
REPORT 4
(1215/52/01/IM)

IMPLICATIONS FOR COUNCIL OF NEW AND PROPOSED FINANCIAL REPORTING STANDARDS

1. PURPOSE

The purpose of this regular report is to inform the Subcommittee of new and proposed Financial Reporting Standards and their likely impact for the Council.

2. RECOMMENDATIONS

It is recommended that the Subcommittee:

- 1. Receive the information*
- 2. Note the developments in New Zealand generally accepted accounting practice (GAAP) since the Subcommittee meeting in September 2005*
- 3. Approve the NZ IFRS compliant Statement of Accounting Policies and opening balance sheet reconciliation for inclusion in the 2006/16 LTCCP, subject to final review by Audit New Zealand.*
- 4. Note that the final version of the NZ IFRS compliant Statement of Accounting Policies and opening balance sheet reconciliation for inclusion in the 2006/16 LTCCP will be presented to the March 2006 Subcommittee meeting.*

3. BACKGROUND

The Local Government Act 2002 requires the Council to comply with GAAP in preparing the Annual Report. GAAP is defined by the Accounting Standards Review Board (ASRB) to encompass all applicable Financial Reporting Standards (FRSs) and other sources of appropriate authoritative support (for example; exposure drafts of financial reporting standards, international accounting standards etc).

Council Officers have undertaken to report to the Subcommittee on a regular basis in relation to any new FRSs and any exposure drafts currently on issue by the New Zealand Institute of Chartered Accountants (the Institute). This report outlines developments in GAAP and the implications for the Council since the last Subcommittee meeting on 17 September 2005.

4. NZ IFRS PROJECT

Local authorities will adopt NZ IFRS for external reporting purposes for the accounting period ending 30 June 2007. The requirement for comparative figures to comply with NZ IFRS in the year of adoption means that the Council will need to be in a position to comply with the new standards from the beginning of the prior period (i.e. the period ending 30 June 2006).

Since the last Subcommittee meeting in September, the Council's NZ IFRS working group has been working on the following:

- Development of the NZ IFRS Statement of Accounting Policies;
- Preparation of the opening balance sheet reconciliation between existing NZ GAAP and NZ IFRS as at 1 July 2005.

These are key milestones for the Council as they represent the basis for our transition from current NZ GAAP to NZ IFRS.

As the Subcommittee is aware, the Council plans to adopt NZ IFRS financial statements for financial year end 30 June 2007. A timeline showing the application of NZ IFRS is included in Appendix Five. The first published financial statements relating to the 2006/07 financial year will be the forecast financial statements presented in the 2006/16 Annual Plan and Long Term Council Community Plan (LTCCP). Therefore, the focus of the Council's NZ IFRS working group has been on preparing the NZ IFRS compliant Statement of Accounting Policies and the opening balance sheet reconciliation for inclusion in the Council's 2006/16 LTCCP.

The LTCCP is planned to be published in draft form (for consultation) in March/April 2006. Therefore we are presenting the draft documents for the Subcommittee's review at an early stage. This will ensure that any required changes can be processed and the documents finalised in time for April publication. The documents have been reviewed by PricewaterhouseCoopers (PwC) and Audit New Zealand is also currently conducting their review.

It is important to note that the documents, as attached, reflect applicable NZ IFRS as at the date of preparing this report. The policies will be updated to reflect ongoing amendments to NZ IFRS. As a result the final policies and opening balance sheet reconciliation reported in the Council's 30 June 2007 financial statements may differ from the attached drafts.

We will keep the Subcommittee updated on any changes in NZ IFRS and the impact thereof.

5. STATEMENT OF ACCOUNTING POLICIES

5.1 Background

The draft NZ IFRS compliant Statement of Accounting Policies is attached to this report for the Subcommittee's review and approval (refer Appendix 1). The NZ IFRS terminology for the Statement of Accounting Policies is "Summary of Significant Accounting Policies". This new terminology is used from this point forward.

In most instances the approach has been to continue with existing accounting policies where permitted. However, policies have changed in circumstances where NZ IFRS requires a change or in some cases where Council now has an accounting policy option. Policy options are available in respect of some Public Benefit Entity (PBE) specific material (refer paragraph 5.2) and during transitional periods as outlined in NZ IFRS 1: *First-time adoption of NZ equivalents to IFRS*. There are also a limited number of other policy options within the NZ IFRS.

We have recommended changes where this will provide reliable and more relevant information. This is consistent with the requirements in NZ IAS 8 for changing accounting policies.

The following paragraphs outline the policy options which have been incorporated within the attached Summary of Significant Accounting Policies, and any other policy changes required by NZ IFRS.

5.2 Public Benefit Entities

NZ IAS 1 *Presentation of Financial Statements* requires entities to disclose in their financial statements whether they are designated as a profit-oriented or a public benefit entity. Public benefit entities are defined in each standard as:

“reporting entities whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders”.

Guidance for determining when an entity is a public benefit entity is soon to be issued by the Financial Reporting Standards Board (FRSB). An exposure draft of the guidance was issued in March 2005. The proposed New Zealand Application Guidance takes the view that determining the primary objective of an entity is the key factor in determining whether an entity is a PBE or not. The proposed New Zealand Application Guidance discusses three key indicators to determine whether an entity is a PBE. These are:

- the entity's founding documents;
- the nature of the benefits generated by the entity; and
- the quantum of the financial surplus expected of the entity.

Applying this guidance indicates that local authorities will be classified as PBEs. We are currently working with our Group entities to establish whether they will constitute PBEs or profit oriented entities.

The significance of the PBE classification is that the NZ IFRS contain PBE specific material. The NZ IFRS are based on International Financial Reporting Standards (IFRS) developed by the International Accounting Standards Board (IASB). IFRS have been developed for application by profit-oriented entities. Because NZ IFRS also apply to PBEs the ASRB agreed that it was necessary to make amendments, where appropriate, to the requirements of certain IFRS to:

- ensure that NZ IFRS are relevant to and can be applied by PBEs; and
- ensure that the financial information provided by all entities in New Zealand remains useful to users.

The intended overall effect of the amendments to NZ IFRS is to reflect factors that are relevant to PBEs or to the New Zealand environment. Where an NZ IFRS contains additional material for public benefit entities, this material is clearly identified in the standard. There will be changes to PBE insertions as standards are updated or new standards introduced.

The ability of PBEs to choose to exempt themselves from IFRS requirements raises an interesting conundrum. As NZ standard setters seek to make standards sector neutral, one view is that PBEs should, where possible, seek to obtain compliance with IFRS, and only take PBE exemptions where absolutely necessary. At the other end of the spectrum is the view is that PBEs should take whichever exemptions are available.

In reviewing the exemptions, Council Officers have taken a principle based approach to determining whether to apply any options. The starting point, and rebuttable presumption, that has been applied is that the Council should comply with all IFRS, and hence not take advantage of any exemptions unless clear rationale for doing so exists.

Key NZ IFRS PBE guidance and exemptions are listed in Appendix Two. Applying this methodology, exemptions recommended for Council (and incorporated within the attached Summary of Significant Accounting Policies are:

- Segment reporting: PBEs that take this exemption do not need to comply with the requirements of NZ IAS 14 *Segment Reporting*.
- Property, plant and equipment: PBEs retain the ability to account for revaluations of property, plant and equipment assets by class of asset.
- Property, plant and equipment: PBEs are not required to disclose, for revalued classes of property, plant and equipment, the carrying amount that would have been recognised had the assets been carried under the cost model.

