

# **New Zealand Local Government Funding Agency Limited**

## **Statement of Intent 2012/13**

### **1. Introduction**

This Statement of Intent (SOI) sets out the intentions and expectations of New Zealand Local Government Funding Agency Limited (LGFA).

The LGFA is enabled under the Local Government Borrowing Act 2011 and is a council-controlled organisation (CCO) for the purposes of the Local Government Act 2002.

The SOI is prepared in accordance with section 64(1) of the Local Government Act 2002.

### **2. Nature and scope of activities**

LGFA will raise debt funding either domestically and/or offshore in either NZ dollars or foreign currency and provide debt funding to New Zealand local authorities, and may undertake any other activities considered by the Board of LGFA to be reasonably related or incidentally to, or in connection with, that business.

The LGFA will only lend to local authorities that enter into all the relevant arrangements with it (Participating Local Authorities) and comply with the LGFA's lending policies.

### **3. Objectives**

#### ***Principal Objectives***

In accordance with the Local Government Act 2002, in carrying on its business, the principal objectives of LGFA will be to:

- achieve the objectives of the shareholders (Shareholders) in LGFA (both commercial and non-commercial) as specified in this SOI;
- be a good employer;
- exhibit a sense of social and environmental responsibility by having regard to the interests of the community in which it operates and by endeavouring to accommodate or encourage these when able to do so; and
- conduct its affairs in accordance with sound business practice.

### **Primary objective**

LGFA will operate with the **primary objective** of optimising the debt funding terms and conditions for Participating Local Authorities. Among other things this includes:

- Providing debt to Participating Local Authorities at the lowest possible interest rates commensurate with the relevant maturity
- Making longer-term borrowings available to Participating Local Authorities
- Enhancing the certainty of access to debt markets for Participating Local Authorities, subject always to operating in accordance with sound business practice

### **Additional objectives**

LGFA has a number of additional objectives which complement the primary objective. These objectives will be measurable and achievable and the performance of the company in achieving its objectives will be reported annually. These additional objectives are to:

- Operate with a view to making a profit sufficient to pay a dividend in accordance with its stated Dividend Policy set out in section 6
- Become the primary source of debt funding for Participating Local Authorities
- Operate in a manner to ensure LGFA is successful and sustainable in the long-term
- Educate and inform all Local Authorities (both participating and non-participating) on matters within the scope of LGFA's operations
- Become a leading participant in the New Zealand capital markets
- Provide excellent service to Participating Local Authorities
- Ensure excellent communication exists and be professional in its dealings with all its stakeholders
- Ensure its products and services are delivered in a cost-effective manner
- Consult with Shareholders regarding the potential requirement for LGFA Borrowers to obtain comprehensive insurance cover
- Review the appropriateness of LGFA's "broker" business model
- Maintain LGFA's credit rating equal to the New Zealand Government sovereign rating where both entities are rated by the same Rating Agency
- Achieve the Financial Forecasts set out in section 4
- Meet or exceed the Performance Targets outlined in section 5
- Achieve the Dividend Policy set out in section 6

## **4. Financial forecasts**

A business case for LGFA has been developed. The Board has reviewed and ratified the assumptions that this business case is based on.

Based on the business case LGFA's financial forecasts for the three years to 30 June 2015 are:

<b>Period to 30 June (\$m)</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
Local Government Interest Income	31.2	50.9	60.9
LGFA Interest Expense	(27.2)	(46.4)	(56.2)
Net Liquidity Income	(0.1)	(0.1)	(0.2)
Total Net Income	3.9	4.4	4.5
Overheads	(2.7)	(2.8)	(3.1)
Net Profit	1.2	1.6	1.4
Borrower Notes Interest	(0.5)	(0.8)	(0.9)
Principal Shares Dividend	(0.7)	(0.7)	(1.5)
Retained Surplus / (Deficit)	(0.0)	0.0	(1.0)
Total Assets	1,099.5	1,605.8	2,312.2
Total Local Government Assets	999.5	1,459.8	2,102.2
Total Liabilities	1,063.1	1,562.0	2,259.2
Total Equity	36.4	43.8	53.0
Shareholder Funds / Total Assets	3.3%	2.7%	2.3%

Shareholder Funds means the aggregate of:

