AGENDA

Policy and Development Committee Meeting

Tuesday, 30 July 2019

Date	**Tuesday, 30 July 2019**
Time	**Following the Infrastructure Committee**
Location	**Council Chamber Timaru District Council King George Place Timaru**
File Reference	**1269053**

Timaru District Council

Notice is hereby given that a meeting of the Policy and Development Committee will be held in the Council Chamber, Timaru District Council, King George Place, Timaru, on Tuesday 30 July 2019, at the conclusion of the Community Development Committee meeting.

Policy and Development CommitteeMembers

Clrs Peter Burt (Chairperson), Andrea Leslie (Deputy Chairperson), Steve Wills, David Jack, Sally Parker, Paddy O'Reilly, Kerry Stevens, Nigel Bowen, Richard Lyon and Mayor Damon Odey

Quorum – no less than 6 members

Local Authorities (Members' Interests) Act 1968

Committee members are reminded that if you have a pecuniary interest in any item on the agenda, then you must declare this interest and refrain from discussing or voting on this item, and are advised to withdraw from the meeting table.

Donna Cross
Group Manager Commercial and Strategy

Order Of Business

1 Apologies

2 Identification of Items of Urgent Business

3 Identification of Matters of a Minor Nature

4 Declaration of Conflicts of Interest

5 Community Forum

6 Confirmation of Minutes

6.1 Minutes of the Policy and Development Committee Meeting held on 11 June 2019

Author: **Donna Cross, Group Manager Commercial and Strategy**

Recommendation

That the Minutes of the Policy and Development Committee Meeting held on 11 June 2019 be confirmed as a true and correct record of that meeting.

Attachments

1. Minutes of the Policy and Development Committee Meeting held on 11 June 2019

MINUTES

Policy and Development Committee Meeting

Tuesday, 11 June 2019

Ref: 1269053

Minutes of Timaru District Council Policy and Development Committee Meeting held in the Council Chamber, Timaru District Council, King George Place, Timaru on Tuesday, 11 June 2019 at 10.40am following the Community Development Committee

Present:	Clr Peter Burt (Chairperson), Clr Steve Wills, Clr David Jack, Clr Kerry Stevens, Clr Nigel Bowen, Clr Richard Lyon
In Attendance:	Jan Finlayson – Geraldine Community Board (for public part of the meeting) Stephanie McCullough – Temuka Community Board (for public part of the meeting) Aoraki Development Limited – Mark Rogers (Chairman), Nigel Davenport (Chief Executive) – for item 7.4 Chief Executive (Bede Carran), Group Manager Commercial and Strategy (Donna Cross), Chief Financial Officer (David Codyre), Business Development Manager (Frazer Munro), Property Manager (Matt Ambler), Policy Analyst (Fabia Fox), Council Secretary (Joanne Brownie)

1 Apologies

The apologies from Clr Andrea Leslie, Clr Sally Parker, Clr Paddy O'Reilly, Mayor Damon Odey and Raewyn Hessell – Pleasant Point Community Board were received and accepted.

2 Identification of Items of Urgent Business

There were no items of urgent business identified.

3 Identification of Matters of a Minor Nature

There were no minor nature items identified.

4 Declaration of Conflicts of Interest

There were no conflicts of interest declared.

5 Chairperson's Report

The Chairperson reported on meetings he had attended and duties he had carried out since the last meeting including meeting with local mayors and councillors in Ashburton, completing recertification for RMA hearings, attending the Downlands Water Supply Committee meeting, meeting with stakeholders regarding the cyclepark at Caroline Bay, attending the District Licensing Committee meeting and meeting with each of the Chief Executive and Group Manager Commercial and Strategy.

Committee Resolution 2019/1

Moved: Clr Peter Burt
Seconded: Clr Steve Wills

That the Chairperson's report be received.

Carried

6 Confirmation of Minutes

6.1 Minutes of the Policy and Development Committee Meeting held on 11 June 2019

Committee Resolution 2019/2

Moved: Clr Kerry Stevens
Seconded: Clr Nigel Bowen

That the minutes of the Policy and Development Committee Meeting held on 11 June 2019, with the exclusion of the public excluded items, be confirmed as a true and correct record of that meeting.

Carried

7 Reports

7.1 Carbon Policy Report as at 31 December 2018

The Chief Financial Officer presented the half yearly report under the Council's Carbon policy, providing confirmation on the Council's compliance with the New Zealand Emissions Trading Scheme (NZETS); outlining the proposed 10 year forecast of the Council's surrender requirements; providing commentary on strategy; and seeking approval for a change to the Carbon Policy.

Market movements and predictions indicate the NZETS is becoming a significant matter for councils to manage.

The Group Manager Commercial and Strategy advised that they were commencing a review of the Council's Carbon policy, how they forecast, and how they report to the Committee.

It was noted that, in terms of the future, management and the Committee would need to monitor fees and charges, and that Timaru District Council would need to keep ahead of the game in terms of further reducing what goes into the landfill.

Committee Resolution 2019/3

Moved: Clr Kerry Stevens
Seconded: Clr Steve Wills

That the Committee approves the following interim changes being made to the Carbon policy:

a. That all references within the policy to Group Manager Corporate Services (GMCS) are to be replaced with Group Manager Commercial and Strategy (GMCS);

b. That the Council's Primary Representative on the Emissions Unit Register, who is authorised to operate the Council's Holding Account on the EUR, be changed to the Chief Financial

Officer, subject to the Chief Financial Officer obtaining the prior approval of the GMCS or Chief Executive to all transactions.

Carried

7.2 Timaru District Holdings Limited - Quarterly Report

The Committee considered the Timaru District Holdings Limited quarterly report for the period 1 January to March 2019, noting that TDHL is performing better than budget, is continuing to pay down debt and pay dividends, cash reserves are strong and the company is producing tangible results.

Committee Resolution 2019/4

Moved: Clr David Jack
Seconded: Clr Nigel Bowen

That the report be received and noted.

Carried

7.3 Policy Review Process - Class 4 Gambling and Board Venue Policy, Local Approved Products Policy, Dangerous and Insanitary Buildings Policy

The Policy Analyst presented an overview of the proposed review process for the Timaru District Council's Class 4 Gambling and Board Venue Policy (Gambling Policy), Local Approved Products Policy (LAPP), and the Dangerous and Insanitary Buildings Policy. Potential amendments to these policies will be workshopped with councillors at the end of July.

Committee Resolution 2019/5

Moved: Clr Steve Wills
Seconded: Clr David Jack

That the report is received and noted.

Carried

7.4 Aoraki Development Limited - Quarterly Report - 1 January 2019 to 31 March 2019

The Committee considered the Aoraki Development Limited quarterly report for the period 1 January to 31 March 2019. Aoraki Development's Chairman and Chief Executive spoke to the report highlighting particular activities and successes.

Committee Resolution 2019/6

Moved: Clr Nigel Bowen
Seconded: Clr Richard Lyon

That the Aoraki Development Limited quarterly report be received and noted.

Carried

8 Standing Committee Recommendation

The Committee considered a recommendation from the Infrastructure Committee meeting earlier in the day in regard to Patiti Point Erosion management.

Committee Resolution 2019/7

Moved: Clr Richard Lyon
Seconded: Clr Nigel Bowen

That funding for a Patiti Point erosion management plan of $30,000 be approved from 2018/19 funds, noting that any unspent funds will be recommended for carry forward, at the appropriate time.

Carried

8 Consideration of Urgent Business Items

There were no urgent business items to consider.

9 Consideration of Minor Nature Matters

There were no minor nature items to consider.

10 Exclusion of the Public

Committee Resolution 2019/8

Moved: Clr David Jack
Seconded: Clr Nigel Bowen

That the public be excluded from the following parts of the proceedings of this meeting on the grounds under section 48 of the Local Government Official Information and Meetings Act 1987 as follows:

General subject of each matter to be considered	Reason for passing this resolution in relation to each matter	Plain English Reason
11.1 - Public Excluded Minutes of the Policy and Development Committee Meeting held on 11 June 2019	s7(2)(a) - The withholding of the information is necessary to protect the privacy of natural persons, including that of deceased natural persons s7(2)(b)(ii) - The withholding of the information is necessary to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information	To protect a person's privacy Commercial sensitivity Due to an obligation of confidence and to ensure the information avenue remains open, when it is in the public interest for it to do so To enable commercial activities To enable commercial or industrial negotiations

	s7(2)(c)(i) - The withholding of the information is necessary to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to prejudice the supply of similar information, or information from the same source and is in the public interest that such information should continue to be supplied s7(2)(h) - The withholding of the information is necessary to enable any local authority holding the information to carry out, without prejudice or disadvantage, commercial activities s7(2)(i) - The withholding of the information is necessary to enable the Council to carry out, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations)	
11.2 - Land for Stormwater Infrastructure	s7(2)(b)(ii) - The withholding of the information is necessary to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information s7(2)(g) - The withholding of the information is necessary to maintain legal professional privilege s7(2)(i) - The withholding of the information is necessary to enable the Council to carry out, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations)	Commercial sensitivity To protect all communications between a legal adviser and clients from being disclosed without the permission of the client. To enable commercial or industrial negotiations

11.3 - Land for Disposal	s7(2)(b)(ii) - The withholding of the information is necessary to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information s7(2)(c)(i) - The withholding of the information is necessary to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to prejudice the supply of similar information, or information from the same source and is in the public interest that such information should continue to be supplied s7(2)(i) - The withholding of the information is necessary to enable the Council to carry out, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations)	Commercial sensitivity Due to an obligation of confidence and to ensure the information avenue remains open, when it is in the public interest for it to do so To enable commercial or industrial negotiations

Carried

Committee Resolution 2019/9

Moved: Clr Richard Lyon
Seconded: Clr Steve Wills

That Council moves out of Closed Council into Open Council.

Carried

11 Public Excluded Reports

11.1 Public Excluded Minutes of the Policy and Development Committee Meeting held on 11 June 2019

11.2 Land for Stormwater Infrastructure

11.3 Land for Disposal

12 Readmittance of the Public

The Meeting closed at 11.20am.

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Chairperson

7 Reports

7.1 Aorangi Stadium Trust Final Statement of Intent

Author: David Codyre, Chief Financial Officer

Authoriser: Donna Cross, Group Manager Commercial and Strategy

Recommendation

That the report is noted and received.

Purpose of Report

1 To advise the Council that the Aorangi Stadium Trust has delivered its completed (final) 2019/20 Statement of Intent to Timaru District Council, and to provide a copy for the Council's information.

Assessment of Significance

2 Low

Discussion

3 The Local Government Act 2002 (LGA) requires the Aorangi Stadium Trust to deliver to Council a completed Statement of Intent by 30 June 2019.

4 The Policy and Development Committee considered Aorangi Stadium Trust's draft Statement of Intent on 12 March 2019, and resolved to approve it.

5 We have been advised that Aorangi Stadium Trust has now finalised its 2019/20 Statement Intent (with no changes having been made to the draft Statement of Intent) which has been provided to Timaru District Council as required by the LGA.

6 A copy of the completed 2019/20 Statement of Intent is attached.

Legislation

7 The Local Government Act 2002

Attachments

1. **Aorangi Stadium Trust - Statement of Intent 2019/2020** ⇩

Aorangi Stadium Trust

Statement Of Intent

2019/20

Aorangi Stadium Trust
Statement of Intent
2019/2020

1 Preamble

Aorangi Stadium Trust is a Council Controlled Organisation as defined by Section 6 of the Local Government Act 2002.

This Statement of Intent sets out the overall intentions and objectives for Aorangi Stadium Trust for the period 1 July 2019 to 30 June 2020 and the two succeeding financial years.

Aorangi Stadium Trust contracts its administration from the Timaru District Council and as such does not have staff employed. The Stadium is leased to Timaru District Council, who operate the facility.

2 Objectives Of The Trust

The purpose of the Trust is to continue development, maintenance and operation of the Aorangi Stadium and adjoining areas on Aorangi Park, Timaru for the use of the public.

General objectives are:

a. To promote the development and ongoing maintenance of the Aorangi Sports Stadium on the Morgans Road Recreation Reserve and for that purpose to enter into satisfactory arrangements with the owner of the land, the Timaru District Council.

b. To support and promote facilities for indoor and outdoor sport or any other recreational pursuit.

c. To acquire any real or personal property for the purpose of the Trust to extend the buildings and to develop land for the general purposes of the Trust.

d. To promote and encourage community activities and to assist sports bodies, community organisations and organisations devoted to the welfare of youth in the district of South Canterbury.

3 Nature And Scope Of Activities To Be Undertaken

Aorangi Stadium Trust owns the Stadium and Events centre located at Aorangi Park, Timaru. The facility, known as the Southern Trust Events Centre, is leased to the Timaru District Council, who manages and operates the facility. Many of the objectives of the Trust have now been delegated to Timaru District Council.

