deposits

PBE IPSAS 30.40
PBE IPSAS 30.43

Credit risk from balances with banks and financial institutions is managed in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed by the Council's Finance Committee on an annual basis, and may be updated throughout the year subject to approval of the Group's Finance Committee. The limits are set to minimise the concentration of risks, and therefore, mitigate financial loss through potential counterparty's failure to make payments. The Group's maximum exposure to credit risk for the components of the statement of financial position at 30 June 2022 and 2021 is the carrying amounts as illustrated in Notes 29 and 30, except for financial guarantees and derivative financial instruments. The Council is exposed to credit risk as a guarantor of all of the LGFA's borrowings. This guarantee becomes callable in the event of the LGFA failing to pay its obligations as they fall due. The Group's maximum exposure for financial guarantees and financial derivative instruments is noted in the liquidity table below.

27. Financial assets and financial liabilities *continued*

Commentary

Entities should assess the impact of climate-related matters on the credit provided to debtors. Debtors' ability to pay debts may be reduced if they are also impacted by climate-related matters.

Liquidity risk

PBE IPSAS 30.40
PBE IPSAS 30.46(c)

Liquidity risk is the risk that the Group may encounter difficulties in meeting financial liabilities as they fall due. The Group monitors and manages this risk in accordance with the Council's Liability Management Policy.

PBE IPSAS 30.41(c)

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans and facilities, debentures, finance leases and hire purchase contracts. The Group's policy is that no more than 25% of borrowings should mature in the next 12-month period. Approximately 10% of the Group's debt will mature in less than one year after 30 June 2022 (2021: 11%) based on the carrying value of borrowings reflected in the financial statements. The Group assessed the concentration of risk with respect to refinancing its debt and concluded that the risk level is currently low. Access to sources of funding is sufficiently available and debt maturing within 12 months can be rolled over with existing lenders.

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27. Financial assets and financial liabilities *continued*

Excessive risk concentration

Excessive risk concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on the maintenance of a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. Selective hedging is used within the Group to manage risk concentrations at both the relationship and industry levels.

COVID-19 commentary

Entities with concentrations of risk may face greater risk of loss than other entities. PBE IPSAS 30.41(c) requires that concentration of risk should be disclosed if not otherwise apparent from other risk disclosures provided.

Therefore, entities should consider including the following information:

- A description of how management determines concentrations of risk
- A description of the shared characteristic that identifies each concentration. For example, the shared characteristic may refer to geographical distribution of counterparties by groups of countries, individual countries or regions within countries and/or by industry, and
- The amount of the risk exposure associated with all financial instruments sharing that characteristic

Entities that identified concentrations of activities in areas or industries affected by the COVID-19 pandemic and have not previously disclosed the concentration because they did not believe that the entity was vulnerable to the risk of a near-term severe impact, should now reconsider making such a disclosure.

Similarly, liquidity risk in the current economic environment is increased. Therefore, it is expected that the disclosures required under PBE IPSAS 30 in this area will reflect any significant changes in the liquidity position as a result of the COVID-19 pandemic. Entities should be mindful that this disclosure is consistent with their assessment of the going concern assumption.

The following table summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

PBE IPSAS 30.46(a), (b)

	Group					
30 June 2022	On demand $000	Less than 3 months $000	3 to 12 months $000	1 to 5 years $000	> 5 years $000	Total $000
Interest-bearing loans and borrowings	966	21	1,578	11,230	10,324	24,119
Contingent consideration	-	-	1,125	-	-	1,125
Other financial liabilities	-	-	-	150	-	150
Trade and other payables	3,620	15,030	1,170	-	-	19,820
Financial guarantee contracts*	105	-	-	-	-	105
Derivatives and embedded derivatives	1,970	2,740	391	1,191	1,329	7,621
	6,661	17,791	4,264	12,571	11,653	52,940

* *Based on the maximum amount that can be called for under the financial guarantee contract*

27. Financial assets and financial liabilities *continued*

	Group					
30 June 2021	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
	$000	$000	$000	$000	$000	$000
Interest-bearing loans and borrowings	2,650	18	133	9,496	13,976	26,273
Trade and other payables	4,321	14,696	2,056	-	-	21,073
Other financial liabilities	-	-	-	202	-	202
Financial guarantee contracts*	68	-	-	-	-	68
Derivatives and embedded derivatives	549	1,255	-	-	-	1,804
	7,588	15,969	2,189	9,698	13,976	49,420

PBE IPSAS 30.46(a), (b)

	Council					
30 June 2022	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
	$000	$000	$000	$000	$000	$000
Interest-bearing borrowings	966	21	1,578	6,554	9,000	18,119
Trade and other payables	1,120	11,570	1,952	-	-	14,642
Financial guarantee contracts*	105	-	-	-	-	105
	2,191	11,591	4,655	6,704	9,000	34,141

30 June 2021	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
	$000	$000	$000	$000	$000	$000
Interest-bearing loans and borrowings	2,650	18	133	8,872	11,600	23,273
Trade and other payables	3,321	11,139	1,056	-	-	15,516
Financial guarantee contracts*	68	-	-	-	-	68
	6,039	11,157	1,189	9,074	11,600	39,059

** Based on the maximum amount that can be called for under the financial guarantee contract.*

Commentary

PBE IPSAS 30.AG14

The maturity analysis should include the remaining contractual maturities for derivative financial liabilities, for which contractual maturities are essential for an understanding of the timing of the cash flows.

Collateral

PBE IPSAS 2.59

PBE IPSAS 30.18
PBE IPSAS 30.45

The Group has pledged part of its short-term deposits in order to fulfil the collateral requirements for the derivatives contracts. As at 30 June 2022 and 2021, the fair values of the short-term deposits pledged were $5,000,000 and $2,000,000, respectively. The counterparties have an obligation to return the securities to the Group.

PBE IPSAS 30.19
PBE IPSS 30.43(b)

As at 30 June 2022, the Group also held deposits in respect of derivative contracts of $565,000 (2021: $385,000). The Group has an obligation to repay the deposit to the counterparties upon settlement of the contracts. There are no other significant terms and conditions associated with the use of collateral.

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27. Financial assets and financial liabilities *continued*

27.6. Changes in liabilities arising from financing activities

PBE IPSAS 2.55A

PBE IPSAS 2.55C

PBE IPSAS 2.55B
PBE IPSAS 2.55D

	Group					
	1 July 2021 $000	Cash flows $000	Foreign exchange movement $000	New leases $000	Other $000	30 June 2022 $000
Current interest-bearing loans and borrowings (excluding items listed below)	2,724	(3,057)	(6)	–	2,716	2,377
Current obligations under finance leases and hire purchase contracts	51	(51)	–	5	78	83
Non-current interest-bearing loans and borrowings (excluding items listed below)	20,760	2,496	(51)	–	(3,764)	19,441
Non-current obligations under finance leases and hire purchase contracts	943	–	–	40	(78)	905
	24,478	(612)	(57)	45	(1,048)	22,806

PBE IPSAS 2.55B
PBE IPSAS 2.55D

	1 July 2020 $000	Cash flows $000	Foreign exchange movement $000	New leases $000	Other $000	30 June 2021 $000
Current interest-bearing loans and borrowings (excluding items listed below)	2,384	(1,345)	–	–	1,685	2,724
Current obligations under finance leases and hire purchase contracts	82	(76)	–	–	45	51
Non-current interest-bearing loans and borrowings (excluding items listed below)	14,085	8,526	–	–	(1,851)	20,760
Non-current obligations under finance leases and hire purchase contracts	988	–	–	–	(45)	943
	17,539	7,105	–	–	(166)	24,478

27. Financial assets and financial liabilities *continued*

27.6. Changes in liabilities arising from financing activities

PBE IPSAS 2.55A

PBE IPSAS 2.55C

Council

PBE IPSAS 2.55B
PBE IPSAS 2.55D

	1 July 2021 $000	Cash flows $000	Foreign exchange movement $000	New leases $000	Other $000	30 June 2022 $000
Current interest-bearing loans and borrowings	2,724	(960)	–	–	613	2,377
Non-current interest-bearing loans and borrowings	15,277	654	–	–	(1,695)	14,186
	18,001	(612)	–	–	(1,048)	16,563

PBE IPSAS 2.55B
PBE IPSAS 2.55D

	1 July 2020 $000	Cash flows $000	Foreign exchange movement $000	New leases $000	Other $000	30 June 2021 $000
Current interest-bearing loans and borrowings	2,384	(970)	–	–	1,310	2,724
Non-current interest-bearing loans and borrowings	16,042	661	–	–	(1,426)	15,277
	18,426	(309)	–	–	(116)	18,001

The ‘Other’ column includes the effect of reclassification of non-current portion of interest-bearing loans and borrowings, including obligations under finance leases and hire purchase contracts to current due to the passage of time and the effect of accrued but not yet paid interest on interest-bearing loans and borrowings. The Group classifies interest paid as cash flows from operating activities.

Commentary

Paragraph 55C of PBE IPSAS 2 states that liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities. In addition, the disclosure requirement in paragraph 55A also applies to changes in financial assets (for example, assets that hedge liabilities arising from financing activities) if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

The Group disclosed information about its interest-bearing loans (including the concessionary loan) and borrowings including its obligations under finance lease and hire purchase contracts.

The amendments suggest that the disclosure requirement may be met by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. Where an entity discloses such a reconciliation, it shall provide sufficient information to enable users of the financial statements to link items included in the reconciliation to the statement of financial position and the statement of cash flows. The Group decided to provide information in a reconciliation format. The major changes in the Group’s liabilities arising from financing activities are due to financing cash flows and accrual of financial liabilities. The Group did not acquire any liabilities arising from financing activities during PBE combinations effected in the current period or comparative period.

28. Inventories

PBE IPSAS 12.47(b)
PBE IPSAS 1.94(c)

	Group 2022 $000	2021 $000	Council 2022 $000	2021 $000
Inventory held for distribution or provision of services at no charge or nominal charge				
Raw materials and consumables (at cost)	1,290	1,513	995	1,335
Work in progress (at cost)	223	231	-	-
Finished goods (at cost less adjustments for loss of service potential)	564	761	-	-
	2,077	2,505	995	1,335
Inventory held for sale or provision of services at commercial terms				
Raw materials and consumables (at cost)	906	1,112	475	788
Work in progress (at cost)	142	150	-	-
Finished goods (at lower of cost and net realisable value)	137	318	-	-
	1,185	1,580	475	788
	3,262	4,085	1,470	2,123

PBE IPSAS 12.47(e)

During the year ended 30 June 2022, $286,000 (2021: $242,000) was recognised as an expense in relation to an inventory write-down to net realisable value. This was recognised in general expenses in the statement of financial performance.

Commentary

PBE IPSAS 12.47(b) requires the carrying amounts of inventories to be presented in classifications appropriate to the entity.

PBE IPSAS 12 also distinguishes between the measurement of inventories held for distribution or held for use in the provision of services at no charge or nominal charge, and the measurement of other inventories held for sale or for use in the provision of services at commercial terms. As the Group holds both types of inventory, the Council deemed it appropriate to present these types of inventory separately.

COVID-19 commentary

Inventories might need to be written down to their net realisable value because of reduced movement in inventory, lower commodity prices, or inventory obsolescence due to lower-than-expected sales.

PBE IPSAS 12 requires that fixed production overheads are included in the cost of inventory based on normal production capacity. Reduced production might affect the extent to which overheads can be included in the cost of inventory.

Entities should assess the significance of any write-downs and whether they require disclosure in accordance with PBE IPSAS 12.

Disclosures about inventories, including the measurement bases used, are meant to assist users in understanding how transactions, events and conditions are reflected in the financial statements and the sensitivity to change. At a minimum, entities will need to disclose both the amount of any write-down of inventories recognised in surplus or deficit, together with any subsequent reversal of such write-downs. In addition, entities need to disclose the circumstances or events that lead to a reversal of any write-down.

29. Receivables from non-exchange transactions

PBE IPSAS 30.10
PBE IPSAS 23.106(b)

	Group 2022 $000	2021 $000	Council 2022 $000	2021 $000
Rates receivable	10,567	9,987	10,567	9,987
Other receivables from non-exchange transactions	3,089	2,003	2,589	1,503
Less provision for impairment	(650)	(574)	(626)	(550)
	13,006	11,416	12,530	10,940

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29. Receivables from non-exchange transactions *continued*

Receivables from non-exchange transactions are non-interest bearing and are generally on terms of 30 to 90 days.

For terms and conditions relating to related party receivables, refer to Note 39.

Impairment

The provision for impairment relates mainly to fines receivable.

As the Council has various powers under the Local Government (Rating) Act 2002 to recover outstanding rates, the Group does not provide for any impairment of rates receivable.

As at 30 June 2022, receivables from non-exchange transactions of an initial value of $650,000 (2021: $574,000) were impaired and fully provided for by the Group.

As at 30 June 2022, receivables from non-exchange transactions of an initial value of $626,000 (2021: $550,000) were impaired and fully provided for by the Council.

Refer to below for the movements in the provision for impairment of receivables.

Commentary

PBE IPSAS 30.20

The reconciliation below is only required to be disclosed when the entity records the impairment of receivables in a separate account (e.g., an allowance account used to record individual impairments or a similar account used to record a collective impairment of assets) rather than directly reducing the carrying amount of the asset. If the entity does not record impairment of receivables in separate accounts, the reconciliation below is not required.

PBE IPSAS 30.20

	Individually impaired $000	Collectively impaired $000	Total $000
Group			
As at 1 July 2020	**148**	**347**	**495**
Charge for the year	38	74	112
Utilised	(6)	(17)	(23)
Unused amounts reversed	(8)	(2)	(10)
As at 30 June 2021	**172**	**402**	**574**
Charge for the year	70	96	166
Utilised	(8)	(27)	(35)
Unused amounts reversed	(29)	(26)	(55)
As at 30 June 2022	**205**	**445**	**650**
Council			
As at 1 July 2020	**168**	**327**	**495**
Charge for the year	12	110	122
Utilised	(16)	(31)	(47)
Unused amounts reversed	(2)	(18)	(20)
As at 30 June 2021	**162**	**388**	**550**
Charge for the year	60	122	182
Utilised	(14)	(39)	(53)
Unused amounts reversed	(13)	(40)	(53)
As at 30 June 2022	**195**	**431**	**626**

29. Receivables from non-exchange transactions *continued*

As at 30 June, the ageing analysis of receivables from non-exchange transactions was as follows. *PBE IPSAS 30.44*

	Total	Neither past due nor impaired	Past due but not impaired <30 days	30-60 days	61-90 days	>90 days
	$000	$000	$000	$000	$000	$000
Group						
2022	13,006	11,566	720	360	216	144
2021	11,416	10,487	465	232	139	93
Council						
2022	12,530	11,067	732	366	219	146
2021	10,940	10,037	452	226	135	90

Commentary

Early adopters of PBE IFRS 9 or PBE IPSAS 41: Refer to Appendix 12 for the illustrative disclosure in relation to impairment of financial assets.

30. Receivables from exchange transactions

PBE IPSAS 30.10

	Group 2022	Group 2021	Council 2022	Council 2021
	$000	$000	$000	$000
Trade receivables	15,468	14,132	11,394	10,027
Receivables from related parties:				
Controlled entities	-	-	551	582
Associates	300	440	300	440
Joint ventures	320	110	320	110
Less provision for impairment	(1,422)	(1,808)	(1,110)	(1,374)
	14,666	**12,874**	**11,455**	**9,785**

Trade receivables include mainly receivables from port charges and rent receivable. Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days. For terms and conditions relating to related party receivables, refer to Note 39.

Impairment

As at 30 June 2022, trade receivables of an initial value of $422,000 (2021: $808,000) were impaired and fully provided for by the Group.

As at 30 June 2022, receivables from exchange transactions of an initial value of $110,000 (2021: $374,000) were impaired and fully provided for by the Council.

Refer to the following table for the movements in the provision for impairment of receivables.

Commentary

The reconciliation below is only required to be disclosed when the entity records the impairment of receivables in a separate account (e.g. an allowance account used to record individual impairments or a similar account used to record a collective impairment of assets) rather than directly reducing the carrying amount of the asset. If the entity does not record impairment of receivables in separate accounts, the reconciliation below is not required. *PBE IPSAS 30.20*

30. Receivables from exchange transactions *continued*

	Individually impaired $000	Collectively impaired $000	Total $000
Group			
As at 1 July 2020	**535**	**219**	**754**
Charge for the year	56	166	222
Utilised	(36)	(62)	(98)
Unused amounts reversed	(15)	(55)	(70)
As at 30 June 2021	**540**	**268**	**808**
Charge for the year	123	176	299
Utilised	(45)	(107)	(152)
Unused amounts reversed	(466)	(67)	(533)
As at 30 June 2022	**152**	**270**	**422**
Council			
As at 1 July 2020	319	54	373
Charge for the year	51	99	150
Utilised	(36)	(62)	(98)
Unused amounts reversed	(13)	(38)	(51)
As at 30 June 2021	**321**	**53**	**374**
Charge for the year	-	177	177
Utilised	(45)	(108)	(153)
Unused amounts reversed	(221)	(67)	(288)
As at 30 June 2022	**55**	**55**	**110**

PBE IPSAS 30.20

As at 30 June, the ageing analysis of trade receivables was as follows.

PBE IPSAS 30.44

	Total	Neither past due nor impaired	Past due but not impaired <30 days	30-60 days	61-90 days	>90 days
	$000	$000	$000	$000	$000	$000
Group						
2022	**14,666**	9,740	2,463	1,231	939	293
2021	**12,874**	9,156	1,859	929	758	172
Council						
2022	**11,455**	7,608	1,923	962	777	185
2021	**9,785**	6,959	1,413	706	624	83

Refer to Note 27 on credit risk of trade receivables, which explains how the Group manages and measures credit quality of trade receivables that are neither past due nor impaired.

Commentary

Early adopters of PBE IFRS 9 or PBE IPSAS 41: Refer to Appendix 12 for the illustrative disclosure in relation to impairment of financial assets.

30. Receivables from exchange transactions *continued*

COVID-19 commentary

Impairment loss

Large-scale business disruptions may give rise to liquidity issues for some entities and consumers. Deterioration in credit quality of loan portfolios and trade receivables (amongst other items) as a result of the COVID-19 pandemic may have a significant impact on an entity's impairment measurement.

PBE IPSAS 29.68

Entities should consider the following aspects in updating their impairment calculations due to the COVID-19 pandemic:

(a) Any significant financial difficulty of the issuer or obligor

(b) A breach of contract, such as a default or delinquency in interest or principal payments

(c) The lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider

(d) It becoming probable that the borrower will enter bankruptcy or other financial reorganisation

(e) The disappearance of an active market for that financial asset because of financial difficulties, or

(f) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets within the group, including:

   (i) Adverse changes in the payment status of borrowers in the group (e.g. an increased number of delayed payments), or

   (ii) National or local economic conditions that correlate with defaults on the assets in the group (e.g. an increase in the unemployment rate in the geographical area of the borrowers, a decrease in oil prices for loan assets to oil producers, or any adverse changes in industry conditions that affect the borrowers in the group).

31. Cash and cash equivalents

PBE IPSAS 2.56

	Group		Council	
	2022	2021	2022	2021
	$000	$000	$000	$000
Cash at bank and on hand	10,653	22,634	4,383	19,091
Short-term deposits	6,016	10,846	1,650	10,476
	16,669	**33,480**	**6,033**	**29,567**

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

As at 30 June 2022, the Group had available $5,740,000 (2021: $1,230,000) of undrawn committed borrowing facilities.

The Group has pledged a part of its short-term deposits to fulfil collateral requirements. Refer to Note 27.5 for further details.

PBE IPSAS 2.61(a)

The cash and cash equivalents balance of the Group included an amount of $1,200,000 (2021: $1,900,000) that relates to unspent grant funds that are subject to restrictions. The unspent funds relate to upgrading the Quality City community centre building, improving the wellbeing of children in the community, and building five community housing blocks. The restrictions attached to these grants specify that the grants must be spent for the aforementioned respective purposes, and provide a timeframe within which the agreed-upon deliverables required for achieving the purpose of the grants must be completed.

PBE IPSAS 2.59

As at 30 June 2022, an additional $3,800,000 of cash and cash equivalents held by the Council (2021: $17,000,000) has a restriction such that these funds can only be spent on specific rateable services.

PBE IPSAS 23.106(d)

31. Cash and cash equivalents *continued*

For the purpose of the statement of cash flows, cash and cash equivalents comprised the following as at balance date.

PBE IPSAS 2.56

	Group		Council	
	2022 $000	2021 $000	2022 $000	2021 $000
Cash at bank and on hand	10,653	22,634	4,383	19,091
Short term deposits	6,016	10,846	1,650	10,476
Bank overdrafts	(966)	(2,650)	(966)	(2,650)
Cash and cash equivalents for the purpose of the statement of cash flows	**15,703**	**30,830**	**5,067**	**26,917**

32. Non-current assets held for sale

As at 30 June 2022, a piece of port equipment held by the Group was classified as held for sale. Prior to reclassification, the piece of equipment was recognised within the Group's property, plant and equipment as part of operational plant and equipment class. Several items of port machinery were upgraded during this reporting period, and as a result of this upgrade this piece of equipment is no longer required. The carrying value of the equipment as at 30 June 2022 was $154,000. As the fair value of the equipment less the cost to sell is not materially different to the carrying value, no impairment loss was recognised upon the reclassification of the equipment as held for sale. The sale of the equipment is expected to be completed by December 2022. The Group did not have any non-current assets held for sale in 2021.

PBE IFRS 5.38
PBE IFRS 5.41

The Council does not have any non-current assets held for sale (2021: Nil).

33. Provisions

Movements in provisions

Movements in each class of provision during the reporting period, other than provisions relating to employee benefits, are set out below.

	Rehabilitation - landfill $000	Weather-tightness $000	Re-structuring $000	Onerous operating lease $000	Contingent liability $000	Total $000	
Group							
As at 1 July 2021	720	655	-	-	-	1,375	*PBE IPSAS 19.97(a)*
Acquisition of controlled entity (refer to Note 6)	-	-	-	400	380	780	
Arising during the year	102	138	500	-	20	760	*PBE IPSAS 19.97(b)*
Utilised	-	(79)	(39)	(20)	-	(138)	*PBE IPSAS 19.97(c)*
Unused amounts reversed	(8)	(6)	(6)	-	-	(20)	*PBE IPSAS 19.97(d)*
Unwinding and discount rate adjustment	15	11	11	6	-	43	*PBE IPSAS 19.97(e)*
As at 30 June 2022	**829**	**719**	**466**	**386**	**400**	**2,800**	*PBE IPSAS 19.97(a)*
2022							
Current	-	145	100	205	400	850	
Non-current	829	574	366	181	-	1,950	
	829	**719**	**466**	**386**	**400**	**2,800**	
2021							
Current	-	85	-	-	-	85	
Non-current	720	570	-	-	-	1,290	
	720	**655**	-	-	-	**1,375**	

33. Provisions *continued*

Council	Rehabilitation – landfill	Weather-tightness	Re-structuring	Onerous operating lease	Contingent liability	Total	
	$000	$000	$000	$000	$000	$000	
At 1 July 2021	720	655	-	-	-	1,375	*PBE IPSAS 19.97(a)*
Arising during the year	102	138	500	-	-	740	*PBE IPSAS 19.97(b)*
Utilised	-	(79)	(39)	-	-	(118)	*PBE IPSAS 19.97(c)*
Unused amounts reversed	(8)	(6)	(6)	-	-	(20)	*PBE IPSAS 19.97(d)*
Unwinding and discount rate adjustment	15	11	11	-	-	37	*PBE IPSAS 19.97(e)*
At 30 June 2022	**829**	**719**	**466**	-	-	**2,014**	*PBE IPSAS 19.97(a)*
2022							
Current	-	145	100	-	-	245	
Non-current	829	574	366			1,769	
	829	**719**	**466**	-	-	**2,014**	
2021							
Current	-	85	-	-	-	85	
Non-current	720	570	-	-	-	1,290	
	720	**655**	-	-	-	**1,375**	

Rehabilitation – landfill

The Group recognised a provision for post-closure rehabilitation costs that are expected to be incurred in connection with the closure of the Quality City landfill. The provision is calculated as the present value of expected costs to settle the obligation, using estimated cash flows and a pre-tax rate that reflects the risks specific to the rehabilitation liability. *PBE IPSAS 19.98(a)*

The following key assumptions have been used in calculating the landfill rehabilitation provision: *PBE IPSAS 19.98(b)* *PBE IPSAS 19.RDR 98.1*

- Estimated time of closure: 2023
- Estimated remaining capacity: 500,000m^3
- Length of post-closure monitoring period: 20 years
- Total expected cash outflow – undiscounted: $2,000,000
- Discount rate: 6.5%

The unwinding of the discount during the year has been recognised as an expense within finance costs.

Weathertightness

The Group recognised a provision for the Council's estimated liability relating to the settlement of weathertightness claims made under the Weathertight Homes Resolution Services Act 2006 and via civil proceedings. *PBE IPSAS 19.98(a)*

The provision is calculated as estimated cash flows relating to settlement, discounted at to present value at a pre-tax rate reflecting the risks specific to the weathertightness provision.

The following key assumptions have been used in calculating the weathertightness provision: *PBE IPSAS 19.98(b)* *PBE IPSAS 19.RDR 98.1*

- Value of actively managed claims: $950,000
- Value of claims not yet actively managed and expected future claims: $1,050,000
- Timing of payment: the majority of payments is expected to be made in the next five years
- Discount rate: 6.5%

The Council has also estimated the percentage of successful claims for current actively managed claims, reported claims that are yet to be actively managed and future expected claims. This is based on historic success rates.

The unwinding of the discount during the financial period has been recognised as an expense within finance costs.

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33. Provisions *continued*

Restructuring

The Council recorded a restructuring provision in relation to the reorganisation of its finance and administration department. The restructuring plan was drawn up and announced to the employees of the Council in 2022. The restructuring is expected to be completed by 2022. *PBE IPSAS 19.98(a), (b)*

Onerous operating lease

On acquisition of Quality Property Management Limited, a provision was recognised for the fact that the lease premiums on the operating lease were significantly higher than the market rate at acquisition. The provision has been calculated based on the difference between the market rate and the rate paid. *PBE IPSAS 19.98(a), (b)*

Contingent liability

A contingent liability at a fair value of $380,000 was initially recognised at the acquisition date of Quality Property Management Limited. The claim is subject to legal arbitration and only expected to be finalised in late 2022. As at 30 June 2022, the provision was re-assessed and increased to $400,000. *PBE IPSAS 40.115(a)*

34. Deferred revenue from non-exchange transactions

	Group		Council		
	2022	2021 (restated*)	2022	2021 (restated*)	
	$000	$000	$000	$000	
Deferred grant revenue	1,271	1,676	1,271	1,676	*PBE IPSAS 23.106(c)*
Deferred revenue on concessionary loan	1,318	1,647	1,318	1,647	*PBE IPSAS 23.106(cA)*
	2,589	**3,323**	**2,589**	**3,323**	
Current					
Deferred grant revenue	419	421	419	421	
Deferred revenue on concessionary loan	310	320	310	320	
	729	**741**	**729**	**741**	
Non-current					
Deferred grant revenue	852	1,255	852	1,255	
Deferred revenue on concessionary loan	1,008	1,327	1,008	1,327	
	1,860	**2,582**	**1,860**	**2,582**	
	2,589	**3,323**	**2,589**	**3,323**	

Deferred grant revenue

Deferred grant revenue relates to a grant received from the Ministry of Social Development for the purpose of a programme initiated by the Council to support children's wellbeing in the community. The amount received was $2,000,000 in 2021. One of the stipulations attached to the grant requires the Council to return any unused grant monies if any of the stages of the programme is not completed within the timeframe specified in the grant agreement. Due to this return obligation, the Group have recognised the grant as deferred revenue. Revenue in relation to this grant is recognised at each stage that the project is completed. $405,000 of this grant was recognised in revenue in the year ended 30 June 2022.

*The 2021 deferred grant revenue figure has been restated due to the correction of a prior period error. Refer to Note 2(b) and Note 10 for further explanation.

34. Deferred revenue from non-exchange transactions *continued*

Deferred revenue on concessionary loan

In 2021, the Council received a concessionary loan of $10,000,000 from the Government. The purpose of the loan was to fund the building of additional Council social houses. The loan is to be repaid over a period of five years at an interest rate of 3.5%. The market interest rate is 7.5%. At the date of the receipt of the loan from the Government, the difference between the $10,000,000 loan proceeds received by the Council and the contractual cash flows of the loan, discounted by the market interest rate, was $1,647,000. To the extent that the houses are not built in accordance with the timeframe stipulated in the loan agreement, the Council has an obligation of early repayment of the loan. Due to this return obligation, the Group has recognised a deferred revenue liability in relation to the difference between the loan proceeds received and the present value of the contractual cash flows of the loan. The remainder of the loan was recognised within interest-bearing loans and borrowings. Refer to Note 27.

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

35. Employee benefits liability

PBE IPSAS 1.94(e)
PBE IPSAS 39.25
PBE IPSAS 39.161

	Group		Council	
	2022	2021	2022	2021
	$000	$000	$000	$000
Annual leave	1,943	1,716	1,194	1,199
Long-service leave	541	545	340	254
Accrued salaries and wages	432	568	240	278
Other employee benefit liabilities	134	148	56	55
	3,050	2,977	1,830	1,786

36. Payables under exchange transactions

	Group		Council	
	2022	2021	2022	2021
	$000	$000	$000	$000
Trade payables	17,528	18,945	12,813	13,848
Other payables and accruals	2,249	1,859	1,756	1,457
Interest payable	43	269	33	189
Related parties payables	-	-	40	22
	19,820	21,073	14,642	15,516

Terms and conditions of the above financial liabilities:

PBE IPSAS 30.46(a)

- Trade payables are non-interest bearing and are normally settled on 60-day terms
- Development contributions are non-interest bearing and have an average term of six months
- Other payables are non-interest bearing and have an average term of six months
- Interest payable is normally settled quarterly throughout the financial year
- Related party payables mainly relate to property management fees payable by the Council to Quality Property Management Limited. For terms and conditions with related parties, refer to Note 39.

For explanations on the Group's credit risk management processes, refer to Note 27.

PBE IPSAS 30.46(c)

37. Ratepayers' equity and reserves

The disaggregation of changes arising from other comprehensive revenue and expense for each type of reserve and transfers between reserves is shown below. The amounts are shown net of tax, to the extent that they do not relate to the Council's activities (as the Council's income is not taxable).

Group	Accumulated comprehensive revenue and expense $000	Asset re-valuation reserve $000	Available -for-sale reserve $000	Cash flow hedge reserve $000	Targeted rates reserve $000	Special projects reserve $000	Total $000
As at 30 June 2022							
Currency forward contracts	-	-	-	(640)	-	-	(640)
Commodity forward contracts	-	-	-	(154)	-	-	(154)
Reclassified to surplus or deficit	-	-	-	282	-	-	282
Losses on AFS financial assets	-	-	(57)	-	-	-	(57)
Net transfer (from)/to targeted rates reserve	(196)	-	-	-	196	-	-
Net transfer to/(from) special projects reserve	247	-	-	-	-	(247)	-
Revaluation of land and buildings	-	24,311	-	-	-	-	24,311
	51	**24,311**	**(57)**	**(512)**	**196**	**(247)**	**23,742**

Group	Accumulated comprehensive revenue and expense $000	Asset re-valuation reserve $000	Available -for-sale reserve $000	Cash flow hedge reserve $000	Targeted rates reserve $000	Special projects reserve $000	Total $000
Aa at 30 June 2021							
Currency forward contracts	-	-	-	(265)	-	-	(265)
Reclassified to surplus or deficit	-	-	-	289	-	-	289
Gains on AFS financial assets	-	-	3	-	-	-	3
Net transfer to/(from) targeted rates reserve	117	-	-	-	(117)	-	-
Net transfer to/(from) special projects reserve	273	-	-	-	-	(273)	-
Revaluation of land and buildings	-	-	-	-	-	-	-
	390	**-**	**3**	**24**	**(117)**	**(273)**	**27**

37. Ratepayers' equity and reserves *continued*

Council	Accumulated comprehensive revenue and expense $000	Asset re-valuation reserve $000	Available -for-sale reserve $000	Cash flow hedge reserve $000	Targeted rates reserve $000	Special projects reserve $000	Total $000
As at 30 June 2022							
Currency forward contracts	-	-	-	-	-	-	-
Reclassified to surplus or deficit	-	-	-	-	-	-	-
Losses on AFS financial assets	-	-	(57)	-	-	-	(57)
Net transfer (from)/to targeted rates reserve	(196)	-	-	-	196	-	-
Net transfer to/(from) special projects reserve	247	-	-	-	-	(247)	-
Revaluation of land and buildings	-	20,729	-	-	-	-	20,729
	51	**20,729**	**(57)**	**-**	**196**	**(247)**	**20,672**

Council	Accumulated comprehensive revenue and expense $000	Asset re-valuation reserve $000	Available -for-sale reserve $000	Cash flow hedge reserve $000	Targeted rates reserve $000	Special projects reserve $000	Total $000
As at 30 June 2021							
Currency forward contracts	-	-	-	-	-	-	-
Reclassified to surplus or deficit	-	-	-	-	-	-	-
Gains on AFS financial assets	-	-	3	-	-	-	3
Net transfer to/(from) targeted rates reserve	117	-	-	-	(117)	-	-
Net transfer to/(from) special projects reserve	273	-	-	-	-	(273)	-
Revaluation of land and buildings	-	-	-	-	-	-	-
	390	**-**	**3**	**-**	**(117)**	**(273)**	**3**

Commentary

The disclosure above shows a single targeted rates reserve, a single special projects reserve and the net movement in these two reserves. However, a local authority would typically have a number of targeted rates reserves and special projects reserves. Section 31 of Schedule 10 of the LGA requires a local authority to disclose the following for each such reserve: the purpose of fund, the activities to which the fund relates, the amount of fund at the beginning and end of the reporting period, the total amount deposited into the fund and the total amount withdrawn. PBEs should refer to relevant legislation for specific disclosure requirements regarding reserves within equity.

38. Commitments and contingencies

Operating lease commitments – Group as a lessee

The Group has entered into commercial leases on certain motor vehicles and items of machinery. These leases have an average life of between three and five years, with no renewal option included in the contracts. There are no restrictions placed upon the Group by entering into these leases. *PBE IPSAS 13.44(d)*

Future minimum rentals payable under non-cancellable operating leases as at 30 June 2022 and 2021 were as follows.

PBE IPSAS 13.44(a)

	Group		Council	
	2022	2021	2022	2021
	$000	$000	$000	$000
Within one year	255	250	104	99
After one year but not more than five years	612	600	303	290
More than five years	408	400	213	209
	1,275	**1,250**	**620**	**598**

Operating lease commitments – Group as a lessor

PBE IPSAS 13.69(c)

The Council has entered into commercial property leases on its investment property portfolio consisting of the Group's surplus office and manufacturing buildings. These non-cancellable leases have remaining terms of between 5-20 years. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions.

Future minimum rentals receivable under non-cancellable operating leases as at 30 June 2022 and 2021 were as follows.