5.3 NZ IFRS 1

NZ IFRS 1 applies when an entity first adopts NZ IFRS in its financial statements and interim reports. The objective of the standard is to provide a suitable starting point for accounting under NZ IFRS.

The Council must select accounting policies that comply with NZ IFRS and apply those policies retrospectively to all of the periods presented in the first NZ IFRS financial statements subject to several transitional NZ IFRS 1 exemptions noted below.

Exemptions in the following areas are available to WCC:

- 1) Business combinations
- 2) Fair value or revaluation as deemed cost
- 3) Employee benefits
- 4) Cumulative translation differences
- 5) Compound financial instruments
- 6) Assets and liabilities of subs, associates and joint ventures
- 7) Designation of previously recognised financial instruments
- 8) Share based payment transactions
- 9) Insurance contracts
- 10) Decommissioning liabilities included in the cost of PP&E

For further analysis of these exemptions refer to Appendix Three. We recommend that the Council take exemptions 2 and 7. Policies relating to these exemptions have been included in the Summary of Significant Accounting Policies.

In accordance with NZ IFRS 1, the Summary of Significant Accounting Policies also includes some policies that will be applied only to the first set of NZ IFRS financial statements. These policies relate solely to the NZ IFRS transition and are highlighted in yellow in Appendix One.

5.4 Other Accounting Policy Choices

The third category of accounting policy choices relates to those options embedded within the suite of NZ IFRS and available to all reporting entities (i.e. not restricted to solely PBEs or the transitional period.) There are a limited number of these policy choices applicable to the Council. Where these options are carried forward from existing NZ GAAP, our approach has been to continue our existing policy unless exceptional circumstances apply and there is a clear rationale for change. We have identified only one such circumstance where there is a persuasive reason for change (refer paragraph 5.4.2).

We consider the significant policy options below:

5.4.1 Hedge Accounting

On implementation of NZ IFRS, the Council will be required to recognise all derivative financial instruments (eg interest rate swaps) in the Statement of Financial Position and measure them at fair value. Subsequent changes in value will be accounted for through the Statement of Financial Performance (fair value accounting) unless hedge accounting can be achieved. If hedge accounting is achieved then changes in fair value are deferred within equity reserves in the Statement of Financial Position. Therefore, the Council has the accounting policy choice of whether to apply hedge accounting in respect of its derivative financial instruments.

At its meeting of 17 June 2005, the Subcommittee considered this policy choice in detail and resolved to:

1. *Approve the recommendation that the Council seek to achieve hedge accounting for derivative instruments from 1 July 2005.*

This decision has been reflected in the attached Summary of Significant Accounting Policies.

5.4.2 Measurement basis for Property, Plant and Equipment

Paragraph 29 of NZ IAS 16: *Property, Plant and Equipment* states:

“An entity shall choose either the cost model...or the revaluation model...as its accounting policy and shall apply that policy to an entire class of property, plant and equipment.”

Therefore, the Council has the option of recording its property, plant and equipment assets at cost or at regularly revalued amounts. While this option is also available under current NZ GAAP, within FRS 3: *Accounting for Property, Plant and Equipment*, the implementation of NZ IFRS provides the Council with an opportunity to revisit the model applied.

The Council should continue to revalue the classes of assets that are currently revalued with the exception of land under roads and restricted assets. Adopting the revaluation model for most asset classes ensures the assets' values are relevant and accurate and also ensures, for depreciable assets, that depreciation will be based on the replacement value of assets. This approach is also consistent with others in the local authority sector.

During the finalisation of the annual report for the year ending 30 June 2005, land under roads was revalued for the purpose of ensuring the most accurate value for the opening NZ IFRS Statement of Financial Position. At the time it was noted that there was no intention to continue with a revaluation cycle beyond 30 June 2005. This is in accordance with the practice of other local authorities who do not revalue the land under roads asset.

Restricted assets were also revalued during the 30 June 2005 annual reporting process. Restricted assets are inherently difficult to value due to a lack of available market information, which therefore results in a highly subjective approach to the valuation process and methodology. Specifically, due to the lack of directly comparable sales evidence, any value assessments of open space zoned land, particularly that subject to the Reserves Act or Town Belt Deed, will be very subjective. This class of assets has experienced significant fluctuations in value as a result of the valuation difficulties. These issues result in the conclusion that continual revaluations for this class of asset cannot be justified for cost-benefit reasons.

It is therefore recommended that the Council choose the cost model in accounting for both land under roads and restricted assets. The carrying values of these assets at 1 July 2005 will constitute their deemed cost.

5.5 NZ IFRS Requirements to Change the Council's Current Accounting Policies

In addition to the changes made reflecting policy choice, some changes have been made as they are required by NZ IFRS. Key changes to the Summary of Significant Accounting Policy changes that have been required by NZ IFRS are as follows:

□ **Policy Changes**

- **Deferred Tax:** The NZ IFRS approach to deferred tax is conceptually very different to current NZ GAAP. NZ IFRS takes a balance sheet approach and deferred tax represents the tax effects of recovering and settling recognised assets and liabilities.
- **Financial Instruments:** The accounting policy in respect of financial instruments contains more detail than that under NZ GAAP. In accordance with NZ IAS 39, the Council will need to recognise all derivatives on the balance sheet and measure them at fair value. If an entity meets the cash flow hedge accounting requirements, changes in fair value can be recorded through a hedge accounting reserve in equity (hedge accounting).

In addition the Council will categorise and account for its financial instruments in accordance with NZ IAS 39. This standard introduces defined categories for financial instruments, which have been reflected within the Summary of Significant Accounting Policies. The Council will recognise its loans and advances to other organisations as “available for sale financial assets”. The Council’s current accounting policy is that where there is both the positive intent and ability to hold financial assets to maturity, they are recorded at the lower of cost and expected realisable value. Under NZ IAS 39 these loans and advances will be recognised at their fair value.

- **Investment Property:** The Council’s investment properties are currently held at valuation less cost of disposal. On application of NZ IFRS 40 the deduction of transaction costs in determining the fair value is no longer permitted.

Under NZ IFRS, the Council will measure its investment properties at fair value with annual changes in fair value recognised in the Income Statement. Under current NZ GAAP any change in the fair value of investment properties is recognised in equity (through a separate revaluation reserve).

- **Software:** Under NZ GAAP computer software is accounted for as property, plant and equipment. Under NZ IAS 38, computer software that is not integral to a piece of hardware will be treated as an intangible asset. Intangible assets are recorded at cost and amortised across their useful lives.

- ***Additional policies***
New policies are required in respect of:
 - The judgements and estimations applied in preparation of the financial statements.
 - Related parties, incorporating broader definitions and requirements of NZ IAS 24. The definition of a related party is wider under NZ IFRS and extends to include key management personnel, close family members and any entity related to these people.
 - Impairment of assets. The NZ IFRS approach to impairment testing, outlined in NZ IAS 36: *Impairment of Assets*, is more stringent than current NZ GAAP.

- ***Terminology changes***
 - NZ IFRS introduces a plethora of new terminology – including “Income Statement” rather than “Statement of Financial Performance”, and “Balance Sheet” instead of “Statement of Financial Position.” These changes have been reflected in the Summary of Significant Accounting Policies.