- Paid up Principal Share capital and Borrower Notes
- Retained earnings
- Asset revaluation reserves
- Other capital and revenue reserves

Total Assets shall mean the aggregate of:

- Current assets
- Investments
- Fixed assets
- Intangible assets

## **5. Performance targets**

LGFA has the following performance targets:

- LGFA's average cost of funds relative to the average cost of funds for New Zealand Government Securities for the period to:
  - 30 June 2013 will be less than 0.50% higher
  - 30 June 2014 will be less than 0.40% higher
  - 30 June 2015 will be less than 0.40% higher
- The average margin above LGFA's cost of funds charged to the highest rated Participating Local Authorities will be no more than 0.40%
- LGFA's annualised operating overheads will be less than \$3.2 million

- Total lending to Participating Local Authorities at:
  - 30 June 2013 will be at least \$900 million
  - 30 June 2014 will be at least \$1,400 million
  - 30 June 2015 will be at least \$2,000 million
- The total number of Participating Local Authorities Shareholders in the LGFA at 30 September 2012 will be at least 30
- The total number of Participating Local Authorities (ie Shareholders and eligible Borrowers) in the LGFA at 30 September 2012 will be at least 40

## **6. Dividend policy**

LGFA will seek to maximise benefits to Participating Local Authorities as Borrowers rather than Shareholders. Consequently it is intended to pay a limited dividend to Shareholders.

The Board's policy is to pay a dividend that provides an annual rate of return to Shareholders equal to LGFA cost of funds plus 2.00% over the medium term, recognising that, to assist in the start-up period, the initial expectation is for no dividend for the part period to 30 June 2012 and for a dividend equal to 50% of the target dividend in the two periods to 30 June 2014 to be paid. Thereafter, the intention is to pay at least the full target dividend until the target dividend return is achieved as measured from commencement, including consideration of the time value of money at the target annual rate of return.

At all times payment of any dividend will be discretionary and subject to the Board's legal obligations and views on appropriate capital structure.

## **7. Governance**

### ***Board***

The Board is responsible for the strategic direction and control of LGFA's activities. The Board guides and monitors the business and affairs of LGFA, in accordance with the Companies Act 1993, the Local Government Act 2002, the Local Government Borrowing Act 2011, the Company's Constitution, the Shareholders' Agreement for LGFA and this SOI.

The Board will comprise between four and seven directors with a majority of independent directors.

The Board's approach to governance is to adopt "best practice" with respect to:

- The operation of the Board
- The performance of the Board
- Managing the relationship with the Company's Chief Executive
- Being accountable to all Shareholders

All directors are required to comply with a formal Charter, to be developed and agreed with Shareholders.

The Board will meet on a regular basis and no less than 11 times each year.

### ***Shareholders' Council***

The Shareholders' Council is made up of ten appointees of the Shareholders (including an appointee from the Crown). The role of the Shareholders' Council is to:

- Review the performance of LGFA and the Board, and report to Shareholders on that performance on a periodic basis (no less frequently than quarterly)
- Make recommendations to Shareholders as to the appointment, removal, replacement and remuneration of directors
- Make recommendations to Shareholders as to any changes to policies, or the SOI, requiring their approval
- Ensure all Shareholders are fully informed on LGFA matters and to coordinate Shareholders on governance decisions

## **8. Information to be provided to Shareholders**

The Board aims to ensure that the Shareholders are informed of all major developments affecting LGFA's state of affairs, while at the same time recognising that commercial sensitivity may preclude certain information from being made public. The LGFA will adhere to a 'no surprises' approach in its dealings with its Shareholders.

### ***Annual Report***

The LGFA's balance date is 30 June.

By 30 September each year, the Company will provide to the Shareholders an Annual Report complying with Sections 67, 68 and 69 of the Local Government Act 2002, the Companies Act and Financial Reporting Act. The Annual Report will contain the information necessary to enable an informed assessment of the operations of the company, and will include the following information:

- Directors' Report
- Financial Statements incorporating a Statement of Financial Performance, Statement of Movements in Equity, Statement of Financial Position, Statement of Cashflows, Statement of Accounting Policies and Notes to the Accounts
- Comparison of the LGFA's performance with regard to the objectives and performance targets set out in the SOI, with an explanation of any material variances
- Auditor's Report on the financial statements and the performance targets
- Any other information that the directors consider appropriate