The Trust is responsible for the major maintenance and building renewals.

4 Governance

Aorangi Stadium Trust oversees the building maintenance to ensure the facility is well maintained. Day to day operation of the building is undertaken by Timaru District Council.

5 Ratio of Consolidated Shareholders' Funds To Total Assets

a. This ratio shows the proportion of total assets financed by equity.

b. The Trust will ensure that the ratio of Equity to Total Assets remains above 90.00%.

c. For the purposes of this ratio Equity is as per the financial statements for the Trust

d. Total assets are defined as the sum of all current and fixed assets of the group.

5 Statement Of Accounting Policies

Aorangi Stadium Trust is a registered charity.

Details of the current accounting policies and their application are contained in Appendix A.

6 Performance Targets

a. Significant maintenance projects are completed on time and on budget.

b. Regular liaison occurs with the tenant (Timaru District Council) on at least a six monthly basis to ensure the facility is operating to the satisfaction of both parties.

7 Financial Forecasts

The financial forecasts are based on estimated revenue flows and estimated capital structures.

	2019/20	2020/21	2021/22
Income	90,600	90,600	90,600
Operating Expenses	40,600	40,600	40,600
Depreciation	173,300	173,300	173,300
Operating Surplus/(Deficit)	(123,300)	(123,300)	(123,300)
Movement in Maintanance Reserve	(6,000)	(13,000)	(13,000)
Surplus/(Deficit)	(129,300)	(136,300)	(136,300)
Equity	1,018,345	895,045	771,745
Current Assets	282,116	302,117	310,117
Non-Current Assets	741,230	597,929	466,629
Total Assets	1,023,346	900,046	776,746
Current Liabilites	5,000	5,000	5,000
Non-Currrent Liabilites	0	0	0
Total Liabilites	5,000	5,000	5,000
Net Assets	1,018,346	895,046	771,746
	(0)	(0)	(0)

8 Reporting To Shareholders

The following information will be available to shareholders based on an annual balance date of 30 June.

a. Draft Statement of Intent

By the 1st of March each year, the Trustees shall (for so long as the Trust remains a Council Controlled Organisation), deliver to the Council a draft Statement of Intent for the following financial year which fulfils the requirements of Section 64 of the Local Government Act 2002.

b. Completed Statement of Intent

By the 30th June each year the Trustees shall deliver to the Council the final Statement of Intent for the following financial year which fulfils the requirements of Section 64 of the Local Government Act 2002.

c. Half Yearly Report

Within two months after the end of the first half of each financial year, the Trustees shall deliver to the shareholders an unaudited report containing the following information as a minimum in respect of the half year under review:

i. A Statement of Comprehensive Income disclosing actual revenue and expenditure including a comparison of actual against budget, and comparative figures

ii. A Statement of Movements in Equity

iii. A Statement of Financial Position

iv. A commentary on the results for the first six months, together with a report on the outlook for the second six months.

d. Annual Report

i. Within three months after the end of each financial year, the Trustees shall deliver to the Council, and make available to the public, an annual report and audited financial statements of that financial year, containing the following information as a minimum: -

   - A Trustees' report including a summary of the financial results, a review of operations, a comparison of performance in relation to objectives;
   - A Statement of Comprehensive Income disclosing actual revenue and expenditure including a comparison of actual against budget, and comparative figures;
   - A Statement of Movements in Equity
   - A Statement of Financial Position
   - An Auditor's report on the above statements and the measurement of performance in relation to objectives.

9 Distribution Policy

The Trust is a non-profit organisation and does not generate income or dividends for the Timaru District Council.

10 Procedures For Acquisition Of Other Interests

The Trust will only purchase an interest in another business or invest in the shares of another company or organisation with prior approval of the Timaru District Council.

11 Activities For Which Compensation Is Sought From Any Local Authority

It is anticipated that the Trust will continue seek compensation from Timaru District Council relating to funding long term maintenance items for the stadium and reimbursement of insurance costs in terms of the lease agreement.

12 Estimate Of Commercial Value Of The Shareholders Investment

The Trustees estimate that the balance of funds in the annual accounts will represent the value of Aorangi Stadium Trust. The Trustees will advise Timaru District Council if they believe the value to differ materially from this state.

Appendix A

Statement Of Accounting Policies

Reporting Entity

The Aorangi Stadium Trust was incorporated on 14 August 2001 under the Charitable Trusts Act 1957. The Trust is controlled by Timaru District Council and is a council-controlled organisation as defined in section6 of the Local Government Act 2002.

Entity Purpose

The purpose of the entity is to continue development, maintenance & operation of the Aorangi Stadium and adjoining areas on Aorangi Park, Timaru.

Trust Structure

The Trust comprises a board of 4 trustees who oversee governance of the Trust. The facility is leased to Timaru District Council who manage the facility and undertake administration of the Trust.

Sources of cash & resources

The main source of cash and resources for the Stadium Trust is income from grants from the Timaru District Council.

Basis Of Preparation

From 1 July 2014, the Aorangi Trust was required to move to the new Public Benefit Entity simple reporting format accrual standard (SFR-A). Previously annual reports were [prepared in accordance with the framework for differential reporting. Therefore these annual accounts have been prepared in accordance with Tier 3 of this standard for Public Benefit Entities.

The Aorangi Trust is deemed eligible for Tier 3 reporting given it does not have public accountability or annual expenses greater than $2 million as defined in the requirements of the standard.

Measurement Base

All transactions in the financial statements are reported using the accrual basis of accounting. This report also treats the entity as a going concern and uses the basis of historical cost basis with the exception of those items for which specific accounting policies have been identified.

Changes In Accounting Policies

This is the second set of financial statements prepared using the new PBE SFA-A (PS) standard.

Reporting Entity

The Aorangi Stadium Trust was incorporated on 14 August 2001 under the Charitable Trusts Act 1957. The Trust is controlled by Timaru District Council and is a council-controlled organisation as defined in section6 of the Local Government Act 2002.

Entity Purpose

The purpose of the entity is to continue development, maintenance & operation of the Aorangi Stadium and adjoining areas on Aorangi Park, Timaru.

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Basis of Preparation

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The Aorangi Trust is deemed eligible for Tier 3 reporting given it does not have public accountability or annual expenses greater than $2 million as defined in the requirements of the standard.

Measurement Base

All transactions in the financial statements are reported using the accrual basis of accounting. This report also treats the entity as a going concern and uses the basis of historical cost basis with the exception of those items for which specific accounting policies have been identified.

Specific Accounting Policies

The following specific accounting policies, which materially affect the measurement of financial performance and financial position of the entity, have been applied:

a. **Goods & Services Tax (GST)**
Aorangi Stadium Trust is registered for GST and the financial statements have been prepared on a GST exclusive basis.

b. **Fixed Assets**
Fixed assets are valued at cost less accumulated depreciation.

c. **Trade & Other Receivables**
Trade & other receivables are valued at expected realisable value after due allowance for bad and doubtful debts.

d. **Inventory**
All inventories on hand are recorded at cost price less any impairment losses

e. **Creditors & accrued expenses**
Creditors & accrued expenses are recorded at the amount owed

f. **Income Tax**
The Trust has charitable status and no income tax is therefore payable.

g. **Other Revenue**
Other Revenue is recognised upon receipt of funds.

7.2 Timaru District Holdings Limited Final Statement of Intent

Author: **David Codyre, Chief Financial Officer**

Authoriser: **Donna Cross, Group Manager Commercial and Strategy**

Recommendation

That the report is noted and received.

Purpose of Report

1 To present the Timaru District Holdings Limited 2019/2020 final Statement of Intent.

Assessment of Significance

2 Low

Discussion

3 The Local Government Act 2002 requires Timaru District Holdings Limited to present a final Statement of Intent to Council by 30 June 2019.

4 The Timaru District Holdings Limited Draft Statement of Intent was authorised by the Policy and Development Committee on 12 March 2019.

5 The TDHL Board approved the attached 2019/20 Final Statement of Intent on 14 June 2019.

6 The removal of subvention income from Timaru District Council and subsequent effects are the only changes from the draft Statement of Intent previously presented. Timaru District Council will as a result have lower expenditure.

Legislation

7 The Local Government Act 2002

Attachments

1. Timaru District Holdings Limited Final Statement of Intent 2019/20 ⇩

TIMARU DISTRICT HOLDINGS LIMITED

PO Box 522
Timaru 7940

20 June 2019

Chief Executive
Timaru District Council
PO Box 522
Timaru

Dear Bede

Timaru District Holdings Limited Statement of Intent 2019/20

Attached is the Statement of Intent for the 2019/20 year approved by the TDHL Board.

TDHL is pleased to present the Statement of Intent for the Council's information.

The only change from the draft Statement of Intent previously presented is the removal of Subvention Income. This will result in higher interest income for Timaru District Council, subject to TDHL reviewing its loans structure.

Yours faithfully

David Codyre
Company Secretary

e david.codyre@timdc.govt.nz
t 03 687 7286

#1258700

Timaru District Holdings Limited

Statement of Intent

2019/20

#1222543

Timaru District Holdings Limited

Statement of Intent

2019/2020

1 Preamble

Timaru District Holdings Limited (TDHL) is a council-controlled organisation as defined by Section 6 of the Local Government Act 2002.

This Statement of Intent sets out the overall intentions and objectives for TDHL for the period 1 July 2019 to 30 June 2020 and the two succeeding financial years.

TDHL contracts its administration from the Timaru District Council (the Council) and as such does not employ staff.

2 Objectives Of The Company

Section 59 of the Local Government Act 2002 requires that the principal objectives of TDHL are to:

a) achieve the objectives of its shareholder, both commercial and non-commercial, as specified in the statement of intent; and

b) be a good employer and promote a strong health and safety culture; and

c) exhibit a sense of social, environmental and cultural responsibility by having regard to the interests of the community in which it operates and by endeavouring to accommodate or encourage these when able to do so; and

d) if the council-controlled organisation is a council-controlled trading organisation, conduct its affairs in accordance with sound business practice.

Mission Statement

To be a successful and growing business increasing the value of the Company and its return to its shareholder, while taking into account the special needs of the shareholder.

General objectives are: -

2.1 To maximise the returns from, and the value of, the subsidiary and associate and joint venture trading companies to the Council, as the shareholder in TDHL.

2.2 To ensure insofar as it is lawfully able, that the Statements of Intent of each of TDHL's subsidiaries and associates reflects the policies and objectives of the Council and TDHL in the area of activity or operation of that subsidiary or associate.

2.3 To monitor the activities of the companies, comprising the group, to ensure that the respective Statements of Intent are adhered to.

2.4 To keep the TDC informed of matters of substance affecting the group.

2.5 To ensure that regular reporting of results from the subsidiaries and associates occurs to the holding company.

2.6 To approve Statements of Intent, after reference to the Council, for each of TDHL's subsidiaries and associates through which the performance (particularly the financial performance) will be monitored, and to confer with each company on their long term strategic direction.

2.7 To undertake strategic asset purchases, partner with external parties, or assist future developments in the district.

2.8 To obtain a commercial return and build long term strategic value from the port property portfolio, but to have regard to working in conjunction with PrimePort to ensure operations contribute to the port business as far as practicable.

Specific Objectives for 2019/20 are:

2.9 To liaise with Alpine Energy Ltd and PrimePort Timaru Ltd and the other shareholders in these companies on the development of strategic options for the future of these companies.

2.10 To achieve a return on investment of 7% or greater on the leasable port property portfolio and ensure that all lease renewals are completed in a timely manner.

2.11 To review the TDHL investment portfolio for options to diversify and de-risk its exposure to any single industry.

2.12 To continue debt reduction subject to no major investments being undertaken.

3 Nature And Scope Of Activities To Be Undertaken

TDHL's business is that of an investor for the benefit of the district and to provide a commercial return to the Council.
Its investment portfolio includes:
Local companies providing significant economic and community benefits; specifically Alpine Energy Ltd – 47.5% shareholding, PrimePort Timaru Ltd – 50.0% shareholding and Hunter Downs Water Ltd - 6.9% shareholding.
Properties investments providing portfolio of investment properties including:

- Properties located in the vicinity of PrimePort Timaru that are targeted for leasing to port related operations to achieve an overall set rate of return; and
- Strategic properties such as the "Showgrounds" site on State Highway 1.

TDHL, with the approval of the Council, can also undertake developments of properties to benefit the district and company.

4 Governance

TDHL oversees the governance of the associate trading companies of Alpine Energy Ltd, and PrimePort Timaru Ltd through monitoring the individual company's compliance with their Statement of Intent (as per 2.6 above); regular monthly reporting against the company's budgets; regular reports on the property portfolio; and meetings between representatives of the companies and TDHL, at both Board and officer level.