PBE IPSAS 13.69(a)

	Group and Council	
	2022	2021
	$000	$000
Within one year	1,418	1,390
After one year but not more than five years	5,630	5,520
More than five years	5,901	5,864
	12,949	12,774

PBE IPSAS 13.RDR 69.1

Finance lease and hire purchase commitment – Group as a lessee

PBE IPSAS 13.40(f)

The Council does not have any finance leases or hire purchase contracts. The Group has finance leases and hire purchase contracts for various items of plant and machinery. These leases have terms of renewal, but no purchase options and escalation clauses. Renewals are at the option of the specific entity that holds the lease. As at the reporting date, future minimum lease payments under finance leases and hire purchase contracts together with the present value of the net minimum lease payments were as follows.

PBE IPSAS 13.40(c)

PBE IPSAS 13.RDR 40.1

	Group			
	2022		2021	
	Minimum payments	Present value of payments	Minimum payments	Present value of payments
	$000	$000	$000	$000
Within one year	85	83	56	51
After one year but not more than five years	944	905	1,014	943
More than five years	-	-	-	-
Total minimum lease payments	**1,029**	**988**	**1,070**	**994**
Less amounts representing finance charges	(41)	-	(76)	-
Present value of minimum lease payments	988	988	994	994

PBE IPSAS 13.40(b)

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38. Commitments and contingencies *continued*

Commentary

According to PBE IPSAS 13.RDR 40.1, Tier 2 PBEs are not required to disclose the present value of the total of future minimum lease payments at the reporting date, as required by paragraph 40(c) of PBE IPSAS 13 *Leases* (PBE IPSAS 13).

Tier 2 PBEs are also not required to disclose the reconciliation between the total of future minimum lease payments at the end of the reporting period, and their present value, as required by PBE IPSAS 13.40(b).

Commitments

PBE IPSAS 17.89(c)
PBE IPSAS 39.39(a)

As at 30 June 2022, the Group had commitments of $2,310,000 (2021: $4,500,000) including $2,000,000 (2021: Nil) relating to the completion of a roading project (in relation to the roads and infrastructure asset class within infrastructural assets) and $310,000 (2021: $516,000) relating to the Group's interest in the joint venture.

Legal claim contingency

PBE IPSAS 19.100

A customer has commenced an action against the Council in respect of a resource consent application. The estimated pay-out is $850,000 should the action be successful. A trial date has not yet been set, and therefore, it is not practicable to state the timing of the payment, if any.

The Council has been advised by its legal counsel that it is only possible, but not probable, that the action will succeed. Accordingly, no provision for any liability has been made in these financial statements.

Guarantees

The Group has provided the following guarantees as at 30 June 2022:

- Guarantee of 25% of the bank overdraft of the associate to a maximum amount of $500,000 (2021: $250,000), which is incurred jointly with other investors of the associate (carrying amounts of the related financial guarantee contracts were $67,000 and $34,000 as at 30 June 2022 and 2021, respectively) *PBE IPSAS 38.39(b)* *PBE IPSAS 20.28(i)*
- Guarantee to an unrelated party for the performance in a contract by the joint venture. No liability is expected to arise *PBE IPSAS 38.29(a)*
- Guarantee of its share of $20,000 (2021: $13,000) of the associate's contingent liabilities which have been incurred jointly with other investors *PBE IPSAS 38.39(b)*
- Guarantee of LGFA's debt. The Council considers the risk of the LGFA defaulting on its debt to be low on the basis that the Council is not aware of any local authority debt default events in New Zealand. Therefore, a liability is not recognised *PBE IPSAS 19.100* *PBE IPSAS 20.28*

Contingent liabilities

PBE IPSAS 19.100

The Group recognised a contingent liability of $380,000 in the course of the acquisition of Quality Property Management Limited. This liability was reassessed as at the reporting date and was determined to be $400,000 at that date. Refer to Note 6.

Commentary

Local authorities only: LGFA guarantee

The LGFA is currently owned by 30 local authorities, and its debts are guaranteed by 18 local authorities. The Council has a non-controlling interest in the LGFA and is a guarantor of LGFA's debt. Therefore, the guarantee of LGFA's debt has been specifically disclosed. This disclosure is only relevant to local authorities that guarantee the debt of LGFA. PBEs need to disclose specific guarantees that they have provided, if material, under PBE IPSAS 19.100.

39. Related party transactions

Related party transactions other than remuneration of key management personnel

Note 5 provides information about the Group's structure including details of controlled entities and other investments. *PBE IPSAS 20.25*

PBE IPSAS 20.27

All related party transactions that the Group entered into during the reporting period occurred within a normal client/supplier relationship and under terms equivalent to those that prevail in arm's length transactions in similar circumstances.

Commentary

Public sector PBEs only

Disclosures of related party transactions and balances

In relation to related party transactions that are not remuneration of key management personnel, PBE IPSAS 20 requires *public sector PBEs* to disclose only those related party transactions and balances, which have been entered into on terms other than arm's length. A public sector PBE does not need to disclose related parties transactions and balances that would have occurred within either a normal supplier or client/recipient relationship, and on terms and conditions no more or less favourable than those which the entity would have adopted if dealing with that party at arm's length in the same circumstances (PBE IPSAS 20.27).

All transactions between the Group and their related parties, and all of the outstanding balances between the Group and their related parties, are on terms equivalent to arm's length transactions and balances. Therefore, the Group did not disclose these transactions and balances.

If a public sector PBE enters into transactions with related parties on a non-arm's-length basis and/or has outstanding balances with related parties in relation to such transactions, PBE IPSAS 20 requires the entity to disclose the nature of the related party relationship, the type of transactions that have been entered into, and the elements of the transaction necessary to clarify the significance of the transaction and to provide relevant and reliable information (including the amount of the transactions and outstanding balances and the general terms of the transactions) (PBE IPSAS 20.27(a)-(c), PBE IPSAS 20.30). Examples of such disclosures are provided in Appendix 6. Please note that even though Appendix 6 presents disclosures for not-for-profit entities, these disclosures would be similar for a public sector PBE that had related party transactions that were not on arm's length basis.

Not-for-profit PBEs: Refer to Appendix 6

Not-for-profit PBEs do not have a similar exemption as public sector PBEs in regard to disclosure of arms-length transactions. Not-for-profit PBEs have to disclose the nature, type and aggregate amounts of all related party transactions and balances, regardless of whether terms and conditions are equivalent to arm's length transactions or not (PBE IPSAS 20.27.1). Refer to Appendix 6 for examples of related party disclosures for a not-for-profit entity. Please note that the disclosures required by a public sector PBE where the transaction is not at arm's length are the same as those required by a not-for-profit PBE for all related party transactions.

Compensation of key management personnel

Key management personnel of the Group include the Chief Executive, Councillors and Executive Management Team. The total remuneration of members of the Council and the number of individuals, on a full-time equivalent (FTE) basis, receiving remuneration from the Group were:

	Group and Council		
	2022 $000	2021 $000	*PBE IPSAS 20.34(a)*
Councillors (6 FTE)	224	220	
Executive management (4 FTE)	314	307	
Total remuneration (10 FTE)	**538**	**527**	

39. Related party transactions *continued*

The amounts disclosed in the table are the amounts recognised as an expense during the reporting period related to key management personnel. *PBE IPSAS 20.34(b)(i)*

Key management personnel did not receive any remuneration or compensation other than in their capacity as key management personnel (2021: Nil). *PBE IPSAS 20.34(b)(ii)*

The Council did not provide any compensation at non-arm's length terms to close family members of key management personnel during the year (2021: Nil).

The Council did not provide any loans to key management personnel or their close family members. *PBE IPSAS 20.34(c)*

Commentary

Key management personnel disclosures: PBE IPSAS 20

PBE IPSAS 20 describes key management personnel (KMP) as all directors or members of the governing body of the entity and other persons having the authority and responsibility for planning, directing, and controlling the activities of the reporting entity (PBE IPSAS 20.4). The responsibilities of key management personnel may enable them to influence the benefits that flow to them or their related parties. Consequently, PBE IPSAS 20 requires specific disclosure to be made in aggregate about:

- The remuneration of KMP and close family members of KMP during the reporting period
- Loans made to them, and
- The consideration provided to them for services they provide to the entity other than as a member of the governing body or an employee (Note: public sector PBEs need not disclose such consideration if the terms of the consideration are equivalent to those of an arm's length transaction)

Due to the nature of related party transactions, they may be considered qualitatively material despite the amount or size of the transaction.

Local authorities: Refer to Appendix 7 for additional statutory disclosures

In addition to the disclosures required by PBE IPSAS 20, the LGA also requires the disclosure of the remuneration of specific key management personnel of local authorities.

Local authorities may provide these disclosures within their key management personnel notes. However, in this publication, the disclosures are provided in Appendix 7. Local authorities should refer to that appendix for further details.

Other PBEs that are not local authorities should consider if legislation applicable to them contains any similar additional requirements in relation to key management personnel.

40. Reconciliation of net cash flows from operating activities to surplus before income tax

PBE IPSAS 2.29

	Group 2022 $000	Group 2021 $000	Council 2022 $000	Council 2021 $000
Surplus before income tax	17,193	14,117	10,674	9,801
Adjustments for:				
Depreciation and impairment of property, plant and equipment	23,797	23,082	18,207	17,603
Amortisation and impairment of intangible assets	374	122	174	102
Property, plant and equipment acquired in non-exchange transactions	(2,190)	(2,150)	(2,190)	(2,150)
Losses on revaluation of investment properties	306	300	306	300
Net gains on disposal of property, plant and equipment	(532)	(2,007)	(132)	(501)
Fair value adjustment of a contingent consideration	358	-	358	-
Net gains on financial instruments at fair value through surplus or deficit	(850)	-	-	-
Finance costs less interest paid	618	93	391	35
Net loss on financial instruments at fair value through surplus or deficit	1,502	-	-	-
Ineffectiveness of forward foreign exchange contracts designated as cash flow hedges	65	-	-	-
Bad debts	206	121	206	145
Doubtful debts	(329)	133	(188)	56
Revenue from service concession arrangement	(55)	-	(55)	-
Share of surplus of an associate and a joint venture	(671)	(638)	-	-
Changes in assets and liabilities:				
Increase in trade and other receivables and prepayments	(3,461)	(3,087)	(3,300)	(2,986)
Decrease in inventories	823	701	653	583
Decrease in trade and other payables	(1,253)	(290)	(874)	(180)
Increase in provisions, including employee provisions	1,498	32	683	32
(Decrease)/increase in deferred revenue	(734)	3,350	(734)	3,350
Income tax paid	(396)	(698)	-	-
Net cash flows from operating activities	**36,269**	**33,181**	**24,179**	**26,190**

41. Auditor's remuneration

The auditor of the Council is EY.

	Group 2022 $000	Group 2021 $000	Council 2022 $000	Council 2021 $000	
Fees to EY for:					PBE IPSAS 1.116.1(a)
Audit of financial statements	340	330	226	216	
Audit of Long-term Plan	-	21	-	21	
	340	351	226	237	
Fees paid to non-EY audit firm for:					PBE IPSAS 1.116.1(b) PBE IPSAS 1.116.2
Audit of controlled entity's financial statements (Quality Property Management Limited)	-	105			
Tax compliance services	75	72	-	-	
Other assurance services - payroll systems audit	19	17	-	-	
	94	194	-	-	

Commentary

Fees paid to each auditor or reviewer include fees paid to any network firm of the auditor or reviewer.

Companies operating as Tier 2 PBEs should be aware that although an RDR concession exists for not disclosing audit fees, the disclosure of audit fees is still required by section 211(1)(j) of the Companies Act 1993.

42. Events after the reporting period

There are no material non-adjusting events after the reporting date. *PBE IPSAS 14.30*

43. Explanation of major variances against forecast

PBE IPSAS 1.148.1

Major variations from the Council's forecast figures are explained below:

Statement of financial performance and statement of other comprehensive revenue and expense

The Council's surplus was $220,000 higher than forecasted, and total comprehensive revenue and expense was $200,000 higher than forecasted. The net effect of the following items contributed to this variation:

- Grant revenue was higher than forecasted by$980,000. This is due to the Council's road maintenance expenditure exceeding forecasted expenditure, and therefore, higher NZTA reimbursements
- Development contributions were lower than forecasted by $360,000. This is due to a large subdivision in Quality City being unexpectedly delayed. This affected the timing of the development contribution associated with this subdivision, which was expected to be earned in 2022, and therefore, included in the forecast
- Expenses were higher than forecasted by $420,000. This is mainly due to general expenses and employee costs being higher than forecasted by $290,000 and $130,000, respectively. These increases are due to several short-term initiatives implemented by the Council during 2022 to respond to infrastructure maintenance and other operational needs as they arose

43. Explanation of major variances against forecast *continued*

Statement of financial position

The Council's net assets were $1,760,000 higher than forecasted.

This was mainly caused by the restatement of prior period equity due to retrospective recognition of $500,000 of revenue in relation to Government grants received in 2020 and 2021. The restatement occurred due to the correction of a prior period error. Refer to Note 2(b) for further explanation.

Other significant variances from forecast are detailed below:

- The property, plant and equipment balance was $610,000 higher than forecasted due to the timing of the Council's capital works, with some work that was expected to be carried out in the next financial year being carried out in 2022
- Cash was $270,000 higher than forecasted due to additional NZTA reimbursement grants received from the Government. Refer to statement of financial performance section above. The effect of this was somewhat offset by operational expenses as well as capital expenditure on property, plant and equipment being higher than forecasted, as explained above
- Total deferred revenue was $1,310,000 lower than forecasted, mainly due to the abovementioned retrospective revenue recognition of $500,000 in relation to grants that were previously treated as deferred revenue

44. Standards and Interpretations issued but not yet effective

PBE IPSAS 3.35 - 36

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

Commentary

PBE IPSAS 3.35 requires disclosure of those standards that have been issued but are not yet effective. These disclosures are required to provide known or reasonably estimable information to enable users to assess the possible impact of the application of such PBE Standards on an entity's financial statements. For illustrative purposes, the Group has listed all standards and interpretations that are not yet effective. However, a preferred alternative would be to only list and address the ones expected to have an impact on the Group's financial position, performance, and/or disclosures.

For a listing of PBE Standards and Interpretations that have been issued but are not yet effective, refer to our quarterly New Accounting Standards and Interpretations publications. This publication is updated in March, June, September and December and is available from your local EY contact or on the IFRS page of the EY website (www.ey.com/en_nz/ifrs).

44. Standards and Interpretations issued but not yet effective *continued*

PBE FRS 48 *Service Performance Reporting*

This Standard was issued in November 2017 and establishes requirements PBEs to select and present service performance information.

PBEs within the scope of this Standard will need to provide users with:

- Sufficient contextual information to understand why the entity exists, what it intends to achieve in broad terms over the medium to long term, and how it goes about this, and
- Information about what the entity has done during the reporting period in working towards its broader aims and objectives

This Standard applies to:

(a) All not-for-profit PBEs, and

(b) Public sector PBEs required by legislation to provide information in respect of service performance in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP)

If an entity is required by legislation to report service performance information on only some of its activities, this Standard applies only to those activities.

PBE IFRS 48 is effective for annual periods beginning on or after 1 January 2022. Early application of the standard is permitted. The new standard will not impact the Group's financial statements as the Group is a public sector PBEs that is not required by legislation to provide information in respect of service performance in accordance with NZ GAAP.

44. Standards and Interpretations issued but not yet effective *continued*

PBE IFRS 17 *Insurance Contracts* (PBE IFRS 17)
This Standard was issued in July 2019 and establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts.

PBE IFRS 17 applies to not-for-profit PBEs ONLY and is applied to:

- Insurance contracts, including reinsurance contracts issued by an entity
- Reinsurance contracts held by an entity, and
- Investment contracts with discretionary participation features issued by the entity, provided the entity also issues insurance contracts

PBE IFRS 17 will be mandatory from 1 January 2023 for not-for-profit PBEs, with early adoption being permitted for entities that apply PBE IPSAS 41 *Financial Instruments* on or before the date of initial application of PBE IFRS 17. The new standard will not impact the Group's financial statements.

Amendments to PBE IFRS 17 *Insurance Contracts*
The amendments are to simplify implementation of PBE IFRS 17, the NZASB made the following key amendments:

- Deferring the effective date of PBE IFRS 17 for insurers by one year to annual periods beginning on or after 1 January 2023
- Excluding additional contracts from the scope of PBE IFRS 17, such as loans that include an agreement by the lender to compensate the borrower – by waiving some or all the payments due from the borrower – if a specified uncertain event occurs (for example, if the borrower dies), and credit card contracts that provide insurance coverage for purchases made using the credit card
- Permitting policy acquisition costs (e.g. commissions paid to brokers) to be allocated to related expected contract renewals, recognising those costs as an asset until contract renewal takes place
- Requiring the expected surplus on insurance contracts to be recognised in a pattern acknowledging both insurance coverage and any included investment activity services
- Allowing the use of the risk mitigation accounting option when reinsurance contracts or non-derivative financial instruments measured at fair value through surplus or deficit are used to mitigate the effects of the time value of money and other financial risks
- Reducing a potential accounting mismatch for reinsurance contracts by requiring the holder of a reinsurance contract to recognise a gain on that contract when it recognises a loss either on initial recognition of an onerous group of insurance contracts covered by the reinsurance contract, or on the addition of further onerous contracts to that group
- Simplifying the presentation of insurance contract assets and liabilities in the statement of financial position by using broader portfolios of insurance contracts rather than narrower groups of insurance contracts
- Introducing additional transition relief mechanisms

PBE IPSAS 41 *Financial Instruments*

In March 2019, the NZASB issued PBE IPSAS 41 *Financial Instruments*. When applied, this standard supersedes parts of PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*. Compared with PBE IPSAS 29, PBE IPSAS 41 introduces a number of changes to the recognition and measurement of financial instruments.

PBE IPSAS 41 is effective for annual periods beginning on or after 1 January 2022, with early application permitted. Once the entity adopts PBE IPSAS 41, it will supersede PBE IPSAS 29 and PBE IFRS 9.

Except for hedge accounting, retrospective application is required in accordance with PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* (PBE IPSAS 3), but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

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44. Standards and Interpretations issued but not yet effective *continued*

The Group plans to adopt the new standard on the required effective date and will not restate comparative information. The Group is currently undertaking a detailed impact assessment of the impact of PBE IPSAS 41. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2022 when the Group will adopt PBE IPSAS 41.

The initial consideration of the impacts the implementation of PBE IPSAS 41 is expected to have in the Group's financial statements is described below.

(a) Classification and measurement

The Group is currently assessing the impact on its statement of financial position and net assets/equity on applying the classification and measurement requirements of PBE IPSAS 41.

Currently, the Group classifies its investment in listed and non-listed equity shares and listed debt instruments as AFS financial assets. The assessment of possible changes in the classification of these financial instruments is on-going. For the equity shares currently classified as AFS assets, the Group expects to continue measuring them at fair value, but has not yet determined whether to apply the option to present fair value gains or losses in other comprehensive revenue and expense rather than in surplus or deficit.

The Group is still assessing whether the debt securities will meet the requirements for being held at amortised cost or if they will be carried at fair value. The Group considers it likely that the debt securities will be classified and measured at amortised cost under PBE IPSAS 41, whereby interest income calculated using the effective interest rate method is recognised through surplus or deficit and accretes to the debt securities' carrying amount.

Loans as well as receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under PBE IPSAS 41. Therefore, reclassification for these instruments is not required.

(b) Impairment

PBE IPSAS 41 requires the Group to record expected credit losses on all of its debt instruments classified at amortised cost or fair value through other comprehensive revenue and expense. For all such assets except receivables, the Group expects to apply the general approach and record impairment losses initially on a 12-months basis, moving to a lifetime basis if there is a significant deterioration in credit risk. The Group expects to apply the simplified approach and record lifetime expected losses on all receivables. The Group has determined that, due to the unsecured nature of its loans and receivables, the loss allowance will increase by $100,000. The Group does not expect the application of PBE IPSAS 41 to result in a significant impairment of its term deposits, or to its debt securities (if measured at amortised cost or fair value through other comprehensive revenue and expense under PBE IPSAS 41).

(c) Hedge accounting

The Group determined that all existing hedge relationships that are currently designated in effective hedging relationships are expected to continue to qualify for hedge accounting under PBE IFRS 41. As PBE IFRS 41 does not change the general principles of how an entity accounts for effective hedges, applying the hedging requirements of PBE IFRS 41 will not have a significant impact on the Group's financial statements.

(d) Other adjustments

In addition to the adjustments described above, when PBE IFRS 41 is adopted, other items of the primary financial statements such as deferred taxes and investments in the associate and joint venture, will then be adjusted as necessary. The impact assessment of the aforementioned other items is currently still ongoing.

Appendix 1: Statement of comprehensive revenue and expense (example of a single statement)

PBE IPSAS 1.22.1(a)
PBE IPSAS 1.61

Commentary

The Group presents the statement of financial performance and statement of other comprehensive revenue and expense as two separate statements. For illustrative purposes, a single statement of comprehensive revenue and expense is presented in this appendix.

For the year ended 30 June 2022

PBE IPSAS 1.63(c)

	Note	Group 2022 Actual $000	Group 2021 Actual - restated* $000	Council 2022 Actual $000	Council 2022 Forecast $000	Council 2021 Actual - restated* $000	
							PBE IPSAS 1.63(b) PBE IPSAS 1.53 PBE IPSAS 1.21(e) LGA Schedule 10.29 PBE IPSAS1.63(d), (e)
Revenue from non-exchange transactions							*PBE IPSAS 1.98.1(a) PBE IPSAS 1.63(e) PBE IPSAS 23.106(a)*
Rates revenue	9	75,197	73,682	75,197	75,347	73,682	*LG(FRP)R.5(2)(a)*
Fines		920	768	920	1,070	768	
Government grants	10	10,503	8,132	10,503	9,520	8,132	*LG(FRP)R.5(2)(c)*
Concessionary loan	11	329	-	329	329	-	
Direct charges revenue - subsidised	12	13,476	12,704	12,976	12,872	12,204	
Property, plant and equipment acquired in non-exchange transactions	22	2,190	2,150	2,190	2,190	2,150	
Revenue from exchange transactions							*PBE IPSAS 9.39(b)*
Direct charges revenue – full cost recovery	13	107,341	92,517	720	550	1,871	
Development contributions		3,641	3,741	3,641	4,005	3,741	*LG(FRP)R.5(2)(b)*
Rental revenue	23	1,404	1,377	1,404	1,405	1,377	
Dividends		-	-	521	523	638	*PBE IPSAS 9.39(b)(v)*
Revenue from service concession arrangement	26	55	-	55	55	-	
Other revenue	18	1,382	2,007	132	139	501	
Total revenue		**216,438**	**197,078**	**108,588**	**108,005**	**105,064**	*PBE IPSAS 1.99.1(a)*
Expenses							
Employee costs	14	(35,880)	(35,153)	(18,940)	(18,807)	(17,577)	
Remuneration of key management personnel	39	(538)	(527)	(538)	(539)	(527)	
Depreciation and amortisation	22, 24	(23,971)	(23,204)	(18,381)	(18,384)	(17,705)	
General expenses	15	(136,552)	(123,587)	(58,927)	(58,637)	(58,600)	
Other expenses	19	(2,231)	(300)	(664)	(697)	(300)	
Total expenses		**(199,172)**	**(182,771)**	**(97,450)**	**(97,064)**	**(94,709)**	
Finance costs	17	(1,264)	(1,123)	(931)	(978)	(797)	*PBE IPSAS 1.99.1(b)*
Finance income	16	520	295	467	490	243	
Net finance costs		**(744)**	**(828)**	**(464)**	**(488)**	**(554)**	
Share of surplus of an associate and a joint venture	7,8	671	638	-	-	-	*PBE IPSAS 1.99.1(c)*
Surplus before income tax		**17,193**	**14,117**	**10,674**	**10,453**	**9,801**	
Income tax expense	21	(1,814)	(1,119)	-	-	-	*PBE IPSAS 1.99.1(d)*
Surplus for the year		**15,379**	**12,998**	**10,674**	**10,453**	**9,801**	*PBE IPSAS 1.99.1(f)*

*Certain amounts shown here do not correspond to the 2021 financial statements and reflect adjustments made. Refer to Note 2(b) .

Appendix 1: Statement of comprehensive revenue and expense (example of a single statement) *continued*

For the year ended 30 June 2022

	Note	Group 2022 Actual $000	Group 2021 Actual – restated* $000	Council 2022 Actual $000	Council 2022 Forecast $000	Council 2021 Actual – restated* $000	
Surplus for the year		15,379	12,998	10,674	10,453	9,801	*PBE IPSAS 1.99.1(f)*
Other comprehensive revenue and expense, net of tax							*PBE IPSAS 1.98.1(b)*
Net (losses)/gains on available-for-sale financial assets	20	(57)	3	(57)	-	3	*PBE IPSAS 1.103.3(a)*
Net movement in cash flow hedges	20	(512)	24	-	-	-	
Revaluation gain on property, plant and equipment	22	24,300	-	20,718	20,685	-	
Share of other comprehensive revenue and expense of an associate		11	-	11	10	-	*PBE IPSAS 1.103.1(b)*
Other comprehensive revenue and expense for the year, net of tax		23,742	27	20,672	20,695	3	*PBE IPSAS 1.98.1(b)*
Total comprehensive revenue and expense for the year, net of tax		39,121	13,025	31,346	31,148	9,804	*PBE IPSAS 1.98.1(c)*
Surplus for the year is attributable to:							
Non-controlling interest		288	239	-	-	-	*PBE IPSAS 1.98.2(a)(i)*
Council		15,091	12,759	10,674	10,453	9,801	*PBE IPSAS 1.98.2(a)(ii)*
		15,379	12,998	10,674	10,453	9,801	
Total comprehensive revenue and expense for the year is attributable to:							
Non-controlling interest		288	239	-	-	-	*PBE IPSAS 1.98.2(b)(i)*
Council		38,833	12,786	31,346	31,148	9,804	*PBE IPSAS 1.98.2(b)(ii)*
		39,121	13,025	31,346	31,148	9,804	

*Certain amounts shown here do not correspond to the 2021 financial statements and reflect adjustments made. Refer to Note 2(b).

Commentary

PBE IPSAS 1.103.4 requires the disclosure of reclassification adjustments relating to components of other comprehensive revenue and expense. Reclassification adjustments may be presented either in the statement of comprehensive revenue and expense or in the notes. The Group have elected to present components of other comprehensive revenue and expense on a net basis in the statement above. Therefore, an additional note is required to present the amount of reclassification adjustments and current year gains or losses (refer to Note 20). Alternatively, the individual components could have been presented within the statement of comprehensive revenue and expense.

In this appendix, the Council has elected to present each component of other comprehensive revenue and expense gross of tax and separately disclose the related tax effect (PBE IPSAS 1.103.2). Alternatively, an entity may present this information in the notes. Refer to the statement of comprehensive revenue and expense and related commentary in the main body of this publication.

Appendix 2: Statement of financial performance (example of expenses disclosed by function)

PBE IPSAS 1.22.1(b)
PBE IPSAS 1.61

Commentary

The Group presents the statement of financial performance disclosing expenses by nature. For illustrative purposes, the statement of financial performance disclosing expenses by function is presented in this appendix.

For the year ended 30 June 2022

PBE IPSAS1.63(c)

	Note	Group		Council			
		2022 Actual	2021 Actual – restated*	2022 Actual	2022 Forecast	2021 Actual – restated*	*PBE IPSAS1.63(b)) PBE IPSAS 1.53 PBE IPSAS 1.21(e) LGA Schedule 10.29*
		$000	$000	$000	$000	$000	*PBE IPSAS 1.63(d), (e)*
Revenue from non-exchange transactions							*PBE IPSAS 23.106(a)*
Rates revenue	9	75,197	73,682	75,197	75,347	73,682	*LG(FRP)R.5(2)(a)*
Fines		920	768	920	1,070	768	
Government grants	10	10,503	8,132	10,503	9,520	8,132	*LG(FRP)R.5(2)(c)*
Concessionary loan	11	329	-	329	329	-	
Direct charges revenue – subsidised	12	13,476	12,704	12,976	12,872	12,204	
Property, plant and equipment acquired in non-exchange transactions	22	2,190	2,150	2,190	2,190	2,150	
Revenue from exchange transactions							*PBE IPSAS 9.39(b)*
Development contributions		3,641	3,741	3,641	4,005	3,741	*LG(FRP)R.5(2)(b)*
Direct charges revenue – full cost recovery	13	107,341	92,517	720	550	1,871	
Rental revenue	23	1,404	1,377	1,404	1,405	1,377	*PBE IPSAS 9.39(b)(v)*
Dividends		-	-	521	523	638	
Revenue from service concession arrangement	26	55	-	55	55	-	
Other revenue	18	1,382	2,007	132	139	501	
Total revenue		**216,438**	**197,078**	**108,588**	**108,005**	**105,064**	*PBE IPSAS 1.99.1(a)*
Expenses							*PBE IPSAS 1.113*
Planning, strategy and regulation		(1,936)	(1,886)	(1,936)	(1,927)	(1,886)	
Community support		(7,743)	(7,553)	(7,743)	(7,709)	(7,553)	
Economic development		(9,679)	(9,441)	(9,679)	(9,637)	(9,441)	
Building and resource consents		(12,679)	(12,368)	(12,679)	(12,624)	(12,368)	
Water, wastewater and stormwater		(18,873)	(18,410)	(18,873)	(18,792)	(18,410)	
Roading and other infrastructure		(19,841)	(19,354)	(19,841)	(19,755)	(19,354)	
Waste and recycling		(18,389)	(17,938)	(18,389)	(18,310)	(17,938)	
Culture, heritage and recreation		(5,762)	(7,587)	(7,162)	(7,131)	(6,987)	
Port operations		(100,441)	(86,347)	-	-	-	
Property management		(1,598)	(1,587)	(484)	(482)	(472)	
Other expenses	19	(2,231)	(300)	(664)	(697)	(300)	
Total expenses		**(199,172)**	**(182,771)**	**(97,450)**	**(97,064)**	**(94,709)**	
Finance costs	17	(1,264)	(1,123)	(931)	(978)	(797)	*PBE IPSAS 1.99.1(b)*
Finance income	16	520	295	467	490	243	
Net finance costs		**(744)**	**(828)**	**(464)**	**(488)**	**(554)**	

*Certain amounts shown here do not correspond to the 2021 financial statements and reflect adjustments made. Refer to Note 2(b).

Appendix 2: Statement of financial performance (example of expenses disclosed by function) *continued*

For the year ended 30 June 2022

	Note	Group		Council			
		2022 Actual $000	2021 Actual – restated* $000	2022 Actual $000	2022 Forecast $000	2021 Actual – restated* $000	
Share of surplus of an associate and a joint venture	7, 8	671	638	-	-	-	*PBE IPSAS 1.99.1(c)*
Surplus before income tax		17,193	14,117	10,674	10,453	9,801	
Income tax expense	21	(1,814)	(1,119)	-	-	-	*PBE IPSAS 1.99.1(d)*
Surplus for the year		15,379	12,998	10,674	10,453	9,801	*PBE IPSAS 1.99.1(f)*
Surplus for the year is attributable to:							
Non-controlling interest		288	239	-	-	-	*PBE IPSAS 1.98.2(a)(i)*
Council		15,091	12,759	10,674	10,453	9,801	*PBE IPSAS 1.98.2(a)(ii)*
		15,379	12,998	10,674	10,453	9,801	

*Certain amounts shown here do not correspond to the 2021 financial statements and reflect adjustments made. Refer to Note 2(b).

Commentary

PBE IPSAS 1.109 requires expenses to be analysed either by nature or by their function within the statement of financial performance, whichever presentation provides information that is reliable and more relevant to users of the financial statement. If expenses are analysed by function, information about the nature of expenses (including depreciation and amortisation expense and employee benefits expense) then this must be disclosed in the notes (PBE IPSAS 1.115).

Appendix 3: Statement of cash flows (example of the indirect method)

PBE IPSAS 1.21(d)

Commentary

PBE IPSAS 2.27 allows entities to report cash flows from operating activities using either the direct or indirect methods. The Group presents cash flows using the direct method. The statement of cash flows prepared using the indirect method for operating activities is presented in this appendix for illustrative purposes.

For the year ended 30 June 2022

PBE IPSAS 1.63(c)

	Note	Group 2022 - Actual $000	Group 2021 - Actual $000	Council 2022 - Actual $000	Council 2022 - Forecast $000	Council 2021 - Actual $000	
							PBE IPSAS 1.63(b) PBE IPSAS 1.53 LGA Schedule 10.29 PBE IPSAS 1.63(d), (e)
Cash flows from operating activities							
Surplus before income tax		**17,193**	14,117	**10,674**	10,453	9,801	
Adjustments to reconcile surplus before income tax to net cash flows:							
Depreciation and impairment of property, plant and equipment		23,797	23,082	18,207	17,807	17,603	
Amortisation and impairment of intangible assets		374	122	174	157	102	
Property, plant and equipment acquired in non-exchange transactions		(2,190)	(2,150)	(2,190)	(2,190)	(2,150)	
Decrease in investment properties		306	300	306	312	300	
Gain on disposal of property, plant and equipment		(532)	(2,007)	(132)	(119)	(501)	
Fair value adjustment of a contingent consideration		358	-	358	-	-	
Finance income		(520)	(295)	(467)	(490)	(243)	
Finance costs		1,264	1,123	931	978	797	
Net gain on financial instruments at fair value through surplus or deficit		(850)	-	-	-	-	
Net loss on financial instruments at fair value through surplus or deficit		1,502	-	-	-	-	
Ineffectiveness of forward foreign exchange contracts designated as cash flow hedges		65	-	-	-	-	
Bad debts		206	121	206	185	145	
Doubtful debts		(329)	133	(188)	(169)	56	
Revenue from service concession arrangements		(55)	-	(55)	(50)	-	
Share of surplus of an associate and a joint venture		(671)	(638)	-	-	-	
Movements in provisions, including employee provisions		1,498	32	683	690	32	
Movements in deferred revenue		(734)	3,350	(734)	(1,161)	3,350	
Working capital adjustments:							
Increase in trade receivables and prepayments		(3,461)	(3,087)	(3,300)	(3,669)	(2,986)	
Decrease in inventories		823	701	654	589	583	
Increase in trade and other payables		(1,253)	(290)	(874)	(1,083)	(180)	
		36,791	**34,614**	**24,253**	**22,240**	**26,709**	
Interest received		**520**	295	**467**	467	243	PBE IPSAS 2.40
Interest paid		**(646)**	(1,030)	**(541)**	(538)	(762)	PBE IPSAS 2.40
Income tax paid		**(396)**	(698)	-	-	-	PBE IPSAS 2.22(l) PBE IPSAS 2.44
Net cash flows from operating activities	40	**36,269**	33,181	**24,179**	22,169	26,190	

Appendix 3: Statement of cash flows (example of the indirect method) *continued*

For the year ended 30 June 2022 *continued*

	Note	Group 2022 Actual $000	Group 2021 Actual $000	Council 2022 Actual $000	Council 2022 Forecast $000	Council 2021 Actual $000	
Cash flows from investing activities							*PBE IPSAS 2.31*
Proceeds from sale of property, plant and equipment		1,208	2,336	1,406	1,266	779	*PBE IPSAS 2.25(b)*
Proceeds from sale of financial instruments		-	145	-	-	145	*PBE IPSAS 2.25(d)*
Purchase of property, plant and equipment		(46,282)	(41,959)	(34,387)	(33,205)	(30,537)	*PBE IPSAS 2.25(a)*
Purchase of investment property		(1,216)	(1,192)	(1,216)	(1,228)	(1,192)	*PBE IPSAS 2.25(a)*
Purchase of financial instruments		(3,054)	(225)	(2,399)	(2,424)	(107)	*PBE IPSAS 2.25(c)*
Purchase of intangibles		(449)	(630)	(449)	(453)	(630)	*PBE IPSAS 2.25(a)*
Acquisition of controlled entity		-	-	(7,687)	(7,557)	-	*PBE IPSAS 2.49*
Net cash flows (used in) investing activities		**(49,793)**	**(41,525)**	**(44,732)**	**(43,601)**	**(31,542)**	
Cash flows from financing activities							*PBE IPSAS 2.31*
Acquisition of non-controlling interest		(991)	-	(991)	(979)	-	
Proceeds from borrowings		2,496	8,526	654	661	8,326	*PBE IPSAS 2.26(a)*
Repayment of borrowings		(3,057)	(1,345)	(960)	(970)	(1,641)	*PBE IPSAS 2.26(b)*
Payment of finance lease liabilities		(51)	(76)	-	-	-	*PBE IPSAS 2.26(c)*
Dividends paid to non-controlling interest		-	(48)	-	-	-	*PBE IPSAS 2.40*
Net cash flows (used in)/from financing activities		**(1,603)**	**7,057**	**(1,297)**	**(1,288)**	**6,685**	
Net (decrease)/increase in cash and cash equivalents		(15,127)	(1,287)	(21,850)	(22,720)	1,333	
Cash and cash equivalents at beginning of year		30,830	32,117	26,917	26,917	25,584	
Cash and cash equivalents at end of year	31	**15,703**	**30,830**	**5,067**	**4,197**	**26,917**	

Commentary

The Group have reconciled surplus before income tax to net cash flows from operating activities. However, a reconciliation from surplus after income tax is also acceptable under PBE IPSAS 2.

