



NEW ZEALAND FIRE SERVICE COMMISSION

STATEMENT OF PERFORMANCE EXPECTATIONS 2014-15

PRESENTED TO THE HOUSE OF REPRESENTATIVES PURSUANT TO SECTION 149 OF
THE CROWN ENTITIES ACT 2004

Contents

Statement of responsibility.....	3
Introduction	4
Outcome measures	9
Output class 1 - Fire safety education, prevention and advice	10
Output Class 2 - Fire fighting and other Fire Service operations	11
Output Class 3: Rural fire leadership and co-ordination	14
Organisational capability – diversity and staff turnover.....	15
Consultation and reporting to the Minister of Internal Affairs	16
Cost of the outputs for the year ending 30 June 2015	16
Prospective statement of comprehensive income	18
Prospective statement of changes in equity.....	20
Prospective statement of financial position	21
Prospective statement of cash flows	23
Financial assumptions.....	24
Statement of accounting policies	25
Glossary.....	41

Statement of responsibility

The information on future operating intentions of the New Zealand Fire Service Commission for the year ending 30 June 2015 contained in this Statement of Performance Expectations 2014-2015 has been prepared in accordance with sections 141 and 142 of the Crown Entities Act 2004.

As members of the Fire Service Commission we acknowledge that, in signing this statement, we are responsible for the information contained in this Statement of Performance Expectations 2014-2015.

The Fire Service Commission is responsible for the prospective financial statements presented, including the assumptions underlying the prospective financial statements and all other disclosures.

The prospective financial statements and assumptions and the forecast statement of service performance have been prepared to meet the requirements of the Crown Entities Act 2004.

We certify that the information contained in the Statement of Performance Expectations 2014-2015 is a fair and reasonable reflection of the Fire Service Commission's operating intentions.



Rt Hon Wyatt Creech

Chair

20 June 2014



David McFarlane

Deputy Chairperson

20 June 2014

Introduction

The purpose of the Statement of Performance Expectations is to:

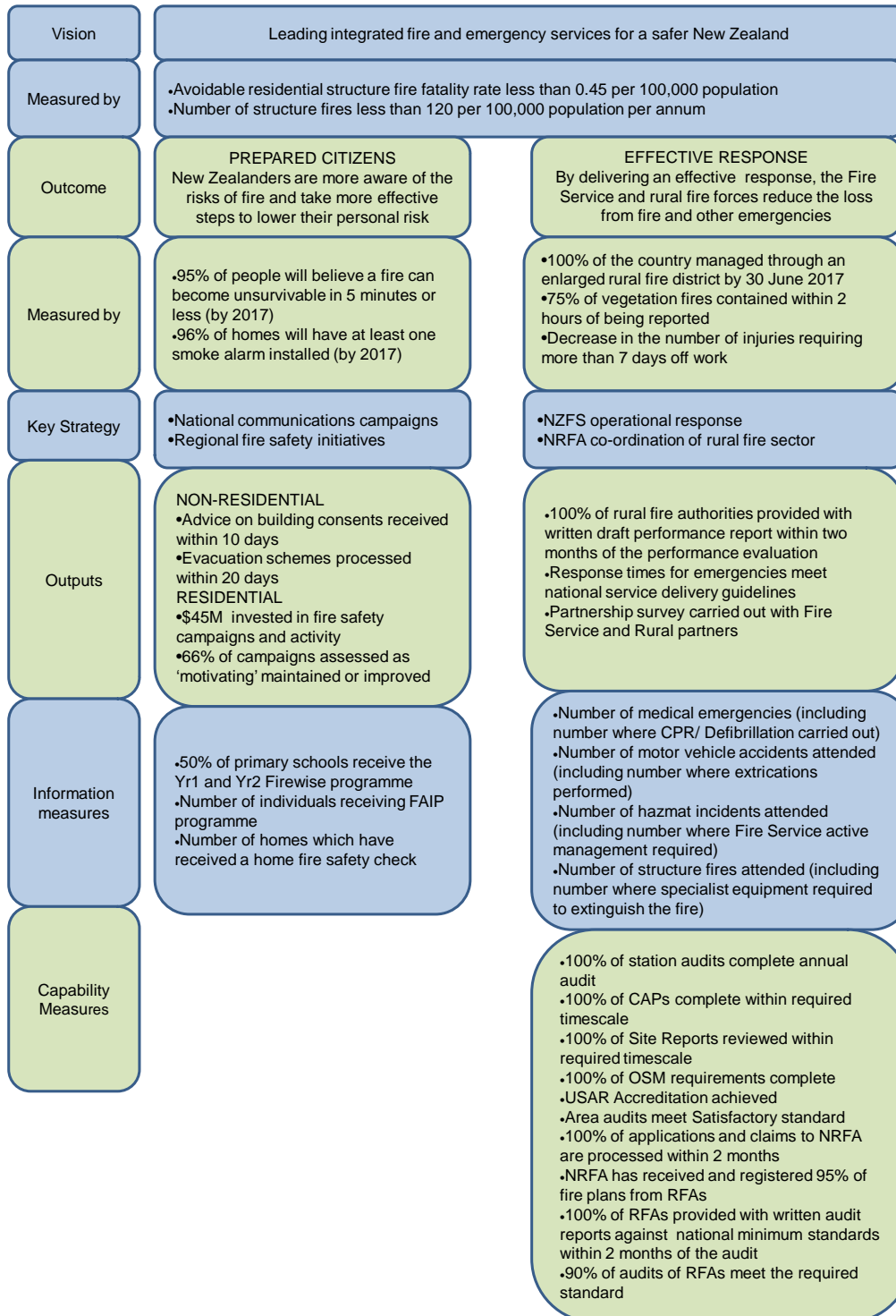
- Enable the Minister to participate in a process of setting annual performance expectations, and
- Enable the House of Representatives to be informed of those expectations, and
- Provide a base against which actual performance can be assessed

Each financial year Crown entities including the Fire Service Commission are required to provide concise explanations for appropriations and reportable outputs in terms of what is intended to be achieved and how performance will be assessed.

This annual Statement of Performance Expectation for 2014-15 aligns with the Fire Service Commission's strategy as outlined in the 2014-18 Statement of Intent and should be read in conjunction with that document.

The diagram below represents the Commission's outcome framework including the services (outputs) the Commission provides, the impact those services have and the outcomes they seek to improve.

Figure 1: Fire Service Outcomes Framework



The two tables below give a more detailed breakdown of the intervention logic connecting the Fire Service's outputs and outcomes.

Intervention Logic for Outcome 1

Prepared Citizens: New Zealanders are more aware of the risks of fire and take more effective steps to lower their personal risk

What does the Fire Service do to prevent fires?

For residential homes:

- Social marketing campaigns
- Home safety visits & fitting smoke alarms
- Firewise campaign for school children
- Arson reduction programmes for fire setters

For non-residential premises

- Reviewing building consents
- Approving evacuation schemes

How does it measure this activity? (output measures & information measures)

For residential homes:

- Delivery of social marketing campaigns as per schedule on time and budget
- Social marketing campaigns maintain or improve % of people motivated to change their behaviour
- % of schools delivering the Firewise programme for year 1 and year 2 students
- Number of individuals receiving the Fire Awareness and Intervention Programme (FAIP)
- Number of home fire safety checks carried out

For non-residential premises

- Advice on building consents provided within required timeframes
- Evacuation schemes processed within required timeframes

What difference does this make?