5 Ratio Of Consolidated Shareholders' Funds To Total Assets

5.1 This ratio shows the proportion of total assets financed by shareholders funds.

5.2 TDHL will ensure that the ratio of Shareholders Funds to Total Assets remains above 25.00%.

5.3 For the purposes of this ratio shareholders' funds are defined as the paid-up capital plus any tax paid profits earned and less any dividends distributed to shareholders. They include undistributed profits, which have been accumulated to equity.

5.4 Total assets are defined as the sum of all current, fixed and investment assets of the group.

6 Statement Of Accounting Policies

TDHL is registered under the Companies Act 1993. The Company's accounting policies comply with the legal requirements of the Companies Act 1993.
The financial statements are prepared in accordance with the Financial Reporting Act 1993, and section 69 of the Local Government Act 2002.
Details of the current accounting policies and their application are contained in Appendix A.

7 Performance Targets (Parent)

The performance targets are based on the financial forecasts and the associated assumptions.
TDHL expects to have total comprehensive income of $9,297,000 and to pay an ordinary dividend of $2,750,000 for 2018/2019, increasing to $2.85m in 2019/20, $2.85m in 2020/21 and 2021/22.

	2017/18 Actual	2018/19 Forecast	2019/20 Forecast	2020/21 Forecast	2021/22 Forecast
Operating Surplus after Tax to Shareholders Funds (excl. investment revaluations)	8%	8%	7%	7%	7%
Net Assets per $ of share capital	10.05	10.81	11.53	12.27	13.03
Earnings per $ of share capital	8.54	8.51	8.23	8.41	8.61
Dividend per $ of share capital	2.65	2.75	2.85	2.85	2.85
Shareholder Funds to Total Assets	72%	74%	77%	80%	83%

8 Financial Forecasts

The financial forecasts are based on estimated revenue flows and estimated capital structures. The forecasts are based on the current operating environment and are subject to no major investments being undertaken.

Note: the financial forecasts are based on the latest PrimePort Timaru Ltd, and Alpine Energy Ltd financial forecasts available at the time.

	2017/18 Actual $000's	2018/19 Forecast $000's	2019/20 Forecast $000's	2020/21 Forecast $000's	2021/22 Forecast $000's
Property Revenue	2,054	2,462	2,516	2,562	2,608
Share of Associate Surplus	2,945	3,000	3,000	3,000	3,000
Other Revenue	6,261	5,532	5,523	5,539	5,534
Total Income	**11,260**	**10,994**	**11,039**	**11,101**	**11,142**
Expenses	2,605	2,279	2,561	2,380	2,140
Operating Surplus before Tax	**8,655**	**8,715**	**8,478**	**8,721**	**9,002**
Income Tax Expense	115	208	246	314	392
Operating Surplus after Tax	**8,540**	**8,507**	**8,233**	**8,408**	**8,610**
Investment Property Revaluations	5,687	790	806	822	838
Total Comprehensive Income	**14,227**	**9,297**	**9,039**	**9,230**	**9,448**
Dividend to TDC	2,650	2,750	2,850	2,850	2,850
Operating Surplus after Tax to Shareholders Funds (excl. investment revaluations)	**8%**	**8%**	**7%**	**7%**	**7%**
Share Capital	1,000	1,000	1,000	1,000	1,000
Retained Earnings	99,539	107,086	114,274	121,654	129,252
Total Shareholder Funds	**100,539**	**108,086**	**115,275**	**122,654**	**130,253**
Current Assets	4,788	6,909	7,292	6,850	6,610
Non-Current Assets	134,507	138,297	142,103	145,925	149,763
Total Assets	**139,295**	**145,206**	**149,395**	**152,775**	**156,373**
Current Liabilities	1,347	3,710	3,710	3,710	3,710
Non-Current Liabilities	37,409	34,159	30,659	27,659	24,659
Total Liabilities	**38,756**	**37,120**	**34,120**	**30,120**	**26,120**

Financial Projections

It is forecast that term debt within the company be repaid in each of the years. External debt is forecast to reduce by $11 million, over the 3 year period from 2019/20 to 2021/22. This is assuming that alternative investment opportunities necessitating funds are not required.

It is assumed that funds in excess of $3,000,000 will continue to be used for external debt repayments and this has been incorporated in the forecasts.

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9 Reporting To Shareholder

The following information will be available to the Council based on an annual balance date of 30 June.

9.1 Draft Statement of Intent

By the 1st of March each year, the directors, deliver a draft Statement of Intent for the following financial year which fulfils the requirements of Section 64 of the Local Government Act 2002.

9.2 Completed Statement of Intent

By the 30th June each year the directors shall deliver to the shareholder the final Statement of Intent for the following financial year which fulfils the requirements of Section 64 of the Local Government Act 2002.

9.3 Quarterly Report

Within 40 days after the end of the quarter, the directors shall deliver to the shareholder an unaudited report containing the following information as a minimum in respect of the quarter under review: -

a) Statement of Comprehensive Revenue and Expense disclosing actual revenue and expenditure including a comparison of actual against budget, and comparative figures
b) Statement of Changes in Equity
c) Statement of Financial Position
d) Cashflow Statement
e) A commentary on the results for the quarter, together with a report on the outlook for the following quarter with reference to any significant factors that are likely to have an effect on TDHL's performance, including an estimate of the financial results for the year based on that outlook.

9.4 Half Yearly Report

Within two months after the end of the first half of each financial year, the directors shall deliver to the shareholder an unaudited report containing the following information as a minimum in respect of the half year under review:

a) A Statement of Comprehensive Income disclosing actual revenue and expenditure including a comparison of actual against budget, and comparative figures
b) A Statement of Changes in Equity
c) A Statement of Financial Position
d) A Cashflow Statement
e) A commentary on the results for the first six months, together with a report on the outlook for the second six months, with reference to any significant factors that are likely to have an effect on the company's performance, including an estimate of the financial results for the year based on that outlook.
f) Overview of business risks and risk management processes.

9.5 Annual Report

9.5.1 Within eight weeks after the end of each financial year, the directors shall deliver to the shareholder unaudited financial statements in respect of that financial year, containing the following information as a minimum: -

a) A Statement of Comprehensive Income disclosing actual revenue and expenditure including a comparison of actual against budget, and comparative figures
b) A Statement of Changes in Equity
c) A Statement of Financial Position
d) A Statement of Cashflow.

9.5.2 Within three months after the end of each financial year, the directors shall deliver to the shareholder, and make available to the public, an annual report and audited financial statements of that financial year, containing the following information as a minimum: -

a) A directors' report including a summary of the financial results, a review of operations, a comparison of performance in relation to objectives and any recommendation as to dividend;
b) A Statement of Comprehensive Income disclosing actual revenue and expenditure including a comparison of actual against budget, and comparative figures;
c) A Statement of Changes in Equity
d) A Statement of Financial Position
e) A Statement of Cashflow
f) Summarised list of Intercompany transactions for the year
g) A Statement of Objectives and Performance
h) An Auditor's report on the above statements and the measurement of performance in relation to objectives.

In addition to the formal reporting noted above, it is anticipated that two workshops will be held annually with the Council.

10 Dividend Policy

The company will distribute a dividend of no more than 100% of the tax paid profit. It is the intention of TDHL to pay out interim dividends as cashflows allow. How this is distributed will be determined by the shareholder.

11 Procedures For Acquisition Of Other Interests

The company will only purchase an interest in another business or invest in the shares of another company or organisation on the basis set out in its constitution.

12 Activities For Which Compensation Is Sought From Any Local Authority

It is not anticipated that the Company will seek compensation from any local authority otherwise than in the context of normal commercial contractual relationships.

13 Estimate Of Commercial Value Of The Shareholders Investment

The commercial value of the shareholders' investment in Timaru District Holdings Limited is considered by the directors to be no less than the shareholders' funds of the company as shown in the Statement of Financial Position. This will be considered annually when the Statement of Intent is completed.

The shares held in Alpine Energy Limited were independently valued between 86.6 and 97.9 million as at 31 March 2018 whereas the cost and recorded value of these shares is $68 million. A review of this valuation, along with a valuation of PrimePort Timaru Limited, will be undertaken periodically.

The shares held in PrimePort Timaru Limited are recorded at fair value. No independent valuation has been completed at this time.

The investment properties are revalued annually, at 30 June 2018 these were valued at $39.4 million.

Appendix A

Timaru District Holdings Limited - Statement Of Accounting Policies

Reporting entity

Timaru District Holdings is a Council Controlled Organisation as defined in section 6 of the Local Government Act 2002. The company is wholly owned by Timaru District Council. The company began operation on 29 October 1997.

The entity consists of Timaru District Holdings Limited, and associated entities, PrimePort Timaru Limited (50%) and Alpine Energy Limited (47.50%). All entities are incorporated in New Zealand.

The financial statements of Timaru District Holdings Limited have been prepared in accordance with the requirements of the Companies Act 1993, the Local Government Act 2002 and New Zealand International Financial Reporting Standards.

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. Compliance with NZ IFRS ensures that the financial statements also comply with International Financial Reporting Standards (IFRS). The company is a Tier 2 reporting entity. The accounting policies set out below have been applied consistently to all periods presented in these financial statements. The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars ($000). The functional currency of Timaru District Holdings Limited is New Zealand dollars.

Measurement base
The accounting principles recognised as appropriate for the measurement and reporting of earnings and financial position on an historical cost basis are followed.

Accounting policies
The following particular accounting policies which materially affect the measurement of financial results and financial position have been applied:

Associate companies
These are companies in which Timaru District Holdings Limited has a significant influence over commercial and financial policy decisions.

Timaru District Holdings Limited holds a 50% shareholding in PrimePort Timaru Limited and a 47.50% shareholding in Alpine Energy Limited, and participates in their commercial and financial policy decisions. The investments are included in the parent entity at cost less any impairment losses.

The interest in the associate companies has been reflected in the financial statements on an equity accounting basis, which shows the share of surplus/deficits in the statement of comprehensive income and the share of post acquisition increases/decreases in net assets in the statement of financial position.

Goods and Services Tax

All items in the financial statements are exclusive of goods and services tax (GST) with the exception of receivables and payables which are stated with GST included. Where GST is irrecoverable as an input tax then it is recognised as part of the related asset or expense. Timaru District Holdings Limited became registered for GST in January 2007 and all parent transactions prior to this time are recorded inclusive of any GST.

Revenue

Revenue from the rendering of services is recognised in the profit or loss at the completion of transactions at balance date. Revenue from sale of goods is recognised when ownership is transferred. Rental and sub-lease income is recognised on a straight line basis over the term of the lease.

No revenue is recognised if there are significant uncertainties regarding recovery of consideration due.
Dividends are recognised net of imputation credits when the right to receive payments has been established.

Expenses

Operating lease payments are recognised in the profit or loss on a straight line basis over the term of the lease.
All borrowing costs, except for those relating to a qualifying asset, are recognised as an expense in the period they are incurred using the effective interest rate method.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.
Current taxation is the amount of income tax payable based on the taxable profit for the current year, plus any adjustments to income tax payable in respect of prior years. Current tax is calculated using rates that have been enacted or substantively enacted at balance date.

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences. Deferred tax liabilities are generally recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in associates, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised.

Current tax and deferred tax is charged or credited to the profit or loss, except when it relates to items charged or credited directly to equity or other comprehensive income, in which case the deferred tax is also dealt with in equity or other comprehensive income respectively.

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

Accounts receivable
Accounts receivable are initially measured at fair value and subsequently measured at amortised cost using the effective interest method less any provision for impairment.

Investments
Investments, including those in associate companies, are stated at cost less any impairment losses. Any decreases are recognised in the profit or loss.

Investment properties
Land and buildings held to earn rental income or for capital appreciation or both are deemed port related investment property. This includes land held for a currently undetermined use that is not owner-occupied property or for short term sale.

Investment property is valued at the end of each financial year. Valuation is at fair value as determined by a qualified independent valuer. They are recorded at valuation and are not subject to annual depreciation. Variation in value is recorded in the profit or loss.

Non Current assets intended 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 within the next financial year. Non-current assets held for sale are valued at the lower of carrying amount and fair value to sell less costs to sell.

Any impairment losses for write-downs of non-current assets held for sale are recognised in the profit or loss. 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 held for sale are not depreciated or amortised while they are classified as held for sale.

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

Provisions

A provision is recognised when the company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market rates and the risks specific to the liability.

Financial instruments

The company is party to non-derivative financial instruments as part of its normal operations. These financial instruments include bank accounts, short term deposits, debtors, prepayments, creditors and loans. All financial instruments are recognised in the Statement of Financial Position and all revenues and expenses in relation to financial instruments are recognised in the profit or loss.