Appendix 4: Agricultural assets (example of disclosures)

Commentary

The Council and its controlled entities are not involved in agricultural activities, and therefore, do not have any biological assets for reporting purposes. This appendix was created to illustrate disclosures for biological assets, including bearer plants, as required by PBE IPSAS 17 *Property, Plant and Equipment* (PBE IPSAS 17) and PBE IPSAS 27 *Agriculture* (PBE IPSAS 27). These illustrative disclosures are for a fictitious PBE (not related to the Council). The disclosures concern the management of vineyards, located in South Australia and the South Island of New Zealand. These vineyards were planted to grow grapes for the production of wine. The Group to which these disclosures relate has a 30 June reporting date.

The disclosures are provided for the consolidated Group. Please note that if a PBE is required to present parent financial statements in addition to consolidated financial statements (as is the case for local authorities and certain other PBEs), then the PBE will need to provide the disclosures required by PBE IPSAS 27 and PBE IPSAS 17 for both the parent and the Group.

Consolidated statement of financial performance (extract)
For the year ended 30 June 2022

	Note	Group 2022 $000	Group 2021 $000	
Gain/(loss) from changes in fair value of biological assets	xx	30,500	19,400	*PBE IPSAS 27.38*

Consolidated statement of financial position (extract)
As at 30 June 2022

	Note	Group 2022 $000	Group 2021 $000	
Assets				
Non-current assets				
Property, plant and equipment	xx	xx	xx	*PBE IPSAS 1.88(a)*
Current assets				
Biological assets – grapes growing on the vine	xx	87,700	72,400	*PBE IPSAS 1.89*

Consolidated statement of cash flows (extract)
For the year ended 30 June 2022

	Note	Group 2022 $000	Group 2021 $000
Operating activities			
Adjustments to reconcile surplus before income tax to net cash flows:			
Depreciation vineyard improvements	xx	xx	xx
Depreciation mature grape vines	xx	xx	xx
(Increase)/decrease in fair value of grapes growing on the vine	xx	xx	xx
Investing activities			
Development of new vineyards	xx	xx	xx
Additions to vineyard improvements	xx	xx	xx

Appendix 4: Agricultural assets (example of disclosures) *continued*

Commentary

A number of costs, such as fertilising, pruning and thinning are incurred after maturity and can improve the quality of the produce or extend the productive life of a bearer plant. Entities need to use judgement to determine whether these costs are considered to be either maintenance costs or improvements. In addition, after maturity, many costs are incurred to benefit both the bearer plant and the produce growing on the bearer plant. Entities need to carefully consider the basis on which to allocate costs between a bearer plant and the produce growing on a bearer plant when the costs are incurred in relation to both assets (e.g. fertilising costs).

An entity's policy in respect of such costs will impact the presentation of the statement of cash flows, because cash flows relating to maintenance costs will ordinarily be presented within operating activities and cash flows in respect of costs capitalised as part of bearer plants will ordinarily be presented within investing activities.

Notes to the financial statements (extract)

2. Summary of significant accounting policies (extract)

xx. Inventory (extract)

The cost of grapes grown by the Group is the fair value less costs to sell at the time the grapes are harvested, which becomes the initial 'cost'. Thereafter this inventory is carried at the lower of cost and net realisable value.

PBE IPSAS 27.18

xx. Property, plant and equipment (extract)

Property, plant and equipment including grape vines are stated at cost, net of accumulated depreciation and accumulated impairment losses. Immature vines are stated at accumulated cost. Capitalisation of costs ceases when the vines reach maturity, which is when the grapes can be commercial harvested. Refer to significant accounting judgements, estimates and assumptions for further information (refer to Note 3).

Vineyard improvements are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the vineyard improvements and borrowing costs for long-term construction projects if the recognition criteria are met.

Commentary

Under PBE IPSAS 17 an entity has a policy choice for the measurement of property, plant and equipment after initial recognition. An entity may choose either the cost model or the revaluation model for entire classes of property, plant and equipment. The Group has elected to use the cost model for all classes of property, plant and equipment including bearer plants.

If an entity elects the revaluation model to its bearer plants, valuations are performed with sufficient frequency to ensure that the carrying amount of a revalued asset does not differ materially from its fair value. In accordance with PBE IPSAS 17.54, a revaluation surplus is recorded in other comprehensive revenue and expense and credited to the asset revaluation reserve in net asset/equity. However, in accordance with PBE IPSAS 17.55, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation loss on the same asset previously recognised in surplus or deficit. A revaluation deficit is recognised in surplus or deficit, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

In accordance with PBE IPSAS 17.56, revaluation increase and decrease relating to individual assets within a class of property, plant and equipment must be offset against one another within that class but must not be offset in respect of assets in different classes.

In accordance with PBE IPSAS 17.57, an entity would recognise an annual transfer from the asset revaluation reserve to accumulated comprehensive revenue and expense for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the original cost of the asset. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation surplus relating to the particular asset being sold is transferred to accumulated comprehensive revenue and expense.

PBE IPSAS 17.30(b) requires an entity to cease capitalising costs as part of the initial cost of a bearer plant when it reaches maturity (i.e. when it is in the 'location and condition necessary for it to be capable of operating in the manner intended by management'). The Group has determined that its vines are mature when the growing grapes can be commercially harvested.

Appendix 4: Agricultural assets (example of disclosures) *continued*

2. Summary of significant accounting policies (extract) *continued*

xx. Property, plant and equipment (extract) *continued*

Depreciation commences when the grape vines are considered mature, which is when they produce their first commercially viable crop. *PBE IPSAS 17.88(b), (c)*

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

► Buildings	xx years
► Plant, machinery and equipment	xx years
► Mature grape vines	30 years
► Vineyard improvements	xx years

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in surplus or deficit when the asset is derecognised.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

Commentary

Some important points to be considered regarding the disposal of property, plant and equipment (including bearer plants) include:

- The date of disposal of the asset is the date that an entity has transferred to the purchaser the significant risks and rewards of ownership of the goods as mentioned in PBE IPSAS 9 (PBE IPSAS 17.84).
- The consideration receivable on disposal of an item of property, plant and equipment is recognised initially at its fair value. If payment for the item is deferred, the consideration received is initially recognised at the equivalent of the cash price. The difference between the nominal amount of the consideration and the equivalent of the cash price is recognised as interest revenue in accordance with PBE IPSAS 9, thus reflecting the effective yield on the receivable (PBE IPSAS 17.87).

This appendix does not illustrate disclosures related to impairment of non-financial assets, such as property, plant and equipment.

xx. Biological assets

Grapes growing on vines are accounted for as biological assets until the point of harvest. Biological assets are measured on initial recognition and at each reporting date at its fair value less costs to sell. Changes in fair value of growing grapes are recognised in surplus or deficit. Costs related to growing the grapes and harvesting the grapes are expensed as incurred. *PBE IPSAS 27.16 PBE IPSAS 27.30*

Harvesting of the grape crop is ordinarily performed in late March or early April. Costs incurred in growing the grapes, including any applicable harvest costs, are recognised as part of the cost of inventories which is recognised as an expense. At the time of harvest, grapes are measured at fair value less costs to sell and transferred to inventories. *PBE IPSAS 27.18*

Methods used to measure fair value less costs to sell are provided in Note 3.

Appendix 4: Agricultural assets (example of disclosures) *continued*

2. Summary of significant accounting policies (extract) *continued*

xx. Biological assets *continued*

Commentary

Measurement of biological assets

PBE IPSAS 27 requires a biological asset to be measured on initial recognition at fair value less costs to sell. This disclosure applies to biological assets acquired both in exchange transactions and in non-exchange transactions (PBE IPSAS 27.16-17). A presumption exists that fair value can be measured reliably for a biological asset (PBE IPSAS 27.34). This presumption can be rebutted only when a biological asset is initially recognised, and where market-determined prices or values are not available and for which alternative estimates of fair value are determined to be clearly unreliable. Once the fair value of such a biological asset becomes reliably measurable, it must be measured at fair value less costs to sell. Once a biological asset is held for sale in accordance with PBE IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* (PBE IFRS 5), it is presumed that fair value can be measured reliably.

3. Significant accounting judgements, estimates and assumptions (extract)

Judgements

PBE IPSAS 1.137

Allocation of cost between immature vines and grapes growing on them

Costs incurred in growing the grapes and maintaining the vines may benefit both the vines and the grapes. While the vines are immature, costs of pruning and approximately 70-80% of other viticulture costs (e.g. fertiliser) are capitalised as part of the cost of the vines. Such costs are expensed as incurred after the vines reach maturity. Any costs allocable to the grapes growing on the vines are expensed as incurred.

Distinction between immature and mature vines

PBE IPSAS 17.30(b)

The Group has determined that its vines are mature when the growing grapes can be commercially harvested, which is when the vineyards have produced approximately 50-60% of expected yield at full production. This normally takes approximately three years after planting the vines. This represents the point at which the Group ceases capitalisation of costs and the vines are reclassified as mature vines.

Commentary

PBE IPSAS 37.30(b) requires an entity to determine when a bearer plant reaches maturity, that is, when it is in the "location and condition necessary for it to be capable of operating in the manner intended by management". This determination is important because it is when an entity must cease capitalising costs as part of the initial cost of the asset and begin depreciating the bearer plant.

The life cycles of plants can vary widely. Therefore, determining at what stage during the biological transformation a bearer plant could be considered mature may require judgement. Alternative situations could include, but are not limited to: when the bearer plant is capable of producing its first crop; when the produce is expected to be of sufficient quality to be sold; or when the growth phase of biological transformation is complete for the bearer plant (and is thereafter expected to degenerate or to decline in its productive capacity).

While PBE IPSAS 17.44-58 provides guidance that entities need to consider for bearer plants, there are differences between traditional plant and equipment and biological assets. As such, entities need to apply judgement in determining which costs can be capitalised. For example, as a plant is growing, an entity will incur costs related to water, fertiliser, greenhouses, etc. An entity needs to assess whether these costs are directly attributable to the bearer plant reaching maturity.

Costs incurred after maturity may benefit both the bearer plant and the produce growing on the bearer plant. The basis for allocation of costs between the bearer plant and the produce needs to be carefully considered by an entity.

Under PBE IPSAS 27, there is a presumption that the fair value of all biological assets (including produce growing on a bearer plant) can be measured reliably. This presumption can only be rebutted on initial recognition for a biological asset, but not agricultural produce itself. Rebutting the presumption that fair value can be reliably measured is a judgement that may require significant judgement. To do so, PBE IPSAS 27.34 requires an entity to demonstrate both of the following:

- Quoted market prices for the biological asset, including produce growing on a bearer plant, are not available
- Alternative fair value measurements for the biological asset are determined to be clearly unreliable

Appendix 4: Agricultural assets (example of disclosures) *continued*

3. Significant accounting judgements, estimates and assumptions (extract) *continued*

Commentary *continued*

PBE IPSAS 27 presumes that the fair value of a non-current biological asset that either meets the criteria to be classified as held for sale, or is included in a disposal group that is classified as held for sale, in accordance with PBE IFRS 5 and can always be measured reliably.

If an entity rebuts the presumption and demonstrates that the fair value cannot be measured reliably, it applies the cost model to the biological asset until fair value becomes reliably measurable (PBE IPSAS 27.34). If an entity applies the cost model, the biological asset is measured at cost less any accumulated depreciation and any accumulated impairment losses. An entity that previously measured a biological asset at its fair value less costs to sell cannot revert to a cost-based measurement in a later reporting period, even if a fair value can no longer be measured reliably (PBE IPSAS 27.35).

The Group does not hold any biological assets for which fair value could not be reliably measured.

Estimates and assumptions

PBE IPSAS 1.140

Fair value of biological assets

The Group measures its biological assets (growing grapes) and grape at the time of harvest (prior to being recorded in inventories) at fair value less costs to sell.

The fair value of grapes growing on the vines is determined by reference to market prices for grapes for that local area for each variety of grape grown, adjusted for expected costs to reach maturity, which is typically three to four months after the end of the reporting period. Significant estimates include the expected grape yields and quality, costs to incur until harvest and the expected market price for the harvested grapes.

The fair value of grapes at the point of harvest is determined by reference to the market prices for each variety of grape grown in the local area and the market price paid to independent grape growers. Any gains or losses on remeasuring fair value are included within in surplus or deficit as part of costs on inventory.

Key assumptions used to determine the fair value of biological assets are provided in Note XX.

Commentary

This appendix does not illustrate disclosures of judgements and estimates that may be relevant for bearer plants for which an entity applies either the revaluation model under PBE IPSAS 27, or impairment under PBE IPSAS 22 (PS) *Disclosure of Information about the General Government Sector* (PBE IPSAS 22) or PBE IPSAS 26 *Impairment of Cash-Generating Assets* (PBE IPSAS 26).

If an entity elects to apply the revaluation model to bearer plants, it would also need to consider which cash inflows are attributable to the bearer plant rather than any produce currently growing on the bearer plant. Significant judgement and estimation may, therefore, be needed to measure the fair value of bearer plants.

IAS 1 requires an entity to disclose significant judgements applied in preparing the financial statements (PBE IPSAS 1.137) and significant estimates that involve a high degree of estimation uncertainty (PBE IPSAS 1.140). The disclosure requirements go beyond the requirements that exist in some other PBE Standards.

These disclosures represent a very important source of information in the financial statements because they highlight the areas in the financial statements that are most prone to change in the foreseeable future. Therefore, any information given should be sufficiently detailed to help readers of the financial statements understand the impact of possible significant changes.

For illustrative purposes, the Group has included disclosures about significant judgements and estimates beyond what is normally required, and potentially also beyond what is decision-useful. Under PBE IPSAS 1, only those judgements that have the most significant effect on the amounts recognised in the financial statements and those estimates that have a significant risk of resulting in material adjustments in respect of assets and liabilities within the next financial year, that should be addressed in this section.

It is important that entities carefully assess which judgements and estimates are most significant as required by PBE IPSAS 1 and make the disclosures accordingly, in order to allow the users of the financial statements to appreciate the impact of the judgements and estimation uncertainties. Disclosures of judgements and estimation uncertainties that do not have a significant risk of resulting in material adjustments may clutter the financial statements in a way that reduces the users' ability to identify the key judgements and estimation uncertainties.

Appendix 4: Agricultural assets (example of disclosures) *continued*

17. Property, plant and equipment (extract)

	Buildings $000	Plant and equipment $000	Immature grape vines $000	Mature grape vines $000	Vineyard improve-ments $000	Total $000	
Cost							*PBE IPSAS 17.88(e)*
As at 1 July 2020	xx	xx	9,000	24,000	xx	xx	*PBE IPSAS 17.88(d)*
Additions	xx	xx	500	-	xx	xx	
Disposals	(xx)	(xx)	-	-	(xx)	(xx)	*PBE IPSAS 17.RDR 88.1*
Transfer	xx	xx	(5,000)	5,000	xx	xx	
As at 30 June 2021	**xx**	**xx**	**4,500**	**29,000**	**xx**	**xx**	*PBE IPSAS 17.88(d)*
Additions	xx	xx	5,500	-	xx	xx	
Disposals	xx	xx	-	-	xx	xx	
Transfer	(xx)	(xx)	(5,000)	5,000	(xx)	(xx)	
Aa at 30 June 2022	**xx**	**xx**	**5,000**	**34,000**	**xx**	**xx**	*PBE IPSAS 17.88(d)*
Depreciation and impairment							
As at 1 July 2020	xx	xx	-	730	xx	xx	
Depreciation charge for the year	xx	xx	-	900	xx	xx	*PBE IPSAS 17.RDR 88.1*
Impairment	xx	xx	-	-	xx	xx	
As at 30 June 2021	**xx**	**xx**	**-**	**1,630**	**xx**	**xx**	*PBE IPSAS 17.88(d)*
Depreciation charge for the year	xx	xx	-	1,100	xx	xx	
Impairment	xx	xx	-	-	xx	xx	
As at 30 June 2022	**xx**	**xx**	**-**	**2,730**	**xx**	**xx**	*PBE IPSAS 17.88(d)*
Net book value							
As at 30 June 2021	xx	xx	4,500	7,370	xx	xx	*PBE IPSAS 17.RDR 88.1*
As at 30 June 2022	xx	xx	5,000	1,270	xx	xx	

Commentary

Tier 2 PBEs are not required to disclose the reconciliation specified by PBE IPSAS 17.88(e) for prior reporting periods (PBE IPSAS 17.RDR 88.1).

xx. Biological assets

The Group's biological assets consist of growing grapes. *PBE IPSAS 27.39*

Commentary

If an entity has bearer biological assets that do not meet the definition of 'bearer plant' and are within the scope of PBE IPSAS 27 (e.g. bearer animals), PBE IPSAS 27.39 requires the description of the entity's biological assets to distinguish between bearer biological assets and consumable biological assets. However, according to PBE IPSAS 27.RDR 39.1, a Tier 2 PBE is not required to distinguish between bearer biological assets and consumable biological assets when providing the description of biological assets as per PBE IPSAS 27.39.

As part of the Group's normal operations, it grows grapes to use in the production of wine. The vineyards are located in South Australia and in the South Island of New Zealand. Grapes are harvested between March and May each year. *PBE IPSAS 27.44(a)*

Appendix 4: Agricultural assets (example of disclosures) *continued*

xx. Biological assets *continued*

Commentary *continued*

As at 30 June 2022, the Group held 4 hectares of grapevines with growing grapes (2021: 3.5 hectares), of which 1.3 hectares were mature (2020: 1.35) and 2.7 hectares were immature (2021: 2.15). *PBE IPSAS 27.44(b)(i)*

During the year ended 30 June 2022, the Group harvested approximately 7,000 tonnes of grapes (2021: 6,000 tonnes) in New Zealand. The Group harvested 1,050 tonnes grapes in Australia (2021: 1,000 tonnes). *PBE IPSAS 27.44(b)(ii)*

A reconciliation of the changes in the carrying amount of biological assets between the beginning and end of the reporting period is provided below: *PBE IPSAS 27.48* *PBE IPSAS 27.RDR 48.1*

	2022 $000	2021 $000	
Growing grapes			
Carrying amount as at 1 July	72,400	65,000	*PBE IPSAS 27.48*
Gains from changes in fair value less costs to sell	30,500	19,400	*PBE IPSAS 27.48(a)*
Increase due to purchase of new vines	-	-	*PBE IPSAS 27.48(b)*
Acquisition of a controlled entity	-	-	*PBE IPSAS 27.48(g)*
Increase due to vines acquired in non-exchange transactions (received from the Government)	-	-	*PBE IPSAS 27.48(c)*
Grapes included in discontinued operations held for sale	-	-	*PBE IPSAS 27.48(d)*
Transfer of harvested grapes to inventories	(15,200)	(12,000)	*PBE IPSAS 27.48(f)*
Net foreign exchange	-	-	*PBE IPSAS 27.48(h)*
Carrying amount as at 30 June	83,142	72,400	*PBE IPSAS 27.48*

Commentary

According to PBE IPSAS 27.RDR 48.1, a Tier 2 PBE is not required to disclose the reconciliation specified in PBE IPSAS 27.48 for prior reporting periods. However, this reconciliation is still required for the current period presented.

A Tier 1 PBE that has bearer biological assets other than bearer plants (e.g. bearer animals) is required by PBE IPSAS 27.48(a) to disclose separately the gains or losses arising from changes in fair value less cost to sell for bearer biological assets and for consumable biological assets.

However, according to PBE IPSAS 27.RDR 48.2, a Tier 2 PBE is not required to disclose separately the gains or losses arising from changes in fair value less cost to sell for bearer biological assets and for consumable biological assets.

PBE IPSAS 27.52 requires all of the following information to be disclosed if the cost model is applied:

- A description of the biological assets
- An explanation of why fair value cannot be measured reliably
- If possible, the range of estimates within which fair value is highly likely to lie
- The depreciation method used
- The useful lives or the depreciation rates used
- The gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the reporting period

Appendix 4: Agricultural assets (example of disclosures) *continued*

xx. Biological assets *continued*

Commentary *continued*

If the entity held such assets at any point during the current reporting period, PBE IPSAS 27.53 requires the following information:

- A disclosure of any gains or losses recognised on disposal of such biological assets
- The entity's reconciliation of biological assets required by PBE IPSAS 27.48 must separately disclose amounts related to such biological assets and include the following amounts that were included in surplus or deficit related to those assets:
  - Impairment losses
  - Reversals of impairment losses
  - Depreciation

If the entity held such assets and their fair value became reliably measurable during the current reporting period, then the following information must be disclosed in accordance with PBE IPSAS 27.54:

- A description of the biological assets
- An explanation of why fair value has become reliably measurable
- The effect of the change

Valuation of biological assets

PBE IPSAS 27.45

The fair value less costs to sell of growing grapes is determined based on estimates of yield, costs to incur until harvest, expected grape market prices at harvest and grape quality. During the reporting period, grape market prices ranged from $1,050 to $3,100 per tonne (2021: $1,000 to $3,000 per tonne), depending on the variety sold, current vintage and grade quality of grapes in each region. Significant assumptions applied in this determination of fair value are:

		2022	2021
(i)	Grape market price per tonne	$1,050 - $3,100	$1,000 - $3,000
(ii)	Average annual yield per hectare of mature vineyards	6 tonnes	6 tonnes
(iii)	Average viticulture and harvest costs per hectare of mature vines	$5,300	$5,400

In 2022 and 2021 it was assumed that grape prices and vineyard maintenance costs will remain at current levels, adjusted for inflation.

PBE IPSAS 27.45

The fair value less costs to sell of harvested grapes at point of harvest has been determined by reference to the local market price of similar grapes at the time of harvest.

Other disclosures

PBE IPSAS 27.47(a)

As at 30 June 2022, grape vines with a carrying value of $500,000 for the Group (2021: $450,000) were pledged as security for non-current interest-bearing loans and borrowings, as disclosed in Note XX.

PBE IPSAS 27.47(c)

As at 30 June 2022, the Group had no commitments in relation to its growing grapes (2021: Nil).

Financial risk management strategies

PBE IPSAS 27.47(d)

The Group is exposed to risks arising from environmental changes, changes in grape prices and the financial risk in respect of agricultural activity.

- The Group manages environmental risks such as droughts, floods and disease outbreak, by diversifying its vineyards across New Zealand and Australian regions. Frost protection is provided on all vineyards to protect against the risk of crop loss or damage
- The Group's exposure to fluctuations in the grape prices and sales volume is managed by entering into long-term supply contracts for wine with major customers

Appendix 4: Agricultural assets (example of disclosures) *continued*

xx. Biological assets *continued*

Financial risk management strategies *continued*

- The primary financial risk associated with the Group's agricultural activity occurred due to the length of time between expending cash on the purchase or planting and maintenance of grape vines and on harvesting grapes and making the wine, and ultimately receiving cash from the sale of wine to third parties. The Group's strategy to manage this financial risk is to actively review and manage its working capital requirements. In addition, the Group maintains credit facilities at a level sufficient to fund the Group's working capital during the period between cash expenditure and cash inflow. As at 30 June 2022, the Group had unused credit facilities in the form of undrawn unsecured bank overdrafts of $582,000 (2021: $973,000)

No events occur in the current and prior reporting periods that give rise to material items of income or expense as a result of climate, disease and other natural risks.

Commentary

Distinction between bearer biological assets (other than bearer plants) and consumable biological assets (not applicable to the entity in the illustrative disclosures above)

Bearer plants are accounted for in accordance with PBE IPSAS 17 instead of PBE IPSAS 27. However, bearer biological assets that do not meet the definition of bearer plants (i.e. bearer animals) are still subject to the requirements of PBE IPSAS 27. The entity in the illustrative disclosures above does not have such assets. PBEs who hold bearer biological assets other than bearer plants should note that for the purpose of disclosure, PBE IPSAS 27 distinguishes between bearer biological assets and consumable biological assets.

Bearer biological assets are defined in PBE IPSAS 27.40 as biological assets that are used repeatedly or continuous for more than one year in an agricultural activity, and are not in themselves agricultural produce (and will not be harvested as such), and are not held for sale or distribution. Examples of bearer assets include breeding stocks (including fish and poultry), livestock from which milk is produced, sheep or other animals used for wool production.

On the other hand, consumable biological assets are defined in PBE IPSAS 27.40 as biological assets that are either held for harvest as agricultural produce, or for sale or distribution at no charge or for a nominal charge as biological assets. Examples of consumable biological assets include animals and plants kept for 'one time use', such as livestock kept for the production of meat, livestock held for sale, fish in farms, crops like maize or wheat, produce on a bearer plant or trees grown for lumber.

Since PBE IPSAS 27.39 requires entities to disclose the description of biological asset balances this disclosure is to be made separately for bearer biological assets and for consumable biological assets.

In addition, PBE IPSAS 27.48, both requires entities to disclose a reconciliation of the carrying amount of biological assets at the beginning and the end of the reporting period, and specifies that the gains or losses arising from change in fair value less cost to sell for bearer biological assets and consumable biological assets are to be disclosed separately in this reconciliation.

In this illustrative disclosure, the only biological assets held by the Group are grapes on vines, which are consumable biological assets.

Distinction between biological assets held for sale and those held for distribution at no charge/nominal charge

A consumable biological asset may be held by an entity either for sale or for distribution at no charge or minimal charge. PBE IPSAS 27.39 requires entities to disclose separately the description of biological assets held for sale and those held for distribution at no charge or a nominal charge. Similarly, PBE IPSAS 27.48 requires entities to disclose separately both decreases in biological assets due to sale and decreases in biological assets due to distribution at no charge or nominal charge. In this illustrative disclosure, because the Group does not hold any consumable biological assets it does not need to make these disclosures.

Additional disclosures for biological assets where fair value cannot be measured reliably

When measuring biological assets at cost less any accumulated depreciation and any accumulated impairment losses, the following information needs to be disclosed (PBE IPSAS 27.52):

(a) A description of the biological assets

(b) An explanation of why fair value cannot be measured reliably

(c) If possible, the range of estimates within which fair value is highly likely to lie

(d) The depreciation method used

(e) The useful lives or the depreciation rates used and

(f) The gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the reporting period

Appendix 5: First-time adoption of PBE Standards

Commentary

When a PBE reports under PBE Standards for the first time, the PBE needs to apply PBE FRS 47 *First-time Adoption of PBE Standards* (PBE FRS 47). These standards contain transitional provisions and other requirements applicable upon first-time adoption of PBE Standards.

In both the public sector and not-for-profit sector, the vast majority of large and medium PBEs already transitioned to PBE Standards either in 2015 or in 2016. The Council reported under PBE Standards for the first time in the year ended 30 June 2015. Therefore, PBE FRS 47 is not applicable to the Council in the year ended 30 June 2022.

In very limited circumstances, it is possible for a PBE to be applying PBE Standards for the first time in their 2021/2022 financial year or later. For example, a PBE that previously reported under Tier 3 or Tier 4 of the XRB's PBE accounting standards framework, but moves to Tier 1 or Tier 2 of the framework in 2022. Another example is a not-for-profit PBE, which does not currently have a statutory requirement to prepare financial statements that comply with NZ GAAP and has not done so in the past, but has chosen to start complying with NZ GAAP in 2022; in this case, the PBE falls into the Tier 1 or Tier 2 category of the XRB's PBE accounting standards framework.

In the two examples above, the applicable standard upon transition to PBE Standard will be PBE FRS 47.

To assist PBEs reporting under PBE Standards for the first time, this appendix includes examples of disclosures required by PBE FRS 47 upon first-time adoption of PBE Standards. The disclosures are prepared for Quality Charity First Time Adopter, a fictitious PBE that is reporting under PBE Standards for the first time in the year ended 30 June 2022.

Appendix 5: First-time adoption of PBE Standards *continued*

PBE FRS 47 – First-time adoption: Disclosures for first time adoption of PBE Standards

Quality Charity First Time Adopter
Statement of financial performance

For the year ended 30 June 2022

PBE FRS 47.RDR 27.2

	2022 $000	*Concession for Tier 2 NFPs only*[1] 2021 - restated* $000
Revenue from non-exchange transactions		
Donations and fundraising revenue	75,197	73,682
Bequests	4,561	4,509
Government grants	10,503	8,132
Concessionary loan	329	-
Direct charges revenue – subsidised	13,476	12,704
Property, plant and equipment acquired in non-exchange transactions	2,190	2,150
Revenue from exchange transactions		
Direct charges revenue – full cost recovery	107,341	92,517
Rental revenue	1,404	1,377
Dividends	55	-
Other revenue	1,382	2,007
Total revenue (excluding gains)	**216,438**	**197,078**
Expenses		
Employee costs	(35,880)	(35,153)
Remuneration of Trustees	(538)	(527)
Depreciation and amortisation	(23,971)	(23,204)
General expenses	(136,552)	(123,587)
Other expenses	(2,231)	(300)
Total expenses	**(199,172)**	**(182,771)**
Finance costs	(1,264)	(1,123)
Finance income	520	295
Net finance costs	**(744)**	**(828)**
Share of surplus of an associate and a joint venture	671	638
Surplus before income tax	**17,193**	14,117
Income tax expense	(1,814)	(1,119)
Surplus for the year	**15,379**	12,998
Surplus for the year is attributable to:		
Non-controlling interest	288	239
Parent	15,091	12,759
	15,379	**12,998**

*Certain amounts shown here do not correspond to the 2021 financial statements and reflect adjustments made due to first-time adoption of PBE Standards. Refer to Note XX.

[1] Only not-for-profit PBEs in Tier 2 may omit the disclosure of comparative information. This disclosure concession is not available to public sector PBEs in Tier 2.

Appendix 5: First-time adoption of PBE Standards *continued*

PBE FRS 47 – First-time adoption: Disclosures for first time adoption of PBE Standards *continued*

Quality charity First Time Adopter
Statement of other comprehensive revenue and expense

For the year ended 30 June 2022

PBE FRS 47.RDR 27.2

	2022 Actual $000	*Concession for Tier 2 NFPs only*[1] 2021 - restated* $000
Surplus for the year	**15,379**	**12,998**
Other comprehensive revenue and expense, net of tax		
Net gains/(losses) on available-for-sale financial asset	(57)	3
Net movement in cash flow hedges	(512)	24
Revaluation gain on property, plant and equipment	24,311	-
Other comprehensive revenue and expense for the year, net of tax	**23,742**	**27**
Total comprehensive revenue and expense for the year	**39,121**	**13,025**
Total comprehensive revenue and expense for the year is attributable to:		
Non-controlling interest	288	239
Parent	38,833	12,786
	39,121	13,025

*Certain amounts shown here do not correspond to the 2021 financial statements and reflect adjustments made due to first-time adoption of PBE Standards. Refer to Note XX.

Appendix 5: First-time adoption of PBE Standards *continued*

PBE FRS 47 – First-time adoption: Disclosures for first time adoption of PBE Standards *continued*

Quality Charity First Time Adopter
Statement of financial position

As at 30 June 2022

PBE FRS 47.RDR 27.2
PBE FRS 47.RDR 27.3

	30 June 2022 $000	*Concession for Tier 2 NFPs only*[1] 30 June 2021 - restated* $000	*Concession for all Tier 2 PBEs*[2] 1 July 2020 - restated* $000	*Only for Tier 2 NFPs with no comparatives*[3] 1 July 2021 - restated* $000
Assets				
Non-current assets				
Property, plant and equipment	2,087,979	2,039,329	2,030,797	2,016,896
Investment properties	8,893	7,983	6,386	7,895
Intangible assets	6,019	2,513	2,010	2,485
Investments in associates and joint ventures	3,187	2,516	2,010	2,488
Non-current financial assets	6,425	3,491	2,793	3,453
Deferred tax assets	383	365	292	361
	2,112,886	**2,056,197**	**2,044,288**	**2,033,578**
Current assets				
Inventories	3,262	4,085	3,268	4,040
Receivables from non-exchange transactions	13,006	11,416	9,133	11,290
Receivables from exchange transactions	14,666	12,874	10,299	12,732
Prepayments	244	165	132	163
Other current financial assets	551	153	122	151
Cash and cash equivalents	16,669	33,480	26,784	33,112
	48,398	**62,173**	**49,738**	**61,488**
Assets classified as held for sale	154	-	-	-
	48,552	62,173	49,738	61,488
Total assets	**2,161,438**	**2,118,370**	**2,094,026**	**2,095,066**
Liabilities				
Non-current liabilities				
Interest-bearing loans and borrowings	20,346	21,703	17,362	21,464
Other non-current financial liabilities	806	-	-	-
Provisions	1,950	1,290	1,032	1,276
Deferred revenue	1,860	2,582	2,066	2,554
Other liabilities	758	834	667	823
Deferred tax liabilities	3,580	2,143	1,714	2,119
	29,300	**28,552**	**22,841**	**28,236**

[1] Only not-for-profit PBEs in Tier 2 may omit the disclosure of comparative information, as per PBE FRS 47.RDR 27.2. This disclosure concession is not available to public sector PBEs in Tier 2.

