

This is our first annual report prepared under New Zealand International Financial Reporting Standards (NZ IFRS). NZ IFRS collectively represent generally accepted accounting practice in New Zealand. They prescribe the way we must recognise and disclose all financial transactions in our financial statements. Along with the whole of the local authority sector, we adopted NZ IFRS as the basis for accounting and reporting financial performance and position from 1 July 2006.

As a result of the move to NZ IFRS:

- our financial statements are longer and more comprehensive
- you may notice some new terminology – a glossary of new terms is on page xxii
- some financial transactions are treated differently from the past (for example, any increase in the value of our investment properties is now reported as income).

UNDERSTANDING THE COUNCIL'S REPORTED SURPLUS FOR THE YEAR ENDED 30 JUNE 2007

The Council has reported a net surplus of \$35.722 million compared with a budget surplus of \$1.778 million, an overall favourable variance of \$33.944 million.

Why has the Council made a surplus?

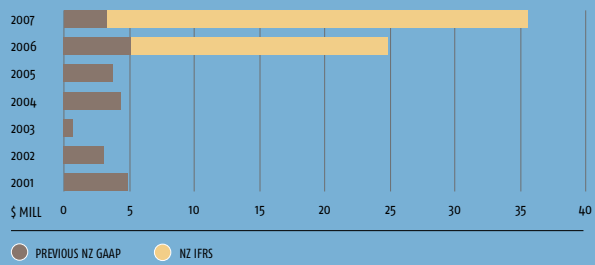
The majority of the surplus is not cash. It primarily arises from the way that we are now required to treat increases in the value of our investment properties. Under NZ IFRS we must now recognise any increase in value as income – previously changes in value were recognised in a revaluation reserve in the Statement of Financial Position.

Our investment properties grew in value by \$31.750 million for the year. We do not budget for any increase in the value of our investment properties – we do not consider it prudent to do so as we have no reliable basis from which to predict the anticipated movement in value of these properties during the year – any increase in value will, therefore, represent a favourable variance against our budget.

The following table shows what effect the adoption of NZ IFRS has had on the reported surplus of the Council.

For 2006 and 2007 we show the reported net surplus under NZ IFRS – from our Statement of Financial Performance. For comparative purposes we have also shown what the surplus would have been had we not adopted NZ IFRS. The table shows that the introduction of NZ IFRS has had a significant impact on the way the Council calculates and reports its financial performance.

COUNCIL OPERATING SUPLUSES



Can the Council use this additional surplus to offset the amount of rates required in future financial periods?

As stated above, the majority of the surplus arises from the treatment of certain transactions under NZ IFRS – the increase in the value of our investment properties alone accounts for 89%. It does not represent additional cash collected by the Council. The surplus cannot be used to offset rates or fund expenditure in the future.

It would be similar to home owners including any increase in value of their house in their annual tax return – their property may have increased in value and they may be better off as a result but they haven't received any additional cash. They won't receive the cash arising from the increased value until the house is sold.

financial overview



How would the Council's accounts look without the NZ IFRS adjustments?

The following table shows our income and expenditure for the year and identifies the various NZ IFRS transactions that are included in the reported balances. By identifying these items we are able to show the underlying financial performance against that which had been budgeted for and rates funded.

The table shows that if we remove the NZ IFRS adjustments from the reported surplus then the underlying financial performance is a surplus of \$4.377 million. When compared against the budgeted surplus of \$1.778 million, we have an underlying favourable variance of \$2.599 million.

RECONCILIATION OF STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2007

	NOTE	REPORTED FINANCIAL PERFORMANCE \$000	NZIFRS UNBUDGETED ADJUSTMENTS \$000	UNDERLYING FINANCIAL PERFORMANCE \$000
Income				
Revenue from rates and levies		183,164	-	183,164
Revenue from operating activities		103,907	-	103,907
Revenue from investment property leases		13,286	-	13,286
Finance income	1,2	7,785	115	7,900
Other revenues and gains	3	43,988	(31,750)	12,238
TOTAL OPERATING INCOME		352,130	(31,635)	320,495
Expense				
Finance expense		16,851	-	16,851
Expenditure on operating activities	4	236,833	(290)	236,543
Depreciation and amortisation		62,724	-	62,724
TOTAL OPERATING EXPENSE		316,408	(290)	316,118
TOTAL OPERATING SURPLUS		35,722	(31,345)	4,377
Share of equity accounted surplus from associates		-	-	-
Net surplus before taxation		35,722	(31,345)	4,377
Income tax expense		-	-	-
NET SURPLUS FOR THE YEAR		35,722	(31,345)	4,377

