FINANCIAL STATEMENTS:

Our 10-year plan

Wellington City Council's Draft Long-term Plan 2015-25

Absolutely Positively
Wellington City Council
Me Heke Ki Pōneke

PROSPECTIVE STATEMENT OF COMPREHENSIVE FINANCIAL PERFORMANCE

	2014/15 AP $000	2015/16 LTP $000	Variance to LTP $000	Notes	2016/17 LTP $000	2017/18 LTP $000	2018/19 LTP $000	2019/20 LTP $000	2020/21 LTP $000	2021/22 LTP $000	2022/23 LTP $000	2023/24 LTP $000	2024/25 LTP $000
INCOME													
Revenue from rates (excluding metered water)	241,387	255,664	14,277		270,340	286,722	301,679	318,720	333,540	348,142	366,174	379,618	389,642
Revenue from water by metered	13,879	13,546	(333)	1	14,137	14,945	15,779	15,904	17,292	18,135	18,770	19,890	20,526
Revenue from development contributions	2,000	2,000	-		2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Revenue from grants, subsidies and reimbursements	51,090	42,118	(8,972)	2	38,485	22,388	25,124	23,264	23,114	23,671	24,145	24,581	25,706
Revenue from operating activities	119,913	121,287	1,374	3	124,809	127,841	130,756	134,823	136,546	137,260	140,376	143,416	146,810
Investments	20,215	20,135	(80)		20,135	20,235	19,635	20,635	24,053	26,693	26,637	29,182	30,429
Fair value movement on investment property revalaution	-	3,665	3,665	4	4,324	4,821	5,143	5,482	6,057	6,449	6,865	7,543	8,027
Other revenue	1,100	1,050	(50)		1,050	1,050	1,050	1,050	1,050	1,050	1,050	1,050	1,050
Finance revenue	603	637	34		650	663	719	693	731	776	827	886	952
TOTAL INCOME	**450,187**	**460,102**	**9,915**		**475,930**	**480,665**	**501,885**	**522,571**	**544,383**	**564,176**	**586,844**	**608,166**	**625,142**
EXPENSE													
Finance expense	23,041	23,724	683	5	28,515	31,996	35,093	38,885	39,871	43,285	50,493	52,466	54,312
Expenditure on operating activities	298,596	318,177	19,581	6	325,521	327,737	334,867	347,706	359,495	373,088	383,895	394,958	407,346
Depreciation and amortisation	102,165	99,275	(2,890)		102,205	109,032	113,421	117,770	126,090	130,549	133,430	141,664	145,480
TOTAL EXPENSE	**423,802**	**441,176**	**17,374**		**456,241**	**468,765**	**483,381**	**504,361**	**525,456**	**546,922**	**567,818**	**589,088**	**607,138**
NET SURPLUS FOR THE YEAR	**26,385**	**18,926**	**(7,459)**	**7**	**19,689**	**11,900**	**18,504**	**18,210**	**18,927**	**17,254**	**19,026**	**19,078**	**18,004**
OTHER COMPREHENSIVE INCOME													
Fair value movement - property, plant and equipment - net	57,073	-	(57,073)		223,243	73,306	-	238,867	104,157	-	332,176	141,845	-
Share of equity accounted surplus from associates	-	-	-		-	-	-	-	-	-	-	-	-
TOTAL OTHER COMPREHENSIVE INCOME	**57,073**	**-**	**(57,073)**		**223,243**	**73,306**	**-**	**238,867**	**104,157**	**-**	**332,176**	**141,845**	**-**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**83,458**	**18,926**	**(64,532)**		**242,932**	**85,206**	**18,504**	**257,077**	**123,084**	**17,254**	**351,202**	**160,923**	**18,004**

Notes:

1. Water network costs have reduced resulting in less recovered from water rates

2. Reduction between 14/15 and 15/16 funding from Housing New Zealand for the Housing Upgrade Programme.

3. Details of specific changes to revenue from activities can be found in the Funding Impact Statements. This will outline at an activity level the key changes.

4. Showing the impact of investment property revaluations. This is expected at a rate of half the property inflator in the significant forecasting assumptions

5. Debt levels have increased between 14/15 and 15/16 and interest rates have decreased creating a modest interest increase.

6. Details of specific changes to operational costs can be found in the Funding Impact Statements. This will outline at an activity level the key changes.

PROSPECTIVE STATEMENT OF COMPREHENSIVE FINANCIAL PERFORMANCE

7. EXPLANATION OF NET OPERATING SURPLUS	**2015/16 LTP $000**
EXPENDITURE NOT FUNDED UNDER SECTION 100 OF LGA	
NZTA Transport funded projects	(8,873)
General	(834)
Clearwater sewerage treatment plant	(2,955)
Decomissioned Living Earth joint venture plant	(198)
Wellington Waterfront Limitied Depreciation	(3,654)
TOTAL EXPENDITURE NOT FUNDED UNDER SECTION 100 OF LGA	**(16,514)**
REVENUE RECEIVED FOR CAPITAL PURPOSES	
NZTA capital funding	13,356
Housing capital grant and ring-fenced surplus	(2,974)
Housing capital grant and ring-fenced	20,668
Development contributions	2,000
Bequests, trust and other external funding	1,226
TOTAL REVENUE RECEIVED FOR CAPITAL PURPOSES	**34,277**
ITEMS FUNDED FROM PRIOR YEAR SURPLUSES	
Economic Development Fund	(3,000)
Lyall Bay operational grant	(350)
TOTAL ITEMS FUNDED FROM PRIOR YEAR SURPLUS	**(3,350)**
ADDITIONAL ITEMS	
Weathertight Homes funding	7,560
Ocean Exploration Centre	(6,000)
Alex Moore Park	(221)
Odyssey	(1,079)
Waste minimisation activity	4
Reserves purchases and development fund	(39)
Unrealised fair value adjustment for loans and receivables	624
Fair value movement on investment property revalaution	3,665
TOTAL ADDITIONAL ITEMS	**4,514**
TOTAL SURPLUS	**18,927**