### ***Half Yearly Report***

By 28 February each year, the Company will provide to the Shareholders a Half Yearly Report complying with Section 66 of the Local Government Act 2002. The Half Yearly Report will include the following information:

- Directors' commentary on operations for the relevant six month period
- Comparison of LGFA's performance with regard to the objectives and performance targets set out in the SOI, with an explanation of any material variances
- Un-audited half-yearly Financial Statements incorporating a Statement of Financial Performance, Statement of Movements in Equity, Statement of Financial Position and Statement of Cashflows

### ***Quarterly Report***

By 30 April, 31 July, 31 October and 31 January each year, the Company will provide to the Shareholders' Council a Quarterly Report. The Quarterly Report will include the following information:

- Directors' commentary on operations for the relevant quarter
- Comparison of LGFA's performance with regard to the objectives and performance targets set out in the SOI, with an explanation of any material variances
- to the extent known by LGFA, details of all events of review in respect of any Participating Local Authority that occurred during the relevant quarter (including steps taken, or proposed to be taken, by LGFA in relation thereto)

### ***Statement of Intent***

By 1 March in each year the Company will deliver to the shareholder its draft SOI for the following year in the form required by Clause 9(1) of Schedule 8 and Section 64(1) of the Local Government Act 2002.

Having considered any comments from the Shareholders received by 30 April, the Board will deliver the completed SOI to the Shareholders on or before 30 June each year.

### ***Shareholder Meetings***

The Board will hold an Annual General Meeting between 30 September and 30 November each year to present the Annual Report to all Shareholders.

The Company will hold a meeting with the Shareholders' Council approximately every six months – prior to the Annual General Meeting and after the Half Yearly Report has been submitted. Other meetings may be held by agreement between the Board and the Shareholders' Council.

## **9. Acquisition/divestment policy**

LGFA will invest in securities in the ordinary course of business. It is expected that these securities will be debt securities. These investments will be governed by LGFA's lending and/or investment policies as approved by the Board and/or Shareholders.

Any subscription, purchase or acquisition by LGFA of shares in a company or organisation will, if not within those investment policies, require Shareholder approval other than as concerns the formation of wholly-owned subsidiaries and the subscription of shares in such wholly-owned subsidiaries.

## **10. Activities for which compensation is sought from Shareholders**

At the request of Shareholders, LGFA may (at its discretion) undertake activities that are not consistent with its normal commercial objectives. Specific financial arrangements will be entered into to meet the full cost of providing such as activities.

Currently there are no activities for which compensation will be sought from Shareholders.

## **11. Commercial value of Shareholder's investment**

LGFA will seek to maximise benefit to Participating Local Authorities as Borrowers rather than Shareholders.

Subject to the Board's views on the appropriate capital structure for LGFA, the Board's intention will be to pay a dividend that provides an annual rate of return to Principal Shareholders equal to LGFA cost of funds plus 2.00% over the medium term, including taking consideration of the time value of money at the target annual rate of return. Consequently LGFA will seek to operate so that it only generates sufficient free cash to enable this (ie no more and no less).

As the Shareholders will have invested in the LGFA on the basis of this limited dividend, the Board considers that at establishment the commercial value of LGFA is equal to the face value of the Shareholders' paid up Principal Shares - \$25 million.

## **12. Accounting policies**

LGFA has adopted accounting policies that are consistent with the New Zealand International Financial Reporting Standards, generally accepted accounting practice. A summary of the accounting policies is attached to this SOI.

### **Summary of Accounting Policies**

***This summary is set out in a form consistent with the form in which the accounting policies will be set out when presented with financial statements of the Company. No financial statements are included with this SOI.***

### **Reporting Entity**

These financial statements are for New Zealand Local Government Funding Agency ("the Agency") and are prepared in accordance with the Public Finance Act 1989 and with New Zealand generally accepted accounting practice (NZ GAAP). For this purpose, the Agency is designated as a public benefit entity. These financial statements comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) as appropriate for public benefit entities.

### **Basis of Preparation**

The financial statements have been prepared on the basis of historic cost modified by the revaluation of certain assets and liabilities.

The financial statements are prepared on an accrual basis.

The financial statements are presented in New Zealand dollars rounded to the nearest million, unless separately identified.

