Statement of Accounting Policies

Summary of accounting policies

Reporting entity

Southland Regional Council is a Regional Council governed by the Local Government Act 2002.

The entity being reported on is the Southland Regional Council. Environment Southland ("the Council") is the brand name of the Southland Regional Council.

The prospective financial statements do not include the consolidated prospective financial statements of South Port New Zealand Limited (Council's Subsidiary) because the Council believes that the parent prospective financial statements are more relevant to users. The level of rate funding required is not affected by subsidiaries except to the extent that the Council obtains distributions from those subsidiaries. Distributions received from Council's subsidiary South Port New Zealand Limited are included in the prospective financial statements of the Council.

The primary objective of the Council is to provide goods or services for the community for social benefit rather than making a financial return. The Council has designated itself as a public benefit entity for financial reporting purposes.

The prospective financial statements of Council are to be adopted by Council on 26 June 2024.

Basis of preparation

The preparation of prospective financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income, and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and in future periods if the revision affects both current and future periods.

The prospective financial statements have been prepared on the basis of historical cost except for the revaluation of certain financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported. The accounting policies set out below have been applied consistently to all periods presented in these prospective financial statements.

The prospective financial statements are presented in thousands of New Zealand dollars. New Zealand dollars are the Council's functional currency. All values are rounded to the nearest thousand dollars ($000). As the numbers are presented in thousands small rounding differences may occur. These rounding differences are considered immaterial to the prospective financial statements as a whole. Comparative figures may be reclassified to reconcile with additional disclosures made in the current financial year.

Statement of compliance

The prospective financial statements have been prepared in accordance with the requirements of the Local Government Act 2002: Part 6, Section 95 and Part 2 of Schedule 10, which includes the requirement to comply with New Zealand generally accepted accounting practice (NZ GAAP).

The prospective financial statements comply with Public Benefit Entity (PBE) standards. The prospective financial statements have been prepared in accordance with Tier 1 PBE standards.

Significant accounting policies

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits or service potential will flow to the Council and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable and represents receivables for goods and services provided in the normal course of business, net of discounts and GST.

Adoption of New and Revised Standard and Interpretations

PBE FRS 48 Service Performance Reporting was issued in November 2017 and is effective for the annual period beginning on or after 1 January 2022. The new standard does not have a significant impact on the prospective financial statements.

PBE IPSAS 47 Revenue was issued in May 2023 and is effective for the annual period beginning on or after 1 January 2026. The new standard does not have a significant impact on the prospective financial statements and will be adopted early for the annual period beginning on 1 July 2024.

Revenue from transactions with binding arrangements

(a) Rates revenue

Rates are recognised as income when levied.

(b) Grant revenue and subsidies

Grants and subsidies are recognised upon entitlement as conditions pertaining to eligible expenditure have been fulfilled. Government grants are recognised as income when eligibility has been established with the grantor agency. The Council receives Central Government contributions:

For	From
Regional Civil Defence	National Emergency Management Agency
Land Transport	Waka Kotahi New Zealand Transport Agency
Marine Oil Spills	Maritime New Zealand

(c) Rental income

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

Revenue from transactions without binding arrangements

(a) Interest revenue

Interest revenue is recognised on a time proportionate basis using the effective interest method.

(b) Dividend revenue

Dividend revenue is recognised when the right to receive payments is established on a receivable basis.

Other revenue – full cost recovery

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

Fees and charges are recognised as income when supplies and services have been rendered.

Revenue relating to contracts and consent applications that are in progress at balance date is recognised by reference to the stage of completion at balance date.

Fees received from the following activities are recognised as revenue from exchange transactions:

- resource consent processing;
- pest animal contract work;
- grazing leases;
- consent monitoring;
- dividends, interest, and rental income.

Other gains and losses

Net gains or losses on the sale of investment property, property plant and equipment, property intended for sale and financial assets are recognised when an unconditional contract is in place, and it is probable that the Council will receive the consideration due.

Taxation

The Council itself is not subject to income tax.

