

notes to the financial statements

notes to the financial statements

Note 1: General Information

The Hawke's Bay Regional Council ("Council") is a regional local authority governed by the Local Government Act 2002. The Council was formed on 1 November 1989.

The financial statements presented are those of the Council and the consolidated financial statements are those of the Council and its 91.67% owned subsidiary, Port of Napier Limited ("Port"), together referred to as the "Group".

The financial statements and consolidated financial statements have been prepared in accordance with Sections 98 and 111 of the Local Government Act 2002. The Council approved these statements for issue on 24th September 2008.

Note 2: Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation

The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand for public benefit entities adopting New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and applicable New Zealand Financial Reporting Standards.

The statements have been prepared under the historic cost convention, as modified by the revaluation of land and buildings, infrastructure assets, hydrological equipment, investment property, forestry assets and financial instruments.

The Group's functional currency is New Zealand dollars (NZD) and the statements have been presented in thousands of NZD exclusive of New Zealand Goods and Services Tax (GST).

Trade accounts payable and receivable are stated at GST inclusive amounts.

2.2 Consolidation

The Council's subsidiary has a financial year ending on 30 September. In order to consolidate the subsidiary, a reporting package with a financial year ending on 31 March is produced so as to avoid peak seasonal work periods. The subsidiary is accounted for using the purchase method, which involves adding together corresponding assets, liabilities, revenues and expenses on a line-by-line basis. All significant inter-entity transactions are eliminated and significant transactions occurring during the period 1 April to 30 June are adjusted for.

2.3 Inventories

Inventories are stated at the lower of cost (using the weighted average cost method) and net realisable value.

2.4 Trade Receivables

Trade receivables are recognised initially at fair value and subsequently remeasured each balance sheet date at amortised cost using the effective interest method less provision for impairment.

2.5 Plant, Property and Equipment

(2.5.1) Operational Assets

Council land and buildings are shown at fair value less subsequent accumulated depreciation, based on periodic, but at least triennial, valuations by independent, professionally qualified valuers

Hydrological equipment is shown at fair value less subsequent accumulated depreciation, based on periodic, but at least triennial, valuations by suitably experienced Council employees, on the basis of depreciated replacement cost. Independent, professionally qualified valuers review all such valuations.

All other operational assets (including Port assets for consolidated financial statements) are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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The costs of asset constructed by the group include the cost of all materials used in construction, direct labour on the project and an appropriate amount of directly attributed costs. Costs cease to be capitalised as soon as the asset is ready for productive use.

(2.5.2) Infrastructure Assets

Infrastructure assets are tangible assets that are necessary to fulfil the Council's obligations in respect of the Soil Conservation and Rivers Control Act 1941 and the Drainage Act 1908. Such assets usually show some or all of the following characteristics:

- They are part of a system or network that could not provide the required level of service if one component was removed.
- They enable the Council to fulfil its obligations to the region's communities in respect of flood control and drainage legislation.
- They are specialised in nature and do not have alternative uses.
- They are subject to constraints on removal.

Infrastructure assets are shown at fair value less subsequent accumulated depreciation, based on periodic, but at least triennial, valuations by suitably experienced Council employees, on the basis of depreciated replacement cost. Independent, professionally qualified valuers review all such valuations.

(2.5.3) Subsequent Costs

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Council or Group and the cost can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

(2.5.4) Revaluation Adjustments

Increases in carrying amounts arising from revalued assets are credited to revaluation reserves in equity. Decreases that offset previous increases of the same asset category are charged against revaluation reserves in equity. All other decreases are charged to the income statement.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

(2.5.5) Other Adjustments

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement. When revalued assets are sold, the amounts included in revaluation reserves are transferred to the accumulated balance in equity.

2.6 Investment Property

Investment property is residential and commercial land and buildings held to earn rental income and for capital appreciation. Such property is initially recognised at cost. At each balance sheet date investment property is measured at fair value, representing open market value determined annually by independent, professionally qualified valuers. A gain or loss in value is recorded in the income statement for the period in which it arises.

Under the Hawke's Bay Endowment Land Empowering Act 2002, rental income from endowment land in Hawke's Bay can only be used for the improvement, protection, management or use of Napier Harbour or the Regional Council's coastal marine area as defined in section 2 (1) of the Resource Management Act 1991. Unspent funds are held in the Coastal Marine Area Reserve Fund.

2.7 Forestry Crops

Forestry crops are measured at their fair value less estimated point-of-sale costs each balance sheet date by independent, professionally qualified valuers. Fair value is determined by the present value of expected net cash flows discounted by the current market-determined pre-tax rate. A gain or loss in value is recorded in the income statement for the period in which it arises.

2.8 Financial Assets

Financial assets are designated at initial recognition into one of the four following categories set out below depending on the purpose for which the financial asset was acquired. At each balance sheet date, all financial asset designations are re-evaluated.

notes to the financial statements

(2.8.1) Financial Assets at Fair Value through Profit or Loss

Financial assets are classified in this category if acquired principally for the purpose of selling in the short term or are so designated by management. The category includes derivatives and has two sub-categories: financial assets held for trading, and those designated at fair value through the profit and loss at inception. Assets held in this category are classified as current assets if they are either held for trading, or are expected to be realised within 12 months of balance sheet date.

Financial assets in this category, including derivatives, are initially recognised at fair value and are measured at each balance sheet date at fair value. Realised and unrealised gains or losses in value are recorded in the income statement for the period in which they arise.

(2.8.2) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in non-current assets except when maturities are shorter than 12 months from balance sheet date.

Financial assets in this category are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or use. At each balance sheet date these financial assets are measured at amortised cost using the effective interest method. Realised and unrealised gains or losses in value are recorded in the income statement for the period in which they arise.

(2.8.3) Held-to-Maturity Investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that management have a positive intention and ability to hold to maturity.

Financial assets in this category are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or use. At each balance sheet date these financial assets are measured at amortised cost using the effective interest method. Realised and unrealised gains or losses in value are recorded in the income statement for the period in which they arise.

(2.8.4) Available-for-Sale Assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or are not classified in any of the other categories. They are included in non-current assets unless there is an intention to dispose of the investment within 12 months of balance sheet date.

Available-for-sale financial assets are carried at fair value using a quoted price if an active market exists or using discounted valuation techniques if no active market exists. Any gain or loss in value is recognised directly in equity through the statement of changes in equity for the period in which it arises.

When an available-for-sale financial asset is sold, the accumulated fair value adjustments are included in the income statement.

At each balance sheet date, an assessment is made whether there is any objective evidence that a financial assets or group of financial assets is impaired. If objective evidence of impairment exists for available-for-sale financial assets, then any cumulative loss is transferred from equity to the income statement. Such a transfer is not reversible.

2.9 Intangible Assets

Intangible assets comprise acquired computer software licences. All intangible assets with finite lives are carried at the historical cost incurred to acquire and bring into use the specific software less accumulated amortisation.

2.10 Impairment of Non-Financial Assets

Assets that have an indefinite useful life are not subject to amortisation and are tested for impairment at each balance sheet date. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

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2.11 Depreciation and Amortisation

Land and hard dredging are not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives. Assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Major depreciation and amortisation periods are as follows:

| <i>Asset Category</i> | <i>Years</i> |
|------------------------------|--------------|
| Buildings | 10 - 100 |
| Site Improvements | 10 - 40 |
| Wharves & Jetties | 10 - 80 |
| Vehicles | 3 - 10 |
| Plant & Equipment | 3 - 25 |
| Computer Equipment | 4 - 10 |
| Computer Software & Licences | 4 - 10 |
| Infrastructure Assets | 25 - 70 |
| Soft Dredging | 6 - 8 |

No depreciation is provided for stop banks, berm edge protection, sea or river groynes, drainage works or unsealed roads. These assets are not considered to deteriorate over time and, therefore, will provide a constant level of service unless subjected to a significant flood event.

2.12 Cash and Cash Equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

2.13 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

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

Borrowing costs are recognised as an expense when incurred except to the extent that they are capitalised. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset are capitalised as a part of the cost of that asset.

2.14 Income Tax

Income tax expense charged to the income statement includes both current and deferred tax and is calculated after allowing for non-assessable income and non-deductible costs.

Deferred income tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for where the initial recognition of assets and liabilities does not affect either accounting or taxable profit. The amount of deferred tax provided is based on tax rates enacted or substantially enacted at the balance sheet date and are expected to apply when the related deferred tax liability is settled.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

2.15 Employee Benefits

Short-term employee benefits including salaries and wages, annual leave and contributions to superannuation schemes are recognised when they accrue to employees and are measured at undiscounted cost.

The liability for accumulating sick leave is stated as the cost of sick leave that is expected to be used.

notes to the financial statements

Long-term employee benefits including long service leave and retirement gratuities are recognised at the present value of the Group's obligation at balance sheet date.

2.16 Provisions

Provisions are recognised when:

- the Group has a present legal or constructive obligation as a result of past events, and
- it is more likely than not that an outflow of resources will be required to settle the obligation, and
- the amount has been reliably estimated.

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

Provisions are not recognised for future operating losses.

2.17 Revenue Recognition

Revenue comprises the fair value for the sale of goods and services, net of GST, rebates and discounts and after elimination of sales within the Group. Revenue is recognised as follows:

- Sales of goods are recognised when a product is sold to a customer. The recorded revenue is the gross amount of the sales.
- Sales of services are recognised in the accounting period in which the services are rendered, by reference to the completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total service provided.
- Interest income is recognised on a time proportion basis using the effective interest method.
- Dividend income is recognised when the right to receive payment is established.
- Government grants are recognised as income when eligibility has been established by the grantor agency.
- Rates are recognised as income in the accounting period in which they are set and assessed.

2.18 Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are included in the income statement as finance costs.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term.

Leases in which a significant proportion of the risks and benefits of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

2.19 Financial Risk Management

The Group's activities expose it to a variety of financial risks including:

- Market risk, including currency risk, fair value interest rate risk and price risk;
- Credit risk;
- Liquidity risk; and
- Cash flow interest-rate risk.

The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

The Group uses derivative financial instruments such as foreign exchange contracts and interest rate swaps to hedge certain exposures.

notes to the financial statements

The Group enters into foreign currency forward exchange contracts to hedge foreign currency transactions, when purchasing major property, plant and equipment and when payment is denominated in foreign currency.

Interest rate swaps are entered into to manage interest rate risk exposure.

The Group has no significant concentrations of credit risk. It has policies in place to ensure that services are provided to customers with an appropriate credit history.

Collateral or other security is not required for financial instruments subject to credit risk.

2.20 Accounting for Derivative Financial Instruments and Hedging Activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at the fair value at each balance sheet date.

Where the Group determines that it will hedge a transaction the Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions.

The Group also documents its assessment, both at inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items.

(2.20.1) Cash Flow Hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. The Group accounts for hedges of foreign currency risk of a firm commitment as cash flow hedges.

(2.20.2) Derivatives that Do Not Qualify for Hedge Accounting

Certain derivative instruments do not qualify for hedge accounting and changes in the fair value of these instruments are recognised immediately in the income statement.

Any changes in the fair value of interest rate swaps due to changes in interest rates are recognised in the income statement in the period in which they occur.

2.21 Foreign Currencies

Transactions in foreign currencies are translated at the New Zealand rate of exchange ruling at the date of the transaction. At balance sheet date foreign monetary assets and liabilities are translated at the closing rate and exchange variations arising from these are included in the income statement.

2.22 Basis of Allocation of Council's Indirect Costs

Clearly identifiable costs are directly charged against each activity. Indirect costs are allocated to cost centres in the first instance under a variety of methods including:

- Floor area occupied
- Number of full time equivalent employees
- Assessed use of various services provided.