Notes:

- Movement in the fair value of the Council's loan to the Wellington Regional Stadium Trust. The loan was written down to fair value in the Council's NZ IFRS opening position to reflect its interest free nature. A gain is subsequently recognised each year for the increase in fair value as the loan approaches repayment date. This adjustment represents the difference between the budgeted and actual amounts.
- Change in the fair value of Council's interest rate swaps that have not been recognised in the Hedging Reserve.
- Fair (ie market) value gain in the Council's investment properties – the annual increase in value of these properties. The Council does not budget for the change in value.
- The Council has written down (ie impaired) certain property, plant and equipment during the year – where the carrying value is considered to have been greater than their fair value.

What factors have contributed to the underlying favourable variance?

EXPLANATION OF UNDERLYING VARIANCE	\$000
Revenues / Expenditure Not Budgeted for in 2006/07 Annual Plan:	
Vested Assets (non-cash in nature)	6,169
Unbudgeted external funding towards capital projects	885
Bequests, special and reserve funds revenue	404
Restatement of provisions	(2,774)
Insurance costs (net of recoveries) funded through self insurance reserve	(451)
Gain on disposal of assets	1,162
TOTAL REVENUE / (EXPENDITURE) FROM NON-BUDGETED ITEMS	5,395
Significant changes in Revenue / Expenditure:	
Additional net expenditure from Wellington Waterfront Project and Porirua Joint Ventures (excluding above revenues)	(2,948)
Additional dividend income (WIAL)	1,643
Additional depreciation arising from revaluations and vested assets	(750)
Unfavourable interest income (early retirement of WIAL debt)	(487)
TOTAL SIGNIFICANT CHANGES IN REVENUE / EXPENDITURE	(\$2,542)
Other net variances	(\$254)
TOTAL FACTORS CONTRIBUTING TO THE UNDERLYING FAVOURABLE VARIANCE	\$2,599

Notes:

Vested assets – the Council recognises as income the value of assets where ownership and control are transferred to the Council from a third party. For the year ended 30 June 2007 the Council received a number of infrastructural assets from developers.

Dividends – the Council had budgeted to receive dividends of \$4 million from Wellington International Airport Limited (WIAL). The Council has a 34% ownership interest in WIAL. During the year the Council received total dividends of \$5.643 million.

External Funding for Capital Projects – the Council has received additional external funding for specific capital projects – the upgrade of the Johnsonville Community Centre and also for various Zoo assets.

Other net variances – comprises increased programmes, projects and organisational costs, offset by additional other revenues (eg user charges, rates etc). These variances are further explained in the cost of service statements in the Statement of Service Performance.

"WE REPORTED AN UNDERLYING FAVOURABLE OPERATING RESULT COMPARED TO BUDGET."

HIGHLIGHTS FROM THE COUNCIL'S FINANCIAL STATEMENTS

SOURCES OF THE COUNCIL'S OPERATING INCOME

Total operating income for the year ending 30 June 2007 is \$352.130 million. Sources include:

	05/06 \$m	06/07 \$m	% OF TOTAL 05/06	% OF TOTAL 06/07
RATES	\$170.62	\$183.16	55.9%	52.0%
GOVT. GRANTS & SUBSIDIES	\$12.21	\$13.07	4.0%	3.7%
FINES & PENALTIES	\$10.05	\$13.00	3.3%	3.7%
PARKING FEES & PERMITS	\$10.91	\$12.58	3.6%	3.6%
INVESTMENT PROPERTY LEASES	\$11.68	\$13.29	3.8%	3.8%
GAIN ON INVESTMENT PROPERTY VALUATION	\$20.15	\$31.75	6.6%	9.0%
COMMUNITY HOUSING	\$14.86	\$16.42	4.9%	4.7%
LANDFILLS	\$6.89	\$6.56	2.3%	1.9%
VESTED ASSETS	\$6.56	\$6.17	2.1%	1.7%
BUILDING CONSENTS & LICENSES	\$8.27	\$8.37	2.7%	2.4%
FINANCE INCOME	\$8.64	\$7.79	2.8%	2.2%
OTHER REVENUE	\$24.39	\$39.97	8.0%	11.3%