[2] PBEs in Tier 2 (both public sector and not-for-profit) need not present an opening statement of financial position as at the start of the comparative period.

[3] Only not-for-profit PBEs in Tier 2 who choose not to present comparative information, as per PBE FRS 47.RDR 27.2, must present an opening statement of financial position as at the start of the current period, as per PBE FRS 47.RDR 27.3. Please note that for such not-for-profit PBEs, the start of the current period, i.e. 1 July 2021, is the date of transition to PBE Standards. Had the not-for-profit PBE chosen to present comparative information, its date of transition to PBE Standards will have been 1 July 2020. Therefore, the amounts presented in the opening statement of financial position as at 1 July 2021 may be different to the amounts that would have been presented as at 30 June 2021 had the entity chosen to present comparative information.

Appendix 5: First-time adoption of PBE Standards *continued*

PBE FRS 47 – First-time adoption: Disclosures for first time adoption of PBE Standards *continued*

Quality Charity First Time Adopter
Statement of financial position *continued*

As at 30 June 2022

PBE FRS 47.RDR 27.2
PBE FRS 47.RDR 27.3

	30 June 2022 $000	*Concession for Tier 2 NFPs only*[1] 30 June 2021 - restated* $000	*Concession for all Tier 2 PBEs*[2] 1 July 2020 - restated* $000	*Only for Tier 2 NFPs with no comparatives*[3] 1 July 2021 - restated* $000
Current liabilities				
Payables under exchange transactions	19,820	21,073	16,858	20,841
Interest-bearing loans and borrowings	2,460	2,775	2,220	2,744
Other current financial liabilities	3,040	303	242	300
Deferred revenue	729	741	593	733
Income tax payable	961	313	250	310
Employee benefits liability	3,050	2,977	2,382	2,944
Provisions	850	85	65	84
	30,910	**28,267**	**22,610**	**27,956**
Total liabilities	**60,210**	**56,819**	**45,451**	**56,192**
Net assets	**2,101,228**	**2,061,551**	**2,048,575**	**2,038,874**
Equity				
Equity attributable to equity owners of the Parent				
Accumulated comprehensive revenue and expense	943,397	928,445	915,296	918,232
Reserves:				
Asset revaluation reserve	1,124,608	1,100,297	1,100,297	1,088,194
Available-for-sale reserve	(54)	3	0	3
Cash flow hedge reserve	(582)	(70)	(94)	(69)
Bequests reserve	32,134	32,185	32,575	31,831
Total equity attributable to the Parent	**2,099,503**	**2,060,860**	**2,048,074**	**2,038,191**
Non-controlling interests	1,725	691	501	683
Total equity	**2,101,228**	**2,061,551**	**2,048,575**	**2,038,874**

*Certain amounts shown here do not correspond to the 2020 financial statements and reflect adjustments made due to first-time adoption of PBE Standards. Refer to Note XX.

[1] Only not-for-profit PBEs in Tier 2 may omit the disclosure of comparative information, as per PBE FRS 47.RDR 27.2. This disclosure concession is not available to public sector PBEs in Tier 2.

[2] PBEs in Tier 2 (both public sector and not-for-profit) need not present an opening statement of financial position as at the start of the comparative reporting period.

[3] Only not-for-profit PBEs in Tier 2 who choose not to present comparative information, as per PBE FRS 47.RDR 27.2, must present an opening statement of financial position as at the start of the current reporting period, as per PBE FRS 47.RDR 27.3. Please note that for such PBEs, the start of the current reporting period, i.e. 1 July 2021, is the date of transition to PBE Standards. Had the PBE chosen to present comparative information, its date of transition to PBE Standards would have been 1 July 2020. Therefore, the amounts presented in the opening statement of financial position as at 1 July 2021 may be different to the amounts that would have been presented as at 30 June 2021 had the entity chosen to present comparative information.

Appendix 5: First-time adoption of PBE Standards *continued*

PBE FRS 47 – First-time adoption: Disclosures for first time adoption of PBE Standards *continued*

Quality Charity First Time Adopter
Statement of changes in net assets/equity

For the year ended 30 June 2022

	Accumulated comprehensive revenue and expense $000	Asset revaluation reserve $000	Available-for-sale reserve $000	Cash flow hedge reserve $000	Bequests reserve $000	Total equity attributable to the Parent $000	Non-controlling interest $000	Total equity $000
As at 1 July 2021 (restated*)[1]	**928,445**	**1,100,297**	**3**	**(70)**	**32,185**	**2,060,860**	**691**	**2,061,551**
Surplus for the year	15,091	-	-	-	-	15,091	288	15,379
Other comprehensive revenue and expense	-	24,311	(57)	(512)	-	23,742	-	23,742
Total comprehensive revenue and expense for the year	**15,091**	**24,311**	**(57)**	**(512)**	**-**	**38,833**	**288**	**39,121**
Net transfers to/from bequests reserve	(51)	-	-	-	(51)	-	-	-
Transactions with owners in their capacity as owners:								
Acquisition of controlled entity	-	-	-	-	-	-	1,547	1,547
Acquisition of non-controlling interest	(190)	-	-	-	-	(190)	(801)	(991)
As at 30 June 2022	**943,397**	**1,124,608**	**(54)**	**(582)**	**32,134**	**2,099,503**	**1,725**	**2,101,228**

*Certain amounts shown here do not correspond to the 2021 financial statements and reflect adjustments made due to first-time adoption of PBE Standards. Refer to Note XX.

[1] For a Tier 2 not-for-profit PBE that has chosen not to present comparative information as per PBE FRS 47.RDR 27.2, the date of transition to PBE Standards would be 1 July 2021. However, for a PBE that presents comparative information, the date of transition would be 1 July 2020. Please note that because of this difference in dates of transition, the equity balances as at 1 July 2021 for a Tier 2 not-for-profit PBE that has chosen not to present comparative information may be different to the equity balances as at the same date for a PBE that presents comparative information. Our illustrative disclosure above has assumed that the date of transition to PBE Standards was 1 July 2020.

Appendix 5: First-time adoption of PBE Standards *continued*

PBE FRS 47 – First-time adoption: Disclosures for first time adoption of PBE Standards *continued*

Quality Charity First Time Adopter
Statement of changes in net assets/equity *continued*

For the year ended 30 June 2021 (restated*)

Concession for Tier 2 NFPs only[1]

PBE FRS 47.RDR 27.2

	Accumulated comprehensive revenue and expense	Asset revaluation reserve	Available-for-sale reserve	Cash flow hedge reserve	Bequests reserve	Total equity attributable to the Parent	Non-controlling interest	Total equity
	$000	$000	$000	$000	$000	$000	$000	$000
As at 1 July 2020 (restated*)	915,296	1,100,297	-	(94)	32,575	2,048,074	501	2,048,575
Surplus for the year (restated*)	12,759	-	-	-	-	12,759	239	**12,998**
Other comprehensive revenue and expense	-	-	3	24	-	27	-	**27**
Total comprehensive revenue and expense for the year	12,759	-	3	24	-	12,786	239	13,025
Net transfers from bequests reserve	(390)	-	-	-	(390)	-	-	-
Transactions with owners in their capacity as owners:								
Dividend paid to non-controlling interest	-	-	-	-	-	-	(49)	(49)
As at 30 June 2021	928,445	1,100,297	3	(70)	32,185	2,060,860	691	2,061,551

*Certain amounts shown here do not correspond to the 2021 financial statements and reflect adjustments made due to first-time adoption of PBE Standards. Refer to Note XX.

[1] Only not-for-profit PBEs in Tier 2 may omit the disclosure of comparative information, as per PBE FRS 47.RDR 27.2. This disclosure concession is not available to public sector PBEs in Tier 2.

Appendix 5: First-time adoption of PBE Standards *continued*

PBE FRS 47 – First-time adoption: Disclosures for first time adoption of PBE Standards *continued*

Quality Charity First Time Adopter
Statement of cash flows

For the year ended 30 June 2022

PBE FRS 47.RDR 27.2

	2022 $000	*Concession for Tier 2 NFPs only*[1] 2021 (restated*) $000
Cash flows from operating activities		
Receipts from donations and fundraising	74,617	73,580
Receipts from bequests	796	692
Receipts from other goods and services provided to customers – non-exchange transactions	13,839	13,257
Receipts from grants and subsidies	9,169	15,992
Receipts from other goods and services provided to customers – exchange transactions	109,869	95,348
Interest received	520	295
Dividends received	-	-
Payments to suppliers	(133,574)	(126,828)
Payments to employees	(36,345)	(35,748)
Grants, contributions and sponsorships paid	(1,580)	(1,679)
Interest paid	(646)	(1,030)
Income tax paid	(396)	(698)
Net cash flows from operating activities	**36,269**	**33,181**
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	1,208	2,336
Proceeds from sale of financial instruments	-	145
Purchase of property, plant and equipment	(46,282)	(41,959)
Purchase of investment property	(1,216)	(1,192)
Purchase of financial instruments	(3,054)	(225)
Purchase of intangibles	(449)	(630)
Acquisition of controlled entity	-	-
Net cash flows used in investing activities	**(49,793)**	**(41,525)**
Cash flows from financing activities		
Acquisition of non-controlling interest	(991)	-
Proceeds from borrowings	2,496	8,526
Repayment of borrowings	(3,057)	(1,345)
Payment of finance lease liabilities	(51)	(76)
Dividends paid to non-controlling interest	-	(48)
Net cash flows (used in)/from financing activities	(1,603)	7,057
Net decrease in cash and cash equivalents	(15,127)	(1,287)
Cash and cash equivalents at beginning of year	30,830	32,117
Cash and cash equivalents at end of year	**15,703**	**30,830**

*Certain amounts shown here do not correspond to the 2021 financial statements and reflect adjustment made due to first-time adoption of PBE Standards. Refer to Note XX.

[1] Only not-for-profit PBEs in Tier 2 may omit the disclosure of comparative information, as per PBE FRS 47.RDR 27.2. This disclosure concession is not available to public sector PBEs in Tier 2.

Appendix 5: First-time adoption of PBE Standards *continued*

PBE FRS 47 – First-time adoption: Disclosures for first time adoption of PBE Standards *continued*

Commentary

In order to explain the disclosure concessions available under PBE FRS 47 to Tier 2 PBEs, we have included the full consolidated financial statements of Quality Charity First Time Adopter in this appendix. These financial statements also illustrate how restatements that arise upon first-time adoption of PBE Standards may be presented in the financial statements.

Disclosures for PBEs in Tier 1:

PBE FRS 47.25 requires a Tier 1 PBE to prepare an opening statement of financial position as at the "date of transition to PBE Standards", which is the beginning of the earliest reporting period for which the entity presents full comparative information in its first set of financial statements under PBE Standards. As Quality Charity First Time Adopter prepared its first set of financial statements under PBE Standards for the year ended 30 June 2022, with comparative information for the year ended 30 June 2021, the opening statement of financial position for Quality Charity First Time Adopter would be as at 1 July 2020. This opening statement of financial position needs to be prepared in accordance with PBE Standards.

For PBEs in Tier 1, PBE FRS 47 requires this opening statement of financial position to be disclosed (PBE FRS 47.25), either on the 'face' of the statement of financial position, or in the notes (PBE FRS 47.26). Quality Charity First Time Adopter has chosen the former option. The opening statement of financial position and the comparative financial statements as at 30 June 2021 have been restated due to adjustments on first-time application of PBE Standards, in accordance with PBE FRS 47. Refer to Note XX for details of the adjustments made on initial application of PBE Standards.

PBE FRS 47 requires disclosure of the adjustments made as a result of transition to PBE Standards (PBE FRS 47.29). However, no requirement exists to present these disclosures on the face of the financial statements, and the amounts of these adjustments can be given only in the notes. By labelling the comparatives 'restated', the Quality Charity First Time Adopter illustrates how an entity may supplement the requirements of PBE FRS 47 (and PBE IPSAS 3, if applicable – please refer below) so that it is clear to the user of the financial statements that adjustments to the amounts in prior financial statements have been reflected in the comparative reporting periods as presented in the current reporting period financial statements.

Disclosure concessions for PBEs in Tier 2

For PBEs in Tier 2, PBE FRS 47 contains disclosure concessions regarding the presentation of the primary financial statements. However, as shown in the illustrative financial statements above, these disclosure concessions are different for not-for-profit PBEs as compared to public sector PBEs.

Not for-profit PBEs in Tier 2

In terms of the presentation of primary financial statements, the following two disclosure concession options are available to Tier 2 not-for-profit PBEs under PBE FRS 47:

- *Option 1 (PBE FRS 47.RDR 27.1):* The PBE is not required to present the opening statement of financial position as at the date of transition to PBE Standards (i.e. as at the start of the earliest comparative reporting period for which financial statements are presented), although it must still prepare this statement and ensure that it complies with PBE Standards. Comparative information that complies with PBE Standards must still be presented in the primary financial statements. If Quality Charity First Time Adopter applied this concession, it would present financial statements for the year ended 30 June 2022 and comparative financial statements for the year ended 30 June 2021. It would not present the opening statement of financial position as at 1 July 2020.

  or

- *Option 2 (PBE FRS 47.RDR 27.2-3):* The PBE is not required to present comparative information that complies with PBE Standards in its primary financial statements. However, it is then required to present an opening statement of financial position as at the start of the current reporting period. The PBE must also attach to the financial statements its prior reporting period financial statements, which would have been prepared under the other standards previously applied by the PBE. If there are significant differences between the current reporting period's accounting policies under PBE Standards and prior reporting period's accounting policies, then the PBE must explain these differences in the notes to its current financial statements. If Quality Charity First Time Adopter applied this concession, it would present financial statements for the year ended 30 June 2022, and an opening statement of financial position as at 1 July 2021. Comparative financial statements that comply with PBE Standards for the year ended 30 June 2021 would not be presented.

Instead, Quality Charity First Time Adopter would both attach its financial statements as at 30 June 2021 that it prepared last year under the previously applied standards/policies, and explain in the current financial statements the significant differences between the previous and current reporting period's accounting policies.

Appendix 5: First-time adoption of PBE Standards *continued*

PBE FRS 47 – First-time adoption: Disclosures for first time adoption of PBE Standards *continued*

Commentary *continued*

Please note that for a not-for-profit PBE applying this concession, the amounts in the opening statement of financial position as at 1 July 2020 may be different from the amounts that the PBE would have presented in its comparative statement of financial position as at 30 June 2021 had it chosen not to apply this concession. This difference is because the date of transition to PBE Standards for a not-for-profit PBE that applies this concession is the start of the current reporting period (i.e. 1 July 2021), whereas for a PBE that does not apply this concession, then the date of transition is the start of the previous reporting period (i.e. 1 July 2020).

Refer to the commentary in Note XX below for more information on the date of transition to PBE Standards.

Public sector PBE Standards in Tier 2

In terms of the presentation of the primary financial statements, public sector PBEs may apply the disclosure concession in PBE FRS 47.RDR 27.1, as described in Option 1 above. Public sector PBEs in Tier 2 need not present their opening statement of financial position as at the date of transition to PBE Standards (i.e. as at the start of the comparative reporting period), although they must still prepare this statement. In other words, if Quality Charity First Time Adopter applied this concession, then it would present financial statements for the year ended 30 June 2022 and comparative financial statements for the year ended 30 June 2021. It would not present the opening statement of financial position as at 1 July 2020. Please note that Option 2 above (i.e. PBE FRS 47.RDR 27.2-3) is not available to public sector PBEs in Tier 2; it is only available to not-for-profit PBEs in Tier 2.

PBE IPSAS 3 – not applicable to Quality Charity First Time Adopter

PBE FRS 47 specifically states that PBE IPSAS 3 does not apply to a PBE's first set of accounting standards under PBE Standards. Voluntary changes in accounting policies upon transition to PBE Standards are permitted by PBE FRS 47, and the standard deals with the disclosure of such changes, as well as prior reporting period errors made under previous NZ GAAP (or any previous standards applied). However, PBE IPSAS 3 may be relevant if prior period errors have occurred. Quality Charity First Time Adopter did not have any prior period errors. Refer to the financial statements and notes of Quality City Council for examples of disclosure required by PBE IPSAS 3 for a prior period error.

2. Summary of significant accounting policies (extract)

Effect of first-time adoption of PBE Standards on accounting policies and disclosures

This is the first set of financial statements of the Group that is presented in accordance with PBE Standards. The Group has previously prepared special purpose financial statements.

Appendix 5: First-time adoption of PBE Standards *continued*

PBE FRS 47 – First-time adoption: Disclosures for first time adoption of PBE Standards *continued*

The impacts of adopting PBE Standards (or PBE Standards RDR) on the total net assets/equity and total comprehensive revenue and expense are illustrated below. *PBE FRS 47.29*

(a) Reconciliation of net assets/equity under the previously applied policies to PBE Standards

PBE FRS 47.30(a)
PBE FRS 47.RDR 30.1

		Concession for Tier 2 NFPs only[1] 30 June 2021 $000	1 July 2020[2] $000
Net assets/equity under previously applied policies		2,100,828	2,048,275
Adjustments to accumulated comprehensive revenue and expense:			
Recognition of non-exchange revenue from grants received	[1]	250	250
Change in valuation of investments to fair value through surplus or deficit	[2]	150	50
Net assets/equity under PBE Standards		**2,101,228**	**2,048,575**

(b) Reconciliation of total comprehensive revenue and expense previously reported to that under PBE Standards

PBE FRS 47.30(b)

		30 June 2021 $000
Prior year total comprehensive revenue and expense under previously applied standards/policies		12,598
Adjustments on transition to PBE Standards:		
Recognition of non-exchange revenue on grants received	[1]	250
Change in valuation of investments to fair value through surplus or deficit	[2]	150
Total comprehensive revenue and expense under PBE Standards		**12,998**

[1] Not-for-profit PBEs in Tier 2 that choose not to present comparative financial information in their first set of financial statements prepared under PBE Standards (as permitted by PBE FRS 47.RDR 27.2) do not need to present the above net assets/equity reconciliation as at the end of the comparative reporting period. That is, the above reconciliation as at 30 June 2021 need not be presented. Please note that this disclosure concession is not available to public sector PBEs in Tier 2.

[2] For a not-for-profit PBE in Tier 2 that chooses not to present comparative information, the date of transition to PBE Standards will be the start of the current reporting period. That is, if the current reporting period is for the year ended 30 June 2022, then the date of transition to PBE Standards in the reconciliation above would be 1 July 2021, and the above reconciliation needs to be disclosed for that date only. Please note that the balances and adjustments shown in the reconciliation as at 1 July 2021 may be different to the two reconciliations shown above as at 30 June 2021 and 1 July 2020.

Appendix 5: First-time adoption of PBE Standards *continued*

PBE FRS 47 – First-time adoption: Disclosures for first time adoption of PBE Standards *continued*

Notes to the reconciliations:

[1] Recognition of non-exchange revenue from grants received PBE FRS 47.31

PBE IPSAS 23 prescribes the financial reporting requirements for revenue arising from non-exchange transactions. The application of this standard affected the Group's accounting for grant revenue. In the previous financial year, grants received in relation to the provision of a service or for a specific project were recognised as revenue on a percentage of completion basis. However, PBE IPSAS 23 requires revenue from non-exchange transactions, such as grants, to be recognised as revenue as soon as the inflow of resources can be recognised as an asset in the financial statements, unless the inflow of resources meets the definition of and recognition criteria for a liability. Non-exchange revenue from grants can only be deferred and recognised as a liability if there is a condition attached to the grant that requires an entity to either use the grant as specified by the grantor, or return of the cash (or other resources transferred under the grant) if the entity does not perform as specified. PBE FRS 47.C21

In the previous two financial years (2021 and 2020), cash was received from the Crown for the upgrade of Quality First Charity Time Adopter's community centre building. The amounts received were $250,000 in 2020 and $250,000 in 2019. Both of these amounts were recognised as deferred revenue as at 30 June 2021 because this project had not yet commenced. However, although the grant contracts stipulated that the funding must be used for a specific upgrade programme, these stipulations did not include a return obligation. Therefore, there are no specific conditions (as defined by PBE IPSAS 23) attached to the grants. As a result of the initial application of PBE IPSAS 23, both receipts must be recognised as revenue upon receipt. As a consequence, the following adjustments were made by restating the opening net assets/equity as at 1 July 2020 and each of the affected financial statement items for the year ended 30 June 2021, as shown below:

Impact on statement of financial performance	2021 $000
Increase in government grants revenue	250
Net impact on surplus for the year	**250**

Impact on statement of changes in net assets/equity	2020 $000
Increase in opening accumulated comprehensive revenue and expense as at 1 July 2020	250
Increase in surplus as at 30 June 2021	250
Total impact on net assets/equity	**500**

Impact on statement of financial position	2020 $000
Decrease in deferred revenue	(500)
Total impact on liabilities	**(500)**

Appendix 5: First-time adoption of PBE Standards *continued*

PBE FRS 47 – First-time adoption: Disclosures for first time adoption of PBE Standards *continued*

[2] Change in valuation of investments at fair value through surplus or deficit

The Group holds investments in unit trusts. In the previous reporting period, and under previous NZ GAAP accounting policies, these investments were recognised at cost. However, under PBE IPSAS 29 these investments meet the definition of financial assets at fair value through surplus or deficit as they are held for trading. Therefore, under PBE Standards, these investments need to be measured at fair value, both on initial recognition and subsequently. In accordance with PBE FRS 47, the Group has designated these investments as financial asset at fair value through surplus or deficit as at 1 July 2021 (the date of transition to PBE Standards). The fair value of the investments as at that date was $540,000, as compared to the carrying amount of the investments under previous accounting policies, this amount was $490,000 as at 30 June 2021. This resulted in a fair value gain of $50,000 and an equivalent increase in investments as at 1 July 2021. The fair value of the investments as at 30 June 2021 was $690,000, which resulted in a fair value gain of $150,000 and there was an equivalent increase in investments in the year ended 30 June 2021. The comparative figures in the 2021 statement of financial performance and 2021 statement of financial position have been retrospectively amended accordingly, as shown below.

PBE FRS 47.C16

PBE FRS 47.36

Impact on statement of financial performance	2021 $000
Fair value gain on re-measurement of investment	150
Net impact on surplus for the year	**150**

Impact on statement of changes in net assets/equity	2021 $000
Increase in fair value of investments as at 1 July 2020	50
Increase in surplus as at 30 June 2021	150
Total impact on net assets/equity	**200**

Impact on statement of financial position

	2021 $000
Increase in fair value of investments	200
Total impact on assets	**200**

(c) Use of deemed cost for the measurement of property, plant and equipment

PBE FRS 47.C2
PBE FRS 47.C3

Under previous accounting policies, the Group carried its land and buildings at revalued amounts. Upon transition to PBE Standards, the Group decided to measure land and buildings using the cost method. As permitted by PBE FRS 47, the Group used the valuation of the land and buildings under previous NZ GAAP as at 30 June 2020, which then became the deemed cost of these assets as at 1 July 2020, as management believes that this value approximates the fair value of the assets as at that date. The deemed cost of the land and buildings as at 1 July 2020 was $800,000. As this difference was the carrying amount of the land and buildings under previous NZ GAAP, no adjustments were made to the carrying amount of land and buildings upon transition to PBE Standards.

PBE FRS 47.37

Appendix 5: First-time adoption of PBE Standards *continued*

PBE FRS 47 – First-time adoption: Disclosures for first time adoption of PBE Standards *continued*

(d) Other changes in presentation and disclosure only

PBE IPSAS 1: *Presentation of Financial Statements*
The main changes in disclosure resulting from the application of PBE IPSAS 1 are as follows:

Receivables from exchange and non-exchange transactions
In the financial statements for the previous reporting period, receivables were presented as a single total in the However, the preparation of a statement of cash flows is required under PBE Standards. Therefore, figures for both the current and previous financial years must be presented. of financial position. However, PBE IPSAS 1 requires both receivables from non-exchange transactions and receivables from exchange transactions to be presented separately in the statement of financial position. This requirement affected the presentation of both current and comparative receivables figures.

PBE IPSAS 2: *Cash Flow Statement*
In the previous financial year, the Group prepared special purpose financial statements and did not prepare a statement of cash flows. However, the preparation of a statement of cash flows is required under PBE Standards. Therefore, figures for both the current and previous financial years must be presented. This change affects presentation and disclosure only.

Commentary

Applicability of PBE FRS 47 upon first-time adoption of PBE Standards

For the purpose of this appendix, it is assumed that Quality Charity First Time Adopter previously prepared special purpose financial statements. PBEs that previously applied any other standards or policies that are not based on NZ IFRS need to apply PBE FRS 47 upon transition to PBE Standards.

Effect of first-time adoption of PBE Standards

For PBEs that either previously prepared special purpose financial statements, or reported under standards/policies other than NZ IFRS or NZ IFRS RDR, there may be many differences between the accounting policies previously applied and those that must now be applied under PBE Standards. Moreover, these differences will vary from entity to entity.

PBEs that previously applied standard/policies other than NZ IFRS/NZ IFRS RDR are permitted by PBE FRS 47 to change their accounting policies upon transition to PBE Standards. In addition, Appendices B and C of PBE FRS 47 contain several exemptions from retrospective application of changes in accounting policies; this change means that adjustments that arise on adoption of PBE Standards can be applied from the date of transition to PBE Standards, and do not need to be applied to transactions and balances before that date. Please note that for all PBEs, other than Tier 2 not-for-profit PBEs that apply the RDR concession in PBE FRS 47.RDR 27.2, the date of transition to PBE Standards is the start of the earliest comparative reporting period presented. For Tier 2 not-for-profit PBEs that apply the RDR concession under PBE FRS 47.27.2, the date of transition to PBE Standards is the start of the current reporting period (PBE FRS 47.9). For the purpose of the illustrative disclosures of first-time adoption adjustments shown above, it is assumed that Quality Charity First Time Adopter did not apply the RDR concession in PBE FRS 47.RDR 27.2, and therefore, the date of transition to PBE Standards was 1 July 2020.

The following example is about the transitional provisions in PBE FRS 47: If a financial asset held by a PBE meets the definition of either a financial asset at fair value through surplus or deficit, or an AFS financial asset under PBE IPSAS 29, but the asset itself was measured at cost under previous NZ GAAP, then the PBE may designate these assets as either of these classifications and measure them at fair value (PBE FRS 47.C16). PBE FRS 47 allows the PBE to apply this designation, and the measurement at fair value, from the date of transition to PBE Standards and onwards. Quality Charity First Time Adopter applied this in relation to its investments.

Appendix 5: First-time adoption of PBE Standards *continued*

PBE FRS 47 – First-time adoption: Disclosures for first time adoption of PBE Standards *continued*

Commentary *continued*

Also, if a PBE changes its accounting policy for the measurement of property, plant and equipment upon transitioning to PBE Standards, it may establish fair value at the date of transition as the 'deemed cost' of the relevant property, plant and equipment item as at the date of transition to PBE Standards (PBE FRS 47.C2). This change would be the starting point for using either the cost method or revaluation method, regardless of the method applied previously. The 'deemed cost' must be either its fair value as at the date of transition, or the asset's revalued amount under the standards/policies previously applied, if that amount is comparable to fair value, cost or depreciated cost in accordance with PBE Standards (PBE FRS 47.C3). Quality Charity First Time Adopter changed its measurement policy for its land and buildings from the revaluation method to the cost method upon transitioning to PBE Standards, and used the revalued amount of these assets under the standards/policies previously applied as their 'deemed cost' as at the date of transition. Further exemptions from retrospective application are listed in Appendices B and C of PBE FRS 47.

Please note that no exemption exists from retrospective application with regards to revenue from non-exchange transactions – assets and liabilities arising from non-exchange transactions before the date of transition to PBE Standards must be measured in accordance with PBE Standards and recognised in net assets/equity (PBE FRS 47.C21). Therefore, Quality Charity First Time Adopter has made a retrospective adjustment to its previous reporting period's opening net assets/equity balance for grant funds received before the date of transition to PBE Standards.

PBE FRS 47 requires entities to explain how the transition from other previous NZ GAAP to PBE Standards affected its reported financial position, statement of comprehensive revenue and expense and cash flows (PBE FRS 47.29). To comply with this requirement, entities must present the following reconciliations:

- *All PBEs:* A reconciliation of the entity's net asset/equity as previously reported to its net assets/equity under PBE Standards, as at the date of transition to PBE Standards (PBE FRS 47.30(a)(i)). In the illustrative disclosure above for Quality Charity First Time Adopter, this reconciliation was prepared as at 1 July 2020. This assumes that that Quality Charity First Time Adopter did not apply the disclosure concession in PBE FRS 47.RDR 27.2, and therefore, the date of transition to PBE Standards was 1 July 2019. Had Quality Charity First Time Adopter chosen to apply PBE FRS 47.RDR 27.2 (assuming that it was a not-for-profit PBE, and therefore, eligible to do so), then it would have had to prepare this reconciliation of opening net assets/equity as at 1 July 2021.
- *All PBEs except for not-for-profit PBEs in Tier 2 that apply PBE FRS 47.RDR 27.2:* A reconciliation of the entity's net asset/equity as reported under previous NZ GAAP to its net assets/equity under PBE Standards, as at the end of the current reporting period covered by the entity's most recent financial statements prepared under previous NZ GAAP (PBE FRS 47.30(a)(ii)). For Quality Charity First Time Adopter, this reconciliation is prepared as at 30 June 2021 (as this was the date of its most recent financial statements prepared under previous NZ GAAP). Please note that this reconciliation is not required for Tier 2 not-for-profit PBEs that apply the concession in PBE FRS 47.RDR 27.2. In other words, had Quality Charity First Time Adopter chosen to apply the concession in PBE FRS 47.RDR 27.2 (assuming that it was a not-for-profit PBE, and therefore, eligible to do so), then it would not need to present a reconciliation of net assets/equity as at 30 June 2021, because it would not be restating comparative reporting period figures in accordance with PBE Standards. However, a reconciliation of net assets/equity as at the date of transition to PBE Standards would still be required (please see previous bullet point).
- *All Tier 1 PBEs:* Must disclose a reconciliation of the entity's total comprehensive revenue and expense presented under previous NZ GAAP to the total comprehensive revenue and expense figures prepared under PBE Standards, as at the end of the current reporting date covered by the entity's latest financial statements prepared under previous NZ GAAP (PBE FRS 47.30(b)). Quality Charity First Time Adopter's reconciliation was prepared as at 30 June 2021.

In addition to the reconciliations above, PBE FRS 47 also requires the following (PBE FRS 47.32-38):

- Disclosure of the amounts of impairment recognised or reversed as a result of the first-time adoption of PBE Standards
- Disclosure of the correction of prior reporting period errors
- Disclosure if financial instruments are designated as financial assets or financial liabilities at fair value through surplus or deficit or AFS financial assets, then the fair value of these financial instruments as at the date of transition to PBE Standards and their carrying amount (and classification) under previous NZ GAAP
- Disclosure for each line item where the fair value was used as the item's deemed cost. The fair value amount should be recognised as at the date of transition to PBE Standards and the adjustment that was made to the carrying amount under previous NZ GAAP in order to reach this fair value should be presented
- Disclosure of investments in controlled entities, associates or joint ventures where fair value or the previous carrying amount of the investment was used as 'deemed cost', the fair value or previous carrying amount of the investment, and any adjustments made to the carrying amount of the investments under previous NZ GAAP should be presented

Appendix 6: Specific disclosures for not-for-profit PBE

Commentary

Differences in requirements of PBE Standards for not-for-profit PBEs as compared to public sector PBEs

Although PBE Standards are applicable to all PBEs across the public sector and private not-for-profit sector, a small number of standards contain the following requirements that are applicable only to not-for-profit PBEs:

- PBE IPSAS 20 requires not-for-profit PBEs to disclose all related party transactions, regardless of terms, whereas public sector PBEs need not disclose any related party transactions (other than key management personnel remuneration) that have arm's length terms
- PBE FRS 47 contains some disclosure concessions that are only available to not-for-profit PBEs in Tier 2

As the Council is a public sector PBE, the above-mentioned requirements that are specific to not-for-profit PBEs have not been disclosed in the main body of this publication. To assist not-for-profit PBEs in understanding these specific requirements, the relevant disclosures are presented in this appendix.

The following disclosures are for Quality Charity, a fictitious New Zealand charity registered under the Charities Act 2005. The principal activities of this charity are to operate shelters for stray animals in Quality City and to promote animal welfare in the community.

xx. Related party transactions

Note 5 provides the information about the Group's structure including the details of the controlled entity and an investment in an associate. The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year.

PBE IPSAS 20.27.1

		Sales to related parties	Purchases from related parties	Amounts owed by related parties*	Amounts owed to related parties*
		$000	$000	$000	$000
Associate					
Animal Education Resources Limited	2022	90	-	30	-
	2021	10	-	44	-
Key management personnel of the Group					
Other management interests	2022	-	22	-	10
	2021	-	13	-	10

* The amounts are classified as trade receivables and trade payables, respectively (refer to Notes xx and xx).

Terms and conditions of transactions with related parties

PBE IPSAS 20.27.1

The sales to and purchases from related parties are made on terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year-end are unsecured and interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 30 June 2022, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2021: Nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Appendix 6: Specific disclosures for not-for-profit PBE *continued*

xx. Related party transactions *continued*

Other management interests

During both reporting periods, the Group purchased consultancy services at market prices from Civil Engineering Consultancy Limited. The spouse of Executive Management Team member, G Le Gruszby, is a director and controlling shareholder of Civil Engineering Consultancy Limited. Total transactions with Civil Engineering Consultancy Limited amount to $225,000 in 2022 (2021: $135,000). This amount was included in the general expenses for the Group. As at 30 June 2022, $10,000 was payable by the Group to this related party (2021: $10,000). This amount was included within the Group's payables balance.

Commentary

Disclosures of related party transactions and balances

Not-for-profit PBEs have to disclose the nature, type and aggregate amounts of all related party transactions and balances, regardless of whether or not the terms and conditions are equivalent to arm's length transactions (PBE IPSAS 20.27.1).

Compensation of key management personnel

Key management personnel of the Group include the Board of Trustees of Quality Charity and the Executive Management Team of Quality Charity (which includes the Chief Executive). The total remuneration of key management personnel and number of individuals, on a full-time equivalent (FTE) basis, receiving remuneration from the Group are:

PBE IPSAS 20.34.1(a)

	2022 $000	2021 $000
Trustees (6 FTE)	224	220
Executive management team (4 FTE)	314	307
Total remuneration (10 FTE)	**538**	**527**

PBE IPSAS 20.34(b)(i)

PBE IPSAS 20.34.1(b)(ii)

For the year ended 30 June 2022, key management personnel did not receive any remuneration or compensation other than in their capacity as key management personnel (2021: Nil).

PBE IPSAS 20.34.1(c)

Quality Charity did not provide any compensation at non-arm's length terms to close family members of key management personnel during the year ended 30 June 2022 (2021: Nil). Quality Charity provided compensation to an entity controlled by the spouse of a member of the Executive Management Team. Refer to the Other management interests disclosure above. The terms of these transactions were arm's length.

Quality Charity did not provide any loans to key management personnel or their close family members.