Except for loans, which are recorded at cost, and those items covered by a separate accounting policy, all financial instruments are shown at their estimated fair value.
The company uses derivative financial instruments to hedge its exposure to interest rate risks arising from its activities. Derivative financial instruments are stated at fair value. The gain or loss on re-measurement to fair value is recognised in the profit or loss.
The fair value of interest derivatives is based on market factors the issuer believes to be relevant and in accordance with their policies.

Financial instruments are recognised once the company becomes a party to the contractual provisions of the instrument. Financial instruments are derecognised once the contractual rights expire or are transferred to another party without retaining control or substantially all risks or rewards of ownership associated with the instruments. Fair values are determined at balance date when required.

Leases

A finance lease is a lease that transfers to the lessee substantially all the risks and rewards incidental to ownership of an asset. Financial leases are recognised as assets and liabilities in the Statement of Financial Position at the lower of the fair value of the leased item or the present value of the minimum base payments. The amount recognised as an asset is depreciated over its useful life.

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 based over the term.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less any transaction costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortised costs with any difference between cost and redemption value being recognised in the profit or loss over the period of the borrowings on an effective interest rate. Except for borrowing costs that are capitalised on qualifying assets with a commencement date on or after 1 January 2009, all other borrowing costs are recognised as an expense in the period in which they are incurred. A qualifying asset is defined as a separate asset where the construction period exceeds twelve months and costs in excess of one million dollars.

Impairment
The carrying amount of the company's assets are reviewed each balance date to determine whether there is any indication of impairment. If any such indication exists, the assets recoverable amount is estimated. If the estimated recoverable amount of an asset not carried at devalued amount, is less than its carrying amount, the asset is written down to its estimated recoverable amount and an impairment loss is recognised in profit or loss.

For revalued assets the impairment loss is recognised against the revaluation reserve for that asset. Where that results in a debit balance in the revaluation reserve, the balance is recognised in profit or loss. Estimated recoverable amount of receivables is calculated as the present value of estimated cash flows discounted at their original effective interest rate. Receivables with short duration are not discounted. Other assets estimated recoverable amount is the greater of fair value less costs to sell and value in use. Value in use is determined by estimating future cash flows from the use and ultimate disposal of the asset and discounting these to their present value using a pre-tax discount rate that reflects current market rates and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Impairment losses are reversed when there is a change in the estimates used to determine the recoverable amount.

For assets not carried at revalued amount, the reversal of an impairment is recognised in the profit or loss.

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 asset was previously recognised in profit or loss, a reversal of the impairment loss is recognised in profit or loss.

Statement of cash flows
Cash and cash equivalents means cash balances on hand, held in bank accounts, demand deposits and other highly liquid investments in which the company invests as part of its day-to-day cash management.

Operating activities include cash received from all income sources of the company and records the cash payments made for the supply of goods and services.
Investing activities are those activities relating to the acquisition and disposal of non-current assets.

Financing activities comprise the change in equity and debt capital structure of the company. Dividends paid are included in financing activities. Loans raised and paid are netted off when they are part of the rollover of money market borrowings covered in the company's long-term finance facilities.

The GST component of operating activities reflects the net GST paid and received with the Inland Revenue Department. The GST (net) component has been presented on a net basis, as the gross amounts do not provide meaningful information for financial statement purposes.

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

Changes in accounting policies
All policies have been applied on a consistent basis with the previous year.

7.3 Council Investments and Borrowing as at 30 June 2019

Author: **David Codyre, Chief Financial Officer**

Authoriser: **Donna Cross, Group Manager Commercial and Strategy**

Recommendation

That the Committee

1. Note and receive the report.

Purpose of Report

1 To update the Committee on the status of the Council's treasury activities as at 30 June 2019.

Assessment of Significance

2 The assessment of significance is low.

Background

3 Council's treasury management involves holding a range of investments and borrowing for long term capital projects.

4 Council treasury activities are managed in compliance within the limits of the Investment and Liability Policy.

5 Council use Bancorp Treasury Services Limited for external treasury advice.

Investments

6 Timaru District Council

	30/06/19 $(000)	31/03/19 $(000)	31/12/18 $(000)
General Funds	$23,878	$25,802	$24,391
Special Funds	$29,172	$31,172	$31,203
Total	**$53,050**	**$56,974**	**$59,884**

Details of these are set out in Schedules attached.

General and Special Funds

7 General Funds are cash reserves held for day to day operating activities. General Fund balances fluctuate across the quarter depending on operational income and expenditure cash flows. The Councils Financial Strategy is to maintain a minimum of $10 million general funds for liquidity purposes.

8 Special Funds are held for specific purposes as set out in the Long Term and Annual Plans, and Annual Report. These funds reflect funds invested for approved future expenditure, to

implement strategic initiatives, support intergenerational allocations, bequests and other reserves.

9 Council investments are held with a range of highly rated institutions (as set out in the attached schedules) to ensure the capital sums invested are protected against default.

10 The yields available for term deposits are still higher than those available for bonds of a similar term. This is reflected in the proportion of Term Deposits to Bonds held.

11 The Financial Strategy states "The use of internal borrowing will be increased over the term of the LTP". This will see a reduction in cash held to back special funds. The forecast balance of these funds at the end of the 10 year Long Term Plan period is $11.8 million.

12 Based on market valuation the Council's bond portfolio increased by 1.58% over the June 2019 quarter, continuing to outperform the benchmark portfolio (a selection of market bonds from Bancorp) which increased by 1.33%. For the twelve months ending 30 June 2019 the portfolio increased by 6.22% compared to the benchmark portfolio's increase of 4.39%.

13 The duration of the Bond portfolio continued to operate outside the 25% fluctuation band when compared with the benchmark portfolio's duration for this quarter. As the portfolio balance is less than $5M this is not a policy breach.

Portfolio duration 3.13 years
Benchmark portfolio Duration 2.35 years.

Borrowings

14

	30/06/19 $(000)	31/03/19 $(000)	31/12/18 $(000)
Bank Debt	$0	$0	$0
Bonds Issued	$94,500	$94,500	$94,500
Total	**$94,500**	**$94,500**	**$94,500**

15 The borrowing market continues to remain stable. Bancorp advise they expect interest rates to fall slightly.

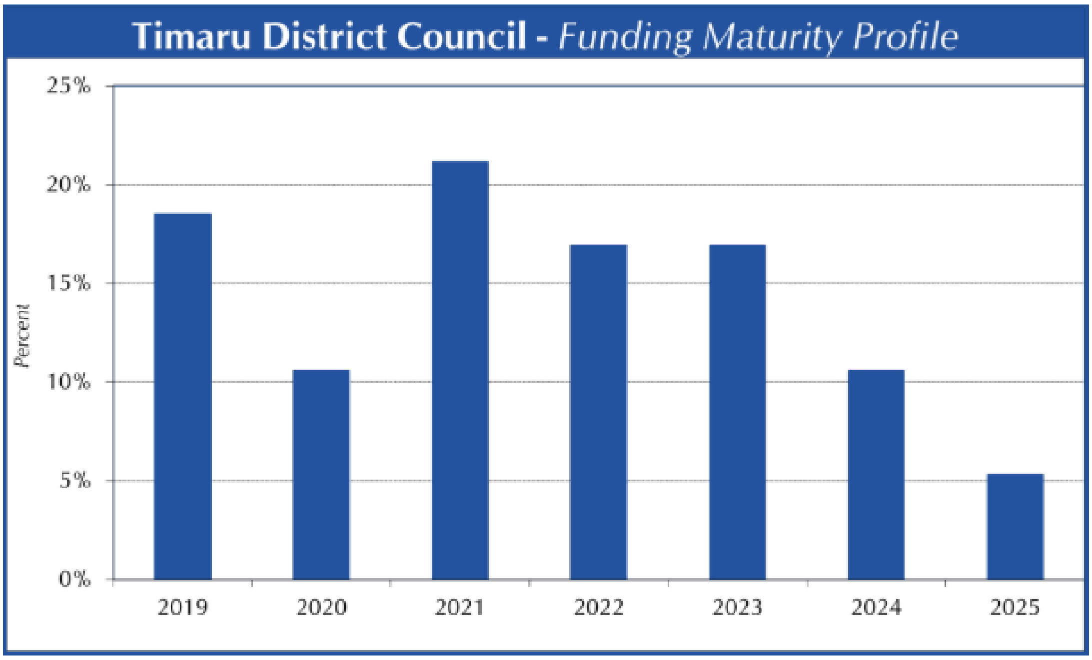
16 New external borrowing has not occurred as capital projects are not as advanced as originally forecast. Any borrowing required has been covered by internal loans.

17 During the quarter, Council renewed the following external debt:

$12.5 million commercial paper for 90 days at 1.82%.

The shorter period for finance was used to take advantage of low rates. $17.5 million of existing debt will mature in quarter to 30 September 2019. Treasury will refinance maturing debt in line within the limits of the Funding Maturing Policy.

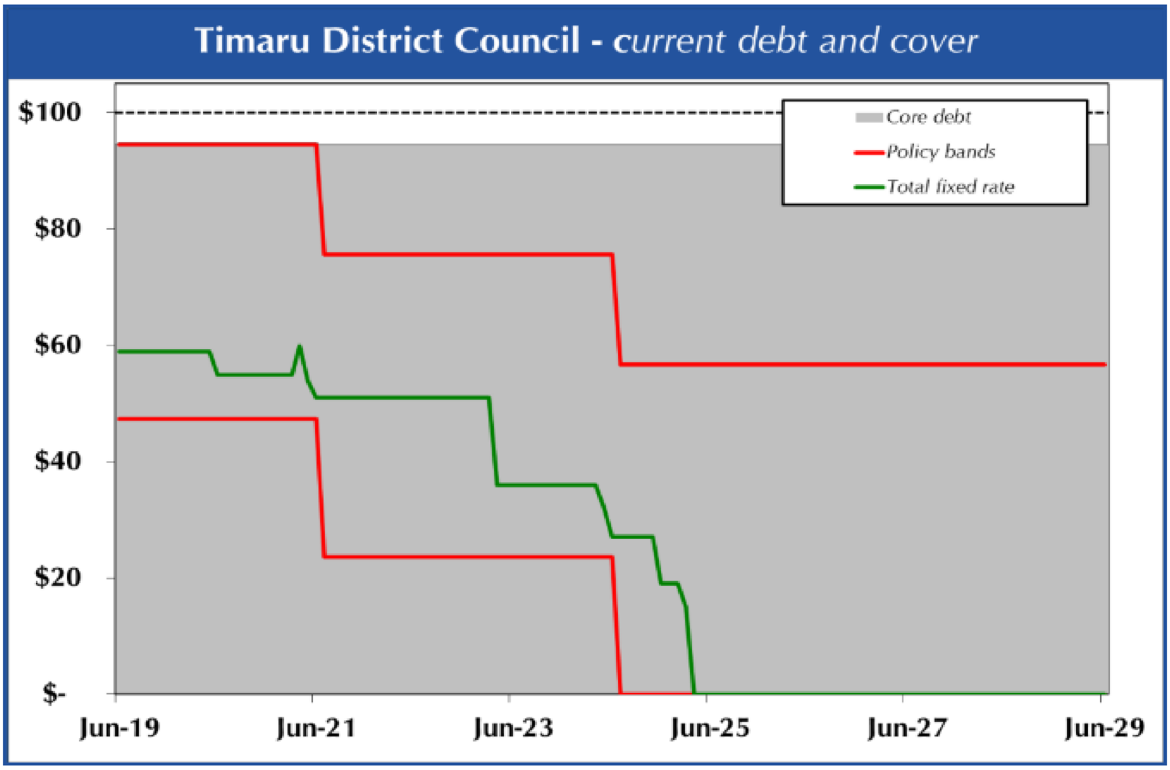
18 The Funding Maturity Profile is as follows:



19 Council Policy limits Treasury to have not more than 33% of its outstanding borrowings being subject to refinancing within any 12 month period.