At a high level the outputs will improve the public's knowledge and awareness of fire safety. In addition, homes will become safer as more smoke alarms are fitted and more adequate preparation is made on what to do in the event of a fire.

How can the Fire Service measure this difference? (impact and quality measures)

For residential homes

- 95% of people will believe a fire can become unsurvivable in 5 minutes or less (by 2017)
- 96% of homes will have at least one smoke alarm installed (by 2017)

How does this affect the outcome?

Improvements in fire knowledge and behaviour will reduce the number of fires. Increases in the number of smoke alarms and improvements in knowledge about what to do after a fire starts will help reduce the impact of fire. For commercial premises, the provision of advice to ensure that fire safety standards are adequately catered for will ensure that buildings are less prone to and safer in the event of fire

How does the Fire Service measure the outcome?

- Number of structure fires less than 120 per 100,000 population per annum

Intervention Logic for Outcome 2

Effective Response: By delivering an effective response, the Fire Service and rural fire forces reduce the loss from fire and other emergencies
<i>What does the Fire Service do to reduce loss at fires?</i>
<i>Readiness:</i> <ul style="list-style-type: none">• Training and skills maintenance is carried to ensure that all firefighters' skills are current and fit for purpose• Ensuring appropriate standards and co-ordination across the rural fire sector <i>Response:</i> <ul style="list-style-type: none">• Fire service operational response
<i>How does it measure this activity? (output measures & information measures)</i>
<i>Skills maintenance & risk awareness</i> <ul style="list-style-type: none">• 100% of station annual audits complete• 100% of CAPs complete within required timescale• 100% of Site reports reviewed within timescale• 100% of OSM requirements complete <i>Operational response</i> <ul style="list-style-type: none">• Number of incidents attended and timeliness of response• Partnership survey implemented with emergency partners <i>Co-ordination of the rural fire sector</i> <ul style="list-style-type: none">• Performance assessments carried out of the rural fire sector• Partnership survey implemented with rural fire sector• 59% of New Zealand's land is managed by an Enlarged Rural Fire District by 30 June 2015 (Number of ERFDs increased from 10 to 17)
<i>What difference does this make?</i>
By ensuring firefighters (rural and urban) are well trained and prepared for incidents the number of injuries (and other Level 2 investigations) should reduce and that fires are effectively managed. More effective understanding of our partnerships will result in more seamless working relationships and may facilitate cooperative initiatives such as the recent MOU with St John and the creation of Enlarged Rural Fire Districts.
<i>How can the Fire Service measure this difference? (impact and quality measures)</i>
<ul style="list-style-type: none">• Decrease in the number of Level 2 investigations (firefighter injuries and near misses)• 75% of vegetation fires in rural fire districts contained within 2 hours of being reported
<i>How does this affect the Outcome?</i>
A more effective response should better contain the physical loss from fire. The fire fatality rate is included here and is a result both of prevention measures and the operational response.
<i>How does the Fire Service measure the outcome?</i>
<ul style="list-style-type: none">• Avoidable residential structure fire fatality rate less than 0.45 per 100,000 population

Linking outputs to outcomes

The table below shows which outputs correspond to which outcome.

PREPARED CITIZENS	EFFECTIVE RESPONSE
Output 1.1 Fire prevention and advice to the general public	
Output 1.2 Professional and technical advice to the built environment public	Output 1.2 Professional and technical advice to the built environment public
Output 1.3 Fire safety legislation	Output 1.3 Fire safety legislation
	Output 2.1 Operational readiness
	Output 2.2 Operational responses to fire and other emergencies
Output 3.1 Advice and support to fire authorities and rural fire committees and administration of the rural fire fighting fund and grant assistance schemes	
Output 3.2 Rural fire standards, audit, evaluation of fire authority performance and management of the fire weather monitoring and prediction system.	

Outcome and Impact Measures

Outcome 1: Prepared Citizens

	Measure	Target
1.1	<ul style="list-style-type: none"> Number of structure fires less than 120 per 100,000 population per annum 	120 per 100,000 population
1.2	<ul style="list-style-type: none"> 95% of people will believe a fire can become unsurvivable in 5 minutes or less (by 2017) 	95%
1.3	<ul style="list-style-type: none"> 96% of homes will have at least one smoke alarm installed (by 2017) 	96%

Outcome 2: Effective Response

	Measure	Target
2.1	<ul style="list-style-type: none"> Avoidable residential structure fire fatality rate less than 0.45 per 100,000 population 	0.45 per 100,000 population
2.2	<ul style="list-style-type: none"> 100% of the land currently managed through Rural Fire Authorities is managed by Enlarged Rural Fire Districts by 30 June 2017 (excludes 6 Defence Rural Fire Districts) 	59%
2.3	<ul style="list-style-type: none"> 75% of vegetation fires in rural fire districts contained within 2 hours of being reported 	75%
2.4	<ul style="list-style-type: none"> Decrease in the number of injuries to Fire Service staff requiring more than 7 days off work 	Reduction from current baseline

Output class 1 - Fire safety education, prevention and advice

Output 1.1 Fire prevention and advice to the general public

This output includes the delivery of fire safety education and advice to the public, including through national advertising media. These services aim to change peoples' behaviour by improving their knowledge about fire risks and what actions to undertake to reduce those risks.

	Measure	Target
1.1.1	50% of primary schools receive the Year 1 and Year 2 Firewise fire safety education programme (i.e. to ensure that all students receive the programme during their first two years at primary school)	<i>Information measure only – number of schools who agree to deliver the programme</i>
1.1.2	Number of individuals receiving the Fair Awareness Intervention Programme (FAIP)	<i>information measure only</i>
1.1.3	Number of homes which have received a home fire safety check	<i>information measure only</i>
1.1.4	\$45M invested in fire safety campaigns and activity	\$45M
1.1.5	% of campaigns assessed as 'motivating' maintained or improved	66%

Output 1.2 Professional and technical advice to the built environment public

This output includes the delivery of fire engineering, professional and technical fire safety advice to people involved in building: standard-setting, design, development, ownership and occupation. The advice covers fire safety features in building design and making sure buildings are used safely.

	Measure	Target
1.2.1	100% of advice (Fire Service memoranda) provided to territorial authorities on building consent applications within 10 working days of all required information being correctly received.	100%

Output 1.3 Fire safety legislation

In some cases, the Fire Service has a legislative responsibility to provide fire safety advice. This includes the processing of building evacuation schemes. The measure below sets standards of timeliness for processing these applications.

	Measure	Target
1.3.1	100% of evacuation schemes submitted to the Fire Service are processed within the statutory timeframe (20 working days with provision for a further 10 days, if required) once all required information has been correctly received.	100%

Output Class 2 - Fire fighting and other Fire Service operations

Output 2.1 Operational readiness

Operational readiness describes the activities through which the Fire Service prepares to deliver its outputs. Given the risk critical nature of its operations, firefighters are required to undergo regular and intensive training and preparation.

These activities are not outputs in themselves, i.e. they are not a service to the public. They are however a large part of the Fire Service's activity and it is important that they are measured both from a health and safety perspective and in allowing management to assess the organisation's readiness to respond to emergencies.

