Kaipara te Oranganui • Two Oceans Two Harbours

Annual Report 30 June 2020 – Recommendation to Council to Adopt

Meeting: Audit, Risk and Finance Committee
Date of meeting: 10 September 2020
Reporting officer: Sue Davidson, GM Sustainable Investment Growth

Purpose/Ngā whāinga

The purpose of the Annual Report is to report against measures and outcomes agreed to in the adoption of the Annual Plan.

Executive summary/Whakarāpopototanga

The Annual Report reflects the work completed for the year ended 30 June 2020. There is a statutory requirement for Council to adopt an Annual Report prior to 31 October 2020.

Staff have prepared the draft Annual Report (Attachment A), and Deloitte prepared a draft report the audit findings (Attachment B).

This Council will be one of the first to adopt. The results are mainly in line with information provided to Council throughout the year.

Recommendation/Ngā tūtohunga

That the Audit, Risk and Finance Committee:

a) Notes Deloitte's draft report to the Audit, Risk and Finance Committee for year ended 30 June 2020 (Attachment A of the report).

b) Recommends to Council the adoption of the 2019/2020 Annual Report (Attachment B of the report).

Context/Horopaki

The Local Government Act requires the Council to prepare and adopt an Annual Report within four months of the end of each financial year.

An Annual Report is to provide an outline of Council's performance in comparison with what was planned in its Annual Plan or Long Term Plan. This year Council is comparing with the second year of the 2018/2028 Long Term Plan. The Annual Report details the operating activities of Council and includes the financial statements for the year.

Clause 34 of Schedule 10 requires a Statement of Compliance to be included in the Annual Report indicating whether the statutory requirements in relation to the preparation of the Annual Report have been met. The statutory requirements are outlined under Part 6, Section 98 and Part 3 of Schedule 10. Staff have ensured the 2019/2020 Annual Report meets these requirements.

The 2019/2020 Annual Report has been reviewed by Deloitte on behalf of the Auditor General who is appointed as Council's auditor under the Public Audit Act 2001. The draft audit findings is attached to this report. The draft opinion will be included in the Annual Report to Council.

The summary of the Annual Report will be completed and is to be audited but it is not required to be adopted by Council.

Discussion/Ngā kōrerorero

Highlights this year are:

- This year debt at balance date was slightly down on the previous year at $44 million.
- Finance costs are lower than planned as many of our capital projects were still in design stage or were stalled during the Level 3 and 4 Covid 19 lockdown period.
- Council has kept within the required treasury ratios.
- The largest capital project completed was the remediation of the Tomorata Bridge. Much of this was subsidised by Waka Kotahi (NZTA) and the PGF fund.

Council was advised early on that the annual plan 2019/20 was over ambitious and that many of the roading projects and the wharves funded by the Provincial Growth Fund would not be completed as insufficient time had been allowed for consultation and design. This has proved to be true and capital projects not constructed. This means a lesser subsidy revenue for this year as the relevant subsidies will not be received as revenue till 2020/21.Expenditure on the other hand has been under that budgeted and the impact of Covid 19 has exacerbated this as purchases of goods were not made to the normal extent during the lockdown period.

In response to COVID-19 Council agreed to set up provisions to help businesses with a potential credit on their rates, and fully funding food, health and alcohol licences. Money was also provided as a contribution to professional advice during this challenging time, and some community leases were reduced for a period of time. The original provision was $548.300 and as at balance date the provisions totalled $495,864.

There were issues valuing assets, primarily stormwater which had vested in Council or been found as not recorded in the asset management plans

Options

a) Recommends to Council the adoption of the 2019/2020 Annual Report.

The Committee to recommend to Council the adoption of the 2019/2020 Annual Report and then a final audit opinion will be provided by Deloitte.

Policy and planning implications

This 2019/2020 Annual Report contains both the financial statements and also details how Council performed to what was planned in the adopted annual plan for this year.

Financial implications

There are no additional financial considerations about whether to adopt the Annual Report.

At the time of preparing this report, the audit is substantially complete but is still in progress. If there are any changes required by audit this will be noted at the meeting and formal advice before adoption by Council on 30 September 2020.

Risks and mitigations

Council must ensure it adopts the Annual Report within four months of balance date

Significance and engagement/Hirahira me ngā whakapāpā

The decisions or matters of this report do not trigger the significance criteria outlined in Council's Significance and Engagement Policy, and the public will be informed via agenda on the website.

The Annual Report and the Summary Annual Report must be available to the public one month after adoption of the Annual Report. These will be placed on Council's website and printed copies will be available at the library or on request.

The information contained within the Annual Report will be of considerable interest to the community and of some significance in that it reports on the performance of Council over the 2019/2020 financial year.

Next steps/E whaiake nei

- The Annual Report will be adopted at the September 2020 Council meeting.
- The Mayor and Chief Executive sign the report.
- Deloitte to issue an audit opinion.
- Report to be released.

Attachments/Ngā tapiritanga

	Title
A	Deloitte's draft report to the Audit, Risk and Finance Committee for year ended 30 June 2020
B	2019/2020 Annual Report – Part Two Financials

Deloitte.

DRAFT

Draft

Kaipara District Council Limited

Report to the Audit, Finance, and Risk Committee
for the year ended 30 June 2020

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1. Final report

2. Appendices to the final report

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A. Partner introduction

We are pleased to present this report to the Audit, Finance, and Risk Committee on the financial statements and groups of activity statement of Kaipara District Council for the year ended 30 June 2020. We have also highlighted certain aspects of the Council financial statements which are being worked through at this stage, and which are expected to be finalised later in September.

We have substantially completed our audit subject to the satisfactory resolution of the remaining outstanding items. As of the date of this report, the most significant outstanding items are :

- Completion of audit testing in respect of fixed assets and revaluations;
- Receiving supporting documentation on landfill provisions and determining any potential adjustments including whether they are current or prior year;
- Updated financial statements containing corrected audit adjustments and completion of cash flows and ad hoc notes;
- Financial prudence and funding impact statement testing
- Resolution of final audit queries;
- Summary of unadjusted differences to be updated after all testing has been completed;
- Obtaining the signed financial statements, groups of activity statements report and representation letter;
- Completion of subsequent event procedures;
- Completion of internal quality procedures.

Included in this report are the matters arising from our audit which we consider appropriate for the attention of the Audit, Finance, and Risk Committee. These matters have been discussed with management and their comments have been included where appropriate.

This year's audit scope was consistent with the prior year except for the following key changes:

- Understanding how Covid-19 has impacted the Council's financial results. The OAG require an "Emphasis of Matter" paragraph in all audit reports that explains the impacts of Covid-19 on the entity's financial results, with judgement required in the level of detail to be disclosed.

We have discussed impacts with Council's Management and considered their response in undertaking our audit procedures

We look forward to the Audit, Finance, and Risk Committee meeting on 10th September 2020 where we will have the opportunity to discuss this report. In the interim, should you require clarification on any matter in this report please do not hesitate to contact us.

This report is intended for the Audit, Finance, and Risk Committee (and other Council members) and should not be distributed further.

We would like to take this opportunity to extend our appreciation to management and staff for their assistance and cooperation during the course of our audit.

Bryce Henderson, Partner
for Deloitte Limited
Appointed Auditor on behalf of the Office of the Auditor General
Auckland | 2 September 2020

B. Our audit explained – a tailored approach

Identify changes in your business and environment

In our planning report dated 26 May 2020, we identified the key changes in your business and articulated how these impacted our audit approach.

Scoping

We set our materiality at $1.378m based on expenses which is consistent with prior year. We have completed our audit to this materiality and included in Section E are all misstatements above $69k.

Other findings

As well as our conclusions on the areas of focus, we report to you other observations that in our judgement warrant communication with the Audit, Finance, and Risk Committee, including those on internal controls.

A report on these observations will be provided to you separately.

Our audit report

We will include an "Emphasis of Matter" paragraph in our audit report arising from the impact of COVID-19 on the business. The proposed wording of is based on requirements as set out by the OAG. We have not otherwise identified any material unadjusted differences or omitted financial statement disclosures that could either individually or in aggregate have a material effect on the financial statements. An updated schedule will be provided if required at the meeting.

Understand the control environment

We obtained an understanding of the control environment, sufficient to identify and assess the risks of material misstatement of the Council financial statements.

Our approach to internal controls for the areas of audit focus is consistent with the plan set out in our planning report. Our findings are included in Section D and a separate report will be issued to management in due course.

Conclusion on areas of audit focus / significant risk areas

Details of the areas of audit focus and our responses are set our in Section C of this report.

Quality and Independence

We take our independence and the quality of the audit work we perform very seriously. We confirm that we have maintained our independence in accordance with Professional and Ethical Standards.

We provide an overview of the relationships and non-audit services in Appendix 2.

C. Areas of audit focus – dashboard

The following areas of audit focus are consistent with the areas identified in our planning report.

Area of audit focus	Significant risk	Fraud risk	Planned controls testing approach	Level of management judgement required
Management override of controls	✓	✓	D+I	N/A
Revaluation of infrastructure assets	✓	✗	D+I	🔴
Legislative compliance: rates revenue	✓	✗	D+I OE	🟡
Development contribution revenue	✓	✓	D+I	🟡
Impact of Covid-19	✗	✗	N/A	N/A
Sector wide area of focus	✗	✗	D+I	🟡

Approach to controls

D+I: Testing of the design and implementation of key controls

OE: Testing of the operating effectiveness of key controls

Level of management judgement required

🟢 🟡 🔴

Low → High

C. Areas of audit focus

Area of audit focus	Our approach	Audit findings
Management override of controls We are required to design and perform audit procedures to respond to the risk of management's override of controls.	As part of our testing of the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the Council financial statements, we performed the following testing: • Understand and evaluate the financial reporting process and the controls over journal entries and other adjustments made in the preparation of the Council financial statements. • Test the appropriateness of a sample of journal entries and adjustments and make enquiries about inappropriate or unusual activities relating to the processing of journal entries and other adjustments. • Review accounting estimates for bias that could result in material misstatement due to fraud, including assessing whether the judgements and decisions made, even if individually reasonable, indicate a possible bias on the part of management. • Perform a retrospective review of management's judgements and assumptions relating to significant estimates reflected in last year's Council financial statements. • Obtain an understanding of the business rationale of significant transactions that we become aware of that are outside the normal course of business or that otherwise appear to be unusual given our understanding of the entity and its environment.	We have not identified any inappropriate journal entries or indications of management bias.

C. Areas of audit focus

Area of audit focus	Our approach
Revaluation of Infrastructure Assets The Council accounts for revaluations of infrastructure assets on a class of asset basis. The asset classes include roads, land under roads, water reticulation, wastewater reticulation, stormwater systems and flood protection assets. Land associated with the wastewater system (particularly at Mangawhai) is also treated as a separate class of infrastructure asset. Management have adopted a rotation plan for revaluing the asset classes so the valuations are not all completed in the one year. Assets that experience significant changes in fair value are revalued outside the rotation plan. Management has determine that only the roading assets will be revalued in the 2020 year. For assets that are not revalued in the 2020 year, Management plans to perform a desktop exercise to assess the change in asset value. If the movement in asset value is material, a full revaluation will be undertaken. There is a risk that revaluations are not appropriate because of incorrect assumptions and/or data, and that revaluation movements are not adequately reflected in the financial statements.	Our work plan included: • Obtain the independent valuations of the relevant infrastructure asset classes; • Obtain representations directly from the independent valuers confirming their valuation methodology; • Review the key underlying assumptions used by the independent valuers to determine whether these assumptions were reasonable and in line with NZ generally accepted accounting practice (NZ GAAP) and assess whether the methodology is still appropriate with the impact of Covid; • Hold various discussions with the valuers as appropriate; and • Determine whether the revaluation transactions are correctly accounted for and disclosed in the financial statements in compliance with NZ GAAP. If there is significant valuation uncertainty noted as a result of Covid, ensure that this has been adequately disclosed in the financial statements; • Review desktop reports from the valuers to identify any material fluctuations in value of assets not revalued in the current year; • Obtain representations from management's experts as to impairment indicators and material fluctuations in respect of assets not revalued in the current year; and • Consider any caveats included in the valuation. The impact of Covid-19 introduces areas of uncertainty around the valuation of infrastructure assets.

Audit Findings

Revaluation of infrastructure assets (continued)

This area of work is currently incomplete as we have not received the reconciliation between the fixed asset register and RAMM database.. We will provide a verbal update on this area during the meeting.

Preliminary Findings on the Roading Assets Valuation

KDC's roading assets valuation report recorded an increase in replacement value of $90.2m (14%) and a corresponding increase in accumulated depreciation of $335k (5%). The increase in replacement cost is due to a detailed unit rate review being completed on recently tendered contract rates.

OPUS's valuation report raised some concern on asset data management due to the significant change in value. The main driver in the movement in unit prices relates to the Drainage, Bridges and Land Culverts asset groups where it appears that a backlog of asset updates and validation have occurred as bridge assets were replaced with large culverts.

Preliminary Findings on Three Waters – Water, Stormwater and Wastewater

The Committee will recall that we discussed the quality of some infrastructure data in our prior reports.

For these class of assets, management have opted to perform a desktop review rather than a full valuation of its three waters as these assets had been valued within the last two years. We received a copy of the desktop review performed by OPUS in FY20 which indicated that the valuation movement in the three waters were not material but there were significant water and stormwater additions ($6.91m) in the current year. Management are currently assessing what these additions are made up of as it appears they also include other items.

OPUS has been advised that additional work is required (on top of their desktop review) to be performed over the valuation movement when an updated copy of the fixed asset register is ready.

To date, we have not received a reconciliation between the fixed asset register and RAMM database. This issue was only noted during our audit testing and considerable amount of time has been spend coordinating the information between the asset and finance team to ensure the correct data is provided to the valuer.

A detailed recommendation in this area will be discussed in our management report. This will include Council having one central point of contact within KDC to take ownership of the data provided to the valuer and reconcile this data to the financial system.

Condition assessment work is also required to reduce the risk of errors in the valuation and unforeseen network failure. It also informs Council on the level of renewals that is required in future years and hence an impact on the rates to be collect

C. Areas of audit focus

Area of audit focus	Our approach	Audit findings
Legislative compliance: rates revenue Over recent years there have been a number of issues within the Local Government sector arising from rates not being set in accordance with the Local Government (Rating) Act 2002 (LGRA). Compliance with the detail of the LGRA is vital: if the rate is not within the range of options and restrictions provided for in that Act, it may not be valid. Management and Council need to continue to ensure that the requirements of the LGRA are adhered to and that there is consistency between the rates resolution, the Funding Impact Statement for that year, and the Revenue and Financing Policy in the respective LTP or Annual Plan (AP). The Council has been party to a number of legal actions in recent years in relation to its rates, and those of Northland Regional Council (NRC), with whom Council has an agreement to administer the rating function for NRC's rates collected in the Kaipara District. In the most recent update, Rogan has paid all outstanding penalties and the Court awarded costs to the Council. We consider this matter closed.	In order to address this risk, we: • Tested the controls around the rates setting process at Council; • Completed a 'work programme' compiled by the OAG, (similar to that completed in the prior year), to assist us in determining if rates had been set correctly by the Council; • Reviewed the meeting minutes recording the adoption of the rates resolution, determining whether the rates are in accordance with the revenue and financing policy as well as reviewing any other information available with regard to rates.	We identified no material misstatement during our testing on rates. We have received a legal confirmation from Brookfield Lawyers confirming the status of the Rogan case. We note that Council uses Simpson Grierson to review its rating documentation prior to its adoption.