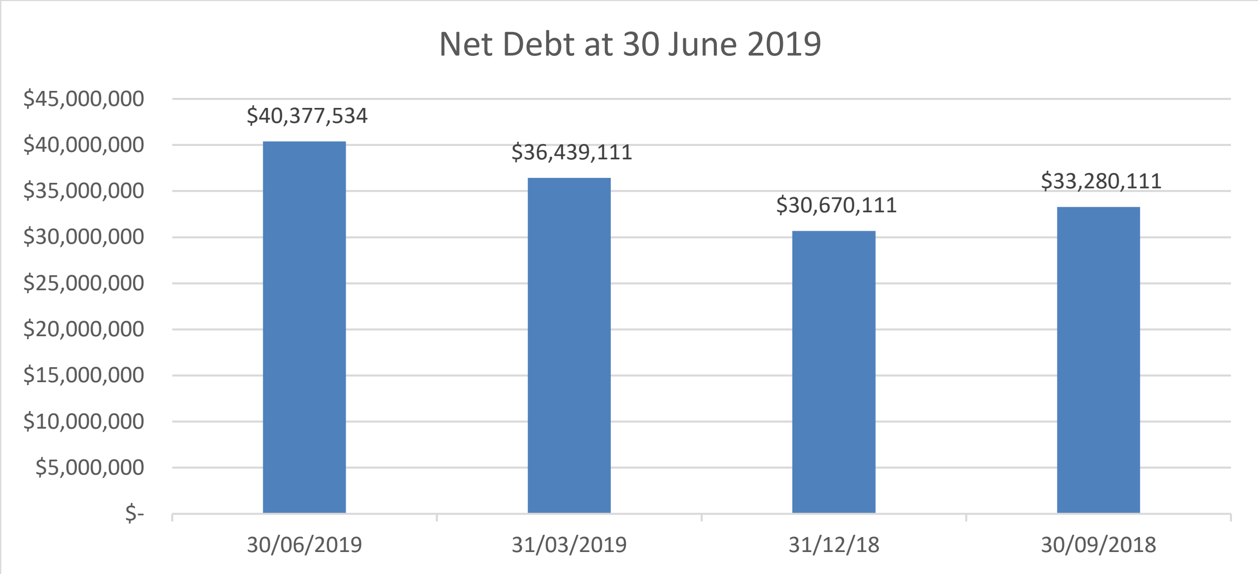
20 The weighted average cost of funds excluding margins was 3.09% compared to the benchmark rate of 2.15% as calculated on the Liability Management Policy. The higher rate is reflective of long term borrowings held by Timaru District Council at high rates for specific purposes.

21 The following chart illustrates the debt and cover profile set against the Liability Policy Control:



22 The green line indicates Timaru District is operating within the limits, red lines, of the policy.

23 The following table shows the Council's net debt position as at 30 June 2019. Net Debt has increased over the period due to Council using cash funds instead of external borrowings. The forecast Net Debt position as at 30 June 2019 as per the LTP was $62 Million.



Attachments

1. **Timaru District Council Investments and Borrowings** ⇩

Timaru District Council
General Funds Held as at 30 June 2019

Institution	Percentage	Category	Invested	Maturity	Rate	Amount
Registered Banks 100%		$1 million BBB or better, $10 million A1 or better				
BNZ (A1+ short term)		General Funds		Call	1.75	4,878,000
BNZ (A1+ short term)		General Funds	17-Dec-18	15-Jul-19	3.47	3,000,000
ASB (A1 short term)		General Funds	15-Mar-19	11-Sep-19	3.34	2,000,000
ASB (A1 short term)		General Funds	19-Mar-19	16-Sep-19	3.34	2,000,000
ANZ (A1+ short term)		General Funds	27-Dec-18	19-Aug-19	3.45	3,000,000
ANZ (A1+ short term)		General Funds	21-Mar-19	19-Aug-19	3.23	2,000,000
ANZ (A1+ short term)		General Funds	21-Mar-19	19-Jul-19	3.10	1,000,000
Westpac (A1+ short term)		General Funds		Call	1.75	2,500,000
Westpac (A1+ short term)		General Funds	24-Jun-19	31-Dec-19	3.05	2,000,000
Kiwibank (A1 short term)		General Funds	8-Oct-18	5-Jul-19	3.45	1,500,000
Total Registered Banks	**100.00%**					**23,878,000**

Timaru District Council
Special Funds Held as at 30 June 2019

Institution	Percentage	Category	Invested	Maturity	Rate	Nominal amount	Amount
Rated Local Authorities	(Limit 70% of portfolio, $1m BBB per issuer, $2m A- rating per issuer, $3m A+ rating per issuer, $4m AA or better rating per issuer)						
Total Rated Local Authorities	**0.00%**					-	-
Unrated Local Authorities	(Limit 60% of portfolio, $2m per issuer)						
Total Unrated Local Authorities	**0.00%**					-	-
NZ Registered Banks	(Limit 100% of portfolio, $2m A- rating per issuer, $3m A+ rating per issuer, $4m AA- rating or better per issuer (Deposits $10m A1 or better rating))						
BNZ	AA-	Stock	15-Jun-16	15-Jun-23	4.10	500,000	511,001
BNZ	BBB+	Stock	17-Dec-15	17-Dec-25	5.30	500,000	516,209
China Construction Bank	A	Stock	19-Jun-18	19-Jun-23	3.98	750,000	756,639
ANZ	A1+	Special Funds	4-Mar-19	31-Aug-19	3.35	2,000,000	2,000,000
ANZ	A1+	Special Funds	26-Apr-19	22-Nov-19	3.35	3,000,000	3,000,000
ANZ	A1+	Special Funds	14-May-19	11-Nov-19	3.15	5,000,000	5,000,000
ASB	AA-	Special Funds	20-Feb-19	12-Aug-19	3.34	1,000,000	1,000,000
ASB	AA-	Special Funds	11-Mar-19	6-Sep-19	3.34	2,800,000	2,800,000
ASB	AA-	Special Funds	4-Mar-19	25-Aug-19	3.29	2,000,000	2,000,000
BNZ	A1+	Special Funds	17-Jun-19	17-Jan-20	3.26	2,500,000	2,500,000
BNZ	A1+	Special Funds	17-Oct-18	15-Jul-19	3.41	1,000,000	1,000,000
BNZ	A1+	Special Funds	31-May-19	31-Dec-19	3.26	2,500,000	2,500,000
BNZ	A1+	Special Funds	21-Dec-18	19-Aug-19	3.59	750,000	750,000
Kiwibank	A1	Special Funds	29-Oct-18	26-Jul-19	3.45	2,000,000	2,000,000
Westpac	A1+	Special Funds	29-Jun-18	Call	1.75	1,600,000	1,600,000
Total Registered Banks	**95.75%**					**27,900,000**	**27,933,849**
Regional Health Entities	**0.00%**	(Limit 40% of portfolio, $3m A+ rating per issuer)				-	-
Total Regional Health Entities						**0**	-
SOE'S	(Limit 70% of portfolio, $1 m BBB rating per issuer, $2m A- rating per issuer. $3m A+ rating per issuer, $4m AA- or better per issuer)						
							-
							-
							-
Total SOEs	**0.00%**					-	-
Corporates	(Limit 60% of portfolio, $1 m BBB rating per issuer, $2m A- rating per issuer, $3m A+ rating per issuer, $4m AA- or better per issuer)						
Genesis	BBB+	Stock	18-Mar-16	18-Mar-22	4.14	500,000	517,067
Genesis	BBB+	Stock	14-Dec-17	8-Mar-23	5.81	500,000	549,540
Meridian Energy		Stock	27-Jun-18	27-Jun-25	4.21	170,000	172,010
Total Corporates	**4.25%**					**1,170,000**	**1,238,617**
Total Special Funds	**100.00%**					**29,070,000**	**29,172,466**
Totals							
Stock						2,920,000	3,022,466
Special Funds						26,150,000	26,150,000
						29,070,000	**29,172,466**

Timaru District Council
Loans Outstanding

Actual borrowing at 30 June 2019

				Maturity Date	Interest rate	Margin	Nett			
LGFA FRN	3 year	Bond	5,000,000	14-Apr-22	2.19%	0.3750%	1.82%	90,750		18,750
LGFA FRN	3 year	Bond	5,000,000	14-Apr-22	2.21%	0.3550%	1.86%	92,750		17,750
TDC FRB	7 year	Bond	10,000,000	9-Apr-20	4.76%	1.1000%	3.66%	366,000		110,000
LGFA FRN	8 year	Bond	10,000,000	15-May-21	2.54%	0.8425%	1.70%	169,500		84,250
LGFA FRN	8 year	Bond	4,000,000	15-May-21	2.82%	1.1225%	1.70%	67,800		44,900
LGFA FRB	8 year	Bond	5,000,000	15-May-21	5.60%	0.7400%	4.86%	243,000		37,000
LGFA FRB	8 year	Bond	1,000,000	15-May-21	5.98%	1.1200%	4.86%	48,600		11,200
LGFA FRB	9 year	Bond	5,000,000	15-Apr-23	5.83%	0.8300%	5.00%	250,000		41,500
LGFA FRN	9 year	Bond	6,000,000	15-Apr-23	2.73%	0.8225%	1.91%	114,600		49,350
LGFA FRN	4 year	Bond	5,000,000	14-Apr-23	2.31%	0.4750%	1.84%	91,750		23,750
LGFA CP	90 days	Zero Coupon	12,500,000	15-Aug-19	1.82%	0.1100%	1.71%	213,750		13,750
LGFA CP	147 days	Zero Coupon	5,000,000	15-Aug-19	2.02%	0.1100%	1.91%	95,250		5,500
LGFA FRB	8 year	Bond	5,000,000	15-Apr-25	3.87%	0.6300%	3.24%	162,000		31,500
LGFA FRN	5 year	Bond	6,000,000	15-Jun-22	2.02%	0.4375%	1.58%	94,800		26,250
LGFA FRB	7 year	Bond	5,000,000	15-Jun-24	3.40%	0.5800%	2.82%	141,000		29,000
LGFA FRN	5 year	Bond	5,000,000	14-Apr-24	2.33%	0.4920%	1.84%	91,750		24,600
Total Bond Debt			94,500,000							
								2,333,300	633,700	
Total Debt			94,500,000					2.47%	1.07%	

Hedging in place as at 30 June 2019

Amount	Rate	Termination Date	
4,000,000	4.70%	3-May-24	188,000
4,000,000	4.38%	31-Mar-25	175,200
2,900,000	6.82%	29-Jun-21	197,780
8,000,000	3.96%	16-Dec-24	316,800
5,000,000	5.60%	9-Jun-21	280,000
4,000,000	5.38%	29-Jun-20	215,000
27,900,000			1,372,780
			4.92%

Investor swap

-	0

Average cost of borrowing **3.09%**

7.4 Asset Revaluation Project Update

Author: **David Codyre, Chief Financial Officer**

Authoriser: **Donna Cross, Group Manager Commercial and Strategy**

Recommendation

That the Committee receive and note the report.

Purpose of Report

1 To provide an update on the implementation on the change in accounting policy to account for certain assets at fair value (these assets are currently valued at cost).

Assessment of Significance

2 The assessment of significance is low.

Background

3 On 12 February 2019 Council considered a Report on Accounting Policy for Property, Plant and Equipment (the Report) following recommendations from the Audit and Risk Subcommittee on 4 December 2019 that Council adopt fair value as its measurement basis for its infrastructure assets.

4 The Subcommittee received a report which advised that some classes of assets are more appropriately valued at fair value as it results in financial statements providing faithfully representative and more relevant information about the effects of transactions, other events, and conditions on the Council's financial position, financial performance, or cash flows. For Council the affected classes of assets are:

- Land and Buildings
- Airport Improvements
- Parks and Pools Plant and Equipment
- Sewer/Water/Stormwater Infrastructure (3 waters infrastructure)
- Roads/Bridges/Lighting Infrastructure and Land under Roads

5 The Subcommittee were further advised heritage and artworks should continue to be valued at cost as obtaining reliable estimates of fair value is difficult as many of them will be unique. Library books are already revalued annually to fair value.

6 Council confirmed the recommendation and delegated transitional decisions regarding funding and timing of the change in accounting policy be delegated to the Policy and Development.

Accounting Advice

7 EY have prepared a draft report, attached, considering the accounting issues for a voluntary change in Accounting Policy from Cost to Fair Value.

8 The EY draft report outlines the following;

- That a voluntary change in accounting policy can only be made when it will result in financial statements that provide faithfully representative and more relevant information about the effect of transactions, other events and conditions of the entities financial position, financial performance and cash flows. Council need to be satisfied switching to Fair Value will provide more relevant and reliable information than deemed cost.
- Council are required to consider this for each asset class it proposes to change to fair value.
- If the council elects to change to fair value it will be problematic to change back to the Deemed Cost method as it would be required to prove the method more faithfully represents the assets value than the Fair Value method.
- The need for Council to consider the need to obtain valuations, whether external expertise is needed to manage the valuations, how the valuations will be recorded within the fixed asset register, and what impact valuation will have on depreciation.
- The first adoption date is required to be 1 July as the accounting policy is required to apply from the beginning of the accounting period. Subsequent valuation dates will need to be considered and confirmed by Council.
- Council is required at each balance date for each asset class to assess whether a revaluation is required. Revaluations are required to be made with sufficient regularity to ensure the carrying amount of the asset is not materially different the assets fair value. The volatility of an asset class's fair value provides guidance on how frequent a revaluation should occur. Some asset class revaluations are annual while other may be performed at 3 to 5 year periods.