These costs are then charged to projects on a labour standard costing basis. The allocation unit is each working hour charged by employees at a pre-determined rate. Variances arising from this method will be allocated on the same basis as for costs of a fixed nature referred to above. Project costs are then summarised for each activity and group of activities.

notes to the financial statements

Note 3: Activity Revenue and Expenditure

| Note | Regional Council | | | Group | |
|---|------------------|---------------|---------------|---------------|---------------|
| | Actual | Budget | Actual | Actual | Actual |
| | 07/08 | 07/08 | 06/07 | 07/08 | 06/07 |
| | \$000 | \$000 | \$000 | \$000 | \$000 |
| Revenue | | | | | |
| Groups of activity | | | | | |
| | 1,684 | 1,757 | 3,612 | 1,679 | 3,588 |
| | 1,711 | 972 | 1,679 | 1,711 | 1,679 |
| | 5,717 | 5,137 | 5,414 | 5,717 | 5,414 |
| | 122 | 130 | 101 | 122 | 101 |
| | 44 | 63 | 0 | 44 | 0 |
| | 25 | 0 | 0 | 25 | 0 |
| | 0 | 0 | 0 | 0 | 0 |
| Total groups of activity revenue | 9,303 | 8,059 | 10,806 | 9,298 | 10,782 |
| Other activity | | | | | |
| | | | | 44,381 | 40,716 |
| Total activity revenue | 9,303 | 8,059 | 10,806 | 53,679 | 51,498 |
| Expenditure | | | | | |
| Groups of activity | | | | | |
| | 8,942 | 9,067 | 9,456 | 8,919 | 9,432 |
| | 6,363 | 6,104 | 5,746 | 6,363 | 5,746 |
| | 8,832 | 8,166 | 8,346 | 8,832 | 8,346 |
| | 1,199 | 1,335 | 1,097 | 1,199 | 1,097 |
| | 1,531 | 1,607 | 1,096 | 1,531 | 1,096 |
| | 899 | 1,225 | 839 | 899 | 839 |
| | 1,045 | 1,063 | 957 | 1,045 | 957 |
| Total groups of activity expenditure | 28,811 | 28,567 | 27,537 | 28,788 | 27,513 |
| | (147) | (150) | (142) | (147) | (142) |
| Total groups of activity expenditure | 28,664 | 28,417 | 27,395 | 28,641 | 27,371 |
| Other activities | | | | | |
| | 1,115 | 1,159 | 622 | 1,115 | 622 |
| | | | | 30,990 | 31,039 |
| Total other activities expenditure | 1,115 | 1,159 | 622 | 32,105 | 31,661 |
| | (642) | (605) | (505) | (1,616) | (1,475) |
| Total activity expenditure | 29,137 | 28,971 | 27,512 | 59,130 | 57,557 |

Note 4: Rates Revenue

| Note | Regional Council | | | Group | |
|------------------------------------|--------------------|---------------|--------------|---------------|--------------|
| | Actual | Budget | Actual | Actual | Actual |
| | 07/08 | 07/08 | 06/07 | 07/08 | 06/07 |
| | \$000 | \$000 | \$000 | \$000 | \$000 |
| General funding rates | | | | | |
| | 2,330 | 2,330 | 2,216 | 2,330 | 2,216 |
| | 1,213 | 1,174 | 1,101 | 1,213 | 1,101 |
| Total general funding rates | 3,543 | 3,504 | 3,317 | 3,543 | 3,317 |
| Targeted rates | 6,816 | 6,742 | 6,517 | 6,816 | 6,517 |
| Total rates revenue | 4(a) 10,359 | 10,246 | 9,834 | 10,359 | 9,834 |

Note 4(a)

Under Council's rates remission policy for multiple ownership land, 51 rates remissions were approved, totalling \$14,188 (2006/07 39 remissions totalling \$27,341)

notes to the financial statements

Note 5: Other Revenue

| Note | Regional Council | | | Group | |
|--|------------------|---------------|---------------|--------------|--------------|
| | Actual | Budget | Actual | Actual | Actual |
| | 07/08 | 07/08 | 06/07 | 07/08 | 06/07 |
| | \$000 | \$000 | \$000 | \$000 | \$000 |
| Other revenue | | | | | |
| | 6,009 | 4,702 | 4,892 | 10 | 0 |
| Dividend income | | | | | |
| Rental income from investment property | 2,411 | 2,449 | 2,145 | 2,485 | 2,174 |
| 5(a) | | | | | |
| Interest income | 4,111 | 3,182 | 3,146 | 4,277 | 3,295 |
| Grants | 838 | 759 | 313 | 838 | 313 |
| Gain on disposal of assets - net | (24) | 0 | 306 | (38) | 317 |
| Subvention payments | 215 | 264 | 27 | 0 | 0 |
| Miscellaneous income | 1 | 0 | 0 | 1 | 0 |
| Total other revenue | 13,561 | 11,356 | 10,829 | 7,573 | 6,099 |

Note 5(a)

Under the Hawke's Bay Endowment Land Empowering Act 2002, income from leasehold endowment land can only be used for the improvement, protection, management or use of Napier Harbour or the Regional Council's coastal marine area as defined in section 2(1) of the Resource Management Act 1991. Unspent income is held in the Coastal Marine Area Reserve Fund.

Note 6: Fair Value Gains and Losses

| Note | Regional Council | | | Group | | |
|--------------------------------|------------------|--------------|--------------|--------------|--------------|--------------|
| | Actual | Budget | Actual | Actual | Actual | |
| | 07/08 | 07/08 | 06/07 | 07/08 | 06/07 | |
| | \$000 | \$000 | \$000 | \$000 | \$000 | |
| Fair value gains | | | | | | |
| Investment property gains | 11 | 3,310 | 2,734 | 6,961 | 3,852 | 7,605 |
| Forestry asset gains | 14 | 0 | 0 | 176 | 0 | 176 |
| Derivative instrument gains | 16 | 0 | 0 | 0 | 38 | 51 |
| Foreign currency gains | | 0 | 0 | 0 | 0 | 0 |
| Total fair value gains | | 3,310 | 2,734 | 7,137 | 3,890 | 7,832 |
| Fair value losses | | | | | | |
| Forestry asset losses | 14 | 382 | 0 | 1,063 | 382 | 1,063 |
| Derivative instrument losses | 16 | 0 | 0 | 0 | 52 | (42) |
| Foreign currency losses | | 0 | 0 | 0 | 14 | 0 |
| Asset impairment losses | 9 | 0 | 0 | 1,157 | 1,012 | 1,157 |
| Total fair value losses | | 382 | 0 | 2,220 | 1,460 | 2,178 |

Note:

Fair value gains and losses on trading assets (listed above) recorded in the Income Statement. In addition, when operating asset revaluation decrements are greater than the corresponding surplus in the Fair Value Reserve, the excess decrements are also recorded in the Income Statement as an asset impairment. The \$1,157,000 asset impairment write-down for 2006/07 relates to Council's Napier office accommodation building.

notes to the financial statements

Note 7: Revenue and Expense Disclosures

| Note | Regional Council | | | Group | |
|--|----------------------------------|-----------|-----------|------------|------------|
| | Actual | Budget | Actual | Actual | Actual |
| | 07/08 | 07/08 | 06/07 | 07/08 | 06/07 |
| | \$000 | \$000 | \$000 | \$000 | \$000 |
| General disclosures | | | | | |
| | 1,463 | 1,143 | 1,456 | 6,073 | 6,635 |
| | 111 | 98 | 98 | 1,002 | 646 |
| | 8,569 | 8,394 | 7,893 | 20,379 | 18,138 |
| | 0 | 0 | 0 | 0 | 0 |
| | 16 | 42 | 17 | 295 | 329 |
| | Key management compensation | | | | |
| 7(a) | 726 | 719 | 664 | 1,296 | 1,190 |
| | [a] short-term employee benefits | | | | |
| | 0 | 0 | 0 | 0 | 0 |
| | [b] post-employment benefits | | | | |
| | 8 | 8 | 29 | 8 | 29 |
| | [c] other long-term benefits | | | | |
| | 0 | 0 | 0 | 0 | 0 |
| | [d] termination benefits | | | | |
| | 0 | 0 | 0 | 0 | 0 |
| | [e] share-based payment | | | | |
| 7(b) | 0 | 0 | 0 | 122 | 0 |
| | 734 | 727 | 693 | 1,426 | 1,219 |
| Fees paid to Council's auditors | | | | | |
| | 83 | 89 | 73 | 83 | 73 |
| | 0 | 0 | 10 | 0 | 10 |
| | 0 | 0 | 0 | 0 | 0 |
| | 0 | 0 | 8 | 0 | 8 |
| | 0 | 0 | 0 | 0 | 0 |
| | 0 | 0 | 0 | 0 | 0 |
| Fees paid to Port's auditors | | | | | |
| | 0 | 0 | 0 | 104 | 72 |
| Total fees paid to auditors | 83 | 89 | 91 | 187 | 163 |

Note 7(a)

Key management comprises Councillors and the Chief Executive for Council and Directors and Chief Executive for the Port.

Note 7(b)

No borrowing costs were capitalised in the previous financial year.

Note 8: Income Tax Expense

| Note | Regional Council | | Group | |
|---------------------------------|------------------|----------|--------------|--------------|
| | Actual | Actual | Actual | Actual |
| | 07/08 | 06/07 | 07/08 | 06/07 |
| | \$000 | \$000 | \$000 | \$000 |
| Income tax expense | | | | |
| | 0 | 0 | 4,214 | 3,368 |
| 22 | 0 | 0 | (860) | 244 |
| Total income tax expense | 0 | 0 | 3,354 | 3,612 |

The tax on the Group's surplus before tax differs from the theoretical amount that would arise using the current corporate rate as follows:

| | | | | |
|---|----------|----------|--------------|--------------|
| Surplus before tax | 6,372 | 8,369 | 13,295 | 14,053 |
| Tax at domestic rate of 33% | 2,103 | 2,762 | 4,387 | 4,638 |
| Plus / (Less) tax effect of: | | | | |
| Income not subject to tax | (8,983) | (10,330) | (8,983) | (10,330) |
| Expenses not deductible for tax purposes | 9,526 | 9,900 | 8,314 | 9,226 |
| Imputation credits | (2,955) | (2,410) | 0 | 0 |
| Utilisation of previously unrecognised tax losses | 0 | 0 | 0 | 0 |
| Group loss transfer | 215 | 0 | 0 | 0 |
| Prior period adjustment | 0 | 0 | 0 | 0 |
| Tax losses not recognised | 94 | 78 | (364) | 78 |
| Tax charge | 0 | 0 | 3,354 | 3,612 |

The Council and Group have unrecognised income tax losses of \$283,515 (2006/07 \$652,503) with a tax effect of \$93,561 (2006/07 215,326) that are available to carry forward, subject to compliance with the Income Tax Act.