C. Areas of audit focus

Area of audit focus	Our approach	Audit findings
Development Contributions There is a risk that development contributions may be misstated if they are calculated incorrectly or revenue is recognised incorrectly.	We tested a sample of development contributions for accuracy, and review the recognition policy and practice against relevant accounting standards to ensure revenue is recognised at the right time.	During our interim visit, we identified that there are cut off issues with the timing of revenue recognition. Management have reviewed the revenue recognition again at year end and adjusting journals completed based on their best estimates.

C. Areas of audit focus

Area of audit focus	Our approach	Audit findings
COVID-19 Impact The coronavirus (COVID-19) pandemic has affected economic and financial markets and there are a number of industries facing differing challenges associated with the current economic conditions. This global pandemic has also brought on a number of new risks including implications to financial reporting where additional accounting considerations may be required. These risks and further accounting implications have varied from business to business; the impact is seen to be less for those who are deemed an essential service or have been able to operate with minimal disruption.	The following key considerations were incorporated into our audit plan: • There is an inherent increase in the level of fraud risk. Our fraud risk assessment is a continual process throughout the audit engagement. Additional emphasis was placed on management override of controls, journal entry testing and challenging that the manual and IT internal control environment remains strong and robust to prevent and detect potential frauds. • Discussed with management, the account balances most affected by COVID-19 and together with our own understanding of the operations, tailored our audit testing where necessary. • We focused attention on significant key judgements and assumptions that have been applied, particularly if these have changed considerably from the prior year and challenge the reasonableness of assumption changes applied in the current economic environment. • Reviewed the appropriateness of disclosures in the financial statements.	As a result of Covid, the valuers for infrastructure assets, forest and assets held for sale have applied assumptions regarding the reasonably possible impacts of Covid-19 based on available information on 30 June 2020. This has led to them undertaking the indexation exercise on the basis of 'material valuation uncertainty'. The valuers have advised that less certainty should be attached to the report than would normally be the case. We note that a "material valuation uncertainty" in the context of a valuation does not mean the valuation cannot be relied upon for the purposes of financial reporting. The Council also accrued for an additional water charge of $280k as the nationwide lockdown in April prevented contractors from going out to read water meters. We have not noted any material movements as a result of the impact of Covid-19. As at the time of issuing this report, we have not reviewed the disclosures made in the annual report regarding the impact of Covid-19.

C. Areas of audit focus

Sector wide area of focus

Area of audit focus	Our approach	Audit findings
Performance, waste and probity Ensuring that Parliament's expectations are met with respect to use of rate payer funds is a key feature of any audit in the public sector.	Our audit approach included a specific programme of work, as in previous years, covering the following aspects: • Confirming Council has the appropriate policy framework for areas such as delegated authorities, fraud, conflicts of interest etc. • Testing certain areas of sensitive expenditure to ensure spending is appropriate and authorised in accordance with policy and best practice. • Reviewing areas such as credit card expenditure, fuel card expenditure, and mobile phone expenditure.	We did not identify any issues in respect of performance, waste, and probity.
Managing conflicts of interest and related party transactions Councils are required to ensure that there are appropriate procedures in place to identify and manage conflicts of interest that related party disclosures in the financial statements are complete.	Our audit procedures on related party disclosures included searching public records for potential related party relationships (such as the Companies Office website). We also ensured any entries in the interests register were individually assessed, and those which met the definition of a related party transaction during the year were disclosed in the Annual Report. This included remuneration disclosures relating to the Councillors and key management personnel.	We are satisfied that related party transactions including remuneration disclosures relating to Councillors have been appropriately disclosed in the annual report.

C. Areas of audit focus

Sector wide area of focus

Area of audit focus	Our approach	Audit findings
Financial prudence Councils are required to include appropriate benchmarking reporting in the Annual Report as required by the Local Government (Financial Reporting and Prudence) Regulations 2014.	Our audit procedures included reviewing the disclosures and recalculating key ratios to determine whether Council was in compliance with these regulations.	We identified no issues in respect of legislative compliance.
Legislative compliance and more specifically legality of rates The Council is subject to significant regulatory and legislative compliance requirements. The Council needs to have adequate systems in place to monitor compliance with legislation along with any changes occurring in the applicable legislation.	Our audit procedures included looking at Council's processes for ensuring legislative compliance, including specifically testing compliance with legislation that materially impacts on the financial statements. This included the Local Government Act 2002 and the Local Government (Rating) Act 2002. In particular extensive work was completed on the rates setting process, as outlined in the Areas of Focus section above.	We identified no issues in respect of legislative compliance.
Provincial growth fund The Provincial growth fund represents a $3billion investment of public money in projects and initiatives which aim to lift productivity potential in New Zealand's regions. The Council currently has three Provincial Growth fund contracts: (i) Kaipara Wharves (ii) Kaipara Kickstart (iii) Kaipara Water Storage (iv) Kaipara Roading	We reviewed all contracts in place. We focused on the risk that revenue may not be recorded in the appropriate accounting period due to incorrect recognition or deferral of revenue. This could arise from incorrectly identifying conditions or restrictions associated with revenue transactions or incorrectly applying the contractual terms associated with the timing of when revenue is recognised.	There are a number of conditions with this funding and revenue can only be recognised when each separately identified condition is met. We identified no misstatements in relation to revenue recognition or cut-off.

C. Areas of audit focus

Sector wide area of focus

Area of audit focus	Our approach	Audit findings
Fraud The primary responsibility for the prevention and detection of fraud rests with management and the Council, including designing, implementing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditor, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.	Throughout the financial year we remained alert for issues that indicate fraud. Specifically our work involved: • Formal inquiries of the Council, management and others within the entity regarding the risks of fraud within the Council including the processes in place to mitigate those risks; • Documenting systems and internal controls used by the Council to prevent and detect fraud. In this area we will raise any weaknesses with management and the Council as applicable; • Remaining alert for the existence of any confidentially clauses in employment contracts that may prevent disclosure of information and thus reduce the level of transparency of spending of public monies; and • Reviewing the current fraud policy to ensure it follows OAG guidance and ensure management and employees are aware of the fraud policy and its content.	In the prior year, we were aware of a potential matter. In the current year, we reviewed the key controls management has put in place to prevent a similar incident from happening again. This review noted that two of the more important controls designed have not always been operating throughout the year. A detailed recommendation in this area will be discussed in our management report.

D. Internal control findings

Assessment of internal control

Our audit approach requires us to obtain an understanding of an entity's internal controls, sufficiently to identify and assess the risks of material misstatement of the Council financial statements whether due to fraud or error.

We remind you that our audit is not designed to express an opinion on the effectiveness of the controls operating within the Council. We will report to management any recommendations on controls that we identified during the course of our audit work. The matters being communicated are limited to those deficiencies that we have identified during the audit and that we have concluded are of sufficient importance to merit being reported. Our recommendations for improvement should be assessed by you for their full commercial implications before they are implemented.

Observations and recommendations in the current period

We have noted a number of control observations and expect to issue a Group Management Letter after the Audit, Finance, and Risk Committee meeting.

E. Summary of **unadjusted** differences

For the financial statements our materiality was $1.378m

In performing our audit of KDC for the year ended 30 June 2020 we have not identified any uncorrected misstatements that management believe could, either individually or in aggregate, have a material effect on the financial statements for the year ended 30 June 2020.

The unadjusted differences we have identified are set out below.

Unadjusted misstatements identified	Assets Dr/(Cr) ($'000)	Liabilities Dr/(Cr) ($'000)	Equity Dr/(Cr) ($'000)	Profit or loss Dr/(Cr) ($'000)
Errors relating to current year:				
Overstatement of building consent fees due to timing of revenue recognition		(166)		166
Provision for doubtful debts on sundry debtors was understated	(87)			87
Water accrual is estimated to be higher than currently accrued for	180			(180)
Community loan receivable that may become doubtful	(100)			100
Presentation of capitalised staff time (Internal recoveries				(177)/177
Additional errors expected to arise from unaudited areas (1)	TBC			
Total current year errors	**(7)**	**(166)**	-	**173**

(1) Based on the preliminary information provided to us on the landfill remediation provision and property plant and equipment, we are expecting errors to arise in these areas.

E. Summary of **unadjusted** differences (continued)

Unadjusted misstatements identified	Assets Dr/(Cr) ($'000)	Liabilities Dr/(Cr) ($'000)	Equity Dr/(Cr) ($'000)	Profit or loss Dr/(Cr) ($'000)
Errors relating to prior year impacting this year:				
Activity income relating to Fonterra's Maungaturoto construction recognised in FY20 but should be recognised in FY19			(232)	232
Building consent fee income recognised in FY19 but should be FY20			433	(433)
Depreciation on infrastructure additions excluded from revaluation			81	(81)
Provision for doubtful debts on land rates recognised in FY20 but should be FY19			136	(136)
Contribution income recognised in FY19 but should be FY20			201	(201)
Total prior year errors			**619**	**(619)**
Total uncorrected errors (current year and prior year)	**(7)**	**(166)**	**619**	**(446)**

F. Summary of **adjusted** differences

In performing our audit of KDC for the year ended 30 June 2019 we identified a number of audit differences that management has agreed to adjust in its financial statements. The effect of these is set out below:

Unadjusted misstatements identified	Assets Dr/(Cr) ($'000)	Liabilities Dr/(Cr) ($'000)	Equity Dr/(Cr) ($'000)	Profit or loss Dr/(Cr) ($'000)
Errors relating to current year:				
Water accrual adjustment from PY should not be included in CY balance	(106)			106
Understatement of NZTA Roading claim	476			(476)
Bickerstaffe Landfill costs incorrectly capitalised	(311)		311	
Reclassify contribution and consent journals from accrued revenue to income received in advanced	331	(331)		
Water rates receivable balance from PY should not be included in CY balance	(512)	512		
Total corrected errors	**(122)**	**181**	**311**	**(370)**

G. Summary of audit adjustments - disclosures

At the time of preparing this report, we have not received a copy of the updated financial statements. We will provide a verbal update during the Audit, Finance, and Risk Committee meeting.

Omitted disclosures assessed by management as not being material	Ref	Amount (where applicable)	Management's response
N/A			

Appendix 1: Purpose of report and responsibility statement

Purpose of report

This report has been prepared for the Council's Audit, Finance, and Risk Committee and is part of our ongoing discussions as auditor in accordance with our engagement letter and master terms of business dated 19th February 2020 and as required by New Zealand auditing standards.

This report is intended for the Council's Audit, Finance, and Risk Committee (and other Council members) and should not be distributed further. We do not accept any responsibility for reliance that a third party might place on this report should they obtain a copy without our consent.

This report includes only those matters that have come to our attention as a result of performing our audit procedures and which we believe are appropriate to communicate to the Committee. The ultimate responsibility for the preparation of the Council financial statements rests with the Council.

Responsibilities

We are responsible for conducting an audit of the Council for the year ended 30 June 2020 in accordance with New Zealand auditing standards issued by the NZ Auditing and Assurance Standards Board. Our audit is performed pursuant to the requirements of the Public Audit Act 2001, the Local Government Act 2002, the Financial Reporting Act 2013 and taking into consideration instructions received from the Office of the Auditor General, with the objective of forming and expressing an opinion on the Council's financial statements and groups of activity statements that have been prepared by management with the oversight of the Council. The audit of the Council financial statements and group of activities does not relieve management or the Council of their responsibilities.

Our audit is not designed to provide assurance as to the overall effectiveness of the Council's controls but we will provide you with any recommendations on controls that we may identify during the course of our audit work.

Appendix 2: Independence and fees

Effective 1 April 2020, the updated Code of Ethics (AAG PES 1) introduce a change to the Auditor-Generals' independence requirements by placing limitation on "other work" that can be carried out by auditors, over and above the work we carry out on behalf of the Auditor-General. We have obtained approval to provide the below services for the year ending 30 June 2020.

The professional fees earned by Deloitte Limited in the period from 1 July 2019 to 30 June 2020 are as follows:

	CY ($'000)	PY ($'000)	Notes
Fees payable to the Council's auditors for the audit of the Council's annual financial statements and summary financial statements	157	200	
Other assurance engagements relating to the Debenture Trust Deed and audit of the Register of Security Stock	11	10	
Fees payable to the OAG for the audit of the Council's annual financial statements and summary financial statements	11	11	
Total audit related and other assurance fees	**179**	**221**	
Online fraud and Corruption Awareness Training	-	5	
"Tip Offs" Whistleblower Service	10	8	(1)
Forensic investigation	17	11	(2)
Total services	**206**	**245**	

(1) The whistleblower service will be transferred to another provider once the new providers is approved by the Audit, Risk and Finance Committee in Sept'20.

(2) This is a one-off service provided during FY19 and FY20. The final report was issued August 2019.

Appendix 3: Other communications

The following matters are communicated in accordance with the requirements of New Zealand auditing standards:

Non-compliance with laws and regulations	In performing our audit of the Council for the year ended 30 June 2020, we have not become aware of any instances of non-compliance with applicable laws and regulations that may have an impact on the determination of material amounts and disclosures within the Council financial statements and statement of service performance.
Accounting policies / Financial reporting	There were no changes in accounting policies during the year ended 30 June 2020. We have not become aware of any other significant qualitative aspects of the Council's accounting practices, including judgements about accounting policies, accounting estimates and financial statement disclosures that need to be communicated to the Audit, Finance, and Risk Committee.
Related parties	No significant related party matters other than those reflected in the Council financial statements or statement of service performance came to our attention that, in our professional judgement, need to be communicated to the Audit, Finance, and Risk Committee
Written representation	A copy of the representation letter to be signed on behalf of the Council has been circulated separately.
Other information	**We have not read the other information (the financial and non-financial information other than the financial statements) contained within the annual report to consider whether there are material inconsistencies with the financial statements. Once received, if we identify any material inconsistencies between the financial statements and other information, we will bring them to your attention.**

Deloitte.

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PART TWO

Financials

Statement of Comprehensive Revenue and Expense for the Year Ended 30 June 2020

The Statement of Comprehensive Revenue and Expense details income and expenditure relating to all activities of Council. The supporting Funding Impact Statements for each activity provide further details as to the costs and revenues of each activity.

For the year ended:		Actual	Annual Plan	Annual Report
30 June		2019-2020 $'000	2019-2020 $'000	2018-2019 $'000
Revenue	Note			
Rates	2a	37,688	36,884	35,526
Subsidies and grants	2c	13,098	32,005	12,152
Activity income		6,282	6,499	5,962
Contributions		2,395	3,019	3,871
Investments and other income	2c	693	340	2,272
Total revenue	2a	60,157	78,746	59,783
Expenses				
Activity costs		23,695	28,663	26,049
Employee benefits		12,912	12,692	11,250
Finance costs		2,284	2,780	2,510
Depreciation	10a,11	10,889	11,010	10,647
Total expenses	3	49,780	55,145	50,457
Surplus/(deficit) for the period		10,377	23,601	9,326
Other comprehensive revenue and expense (Items that will not be reclassified subsequently to surplus or deficit)				
Gain/(loss) on revaluation	4a	85,287	13,311	49,865
Total comprehensive revenue and expense for the period		95,664	36,912	59,191

The accompanying notes form part of these financial statements.