Project Group

9 A project group is meeting regularly to discuss the above issues and well as considering the road map for each asset class to change to Fair Value.

10 The group has a project plan which is considering a number of issue such as;

- How well placed each asset class is in relation to the proposed change to Fair Value,
- What resource and funding may be required,
- The appropriate Asset Management software to use,
- Realistic timeframes to adopt fair value,
- The valuation technique required for each class of Asset,
- Whether an external valuation is required.
- The frequency of valuation for each asset class,
- What happens after initial adoption?

11 The Group will continue to report back to the committee around progress made against the plan.

12 Council Officers are corresponding with Audit NZ around Materiality requirements in relation to Fair Value.

Attachments

1. EY Proposed Asset Revaluation Report ⇩

Bede Carran
Chief Executive Officer
Timaru District Council
PO Box 522
Timaru, 7940

22 July 2019

Dear Bede,

Accounting for a voluntary change in accounting policy from cost to fair value

You have asked Ernst & Young Limited ("we", "EY" or "us") to provide financial reporting and accounting support to Timaru District Council ("Council" or "you") in understanding the implications of your proposed change in accounting policy from the cost model to the revaluation model Property, Plant and Equipment in line with the Public Benefit Entity ("PBE") Standards.

Our work has been conducted in accordance with our engagement letter dated 16 May 2019. This letter outlines our guidance on the above matters.

Executive Summary

The Council has proposed to change its accounting policy for some classes of Property, Plant, and Equipment (PPE) from the cost model to the revaluation model in accordance with PBE IPSAS 17 Property Plant and Equipment ("PBE IPSAS 17). This process will be completed over a period of time with the first class of asset to be revalued being the Water class of asset.

A voluntary change in accounting policy can only be made when it will result in financial statements that provide faithfully representative and more relevant information about the effects of transactions, other events and conditions of the entities financial position, financial performance and cash flows. This requirement has two key aspects, the new policy must faithfully represent information about the transaction and it must be more relevant than the existing policy.

Given cost is a historical measurement, and in the case of the Council, has been derived from a 'deemed cost' determination in 2005, the use of fair value is expected to be more relevant to the users. Fair value will represent the value of the assets today, rather than a historical measure. Management will need to be satisfied that fair value gives more relevant information about the class of PPE to be revalued.

In order to be faithfully represented, information must be complete, neutral and free from error. If the fair value of the class of PPE can be determined accurately and reliably, this would imply the accounting policy of fair value would faithfully represent the assets value in the financial statements. Given that a number of Councils measure classes of PPE at fair value, this would indicate fair value can be determined reliably and without bias, providing a faithful representation of the assets value. Management will need to conclude that fair value will faithfully represent the asset class.

Assuming management conclude the requirements for a voluntary change in accounting policy from cost to the revaluation model are met, the change is accounted for in accordance with PBE IPSAS 17. Any adjustment in the carrying value, at the date of the change, is recognised as follows:

- If the carrying amount of a class of assets is increased as a result of a revaluation, the increase shall be recognised in other comprehensive revenue and expense (OCRE) and accumulated in net assets/equity under the heading of revaluation surplus. However, the increase shall be recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same class of assets previously recognised in surplus or deficit.
- If the carrying amount of a class of assets is decreased as a result of a revaluation, the decrease shall be recognised in surplus or deficit. However, the decrease shall be recognised in OCRE to the extent of any credit balance existing in the revaluation surplus in respect of that class of asset.
- Revaluation increases and decreases relating to individual assets within a class of PPE must be offset against one another within that class but must not be offset in respect of assets in different classes.

There are practical issues to consider when adopting the revaluation model, being:

- The need to obtain a valuation
- The decision whether to engage external expertise to manage the valuation.
- The mechanism for recording the valuations within the accounting fixed asset register
- The impact of the valuation on depreciation.

We note that if the change in accounting policy takes place, it will be difficult to move away from in the future. Thus, once the decision is made it is expected to have long-term impacts.

Relevant accounting pronouncements and documents examined

In performing the agreed scope of work, we have considered the following accounting pronouncements and information that you have provided to us:

- Asset Revaluation Options Report – Waugh Infrastructure Management 15 November 2018
- Timaru District Council Managements revaluation paper received in draft form
- Timaru District Council Annual Report 2017/2018
- PBE IPSAS 3 Accounting Policies, Changes in Accounting Estimates and Errors (PBE IPSAS 3)
- PBE IPSAS 17 Property Plant and Equipment (PBE IPSAS 17)
- NZ IAS 16 Property, Plant and Equipment (NZ IAS 16)

Background and Fact Pattern

We understand from discussions with the Council and the documents provided that:

- The Council manages a significant portfolio of assets all of which are carried at cost in accordance with PBE IPSAS 17.
- The Council has accounted for its assets based on a valuation prepared at 1 July 2005. At the date of valuation, the Council used an optimised depreciated replacement cost as a proxy for the original cost of the asset (deemed cost) as the actual cost was unknown.
- Subsequent to the initial recognition at deemed cost, the assets have been carried at cost less depreciation and impairment.
- The Council is proposing to revalue the Water class of assets first, with the expectation that in the future additional classes of assets will be included, such as parks and pools, property and roads.

Application of Relevant Accounting Pronouncements to the Fact Pattern

Voluntary Change in Accounting Policy per PBE IPSAS 3

PBE IPSAS 17 allows one of two alternatives to be chosen as the accounting policy for measurement of assets classified as PPE. The cost model and the revaluation model. The policy must be applied to an entire class[1] of PPE, which means that not all classes are required to have the same policy [PBE IPSAS 17.42], however all assets within a class must have the same policy.

The cost model prescribes that assets are carried at cost less any accumulated depreciation and less any accumulated impairment losses [PBE IPSAS 17.43]. In the 30 June 2018 financial statements, the Council measured all asset classes at cost.

Under the revaluation model, PPE is carried at a revalued amount, being its fair value less subsequent accumulated depreciation and impairment losses. [PBE IPSAS 17.44].

A change to the measurement basis for a class of assets is considered a voluntary change of accounting policy under PBE IPSAS 3. Consistency of accounting policies and presentation is a basic principle in

[1] A class of asset is defined in PBE IPSAS 17.53 as a grouping of assets of a similar nature or function in an entity's operations.

2

PBE Standards. Accordingly, PBE IPSAS 3 only permits a change in accounting policy if the change results in the financial statements providing faithfully representative and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows. [PBE IPSAS 3.17].

Providing information that faithfully represents the effects of transactions requires that the transaction is complete, neutral and free from error. Information must depict the substance of the transaction. The Council will need to be satisfied that depicting the measurement of PPE at its fair value will provide a faithful representation to the readers of the class of PPE.

To faithfully represent PPE, fair value would need to be determined accurately, free from error, and be considered a reliable measure. PBE IPSAS 17 allows either market based measures or a valuation technique (such as discounted cash flows or depreciated replacement cost) to determine fair value. It is our understanding that a number of Councils revalue assets by using either a market value or depreciated replacement cost (see table below). Given this, and assuming appropriate information is available, it is anticipated that the Council will be able to determine the fair value of its assets reliably.

The second requirement is that the accounting policy must be **more** relevant in depicting the transactions, events, or conditions on the financial statements of the entity compared to the current accounting policy. Measuring assets at fair value is expected to provide more relevant information than the depreciated cost measurement.

Depreciated replacement cost will provide a current measure of what the Council might need to pay to replace the assets. This is compared to the cost model which is a historical measure of the cost less depreciation and impairment. It could therefore be argued that fair value is more relevant than the historical cost.

Management will need to conclude on whether they believe fair value can provide a value that faithfully represents the value of the Council's assets and whether this is more relevant to the users of the financial statements than the cost model.

Accounting for a voluntary change in accounting policy

Assuming the Council is satisfied that a voluntary change in accounting policy from cost to fair value faithfully represents and provides more relevant information to users, PBE IPSAS 3 outlines the requirements for accounting for a change in accounting policy. Generally speaking, PBE IPSAS 3 requires a voluntary change in accounting policy to be applied retrospectively (i.e. as if it has always been applied).

However, PBE IPSAS 3.22 provides specific guidance for a change from cost to the fair value model for PPE, requiring the impact of such a change to be treated as a revaluation. This means that the entity is not required to obtain valuation information for historical periods and changes in value from historical periods are not recognised as an adjustment to opening retained earnings. Instead the impact at the date of the change in policy is recognised in other comprehensive revenue and expense (OCRE) if there is an increase or it is recognised in surplus or deficit if there is a decrease.

PBE IPSAS 3.18 states that "users of financial statements need to be able to compare the financial statements of an entity over time to identify trends... Therefore, the same accounting policies are applied **within each period** and from one period to the next, unless a change in accounting policy meets one of the criteria in paragraph 17" [i.e. requirements for changes in accounting policy] [Emphasis added].

There is a question as to whether the change in accounting policy from cost to fair value should be made on 30 June 2019 or 1 July 2019 initially. Given the specific requirements outlined above regarding changes in accounting policy from cost to fair value, the change is not applied retrospectively to prior periods (PBE IPSAS 3.22). Comparative information is not adjusted when changing an accounting policy from cost to fair value for PPE assets.

Further to this, as explained in PBE IPSAS 3.18, accounting policies must be consistent within an accounting period.

Additional guidance on the application of changes in accounting policies indicate that such changes should be applied from the beginning of the accounting period, for example:

- When a change in accounting policy is applied retrospectively in accordance with PBE IPSAS 3, such a change is applied (as far as a practical to do so) as if it had always been applied. When it is impractical to go back, PBE IPSAS 3.29 requires an entity to go back to **the beginning** of the earliest comparative period.
- When it is impractical to determine the effect cumulatively, the impact is recognised at the **beginning of the current period** of applying a new policy
- When there is a change in accounting policy arising from adoption of a new PBE Standard, the majority of the time the new standard will have specific guidance on how to apply the change. Such guidance, based on a review of recently issued PBE Standards, almost always requires the adoption of the new standard from the beginning of an accounting period, whether it be the current period or the comparative period.

Based on the discussion above, the adoption of the change in accounting policy to fair value a class of PPE should be applied from the beginning of the accounting period. This could be either 1 July 2018 or 1 July 2019 given the June 2019 financial statements have not yet been prepared. Adopting the standard for the current accounting period would require valuation of the assets at 1 July 2018 to identify the impact on the revaluation reserve. A review would then be required at 30 June 2019 to determine whether a revaluation was required at that point (see discussion below). Based on this adopting the change in accounting policy at 1 July 2019 is likely to be easier to do given it is now July 2019.

You have asked us to consider the benefits of completing a valuation at 1 July compared to 30 June in subsequent periods. Given the assets are required to be valued at fair value at the balance sheet date, completing the valuation at a date close to then should reduce the possibility that the valuation received would differ material from the fair value at that date. Completing the valuation at the 1 July date will mean that a year has passed before the financial statements are prepared, increasing the possibility that the value of the assets may have changed during this period.

Completing the valuation earlier in the financial year does, however, give management time to review and approve the valuation, as well as update the financial reporting systems. This means the manual task of updating the accounting system is not required to be completed during the year end process.

Management will need to determine the most appropriate time within the financial period to complete the valuation process. If it is expected that the valuation will fluctuate over time, it may be more appropriate to complete the valuation closer to the balance sheet date in order to ensure the assets are reflected at approximately their fair value.

Revaluation model under PBE IPSAS 17

Under the revaluation model PPE is carried at its fair value at the date of the revaluation, less subsequent accumulated depreciation and impairment losses. [PBE IPSAS 17.44]. In practice, 'fair value' will usually be the market value of the asset, however for specialised assets a valuation technique may be required such as depreciated replacement cost. If there is no active market for a specific asset, the Council is expected to consider a valuation technique. There is no requirement for a professionally qualified valuer (either internally or external to the entity) to perform the appraisal, although in practice professional advice is often sought.

We have reviewed the following Councils and note their valuation techniques in the table below as outlined in their 30 June 2018 financial statements:

	Market based valuation	**Depreciated replacement cost (DRC) or Optimised DRC**
Auckland City Council	Operational land and buildings Works of art	All other property plant and equipment
Christchurch City Council	Land (including parks) Residential and commercial buildings	Park improvements Specialised buildings Water assets
Porirua City Council	Tradeable assets	Non-tradable assets
Selwyn District Council	Farm land Other land and buildings	Infrastructure assets (roads, water etc)
Southland District Council	NA	Water, roading, footpaths and bridges

Valuation frequency is not prescribed by PBE IPSAS 17. Instead, it states that revaluations are to be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period [PBE IPSAS 17.44]. The frequency of revaluations depends upon the change in fair value of the items of PPE being revalued.