	Measure	Target
2.1.1	Percentage of stations that complete annual audits	100%
2.1.2	Percentage of Corrective Action Plans that are completed within the required timescale. (Number of CAPs also recorded for informational purposes)	100%
2.1.3	Percentage of Site Reports reviewed within the required timescale	100%
2.1.4	Percentage of OSM requirements complete	100%
2.1.5	Area audits meet "Satisfactory" standard	8 audits complete Pass mark 2.5/3

Output 2.2 Operational responses to fire and other emergencies

The measures in this section address the Fire Service's actual operational response. In most cases these measures should be treated as informative only and not regarded as indicators of performance. For example, the volume of services provided is demand driven and largely outside the Fire Service's direct control.

The volume measures are broken down to include the sub-category of incidents where a critical intervention was made, e.g. road traffic crashes where a rescue was made.

It is very hard to assess the quality of service at the point of delivery, e.g. how well or otherwise a fire was extinguished. Moreover, for many non-fire incidents the Fire Service's role is only to stabilise an incident and responsibility for resolution rests with other agencies.

Timeliness measures are therefore used as a proxy for quality. There is a strong correlation between how quickly the Fire Service arrives and incident outcomes for fire and medical emergencies. The assumption is made that if a well-prepared crew (as measured by the operational readiness measures) arrives in good time then the incident is likely to be successfully managed.

Timeliness measures are reported against national standards. These response times have been established to provide a balance between resource availability and early intervention to reduce or minimise the consequence of emergency incidents.

	Measure	Target
2.2.1	Number of structure fires attended (including number where NZFS equipment required to extinguish fire e.g. one hose reel or more)	<i>information measure only</i>
2.2.2	Number of non-fire emergencies attended (total) <ul style="list-style-type: none"> • number of medical emergencies attended (including number where CPR/defibrillation carried out). • number of motor vehicle accidents attended (including number where extrications performed) • number of hazardous materials incidents attended (including number where Fire Service active management required) 	<i>information measure only</i>
2.2.3	Response times for structure fire incidents inside urban fire districts will be monitored for performance against the national service delivery guidelines of: <ul style="list-style-type: none"> • 8 minutes 90% of the time for career stations • 11 minutes 90% of the time for volunteer stations. 	90% 90%
2.2.4	Meet or exceed national service delivery guidelines for non-fire emergencies:	

	<ul style="list-style-type: none"> • 30 minutes for motor vehicle accidents 90% of the time. • 20 minutes for incidents requiring the specialist Hazmat unit 90% of the time within major urban areas. • 60 minutes for incidents requiring the specialist Hazmat unit 90% of the time for the rest of New Zealand. • for response to medical emergencies inside urban fire districts: <ul style="list-style-type: none"> ○ 8 minutes 90% of the time for career stations ○ 11 minutes 90% of the time for volunteer stations. 	90% 90% 90% 90% 90%
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Output 2.3 Wider emergency management capability

This output covers the Fire Service's wider emergency management activities. The project to gain international accreditation for the Fire Service's Urban Search and Rescue (USAR) team is highlighted.

	Measure	Target
2.3.1	USAR accreditation achieved	Accreditation achieved by 30 June 2015
2.3.2	Actions developed from annual stakeholder survey	Survey complete by 30 June 2015

The proposed development of partnership surveys for 2014-15 will provide an objective means of assessing the quality of service delivery in the wider emergency management sector.

Output Class 3: Rural fire leadership and co-ordination

Output 3.1 Advice and support to fire authorities and rural fire committees and administration of the rural fire fighting fund and grant assistance schemes

This output covers National Rural Fire Authority (NRFA). The NRFA provides advice including interpretation on legal matters, advice and support to fire authorities and regional rural fire committees. The NRFA provides support to rural fire committees through the rural fire managers and the National Rural Fire Officer.

	Measure	Target
3.1.1	Rural stakeholder survey completed	Survey complete by 30 June 2015
3.1.2	Applications and claims to the NRFA are processed within 2 months	100% of applications and claims processed within 2 months
3.1.3	NRFA has received and registered fire plans from rural fire authorities	95%

Output 3.2 Rural fire standards, audit, evaluation of fire authority performance and management of the fire weather monitoring and prediction system.

This output covers the maintenance of the rural fire standards and auditing fire authority compliance against those standards. It also includes the evaluation of fire authorities' performance under the Forest and Rural Fires Act 1977.

	Measure	Target
3.2.1	Rural Fire Authorities provided with written audit reports against national minimum standards within two months of the audit	100% within 2 months
3.2.2	Rural Fire Authorities provided with a draft performance report within two months of the performance evaluation	100% within 2 months
3.2.3	Percentage of audits of RFAs meeting the required standard	90%

Organisational capability – diversity and staff turnover

The organisational health measures are not outputs but are included in the Statement of Performance Expectation so that all measures are available in a single document.

Achieve improved diversity of the Fire Service workforce so that it better reflects the communities we serve. Targets for June 2015 are:

- 11% of operational firefighter will be of Maori origin.
- 4.25% of operational firefighters will of Pacific People origin.
- 5.5% of operational firefighters will be female.

Maintain employee turnover rates below:

- 15% for management and support and communication centre staff
- 6% for firefighters.

Sufficient volunteers are available to volunteer brigades so they can meet their community obligations

Organisational Capability

Diversity

Career firefighter diversity	2014/18 SOI target	2013/2014	2012/2013	2011/2012	2010/2011	2009/2010	2008/2009
Maori	11.0%	10.4%	10.0%	10.3%	10.1%	9.6%	9.9%
Pacific People	4.3%	3.4%	3.5%	3.6%	3.6%	3.5%	3.3%
Female	5.5%	3.0%	3.9%	3.1%	3.2%	3.2%	3.3%

Volunteer firefighter diversity	2014/18 SOI target ¹	2013/2014
Maori		3.0%
Pacific People		0.2%
Female		11.6%

¹ Diversity numbers for volunteers have only recently been collected and the organisation is considering whether specific targets should be applied.

Employee Turnover

Employee turnover rates	2014/18 SOI target	2013/ 2014	2012/ 2013	2011/ 2012	2010/ 2011	2009/ 2010	2008/ 2009
Management and support	<15%	7.5%	9.6%	9.5%	7.8%	6.0%	9.3%
Communication centre staff	<15%	8.6%	8.6%	9.3%	5.1%	9.0%	1.2%
Career firefighters	<6%	1.9%	1.9%	3.5%	1.5%	2.0%	1.7%

Consultation and reporting to the Minister of Internal Affairs

Consultation with the Minister

The Commission is committed to a “no surprises policy” for new initiatives, operational events and overall policies. The Commission will provide its responsible Minister with accurate, relevant, complete and timely information to ensure the Minister’s decisions and responsibilities with respect to the Commission can be carried out on a fully informed basis.

Reporting to the Minister

The Commission will provide quarterly progress reports to the Minister against its five priorities, this Statement of Performance Expectations and financial reports, key initiatives and other information as required. The quarterly reports will be provided within the following timeframes:

Quarter	Timeframe – no later than
1 July 2014 to 30 September 2014	31 October 2014
1 October 2014 to 31 December 2014	20 February 2015
1 January 2015 to 31 March 2015	1 May 2015
1 April 2015 to 30 June 2015	31 July 2015

Cost of the outputs for the year ending 30 June 2015

The following table summarises the output classes and associated outputs, and the cost of providing those outputs for 2014-15.