Explanation of major revenue and expenditure variances against Annual Plan

Revenue

Subsidies and grants: Roading and PGF projects were temporarily paused or slowed due to the COVID-19 pandemic, resulting in less NZTA subsidy and PGF grants than projected for the 2019/2020 year.

Activity income: Slight decreased in building and resource consenting income during COVID-19 lockdown period.

Contributions: Overall decrease in development contributions due to economic uncertainties and lower number of subdivisions.

Investments and other income: There was $369,406 of additional reserves and roads vested assets by developers in Council ownership.

Expenses

Activity costs: Overall all activities costs are lower than budget due to the impact of COVID-19, purchase of goods were not made to the normal extend during the lockdown period.

Employee benefits: Additional cost of staff provision.

Finance costs: These were less due to capital projects not being completed in the initial timeframe.

Statement of Financial Position as at 30 June 2020

As at	Actual	Annual Plan	Annual Report
30 June	2019-2020 $'000	2019-2020 $'000	2018-2019 $'000
Accumulated comprehensive revenue and expense	402,620	425,697	401,364
Asset revaluation reserves	353,888	245,084	268,601
Restricted reserves	5,612	5,389	5,574
Council created reserves	(5,695)	(14,550)	(14,777)
Total net assets/equity	**756,425**	**661,620**	**660,762**
represented by			
Current assets			
Cash and Cash Equivalents	4,398	563	1,926
Trade and Other Receivables	7,681	6,548	8,317
Accrued Revenue	1,679	3,438	1,641
Other Financial Assets - Current	115	115	115
Non Current Assets Held for Sale	127	186	186
LGFA Borrower notes	400	0	32
Total current assets	**14,400**	**10,849**	**12,217**
less			
Current liabilities			
Trade and Other Payables	11,265	13,329	11,219
Provisions	609	148	135
Employee Entitlements	845	1,111	905
Public debt	25,000	600	1,000
Total current liabilities	**37,719**	**15,188**	**13,259**
Working capital/(deficit)	**(23,319)**	**(4,340)**	**(1,042)**
plus			
Non current assets			
Property, plant, equipment	805,493	720,724	714,402
LGFA Borrower notes	304	704	672
Biological Assets	815	1,017	1,045
Other financial assets	270	278	279
Total non current assets	**806,882**	**722,723**	**716,398**
less			
Non current liabilities			
Public debt	19,000	47,657	44,000
Provisions	1,173	4,679	4,599
Derivative Financial Liabilities	6,965	4,427	5,995
Total non current liabilities	**27,138**	**56,763**	**54,594**
Net assets	**756,425**	**661,620**	**660,762**

Explanation of major variances against Annual Plan

Equity: The favourable variance relates to the higher revaluation of infrastructure assets.

Cash and cash equivalents: Cash and cash equivalents are higher than planned. Cash is being retained to meet capital commitments planned for the next year.

Trade and other receivables: Decrease overall due to improvements made in collection process in rates revenue and increased provision for impairment provided.

Trade and other payables: Lower than budget due to roading and PGF projects temporarily paused or slowed due to COVID-19.

Employee entitlements: Reduction in holiday pay to employees.

Property, plant and equipment: Higher than budgeted due to revaluation of infrastructure assets.

Biological assets: Lower than budget biological assets reflects the decrease in fair value of Council's forestry assets due to significant short-term uncertainty in log pricing, which is a factor in the valuation.

Derivative financial liabilities: Derivatives are marked to market value at each balance date. Higher than budget derivative liabilities of $2.5 million is due to the nature of these financial instruments. Council uses interest rate derivatives to assist in achieving a long term stable interest rate on debt and minimise the risks.

Public debt: The total of $1.0 million existing debt was retired during the year. At year end the debt was lower than had been anticipated as loans were not taken out as capital work was unable to be carried out.

Statement of Changes in Net Assets/Equity for the Year Ended 30 June 2020

As at	Actual	Annual Plan	Annual Report
30 June	2019-2020 $'000	2019-2020 $'000	2018-2019 $'000
Balance at 1 July	660,762	624,708	601,571
Comprehensive revenue and expense for the period			
Surplus/(deficit) for the period	10,377	23,601	9,326
Other comprehensive revenue and expense for the period			
Surplus on Revaluation of infrastructure	85,286	13,311	49,865
Total comprehensive revenue and expense for the period	95,663	36,912	59,191
Balance at 30 June	**756,425**	**661,620**	**660,762**

The accompanying notes form part of these financial statements. (p.20-53)

Statement of Cash Flows for the Year Ended 30 June 2020

For the year ended: 30 June	Actual 2019-2020 $'000	Annual Plan 2019-2020 $'000	Annual Report 2018-2019 $'000
Cash Flow from Operating Activities			
Receipts:			
Rates	37,998	36,884	34,228
Fees, charges and other	9,022	9,837	8,603
Grants and subsidies	13,060	32,005	13,949
Interest received	0	20	19
sub total	**60,080**	**78,746**	**56,798**
Payments:			
Suppliers and employees	38,038	41,290	35,902
Taxes (including the net effect of GST)	(19)	0	578
Interest expense	2,284	2,780	2,510
sub total	**40,303**	**44,070**	**38,990**
Net Cash Flow from/(to) Operating Activities	**19,777**	**34,676**	**17,808**
Cash Flow from Investing Activities			
Receipts:			
Sale of property, plant and equipment	21	175	468
sub total	**21**	**175**	**468**
Payments:			
Property, plant and equipment purchases	16,327	38,597	18,927
sub total	**16,327**	**38,597**	**18,927**
Net Cash Flow from/(to) Investing Activities	**(16,306)**	**(38,422)**	**(18,459)**
Cash Flow from Financing Activities			
Receipts:			
Loans raised	0	3,809	16,500
Payments:			
Loan repayment	(1,000)	0	(17,500)
LGFA Borrower notes	0	0	(64)
Net Cash Flow from/(to) Financing Activities	**(1,000)**	**3,809**	**(1,064)**
Net Increase/(Decrease) in cash and cash equivalents	**2,472**	**63**	**(1,715)**
Cash and cash equivalents at beginning of period	1,926	500	3,641
Cash and cash equivalents at end of period	4,398	563	1,926

The accompanying notes form part of these financial statements. (p.20-53)

Annual Report Disclosure Statement for the year ending 30 June 2020

What is the purpose of this Statement?

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

The Council is required to include this Statement in its Annual Report in accordance with the Local Government (Financial Reporting and Prudence) Regulations 2014 (the regulations). Refer to the regulations for more information, including definitions of some of the terms used in this Statement.

Rates affordability benchmark

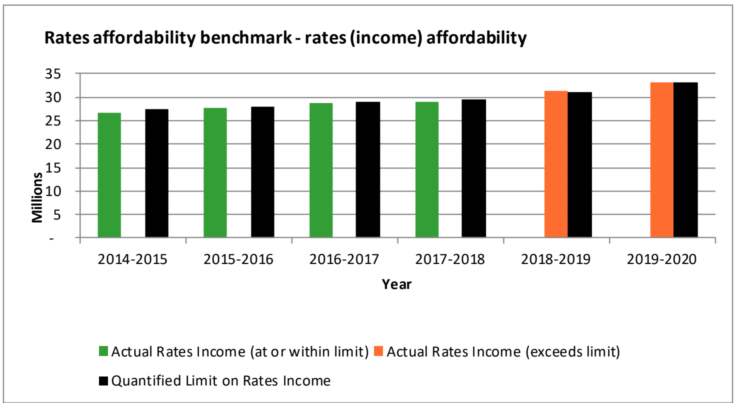
The Council meets the rates affordability benchmark if:

- its actual rates income equals or is less than each quantified limit on rates; and
- its actual rates increase equal or are less than each quantified limit on rates increases.

Rates (income) affordability

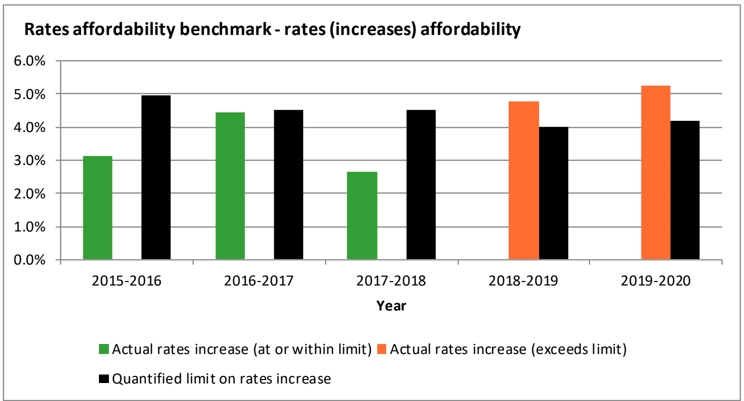
The following graph compares the Council's actual rates income with a quantified limit on rates contained in the Financial Strategy included in the Council's Long Term Plan. The quantified limit for 2019/2020 was set in the Long Term Plan at $33.2 million excluding water meter billing.

The Long Term Plan 2018/2028 predicted the ceiling to be exceeded in each of the first three years. Over the 10 year long term plan period cumulative increases will be less than the ceiling.



Rates (increases) affordability

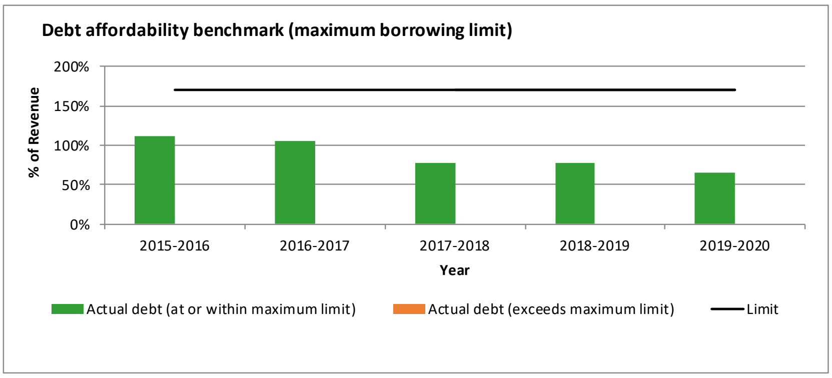
The following graph compares the Council's actual rates increases with a quantified limit on rates as stated included in the Financial Strategy, included in the Council's Long Term Plan.



Debt affordability benchmark

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

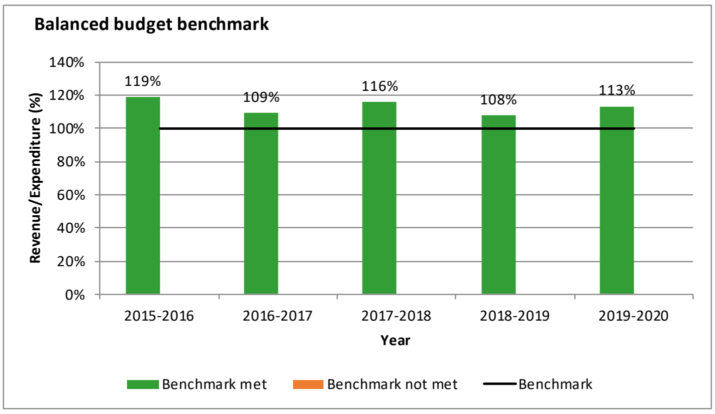
The following graph compares the Council's actual borrowing with a quantified limit on borrowing stated in the Financial Strategy included in the Council's Long Term Plan.



Balanced budget benchmark

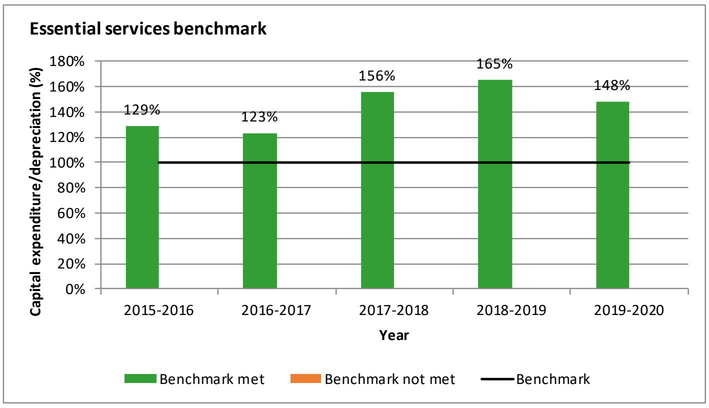
The following graph displays the Council's revenue (excluding development contributions, financial contributions, vested assets, gains on derivative financial instruments, and revaluations of property, plant, or equipment) as a proportion of operating expenses (excluding losses on derivative financial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

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



Essential services benchmark

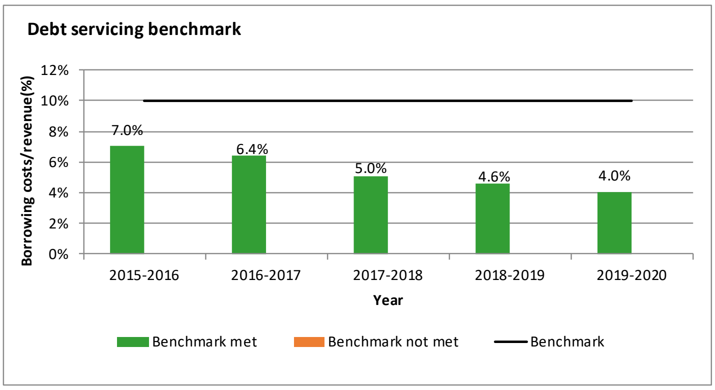
The following graph displays the Council's capital expenditure on network services as a proportion of depreciation on network services. The Council meets this benchmark if its capital expenditure on network services equals or is greater than depreciation on network services.



Debt servicing benchmark

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

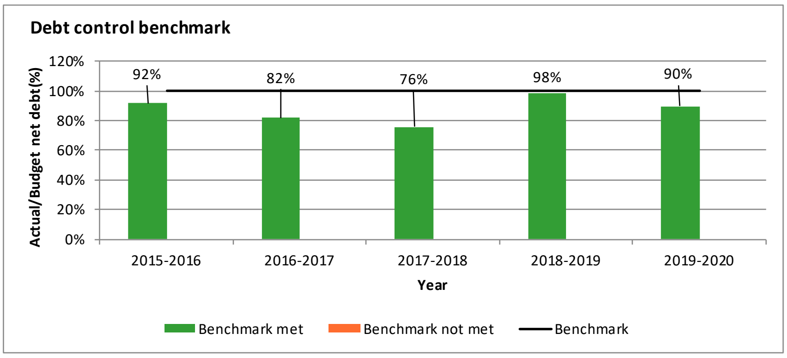
Council meets the debt servicing benchmark if it's borrowing costs equal or are less than 10% of its revenue.



Debt control benchmark

The following graph displays the Council's actual net debt as a proportion of planned net debt. In this statement, net debt means financial liabilities less financial assets (excluding trade and other receivables).