When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is necessary. Some items of PPE can have frequent and volatile changes in fair value and these should be revalued annually. If there are only insignificant changes in fair value, frequent revaluations are unnecessary and it may only be necessary to perform revaluations at three or five-year intervals [PBE IPSAS 17.49].

In terms of water infrastructure assets, we have reviewed a number of other councils to understand the frequency of revaluations. This provides a basis for determining the possible frequency of revaluations required to ensure the carrying value approximates fair value. We noted that one council, Southland District revalued its water assets annually, Porirua City and Christchurch City revalue every two years and Selwyn District and Auckland Council revalue on a three-yearly cycle.

The date of the revaluation does not need to be the balance sheet date and of those entities noted, three revalue at the balance sheet date, one in December and one in March for water assets.

Determining the frequency of any revaluation will require judgement and will need to be assessed each year depending on the entities circumstances. If there has been evidence of damage, impairment or significant changes in the cost of required materials, these things may indicate that a revaluation is required. If there is no evidence of impairment, or significant changes in the economic environment, the revaluation cycle may reflect a steady 3 yearly cycle.

It is possible that on adoption of the new policy, the Council will need to do valuations more frequently in the early period in order to determine whether the value of the assets moves significantly over time. As more data is gathered the frequency may become less often. As noted, the valuation must approximate fair value at each reporting date. This will need to be assessed each year.

In order to be comfortable the valuation is materially correct, an auditor will have their own internal determination of what is material. This could be determined in a range of different ways, for example a percentage of net assets (1-3%), revenue (0.5 – 2%), net surplus (1 – 5%). If the entity is asset intensive, the threshold may be based on assets, if the entity often breaks even, the amount may not consider surplus but instead focus on revenue. Such considerations require understanding of the client, what is the key resource and areas of risk.

Regardless of what the auditor's materiality is, it will be important for the Council to determine its own materiality threshold based on user's needs and what might be deemed material to the reader. In terms of PBE Standards, there is no specific guidance on what is material (as a percentage). It is generally understood that control can be seen as being greater than 50%, significant influence being greater than 20% and more than an insignificant amount being greater than 10%. These percentages are not stated in PBE Standards (except for the 20% significant influence). Whether this means that a fair value that is different by more than an insignificant amount is thus material (i.e. greater than 10% different to carrying value) will need to be concluded by management.

PBE IPSAS 17 specifies that all items within a class of PPE are to be revalued simultaneously to prevent selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates [PBE IPSAS 17.53].

Revaluation movements on individual assets must be offset with movements on assets within the same class [PBE IPSAS 17.53]. This differs to NZ IAS 16 which considers each asset individually. This is important to note, especially if Timaru District Holdings Limited decides to revalue its PPE assets, as the accounting for revaluation increases and decreases would be different under NZ IFRS.

The accounting for changes in value is as follows:

- Overall increases in the carrying amount of a specific asset class as a result of revaluations should be credited to other comprehensive revenue and expenses (OCRE) and accumulated in a revaluation reserve account in equity. However, to the extent that a revaluation increase of an asset class reverses a revaluation decrease of the same asset class that was previously recognised as an expense in surplus or deficit, such an increase should be credited to income in surplus or deficit.
- Overall decreases in valuation should be charged to surplus or deficit, except to the extent that they reverse the existing accumulated revaluation surplus recognised in OCRE on the same asset class and therefore such a decrease is recognised in OCRE. The decrease recognised in OCRE reduces the amount accumulated in equity under revaluation reserve account.

This means that it is not permissible under the standard to carry a negative revaluation reserve in respect of any class of PPE.

The amounts recognised in OCRE are never recycled to surplus or deficit when an asset is disposed of, however they may be moved to retained earnings if the entity chooses.

Refer to Appendix A below for an example of accounting for revaluation increases and decreases.

Illustrative Example

The example below illustrates the requirement to recognise revaluations on a class of asset basis, and the impact of this on an entities statement of comprehensive revenue and expenses.

	Opening Cost	Accumulated Depreciation	Opening Carrying value	Revalued Amount	Movement over carrying value
Asset A	1,000,000	260,000	740,000	950,000	210,000
Asset B	500,000	150,000	350,000	300,000	(50,000)
Asset C	300,000	90,000	210,000	240,000	30,000
TOTAL	1,800,000	500,000	1,300,000	1,490,000	190,000

Under NZ IAS 16 $240,000 would be recognised in Other Comprehensive Income and $50,000 in profit or loss. This is the accounting Timaru District Holdings Limited would be required to apply if it decided to revalue its PPE assets.

Under PBE IPSAS 17 $190,000 would be recognised in OCRE for the year ended.

Depreciation

Under the revaluation model the revalued carrying amount less any residual value becomes the depreciable amount for the next financial year and depreciation is calculated taking the depreciable amount over the remaining useful life of the asset.

When an asset is revalued PBE IPSAS 17.50 provides two methods for dealing with accumulated depreciation. The more common method requires that any accumulated depreciation is derecognised by way of crediting the accumulated depreciation balance to the gross carrying amount of the asset.

6

This adjustment forms part of the revaluation increase or decrease.

Refer to Appendix A for an example of the accounting for depreciation.

Impairment assessment

The same rules apply to impairment losses as to a downward revaluation. An impairment loss on a revalued asset is first used to reduce the revaluation surplus for that class of asset. Only when the impairment loss exceeds the amount in the revaluation surplus for that same class of asset is any further impairment loss recognised in surplus or deficit.

Determination of Fair value

In practice, 'fair value' will usually be the market value of the asset. As noted, there is no requirement for a professional external valuation or even for a professionally qualified valuer to perform the appraisal, although in practice professional advice is often sought.

If there is no market-based evidence of fair value depreciated replacement cost may be used to estimate fair value [PBE IPSAS 17.48]. Detailed guidance on determination of fair value is not in the scope of this report.

Practical Implications of the revaluation model

From a practical perspective, moving to a revaluation model is expected to require expert advice in order to determine fair value. Assuming the Council does not have the expertise in-house, external providers may need to be engaged. Further, it is expected that the first revaluation will take longer to complete thus there will need to be sufficient time allocated to this process.

An important consideration would also be that once this policy is chosen it will be difficult to change back to a cost model as this would require the Council to conclude that cost is more relevant than fair value.

The move from cost to fair value is also expected to create additional practical challenges for the accounting/finance team at the Council, such as:

- Determining who will complete the valuation of the asset class. Water infrastructure is not a common asset like a building and thus it would be expected that the valuer would need to have infrastructure assets as an area of expertise.
- Choosing what methodology will be used to determine fair value. It is expected that depreciated replacement cost will be used, however the Council will need to be comfortable with the methodology used by the valuer and the key estimates and assumptions they have made.
- Identifying when and how often the valuation will be completed. Is it expected that the valuation will be valid for 3 years or 5? And in the years that a valuation is not completed, what work will be needed to confirm that the current carrying value approximates the fair value and thus no additional valuation is required? The Council should discuss any conclusions regarding frequency of valuations with their auditors to ensure expectations are aligned.
- Having processes in place to update the financial system for the changes in value.
    - Will the revaluations be input into the accounting system or overlaid into the financial statements at a class of asset basis?
    - How will depreciation then be calculated if assets within a class have different useful lives. There may need to be some allocation of the valuation to groups of assets in order to ensure depreciation is calculated appropriately.
    - How will an item that is disposed of be identified and derecognised?

Council will need to consider the implications of these challenges in order to implement the change in accounting policy.

Appendix B to this report outlines the disclosures required for the revaluation.

Caveats and Limitations

This letter does not constitute an audit conducted in accordance with generally accepted auditing standards or other assurance, review or related services in accordance with assurance or review standards in New Zealand. Accordingly, we do not express an opinion or any other form of assurance on the financial statements of the Council or any financial or other information of the Council.

Our work does not include the provision of legal advice and we make no representations regarding questions of legal interpretation of any possible structure or strategy. We make no representation regarding the sufficiency of our work either for purposes for which this analysis has been requested or for any other purpose. The sufficiency of the work we performed is solely the responsibility of the Council, as are any decisions with respect to the proposed transaction.

The determination of whether or not a particular transaction structure or strategy should be implemented is the sole responsibility of the Council's management. The accounting for the transaction structure under New Zealand generally accepted accounting practice (NZ GAAP) is the responsibility of the management of the Council.

It is understood that this analysis is solely for the information of the Council. Therefore, this analysis, or portions thereof, should not be referred to or distributed to any other person or entity, other than the Council's legal counsel, except as anticipated in our engagement letter. It is not to be referred to or quoted, in whole or in part, in any registration statement, prospectus, public filing, loan agreement, or other agreement or document without our prior written approval.

Yours sincerely

Graeme Bennett
EY Assurance Partner
Ernst & Young Limited

Appendix A: Example and accounting journals

The illustrative example below considers three Buildings that were vested to the Council on 01 July 2005 and classified as property, plant and equipment (PPE) within the Building class of asset. At the date the assets were vested the total value of the assets were $1,000,000 which was the deemed cost of the assets. The three buildings are being depreciated over 20 years, from 1 July 2005, on a straight-line basis with a nil residual value. The assets have been accounted for on the cost method under PBE IPSAS 17.

Management decided that from 1 July 2019, they would change their accounting policy from cost to the revaluation model for the Buildings class of PPE. In this example we assume that buildings are revalued every year and the useful life has not changed.

Assume that the balance sheet date is 30 June. Below we have considered the treatment relating to the above and for the next 3 years to capture the impact when the building is revalued and at each balance date when the building is assessed for impairment.

Fact Pattern

	Opening Cost	Useful Life at 30 June 2019	Cost Carrying value at 30 June 2019	Valuation 1 July 2019	Valuation 30 June 2020	Valuation 30 June 2021
Asset A	500,000	6 years	150,000	1,000,000	300,000	1,000,000
Asset B	350,000	6 years	105,000	700,000	800,000	800,000
Asset C	150,000	6 years	45,000	100,000	100,000	100,000
Total	**1,000,000**		**300,000**	**1,800,000**	**1,200,000**	**1,900,000**

Major Activity since 1 July 2005 – carrying value

Date	Activity	Opening Carrying Value	Additions	Depreciation	Revaluation Increase or (Decrease)	Closing Cost/Value
01 July 2005	Assets vest to the Council	-	1,000,000			1,000,000
30 June 2019	Carrying amount of assets	350,000		(50,000)[1]		300,000
1 July 2019	Change in accounting policy applied and building valued by external valuer	300,000		NA	1,500,000[2]	1,800,000
30 June 2020	Building revalued	1,800,000		(300,000)[3]	(300,000)	1,200,000
30 June 2021	Building revalued	1,200,000		(240,000)[4]	940,000	1,900,000

1 – Initial cost of $1,000,000 straight lined over 20 years - $50,000 depreciation pa.