6. OPENING BALANCE SHEET RECONCILIATION

NZ IFRS 1 requires reporting entities, in their first NZ IFRS compliant financial statements, to “explain how the transition from previous GAAP to New Zealand equivalents to IFRS affected reported financial position, financial performance and cashflows.” This is to be achieved through inclusion of a reconciliation of reported equity under previous GAAP to the NZ IFRS equivalents.

As noted previously, the Council will prepare an opening balance sheet for the start of the comparative period for its first NZ IFRS financial statements. As the Council will be adopting NZ IFRS for the period ending 30 June 2007, the opening balance sheet will be prepared as at 1 July 2005.

The Council has completed a draft of this reconciliation incorporating the impacts of the changes in accounting policies described in paragraph 5 above. This reconciliation is included in Appendix Four.

The reconciliation reflects adjustments for the Council (parent entity) only. We are currently working with Group entities to enable the preparation of the Group reconciliation.

7. NZ IFRS WORK PROGRAMME

7.1 Council work programme

A significant amount of work is planned for the next six months as we approach the implementation date of 1 July 2006. We envisage the completion of a template for the Council's NZ IFRS financial statements for the Subcommittee's review at the next meeting in March 2006.

7.2 Group work programme

The Council's working group are also assisting group entities to prepare for NZ IFRS. The Council is committed to ensuring our consolidated Group will be ready for the transition to NZ IFRS. Therefore, we have been working with the finance representatives of group entities to provide support and assistance as appropriate.

We are currently working with CCOs to establish whether they are PBEs or profit oriented entities for accounting purposes. We plan to develop vanilla templates for the Summary of Accounting Policies and Opening Balance Sheet Reconciliation for Group entities. The purpose of this is twofold:

- to ensure that Group entities are well prepared for implementation on 1 July 2006; and
- to facilitate completion of the Group Opening Balance Sheet Reconciliation to be included in the Council's first NZ IFRS compliant financial statements.

We will continue to report the progress of the project to the Subcommittee on a quarterly basis.

8. DEVELOPMENTS IN FINANCIAL REPORTING STANDARDS

8.1 Submissions Made

The Council makes submissions on exposure drafts where there is potential for a significant impact on either the Council as a reporting entity or the level of funding provided by ratepayers. We also consider whether the proposals are appropriate, in our opinion, from a standard setting perspective.

No new submissions have been made by the Council since the last Subcommittee meeting in September.

8.2 Exposure Drafts on Issue

As the stable platform of NZ IFRS has now been approved, there are now less exposure drafts on issue. The following exposure drafts are currently open for comment:

- IASB ED Management Commentary
- Draft Technical Correction (DTC) 1 Proposed Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates—Net Investment in a Foreign Operation.
- ED-104 Proposed Differential Reporting Concessions for the forthcoming New Zealand Equivalent to IFRS 7 *Financial Instruments: Disclosures* and Amendments to New Zealand Equivalent to IAS 1 Presentation of Financial Statements—Capital Disclosures.

Council Officers expect to submit on the first exposure draft listed. We will provide copies of any submissions made at the next Subcommittee meeting.

9. CONCLUSION

Since the last Subcommittee meeting, the Council's NZ IFRS working group has achieved several milestones.

A significant number of achievements are planned for the first quarter of 2006. This will enable us to report model NZ IFRS financial statements (incorporating NZ IFRS Statement of Accounting Policies and opening balance sheet reconciliation) to the December Subcommittee meeting.

We will continue to report developments to the Subcommittee on a quarterly basis.

Report prepared by:

Helen Rogers
MANAGER-FINANCIAL ACCOUNTING

APPENDIX ONE

NZ IFRS COMPLIANT STATEMENT OF ACCOUNTING POLICIES

Wellington City Council

Summary of Significant Accounting Policies

Reporting Entity

The financial statements are prepared in accordance with the Local Government Act 2002. For the purposes of financial reporting the Wellington City Council is a public benefit entity. The Council's financial statements are for Wellington City Council as a separate legal entity (the Parent). The consolidated financial statements are of the "Group" comprising Wellington City Council, its subsidiaries disclosed in Note xx, joint ventures disclosed in Note xx, associates disclosed in Note xx and the Wellington Waterfront Project.

The following public benefit entity exemptions have been applied:

- The Council has elected to apply the general exemption from the requirements of NZ IAS 14: *Segment Reporting*.
- The Council has elected to apply the exemption from the requirements of paragraph 39 of NZ IAS 16: *Property, Plant and Equipment*. The Council will therefore account for revaluations of property, plant and equipment on a class of asset basis.
- The Council has elected to apply the exemption from the requirements of paragraph 77 (e) of NZ IAS 16: *Property, Plant and Equipment*. The Council will therefore not disclose, for each revalued class of property, plant and equipment, the carrying amount that would have been recognised had the assets been carried under the cost model.

Reporting Period

The reporting period for these financial statements is the year ended 30 June XX.

The Annual Plan budget figures included in these financial statements are for the Council as a separate entity and do not include budget information relating to the subsidiaries or associates. These figures are those approved by the Council at the beginning of the year following a period of consultation with the public as part of the Annual Plan process. These figures do not include any additional expenditure subsequently approved by the Council outside the Annual Plan process. For completeness, additional expenditure approved by the Council is included in Note xx and Note xx. The Annual Plan figures have been prepared in accordance with generally accepted accounting practice and are consistent with the accounting policies adopted by the Council for the preparation of these financial statements.

Statement of Compliance

The financial statements have been prepared in accordance with New Zealand generally accepted accounting practice. They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for public benefit entities. These are the Council Reporting Entity's first consolidated financial statements complying with NZ IFRS. NZ IFRS 1: *First-time Adoption of NZ Equivalents to International Financial Reporting Standards* has been applied.

Until 30 June 200X the financial statements of Wellington City Council had been prepared in accordance with previous New Zealand Financial Reporting Standards (NZ FRS). NZ FRS differs in certain respects from NZ IFRS. When preparing the 30 June 2007 financial statements, management has amended certain accounting, valuation and consolidation methods applied in the NZ FRS financial statements to comply with NZ IFRS. With the exception of xxxx, the comparative figures in respect of 200x were restated to reflect these adjustments.

An explanation of how the transition to NZ IFRS has affected the reported financial position, performance and cash flows of the Council Reporting Entity is provided in Note XX.

Note: Highlighted sections reflect NZ IFRS transition policies. These will only be included within the first published NZ IFRS compliant financial statements.

Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing an opening NZ IFRS balance sheet as at 1 July 2005 for the purposes of the transition to NZ IFRS.

The measurement basis applied is historical cost, modified by the revaluation of certain assets and liabilities as identified in this summary of significant accounting policies.

The accrual basis of accounting has been used unless otherwise stated. These financial statements are presented in New Zealand dollars rounded to the nearest thousand, unless otherwise stated.

Where individual financial statements of subsidiaries, associates and joint ventures of the Wellington City Council are prepared using accounting policies different from those of the group, appropriate adjustments are made on consolidation, in order to ensure that uniform accounting policies have been applied.

Judgements and Estimations

The preparation of financial statements in conformity with NZ IFRS requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Where material, information on the major assumptions is provided in the relevant accounting policy or will be provided in the relevant note to the financial statements.

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.

Judgements that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note XX.

Basis of Consolidation

Joint ventures

Joint ventures are jointly controlled operations with other parties in which the Council has several liability in respect of costs and liabilities, and shares in any surpluses and assets. The Council's and Group's proportionate interest in the assets, liabilities, income and expenditure of the jointly controlled operations is included in the financial statements of the Council and Group on a line-by-line basis.