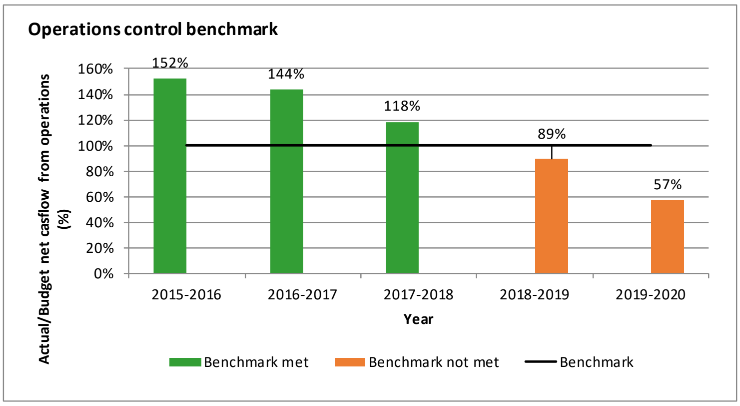
This Council meets the debt control benchmark if its actual net debt equals or is less than its planned net debt.



Operations control benchmark

This graph displays the Council's actual net cash flow from operations as a proportion of its planned net cash flow from operations.

The Council meets the operations control benchmark if its actual net cash flow from operations equals or is greater than its planned net cash flow from operations.



Notes to Financial Statements

1 Statement of Accounting Policies for the year ended 30 June 2020

Reporting entity

Kaipara District Council is a territorial local authority governed by the Local Government Act 2002.

The primary objective of Kaipara District Council is to provide core services for the community, which focus on a social benefit rather than making a financial return. Accordingly, Kaipara District Council has designated itself as a Public Sector Public Benefit Entity (PS PBE).

The financial statements of Kaipara District Council are for the year ended 30 June 2020. The financial statements were authorised for issue by Council on 26 September 2020.

Basis of preparation

These financial statements have been prepared in accordance with the requirements of the Local Government Act 2002 and in accordance with generally accepted accounting practice (GAAP). For the purposes of complying with GAAP, Council is a Tier 1 Public Benefit Equity.

These financial statements are expressed in New Zealand dollars, which is Kaipara District Council's functional currency. All financial information has been rounded to the nearest thousand, unless otherwise stated. The measurement basis adopted in the preparation of these financial statements is historical cost, modified by the revaluation of infrastructure assets and certain financial instruments as identified in the specific accounting policies below and the accompanying notes.

Going concern

This Annual Report has been prepared on the assumption that Council is a going concern. This means Council has a reasonable expectation there are adequate resources to continue operations, having regard to known circumstances, in the next year and those events known to occur further in the future. As such, adoption of the assumption has been based on the provisions of PBE IPSAS 1.

Significant Accounting Policies

Revenue

Revenue is measured at fair value.

Revenue is comprised of exchange and non-exchange transactions. Exchange transaction revenue arises when one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value in exchange.

Non-exchange transaction revenue arises from transactions without an apparent exchange of approximately equal value. Non-exchange revenue includes rates, grants, subsidies, fees and user charges derived from activities that are partially funded by rates. Revenue relating to non-exchange transactions is recognised as conditions, if any exist, are satisfied.

Rates revenue

Rates are set annually by a resolution from Council and relate to a financial year. All ratepayers are invoiced within the financial year for which the rates have been set and are considered to be fair value. Rates revenue is recognised when payable. Rates collected on behalf of Northland Regional Council (NRC) are not recognised as rates revenue as Council is acting as an agent.

Grants revenue

Council receives Government grants from NZTA, which subsidises part of Council's costs in maintaining the local roading infrastructure. The subsidies are recognised as revenue upon entitlement as conditions pertaining to eligible expenditure have been fulfilled.

Other revenue

Other revenue comprises amounts received and receivable from water revenue at balance date for water supplied to customers in the ordinary course of business. As meter reading is cyclical, management must apply judgement when estimating the water consumption of customers between meter readings. Unbilled revenues as a result of unread meters at year end, is accrued on an average usage basis,

Provision of service

Revenue from the rendering of services is recognised by reference to the stage of completion of the transaction at balance date, based on the actual service provided as a percentage of the total services to be provided.

Sales of goods

Sales of goods are recognised when the product is sold to the customer. Sales are all in cash. The recorded revenue is the gross amount of the sale.

Vested assets

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

Interest and dividend income

Interest income is recognised using the effective interest method.

Dividends are recognised when the right to receive payment has been established.

Development and financial contributions

The revenue recognition point for development and financial contributions is when Council provides or is able to provide the service for which the contribution was levied. Otherwise, development or financial contributions are recognised as liabilities until such time as Council provides, or is able to provide, the service.

Borrowing costs

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

Grant expenditure

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

Discretionary grants are those grants where Council has no obligation to award on receipt of the grant application and are recognised as expenditure when a successful applicant has been notified of Council's decision.

Operating leases

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

Cash and cash equivalents

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

Trade and other receivables

Trade and other receivables are measured at fair value, less any provision for impairment. Council maintains a provision for impairment losses when there is objective evidence of debtors being unable to make required payments and no other recourse available to Council.

When the receivable is uncollectable, it is written off against the provision. Overdue receivables which have been negotiated are reclassified as current (that is, not past due).

Financial assets

Financial assets are classified at fair value through surplus or deficit, loans and receivables, held to maturity and available for sale. The classification depends on the purpose for which the financial assets or liabilities are held. Council determines the classification of financial assets and liabilities at initial recognition.

The applicable categories of financial assets are:

1 Financial assets at fair value through surplus or deficit

Either, financial assets held for trading or those designated at fair value through surplus or deficit at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

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

After initial recognition they are measured at their fair values. Gains or losses on re-measurement are recognised in the surplus/(deficit).

2 Loans and receivables

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

After initial recognition they are measured at amortised cost using the effective interest method, less impairment. Gains and losses when the asset is impaired or de-recognised are recognised in the surplus/(deficit).

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

Impairment

Financial assets carried at amortised cost are assessed each reporting date for impairment. If there is objective evidence of impairment, the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where appropriate, is recognised in the surplus/(deficit).

Non-financial assets are reviewed at each reporting date to determine whether there are any indicators that the carrying amount may not be recoverable. If any such indicators exist, the asset's recoverable amount is estimated. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Value in use is depreciated replacement cost for an asset where the future economic benefits or service potential of the asset are not primarily dependent on the assets ability to generate net cash inflows and where the entity would, if deprived of the asset, replace its remaining future economic benefits or service potential.

The value in use for cash-generating assets is the present value of expected future cash flows.

An impairment loss is recognised in the surplus/(deficit) for the amount by which the asset's carrying amount exceeds its recoverable amount. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash-generating units). The reversal of an impairment loss on a revalued asset is credited to the revaluation reserve. However, to the extent that an impairment loss for that class of asset was previously recognised in the surplus/(deficit), a reversal of the impairment loss is also recognised in the surplus/(deficit).

Non-current assets held for sale

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

Any impairment losses for write-downs of non-current assets held for sale are recognised in the surplus/(deficit).

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

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

Property, plant and equipment

Property, plant and equipment consist of:

- *Operational Assets*

  These include land, buildings, plant and equipment, and motor vehicles.

- *Restricted Assets*

  Restricted assets are community housing and parks and reserves owned by Council, which provide a benefit or service to the community and cannot be disposed of because of legal or other restrictions.

- *Infrastructure Assets*

  Infrastructure assets are the fixed utility systems owned by Council. Each asset class includes all items required for the network to function, for example, sewer reticulation includes reticulation piping and sewer pump stations.

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

- *Additions*

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

  In most instances, an item of property, plant and equipment is recognised at its cost. Where an asset is acquired at no cost, or for a nominal cost such as a vested asset, it is recognised at fair value as at the date of acquisition.

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

- *Disposals*

  Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are included in the surplus/(deficit). When revalued assets are sold, the amounts included in asset revaluation reserves in respect of those assets are transferred to accumulated funds.

- Subsequent Costs

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

Revaluation

Infrastructural assets are revalued with sufficient regularity by independent valuers to ensure their carrying amount does not differ materially from fair value and at least every three years. All other asset classes are carried at depreciated historical cost.

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

Revaluations of property, plant and equipment are accounted for on a class-of-asset basis.

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

Creditors and other payables

Creditors and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method.

Employee benefits

Employee benefits that Council expects to be settled within 12 months of balance date are measured at nominal values based on accrued entitlements at current rates of pay. These include salaries and wages accrued up to balance date, annual leave earned to, but not yet taken at balance date.

Superannuation schemes - defined contribution schemes

Obligations for contributions to defined contribution superannuation schemes are recognised as an expense in the Statement of Comprehensive Revenue and Expense.

Provisions

Council recognises a provision for future expenditure of uncertain amount or timing when there is a present obligation (either legal or constructive) as a result of a past event, and is probable that expenditures will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

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

Financial guarantee contracts

New Zealand Local Government Funding Agency

Council is a guarantor of the New Zealand Local Government Funding Agency Limited (LGFA). The LGFA was incorporated in December 2011 with the purpose of providing debt funding to local authorities in New Zealand. LGFA has a local currency rating from Fitch Ratings and Standard & Poor's of AA+ and a foreign currency rating of AA.

Council is one of 52 local authority guarantors of LGFA. When aggregated with the uncalled capital of other shareholders, $20 million is available in the event that an imminent default is identified. Also, together with the other shareholders and guarantors, Council is a guarantor of all LGFA's borrowings. At 30 June 2020, LGFA had borrowings totalling $11.908 billion (2019: $9.53 billion).

Financial reporting standards require Council to recognise the guarantee liability at fair value. However, Council has been unable to determine a sufficiently reliable fair value for the guarantee, and therefore has not recognised a liability. Council considers the risk of LGFA defaulting on repayment of interest or capital to be very low on the basis that:

- We are not aware of any local authority debt default events in New Zealand; and
- Local government legislation would enable local authorities to levy a rate to recover sufficient funds to meet any debt obligations if further funds were required.

Borrowings

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

Borrowings are classified as current liabilities unless Council has an unconditional right to defer settlement of the liability for at least 12 months after balance date or if the borrowings are expected to be settled within 12 months of balance date.

Net assets/equity

Net assets/equity is the community's interest in Council and is measured as the difference between total assets and total liabilities. Net assets/equity is disaggregated and classified into a number of reserves.

The components of net assets/equity are:

- Accumulated comprehensive revenue and expense;
- Restricted reserves;
- Council-created reserves; and
- Asset revaluation reserves.

Restricted and Council created reserves

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

Restricted reserves are subject to specific conditions accepted as binding by Council and which may not be revised by Council without reference to the Courts or a third party. Transfers from these reserves may be made only for certain specified purposes or when certain specified conditions are met. The Mangawhai Endowment Fund referred to in this document includes the Mangawhai Endowment Lands Account (MELA) referred to in section 8 of the Mangawai Lands Empowering Act 1966 (*sic*).

Council-created reserves are reserves restricted by Council decision. Council may alter them without reference to any third party or the Courts. Transfers to and from these reserves are at the discretion of Council.

Asset revaluation reserves

These reserves relate to the revaluation of property, plant and equipment to fair value.

Goods and Services Tax (GST)

All items in the financial statements are stated exclusive of Goods and Services Tax (GST), except for receivables and payables, which include GST invoiced.

Budget figures

The budget figures have been prepared using accounting policies that are consistent with those adopted by Council for the preparation of the Financial Statements.

Cost allocation

Council has derived the cost of service for each significant activity of Council using the cost allocation system outlined below:

- Direct costs are those costs directly attributable to a significant activity. Indirect costs are those costs which cannot be identified in an economically feasible manner, with a specific significant activity;
- Direct costs are charged directly to significant activities;
- Indirect costs are charged to significant activities using appropriate cost allocations determined by management.

Critical accounting estimates and assumptions

In preparing these financial statements, Council has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations or future events believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Critical judgements in applying Council's accounting policies

Management has exercised the following critical judgements in applying Council's accounting policies for the period ended 30 June 2020.

The Council is required to make judgements, estimates and assumptions about carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and judgements are based on historical experience and other relevant factors. Actual results may differ from the estimates. The estimates and underlying assumptions are review on an ongoing basis.

Revisions to estimates are recognised in the period in which the estimate is revised or in the current and/or future period(s) which the revisions affect. Refer to the notes below for a discussion of estimates and judgements in applying the accounting policies.

Revaluation of infrastructure assets - Note 10(a), page 38

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

- the physical deterioration and condition of an asset, for example Council could be carrying an asset at an amount that does not reflect its actual condition. This is particularly so for those assets which are not visible, for example stormwater, wastewater and water supply pipes that are underground. This risk is minimised by Council performing a combination of physical inspections and condition modelling assessments of underground assets;
- estimating any obsolescence or surplus capacity of an asset; and
- estimates made when determining the remaining useful lives over which the asset will be depreciated. These estimates can be impacted by the local conditions, for example weather patterns and traffic growth. If useful lives do not reflect the actual consumption of the benefits of the asset, then Council could be over

or under estimating the annual depreciation charge recognised as an expense in the Statement of Comprehensive Revenue and Expense. To minimise this risk Council's infrastructural assets useful lives have been determined with reference to the New Zealand Infrastructural Asset Valuation and Depreciation Guidelines published by the National Asset Management Steering Group and have been adjusted for local conditions based on past experience. Asset inspections, deterioration and condition modelling are also carried out regularly as part of Council's asset management planning activities, which gives Council further assurance over its useful life estimates.

Experienced independent valuers perform Council's infrastructural asset revaluations.

Unbilled water revenue estimate - Note 1, page 21

Closure and post-closure provisions - Note 8(a), page 35

All Council landfills are now closed. Provision has been made for the future costs of closing the Dargaville and Hakaru landfills being the aftercare of the landfill for the prescribed period. Estimated costs, adjusted for inflation, have been built up on an item by item basis. The provision held, at each balance date, represents the net present value of the estimated future costs. A detailed reassessment and the anticipated remaining lives of the landfills are performed regularly.

The impact of changes to the provision arising from the reassessment of the life of the landfill and estimated future costs are capitalised to deferred closure and post-closure costs within property, plant and equipment in the Statement of Financial Position. The annual change in the net present value of the provision due to the passage of time is recorded as the time value adjustment of provisions in the Statement of Comprehensive Revenue and Expense.

Impact of Covid-19

Covid-19 and the Government mandated lockdown periods has not had a significant impact on the Council given it provides essential services. The Infometrics report showed that the impact of Covid-19 on the Council was minimal due to the makeup of our ratepayers base. Only 3.9% of the Council ratepayers are businesses which is the sector that was most impacted by the lockdown. The majority of our individual ratepayers are in the agricultural and construction sector. The key areas impacted are listed below:

- *Revaluation of infrastructure assets as at 30 June 2020 as detailed in Note 10*
- *Biological asset valuation being impacts as detailed in Note 13.*
- *Provision for uncollectability of rates receivable and other debtors as at 30 June 2020 as detailed in Note 6.*

The key risk to Council finances going forward after June 2020 balance date will be driven by:

- Loss of fees and charges income particularly resource consents as there may be less confidence in the economy going forward
  Council is fortunate these are only 8% of our income – This is likely to mean a lower but corresponding reduction in costs through use of consultants
- Impact on timing of collection of rates revenue and therefore slight increase in Council debt levels
- Loss of development and financial contributions as less confidence in the economy -These are linked to future subdivisions.

