

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.

Wellington City Council has chosen to early adopt the amendments to NZ IAS 1 – Presentation of Financial Statements. The revised standard has resulted in the introduction of the Statement of Comprehensive Financial Performance and has changed the format and content of the Statement of Changes in Equity. It has only a presentational impact on the financial statements.

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.

The reporting period for these prospective financial statements is the ten year period ending 30 June 2019. 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 or in the relevant note.

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.

Revenue

Revenue is measured at the fair value of consideration received. Specific accounting policies for major categories of revenue are outlined below:

Rates

Rates are set annually by resolution from Council and relate to a particular financial year. All ratepayers are invoiced within the financial year to 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 roading subsidies) are recognised upon entitlement.

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 balance date. Under this method, revenue is recognised in the accounting periods in which the services are provided.

Sale of goods

Sales of goods are recognised when products are sold to the customer and at the time and place 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.

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.

Other Revenues and Gains

Development Contributions

Development contributions are recognised as revenue 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 revenue when the control of the asset is transferred to Council.

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's 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.

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 Statement of Comprehensive Financial Performance on a straight-line basis over the useful life of the associated assets.

Taxation

Income tax is charged in the Statement of Comprehensive Financial Performance in respect of the current year's results of council controlled trading organisations only. 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, liabilities and unused tax losses using tax rates enacted or substantively enacted at 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.

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, receivables, available-for-sale financial assets), financial liabilities (payables and borrowings) and derivative financial instruments. Financial instruments are initially recognised at fair value plus transaction costs. Subsequent measurement of financial instruments is dependent upon the classification determined by the Council.

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 each balance date.

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 issued with duration 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 in other comprehensive income. If there is no active market and no intention to sell the asset, the asset is measured at cost. On disposal, the cumulative fair value gain or loss previously recognised in other comprehensive income is recognised within the surplus or deficit.

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 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 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 each balance date. Derivatives that do not qualify for hedge accounting are classified as non-hedged (held for trading) and fair value gains or losses recognised within the 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 the 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 the 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 swimwear, 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, less applicable variable selling expenses.

Investment properties

Investment properties are properties which are held primarily to earn rental income, for capital appreciation or for both. These include the Council's ground leases and land and buildings and the Wellington Waterfront Project's investment properties. Investment properties exclude those properties held for strategic purposes or to provide a social service, including those which generate cash inflows where the rental revenue is incidental to the purpose for holding the property. Such properties include the Council's social housing assets.

Investment properties are measured initially at cost and subsequently measured at fair value as determined annually by an independent registered valuer. The fair value is determined based on quoted market prices and 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 after proper

marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. Any gain or loss arising from a change in fair value is recognised in the Statement of Comprehensive Financial Performance. Investment properties are not depreciated.

A property interest 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 rentals or for capital appreciation or both. Any such property interest under an operating lease classified as an investment property is carried at fair value.

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 Statement of Comprehensive Financial Performance. Fair value is determined by 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 after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

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 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. Borrowing costs incurred during the construction of investment property and property, plant and equipment are not capitalised. Subsequent expenditure that extends or expands the asset's service potential is capitalised.

After initial recognition, certain classes of property, plant and equipment are revalued to fair value. Fair value is determined by 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 after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. 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.

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 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 are capitalised at historical cost.

The carrying values of revalued property, plant and equipment are reviewed at each balance date 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 within the surplus or deficit. Any subsequent increase on revaluation that off-sets a previous decrease in value recognised within the surplus or deficit will be recognised firstly, within the 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.

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 the 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 the 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 comprise computer software which has a finite life and is initially recorded at cost less any amortisation and impairment losses. Amortisation is charged to the 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 |
|-------------------------|--------------|

Realised gains and losses arising from disposal of intangible assets are recognised in the 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 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 Statement of Comprehensive Financial Performance on a straight-line basis over the term of the lease. Lease incentives received are recognised in the 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 incident on the ownership of a leased asset. Initial recognition of a finance lease results in an asset and liability being recognised at amounts equal to the lower of the fair value of the leased property or the present value of the minimum lease payments. The finance charge is charged to the Statement of Comprehensive Financial Performance over the lease period and the capitalised values are amortised over the shorter of the lease term and its useful life.

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. The discount rate used represents the Council's average cost of borrowing.

Other Contractual Entitlements

Other contractual entitlements include termination benefits. Termination benefits are recognised in the 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 rate. The inflation rate used is the annual Consumer Price Index. The discount rate used represents the Council's average cost of borrowing.

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.

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 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 key management

personnel, who include 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 long term plan, certain comparative information has been reclassified where appropriate. This has occurred:

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