## **Judgements and Estimations**

The preparation of these financial statements requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. For example, the present value of large cash flows that are predicted to occur a long time into the future, depends critically on judgements regarding future cash flows, including inflation assumptions and the risk free discount rate used to calculate present values. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

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

Where these judgements significantly affect the amounts recognised in the financial statements they are described below and in the following notes.

## **Early Adoption Standards and Interpretations**

The Agency has elected to early-adopt all NZ IFRSs and Interpretations applicable to public benefit entities that had been approved by the New Zealand Accounting Standards Review Board as at 30 June 2011 but that are not yet effective, with the exception of *NZ IFRS 9: Financial Instruments*. The first of three phases of this new standard (which is incomplete as at 30 June 2011) were approved by the Accounting Standards Review Board in November 2009 and November 2010. The standard addresses the issues of classification and measurement of financial assets and financial liabilities and becomes effective for annual reporting periods commencing on or after 1 January 2013.

An initial assessment of standards approved since 30 June 2010 do not indicate any issues which would have a material impact on these financial statements.

## **Significant Accounting Policies**

### **Reporting and Forecast Period**

The reporting and forecast period for the financial statements of the Agency is the financial year from 1 July to 30 June.

### **Revenue**

#### ***Revenue earned through operations***

Revenue from the supply of goods and services to third parties is measured at the fair value of consideration received. Revenue from the supply of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from the supply of services is recognised on a straight-line basis over the specified period of the services unless an alternative method better represents the stage of completion of the transaction.



### ***Interest income***

Interest income is accrued using the effective interest rate method.

The effective interest rate exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this rate to the principal outstanding to determine interest income each period.

## **Expenses**

### ***General***

Expenses are recognised in the period to which they relate.

### ***Interest expense***

Interest expense is accrued using the effective interest rate method.

The effective interest rate exactly discounts estimated future cash payments through the expected life of the financial liability to that liability's net carrying amount. The method applies this rate to the principal outstanding to determine interest expense each period.

## **Foreign Currency**

Transactions in foreign currencies are initially translated at the foreign exchange rate at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of financial performance, except when recognised in the statement of comprehensive income when hedge accounting is applied.

Non-monetary assets and liabilities measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies and measured at fair value are translated into New Zealand dollars at the exchange rate applicable at the fair value date. The associated foreign exchange gains or losses follow the fair value gains or losses to either the statement of financial performance or the statement of comprehensive income.

Foreign exchange gains and losses arising from translating monetary items that form part of the net investment in a foreign operation are reported in a translation reserve in net worth and recognised in the statement of comprehensive income.

## **Financial instruments**

## **Financial assets**

Financial assets are designated into the following categories: loans and receivables, financial assets available-for sale, financial assets held-for-trading, and financial assets designated as fair value through profit and loss. This designation is made by reference to the purpose of the financial instruments, policies and practices for their management, their relationship with other instruments and the reporting costs and benefits associated with each designation.

The maximum loss due to default on any financial asset is the carrying value reported in the statement of financial position.

<b>Major financial asset type</b>	<b>Designation</b>
Trade and other receivables	All designated as loans and receivables
Other advances	Generally designated as loans and receivables
Share investments	Generally designated as fair value through profit and loss
Marketable securities	Generally designated as fair value through profit and loss

Loans and receivables are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method (refer interest income policy). Loans and receivables issued with a duration of less than 12 months are recognised at their nominal value, unless the effect of discounting is material. Allowances for estimated irrecoverable amounts are recognised when there is objective evidence that the asset is impaired. Interest, impairment losses and foreign exchange gains and losses are recognised in the statement of financial performance.

Financial assets held-for-trading and financial assets designated as fair value through profit or loss are recorded at fair value with any realised and unrealised gains or losses recognised in the statement of financial performance.

A financial asset is designated as fair value through profit and loss if acquired principally for the purpose of trading in the short term. It may also be designated into this category if the accounting treatment results in more relevant information because it either significantly reduces an accounting mismatch with related liabilities or is part of a group of financial assets that is managed and evaluated on a fair value basis. Gains or losses from interest, foreign exchange and other fair value movements are separately reported in the statement of financial performance. Transaction costs are expensed as they are incurred.