Commentary

Key management personnel disclosures: PBE IPSAS 20

PBE IPSAS 20 describes key management personnel (KMP) as all directors or members of the governing body of the entity and other persons having the authority and responsibility for planning, directing, and controlling the activities of the reporting entity (refer to PBE IPSAS 20.4 for details). The responsibilities of key management personnel may enable them to influence the benefits that flow to them or their related parties. Consequently, PBE IPSAS 20 requires specific disclosure to be made in aggregate about:

- The remuneration of KMP and close family members of KMP during the reporting period
- Loans made to them, and
- The consideration provided to them for services they offered to the entity other than as a member of the governing body or an employee

Not-for-profit PBEs are required to make these disclosures regardless of whether or not the terms and conditions are equivalent to arm's length transactions. (Note: public sector PBEs need not disclose such consideration if the terms of the consideration are equivalent to those of an arm's length transaction.)

Due to the nature of related party transactions, they may be considered qualitatively material despite the amount or size of the transaction.

Appendix 7: Statutory disclosures of a financial nature required by local authorities

Commentary *continued*

The LGA requires local authorities, such as the Council, to provide in their annual report the disclosures included in this appendix. These disclosures are not required by PBE Standards. Nevertheless, as these disclosures either are financial in nature, or relate to an item in the financial statements, local authorities usually provide these disclosures within the notes to the financial statements, together with those disclosures that are required by PBE Standards. However, to avoid confusion for PBEs that are not local authorities, we have included these statutory disclosures in this appendix, rather than in the main body of this publication. Please note that some – but not all – of these disclosures are also required by the governing legislation of other public sector PBEs, such as government departments and Crown Entities. PBEs should refer to their respective governing legislation to ascertain their statutory reporting requirements.

9. Rates (extract)

In addition to the disclosures provided in Note 9 (in the main body of the publication), local authorities that participate in the New Zealand Local Government Funding Agency (LGFA) should disclose the following in relation to their rates:

LGFA Guarantee

LGFA Guarantee and Indemnity Deed.16.9(c)

For the years ended 30 June 2022 and 2021, the annual rates income of the Council for the purposes of the LGFA Guarantee and Indemnity Deed disclosure is the same as the total rates amount shown above.

Commentary

The LGFA Guarantee and Indemnity Deed requires participating local authorities to disclose in its financial statements or notes its annual rates income. That Deed defines annual rates income as an amount equal to the total revenue from any funding mechanism authorised by the Local Government (Rating Act) 2002 together with any revenue received by the Council from other local authorities for services provided by that Council for which those other Local Authorities rate.

14. Employee remuneration (extract)

In addition to the disclosures provided in Note 14 (in the main body of the publication), the LGA requires local authorities to disclose the following in relation to employee remuneration:

Employee remuneration bands

LGA Schedule 10.32A(1)-(2)

The following table show total annual remuneration by remuneration band for Council employees as at 30 June 2022 and 2021.

	Council	
	2022	2021
$100,000-$119,999	2	2
$80,000-$99,999	12	14
$60,000-$79,999	64	66
< $60,000	69	70
	147	152

Severance payments

LGA Schedule 10.33(1)

Termination benefits relate to severance amounts paid to four Council employees as a result of the reorganisation of the Council's finance and administration department. The total severance amount paid by the Council to these employees was $39,000. The individual payments were $12,000, $10,000, $9,000 and $8,000.

Commentary

In relation to employee remuneration, the LGA requires local authorities to disclose in their annual report the total number of employees as at the end of the current and previous year, as well as the following information:

- The number of employees receiving total annual remuneration below $60,000
- The number of employees receiving total annual remuneration above $60,000, expressed in bands of $20,000.

Local authorities are also required to disclose the number of employees who received severance payments during the reporting period, and the severance amount that was paid to each employee (and to the Chief Executive, if applicable).

Appendix 7: Statutory disclosures of a financial nature required by local authorities *continued*

39. Related party transactions (extract)

In addition to the disclosures provided in Note 39 (in the main body of the publication), the LGA requires local authorities to disclose the following in relation to key management personnel remuneration.

Further details of the remuneration of key management personnel is provided below.

	2022 $000	2021 $000	
K O'Cork – Chief Executive			*LGA Schedule 10.32(1)(c)*
Short-term employee benefits	100	98	
Medical insurance	10	10	
Other benefits (vehicle and parking allowance)	20	20	
G N Betten – Mayor	61	62	*LGA Schedule 10.32(1)(a)*
Short-term employee benefits	2	1	
Medical insurance	3	2	
Other benefits (vehicle and parking allowance)			
L Murant – Councillor			*LGA Schedule 10.32(1)(a)*
Short-term employee benefits	28	27	
Medical insurance	1	1	
Other benefits (vehicle and parking allowance)	2	2	
D Capey – Councillor			*LGA Schedule 10.32(1)(a)*
Short-term employee benefits	28	27	
Medical insurance	1	1	
Other benefits (vehicle and parking allowance)	2	2	
A Van Zyke – Councillor			*LGA Schedule 10.32(1)(a)*
Short-term employee benefits	27	26	
Medical insurance	1	1	
Other benefits (vehicle and parking allowance)	-	-	
Y Tobogava – Councillor			*LGA Schedule 10.32(1)(a)*
Short-term employee benefits	27	26	
Medical insurance	1	1	
Other benefits (vehicle and parking allowance)	-	-	
Executive management team (four people)			
Short-term employee benefits	212	208	
Medical insurance	7	7	
Other benefits (vehicle and parking allowance)	5	5	
Total compensation paid to key management personnel	**538**	**527**	

Commentary

Additional statutory disclosures for key management personnel of local authorities

In addition to the disclosures required by PBE IPSAS 20, the LGA also requires the disclosure of the remuneration of the following specific key management personnel of local authorities:

- The mayor of the local authority
- Each member of the local authority (i.e. each Councillor), and
- The chief executive of the local authority

Quality City Council disclosed the remuneration of these individuals separately above.

Other PBEs that are not local authorities should consider if legislation applicable to them contains any similar additional requirements in relation to key management personnel.

Appendix 8: Statement of service performance

8.1. Statement of service performance prepared in accordance with PBE IPSAS 1

Commentary

The illustrative disclosures and commentary in this section are based on the guidance provided in PBE IPSAS 1 (Appendix C) on service performance reporting.

In November 2017, NZASB issued PBE FRS 48 *Service Performance Reporting*. The requirements of this new standard will replace the guidance in PBE IPSAS 1 when it becomes effective from 1 January 2022. Early adoption of the standard is permitted. Refer to Appendix 8.2 below for the illustrative disclosures of service performance reporting prepared under PBE FRS 48. We recommend you contact one of the EY member firms' Assurance partners or a member of the EY Financial Accounting Advisory Services team for more information about the new service performance standard.

Statement of service performance

Community outcomes

The Council's main community outcome areas are outline below:

1. Well-connected and well-built city – *Quality City's infrastructure is improved and maintained at a high level*
2. Strong economy and high standard of living – *business activity in Quality City is strengthened and living standards are raised or maintained*
3. Educated and culturally-aware community – *the community in Quality City is better-educated and more culturally-aware*
4. Healthy, safe and inclusive community – *the health and safety of the community of Quality City and inclusiveness within the community are maintained at a high level*
5. Clean, safe and sustainably-managed environment – *Quality City's natural and built environment is cleaner and safer for the Quality City community*

Commentary

Outcomes

According to PBE IPSAS 1.150.4, outcomes are a key element of the statement of service performance. PBE IPSAS 1.C17 defines outcomes as either the impacts on, or the consequences for, the community resulting from the existence and operations of the entity. According to PBE IPSAS 1.C20, outcomes provide a PBE with a rationale for action and are the basis on which the PBE makes decisions regarding outputs. Outcomes are the reason for producing outputs.

The LGA makes reference to 'community outcomes', which are outcomes that a local authority aims to achieve in meeting the current and future needs of communities for good-quality local infrastructure, local public services, and performance of regulatory functions. This requirement is more specific than – but consistent with – the definition contained in PBE IPSAS 1. Please note that local authorities usually list community outcomes (and describe their overall achievement) at the beginning of the annual report, separately to the rest of the statement of service performance.

Groups of activities

The following groups of activities contribute to the Council's community outcomes:

Group of activities	Activities included within group	Outcome supported by group of activities
Planning, strategy and regulation	Provision of governance and democracy Local policy-making	1. Well-connected and well-built city 2. Strong economy and high standard of living 3. Educated and culturally-aware community 4. Healthy, safe and inclusive community 5. Clean, safe and sustainably-managed natural environment
Community support	Providing community housing for eligible persons Providing local community facilities Developing, implementing and supporting community development and safety programmes Providing emergency management services and promoting awareness of emergency management in the community Promoting public health and safety	3. Educated and culturally-aware community 4. Healthy, safe and inclusive community

Appendix 8: Statement of service performance *continued*

8.1. Statement of service performance prepared in accordance with PBE IPSAS 1 *continued*

Groups of activities *continued*

Group of activities	Activities included within group	Outcome supported by group of activities
Economic development	Developing and maintaining commercial areas Providing grants and incentives for new businesses	2. Strong economy and high quality of life
Building and resource consents	Processing and provision of building and resource consents Prevention of and response to weathertightness issues Maintaining and providing land and property information	1. Well-connected and well-built city 5. Clean, safe and sustainably-managed natural environment
Water, wastewater and stormwater	Planning, managing and maintaining water networks Planning, managing and maintaining stormwater networks Planning, managing and maintaining wastewater networks	1. Well-connected and well-built city 4. Healthy, safe and inclusive community 5. Clean, safe and sustainably-managed natural environment
Roading and other infrastructure	Providing and maintaining safe and efficient roading infrastructure Providing and maintaining footpaths and cycleways Maintaining parking facilities and enforcing parking regulations	1. Well-connected and well-built city
Waste and recycling	Providing waste collection and disposal services and landfill facilities Providing recycling services and facilities	4. Healthy, safe and inclusive community 5. Clean, safe and sustainably-managed natural environment
Culture, heritage and recreation	Providing and maintaining libraries and other educational facilities and programmes Providing and maintaining local visual and performing art centres Organising and supporting cultural events Providing recreational facilities Supporting the operation of the Quality City Museum (through Council-controlled organisation Quality Museum Trust)	3. Educated and culturally-aware community

Commentary

Groups of activities

Schedule 10, paragraph 23 of the LGA requires a local authority to disclose in its annual report the local authority's groups of activities, the activities within these groups and the outcomes towards which they contribute. As outcomes are a key element of the statement of service performance, the Council has made these disclosures as part of the statement of service performance. In addition, the section of the statement of service performance that shows actual levels of service provision against performance targets is organised by group of activities.

The above disclosure also meets the requirements of PBE IPSAS 1.150.6, which requires an entity to disclose the outcomes towards which its outputs contribute. The Council disclosed which outcomes its groups of activities contribute towards, and the outputs that are delivered as part of each group of activities are disclosed in the following section.

Other PBEs are not required to disclose groups of activities. Wherever practicable, however, they also need to disclose which outcomes their outputs or groups of outputs are intended to contribute towards.

Measurement of service performance by group of activities

This section shows the Council's service performance during the year against the performance targets set in the Long-term Council Community Plan. For each group of activities, achievement of key service performance indicators as well as a statement of the cost of the activities is disclosed.

Appendix 8: Statement of service performance *continued*

8.1. Statement of service performance prepared in accordance with PBE IPSAS 1 *continued*

Commentary

Presentation and organisation of performance measurement disclosures for different types of PBEs

The performance measurement section below is organised by groups of activities, and discloses the delivery of outputs and impacts under each group of activities. As explained above, this is because local authorities like Quality City Council are required by the LGA to disclose groups of activities and their contribution to outcomes.

However, other types of PBEs may present their statement of service performance (or equivalent statement) in a different way, depending on the relevant legislative requirements. For example, under the PFA, Government departments and Crown entities have to report performance against targets under each appropriation that the department has received (PFA.19C)]. Therefore, the performance reporting of Government departments and Crown entities will be organised by appropriation, rather than by groups of activities.

Please consult the relevant legislation for the statutory requirements around service performance for specific types of PBEs.

Illustrative example for one group of activities

For illustrative purposes, service performance information is disclosed below for only one of the Council's groups of activities, i.e. waste and recycling (please see the following table). A PBE will need to disclose service performance information, including cost of inputs, for each of its groups of activities (if it is a local authority) or groups of outputs.

Group of activities: Waste and recycling

Key performance indicators: Outputs

Level of service	Measure	Target	Result	Comment
Activity: Providing waste collection services, waste disposal services and landfill facilities				
Provide reliable waste collection services to all residential and commercial properties in Quality City	Number of waste collections dispatched during the year in each area of Quality City.	52 collections (once a week) in all areas of Quality City	52 collections (once a week) in all areas of Quality City	Target achieved.
	Percentage of waste collections completed in timely manner (i.e. where collection is completed on the collection day specified on the Council website, no later than within two hours of the specified time).	98%	99%	Target achieved.
Provide reliable and accessible waste disposal services, including landfill	Landfill's ability to operate during specified opening hours.	Landfill is open from 8 a.m. to 5 p.m., Monday to Saturday every week during the 2021 financial year	Landfill was open from 8 a.m. to 5 p.m., Monday to Saturday every week during the 2021 financial year, except for one day	Target not achieved. Landfill was closed during opening hours on 25 November 2021 due to a suspected spill of dangerous chemicals. The landfill re-opened on the following day without issue.
	Level of landfill customer satisfaction with service and accessibility of the Quality City landfill (according to annual survey).	90%	90%	Target achieved.
Activity: Providing recycling services and facilities				
Provide reliable recycling collection services to all residential and commercial properties in Quality City	Percentage of recyclable waste collections completed in timely manner (i.e. where collection is completed on the collection day specified on the Council website, no later than within two hours of the specified time).	98%	99%	Target achieved.

Appendix 8: Statement of service performance *continued*

8.1. Statement of service performance prepared in accordance with PBE IPSAS 1 *continued*

Key performance indicators: Impacts

Desired impact	Measure	Target	Result	Comment
Activity: Providing recycling services and facilities continued				
Facilitate effective recycling of waste	Percentage of collected recyclable waste that is recycled.	99.9%	98%	Not achieved. Due to problems in the operations of the recycling plant in August 2021, some recyclable waste had to be redirected from the plant to the landfill.
Activity: Providing waste collection services, waste disposal services and landfill facilities				
The streets and buildings of Quality City are clean and free from waste	Overall score out of 10 for street cleanliness per survey of Quality City residents.	8/10	8/10	Target achieved.
Activity: Providing recycling services and facilities				
Recycling in Quality City increases	Ratio of waste processed through recycling plant to waste processed through landfill.	40:60	39:61	Target not achieved. Achievement of this target is still in progress.
	Decrease in total volume of waste disposed by residential and commercial properties that is not marked for recycling.	Decrease in volume of non-recyclable waste from 100kg per person to 95kg per person	Decrease in volume of non-recyclable waste from 100kg per person to 98kg per person	Not achieved. Although there was a decrease in non-recyclable waste disposed per person in 2022 compared to 2021, the achievement of this target is still in progress. The target should be achieved in the next financial year.

Commentary

Service performance measurement: outputs and impacts

The above section discloses the Council's performance during the reporting period in terms of the provision of outputs and achievement of impacts. This disclosure is consistent with the requirements of PBE IPSAS 1.

Outputs are defined in PBE IPSAS 1.C17 as the goods and services produced by the entity. In the example above, Services such as the collection of waste, the provision of waste disposal facilities and the recycling of waste are all outputs of the Council.

In the table above, the Council's outputs are described using one or more of the following aspect:

- Quantity
- Quality
- Location
- Time

For example, within the activity "providing waste collection services, waste disposal services and landfill facilities", the first item relates to the provision of reliable waste collection services to all residential and commercial properties in Quality City. The provision of this output is measured in terms of quantity (number of waste collections completed during the year), as well as quality and timeliness (reliability and timeliness of waste collection). The element of location ("all areas of Quality City") also forms part of the measurement of the output.

PBE IPSAS 1.150.4 also requires an entity to measure and disclose the cost of its outputs. These costs are disclosed at an activity level in the Funding Impact Statement – refer to Appendix 9.2.

In addition to disclosing performance in terms of the delivery of outputs, the Council also discloses the impacts achieved by the provision of these outputs. Impacts are defined by PBE IPSAS 1.C17 as contributions made to outcomes by a specific set of outputs. Impacts are often referred to as 'intermediate outcomes' as they represent the relatively immediate or direct effect on the stakeholders of the entity's outputs. For example, the impact 'recycling in Quality City increases' is caused by the outputs under the activity 'providing recycling services and facilities', and in turn contributes to Outcome (5) of the Council, i.e. 'clean, safe and sustainably managed environment'.

8.1. Statement of service performance prepared in accordance with PBE IPSAS 1 *continued*

Commentary *continued*

Impacts and their achievements are described using similar parameters to those used for describing and measuring outputs.

According to PBE IPSAS 1, inputs are another key element of the statement of service performance. The funding impact statement by groups of activities in Appendix 9.2 shows both the inputs that were used by the Council during the reporting period to produce the outputs and the impacts detailed in the performance measurement section. This disclosure is consistent with PBE IPSAS 1.150.4, which requires an entity to disclose the cost of each output.

Contribution to outcomes

The waste and recycling group of activities contributes to Outcome 4: Healthy, safe and inclusive community and Outcome 5: Clean, safe and sustainably-managed natural environment. Service performance results in the following areas ensured that the Council has made progress in relation to these outcomes:

- Waste collection was performed consistently and in a timely manner throughout the reporting period
- With the exception of one incident that caused the landfill to be closed for one day, the Council provided reliable and accessible waste disposal services
- The Council provided timely and reliable collection services for recyclable waste services

Evidence of progress towards the achievement of Outcomes 4 and 5 can be seen from the fact that Quality City residents have given a high rating to the cleanliness of the streets and buildings of Quality City. In addition, while the desired impact on the community's recycling effort was not achieved, there is evidence of improvement in this area, and the Council expects that the targets will be achieved in the next reporting period.

Commentary

The LGA requires a local authority both to report in relation to each group of activities any measurements undertaken during the reporting period of progress towards achievement of outcomes, and describe the effect that each group of activities has had on the community. Results of measurements of output delivery and impact achievement, which contribute towards the achievement of outcomes, have already been disclosed in the previous section. The above paragraph links the results of the measurement of outputs and impacts back to the outcomes towards which the group of activities (and the outputs within it) contributes.

This disclosure is also consistent with PBE IPSAS 1, which also encourages entities to demonstrate the link between the delivery of outputs and outcome achievement.

Appendix 8: Statement of service performance *continued*

8.2. Service performance reporting prepared in accordance with PBE FRS 48

Commentary

The illustrative disclosures and commentary in this section are based on the requirements of PBE FRS 48 *Service Performance Reporting*.

The NZASB issued PBE FRS 48 *Service Performance Reporting* in November 2017. The requirements of this standard will replace the guidance in PBE IPSAS 1 when it becomes effective from 1 January 2022. The standard applies to Tier 1 and Tier 2 not-for-profit PBEs, as well as Tier 1 and Tier 2 public sector PBEs that are required by legislation to provide service performance information under NZ GAAP. Early adoption of the standard is permitted.

In the previous service performance reporting guidance included in PBE IPSAS 1, it defined the term "outcomes" as the impacts on, or consequences for, the community resulting from the existence and operations of the entity. Under PBE IPSAS 1, an entity is required to report the outcomes achieved in its Statement of Service Performance.

In the LGA, it also defines the term "community outcomes" as the outcomes that a local authority aims to achieve in order to promote the social, economic, environmental, and cultural well-being of its district or region in the present and for the future. Under the LGA, an entity is required to report the results of any measurement undertaken during the year of progress towards the achievement of those outcomes.

PBE FRS 48 doesn't include any defined terms, and does not make reference to "outcomes". Instead, it provides flexibility for an entity to decide how best to "tell their story" in an appropriate and meaningful way. The main requirement is to provide sufficient contextual information to understand:

- why the entity exists
- what it intends to achieve in broad terms over the medium to long term
- how it goes about this and
- what the entity has done during the reporting period in working towards its broader aims and objectives.

The disclosures provided for the Council comply with the LGA and therefore may use the term "community outcomes" or PBE FRS 48 "objectives" to describe why the entity exists and what it intends to achieve.

Where legislation or regulation requires service performance information to be prepared for a reporting entity that differs from the reporting entity for which historical general purpose financial statements are presented, an entity is compelled to comply with such legislation or regulation (PBE FRS 48.13). In Quality City Council group (Group), only the parent, Quality City Council (Council) is required by legislation to provide service performance information. Therefore, service performance reporting is not provided for the Group but is provided for the Council only.

We recommend you contact one of the EY member firms' Assurance partners or a member of the EY Financial Accounting Advisory Services team for more information about the new service performance standard.

Quality City Council

Service performance reporting for the year ended 30 June 2022

Quality City Council (the Council) is a local authority that is domiciled in New Zealand and governed by the Local Government Act 2002.

Quality City Council enables the economic, social and cultural development of Quality City, supports individuals and groups, and provides a wide range of services for the wellbeing of the local community.

The Council early adopted PBE FRS 48 *Service Performance Reporting* in the 2022 reporting period.

The Council has made a number of judgements in preparing its service performance information. The judgements exercised do not have a significant effect on the selection, measurement, aggregation and presentation of the Council's service performance information.

Appendix 8: Statement of service performance *continued*

8.2. Service performance reporting prepared in accordance with PBE FRS 48 *continued*

Community outcomes

The Council's main community outcomes and responsibilities are outline below:

1. Well-connected and well-built city – *Quality City's infrastructure is improved and maintained at a high level*
2. Strong economy and high standard of living – *business activity in Quality City is strengthened and living standards are raised or maintained*
3. Educated and culturally-aware community – *the community in Quality City is better-educated and more culturally-aware*
4. Healthy, safe and inclusive community – *the health and safety of the community of Quality City and inclusiveness within the community are maintained at a high level*
5. Clean, safe and sustainably-managed environment – *Quality City's natural and built environment is cleaner and safer for the Quality City community*

Commentary

PBE FRS 48.15 (a) requires an entity to provide users with sufficient contextual information to understand why the entity exists, what it intends to achieve in broad terms over the medium to long term, and how it goes about this. This information should be drawn from relevant documents such as founding documents, governance documents, accountability documents and planning documents. If an entity uses a performance framework, the contextual information should also draw upon that performance framework. For example, a local authority's Long-Term Plan provides a meaningful performance framework for its activities.

Council's groups of activities

The following groups of activities contribute to the Council's community outcomes and what it intends to achieve during the reporting period:

Group of activities	Activities included within group	Community outcomes supported by group of activities
Planning, strategy and regulation	Provision of governance and democracy Local policy-making	1. Well-connected and well-built city 2. Strong economy and high standard of living 3. Educated and culturally-aware community 4. Healthy, safe and inclusive community 5. Clean, safe and sustainably-managed natural environment
Community support	Providing community housing for eligible persons Providing local community facilities Developing, implementing and supporting community development and safety programmes Providing emergency management services and promoting awareness of emergency management in the community Promoting public health and safety	3. Educated and culturally-aware community 4. Healthy, safe and inclusive community
Economic development	Developing and maintaining commercial areas Providing grants and incentives for new businesses	2. Strong economy and high quality of life
Building and resource consents	Processing and provision of building and resource consents Prevention of and response to weathertightness issues Maintaining and providing land and property information	1. Well-connected and well-built city 5. Clean, safe and sustainably-managed natural environment
Water, wastewater and stormwater	Planning, managing and maintaining water networks Planning, managing and maintaining stormwater networks Planning, managing and maintaining wastewater networks	1. Well-connected and well-built city 4. Healthy, safe and inclusive community 5. Clean, safe and sustainably-managed natural environment

Appendix 8: Statement of service performance *continued*

8.2. Service performance reporting prepared in accordance with PBE FRS 48 *continued*

Council's groups of activities *continued*

Group of activities	Activities included within group	Community outcomes supported by group of activities
Roading and other infrastructure	Providing and maintaining safe and efficient roading infrastructure Providing and maintaining footpaths and cycleways Maintaining parking facilities and enforcing parking regulations	1. Well-connected and well-built city
Waste and recycling	Providing waste collection and disposal services and landfill facilities Providing recycling services and facilities	4. Healthy, safe and inclusive community 5. Clean, safe and sustainably-managed natural environment
Culture, heritage and recreation	Providing and maintaining libraries and other educational facilities and programmes Providing and maintaining local visual and performing art centres Organising and supporting cultural events Providing recreational facilities Supporting the operation of the Quality City Museum (through Council-controlled organisation Quality Museum Trust)	3. Educated and culturally-aware community

Commentary

Council's groups of activities

Schedule 10, paragraph 23 of the LGA requires a local authority to disclose in its annual report the local authority's groups of activities, the activities within these groups and the outcomes/objectives towards which they contribute. As outcomes/objectives are a key element of service performance reporting, the Council has made these disclosures as part of its service performance information. In addition, the section of the service performance information that shows actual levels of service provision against performance targets is organised by group of activities.

The above disclosure also meets the requirements of PBE FRS 48.15(a), which requires an entity to disclose information about what an entity intends to achieve in broad terms over the medium to long term.

PBEs that are not in the scope of the LGA are not required to disclose groups of activities. Wherever practicable, however, they need to disclose which objectives their performance measure or groups of performance measures are intended to contribute towards.

Measurement of service performance by the Council's group of activities

This section shows the Council's service performance during the year against the performance targets set in the Long-term Council Community Plan. For each group of activities, how the entity went about achieving its objectives, is disclosed.

Commentary

Presentation and organisation of performance measurement disclosures for different types of PBEs

The performance measurement section below is organised by groups of activities, and discloses the delivery of outputs and impacts under each group of activities. As explained above, this is because local authorities like Quality City Council are required by the LGA to disclose groups of activities, outcomes and their contribution to their objectives. PBE FRS 48 refers to this as disclosure of how the entity went about achieving its service performance objectives.

However, other types of PBEs may present their service performance information in a different way, depending on the relevant legislative requirements. For example, under the PFA, Government Departments and Crown Entities have to report performance against targets under each appropriation that the department has received (PFA.19C). Therefore, the performance reporting of Government Departments and Crown Entities will be organised by appropriation, rather than by groups of activities.

Please consult the relevant legislation for the statutory requirements around service performance for specific types of PBEs.

Illustrative example for one group of activities

For illustrative purposes, service performance information is disclosed below for only one of the Council's groups of activities, i.e. waste and recycling (please see the following table).

Appendix 8: Statement of service performance *continued*

8.2. Service performance reporting prepared in accordance with PBE FRS 48 *continued*

Council's group of activities: Waste and recycling

Key performance indicators: Outputs

Level of service	Performance Measure	Target	Result	Comment
Activity: Providing waste collection services, waste disposal services and landfill facilities				
Provide reliable waste collection services to all residential and commercial properties in Quality City	Number of waste collections dispatched during the year in each area of Quality City.	2022: 52 collections (once a week) in all areas of Quality City 2021: 52 collections (once a week) in all areas of Quality City	2022: 52 collections (once a week) in all areas of Quality City 2021: 52 collections (once a week) in all areas of Quality City	2022: Target achieved. 2021: Target achieved
	Percentage of waste collections completed in timely manner (i.e., where collection is completed on the collection day specified on the Council website, no later than within two hours of the specified time).	2022: 98% 2021: 97%	2022: 99% 2021: 98%	2022: Target achieved. 2021: Target achieved.
Provide reliable and accessible waste disposal services, including landfill	Landfill's ability to operate during specified opening hours.	2022/2021: Landfill is open from 8 a.m. to 5 p.m., Monday to Saturday every week during the 2022/2021 financial year	2022/2021: Landfill was open from 8 a.m. to 5 p.m., Monday to Saturday every week during the 2022/2021 financial year, except for one day	2022/2021: Target not achieved. Landfill was closed during opening hours on 25 November 2022due to a suspected spill of dangerous chemicals. The landfill re-opened on the following day without issue.
	Level of landfill customer satisfaction with service and accessibility of the Quality City landfill (according to annual survey).	2022: 90% 2021: 87%	2022: 90% 2021: 89%	2022: Target achieved. 2021: Target achieved.
Level of service	**Performance Measure**	**Target**	**Result**	**Comment**
Activity: Providing recycling services and facilities				
Provide reliable recycling collection services to all residential and commercial properties in Quality City	Percentage of recyclable waste collections completed in timely manner (i.e., where collection is completed on the collection day specified on the Council website, no later than within two hours of the specified time).	2022: 98% 2021: 98%	2022: 99% 2021: 98%	2022: Target achieved. 2021: Target achieved.

Appendix 8: Statement of service performance *continued*

8.2. Service performance reporting prepared in accordance with PBE FRS 48 *continued*

Key performance indicators: Impacts

Desired impact	Performance Measure	Target	Result	Comment
Activity: Providing recycling services and facilities continued				
Facilitate effective recycling of waste	Percentage of collected recyclable waste that is recycled.	2022: 99.9% 2021: 100%	2022: 98% 2021: 100%	2022: Not achieved. Due to problems in the operations of the recycling plant in August 2022, some recyclable waste had to be redirected from the plant to the landfill. 2021: Target achieved.
Activity: Providing waste collection services, waste disposal services and landfill facilities				
The streets and buildings of Quality City are clean and free from waste	Overall score out of 10 for street cleanliness per survey of Quality City residents.	2022: 8/10 2021: 8/10	2022: 8/10 2021: 8/10	2022: Target achieved. 2021: Target achieved.
Activity: Providing recycling services and facilities				
Recycling in Quality City increases	Ratio of waste processed through recycling plant to waste processed through landfill.	2022: 40:60 2021: 40:60	2022: 39:61 2021: 40:60	2022: Target not achieved. Achievement of this target is still in progress. 2021: Target achieved.
	Decrease in total volume of waste disposed by residential and commercial properties that is not marked for recycling.	2022: Decrease in volume of non-recyclable waste from 100kg per person to 95kg per person 2021: Decrease in volume of non-recyclable waste from 100kg per person to 98kg per person	2022: Decrease in volume of non-recyclable waste from 100kg per person to 96kg per person 2021: Decrease in volume of non-recyclable waste from 100kg per person to 97kg per person	2022: Not achieved. Although there was a decrease in non-recyclable waste disposed per person in 2022 compared to 2021, the achievement of this target is still in progress. The target should be achieved in the next financial year. 2021: Target achieved.

Commentary

Service performance measurement: performance measures and impacts

The above section discloses the Council's performance during the reporting period, including comparatives for prior year, in terms of achievement of its objectives . This disclosure is consistent with the requirements of PBE FRS 48 as it is disclosing how the entity went about achieving its service performance objectives.

Appendix 8: Statement of service performance *continued*

Contribution to objectives

The waste and recycling group of activities contributes to Objective 4: Healthy, safe and inclusive community and Objective 5: Clean, safe and sustainably-managed natural environment. Service performance results in the following areas ensured that the Council has made progress in relation to these objectives:

- Waste collection was performed consistently and in a timely manner throughout the 2022 and 2021 reporting periods
- With the exception of one incident that caused the landfill to be closed for one day in 2022 reporting period, the Council provided reliable and accessible waste disposal services
- The Council provided timely and reliable collection services for recyclable waste services

Evidence of progress towards the achievement of Objective 4 and 5 can be seen from the fact that Quality City residents have given a high rating to the cleanliness of the streets and buildings of Quality City in both 2022 and 2021 reporting periods. In addition, while the desired impact on the community's recycling effort was not achieved in 2022 (2021: achieved), there is evidence of improvement in this area, and the Council expects that the targets will be achieved in the next reporting period.

Commentary

The LGA requires a local authority both to report in relation to each group of activities any measurements undertaken during the reporting period of progress towards achievement of objectives, and describe the effect that each group of activities has had on the community. Results of measurements of output delivery and impact achievement, which contribute towards the achievement of objective, have already been disclosed in the previous section. The above paragraph links the results of the measurement of outputs and impacts back to the objectives towards which the group of activities (and the outputs within it) contributes.

This disclosure is also consistent with PBE FRS 48, which also encourages entities to demonstrate the link between the delivery of outputs and objectives achievement.

Appendix 9: Funding impact statement (example of disclosures for local authorities)

9.1. Funding impact statement – whole of Council

Commentary

In section 30 of Schedule 10 of the LGA, a local authority is required to present a funding impact statement for the reporting period to which the annual report relates. The funding impact statement needs to show the amount of funds produced from each of the local authority's sources of funding, as well as how these funds were applied. The same information as per the local authority's Annual Plan also needs to be shown for comparative purposes as do previous reporting period's actual and Annual Plan figures. Form 5 of the LG (FRP)R provides the format in which this statement is to be presented.

Funding impact statement for the year ended 30 June 2022: Whole of the Council

LGA Schedule 10.30
LG(FRP)R Schedule 2
Form 5

	2022 Actual $000	2022 Annual Plan $000	2021 Actual $000	2021 Annual Plan $000
Sources of operating funding				
General rates, uniform annual general charge, rates penalties	45,118	45,669	44,209	41,999
Targeted rates	30,079	29,678	29,473	27,999
Subsidies and grants for operating purposes	9,498	8,520	6,318	6,561
Fees and charges	13,466	13,214	13,687	13,824
Internal charges and overheads recovered	2,018	1,998	1,765	1,589
Local authorities fuel tax, fines, infringement fees, and other receipts	1,763	1,921	2,047	1,182
Total operating funding (A)	**101,942**	**101,000**	**97,499**	**93,154**
Applications of operating funding				
Payments to employees and suppliers	96,786	96,368	94,409	93,824
Finance costs	464	487	554	548
Internal charges and overheads applied	-	-	-	-
Other operating funding applications	664	697	300	297
Total applications of operating funding (B)	**97,914**	**97,552**	**95,263**	**94,669**
Surplus/(deficit) of operating funding (A – B)	**4,028**	**3,448**	**2,236**	**(1,515)**
Sources of capital funding				
Subsidies and grants for capital expenditure	3,005	3,000	3,814	3,805
Development and financial contributions	3,641	4,005	3,741	3,722
(Decrease)/increase in debt	(1,400)	(1,350)	890	886
Gross proceeds from sale of assets	1,406	1,266	779	775
Lump sum contributions	-	-	-	-
Other dedicated capital funding	-	-	-	-
Total sources of capital funding (C)	**6,652**	**6,921**	**9,224**	**9,188**
Application of capital funding				
Capital expenditure:				
To meet additional demand	5,059	4,900	3,915	3,895
To improve the level of service	5,378	5,200	4,496	4,474
To replace existing assets	2,301	2,100	1,098	1,093
Increase/(decrease) in reserves	621	600	(387)	(385)
Increase in investments	11,291	11,000	5,432	5,405
Total applications of capital funding (D)	**24,650**	**23,800**	**14,554**	**14,482**
Deficit of capital funding (C – D)	**(17,998)**	**(16,879)**	**(5,330)**	**(5,294)**
Funding balance ((A – B) + (C – D))	**(13,970)**	**(13,431)**	**(3,094)**	**(6,809)**

Appendix 9: Funding impact statement (example of disclosures for local authorities) *continued*

9.2. Funding impact statement by group of activities

Commentary

In section 26 of Schedule 10 of the LGA, a local authority is required to present a funding impact statement for the reporting period to which the annual report relates for each of the local authority's groups of activities. The funding impact statement of each group of activities needs to show the amount of funds produced from each of the local authority's sources of funding in relation to the group of activities, as well as how these funds were applied. The same information as per the local authority's Annual Plan also need to be shown for comparative purposes, as do previous reporting period's actual and Annual Plan figures. Form 4 of the LG (FRP)R provides the format in which this statement is to be presented. For illustrative purposes, a funding impact statement for one of the Council's groups of activities – waste – is presented below.

