

PROSPECTIVE STATEMENT OF FINANCIAL PERFORMANCE

	Forecast 2007/08 \$000
INCOME	
Revenue from rates and levies	192,009
Revenue from operating activities	102,121
Revenue from investment property leases	11,468
Finance income	5,589
Other revenues and gains	4,975
Total operating income	316,162
EXPENSE	
Finance expense	20,258
Expenditure on operating activities	228,901
Depreciation and amortisation	63,043
Total operating expense	312,202
Net surplus/(deficit) for the year	3,960

PROSPECTIVE STATEMENT OF CHANGES IN EQUITY

	Forecast 2007/08 \$000
EQUITY – OPENING BALANCES	
Accumulated funds and retained earnings	4,691,471
Revaluation reserves	844,155
Hedging reserve	1,793
Restricted funds	20,549
Equity – opening balance	5,557,968
CHANGES IN EQUITY	
RETAINED EARNINGS	
Transfer from retained earnings	(500)
Transfer to retained earnings	-
REVALUATION RESERVES	
Revaluation gains/(losses) taken directly to equity	177,441
RESTRICTED FUNDS	
Transfer from restricted funds	-
Transfer to restricted funds	500
Net income recognised directly in equity	177,441
Net surplus/(deficit) for the year to retained earnings	3,960
Total recognised income and expense for the year	181,401
Effect of changed shareholding in Chaffers Marina Holdings Limited	(100)
Total changes in equity	181,301
EQUITY – CLOSING BALANCES	
Accumulated funds and retained earnings	4,694,831
Revaluation reserves	1,021,596
Hedging reserve	1,793
Restricted funds	21,049
Equity – closing balance	5,739,269

PROSPECTIVE STATEMENT OF FINANCIAL POSITION

	Forecast 2007/08 \$000
ASSETS	
Current assets	
Cash and cash equivalents	1,883
Trade and other receivables	28,481
Inventories	976
Total current assets	31,340
Non-current assets	
Derivative financial instruments	1,793
Trade and other receivables	26,221
Available-for-sale financial assets	527
Investment in subsidiaries	6,509
Investment in associates	19,358
Intangibles	9,594
Investment properties	178,958
Property, plant & equipment	5,837,029
Total non-current assets	6,079,989
TOTAL ASSETS	6,111,329
LIABILITIES	
Current liabilities	
Trade and other payables	50,579
Borrowings	109,325
Employee benefits	4,204
Provisions for other liabilities	4,118
Total current liabilities	168,226
Non-current liabilities	
Trade and other payables	200
Borrowings	185,950
Employee benefits	2,214
Provisions for other liabilities	15,470
Total non-current liabilities	203,834
TOTAL LIABILITIES	372,060

PROSPECTIVE STATEMENT OF FINANCIAL POSITION CONTINUED

	Forecast 2007/08 \$000
EQUITY	
Accumulated funds and retained earnings	4,694,831
Revaluation reserves	1,021,596
Hedging reserve	1,793
Restricted funds	21,049
TOTAL EQUITY	5,739,269
TOTAL EQUITY AND LIABILITIES	6,111,329

PROSPECTIVE STATEMENT OF CASH FLOWS

	Forecast 2007/08 \$000
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from rates and levies – Council	192,009
Cash receipts from activities and other income	93,937
Cash receipts from Government grants and subsidies	13,157
Cash receipts from investment property leases	11,468
Cash paid to suppliers and employees	(205,848)
Grants paid	(24,841)
Net cash flow from operating activities	79,882
CASH FLOWS FROM INVESTING ACTIVITIES	
Dividends received	4,750
Interest received	100
Loans made/repaid	(2,000)
Purchase of property, plant and equipment	(127,467)
Sale of assets	2,000
Net cash flow from investing activities	(122,617)
CASH FLOW FROM FINANCING ACTIVITIES	
Increase in borrowings	63,703
Interest paid on borrowings	(18,968)
Decrease in borrowings	(2,000)
Net cash flow from financing activities	42,735
Net increase/(decrease) in cash and cash equivalents	-
Cash and cash equivalents at beginning of year	1,883
Cash and cash equivalents at end of year	1,883