Available-for-sale financial assets are initially recorded at fair value plus transaction costs. They are subsequently recorded at fair value with any resultant fair value gains or losses recognised in the statement of comprehensive income with some exceptions. Those exceptions are for impairment losses, any interest calculated using the effective interest method and, in the case of monetary items (such as debt securities), foreign exchange gains and losses resulting from translation differences due to changes in amortised cost of the asset. These latter items are recognised in the statement of financial performance. For non-monetary available-for-sale financial assets (e.g., some unlisted equity instruments) the fair value movements recognised in the statement of comprehensive income include any related foreign exchange component. At derecognition, the cumulative fair value gain or loss previously recognised in the statement of comprehensive income, is recognised in the statement of financial performance.

Cash and cash equivalents include cash on hand, cash in transit, bank accounts and deposits with an original maturity of no more than three months.

Fair values of quoted investments are based on current bid prices. Regular way purchases and sales of all financial assets are accounted for at trade date. If the market for a financial asset is not active, fair values for initial recognition and, where appropriate, subsequent measurement are established by using valuation techniques, as set out in the notes to the financial statements. At each balance date an assessment is made whether there is objective evidence that a financial asset or group of financial assets is impaired.

### ***Financial liabilities***

<b>Major financial liability type</b>	<b>Designation</b>
Accounts payable	All designated at amortised cost

Financial liabilities held for trading and financial liabilities designated as fair value through profit and loss are recorded at fair value with any realised and unrealised gains or losses recognised in the statement of financial performance. A financial liability is designated as fair value through profit and loss if acquired principally for the purpose of trading in the short term. It may also be designated into this category if the accounting treatment results in more relevant information because it either eliminates or significantly reduces an accounting mismatch with related assets or is part of a group of financial liabilities that is managed and evaluated on a fair value basis.

Gains or losses from interest, foreign exchange and other fair value movements are separately reported in the statement of financial performance. Transaction costs are expensed as they are incurred.

Other financial liabilities are recognised initially at fair value less transaction costs and subsequently measured at amortised cost using the effective interest rate method. Financial liabilities entered into with durations of less than 12 months are recognised at their nominal value. Amortisation and, in the case of monetary items, foreign exchange gains and losses, are recognised in the statement of financial performance as is any gain or loss when the liability is derecognised.

### ***Derivatives***

Derivative financial instruments are recognised both initially and subsequently at fair value. They are reported as either assets or liabilities depending on whether the derivative is in a net gain or net loss position respectively.

Recognition of the movements in the value of derivatives depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged (see Hedging section below).

Derivatives that are not designated for hedge accounting are classified as held-for-trading financial instruments with fair value gains or losses recognised in the statement of financial performance. Such derivatives may be entered into for risk management purposes, although not formally designated for hedge accounting, or for tactical trading.

## **Hedging**

Individual entities consolidated within the Agency reporting entity apply hedge accounting after considering the costs and benefits of adopting hedge accounting, including:

- whether an economic hedge exists and the effectiveness of that hedge
- whether the hedge accounting qualifications could be met, and
- the extent to which it would improve the relevance of reported results.

Where a derivative is used to hedge the foreign exchange exposure of a monetary asset or liability, the effects of the hedge relationship are automatically reflected in the statement of financial performance so hedge accounting is not necessary.

### *(a) Cash flow hedge*

Where a derivative qualifies as a hedge of variability in asset or liability cash flows (cash flow hedge), the effective portion of any gain or loss on the derivative is recognised in the statement of comprehensive income and the ineffective portion is recognised in the statement of financial performance. Where the hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability (e.g., where the hedge relates to the purchase of an asset in a foreign currency), the amount recognised in the statement of comprehensive income is included in the initial cost of the asset or liability. Otherwise, gains or losses recognised in the statement of comprehensive income transfer to the statement of financial performance in the same period as when the hedged item affects the statement of financial performance (e.g., when the forecast sale occurs). Effective portions of the hedge are recognised in the same area of the statement of financial performance as the hedged item.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in net worth at that time remains in net worth and is recognised when the forecast transaction is ultimately recognised in the statement of financial performance. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in the statement of comprehensive income is transferred to the statement of financial performance.