2 – Carrying value at 1 July 2019 $300,000, revalued up to $1,800,000 giving rise to a $1,500,000 revaluation increase

3 – Opening carrying value of $1,800, 000 straight-line depreciation for 6 years gives rise to depreciation of $300,000

4 – Opening carrying value of $1,200,000 straight-line depreciation for 5 years gives rise to depreciation of $240,000

9

Journal Entries

Journal entries	
1 July 2005	
DR PPE Asset (CR) Equity – assets vested to Council from Crown	$1,000,000 ($1,000,000)
Being recognition of PPE asset vested	
30 June 2019	
DR Retained Earnings – Depreciation Expense DR Current year surplus or deficit – Depreciation Expense (CR) PPE Accumulated Depreciation	$650,000 $50,000 ($700,000)
Being Recognition of Depreciation accumulated for 14 years to point of change in policy	
1 July 2019	
DR PPE Asset cost DR PPE Accumulated Depreciation (CR) Revaluation Reserve (OCRE)	$800,000 $700,000 ($1,500,000)
Being recognition of revaluation of PPE at period end and elimination of accumulated depreciation. Note – PBE IPSAS 17.50 provides two options for the treatment of revaluation and accumulated depreciation. Under either method the revaluation gain or loss and net carrying value will be the same, however the gross 'cost' and 'accumulated depreciation' will be different. The above journals apply PBE IPSAS 15.50(b) with accumulated depreciation eliminated against the gross carrying amount of the asset. This method is simpler and effectively compares the current carrying value of $300,000 (cost less accumulated depreciation) with the revalued amount of $1,800,000 with the difference going to revaluation reserve. Accumulated depreciation is then reset to zero at this point. The alternative option may be used, for example, if the valuation has been done on a depreciated replacement cost. For example, the valuation of $1,800,000 might have been determined by estimating a gross cost to replace today of $2,800,000 less accumulated depreciated of $1,000,000 given the age of the asset. In this case the gross cost of the asset would be increased by $1,800,000 to $2,800,000 and the accumulated depreciation would be adjusted to ensure the carrying value was $1,800,000 (being accumulated depreciation of $700,000 would be increased by $300,000 to reflect the $1,000,000 accumulated depreciation figure). The overall increase in revaluation reserve is the $1,800,000 less $300,000 being $1,500,000 as outlined above.	
30 June 2020	
DR Depreciation Expense CR Accumulated Depreciation DR PPE Accumulated Depreciation DR Loss on Asset Revaluation - Revaluation Reserve (OCRE) (CR) PPE Asset	$300,000 ($300,000) $300,000 $300,000 ($600,000)
Being recognition of revaluation of PPE at period end and depreciation recognised during the year	
30 June 2021	
DR Depreciation Expense CR Accumulated Depreciation DR PPE Accumulated Depreciation DR PPE Asset CR Revaluation Reserve (OCRE)	$240,000 ($240,000) $240,000 $940,000 ($1,180,000)
Being recognition of revaluation of PPE at period end and depreciation recognised during the year	

Appendix B: Disclosures for change in accounting policy

PBE IPSAS 3.34 outlines the disclosure requirements for the Financial Statements when there has been a voluntary change of accounting policy. For a voluntary change from the cost model to the revaluation model for Property, Plant and Equipment, the following disclosures are required:

a) The nature of the change in accounting policy;

b) The reasons why applying the new accounting policy provides faithfully representative and more relevant information;

Statement of Comprehensive Revenue and Expense

Other Comprehensive revenue or expense	
Asset Revaluation	1,700,000
Total Other Comprehensive Revenue and expense	**1,700,000**

Note X. Under Accounting Policies

X.X Changes in accounting policies and disclosures

Revaluation of Council Water Infrastructure

Council reassessed its accounting for Council Water Infrastructure with respect to measurement of a the class of property, plant and equipment after initial recognition. Council had previously measured this class of PPE using the cost model whereby, after initial recognition of the asset classified as property, plant and equipment, the asset was carried at cost less accumulated depreciation and accumulated impairment losses.

On 1 July 2019 Council elected to change the method of accounting for Council Water Infrastructure because it believes that the revaluation model provides more relevant information to the users of its financial statements and is more aligned to practices adopted by the industry. In addition, available valuation techniques provide reliable estimates of the Council Water Infrastructure fair value, faithfully representing the Water class of PPE. Council applied the revaluation model prospectively. After initial recognition, Council Water Infrastructure is measured at fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. For details refer to Note XX.

Note XX. Accounting Policies

XX.X Property, Plant and Equipment

Sewer, Stormwater and Water

2019

From 1 July 2019, Sewer, Stormwater and Water assets are initially recognised at cost and subsequently carried at revalued amounts less accumulated depreciation and impairments recognised after the date of revaluation. Valuations are performed with sufficient regulatory to ensure the carrying amount of a revalued asset does not differ materially from its fair value.

A revaluation surplus is recorded in other comprehensive revenue and expense and credited to the asset revaluation reserve in net assets/equity. However, to the extent that it reverses a

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revaluation deficit of the same class of asset previously recognised in surplus or deficit, the increase is recognised in surplus or deficit. A revaluation deficit is recognised in the surplus or deficit, except to the extent that it offsets an existing surplus on the same asset class recognised in the asset revaluation reserve.

For revalued assets, any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amounts of the assets and the net amounts are restated to the revalued amounts of the assets

2018

Sewer, stormwater and water assets, are stated at their deemed cost which is optimised depreciated replacement cost valued as at 1 July 2005 by Maunsell Limited, valuers. Acquisitions subsequent to 1 July 2005 are at cost.

Note XXX. Property, Plant & Equipment

	Cost/ Revaluation 1 July 2018	Accum depn and impmt charges 1 July 2018	Carrying amount 1 July 2018	Current Year Revaluation Adjustment	Current Year depn	Cost/ Revaluation 30 June 2019	Accum depn and impmt charges 30 June 2019	Carrying amount 30 June 2019
Water	1,000,000	(700,000)	300,000	1,700,000		2,000,000	0	2,000,000
Plant and equipment								
Other Equipment								
Total	**1,000,000**					**2,000,000**		

The fair value of the Water assets was determined by xxxx valuation technique.

The valuations have been performed by xx external valuer and are based on xxx. The significant estimates and assumptions include xxx.

7.5 Elected Members Remuneration 2019/20

Author: **Mark Low, Strategy and Corporate Planning Manager**

Authoriser: **Donna Cross, Group Manager Commercial and Strategy**

Recommendation

That this report is received and noted.

Purpose of Report

1 The purpose of this report is to advise elected members of changes to remuneration and allowances set by The Remuneration Authority for the 2019/20 year, and of changes to the approach to remuneration post the 2019 local elections.

Assessment of Significance

2 This report is of low significance.

Background

3 The Remuneration Authority is an independent body that sets remuneration – salary, fees, certain allowances, superannuation - for a number of bodies, including Members of Parliament, judicial officials and local government elected officials.

4 The Authority issues an annual Remuneration Determination for the payment of local government elected members under Schedule 7 of the Local Government Act. The 2019/20 determination has been issued and was formally gazetted on 20 June 2019.

5 Remuneration for the Timaru District Council, including the Mayor, Councillors and Elected Members is set using the Determination and the following policies:

- Elected Members Allowances & Recovery of Expenses Policy
- Council Committee Remuneration Policy

Discussion

6 The Determination has been split into pre-election and post-election remuneration. Pre-election, remuneration will follow the existing approach (remuneration for all positions is set by the Authority).

7 Over the last 2 years, the Authority has conducted a major review of local government sector remuneration, and has included its final decisions as part of the 2019/20 determination. The following summarises these decisions, with further explanation included in the attachments.

Revised and Updated Council size indices

8 The Authority has adopted a set of revised and updated Council size indices. The new sizes relate to the size of the governance role, based on a number of indicators. They are not related to the number of Councillors on the Council and are not affected by changes in Council size in the future. The index rankings are being fully implemented following the 2019 local elections.

Pool-based remuneration approach for Councillors

9 Following the election, remuneration is moving to a governance remuneration pool for Councillors, reflecting the ranking of the Council in the overall index. The new Council will need to decide how this pool will be allocated following the election and recommend this to the Remuneration Authority. Further advice will be given following the election.

10 The pool is solely for the purpose of remunerating councillors and to pay additional remuneration to community board members who have been delegated significant powers and functions by their council and where the council decides that additional remuneration is appropriate. Other than those circumstances, remuneration covering mayors and community board members is not included in the pool.

11 The Determination includes minimum allowable councillor remuneration for each council and councils can propose to top this up from the remuneration pool. The pool will also cover extra remuneration to councillors who take on additional responsibilities, for example deputy mayors, committee chairs or portfolio leaders. The pool amount allocated to the Timaru District Council for 2019/20 is $451,584 (to be pro-rated for the period following the elections), with a minimum remuneration for Councillors of $35,543. The pool is required to be fully distributed.

Remuneration Amounts

12 The following table show remuneration amounts for Timaru District Council elected member roles for 2019/20, as they currently stand, as will apply pre-election and as will apply post-election. Final amounts that will apply post-election are subject to Council decision and Remuneration Authority approval.

	Current	**Pre-Election**	**Post-Election**
Mayor	$115,897(plus vehicle)	$124,688 (less vehicle)	$132,500
Deputy Mayor	$49,831	$52,377	$35,543#
Committee Chairperson	$44,493	$46,767	$35,543#
Deputy Committee Chairperson	$37,375	$39,285	$35,543#
Councillor		$37,414	$35,543#
Geraldine Community Board Chair	$10,792	$11,008	$11,008
Geraldine Community Board Member	$5,397	$5,504	$5,504
Pleasant Point Community Board Chair	$0*	$0*	$8,633
Pleasant Point Community Board Member	$4,233	$4,317	$4,317
Temuka Community Board Chair	$0*	$0*	$11,224
Temuka Community Board Member	$5,502	$5,612	$5,612

* Currently the chair of the Pleasant Point and Temuka Community Boards are held by sitting Councillors, which means that no remuneration is applied to this role. Should a Councillor not be elected as Chair, the payment applying would be $8,633 and $11,224 respectively.
# This represents the Minimum Allowable Remuneration, and may be adjusted following Council consideration on the allocation of the remainder of the remuneration pool.

Allowances

13 There have been no significant changes to allowances. Vehicle mileage rates have been updated to reflect the new kilometre rates for self-employed people and employees published by the Inland Revenue Department as at 7 June 2019. The new rate for all vehicle types is $0.79 per km (for the first 14,000km of eligible travel). Communications and travel time allowances have not changed.

Childcare Allowances

14 The Authority has for the first time introduced a Childcare allowance for members who have responsibility for caring for children under the age of 14 years. The allowance represents a contribution towards expenses incurred by the member for the provision of childcare while the member is employed on local authority business. The allowance is capped ($6,000 per children per annum), and some conditions apply to its use.

15 The application of the allowance is at the discretion of Council and is funded from the Council's budget, not from the governance remuneration pool referred to above.

16 The Council will need to consider at some point whether to support a childcare allowance. It would make sense to consider this as part of the wider remuneration questions addressed at the beginning of the new Council term.

Community Board remuneration

17 As part of its review, the Authority examined the remuneration of Community Board members. As a result of this review, and the variances in roles and powers of Community Boards, the Authority have chosen not to incorporate them into the overall approach to the remuneration of Councillors. The determination has applied an overall increase of 2% to most community board members, reflecting the Labour Cost Index for the public sector for the year ended 31 March 2019. In the interim, where a Council delegates significant powers and functions to a community board and recommends to the Authority that they are paid more, this will come from the Council's governance remuneration pool.

Next Steps

18 New pre-election remuneration amounts will be applied to elected members salaries.

19 As part of the establishment of the new Council, it will need to decide for recommendation to the Remuneration Authority how the Governance Remuneration Pool will be allocated, including a rate for base Councillor remuneration and rates for all positions of responsibility. The Authority will then consider the Council's recommendations before determining the remuneration payable to members.

20 The new Council will also need to consider the payment of allowances through a review of the Council's policies and may ask the Remuneration Authority to approve these.

21 The new Council will also need to consider whether or not to make a childcare allowance available.

Attachments

1. Local Government Members (2019/20) Remuneration Determination (under separate cover)

8 Consideration of Urgent Business Items

9 Consideration of Minor Nature Matters

10 Exclusion of the Public

Recommendation

That the public be excluded from the following parts of the proceedings of this meeting on the grounds under section 48 of the Local Government Official Information and Meetings Act 1987 as follows:

General subject of each matter to be considered	Reason for passing this resolution in relation to each matter	Plain English Reason
11.1 - Public Excluded Minutes of the Policy and Development Committee Meeting held on 11 June 2019	s7(2)(a) - The withholding of the information is necessary to protect the privacy of natural persons, including that of deceased natural persons s7(2)(b)(ii) - The withholding of the information is necessary to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information s7(2)(c)(i) - The withholding of the information is necessary to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to prejudice the supply of similar information, or information from the same source and is in the public interest that such information should continue to be supplied s7(2)(g) - The withholding of the information is necessary to maintain legal professional privilege s7(2)(h) - The withholding of the information is necessary to enable any local authority holding the information to carry out, without prejudice or	To protect a person’s privacy Commercial sensitivity Due to an obligation of confidence and to ensure the information avenue remains open, when it is in the public interest for it to do so To protect all communications between a legal adviser and clients from being disclosed without the permission of the client. To enable commercial activities To enable commercial or industrial negotiations

	disadvantage, commercial activities s7(2)(i) - The withholding of the information is necessary to enable the Council to carry out, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations)	
11.2 - Acquisition	s7(2)(i) - The withholding of the information is necessary to enable the Council to carry out, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations) s7(2)(j) - The withholding of the information is necessary to prevent the disclosure or use of official information for improper gain or improper advantage	To enable commercial or industrial negotiations To prevent use of the information for improper gain or advantage
11.3 - Request for approval to remove a caveat	s7(2)(a) - The withholding of the information is necessary to protect the privacy of natural persons, including that of deceased natural persons s7(2)(b)(ii) - The withholding of the information is necessary to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information	To protect a person’s privacy Commercial sensitivity

11 Public Excluded Reports

11.1 Public Excluded Minutes of the Policy and Development Committee Meeting held on 11 June 2019

11.2 Acquisition

11.3 Request for approval to remove a caveat

12 Readmittance of the Public