Goods and services tax

All Revenues, expenses, assets and liabilities are recognised net of the amount of goods and services tax (GST), except for receivables and payables which are recognised inclusive of GST.

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

Statement of cash flows

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

The following terms are used in the Statement of Cash Flows:

- operating activities are the principal revenue producing activities and other activities that are not investing or financing activities;
- investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents; and
- financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.

Financial assets

PBE Standards classify financial assets into three categories: financial assets mandatorily measured at fair value through surplus or deficit, amortised cost and financial assets at fair value through other comprehensive revenue and expense.

Transaction costs are included in the value of the financial asset at initial recognition unless it has been designated at Fair Value through Surplus or Deficit (FVTSD), in which case it is recognised in surplus or deficit. The classification of a financial asset depends on its cash flow characteristics and the Council's management model for managing them.

A financial asset is classified and subsequently measured at amortised cost if it gives rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal outstanding and is held within a management model whose objective is to collect the contractual cash flows of the asset.

A financial asset is classified and subsequently measured at Fair Value through Other Comprehensive Revenue and Expenditure (FVTOCRE) if it gives rise to cash flows that are SPPI and held within a management model whose objective is achieved by both collecting contractual cash flows and selling financial assets. Financial assets that do not meet the criteria to be measured at amortised cost or FVTOCRE are subsequently measured at (FVTSD). However, the Council may elect at initial recognition to designate an equity investment not held for trading as subsequently measured at FVTOCRE.

Initial recognition of concessionary loans

Loans made at nil or below-market interest rates are initially recognised at the present value of their expected future cash flow, discounted at the current market rate of return for a similar financial instrument.

Subsequent measurement of financial assets at amortised cost

Financial assets classified at amortised cost are subsequently measured at amortised cost using the effective interest method, less any expected credit losses (ECL). Where applicable, interest accrued is added to the investment balance. Instruments in this category include Investments (cash and fixed revenue), Receivables and Accruals.

Subsequent measurement of financial assets at FVTOCRE

Financial assets in this category that are debt instruments are subsequently measured at fair value with fair value gains and losses recognised in other comprehensive revenue and expense, except ECL and foreign exchange gains and losses are recognised in surplus or deficit. When sold, the cumulative gain or loss previously recognised in other comprehensive revenue and expense is reclassified to surplus and deficit.

Financial assets in this category that are equity instruments designated as FVTOCRE are subsequently measured at fair value with fair value gains and losses recognised in other comprehensive revenue and expense. There is no assessment for impairment when fair value falls below the cost of the investment. When sold, the cumulative gain or loss previously recognised in other comprehensive revenue and expense is transferred to accumulated funds within equity. The Council designate into this category all equity investments that are not held for trading as they are strategic investments that are intended to be held for the medium to long-term.

Subsequent measurement of financial assets at FVTSD

Financial assets in this category are subsequently measured at fair value with fair value gains and losses recognised in surplus or deficit. Interest revenue and dividends recognised from these financial assets are separately presented within revenue. Other than for derivatives, the Council has no instruments in this category.

Expected credit loss allowance (ECL)

The Council recognises an allowance for ECLs for all debt instruments not classified as FVTSD. ECLs are the probability-weighted estimate of credit losses, measured at the present value of cash shortfalls, which is the difference between the cash flows due to Council in accordance with the contract and the cash flows it expects to receive. ECLs are discounted at the effective interest rate of the financial asset.

ECLs are recognised in two stages. ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). However, if there has been a significant increase in credit risk since initial recognition, the loss allowance is based on losses possible for the remaining life of the financial asset (Lifetime ECL).

When determining whether the credit risk of a financial asset has increased significantly since initial recognition, the Council considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Council's historical experience and informed credit assessment and including forward-looking information.

The Council considers a financial asset to be in default when internal or external information indicates the entity is unlikely to pay its credit obligations in full.

Council measure ECLs on loan commitments at the date the commitment becomes irrevocable. If the ECL measured exceeds the gross carrying amount of the financial asset, the ECL is recognised as a provision.