	Forecast levy receipts \$000 GST excl	Forecast other revenue & income \$000 GST excl	Forecast total expend- iture \$000 GST excl	Net surplus/ (deficit) \$000 GST excl
Output Class 1				
	55,748	1,058	56,435	371
Fire safety education, prevention and advice				
Output 1.1: Fire prevention and advice to the general public	40,417	490	40,633	274
Output 1.2: Professional and technical advice to the Built Environment public	13,240	154	13,374	20
Output 1.3: Fire safety legislation	2,091	414	2,428	77
Output Class 2				
	285,359	12,177	295,913	1,623
Fire fighting and other Fire Service operations				
Output 2.1: Operational readiness	225,082	6,450	230,198	1,334
Output 2.2: Operational responses to fire and other emergencies	48,431	5,590	53,708	313
Output 2.3: Wider emergency management capability	11,846	137	12,007	(24)
Output Class 3				
	7,317	1,116	8,572	(139)
Rural fire leadership and coordination				
Output 3.1: Advice and support to fire authorities and rural fire committees and administration of the Rural Fire Fighting Fund and grant assistance schemes	6,620	1,108	7,796	(68)
Output 3.2: Rural fire standards, audit, evaluation of fire authority performance and management of the fire weather monitoring and prediction system	697	8	776	(71)
TOTAL COST OF OUTPUTS	348,424	14,351	360,920	1,855

Prospective statement of comprehensive income

for the years ending 30 June

	Budget	Forecast	Forecast
	2015	2016	2017
	\$000	\$000	\$000
Revenue			
Levy	346,939	348,350	351,458
Other revenue	9,450	9,450	9,450
Total revenue	356,389	357,800	360,908
Income	3,861	3,575	2,603
Total revenue and income	360,250	361,375	363,511
Expenditure			
Employee and volunteer benefits expenditure	239,316	240,012	248,235
Depreciation	33,308	34,161	35,791
Amortisation	3,207	3,977	3,389
Finance costs	485	343	205
Other expenditure	81,260	82,065	82,788
Total expenditure	357,576	360,558	370,408
Net surplus attributable to the Commission	2,674	817	-6,897
Net surplus attributable to the Rural Fire Fighting Fund	-819	-777	-69
Net surplus attributable to the owners of the Commission	1,855	40	-6,966
Other comprehensive income			
Gains on revaluation of land and buildings net of impairment losses	7,545	7,696	7,850
Total comprehensive income attributable to the owners of the Commission	9,400	7,736	884

	\$000	\$000	\$000
* Other expenditure			
Fleet	14,020	14,001	14,760
Communications and computer	14,461	14,483	14,651
Occupancy	14,932	14,934	15,511
Operational clothing, equipment and consumables	11,398	11,382	10,884
Travel	8,903	9,097	8,588
Publicity and advertising	5,211	5,140	5,140
Other	12,335	13,028	13,254
Total other expenditure	81,260	82,065	82,788

Prospective statement of changes in equity

for the years ending 30 June

	Budget 2015 \$000	Forecast 2016 \$000	Forecast 2017 \$000
Equity at beginning of year			
Accumulated funds	470,455	473,128	473,946
Levy variability reserve	10,000	10,000	10,000
Major Emergencies Response Reserve	15,000	15,000	15,000
Revaluation reserves	72,933	80,478	88,174
Rural Fire Fighting Fund	2,367	1,548	771
	570,755	580,154	587,891
Total equity at beginning of year			
Changes in equity during year			
Transfers from statement of comprehensive income			
Accumulated funds	2,674	817	-6,897
Levy variability reserve	0	0	0
Major Emergencies Response Reserve	0	0	0
Revaluation reserves	7,545	7,696	7,850
Rural Fire Fighting Fund	-819	-777	-69
	9,400	7,736	884
Total comprehensive income			
Transfers from disposal of land and buildings			
Accumulated funds	0	0	0
Revaluation reserves	0	0	0
	0	0	0
Total transfers from disposal of land and buildings			
	9,400	7,736	884
Total changes in equity during year			
Equity at end of year			
Accumulated funds	473,129	473,945	467,049
Levy variability reserve	10,000	10,000	10,000
Major Emergencies Response Reserve	15,000	15,000	15,000

Revaluation reserves	80,478	88,174	96,024
Rural Fire Fighting Fund	1,548	771	702
Total equity at end of year	580,155	587,890	588,775

Prospective statement of financial position

as at 30 June

	Budget 2015 \$000	Forecast 2016 \$000	Forecast 2017 \$000
Assets			
Current assets			
Cash and cash equivalents	45,205	31,897	14,174
Trade and other receivables	2,400	2,390	2,301
Prepayments	785	785	785
Inventories	0	0	0
Total current assets	48,390	35,072	17,260
Non-current assets			
Property, plant and equipment	607,186	631,560	655,915
Intangible assets	9,518	7,612	5,403
Total non-current assets	616,704	639,172	661,318
Total assets	665,094	674,244	678,578
Liabilities			
Current liabilities			
Trade and other payables	21,829	24,894	29,618
Employee and volunteer benefits	22,821	22,912	22,999
Borrowings	1,741	1,362	238
Provisions	1,672	1,672	1,672

Total current liabilities	48,063	50,840	54,527
Non-current liabilities			
Employee and volunteer benefits	32,188	32,188	32,188
Borrowings	2,135	773	535
Provisions	2,553	2,553	2,553
Total non-current liabilities	36,876	35,514	35,276
Total liabilities	84,939	86,354	89,803
Net assets	580,155	587,890	588,775
Equity			
Accumulated funds	473,129	473,945	467,049
Levy Variability Reserve	10,000	10,000	10,000
Major Emergencies Response Reserve	15,000	15,000	15,000
Revaluation reserves	80,478	88,174	96,024
Rural Fire Fighting Fund	1,548	771	702
Total equity	580,155	587,890	588,775

Prospective statement of cash flows

for the years ending 30 June

	Budget 2015 \$000	Forecast 2016 \$000	Forecast 2017 \$000
Cash flows from operating activities			
Receipts from levy	348,424	349,593	353,010
Receipts from other revenue	11,245	11,591	11,795
Interest received	2,822	2,540	1,661
Net GST received/(paid)	1,191	1	43
Payments to employees and volunteers	(239,329)	(239,863)	(248,090)
Payments to suppliers for goods and services	(84,731)	(82,457)	(81,286)
	39,622	41,405	37,133
Net cash flows from operating activities			
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	2,203	500	5,402
Proceeds from sale of Property Plant and Equipment - finance lease	184	184	92
Purchase of intangible assets	(3,936)	(2,071)	(1,181)
Purchase of property, plant and equipment	(48,267)	(51,339)	(57,698)
	(49,816)	(52,726)	(53,385)
Net cash flows from investing activities			
Cash flows from financing activities			
Payment of finance leases	(1,765)	(1,741)	(1,363)
Proceeds from borrowings	0	0	0
Interest paid	(388)	(246)	(108)
	(2,153)	(1,987)	(1,471)
Net cash flows from financing activities			
Net increase/(decrease) in cash and cash equivalents	(12,347)	(13,308)	(17,723)
Cash and cash equivalents at beginning of year	57,552	45,205	31,897
Cash and cash equivalents at end of year	45,205	31,897	14,174

