



# Funding and Financial Statements

**Funding and financial statements** – this section includes our funding impact statements, cost of service statements by strategy, the rates funding statement, information on rating mechanisms, the financial statements, and a summary of our significant accounting policies.

## FUNDING IMPACT STATEMENT – OPERATING EXPENDITURE

LTCCP 2009/10 \$000		FORECAST 2010/11 \$000
<b>OPERATING STATEMENT</b>		
342,061	Total project expenditure	351,296
500	Self-insurance reserve	500
<b>342,561</b>	<b>Total operating expenditure</b>	<b>351,796</b>
1,342	Add back City housing ring-fenced surplus	1,457
<b>Less expenditure not funded under section 100 of LGA:</b>		
(7,521)	NZTA Transport funded projects	(7,776)
(2,768)	Clearwater sewerage treatment plant	(2,768)
(197)	Living Earth joint venture	(187)
<b>333,417</b>	<b>Total operating expenditure to be funded</b>	<b>342,522</b>
<b>FUNDED BY:</b>		
116,763	General rates	123,476
<b>Targeted rates:</b>		
30,252	Sewerage rates (including trade waste)	29,908
33,420	Water rate	33,690
13,999	Stormwater rate	14,179
6,451	Base (residential) sector targeted rate	6,669
2,957	Commercial sector targeted rate	3,161
10,103	Downtown levy	10,857
33	Tawa driveways levy	33
14	Marsden Village levy	14
<b>97,229</b>	<b>Total targeted rates</b>	<b>98,511</b>
<b>213,992</b>	<b>Total rates to fund operating expenditure</b>	<b>221,987</b>
75,141	User charges	77,223
<b>Other income</b>		
32,498	Ground and commercial leases	31,395
5,250	Dividends	5,250
3,960	Transfund subsidies	3,873
514	Housing grants	810
1,100	Petrol tax	1,100
962	Miscellaneous	884
<b>333,417</b>	<b>Total funding for operating expenditure</b>	<b>342,522</b>

## FUNDING IMPACT STATEMENT – CAPITAL EXPENDITURE AND LOANS TO OTHER ORGANISATIONS

LTCCP 2009/10 \$000		FORECAST 2010/11 \$000
67,996	Renewal capital expenditure	64,794
46,350	Upgrade capital expenditure	100,359
400	Capital expenditure carried forward from 2007/08	6,860
25,000	Capital expenditure carried forward from 2008/09	–
–	Capital expenditure carried forward from 2009/10	25,000
<b>139,746</b>	<b>Total capital expenditure to be funded</b>	<b>197,013</b>
<b>3,380</b>	<b>Loans to other organisations</b>	<b>–</b>
<b>143,126</b>	<b>Total capital expenditure and loans to be funded</b>	<b>197,013</b>
<b>FUNDED BY:</b>		
61,023	Depreciation	61,425
14,418	NZTA transport subsidies	13,075
12,986	Housing grants	36,690
4,524	Development contributions	7,065
745	Bequests and grants	490
49,430	Borrowings	78,268
<b>143,126</b>	<b>Total funding for capital expenditure and loans to other organisations</b>	<b>197,013</b>

## FUNDING IMPACT STATEMENT – BORROWING

LTCCP 2009/10 \$000		FORECAST 2010/11 \$000
<b>280,000</b>	<b>Opening Gross Borrowings – total</b>	<b>287,881</b>
	New borrowings to fund capital expenditure and	
49,430	loans to other organisations	78,268
	Repayment of borrowings funded through rates and other sources:	
0	Asset proceeds	0
(4,549)	Ring-fenced housing surpluses	(4,826)
0	Repayment of loans	0
0	Depreciation	(1,458)
<b>324,881</b>	<b>Closing Gross Borrowing</b>	<b>359,866</b>

## STATEMENT OF PROSPECTIVE CAPITAL EXPENDITURE AND CAPITAL EXPENDITURE FUNDING

LTCCP 2009/10 \$000		FORECAST 2010/11 \$000
<b>CAPITAL EXPENDITURE:</b>		
67,996	Renewals	64,794
46,350	New assets	100,359
<b>114,346</b>	<b>Total annual capital expenditure programme</b>	<b>165,153</b>
<b>RENEWALS FUNDED BY:</b>		
61,023	Depreciation	61,425
6,973	Borrowings	3,369
	New assets funded by:	
13,677	Borrowings	43,039
12,986	Housing grants	36,690
4,524	Development contributions	7,065
14,418	NZTA subsidies	13,075
745	Bequests	490
<b>114,346</b>	<b>Total capital expenditure funding</b>	<b>165,153</b>

Note that the annual capital expenditure programme excludes expenditure carried forward from previous years.

## FUNDING IMPACT STATEMENT (HOUSING) – OPERATING EXPENDITURE

LTCCP 2009/10 \$000		FORECAST 2010/11 \$000
<b>OPERATING STATEMENT</b>		
11,465	Total project expenditure	11,522
5,385	Depreciation	5,531
<b>16,850</b>	<b>Total operating expenditure</b>	<b>17,053</b>
<b>FUNDED BY:</b>		
17,678	User charges (rental income)	17,700
	Other income	
514	Housing grants	810
<b>18,192</b>	<b>Total funding for operating expenditure</b>	<b>18,510</b>
<b>1,342</b>	<b>Ring-fenced Operating funding surplus</b>	<b>1,457</b>

This information is incorporated into and forms part of the Funding Impact Statement – Operating Expenditure.

## FUNDING IMPACT STATEMENT (HOUSING) – CAPITAL EXPENDITURE

LTCCP 2009/10 \$000		FORECAST 2010/11 \$000
2,177	Renewal capital expenditure	1,889
12,986	Upgrade capital expenditure	36,963
<b>15,163</b>	<b>Total capital expenditure and loans to be funded</b>	<b>38,852</b>
<b>FUNDED BY:</b>		
5,385	Depreciation	5,531
12,986	Housing grants	36,690
<b>18,371</b>	<b>Total funding for capital expenditure and loans to other organisations</b>	<b>42,221</b>
<b>3,208</b>	<b>Ring-fenced Capital funding surplus</b>	<b>3,369</b>

This information is incorporated into and forms part of the Funding Impact Statement – Capital Expenditure and loans to other organisations.

## FUNDING IMPACT STATEMENT (HOUSING) – BORROWING/INVESTMENTS

LTCCP 2009/10 \$000		FORECAST 2010/11 \$000
11,385	<b>Opening Gross Borrowings/Investments – total</b>	6,835
(1,342)	Ring-fenced housing operating surplus	(1,457)
(3,208)	Ring-fenced housing capital funding surplus	(3,369)
6,835	<b>Closing Gross Borrowings/Investments</b>	2,009

This information is incorporated into and forms part of the Funding Impact Statement – Borrowings.

## COST OF SERVICE STATEMENT: GOVERNANCE

OPERATIONAL EXPENDITURE (\$000)			
LTCCP 2009/10	Activity	Activity Name	FORECAST 2010/11
14,417	1.1	Information, consultation and decision making	15,059
160	1.2	Māori engagement (including mana whenua)	360
<b>14,577</b>	<b>Total Operating Expenditure</b>		<b>15,419</b>
0	Less: Non-funded Depreciation		–
<b>14,577</b>	<b>Net Operating Expenditure</b>		<b>15,419</b>
<i>Net operating expenditure funded by:</i>			
364	Direct activity income		552
14,213	General Rates		14,867
–	Targeted Rates		–
–	Grants and Subsidies		–
–	Other income		–
<b>14,577</b>	<b>Net Operational Expenditure Funding</b>		<b>15,419</b>

CAPITAL EXPENDITURE (\$000)			
LTCCP 2009/10	Activity	Activity Name	FORECAST 2010/11
–	1.1	Information, consultation and decision making	104
–	<b>Total Capital Expenditure</b>		<b>104</b>
<i>Capital expenditure funded by:</i>			
59	Depreciation		65
–	Grants and Subsidies		–
–	Development Contributions		–
(59)	Borrowings and working capital*		39
–	<b>Capital Expenditure Funding</b>		<b>104</b>

\*A debit balance indicates increased borrowings, while a (credit) balance indicates a funding surplus in that year which offsets borrowings and working capital.