Funding impact statement for the year ended 30 June 2022: Waste

	2022 Actual $000	2022 Annual Plan $000	2021 Actual $000	2021 Annual Plan $000	
Sources of operating funding					*LGA Schedule 10.26 LG(FRP)R Schedule 2 Form 4*
General rates, uniform annual general charge, rates penalties	401	390	338	320	
Targeted rates	240	235	201	199	
Subsidies and grants for operating purposes	675	650	559	540	
Fees and charges	255	242	221	200	
Internal charges and overheads recovered	103	100	107	100	
Local authorities fuel tax, fines, infringement fees, and other receipts	56	50	54	50	
Total operating funding (A)	**1,730**	**1,667**	**1,480**	**1,409**	
Applications of operating funding					
Payments to employees and suppliers	356	348	322	320	
Finance costs	45	44	42	43	
Internal charges and overheads applied	266	262	216	214	
Other operating funding applications	-	-	-	-	
Total applications of operating funding (B)	**667**	**654**	**580**	**577**	
Surplus of operating funding (A – B)	**1,063**	**1,013**	**900**	**832**	
Sources of capital funding					
Subsidies and grants for capital expenditure	131	125	109	105	
Development and financial contributions	198	190	187	188	
Increase/(decrease) in debt	-	-	-	-	
Gross proceeds from sale of assets	43	-	-	-	
Lump sum contributions	-	-	-	-	
Other dedicated capital funding	-	-	-	-	
Total sources of capital funding (C)	**372**	**315**	**296**	**293**	
Application of capital funding					*LGA Schedule 10.24(1)*
Capital expenditure:					
To meet additional demand	201	200	196	195	*LGA Schedule 10.24(2)(a)*
To improve the level of service	587	580	259	255	*LGA Schedule 10.24(2)(b)*
To replace existing assets	130	118	182	180	*LGA Schedule 10.24(2)(c)*
Increase in reserves	216	235	259	252	
Increase in investments	301	195	300	243	
Total applications of capital funding (D)	**1,435**	**1,328**	**1,196**	**1,125**	
Deficit of capital funding (C – D)	**(1,063)**	**(1,013)**	**(900)**	**(832)**	
Funding balance ((A – B) + (C – D))	-	-	-	-	

Appendix 10: Forecast financial statements (example of disclosures for government departments)

Commentary

Section 45(3) of the Public Finance Act 1989 (PFA) requires government departments to include in their annual reports forecast financial statements, i.e. financial statements for the reporting period after the current financial year to which the annual report relates.

Section 45BA of the PFA requires the forecast financial statements of a government department both to comply with NZ GAAP, and to be accompanied by a statement of significant assumptions underlying the forecast financial statements. The requirement to comply with NZ GAAP means that the forecast financial statements need to be prepared in accordance with PBE FRS 42 *Prospective Financial Statements* (PBE FRS 42), which sets out disclosure requirements for forecast financial statements.

This appendix contains an illustrative statement of comprehensive revenue and expense, statement of financial position, statement of movements in equity, statement of cash flows and accounting policy note pertaining to the forecast financial statements. The financial statements are prepared for a fictional government department; therefore, neither the names of items in the financial statements nor the numbers correspond to the Quality City Council's financial statements.

Although the illustrative forecast financial statements below are presented separately, the prospective figures can alternatively be presented in an additional column within the financial statements for the year to which the annual report relates.

Forecast statement of comprehensive revenue and expense

PBE FRS 42.28(b)

For the year ended 30 June 2023

	Forecast $000	
Revenue		
Crown revenue	34,567	
Other revenue from non-exchange transactions	18,904	
Other revenue from exchange transactions	3,041	
Total revenue	**56,512**	*PBE FRS 42.31(a)*
Expenses		
Employee costs	(20,876)	
Depreciation and amortisation	(3,746)	*PBE FRS 42.31(c)*
Capital charge	(4,867)	
Finance cost	(101)	*PBE FRS 42.31(b)*
Other expenses	(20,954)	
Total expenses	**(50,544)**	
Surplus for the year	**5,968**	*PBE FRS 42.31(g)*
Other comprehensive revenue and expense		
Fair value gain on property, plant and equipment	1,098	*PBE FRS 42.31(h)*
Other comprehensive revenue and expense for the year	**1,098**	
Total comprehensive revenue and expense for the year	**7,066**	*PBE FRS 42.31(j)*

Appendix 10: Forecast financial statements (example of disclosures for government departments) *continued*

Forecast statement of financial position

PBE FRS 42.28(a)

As at 30 June 2023

	Forecast $000	
Assets		
Current assets		*PBE FRS 42.29(a)*
Cash	2,134	
Receivables from non-exchange transactions	4,321	
Receivables from exchange transactions	2,341	
Prepayments	987	
Inventory	432	
Total current assets	**10,215**	
Non-current assets		*PBE FRS 42.29(b)*
Property, plant and equipment	41,876	
Intangible assets	12,567	
Total non-current assets	**54,443**	
Liabilities		
Current liabilities		*PBE FRS 42.29(c)*
Payables	(3,231)	
Return of operating surplus	(2,409)	
Provisions	(239)	
Provision for employee entitlements	(1,987)	
Finance lease	(103)	
Total current liabilities	**(7,969)**	
Non-current liabilities		*PBE FRS 42.29(d)*
Provision for employee entitlements	(965)	
Finance lease	(506)	
Total non-current liabilities	**(1,471)**	
Net assets	**55,218**	
Equity		*PBE FRS 42.29(e)*
Crown capital and accumulated revenue and expense	52,098	
Asset revaluation reserve	2,123	
Memorandum accounts	997	
Total taxpayers' funds	**55,218**	

Appendix 10: Forecast financial statements (example of disclosures for government departments) *continued*

Forecast statement of movements in equity

For the year ended 30 June 2023

	Crown capital and accumulated revenue and expense $000	Asset revaluation reserve $000	Memorandum accounts $000	Total equity $000	*PBE FRS 42.28(c)*
As at 1 July 2022	26,792	1,025	1,109	28,926	
Forecast surplus for the year	5,968	-	-	5,968	
Forecast other comprehensive revenue and expense					
Gain on property revaluation	-	1,098	-	1,098	
Total comprehensive revenue and expense for the year	**5,968**	**1,098**	**-**	**7,066**	*PBE FRS 42.34(a)*
Transfer of memorandum accounts surplus/(deficit)	112	-	(112)	-	
Forecast transactions with owners in their capacity as owners:					*PBE FRS 42.34(b)*
Capital injections	21,300	-	-	21,300	
Return of surplus to Crown	(2,074)	-	-	(2,074)	
As at 30 June 2023	**52,098**	**2,123**	**997**	**55,218**	*PBE FRS 42.34(c)*

Forecast statement of cash flows

PBE FRS 42.28(d)

For the year ended 30 June 2023

	Forecast $000	
Cash from operating activities		
Receipts from Crown	34,000	
Receipts from other revenue	20,401	
Payments to suppliers	(21,980)	
Payments to employees	(21,900)	
Payments for capital charge	(4,900)	
Net cash flows from operating activities	**5,621**	*PBE FRS 42.37(a)*
Cash flow from investing activities		
Proceeds from sale of property, plant and equipment	1,076	
Purchase of property, plant and equipment	(20,850)	
Purchase of intangible assets	(2,301)	
Net cash flows used in investing activities	**(22,075)**	*PBE FRS 42.37(b)*
Cash flow from financing activities		
Capital injections from Crown	21,300	
Return of operating surplus to Crown	(2,074)	
Payment of finance lease	(1,709)	
Net cash flows from financing activities	**17,517**	*PBE FRS 42.37(c)*
Net forecast increase in cash and cash equivalents	1,063	*PBE FRS 42.38(d)*
Cash and cash equivalents as at 1 July 2022	1,071	
Forecast cash and cash equivalents as at 30 June 2023	**2,134**	

Appendix 10: Forecast financial statements (example of disclosures for government departments) *continued*

Notes to the financial statements (extract)

PBE FRS 42.28(e)

2. Summary of significant accounting policies (extract)

xx. Forecast financial statements

The forecast financial statements are for the period 1 July 2022 to 30 June 2023.

The forecast financial statements have been prepared for the purpose of meeting the Department's obligations under section 45(3) and 45BA of the PFA. Use of this information for other purposes may not be appropriate.

PBE FRS 42.48

The forecast financial statements are unaudited.

The main assumptions underlying the forecast figures are as follows:

PBE FRS 42.51
PBE FRS 42.49
PBE FRS 42.55

- Existing government policies and Ministerial expectations at the time the statements were finalised will continue to be effective throughout 2022/2023. This is expected to be the case
- The Department's main activities will remain substantially the same as for the previous reporting period. This is expected to be the case
- Operating costs are based on historical experience. Based on experience, operating expenses are expected to grow by 2%. The general historical pattern is expected to continue
- The following economic assumptions will eventuate:

Assumption (source: The Treasury)	Level of uncertainty	Risk	Financial impact
Average change in CPI: +1.6%	Moderate	That actual inflation is higher than the forecast inflation	Movements in market prices will impact the Department's costs and revenues. A 0.1% change in inflation would equate to approximately a $5 million movement in operating expenditure
Average change in real GDP: +3.4%	Low	That GDP growth is lower than the forecast growth	Lower economic growth could affect discretionary income, and therefore, cause the Department to reduce the fees charged for its services, thereby reducing the Department's revenue

PBE FRS 42.59

PBE FRS 42.55(c)

PBE FRS 42.65(d)

PFA.45BA

The actual results achieved for the period covered by the forecast figures are likely to vary from actual results for the year ending 30 June 2023, and these variances may be material. Factors that could lead to material differences between the forecast financial statements and the actual results for the financial statements for the year ended 30 June 2023, in addition to the sources of uncertainty mentioned above, include changes to the baseline budget through new initiatives or technical adjustments. It is not intended that these forecast financial statements be updated subsequent to publication.

PBE FRS 42.60

The forecast figures have been prepared in accordance with NZ GAAP, and comply with Public Benefit Entity Standards (PBE Standards). The forecast financial statements comply with PBE FRS 42 *Prospective Financial Statements*.

The accounting policies that form the basis of the forecast financial statements are consistent with the current accounting policies underlying the preparation of the financial statements for the year ended 30 June 2022.

Appendix 11: Statutory disclosures not included in this publication

11.1. Local authorities

Reference to legislation	Disclosure	Description/Comment
LGA Schedule 10.27	Internal borrowing	In relation to each group of activities of the local authority, a local authority's annual report must include a statement of the amount of internal borrowing used for the purpose of the group of activities, the amount of funds borrowed and repaid during the reporting period, and the amount of interest (if any) paid in relation to the internal borrowing.
LGA Schedule 10.28	Council-controlled organisations	A local authority's annual report must include, in relation to each Council-controlled organisation in which the local authority is a shareholder: ► A report on the extent to which the local authority's significant policies and objectives in regard to ownership and control of the organisation (as set out in the relevant Long-term Plan or Annual Plan) have been implemented or attained in the reporting period to which the report relates ► A comparison between the nature and scope of the activities intended to be provided by the organisation in the reporting period to which the report relates (as set out in the relevant Long-term Plan or Annual Plan) and the nature and scope of the activities actually provided by the organisation in that reporting period, and ► A comparison between actual performance and the key performance targets and other measures set out in the relevant Long-term Plan or Annual Plan
LGA Schedule 10.30A	Rating base information	A local authority's annual report must state the following: ► The number of rating units within the district or region of the local authority at the end of the preceding reporting period ► The total capital value of rating units within the district or region of the local authority at the end of the preceding reporting period, and ► The total land value of rating units within the district or region of the local authority at the end of the preceding reporting period
LGA Schedule 10.31A	Insurance of assets	A local authority's annual report must state, as at the reporting date: ► The total value of all assets of the local authority that are covered by insurance contracts, and the maximum amount to which they are insured ► The total value of all assets of the local authority that are covered by financial risk sharing arrangements, and the maximum amount available to the local authority under those arrangements, and ► The total value of all assets of the local authority that are self-insured, and the value of any fund maintained by the local authority for that purpose
LGA Schedule 10.34A	Additional information to be included in annual report of unitary authority with local boards	This section includes additional information that must be included in the annual reports of a unitary authority of a district that has one or more local boards.
LGA Schedule 10.35	General	An annual report must include a report on the activities that the local authority has undertaken in the reporting period to establish and maintain processes to provide opportunities for Māori to contribute to the decision-making processes of the local authority.
LG(FRP)R.12	Disclosure statement in annual report	A local authority's annual report must contain a disclosure statement that discloses actual performance for each benchmark specified in Regulation 10 of the LG (FRP)R. The disclosure statement needs to cover actual performance in the reporting period of the annual report and in each of the preceding four years.

Appendix 11: Statutory disclosures not included in this publication *continued*

11.2. Government departments:

Reference to legislation	Disclosure	Description/Comment
PFA.45B(2)	Statement of departmental expenses and capital expenditure against appropriation	Government departments are required to present a comparison of actual operating and capital expenditure incurred in relation to each output class for which an appropriation from the Crown was received against the voted appropriation.
PFA.45B(2)	Statement of departmental unappropriated expenditure	Section 45B (2)(d) of the PFA requires government departments to provide an explanation for each unappropriated item reported.
Treasury instructions	Memorandum accounts	Memorandum accounts record the accumulated balance of surpluses and deficits incurred in the provision of certain outputs on a full cost-recovery basis. These accounts are used to separately disclose the cost of such outputs over the years, given that such information would otherwise just be aggregated as part of an entity's financial position. In general, full cost-recovery (including the capital charge) applies where departments supply services to third parties in the absence of competition or under a statutory monopoly. Please note that the structure of each memorandum account is to be approved jointly by the Minister of Finance and the relevant Minister responsible for the relevant appropriation and Responsible Minister (if different). Refer to the Treasury Instructions for further details.
Treasury instructions	Non-departmental schedules: ► Schedule of non-departmental income (with capital receipts included or in a separate statement) ► Schedule of non-departmental expenses ► Schedule of non-departmental assets ► Schedule of non-departmental liabilities ► Schedule of non-departmental commitments ► Schedule of non-departmental contingent liabilities and contingent assets, and ► Schedule of relevant non-departmental accounting policies.	In addition to the requirements of the PFA, government departments are also required by Treasury instructions to disclose supplementary information on any Crown activities that the Department manages. These disclosures need to be in the form of schedules, and must comply with NZ GAAP and with the accounting policies of the financial statements of the Government. As the non-departmental schedules are required to comply with NZ GAAP, they need to comply with PBE Standards. Therefore, the disclosures requirements for these schedules would be the same as those illustrated in the main body of this publication.

Appendix 11: Statutory disclosures not included in this publication *continued*

11.3. Crown entities

Reference to legislation	Disclosure
Crown Entities Act 2004: section 151(1)(a), (2)	Information that is necessary to enable an informed assessment to be made on the Crown entity's operations and performance for the financial year, including an assessment against the intentions, measures, and standards set out in the statement of intent prepared at the beginning of the year
Crown Entities Act 2004: section 151(1)(f)	Any direction given by a Minister in writing under any enactment during the financial year
Crown Entities Act 2004: section 151(1)(g)	Information on compliance with the obligation to be a good employer (including a Crown entity's equal employment opportunity programme)
Crown Entities Act 2004: section 151(1)(i)	Information required by section 20(3), which relates to the enforcement of certain natural person transactions
Crown Entities Act 2004: section 151(1)(j)	Information required by section 68(6), which relates to permission to act despite being interested in a matter

Appendix 12: On-going disclosures for early adoption of the Financial Instruments standards

Commentary

PBE IFRS 9 *Financial Instruments* (PBE IFRS 9) was issued as an interim measure to address 'mixed group' issues (i.e. the groups that contain both PBEs and for-profit entities) in the lead up to NZ IFRS 9 *Financial Instruments* (NZ IFRS 9) becoming effective on 1 January 2018. At the time of writing of this publication, PBE IFRS 9 is effective for periods beginning on or after 1 January 2022.

Early adoption of PBE IFRS 9 for government entities

PBE IFRS 9 was issued in January 2017 and partially replaces PBE IPSAS 29 *Financial Instruments: Recognition and Measurement* (PBE IPSAS 29). PBE IFRS 9 originally had an effective date of 1 January 2021. Due to the New Zealand Treasury's decision to adopt PBE IFRS 9 early, all government departments, and those Crown entities and public sector PBEs that form part of the New Zealand Government reporting entity were required to apply PBE IFRS 9 in the year ended 30 June 2019 and onwards.

Other early adopters of PBE IFRS 9 – Mixed groups

PBEs may have chosen to adopt PBE IFRS 9 early. This might be because they are part of a 'mixed group' (e.g. PBEs with for-profit controlled entities), which creates the complexity of unwinding the NZ IFRS 9 accounting in the consolidated PBE financial statements if PBE IFRS 9 is not adopted.

Introduction of PBE IPSAS 41 *Financial Instruments* (PBE IPSAS 41)

In 2019, the International Public Sector Accounting Standards Board (IPSASB) issued IPSAS 41, its own version of IFRS 9. The NZASB issued PBE IPSAS 41 in March 2019 and this standard will supersede PBE IFRS 9 and partially replace PBE IPSAS 29 with an effective date of 1 January 2022. On issuing PBE IPSAS 41, the NZASB also issued an amendment to PBE IFRS 9 which limits the adoption of PBE IFRS 9 to only those reporting periods beginning before 1 January 2020. Entities with reporting periods beginning on or after 1 January 2020 are not allowed to adopt PBE IFRS 9 early; however, they can instead adopt PBE IPSAS 41 early.

Example disclosures in appendix 12

This appendix includes the on-going disclosures required under PBE IFRS 9 to support PBEs that have chosen to adopt the standard early. In the majority of cases, it is expected that the disclosures required under PBE IFRS 9 will be the same as the disclosures in PBE IPSAS 41. For entities transitioning from PBE IPSAS 29 to PBE IPSAS 41 in the current reporting period, please refer to Appendix 13 for the transition disclosures. For a discussion about the transition from PBE IFRS 9 to PBE IPSAS 41, please refer to Appendix 14.

The references in this appendix are to PBE IFRS 9.

This appendix provides illustrative disclosures that reflect:

- The measurement and recognition requirements of the new Financial Instruments standards (PBE IFRS 9 or PBE IPSAS 41)
- The disclosure requirements of PBE IPSAS 30 *Financial Instruments: Disclosures* (PBE IPSAS 30) (and other standards) as amended by the new standards, and
- Other disclosures required upon first-time adoption of the new standards

Disclosure requirements which exist independently of the adoption of the Financial Instruments standards including fair value disclosures and financial risk management (except for the credit risk disclosures) and offsetting disclosures required by PBE IPSAS 30 are not illustrated here as they can be found in the main body of this publication.

The illustrative disclosures are for a fictitious PBE which is called Quality Group New Zealand Limited, and its controlled entities which are together referred to as the Group; the PBE and its entities are not related to Quality City Council itself. The Group is not required to present parent financial statements in addition to consolidated financial statements. Entities that are required to present additional parent financial statements (for example, due to legislative requirements) will need to provide the relevant disclosures for the parent as well.

In compiling the illustrative disclosures, the **following assumptions have been made:**

- Group's receivables and other debt instruments (term deposits and loans), except for quoted debt securities, are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest (SPPI). These financial assets are therefore held at amortised cost.
- Group's quoted debt securities (regular government and corporate bonds) are held to collect contractual cash flows and sell a significant amount on a relatively frequent basis. The Group has not elected to designate its quoted debt securities as measured at initial recognition at fair value through surplus or deficit. These financial assets are therefore carried at fair value through other comprehensive revenue and expense.

The Group has elected to classify irrevocably its non-listed equity investments at the date of initial application as measured at fair value through comprehensive revenue and expense since it intends to hold these investments for the foreseeable future.

Appendix 12: On-going disclosures for early adoption of the Financial Instruments standards *continued*

Commentary *continued*

- Listed equity securities are held for trading at fair value through surplus or deficit
- The Group has elected to adopt the simplified approach in calculating the expected credit losses for trade receivables
- The impairment provision for other debt instruments (term deposits and loans) and quoted debt securities is determined as 12 months expected credit losses under the general approach. The credit risk is not assumed to have increased since initial recognition.

The following financial statements and notes are affected by the adoption of PBE IFRS 9 and are included in this appendix:

- Statement of comprehensive revenue and expense
- Statement of changes in net assets/equity
- Note 2 (i), (j), (v)
- Note 27.1, 27.2, 27.3, 27.5
- Note 29, Note 30
- Note 37

Statement of comprehensive revenue and expense

PBE IPSAS 1.21(b)
PBE IPSAS 1.22.1(b)
PBE IPSAS 1.61
PBE IPSAS 1.63(c)
PBE IPSAS 1.63(b)

For the year ended 30 June 2022

	Note	Group		
		2022	2021	*PBE IPSAS 1.53*
		$000	$000	*PBE IPSAS1.21(e) LGA Schedule 10.29 PBE IPSAS 1.63(d), (e)*
Surplus for the year		**15,379**	**12,998**	*PBE IPSAS 1.98.1(a)*
Other comprehensive revenue and expense, net of tax				*PBE IPSAS 1.103.1(a)*
Net movement in cash flow hedges	37	(618)	24	
Net change in costs of hedging	37	(22)	-	
Net loss on debt instruments at fair value through other comprehensive revenue and expense		(15)	-	
Net loss on equity instruments at fair value through other comprehensive revenue and expense		(18)	-	
Revaluation gain on property, plant and equipment		24,311	-	
Other comprehensive revenue and expense for the year, net of tax		**23,638**	**24**	*PBE IPSAS 1.98.1(b)*
Total comprehensive revenue and expense for the year, net of tax		**39,017**	**13,022**	*PBE IPSAS 1.98.1(c)*
Total comprehensive revenue and expense for the year is attributable to:				
Non-controlling interest		715	239	*PBE IPSAS 1.98.2(b)(i)*
Council		39,302	12,786	*PBE IPSAS 1.98.2(b)(ii)*
		39,017	13,022	

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

Statement of changes in net assets/equity

PBE IPSAS 1.21(c)
PBE IPSAS 1.63(c)
PBE IPSAS 1.63(b)

For the year ended 30 June 2022

	Accumulated comprehensive revenue and expense	Asset revaluation reserve	Cash flow hedge reserve	Cost of hedging reserve	Fair value reserve of financial assets at FVOCRE*	Targeted rates reserve	Special projects reserve	Total equity attributable to the Council	Non-controlling interest	Total equity	*PBE IPSAS 1.119(b), (c) PBE IPSAS 1.53 PBE IPSAS 1.63(d), (e)*
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	
As at 1 July 2021	**928,269**	**1,100,297**	**(70)**	**-**	**8**	**15,653**	**16,532**	**2,060,689**	**687**	**2,061,376**	*PBE IPSAS 1.118(b)*
Surplus for the year	15,091	-	-	-	-	-	-	15,091	288	15,379	
Other comprehensive revenue and expense	-	24,311	(618)	(22)	(33)	-	-	23,638	-	23,638	
Total comprehensive revenue and expense for the year (refer to Note 37)	**15,091**	**24,311**	**(618)**	**(22)**	**(33)**	**-**	**-**	**38,729**	**288**	**39,017**	*PBE IPSAS 1.118(a)*
Net transfers (from)/to targeted rates reserve	(196)	-	-	-	-	196	-	-	-	-	
Net transfers to/(from) special projects reserve	247	-	-	-	-	-	(247)	-	-	-	
Transactions with owners in their capacity as owners:											*PBE IPSAS 1.119(a)*
Acquisition of controlled entity	-	-	-	-	-	-	-	-	1,547	1,547	
Acquisition of non-controlling interest	(190)	-	-	-	-	-	-	(190)	(801)	(991)	
As at 30 June 2022	**943,221**	**1,124,608**	**(618)**	**(22)**	**(25)**	**15,849**	**16,285**	**2,099,228**	**1,721**	**2,100,949**	

* Fair value through other comprehensive revenue and expense (FVOCRE)

Statement of changes in net assets/equity

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

For the year ended 30 June 2022

	Accumulated comprehensive revenue and expense	Asset revaluation reserve	Cash flow hedge reserve	Cost of hedging reserve	Fair value reserve of financial assets at FVOCRE	Targeted rates reserve	Special projects reserve	Total equity attributable to the Council	Non-controlling interest	Total equity	
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	*PBE IPSAS 1.63(b)* *PBE IPSAS 1.119(b)* *PBE IPSAS 1.119(c)* *PBE IPSAS 1.63(d), (e)*
As at 1 July 2020	**915,120**	**1,100,297**	**(94)**	**-**	**8**	**15,770**	**16,805**	**2,047,906**	**497**	**2,048,403**	
Surplus for the year	12,759	-	-	-	-	-	-	12,759	239	12,998	
Other comprehensive revenue and expense	-	-	24	-	-	-	-	24	-	24	
Total comprehensive revenue and expense for the year	**12,759**	**-**	**24**	**-**	**-**	**-**	**-**	**12,783**	**239**	**13,022**	*PBE IPSAS 1.118(a)*
Net transfers to/(from) targeted rates reserve	117	-	-	-	-	(117)	-	-	-	-	
Net transfers to/(from) special projects reserve	273	-	-	-	-	-	(273)	-	-	-	
Transactions with owners in their capacity as owners:											*PBE IPSAS 1.119(a)*
Dividend paid to non-controlling interest	-	-	-	-	-	-	-	-	(49)	(49)	
As at 30 June 2021	**928,269**	**1,100,297**	**(70)**	**-**	**8**	**15,653**	**16,532**	**2,060,689**	**687**	**2,061,376**	

Appendix 12: On-going disclosures for early adoption of the Financial Instruments standards *continued*

2. Summary of significant accounting policies *continued*

(i) Financial instruments – initial recognition and subsequent measurement

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

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, FVOCRE, and fair value through surplus or deficit. *PBE IPSAS 30.25* *PBE IFRS 9.4.1.1*

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of short-term receivables and payables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through surplus or deficit, transaction costs. *PBE IFRS 9.4.1.1* *PBE IFRS 9.5.1.1* *PBE IFRS 4.1.2(b)*

In order for a financial asset to be classified and measured at amortised cost or FVOCRE, it needs to give rise to cash flows that are SPPI on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through surplus or deficit, irrespective of the business model. *PBE IFRS 9.B4.1.1*

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at FVOCRE are held within a business model with the objective of both holding to collect contractual cash flows and selling. *PBE IFRS 9.3.1.2*

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset. *PBE IFRS 9.5.2.1*

The Group's financial assets include: cash and term deposits, receivables from exchange and non-exchange transactions, loans, quoted and unquoted financial instruments and derivatives financial instruments.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified into four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at FVOCRE with recycling of cumulative gains or losses (debt instruments)
- Financial assets designated at FVOCRE with no recycling of cumulative gains or losses upon derecognition (equity instruments)
- Financial assets at fair value through surplus or deficit

Appendix 12: On-going disclosures for early adoption of the Financial Instruments standards *continued*

2. Summary of significant accounting policies *continued*

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

Financial assets at amortised cost (debt instruments)

PBE IFRS 9.4.1.2
PBE IFRS 9.5.4

Financial assets at amortised cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains or losses are recognised in surplus or deficit when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes receivables from exchange transactions, receivables from non-exchange transactions, term deposits and loan to an associate included under other non-current financial assets.

Commentary

For entities that have more complex financial instruments than most entities, then SPPI assessment can be particularly challenging. The application guidance for both PBE IFRS 9 and the EY International GAAP 2021 publication provides specific examples of instruments that pass or fail the SPPI test. Such entities should also consider providing more detailed accounting policies in relation to their SPPI and business model assessments. Only equity instruments that meet the definition of equity from the issuer's perspective can be designated at FVOCRE at initial recognition. Under certain circumstances, PBE IFRS 9 also allows entities to elect to designate non-financial contracts, such as commodity contracts held for their own use, as financial assets at fair value through surplus or deficit.

Financial assets at FVOCRE (debt instruments)

PBE IFRS 9.4.1.2A
PBE IFRS 9.5.7.10 - 11

For debt instruments at FVOCRE, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of financial performance and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCRE. Upon derecognition, the cumulative fair value change recognised in OCRE is recycled to surplus or deficit.

The Group's debt instruments at FVOCRE includes investments in quoted debt securities included under other non-current financial assets.

Financial assets designated at FVOCRE (equity instruments)

PBE IFRS 9.5.7.5

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at FVOCRE when they meet the definition of equity under PBE IPSAS 28 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

PBE IPSAS 9.33 - 34
PBE IFRS 9.B5.7.1

Gains or losses on these financial assets are never recycled to surplus or deficit. Dividends are recognised as revenue from exchange transaction in the statement of financial performance when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCRE. Equity instruments designated at FVOCRE are not subject to impairment assessment.

The Group elected to classify irrevocably its unquoted equity shares under this category.

Financial assets at fair value through surplus or deficit

PBE IFRS 9.4.1.4
PBE IFRS 9.5.7.1

Financial assets at fair value through surplus or deficit are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of financial performance.

This category includes derivative instruments and quoted equity shares which the Group had not irrevocably elected to classify at FVOCRE. Dividends on listed equity investments are recognised as revenue from exchange transaction in the statement of financial performance when the right of payment has been established.

Appendix 12: On-going disclosures for early adoption of the Financial Instruments standards *continued*

2. Summary of significant accounting policies *continued*

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

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through surplus or deficit. Embedded derivatives are measured at fair value with changes in fair value recognised in surplus or deficit. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through surplus or deficit category. *PBE IFRS 9.4.3.3*

Derecognition

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

- The rights to receive cash flows from the asset have expired, or *PBE IFRS 9.3.2.3(a)*
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset *PBE IFRS 9.3.2.4(a)* *PBE IFRS 9.3.2.4(b)*

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained. *PBE IFRS 9.3.2.6(a)* *PBE IFRS 9.3.2.6(c)* *PBE IFRS 9.3.2.4(b)*

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay. *PBE IFRS 9.3.2.16*

Impairment *PBE IFRS 9.5.5.1*

Further disclosures relating to impairment of financial assets are also provided in the following notes:

Disclosures for significant assumptions	Note 3
Debt instruments at FVOCRE	Note 27.1
Receivables from non-exchange transactions	Note 29
Receivables from exchange transactions	Note 30

Appendix 12: On-going disclosures for early adoption of the Financial Instruments standards *continued*

2. Summary of significant accounting policies *continued*

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

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through surplus or deficit. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms. *PBE IFRS 9.5.5.1*

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL). *PBE IFRS 9.5.5.3* *PBE IFRS 9.5.5.5*

For receivables from non-exchange transactions and receivables from exchange transactions, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. *PBE IFRS 9.5.5.15* *PBE IFRS 9.B5.5.35*

Commentary

An entity has a policy choice to apply either the simplified approach or the general approach for the following receivables:

- All receivables from exchange transactions that result from transactions that are within the scope of PBE IPSAS 9
- All receivables from non-exchange transactions that result from transactions that are within the scope of PBE IPSAS 23
- All lease receivables that result from transactions that are within the scope of PBE IPSAS 13. The policy choice may be applied separately to finance and operating lease receivables

For debt instruments at FVOCRE, the Group applies the low credit risk simplification. At every reporting date, the Group evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the internal credit rating of the debt instrument. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due. *PBE IFRS 9.5.5.3* *PBE IFRS 9.5.5.5*

The Group's debt instruments at FVOCRE comprise solely of quoted debt securities that are graded in the top investment category (Very Good and Good) by the Quality Credit Rating Agency and, therefore, are considered to be low credit risk investments. It is the Group's policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. The Group uses the ratings from the Quality Credit Rating Agency both to determine whether the debt instrument has significantly increased in credit risk and to estimate ECLs. *PBE IPSAS 30.42F(a)* *PBE IPSAS 30.42G(a)(ii)* *PBE IFRS 9.B5.5.22-27*

Appendix 12: On-going disclosures for early adoption of the Financial Instruments standards *continued*

2. Summary of significant accounting policies *continued*

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

Commentary

PBE IFRS 9 contains an important simplification that, if a financial instrument has a low credit risk, then an entity is allowed to assume at the reporting date that no significant increases in credit risk have occurred. The low credit risk concept was intended to provide entities relief from tracking changes in the credit risk of high quality financial instruments. This simplification is optional and the low credit risk simplification can be elected on an instrument-by-instrument basis.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

PBE IPSAS 30.42F(b)
PBE IFRS 9.5.5.9
PBE IFRS 9.B5.5.37

Financial liabilities

Initial recognition and measurement

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

PBE IPSAS 30.9
PBE IPSAS 30.25

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

PBE IFRS 9.5.1.1

The Group's financial liabilities include payables under exchange transactions, loans and borrowings including bank overdrafts, financial guarantee contracts, contingent consideration and derivative financial instruments.

Subsequent measurement

For purposes of subsequent measurement, financial liabilities are classified in two categories:

- Financial liabilities at fair value through surplus or deficit
- Financial liabilities at amortised cost (loans and borrowings)

Financial liabilities at fair value through surplus or deficit

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

PBE IFRS 9.4.2.1(a)
PBE IFRS 9.5.7.1

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by PBE IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the statement of financial performance.

PBE IFRS 9.5.7.1

Financial liabilities designated upon initial recognition at fair value through surplus or deficit are designated at the initial date of recognition, and only if the criteria in PBE IFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through surplus or deficit.

Appendix 12: On-going disclosures for early adoption of the Financial Instruments standards *continued*

2. Summary of significant accounting policies *continued*

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

Financial liabilities at amortised cost (loans and borrowings)

PBE IFRS 9.4.2.1
PBE IFRS 9.5.7.2

This is the category of financial liabilities that is most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains or losses are recognised in surplus or deficit when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of financial performance.

This category generally applies to interest-bearing loans and borrowings. For more information, refer to Note 27.2.

Derecognition

PBE IFRS 9.3.3.1
PBE IFRS 9.3.3.3
PBE IFRS 9.3.3.2

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

Offsetting of financial instruments

PBE IPSAS 28.47

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

(j) Derivative financial instruments and hedge accounting

PBE IFRS 9.5.1.1
PBE IPSAS 28.25

The Group uses derivative financial instruments, such as forward currency, forward commodity contracts and interest rate swaps, to hedge its foreign currency risks, interest rate risks and commodity price risks, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

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

- *Fair value hedges* when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment *PBE IFRS 9.6.5.2(a)*
- *Cash flow hedges* when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment *PBE IFRS 9.6.5.2(b)*
- *Hedges of a net investment in a foreign operation* *PBE IFRS 9.6.5.2(c)*

PBE IFRS 9.6.4.1

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

Appendix 12: On-going disclosures for early adoption of the Financial Instruments standards *continued*

2. Summary of significant accounting policies *continued*

(j) Derivative financial instruments and hedge accounting *continued*

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements: *PBE IFRS 9.6.4.1*

- There is 'an economic relationship' between the hedged item and the hedging instrument
- The effect of credit risk does not 'dominate the value changes' that result from that economic relationship
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item

Hedges that meet all the qualifying criteria for hedge accounting are accounted for, as described below:

Fair value hedges

PBE IFRS 9.6.5.8
PBE IFRS 9.6.5.10

The change in the fair value of a hedging instrument is recognised in the statement of financial performance as other expense. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the statement of financial performance as other expenses.