Subsidiaries

Subsidiaries are entities that are controlled by the Council. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are no longer consolidated from the date that control ceases. The Council's subsidiaries are accounted for using the purchase method, which involves the addition of corresponding assets, liabilities, income and expenditure on a line-by-line basis within the Group's financial statements.

All significant intra-group transactions are eliminated on consolidation.

The parent financial statements show investments in subsidiaries at cost.

Associates

Associates are entities in which the Council has significant influence, but not control, over their operating and financial policies. The Council's share of the assets, liabilities, income and expenditure of associates is included in the financial statements of the Group on an equity accounting basis. Dividends from associates are recognised in the parent's income statement, while in the consolidated financial statements they reduce the carrying amount of the investment.

The parent financial statements show investments in associates at cost.

Income

Grants

Grants income includes any transfers of resources to the Council in return for past or future compliance with certain conditions relating to the operating activities of the Council. An unconditional grant is recognised in the income statement as other operating income when the grant becomes receivable. A conditional grant is recognised in the income statement as other operating income to the extent that conditions have been complied with.

Donated, subsidised or vested assets

Where a physical asset is acquired for nil or nominal consideration the fair value of the asset received is recognised as revenue.

Interest

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.

Dividends

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Rental income

Rental income is recognised on a straight line basis over the term of the lease. Lease incentives granted are recognised evenly over the term of the lease as a reduction in total rental income.

Sales of goods

Sales of goods are recognised when a Group entity has transferred the risks and rewards of ownership of the goods to the purchaser. Sales of goods are recognised net of GST, rebates and discounts.

Other income

All other income is recognised when billed or earned on an accrual basis.

Expenses

Grants and subsidies

Grants and subsidies expenditure includes transfers of resources to another entity in return for past or future compliance with certain conditions relating to the operating activities of that entity. Grants expenditure includes any expenditure arising from a funding arrangement with another entity that has been entered into to achieve the objectives of the Council.

Where grants and subsidies are discretionary until payment, the expense is recognised when the payment is made. Otherwise, the expense is recognised when the specified criteria have been fulfilled and notice has been given.

Interest

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.

Donated Services

The Council benefits from the voluntary service of many Wellingtonians in the delivery of its activities and services (e.g. Beach cleaning, Otari-Wilton Bush guiding and planting, and the Volunteer Rural Fire Force). Due to the difficulty in determining the value of these donated services with sufficient reliability, donated services are not recognised in these financial statements.

Taxation

Income tax is charged in the income statement in respect of the current year's results of council controlled trading organisations only. Income tax on the profits or loss for the year comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is provided for in full using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for taxation purposes. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Goods and Services Tax (GST)

All items in the financial statements are exclusive of GST, with the exception of receivables and payables, which are stated as GST inclusive. Where GST is not recoverable as an input tax (e.g. residential housing) then it is recognised as part of the related asset or expense.

Financial Instruments

The Group classifies its financial assets and financial liabilities according to the purpose for which they were acquired. The Group determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

Financial Assets

The Group classifies its investments into the following categories: financial assets at fair value through profit and loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets.

Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivative financial instruments (interest rate swaps) are also categorised as held for trading unless they are designated as hedges. Financial assets held for trading and financial assets designated at fair value through profit or loss are recorded at fair value

with any realised and unrealised gains or losses recognised in the Income Statement. Transaction costs are expensed as they are incurred.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are included in trade and other receivables in the balance sheet. Loans and receivables are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method. Allowances for estimated irrecoverable amounts are recognised when there is objective evidence that the asset is impaired. As there are statutory remedies to recover unpaid rates, penalties and water meter charges, no provision has been made for doubtful debts in respect of these receivables.

Held-to-maturity financial assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are initially recognised at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method.

Available for sale financial assets

All financial assets that are not classified in any other category are classified as available for sale financial assets. 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 directly in equity except for impairment losses. Any interest is calculated using the effective interest method. At de-recognition the cumulative fair value gain or loss previously recognised directly in equity is recognised in the Income Statement.

Timing of Recognition

Purchases and sales of financial assets are recognised on their trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Fair values

If the market for financial assets is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include reference to the fair values of recent arm's length transactions, involving the same instruments or other instruments that are substantially the same and discounted cash flow analysis.

Impairment

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss previously recognised in profit and loss for that asset – is removed from equity and recognised in the income statement.

Financial Liabilities

The Group classifies its financial liabilities into the following categories: financial liabilities at fair value through profit and loss or other financial liabilities.

Financial liabilities at fair value through profit and loss

This category includes financial liabilities held for trading. This includes any derivatives (interest rate swaps) which are not designated as hedges. Financial at fair value through profit and loss are recorded at fair value with any realised and unrealised gains or losses

recognised in the Income Statement. Gains or losses reported in the Income Statement include any interest component. Transaction costs are expensed as they are incurred.

Other financial liabilities

Other financial liabilities are recognised initially at fair value less transaction costs and subsequently measured at amortised cost using the effective interest rate method. Amortisation is recognised in the Income Statement as is any gain or loss when the liability is derecognised.

Derivatives

Derivative financial instruments are recognised as either assets or liabilities at fair value on the date the derivative is entered into and are subsequently re-measured to their fair value. Derivatives that do not qualify for hedge accounting are classified as held for trading financial instruments with fair value gains or losses recognised in the Income Statement.

Hedging

Where a derivative (interest rate swap) qualifies as a hedge of variability in liability cash flows (cash flow hedge), the effective part of any gain or loss on the derivative is recognised in equity while the ineffective part is recognised in the Income Statement. Gains or losses recognised in equity transfer to the Income Statement in the same periods as when the hedged item affects the Income Statement.

When the Group enters into interest rate swaps, it documents at the inception of the transaction the relationship between the hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at inception and on an ongoing basis, of whether the interest rate swaps have been and will continue to be highly effective in offsetting changes in the cash flows of hedged items.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with up to three months maturity. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Inventory

Inventories are recorded at the lower of cost (determined on a first-in first-out basis) or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Investment properties

Investment properties are properties which are held primarily to earn rental income, for capital appreciation, or for both, and are not occupied by the Group. These include the Council's ground leases and land and buildings and the Wellington Waterfront Project's investment properties. Investment properties exclude those properties held for strategic purposes or to provide a social service, including those which generate cash inflows where the rental revenue is incidental to the purpose for holding the property. Such properties include the Council's social housing assets and are accounted for as described in the *Property, Plant and Equipment* accounting policy.

Investment properties are stated at fair value and valued annually by an independent registered valuer. Any gain or loss arising from a change in fair value is recognised in the income statement. Investment properties are not depreciated. Rental income from investment property is accounted for as described in the *Revenue Recognition* accounting policy.