## COST OF SERVICE STATEMENT: ENVIRONMENT

<b>OPERATIONAL EXPENDITURE (\$000)</b>			
LTCCP 2009/10	Activity	Activity Name	FORECAST 2010/11
13,195	2.1	Gardens and beaches	12,991
14,286	2.2	Green open spaces (Town belts)	15,472
33,449	2.3	Water	33,721
48,622	2.4	Wastewater and stormwater	48,348
9,657	2.5	Waste reduction and energy conservation	9,388
5,892	2.6	Environmental conservation attractions	5,337
285	2.7	Quarry	220
<b>125,386</b>	<b>Total Operating Expenditure</b>		<b>125,477</b>
2,965	Less: Non-funded Depreciation		2,955
<b>122,421</b>	<b>Net Operating Expenditure</b>		<b>122,522</b>
<i>Net operating expenditure funded by:</i>			
11,731	Direct activity income		11,767
31,566	General Rates		31,516
78,092	Targeted Rates		78,224
563	Grants and Subsidies		563
469	Other income		452
<b>122,421</b>	<b>Net Operational Expenditure Funding</b>		<b>122,522</b>
<b>CAPITAL EXPENDITURE (\$000)</b>			
LTCCP 2009/10	Activity	Activity Name	FORECAST 2010/11
2,141	2.1	Gardens and beaches	2,157
603	2.2	Green open spaces (Town belts)	602
10,762	2.3	Water	9,949
12,863	2.4	Wastewater and stormwater	11,536
512	2.5	Waste reduction and energy conservation	691
2,809	2.6	Environmental conservation attractions	2,147
<b>29,690</b>	<b>Total Capital Expenditure</b>		<b>27,082</b>
3,380	Loans to other organisations		-
<b>33,070</b>	<b>Total capital expenditure and loans to be funded</b>		<b>27,082</b>
<i>Capital expenditure funded by:</i>			
30,657	Depreciation		30,846
345	Bequests		490
2,589	Development Contributions		4,043
-	Loan Repayments		-
(521)	Borrowings and working capital*		(8,297)
<b>33,070</b>	<b>Capital Expenditure Funding</b>		<b>27,082</b>

\*A debit balance indicates increased borrowings, while a (credit) balance indicates a funding surplus in that year which offsets borrowings and working capital.

## COST OF SERVICE STATEMENT: ECONOMIC DEVELOPMENT

<b>OPERATIONAL EXPENDITURE (\$000)</b>			
LTCCP 2009/10	Activity	Activity Name	FORECAST 2010/11
22,732	3.1	City promotions, events and attractions	23,969
1,748	3.2	Business support	2,147
<b>24,480</b>	<b>Total Operating Expenditure</b>		<b>26,116</b>
–	Less: Non-funded Depreciation		–
<b>24,480</b>	<b>Net Operating Expenditure</b>		<b>26,116</b>
<i>Net operating expenditure funded by:</i>			
5,847	Direct activity income		6,257
7,352	General Rates		7,821
11,725	Targeted Rates		12,032
–	Grants and Subsidies		–
6	Other Income		6
<b>24,480</b>	<b>Net Operational Expenditure Funding</b>		<b>26,116</b>
<b>CAPITAL EXPENDITURE (\$000)</b>			
LTCCP 2009/10	Activity	Activity Name	FORECAST 2010/11
1,138	3.1	City promotions, events and attractions	603
<b>1,138</b>	<b>Capital Expenditure</b>		<b>603</b>
–	Loans to other organisations		–
<b>1,138</b>	<b>Total capital expenditure and loans to be funded</b>		<b>603</b>
<i>Capital expenditure funded by:</i>			
1,251	Depreciation		1,285
400	Grants and subsidies		–
–	Development Contributions		–
(513)	Borrowings and working capital*		(682)
<b>1,138</b>	<b>Capital Expenditure Funding</b>		<b>603</b>

\*A debit balance indicates increased borrowings, while a (credit) balance indicates a funding surplus in that year which offsets borrowings and working capital.

## COST OF SERVICE STATEMENT: CULTURAL WELL-BEING

<b>OPERATIONAL EXPENDITURE (\$000)</b>			
LTCCP 2009/10	Activity	Activity Name	FORECAST 2010/11
7,143	4.1	Galleries and museums	7,942
1,623	4.2	Heritage	1,435
3,380	4.3	Community arts and cultural support	3,461
1,879	4.4	Arts partnerships	2,083
<b>14,025</b>	<b>Total Operating Expenditure</b>		<b>14,921</b>
–	Less: Non-funded Depreciation		–
<b>14,025</b>	<b>Net Operating Expenditure</b>		<b>14,921</b>
<i>Net operating expenditure funded by:</i>			
791	Direct activity income		689
10,368	General Rates		11,140
2,524	Targeted Rates		2,724
–	Grants and Subsidies		–
342	Other Income		368
<b>14,025</b>	<b>Net Operational Expenditure Funding</b>		<b>14,921</b>

<b>CAPITAL EXPENDITURE (\$000)</b>			
LTCCP 2009/10	Activity	Activity Name	FORECAST 2010/11
1,100	4.1	Galleries and museums	–
–	4.2	Heritage	36
63	4.3	Community arts and cultural support	413
<b>1,163</b>	<b>Total Capital Expenditure</b>		<b>449</b>
<i>Capital expenditure funded by:</i>			
368	Depreciation		283
–	Grants and Subsidies		–
–	Development Contributions		–
795	Borrowings and working capital*		166
<b>1,163</b>	<b>Capital Expenditure Funding</b>		<b>449</b>

\*A debit balance indicates increased borrowings, while a (credit) balance indicates a funding surplus in that year which offsets borrowings and working capital.

## COST OF SERVICE STATEMENT: SOCIAL AND RECREATION

OPERATIONAL EXPENDITURE (\$000)			
LTCCP 2009/10	Activity	Activity Name	FORECAST 2010/11
22,601	5.1	Libraries	21,551
1,524	5.2	Recreation promotion and access	1,730
26,415	5.3	Recreation Services	29,177
11,944	5.4	Public health and safety	11,711
16,850	5.5	Housing	17,053
7,806	5.6	Community participation and support	8,443
<b>87,140</b>	<b>Total Operating Expenditure</b>		<b>89,665</b>
–	Less: Non-funded Depreciation		–
1,342	Add back Housing Surplus		1,457
<b>88,482</b>	<b>Net Operating Expenditure</b>		<b>91,122</b>
	<i>Net operating expenditure funded by:</i>		
14,480	Direct activity income		15,245
50,710	General Rates		52,083
5,291	Targeted Rates		5,483
514	Grants and Subsidies		810
17,487	Other Income		17,501
<b>88,482</b>	<b>Net Operational Expenditure Funding</b>		<b>91,122</b>
CAPITAL EXPENDITURE (\$000)			
LTCCP 2009/10	Activity	Activity Name	FORECAST 2010/11
1,922	5.1	Libraries	2,382
450	5.2	Recreation promotion and access	112
6,028	5.3	Recreation Services	31,918
898	5.4	Public health and safety	1,967
15,164	5.5	Housing	38,852
964	5.6	Community participation and support	41
<b>25,426</b>	<b>Total Capital Expenditure</b>		<b>75,272</b>
	<i>Capital expenditure funded by:</i>		
8,492	Depreciation		9,149
5,385	Housing (rental) Funded Depreciation		5,531
12,986	Grants and Subsidies		36,690
378	Development Contributions		589
(3,208)	Adj for Housing ring-fenced capital funding surplus		(3,369)
1,393	Borrowings and working capital*		26,682
<b>25,426</b>	<b>Capital Expenditure Funding</b>		<b>75,272</b>

\*A debit balance indicates increased borrowings, while a (credit) balance indicates a funding surplus in that year which offsets borrowings and working capital.