PROSPECTIVE STATEMENT OF FINANCIAL POSITION

	2014/15 AP $000	2015/16 LTP $000	Variance to LTP $000	Notes	2016/17 LTP $000	2017/18 LTP $000	2018/19 LTP $000	2019/20 LTP $000	2020/21 LTP $000	2021/22 LTP $000	2022/23 LTP $000	2023/24 LTP $000	2024/25 LTP $000
ASSETS													
Current assets													
Cash and cash equivalents	2,389	820	(1,569)		1,369	1,075	817	1,333	1,470	829	975	997	1,241
Derivative financial assets	409	-	(409)		-	-	-	-	-	-	-	-	-
Receivables from exchange transactions	39,556	42,284	2,728		43,791	45,271	46,680	48,308	49,518	50,351	51,872	53,320	54,650
Prepayments	15,048	12,239	(2,809)	1	12,584	12,639	12,930	13,509	14,023	14,591	15,036	15,479	15,990
Inventories	875	888	13		906	922	941	958	974	1,002	1,025	1,051	1,076
Non-current assets classified as held for sale	-	-	-		-	-	-	-	-	-	-	-	-
Total current assets	**58,277**	**56,231**	**(6,457)**		**58,650**	**59,907**	**61,368**	**64,108**	**65,985**	**66,773**	**68,908**	**70,847**	**72,957**
Non-current assets													
Derivative financial assets	3,280	-	(3,280)		-	-	-	-	-	-	-	-	-
Trade and other receivables	-	-	-		-	-	-	-	-	-	-	-	-
Other financial assets	8,928	10,473	1,545	2	11,110	11,760	12,466	13,146	13,864	14,627	15,441	16,314	17,253
Intangibles	16,743	24,453	7,710	3	24,793	27,873	27,041	26,829	26,713	29,163	29,751	32,752	36,420
Investment properties	205,951	196,566	(9,385)	4	200,890	205,711	210,854	216,336	222,393	228,842	235,707	243,250	251,277
Property, plant & equipment	6,974,749	6,685,636	(289,113)	5	6,958,297	7,093,208	7,154,836	7,414,310	7,548,284	7,656,742	8,026,057	8,199,832	8,238,456
Investment in subsidiaries	3,809	3,809	-		3,809	3,809	3,809	3,809	3,809	3,809	3,809	3,809	3,809
Investment in associates	19,519	19,504	(15)		19,504	19,504	19,504	19,504	19,504	19,504	19,504	19,504	19,504
Total non-current assets	**7,232,979**	**6,940,441**	**(1,006)**		**7,218,403**	**7,361,865**	**7,428,510**	**7,693,934**	**7,834,567**	**7,952,687**	**8,330,269**	**8,515,461**	**8,566,719**
TOTAL ASSETS	**7,291,256**	**6,996,672**	**(7,463)**		**7,277,053**	**7,421,772**	**7,489,878**	**7,758,042**	**7,900,552**	**8,019,460**	**8,399,177**	**8,586,308**	**8,639,676**
LIABILITIES													
Current liabilities													
Derivative financial liabilities	404	-	(404)		-	-	-	-	-	-	-	-	-
Trade and other payables	57,945	60,248	2,303		60,682	65,055	65,324	61,504	64,595	77,348	71,415	72,562	75,528
Revenue in advance	11,405	30,551	19,146	6	12,151	11,295	11,553	11,912	12,065	12,128	12,403	12,672	12,971
Borrowings	155,562	229,247	73,685		260,987	292,887	319,860	327,893	336,419	383,055	400,811	413,580	430,233
Employee benefit liabilities and provisions	5,698	6,783	1,085		6,853	6,943	7,072	7,226	7,392	7,620	7,809	8,022	8,238
Provision for other liabilities	17,466	8,790	(8,676)		8,548	6,089	4,819	4,168	3,903	3,878	3,892	3,952	4,001
Total current liabilities	**248,480**	**335,619**	**248,324**		**349,221**	**382,269**	**408,628**	**412,703**	**424,374**	**484,029**	**496,330**	**510,788**	**530,971**
Non-current liabilities													
Derivative financial liabilities	12,831	-	(12,831)		-	-	-	-	-	-	-	-	-
Trade and other payables	-	630	630		630	630	630	630	630	630	630	630	630
Borrowings	248,601	204,929	(43,672)		233,302	261,818	285,929	293,110	300,731	342,421	358,292	369,707	384,594
Employee benefit liabilities	1,474	1,693	219		1,710	1,732	1,764	1,803	1,845	1,901	1,949	2,002	2,056
Provisions for other liabilities	43,687	23,945	(19,742)	7	19,402	17,329	16,429	16,221	16,313	16,566	16,861	17,143	17,383
Total non-current liabilities	**306,593**	**231,197**	**(52,493)**		**255,044**	**281,509**	**304,752**	**311,764**	**319,519**	**361,518**	**377,732**	**389,482**	**404,663**
TOTAL LIABILITIES	**555,072**	**566,815**	**195,830**		**604,264**	**663,777**	**713,379**	**724,466**	**743,892**	**845,546**	**874,061**	**900,269**	**935,633**
EQUITY													
Accumulated funds and retained earnings	4,992,265	4,989,691	(2,574)		5,008,809	5,020,115	5,038,007	5,055,580	5,073,846	5,090,410	5,108,719	5,127,047	5,144,270
Revaluation reserves	1,743,064	1,429,106	(313,958)	8	1,652,349	1,725,655	1,725,655	1,964,522	2,068,679	2,068,679	2,400,855	2,542,700	2,542,700
Hedging reserve	(9,955)	137	10,092	9	137	137	137	137	137	137	137	137	137
Fair value through other comprehensive income reserve	93	63	(30)		63	63	63	63	63	63	63	63	63
Restricted funds	10,716	10,859	143		11,430	12,025	12,637	13,273	13,935	14,625	15,341	16,091	16,873
TOTAL EQUITY	**6,736,183**	**6,429,856**	**(306,327)**		**6,672,788**	**6,757,994**	**6,776,498**	**7,033,575**	**7,156,659**	**7,173,913**	**7,525,115**	**7,686,038**	**7,704,042**
TOTAL EQUITY AND LIABILITIES	**7,291,255**	**6,996,671**	**6,931,883**		**7,277,052**	**7,421,771**	**7,489,877**	**7,758,041**	**7,900,551**	**8,019,459**	**8,399,176**	**8,586,307**	**8,639,675**