A property leased to a third party under an operating lease is classified and accounted for as an investment property on a property-by-property basis when the Group holds it to earn rentals or for capital appreciation or both. Any such property interest under an operating lease classified as an investment property is carried at fair value. Properties leased to third parties under operating leases will generally be classified as 'Investment Property' unless:

- The occupants provide services that are integral to the operation of the owner's business and/or these services could not be provided efficiently and effectively by the lessee in another location
- The owner of the property is a public benefit entity and the property is held to meet service delivery objectives, rather than to earn rentals or for capital appreciation (or both)
- The property is being held for future delivery of services
- If the lessor uses services of the owner and those services are integral to the reasons for their occupancy of the property

Non-current assets held for sale

Non-current assets are separately classified as held for sale where their carrying amount will be recovered through a sale transaction rather than through continuing use. A non-current asset is classified as held for sale where:

- The asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets,
- The Group is committed to a plan to sell the asset, and an active programme to locate a buyer and complete the plan has been initiated,
- The asset is being actively marketed for sale at a price that is reasonable in relation to its current fair value,
- The sale is expected to qualify for recognition as a sale within one year from the date of classification or beyond one year where a delay has occurred which is caused by events beyond the Group's control and there is sufficient evidence that the Group remains committed to its plan to sell the asset, and
- Actions required to complete the plan to sell the asset indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

A non-current asset classified as held for sale is recognised at the lower of its carrying amount and fair value less costs to sell. An impairment loss is recognised for any initial or subsequent write down of the asset to fair value less costs to sell.

Property, Plant and Equipment

Recognition

Property, plant and equipment consists of operational assets, restricted assets and infrastructure assets. Expenditure is capitalised as property, plant and equipment when it creates a new asset or increases the economic benefits over the total life of an existing asset and can be measured reliably. Costs that do not meet the criteria for capitalisation are expensed.

Operational assets include land, the landfill post closure asset, buildings, Civic Centre amenities (comprising the Civic Centre Complex including the City Gallery, Central Library, Town Hall, Michael Fowler Centre, Municipal Office Building and the Civic Administration Building), library collections, and plant and equipment.

Restricted assets include art and cultural assets, zoo animals, buildings on restricted land, parks and reserves and the town belt. These assets provide a benefit or service to the community and cannot be disposed of because of legal or other restrictions.

Infrastructure assets include the fixed utility systems comprising the roading, water reticulation and drainage systems, land under roads and infrastructure land. Each asset type includes all items that are required for the network to function.

Measurement

Items of property, plant and equipment are initially recorded at cost.

The initial cost of property, plant and equipment includes the purchase consideration, or the fair value in the case of bequeathed or vested assets, and those costs that are directly attributable to bringing the asset into the location and condition necessary for its intended purpose. Subsequent expenditure that extends or expands the asset's service potential and that can be measured reliably is capitalised. Borrowing costs are not capitalised.

Civic Centre amenities and plant and equipment are recorded at cost.

Land and buildings are valued at fair value on a three-year basis by independent registered valuers. Wellington Waterfront Project land and buildings are valued annually to fair value by independent registered valuers. Fair value is determined by reference to highest and best use.

Library collections are valued at depreciated replacement cost on a three-year basis by the Council's library staff in accordance with guidelines released by the New Zealand Library Association and the National Library of New Zealand.

Art and cultural assets (artworks, sculptures, and statues) are valued at historical cost. Zoo animals are stated at estimated replacement cost. All other restricted assets (buildings, parks and reserves and the town belt) are valued at cost. The Group has applied the transitional exemption in NZ IFRS 1: *First-time adoption of NZ Equivalents to International Financial Reporting Standards* to use the fair value of restricted assets at 1 July 2005 as its deemed cost at that date.

Infrastructure assets (roading network, water and drainage reticulation assets) are valued at optimised depreciated replacement cost on a three-year basis by independent registered valuers. Infrastructure valuations are based on current quotes from actual suppliers. As such, they include ancillary costs such as breaking through seal, traffic control and rehabilitation. This methodology is consistent with a "brown fields" approach. Between valuations, expenditure on asset improvements is capitalised at cost.

Infrastructure land is valued at fair value on a three-year basis.

Land under roads represents the corridor of land directly under and adjacent to the Council's roading network. Land under roads is valued at cost. The Group has applied the transitional exemption in NZ IFRS 1: *First-time adoption of NZ Equivalents to International Financial Reporting Standards* to use the fair value of land under roads at 1 July 2005 as its deemed cost at that date.

Vested assets are recognised within their respective asset classes at fair value. Vested assets are those assets where ownership and control is transferred to the Council from a third party (for example; infrastructure assets constructed by developers and transferred to the Council on completion of a sub-division). Fair value is determined on a basis consistent with the valuation of existing assets within the class.

Revaluations

The result of any revaluation of the Council's property, plant and equipment is credited or debited to the asset revaluation reserve for that class of property, plant and equipment.

Where this results in a debit balance in the reserve for a class of property, plant and equipment, the balance is expensed in the Income Statement. Any subsequent increase on revaluation that off-sets a previous decrease in value recognised in the Income Statement, will be recognised firstly in the Income Statement up to the amount previously expensed, and then secondly credited to the revaluation reserve for that class of property, plant and equipment.

Accumulated depreciation at revaluation date is eliminated against the gross carrying amount and the net amount is restated to the revalued amount.

Further information in respect of the most recent valuations for each class is provided in Note xx.

Impairment

The carrying amounts of property, plant and equipment are reviewed at least annually to determine if there is any indication of impairment. Where an asset's recoverable amount is less than its carrying amount, it will be reported at its recoverable amount and an impairment loss will be recognised. The recoverable amount is the higher of an item's fair value less costs to sell and value in use. Losses resulting from impairment are reported in the Income Statement, unless the asset is carried at a revalued amount in which case any impairment loss is treated first as a revaluation decrease and then as a charge to the Income Statement to the extent that the impairment exceeds the amount in the revaluation reserve in respect of that asset.

Disposal

Gains and losses arising from the disposal of property, plant and equipment are determined by comparing the proceeds with the carrying amount and are recognised in the Income Statement in the period in which the transaction occurs. Any balance attributable to the disposed asset in the asset revaluation reserve is transferred to retained earnings.

Depreciation

Depreciation is provided on all property, plant and equipment, with certain exceptions. The exceptions are land, restricted assets other than buildings, and assets under construction (work in progress). Depreciation is calculated on a straight line basis, to allocate the cost or value of the asset (less any residual value) over its useful life. The estimated useful lives of the major classes of property, plant and equipment are as follows:

Land	indefinite
Buildings	10 to 100 years
Civic Centre amenities	10 to 100 years
Plant and equipment	3 to 100 years
Library collections	3 to 10 years
Restricted assets (excluding buildings)	indefinite
Infrastructure assets	
Land	indefinite
Land under roads	indefinite
Roading	
Formation/earthworks	indefinite
Pavement	3 to 40 years
Traffic Islands	60 years
Bridges and tunnels	3 to 150 years
Drainage	10 to 120 years
Retaining walls	40 to 100 years
Pedestrian walkway	5 to 50 years
Pedestrian furniture	10 to 25 years
Barriers & lighting	2 to 50 years
Cycle-way network	15 to 40 years
Parking equipment	8 to 10 years

Passenger transport facilities	25 years
Traffic infrastructure	5 to 10 years
Drainage, waste and water	
Pipework	40 to 150 years
Fittings	10 to 111 years
Water pump stations	20 to 100 years
Water reservoirs	40 to 100 years
Equipment	25 years
Sewer pump stations	20 to 100 years
Tunnels	150 years
Treatment plants	3 to 100 years

The landfill post closure asset is depreciated over the life of the landfill based on the capacity used.

The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each balance date.

Work in progress

The cost of projects within work in progress is transferred to the relevant asset class when the project is completed and then depreciated.

Intangible Assets

Acquired intangible assets are initially recorded at cost. The cost of an internally generated intangible asset represents expenditure incurred in the development phase of the asset only. The development phase occurs after the following can be demonstrated: technical feasibility; ability to complete the asset; intention and ability to sell or use; and when development expenditure can be reliably measured. Development costs with a finite useful life that have been capitalised are amortised from the commencement of use or sale of the products developed on a straight-line basis over the period of its expected benefit.