## COST OF SERVICE STATEMENT: URBAN DEVELOPMENT

<b>OPERATIONAL EXPENDITURE (\$000)</b>			
LTCCP 2009/10	Activity	Activity Name	FORECAST 2010/11
2,692	6.1	Urban planning and policy	2,757
11,358	6.2	Building control and facilitation	11,808
6,148	6.3	Development control and facilitation	6,528
641	6.4	Earthquake risk mitigation	667
3,900	6.5	Public spaces development	3,934
<b>24,739</b>	<b>Total Operating Expenditure</b>		<b>25,694</b>
–	Less: Non-funded Depreciation		–
<b>24,739</b>	<b>Net Operating Expenditure</b>		<b>25,694</b>
<i>Net operating expenditure funded by:</i>			
9,649	Direct activity income		10,404
15,076	General Rates		15,276
14	Targeted Rates		14
–	Grants and Subsidies		–
–	Other Income		–
<b>24,739</b>	<b>Net Operational Expenditure Funding</b>		<b>25,694</b>
<b>CAPITAL EXPENDITURE (\$000)</b>			
LTCCP 2009/10	Activity	Activity Name	FORECAST 2010/11
1,738	6.1	Urban planning and policy	190
3,103	6.4	Earthquake risk mitigation	117
5,935	6.5	Public spaces development	5,352
<b>10,776</b>	<b>Total Capital Expenditure</b>		<b>5,659</b>
<i>Capital expenditure funded by:</i>			
41	Depreciation		10
–	Grants and subsidies		–
467	Development Contributions		729
10,268	Borrowings and working capital*		4,920
<b>10,776</b>	<b>Capital Expenditure Funding</b>		<b>5,659</b>

\*A debit balance indicates increased borrowings, while a (credit) balance indicates a funding surplus in that year which offsets borrowings and working capital.

## COST OF SERVICE STATEMENT: TRANSPORT

OPERATIONAL EXPENDITURE (\$000)			
LTCCP 2009/10	Activity	Activity Name	FORECAST 2010/11
928	7.1	Transport planning and policy	860
36,432	7.2	Transport networks	37,800
11,201	7.3	Parking	11,580
<b>48,561</b>	<b>Total Operating Expenditure</b>		<b>50,240</b>
7,521	Less: Non-funded Depreciation		7,776
<b>41,040</b>	<b>Net Operating Expenditure</b>		<b>42,464</b>
<i>Net operating expenditure funded by:</i>			
27,833	Direct activity income		28,819
9,777	General Rates		10,302
33	Targeted Rates		33
3,397	Grants and subsidies		3,310
–	Other income		–
<b>41,040</b>	<b>Net Operational Expenditure Funding</b>		<b>42,464</b>
CAPITAL EXPENDITURE (\$000)			
LTCCP 2009/10	Activity	Activity Name	FORECAST 2010/11
33,220	7.2	Transport networks	43,064
287	7.3	Parking	269
<b>33,507</b>	<b>Total Capital Expenditure</b>		<b>43,333</b>
<i>Capital expenditure funded by:</i>			
10,905	Depreciation		11,174
14,418	Grants and subsidies		13,075
1,091	Development Contributions		1,703
7,093	Borrowings and working capital*		17,381
<b>33,507</b>	<b>Capital Expenditure Funding</b>		<b>43,333</b>

\*A debit balance indicates increased borrowings, while a (credit) balance indicates a funding surplus in that year which offsets borrowings and working capital.

## 2010/11 RATES FUNDING STATEMENT (EXCLUDING GST)

RATE	FACTOR	DIFFERENTIATION	TOTAL VALUE OF FACTOR	RATE/CHARGE	RATES YIELD GST EXCLUSIVE
General Rate	Capital Value	Base differential use	\$34,672,673,000	¢0.182944	\$63,431,575
	Capital Value	Commercial, industrial and business use	\$10,576,979,000	¢0.567686	\$60,043,829
	<b>TOTAL</b>				<b>\$123,475,404</b>
Sewerage Rate	Fixed charge	Base differential use / connection status	64,934 properties	\$100.00	\$6,493,400
	Capital Value	Base differential use / connection status	\$36,511,878,000	¢0.032296	\$11,791,876
	Capital Value	Commercial, industrial and business use / connection status	\$9,103,740,000	¢0.127662	\$11,622,017
	<b>TOTAL</b>				<b>\$29,907,293</b>
Water rate	Fixed charge	Base differential use/connection status (without water meter)	58,122 properties	\$113.33	\$6,587,160
	Capital Value	Base differential use/connection status (without water meter)	\$30,197,640,000	¢0.043603	\$13,167,077
	Consumption unit charge	Base differential use/connection status (water meter)	n/a	\$1.618 / m3	\$394,700
	Fixed charge	Base differential use/connection status (water meter)	n/a	\$96.00	\$65,722
	Capital Value	Commercial, industrial and business use /connection status (without water meter)	\$878,276,000	¢0.241041	\$2,177,005
	Consumption unit charge	Commercial, industrial and business use /connection status (water meter)	n/a	\$1.618 / m3	\$11,122,052
	Fixed charge	Commercial, industrial and business use /connection status (water meter)	n/a	\$96.00	\$236,827
<b>TOTAL</b>				<b>\$33,690,543</b>	
Stormwater rate	Capital Value	Base differential use (excluding rural)	\$34,212,564,000	¢0.032120	\$10,989,075
	Capital Value	Commercial, industrial and business use (excluding rural)	\$9,547,092,000	¢0.033413	\$3,189,970
	<b>TOTAL</b>				<b>\$14,179,045</b>
Base sector targeted rate	Capital Value	Residential use	\$34,672,673,000	¢0.019237	\$6,699,982
Commercial sector targeted rate	Capital Value	Commercial, industrial and business use	\$10,576,979,000	¢0.029886	\$3,161,036
Downtown levy	Capital Value	Commercial, industrial and business use / central city location	\$7,276,085,000	¢0.149215	\$10,857,010
Tawa driveways levy	Fixed charge	Shared residential access driveways in the suburb of Tawa and maintained by the Council	251 properties	\$133.33	\$33,467
Marsden Village levy	Capital Value	Commercial, industrial and business use located in Marsden shopping village	\$11,519,000	¢0.121538	\$14,000
<b>TOTAL RATES REQUIREMENT (INCLUDING GST AT 12.5%)</b>					<b>\$221,987,780</b>

## RATING MECHANISMS

### RATES

Rates are assessed under the Local Government (Rating) Act 2002 on all rateable rating units in the Rating Information Database. Where rates are based on value, the capital value of the property as assessed by Quotable Value New Zealand Limited will apply. The latest city-wide revaluation was carried out as at 1 September 2009. This revaluation remains effective for the entire 2010/11 rating year, except where subsequent maintenance valuations have been required under valuation rules or Council's rating policies.