Although receivables at 30 June 2023 were subject to the expected credit loss requirements of PBE IPSAS 41, no loss allowance has been recognised because any additional estimated allowance is trivial.

Previous accounting policy (summarised)
In the previous year, other financial assets were classified into the following categories:

- loans and receivables at amortised cost (included term deposits, related party loans, and community loans);
- held-to-maturity investments at amortised cost (included listed bonds); and
- fair value through other comprehensive revenue and expense (included shares and listed bonds).

The main differences for the previous policies are:
Impairment was recorded only when there was objective evidence of impairment. For equity investments, a significant or prolonged decline in the fair value of the investment below its cost was considered objective evidence of impairment. For debt investments, significant financial difficulties of the debtor, probability the debtor would enter bankruptcy, receivership or liquidation, and default in payments were indicators the asset is impaired.

Impairment losses on shares were recognised in the surplus or deficit.

For shares, the cumulative gain or loss previously recognised in other comprehensive revenue and expense was transferred from equity to surplus or deficit on disposal of the investment.

Financial liabilities

(a) Trade and other payables
Short-term creditors and other payables are measured at the amount payable.

(b) Borrowings
Borrowings on normal commercial terms are initially recognised at the amount borrowed plus transaction costs. Interest due on the borrowings is subsequently accrued and added to the borrowings balance.

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

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

Derivative financial instruments
Derivative financial instruments are used to manage exposure to interest rate risks arising from the Council's financing activities. In accordance with its treasury policy, the Council does not hold or issue derivative financial instruments for trading purposes.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance date. As the derivatives are not hedge accounted, the resulting gain or loss is recognised in the surplus or deficit. The portion of the fair value of the derivative that is expected to be realised within 12 months of balance date is classified as current, with the remaining portion of the derivative classified as non-current.

The Council has elected to not adopt the new hedge accounting requirements of PBE IPSAS 41 as permitted under the transitional provisions of PBE IPSAS 41 rates.

Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is determined on a weighted average basis with an appropriate allowance for obsolescence and deterioration.

Property, plant, and equipment

The Council has the following classes of property, plant, and equipment:

(a) Operational assets

Operational assets include council owned land, buildings, rental land, rental buildings, motor vehicles and other plant and equipment

(b) Infrastructural assets

Infrastructural assets deliver benefits direct to the community and are associated with major flood protection and land drainage schemes. Infrastructural assets include flood banks, protection works, structures, drains, bridges and culverts

Cost

Property, plant, and equipment are recorded at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the assets. Where an asset is acquired for no cost, or for a nominal cost, it is recognised at fair value at the date of acquisition.

Depreciation

Operational and infrastructural assets, with the exception of land, are depreciated on either a straight-line or diminishing value basis depending on the class of asset. Rates are calculated to allocate the cost depending on the class less estimated residual value over their estimated useful life.

The nature of infrastructural stopbanks and earthworks assets is considered equivalent to land improvements and as such they do not incur a loss of service potential over time. Accordingly, stopbanks and earthworks assets are not depreciated. Other infrastructural assets are depreciated on a straight-line basis to write off the cost of the asset to its estimated residual values over its estimated useful life.

Expenditure incurred to maintain these assets at full operating capability is charged to the surplus/(deficit) in the year incurred.

The following estimated useful lives are used in the calculation of depreciation:

Asset	Life
Operational assets	
Land	Unlimited
Buildings	2% - 10% DV
Rental land	Unlimited
Rental buildings	2% - 10% DV
Other plant and equipment	2.5% - 15% DV/SL
Motor vehicles	15% SL

Infrastructural assets

Stopbanks and earthworks	Unlimited
Bridges	1% SL
Large culverts	1% - 2.5% SL
Tide gate structures	1% - 2.5% SL

The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period.

Disposal

An item of property, plant and equipment is derecognised upon disposal or recognised as impaired when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the surplus for the period the asset is derecognised.