notes to the financial statements

Note 9: Property, Plant and Equipment

Note 9: Property, Plant & Equipment

| | Land | Buildings | Plant | Vehicles | Hydrology Equipment | Technical Equipment | Computer Equipment | Other Equipment & Furniture | Total |
|---------------------------------|------------|-----------|---------|----------|------------------------|------------------------|-----------------------|-----------------------------------|---------|
| Note | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 |
| COUNCIL | | | | | | | | | |
| At 1 July 2006 | | | | | | | | | |
| Cost or valuation | 3,479 | 9,622 | 2,325 | 1,220 | 1,403 | 832 | 2,436 | 890 | 22,207 |
| Accumulated depreciation | 0 | (210) | (984) | (581) | (836) | (500) | (1,852) | (596) | (5,559) |
| Net book amount | 3,479 | 9,412 | 1,341 | 639 | 567 | 332 | 584 | 294 | 16,648 |
| Year ended 30 June 2007 | | | | | | | | | |
| Opening net book amount | 3,479 | 9,412 | 1,341 | 639 | 567 | 332 | 584 | 294 | 16,648 |
| Revaluation surplus / (deficit) | 787 | 19 | 0 | 0 | 222 | 0 | 0 | 0 | 1,028 |
| Impairment charges | 0 | (1,157) | 0 | 0 | 0 | 0 | 0 | 0 | (1,157) |
| Additions | 0 | (208) | 306 | 241 | 34 | 228 | 71 | 55 | 727 |
| Disposals | (165) | (177) | (42) | (51) | 0 | 0 | 0 | 0 | (435) |
| Depreciation charges | 0 | (387) | (234) | (133) | (84) | (72) | (169) | (55) | (1,134) |
| | 4,101 | 7,502 | 1,371 | 696 | 739 | 488 | 486 | 294 | 15,677 |
| At 30 June 2007 | | | | | | | | | |
| Cost or valuation | 4,101 | 7,502 | 2,464 | 1,274 | 739 | 1,061 | 2,507 | 943 | 20,591 |
| Accumulated depreciation | 0 | 0 | (1,093) | (578) | 0 | (573) | (2,021) | (649) | (4,914) |
| Net book amount | 4,101 | 7,502 | 1,371 | 696 | 739 | 488 | 486 | 294 | 15,677 |
| Year ended 30 June 2008 | | | | | | | | | |
| Opening net book amount | 4,101 | 7,502 | 1,371 | 696 | 739 | 488 | 486 | 294 | 15,677 |
| Revaluation surplus / (deficit) | 0 | 0 | 0 | 0 | (211) | 0 | 0 | 0 | (211) |
| Additions | 0 | 26 | 323 | 165 | 54 | 134 | 64 | 60 | 826 |
| Disposals | 0 | 0 | (41) | (12) | 0 | 0 | 0 | (1) | (54) |
| Depreciation charges | 0 | (376) | (221) | (153) | (106) | (78) | (148) | (58) | (1,140) |
| | 4,101 | 7,152 | 1,432 | 696 | 476 | 544 | 402 | 295 | 15,098 |
| At 30 June 2008 | | | | | | | | | |
| Cost or valuation | 9(a) 4,101 | 7,528 | 2,509 | 1,323 | 1,281 | 955 | 1,114 | 752 | 19,563 |
| Accumulated depreciation | 0 | (376) | (1,077) | (627) | (805) | (411) | (712) | (457) | (4,465) |
| Net book amount | 4,101 | 7,152 | 1,432 | 696 | 476 | 544 | 402 | 295 | 15,098 |

Note 9(a)

Council land and buildings were valued at 30 June 2007 to fair value on the basis of market value by independent valuer, Telfer Young (Hawke's Bay) Limited. The total fair value of property, plant and equipment valued by Telfer Young (Hawke's Bay) Ltd was \$10,577,100.

Land used for forestry in the Lake Tutira Country Park and Tangoio Soil Conservation Reserve was valued at 30 June 2006 by Morice & Associates, independent valuers. The total fair value of this land was \$1,065,000.

While ownership of the Tangoio Soil Conservation Reserve is not vested in the Council, full managerial and financial control was transferred to Council in 1989 under section 16 of the Soil conservation and Rivers Control Act 1941.

Hydrological equipment was valued at 30 June 2007 on the basis of depreciated replacement value. This valuation was carried out by David Payne, an experienced hydrologist with independent consulting engineers, Opus International Consultants Limited. Subsequently, certain assets were found to be double-counted and this error has been rectified in the 2007/08 financial year.

notes to the financial statements

Note 9: Property, Plant and Equipment Continued

Note 9: Property, Plant & Equipment

| | Land \$000 | Site Improve- ments \$000 | Cargo & Admin. Buildings \$000 | Other Buildings \$000 | Tugs \$000 | Dredging \$000 | Wharves & Jetties \$000 | Vehicles, Plant & Equipment \$000 | Cranes \$000 | Capital Work in Progress \$000 | Total \$000 |
|---------------------------------|----------------|------------------------------------|---|-----------------------------|---------------|-------------------|-------------------------------|--|-----------------|---|----------------|
| PORT | | | | | | | | | | | |
| At 1 April 2006 | | | | | | | | | | | |
| Cost or valuation | 28,434 | 18,743 | 10,665 | 3,522 | 9,974 | 6,283 | 16,212 | 19,228 | 7,940 | 3,526 | 124,527 |
| Accumulated depreciation | 0 | (6,416) | (747) | (916) | (297) | (3,487) | (3,644) | (10,180) | (885) | 0 | (26,572) |
| Net book amount | <u>28,434</u> | <u>12,327</u> | <u>9,918</u> | <u>2,606</u> | <u>9,677</u> | <u>2,796</u> | <u>12,568</u> | <u>9,048</u> | <u>7,055</u> | <u>3,526</u> | <u>97,955</u> |
| Year ended 31 March 2007 | | | | | | | | | | | |
| Opening net book amount | 28,434 | 12,327 | 9,918 | 2,606 | 9,677 | 2,796 | 12,568 | 9,048 | 7,055 | 3,526 | 97,955 |
| Revaluation surplus / (deficit) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Additions | 0 | 1,109 | 1,061 | 10 | 0 | 976 | 56 | 2,383 | 4,962 | 0 | 10,557 |
| Disposals | 0 | 0 | 0 | 0 | 0 | 0 | 0 | (9) | 0 | (890) | (899) |
| Depreciation charges | 0 | (1,001) | (764) | (127) | (297) | (373) | (221) | (1,467) | (1,027) | 0 | (5,277) |
| | <u>28,434</u> | <u>12,435</u> | <u>10,215</u> | <u>2,489</u> | <u>9,380</u> | <u>3,399</u> | <u>12,403</u> | <u>9,955</u> | <u>10,990</u> | <u>2,636</u> | <u>102,336</u> |
| At 31 March 2007 | | | | | | | | | | | |
| Cost or valuation | 28,434 | 19,852 | 11,726 | 3,532 | 9,974 | 7,259 | 16,269 | 21,065 | 12,903 | 2,636 | 133,650 |
| Accumulated depreciation | 0 | (7,417) | (1,511) | (1,043) | (595) | (3,860) | (3,866) | (11,110) | (1,912) | 0 | (31,314) |
| Net book amount | <u>28,434</u> | <u>12,435</u> | <u>10,215</u> | <u>2,489</u> | <u>9,379</u> | <u>3,399</u> | <u>12,403</u> | <u>9,955</u> | <u>10,991</u> | <u>2,636</u> | <u>102,336</u> |
| Year ended 31 March 2008 | | | | | | | | | | | |
| Opening net book amount | 28,434 | 12,435 | 10,215 | 2,489 | 9,379 | 3,399 | 12,403 | 9,955 | 10,991 | 2,636 | 102,336 |
| Additions | 1,509 | 1,871 | 15 | 11 | 0 | 0 | 0 | 4,877 | 0 | 6,958 | 15,241 |
| Disposals | 0 | 0 | 0 | 0 | (2) | 0 | 0 | (1,038) | 0 | (8,234) | (9,274) |
| Depreciation charges | 0 | (1,016) | (684) | (126) | (154) | (395) | (222) | (1,617) | (944) | 0 | (5,158) |
| | <u>29,943</u> | <u>13,290</u> | <u>9,546</u> | <u>2,374</u> | <u>9,223</u> | <u>3,004</u> | <u>12,181</u> | <u>12,177</u> | <u>10,047</u> | <u>1,360</u> | <u>103,145</u> |
| At 31 March 2008 | | | | | | | | | | | |
| Cost or valuation | 29,943 | 21,722 | 11,741 | 3,541 | 9,972 | 5,461 | 16,269 | 23,194 | 12,903 | 1,360 | 136,106 |
| Accumulated depreciation | 0 | (8,432) | (2,195) | (1,167) | (748) | (2,457) | (4,088) | (11,017) | (2,857) | 0 | (32,961) |
| Net book amount | <u>29,943</u> | <u>13,290</u> | <u>9,546</u> | <u>2,374</u> | <u>9,224</u> | <u>3,004</u> | <u>12,181</u> | <u>12,177</u> | <u>10,046</u> | <u>1,360</u> | <u>103,145</u> |
| GROUP TOTALS | | | | | | | | | | | |
| At 30 June 2007 | | | | | | | | | | | |
| Cost or valuation | 154,241 | | | | | | | | | | 155,669 |
| Accumulated depreciation | (36,228) | | | | | | | | | | (37,426) |
| Net book amount | <u>118,013</u> | | | | | | | | | | <u>118,243</u> |
| At 30 June 2008 | | | | | | | | | | | |
| Cost or valuation | 154,241 | | | | | | | | | | 155,669 |
| Accumulated depreciation | (36,228) | | | | | | | | | | (37,426) |
| Net book amount | <u>118,013</u> | | | | | | | | | | <u>118,243</u> |

notes to the financial statements

Note 10: Infrastructure Assets (Parent & Group)

| Note | Infrastructure Land \$000 | Stopbanks \$000 | Detention Dams \$000 | Drainage Networks \$000 | Pump Stations \$000 | Culverts & Floodgates \$000 | Bank & Edge Protection \$000 | River & Sea Groynes \$000 | Drainage Telemetry \$000 | Sawfly Works \$000 | Aquifer Recharge \$000 | Tutira Reserve \$000 | Capital Work in Progress \$000 | Total \$000 | |
|-------------------------------------|------------------------------|--------------------|-------------------------|----------------------------|------------------------|--------------------------------|---------------------------------|------------------------------|-----------------------------|-----------------------|---------------------------|-------------------------|-----------------------------------|----------------|---------|
| At 1 July 2006 | | | | | | | | | | | | | | | |
| Cost or valuation | 4,833 | 38,301 | 1,283 | 22,022 | 3,629 | 5,529 | 12,564 | 1,106 | 154 | 0 | 449 | 1,135 | 5,246 | 96,251 | |
| Accumulated depreciation | 0 | 0 | (18) | 0 | (127) | (144) | 0 | 0 | (17) | 0 | (81) | (2) | 0 | (389) | |
| Net book amount | 4,833 | 38,301 | 1,265 | 22,022 | 3,502 | 5,385 | 12,564 | 1,106 | 137 | 0 | 368 | 1,133 | 5,246 | 95,862 | |
| Year ended 30 June 2007 | | | | | | | | | | | | | | | |
| Opening net book amount | 4,833 | 38,301 | 1,265 | 22,022 | 3,502 | 5,385 | 12,564 | 1,106 | 137 | 0 | 368 | 1,133 | 5,246 | 95,862 | |
| Revaluation surplus (refer Note 18) | 23 | 0 | 0 | (4) | 14 | 0 | 0 | 0 | (1) | 0 | (22) | 0 | 0 | 10 | |
| Additions | 32 | 398 | 0 | 0 | 42 | 455 | 681 | 25 | 0 | 8,441 | 0 | 4 | 5,345 | 15,423 | |
| Disposals | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | (10,227) | (10,227) | |
| Depreciation charges | 0 | 0 | (18) | 0 | (129) | (145) | 0 | 0 | (17) | 0 | (11) | (2) | 0 | (322) | |
| | 4,888 | 38,699 | 1,247 | 22,018 | 3,429 | 5,695 | 13,245 | 1,131 | 119 | 8,441 | 335 | 1,135 | 364 | 100,746 | |
| At 30 June 2007 | | | | | | | | | | | | | | | |
| Cost or valuation | 4,888 | 38,699 | 1,283 | 22,018 | 3,685 | 5,983 | 13,245 | 1,131 | 154 | 8,441 | 427 | 1,139 | 364 | 101,457 | |
| Accumulated depreciation | 0 | 0 | (36) | 0 | (256) | (288) | 0 | 0 | (35) | 0 | (92) | (4) | 0 | (711) | |
| Net book amount | 4,888 | 38,699 | 1,247 | 22,018 | 3,429 | 5,695 | 13,245 | 1,131 | 119 | 8,441 | 335 | 1,135 | 364 | 100,746 | |
| Year ended 30 June 2008 | | | | | | | | | | | | | | | |
| Opening net book amount | 4,888 | 38,699 | 1,247 | 22,018 | 3,429 | 5,695 | 13,245 | 1,131 | 119 | 8,441 | 335 | 1,135 | 364 | 100,746 | |
| Revaluation surplus (refer Note 18) | 3,322 | 5,870 | 229 | 5,133 | 657 | 1,203 | 1,896 | 180 | 12 | 658 | 0 | 0 | 0 | 19,160 | |
| Additions | 393 | 157 | 24 | 0 | 100 | 61 | 88 | 35 | 0 | 518 | 0 | 28 | (134) | 1,270 | |
| Disposals | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| Depreciation charges | 0 | 0 | (18) | 0 | (130) | (145) | 0 | 0 | (17) | 0 | (11) | (2) | 0 | (323) | |
| | 8,603 | 44,726 | 1,482 | 27,151 | 4,056 | 6,814 | 15,229 | 1,346 | 114 | 9,617 | 324 | 1,161 | 230 | 120,853 | |
| At 30 June 2008 | | | | | | | | | | | | | | | |
| Cost or valuation | 10(a) | 8,603 | 44,726 | 1,482 | 27,151 | 4,056 | 6,814 | 15,229 | 1,346 | 114 | 9,617 | 427 | 1,167 | 230 | 120,962 |
| Accumulated depreciation | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | (103) | (6) | 0 | (109) | |
| Net book amount | | 8,603 | 44,726 | 1,482 | 27,151 | 4,056 | 6,814 | 15,229 | 1,346 | 114 | 9,617 | 324 | 1,161 | 230 | 120,853 |