While rates and levies remain the primary source of funding, the Council has collected almost half (48%) of its income for the year ending 30 June 2007 from other sources. These include user charges, fees and fines, rentals, subsidies and sale of goods.

UNDERSTANDING THE COUNCIL'S OPERATING EXPENDITURE

Total operating expenditure for the year ending 30 June 2007 is \$316.408 million. Components include:

	05/06 \$m	06/07 \$m	% OF TOTAL 05/06	% OF TOTAL 06/07
DEPRECIATION AND AMORTISATION	\$59.94	\$62.72	19.9%	19.8%
DIRECT COSTS	\$79.38	\$85.24	26.3%	26.9%
FINANCE EXPENSE	\$14.71	\$16.85	4.9%	5.3%
GRANTS	\$25.13	\$24.12	8.3%	7.6%
PERSONNEL	\$66.72	\$69.58	22.1%	22.0%
OTHER COSTS	\$55.59	\$57.90	18.5%	18.4%

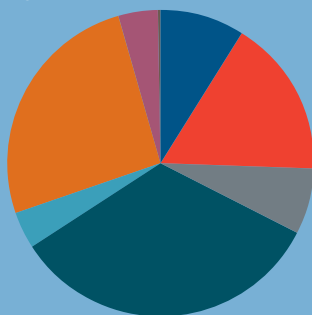
The largest component of operating expenditure is the direct costs incurred in the delivery of Council services. This includes the cost of materials and other contracts for the supply of goods and services. Direct costs and personnel expenditure account for 49% of the Council's total operating expenditure.



KEEPING OUR CITY RUNNING – COST OF SERVICES PER RESIDENT

The chart below provides a breakdown of the cost of services for each of our strategic areas by the total number of Wellington residents – the total expenditure of the Council is a reflection of the number of residents we serve rather than the number of ratepayers within Wellington.

OPERATING COST BY STRATEGY



Strategy	Amount	Percentage	Total Cost	Cost per Resident	Cost per Resident per Day
URBAN DEVELOPMENT	\$28.4m	9.0%	\$151 PR	\$0.41 PR	\$0.41 PR per day
TRANSPORT	\$52.6m	16.7%	\$279 PR	\$0.77 PR	\$0.77 PR per day
ECONOMIC DEVELOPMENT	\$22.5m	7.1%	\$119 PR	\$0.33 PR	\$0.33 PR per day
ENVIRONMENT	\$105.0m	33.2%	\$557 PR	\$1.53 PR	\$1.53 PR per day
CULTURAL WELL-BEING	\$12.1m	3.8%	\$64 PR	\$0.18 PR	\$0.18 PR per day
SOCIAL AND RECREATION	\$82.1m	25.9%	\$436 PR	\$1.19 PR	\$1.19 PR per day
GOVERNANCE	\$12.9m	4.1%	\$69 PR	\$0.19 PR	\$0.19 PR per day
COUNCIL	\$0.8m	0.2%	\$4 PR	\$0.01 PR	\$0.01 PR per day

PR = Per Resident.

COST OF DELIVERING INDIVIDUAL ACTIVITIES TO WELLINGTON RESIDENTS

The following table provides a detailed breakdown of the cost of significant services and activities.