PROSPECTIVE SEGMENTAL ANALYSIS BY STRATEGY

	Forecast 2007/08 \$000
NET SURPLUS/(DEFICIT) BY STRATEGY	
Urban Development	(13,044)
Transport	(15,926)
Economic Development	(15,369)
Environment	(101,676)
Cultural Wellbeing	(12,145)
Social and Recreation	(49,426)
Governance	(12,752)
Total	(220,338)
Council	224,298
Net Surplus/(deficit)	3,960
CAPEX EXPENDITURE BY STRATEGY	
Urban Development	10,271
Transport	29,102
Economic Development	797
Environment	31,389
Cultural Wellbeing	45
Social and Recreation	17,429
Governance	80
Total	89,113
Council	10,180
Total Annual Capital Expenditure Programme	99,293
Capital Expenditure Carried Forward from 2005/06	6,771
Capital Expenditure Carried Forward from 2006/07	21,403
Total Capital Expenditure	127,467

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

i) Statement of Compliance

The prospective 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.

ii) Summary of Significant Accounting Policies

The prospective financial statements are prepared in accordance with the Local Government Act 2002. These prospective financial statements are presented in New Zealand dollars rounded to the nearest thousand, unless otherwise stated.

REPORTING ENTITY

These prospective financial statements are for Wellington City Council (the Council) as a separate legal entity. Consolidated prospective financial statements comprising the Council and its subsidiaries and associates have not been prepared.

For the purposes of financial reporting the Council is a public benefit entity.

REPORTING PERIOD

The reporting period for these prospective financial statements is the year ended 30 June 2008.

ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated prospective financial statements.

MEASUREMENT BASE

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.

JUDGEMENTS AND ESTIMATIONS

The preparation of prospective 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 prospective 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.

INCOME

Rates

Rates income is recognised when levied.

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 Statement of Financial Performance as operating income when the grant becomes receivable. A conditional grant is recognised in the Statement of Financial Performance 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 the Council 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.

Development contributions

Development contributions are recognised as revenue when the development in respect of which the contribution was received is completed and it is no longer probable that the contributions will be refunded to the developer.

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 prospective financial statements.

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 Statement of Financial Performance on a straight-line basis over the term of the lease. Lease incentives received are recognised in the Statement of Financial Performance as an integral part of the total lease payment.

Finance leases transfer to the Council as lessee substantially all the risks and rewards incident to 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 Statement of Financial Performance 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.

TAXATION

Income tax is charged in the Statement of Financial Performance in respect of the current period'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 date, and any adjustment to tax receivable or 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 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 prospective 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.

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 Council's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

INVENTORIES

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.

INVESTMENTS AND OTHER FINANCIAL ASSETS

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

Financial Assets

The Council classifies its financial assets 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 (held for trading) or if it has been designated as at fair value through profit and loss upon initial recognition. This includes derivative financial instruments (interest rate swaps), which are 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 Statement of Financial Performance. 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 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 Council has the 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.

Timing of Recognition

Purchases and sales of financial assets are recognised on their trade-date – the date on which the Council 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 Council has transferred substantially all the risks and rewards of ownership.

Derecognition

On derecognition the difference between the proceeds and carrying amount of the financial asset is recognised in the Statement of Financial Performance. In addition, for available for sale assets, the cumulative fair value gain or loss previously recognised directly in equity is recognised in the Statement of Financial Performance.

Fair values

For unlisted securities and where the market for financial assets is not active, the Council 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 Council assesses at each balance 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 Statement of Financial Performance.

For financial assets carried at cost, losses (measured as the difference between the asset's carrying amount and the present value of future cash flows discounted at its original effective interest rate) are recognised in the Statement of Financial Performance.

Derivatives

Derivative financial instruments (interest rate swaps) 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 at each reporting date. Derivatives that do not qualify for hedge accounting are classified as held for trading financial instruments with fair value gains or losses for the period recognised in the Statement of Financial Performance.

Hedging

Where a derivative (interest rate swap) qualifies as a hedge and hedges the 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 Statement of Financial Performance. Gains or losses recognised in equity transfer to the Statement of Financial Performance in the same periods as when the hedged item affects the Statement of Financial Performance.

When the Council 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 Council 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.

INVESTMENT PROPERTIES

Investment properties are properties which are held primarily to earn rental income or for capital appreciation, or for both, and which are not occupied by the Council. These include the Council's ground leases and investment land and buildings. 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 (excluding disposal costs) and valued annually by an independent registered valuer. Any gain or loss arising from a change in fair value is recognised in the Statement of Financial Performance. Investment properties are not depreciated. Rental income from investment property is accounted for as described in the *Income* 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 Council holds it to earn rental income or for capital appreciation, or for 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 one of the following applies:

- 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; or
- 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); or

- The property is being held for future delivery of services; or
- The lessor uses services of the owner and those services are integral to the reasons for their occupancy of the property.