Note 10(a)

Infrastructure assets were valued by suitably experienced Council employees at 30 June 2008 on the basis of depreciated replacement cost. Significant assumptions used in the methodology include:

- current prices were used for all input costs such as labour rates, plant hire rates, material costs, and contract works rates,
- where current prices were not available, the Capital Good Price Index, published by Statistics New Zealand was used,
- Heretaunga Plains land protected from flooding was valued at \$45,000 per hectare,
- Ruataniwha Plains land protected from flooding was valued at \$18,000 per hectare,
- floodable land that is grazed was valued at \$5,000 per hectare
- floodable land that is not grazed was valued at nil.

The depreciated replacement cost valuation methodology was reviewed by Gary Williams, an independent registered engineer, while the land values were assessed by G S Morice, an independent registered valuer with Morice & Associates.

notes to the financial statements

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notes to the financial statements

Note 11: Investment Property

| | Note | Regional Council | | Group | |
|---|-------|------------------|----------------|----------------|----------------|
| | | Actual | Actual | Actual | Actual |
| | | 07/08 | 06/07 | 07/08 | 06/07 |
| | | \$000 | \$000 | \$000 | \$000 |
| At beginning of year | | 105,318 | 102,630 | 113,742 | 109,180 |
| Additions | | 0 | 405 | 0 | 1,635 |
| Fair value gains (included in income statement) | 11(a) | 3,310 | 6,961 | 3,852 | 6,961 |
| Disposals | | (3,538) | (4,678) | (3,538) | (4,678) |
| Transfer to property intended for sale | | 0 | 0 | (1,787) | 644 |
| Movement during the year | | (228) | 2,688 | (1,473) | 4,562 |
| At end of year | | 105,090 | 105,318 | 112,269 | 113,742 |
| Investment property includes: | | | | | |
| Endowment leasehold land | 11(b) | 92,860 | 93,600 | 98,904 | 100,794 |
| Other leasehold land | | 11,800 | 11,300 | 12,453 | 12,017 |
| Investment property | | 430 | 418 | 912 | 931 |
| | | 105,090 | 105,318 | 112,269 | 113,742 |

Note 11(a)

Wellington leasehold land was valued as portfolio at 30 June 2008 to fair value on the basis of the discounted rental cash flows from the perpetual leasehold properties by independent valuer, Martin J Veale of Telfer Young (Wellington) Ltd. The discount rate used was between 8.0% and 8.5%. The total fair value of the thirteen properties valued by Martin J Veale was \$11,800,000.

Napier leasehold endowment land was valued as a portfolio at 30 June 2008 to fair value on the basis of the discounted rental cash flows from the perpetual leasehold properties by independent valuer, Trevor W Kitchen of Telfer Young (Hawke's Bay) Ltd. The discount rate used was 7.5%. The total fair value of property valued by Trevor W Kitchen was \$92,860,000.

Investment property in Napier was valued at 30 June 2008 to fair value on the basis of market value by independent valuer, W H Peterson of Telfer Young (Hawke's Bay) Ltd. The total fair value of property valued by W H Peterson was \$430,000.

At 30 September 2007 the Port's interest in investment properties was valued at \$8,966,000, resulting in a net increase of \$542,000. This value was recorded based on a valuation undertaken by Frank Spencer, a registered valuer with Logan Stone Ltd, using the fair value basis under the highest and best use scenario. Frank Spencer is a member of the New Zealand Institute of Valuers.

Note 11(b)

Under the Hawke's Bay Endowment Land Empowering Act 2002, residential leasehold endowment land can only be sold, using a specified valuation methodology, to the current lessee, or to a person nominated by that lessee.

notes to the financial statements

Note 12: Intangible Assets

| | Council Actual \$000 | Port Actual \$000 | Group Actual \$000 |
|--------------------------------|----------------------------|-------------------------|--------------------------|
| At 1 July 2006 | | | |
| Cost or valuation | 943 | 3,101 | 4,044 |
| Accumulated amortisation | (255) | (1,513) | (1,768) |
| Net book amount | 688 | 1,588 | 2,276 |
| Year ended 30 June 2007 | | | |
| Opening net book amount | 688 | 1,588 | 2,276 |
| Additions | 70 | 131 | 201 |
| Disposals | 0 | 0 | 0 |
| Amortisation charges | (98) | (450) | (548) |
| | 660 | 1,269 | 1,929 |
| At 30 June 2007 | | | |
| Cost or valuation | 1,014 | 2,897 | 3,911 |
| Accumulated amortisation | (354) | (1,628) | (1,982) |
| Net book amount | 660 | 1,269 | 1,929 |
| Year ended 30 June 2008 | | | |
| Opening net book amount | 660 | 1,269 | 1,929 |
| Adjustment to cost | 55 | 0 | 55 |
| Adjustment to amortisation | (55) | 0 | (55) |
| Additions | 14 | 26 | 40 |
| Disposals | 0 | 0 | 0 |
| Adjustment to amortisation | (55) | 0 | (55) |
| Amortisation charges | (111) | (344) | (455) |
| | 508 | 951 | 1,459 |
| At 30 June 2008 | | | |
| Cost or valuation | 1,083 | 2,865 | 3,948 |
| Accumulated amortisation | (520) | (1,914) | (2,434) |
| Net book amount | 563 | 951 | 1,514 |

notes to the financial statements

Note 13: Financial Assets

| | Note | Regional Council | | Group | |
|--|-------|--------------------------|--------------------------|--------------------------|--------------------------|
| | | Actual 07/08 \$000 | Actual 06/07 \$000 | Actual 07/08 \$000 | Actual 06/07 \$000 |
| Financial assets | | | | | |
| Available for sale financial assets | 13(a) | 131,847 | 122,528 | 32,132 | 22,813 |
| Held to maturity financial assets | 13(b) | 129 | 452 | 129 | 452 |
| Total | 13(c) | 131,976 | 122,980 | 32,261 | 23,265 |
| Less current portion | | (27,935) | (11,378) | (27,935) | (11,378) |
| Non-current portion | | 104,041 | 111,602 | 4,326 | 11,887 |
| 13(a) Available-for-sale financial assets | | | | | |
| At beginning of year | | 122,528 | 119,959 | 22,813 | 20,244 |
| Additions | | 16,958 | 4,299 | 16,958 | 4,299 |
| Revaluation surpluses / (deficits) | | (55) | (907) | (55) | (907) |
| Disposals | | (7,584) | (823) | (7,584) | (823) |
| At end of year | | 131,847 | 122,528 | 32,132 | 22,813 |
| Less current portion | | (27,892) | (11,055) | (27,892) | (11,055) |
| Non - current portion | | 103,955 | 111,473 | 4,240 | 11,758 |
| Available-for-sale financial assets include: | | | | | |
| Shares in Port of Napier Ltd | | 99,715 | 99,715 | 0 | 0 |
| Publicly listed shares | | 981 | 932 | 981 | 932 |
| Government stock | | 3,259 | 3,242 | 3,259 | 3,242 |
| Bank deposits with terms greater than 365 days | | 0 | 7,584 | 0 | 7,584 |
| Bank deposits with terms greater than 91 days but less than equal to 365 days | | 27,892 | 11,055 | 27,892 | 11,055 |
| | | 131,847 | 122,528 | 32,132 | 22,813 |

Council's shareholding in the Port of Napier Ltd was valued to fair value on 31 March 2006 by the Corporate Finance Division of Deloitte. There has been no change to underlying cash flows on which the valuation was based in the intervening period.

The effective interest rate on government stock was 7.59% (2006/07 7.58%).
This stock has an average maturity of 6 years (2006/07 7 years).

The effective interest rate on bank deposits with terms greater than 91 days but less than 365 days was 8.72% (2006/07 8.06%). These deposits have an average maturity of 191 days (2006/07 213 days).

13(b) Held-to-maturity financial assets

| | | | | | |
|---|-------|------------|------------|------------|------------|
| At beginning of year | | 452 | 603 | 452 | 603 |
| Additions | | 0 | 0 | 0 | 0 |
| Maturities | | (323) | (151) | (323) | (151) |
| At end of year | | 129 | 452 | 129 | 452 |
| Less current portion | | (43) | (323) | (43) | (323) |
| Non - current portion | | 86 | 129 | 86 | 129 |
| Held-to-maturity financial assets include: | | | | | |
| Local authority stock | 13(d) | 0 | 280 | 0 | 280 |
| Community loans | 13(e) | 129 | 172 | 129 | 172 |
| | | 129 | 452 | 129 | 452 |

Note 13(c)

There were no impairment provisions on investment financial assets in current or prior years.

Note 13(d)

Local authority and other stock classified as held-to-maturity form a sinking fund held for the purpose of repaying loans raised by the former Harbour Board that are now the liability of Council.

Note 13(e):

The Council has lent to the Hastings District Council a total of \$215,000 to assist the District Council to establish a reticulated wastewater treatment scheme in Waipatiki. The loan is interest free and repayable in five equal amounts of \$43,000 per year commencing on 1 June 2007 with final repayment due on 1 June 2011.

notes to the financial statements

Note 14: Forestry Assets

| | Note | Regional Council | | Group | |
|--|--------------|------------------|--------------|------------|--------------|
| | | Actual | Actual | Actual | Actual |
| | | 07/08 | 06/07 | 07/08 | 06/07 |
| | | \$000 | \$000 | \$000 | \$000 |
| At beginning of year | 14(a) | 1,147 | 2,959 | 1,147 | 2,959 |
| Additions | | 199 | 150 | 199 | 150 |
| Fair value gains (included in income statement) | | 0 | 176 | 0 | 176 |
| Fair value (losses) (included in income statement) | | (382) | (1,063) | (382) | (1,063) |
| Disposals | | 0 | (1,075) | 0 | (1,075) |
| Movement during the year | | (183) | (1,812) | (183) | (1,812) |
| At end of year | 14(b) | 964 | 1,147 | 964 | 1,147 |
| Forestry assets include: | | | | | |
| Tangoio Soil Conservation Reserve Forestry Crop | 14(c) | 449 | 560 | 449 | 560 |
| Lake Tutira Country Park Forestry Crop | | 513 | 585 | 513 | 585 |
| Joint Venture Forestry Rights | 14(d) | 2 | 2 | 2 | 2 |
| | | 964 | 1,147 | 964 | 1,147 |

Note 14(a)

Council's forestry assets comprise a total of 444 hectares of pinus radiata forestry crops situated in the Lake Tutira Country Park (125 ha) and the Tangoio Soil Conservation Reserve (319 ha). During the period no forest crops were logged (2006/07 80 ha \$2,062,000).