ACTIVITY CLUSTER	TOTAL COST (\$000)	PERCENTAGE	COST PER RESIDENT	COST PER RESIDENT PER DAY
Public space development	10,466	3.3%	\$55.55	\$0.15
Building control and facilitation	10,197	3.2%	\$54.12	\$0.15
Development control and facilitation	5,153	1.6%	\$27.35	\$0.07
Transport networks	32,479	10.3%	\$172.39	\$0.47
Car parking	11,452	3.6%	\$60.79	\$0.17
City promotion & events	19,439	6.1%	\$103.18	\$0.28
Wastewater & stormwater	46,302	14.6%	\$245.76	\$0.67
Water supply	27,124	8.6%	\$143.97	\$0.39
Green open spaces	13,524	4.3%	\$71.78	\$0.20
Gardens & beaches	11,293	3.6%	\$59.94	\$0.16
Waste reduction & energy conservation	10,122	3.2%	\$53.73	\$0.15
Environmental conservation attractions	4,391	1.4%	\$23.31	\$0.06
Galleries & museums	5,808	1.8%	\$30.83	\$0.08
Recreation facilities and programmes	22,497	7.1%	\$119.41	\$0.33
Community Housing	21,732	6.9%	\$115.35	\$0.32
Libraries	20,659	6.5%	\$109.65	\$0.30
Public health & safety	10,213	3.2%	\$54.21	\$0.15
Community support	6,990	2.2%	\$37.10	\$0.10
Information, consultation & decision making	12,852	4.1%	\$68.22	\$0.19
Other activities	13,715	4.4%	\$72.80	\$0.20
TOTAL EXPENDITURE	316,408	100%	\$1,679.44	\$4.59

The total number of residents of Wellington City is estimated to be 188,400 by Statistics NZ.

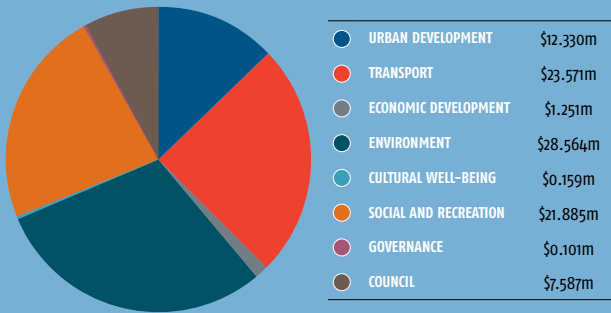
“CORE INFRASTRUCTURE SUCH AS WASTEWATER, TRANSPORT AND WATER NETWORKS MAKE UP 33.5% OF OUR TOTAL OPERATING EXPENDITURE. THE COST OF THESE SERVICES PER RESIDENT IN WELLINGTON IS \$1.53 PER DAY.”

INVESTING IN THE ASSETS OF THE CITY

COUNCIL CAPITAL EXPENDITURE PROJECTS

The Council has continued to invest in the city, completing \$95 million of capital expenditure during the 2006/07 financial year as follows:

BREAKDOWN OF CAPITAL EXPENDITURE



Major capital expenditure projects undertaken during the year include:

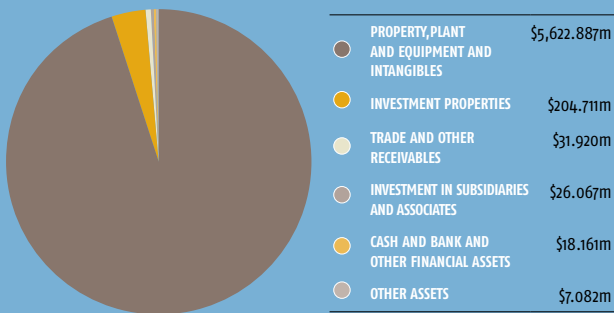
- Greening the Quays
- The upgrade of Karori Park
- Stormwater upgrades associated with completion of the Inner City Bypass
- Renovation of the Zoo chimpanzee enclosure
- Upgrade of Tawa Pool and extension of the Wellington Regional Aquatic Centre.



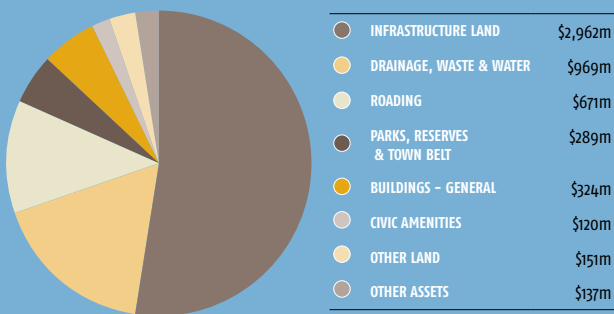
THE COUNCIL'S FINANCIAL POSITION

The Statement of Financial Position reflects a net asset position of \$5,597.9 million for the Council as at 30 June 2007. This comprises total assets of \$5,910.8 million, less total liabilities of \$313.0 million. Further information in respect of key Statement of Financial Position balances is outlined below.