In these cases the property will be accounted for as Property, Plant and Equipment.

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 Council 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 Council 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 Statement of Financial Performance. Any subsequent increase on revaluation that off-sets a previous decrease in value recognised in the Statement of Financial Performance, will be recognised firstly in the Statement of Financial Performance 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.

Impairment

The carrying amounts of property, plant and equipment are reviewed at each reporting date 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. Value in use shall be determined as the depreciated replacement cost where the future economic benefits are not dependent on the assets ability to generate cash flows. Losses resulting from impairment are reported in the Statement of Financial Performance, 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 Statement of Financial Performance 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 Statement of Financial Performance 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. 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 percentage of 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 Statement of Financial Performance 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 Statement of Financial Performance 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 Statement of Financial Performance.

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

TRADE AND OTHER PAYABLES

These amounts represent liabilities for goods and services provided to the Council prior to the end of the financial year which are unpaid.

The amounts are unsecured.

EMPLOYEE BENEFITS

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

Wages and salaries, holiday leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, holiday leave (annual leave and time off in lieu) and accumulating sick leave 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 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.

Long Service Leave

Long-service leave (not yet qualified for) and retirement gratuities are 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.

Other Contractual Entitlements

Other contractual entitlements include termination benefits. Termination benefits are recognised in the Statement of Financial Performance only when there is a demonstrable commitment either to 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.

FINANCIAL LIABILITIES

The Council 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

A financial liability is classified in this category if incurred principally for the purpose of repurchasing in the short term (held for trading) or if it has been designated as at fair value through profit and loss upon initial recognition. This includes any derivatives (interest rate swaps) which are not designated as hedges. Financial liabilities at fair value through profit and loss are recorded at fair value with any realised and unrealised gains or losses recognised in the Statement of Financial Performance.

Gains or losses reported in the Statement of Financial Performance 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 Statement of Financial Performance as is any gain or loss when the liability is derecognised.

Derecognition

On derecognition the difference between the carrying amount of the financial liability extinguished or transferred and the consideration paid is recognised in the Statement of Financial Performance.

PROVISIONS

Provisions are recognised when the Council has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount can be 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 discounted present value.

LANDFILL POST CLOSURE COSTS

The Council, as operator of the Southern Landfill, 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 discounted 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 percentage of capacity used.

The liability is reassessed at each reporting date. Any change in the liability is accounted for against the cost of the asset.

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.

EQUITY

Equity is the community's interest in the Council and is measured as the difference between total assets and total liabilities. Equity is disaggregated and classified into separate components to enable clearer identification of the specified uses of equity within the Council.

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.

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; 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.

CHANGES IN ACCOUNTING POLICIES

There have been no changes in accounting policies. The Council has applied all NZ IFRS that are applicable at the date of preparation of these financial statements.

FINANCIAL REPORTING STANDARD 42: PROSPECTIVE FINANCIAL STATEMENTS (FRS 42) DISCLOSURES

The Council has complied with FRS 42 in the preparation of these prospective financial statements. In accordance with FRS 42, the following information is provided:

(i) Description of the nature of the entity's current operations and its principal activities

The Council is a territorial local authority, as defined in the Local Government Act 2002. The Council's principal activities are outlined within this Annual Plan.

(ii) Purpose for which the prospective financial statements are prepared

It is a requirement of the Local Government Act 2002 to present prospective financial statements that span 1 year and show variances from the Council's LTCCP. This provides an opportunity for ratepayers and residents to review the projected financial results and position of the Council.

(iii) Bases for assumptions, risks and uncertainties

The financial information has been prepared on the basis of best estimate assumptions as to future events which the Council expects to take place. The Council has considered factors that may lead to a material difference between information in the prospective financial statements and actual results. These factors, and the assumptions made in relation to the sources of uncertainty and potential effect, are outlined within the LTCCP.

(iv) Cautionary Note

The financial information is prospective. Actual results are likely to vary from the information presented, and the variations may be material.

(v) Other Disclosures

The prospective financial statements were authorised for issue on 27 June 2007 by Wellington City Council. The Council is responsible for the prospective financial statements presented, including the assumptions underlying the prospective financial statements and all other disclosures. The Annual Plan is prospective and as such contains no actual operating results.