Policy objective:

- To provide the Council with adequate income to carry out its mission and objectives.
- To support the Council's achievement of its strategic objectives.
- To be simply administered, easily understood, allow for consistent application and generate minimal compliance costs.
- To spread the incidence of rates as equitably as possible, by balancing the level of service provided by the Council with ability to pay and the incidence of costs in relation to benefits received.
- To be neutral in that it does not encourage people to redirect activity in order to avoid its impact.
- To reflect the decisions of the Council's policies and rating reviews.

### GENERAL RATES

General rates are set under Section 13 of the Local Government (Rating) Act 2002 on all rateable rating units in the city of Wellington.

The Council will set a general rate based on the capital value of each rating unit within the city.

The general rate will be set on a differential basis, based on land use. All rating units (or part thereof) will be classified for the purposes of general rates within one of the following rating differentials:

### DIFFERENTIAL RATING CATEGORIES

#### NON-RATEABLE

Includes any land referred to in Part 1, Schedule 1 of the Local Government (Rating) Act 2002. This land is non-rateable with the exception of targeted rates for sewerage and water where rates are applicable.

### **50 PERCENT NON-RATEABLE**

Includes all land referred to in Part 2, Schedule 1 of the Local Government (Rating) Act 2002. This land is 50 percent non-rateable in respect of the rates that would have applied had the property not been classified as non-rateable, with the exception of targeted rates for sewerage and water for which the land is fully rateable.

### **BASE DIFFERENTIAL**

This includes:

- a) separately rateable land used solely for one or more household units; excluding those properties that are used principally to provide short stay (28 days or less) commercial accommodation for which a tariff is charged
- b) vacant land zoned residential
- c) rural land (including farmland and lifestyle blocks) under the District Plan that is administered by Council, but excluding any rating unit that is zoned rural industrial
- d) separately rateable land occupied by a charitable organisation, which is deemed by the Council to be used exclusively or principally for sporting, recreation or community purposes and that does not generate any private pecuniary profit.

### **COMMERCIAL, INDUSTRIAL AND BUSINESS DIFFERENTIAL**

This includes:

- a) separately rateable land used for a commercial or industrial purpose
- b) vacant land zoned commercial, industrial or rural industrial under the District Plan administered by the Council
- c) land used for offices, administrative and/or associated functions
- d) land used for commercial accommodation for which a tariff is charged and where the principal purpose is the provision of short stay accommodation
- e) business-related premises used principally for private pecuniary benefit
- f) utility networks
- g) any property not otherwise categorised within the Base differential.

### **ANNUAL UNIFORM GENERAL CHARGE**

The Council does not assess a Uniform Annual General Charge.

## **DIFFERENTIAL RATING CATEGORY CONDITIONS**

- The Council has resolved to achieve a target in 2011/12, which modifies the differential apportionment so that the commercial, industrial and business sector pay 2.8 times the general rate per dollar of capital value payable by those properties incorporated under the Base (Residential) differential. For 2010/11 the general rate differential ratio is 3.1:1.
- The separated parts of a rating unit will be differentially rated where a part of the property is non-rateable or the property fits under one or more rating differential and either:
  - a) The total capital value of the rating unit is above \$800,000 or
  - b) Minority use(s) account for more than 30 percent of the total capital value of the rating unit.

In any other case, the general rate differential is determined by principal use.

- In regard to the rates attributable to a rating unit during the transition period between two differential rating categories, a ratepayer may apply for a change in rating category at any time between the lodgement of a building consent application with the Council (on the condition that the principal prior use has ended) and the earlier of either:
  - a) the time at which the Council gives final approval of the completed works, or
  - b) the property is deemed (by the Council) to be available for its intended use.

In situations where the change in land use does not require a Council consent, but warrants a change in differential rating category, the onus is on the ratepayer to inform the Council prior to the property being utilised under the new use.

- The rating differential classification of all rating units must be set prior to the commencement of a rating year and will remain in place for that entire rating year. Any change in circumstances that results in a change of differential classification during a rating year will apply from 1 July of the following rating year.
- Any property eligible for mandatory 50 percent non-rateability under Part 2, Schedule 1, of the Rating Powers Act will be first classified under the appropriate general rate differential classifications and the non-rateability applied to that rate.

## **TARGETED RATES**

Targeted Rates are set under section 16 of the Local Government (Rating) Act 2002.

### **SEWERAGE RATE**

A targeted sewerage rate is to be apportioned 60 percent: 40 percent between properties incorporated under the Base differential and the Commercial, Industrial and Business differential in accordance with the Revenue and Financing Policy. This rate pays for the cost of the provision of the sewerage treatment facilities for the city.

For the purposes of these rates the sewerage collection and disposal service is treated as being provided if the rating unit is connected to a public sewerage drain (either directly or indirectly), irrespective of whether the property is considered fully rateable or is mandatory non-rateable or 50 percent non-rateable under Schedule 1 of the Local Government (Rating) Act 2002.

The targeted sewerage rate is calculated as follows:

*For rating units incorporated in the Commercial, Industrial and Business differential:*

A rate per dollar of capital value on all rating units connected to a public sewerage drain, to collect 40 percent of the required rates funding, after having deducted the total dollar amount budgeted to be collected through Trade Waste Charges (excluding consent fees).

*For rating units incorporated in the Base differential:*

A fixed amount of \$100.00 (excluding GST) and a rate per dollar of capital value on all rating units connect to a public sewerage drain, to collect 60 percent of the required rate funding.

### **WATER RATE**

A targeted rate for water is to be apportioned with the aim of achieving a 60 percent: 40 percent split between properties incorporated under the Base deferential and the Commercial, Industrial and Business differential in accordance with the Revenue and Financing Policy.

This rate pays for water collection and treatment facilities, the water distribution network and water conservation for the city.

This rate is set on all rating units serviced by a water connection.

For the purposed of these rates, the water service is treated as being provided if the rating unit is connected to the public water supply (either directly or indirectly), irrespective of whether the property is considered fully rateable or is mandatorily non-rateable or 50 percent non-rateable under Schedule 1 of the Local Government (Rating) Act 2002.

The targeted water rate is calculated as follows:

*For rating units incorporated in the Commercial, Industrial and Business differential, either:*

a) A fixed water meter charge of \$1.618 (excluding GST) per cubic metre of water used by all rating units connected to the public water supply with a water meter installed, plus an administrative charge of \$96.00 (excluding GST) per annum

Or

b) A rate per dollar of capital value on all rating units connected to the public water supply, without a water meter installed.

*For rating units rated incorporated in the Base differential, either:*

a) A fixed water meter charge of \$1.618 (excluding GST) per cubic metre of water used by all rating units connected to the public water supply with a water meter installed, plus an administrative charge of \$96.00 (excluding GST) per annum

Or

b) A fixed amount of \$113.33 (excluding GST) per rating unit and a rate per dollar of capital value on all rating units connected to the public water supply without a water meter installed, to collect the required Base differential contribution.

### **STORMWATER NETWORK RATE**

A targeted stormwater rate is to be apportioned 77.5 percent to the non-rural rating units incorporated under the Base differential and 22.5 percent to the Commercial, Industrial and Business differential in accordance with the Revenue and Financing Policy. This rate pays for the cost of the provision of the stormwater collection/disposal network for the city.