PROSPECTIVE STATEMENT OF FINANCIAL POSITION

Notes:

1. The prepayments balance of $15m was set to be in line with the actuals available for 2012 and 2013 of $14m and $15m respectively. The 2015/16 forecast figure is based on analysing the historical ratio between the balance of prepayments and the operating expenditure and is less than the forecast AP figure for 2014/15.

2. Movement primarily comprised of movement due to amortisation of loans.

3. Forecast spend for 2014/15 was $8m

4. Revaluation impact on investment properties was not included in the forecast for 2014/15 and the balances were based on the investment properties balance from the actual 2012/13 balance. Despite a revaluation adjustement for the 15/16 year based on the BERL figures it was not enough to offset the impact of the revaluation loss incurred in 2013/14.

5. 2014/15AP balance of PP&E was based on the assumption that 2013/14 actuals would show a revalaution of $176m. The actual result was a loss of $46m.

6. The prepayments balance of $11m was set to be in line with the actuals available for 2012 and 2013 of $11m and $11m respectively. The 2015/16 forecast figure is based on analysing the historical ratio between the balance of revenue in advance and the operating income and is greater than the forecast AP figure for 2014/15. There is also an additonal adjustment for revenue in advance relating to the housing project of $19m.

7. Movement in weatertight homes provision

8. See note 5 on difference due to actual compared with forecast revaluation.

9. We do not forecast movements in derviatives the balances are based on historical balances for prior year actuals.

PROSPECTIVE STATEMENT OF CHANGES IN EQUITY

	2014/15 AP $000	2015/16 LTP $000	Variance to LTP $000	Notes	2016/17 LTP $000	2017/18 LTP $000	2018/19 LTP $000	2019/20 LTP $000	2020/21 LTP $000	2021/22 LTP $000	2022/23 LTP $000	2023/24 LTP $000	2024/25 LTP $000
EQUITY - OPENING BALANCES													
Accumulated funds and retained earnings	4,965,881	4,971,304	5,423	1	4,989,691	5,008,809	5,020,115	5,038,007	5,055,580	5,073,846	5,090,410	5,108,719	5,127,047
Revaluation reserves	1,685,991	1,429,106	(256,885)		1,429,106	1,652,349	1,725,655	1,725,655	1,964,522	2,068,679	2,068,679	2,400,855	2,542,700
Hedging reserve	(9,955)	137	10,092		137	137	137	137	137	137	137	137	137
Fair value through other comprehensive income reserve	93	63	(30)		63	63	63	63	63	63	63	63	63
Restricted funds	10,715	10,320	(395)		10,859	11,430	12,025	12,637	13,273	13,935	14,625	15,341	16,091
TOTAL EQUITY - Opening balance	**6,652,725**	**6,410,930**	**(241,795)**		**6,429,856**	**6,672,788**	**6,757,994**	**6,776,498**	**7,033,575**	**7,156,659**	**7,173,913**	**7,525,115**	**7,686,038**
CHANGES IN EQUITY													
Retained earnings													
Net surplusfor the year	26,385	18,926	(7,459)		19,689	11,900	18,504	18,210	18,927	17,254	19,026	19,078	18,004
Transfer to restricted funds	(3,766)	(4,518)	(752)		(4,630)	(4,751)	(4,877)	(5,018)	(5,163)	(5,330)	(5,499)	(5,694)	(5,894)
Transfer from restricted funds	3,765	3,979	214		4,059	4,157	4,265	4,382	4,502	4,640	4,783	4,944	5,113
Hedging reserve													
Share of other comprehensive income	57,073	-	(57,073)		223,243	73,306	-	238,867	104,157	-	332,176	141,845	-
Restricted Funds													
Transfer to retained earnings	(3,765)	(3,979)	(214)		(4,059)	(4,157)	(4,265)	(4,382)	(4,502)	(4,640)	(4,783)	(4,944)	(5,113)
Transfer from retained earnings	3,766	4,518	752		4,630	4,751	4,877	5,018	5,163	5,330	5,499	5,694	5,894
TOTAL COMPREHENSIVE INCOME	**83,458**	**18,926**	**(64,532)**		**242,932**	**85,206**	**18,504**	**257,077**	**123,084**	**17,254**	**351,202**	**160,923**	**18,004**
EQUITY - CLOSING BALANCES													
Accumulated funds and retained earnings	4,992,265	4,989,691	(2,574)		5,008,809	5,020,115	5,038,007	5,055,580	5,073,846	5,090,410	5,108,719	5,127,047	5,144,270
Revaluation reserves	1,743,064	1,429,106	(313,958)		1,652,349	1,725,655	1,725,655	1,964,522	2,068,679	2,068,679	2,400,855	2,542,700	2,542,700
Fair value through other comprehensive revenue and expense	(9,955)	137	10,092		137	137	137	137	137	137	137	137	137
Restricted funds	93	63	(30)		63	63	63	63	63	63	63	63	63
Hedging reserve	10,716	10,859	143		11,430	12,025	12,637	13,273	13,935	14,625	15,341	16,091	16,873
TOTAL EQUITY - Closing balance	**6,736,183**	**6,429,856**	**(306,327)**		**6,672,788**	**6,757,994**	**6,776,498**	**7,033,575**	**7,156,659**	**7,173,913**	**7,525,115**	**7,686,038**	**7,704,042**