Financial assumptions

	Ref	2014-15	2015/16	2016/17
Levy rate		7.6c	7.6c	7.6c
Levy base growth	1	4.1%	2.2%	1.8%
Cash rate	2	2.75%	4.25%	5.0%
CPI	2	1.6%	2.4%	3.1%
USD/NZD	2	0.83	0.77	0.70
EUR/NZD	2	0.60	0.61	0.56
AUD/NZD	2	0.93	0.93	0.89
Diesel price (excl GST)		\$1.30	\$1.35	\$1.35
Petrol price (excl GST)		\$1.80	\$1.90	\$1.90
Salaries and wages	3	2.7%	2.5%	2.8%
No of Recruits	4	60	60	60
Additional Crews	5	0	0	0
Establishment - operational	6	1722	1722	1722
Callbacks - sick leave, projects etc		12.8	12.8	12.8
Callbacks - long term sick		1.0	1.0	1.0
Statutory day adjustment (# shifts)		29	31	30
UFBA Funding		\$2.093k	\$2.145k	\$2.199k
Contestable Research Fund		\$550k	\$550k	\$550k
Enlarged Rural Fire District Grants		\$968k	\$1,330k	\$1,330k
<ol style="list-style-type: none"> 1. Increase on baseline normalised levy 2. Base data from BNZ Strategist 13 March 2014 (based on March years). 3. This is the base rate increase only. There are different (higher) increases for callbacks, overtime, call outs, allowances for NZPFU staff owing to the change in calculation of the new collective. 4. May vary from 12 to 24 recruits on a course. Could potentially increase to 96 recruits if the relieving roster continues 5. New crews will be sourced by moving existing establishment. 6. Increase in 2015/16 to 1752 if new reliever roster implemented as agreed in NZFPU contract. 				

Statement of Accounting Policies

Reporting entity

The New Zealand Fire Service Commission (the Commission) is a body constituted under section 4(1) of the Fire Service Act 1975. The Commission is a Crown entity as defined by the Crown Entities Act 2004 and the ultimate parent is the New Zealand Crown. The primary objective of the Commission is to provide fire and emergency services in New Zealand for community benefit rather than to make a financial return.

For financial reporting standards the Commission is categorised as a Public Sector Public Benefit Entity. A new regime of standards for Public Sector Public Benefit Entities (PS PBEs) is being introduced which take effect from 1 July 2014 with the comparative year being the year ended 30 June 2014.

These prospective financial statements for the Commission are for the years ended 30 June 2015, 2016 and 2017.

Basis of preparation

Statement of compliance

These prospective financial statements have been prepared in accordance with the requirements of the Crown Entities Act 2004, which includes the requirement to comply with New Zealand generally accepted accounting practice (NZ GAAP). They also comply with PS PBEs and other applicable financial reporting standards as appropriate for public benefit entities.

Measurement base

These prospective financial statements have been prepared on a historical cost basis modified by the revaluation of the following:

- ▶ Financial assets and liabilities at fair value
- ▶ Derivative financial instruments at fair value
- ▶ Certain classes of property at methods appropriate to the class of asset.

The methods used to measure fair value are discussed in the specific accounting policies.

Functional and presentation currency

These prospective financial statements are presented in New Zealand dollars which is the Commission's functional currency.

Changes in Accounting Policies

There have been no changes in accounting policies during the financial year.

Accounting Standards

Standards, amendments and interpretations issued but not yet effective that have been early adopted, and which are relevant to the Commission are summarised below.

Standards for Public Sector PS PBEs after 1 July 2014

The Minister of Commerce has approved a new accounting standards framework (incorporating a tier strategy) developed by the External Reporting Board (XRB). Under this regime the Commission is classified as

a tier 1 reporting entity (entities publicly accountable with expenses greater than \$30 million) and is required to apply the full range of standards and other pronouncements for PS PBEs when preparing general purpose financial reports for the period beginning on 1 July 2014 (year ended 30 June 2015). The comparative reporting year for the NZ Fire Service is the year ended 30 June 2014.

The effective date of a standard indicates the annual reporting period from which that standard applies. A standard also applies to subsequent annual reporting periods until that standard is superseded by a new/amended/revised standard.

The NZ Fire Service does not anticipate any significant changes to present policies will be required during the transitional to the new standards for PS PBEs.

Accounting Standards

Accounting standards and other documents that may impact can be summarised as follows.

Standard	Title	Effective Date
PBE IPSAS 1	<i>Presentation of Financial Statements</i>	1 July 2014
PBE IPSAS 2	<i>Cash Flow Statements</i>	1 July 2014
PBE IPSAS 3	<i>Accounting Policies, Changes in Accounting Estimates and Errors</i>	1 July 2014
PBE IPSAS 4	<i>The Effects of Changes in Foreign Exchange Rates</i>	1 July 2014
PBE IPSAS 5	<i>Borrowing Costs</i>	1 July 2014
PBE IPSAS 9	<i>Revenue from Exchange Transactions</i>	1 July 2014
PBE IPSAS 12	<i>Inventories</i>	1 July 2014
PBE IPSAS 13	<i>Leases</i>	1 July 2014
PBE IPSAS 14	<i>Events After the Reporting Date</i>	1 July 2014
PBE IPSAS 17	<i>Property, Plant and Equipment</i>	1 July 2014
PBE IPSAS 19	<i>Provisions, Contingent Liabilities and Contingent Assets</i>	1 July 2014
PBE IPSAS 20	<i>Related Party Disclosures</i>	1 July 2014
PBE IPSAS 21	<i>Impairment of Non-Cash-Generating Assets</i>	1 July 2014
PBE IPSAS 22	<i>Disclosure of Information About the General Government Sector</i>	1 July 2014
PBE IPSAS 23	<i>Revenue from Non-Exchange Transactions</i>	1 July 2014
PBE IPSAS 25	<i>Employee Benefits</i>	1 July 2014
PBE IPSAS 26	<i>Impairment of Cash-Generating Assets</i>	1 July 2014
PBE IPSAS 28	<i>Financial Instruments: Presentation</i>	1 July 2014
PBE IPSAS 29	<i>Financial Instruments: Recognition and Measurement</i>	1 July 2014

PBE IPSAS 30	<i>Financial Instruments: Disclosures</i>	1 July 2014
PBE IPSAS 31	<i>Intangible Assets</i>	1 July 2014
PBE IFRS 5	<i>Non-current Assets Held for Sale and Discontinued Operations</i>	1 July 2014
PBE IAS 34	<i>Interim Financial Reporting</i>	1 July 2014
PBE FRS 43	<i>Summary Financial Statements</i>	1 July 2014
PBE FRS 46	<i>First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRSs</i>	1 July 2014

Pronouncements that have Authoritative Support

Pronouncements	Title	Effective Date
PBE Framework	<i>Public Benefit Entities' Framework</i>	1 July 2014

Explanatory Material

This explanatory material has no legal status and has been issued for explanatory purposes only.

Explanatory Material	Title
Table of Differences	<i>Differences between Standards for Tier 1 For-Profit Entities and Tier 1 Public Benefit Entities</i>
Impact Assessment	<i>Public Benefit Entity Standards Impact Assessment for Public Sector PBEs</i>
IPSASB RPG 1	<i>Reporting on the Long-Term Sustainability of an Entity's Finances</i>
IPSASB RPG 2	<i>Financial Statement Discussion and Analysis</i>

Significant accounting policies

Revenue

The Commission measures revenue at the fair value of consideration received or receivable. Specific accounting policies for major categories of revenue are outlined below.