Note 14(b)

Council's forestry assets were valued to \$962,000 at 30 June 2008 (2006/07 \$1,145,000) by M H Morice, a registered valuer, of Morice & Associates Ltd. The valuation assumed a discount rate of 7.5%.

Note 14(c)

In 1989, full managerial and financial control of the Tangoio Soil Conservation Reserve was transferred from central government to the Council under Section 16 of the Soil Conservation and Rivers Control Act 1941. However, the matter of who has rights to the logging income remains to be clarified. Council includes the value of the Reserve's forestry crop as it considers that its control of the Reserve entitles it to the income flow from the crop.

Note 14(d)

Council has entered into eleven joint ventures under the Forestry Rights Agreement Act 1983 under which Council provided grants to farmers to plant and maintain to maturity soil conservation forestry crops on marginal land. In return, Council has a right to a percentage of the profits on harvest. A nominal value of \$10 per hectare planted has been ascribed to these rights.

Note 14(e)

Council is exposed to financial risks arising from changes in timber prices. As a long-term forestry investor, Council does not expect timber prices to decline significantly during the foreseeable future and therefore has not taken any measures to manage the risks of a decline in timber prices. Council reviews its outlook for timber prices regularly in considering the need for active financial risk management.

notes to the financial statements

Note 15: Trade and Other Receivables

| | Note | Regional Council | | Group | |
|---|-------|--------------------------|--------------------------|--------------------------|--------------------------|
| | | Actual 07/08 \$000 | Actual 06/07 \$000 | Actual 07/08 \$000 | Actual 06/07 \$000 |
| Trade receivables | 15(a) | 2,802 | 2,237 | 9,870 | 8,402 |
| Less: provision for impairment of receivables | 15(b) | (204) | (332) | (204) | (332) |
| Trade receivables - net | | 2,598 | 1,905 | 9,666 | 8,070 |
| Prepayments | | 114 | 84 | 414 | 395 |
| Accrued income | | 2,031 | 1,928 | 2,031 | 1,928 |
| Work-in-progress | | 636 | 160 | 636 | 160 |
| Trade & other receivables | 15(c) | 5,379 | 4,077 | 12,747 | 10,553 |

Note 15(a)

Trade receivables are non-interest bearing and are generally on 30 day terms.

Note 15(b)

Movements in the provision for impairment of receivables are as follows:

| At beginning of year | | 332 | 185 | 332 | 185 |
|--|--|------------|------------|------------|------------|
| Additional provisions made during the year | | 44 | 191 | 44 | 191 |
| Receivables written off during the year | | (172) | (44) | (172) | (44) |
| | | (128) | 147 | (128) | 147 |
| At end of year | | 204 | 332 | 204 | 332 |

Note 15(c)

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

Note 15(d)

The status of trade receivables at reporting dates is set out below:

| | Regional Council | | | Group | | |
|-----------------------|------------------|---------------------|--------------|----------------|---------------------|--------------|
| | Gross \$000 | Impairment \$000 | Net \$000 | Gross \$000 | Impairment \$000 | Net \$000 |
| 07/08 | | | | | | |
| Not past due | 1,952 | 0 | 1,952 | 7,547 | 0 | 7,547 |
| Past due 1 - 60 days | 337 | 0 | 337 | 1,786 | 0 | 1,786 |
| Past due 61 - 90 days | 13 | 0 | 13 | 37 | 0 | 37 |
| Past due > 90 days | 500 | (204) | 296 | 500 | (204) | 296 |
| | 2,802 | (204) | 2,598 | 9,870 | (204) | 9,666 |
| 06/07 | | | | | | |
| Not past due | 1,576 | 0 | 1,576 | 7,197 | 0 | 7,197 |
| Past due 1 - 60 days | 32 | 0 | 32 | 418 | 0 | 418 |
| Past due 61 - 90 days | 5 | 0 | 5 | 8 | 0 | 8 |
| Past due > 90 days | 624 | (332) | 292 | 779 | (332) | 447 |
| | 2,237 | (332) | 1,905 | 8,402 | (332) | 8,070 |

Note 16: Derivative Financial Instruments

| | Note | Regional Council | | Group | |
|--|-------|--------------------------|--------------------------|--------------------------|--------------------------|
| | | Actual 07/08 \$000 | Actual 06/07 \$000 | Actual 07/08 \$000 | Actual 06/07 \$000 |
| Assets | | | | | |
| Interest rate swaps at fair value | 16(a) | 0 | 0 | 166 | 181 |
| Forward exchange contracts at fair value | | 0 | 0 | 146 | (20) |
| Total | | 0 | 0 | 312 | 161 |
| Less Non-current portion: | | | | | |
| Interest rate swaps at fair value | | 0 | 0 | 55 | 109 |
| Forward exchange contracts at fair value | | 0 | 0 | 63 | (4) |
| | | 0 | 0 | 118 | 105 |
| Current portion | | 0 | 0 | 194 | 56 |

Note 16(a)

The notional principal amounts of the outstanding interest rate swap contracts at 31 March 2008 were \$9,000,000 (2006/07 \$9,000,000).

At 31 March 2008, the fixed interest rates vary from 7.750% to 8.425% (2006/07 7.50% to 7.75%).

notes to the financial statements

Note 17: Cash and Cash Equivalents

| | Regional Council | | Group | | |
|--------------------------|------------------|---------------|---------------|---------------|---------------|
| | Actual | Actual | Actual | Actual | |
| | 07/08 | 06/07 | 07/08 | 06/07 | |
| Note | \$000 | \$000 | \$000 | \$000 | |
| Cash at bank and in hand | 17(a) | 4,798 | 2,637 | 4,799 | 2,903 |
| Short-term bank deposits | 17(b) | 19,180 | 24,877 | 19,180 | 24,877 |
| | | 23,978 | 27,514 | 23,979 | 27,780 |

Note 17(a)

Cash at bank earns interest at floating rates based on daily bank deposit rates.

Note 17(b)

Short term deposits are made for varying periods up to 91 days depending on the immediate cash requirements of the Group, and earn interest at the respective short term deposit rates.

The effective interest rate on short-term bank deposits was 8.6% (2005/06 7.43%). These deposits have an average maturity of 56 days (2006/07 52 days).

Note 17(c) Reconciliation of Cash

Cash, cash equivalents and bank overdrafts included the following for the purposes of the Cash Flow Statement

| | | | | |
|---------------------------|---------------|---------------|---------------|---------------|
| Bank overdrafts | 0 | 0 | (3,505) | (3,171) |
| Cash and cash equivalents | 23,978 | 27,514 | 23,979 | 27,780 |
| | 23,978 | 27,514 | 20,474 | 24,609 |

Note 17(d) Reconciliation of Surplus after Tax to Net Cash Flows from Operations

| | | | | |
|--|--------------|--------------|---------------|---------------|
| Net Surplus on Operations | 6,372 | 8,369 | 9,941 | 10,441 |
| Minority Interest | | | (794) | (580) |
| | | | 9,147 | 9,861 |
| Add (Less) Non-Cash Items: | | | | |
| Fair value gains | (3,310) | (7,137) | (3,885) | (7,832) |
| Fair value losses | 382 | 2,220 | 382 | 2,220 |
| Depreciation | 1,574 | 1,554 | 6,982 | 7,159 |
| Forestry crop cost of goods sold | 0 | 1,075 | 0 | 1,075 |
| Non-current asset accrual | | | 0 | 82 |
| Deferred tax | | | (648) | 207 |
| Add (Less) Movement in Working Capital Items: | | | | |
| (Increase)/decrease in inventories | 83 | (41) | 176 | (191) |
| (Increase)/decrease in trade & other receivables | (1,302) | 734 | (2,198) | 422 |
| (Increase)/decrease in tax receivables | 0 | 0 | 0 | 0 |
| (Decrease)/increase in trade & other payables | 183 | (309) | 576 | (165) |
| (Decrease)/Increase in employee entitlement liabilities | 69 | 82 | 152 | 157 |
| Add (Less) Items Classified as Investing or Financing Activities: | | | | |
| Movement in non-current provisions | (20) | 62 | (736) | 1,167 |
| Net (Gain) / Loss on sale of non-current assets | (9) | (306) | 277 | (302) |
| Net Cash Inflow from Operating Activities | 4,022 | 6,303 | 10,225 | 13,860 |

notes to the financial statements

Note 18: Fair Value Reserves (Parent and Group)

| Note | Parent | | | | | | Parent Total \$000 | Group Total \$000 |
|--------------------------------|---------------|--------------------|---------------------------------|-----------------------------------|---|-----------------------------------|-----------------------|----------------------|
| | Land \$000 | Buildings \$000 | Hydrological Assets \$000 | Infrastructure Assets \$000 | Available-for- Sale Financial Assets \$000 | Investment Properties \$000 | | |
| COUNCIL Only | | | | | | | | |
| At 1 July 2006 | 1,167 | 167 | 64 | 38,660 | 81,782 | 0 | 121,840 | 41,376 |
| Year ended 30 June 2007 | | | | | | | | |
| Reclassification transfer | (90) | (102) | 0 | 0 | 0 | 192 | 0 | 0 |
| Revaluation - gross | 787 | 19 | 222 | 10 | (907) | 63 | 194 | 174 |
| | 697 | (83) | 222 | 10 | (907) | 255 | 194 | 174 |
| At 30 June 2007 | 1,864 | 84 | 286 | 38,670 | 80,875 | 255 | 122,034 | 41,550 |
| Year ended 30 June 2008 | | | | | | | | |
| Reclassification transfer | 0 | 0 | (211) | 0 | 0 | 0 | (211) | (211) |
| Revaluation - gross | 0 | 0 | 0 | 19,160 | (55) | 0 | 19,105 | 19,212 |
| | 0 | 0 | (211) | 19,160 | (55) | 0 | 18,894 | 19,001 |
| At 30 June 2008 | 1,864 | 84 | 75 | 57,830 | 80,820 | 255 | 140,928 | 60,551 |

Note 18(a):

Revaluation increments and decrements on operating and financial assets (listed above) are recorded in the Statement of Changes in Equity. However, if revaluation decrements are greater than the corresponding surpluses in the Fair Value Reserve, the excess decrements are recorded in the Note 6, Fair Value Gains and Losses through the Income Statement, as an asset impairment.