Notes:

PROSPECTIVE STATEMENT OF CASH FLOWS

	2014/15 AP $000	2015/16 LTP $000	Variance to LTP $000	Notes	2016/17 LTP $000	2017/18 LTP $000	2018/19 LTP $000	2019/20 LTP $000	2020/21 LTP $000	2021/22 LTP $000	2022/23 LTP $000	2023/24 LTP $000	2024/25 LTP $000
CASH FLOWS FROM OPERATING ACTIVITIES													
Receipts from rates - Council (excluding metered water)	241,387	247,273	5,886		269,858	286,184	301,188	318,161	333,054	347,662	365,583	379,176	389,313
Receipts from water rates by meter	13,879	10,807	(3,072)		14,017	14,782	15,610	15,879	17,011	17,965	18,641	19,664	20,397
Receipts from rates - Greater Wellington Regional Council	50,341	52,659	2,318	1	55,693	59,081	62,174	65,697	68,762	71,781	75,510	78,290	80,362
Receipts from activities and other income	123,013	137,545	14,532	2	108,554	129,256	133,315	137,188	139,306	140,190	142,900	145,955	149,287
Receipts from grants and subsidies - operating	7,715	35,251	27,536		30,739	14,259	16,204	15,725	16,734	16,080	16,691	16,660	17,392
Receipts from grants and subsidies - capital	43,375	6,867	(36,508)		7,746	8,129	8,920	7,539	6,380	7,591	7,454	7,921	8,314
Receipts from investment property lease rentals	9,215	9,135	(80)		9,135	9,135	9,135	9,135	9,135	9,135	9,135	9,135	9,135
Cash paid to suppliers and employees	(286,780)	(281,489)	5,291		(286,984)	(296,630)	(301,697)	(310,096)	(317,734)	(328,244)	(338,719)	(349,254)	(361,027)
Rates paid to Greater Wellington Regional Council	(50,341)	(52,659)	(2,318)	1	(55,693)	(59,081)	(62,174)	(65,697)	(68,762)	(71,781)	(75,510)	(78,290)	(80,362)
Grants paid	(28,719)	(40,981)	(12,262)		(43,207)	(35,860)	(34,914)	(37,457)	(41,010)	(43,614)	(44,063)	(44,563)	(45,085)
NET CASH FLOWS FROM OPERATING ACTIVITIES	**123,085**	**124,408**	**1,323**		**109,858**	**129,255**	**147,761**	**156,074**	**162,876**	**166,765**	**177,622**	**184,694**	**187,726**
CASH FLOWS FROM INVESTING ACTIVITIES													
Dividends received	11,000	11,000	-		11,000	11,100	10,500	11,500	14,918	17,558	17,502	20,047	21,294
Interest received	44	637	593		650	663	719	693	731	776	827	886	952
Proceeds from sale of property, plant and equipment	4,050	4,017	(33)		(4,600)	5,250	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Purchase of Intangibles	(8,777)	(11,195)	(2,418)	3	(6,368)	(9,391)	(6,101)	(6,201)	(6,533)	(8,953)	(6,711)	(6,892)	(7,451)
Purchase of property, plant and equipment	(155,724)	(156,200)	(476)		(141,665)	(165,533)	(170,806)	(139,552)	(149,735)	(223,462)	(173,792)	(171,912)	(180,860)
NET CASH FLOWS FROM INVESTING ACTIVITIES	**(149,407)**	**(151,741)**	**(2,334)**		**(140,983)**	**(157,911)**	**(163,688)**	**(131,560)**	**(138,619)**	**(212,081)**	**(160,174)**	**(155,871)**	**(164,065)**
CASH FLOWS FROM FINANCING ACTIVITIES													
New borrowings	203,964	50,308	(153,656)		60,113	60,416	51,084	15,214	16,147	88,326	33,627	24,184	31,540
Repayment of borrowings	(155,562)	-	155,562		-	-	-	-	-	-	-	-	-
Interest paid on borrowings	(22,080)	(23,526)	(1,446)		(28,439)	(32,054)	(35,415)	(39,212)	(40,267)	(43,651)	(50,929)	(52,985)	(54,957)
NET CASH FLOWS FROM FINANCING ACTIVITIES	**26,322**	**26,782**	**460**		**31,674**	**28,362**	**15,669**	**(23,998)**	**(24,120)**	**44,675**	**(17,302)**	**(28,801)**	**(23,417)**
Net increase/(decrease) in cash and cash equivalents	-	(551)	(551)		549	(294)	(258)	516	137	(641)	146	22	244
Cash and cash equivalents at beginning of year	2,389	1,371	(1,018)		820	1,369	1,075	817	1,333	1,470	829	975	997
CASH AND CASH EQUIVALENTS AT END OF YEAR	**2,389**	**820**	**(1,569)**		**1,369**	**1,075**	**817**	**1,333**	**1,470**	**829**	**975**	**997**	**1,241**