Properties classified as “rural” under the Council’s operative District Plan are excluded from the liability of this rate.

The targeted Stormwater network rate is calculated as follows:

*For non-rural rating units incorporated in the Commercial, Industrial and Business differential:*

A rate per dollar of capital value to collect 22.5 percent of the required rates funding.

*For non-rural rating units incorporated in the Base differential:*

A rate per dollar of capital value to collect 77.5 percent of the required rates funding.



### **COMMERCIAL, INDUSTRIAL AND BUSINESS SECTOR TARGETED RATE**

This rate pays for activities where the Council's Revenue and Financing Policy identifies that the benefit can be attributed to the commercial, industrial and business sector and where the activity is not incorporated in other service related targeted rates. This incorporates the following:

- 100% of the cost of the events attraction and support activity.

This rate is levied on all properties incorporated in the commercial, industrial and business sector and is calculated on a rate per dollar of rateable capital value.

### **BASE SECTOR TARGETED RATE**

This rate pays for activities where the Council's Revenue and Financing Policy identifies that the benefit can be attributed to properties incorporated under the Base differential rating category (incorporating residential ratepayers). This incorporates the following activities:

- 100% of the facilitation of community environmental initiatives, cultural grants, facilitation of recreation partnerships and community advocacy activities.
- 98% of the provision of community centres and halls activities.

This rate is levied on all properties incorporated under the Base differential rating category and is calculated on a rate per dollar of rateable capital value.

### **DOWNTOWN LEVY**

This rate pays for tourism promotion, facilitation of suburban and city centre vitality. It also pays for 70 percent of the visitor attractions activity and 25 percent of the provision of galleries and museums activity.

This rate is levied on all commercial, industrial and business properties in the downtown area and is calculated on a rate per dollar of rateable capital value. For the purpose of this rate, the downtown area refers to the area designated as the "Central Area" under the operative Wellington City District Plan.

### **TAWA DRIVEWAYS LEVY**

This rate pays for the maintenance of a specified group of residential access driveways in the suburb of Tawa, overseen by the Council. This rate is levied on a specific group of rating units in the former Tawa Borough at a fixed amount of \$133.33 (excluding GST) per annum.

### **MARSDEN VILLAGE LEVY**

This rate is collected by the Council on behalf of the Marsden Village Association on all commercial, industrial and business properties in the Marsden shopping village and is calculated on a rate per dollar of capital value.

### **RATES REMISSION AND POSTPONEMENT POLICIES**

Refer to the Council Remission and Postponement Policies.

## PROSPECTIVE STATEMENT OF COMPREHENSIVE FINANCIAL PERFORMANCE

LTCCP 2009/10 \$000		FORECAST 2010/11 \$000
<b>INCOME</b>		
213,992	Revenue from rates	221,987
128,742	Revenue from operating activities	153,892
10,377	Revenue from investment property leases	9,599
5,448	Finance income	5,715
7,630	Other income	9,092
<b>366,189</b>	<b>TOTAL INCOME</b>	<b>400,285</b>
<b>EXPENSE</b>		
21,891	Finance expense	21,569
245,454	Expenditure on operating activities	252,744
74,716	Depreciation and amortisation	76,983
<b>342,061</b>	<b>TOTAL EXPENSE</b>	<b>351,296</b>
<b>24,128</b>	<b>TOTAL OPERATING SURPLUS</b>	<b>48,989</b>
–	Income tax expense	–
<b>24,128</b>	<b>NET SURPLUS FOR THE YEAR</b>	<b>48,989</b>
<b>OTHER COMPREHENSIVE INCOME</b>		
–	Revaluations – fair value movement on property, plant and equipment – net	152,382
–	<b>TOTAL OTHER COMPREHENSIVE INCOME</b>	<b>152,382</b>
<b>24,128</b>	<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>201,371</b>

## PROSPECTIVE STATEMENT OF CHANGES IN EQUITY

LTCCP 2009/10 \$000		FORECAST 2010/11 \$000
<b>EQUITY – OPENING BALANCES</b>		
4,769,942	Accumulated funds and retained earnings	4,769,715
1,075,322	Revaluation reserves	1,118,338
3,057	Hedging reserve	861
21,479	Restricted funds	18,434
<b>5,869,800</b>	<b>TOTAL EQUITY – Opening balance</b>	<b>5,907,348</b>
<b>CHANGES IN EQUITY</b>		
<b>Retained earnings</b>		
24,128	Net surplus for the year	48,989
<b>Revaluation reserves</b>		
–	Share of other comprehensive income	152,382
<b>24,128</b>	<b>Total comprehensive income</b>	<b>201,371</b>
<b>EQUITY – CLOSING BALANCES</b>		
4,794,070	Accumulated funds and retained earnings	4,818,704
1,075,322	Revaluation reserves	1,270,720
3,057	Hedging reserve	861
21,479	Restricted funds	18,434
<b>5,893,928</b>	<b>TOTAL EQUITY – Closing balance</b>	<b>6,108,719</b>

## PROSPECTIVE STATEMENT OF FINANCIAL POSITION

LTCCP 2009/10 \$000		FORECAST 2010/11 \$000
<b>ASSETS</b>		
<i>Current assets</i>		
2,307	Cash and cash equivalents	3,945
173	Derivative financial assets	238
33,600	Trade and other receivables	42,046
960	Inventories	925
<b>37,040</b>	<b>Total current assets</b>	<b>47,154</b>
<i>Non-current assets</i>		
2,382	Derivative financial assets	4,831
3,524	Other financial assets	5,933
14,148	Intangibles	9,935
220,368	Investment properties	217,617
6,007,237	Property, plant and equipment	6,265,228
6,509	Investment in subsidiaries	6,509
19,558	Investment in associates	19,468
<b>6,273,726</b>	<b>Total non-current assets</b>	<b>6,529,521</b>
<b>6,310,766</b>	<b>TOTAL ASSETS</b>	<b>6,576,675</b>
<b>LIABILITIES</b>		
<i>Current liabilities</i>		
–	Derivative financial liabilities	153
58,185	Trade and other payables	66,161
108,235	Borrowings	84,490
7,358	Employee benefit liabilities	8,228
2,981	Provision for other liabilities	4,843
<b>176,759</b>	<b>Total current liabilities</b>	<b>163,875</b>
<i>Non-current liabilities</i>		
–	Derivative financial liabilities	5,819
216,646	Borrowings	275,376
1,610	Employee benefit liabilities	1,644
21,823	Provisions for other liabilities	21,242
<b>240,079</b>	<b>Total non-current liabilities</b>	<b>304,081</b>
<b>416,838</b>	<b>TOTAL LIABILITIES</b>	<b>467,956</b>
<b>EQUITY</b>		
4,794,070	Accumulated funds and retained earnings	4,818,704
1,075,322	Revaluation reserves	1,270,720
3,057	Hedging reserve	861
21,479	Restricted funds	18,434
<b>5,893,928</b>	<b>Total equity</b>	<b>6,108,719</b>
<b>6,310,766</b>	<b>TOTAL EQUITY AND LIABILITIES</b>	<b>6,576,675</b>