Note 18(b):

The property at 77 Raffles Street, Napier, was transferred from property, plant & equipment as at 1st October 2006 after being leased to a third party. In accordance with NZ IAS 40, Investment Property, the property was revalued at the date of transfer and any associated fair value surpluses were reclassified as Investment Properties. The fair value surplus on the property will remain in fair value reserves until the property is derecognised.

notes to the financial statements

Note 19: Other Reserves (Parent & Group)

| | Operating Reserve (1) \$000 | Net Fair Value Gains (1a) \$000 | Infrastructure Asset Renewal (2) \$000 | Wairoa Rivers & Streams (3) \$000 | Special Scheme (4) \$000 | Port Dividend Equalisation (5) \$000 | Coastal Marine Area (6) \$000 | Specific Regional Projects (7) \$000 |
|-------------------------------|-----------------------------------|---------------------------------------|--|---|--------------------------------|--|-------------------------------------|--|
| At 1 July 2006 | 18,580 | 0 | 1,366 | 726 | 1,729 | 1,074 | 0 | 632 |
| Net surplus | 8,369 | | | | | | | |
| Net fair value gains | (4,917) | 4,917 | | | | | | |
| Interest income / (expense) | (500) | | | | 94 | | | 51 |
| Rental income - net | (1,668) | | | | | | 1,668 | |
| Depreciation transfers | (1,542) | | 309 | | | | | |
| Trading gain / (loss) | (6,792) | | | | | | | |
| Transfers / (use of) reserves | 3,518 | | (21) | 22 | (938) | 43 | (1,668) | (1) |
| Asset purchases - net | 827 | | | | | | | |
| | (2,705) | 4,917 | 288 | 22 | (844) | 43 | 0 | 50 |
| At 30 June 2007 | 15,875 | 4,917 | 1,654 | 748 | 885 | 1,117 | 0 | 682 |
| Net surplus | 6,372 | | | | | | | |
| Net fair value gains | (2,928) | 2,928 | | | | | | |
| Interest income / (expense) | (794) | | | | 99 | | | 48 |
| Rental income - net | (1,935) | | | | | | 1,935 | |
| Depreciation transfer - gross | (1,559) | | 310 | | | | | |
| Trading gain / (loss) | (3,640) | | | | | | | |
| Transfers / (use of) reserves | 909 | | (65) | 23 | 531 | 1,302 | (1,935) | (218) |
| Asset purchases - net | 822 | | | | | | | |
| | (2,753) | 2,928 | 245 | 23 | 630 | 1,302 | 0 | (170) |
| At 30 June 2008 | 13,122 | 7,845 | 1,899 | 771 | 1,515 | 2,419 | 0 | 512 |

Nature and purpose of reserves

[1] Operating reserve

A reserve established to fund the day to day cash flow and working capital requirements of Council.

[1a] Net fair value gains

Net fair value gains records the fair value (non-cash) component of the operating reserve.

[2] Infrastructure asset depreciation reserve

A reserve established to fund the renewal of scheme infrastructure assets as required by the Local Government Act 2002.

[3] Wairoa rivers & streams reserve

A reserve established to fund flood mitigation and recovery work within the Wairoa District.

[4] Special flood & drainage scheme reserves

Reserves established for each scheme to account for rating balances that arise each year as a consequence of the actual income and expenditure incurred in any one year.

[5] Port dividend equalisation reserve

A reserve established to smooth out the dividend receipts from the Port so that fluctuations in Council's general funding rates are minimised.

[6] Coastal marine area reserve

A reserve established to meet the statutory requirements on the use of rental income earned on Council's endowment leasehold land.

[7] Specific regional projects reserve

A reserve established to meet the statutory requirements on the use of 50% of rental income on Council's endowment leasehold land received prior to 1st July 2003.

[8] Asset replacement reserve

A reserve established to fund the replacement of operating property, plant and equipment, which are not scheme based.

[9] Regional disaster damage reserve

A reserve established to meet the commercial insurance excess of \$600,000 on each event, the uninsured 60% of edge protection damage and the costs of managing the response and recovery for a disaster event.

notes to the financial statements

Note 19: Other Reserves (Parent & Group) Continued

| Asset Replacement (8) \$000 | Regional Disaster Damage (9) \$000 | Scheme Disaster Damage (10) \$000 | Clive River Dredging (11) \$000 | Sinking Fund (12) \$000 | AHB Risk (13) \$000 | Tangoio Reserve Fund (14) \$000 | Sale of Land Invmt (15) \$000 | Sale of Land Non-Invmt (16) \$000 | Rabbit Reserve (17) \$000 | Total \$000 |
|--------------------------------|---------------------------------------|--------------------------------------|------------------------------------|----------------------------|------------------------|------------------------------------|----------------------------------|--------------------------------------|------------------------------|----------------|
| 605 | 3,441 | 1,331 | 416 | 471 | 118 | 1,362 | 23,616 | 0 | 19 | 55,486 |
| | | | | | | | | | | 8,369 |
| | | | | | | | | | | 0 |
| 51 | | 109 | 37 | 0 | 9 | 148 | | | 1 | 0 |
| | | | | | | | | | | 0 |
| 1,233 | | | | | | | | | | 0 |
| | 273 | | | | | 1,814 | 4,705 | | | 0 |
| (46) | (505) | 51 | 50 | (101) | 83 | | (1,215) | 728 | | 0 |
| (827) | | | | | | | | | | 0 |
| 411 | (232) | 160 | 87 | (101) | 92 | 1,962 | 3,490 | 728 | 1 | 8,369 |
| 1,016 | 3,209 | 1,491 | 503 | 370 | 210 | 3,324 | 27,106 | 728 | 20 | 63,855 |
| | | | | | | | | | | 6,372 |
| | | | | | | | | | | 0 |
| 90 | | 132 | 45 | | 18 | 275 | | 85 | 2 | 0 |
| | | | | | | | | | | 0 |
| 1,249 | | | | | | | | | | 0 |
| | 118 | | | | | | 3,522 | | | 0 |
| (317) | (118) | 80 | 50 | (100) | 94 | (296) | (500) | 520 | 40 | 0 |
| (822) | | | | | | | | | | 0 |
| 200 | 0 | 212 | 95 | (100) | 112 | (21) | 3,022 | 605 | 42 | 6,372 |
| 1,216 | 3,209 | 1,703 | 598 | 270 | 322 | 3,303 | 30,128 | 1,333 | 62 | 70,227 |

[10] Scheme disaster damage reserve

Reserves established to meet each scheme's share of Local Authority Protection Programme (LAPP) insurance excess and other costs to restore scheme assets that are not recoverable from other sources.

[11] Clive river dredging reserve

A reserve established to meet the expenditure of dredging requirements on the Clive River.

[12] Sinking fund reserve

A reserve established to fund the repayment of loans raised by the former Hawke's Bay Harbour Board that are now liabilities of the Council.

[13] Animal health board risk reserve

A reserve established to meet future dis-establishment and prime vender risk costs of bovine Tb operations in the Hawke's Bay region.

[14] Tangoio soil conservation reserve

A reserve established to separate the revenues and expenses associated with the Tangoio Soil Conservation Reserve as this reserve is managed and overseen by Council on behalf of the Crown.

[15] Sale of land investment reserve

A reserve established to hold the proceeds of endowment leasehold land sales to be reinvested in accordance with Council's policy on "Evaluation of Investment Opportunities" approved on 30 April 2008.

[16] Sale of land non-investment reserve

A reserve established to hold transfers from the Sale of Land Investment Reserve to be invested in accordance with Council's policy on "Open Space Investment" approved on 25 June 2008.

[19] Rabbit reserve

A reserve established to fund costs expected to be incurred with growing rabbit populations. The reserve is limited to a maximum balance of \$100,000.

notes to the financial statements

Note 20: Borrowings

| Note | Regional Council | | Group | |
|---------------------------|------------------|--------------|---------------|---------------|
| | Actual | Actual | Actual | Actual |
| | 07/08 | 06/07 | 07/08 | 06/07 |
| | \$000 | \$000 | \$000 | \$000 |
| Non-current | | | | |
| Bank borrowings | 6,284 | 6,244 | 22,484 | 22,544 |
| Finance lease obligations | 3 | 12 | 3 | 12 |
| | 6,287 | 6,256 | 22,487 | 22,556 |
| Current | | | | |
| Bank overdrafts | 0 | 0 | 3,505 | 3,171 |
| Bank borrowings | 1,361 | 1,191 | 1,361 | 1,191 |
| Finance lease obligations | 8 | 8 | 8 | 8 |
| | 1,369 | 1,199 | 4,874 | 4,370 |
| Total borrowings | 7,656 | 7,455 | 27,361 | 26,926 |

20(a): Security

Council bank loans are secured over the rating base and the assets of the Council. At year-end Sinking Fund investments held against rate payer loans amounted to \$270,000 (2006/07 \$370,277).

The Port operates a multi-option credit facility with Westpac Banking Corporation governed by a Negative Pledge Deed. The facility has been extended until 30 September 2009.

20(b) Maturity analysis of borrowings

The exposure of the Group's borrowings to interest-rate changes and the contractual repricing dates or maturity dates at the balance sheet date are as follows:

| | Regional Council | | Group | |
|-------------------------|------------------|--------------|---------------|---------------|
| | Actual | Actual | Actual | Actual |
| | 07/08 | 06/07 | 07/08 | 06/07 |
| | \$000 | \$000 | \$000 | \$000 |
| 6 months or less | 270 | 239 | 3,775 | 3,410 |
| Between 6 and 12 months | 0 | 0 | 0 | 0 |
| Between 1 and 2 years | 11 | 270 | 11 | 270 |
| Between 2 and 5 years | 1,137 | 1,532 | 17,337 | 17,832 |
| Over 5 years | 6,238 | 5,414 | 6,238 | 5,414 |
| | 7,656 | 7,455 | 27,361 | 26,926 |

notes to the financial statements

Note 20: Borrowings Continued

20(c) Effective interest rates

The effective interest rates at the balance sheet date were as follows:

| | Regional Council | | Port | |
|--------------------------------|------------------|--------------|--------------|-------------|
| | Actual | Actual | Actual | Actual |
| | 07/08 | 06/07 | 07/08 | 06/07 |
| | % | % | % | % |
| Effective interest rate ranges | 7.38 - 10.50 | 7.38 - 10.50 | 7.75 - 8.425 | 7.50 - 7.75 |

20(d) Fair values

The carrying amount for the fair value of non-current borrowings is as follows:

| | Regional Council | | Group | |
|-----------------|------------------|--------------|---------------|---------------|
| | Actual | Actual | Actual | Actual |
| | 07/08 | 06/07 | 07/08 | 06/07 |
| | \$000 | \$000 | \$000 | \$000 |
| Bank borrowings | 6,117 | 6,130 | 22,317 | 22,430 |
| | 6,117 | 6,130 | 22,317 | 22,430 |

The fair values as based on cash flows discounted using a rate based on the borrowing rate of 8.425% (2006/07 7.88%).

The carrying amount of borrowings repayable within one year approximate their fair value.

20(e) Undrawn facilities

The Group has the following undrawn borrowing facilities:

| | Regional Council | | Group | |
|-----------------|------------------|----------|--------------|--------------|
| | Actual | Actual | Actual | Actual |
| | 07/08 | 06/07 | 07/08 | 06/07 |
| | \$000 | \$000 | \$000 | \$000 |
| Bank overdraft | 0 | 0 | 906 | 1,000 |
| Bank borrowings | 0 | 0 | 3,800 | 3,700 |
| | 0 | 0 | 4,706 | 4,700 |

notes to the financial statements

Note 21: Provisions for Liabilities and Charges

| | Note | Regional Council | | Group | |
|-------------------------------|-------|------------------|----------|----------|--------------|
| | | Actual | Actual | Actual | Actual |
| | | 07/08 | 06/07 | 07/08 | 06/07 |
| | | \$000 | \$000 | \$000 | \$000 |
| Non-current | | | | | |
| Port rehabilitation provision | 21(a) | 0 | 0 | 0 | 1,552 |
| | | 0 | 0 | 0 | 1,552 |
| Current | | | | | |
| Port rehabilitation provision | | 0 | 0 | 0 | 0 |
| | | 0 | 0 | 0 | 0 |
| Total provisions | | 0 | 0 | 0 | 1,552 |

21(a) Movement in Port rehabilitation provision

| | Group | Group |
|--------------------------|----------|--------------|
| | Actual | Actual |
| Movement during the year | (1,552) | 524 |
| At end of year | 0 | 1,552 |

The Rehabilitation provision previously recording the Port's commitment to contribute to the establishment of an alternative beach to the west of the Port's boundary has been reversed. The basis of the reversal is the Port's decision to proceed with an inner harbour development rather than with a western development and, therefore, the requirement for an alternative beach solution has been eliminated.