2 Income and Expenditure Summary

2(a) Non-exchange revenue summary

For the year ended:	Actual	Annual Report
30 June	2019-2020 $'000	2018-2019 $'000
Non exchange revenue		
Rates	37,688	35,526
Resource consents	1,567	1,495
Solid waste recoveries	82	66
Subsidies and grants	13,098	12,152
Total Non exchange revenue	52,436	49,239
Exchange revenue	7,721	10,544
Total revenue	60,157	59,783

2(b) Rating base information

The following disclosures are made in accordance with the Local Government Act 2002 Amendment Act 2014, clause 30A of Schedule 10.

	As at 30 June 2019	As at 30 June 2018
Number of rating units within the Kaipara District	15,532 units of which 14,432 are rateable	15,306 units of which 14,416 are rateable
Total capital value of rating units within the Kaipara District	$9,007,678,600 of which $8,806,247,800 is rateable	$8,828,908,200 of which $8,628,086,400 is rateable
Total land value of rating units within the Kaipara District	$5,136,244,500 of which $5,044,477,500 is rateable	$5,070,792,000 of which $4,979,713,500 is rateable

2(c) Revenue Summary – analysis

For the year ended:	Actual	Annual Report
30 June	2019-2020 $'000	2018-2019 $'000
Subsidies and grants		
NZTA Roading Subsidies	13,098	12,152
Total Subsidies and grants	**13,098**	**12,152**
Investments and Other Income		
Petrol tax	238	215
Gain on disposal of property, plant and equipment	18	317
Unrealised gain on forestry revaluation	(79)	28
Finance income	18	19
Vested assets	369	1,560
Sundry income	128	133
Total Investment and Other Income	693	2,272

2(d) Targeted rates for metered water supply

The Local Government (Financial Reporting and Prudent) Regulations 2014 require, from 1 July 2015, Water by Meter charges to be classified in rating income.

For the year ended: 30 June	Actual 2019-2020 $'000	Annual Report 2018-2019 $'000
Targeted Rates for metered water supply		
Water Supply	3,256	2,975
Total Targeted Rates for metered water supply	**3,256**	**2,975**

3 Cost of service summary – analysis

For the year ended: 30 June	Actual 2019-2020 $'000	Annual Report 2018-2019 $'000
Analysis of expenditure		
Depreciation and amortisation	10,889	10,647
Swaps revaluation through revenue and expense	970	1,569
Other expenses	22,538	24,235
Employee benefit expenses		
Salaries and wages	12,912	11,250
Finance costs		
Interest on loans	1,391	1,346
Interest on Local Government stock	893	1,164
Fees paid to Principal Auditor		
Fees for audit ot the Annual Report	166	183
Fees for OAG disbursements	11	0
Fees for other assurance services	10	11
Fees for other services	0	52
	49,780	**50,457**

The auditor of Council is Deloitte Limited who is acting for and on behalf of the Auditor-General. The fees paid to Deloitte Limited for the other services for the year ending 30 June 2020 are for the audit compliance report prepared in respect to Council's debenture trust deed and a 'tip off' whistleblower service.

Salaries and wages also includes employer contributions to KiwiSaver which is a Defined Contribution Plan. Employer contributions totalled 2020: $331,766 (2019: $294,324).

4(a) Ratepayers Equity

For the year ended: 30 June	Actual 2019-2020 $'000	Annual Report 2018-2019 $'000
Accumulated Comprehensive Revenue and Expense		
Balance at 1 July	401,364	390,533
plus Surplus/(deficit) for the period	10,377	9,326
Transfers from Accumulated Revenue and Expense to:		
Restricted reserves	157	384
Council created reserves	14,908	7,210
Total Transfers from Accumulated Comprehensive Revenue and Expense	15,065	7,594
Transfers to Accumulated Funds from:		
Restricted reserves	119	0
Council created reserves	5,825	9,099
Total Transfers to Accumulated Comprehensive Revenue and Expense	5,944	9,099
Closing balance as at 30 June	**402,620**	**401,364**
Asset Revaluation Reserves		
Balance at 1 July	268,601	218,736
Gain/(loss) on revaluation	85,287	49,865
Closing balance as at 30 June	**353,888**	**268,601**
Asset Revaluation Reserves		
Operational assets:		
Land	302	302
Buildings	0	0
Total Operational assets	**302**	**302**
Infrastructural assets:		
The Provision of Roads and Footpaths	304,486	219,199
Water Supply	15,546	15,546
Sewerage and the treatment and disposal of sewage	7,019	7,019
Stormwater Drainage	21,730	21,730
Flood Protection and control works	4,805	4,805
Total Infrastructural assets	**353,586**	**268,299**
Total Asset Revaluation Reserves	**353,888**	**268,601**

4(b) Statement of reserve fund activities

For the year ended: 30 June	Community Activities 2019-2020 $'000	Regulatory Management 2019-2020 $'000	Flood Protection and Control Works 2019-2020 $'000	District Leadership, Finance and Internal Services 2019-2020 $'000	Solid Waste 2019-2020 $'000	The Provision of Roads and Footpaths 2019-2020 $'000	Sewerage and the Treatment and Disposal of Sewage 2019-2020 $'000	Stormwater Drainage 2019-2020 $'000	Water Supply 2019-2020 $'000	Total Reserves Funds 2019-2020 $'000
Restricted Council Reserves										
Restricted Reserve										
Mangawhai Endowment Lands Account										
Opening Balance	0	0	0	5,574	0	0	0	0	0	5,574
Deposited	0	0	0	157	0	0	0	0	0	157
Withdrawn	0	0	0	(119)	0	0	0	0	0	(119)
Closing Balance	0	0	0	5,612	0	0	0	0	0	5,612
Council Created Reserves										
Depreciation Reserve										
Opening Balance	256	31	264	721	14	0	(138)	407	192	1,745
Deposited	638	101	331	1,130	1	5,476	1,434	437	1,746	11,293
Withdrawn	(165)	0	0	(124)	0	(1,695)	(398)	(45)	(195)	(2,623)
Closing Balance	729	132	595	1,726	15	3,781	897	799	1,743	10,414
Development Contribution Reserve										
Opening Balance	0	0	0	(0)	0	78	(24,452)	(50)	29	(24,396)
Deposited	0	0	0	0	0	100	905	10	0	1,014
Withdrawn	0	0	0	0	0	(1)	(1,320)	(0)	0	(1,321)
Closing Balance	0	0	0	(0)	0	177	(24,867)	(40)	29	(24,703)
Financial Contribution Reserve										
Opening Balance	6,738	0	0	0	0	810	0	0	0	7,549
Deposited	2,250	0	0	0	0	40	0	0	0	2,289
Withdrawn	(1,816)	0	0	0	0	0	0	0	0	(1,816)
Closing Balance	7,172	0	0	0	0	850	0	0	0	8,023
Provision Expenditure Reserve										
Opening Balance	0	0	0	0	484	0	(159)	0	0	325
Deposited	0	0	0	0	250	0	61	0	0	311
Withdrawn	0	0	0	0	(65)	0	0	0	0	(65)
Closing Balance	0	0	0	0	669	0	(98)	0	0	571

Council has set aside reserves funds for the purposes of asset renewal (Depreciation Reserve), Development Contributions, Financial Contributions and Provision Expenditure. These funds are grouped under the heading of Council Created Reserves. The funds are required by the Local Government Act 2002 to be separately disclosed for each activity to which they pertain.

Purpose of each Reserve Fund:

Restricted Reserve is for the Mangawhai Endowment Fund which relates to assets vested to the Council from the Mangawhai Harbour Board via the Mangawai Lands Empowering Act 1966 (sic). The Act requires the Fund (assets) to be held for county (or Council) purposes that are of benefit to the Mangawhai area.

Council Created Reserves:

Depreciation (Asset Renewal) Reserves are used for the funding of capital renewals and/or repay loans and are derived from the funding of depreciation within each asset carrying activity in accordance with the existing revenue and financing policies.

Contributions towards infrastructure growth through the provisions of Council's Development Contributions Policy are separately recognised and accounted for in **Development Contribution Reserves** based on the specified activities.

Financial Contributions towards infrastructure growth through the provisions of the Resource Management Act are separately recognised and accounted for in **Financial Contribution Reserves** based on the specified activities.

Provision Expenditure Reserves are Council funds reserved for expenditure provisioned to be spent in future years.

5(a) Other financial assets

For the year ended:	Actual	Annual Report
30 June	2019-2020 $'000	2018-2019 $'000
Current portion of investments		
Loan	115	115
Total Current financial assets	115	115
Non-current portion of investments		
Emission Trading Scheme - NZU's	257	257
Civic Financial Services Limited	13	22
Total Non-current financial assets	270	279

5(b) Emissions Trading Scheme (ETS)

Emission Trading Units allocated under the Emissions Trading Scheme (ETS) are recognised at deemed cost based on the fair value at the date of receipt (that is, historic value). The units are recognised when they have been received and are recognised as income in the Statement of Comprehensive Revenue and Expense. After initial recognition ETS units are recognised at cost and reviewed annually for impairment.

Council has 135.5 hectares of pre-1990 forest land. This land is subject to the provisions of the New Zealand ETS. The implication of this for the financial statements is two-fold:

- should the land be deforested (that is, the land is changed from forestry to being used for some other purpose) a deforestation penalty will arise; and
- as a result of the deforestation restriction, compensation units are being provided by the Government.

Compensation is provided to forestry owners via the allocation of compensation units known as New Zealand Units (NZUs) in two tranches. Council received the first tranche of 14,927 units in December 2012 and the second tranche of 24,013 in February 2013.

Compensation units are recognised at deemed cost based on the fair value at the date of receipt (that is, historic value). The units are recognised when they have been received and are recognised as income in the Statement of Comprehensive Revenue and Expense. After initial recognition NZUs are measured at cost with an annual review for impairment.

5(c) Shareholdings

Civic Financial Services Limited:

- 13,629 shares of $1.00 each. Council holds 0.1% of the issued shares.

An estimate of the fair value is based on the Council's share of the net assets.

6 Trade and other receivables

For the year ended:	Actual	Annual Report
30 June	2019-2020 $'000	2018-2019 $'000
Sundry debtors	2,753	2,625
Land rates and penalties	6,937	7,389
Water rates and charges	899	803
Dog licences and dog infringements	261	264
Prepayments	1,132	999
Gross Trade and other receivables	**11,982**	**12,080**
less Provision for impairment- Land rates	(3,764)	(3,098)
less Provision for impairment - Other debtors	(537)	(665)
Total Trade and other receivables	**7,681**	**8,317**

The COVID-19 pandemic has directly and indirectly impacted Council's projected revenue for 2019/2020.

Rates receivable

Debt collection was put on hold during the COVID-19 Alert Levels 4 and 3. Staff encouraged ratepayers facing financial hardship to enter into payment plans and, where they were unable to make any payments, they were advised that penalties would continue to be added to their account but that these penalties would be reviewed under the existing Rates Postponement and Remission Policy once rates are paid up-to-date.

There were also additional practical difficulties. Council offices were closed or had reduced hours preventing some customers from being able to come into the office to make payments.

Water meter readings were unable to be taken during Alert Level 4, and affected ratepayers were advised that invoices would not be issued and were encouraged to make payment to reduce the amount payable on the next invoice. The Council has estimated the amount of water consumption for the COVID-19 lockdown months where a ready was unable to be taken.

The overall impact of the measure above has resulted in a decrease in rates receivable.

Other revenue receivable: fees and charges, development and financial contributions, regulatory fines

Economic activity was depressed due to the COVID-19 restrictions, resulting in lowered revenue in other areas of Council business.

- Some Council services (Kai Iwi Lakes campground, Dargaville Library and Northern Wairoa War Memorial Hall) that would have normally generated income were temporarily closed.
- Property development was slowed, generating less development and financial contributions income.
- Regulatory function was restricted to mitigate health and safety risks for the public and staff, resulting in less fines than projected.

As at 30 June 2020 all overdue receivables, including rates, have been assessed for impairment and appropriate provisions applied. Council holds no collateral as security or other credit enhancements over receivables, but does have rates recovery powers under the Local Government (Rating) Act 2002. Those powers are exercised to recover all rates other than on some Māori land with multiple owners, impairment of which is included in Council's doubtful debt provision.

For the year ended:	Actual	Annual Report
30 June	2019-2020 $'000	2018-2019 $'000
Movement in Impairment Provision		
Opening balance - Impairment provision	(3,764)	(3,089)
Estimated (increase)/decrease in doubtful debts	(537)	(675)
Total Non-current financial assets	**(4,301)**	**(3,764)**

The carrying value of trade and other receivables approximates their fair value.

For the year ended:	Actual	Annual Report
30 June	2019-2020 $'000	2018-2019 $'000
Analysis of Total Trade and Other Receivables Ageing		
Not past due	3,583	3,338
Past due 1-30 days	1,245	1,130
Past due 31-60 days	120	132
Past due 60 days	2,733	3,717
Total trade and receivables ageing	**7,681**	**8,317**

7 Trade and other payables

For the year ended:	Actual	Annual Report
30 June	2019-2020 $'000	2018-2019 $'000
Trade and Other Payables		
Trade creditors	4,861	3,052
Accrued expenses	2,395	4,419
Deposits held	2,313	2,300
Receipts held in advance	627	765
Income in advance	1,069	682
Total Trade and other payables	**11,265**	**11,219**

Trade and Other Payables are non-interest bearing and are normally settled on 30-day terms, therefore the carrying value of trade and other payables approximates their fair value.

8(a) Provisions

For the year ended:	Actual	Annual Report
30 June	2019-2020 $'000	2018-2019 $'000
Current provisions		
Landfill closure and aftercare	609	135
Total Current provisions	**609**	**135**
Non-current provisions		
Landfill closure and aftercare	1,173	4,599
Total Non-current provisions	**1,173**	**4,599**
Total Provisions	**1,782**	**4,734**

Council established a COVID-19 business support package to ease financial hardship for businesses hardest hit by the lockdown. The package focused on local commercial businesses that could not operate during the lockdown by offsetting targeted Council fees and costs and by subsidising professional advice costs. This comprised one-off grants of $500 to offset rates, $1,500 to offset health, food or alcohol licence fees and $1,000 subsidy for professional advice (accountant fees).

8(b) Provisions - movement in provisions

	Landfill closure & aftercare	Building repair	Provision for desludging costs	Total
	$'000	$'000	$'000	$'000
The movement in the provisions are represented by:				
2020				
Balance as at 1 July 2019	4,734	0	0	4,734
Amounts used	(135)	0	0	(135)
Relese of provision	(2,817)	0	0	(2,817)
Funding increase	0	0	0	0
Balance at 30 June 2020	**1,782**	**0**	**0**	**1,782**
2019				
Balance as at 1 July 2018	4,691	17	130	4,838
Passage of time adjustment	250	0	0	250
Amounts used	(142)	(17)	(130)	(289)
Discount rate adjustment	(65)	0	0	(65)
Funding increase	0	0	0	0
Balance at 30 June 2019	**4,734**	**0**	**0**	**4,734**

Landfill Aftercare Provisions

Council has resource consents to operate landfills at Dargaville and Hakaru. These landfills are now closed. Council has responsibility under the Resource Management Act (1991) to provide ongoing maintenance and monitoring of the landfills after the sites are closed.

The provision for Hakaru closure and post-closure costs was increased in 2012/2013 following an independent assessment by VK Consulting Environmental Engineers Ltd. A number of Hakaru landfill closure options were presented to Council's management including maintaining the status quo (which requires the continuation of leachate removal) through to the excavation and removal of all refuse from the site in 2025. Apart from the refuse removal option, all other options require ongoing costs to Council. Council's management preferred the removal option on the basis that it was the only option that will enable Council to eliminate the ongoing liability. The cost of the removal option was provided for in the 2012/2013 financial statements. Options for the Dargaville landfill are about to be considered and works undertaken in the next two to three years.