### *(b) Fair value hedge*

Where a derivative qualifies as a hedge of the exposure to changes in fair value of an asset or liability (fair value hedge) any gain or loss on the derivative is recognised in the statement of financial performance together with any changes in the fair value of the hedged asset or liability.

The carrying amount of the hedged item is adjusted by the fair value gain or loss on the hedged item in respect of the risk being hedged. Effective parts of the hedge are recognised in the same area of the statement of financial performance as the hedged item.

## **Property, Plant and Equipment (PPE)**

Items of property, plant and equipment are initially recorded at cost. Cost may include transfers from net worth of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Where an asset is acquired for nil or nominal consideration the asset is recognised

initially at fair value, where fair value can be reliably determined, and as income in the statement of financial performance.

Depreciation is charged on a straight-line basis at rates calculated to allocate the cost or valuation of an item of property, plant and equipment, less any estimated residual value, over its remaining useful life.

## **Intangible Assets**

Intangible assets are initially recorded at cost. Where an intangible asset is created for nil or nominal consideration it is also initially carried at cost, which by definition is nil/nominal.

Intangible assets with finite lives are reviewed at least annually to determine if there is any indication of impairment. Where an intangible asset's recoverable amount is less than its carrying amount, it is reported at its recoverable amount and an impairment loss is recognised. Losses resulting from impairment are reported in the statement of financial performance.

## **Employee Benefits**

### ***Pension liabilities***

Obligations for contributions to defined contribution retirement plans are recognised in the statement of financial performance as they fall due. Obligations for defined benefit retirement plans are recorded at the latest actuarial value of the Crown liability. All movements in these liabilities, including actuarial gains and losses, are recognised in full in the statement of financial performance in the period in which they occur.

### ***Other employee entitlements***

Employee entitlements to salaries and wages, annual leave, long service leave, retiring leave and other similar benefits are recognised in the statement of financial performance when they accrue to employees. Employee entitlements to be settled within 12 months are reported at the amount expected to be paid. The liability for long-term employee entitlements is reported as the present value of the estimated future cash outflows.

### ***Termination benefits***

Termination benefits are recognised in the statement of financial performance only when there is a demonstrable commitment to either terminate employment prior to normal retirement date or to provide such benefits as a result of an offer to encourage voluntary redundancy. Termination benefits settled within 12 months are reported at the amount expected to be paid, otherwise they are reported as the present value of the estimated future cash outflows.

## **Leases**

Finance leases transfer, to the Agency as lessee, substantially all the risks and rewards incident on the ownership of a leased asset. Initial recognition of a finance lease results in an asset and liability being recognised at amounts equal to the lower of the fair value of the leased property or the present value of

the minimum lease payments. The capitalised values are amortised over the period in which the Agency expects to receive benefits from their use.

Operating leases, where the lessor substantially retains the risks and rewards of ownership, are recognised in a systematic manner over the term of the lease. Leasehold improvements are capitalised and the cost is amortised over the unexpired period of the lease or the estimated useful life of the improvements, whichever is shorter.

Lease incentives received are recognised evenly over the term of the lease as a reduction in rental expense.

## **Other Liabilities and Provisions**

Other liabilities and provisions are recorded at the best estimate of the expenditure required to settle the obligation. Liabilities and provisions to be settled beyond 12 months are recorded at the present value of their estimated future cash outflows.

## **Contingent Liabilities and Contingent Assets**

Contingent liabilities and contingent assets are reported at the point at which the contingency is evident or when a present liability is unable to be measured with sufficient reliability to be recorded in the financial statements (unquantifiable liability). Contingent liabilities, including unquantifiable liabilities, are disclosed if the possibility that they will crystallise is not remote. Contingent assets are disclosed if it is probable that the benefits will be realised.

## **Commitments**

Commitments are future expenses and liabilities to be incurred on contracts that have been entered into at balance date. Cancellable commitments that have penalty or exit costs explicit in the agreement on exercising the option to cancel are reported at the value of that penalty or exit cost (i.e., the minimum future payments).

Commitments are classified as:

- capital commitments: aggregate amount of capital expenditure contracted for but not recognised as paid or provided for at balance date
- non-cancellable operating leases with a lease term of more than one year, and
- other non-cancellable commitments (these may include consulting contracts, cleaning contracts and ship charters).

Interest commitments on debts and commitments relating to employment contracts are not included in the Statement of Commitments.