Expenditure incurred on research of an internally generated intangible asset is expensed when it is incurred. Where the research phase cannot be distinguished from the development phase, the expenditure is expensed when it is incurred. Development costs previously recognised as an expense are not subsequently recognised as an asset in a subsequent period.

Intangible assets with finite lives are subsequently recorded at cost less any amortisation and impairment losses. Amortisation is charged to the Income Statement on a straight-line basis over the useful life of the asset. Typically, the estimated useful lives of these assets are as follows:

Computer Software	3 to 8 years
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Realised gains and losses arising from disposal of intangible assets are recognised in the Income Statement in the period in which the transaction occurs. Intangible assets 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 will be reported at its recoverable amount and an impairment loss will be recognised. Losses resulting from impairment are reported in the Income Statement.

The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each balance date.

Employee Benefits

A provision for employee benefits is recognised as a liability when benefits are earned.

Wages and salaries

Liabilities for wages and salaries, including non-monetary benefits, expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Holiday Leave

Holiday leave (annual leave and time off in lieu) is calculated on an actual entitlement basis at the greater of the average or current hourly earnings in accordance with sections 16(2) & 16(4) of the Holidays Act 2003. Liabilities for wages and salaries, including non-monetary benefits, and annual leave expected to be settled within 12 months of the balance sheet date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Long Service Leave

Long-service leave (not yet qualified for) and retirement gratuities have been calculated on an actuarial basis based on the likely future entitlements accruing to staff, after taking into account years of service, years to entitlement, the likelihood that staff will reach the point of entitlement, and other contractual entitlements information. The present value of the estimated future cash flows has been calculated using an inflation factor of xx% and a discount rate of xx%. The discount rate used represents the Council's average cost of borrowing.

Other Contractual Entitlements

Other contractual entitlements include termination benefits. Termination benefits are recognised in the Income Statement 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.

Landfill post closure costs

The Council, as operator of the Northern and Southern Landfills, has a legal obligation to apply for resource consents when the landfills, or landfill stages, reach the end of their operating life and are to be closed. These resource consents will set out the closure requirements and the requirements for ongoing maintenance and monitoring services at the landfill site after closure. A provision for post closure costs is recognised as a liability when the obligation for post closure arises, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be estimated reliably. This would typically occur when each stage of the landfill is commissioned and refuse begins to accumulate.

The provision is measured based on the present value of future cash flows expected to be incurred, taking into account future events including known changes to legal requirements and known improvements in technology. The provision includes all costs associated with landfill post closure including final cover application and vegetation; incremental drainage control features; completing facilities for leachate collection and monitoring; completing facilities for water quality monitoring; completing facilities for monitoring and recovery of gas.

Amounts provided for landfill post closure are capitalised to the landfill asset where they give rise to future economic benefits or if they are incurred to enable future economic benefits to be obtained. The capitalised landfill asset is depreciated over the life of the landfill based on the capacity used.

The Council has a 21.5% joint venture interest in the Spicer Valley landfill. The Council's provision for landfill post closure costs includes the Council's proportionate share of the Spicer Valley landfill provision for post closure costs.

The present value of the estimated future cash flows has been calculated using an inflation factor of xx% and a discount rate of xx% for the Council and xx% for the Spicer Valley landfill. The discount rates used represent the Council's and joint venture's average cost of borrowing respectively.

Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of 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 effective interest rate. The amount of the provision is recognised in the income statement.

Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than no that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. 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 their present value.

Contingent Assets and Liabilities

Contingent liabilities and contingent assets are disclosed in the Statement of Contingent Liabilities and Contingent Assets at the point at which the contingency is evident. Contingent 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.

Equity

Equity is the community's interest in the Council and Group 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 Council and the Group.

The components of equity are accumulated funds and retained earnings, revaluation reserves and restricted funds (special funds, reserve funds, trusts and bequests).

Restricted funds are those reserves that are subject to specific conditions of use, whether under statute or accepted as binding by the Council, and that may not be revised without reference to the Courts or third parties. Transfers from these reserves may be made only for specified purposes or when certain specified conditions are met.

Leases

Leases where the lessor effectively retains substantially all the risks and rewards of ownership of the leased items are classified as operating leases. Payments made under these leases are expensed in the Income Statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease payment.

Finance leases transfer to the Group 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 corresponding rental obligations, net of finance charges, are included in other long term payables. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The leased asset acquired under finance leases is depreciated over the short of the useful life of the asset or the lease term.

Statement of Cash Flows

The statement of cash flows has been prepared using the direct approach subject to the netting of certain cash flows. Cash flows in respect of investments and borrowings that have been rolled-over under arranged finance facilities have been netted in order to provide more meaningful disclosures.

Operating activities include cash received from all income sources of the Council and the Group; record the cash payments made for the supply of goods and services and include cash flows from other activities that are neither investing nor financing activities. Investing activities relate to the acquisition and disposal of assets. Financing activities relate to activities that change the equity and debt capital structure of the Council and Group.

Related Parties

A party is related to the Council if:

- directly or indirectly through one or more intermediaries, the party:
 - controls, is controlled by, or is under common control with, the council
 - has an interest in the council that gives it significant influence over the council
 - has joint control over the council
- the party is an associate of the council
- the party is a joint venture in which the council is a venturer
- the party is a member of key management personnel (including any directors) of the council or its parent
- the party is a close member of the family of any individual referred to above
- the party is an entity controlled jointly or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to above

Councillors, including the Mayor, are considered directors as they occupy the position of a member of the governing body of the Council reporting entity. Directors' remuneration is any money, consideration or benefit received, receivable or otherwise made available, directly or indirectly, to a director during the reporting period. Directors' remuneration does not include reimbursement of legitimate work expenses or the provision of work-related equipment such as cell phones and laptops.

Comparative figures

Council has adopted the NZ equivalent International Financial Reporting Standards commencing with this report. Comparative figures for the 2006 year have been restated to comply with these standards.

In addition, to ensure consistency with the current year, certain comparative information has been restated or reclassified where appropriate. This has occurred:

- where classifications have changed between periods, and
- where the Council has made additional disclosure in the current year, and where a greater degree of disaggregation of prior year amounts and balances is therefore required.

Changes in Accounting Policies

Early adoption of International Financial Reporting Standards

For reporting periods commencing on or after 1 January 2007, New Zealand reporting entities will be required to apply New Zealand equivalents to International Financial Reporting Standards (NZIFRS). Entities have the option of adopting NZIFRS early. The Council has decided to “early adopt” with effect from 1 July 2006 which means that these accounts have been prepared in accordance with NZIFRS for the first time.

The standards adopted before their effective date which are relevant to Council are as follows:

(INSERT REFERENCES - Note, these references should be inserted at the time of preparing the accounts to ensure they are those that apply at the time of preparation).

For disclosure of the financial impact of adoption of NZIFRS, please refer to Note XX.