Levy

Section 48(12) of the Fire Service Act 1975 deems the proceeds of the fire service levy on the contracts of fire insurance to be revenue of the Commission upon receipt. Levy proceeds are therefore recognised on a cash basis. Levy receipts are regarded as non-exchange transactions as the payment of levy does not of itself entitle a levy payer to an equivalent value of services or benefits, because there is no relationship between paying levy and receiving services from the Commission.

Provision of services

Revenue derived from providing services to third parties (such as monitoring private fire alarms and attending false alarm call outs) is recognised in the financial year in which the services are provided.

Volunteer services

The operations of the Commission are dependent on the services provided by volunteer firefighters. Their contributions are essential to the provision of a comprehensive, efficient and effective emergency service throughout New Zealand. Volunteer services received are not recognised as revenue or expenditure by the Commission due to the difficulty of measuring the fair value with reliability.

Income

Interest income

The Commission recognises interest income using the effective interest rate method.

Rental income

Rental received under operating leases is recognised as income on a straight-line basis over the lease term.

Donated assets

Where a physical asset is acquired for no cost or nominal cost, the fair value of the asset received is recognised as income only when the Commission has control of the asset.

Depreciation

Depreciation is charged to the prospective statement of comprehensive income on all property, plant and equipment other than land and work in progress. Depreciation is calculated on a straight-line basis at rates estimated to write off the cost (or valuation) of an asset, less any residual value, over its useful life. Estimated useful lives and associated depreciation rates for asset classes being:

Buildings	10-70 years	1-10%
Fire appliances	20-30 years	3-5%
Motor vehicles	4-20 years	5-25%
Communications equipment	5 years	20%

Computer equipment	4 years	25%
Operational equipment	4-12 years	8-25%
Non-operational equipment	5-10 years	10-20%
Leasehold improvements	3-10 years	10-33%

Leasehold improvements are depreciated over the shorter of the unexpired period of the lease or the estimated remaining useful life of the improvements.

Assets recognised under a finance lease are depreciated over the shorter of the lease term or the estimated useful life of the asset.

Amortisation

Amortisation is charged to the prospective statement of comprehensive income on a straight-line basis at rates estimated to write off the cost of an asset, less any residual value, over its useful life. Estimated useful lives and associated amortisation rates for asset classes being:

Computer software internally generated	4-10 years	10-25%
Computer software purchased	4 years	25%
SITE	10 years	10%

The Commission does not own any intangible assets with an infinite life.

Interest expense

Interest expense is recognised using the effective interest rate method.

Goods and services tax (GST)

Balances reported in the prospective financial statements are GST exclusive with the exception of receivables and payables which are disclosed GST inclusive. Where GST is not recoverable then it is recognised as part of the related asset or expense. The net amount of any GST balance, either recoverable or payable to the Inland Revenue Department (IRD) is

included as part of receivables or payables in the statement of financial position. Commitments and contingencies are disclosed GST exclusive.

The prospective statement of cash flows has been prepared on a net GST basis, with cash receipts and payments presented GST exclusive. A net GST presentation has been chosen to be consistent with the presentation of the prospective statement of comprehensive income and statement of financial position. The net GST paid to or received from the IRD, including the GST relating to investing and financing activities, is classified as an operating cash flow in the prospective statement of cash flows. The GST component has been presented on a net basis, as the gross amounts do not provide meaningful information for financial statement purposes.

Income tax

The Commission is exempt from income tax in accordance with both the Income Tax Act 2004 and the Fire Service Act 1975. Therefore, no charge for income tax has been provided for.

Foreign currency transactions

Transactions in foreign currency are converted 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 prospective statement of comprehensive income.

Financial instruments

The Commission is party to financial instruments as part of its normal operations. Financial instruments include financial assets and financial liabilities. Financial instruments are initially recognised at fair value plus transaction costs. Subsequent measurement of financial instruments is dependent upon the classification determined by the Commission at initial recognition. Financial instruments are classified into the following categories based upon the purpose for which they were acquired.

Financial assets

The Commission classifies its financial assets as follows.

- a. **Financial assets at fair value through the prospective statement of comprehensive income are comprised of derivative financial instruments.**

The Commission uses derivative financial instruments (forward foreign exchange contracts) to manage its exposure to foreign exchange risk in relation to the purchases of significant items of property, plant and equipment. The Commission does not hold or issue these financial instruments for trading purposes and has not adopted hedge accounting. Forward foreign exchange contracts are initially recognised at fair value on the date the Commission entered into the contract and are subsequently remeasured to their fair value at each balance date.

Fair value is determined as the value of entering into a forward foreign exchange contract, for the same quantity of foreign currency with the same settlement date as the original contract, on the date for which the fair value is determined. Movements in the fair

value of the forward foreign exchange contracts are recognised in the prospective statement of comprehensive income. Derivative financial instruments can also be classified as financial liabilities depending upon the fair value at balance date.

b. Loans and receivables comprise cash and cash equivalents, and trade and other receivables.

Cash and cash equivalents include cash on hand, deposits held at call with banks both domestic and international and other short-term, highly liquid investments, with original maturities of three months or less from the date of acquisition.

Trade and other receivables are financial assets with fixed or determinable payments. They arise when the Commission provides goods or services directly to a debtor with no intention of selling the receivable asset. Trade and other receivables are recognised initially at fair value plus transaction costs. Fair value is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance date for assets of a similar maturity and credit risk. Trade and other receivables issued with duration less than twelve months are recognised at their nominal value. Trade and other receivables are subsequently measured at amortised cost using the effective interest rate method, less provision for impairment.

A provision for impairment of trade receivables is established when there is objective evidence that the Commission will not be able to collect all amounts due in accordance with the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of a provision account, and the amount of the loss is recognised in the prospective statement of comprehensive income.

When a trade receivable is uncollectible, it is written off against the provision for impairment of trade receivables. Subsequent recoveries of amounts previously written off are credited against impairment of receivables in the prospective statement of comprehensive income.

Financial liabilities

Financial liabilities comprise trade and other payables and bank overdrafts. These items represent unpaid liabilities for goods and services provided to the Commission before the end of the financial year.

The amounts are unsecured and usually paid within thirty days of recognition. Financial liabilities entered into with duration of less than twelve months are recognised at their nominal value.

Financial liabilities with duration of more than twelve months are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the

effective interest rate method. The amortisation and any realised gain or loss on disposal of financial liabilities is recognised in the prospective statement of comprehensive income.

Inventories

Inventories held for distribution or consumption in the provision of services that are not supplied on a commercial basis by the Commission is measured at cost. Where inventories are acquired at no cost or for nominal cost, the cost is deemed to be the current replacement cost at the date of acquisition. Inventories include replacement gear boxes for fire appliances.

Non-current assets held for sale

Non-current assets held for sale are assets where their carrying amount will be recovered through a sale transaction rather than through continuing use. These assets are available for immediate sale and the sale is considered to be highly probable.

Non-current assets held for sale are recognised at the lower of their carrying amount and fair value (market value) less costs to sell, and are not depreciated or amortised while classified as held for sale. Any impairment losses for write-downs of non-current assets held for sale are recognised in the prospective statement of comprehensive income.

Leases

Finance leases

Leases that transfer to the Commission, substantially all the risks and rewards incidental to ownership of an asset, whether or not title is eventually transferred, are classified as finance leases.

At the commencement of the lease term, finance leases are recognised as assets and liabilities in the statement of financial position at the lower of the fair value of the leased item or the present value of the minimum lease payments. The finance charge is recognised in the prospective statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability.