Closure and post-closure responsibilities include the following:

- Final cover and vegetation;
- Drainage control features to minimise infiltration of stormwater;
- Completing facilities for leachate collection and treatment;
- Ongoing monitoring as per discharge consent conditions; and
- Completing facilities for monitoring of landfill gas and ensuring no hazard exists.

Post-closure responsibilities

- Treatment and monitoring of leachate;
- Groundwater and surface water monitoring;
- Gas monitoring and flaring if required;
- Implementation of remedial measures such as needed for settlement and cracking of capping layer;
- Ongoing site maintenance for drainage systems, final cover and vegetation; and
- Ensure closed landfill is suitable for intended future use.

Provision

The cash flows for the landfill post-closures, particularly for Hakaru, are expected to occur up to 2026. The long term nature of the liability means that there are inherent uncertainties in estimating costs that will be incurred. The provision has been estimated taking into account existing technology and is discounted using a discount rate of 5.06% (2019: 5.06 %).

The following major assumptions have been made in the calculation of the provision:

- The cost of monitoring of surface/groundwater including the removal of leachate; and
- No major remedial works being required at any of the sites; and
- Costs associated with the removal of refuse from Hakaru to remain at current day levels adjusted only for inflation per latest Annual Plan.

9(a) Public debt

For the year ended:	Actual	Annual Report
30 June	2019-2020 $'000	2018-2019 $'000
Opening balance	45,000	46,000
add Funds raised	6,800	16,500
Total Funds	**51,800**	**62,500**
less Repayments	(7,800)	(17,500)
Closing balance	**44,000**	**45,000**
Current portion	25,000	1,000
Non-current portion	19,000	44,000
Total Public debt	**44,000**	**45,000**
Balances are represented by:		
Bank Loans	0	0
Local Government Funding	44,000	45,000
	44,000	**45,000**

All term liabilities are secured under a Debenture Trust Deed.

For the year ended:	Maturity	Interest Rates	Actual	Annual Report
30 June			2019-2020 $'000	2018-2019 $'000
Maturity and Interest Rates for Public Debt				
Local Government Funding	2019 to 2020	2.14% to 2.38%	0	1,000
Local Government Funding	2021 to 2027	2.44% to 2.84%	0	44,000
Local Government Funding	2020 to 2021	1.94% to 2.11%	25,000	0
Local Government Funding	2022 to 2027	1.16% to 2.59%	19,000	0
Total			**44,000**	**45,000**

Undrawn facilities

Undrawn facilities of $10 million were available at 30 June 2020 (2019: $10 million).

Loan Covenant

Council has loans that amount to $44 million at 30 June 2020 (2019: $45 million). There are a number of covenants included within the loan agreements that Council has with its lenders. These include a requirement to adopt an Annual Report within four months of the end of the financial year and then forward a copy of that Annual Report to the bank.

The LGFA requirement is to deliver a copy of the Annual Report within five months of the financial year end.

Council anticipates that debt scheduled to expire within twelve months of the balance date will be refinanced using existing facilities or through obtaining additional funding through the LGFA.

9(b) Compliance with Liability Management Policy

	Target	Achievement	Policy Compliance	Comment
	%	%	Y/N	
Debt ratios and limits:				
Net Debt as a percentage of Total Revenue	<170%	59%	Yes	Achieved
Net Interest as a percentage of Total Revenue	<15%	4%	Yes	Achieved
Net Interest as a percentage of Annual Rates Income	<20%	6%	Yes	Achieved
Liquidity (per Treasury policy)	>110%	123%	Yes	Achieved
Debt Interest Rate Policy Parameters (calculated on a rolling monthly basis):				
Less than 12 months	50% - 95%	76%	Yes	Achieved
12 - 36 months	40% - 90%	55%	Yes	Achieved
37 - 60 months	30% - 80%	48%	Yes	Achieved
Greater than 60 month	Nil - 50%	30%	Yes	Achieved
Liquidity/funding Maturity Profile:				
0 - 3 years	15% - 60%	83%	No	Not achieved
3 - 5 years	15% - 60%	9%	No	Not achieved
5 years plus	10% - 60%	7%	No	Not achieved

Council primarily borrows from the LGFA who provides the cheapest debt financing and longest maturity terms for debt financing available. Since 2016 Council has progressively refinanced and repaid debt.

Council borrowed two tranches of $15 million and $10 million with maturity date of 15 May 2021, this existing funding maturity is now due within the period of 0 to 3 years, breaching Council's funding and liquidity position. Council is working together with PWC to refinance the borrowings ahead of 15 May 2021.

10(a) Property, plant and equipment

Property, Plant and Equipment: 2020	Opening Cost	Opening Accumulated Depreciation & Impairment Charges	Carrying Amount	Additions Current Year	Reclass Current Year	Net Disposals Current Year	Transfer to Assets Held for Sale	Impairments Current Year	Depreciation Current Year	Revaluation Surplus/(loss) Current Year	Closing Cost/ Revaluation	Closing Accumulated Depreciation & Impairment Charges	Carrying Amount
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
	1-Jul-19	1-Jul-19	1-Jul-19								30-Jun-20	30-Jun-20	30-Jun-20
Infrastructural assets													
Roads and Footpaths	526,913	0	526,913	10,441	0	0	0	0	-6,618	85,287	616,024	0	616,010
Stormwater Drainage	33,736	-514	33,222	203	0	0	0	0	-515	0	32,909	0	32,909
Flood Protection and Control Works	16,653	0	16,653	73	0	0	0	0	-173	0	16,553	0	16,553
Sewerage and the Treatment and Disposal of Sewage	61,901	0	61,901	2,092	0	0	0	0	-1,379	0	62,614	0	62,614
Water Supply	36,139	0	36,139	1,003	0	0	0	0	-1,068	0	36,074	0	36,074
Solid Waste	1,628	-1,202	426	65	0	0	0	0	-11	0	481	0	481
Work in Progress	1,904	-309	1,595	-703	0	0	0	0	0	0	1,200	-309	892
Total Infrastructural assets	**678,874**	**-2,025**	**676,849**	**13,174**	**0**	**0**	**0**	**0**	**-9,763**	**85,287**	**765,856**	**-309**	**765,532**
Restricted assets													
Reserves	19,938	-111	19,827	719	0	0	0	0	-69	0	20,656	-180	20,476
Community Housing	2,320	-531	1,789	0	0	0	0	0	-46	0	2,320	-577	1,742
MEF Property	387	0	387	0	0	0	0	0	0	0	387	0	387
Halls	1,775	-554	1,221	0	0	0	0	0	-36	0	1,775	-589	1,185
Total Restricted assets	**24,420**	**-1,196**	**23,224**	**719**	**0**	**0**	**0**	**0**	**-151**	**0**	**25,139**	**-1,347**	**23,791**
Operational assets													
Land	6,809	0	6,809	181	0	0	0	0	0	0	6,990	0	6,990
Buildings	7,411	-1,882	5,529	348	0	0	0	0	-151	0	7,759	-2,033	5,726
Building Contents	1,553	-1,289	264	354	0	0	0	0	-67	0	1,907	-1,356	551
Mobile Plant (incl MV's)	1,301	-924	377	325	0	3	0	0	-162	0	1,711	-1,165	546
Static Plant	106	-106	0	0	0	0	0	0	0	0	106	-106	0
Library Books	507	-336	171	67	0	0	0	0	-66	0	575	-402	173
Office Equipment	5,138	-3,959	1,179	1,535	0	0	0	0	-529	0	6,674	-4,488	2,185
Total Operational assets	**22,825**	**-8,496**	**14,329**	**2,811**	**0**	**3**	**0**	**0**	**-974**	**0**	**25,721**	**-9,550**	**16,171**
Total Property, plant and equipment	**726,116**	**-11,717**	**714,402**	**16,704**	**0**	**3**	**0**	**0**	**-10,889**	**85,287**	**816,716**	**-11,206**	**805,493**

Property, Plant and Equipment: 2019	Opening Cost	Opening Accumulated Depreciation & Impairment Charges	Carrying Amount	Additions Current Year	Reclass Current Year	Net Disposals Current Year	Transfer to Assets Held for Sale	Impairments Current Year	Depreciation Current Year	Revaluation Surplus/(loss) Current Year	Closing Cost/ Revaluation	Closing Accumulated Depreciation & Impairment Charges	Carrying Amount
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
	1-Jul-18	1-Jul-18	1-Jul-18								30-Jun-19	30-Jun-19	30-Jun-19
Infrastructural assets													
Roads and Footpaths	477,330	0	477,330	14,373	0	0	0	0	-6,719	41,928	526,913	0	526,913
Stormwater Drainage	32,660	0	32,660	1,076	0	0	0	0	-514	0	33,736	-514	33,222
Flood Protection and Control Works	15,162	0	15,162	108	0	0	0	0	-172	1,555	16,653		16,653
Sewerage and the Treatment and Disposal of Sewage	59,241	0	59,241	2,546	0	0	0	0	-1,326	1,440	61,901	0	61,901
Water Supply	30,627	0	30,627	1,617	0	0	0	0	-1,047	4,942	36,139	0	36,139
Solid Waste	1,317	-1,195	122	311	0	0	0	0	-7	0	1,628	-1,202	426
Work in Progress	4,368	-309	4,060	-2,463	0	0	0	0	0	0	1,904	-309	1,595
Total Infrastructural assets	**620,705**	**-1,504**	**619,202**	**17,568**	**0**	**0**	**0**	**0**	**-9,785**	**49,865**	**678,874**	**-2,025**	**676,849**
Restricted assets													
Reserves	19,052	-57	18,995	886	0	0	0	0	-54	0	19,938	-111	19,827
Community Housing	2,320	-485	1,834	0	0	0	0	0	-46	0	2,320	-531	1,789
MEF Property	387	0	387	0	0	0	0	0	0	0	387	0	387
Halls	1,763	-519	1,244	12	0	0	0	0	-35	0	1,775	-554	1,221
Total Restricted assets	**23,522**	**-1,061**	**22,460**	**898**	**0**	**0**	**0**	**0**	**-135**	**0**	**24,420**	**-1,196**	**23,224**
Operational assets													
Land	5,861	0	5,861	948	0	0	0	0	0	0	6,809	0	6,809
Buildings	7,392	-1,736	5,655	158	0	-139	0	0	-146	0	7,411	-1,882	5,529
Building Contents	1,507	-1,242	265	46	0	0	0	0	-47	0	1,553	-1,289	264
Mobile Plant (incl MV's)	1,152	-785	367	161	0	-12	0	0	-139	0	1,301	-924	377
Static Plant	106	-106	0	0	0	0	0	0	0	0	106	-106	0
Library Books	434	-278	156	73	0	0	0	0	-58	0	507	-336	171
Office Equipment	4,503	-3,622	881	635	0	0	0	0	-337	0	5,138	-3,959	1,179
Total Operational assets	**20,955**	**-7,769**	**13,185**	**2,021**	**0**	**-151**	**0**	**0**	**-727**	**0**	**22,825**	**-8,496**	**14,329**
Total Property, plant and equipment	**665,179**	**-10,334**	**654,847**	**20,487**	**0**	**-151**	**0**	**0**	**-10,647**	**49,865**	**726,119**	**-11,717**	**714,402**

Property, plant and equipment (continued)

Council has applied the historical cost method under PBE IPSAS for buildings and land. This does not include land associated with infrastructure assets. Land associated with infrastructure assets like all other infrastructural assets, continue to be revalued periodically, but at least every three years.

Restricted assets are held by Council for the benefit of the community and are not, because of their nature or the title to their ownership, generally available for disposal by Council.

Accounting for revaluations

The most recent valuations were effective as at 30 June 2020. The names, and asset responsibility, of the Valuers engaged are as follows:

Valuer	Asset Responsibility
WSP New Zealand Limited (Independent external professional engineers and valuers)	Valuations and cost escalation adjustments were made to the following asset classes in the 2019/2020 year: • Roads and footpaths • Water and Stormwater

The methodology base of all infrastructural valuations, other than land, was depreciated replacement cost with reference as necessary to the following standards - PB IPSAS17 (Property, Plant and Equipment), PB IPSAS21 (Impairment of Assets), National Asset Management Steering Group (NAMS Group), NZ Infrastructural Asset Valuation and Depreciation Guidelines (version 2), the Local Government Act 2002, and NZPI Standards.

Land is revaluated primarily with reference to comparable sales.

Roads and footpaths, stormwater drainage, flood protection and control works, sewerage and the treatment and disposal of sewage and water supply assets are valued under at least a three-yearly valuation cycle.

There are a number of estimates and assumptions exercised when valuing infrastructure assets using the Depreciated Replacement Cost method. These include:

- Estimating any obsolescence or surplus capacity of the asset.
- Estimating the replacement costs of the asset. The replacement cost is derived from recent contracts in the region for similar assets.
- Estimating the remaining useful life over which the asset will be depreciated. If useful lives do not reflect the actual consumption of the benefits of the asset Council could be over or under estimating the annual depreciation charge recognised as an expense in the Statement of Comprehensive Revenue and Expense. To minimise the risk, infrastructure asset useful lives have been determined with reference to the International Infrastructure Management Manual for roading assets and the Institute of Public Works Engineering Australasia (IPWEA) guidelines and have been adjusted for local conditions based on past experience.

Category	Methods and key assumptions
Roading	Unit costs are sourced from recent contract costs. Where not available, previous valuation unit rates were updated using an overall indicator of sector escalation developed by combining the movements of the underlying labour, other current costs and capital expenditure components. Remaining useful lives have been determined by calculating the difference between the respective asset's Total Useful Life (TUL) and the age of the asset. Note that where an asset's age is unknown, both engineering judgement and local knowledge have been used to assign a remaining life.

Category	Methods and key assumptions
Water assets (Sewerage and the treatment and disposal of sewage, Water Supply, Stormwater Drainage) and Flood Protection and Control Works	Depreciated replacement cost is determined through comparing unit replacement values per the previous valuation to recent construction, operation and maintenance costs incurred by Council, and either updating to reflect significant changes or previous valuation unit rates were updated using an overall indicator of sector escalation developed by combining the movements of the underlying labour, other current costs and capital expenditure components. Remaining useful lives have been determined by calculating the difference between the respective asset's Total Useful Life (TUL) and the age of the asset. Note that where an asset's age is unknown, both engineering judgement and local knowledge have been used to assign a remaining life.

The impact of COVID-19 has created additional reliance on estimation over the Council's estimation in considering whether its infrastructure assets are recorded at fair value given the largely yet unknown impacts on the domestic and global construction industry. The Council has taken all practical steps and engaged experts where necessary to ensure all estimates and judgements are reasonable.

WSP undertook an assessment of carrying value of water infrastructure assets at 30 June 2020. Full valuation was undertaken in 2018 for stormwater and 2019 for wastewater, water supply and land drainage. WSP performed a valuation of the Council roading assets in 2020.

WSP noted two potential impacts of the COVID-19 pandemic on the valuation: market prices for construction of infrastructure and level of demand for use.