APPENDIX TWO

PUBLIC BENEFIT ENTITY EXEMPTIONS

Pronouncement	PBE guidance and exemptions	Type	Council response
NZ IAS 1: <i>Presentation of financial statements</i>	14.1 – PBEs not required to comply with requirements of para 14 re compliance with IFRS.	Exemption	✓ The Council is unable to assert compliance with IFRS as some other PBE exemptions conflict with IFRS (eg. IAS 20). The Council will assert compliance with NZ IFRS.
	92.1 – PBEs that have elected to disclose expenses using the function of expense method may disclose expenses classified by output. If disclose by output not required to disclose cost of sales. However, must still disclose additional info on nature of expenses including depreciation and employee benefits.	Exemption	? This is a disclosure exemption rather than a policy exemption. This will be considered during finalisation of the NZ IFRS Financial Statements template.
NZ IAS 2: <i>Inventories</i>	10.1 – Guidance on vested inventories - inventories acquired at no cost or for nominal consideration the cost shall be the current replacement cost as at the date of acquisition.	Guidance	X This is not applicable for the Council.
	9.1 – 9.3, 34.1, 36.1 – Guidance on inventories held for distribution – measurement, impairment and disclosures.	Guidance	X This is not applicable for the Council.
NZ IAS 14: <i>Segment reporting</i>	PBEs are not required to comply with this standard. (Council is also not an issuer so doesn't need to comply even if didn't take	Exemption	✓ The Council should take this exemption as segmental reporting is most appropriately achieved through

Pronouncement	PBE guidance and exemptions	Type	Council response
	advantage of PBE).		the Statement of Service Performance.
NZ IAS 16: <i>PP&E</i>	15.1 – Guidance on vested assets – recognise at fair value on day one.	Guidance	✓ The Council is required to follow this guidance.
	33.1 – 33.14 Guidance on fair value substitute (DRC) where specialised equipment and no market value.	Guidance	✓ The Council is required to follow this guidance.
	39.1, 40.1 – 40.2 – PBEs may account for revals of PP&E on a class of asset basis.	Exemption	✓ The Council should take advantage of the exemption to recognise revaluation increments and decrements on a class basis because it is very difficult to allocate on a reasonable basis the revaluation increments and decrements relating to each component and asset of the Council’s roading and infrastructure networks. In addition, utilising the class basis will avoid increased volatility within the Income Statement. This is consistent with the logic applied by the FRSB in approving the exemption in the final standard submitted to the ASRB.
	77.1 – don’t have to disclose for each revalued class the carrying amount that would have been recognised had the assets been carried under the historical cost model.	Exemption	✓ The Council must take this exemption if it is unable to disclose the amounts that would have been carried under the historical cost model. This exemption is closely linked to the deemed cost exemption in NZ IFRS (Appendix Three). Due to historical issues surrounding the recording of infrastructural

Pronouncement	PBE guidance and exemptions	Type	Council response
			<p>assets, the Council is unable to establish the carrying values of these assets under the cost model. The only way to comply would be to take the deemed cost exemption in NZ IFRS 1. This would enable the Council to use the fair value for revalued assets at 1 July 2005 as deemed cost. However, taking the deemed cost exemption will mean that any revaluation reserves associated with this class of asset will be transferred to equity. Any subsequent downwards revaluations will therefore be taken directly to the Income Statement. As this exposes the Council to significant Income Statement volatility, this option is not recommended.</p> <p>Without taking the deemed cost option, the Council is unable to disclose the carrying amounts of revalued assets in accordance with the cost model. Therefore the Council should take this exemption.</p>
<p>NZ IAS 20: <i>Accounting for government grants and disclosure of government assistance</i></p>	<p>PBEs shall not apply the recognition, measurement and presentation requirements of the standard but must apply disclosure requirements in paragraph 39.</p>	<p>Guidance</p>	<p>✓</p> <p>The Council is required to follow this guidance.</p>
<p>NZ IAS 27: <i>Consolidated and separate financial statements</i></p>	<p>27.1 notes reporting dates of parent and subs for PBEs can be greater than 3 months in rare circumstances.</p>	<p>Guidance</p>	<p>X</p> <p>This is not applicable for the Council.</p>
<p>NZ IAS 36: <i>Impairment of assets</i></p>	<p>2.1 – The standard shall be applied in accounting for the impairment of</p>	<p>Guidance</p>	<p>✓</p> <p>The Council is required to follow</p>

Pronouncement	PBE guidance and exemptions	Type	Council response
	all assets of PBEs, other than assets excluded by paragraph 2 and assets whose future economic benefits are not directly related to their ability to generate future cash flows.		this guidance.
NZ IAS 38: <i>Intangible assets</i>	124.1 – PBEs are not required to comply with the requirement in para 124(a)(iii) to disclose, in respect of intangible assets accounted for at revalued amounts, the carrying amount that would have been recognised had the revalued class of intangible assets been measured after recognition using the cost model in paragraph 74.	Exemption	X This is not applicable for the Council as we do not intend to revalue intangible assets.
NZ IAS 40: <i>Investment property</i>	20.1 – The cost of vested investment property will be its fair value at the date of acquisition.	Guidance	✓ The Council is required to follow this guidance.
NZ IFRIC 1: <i>Changes in existing decommissioning, restoration and similar liabilities</i>	6.1 - If a related asset is measured using the revaluation model and a change in liability alters the revaluation surplus or deficit then any decrease/increase can be accounted for on a class basis.	Exemption	X The Council does not account for landfill post-closure assets using the revaluation method.

APPENDIX THREE

NZ IFRS 1 EXEMPTIONS

Pronouncement	Exemption Available	Council response
<i>Business combinations</i>	NZ IFRS 3 does not need to be applied retrospectively to business combinations that arose before the date of transition. The exemption applies to acquisitions of subs, associates and joint ventures rather than to the creation of subs, associates and joint ventures.	X Given the Council has set up, rather than acquired, its subsidiaries associates and joint ventures and given that no goodwill is recognised by WCC this policy is not applicable.
<i>Cumulative foreign currency translation reserves</i>	In relation to foreign operations, a first time adopter may: <ul style="list-style-type: none"> • Deem cumulative translation differences to be zero at the date of transition; and • Not account for any cumulative differences that arose before the date of transition on subsequent disposal. 	X Given that WCC does not hold foreign operations this exemption is not applicable.
<i>Subsidiaries, associates and joint ventures</i>	If a subsidiary becomes a first time adopter later than its parent, the subsidiary may measure the carrying amount of assets and liabilities as either: <ul style="list-style-type: none"> • Consistent with parent consolidated amounts and date of transition; or • Consistent with the requirements of NZ IFRS 1, based on the subsidiary's date of transition. 	X Given that no subsidiaries, associates and joint ventures will adopt later than 30 June 2007 this policy option is not applicable.
<i>Property, plant and equipment</i>	This option allows the Council to deem a previous valuation as the deemed cost of the asset going forward and not to continue to apply its revaluation policy in respect of that class of asset.	✓ The Council currently revalues several categories of PP&E. This option will result in any revaluation reserves in respect of the classes for which the exemption is taken being transferred to equity. The Council should continue to revalue its PP&E with the exception of land under roads and restricted assets. Taking this option enables an easy way to determine the initial cost of property, plant and equipment. However, as this option effectively eliminates existing revaluation reserves, any future revaluation