## PROSPECTIVE STATEMENT OF CASH FLOWS

LTCCP 2009/10 \$000		FORECAST 2010/11 \$000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
213,992	Receipts from rates and levies – Council	221,987
104,430	Receipts from activities and other income	108,413
32,042	Receipts from Government grants and subsidies	54,671
10,377	Receipts from investment property lease rentals	9,599
(219,680)	Cash paid to suppliers and employees	(226,567)
(27,561)	Grants paid	(27,993)
<b>113,600</b>	<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>140,110</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
5,250	Dividends received	5,250
–	Interest received	10
–	Loan repayments received	–
–	Proceeds from sale of property, plant and equipment	–
(3,380)	Loan advances made	–
(5,027)	Purchase of Intangibles	(4,128)
(134,719)	Purchase of property, plant and equipment	(192,885)
<b>(137,876)</b>	<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>(191,753)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
–	Decrease in borrowings	–
44,881	Increase in borrowings	71,984
(20,605)	Interest paid on borrowings	(20,341)
<b>24,276</b>	<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>51,643</b>
–	Net increase/(decrease) in cash and cash equivalents	–
2,307	Cash and cash equivalents at beginning of year	3,945
<b>2,307</b>	<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>3,945</b>

## PROSPECTIVE SEGMENTAL ANALYSIS BY STRATEGY

LTCCP 2009/10 \$000		FORECAST 2010/11 \$000
<b>NET SURPLUS/(DEFICIT) BY STRATEGY</b>		
(14,213)	Governance	(14,867)
(112,623)	Environment	(112,693)
(18,628)	Economic Development	(19,854)
(12,892)	Cultural Well-being	(13,864)
(41,674)	Social and Recreation	(19,419)
(15,090)	Urban Development	(15,290)
(17,331)	Transport	(18,111)
<b>(232,451)</b>	<b>Total</b>	<b>(214,098)</b>
<i>Council</i>		
213,992	Rates	221,987
42,587	Other net revenues	41,100
<b>256,579</b>	<b>Total Council</b>	<b>263,087</b>
<b>24,128</b>	<b>Net Surplus/(Deficit)</b>	<b>48,989</b>
<b>CAPITAL EXPENDITURE BY STRATEGY</b>		
–	Governance	104
29,690	Environment	27,082
1,138	Economic Development	603
1,163	Cultural Well-being	449
25,426	Social and Recreation	75,273
10,776	Urban Development	5,659
33,507	Transport	43,333
<b>101,700</b>	<b>Total</b>	<b>152,503</b>
12,646	Council	12,650
<b>114,346</b>	<b>Total Annual Capital Expenditure Programme</b>	<b>165,153</b>
400	Capital Expenditure Carried Forward from 2007/08	6,860
25,000	Capital Expenditure Carried Forward from 2008/09	–
–	Capital Expenditure Carried Forward from 2009/10	25,000
<b>139,746</b>	<b>Total Capital Expenditure</b>	<b>197,013</b>

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### REPORTING ENTITY

Wellington City Council is a territorial local authority governed by the Local Government Act 2002. For the purposes of financial reporting Wellington City Council is a public benefit 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.

### BASIS OF PREPARATION

The prospective financial statements have been prepared in accordance with the requirements of the Local Government Act 2002, which includes the requirement to comply with New Zealand Generally Accepted Accounting Practice (NZ GAAP).

The prospective financial statements comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for public benefit entities.

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.

For the assets and liabilities recorded at fair value, fair value is defined as the amount for which an item could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction. In relation to investment property, non-current assets classified as held for sale and items of property plant and equipment which are revalued, fair value is determined by reference to market value. The market value of a property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction.

The reporting period for these prospective financial statements is the year ending 30 June 2011. The prospective financial statements are presented in New Zealand dollars rounded to the nearest thousand, unless otherwise stated.

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

## **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.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Subsequent 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 when the revision affects only that period. If the revision affects both current and future periods, it is reflected in the respective period to which it relates.

Significant judgements and estimations include landfill post closure costs, asset revaluations and certain fair value calculations.

## **INCOME**

Income comprises revenue, gains and finance income and is measured at the fair value of consideration received or receivable. Specific accounting policies for major categories of income are outlined below:

### **REVENUE**

#### **Rates**

Rates are set annually by resolution from Council and relate to a particular financial year. All ratepayers are invoiced within the financial year for which the rates have been set. Rates revenue is recognised when invoiced.

#### **Operating activities**

##### *Government grants*

Government grants are initially recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Grants and subsidies received in relation to the provision of services are recognised on a percentage of completion basis. Other government grants (e.g. New Zealand Transport Agency (NZTA) roading subsidies) are recognised upon entitlement, which is when conditions pertaining to eligible expenditure have been fulfilled.

#### *Fines and penalties*

Revenue from fines and penalties (e.g. traffic and parking infringements, library overdue fines) is recognised when infringement notices are issued or when fines/penalties are otherwise imposed.

#### *Rendering of services*

Revenue from the rendering of services (e.g. building consent fees) is recognised by reference to the stage of completion of the transaction at the end of the reporting period, based on the actual service provided as a percentage of the total services to be provided. Under this method, revenue is recognised in the accounting periods in which the services are provided.

#### *Sale of goods*

Sale of goods is recognised when products are sold to the customer and all risks and rewards of ownership have transferred to the customer.

#### **Investment property leases**

Lease rentals (net of any incentives given) are recognised on a straight line basis over the term of the lease.

#### **Other income**

Specific accounting policies for major categories of other income are outlined below:

#### *Development contributions*

Development contributions are recognised as income when the Council provides, or is able to provide, the service for which the contribution was charged. Otherwise development contributions are recognised as liabilities until such time as the Council provides, or is able to provide, the service.

#### *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 income when the control of the asset is transferred to the Council.

#### *Gains*

Gains include additional earnings on the disposal of property plant and equipment and movements in the fair value of financial assets and liabilities.

## **Finance income**

### *Interest*

Interest income is recognised using the effective interest rate method.

### *Dividends*

Dividends are recognised when the shareholders' rights to receive payment have been established.

## **Donated services**

The Council benefits from the voluntary service of many Wellingtonians in the delivery of its activities and services (e.g. beach cleaning and Otari-Wilton's Bush guiding and planting). 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.

## **EXPENSES**

Specific accounting policies for major categories of expenditure are outlined below:

### **Operating activities**

#### *Grants*

Expenditure is classified as a grant if it results in a transfer of resources to another entity in return for 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. Grants are distinct from donations which are discretionary charitable gifts. 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.

### **Finance expense**

#### *Interest*

Interest expense is recognised using the effective interest rate method. All borrowing costs are expensed in the period in which they are incurred.

### **Depreciation and amortisation**

Depreciation (of property, plant and equipment) and amortisation (of intangible assets) are charged to the Prospective Statement of Comprehensive Financial Performance on a straight-line basis over the estimated useful life of the associated assets.

## **TAXATION**

Income tax on the surplus or deficit 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 substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, and to unused tax losses using tax rates enacted or substantively enacted at the end of the reporting period. 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.

## **GOOD 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, it is recognised as part of the related asset or expense.