The COVID-19 pandemic has increased the cost of infrastructure construction due to shortage of skill labour and supply (including temporary immigrant workers), extra health and safety requirements, supply chain disruptions, rising exchange rate leading to higher cost of materials, and more complicated contractual procurement arrangements. However, this increase is likely to be short term and uncertain in the long term.

COVID-19 is unlikely to lead to any reduction in demand for water infrastructure assets.

10(b) Property, plant and equipment analysis

	Closing Book Value	Acquisitions Constructed	Acquisitions Vested	Latest Estimate of Replacement Cost
	$'000	$'000	$'000	$'000
Property, Plant and Equipment: 2020	**30-Jun-20**	**30-Jun-20**	**30-Jun-20**	**30-Jun-20**
Infrastructural assets				
Roads and Footpaths	616,009	10,132	309	753,296
Stormwater Drainage	329,091	203	0	0
Flood Protection and Control Works	16,553	73	0	18,666
Sewerage and the Treatment and Disposal of Sewage				
Treatment plants and facilities	22,788	1,988	0	28,063
Other assets	39,826	103	0	59,526
Water Supply				
Treatment plants and facilities	9,181	219	0	16,060
Other assets	2,689	784	0	61,472
Property, Plant and Equipment: 2019	**30-Jun-19**	**30-Jun-19**	**30-Jun-19**	**30-Jun-19**
Infrastructural assets				
Roads and Footpaths	526,913	13,761	612	663,075
Stormwater Drainage	33,222	1,076	0	0
Flood Protection and Control Works	16,653	108	0	18,593
Sewerage and the Treatment and Disposal of Sewage				
Treatment plants and facilities	21,635	959	0	26,074
Other assets	40,266	1,587	0	59,423
Water Supply				
Treatment plants and facilities	8,674	81	0	15,841
Other assets	27,465	1,536	0	60,687

10(c) Capital expenditure and disposals for year

For the year ended:	Actual	Annual Report
30 June	2019-2020	2018-2019
	$'000	$'000
Capital expenditure		
Community Activities	1,410	1,095
Regulatory Management	0	0
District Leadership, Finance and Internal Services	2,121	1,806
Solid Waste	65	311
The Provision of Roads and Footpaths	9,738	11,928
Stormwater Drainage	203	1,076
Flood protection and control works	73	108
Sewerage and the Treatment and Disposal of Sewage	2,092	2,546
Water supply	1,003	1,617
Total Capital expenditure	16,704	20,487
Disposals		
Community Development	0	0
MELA Property	0	0
Other	(3)	(151)
Total Disposals	(3)	(151)

11 Depreciation summary

Depreciation

Depreciation is provided on a straight line basis on all property, plant and equipment other than land, at rates that will write off the cost (or valuation) of the assets to their estimated residual values over their useful lives.

The useful lives and associated depreciation rates of major classes of assets have been estimated as follows:

	Expected life years	Depreciation straight line		Expected life years	Depreciation straight line
Roading			Water Supply	60-70	1.25%-4%
Top surface (seal)	5-100	5%-25%	Wastewater	25-80	1.25%-4%
Pavement (basecourse)			Stormwater	40-80	0.50%-2%
Urban sealed	40-100	1.25%-2.5%	Landfills and transfer stations	10-100	0%-10%
Rural sealed	40-100	1.25%-2.5%	Halls	50	2%
Unsealed	20-60	1.67%-5%	Community housing	50	2%
Foundation and unsealed subgrade	n/a[1]	-	Plant, equipment and motor vehicles	5-10	10%-20%
Culverts	40-100	1%-4%	Buildings	50	2%
Kerb and channel	25-100	1.25%-4%	Building contents	10	10%
Bridges	40-100	1%-2.5%	Other plant	5	20%
Signs	12	8.3%	Computer and office equipment	5	20%
Lights	15-100	2.5%-6%	Library collection	5	20%
Footpaths	25-100	1.25%-4%			
Drainage	20-100	1%-6%			

[1] Not depreciated

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

For the year ended: 30 June	Actual 2019-2020 $'000	Annual Report 2018-2019 $'000
by Groups of activities		
Community Activities	377	329
Regulatory Management	52	49
District Leadership, Finance and Internal Services	684	484
Solid Waste	11	7
The Provision of Roads and Footpaths	6,631	6,719
Stormwater Drainage	515	514
Flood protection and control works	172	172
Sewerage and the treatment and disposal of sewage	1,379	1,326
Water supply	1,068	1,048
Total Groups of activities depreciation	10,889	10,647

12 Insurance of assets

The following disclosures are made in accordance with the Local Government Act 2002 Amendment Act 2014, clause 31A of Schedule 10.

		2020 $000's	2019 $000's
A	Total value of assets that are covered by insurance contracts	140,380	138,735
	Maximum amount to which these assets are insured	62,461	80,179
B	Total value of all assets that are covered by financial risk sharing arrangements	Nil	Nil
	Maximum amount available to Council under those arrangements	Nil	Nil
C	Total value of all assets that are self-insured	741,383	634,223
	Value of any fund maintained by Council for that purpose	Nil	Nil

13 Biological Assets

Council acquired the Hobson County Council forestry estate as a consequence of the 1989 Local Government amalgamation process which formed Kaipara District Council.

Council owns and lease three forest blocks with net stocked area of 127.7 hectares (all excluding Taharoa Domain estate). The 7.8 hectares within the Catchment forest was harvested in the 2020 financial year.

Council's accounting policy requires annual revaluations of Biological Assets.

Forestry assets are independently revalued annually at fair value less estimated point of sale costs. Fair value is determined based on the present value of expected net cash flows discounted at a current market determined pre-tax rate.

Gains or losses arising on initial recognition of biological assets at fair value less estimated point of sale costs and from a change in fair value less estimated point of sale costs are recognised in the surplus/(deficit). The costs to maintain the forestry assets are included in the surplus/(deficit).

Valuation

Woodlands Pacific International Forestry Consultants (WPC) performed an independent Desktop valuation of the forests as at 30 June 2020. The calculation of the revaluation was fair value less estimated point of sale costs.

Valuation assumptions:

- A discount rate of 9.5% (2019: 9.5%) has been used in discounting the present value of future cash flows;
- Notional land rental costs have been included for freehold land;
- The forest has been valued on a going concern basis and includes only the value of the existing crops on a single rotation basis; and
- Log prices are based upon the valuers latest survey supplemented by local prices to reflect the Northland market and takes into account key price drivers (market prices, exchange rates and shipping).

WPC has noted significant financial uncertainty at the time of valuation as the COVID-19 pandemic has created uncertainty within global financial markets and travel and work restrictions, including in New Zealand. There is significant short term uncertainty in log pricing, which is a factor in valuation, though prices are expected to stabilise over the long term. In the short term, some forestry sales are progressing with timeframes and prices affected. However, the forestry industry can operate under COVID-19 Alert Level 3 or lower and is likely to be positively impacted by the global and New Zealand economic stimulus policies.

The movement in asset value is as follows:

For the year ended:	Actual	Annual Report
30 June	2019-2020 $'000	2018-2019 $'000
Forestry assets movements		
Opening balance	1,045	1,017
Annual revaluation movement	(79)	28
Harvesting removals	(151)	0
Closing balance	815	1,045

Financial risk management strategies

Council is exposed to financial risks arising from changes in timber prices, foreign exchange rates, disease, climatic conditions and potential plagues (rodent and insect). Council reviews these risks regularly in considering the need for active financial management.

Council's strategy in respect of these forestry assets involves outsourcing the annual maintenance and harvesting, of all the individual blocks, to a specialist firm of forest management professionals, with a view to maximising financial returns. Such returns are then utilised on an annual basis for capital improvements across the district. There is no rating input into the operation of this activity.

Net income from forest harvesting for the year was $118,000 (2019: $nil)

14 Reconciliation of surplus/(deficit) to net cash flow from operating activities

For the year ended:	Actual	Annual Report
30 June	2019-2020 $'000	2018-2019 $'000
Surplus/(deficit) for the period		
Surplus/(deficit) for the period	10,377	9,326
add/(deduct) Non-cash movements		
Property, Plant and Equipment vested to Council	(369)	(1,560)
(Gain)/Loss on sale of assets	(18)	(317)
Forestry revaluation (Gain)/Loss	230	(28)
Increase/(decrease) in Provisions	(2,416)	858
Depreciation	10,889	10,647
Unrealised (gain)/loss on interest rate swaps	970	1,568
Other Financial Assets	68	0
Total Non-cash movements	**9,353**	**11,168**
add/(deduct) Movements in working capital Items		
Trade and other receivables	100	(2,900)
Accrued Revenue	(38)	1,797
Employee Entitlements	(60)	239
Trade and other payables (net of capital accruals)	46	(1,533)
Provisions	0	(289)
Total Movement in working capital Items	0	(2,686)
Net Cash Inflow from Operating Activities	19,777	17,808

15 Capital commitments and operating leases

For the year ended:	Actual	Annual Report
30 June	2019-2020 $'000	2018-2019 $'000
Capital commitments		
Property, Plant and Equipment	23,169	1,829
Total Capital commitments	**23,169**	**1,829**
Operational non-cancellable contracts		
Not later than one year	1,269	2,472
Later than one year and not later than five years	1,226	2,102
Later than five years	227	227
Total Operational non-cancellable contracts	**2,722**	**4,801**
Operating leases as lessee		
Not later than one year	211	161
Later than one year and not later than five years	153	265
Total Operating leases as lessee	**364**	**426**
Operating leases as lessor		
Not later than one year	196	169
Later than one year and not later than five years	722	445
Later than five years	687	792
Total Operating leases as lessor	**1,605**	**1,406**

The operating leases are in relation to Council properties.

16 Contingent liabilities

For the year ended:	Actual	Annual Report
30 June	2019-2020 $'000	2018-2019 $'000
Contingent Liabilities		
Guarantees to other organisations	903	903
Total Contingent Liabilities	**903**	**903**

Guarantees

New Zealand Local Government Funding Agency

Council is a guarantor of the New Zealand Local Government Funding Agency Limited (LGFA). LGFA was incorporated in December 2011 with the purpose of providing debt funding to local authorities in New Zealand. LGFA has a local currency rating from Fitch Ratings and Standard & Poor's of AA+ and a foreign currency rating of AA.

Council is one of 52 local authority guarantors of LGFA. When aggregated with the uncalled capital of other shareholders, $20 million is available in the event that an imminent default is identified. Also, together with the other shareholders and guarantors, Council is a guarantor of all LGFA's borrowings. At 30 June 2020, LGFA had borrowings totalling $11.908 billion (2019: $9.53 billion).

Financial reporting standards require Council to recognise the guarantee liability at fair value. However, Council has been unable to determine a sufficiently reliable fair value for the guarantee, and therefore has not recognised a liability. Council considers the risk of LGFA defaulting on repayment of interest or capital to be very low on the basis that:

- We are not aware of any local authority debt default events in New Zealand; and
- Local government legislation would enable local authorities to levy a rate to recover sufficient funds to meet any debt obligations if further funds were required.

Other

Council has given a $750,000 guarantee to Westpac Banking Corporation Ltd on loan advances to the Mangawhai Harbour Restoration Society. The purpose of the loan advance was to fund the Society's harbour restoration project. The Society funds the loan repayments from Council grants. Council has for many years and plans to continue to rate properties in the catchment area of the Mangawhai Harbour to fund the grants. The Society controls all of the activities of the restoration project. The Society's loan balance at 30 June 2020 was $84,482.

In 1998 a $108,000 letter of credit was issued in favour of the Northland Regional Council (NRC), being a performance bond in respect of the future capping of district landfills.

A $45,000 guarantee to the Bank of New Zealand exists for Council credit card limits.

In respect of all of the above guarantees, Council has assessed the risk factor and any uncertainty at zero. Therefore, any question of reimbursement is not applicable.

RB & HE Rogan

RB and HE Rogan v KDC and NRC (CIV-2015-288-182), being an appeal by the ratepayers of a decision from the District Court awarding judgement to the KDC and NRC for unpaid rates. This proceeding was heard in May 2016 and reheard in May 2017. The case was appealed by the Rogan's and was heard in the Court of Appeal on 11 September 2018. The Court of Appeal dismissed the appeal on 6 November 2018. The Rogan's subsequently made various applications to the Court of Appeal for recall and/or review of that Court's decision, these applications were dismissed. The Rogan's applied to the Supreme Court for leave to extend time to appeal which was also dismissed. The Supreme Court awarded costs have been paid to the Council. The two remaining stayed proceedings related to this case are scheduled for a Case Management Conference on 22 September 2020. If settlement cannot be reached, these matters will proceed to a hearing.

Weathertightness Northern Wairoa War Memorial Hall

Council had provided a budget of $500,000, to be collected over a three year period, to fix the weathertightness issues at the Northern Wairoa War Memorial Hall. More precise estimates were gained once the designs had been completed and the cost is now estimated at $4,038,432. Council has again deferred this work while the options for the future of this building are considered.

Replacement/reinstatement of Murphy/Bowers Stopbank

Council needs to replace/reinstate a section of the existing stopbank on this property which was removed by a previous owner. A workable solution with the current owner has not been obtainable and Council has indicated it will proceed with reinstatement under the Public Works Act. Under this Act Council will be expected to pay fair and reasonable compensation to the owner for any relevant losses incurred through this process.

Building Weathertightness claims

Council has one potential claim which to date has not been lodged, however, may be at any time as Council is aware of a report commissioned by MBIE on the dwelling that identified the building as requiring a full re-clad. The value of this potential claim has been estimated in the report at $240,000.

Other legal claims`

Council has in progress a claim that has been lodged with the High Court for foundation failure. Council was originally named as the fifth of six defendants, however, the owners withdrew their claim against certain parties and now Council is the second of two defendants. Council is in a strong position due to the admission of fault by the first defendant a Chartered Professional Geotechnical Engineer upon which Council based its decision to issue the consent. A settlement offer has been made to the claimants jointly by Council and the designer of the dwelling.

Community housing caveat

Council undertook the modernisation of 34 of its community housing units, the works programme being completed in March 2009. The programme was funded by the Housing New Zealand Corporation by way of an interest-free suspensory loan, conditional on the completion of the work, after which the liability ceased.

A caveat remains, however, requiring Council to neither withdraw from providing community housing, nor significantly altering its investment in this joint-funded housing modernisation programme.

At this time Council does not expect to withdraw or significantly alter its investment in community housing. The total value of the interest-free suspensory loan is $1,020,000 which was previously recognised as revenue.

Riskpool exposure

New Zealand Mutual Liability Riskpool (Riskpool) provides public liability and professional indemnity insurance for its members. Council is a member of Riskpool. The Trust Deed of Riskpool provides that if there is a shortfall (whereby claims exceed contributions of members and reinsurance recoveries) in any fund year, then the Board may make a call on members for that fund year.

Earthquake risk to buildings

Council is required, under the Building Act 2004, to have an earthquake-prone buildings policy. Under this policy Council is required to assess whether there is any risk to buildings in the Kaipara district. At this point Council has only just begun the task of evaluating buildings to determine if they may be earthquake-prone. The former Dargaville Municipal Building has been identified as having an earthquake risk and is defined as earthquake-prone under the building code New Building Standard (NBS). Assessments by qualified building engineers estimated structural repairs could cost up to a maximum of $425,000. The chances of a moderate earthquake that would cause structural damage actually occurring in Dargaville are deemed to be a low risk.