Impairment of property, plant, and equipment

At each reporting date, the Council reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Council estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. Value in use is depreciated replacement cost for an asset where the future economic benefits or service potential of the asset are not primarily dependent on the asset's ability to generate net cash inflows and where the entity would, if deprived of the asset, replace its remaining future economic benefits or service potential.

In assessing value in use for cash-generating assets, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in surplus for the year immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in surplus for the year immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

Employee entitlements

Provision is made for benefits accruing to employees in respect of salaries and wages, annual leave, long service leave and sick leave when it is probable that settlement will be required, and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Council in respect of services provided by employees up to reporting date.

Superannuation schemes

Defined Contribution Schemes

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

Provisions

Provisions are recognised when the Council has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received, and the amount of the receivable can be measured reliably.

Equity

Equity is the community's interest in the Council and is measured as the difference between total assets and total liabilities. Equity consists of a number of reserves to enable clearer identification of the specified uses that the Council makes of its accumulated surpluses.

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

The components of equity are lease area balances, special reserves, rating district balances, and retained earnings.

Restricted and council created reserves

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

Restricted reserves are those subject to specific conditions accepted as binding by the Council and which may not be revised by the Council without reference to the Courts or a third party. Transfers from these reserves may be made only for certain specified purposes or when certain specified conditions are met. Also included in restricted reserves are reserves restricted by Council decision. The Council may alter them without references to any third party or the Courts. Transfers to and from these reserves are at the discretion of the Council.

Foreign currency

Foreign Currency Transactions

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at reporting date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.

Exchange differences are recognised in surplus for the year in which they arise.

Budget amounts

The budget amounts are those approved by the Council at the beginning of the year in the Long-term Plan/Annual Plan. The budget amounts have been prepared using accounting policies that are consistent with those adopted by the Council for the preparation of the prospective financial statements. The budget figures are for Council only and do not include budget information relating to subsidiaries.

Allocation of overheads

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

Direct costs are those costs directly attributable to a significant activity. Indirect costs are those costs that cannot be identified in an economically feasible manner with a specific significant activity.

Where possible costs are charged or allocated directly to the beneficiary of the service. The remaining indirect costs have been allocated on the following basis:

Corporate Management	-	per staff member
Information Technology	-	per computer
Council Servicing/Secretarial	-	allocated according to estimated use of services
Administration	-	per staff member
Finance	-	per staff member

Critical accounting estimates and assumptions

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

Critical judgements

The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amount of assets and liabilities are discussed below:

Classification of property

The Council owns a number of properties that are held for service delivery objectives as part of the Council's various flood protection schemes. The receipt of market-based rental from these properties is incidental to holding these properties. These properties are accounted for as property, plant, and equipment.

Prospective financial information

The financial information contained within this document is prospective financial information in terms of accounting standard PBE FRS 42 and complies with the standard. The purpose for which it has been prepared is to enable ratepayers, residents, and any other interested parties to obtain information about the expected future financial performance, position and cash flow of the Council. The actual results achieved for any given financial year are likely to vary from the information presented and may vary materially depending on the circumstances that arise during the period. The prospective financial information is prepared in accordance with Section 93 of the Local Government Act 2002. The information may not be suitable for use in any other capacity.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstance.

Council is responsible for the prospective financial statements presented, including the appropriateness of the assumptions underlying the prospective financial statements and all other required disclosures.

PBE IPSAS issued but not yet effective

PBE Standards and interpretations that have recently been issued or amended but are not yet effective and have not been adopted by Council for the Long-term Plan are outlined below:

- PBE IPSAS 1 – Disclosure of Fee for Audit Firms' Services; effective for periods commencing 30 June 2024
- PBE IPSAS 46 – Measurement; effective for periods commencing 1 January 2025
- PBE IPSAS 48 – Transfer Expenses; effective for periods commencing 1 January 2026

Council expects to adopt the above standards in the period in which they become mandatory. Council anticipates that the above standards are not expected to have a material impact on the prospective financial statements in the period of initial application; however, a detailed assessment has yet to be performed.