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

If the hedged item is derecognised, the unamortised fair value is recognised immediately in surplus or deficit.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in surplus or deficit. *PBE IFRS 9.6.5.9*

Cash flow hedges

PBE IFRS 9.6.5.11

The effective portion of the gain or loss on the hedging instrument is recognised in OCRE in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of financial performance. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

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

Appendix 12: On-going disclosures for early adoption of the Financial Instruments standards *continued*

2. Summary of significant accounting policies *continued*

(j) Derivative financial instruments and hedge accounting *continued*

The Group designates only the spot element of forward contracts as a hedging instrument. The forward element is recognised in OCRE and accumulated in a separate component of net asset/equity under cost of hedging reserve. *PBE IFRS 9.6.5.16*

The amounts accumulated in OCRE are accounted for, depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in net asset/equity is removed from the separate component of net asset/equity and included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification adjustment and will not be recognised in OCRE for the reporting period. This also applies where the hedged forecast transaction of a non-financial asset or non-financial liability subsequently becomes a firm commitment for which fair value hedge accounting is applied. *PBE IFRS 9.6.5.11*

For any other cash flow hedges, the amount accumulated in OCRE is reclassified to surplus or deficit as a reclassification adjustment in the same period or periods during which the hedged cash flows affect surplus or deficit.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in OCRE must remain in accumulated OCRE if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to surplus or deficit as a reclassification adjustment. After discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated OCRE must be accounted for depending on the nature of the underlying transaction as described above.

(v) Equity

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

Equity is made up of the following components:

Accumulated comprehensive revenue and expense

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

Reserves *PBE IPSAS 1.95(c)*

(i) Asset revaluation reserve

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

(ii) Available-for-sale reserve

This reserve is for the revaluation of AFS financial assets, which are measured at FVOCRE after initial recognition.

(iii) Cash flow hedge reserve *PBE IFRS 9.6.5.11*

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

(iv) Cost of hedging reserve *PBE IPSAS 9.6.5.15* *PBE IFRS 9.6.5.16*

This reserve is for the revaluation of a forward element of forward contracts.

Appendix 12: On-going disclosures for early adoption of the Financial Instruments standards *continued*

2. Summary of significant accounting policies *continued*

(v) Equity *continued*

(v) Fair value reserve of financial assets at FVOCRE

This reserve is for the revaluation of debt instrument at FVOCRE, which are measured at FVOCRE after initial recognition.

(vi) Targeted rates reserve

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

(vii) Special projects reserve

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

27. Financial assets and financial liabilities

27.1 Financial assets

	2022 $000	2021 $000	*PBE IPSAS 30.9* *PBE IPSAS 30.10*
Derivatives designated as hedging instruments			*PBE IPSAS 30.11*
Cash flow hedges:			
Foreign exchange forward contracts	251	153	
	251	**153**	*PBE IPSAS 0.28A(a)*
Financial instruments at fair value through surplus or deficit			
Derivatives not designated as hedges:			*PBE IPSAS 30.11(a)*
Foreign exchange forward contracts	640	-	
Embedded derivatives	210	-	
Quoted equity shares	337	300	
	1,187	**300**	*PBE IPSAS 30.RDR 11.1.A*
Equity instruments designated at FVOCRE			
Unquoted equity shares			
New Zealand Local Government Funding Agency	1,038	-	*PBE IPSAS 0.14A(a)*
Urban Developers Limited	-	-	
	1,038	**-**	*PBE IPSAS 30.11(h)*
Debt instruments designated at FVOCRE			
Quoted debt securities	612	600	
Unquoted equity shares	-	898	
	612	**1,498**	*PBE IPSAS 30.11(h)*
Total financial assets at fair value	**3,089**	**1,951**	

Appendix 12: On-going disclosures for early adoption of the Financial Instruments standards *continued*

27. Financial assets and financial liabilities *continued*

27.1. Financial assets *continued*

	2022 $000	2021 $000	
Debt instruments at amortised cost (excluding cash – refer to Note 31)			
Receivables from exchange transactions	14,387	12,674	
Receivables from non-exchange transactions	2,317	1,400	
Term deposits	3,674	1,685	
Loan to an associate	213	8	
	20,992	**15,767**	*PBE IPSAS 30.11(f)*
Total financial assets at amortised costs	**20,992**	**15,767**	
Total financial assets (excluding cash)	**24,081**	**17,718**	
Represented by:			
Total current	17,325	14,227	
Total non-current	6,756	3,491	
	24,081	**17,718**	

Please note that in the disclosure above, which includes financial assets only, the amount of receivables from non-exchange transactions is not equal to the total receivables from non-exchange transactions as disclosed in the statement of financial position and in Note 29. This is because the Group's total receivables from non-exchange transactions include rates receivable, which generally represents a statutory right to receive cash, rather than a contractual right to do so. As such, rates receivable would not meet the definition of financial assets as per PBE IPSAS 28.9, and therefore, have been excluded from the financial assets disclosure above.

Derivatives not designated as hedging instruments reflect the positive change in fair value of those foreign exchange forward contracts, which are not designated in hedge relationships, but are nevertheless intended to reduce the level of foreign currency risk for expected sales and purchases.

PBE IPSAS 30.9
PBE IPSAS 30.10

Derivatives designated as hedging instruments reflect the positive change in fair value of foreign exchange forward contracts designated as cash flow hedges to hedge highly probable forecast sales in US Dollars (USD).

Financial assets at fair value through surplus or deficit include investments in quoted equity shares. Fair values of these equity shares are determined by reference to published price quotations in an active market

Equity instruments designated at FVOCRE include investments in equity shares of unquoted companies, namely the LGFA and Urban Developers Limited. The Group holds non-controlling interests (between 2% and 9%) in these companies These investments were irrevocably designated at FVOCRE as the Group considers these investments to be strategic in nature. During the year ended 30 June 2022, the Group sold its equity interest in Urban Developers Limited as this investment no longer coincides with the Group's investment strategy. The fair value on the date of sale was $50,000 and the accumulated gain recognised in OCRE of $7,000 was transferred to accumulated comprehensive revenue and expense. For the year ended 30 June 2022, the Group received dividends of $3,000 from the LGFA (2021: nil).

PBE IPSAS 30.24(a)(vii)

Debt instruments designated at FVOCRE include investments in quoted government and corporate bonds. Fair values of these debt instruments are determined by reference to published price quotations in an active market.

Debt instruments at amortised cost are held to maturity and generate a fixed or variable interest income for the Group. The carrying value may be affected by changes in the credit risk of the counterparties.

Appendix 12: On-going disclosures for early adoption of the Financial Instruments standards *continued*

27. Financial assets and financial liabilities *continued*

27.2. Financial liabilities

Other financial liabilities

	Group 2022 $000	2021 $000	
			PBE IPSAS 30.9 *PBE IPSAS 30.10* *PBE IPSAS 30.11*
Derivatives designated as hedging instruments			
Cash flow hedges:			
Foreign exchange forward contracts	170	254	
Commodity forward contracts	980	-	
Fair value hedges:			
Interest rate swaps	35	-	
	1,185	254	*PBE IPSAS 30.28A(a)*
Financial liabilities at fair value through surplus or deficit			*PBE IPSAS 30.11(e)*
Contingent consideration (refer to Note 6)	1,072	-	
Derivatives not designated as hedges:			
Foreign exchange forward contracts	720	-	
Embedded derivatives	782	-	
	2,574	-	*PBE IPSAS 30.RDR 11.1*
Total financial liabilities at fair value	3,759	254	
Other financial liabilities at amortised cost, other than interest-bearing loans and borrowings			*PBE IPSAS 30.11(g)*
Payables under exchange transactions	19,820	21,073	
Financial guarantee contracts	87	49	
Total financial liabilities at amortised cost	19,907	21,122	
Total financial liabilities	23,666	21,376	
Represented by:			
Total current	22,164	21,376	
Total non-current	1,502	-	
	23,666	21,376	

Appendix 12: On-going disclosures for early adoption of the Financial Instruments standards *continued*

27. Financial assets and financial liabilities *continued*

27.2. Financial liabilities *continued*

Commentary

When PBE IPSAS 30.9 requires disclosures by class of financial instrument, Tier 2 PBEs are neither required to group financial instruments into classes, nor to provide sufficient information to permit a reconciliation to the line items presented in the statement of financial position. However, Tier 2 PBEs are required to disclose the carrying amount of each category of financial assets and liabilities, as required by PBE IPSAS 30.11.

According to PBE IPSAS 30.RDR 11.1, Tier 2 PBEs are only required to disclose the carrying amount of (i) financial assets measured at fair value through surplus or deficit and (ii) financial liabilities at fair value measured through surplus or deficit. The only financial instruments at fair value through surplus or deficit that the Group holds are classified as held for trading. The Group does not hold any financial instruments at fair value through surplus or deficit that have been designated as such upon initial recognition.

PBE IPSAS 30.38

Derivatives designated as hedging instruments reflect the negative change in fair value of foreign exchange forward contracts, designated as cash flow hedges to hedge highly probable future purchases in GBP. This disclosure also includes the changes in fair value of commodity forward contracts entered into during 2022.

Derivatives not designated as hedging instruments reflect the negative change in fair value of those foreign exchange forward contracts that are not designated in hedge relationships, but are, nevertheless, intended to reduce the level of foreign currency risk for expected sales and purchases.

Contingent consideration

PBE IPSAS 40.120(g)

As part of the purchase agreement with the previous owner of Quality Property Management Limited, a contingent consideration has been agreed. This consideration is dependent on the surplus before income tax of Quality Property Management Limited during a 12-month period. The fair value of the contingent consideration at the acquisition date was $714,000. The fair value increased to $1,071,500 as at 30 June 2022 due to a significantly enhanced performance compared to budget. The contingent consideration is due for final measurement and payment to the former shareholders on 31 March 2023. Refer to Note 6 for further details.

27.3. Hedging activities and derivatives

PBE IPSAS 30.26A

The Group is exposed to certain risks relating to its ongoing business operations. The primary risks managed using derivative instruments are foreign currency risk, commodity price risk, and interest rate risk.

The Group's risk management strategy and how it is applied to managing risk are explained in Note 27.5 below.

Appendix 12: On-going disclosures for early adoption of the Financial Instruments standards *continued*

27. Financial assets and financial liabilities *continued*

27.3. Hedging activities and derivatives *continued*

Commentary

The disclosure requirements for entities applying hedge accounting are set out in PBE IPSAS 30.25A-28G. The objective of the hedge accounting disclosures is for entities to disclose information about:

- The risk management strategy and how it is applied to manage risks
- How the risk management activities may affect the amount, timing and uncertainty of future cash flows
- The effect hedge accounting had on the statement of financial position, the statement of comprehensive revenue and expense and the statement of changes in net assets/equity

In applying this objective, an entity has to consider the necessary level of detail, the balance between different disclosure requirements, the appropriate level of disaggregation and whether additional explanations are necessary to meet the objective.

The hedge accounting disclosures should either be presented in a single note, or a separate section of the financial statements. An entity may include information by cross-referencing to information presented elsewhere, such as a risk report, provided that information is available to users of the financial statements on the same terms as the financial statements and at the same time.

When paragraphs 26A–28F of PBE IPSAS 30 require the entity to separate by risk category the information disclosed, Tier 2 PBEs are not required to determine each risk category on the basis of the risk exposures an entity decides to hedge and for which hedge accounting is applied. Tier 2 PBEs are not required to determine risk categories consistently for all hedge accounting disclosures.

A Tier 2 PBE is not required to present the disclosures in a single note or separate section in its financial statements.

Derivatives not designated as hedging instruments

PBE IPSAS 30.26B

The Group uses foreign currency denominated borrowings and foreign exchange forward contracts to manage some of its transaction exposures. The foreign exchange forward contracts are not designated as cash flow hedges and are entered into for periods consistent with foreign currency exposures of the underlying transactions, generally from one to 24 months.

Cash flow hedges

Foreign currency risk

Foreign exchange forward contracts are designated as hedging instruments in cash flow hedges of forecast sales in USD and forecast purchases in GBP. These forecast transactions are highly probable, and they comprise about 25% of the Group's total expected sales in USD and about 65% of its total expected purchases in GBP. The foreign exchange forward contract balances vary with the level of expected foreign currency sales and purchases and changes in foreign exchange forward rates. *PBE IPSAS 30.29B(a)*

Commodity price risk

The Group purchases copper on an ongoing basis as its operating activities in the Port division require a continuous supply of copper for the production of its port devices. The increased volatility in copper price over the past 12 months has led to the decision to enter into commodity forward contracts.

These contracts, which commenced on 1 July 2021, are expected to reduce the volatility attributable to price fluctuations of copper. Hedging the price volatility of forecast copper purchases is in accordance with the risk management strategy outlined by the Board of Directors.

Appendix 12: On-going disclosures for early adoption of the Financial Instruments standards *continued*

27. Financial assets and financial liabilities *continued*

27.3. Hedging activities and derivatives *continued*

There is an economic relationship between the hedged items and the hedging instruments as the terms of the foreign exchange contracts match the terms of the expected highly probable forecast transactions (i.e. notional amount and expected payment date). The Group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risk of the foreign exchange contracts are identical to the hedged risk components. To test the hedge effectiveness, the Group uses the hypothetical derivative method and compares the changes in the fair value of the hedging instruments against the changes in fair value of the hedged items attributable to the hedged risks.

PBE IPSAS 30.26B(b)
PBE IPSAS 30.26B(c)
PBE IPSAS 30.26C

The hedge ineffectiveness can arise from:

PBE IPSAS 30.26C(b)

- Differences in the timing of the cash flows of the hedged items and the hedging instruments
- Different indexes (and accordingly different curves) linked to the hedged risk of the hedged items and hedging instruments
- The counterparties' credit risk differently impacting the fair value movements of the hedging instruments and hedged items
- Changes to the forecasted amount of cash flows of hedged items and hedging instruments

PBE IPSAS 30.27B

The Group are holding the following foreign exchange contracts:

	Maturity					
	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	Total
As at 30 June 2022*						
Foreign exchange forward contracts: (highly probable forecast sales)						
Notional amount (in $000)	2,950	3,000	3,150	3,450	3,250	**15,800**
Average forward rate (NZD/USD)	1.166	1.169	1.172	1.175	1.185	-
Foreign exchange forward contracts: (highly probable forecast purchases)						
Notional amount (in $000)	1,450	1,330	1,880	1,750	1,550	**7,960**
Average forward rate (NZD/GBP)	0.876	0.877	0.878	0.879	0.881	-
Commodity forward contracts						
Notional amount (in tonnes)	-	-	450	530	-	**980**
Notional amount (in $000)	-	-	2,600	3,000	-	**5,600**
Average hedged rate (in $000 per tonne)	-	-	5.77	5.66	-	-

* Please note comparatives have not been presented.

Appendix 12: On-going disclosures for early adoption of the Financial Instruments standards *continued*

27. Financial assets and financial liabilities *continued*

27.3. Hedging activities and derivatives *continued*

The impact of the hedging instruments on the statement of financial position of the Group was as follows.

PBE IPSAS 30.28A

PBE IPSAS 30.28A(a), (b), (c), (d)

	Notional amount $000	Carrying amount $000	Line item in the statement of financial position	Change in fair value used for measuring ineffectiveness for the period $000
As at 30 June 2022*				
Foreign exchange forward contracts (NZD/USD)	15,800	252	Other current financial assets	386
Foreign exchange forward contracts (NZD/GBP)	7,960	(170)	Other current financial liabilities	(99)
Commodity forward contracts	5,600	(980)		(980)

* Please note comparatives have not been presented.

Commentary

A Tier 2 PBE is not required to make the disclosures required by paragraph 28A of PBE IPSAS 30 in a PBE IPSAS 30.RDR 28A.1 tabular format.

The impact of hedged items on the statement of financial position of the Group was as follows.

PBE IPSAS 30.28A

PBE IPSAS 30.28B(b)

	30 June 2022*		
	Change in fair value used for measuring ineffectiveness $000	Cash flow hedge reserve $000	Cost of hedging reserve $000
Highly probable forecast sales	386	165	12
Highly probable forecast purchases	(99)	(110)	(9)
Cooper purchases	(915)	(617)	(23)

* Please note comparatives have not been presented.

Commentary

A Tier 2 PBE is not required to make the disclosures required by paragraph 28B of PBE IPSAS 30 in a PBE IPSAS 30.RDR 28B.1 tabular format.

Appendix 12: On-going disclosures for early adoption of the Financial Instruments standards *continued*

27. Financial assets and financial liabilities *continued*

27.3. Hedging activities and derivatives *continued*

The effect of the cash flow hedge in the statement of financial performance and the statement of comprehensive revenue and expense of the Group was as follows.

PBE IPSAS 30.28C(b)

Year ended 30 June 2022*	Total hedging gain/(loss) recognised in OCRE $000	Ineffective-ness recognised in surplus or deficit $000	Line item in the statement of financial performance	Cost of hedging recognised in OCRE $000	Amount reclassified from OCRE to surplus or deficit $000	Line item in the statement of financial performance
Highly probable forecast sales	386	-	-	21	(283)	Revenue
Highly probable forecast purchases	(99)	-	-	(16)	-	-
Copper purchases	(915)	65	-	(33)	-	-

* Please note comparatives have not been presented.

Commentary

A Tier 2 PBE is not required to make the disclosures required by paragraph 28C of PBE IPSAS 30 in a PBE IPSAS 30.RDR 28C.1 tabular format.

Fair value hedge

PBE IPSAS 30.26B(a)

As at 30 June 2022, the Group had an interest rate swap agreement in place with a notional amount of USD1,570,000 ($2,246,000) (2021: Nil) whereby the Group receives a fixed rate of interest of 8.25% and pays interest at a variable rate equal to LIBOR+0.2% on the notional amount. The swap is being used to hedge the exposure to changes in the fair value of its 8.25% secured loan.

PBE IPSAS 30.26C(a)

There is an economic relationship between the hedged item and the hedging instrument as the terms of the interest rate swap match the terms of the fixed rate loan (i.e. notional amount, maturity, payment and reset dates). The Group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risk of the interest rate swap is identical to the hedged risk component. To test the hedge effectiveness, the Group uses the hypothetical derivative method and compares the changes in the fair value of the hedging instrument against the changes in fair value of the hedged item attributable to the hedged risk.

Appendix 12: On-going disclosures for early adoption of the Financial Instruments standards *continued*

27. Financial assets and financial liabilities *continued*

27.3. Hedging activities and derivatives *continued*

The hedge ineffectiveness can arise from:

- Different interest rate curve applied to discount the hedged item and hedging instrument
- Differences in timing of cash flows of the hedged item and hedging instrument
- The counterparties' credit risk differently impacting the fair value movements of the hedging instrument and hedged item

The impact of the hedging instrument on the statement of financial position of the Group as at 30 June 2022 was as follows.

PBE IPSAS 30.28A

PBE IPSAS 30.28A(a)
PBE IPSAS 30.28A(b)
PBE IPSAS 30.28A(c)
PBE IPSAS 30.28A(d)

	Notional amount US$000	Carrying amount $000	Line item in the statement of financial position	Change in fair value used for measuring ineffectiveness for the period $000
Interest rate swap	1,570	35	Other current financial liabilities	35

Commentary

A Tier 2 PBE is not required to make the disclosures required by paragraph 28A of PBE IPSAS 30 in a PBE IPSAS 30.RDR 28A.1 tabular format.

The impact of the hedged item on the statement of financial position of the Group as at 30 June 2022 was as follows.

PBE IPSAS 30.28B(a)

	Notional amount $000	Accumulated fair value adjustments $000	Line item in the statement of financial position	Change in fair value used for measuring ineffectiveness for the period $000
Fixed-rate borrowing	2,246	35	Interest-bearing loans and borrowings	35

Commentary

A Tier 2 PBE is not required to make the disclosures required by paragraph 28B of PBE IPSAS 30 in a PBE IPSAS 30.RDR 28B.1 tabular format.

Appendix 12: On-going disclosures for early adoption of the Financial Instruments standards *continued*

27. Financial assets and financial liabilities *continued*

27.3. Hedging activities and derivatives *continued*

The ineffectiveness recognised in the statement of financial performance was immaterial.

Impact of hedging on net assets/equity

PBE IPSAS 30.28E
PBE IPSAS 30.28F

The information set out below is the reconciliation of each component of net assets/equity and the analysis of other comprehensive revenue and expense.

	Cash flow hedge reserve $000	Cost of hedging reserve $000
As at 30 June 2021*	(70)	-
Effective portion of changes in fair value arising from:		
Foreign exchange forward contracts – forecast sales	365	21
Foreign exchange forward contracts – forecast purchases	(83)	(16)
Commodity forward contracts	(882)	-
Amount reclassified to surplus or deficit	(283)	(4)
Amount transferred to inventories	180	3
Tax effect	211	9
As at 30 June 2022	**(562)**	**(20)**

* Please note comparatives have not been presented.

Embedded derivatives

PBE IFRS 9.4.3.3

During the year ended 30 June 2022, the Group entered into long-term sale contracts with a customer in Canada. The functional currency of the customer is USD. The selling price in the contracts is fixed and set in Canadian dollars (CAD). The contracts require physical delivery and will be held for the purpose of the delivery of the commodity in accordance with the buyer's expected sale requirements. The contracts have embedded foreign exchange derivatives that are required to be separated.

The Group also entered into various purchase contracts for brass and chrome (for which there is an active market) with a number of suppliers in South Africa and Russia. The prices in these purchase contracts are linked to the price of electricity. The contracts have embedded commodity swaps that are required to be separated.

The embedded foreign currency and commodity derivatives have been separated and are carried at fair value through surplus or deficit. The carrying values of the embedded derivatives as at 30 June 2022 amounted to $210,000 (other financial assets) and $782,000 (other financial liabilities). The effects on surplus or deficit were reflected in finance income and finance costs, respectively.

Appendix 12: On-going disclosures for early adoption of the Financial Instruments standards *continued*

27. Financial assets and financial liabilities *continued*

27.5. Financial risk management objectives and policies

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, thus leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily receivables from exchange transactions and receivables from non-exchange transactions) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

PBE IPSAS 30.40
PBE IPSAS 30.42B

Receivables from non-exchange transactions

The majority of the Group's receivables from non-exchange transactions arise from the Group's statutory functions. The Group is not exposed to material concentration of credit risk around rates receivables as the Group has a statutory right to recover outstanding funds.

Commentary

Please note that rates receivable, which generally represents a statutory right to receive cash rather than a contractual right to do so would not meet the definition of financial assets as per PBE IPSAS 28.9.

The remaining balance of receivables from non-exchange transactions relates to fines receivables. Fines receivable are generally on terms of 30 days. Under the Group's policy outstanding balances are regularly monitored. Receivables are grouped into homogenous groups based on the specific debtor's factors and assessed for impairment collectively. The calculation is based on actual incurred historical data adjusted for forward looking economic factors. The maximum exposure to credit risk at the reporting date is the carrying value of fines receivable disclosed in Note 29.

The gross carrying amount of fines receivable and the exposure to credit risk are set out in the following table.

PBE IPSAS 30.42M
PBE IPSAS 30.42N

	Receivables from non-exchange transactions					
	Days past due					
	Current	< 30 days	30 - 60 days	61 - 90 days	>91 days	Total
	$000	$000	$000	$000	$000	$000
As at 30 June 2022*						
Expected credit loss rate	12%	20%	46%	65%	83%	
Estimated total gross carrying amount at default	1,649	720	360	216	144	**3,089**
Expected credit loss	198	149	16	140	120	772

* Please note comparatives have not been presented.

Appendix 12: On-going disclosures for early adoption of the Financial Instruments standards *continued*

27. Financial assets and financial liabilities *continued*

27.5. Financial risk management objectives and policies *continued*

Receivables from exchange transactions

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of a customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables assets are regularly monitored. As at 30 June 2022*, the Group had 25 customers that owed the Group more than $120,000 each and accounted for approximately 20%*of all the receivables outstanding. There were five customers* with balances greater than $250,000 accounting for just over 8%* of the total accounts receivable.

PBE IPSAS 30.43
PBE IPSAS 30.41(c)

An impairment analysis is performed at each reporting date using a provision matrix to measure ECLs.

The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e. by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance).

PBE IPSAS 30.42F9(c)

The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Generally, trade receivables are written-off if past due for more than one year and are not subject to enforcement activity.

PBE IPSAS 30.42F(e)

The maximum exposure to credit risk as at the reporting date is the carrying value of each class of financial assets disclosed in Note 30. The Group does not hold collateral as security. The letters of credit and other forms of credit insurance are considered an integral part of trade receivables and considered in the calculation of impairment.

PBE IPSAS 30.42K

Aa at **30 June 2022***, 60% of the Groups trade receivables are covered by bank guarantees and other forms of credit insurance. These credit enhancements obtained by the Group resulted in a decrease in the ECL of $22,000 as at **30 June 2022***. The Group evaluates the concentration of risk with respect to trade receivables and contract assets to be low because its customers are located in several jurisdictions and industries and operate in largely independent markets.

PBE IPSAS 30.42M
PBE IPSAS 30.42N

	Receivables from exchange transactions					
			Days past due			
	Current	< 30 days	30 – 60 days	61 – 90 days	>91 days	Total
	$000	$000	$000	$000	$000	$000
As at 30 June 2022*						
Expected credit loss rate	6.3%	14.4%	22.7%	25.0%	45.0%	
Estimated total gross carrying amount at default	11,162	2,463	1,231	939	293	**16,088**
Expected credit loss	700	355	280	235	132	**1,701**

* Please note comparatives have not been presented.

Appendix 12: On-going disclosures for early adoption of the Financial Instruments standards *continued*

27. Financial assets and financial liabilities *continued*

27.5. Financial risk management objectives and policies *continued*

Financial instruments and cash deposits

PBE IPSAS 30.40
PBE IPSAS 30.43

Credit risk from balances with banks and financial institutions is managed by the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed by the Group's Finance Committee on an annual basis, and may be updated throughout the reporting period while being subject to approval of the Group's Finance Committee. The limits are set to minimise the concentration of risks, and therefore, mitigate financial loss through potential counterparty's failure to make payments.

The Group invests only on quoted debt securities with very low credit risk. The Group's debt instruments at FVOCRE comprised solely of quoted bonds that are graded in the top investment category (Very Good and Good) by the Local Credit Rating Agency, and therefore, are considered to be low credit risk investments.

The Group recognised provision for ECLs on its debt instruments at FVOCRE of $7,000 in 2022*. *PBE IPSAS 30.20A*

The Group's maximum exposure to credit risk for the components of the statement of financial position as at 30 June 2022* is the carrying amounts as illustrated in Note 27.1 except for the financial guarantee and the derivative financial instruments. The Group is exposed to credit risk as a guarantor of all of the LGFA's borrowings. This guarantee becomes callable in the event of the LGFA failing to pay its obligations as they fall due. The Group's maximum exposure for financial guarantees and financial derivative instruments is noted in the liquidity table.

* Please note comparatives have not been presented.

29. Receivables from non-exchange transactions

PBE IPSAS 23.106(d)

	2022 $000	2021 $000
Rates receivable	10,567	9,987
Other receivables from non-exchange transactions	3,089	2,003
Less allowance for ECLs	(772)	(574)
	12,884	11,416

Receivables from non-exchange transactions are non-interest bearing and are generally on terms of 30 to 90 days.

For terms and conditions relating to related party receivables, refer to Note 39.

Impairment

The Group has various powers under the Local Government (Rating) Act 2002 to recover outstanding rates. Thus the Group does not provide for any impairment of rates receivable.

The impairment assessment is performed mainly for fines receivable.

Appendix 12: On-going disclosures for early adoption of the Financial Instruments standards *continued*

29. Receivables from non-exchange transactions *continued*

The following information set out below is the movement in the allowance for ECLs of fines receivable.

PBE IPSAS 30.42H

	2022 $000	2021 $000
As at 1 July	574	574
Provision for ECLs (refer to Note 15)	252	-
Write-off	(54)	-
As at 30 June	772	574

PBE IPSAS 30.42I(c)

The information about the credit exposures are disclosed in Note 27.5.

30. Receivables from exchange transactions

PBE IPSAS 30.10

	2022 $000	2021 $000
Trade receivables	15,468	14,132
Receivables from related parties:		
Controlled entities	-	-
Associates	300	440
Joint ventures	320	110
Less allowance for ECLs	(1,701)	(1,808)
	14,387	12,874

Trade receivables include mainly receivables from port charges and rent receivable. Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days. For terms and conditions relating to related party receivables, refer Note 39.

Impairment

The following information set out below is the movement in the allowance for ECLs of trade receivables.

PBE IPSAS 30.42H

	2022 $000	2021 $000
As at 1 July	1,808	1,808
Provision for ECLs (refer to Note 15)	247	-
Write-off	(50)	-
Unused amount reversed	(304)	-
As at 30 June	1,701	1,808

PBE IPSAS 30.42I(c)

The information about the credit exposures are disclosed in Note 27.5.

Appendix 12: On-going disclosures for early adoption of the Financial Instruments standards *continued*

37. Ratepayers' equity and reserves

The disaggregation of changes arising from other comprehensive revenue and expense for each type of reserve and transfers between reserves is shown below. The amounts are shown net of tax.

	Accumulated comprehensive revenue and expense $000	Asset re-valuation reserve $000	Cash flow hedge reserve $000	Cost of hedging reserve $000	Fair value reserve of financial assets at FVOCRE $000	Targeted rates reserve $000	Special projects reserve $000	Total $000
As at 30 June 2022*								
Currency forward contracts	-	-	197	4	-	-	-	201
Commodity forward contracts	-	-	(617)	(23)	-	-	-	(640)
Reclassified to surplus or deficit	-	-	(198)	(3)	(6)	-	-	(207)
Fair value loss on debt instruments at FVOCRE	-	-	-	-	(9)	-	-	(9)
Fair value loss on equity instruments at FVOCRE	-	-	-	-	(18)	-	-	(18)
Net transfer to targeted rates reserve	(196)	-	-	-	-	196	-	-
Net transfer from special projects reserve	247	-	-	-	-	-	(247)	-
Revaluation of land and buildings	-	24,311	-	-	-	-	-	24,311
	51	**24,311**	**(618)**	**(22)**	**(33)**	**196**	**(247)**	**23,638**

* Please note comparatives have not been presented.

Appendix 13: Transition disclosure of PBE IPSAS 41 *Financial Instruments* (example of disclosure with no restatement of comparatives)

Commentary

Example disclosures in Appendix 13

This appendix includes the transition disclosures required from PBE IPSAS 29 to PBE IPSAS 41 in the current financial year. For a discussion about the transition from PBE IFRS 9 to PBE IPSAS 41, please refer to Appendix 14.

The on-going disclosures illustrated in Appendix 12 are also applicable to a first-time adopter. Therefore, a first-time adopter should read Appendix 12 and Appendix 13 in conjunction with each other.

The illustrative disclosures are for a fictitious PBE which is called Quality Group New Zealand Limited, and its controlled entities which are together referred to as the Group; the PBE and its entities are not related to Council itself. The Group is not required to present parent financial statements in addition to consolidated financial statements. Entities that are required to present additional parent financial statements (for example, due to legislative requirements) will need to provide the relevant disclosures for the parent as well.

In compiling the illustrative disclosures, the following assumptions have been made:

- The Group has chosen 1 January 2021 as the date of initial application for the adoption of PBE IPSAS 41
- The Group has not restated the comparative information (i.e. the financial statements for the year ended 30 June 2021), which continued to be reported under PBE IPSAS 29. As a result:
  - Adjustments to carrying amounts of financial assets and liabilities are recognised at the beginning of the current reporting period with differences recognised directly in accumulated comprehensive revenue and expense
  - Financial assets are not reclassified in the statement of financial position for the comparative reporting period
  - Provisions for impairment have not been restated in the comparative reporting period
  - Disclosure requirements arising from the consequential amendments made to PBE IPSAS 30 and other standards by PBE IPSAS 41 have not been presented in relation to the comparative reporting period
- Group's receivables and other debt instruments (i.e. term deposits and loans), except for quoted debt securities, are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest (SPPI). Therefore, these financial assets are held at amortised cost
- Group's quoted debt securities (regular government and corporate bonds) are held to collect contractual cash flows and sell a significant number on a relatively frequent basis. The Group has not elected to designate its quoted debt securities as measured at initial recognition at fair value through surplus or deficit. Therefore, these financial assets are carried at fair value through other comprehensive revenue and expense.
- The Group has elected to classify irrevocably its non-listed equity investments at the date of initial application as measured at fair value through comprehensive revenue and expense since it intends to hold these investments for the foreseeable future
- Listed equity securities are held for trading at fair value through surplus or deficit
- The Group has elected to adopt the simplified approach in calculating the ECLs for trade receivables
- The impairment provision for other debt instruments (term deposits and loans) and quoted debt securities is determined as 12 months ECLs under the general approach. The credit risk is assumed to have not increased since initial recognition

The following financial statements and notes that are affected by the transition from PBE IPSAS 29 to PBE IPSAS 41 are included in this appendix:

- Statement of changes in net assets/equity
- Note 2(c)

Appendix 13: Transition disclosure of PBE IPSAS 41 *Financial Instruments* (example of disclosure with no restatement of comparatives) *continued*

Statement of changes in net assets/equity

PBE IPSAS 1.21(c)
PBE IPSAS 1.63(c)
PBE IPSAS 1.63(b)

For the year ended 30 June 2022

	Accumulated comprehensive revenue and expense	Asset revaluation reserve	Available-for-sale reserve	Cash flow hedge reserve	Cost of hedging reserve	Fair value reserve of financial assets at FVOCRE	Targeted rates reserve	Special projects reserve	Total equity attributable to the Council	Non-controlling interest	Total equity	*PBE IPSAS 1.119(b)* *PBE IPSAS 1.119(c)* *PBE IPSAS 1.53*
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	*PBE IPSAS 1.63(d), (e)*
As at 1 July 2021	928,445	1,100,297	3	(70)	-	-	15,653	16,532	2,060,860	691	2,061,551	*PBE IPSAS 1.118(b)*
Effect of adoption of PBE IPSAS 41 (refer to Note 2(c))	(176)	-	(3)	-	-	8	-	-	(171)	(4)	(175)	
As at 1 July 2021 (restated)	**928,269**	**1,100,297**	**-**	**(70)**	**-**	**8**	**15,653**	**16,532**	**2,060,689**	**687**	**2,061,376**	
Surplus for the year	15,091	-	-	-	-	-	-	-	15,091	288	15,379	
Other comprehensive revenue and expense	-	24,311	-	(618)	(22)	(33)	-	-	23,638	-	23,638	
Total comprehensive revenue and expense for the year (refer to Note 37)	**15,091**	**24,311**	**-**	**(618)**	**(22)**	**(33)**	**-**	**-**	**38,729**	**288**	**39,017**	*PBE IPSAS 1.118(a)*
Net transfers (from)/to targeted rates reserve	(196)	-	-	-	-	-	196	-	-	-	-	
Net transfers to/(from) special projects reserve	247	-	-	-	-	-	-	(247)	-	-	-	
Transactions with owners in their capacity as owners:												*PBE IPSAS 1.119(a)*
Acquisition of controlled entity	-	-	-	-	-	-	-	-	-	1,547	1,547	
Acquisition of non-controlling interest	(190)	-	-	-	-	-	-	-	(190)	(801)	(991)	
As at 30 June 2022	**943,221**	**1,124,608**	**-**	**(618)**	**(22)**	**(25)**	**15,849**	**16,285**	**2,099,228**	**1,721**	**2,100,949**	

Appendix 13: Transition disclosure of PBE IPSAS 41 *Financial Instruments* (example of disclosure with no restatement of comparatives) *continued*

Statement of changes in net assets/equity *continued*

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

For the year ended 30 June 2021

	Accumulated comprehensive revenue and expense $000	Asset revaluation reserve $000	Available-for-sale reserve $000	Cash flow hedge reserve $000	Targeted rates reserve $000	Special projects reserve $000	Total equity attributable to the Council $000	Non-controlling interest $000	Total equity $000	
										PBE IPSAS 1.63(b) PBE IPSAS 1.119(b) PBE IPSAS 1.119(c) PBE IPSAS 1.63(d), (e)
As at 1 July 2020	915,296	1,100,297	-	(94)	15,770	16,805	2,048,074	501	2,048,575	
Surplus for the year as reported in 2020 financial statements	12,509	-	-	-	-	-	12,509	239	12,748	
Adjustment on correction of error	250						250	-	250	*PBE IPSAS 1.118(b) PBE IPSAS 1.124*
Other comprehensive revenue and expense	-	-	3	24	-	-	27	-	27	
Total comprehensive revenue and expense for the year	12,759	-	3	24	-	-	12,786	239	13,025	*PBE IPSAS 1.118(a)*
Net transfers to/(from) targeted rates reserve	117	-	-	-	(117)	-	-	-	-	
Net transfers to/(from) special projects reserve	273	-	-	-		(273)	-	-	-	
Transactions with owners in their capacity as owners:										*PBE IPSAS 1.119(a)*
Dividend paid to non-controlling interest	-	-	-	-	-	-	-	(49)	(49)	
As at 30 June 2021	928,445	1,100,297	3	(70)	15,653	16,532	2,060,860	691	2,061,551	

Appendix 13: Transition disclosure of PBE IPSAS 41 *Financial Instruments* (example of disclosure with no restatement of comparatives) *continued*

2. Summary of significant accounting policies

(c) Changes in accounting policies and disclosures

New and amended standards and interpretations

PBE IPSAS 41 Financial Instruments

PBE IPSAS 41 *Financial Instruments* replaces parts of PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

PBE IPSAS 41.156
PBE IPSAS 41.179
PBE IPSAS 41.156

The Group has elected to early adopt PBE IPSAS 41.