The amount recognised as an asset is depreciated over its useful life. If there is no certainty that the Commission will obtain ownership at the end of the lease term, the asset is fully depreciated over the shorter of the lease term or its useful life. Where a sale and leaseback transaction results in a finance lease, the gain on sale is amortised over the lease term. The gain on sale is calculated as the excess of sale proceeds over the carrying amount of the asset.

Operating leases

Leases that do not transfer substantially all the risks and rewards incidental to ownership of an asset to the Commission are classified as operating leases.

Lease payments under an operating lease are recognised as an expense on a straight-line basis over the term of the lease in the prospective statement of comprehensive income. Lease incentives received are recognised in the prospective statement of comprehensive income over the lease term as an integral part of the total lease expense.

Property, plant and equipment

Property, plant and equipment are shown at cost or valuation, less accumulated depreciation and impairment losses. Assets are classed as land, buildings, leasehold improvements, fire appliances, motor vehicles, communications, and computer, operational and non-operational equipment.

Additions

Costs are capitalised as property, plant and equipment when they create a new asset or increases the economic benefits over the total life of an existing asset. This includes all costs that are directly attributable to bringing the asset into the location and condition necessary for its intended purpose.

For existing assets, subsequent expenditure that extends or expands the asset's service potential is capitalised. Costs that do not meet the criteria for capitalisation, including costs of day-to-day servicing of property, plant and equipment, are recognised in the prospective statement of comprehensive income.

An asset is complete when it is available for use in the location and condition necessary for it to be capable of operating in the manner intended. Costs associated with incomplete assets are recognised in work in progress. When the asset is complete the costs are transferred to the relevant asset class and depreciated in accordance with that class.

Where an asset is acquired at no cost or nominal cost (for example donated assets) and the asset is controlled by the Commission, the asset is recognised at fair value at the date when control of the asset is obtained.

Revaluations

After initial recognition land and buildings are valued annually to fair value by an independent registered valuer. Fair value is determined using market-based evidence and is determined by reference to the highest and best use of those assets. Where there is no market related evidence, fair value is determined by optimised depreciated replacement cost.

The Commission accounts for revaluations on a class basis. On revaluation any accumulated depreciation is eliminated against the gross carrying amount and then the gross carrying amount is adjusted to equal the revalued amount. The result of the revaluation of land and buildings is recognised in the asset revaluation reserve for that class of asset. Where this results in the carrying value of the revaluation reserve having a loss this is expensed in the prospective statement of comprehensive income.

Any subsequent revaluation increase is recognised in the prospective statement of comprehensive income to the extent that it offsets previous revaluation decreases already recognised in the prospective statement of comprehensive income. Otherwise the gain is credited to the asset revaluation reserve for that class of asset.

Disposals

Gains and losses on disposals of property, plant and equipment are determined by comparing the proceeds with the carrying amount of the asset less any disposal costs. Gains and losses on disposal are recognised in the prospective statement of comprehensive

income when they occur. When assets are disposed of, any related amount in the asset revaluation reserve is transferred to accumulated funds.

Leasehold improvements

Leasehold improvements are capitalised as property, plant and equipment.

Intangible assets

Intangible assets comprise computer software and the Shared Information Technology Environment (SITE). Intangible assets are shown at cost less accumulated amortisation and impairment losses.

Computer Software

Costs are capitalised as computer software when it creates a new asset or increases the future economic benefits of an existing asset. Costs capitalised for acquired computer software licences include the costs incurred to acquire and bring the software into use. Costs capitalised for bespoke and internally developed computer software include the costs incurred in the design and development phase only. Expenditure incurred on research is recognised in the prospective statement of comprehensive income, as well as, costs that do not meet the criteria for capitalisation (including staff training and software maintenance).

Shared Information Technology Environment (SITE)

SITE is a systems and technology platform that supports receiving calls and dispatching resources to emergency incidents. These SITE assets include computer aided dispatch software, land mobile radio network and associated telecommunications structures. SITE is primarily housed in the communication centres shared with the New Zealand Police. The value capitalised reflects the Commission's proportional ownership. New Zealand Police maintain SITE and proportionally charge the Commission. This charge is recognised in the prospective statement of comprehensive income.

Disposals

Gains and losses on disposals of intangible assets are determined by comparing the proceeds with the carrying amount of the asset, less any disposal costs. Gains and losses on disposal are recognised in the prospective statement of comprehensive income when they occur.

Impairment of non-financial assets

The carrying amounts for property, plant and equipment and intangible assets are reviewed annually to determine if there is any impairment. Impairment is where events or changes in circumstances occur that result in the carrying amount of an asset not being recoverable. An impairment loss is the amount by which the asset's net 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.

Impairment losses on revalued land and buildings are treated as a revaluation decrease. Impairment losses on other property, plant and equipment and intangible assets are recognised in the prospective statement of comprehensive income.

Trade payables

Short-term creditors and other payables are recorded at their face value.

Employee and volunteer benefits

A provision for employee and volunteer benefits is recognised as a liability when the benefits have been measured but not paid.

Current employee and volunteer benefits

Benefits to be settled within twelve months of balance date are calculated at undiscounted current rates of pay according to the amount of the accrued entitlements. These include salaries and wages accrued up to balance date, annual leave earned but not yet taken at balance date, and retiring and long service leave entitlements expected to be settled within twelve months. Non-accumulating absences such as maternity leave are compensated when the absences occur and therefore no accrual is necessary. Sick leave is paid when taken under the Commission's wellness policy and therefore no accrual is necessary.

Non-current employee and volunteer benefits

Benefits that are payable beyond twelve months, such as long service leave, retirement leave and gratuities, are calculated on an actuarial basis. The actuarial calculation takes into account the future entitlements accruing to staff, based on years of service, years until entitlement, the likelihood that staff will reach the point of entitlement, contractual entitlements information and the present value of the estimated future cash flows. The discount rate, as prescribed by Treasury, is based on the weighted average of interest rates for government stock with terms to maturity similar to those of the relevant liabilities. The inflation factor is based on the expected long-term increase in remuneration for employees. Movements in the actuarial valuations are recognised in the prospective statement of comprehensive income.

Superannuation schemes

Defined contribution schemes

Contributions to KiwiSaver, State Sector Retirement Savings Scheme and National Provident Fund are accounted for as defined contribution superannuation schemes and are expensed in the prospective statement of comprehensive income as they fall due.

Defined benefit schemes

The Commission makes contributions to the National Provident Fund Defined Benefit Plan Contributors Scheme (the Scheme) which is a multi-employer defined benefit scheme. It is not possible to determine from the terms of the Scheme the extent to which the surplus/(deficit) will affect future contributions by individual employers as there is no prescribed basis for allocation. Although this is a defined benefit scheme there is insufficient information to account for the Scheme as a defined benefit scheme. Therefore, the Scheme is accounted for as a defined contribution scheme.

Provisions

The Commission recognises a provision for future expenditure of uncertain amount or timing when there is a present obligation (either legal or constructive) as a result of a past event, it is probable that expenditure will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are distinct from other liabilities (such as trade payables) because there is uncertainty about the timing or the amount of the future expenditure required in settlement.

The Commission provides for the amount it estimates is needed to settle the obligation at its present value. It uses a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. Any increase in the provision due to the passage of time is recognised as a finance cost.

Specific accounting policies for major provisions are outlined below.