Notes:

1. Wellington City Council collects rates on behalf of GWRC.

2. Increase income from activites is detailed in the Funding Impact Statements by activity.

PROSPECTIVE STATEMENT OF CHANGES IN RESTRICTED FUNDS

	OPENING BALANCE 2014/15 $000	DEPOSITS $000	EXPENDITURE $000	CLOSING BALANCE 2024/25 $000	Purpose
SPECIAL RESERVES AND FUNDS					
Reserve purchase and development fund	287	-	-	287	Used to purchase and develop reserve areas within the city.
Economic initiatives development fund	-	34,125	(34,125)	-	-
Insurance reserve	9,609	17,065	(10,533)	16,142	Allows the Council to meet the uninsured portion of insurance claims
Total special reserves and funds	**9,896**	**51,190**	**(44,658)**	**16,429**	
TRUSTS AND BEQUESTS					
A Graham Trust	3	1	-	4	For the upkeep of a specific area of Karori Cemetery
A W Newton request	315	160	(150)	325	For the benefit of art (Fine Arts Wellington), education (technical and other night schools) and athletics (rowing)
E A McMillan Estate	6	-	-	6	For the benefit of the public library
E Pengelly Bequest	13	5	-	18	For the purchase of children's books
F L Irvine Smith Memorial	7	2	-	9	For the purchase of books for the Khandallah Library
Greek NZ Memorial Association	5	2	-	7	For the maintenance and upgrade of the memorial
Kidsarus 2 Donation	3	1	-	4	For the purchase of children's books
Kirkaldie and Stains Donation	17	-	-	17	For the beautification of the BNZ site
QEII memorial Book Fund	19	10	-	29	For the purchase of books on the Commonwealth
Schola Cantorum Trust	6	3	-	9	For the purchase of musical scores
Stanley Banks Trust	6	-	-	6	To be available for bursaries for children of World War II servicemen
Terawhiti Grant	10	-	-	10	To be used on library book purchases
Wellington Beautifying Society Request	14	-	(14)	-	Used towards "the Greening of Taranaki Street" project
Total trusts and bequests	**424**	**184**	**(164)**	**444**	
Total restricted funds	**10,320**	**51,374**	**(44,822)**	**16,873**	

In addition to the above, the Council is proposing to establish a Forest Carbon Reserve Fund on the basis that it will reinvest a share of revenue from the sale of forestry emission units under the New Zealand Emissions Trading Scheme or Permanent Forest Sink Initiative to protect or enhance the Council's forest carbon stocks. Other revenues generated from the sale of emission units or from costs recovered by way of fees and charges in regard to the New Zealand Emissions Trading Scheme will be treated as other revenues received by the Council. We are not anticipating any revenue for this fund in the 2014/15 year.

Summary of Significant Accounting Policies

Reporting entity

Wellington City Council is a territorial local authority governed by the Local Government Act 2002.

The primary objective of the Council is to provide goods or services for community or social benefits rather than making a financial return. As a defined public entity under the Public Audit Act 2001, for the purposes of financial reporting, the Council is audited by the Auditor General, and is classed as a Public Sector Public Benefit Entity.

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

Basis of preparation

Statement of compliance

The draft 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 draft prospective financial statements have been prepared to comply with Public Benefit Entity Accounting Standards (PBE Standards) for a Tier 1 entity. A Tier 1 entity is defined as being either publicly accountable or large (ie. expenses over $30m).

The reporting period for these prospective financial statements is the 10 year period ending 30 June 2025. The prospective financial statements are presented in New Zealand dollars, rounded to the nearest thousand ($000), unless otherwise stated.

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

Measurement base

The measurement basis applied is historical cost, modified by the revaluation of certain assets and liabilities as identified in this summary of significant accounting policies. 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. For investment property, non-current assets classified as held for sale and items of property, plant and equipment which are revalued, the 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.

Amounts expected to be recovered or settled more than one year after the end of the reporting period are recognised at their present value. The present value of the estimated future cash flows is calculated using applicable inflation factors and a discount rate. The inflation rates used and the discount rate for forecast the long-term cost of borrowing are as per the “planning assumptions” which are disclosed on pages XX.

Judgements and estimations

The preparation of prospective financial statements using PBE standards requires the use of judgements, estimates and assumptions. Where material, information on the main assumptions is provided in the relevant accounting policy.

The estimates and assumptions are based on historical experience as well as other factors that are believed to be reasonable under the circumstances. Subsequent actual results may differ from these estimates and these variations may be material.

The estimates and assumptions are reviewed on an ongoing basis and adjustments are made where necessary.

Judgements that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in the relevant notes. Significant judgements and estimations include landfill post-closure costs, asset revaluations, impairments, certain fair value calculations and provisions.

Revenue

Revenue comprises rates, revenue from operating activities, investment revenue, gains, finance and other revenue and is measured at the fair value of consideration received or receivable.

Revenue may be derived from either exchange or non-exchange transactions.