BREAKDOWN OF OUR ASSETS



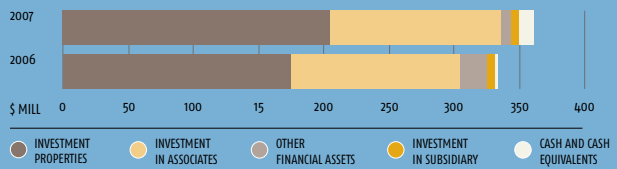
BREAKDOWN OF PROPERTY, PLANT & EQUIPMENT AND INTANGIBLE ASSETS



BREAKDOWN OF OUR INVESTMENTS

This asset category comprises investment properties, investments in Associates, such as Wellington International Airport Limited and the Wellington Regional Stadium Trust, Cash and Cash equivalents and other financial assets. During the year there was a significant increase in investment properties following the annual revaluation. There was also a reduction in other financial assets as a result of the repayment of the subordinated loan made to Wellington International Airport Limited.

INVESTMENT POSITION - AS AT 30 JUNE



The Council's investment portfolio has increased in value from \$332.821 million to \$360.152 million (an overall increase of \$27.331 million). Growth in the value of the Council investment properties accounts for \$30.353 million of the total growth in investments.

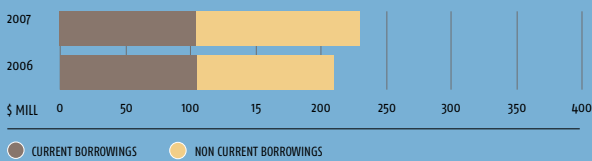
Note that the Council's investment in associates (including WIAL) is reflected in these figures as the Council's share of the company's equity, not at the value recorded in the Council line within the financial statements where this investment is reflected at original cost.

“THE COUNCIL'S INVESTMENT PORTFOLIO HAS INCREASED IN VALUE FROM \$332.821 MILLION TO \$360.152 MILLION (AN OVERALL INCREASE OF \$27.331 MILLION).”

BORROWINGS

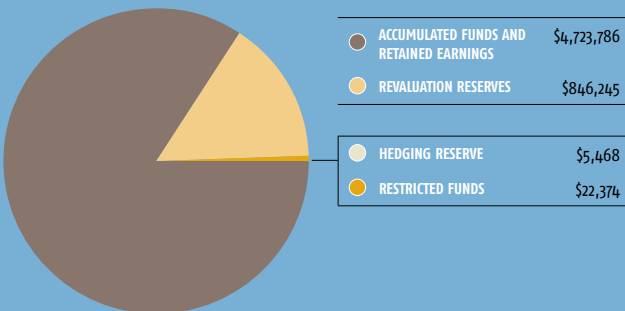
The Council's gross borrowings have increased by \$19.1 million to \$229.4 million as at 30 June 2007. The increase in the Council's level of borrowings reflects the utilisation of funds to complete the 2006/07 capital expenditure programme. The Council borrows to fund the purchase of new assets.

BORROWINGS POSITION – AS AT 30 JUNE



The Council's gross borrowings at 30 June 2007 was \$229.377 million compared with a planned budget position of \$259.172 million (a reduction against budget of \$29.795 million).

BREAKDOWN OF COUNCIL EQUITY – AS AT 30 JUNE 2007



Total Council Equity at 30 June 2007 is \$5,598 million. This represents an increase of 0.7% from the position at 30 June 2006.

The increase in Accumulated Funds and Retained Earnings is almost entirely due to the recorded profit of \$35.7 million.

As the next property, plant and equipment revaluations are not scheduled until 30 June 2008, Revaluation Reserves have not changed significantly from the prior period.

Hedging Reserves have more than doubled due to changes in the fair value of interest rate swaps.