Lease make-good

The lease make-good provision covers the costs involved in returning leased items of property, plant and equipment to the state they were in when the Commission entered the lease. The expected future make-good costs are discounted using market yields on government bonds at balance date with terms to maturity that match, as closely as possible, the estimated future payments.

Loss of medical scheme

The loss of medical scheme provision provides insurance cover for personnel who contributed to a former medical compensation scheme and elected not to join the Commission's superannuation scheme.

ACC Partnership Programme

The Commission belongs to the Accident Compensation Corporation (ACC) Partnership Programme being a full self cover plan with the ACC. Under this plan the Commission accepts the management and financial responsibility for employee work related illnesses and accidents, manages all claims and meets all claims' costs for a period of four years.

At the end of four years, the liability for ongoing claims passes to ACC, with the Commission paying a premium for the value of residual claims.

The provision for the ACC Partnership Programme is calculated on an actuarial basis as the present value of expected future payments to be made in respect of the employee injuries and claims up to balance date. Consideration is given to anticipated future wage and salary levels and experience of employee claims and injuries. Movements in the provision are recognised in the prospective statement of comprehensive income. Expected future payments are discounted using market yields on government bonds at balance date with terms to maturity that match, as closely as possible, the estimated future cash outflows.

Restructuring

A provision for restructuring is recognised when an approved detailed formal plan for the restructuring has either been announced publicly to those affected, or for which implementation has already commenced.

Equity

Equity is the public's interest in the Commission and is measured as the difference between total assets and total liabilities.

Equity is disaggregated and classified into a number of components to enable clearer identification of the specified uses of equity within the Commission. The components of equity are accumulated funds, other reserves, revaluation reserves and the Rural Fire Fighting Fund.

Rural Fire Fighting Fund (RFFF)

The RFFF was established under section 46A of the Fire Service Act 1975. The fund is financed by a first right to the proceeds of the levy and an annual Crown grant paid on behalf of the Minister of Conservation. Money from the fund is applied towards meeting costs of Fire Authorities in the control, restriction, suppression or extinction of fires.

Prospective statement of cash flows

The makeup of cash and cash equivalents for the purposes of the prospective statement of cash flows is the same as cash and cash equivalents in the prospective statement of financial position. The prospective statement of cash flows has been prepared using the direct approach subject to the netting of certain cash flows.

Prospective contingent assets and contingent liabilities

Prospective contingent assets and contingent liabilities are disclosed in the notes to the prospective financial statements at the point at which the contingency is evident. Prospective contingent assets are disclosed if it is probable that the benefits will be realised. Prospective contingent liabilities are disclosed if the possibility that they will crystallise is not remote.

Prospective commitments

Prospective 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 are reported at the minimum future payments including the value of the penalty or exit cost. Classification of commitments being:

(a) Capital commitments

The aggregate amount of capital expenditure contracted for, but not recognised as paid or provided for, at balance date.

(b) Non-cancellable operating leases

Is the total of future payments due under the lease contract. Operating leases are principally for property and motor vehicles.

Interest commitments on borrowings and commitments relating to employment contracts are not included in the commitments note.

Expenditure allocation

The Commission allocates expenditure to outputs as follows.

- ▶ Direct costs are expenditure (including the Rural Fire Fighting Fund) directly attributable to an output that are charged to that output.
- ▶ Indirect costs are all costs other than direct costs and are apportioned across all the outputs based on the percentage of that output to total direct expenditure (excluding Rural Fire Fighting Fund).
- ▶ The Rural Fire Fighting Fund receives an indirect cost allocation annually (presently around \$0.3 million).

Revenue and income allocation

- ▶ Levy revenue is allocated to each output based on the proportion of net expenditure allocated to the outputs. Net expenditure is total expenditure net of other revenue and income.
- ▶ Other revenue and income that is directly related to outputs is allocated to those outputs.
- ▶ An amount that cannot be directly related to outputs is allocated based on the proportion of gross expenditure allocated to the outputs.

Critical accounting estimates and assumptions

The preparation of prospective financial statements requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenditure. 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 and any changes to the estimates are recognised in the period in which they were revised. Any revision affecting future periods is recognised in the periods affected. Judgements that have a significant affect on the prospective financial statements and estimates with a significant risk of material adjustment in the next year are discussed in the notes to the prospective financial statements when they occur.

Property, plant and equipment and intangible assets' useful lives and residual value

The residual value and useful life of property, plant and equipment and intangible assets are reviewed at each balance date. Assessing the appropriateness of useful life and residual value estimates requires the Commission to consider a number of factors such as the physical condition, expected period of use of the asset, and expected disposal proceeds from the future sale of the asset. An incorrect estimate of the useful life or residual value will impact the depreciation or amortisation expense recognised in the prospective statement of comprehensive income, and the carrying amount of the asset in the prospective statement of financial position.

The Commission minimises the risk of this estimation by:

- ▶ Performing asset verifications
- ▶ Revaluing land and buildings
- ▶ Impairment testing
- ▶ Asset replacement programs.

The Commission has not made significant changes to past estimates of useful lives and residual values.

Long Service Leave and Gratuities

Entitlements that are payable beyond twelve months (such as long service leave and gratuities) have been calculated on an actuarial basis. The calculations are based on:

- ▶ Likely future entitlements accruing to staff, based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement and contractual entitlements information; and

- ▶ The present value of the estimated future cash flows.

The discount rate is based on the weighted average of interest rates for Government stock with terms to maturity similar to those of the relevant liabilities. The inflation factor is based on the expected long-term increase in remuneration for employees.

Critical judgements in applying the Commission's accounting policies

Management has exercised the following critical judgements in applying the Commission's accounting policies.

Lease classification

Determining whether a lease agreement is finance or an operating lease requires judgement as to whether the agreement transfers substantially all the risks and rewards of ownership to the Commission. The Commission classifies leases as finance leases under the following situations:

- ▶ The lease transfers ownership to the Commission by the end of the lease
- ▶ The Commission has the option to purchase the asset at a price lower than fair value and expects to exercise this option
- ▶ The lease term is for the major part of the economic life of the asset
- ▶ The present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased assets
- ▶ The leased assets are of a specialised nature and only the Commission can use them without major modification.

Classification as a finance lease means the asset is recognised in the statement of financial position as property, plant and equipment, whereas for an operating lease no asset is recognised. The Commission has exercised its judgement on the appropriate classification of equipment leases and has determined a number of lease agreements are finance leases.

Investment properties

Investment properties are property held primarily to earn rental income or for capital appreciation or both. Investment properties exclude owner-occupied properties (including those occupied by employees and volunteers) and properties held for strategic purposes or to provide a social service. Buildings rented or shared with other emergency service providers and residential properties on fire station sites rented to employees and volunteers are accounted for as property, plant and equipment and not investment properties.

Glossary

ACC	Accident Compensation Corporation
CAP	Corrective Action Plan
ERFD	Enlarged Rural Fire Districts
FAIP	Fire Awareness and Intervention Programme
GAAP	Generally Accepted Accounting Practice
GST	Goods and Services Tax
Hazmat	Hazardous Material
IRD	Inland Revenue Department
MOU	Memorandum of Understanding
NRFA	National Rural Fire Authority
OSM	Operational Skills Maintenance
PS PBE	Public Sector Public Benefit Entities
RFA	Rural Fire Authority
RFFF	Rural Fire Fighting Fund
SITE	Shared Information Technology Environment
USAR	Urban Search and Rescue
XRB	External Reporting Board



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