Revenue from exchange transactions

Revenue from exchange transactions arises where the Council provides goods or services to another entity or individual and directly receives approximately equal value in a willing arm’s length transaction (primarily in the form of cash in exchange).

Revenue from non-exchange transactions

Revenue from non-exchange transactions arises from transactions that are not exchange transactions. Revenue from non-exchange transaction arises when the Council receives value from another party without giving approximately equal value directly in exchange for the value received.

An inflow of resources from a non-exchange transaction recognised as an asset, is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As Council satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction

Approximately equal value

Approximately equal value is considered to reflect a fair or market value, which is normally commensurate with an arm’s length commercial transaction between a willing buyer and willing seller. Some goods or services that Council provides (eg the sale of goods at market rates) are defined as being exchange transactions. Only a few services provided by Council operate on a full user pays, cost recovery or breakeven basis and these are considered to be exchange transactions unless they are provided at less than active and open market prices.

Most of the services that Council provides for a fee are subsidised by rates and therefore do not constitute an approximately equal exchange. Accordingly most of Council's revenue is categorised as non-exchange.

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

Rates

Rates are set annually by resolution from the 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 in full as at the date when rate assessment notices are sent to the ratepayers. Rates are a tax as they are payable under the Local Government Ratings Act 2002 and are therefore defined as non-exchange.

Water rates by meter are regulated in the same way as other rates and are taxes that use a specific charging mechanism to collect the rate and are non-exchange revenue.

Operating activities

The Council undertakes various activities as part of its normal operations, some of which generate revenue, but generally at below market rates. The following categories (except where noted) are classified as transfers, which are non-exchange transactions other than taxes.

Grants, subsidies and reimbursements

Grants and subsidies are recognised as revenue immediately except to the extent a liability is also recognised in respect of the same grant or subsidy. A liability is recognised when the grant or subsidy received are subject to a condition such that the Council has the obligation to return those funds received in the event that the conditions attached to them are breached. As the Council satisfies the conditions, the carrying amount of the liability is reduced and an equal amount is recognised as revenue.

Reimbursements are recognised upon entitlement, which is when conditions relating to the eligible expenditure have been fulfilled.

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. In the event that the Council is unable to provide the service immediately, or the development contribution is refundable, the Council will recognise an asset and a liability and only recognise revenue when the Council has met the obligation for which the development contribution was charged.

Rendering of services

Revenue considered to be from exchange transactions is recognised by reference to the stage of completion of the transaction at the reporting date.

Revenue from the rendering of services where the service provided is non-exchange is recognised when the transaction occurs to the extent that a liability is not also recognised.

Fines and penalties

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

Sale of goods

The sale of goods is classified as exchange revenue. 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 revenues

Dividends

Dividends from equity investments, other than those accounted for using equity accounting, are classified as exchange revenue and are recognised when the Council's right to receive payment has been established.

Investment property lease rentals

Lease rentals (net of any incentives given) are classified as exchange revenue and recognised on a straight line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which benefits derived from the leased asset is diminished

Other revenue

Donated, subsidised or vested assets

Where a physical asset is acquired for nil or nominal consideration, with no conditions attached, the fair value of the asset received is recognised as non-exchange revenue 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 revenue

Interest

Interest revenue is exchange revenue and recognised using the effective interest rate method.

Donated services

The Council benefits from the voluntary service of many Wellingtonians in the delivery of its activities and services (eg beach cleaning and Otari-Wilton's Bush guiding and planting). Due to the difficulty in determining the precise value of these donated services with sufficient reliability, donated services are not recognised in these financial statements.

Expenses

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

Operating activities

Grants and sponsorships

Expenditure is classified as a grant or sponsorship if it results in a transfer of resources (eg cash or physical assets) to another entity or individual in return for compliance with certain conditions relating to the operating activities of that entity. It includes any expenditure arising from a funding arrangement with another entity that has been entered into to achieve the objectives of the Council. Grants and sponsorships are distinct from donations which are discretionary or charitable gifts. Where grants and sponsorships 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 on a straight-line basis over the estimated useful life of the associated assets.

Taxation

Council, as a local authority is only liable for income tax on the surplus or deficit for the year derived from any council controlled trading organisations andcomprises 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 end of the reporting period, plus 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 assets and liabilities, and the 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 they can be utilised.

Goods and Services Tax (GST)

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

Financial instruments

Financial instruments include financial assets (loans and receivables and financial assets at fair value through other comprehensive revenue and expense), financial liabilities (payables and borrowings) and derivative financial instruments. Financial instruments are initially recognised on trade-date at their fair value plus transaction costs. Subsequent measurement of financial instruments depends on the classification determined by the Council. Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the Group has transferred substantially all of the risks and rewards of ownership.

Financial instruments are classified into the categories outlined below based on 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 financial assets at fair value through other comprehensive revenue and expense.

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

Cash and cash equivalents comprise cash balances and call deposits with maturity dates of three months or less.

Trade and other receivables have fixed or determinable payments. They arise when the Group 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 subsidiaries and associates), and bank deposits with maturity dates of more than three months.

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. A provision for impairment is 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.

Financial assets at fair value through other comprehensive revenue and expense relate to equity investments that are held by the Council for long-term strategic purposes and therefore are not intended to be sold. Financial assets at fair value through other comprehensive revenue and expense are initially recorded at fair value plus transaction costs. They are subsequently measured at fair value and changes, other than impairment losses, are recognised directly in a reserve within equity. On disposal, the cumulative fair value gain or loss previously recognised directly in other comprehensive revenue and expense is recognised within surplus or deficit.

