

Statement of Accounting Policies

THE REPORTING ENTITY

Statutory base

Wellington City Council is a territorial local authority in terms of the Local Government Act 2002. The prospective financial statements included in this Annual Plan have been prepared in accordance with the Act and Generally Accepted Accounting Practice.

The prospective financial statements are for Wellington City Council as a separate entity. Consolidated prospective financial statements comprising Wellington City Council and its subsidiary companies and group interests have not been prepared.

Measurement base

These prospective financial statements have been prepared in accordance with historical cost concepts, adjusted for the revaluation of investment properties and certain classes of property, plant and equipment. However, future revaluations have not been forecast as part of this Annual Plan. The amounts in the financial statements are rounded to the nearest thousand unless otherwise stated.

SPECIFIC ACCOUNTING POLICIES

The following accounting policies, which materially affect the measurement of results and financial position, have been applied:

Revenue recognition

All revenue is recognised when billed or earned on an accrual basis, except grants, donations, bequests and vested assets, which are recognised when control over the assets is obtained. Grants include any transfers of resources to the Council in return for past or future compliance with certain conditions relating to the operating activities of the Council. Grants are distinct from donations to the Council which are considered to be discretionary charitable gifts.

Grants expenditure

Expenditure is classified as a grant if it results in a transfer of resources to another entity in return for past or future compliance with certain conditions relating to the operating activities of that entity. Grants include 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 to the Council which are considered to be discretionary charitable gifts.

Donated services recognition

The Council benefits from the voluntary service of many Wellingtonians in the delivery of its activities and services

(e.g. Beach Cleaning, Otari-Wilton Bush guiding and planting, and the Volunteer Rural Fire Force). Due to the difficulty in determining the value of these donated services with sufficient reliability, donated services are not recognised in these financial statements. Changes to our accounting policies are noted in the Budget Assumptions chapter which follows this chapter.

Taxation

Income tax expense is charged in the statement of financial performance in respect of the current year's surplus of council controlled trading organisations only. Income tax expense is determined using the comprehensive basis under the liability method after allowing for permanent differences.

Permanent differences are items of revenue or expenditure that are included in the current year's surplus but are not part of taxable income or vice versa.

Deferred tax assets or liabilities attributable to timing differences or income tax losses are recognised in the statement of financial position at tax rates applicable to future periods. Deferred tax assets are only recognised when realisation is virtually certain.

Goods and services tax (GST)

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

Receivables

Trade receivables are stated at expected realisable value after providing for bad and doubtful debts. All known bad debts are written off and charged to the statement of financial performance in the period in which they are identified.

As there are statutory remedies to recover unpaid rates, penalties and water meter charges, no provision has been made for doubtful debts in respect of rates receivables.

Inventories

Inventories are valued at the lower of cost (determined on a first-in first-out basis) or net realisable value. This valuation includes allowances for slow moving and obsolete stock.

Investments

Investments where there is both the positive intent and ability to hold to maturity are recorded at cost or at cost adjusted for the amortisation of premiums or discounts. Premiums or discounts are capitalised and amortised from the date of purchase to maturity.

Loans to other organisations are stated at expected realisable value after providing for doubtful loans. Any unrecoverable loans are written off and charged to the statement of financial performance in the period in which they are identified.

All other investments are stated at the lower of cost or net realisable value.

Interest income is recognised in the statement of financial performance on an accrual basis. Dividend income is recognised when the dividend is declared.

Investment properties

Investment properties, being the Council's ground leases and land and buildings held for investment purposes, are valued annually by an independent registered valuer.

The result of the valuation is credited or debited to the investment property revaluation reserve. Where this results in a debit balance in the reserve, the balance is expensed in the statement of financial performance. Any subsequent increase on revaluation that offsets a previous decrease in value recognised in the statement of financial performance, will be recognised firstly in the statement of financial performance up to the amount previously expensed, and then secondly credited to the investment property revaluation reserve.

Where an investment property has been sold the balance of the revaluation reserve in respect of that property is transferred to the statement of financial performance.

Investment properties are not depreciated. Investment properties intended for sale are reclassified as current assets and recorded at the lower of net realisable value and the carrying amount of the properties at the time of reclassification.

Properties intended for sale

Properties intended for sale are all property, other than investment property and property, plant and equipment, held with the intention of realisation in the ordinary course of business. Properties are classified as intended for sale where:

- the property is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets,
- the Council is committed to a plan to sell the property, and an active programme to locate a buyer and complete the plan has been initiated,
- the property is being actively marketed for sale at a price that is reasonable in relation to its current fair value, and
- actions required to complete the plan to sell the property indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Investment properties intended for sale are reclassified as current assets and are recorded at the lower of net realisable value and the carrying amount of the properties at the time of reclassification.

Property, plant and equipment

Recognition

Property, plant and equipment consist of operational assets, restricted assets and infrastructure assets. Expenditure is capitalised when it creates a new asset or increases the economic benefits over the total life of an existing asset.