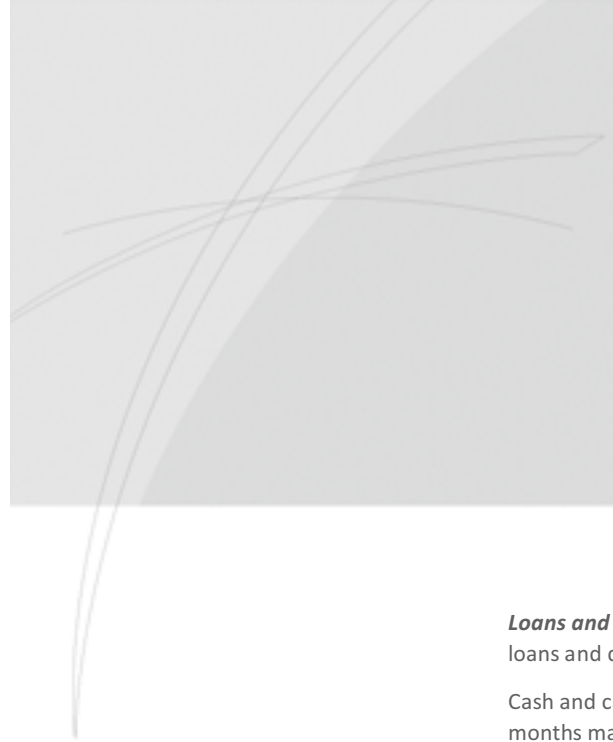
## **FINANCIAL INSTRUMENTS**

Financial instruments include financial assets (loans and receivables and available-for-sale financial assets) and financial liabilities (payables and borrowings) and derivative financial instruments. Financial instruments are initially recognised on the trade-date at fair value plus transaction costs. Subsequent measurement of financial instruments is dependent upon the classification determined by the Council. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Council has transferred substantially all of the risks and rewards of ownership.

Financial instruments are classified into the categories outlined below based upon the purpose for which they were acquired. The classification is determined at initial recognition and re-evaluated at the end of each reporting period.

### **Financial assets**

Financial assets are classified as loans and receivables or available for sale financial assets.



**Loans and receivables** comprise cash and cash equivalents, trade and other receivables, loans and deposits.

Cash and cash equivalents comprise cash balances and call deposits with up to three months maturity from the date of acquisition.

Trade and other receivables are financial assets with fixed or determinable payments. They arise when the Council provides money, goods or services directly to a debtor, and has no intention of trading the receivable.

Loans and deposits include loans to other entities (including loans to subsidiaries and associates), and bank deposits (with maturity greater than three months from the date of acquisition).

Financial assets in this category are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method. Fair value is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date for assets of a similar maturity and credit risk. Trade and other receivables due in less than 12 months are recognised at their nominal value. 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 impairment in respect of these receivables.

**Available for sale financial assets** are either designated in this category by nature or, by default, if they cannot be classified in one of the other categories of financial assets. Available for sale financial assets are initially recorded at fair value plus transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognised directly in equity. If there is no active market and no intention to sell the asset, the asset is measured at cost. Fair value is equal to the Council's share of net assets of the entity. On disposal, the cumulative fair value gain or loss previously recognised directly in equity is recognised in the Prospective Statement of Comprehensive Financial Performance.

#### **Financial liabilities**

Financial liabilities comprise trade and other payables and borrowings. Financial liabilities with duration more than 12 months are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method. Amortisation is recognised in the Prospective Statement of Comprehensive Financial Performance. Financial liabilities entered into with duration less than 12 months are recognised at their nominal value.

On disposal of financial liabilities, gains or losses are recognised in the Prospective Statement of Comprehensive Financial Performance.

## **Derivatives**

Derivative financial instruments include interest rate swaps used to hedge exposure to interest rate risk arising from financing activities. Derivatives are initially recognised at fair value based on quoted market prices, and subsequently remeasured at their fair value at the end of each reporting period. Derivatives that do not qualify for hedge accounting are classified as non-hedged and fair value gains or losses recognised within surplus or deficit.

Recognition of fair value gains or losses on derivatives that qualify for hedge accounting depends on the nature of the item being hedged. Where a derivative qualifies as a hedge of variability in asset or liability cash flows (cash flow hedge), the effective part of any gain or loss on the derivative is recognised within other comprehensive income while the ineffective part is recognised within surplus or deficit. Gains or losses recognised in other comprehensive income transfer to surplus or deficit in the same periods as when the hedged item affects the surplus or deficit.

Where a derivative qualifies as a hedge of variability in the fair value of the Council's fixed rate borrowings (fair value hedge), the gain or loss on the derivative is recognised within surplus or deficit.

As per the International Swap Dealers' Association (ISDA) master agreements, all swap payments or receipts are settled net.

## **INVENTORIES**

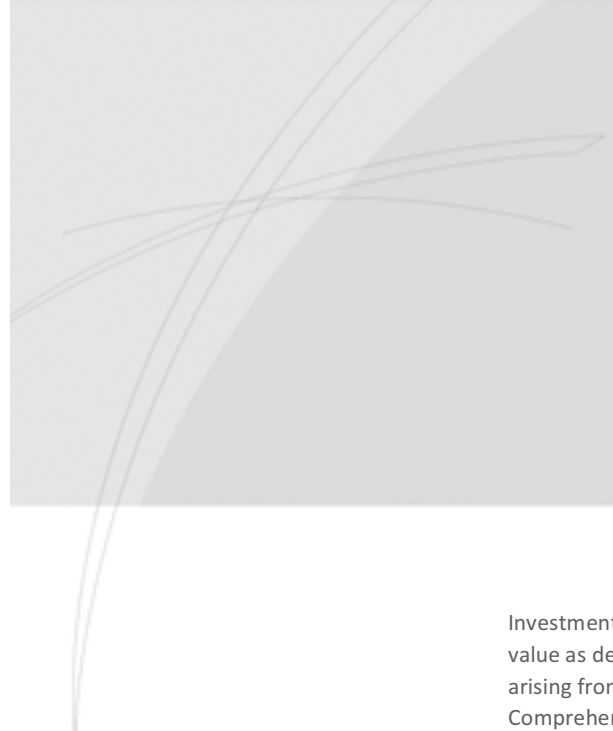
Inventories consumed in the provision of services that are not supplied on a commercial basis (such as botanical supplies) are measured at the lower of cost and current replacement cost.

Inventories held for resale on a commercial basis, such as rubbish bags are recorded at the lower of cost (determined on a first-in first-out basis) and net realisable value. This valuation includes allowances for slow moving and obsolete stock. Net realisable value is the estimated selling price in the ordinary course of business.

### **Investment properties**

Investment properties are properties which are held primarily to earn rental income, for capital growth or for both. 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 community housing assets which are held within operational assets in property plant and equipment.



Investment properties are measured initially at cost and subsequently measured at fair value as determined annually by an independent registered valuer. Any gain or loss arising from a change in fair value is recognised in the Prospective Statement of Comprehensive Financial Performance. Investment properties are not depreciated.

**Non-current assets classified as held for sale**

Non-current assets are separately classified 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,
- A plan to sell the asset is in place, 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 Council's control and there is sufficient evidence that the Council 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. Impairment losses on initial classification as held for sale are included in the Prospective Statement of Comprehensive Financial Performance.

## PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of operational assets, restricted assets and infrastructure assets.

*Operational assets* include land, the landfill post closure asset, buildings, the Civic Centre complex, the library collection, and plant and equipment.

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

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

Vested assets are recognised within their respective asset classes as above. 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).

### Recognition

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. Costs that do not meet the criteria for capitalisation are expensed.

### Measurement

Property, plant and equipment is recognised initially at cost, unless acquired for nil or nominal cost (e.g. vested assets), in which case the asset is recognised at fair value at the date of transfer. The initial cost of property, plant and equipment includes the purchase consideration, or the fair value in the case of 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 is capitalised.

Borrowing costs incurred during the construction of investment property and property plant and equipment are not capitalised.

After initial recognition, certain classes of property, plant and equipment are revalued to fair value. Where there is no market related evidence for an asset, fair value is determined by optimised depreciated replacement cost. Specific measurement policies for categories of property, plant and equipment are shown below:



*Operational assets*

Plant and equipment and the Civic Centre complex are measured at historical cost and not revalued.