Financial liabilities

Financial liabilities comprise trade and other payables and borrowings. Financial liabilities with duration of 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 within surplus or deficit. Financial liabilities with duration of less than 12 months are recognised at their nominal value.

On disposal any gains or losses are recognised within surplus or deficit.

Derivatives

Derivative financial instruments include interest rate swaps used to hedge exposure to interest rate risk on borrowings. Derivatives are initially recognised at fair value, based on quoted market prices, and subsequently remeasured to fair value at the end of each reporting period. Fair value is determined by reference to quoted prices for similar instruments in active markets. Derivatives that do not qualify for hedge accounting are classified as non-hedged and fair value gains or losses are 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 is used to hedge variability of cash flows (cash flow hedge), the effective part of any gain or loss is recognised within other comprehensive revenue and expense while the ineffective part is recognised within surplus or deficit. Gains or losses recognised in other comprehensive revenue and expense transfer to surplus or deficit in the same periods as when the hedged item affects the surplus or deficit. Where a derivative is used to hedge variability in the fair value of the Council's fixed rate borrowings (fair value hedge), the gain or loss 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 (such as botanical supplies) are measured at the lower of cost and current replacement cost.

Inventories held for resale (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.

Inventories held for distribution at no or nominal cost, are recorded at the lower of cost and current replacement cost.

Investment properties

Investment properties are properties which are held primarily to earn rental revenue or for capital growth or both. These include the Council's ground leases, and certain land and buildings.

Investment properties exclude those properties held for strategic purposes or to provide a social service. This includes properties which generate cash inflows as the rental revenue is incidental to the purpose for holding the property. Such properties include the Council's social housing assets, which are held within operational assets in property, plant and equipment. Borrowing costs incurred during the construction of investment property are not capitalised.

Investment properties are measured initially at cost and subsequently measured at fair value, determined annually by an independent registered valuer. Any gain or loss arising is recognised within surplus or deficit. Investment properties are not depreciated.

Non-current assets classified as held for sale

Non-current assets held for sale are separately classified as 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 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 occur within one year or beyond one year where a delay has occurred which is caused by events beyond the Group's control and there is sufficient evidence the Group remains committed to sell the asset; and
- actions required to complete the sale indicate it is unlikely that significant changes to the plan will be made or the plan will be withdrawn.
- A non-current asset classified as held for sale is recognised at the lower of its carrying amount or fair value less costs to sell. Impairment losses on initial classification are included within surplus or deficit.

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 roading network, water, waste and drainage reticulation networks, service concession assets and infrastructure land (including land under roads). Each asset type includes all items that are required for the network to function.

Vested assets are those assets where ownership and control is transferred to the Council from a third party (eg infrastructure assets constructed by developers and transferred to the Council on completion of a subdivision). Vested assets are recognised within their respective asset classes as above.

Heritage assets are tangible assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture. The Council recognises these assets within these financial statements to the extent their value can be reliably measured.

Recognition

Expenditure is capitalised as property, plant and equipment when it creates a new asset or increases the economic benefits 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 (eg 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 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 active market 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 outlined in *Valuation Guidance for Cultural and Heritage Assets,* published by the Treasury Accounting Team, November 2002.

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. The 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 cost.

Infrastructure assets

Infrastructure assets (roading network, water, waste and drainage reticulation assets) are valued at optimised depreciated replacement cost on a three-year cycle 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 cycle.

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. The 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 cost.

The service concession asset class consists of the Moa Point, Western (Karori) and Carey's Gulley waste water treatment plants which are owned by the Council but operated by Veolia Water under agreement. The assets are valued consistently with waste infrastructure network assets.

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 revenue and expense and taken to the asset revaluation reserve. 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 offsets a previous decrease in value recognised within surplus or deficit will be recognised firstly, within surplus or deficit up to the amount previously expensed, with any remaining increase recognised within other comprehensive revenue and expense and in the revaluation reserve for that class of property, plant and equipment.

Accumulated depreciation at the revaluation date is eliminated 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 estimated. Any revaluation risk is minimised by performing a combination of physical inspections and condition modelling assessments.

Impairment

The Council's assets are defined as cash generating if the primary purpose of the asset is to provide a commercial return. Non-cash generating assets are assets other than cash generating assets.

The carrying amounts of cash generating property, plant and equipment assets are reviewed at least annually to determine if there is any indication of impairment. Where an asset's, or class of assets', 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 revenue and expense.

The carrying amounts of non-cash generating property, plant and equipment assets are reviewed at least annually to determine if there is any indication of impairment. Where an asset's, or class of assets', recoverable service amount is less than its carrying amount it will be reported at its recoverable service amount and an impairment loss will be recognised. The recoverable service amount is the higher of an item's fair value less costs to sell and value in use. A non-cash generating asset's value in use is the present value of the asset's remaining service potential. 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 revenue and expense.

Disposal

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.

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.