Note 22: Deferred Income Tax liabilities (Group)

| | Note | Income Statement | | Balance Sheet | |
|--|----------|------------------|------------|----------------|----------------|
| | | Actual | Actual | Actual | Actual |
| | | 07/08 | 06/07 | 07/08 | 06/07 |
| | | \$000 | \$000 | \$000 | \$000 |
| Deferred income tax at balance sheet date for the Port relates to the following: | | | | | |
| Deferred income tax assets | | | | | |
| Revaluation of foreign exchange contracts to fair value | | 0 | 0 | 0 | 0 |
| Revaluation of interest rate swap to fair value | | 0 | 0 | 0 | 0 |
| Other | | 0 | 0 | 0 | 0 |
| Recognition of deemed cost for property, plant & equipment | | 0 | 0 | 0 | 0 |
| Gross deferred income tax assets | | | | 0 | 0 |
| Deferred tax liabilities | | | | | |
| Accelerated depreciation for tax purposes | | (417) | 184 | (4,532) | (5,448) |
| Revaluation of investment property to fair value | | 0 | 0 | 0 | 0 |
| Revaluation of foreign exchange contracts to fair value | | 0 | 0 | (44) | (7) |
| Revaluation of interest rate swap to fair value | | (5) | 11 | (50) | (53) |
| Other | | (438) | 49 | 503 | 413 |
| Recognition of deemed cost for property, plant & equipment | | 0 | 0 | 0 | 0 |
| Gross deferred income tax liabilities | | | | (4,123) | (5,095) |
| Deferred income tax charge | 8 | (860) | 244 | | |

notes to the financial statements

Note 23: Employee Benefit Liabilities

| | Regional Council | | Group | | |
|---|------------------|--------------|--------------|--------------|--------------|
| | Actual | Actual | Actual | Actual | |
| | 07/08 | 06/07 | 07/08 | 06/07 | |
| Note | \$000 | \$000 | \$000 | \$000 | |
| Annual leave | 525 | 451 | 1,702 | 1,545 | |
| Long service leave | 190 | 180 | 412 | 180 | |
| Retirement gratuities | 451 | 491 | 502 | 540 | |
| Sick leave | 60 | 55 | 60 | 55 | |
| Total employee benefit liabilities | 23(a) | 1,226 | 1,177 | 2,676 | 2,320 |
| Disclosed as: | | | | | |
| Non-current | 663 | 683 | 936 | 732 | |
| Current | 563 | 494 | 1,740 | 1,588 | |
| | | 1,226 | 1,177 | 2,676 | 2,320 |

23(a) Movement in employee benefit liability

| | Regional Council | | Group | |
|-----------------------------|------------------|--------------|--------------|--------------|
| | Actual | Actual | Actual | Actual |
| | 07/08 | 06/07 | 07/08 | 06/07 |
| | \$000 | \$000 | \$000 | \$000 |
| At beginning of year | 1,177 | 1,095 | 2,320 | 2,161 |
| Additional provisions | 870 | 685 | 2,505 | 1,899 |
| Unused amounts reversed | (30) | (9) | (30) | (9) |
| Used during the year | (791) | (594) | (2,119) | (1,731) |
| Movement during the year | 49 | 82 | 356 | 159 |
| At end of year | 1,226 | 1,177 | 2,676 | 2,320 |

Note 24: Trade and Other Payables

| | Regional Council | | Group | |
|------------------|------------------|--------------|--------------|--------------|
| | Actual | Actual | Actual | Actual |
| | 07/08 | 06/07 | 07/08 | 06/07 |
| Note | \$000 | \$000 | \$000 | \$000 |
| Trade payables | 3,263 | 2,935 | 5,116 | 4,889 |
| Accrued expenses | 1,749 | 1,894 | 3,572 | 2,956 |
| | 5,012 | 4,829 | 8,688 | 7,845 |

Trade payables are non-interest bearing and are generally on 30 day terms.

The carrying amount of trade and other payables approximates their fair value.

notes to the financial statements

Note 25: Related Parties Disclosures (Group)

| Note | Actual 07/08 \$000 | Actual 06/07 \$000 |
|--|--------------------------|--------------------------|
| 25(a) The following transactions were carried out with related parties: | | |
| (i) Sales of services | | |
| By parent | 5 | 24 |
| By subsidiary | 5 | 24 |
| | 10 | 48 |
| (ii) Purchases of services | | |
| By parent | 23 | 24 |
| By subsidiary | 23 | 24 |
| | 46 | 48 |
| (iii) Subvention payments | | |
| Received by parent | 215 | 27 |
| Paid by subsidiary | 215 | 27 |
| | 430 | 54 |
| (iv) Dividends (net) | | |
| Received by parent | 5,999 | 4,892 |
| Paid by subsidiary | 5,999 | 4,892 |
| | 11,998 | 9,784 |

25(b) Year-end balances arising from sales/purchases of goods and services

| | | |
|----------------------------------|---|---|
| Receivables from related parties | | |
| Parent | 2 | 1 |
| Subsidiary | 1 | 1 |
| | 3 | 2 |
| Payables to related parties | | |
| Parent | 1 | 1 |
| Subsidiary | 2 | 1 |
| | 3 | 2 |

25(c) Terms and conditions of transactions with related parties

Sales to and purchases from related parties are made in arm's length transactions at both normal market prices and normal commercial terms.

Outstanding balances at year end are unsecured and settlement occurs in cash.

There have been no guarantees provided or received for any related party receivables.

At year end, there is no impairment relating to amounts owed by related parties (2006/07 \$nil).

notes to the financial statements

Note 26: Commitments and Contingencies

26(a) Capital commitments

Capital expenditure contracted for at balance sheet date but not yet incurred is as follows:

| Note | Regional Council | | Group | |
|-----------------------------|------------------|----------|--------------|--------------|
| | Actual | Actual | Actual | Actual |
| | 07/08 | 06/07 | 07/08 | 06/07 |
| | \$000 | \$000 | \$000 | \$000 |
| Property, plant & equipment | 0 | 0 | 6,770 | 2,199 |
| Intangible assets | 0 | 0 | 0 | 0 |
| | 0 | 0 | 6,770 | 2,199 |

26(b) Operating lease commitments

The Group has entered into commercial leases for certain offices, plant and equipment under non-cancellable operating lease agreements. The leases have varying terms and conditions.

Future aggregate minimum lease payments under non-cancellable operating leases are as follows:

| | | | | |
|---|----------|----------|------------|------------|
| Not later than one year | 0 | 0 | 232 | 181 |
| Later than one year but not later than five years | 0 | 0 | 267 | 18 |
| Later than five years | 0 | 0 | 0 | 0 |
| | 0 | 0 | 499 | 199 |

26(c) Contingencies

In respect of the Council only:

As stated in Note 14, entitlement to Tangoio Soil Conservation Reserve Funds remains undecided. Council has included this income in the Income Statement and in Equity pending clarification of this issue. If the Crown is entitled to these funds, then the sum due at 30 June 2008 is \$3,303,088 (2006/2007 \$3,323,750).

In respect of the Port only:

This year and last year the Port recorded no contingent liabilities or assets.

notes to the financial statements

Note 27: Local Government Act 2002 Disclosures

27(a) Remuneration of Chairman and Elected Members of Council

Remuneration of Elected Members of the Council includes salary, vehicle allowance, meeting and hearing fees that, during the year, was paid or payable to the Councillor by the Council or any council organisation. Remuneration levels are set each year for all local authorities by the Remuneration Authority.

| Current Elected Members | Appointments for 2007/2008 | Length of Elected Term | Number of Council / Committee Meetings Attended 07/08 |
|---|--|------------------------|---|
| Rex McIntyre | Chair | Full Year | 31 |
| Christine Scott | Deputy Chair & Chair of Regulatory Hearings and Regional Plan Committees | Full Year | 28 |
| Alan Dick | Chair Regional Land Transport Committee | Full Year | 30 |
| Kevin Rose | Chair Asset Management & Biosecurity Committee | Full Year | 25 |
| Eileen von Dadelszen | Chair Environmental Management Committee | Full Year | 29 |
| Neil Kirton | Elected Member | Full Year | 21 |
| Ewan McGregor | Elected Member | Full Year | 27 |
| Tim Gilbertson | Elected Member | From 19 October 2007 | 23 |
| Liz Remmerswaal | Elected Member | From 19 October 2007 | 20 |
| Retired and Former Elected Members | | | |
| Adrienne Williams | Chair Regulatory Hearings Committee and Regional Plan Committee | To 18 October 2007 | 9 |
| Alec Olsen | Elected Member | To 18 October 2007 | 7 |

| | Salary 07/08 \$ | Meeting Fees 07/08 \$ | Hearing Fees 07/08 \$ | Councillor Allowances 07/08 \$ | Total Remuneration 07/08 \$ |
|---|-----------------------|-----------------------------|-----------------------------|--------------------------------------|-----------------------------------|
| Current Elected Members | | | | | |
| Rex McIntyre | 84,107 | Ineligible | Ineligible | 8,604 | 92,711 |
| Christine Scott | 45,291 | 3,870 | 1,922 | 1,565 | 52,648 |
| Alan Dick | 45,255 | | | 1,796 | 47,051 |
| Kevin Rose | 45,255 | | | 3,328 | 48,583 |
| Eileen von Dadelszen | 63,332 | | | 4,581 | 67,913 |
| Neil Kirton | 41,088 | | | 1,500 | 42,588 |
| Ewan McGregor | 41,088 | 4,100 | 536 | 3,762 | 49,486 |
| Tim Gilbertson | 28,728 | | | 2,579 | 31,307 |
| Liz Remmerswaal | 28,728 | | | 2,101 | 30,829 |
| Retired and Former Elected Members | | | | | |
| Adrienne Williams | 13,562 | 1,400 | 9,786 | 561 | 25,309 |
| Alec Olsen | 12,360 | 1,400 | 5,950 | 1,159 | 20,869 |
| | 448,794 | 10,770 | 18,194 | 31,536 | 509,294 |

From 26 March 2008, the Chairman has been provided with a vehicle to use on Council business. Use of a vehicle reduces the Chairman's salary in accordance with Remuneration Authority policy.

| | Salary 06/07 \$ | Meeting Fees 06/07 \$ | Hearing Fees 06/07 \$ | Councillor Allowances 06/07 \$ | Total Remuneration 06/07 \$ |
|----------------------|-----------------------|-----------------------------|-----------------------------|--------------------------------------|-----------------------------------|
| Eileen von Dadelszen | 100,967 | Ineligible | Ineligible | 5,036 | 106,003 |
| Alan Dick | 43,599 | | | 245 | 43,844 |
| Rex McIntyre | 43,599 | | | 8,112 | 51,711 |
| Adrienne Williams | 43,599 | | | 541 | 44,140 |
| Kevin Rose | 43,599 | | | 1,628 | 45,227 |
| Christine Scott | 43,599 | | 2,516 | 173 | 46,288 |
| Neil Kirton | 39,599 | | | 225 | 39,824 |
| Ewan McGregor | 39,599 | | 2,516 | 1,578 | 43,693 |
| Alec Olsen | 39,599 | | 2,516 | 1,025 | 43,140 |
| | 437,759 | 0 | 7,548 | 18,563 | 463,870 |

27(b) Remuneration of Chief Executive

The Chief Executive of the Hawke's Bay Regional Council receives a salary of \$190,000 per annum (2006/07; \$190,000) and is eligible to receive up to 10% additional salary each year dependent on the satisfactory achievement of a set of performance indicators.