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

Land and buildings are valued at fair value on a three-year cycle by independent registered valuers.

*Restricted assets*

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) were valued at fair value as at 30 June 2005 by independent registered valuers. Council has elected to use the fair value of other restricted assets at 30 June 2005 as the deemed cost of the assets. These assets are no longer revalued. Subsequent additions have been recorded at historical cost.

*Infrastructure assets*

Infrastructure assets (roading network, water, waste 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. Between valuations, expenditure on asset improvements is capitalised at cost.

Infrastructure land (excluding land under roads) is valued at fair value on a three-year basis.

Land under roads, which represents the corridor of land directly under and adjacent to the Council's roading network, was valued as at 30 June 2005 at the average value of surrounding adjacent land discounted by 50% to reflect its restricted nature. Council elected to use the fair value of land under roads at 30 June 2005 as the deemed cost of the asset. Land under roads is no longer revalued. Subsequent additions have been recorded at historical cost.

The carrying values of revalued property, plant and equipment are reviewed at the end of each reporting period to ensure that those values are not materially different to fair value.

## Revaluations

The result of any revaluation of the Council's property, plant and equipment is recognised within other comprehensive income and 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 included in the surplus or deficit. Any subsequent increase on revaluation that off-sets a previous decrease in value recognised within surplus or deficit will be recognised firstly, within surplus or deficit up to the amount previously expensed, and then secondly recognised within other comprehensive income and 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 so that the carrying amount after revaluation equals the revalued amount.

While assumptions are used in all revaluations, the most significant of these are in infrastructure. For example where stormwater, wastewater and water supply pipes are underground, the physical deterioration and condition of assets are not visible and must therefore be reliably estimated. Any risk is minimised by performing a combination of physical inspections and condition modelling assessments.

## 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 within surplus or deficit, unless the asset is carried at a revalued amount in which case any impairment loss is treated as a revaluation decrease and recorded within other comprehensive income.

## Disposal

Realised gains and losses arising from the disposal of property, plant and equipment are recognised within surplus or deficit 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 estimated 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 complex	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 (including land under roads)	indefinite
Roading	
Formation/earthworks	indefinite
Pavement	3 to 40 years
Traffic Islands	80 years
Bridges and tunnels	3 to 150 years
Drainage	15 to 120 years
Retaining walls	30 to 100 years
Pedestrian walkway	15 to 40 years
Pedestrian furniture	8 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 100 years
Fittings	10 to 111 years
Water pump stations	10 to 100 years
Water reservoirs	80 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 of the landfill used in that year.

### **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**

Intangible assets predominantly comprise computer software and carbon credits. They are recorded at cost less any subsequent amortisation and impairment losses.

Computer software has a finite life and amortisation is charged to the Prospective Statement of Comprehensive 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 5 years
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Carbon credits are allocations of emission allowances granted by the Government. Cost is deemed to be equal to the fair value at the date of allocation. Any difference between the carrying value and the residual value is amortised over the useful life of the asset.

Realised gains and losses arising from disposal of intangible assets are recognised in the Prospective Statement of Comprehensive 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 Prospective Statement of Comprehensive Financial Performance.



## **LEASES**

### **Operating leases as lessee**

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

### **Operating leases as lessor**

The Council leases Investment Properties and a portion of Land and Buildings. Rental income is recognised on a straight line basis over the lease term.

### **Finance leases**

Finance leases transfer to the Council as lessee substantially all the risks and rewards incidental 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 finance charge is charged to the Prospective Statement of Comprehensive Financial Performance over the lease period and the capitalised values are amortised over the shorter of the lease term and the useful life of the leased asset.

### **Employee Benefit Liabilities**

A provision for employee benefits (holiday leave, long service leave, and retirement gratuities) is recognised as a liability when benefits are earned but not paid.

#### **Holiday leave**

Holiday leave (annual leave, long service leave qualified for 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.

#### **Long service leave and retirement gratuities**

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 and a discount rate. The inflation rate used is the annual Consumer Price Index.

### **Other contractual entitlements**

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

### **Provisions**

Provisions are recognised for future expenditure of uncertain timing or amount when there is a present obligation as a result of a past event, it is probable that expenditures will be required to settle the obligation and a reliable estimate of the obligation can be made. Provisions are measured at the expenditure expected to be required to settle the obligation. Liabilities and provisions to be settled beyond 12 months are recorded at their 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 landfill 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, which is 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 and discount rates for the Council and the Spicer Valley landfill. The inflation rate used is the annual Consumer Price Index.



### **ACC partnership programme**

The Council belongs to the ACC Partnership Programme and therefore accepts the management and financial responsibility of work related illnesses and accidents of employees. Under the ACC Partnership Programme the Council is effectively providing accident insurance to employees and this is accounted for as an insurance contract. The value of this liability represents the expected future payments in relation to accidents and illnesses occurring up to the balance sheet date for which Council has responsibility under the terms of the Partnership Programme.

### **Financial guarantee contracts**

A financial guarantee contract is a contract that requires the Council to make specified payments to reimburse the contract holder for a loss it incurs because a specified debtor fails to make payment when due.

Financial guarantee contracts are initially recognised at fair value. The Council measures the fair value of a financial guarantee by determining the probability of the guarantee being called by the holder. The probability factor is then applied to the principal and the outcome discounted to present value.

Financial guarantees are subsequently measured at the higher of the Council's best estimate of the obligation or the amount initially recognised less any amortisation.

### **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 a number of 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, a hedging reserve 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.

### **Prospective Statement of Cash Flows**

Cash and cash equivalents for the purposes of the cash flow statement comprises bank balances, cash on hand and short term deposits with a maturity of three months or less. The Prospective 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 non-financial income sources of the Council and record the cash payments made for the supply of goods and services. Investing activities relate to the acquisition and disposal of assets and financial income. Financing activities relate to activities that change the equity and debt capital structure of the Council and financing costs.

### **Related Parties**

Related parties arise where one entity has the ability to affect the financial and operating policies of another through the presence of control or significant influence. Related parties include members of the Group and key management personnel, who includes the Mayor and Councillors as directors of the governing body, the Chief Executive and all members of the Management Board.

### **Cost Allocation**

The Council has derived the cost of service for each significant activity (as reported within the Statements of Service Performance) using the following cost allocation methodology: Direct costs are expensed directly to the activity. Indirect costs relate to the overall costs of running the organisation and include staff time, office space and information technology costs. These indirect costs are allocated as overheads across all activities.

### **Comparatives**

To ensure consistency with the prospective financial information contained within this annual plan, certain comparative information has been reclassified where appropriate. This has occurred:

- where classifications have changed since the last long term plan (including activity trees).
- where the Council has made additional disclosure within this annual plan, and where a greater degree of disaggregation of prior long term plan amounts and balances is therefore required.



## **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 operation 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 include them within the Annual Plan. This provides an opportunity for ratepayers and residents to review the projected financial results and position of the Council. Prospective financial statements are revised annually to reflect updated assumptions and costs.

*(iii) Bases for assumptions, risks and uncertainties*

The financial information has been prepared on the basis of best estimate assumptions as the 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.

*(iv) Other Disclosures*

The prospective financial statements were authorised for issue on 25 June 2010 by Wellington City Council. The Council is responsible for the prospective financial statements presented, including the assumptions underlying prospective financial statements and all other disclosures. The Annual Plan is prospective and as such contains no actual operating results.