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

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

Infrastructure assets include the fixed utility systems comprising the roading, water reticulation and drainage systems, and infrastructure land (including land under roads). Each asset type includes all items that are required for the network to function. Infrastructural vested assets represent the value of infrastructure assets constructed by developers and vested in the Council upon completion of the development. The assets have been valued on a basis consistent with existing infrastructure assets.

Measurement

Property, plant and equipment are valued at historical cost or valuation.

The initial cost of property, plant and equipment includes the purchase consideration, or the fair value in the case of bequeathed or vested assets, and those costs that are directly attributable to bringing the asset into the location and condition necessary for its intended purpose. Subsequent expenditure that extends or expands the asset's service potential is capitalised.

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

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

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

Art and cultural assets (artworks, sculptures, statues) are valued at historical cost. Zoo animals are stated at estimated replacement cost. All other restricted assets (buildings, parks and reserves and the town belt) are valued at fair value on a three-year basis by independent registered valuers. Fair value is determined by reference to highest and best use.

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

Infrastructure land (including land under roads) is valued at fair value on a three-year basis. Land under roads, which represents the corridor of land directly under and adjacent to the Council's roading network, is valued at the average value of surrounding adjacent land. The valuation methodology reflects the interdependency of the value of land under roads and the surrounding adjacent land.

The result of any revaluation of the Council's property, plant and equipment is credited or debited to the asset revaluation reserve for that class of property, plant and equipment. Where this results in a debit balance in the reserve for a class of property, plant and equipment, the balance is expensed in the statement of financial performance. Any subsequent increase on revaluation that offsets a previous decrease in value recognised in the statement of financial performance, will be recognised firstly in the statement of financial performance up to the amount previously expensed, and then secondly credited to the revaluation reserve for that class of property, plant and equipment.

Depreciation

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

Land	indefinite
Buildings	10 to 100 years
Civic Centre amenities	10 to 100 years
Plant and equipment	3 to 15 years
Library collections	5 to 10 years
Restricted assets (excluding buildings)	indefinite
Infrastructure assets	
Land (including land under roads)	indefinite
Roading	
Formation	indefinite
Pavement	3 to 40 years
Traffic Islands	25 years
Bridges and Tunnels	3 to 150 years
Drainage	10 to 110 years
Retaining walls	50 to 80 years
Pedestrian walkway	10 to 50 years
Pedestrian furniture	10 to 25 years

Barriers & lighting	2 to 50 years
Cycle-way network	15 to 40 years
Parking equipment	8 to 10 years
Passenger transport facilities	25 years
Traffic infrastructure	5 to 10 years
Drainage, waste and water	
Pipework	40 to 150 years
Fittings	10 to 111 years
Water pump stations	20 to 100 years
Water reservoirs	40 to 100 years
Equipment	25 years
Sewer pump stations	20 to 100 years
Tunnels	150 years

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

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. Borrowing costs are not capitalised.

Employee entitlements

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

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 section 16(2) & 16(4) of the Holidays Act 2003.

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 contractual entitlements information.

Landfill post-closure costs

The Council, as operator of the Northern and Southern Landfills, has a legal obligation to apply for resource consents when the landfills, or landfill stages, reach the end of their operating life and are to be closed. These resource consents will set out the closure requirements and the requirements for ongoing maintenance and monitoring services at the landfill site after closure. A provision for post-closure costs is recognised as a liability when the obligation for post-closure arises, which is when each stage of the landfill is commissioned and refuse begins to accumulate in this stage.

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.

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 that the Council makes of its accumulated surpluses.

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

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

Leases

Leases are classified as operating or finance in accordance with SSAP-18: Accounting for leases and hire purchase contracts. Leases where the lessor effectively retains substantially all the risks and rewards of ownership of the leased items are classified as operating leases. Payments made under these leases are expensed in the statement of financial performance in the period in which they are incurred. Leases which effectively transfer to the lessee substantially all the risks and rewards incident to ownership of the leased item are classified as finance leases. As at 30 June 2004 the Council has not entered into any finance leases.

Statement of cash flows

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

Operating activities include cash received from all income sources of the Council and record the cash payments made for the supply of goods and services. Investing activities relate to the acquisition and disposal of assets. Financing activities relate to activities that change the equity and debt capital structure of the Council.

Financial instruments

The Group is party to financial instruments as part of its normal operations. Financial instruments are monetary assets and liabilities and include bank accounts, investments, receivables, payables and borrowings. Financial instruments are recognised in the statement of position, with the exception of interest rate swaps. Revenues and expenses are recognised in the statement of financial performance.

Directors' remuneration

Directors' remuneration is any money, consideration or benefit received, receivable or otherwise made available, directly or indirectly, to a director during the reporting period. Councillors, including the Mayor, are considered directors as they occupy the position of a member of the governing body of the Council reporting entity.

Comparative figures

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

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

Comparative information has been reclassified accordingly.