The Group applied PBE IPSAS 41 prospectively, with an initial application date of 1 July 2021. The Group have not restated the comparative information, which continues to be reported under PBE IPSAS 29. Differences arising from the adoption of PBE IPSAS 41 have been recognised directly in accumulated comprehensive revenue and expense and other components of net assets/equity.

PBE IPSAS 41.158
PBE IPSAS 41.180
PBE IPSAS 30.49Q

The effect of adopting PBE IPSAS 41 as at 1 July 2021 was as follows.

PBE IPSAS 3.33(f)

	Adjustments	Increase/ (decrease) $000
Assets		
Investments in associates and joint ventures	(iv)	(6)
Receivables from exchange transactions	(ii)	(200)
Receivables from non-exchange transactions	(ii)	(29)
Total assets		**(235)**
Liabilities		
Deferred tax liabilities	(iv)	(60)
Total liabilities		**(60)**
Total adjustment on net assets/equity:		
Accumulated comprehensive revenue and expense	(i),(ii),(iv)	(176)
Other components of net assets/equity	(i),(ii)	5
Non-controlling interests	(iv)	(4)
		(175)

The nature of these adjustments are described below:

(i) Classification and measurement

Under PBE IPSAS 41, debt instruments are subsequently measured at fair value through surplus or deficit, amortised cost, or FVOCRE. The classification is based on two criteria: (1) the Group's business model for managing the assets; and (2) whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding.

Appendix 13: Transition disclosure of PBE IPSAS 41 *Financial Instruments* (example of disclosure with no restatement of comparatives) *continued*

2. Summary of significant accounting policies *continued*

(c) Changes in accounting policies and disclosures *continued*

The assessment of the Group's business model was made as at the date of initial application, namely 1 July 2021. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

PBE IPSAS 41.158
PBE IPSAS 41.173

PBE IPSAS 30.49J

The classification and measurement requirements of PBE IPSAS 41 did not have a significant impact to the Group. The Group continued measuring at fair value all financial assets previously held at fair value under PBE IPSAS 29. The following are the changes in the classification of the Group's financial assets:

- *Receivables from exchange and non-exchange transactions, term deposits and loan to an associate* classified as Loans and Receivables as at 30 June 2021 are held to collect contractual cash flows and give rise to cash flows representing SPPI. These are classified and measured as Debt instruments at amortised cost beginning on 1 July 2021
- The Group's *quoted debt securities* are regular government and corporate bonds that were classified as *Available-for-sale* (AFS) financial assets as at 30 June 2020. The quoted debt securities pass the SPPI test and the Group expects to hold the assets to collect contractual cash flows and sell a significant amount on a relatively frequent basis. These securities are classified and measured as *Debt instruments at FVOCRE* beginning on 1 July 2021
- *Unquoted equity shares* were classified as AFS financial assets as at 30 June 2021. The Group elected to present in OCRE changes in fair value of all non-listed equity investments since it intends to hold these investments for the foreseeable future. As a result, these investments are classified and measured as *Equity instruments designated at FVOCRE* beginning on 1 July 2021
- *Quoted equity shares* were classified as *AFS financial assets* as at 30 June 2021. The Group are classified and measured these financial assets as *Financial assets at fair value through surplus or deficit* beginning on 1 July 2021

As a result of the change in classification of the Group's listed equity investments, the AFS reserve of $1,000 related to those investments was reclassified to accumulated OCRE as at 1 July 2021. The remaining amount of AFS reserve of $2,000 was reclassified to Fair value reserve of financial assets at FVOCRE.

The Group has not designated any financial liabilities as at fair value through surplus or deficit. There are no changes in classification and measurement for the Group's financial liabilities.

Appendix 13: Transition disclosure of PBE IPSAS 41 *Financial Instruments* (example of disclosure with no restatement of comparatives) *continued*

2. Summary of significant accounting policies *continued*

(c) Changes in accounting policies and disclosures *continued*

In summary, upon the adoption of PBE IPSAS 41, the Group had the following required or elected reclassifications as at 1 July 2021.

PBE IPSAS 30.49I(a), (b)

	Measurement category		Carrying amount	
	PBE IPSAS 29	PBE IPSAS 41	PBE IPSAS 29	PBE IPSAS 41
			$000	$000
Financials assets				
Receivables from exchange transactions	Loans and receivables	Amortised cost	12,874	12,674*
Receivables from non-exchange transactions (excl. rates receivable)	Loans and receivables	Amortised cost	1,429	1,400*
Term deposits	Loans and receivables	Amortised cost	1,685	1,685
Loan to an associate	Loans and receivables	Amortised cost	8	8
Unquoted equity shares	AFS	FVOCRE	898	898
Quoted equity shares	AFS	FVTSD	300	300
Quoted debt securities	AFS	FVOCRE	600	600
Derivatives not designated as hedges				
Foreign exchange forward contracts	FVTSD	FVTSD	-	-
Embedded derivatives	FVTSD	FVTSD	-	-
Financial liabilities				
Interest-bearing loans and borrowings	Amortised cost	Amortised cost	24,478	24,478
Payables under exchange transactions	Amortised cost	Amortised cost	21,073	21,073
Other financial liabilities	Amortised cost	Amortised cost	284	284
Financial guarantee contracts	Amortised cost	Amortised cost	49	49
Contingent consideration	FVTSD	FVTSD	-	-
Derivatives not designated as hedges				
Foreign exchange forward contracts	FVTSD	FVTSD	-	-
Commodity forward contracts	FVTSD	FVTSD	-	-
Embedded derivatives	FVTSD	FVTSD	-	-

* The change in carrying amount is a result of additional impairment allowance. Refer to the discussion on impairment below.

FVTSD = fair value through surplus or deficit
FVOCRE = fair value through other comprehensive revenue and expense

Appendix 13: Transition disclosure of PBE IPSAS 41 *Financial Instruments* (example of disclosure with no restatement of comparatives) *continued*

2. Summary of significant accounting policies *continued*

(c) Changes in accounting policies and disclosures *continued*

(ii) Impairment

PBE IPSAS 41.73

The adoption of PBE IPSAS 41 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing PBE IPSAS 29's incurred loss approach with a forward-looking expected credit loss (ECL) approach. PBE IPSAS 41 requires the Group to recognise an allowance for ECLs for all debt instruments not held at fair value through surplus or deficit.

Upon adoption of PBE IPSAS 41 the Group recognised additional impairment on the Group's *Receivables from exchange transactions, Receivables from non-exchange transactions* and *Debt instruments at FVOCRE* of $200,000, $29,000 and $5,000, respectively. Impairment losses do not reduce the carrying amount of debt instruments at FVOCRE in the statement of financial position, which remains at fair value. An amount equal to the impairment allowance of $3,500 (net of tax) was included in *Other components of equity under Fair value reserve of financial assets at FVOCRE*. The adjustments result in a decrease in Accumulated comprehensive revenue and expense of $232,500 as at 1 July 2021.

PBE IPSAS 30.49P

The following information set out below is the reconciliation of the closing impairment allowances in accordance with PBE IPSAS 29 to the opening loss allowances determined in accordance with PBE IPSAS 41:

	Allowance for impairment under PBE IPSAS 29 as at 30 June 2021 $000	Remeasurement $000	ECL under PBE IPSAS 41 as at 1 July 2021 $000
Loans and receivables under PBE IPSAS 29/Financial assets at amortised cost under PBE IPSAS 41: *Receivables from exchange transactions*	1,808	200	2,008
Loans and receivables under PBE IPSAS 29/Financial assets at amortised cost under PBE IPSAS 41: *Receivables from non-exchange transactions*	574	29	603
AFS financial assets under PBE IPSAS 29/Debt instruments at FVOCRE under PBE IPSAS 41	-	5	5
	2,470	234	2,704

Appendix 13: Transition disclosure of PBE IPSAS 41 *Financial Instruments* (example of disclosure with no restatement of comparatives) *continued*

2. Summary of significant accounting policies *continued*

(c) Changes in accounting policies and disclosures *continued*

(iii) Hedge accounting

At the date of initial application, all of the Group's existing hedging relationships were eligible to be treated as continuing hedging relationships. Before the adoption of PBE IPSAS 41, the Group designated the change in fair value of the entire forward contracts in its cash flow hedge relationships. Upon adoption of the hedge accounting requirements of PBE IPSAS 41, the Group designates only the spot element of forward contracts as hedging instrument. The forward element is recognised in OCRE and accumulated as a separate component of equity under cost of hedging reserve. This change only applies prospectively from the date of initial application of PBE IPSAS 41 and has no impact on the presentation of comparative figures. *PBE IPSAS 41.145*

Under PBE IPSAS 29, all gains or losses arising from the Group's cash flow hedging relationships were eligible to be subsequently reclassified to surplus or deficit. However, under PBE IPSAS 41, gains or losses arising on cash flow hedges of forecast purchases of non-financial assets need to be incorporated into the initial carrying amounts of the non-financial assets. This change also applies prospectively from the date of initial application of PBE IPSAS 41 and had no impact on the statement of financial position as at 1 July 2021. *PBE IPSAS 1.103.8 PBE IPSAS 41.140(d)(i)*

(iv) Other adjustments

In addition to the adjustments described above, other items such as deferred taxes (relating to impairment provision), investments in an associate and joint ventures (arising from the financial instruments held by these entities), and non-controlling interests were adjusted to accumulated comprehensive revenue and expense as necessary upon adoption of PBE IPSAS 41 as at 1 July 2021.

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Appendix 14: Transition from PBE IFRS 9 to PBE IPSAS 41

Commentary

In the lead up to NZ IFRS 9 *Financial Instruments* becoming effective on 1 January 2018. PBE IFRS 9 Financial Instruments was issued as an interim measure to address 'mixed group' issues – that is, the groups that contain both PBEs and for-profit entities.

In March 2019, the NZASB issued PBE IPSAS 41 which will withdraw PBE IFRS 9. PBE IPSAS 41 is effective for annual reporting periods beginning on or after 1 January 2022. Early application is permitted.

The majority of the requirements in PBE IPSAS 41 are either identical or almost identical to the requirements in PBE IFRS 9. However, some differences exist between the two Standards, for example:

- PBE IPSAS 41 requires simplified approach for impairment of receivables while PBE IFRS 9 provides accounting choices
- PBE IPSAS 41 incorporates some of the narrow scope amendments made to other NZ IFRS Standards relating to either financial instruments over recent years or recent interpretations (e.g. prepayment features with negative compensation, offsetting financial assets and financial liabilities, disclosures on transfers of financial assets, treatment of long-term interests in associates and joint ventures)
- PBE IPSAS 41 includes illustrative examples and guidance
- RDR concessions provided in PBE IPSAS 41 are aligned with NZ IFRS 7

Transition requirements for entities that have early adopted PBE IFRS 9

Specific transition provisions from PBE IFRS 9 to PBE IPSAS 41 include the following requirements:

- Except as expressly permitted by PBE IPSAS 41, PBEs must continue to classify, recognise and measure financial instruments in the same way as before transition
- Where the requirements differ from PBE IFRS 9, there are specific transitional provisions, for example:
  - New requirements on prepayments with negative compensation are applied retrospectively, but restatement of comparatives is not required
  - New requirements on offsetting and relevant disclosures apply to current and prior periods (but not before the date of application of PBE IFRS 9)
  - New disclosure on transferred assets are required only from the current period
- If a PBE has applied the new hedge accounting requirements in PBE IFRS 9, on adoption of PBE IPSAS 41 the entity must apply the hedge accounting requirements in PBE IPSAS 41. If the PBE has not applied the new PBE IPSAS 9 hedge accounting, on adoption of PBE IPSAS 41, the entity has a choice:
  - Adopt the new requirements in PBE IPSAS 41, or
  - Continue to apply the requirements in PBE IPSAS 29

It is expected that most of the entities that have early adopted PBE IFRS 9 in the previous periods, conclude that there is no impact on financial statements on transition to PBE IFRS 41. The following is an example of illustrative disclosures under PBE IPSAS 3 in relation to adoption of PBE IPSAS 41 when transitioning from PBE IFRS 9.

xx. Summary of significant accounting policies

(x) Changes in accounting policies and disclosures

New and amended standards and interpretations

PBE IPSAS 41 Financial Instruments

PBE IPSAS 41 *Financial Instruments* supersede PBE IFRS 9 *Financial Instruments*. The majority of the requirements of PBE IPSAS 41 are identical or almost identical to the requirements of PBE IFRS 9.

PBE IPSAS 41 incorporates some of the narrow scope amendments made to other NZ IFRS Standards relating to financial instruments. It also provides some illustrative examples and guidance.

The Group has elected to early adopt PBE IPSAS 41 and transited from PBE IFRS 9.

The Group applied the specific transition provisions from PBE IFRS 9 as required by PBE IPSAS 41, with an initial application date of 1 July 2021. The adoption of PBE IPSAS 41 does not have any impact on the Group.

Appendix 15: PBE IPSAS 38 illustrative disclosures not included in this publication

15.1. Disclosures of the interest that non-controlling interest have in the Group's activities and cash flow (PBE IPSAS 38.19)

Commentary

Paragraph 19 of PBE IPSAS 38 *Disclosure of Interests in Other Entities* (PBE IPSAS 38) requires entities to disclose information that enables the users of the financial statements to understand the interest that non-controlling interests have in the Group's activities and cash flows. This disclosure is required only in respect of controlled entities that have non-controlling interests that are material to the Group. Although a controlled entity may have significant non-controlling interest per se, disclosure is not required if that interest is not material at the Group level. Similarly, these disclosures do not apply to the non-controlling interests that are material in aggregate, but not individually. Also, it should be noted that the disclosure should be provided separately for each individual controlled entity with a material non-controlling interest.

The following table is an example of illustrative disclosure under PBE IPSAS 38.19.

xx. Material partly-owned controlled entities

The following financial information of controlled entities that have material non-controlling interests is provided below. *PBE IPSAS 38.17(a)(ii)*

Proportion of equity interest held by non-controlling interest *PBE IPSAS 38.19(a)-(c)*

Name	Country of incorporation and operation	2022	2021
Quality Port Limited	New Zealand	-	7.4%
Quality Property Management Limited	New Zealand	15%	-
Quality Port Services Limited	New Zealand	52%	52%

Accumulated balances of material non-controlling interests *PBE IPSAS 38.19(f)*

	30 June 2021 $000	30 June 2020 $000
Quality Port Limited	-	583
Quality Property Management Limited	1,561	-
Quality Port Services Limited	164	108

Surplus/(deficit) allocated to material non-controlling interests *PBE IPSAS 38.19(e)*

Quality Port Limited	-	170
Quality Property Management Limited	14	-
Quality Port Services Limited	56	75

Appendix 15: PBE IPSAS 38 illustrative disclosures not included in this publication *continued*

15.1. Disclosures of the interest that non-controlling interest have in the Group's activities and cash flow (PBE IPSAS 38.19) *continued*

Summarised financial information in respect of each of the Group's controlled entities that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intra-group eliminations. *PBE IPSAS 38.19(g)*

Summarised statement of financial performance for 2022

PBE IPSAS 38.AG10

	Quality Property Management Limited $000	Quality Port Services Limited $000
Direct charge revenue – full cost recovery	1,857	600
Employee costs	(1,556)	(382)
Depreciation and amortisation	(23)	(16)
General expenses	(181)	(52)
Surplus before income tax	**97**	**150**
Income tax expense	(27)	(42)
Surplus for the year	**70**	**108**
Total comprehensive revenue and expense for the year	**70**	**108**
Attributable to non-controlling interest	14	56
Dividend paid to non-controlling interest	-	5

Summarised statement of financial performance for 2021

	Quality Port Limited $000	Quality Port Services Limited $000
Direct charge revenue – full cost recovery	12,578	450
Employee costs	(9,789)	(212)
Depreciation and amortisation	(867)	(8)
General expenses	(742)	(30)
Surplus before income tax	**1,180**	**200**
Income tax expense	(330)	(56)
Surplus for the year	**850**	**144**
Total comprehensive revenue and expense for the year	**850**	**144**
Attributable to non-controlling interest	170	75
Dividend paid to non-controlling interest	49	-

Appendix 15: PBE IPSAS 38 illustrative disclosures not included in this publication *continued*

15.1. Disclosures of the interest that non-controlling interest have in the Group's activities and cash flow (PBE IPSAS 38.19) *continued*

Summarised statement of financial position

As at 30 June 2022

	Quality Property Management Limited $000	Quality Port Services Limited $000	
			PBE IPSAS 38.19(g) *PBE IPSAS 38.AG10*
Assets			
Intangible assets – software	1,177	-	
Property, plant and equipment	-	127	
Total non-current assets	**1,177**	**127**	
Trade receivables	1,956	-	
Cash and cash equivalent	5,546	190	
Total current assets	**7,502**	**190**	
Liabilities			
Trade and other payables	874	1	
Total current liabilities	**874**	**1**	
Net assets	**7,805**	**316**	
Represented by:			
Attributable to the Council	6,244	152	
Attributable to non-controlling interests	1,561	164	
	7,805	**316**	

Summarised statement of financial position

As at 30 June 2021

	Quality Port Limited $000	Quality Port Services Limited $000	
			PBE IPSAS 38.19(g) *PBE IPSAS 38.AG10*
Assets			
Property, plant and equipment	8,372	143	
Total non-current assets	**8,372**	**143**	
Trade receivables	689	82	
Cash and cash equivalent	256	82	
Total current assets	**945**	**82**	
Liabilities			
Trade and other payables	1,439	17	
Total current liabilities	**1,439**	**17**	
Net assets	**7,878**	**208**	
Represented by:			
Attributable to the Council	7,295	100	
Attributable to non-controlling interests	583	108	
Net assets	**7,878**	**208**	

Appendix 15: PBE IPSAS 38 illustrative disclosures not included in this publication *continued*

15.1. Disclosures of the interest that non-controlling interest have in the Group's activities and cash flow (PBE IPSAS 38.19) *continued*

Summarised statement of cash flows

For the year ended 30 June 2022

	Quality Property Management Limited $000	Quality Port Services Limited $000	*PBE IPSAS 38.19(g)* *PBE IPSAS 38.AG10*
Net cash flows from operating activities	87	108	
Net cash flows used in investing activities	(180)	-	
Net cash flows from financing activities	-	-	
Net (decrease)/increase in cash and cash equivalents	(93)	108	

Summarised statement of cash flows

For the year ended 30 June 2021	Quality Port Limited $000	Quality Port Services Limited $000	*PBE IPSAS 38.19(g)* *PBE IPSAS 38.AG10*
Net cash flows from operating activities	765	144	
Net cash flows used in investing activities	(676)	(100)	
Net cash flows from financing activities	-	-	
Net increase in cash and cash equivalents	89	44	

Appendix 15: PBE IPSAS 38 illustrative disclosures not included in this publication *continued*

15.2. Disclosures of the Group's interest in structured entities

Commentary

PBE IPSAS 38 introduces the term 'structured entities', a term which replaces and expands upon the concept of a 'special-purpose entity' that was previously used in PBE IPSAS 6 *Consolidated and Separate Financial Statements* (PBE IPSAS 6). A structured entity is an entity that has been designed so that the conventional ways in which an entity is controlled are not the dominant factors in deciding who controls the entity. In the case of entities such as departments or ministries where administrative arrangements or legislation are often the dominant factors in deciding who has control of an entity, a structured entity is an entity that has been designed so that administrative arrangements or legislation are not the dominant factor in deciding who controls the entity. In the case of entities where voting or similar rights are normally the dominant factor in deciding who has control of an entity (a factor which may be the case for some entities with profit objectives), a structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Although binding arrangements frequently occur between PBEs, binding arrangements are not normally the dominant factor in determining who controls an entity. Therefore, the use of binding arrangements to determine the relevant activities of an entity may indicate the existence of a structured entity. Paragraphs AG20-AG23 of PBE IPSAS 38 provide further information about structured entities.

The required disclosures for the interests in structured entities have been significantly expanded in PBE IPSAS 38. When specifying the required disclosures, the NZASB distinguished between those required for consolidated structured entities (i.e. controlled entities), and those that are not consolidated.

15.2.1. Disclosures of the Group's interest in consolidated structured entities

Commentary

Under PBE IPSAS 38, an entity is required to disclose both the nature and extent of, and any changes in, the risks associated with its interests in consolidated structured entities. For example, an entity is required to disclose the terms of any arrangement that could require the entity to provide financial support, including events or circumstances that could expose the Group to a loss (e.g. liquidity arrangements or credit rating triggers associated with obligations to purchase assets of the structured entity or provide financial support).

If an entity provides financial or other support to a consolidated structured entity without being obliged to do so, it is required to disclose the type and amount of support, the situation, any reasons for providing the support, any change in control that resulted there from, and any current intention to provide further support for the future.

Since a consolidated structured entity is also considered a controlled entity, the disclosure requirements of PBE IPSAS 38 in relation to controlled entities would be required if the non-controlling interest is material to the Group (refer to section 15.1 above).

The following information is an example of illustrative disclosures in relation to the Group's interests in the consolidated structured entities (PBE IPSAS 38.21-24).

Appendix 15: PBE IPSAS 38 illustrative disclosures not included in this publication *continued*

15.2. Disclosures of the Group's interest in structured entities *continued*

xx. Significant accounting judgements, estimates and assumption

Consolidation of a structured entity

In February 2022, the Group and a third-party partner formed an entity, Quality Fire Equipment Test Lab Limited, to acquire land and construct and operate a fire equipment safety facility. The Group holds 20% of the voting shares in this entity. The third-party partner contributed approximately $2,700,000 during the year ended 30 June 2022, representing 80% of the voting shares, for the acquisition and construction of the fire safety test facility. The third-party partner is committed to provide approximately $1,000,000 in each of the following two years to complete the project. The construction is expected to be completed during 2025 at a total cost of approximately $4,700,000. The partner is entitled to a 22% return on the outstanding capital upon the commencement of operations. Under the contractual arrangement with the third-party partner, the Group has a majority representation on the entity's board of directors and the Group's approval is required for all major operational decisions. At the end of the fourth annual reporting period, the partner is entitled to a 100% capital return. The EIR is 11% and the interest accumulated on the contributed amount totalled $303,000 as at 30 June 2022.

PBE IPSAS 38.24

The Group is effectively guaranteeing the returns to the third-party partner. On completion of the construction, the operations of Quality Fire Equipment Test Lab Limited will be solely carried out by the Group.

PBE IPSAS 38.12(a)
PBE IPSAS 38.14
PBE IPSAS 38.21

Based on the contractual terms, the Group assessed that the voting rights in Quality Fire Equipment Test Lab Limited are not the dominant factor in deciding who controls the entity. Also, it is assessed that there is insufficient equity financing ($200,000) to allow the entity to finance its activities without the non-equity financial support of the Group. Therefore, the Group concluded that Quality Fire Equipment Test Lab Limited is a structured entity under PBE IPSAS 35 *Consolidated Financial Statements* (PBE IPSAS 35) and that the Group controls it with no non-controlling interests. The voting shares of the third-party partner are accounted for as a financial liability. Therefore, Quality Fire Equipment Test Lab Limited is consolidated in the Group's consolidated financial statements. The shares of the third-party partner are recorded as a long-term loan and the return on investment is recorded as interest expense.

xx. Group information

Controlled entities

The financial statements of the Group include the following controlled entities.

PBE IPSAS 34.20(b)
PBE IPSAS 38.17(a)(i)

Name of controlled entity	Country of incorporation	Percentage equity interest		Council Carrying value of investment (at cost)	
		2022	2021	2022	2021
				$000	$000
Quality Port Limited	New Zealand	100%	92.6%	10,975	9,986
Quality Museum Trust	New Zealand	100%	100%	300	300
Quality Fire Equipment Test Lab Limited	New Zealand	100%*	-	675	-
Quality Property Management Limited	New Zealand	85%	-	7,919	-
Quality Port Services Limited	New Zealand	48%	48%	48	48
				19,242	10,334

* The Group holds 20% of the equity in Quality Fire Equipment Test Lab Limited, but consolidates 100% of this entity. Refer to Note xx for details on interest held in Quality Fire Equipment Test Lab Limited.

Appendix 15: PBE IPSAS 38 illustrative disclosures not included in this publication *continued*

15.2. Disclosures of the Group's interest in structured entities *continued*

15.2.2. Disclosures of the Group's interest in unconsolidated structured entities

Commentary

Given the increased risk associated with structured entities that an entity is involved with, but does not consolidate, PBE IPSAS 38 requires several additional disclosures.

The following table is an example of illustrative disclosures in relation to the Group's interests in the unconsolidated structured entities (PBE IPSAS 38.40-48).

Type of asset in unconsolidated entity	Total income for the year ended 2022	2021	2020	
	$000	$000	$000	*PBE IPSAS 38.44(b)*
Collateralised debt obligations	1,025	820	697	
Residential mortgage-backed securities	6,055	1,844	4,117	
Commercial mortgage-backed securities	878	703	597	
Assets under lease	332	265	226	
Credit card receivables	189	151	128	
	8,479	**6,783**	**5,765**	

Type of asset in unconsolidated entity	Carrying amount of assets transferred during the year ended 2022	2021	2020	
	$000	$000	$000	*PBE IPSAS 38.44(c)*
Collateralised debt obligations	14,650	11,720	9,962	
Residential mortgage-backed securities	86,500	69,200	58,820	
Commercial mortgage-backed securities	12,546	10,037	8,532	
Assets under lease	4,739	3,791	3,223	
Credit card receivables	2,695	2,159	1,833	
	121,130	**96,904**	**82,370**	

Commentary

When evaluating whether an entity has an interest in a structured entity (to determine if the information required by paragraph 44 of PBE IPSAS 38 is required or not), an 'interest' refers to any contractual or non-contractual involvement that exposes it to variability of returns from the performance of the structured entity. For example, it includes:

- Equity or debt instruments
- Provision of funding, liquidity support, credit enhancement and guarantees
- Any means by which an entity has control, joint control, or significant influence over another entity

However, a typical customer/supplier relationship would generally not be considered an 'interest in another entity'.

Appendix 15: PBE IPSAS 38 illustrative disclosures not included in this publication *continued*

15.2. Disclosures of the Group's interest in structured entities *continued*

Maximum exposure to loss in unconsolidated structured entities

PBE IPSAS 38.46(a), (c)

As at 30 June 2022

$000	Maximum exposure to loss					
Type of asset in unconsolidated entity	**Total**	**Investments**	**Credit guarantees**	**Liquidity commitments**	**Carrying amount in statement of financial position**	
Originated by XYZ Bank					**Assets**	**Liabilities**
Collateralised debt obligations	196	196			196	-
Originated by other entities					**Assets**	**Liabilities**
Collateralised debt obligation	6,031	1,856	-	4,175	1,856	(167)
Real estate, credit-related and other investing	6,944	-	248	6,696	-	(285)
Assets under lease	512	43	-	469	43	(2)
Credit card receivables	1,260	1,260	-	-	1,260	-
	14,943	**3,355**	**248**	**11,340**	**3,355**	**(427)**

Commentary

The example above illustrates how an entity might provide the quantitative information required by PBE IPSAS 38.46(a) and (c). However, an entity also needs to disclose the qualitative information required by PBE IPSAS 38, as well as comparative information.

In addition to the disclosures required by PBE IPSAS 38, the entity is required to comply with the disclosure requirements of PBE IPSAS 20.

Key contacts

The EY member firms' Assurance Partners have the courage, integrity and knowledge to help you meet the challenging demands of business and financial reporting considerations consistently.

EY people are able to meet the needs of local and multinational clients through access to the latest accounting and auditing information, by following a global audit methodology and by using leading audit support tools.

Auckland

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Graeme is the Head of Financial Accounting Advisory Services. He is a dedicated financial services professional with more than 20+ years' industry experience gained in New Zealand and the United Kingdom. Graeme brings an in-depth knowledge of financial products and markets and has performed a range of transaction support, regulatory reporting and other engagements for financial services clients.

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Simon has extensive New Zealand and international experience working with a range of companies from the manufacturing, logistics, real estate and hospitality sectors. He has worked closely with listed, privately held and entrepreneurial companies. He has governance experience through Board roles and his previous experience of valuations, due diligence and independent appraisals gives a broad appreciation of commercial issues.

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Lloyd has nearly 30 years' experience working in audit in New Zealand and London and is the auditor of several listed entities and numerous growth clients across a broad range of industries. Lloyd has experience in acquisition due diligence and has spent six months in a senior financial accounting role at a listed company.

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Susan leads the New Zealand Assurance practice and has more than 25 years' experience in New Zealand, New York and London. Susan has significant experience in a number of sectors including Forestry, Fishing, Property, Tertiary Education, Retail, Media and Entertainment, Food and Beverage and not-for-profit sector.

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Simon O'Connor is the Managing Partner at Ernst & Young, New Zealand and an Industry Leader in the EY Oceania Leadership Team. He has more than 20 years' experience in New Zealand, San Jose and New York. Simon is experienced in leading and managing the delivery of audit and transaction support services to major organisations, both in New Zealand and internationally, and is focused on providing audit services in the Financial Services, Media, Consumer Products and Telecommunications industries.

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Brent is a senior audit partner at Ernst & Young, New Zealand and the New Zealand CFO Programme leader. He has 30 years' audit experience in New Zealand, San Jose and London. Currently he is experienced in working with clients in the financial services sector, he is responsible for leading the audit of some of the Ernst & Young, New Zealand's largest listed, private and public sector clients. In addition, Brent has led a number of buy side acquisition advisory teams across various sectors, as well as having significant IPO experience.

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Emma has more than 20 years' experience with EY member firms in New Zealand and Ireland and has significant experience in auditing a wide variety of organisations. Emma is a partner in the Auckland Assurance practice at Ernst & Young, New Zealand and is experienced in the financial services industry. Emma's experience includes secondments to EY technical accounting team.

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Rob has 20+ years of experience and has extensive credentials in collaborating with growth companies within technology and ecommerce markets. He is also the EY New Zealand Private Assurance Leader playing leading roles in supporting and advising private companies through an IPO process.

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Stuart has over 20 years' experience in New Zealand focused on assurance and related advisory services. Stuart is seasoned in the Public sector, Aged care, Consumer products and Funds Management sectors. Stuart has historically worked with a range of large infrastructure organisation focused on the management of large portfolios of assets.

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Grant has over 30 years' experience providing assurance and financial management related services. His experience includes leading and managing the provision of external audit support and other services to major organisations including considerable transaction support work, both in New Zealand and internationally.

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David has experience leading the assurance and accounting services in New Zealand, London and Dublin. His experience includes coordinating assurance services for large multinationals spread across countries that have different accounting and legislative requirements. He currently provides assurance services to organisations across a wide range of sectors including Insurance, Technology and Media, Government and Public Sector and the Not-for-Profit.

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Sam is a partner at Ernst & Young with more than 15 years' experience. He has served a range of clients including listed companies, multinationals, private businesses and public sector entities providing assurance and advisory services.

Sam has experience in a broad range of industries including technology, banking, asset management, aged care, energy and government estate.

Sam has extensive experience in accounting and auditing of valuations of financial instruments and non-financial assets.

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Lara has worked in the Financial Accounting Advisory Services team providing advice on the application of accounting standards across a range of technical issues and industry sectors for the past 18 years. Lara's areas of knowledge include income taxes, share-based payments, financial instruments and public benefit entity (PBE) Accounting. During her time with EY organisation, Lara spent 2 years on the staff of the International Accounting Standards Board in London. Lara currently represents EY organisation on the New Zealand Accounting Standards Boards Technical Reference Group.

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Bruce's clients range from significant New Zealand Financial Markets Conduct Act 2013 (FMC Act) registered groups, to foreign controlled companies and large family owned groups.

As the most experienced Agri-sector audit partner at Ernst & Young, New Zealand, Bruce understands the complexity of the sector and the significant current and future challenges the sector faces.

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Brendan brings over 15 years' experience in auditing clients both in New Zealand and internationally in a wide range of industries and from significant New Zealand FMC Act registered groups to family owned businesses. Brendan is currently focused on providing audit services in the Aged Care, Consumer Products, Agriculture and Manufacturing industries.

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