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 assessed residual value) over its estimated useful life. The estimated useful lives and depreciation rate ranges of the major classes of property, plant and equipment are as follows:

Asset Category	**Useful Life (years)**	**Depreciation Rate**
Land	unlimited	not depreciated
Buildings	1 ~75	1.33 ~ 100%
Civic Centre Complex	10 ~ 78	1.28 ~ 10%
Plant and equipment	3 ~ 100	1 ~ 33.3%
Library collection	3 ~ 11	9.1 ~ 33.3%
Restricted assets (excluding buildings)	unlimited	not depreciated
Infrastructure assets:		
Land (including land under roads)	unlimited	not depreciated
Roading:		
Formation / earthworks	unlimited	not depreciated
Pavement	13 ~ 40	2.5 ~ 7.7%
Traffic islands	80	1.25%
Bridges and tunnels	3 ~ 175	0.57 ~ 33.3%
Drainage	60 ~130	0.8% ~ 130%
Retaining walls	30 ~ 75	1.33 ~ 3.33%
Pedestrian walkways	10 ~ 50	2 ~ 10%
Pedestrian furniture	10 ~ 25	4 ~ 10%
Barriers (handrails, guardrails)	25	4%
Lighting	3 ~ 50	2 ~ 33.3%
Cycleway network	25	4%
Parking equipment	8 ~ 10	10 ~ 12.5%
Passenger transport facilities	25	4%
Traffic infrastructure	5 ~ 40	2.5 ~ 20%
Drainage, waste and water:		
Pipework	50 ~ 130	0.77 ~ 2%
Fittings	25 ~ 110	0.91 ~ 4%
Water pump stations	20 ~ 100	1 ~ 5%
Water reservoirs	25 ~ 100	1 ~ 4%
Equipment	20	5%
Sewer pump stations	20 ~ 80	1.25 ~ 5%
Tunnels	3 ~ 175	0.57 ~ 33.3%
Treatment plants	3 ~ 100	1 ~ 33.3%

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

Variation in the range of lives for infrastructural assets is due to these assets being managed and depreciated by individual component rather than as a whole asset.

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 economic life and amortisation is charged to surplus or deficit on a straight-line basis over the estimated useful life of the asset. Typically, the estimated useful lives and depreciation rate range of these assets are as follows:

Computer software	1 to 7 years	14.29% to 100%

Carbon credits comprise either allocations of emission allowances granted by the Government related to forestry assets or units purchased in the market to cover liabilities associated with landfill operations. Carbon credits are recognised at cost at the date of allocation or purchase.

Gains and losses arising from disposal of intangible assets are recognised within surplus or deficit 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 within surplus or deficit.

Research and Development

Research costs are expensed as incurred. Development expenditure on individual projects is capitalised and recognised as an asset when it meets the definition and criteria for capitalisation as an asset and it is probable that the Council will receive future economic benefits from the asset. Assets which have finite lives are stated at cost less accumulated amortisation and are amortised on a straight-line basis over their useful lives.

Leases

Operating leases as lessee

Leases where the lessor 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 within surplus or deficit on a straight-line basis over the term of the lease. Lease incentives received are recognised within surplus or deficit over the term of the lease as they form an integral part of the total lease payment.

Operating leases as lessor

The Group leases investment properties and a portion of land and buildings. Rental revenue is recognised on a straight-line basis over the lease term.

Finance leases

Finance leases transfer to the Group (as lessee) substantially all the risks and rewards of ownership of the 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 released to surplus or deficit over the lease period and the capitalised values are amortised over the shorter of the lease term and the useful life of the leased item.

Employee benefit liabilities

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

Holiday leave

Holiday leave includes: annual leave, long service leave, statutory time off in lieu and ordinary time off in lieu. Annual leave is calculated on an actual entitlement basis in accordance with section 21(2) of the Holidays Act 2003.

Retirement gratuities

Retirement gratuities are calculated on an actuarial basis based on the likely future entitlements accruing to employees, after taking into account years of service, years to entitlement, the likelihood that employees will reach the point of entitlement, and other contractual entitlements information.

Other contractual entitlements

Other contractual entitlements include termination benefits, which are recognised within surplus or deficit 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 liabilities of uncertain timing or amount when there is a present obligation as a result of a past event, it is probable that expenditure 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. 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.

ACC partnership programme

The Council is an Accredited Employer under the ACC Partnership Programme. As such the Council accepts the management and financial responsibility of our employee work-related injuries. From 1 April 2009 the Council changed its agreement with ACC from Full Self Cover (FSC) to Partnership Discount Plan (PDP). Under the PDP option, the Council is responsible for managing work related injury claims for a two-year period only and transfer ongoing claims to ACC at the end of the two-year claim management period with no further liability. 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 work-related injuries occurring up to the end of the reporting period for which the 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.

Net Assets/Equity

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

The components of net assets or equity are accumulated funds and retained earnings, revaluation reserves, a hedging reserve, a fair value through other comprehensive revenue and expense 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 revenue sources of the Council and the Group and record the cash payments made for the supply of goods and services. Investing activities relate to the acquisition and disposal of assets and investment revenue. Financing activities relate to activities that change the equity and debt capital structure of the Council and Group 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. Key management personnel include the Mayor and Councillors as Directors, the Chief Executive and all members of the Executive Leadership Team being key advisors to the Directors and Chief Executive.

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

Cost allocation

The Council has derived the cost of service for each significant activity (as reported within the Statements of Service Performance). 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 current year, certain comparative information has been reclassified where appropriate. This has occurred:

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

Public Benefit Entity Financial Reporting Standard 42 *Prospective Financial Statements* (PBE FRS 42)

The Council has complied with PBE FRS 42 in the preparation of these draft prospective financial statements. In accordance with PBE 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 Long-term 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 Long-term 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 this Long-term Plan.

(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

These draft prospective financial statements were adopted as part of the assumptions that form the 2015-2025 Long-term Plan consultative documents for Wellington City Council. The Council is responsible for the draft prospective financial statements presented, including the assumptions underlying prospective financial statements and all other disclosures. The Long-term Plan is prospective and as such contains no actual operating results.