For the year ended 30 June 2008, one individual held the appointment of Chief Executive. For the year ended 30 June 2007, three individuals held the appointment at various times through the year. The value of the total remuneration package (including the value of non-financial benefits) received by these three individuals is set out below:

| | Actual 07/08 \$ | Actual 06/07 \$ |
|--|-----------------------|-----------------------|
| Previous Chief Executive (1st July 2006 to 18th February 2007) | | 0 |
| Acting Chief Executive (19th February to 20th May 2007) | | 0 |
| Current Chief Executive (21st May to 30 June 2007 and 2007/08) | 225,187 | 23,533 |
| | 225,187 | 228,798 |

27(c) Severance Payments

One severance payment of \$9,000 was made during the year to an employee of the Council. (2006/07; Nil)

notes to the financial statements

Note 28: Major Budget Variances (Parent)

Note 28: Major Budget Variances (Parent)

The Council published prospective financial information in relation to the 2007/08 year in its 2007/08 Annual Plan. Explanations for the major variances from the forecast figures published in the Annual Plan are set out below:

28(a) Income statement

Operating revenue is \$4.1 million or 12.8% greater than budget. The major components of this increase are set out below:

- Income from Works Group external contracts was \$307,000, resulting in an increase in net profit of \$81,000 over budget.
- Dividend income from the Port of Napier Ltd being \$1.3 million better than budget.
- Interest being \$929,000 more than forecast due to higher interest rates on higher total deposits.
- Two additional Tb vector control areas were undertaken during the year resulting in additional income of \$559,000 from the Animal Health Board.
- Funding for the Pathways Project of \$268,000 was unbudgeted. This money was paid by the Pathways Trust for additional work undertaken.
- Recoveries from consultancy engineering work of \$159,000 was unbudgeted.
- Investment property gains were \$576,000 more than budgeted.

Operating expenditure is \$585,000 or 2.0% greater than budget. The major reason for this is \$382,000 of fair value loss on forestry assets and \$166,000 greater than budgeted expenditure on activities.

More detailed explanations of income and expenditure variances against budget Council's activities are provided in the Statements of Service Performance for each activity.

28(b) Statement of changes in equity

Total recognised revenue and expenses are \$19.34 million more than budgeted due to higher than budgeted operating income and a very large increase the value of infrastructure assets of \$19.00 million.

28(c) Balance sheet

Equity is \$1.6 million or 0.42% more than budgeted. The main reason for this is the large increase in the value of infrastructure assets.

Investment property is \$4.5 million or 4.1% lower than budget due to lower than expected increase in the land market values.

Financial assets (current and non-current) and cash and cash equivalents, taken altogether, are \$11.4 million or 8.0% greater than budget. During the 2006/07 and 2007/08 financial years, \$7.2 million greater than forecast sales of leasehold endowment land occurred as well as greater than forecast cash flows from operations.

Forestry assets are \$2.0 million less than budget due to earlier than planned harvesting and falling log prices.

28(d) Cash flow statement

Net cash inflows from operating activities are \$2.4 million or 144% greater than budget due to the following:

- Receipts from customers being \$677,000 more than forecast due to higher recoveries of costs from the Animal Health Board, (\$559,000) and greater income from external engineering projects (\$159,000).
- Dividends from the Port of Napier Ltd being \$1.3 million more than forecast.
- Interest received being \$240,000 more than forecast.

Net cash outflows from investing activities are \$4.8 million or 163% more than budget due mainly to the purchase of financial assets due proceeds of high freeholdings of leasehold endowment land (\$3.5 million) and the favourable general funded operating result for 2007/08 (\$1.2 million).

28(e) Significant asset acquisitions or replacements

There were no significant asset acquisitions or replacements this year.

notes to the financial statements

Note 29: Financial Risk Management

Introduction

The Group's principal financial instruments comprise bank loans, government and local authority stock, shares in listed companies and the Port of Napier Ltd, cash and bank term investments. The main purposes of these financial instruments are to raise finance for the Group's operations and to generate income.

The Group also enters into derivatives, consisting principally of interest rate swaps and forward currency contracts. The purpose is to manage interest rate and currency risks arising from the Group's operations and its sources of finance.

The Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

Other than government and local body stock and shares in listed companies, the Group does not trade in financial instruments.

Market Risk

Price Risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices. The Group is exposed to equity and securities price risk on its investments, which are classified as available for sale and held to maturity financial assets. The Group manages price risk by diversification of its investment portfolio in accordance with limits set out in its investment policy.

The Group holds shares in companies listed on various world stock exchanges. If these exchanges at 30 June 2008 had fluctuated by plus or minus 0.5% and the value of the shareholdings had moved proportionately the effect would have been to increase or decrease the fair value through equity reserve by \$4,900 (2006/07 \$4,700).

Interest Rate Risk

The interest rates on the Group's investments are shown at Note 13 and on borrowings at Note 20.

Fair Value Interest Rate Risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to change in market interest rates. Borrowing and investing at fixed rates exposes the Group to fair value interest rate risk. The Group does not hedge against this risk.

If interest rates on borrowings at 30 June 2008 had fluctuated by plus or minus 0.5%, the effect would have been to increase or decrease the fair value through equity reserves by \$170,000 (2006/07 \$115,000).

If interest rates on government and local body stock at 30 June 2008 had fluctuated by plus or minus 0.5%, the effect would have been to increase or decrease the fair value through equity reserves by \$16,300 (2006/07 \$17,000).

Cash Flow Interest Rate Risk

Cash flow interest rate risk is the risk that the cash flows from a financial instrument will fluctuate because of changes to market interest rates. Borrowing at variable interest rates exposes the Group to cash flow interest rate risk.

The Group manages its cash flow interest rate risk on borrowings by using interest rate caps and floating to fixed interest rate swaps.

If interest rates on borrowings at 30 June 2008 had fluctuated by plus or minus 0.5%, the effect would have been to increase or decrease the surplus after tax by \$136,600 (2006/07 \$133,400) as a result of higher or lower interest expense on variable rate borrowings.

Credit Risk

Credit risk is the risk that a third party will default on its obligation to the Group, causing it to incur a loss. The Group has no significant concentrations of credit risk, as it has a large number of credit customers, mainly ratepayers. Under the Local Government (Rating) Act 2002, the Council has powers to recover outstanding debts from ratepayers. The Group has a policy of assessing the credit risk of significant new customers and monitors the credit quality of existing customers.

The Group invests funds only with registered banks, government and local authority stock and its investment policy limits the amount of credit exposure to any one institution or organisation.

Investments in other local authorities are secured by charges over rates. The Group only invests in other entities with a minimum credit rating from Standard & Poors (or other credit agency of similar reputation) of A1 for short term debt (up to twelve months) or A+ for term debt (more than twelve months).

Maximum Exposure to Credit Risk

| | Regional Council | | Group | |
|---|--------------------------|--------------------------|--------------------------|--------------------------|
| | Actual 07/08 \$000 | Actual 06/07 \$000 | Actual 07/08 \$000 | Actual 06/07 \$000 |
| Cash and cash equivalents | 23,978 | 27,514 | 23,979 | 27,780 |
| Bank deposits with terms greater than 91 days | 27,892 | 18,639 | 27,892 | 18,639 |
| Shares in Port of Napier Ltd | 99,715 | 99,715 | 0 | 0 |
| Publicly listed shares | 981 | 932 | 981 | 932 |
| Government stock | 3,259 | 3,242 | 3,259 | 3,242 |
| Local authority stock | 0 | 280 | 0 | 280 |
| Community loans | 129 | 172 | 129 | 172 |
| Trade & other receivables | 5,379 | 4,077 | 12,747 | 10,553 |
| Derivative financial instruments | 0 | 0 | 312 | 161 |
| | 161,333 | 154,571 | 69,299 | 61,759 |

notes to the financial statements

Note 29: Financial Risk Management (Continued)

Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty raising liquid funds to meet commitments as they fall due.

The Council maintains a level of cash operating balances sufficient to meet its commitments as they fall due as well as managing its borrowings in accordance with its funding and financial policies. The Port operates a multi-option credit facility with its bank as set out in Note 20.

Set out below is a contractual maturity analysis of financial liabilities as at balance sheet date. The contractual amount includes scheduled interest payments.

Contractual Maturity Analysis

| | Carrying Amount \$000 | Contractual Carrying Amount \$000 | Less than 1 Year \$000 | 1 - 2 Years \$000 | 2 - 5 Years \$000 | More than 5 Years \$000 |
|--------------------------------|-----------------------------|--|---------------------------------|-------------------------|-------------------------|----------------------------------|
| Council at 30 June 2008 | | | | | | |
| Creditors and other payables | 5,012 | 5,012 | 5,012 | 0 | 0 | 0 |
| Bank borrowings | 7,645 | 9,946 | 1,842 | 1,551 | 3,461 | 3,092 |
| Bank overdraft | 0 | 0 | 0 | 0 | 0 | 0 |
| Finance lease | 11 | 12 | 10 | 2 | 0 | 0 |
| | <u>12,668</u> | <u>14,970</u> | <u>6,864</u> | <u>1,553</u> | <u>3,461</u> | <u>3,092</u> |
| Council at 30 June 2007 | | | | | | |
| Creditors and other payables | 4,829 | 4,829 | 4,829 | 0 | 0 | 0 |
| Bank borrowings | 7,435 | 9,492 | 1,526 | 1,818 | 3,149 | 2,999 |
| Bank overdraft | 0 | 0 | 0 | 0 | 0 | 0 |
| Finance lease | 20 | 22 | 10 | 10 | 2 | 0 |
| | <u>12,284</u> | <u>14,343</u> | <u>6,365</u> | <u>1,828</u> | <u>3,151</u> | <u>2,999</u> |
| Group at 30 June 2008 | | | | | | |
| Creditors and other payables | 8,688 | 8,688 | 8,688 | 0 | 0 | 0 |
| Bank borrowings | 23,845 | 27,801 | 1,842 | 19,406 | 3,461 | 3,092 |
| Bank overdraft | 3,505 | 3,505 | 3,505 | 0 | 0 | 0 |
| Finance lease | 11 | 12 | 10 | 2 | 0 | 0 |
| | <u>36,049</u> | <u>40,006</u> | <u>14,045</u> | <u>19,408</u> | <u>3,461</u> | <u>3,092</u> |
| Group at 30 June 2007 | | | | | | |
| Creditors and other payables | 7,845 | 7,845 | 7,845 | 0 | 0 | 0 |
| Bank borrowings | 23,735 | 28,821 | 1,526 | 1,818 | 22,478 | 2,999 |
| Bank overdraft | 3,171 | 3,171 | 3,171 | 0 | 0 | 0 |
| Finance lease | 20 | 22 | 10 | 10 | 2 | 0 |
| | <u>34,771</u> | <u>39,859</u> | <u>12,552</u> | <u>1,828</u> | <u>22,480</u> | <u>2,999</u> |

Note 30: Events after Balance Sheet Date

Subsequent to the Port's balance sheet date, the Port entered into three major contracts. These are as follows:

- A cost reimbursable contract was entered into with HEB Construction Ltd for the redevelopment of the Number 4 wharf at an expected cost of \$38,500,000.
- A contract was entered into to purchase two voith propulsion units for a new tug at a cost of EUR 1,900,000.
- The Port was released from its Negative Pledge Deed with Westpac Banking Corporation and entered into a new \$80,000,000 borrowing facility with that bank.

There were no significant events after balance in respect of the Council.

Note 31: Non Current Assets held for Sale

| Note | Regional Council | | Group | |
|-----------------------------|------------------|-----------------|-----------------|-----------------|
| | Actual 07/08 | Actual 06/07 | Actual 07/08 | Actual 06/07 |
| | \$000 | \$000 | \$000 | \$000 |
| Property, plant & equipment | 0 | 0 | 0 | 0 |
| Investment property | 0 | 0 | 1,787 | 0 |
| | <u>0</u> | <u>0</u> | <u>1,787</u> | <u>0</u> |

In respect of the Port only:

An investment property was designated by the Port as surplus at 30 September 2007. At 31 March 2008 the property was the subject of an unconditional sale and purchase agreement and settlement occurred on 30 June 2008. The agreed sale price of \$2,150,000 plus GST was greater than the property's value recorded in the financial statements.