Pronouncement	Exemption Available	Council response
		<p>movements will be recognised directly in the Income Statement. This is not considered desirable as it will increase the volatility in the Income Statement and may distort the operating result.</p> <p>It is therefore recommended that this option is adopted in respect of assets which will no longer be revalued – namely, land under roads and restricted assets.</p>
<i>Intangible assets</i>	The options of deemed cost listed above in property, plant and equipment are available for all intangible assets that meet the revaluation criteria in NZ IAS 38.	<p>X</p> <p>Given WCC does not hold material amounts of intangible assets and does not revalue these, this policy option is not applicable.</p>
<i>Employee benefits</i>	Cumulative actuarial gains and losses in excess of the 10% corridor may be recognised fully in measuring employee benefit plans.	<p>X</p> <p>Given this exemption relates only to defined benefit plans and WCC does not maintain a defined benefit plan this exemption is not applicable.</p>
<i>Compound financial instruments</i>	A first time adopter need not separate a compound financial instrument into a separate liability and equity component if the liability portion is no longer outstanding at the date of transition to NZ IFRS.	<p>X</p> <p>Given WCC has no compound financial instruments this exemption option is not applicable.</p>
<i>Designation of financial instruments</i>	This exemption allows an entity to designate a financial asset or liability into the appropriate category at the transition date (1 July 2005) rather than on initial recognition.	<p>✓</p> <p>Subject to the IAS 39 component evaluation it is recommended that WCC take advantage of this exemption so that it can classify some of its current financial assets and financial liabilities at fair value.</p>
<i>Comparatives for financial instruments</i>	Any early adopter of NZ IFRS (2005) may choose not to restate its comparatives for NZ IAS 32 and 39.	<p>X</p> <p>Given WCC will be adopting for the year-ended 30 June 2007, this exemption is not applicable.</p>
<i>Share-based payments</i>	An entity may choose to apply NZ IFRS 2 to any equity instruments that were granted before 7 November 2002 or that vested before the later of the date of transition and 1 January 2005, in certain circumstances.	<p>X</p> <p>Given none of the entities in the Group make share-based payments this exemption option is not applicable.</p>
<i>Insurance contracts</i>	If adopting before 1 January 2006, an entity may choose not to restate comparatives for NZ IFRS 4.	<p>X</p> <p>Given that entities within the WCC group will adopt NZ IFRS for the year ending 30 June 2007, this exemption is not applicable.</p>

Pronouncement	Exemption Available	Council response
<p><i>Changes in existing decommissioning, restoration and similar liabilities included in the cost of PP&E</i></p>	<p>NZ IFRIC 1 requires specified changes in such liabilities to be added or deducted from the cost of the asset to which it relates, the adjusted depreciable amount of the asset is then depreciated prospectively over its remaining useful life. The exemption allows an entity not to comply with the requirement to account for any changes in such liabilities which occurred before the date of transition.</p>	<p>X The policy noted in NZ IFRIC 1 is currently applied by WCC in determining its landfill provisions and post closure assets and therefore this exemption is not applicable to the Council.</p>

APPENDIX FOUR

OPENING BALANCE SHEET RECONCILIATION

The purpose of this reconciliation is to highlight the estimated impact that Wellington City Council expects in its parent entity financial statements as a result of adopting NZ IFRS based on the NZ IFRS standards as at [date of report]. The adjustments for the Group have not yet been determined. It is possible that future changes to the standards will change the nature of the adjustments required by the time the Council reports its first financial statements under NZ IFRS.

Wellington City Council	Assets (\$000)	Liabilities (\$000)	Equity (\$000)
Reporting under NZ GAAP as at 30 June 2005	5,690,057	239,991	5,450,066
<i>Estimated adjustments required under IFRS</i>			
Property, plant and equipment	(6,007)		
Intangible assets	6,007		
Hedge accounting – cash flow hedge	1,011		1,011
Financial Instruments	(10,134)		(10,134)
General Provisions	486		486
Deemed cost exemption			(3,149,134)
Reclassification of revaluation reserves to RE			3,149,134
Investment Property Disposal Costs	116		116
Total estimated adjustments required under IFRS	(8,521)	nil	(8,521)
Estimated restated position as at 1 July 2005	5,681,536	239,991	5,441,545

Explanatory Notes:

Property, plant and equipment/Intangibles

Under NZ IFRS implementation, the Council has identified approximately \$6 million of software that is currently classified as plant, property and equipment which will be reclassified as intangible assets in accordance with IAS 38. The overall impact on net assets is nil, as this is purely a reclassification of asset class. Amortisation of this intangible will be consistent with the methodology applied to depreciating it under FRS 3. Therefore there will be no additional impact within the income statement.

Hedge accounting – cash flow hedge

The Council will recognise and account for its interest rate swaps using the hedge accounting rules prescribed by NZ IAS 39: *Financial Instruments: Recognition and Measurement*. This requires the Council to recognise these swaps at their fair value in the Balance Sheet.

The Council has identified all interest rate swaps which relate to floating interest rate debt. The Council's policy is to hedge its exposure to movements in these interest rates. On the 1 July 2005, these derivatives were recognised on the balance sheet at fair value

under NZ IFRS. The impact is the creation of a \$1,011k asset and an increase in equity. This should be unwound through equity to the extent that the derivatives are deemed effective hedges in accordance with NZ IAS 39.

There are specific requirements under NZ IAS 39 for hedge accounting of derivatives for designation, documentation and effectiveness testing. If a cash flow hedge can not be achieved, all changes in fair value must be recognised in the income statement. If cash flow hedge accounting requirements continue to be met, changes in fair value of the derivatives can be recorded through a hedge accounting reserve in equity.

Financial Instruments

Under NZ IFRS loans and receivables are initially recognised at fair value and subsequently measured at amortised cost. If the interest rate is less than the market rate, a loss is recognised on initial recognition of the loan or receivable. The impact of the change is to reduce loan receivables by \$10,134k with a corresponding reduction in equity.

General provisions

The Council's provision for doubtful debts included a general provision which was calculated on the basis of historical information and various assumptions. Under NZ IFRS impairment losses can be recognised only if there is objective evidence of impairment as a result of a past event that occurred subsequently to the initial recognition. The impact for the Council is the reversal of \$486k general provision against equity.

Deemed cost exemption

The Council has chosen to apply the one off deemed cost exemption available under NZ IFRS 1 in relation to its plant, property and equipment (land under roads and restricted assets) and investment property that is currently carried at valuation. This exemption allows the Council to use the carrying values of the assets under current reporting as deemed cost. The impact of the application of this exemption is to transfer approximately \$3,194,139k from revaluation reserves to retained earnings.

Investment Property Disposal Costs

The Council's investment properties were previously held at valuation less cost of disposal. On application of NZ IFRS 40 the deduction of transaction costs in determining the fair value is no longer permitted. The impact of the application of this standard has resulted in approximately \$116k of disposal costs being written back to investment properties.

Note to Reconciliation

The impact of the transition to IFRS presented in this note is based on NZ IFRS standards that management expect to be in place when preparing the first NZ IFRS compliant financial report. The actual impact of adopting NZ IFRS may vary from the reconciliation presented due to changes in financial reporting requirements, interpretations or additional guidance on the application of NZ IFRS. The variations may be material.

APPENDIX FIVE

TIMELINE FOR NZ IFRS IMPLEMENTATION

ANNUAL REPORT

1. **2005/06 Annual Report**

2004/05 comparatives applying <u>current</u> accounting standards	2005/06 applying <u>current</u> accounting standards
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2. **2006/07 Annual Report**

2005/06 Comparatives restated applying <u>new</u> accounting standards	2006/07 applying <u>new</u> accounting standards
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ANNUAL PLAN/LTCCP

3. **LTCCP 2006/07 – 2015/16**

2006/07 Budget applying <u>new</u> accounting standards	2007/08 Budget applying <u>new</u> accounting standards	2008/09 Budget applying <u>new</u> accounting standards	etc
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