GROUP HIGHLIGHTS

The Group covers the Council and its interests in associate and subsidiary entities, including the Wellington International Airport Limited and Council Controlled Organisations such as St James Theatre Trust and Capacity. Refer to Note 35 of the financial statements for the full Group structure diagram.

Highlights for the consolidated Group for the period are as follows:

	ACTUAL 2006/07 \$M	ACTUAL 2005/06 \$M
Net surplus	36	26
Total Assets	6,051	5,986
Total Liabilities	319	293
Total Equity	5,732	5,693
Revaluation Reserve Movements	1	144

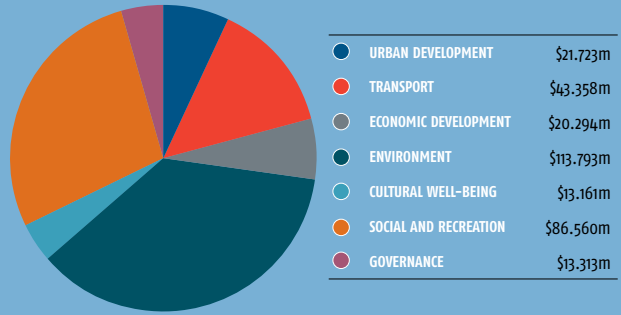
For further information on the subsidiaries and associates refer to the detailed notes on pages 144 to 152.



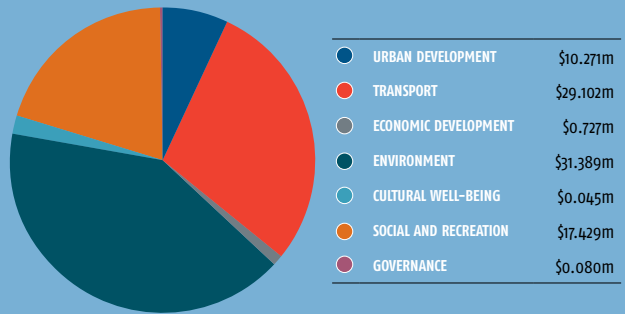
LOOKING FORWARD

The Council's financial results for the year ended 30 June 2007 reflect the delivery of high quality, cost-effective services and outputs to the residents of Wellington. Each year we adopt an annual plan that sets out the intended operating and capital expenditure programmes for that year. The following graphs highlight our spending plans by strategic area from the 2007/08 Annual Plan.

FORECAST OPERATING EXPENDITURE BY STRATEGY 2007/08



FORECAST CAPITAL EXPENDITURE BY STRATEGY 2007/08



NEIL CHERRY CHIEF FINANCIAL OFFICER



NZ IFRS AT A GLANCE

IFRS have been developed by the International Accounting Standards Board. In December 2002 the New Zealand Accounting Standards Review Board announced the decision to require New Zealand entities to use NZ IFRS in the preparation of their financial statements. NZ IFRS are an adaptation of IFRS which ensure that the standards applied in New Zealand reflect factors that are unique to public benefit entities or to the New Zealand environment. This is the Council's first annual report prepared in accordance with NZ IFRS.

NEW TERMS

Fair Value – Essentially reflects the market value. Under NZ IFRS Council is required to report assets and liabilities at Fair Value.

Intangible Assets – Assets that can be specifically identified but which have no physical substance (eg software). Software was previously recorded in Property, Plant and Equipment.

Cash Flow Hedge (Derivative Financial Instruments) – Financial instruments used by the Council to manage or “hedge” our exposure to interest rate movements. Under NZ IFRS the fair value of our Cash Flow hedges has been recorded on the Statement of Financial Position, and movements recorded within a hedging reserve.

Employee Benefits – Represents consideration given by the Council in exchange for services provided by employees and elected representatives.

Impairment – Describes a reduction in the recoverable amount of an asset. NZ IFRS prescribes specific testing procedures to be performed by entities to ensure that assets are not carried at an amount higher than they could currently be exchanged for.

Investment Property Revaluation Gains – Under previous generally accepted accounting practice (GAAP) any increase in the fair value of investment property was recorded as a reserve in the Statement of Changes in Equity. NZ IFRS requires the increase in the fair value of investment properties to be recorded in the Statement of Financial Performance.