Council is in the process of re-writing its Earthquake-prone Buildings Policy as a result of the Earthquake-prone Buildings Amendment Act 2016. The policy will detail a strategy to identify earthquake-prone buildings within Kaipara in accordance with the legal timeframes specified in the Act.

17 Statutory disclosures and remuneration and related party transactions

For the year ended: 30 June	Actual 2019-2020	Annual Report 2018-2019
Chief Executive Remuneration:		
Chief Executive		
Salary	283,692	204,615
Other Benefits	11,579	16,817
Total Chief Executive Remuneration	**295,271**	**221,432**
Acting Chief Executive (4 June 2019 - 23 September 2019)		
Salary	0	75,548
Other Benefits	0	2,266
Total Acting Chief Executive Remuneration	**0**	**77,814**

For the year ended: 30 June	Actual 2019-2020 $'000	Annual Report 2018-2019 $'000
Key management personnel compensation		
Salaries and other short term employee benefits	1,898	1,726
Total Key management personnel compensation	**1,898**	**1,726**

Key management personnel include the Chief Executive, senior management, and the Mayor and Councillors. During the year Council did not purchase any services from any key management personnel other than as disclosed in this note. During the year the Mayor, Councillors and senior management, as part of a normal customer relationship, were involved in minor transactions with Council (such as payment of rates etcetera).

There are no material amounts owing to related parties at year end.

For the year ended: 30 June	Actual 2019-2020 $'000	Annual Report 2018-2019 $'000
Severance Pay		
Number of Employees	1	1
Redundancy Payments to Employees	2	0

Severance Pay was paid in the following amount: $23,570 (2019: $6,664).

For the year ended: 30 June	Actual 2019-2020	Annual Report 2018-2019
Elected Representatives Remuneration:		
Mayor:		
Jason Smith	113,800	100,624
Deputy Mayor:		
Anna Curnow	48,500	35,263
Councillors:		
Peter Wethey	50,235	58,772
Jonathan Larsen	40,626	29,668
Karen Joyce-Paki	39,792	29,518
Victoria Del La Varis-Woodcock	40,764	29,949
Mark Vincent	29,939	0
David Wills	29,939	0
Eryn Wison-Collins	29,939	0
Andrew Wade	9,853	30,368
Libby Jones	10,954	32,670
Julie Geange	12,001	35,535
	456,342	**382,367**
Crown Manager Remunerations:		
Peter Winder	4,050	13,699
	4,050	**13,699**
Audit, Risk and Finance Committee Chair Remuneration:		
Stana Pezic	3,600	4,000
	3,600	**4,000**

Please refer to the Elected Members Meeting Attendance in the Appendix for further information.

As at: 30 June	Actual 2019-2020	Annual Report 2018-2019
Council Employees remuneration:		
Annual remuneration by band:		
\$0 - \$60,000	49	39
\$60,001 - \$80,000	46	40
\$80,001 - \$100,000	33	27
\$100,001 - \$120,000	15	10
\$120,001 - \$140,000	5	3
\$140,001 - \$200,000	4	7
\$200,001 - \$300,000	2	1
Total Employees by remuneration band	**154**	**127**
Number of Employees:		
Full time employees	139	117
Part time employees (FTE)	11.0	5.8
Total Employees (FTE)	**150.0**	**122.8**

Fixed term and casuals are excluded from the Total Employees (FTE) above.

18(a) Categories of financial assets and liabilities

For the year ended:	Actual	Annual Report
30 June	2019-2020 $'000	2018-2019 $'000
Cash and cash equivalents	4,398	1,926
Trade and other receivables	7,681	8,317
LGFA Borrower notes	704	704
Loan	115	115
Total Loans and Receivables	**12,898**	**11,062**
Financial assets:		
Fair value through revenue and expense		
Civic Financial Services Ltd	13	22
Total Fair value through revenue and expense	**13**	**22**
Financial liabilities measured at amortised cost		
Trade and other payables	11,265	11,219
Public debt	44,000	45,000
Total Financial liabilities measured at amortised cost	**55,265**	**56,219**
Financial liabilities measured at fair value through revenue and expense		
Interest rate swaps	6,965	5,995
Total Financial liabilities at fair value through revenue and expense	**6,965**	**5,995**

Fair Value Hierarchy

	Actual	Level
	2019-2020 $'000	2019-2020
Interest rate swaps	6,965	Level 2
Civic Financial Services Ltd	13	Level 3

Financial instrument risks

Council has a series of policies to manage the risk associated with financial instruments. Council is risk averse and seeks to minimise exposure from its treasury activities. Council has established Council-approved Liability Management and Investment Policies. These policies do not allow any transactions that are speculative in nature to be entered into.

Fair value interest rate risk

"Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. Borrowings issued at fixed rates expose Council to fair value interest rate risk. Council's Liability Management Policy outlines the level of borrowing that is to be secured using fixed rate instruments. Investments at fixed interest rates expose Council to fair value interest rate risk.

The fair value of the debt is not considered to be materially different from the carrying amount."

Cash flow interest rate risk

Cash flow interest rate risk is the risk that the cash flows from a financial instrument will fluctuate because of changes in market interest rates. Borrowings and investments issued at variable interest rates expose Council to cash flow interest rate risk. Such risk is considered to be low given Council has utilised interest rate swaps to manage these risks.

Council raises long term borrowings at floating rates and swaps them into fixed rates using interest rate swaps in order to manage interest rate risk. Such interest rate swaps have the economic effect of converting borrowings at floating rates into fixed rates. Under the interest rate swaps Council agrees with other parties to exchange, at specified intervals, the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts of $54 million (2019: $64 million). Included in these totals are forward start interest rate swaps with notional principal of $17 million (2019: $17 million).

Financial instruments

Liquidity risk

Council is exposed to liquidity risk as a guarantor of all LGFA's borrowings. This guarantee becomes callable in the event of LGFA failing to pay its borrowings when they fall due. Information about this is explained in Note 16.

Maximum exposure to credit risk

Credit risk is the risk that a third party will default on its obligation to Council, causing Council to incur a loss. Due to the timing of its cash inflows and outflows, Council invests surplus cash into term deposits and local authority stock which gives rise to credit risk.

Council's investment policy limits the amount of credit exposure to any one financial institution or organisation. Investments in other local authorities are secured by charges over rates. Other than other local authorities, the group only invests funds with entities that have a Standard & Poor's credit rating of at least AA-.

Council has no collateral or other credit enhancements for financial instruments that give rise to credit risk.

18(b) Financial instrument risks

For the year ended:	Actual	Annual Report
30 June	2019-2020 $'000	2018-2019 $'000
Council's maximum credit exposure by class		
Cash and cash equivalents	4,398	1,926
Trade and other receivables	7,681	8,317
LGFA Borrower notes	704	704
Loan	115	115
Total Council's maximum credit exposure by class	**12,898**	**11,062**

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to Standard & Poor's credit rating (if available) or to historical information about counterparty default rates:

For the year ended:	Actual	Annual Report
30 June	2019-2020 $'000	2018-2019 $'000
Counterparties with Credit Ratings		
Cash and cash equivalents and LGFA borrower notes:		
AA	0	0
AA-	5,102	2,630
Total cash and cash equivalents and LGFA borrower notes	**5,102**	**2,630**

Debtors and other receivables mainly arise from Council's statutory functions, therefore there are no procedures in place to monitor or report the credit quality of debtors and other receivables with reference to internal or external credit ratings. Council has no significant concentrations of credit risk in relation to debtors and other receivables. The Local Government (Rating) Act 2002 provides powers to recover outstanding debts from ratepayers.

Credit Risk

Council is exposed to credit risk as a guarantor of all LGFA's borrowings. Information about this is explained in Note 16.

18(c) Contractual maturity of financial liabilities

The table below analyses Council's non-derivative financial liabilities to relevant maturity groupings based on the remaining period at the balance date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

	Principal Carrying Amount	Contractual Cash Flows	Less than 1 year	1-2 years	2-5 years	More than 5 years
	$'000	$'000	$'000	$'000	$'000	$'000
Maturity analysis Financial liabilities						
Council 2020						
Trade and Other Payables	11,776	11,776	11,776	0	0	0
Public Debt	44,000	44,078	25,854	415	13,695	4,114
Total Council 2020	**55,776**	**55,854**	**37,630**	**415**	**13,695**	**4,114**
Council 2019						
Trade and Other Payables	11,219	11,219	11,219	0	0	0
Public Debt	45,000	48,749	2,149	26,069	13,213	7,318
Total Council 2019	**56,219**	**59,968**	**13,368**	**26,069**	**13,213**	**7,318**

Note: Contractual cash flows includes principal and interest.

18(d) Contractual maturity of derivative financial liabilities

	Notional Value	Fair Value	Less than 1 year	1-2 years	2-5 years	More than 5 years
	$'000	$'000	$'000	$'000	$'000	$'000
Maturity analysis - Council 2020						
Derivative financial liabilities						
Interest rate swaps	54,000	6,965	64	632	5,045	1,224
Total Derivative financial liabilities	**54,000**	**6,965**	**64**	**632**	**5,045**	**1,224**
Maturity analysis - Council 2019						
Derivative financial liabilities						
Interest rate swaps	64,000	5,995	139	125	1,964	3,766
Total Derivative financial liabilities	**64,000**	**5,995**	**139**	**125**	**1,964**	**3,766**

The fair value of forward start interest rate swaps is $17 million (2019: $17 million).

Liquidity risk

Management of liquidity risk

Liquidity risk is the risk that Council will encounter difficulty raising liquid funds to meet commitments as they fall due. Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Council aims to maintain flexibility in funding by keeping committed credit lines available

18(e) Sensitivity analysis

The following table illustrates the potential surplus and deficit and equity (excluding retained earnings) impact for reasonable possible market movements, with all other variables held constant, based on Council's non-derivative financial instrument exposures at balance date.

	Actual 2019-2020 $'000 -100bps Profit	Actual 2019-2020 $'000 -100bps Equity	Actual 2019-2020 $'000 +100bps Profit	Actual 2019-2020 $'000 +100bps Equity	Actual 2018-2019 $'000 -100bps Profit	Actual 2018-2019 $'000 -100bps Equity	Actual 2018-2019 $'000 +100bps Profit	Actual 2018-2019 $'000 +100bps Equity
Interest rate risk								
Financial assets								
Cash and deposits	-44	-44	44	44	-19	-19	19	19
Total financial assets	**-44**	**-44**	**44**	**44**	**-19**	**-19**	**19**	**19**
Financial liabilities								
Public debt	7	7	-7	-7	-20	-20	20	20
Swaps interest rate	-8,967	-8,967	5,278	5,278	-3,358	-3,358	3,108	3,108
Total financial liabilities	**-9,004**	**-9,004**	**5,315**	**5,315**	**-3,397**	**-3,397**	**3,147**	**3,147**
Total sensitivity to interest rate risk	**-9,004**	**-9,004**	**5,315**	**5,315**	**-3,397**	**-3,397**	**3,147**	**3,147**

19 Capital management

The Council's capital is its ratepayers' equity, which comprises retained earnings and reserves. Equity is represented by net assets.

The Local Government Act 2002 requires Council to manage its revenues, expenses, assets, liabilities, investments, and general financial dealings prudently and in a manner that promotes the current and future interests of the community. Ratepayers' funds are largely managed as a by-product of managing revenues, expenses, assets, liabilities, investments, and general financial dealings.

The objective of managing these items is to achieve intergenerational equity, which is a principle promoted in the Local Government Act 2002 and applied by Council. Intergenerational equity requires today's ratepayers to meet the costs of utilising Council's assets and not expecting them to meet the full cost of long term assets that will benefit ratepayers in future generations. Additionally, Council has in place Asset Management Plans for major classes of assets detailing renewal and maintenance programmes, to ensure ratepayers in future generations are not required to meet the costs of deferred renewals and maintenance.

The Local Government Act 2002 requires Council to make adequate and effective provision in its Long Term Plan and in its Annual Plan (where applicable) to meet the expenditure needs identified in those Plans. The Local Government Act 2002 sets out the factors that Council is required to consider when determining the most appropriate sources of funding for each of its activities. The sources and levels of funding are set out in the funding and financial policies in Council's Long Term Plan.

Details of Council's various reserves can be found in Note 4.

Funding Impact Statement - Whole of Council - Operating and Capital

As at	Actual	Annual Plan	Annual Report	Annual Plan
30 June	2019-2020 $'000	2019-2020 $'000	2018-2019 $'000	2018-2019 $'000
Operating funding				
Sources of operating funding				
General rates, uniform annual general charges, rate penalties	25,169	24,669	23,519	22,930
Targeted rates	12,519	12,214	12,006	12,099
Subsidies and grants for operating purposes	6,871	8,786	5,038	4,584
Fees and charges	6,282	6,499	5,962	5,204
Interest and dividends from investments	18	20	19	20
Local authorities fuel tax, fines, infringement fees and other receipts	393	320	664	320
Total operating funding	**51,252**	**52,508**	**47,208**	**45,156**
Application of operating funding				
Payments to staff and suppliers	38,152	41,690	35,005	33,548
Finance costs	2,284	2,780	2,510	2,950
Other operating funding applications	0	0	0	0
Total applications of operating funding	**40,436**	**44,470**	**37,516**	**36,498**
Surplus (deficit) of operating funding	**10,816**	**8,037**	**9,693**	**8,658**
Capital funding				
Sources of capital funding				
Subsidies and grants for capital expenditure	6,228	23,219	7,115	8,276
Development and financial contributions	2,395	3,019	3,871	2,494
Increase (decrease) in debt	(1,000)	919	(1,000)	1,037
Gross proceeds from sale of assets	89	175	430	175
Lump sum contributions	0	0	0	0
Other dedicated capital funding	0	0	0	0
Total sources of capital funding	**7,712**	**27,332**	**10,416**	**11,982**
Applications of capital funding				
Capital expenditure - to meet additional demand	2,457	4,772	1,494	5,593
Capital expenditure - to improve the level of service	4,203	18,666	6,975	5,969
Capital expenditure - to replace existing assets	9,140	14,821	10,416	11,532
Increase (decrease) in reserves	2,728	(2,890)	1,224	(2,455)
Increase (decrease) of investments	0	0	0	0
Total applications of capital funding	**18,528**	**35,369**	**20,109**	**20,640**
Surplus (deficit) of capital funding	**(10,816)**	**(8,037)**	**(9,692)**	**(8,658)**
Funding Balance	**0**	**0**	**0**	**0**

Reconciliation of Funding Impact Statement to Statement of Comprehensive Revenue and Expense

For period ended:	Actual	Annual Plan	Annual Report
30 June	2019-2020	2019-2020	2018-2019
	$'000	$'000	$'000
Revenue			
Statement of Comprehensive Revenue and Expense			
Total revenue	60,157	78,746	59,783
Funding Impact Statement			
Total operating funding	51,252	52,508	47,208
Total sources of capital funding	8,623	26,238	10,416
add Provisions	281	0	2,159
Total revenue	60,157	78,746	59,783
Expenses			
Statement of Comprehensive Revenue and Expense			
Total expenses	49,780	55,145	50,457
Funding Impact Statement			
Total applications of operating funding	40,436	44,470	37,515
less Internal professional services	(411)	(337)	(66)
add Depreciation expense	10,889	11,010	10,647
add Provisions	(1,134)	2	2,361
Total expenses	49,780	46,382	50,457