WELLINGTON CITY COUNCIL IFRS ACCOUNTING POLICIES

I) STATEMENT OF COMPLIANCE

The prospective financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (GAAP). They comply with New Zealand equivalent International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for public benefit entities.

II) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The prospective financial statements are prepared in accordance with the Local Government Act 2002.

REPORTING ENTITY

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

The reporting period for these prospective financial statements is the year ended 30 June 2009. These prospective financial statements are presented in New Zealand dollars rounded to the nearest thousand, unless otherwise stated.

The measurement basis applied is historical cost, modified by the valuation of certain assets and liabilities as identified in this summary of significant accounting policies. The accounting policies set out below have been applied consistently to all periods presented in these consolidated prospective financial statements.

JUDGMENTS AND ESTIMATES

The preparation of prospective financial statements in conformity with NZ IFRS requires judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

REVENUE

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

Rates and Levies

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

Operating Activities

Government grants

Revenue from government grants (e.g. Land Transport New Zealand funding subsidies) is recognised upon entitlement.

Fines and penalties

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

Rendering of services

Revenue from the rendering of services (e.g. building consent fees) is recognised by reference to the stage of completion of the transaction at balance date. Under this method, revenue is recognised in the accounting periods in which the services are provided.

Sale of goods

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

Investment Property leases

Lease rentals are recognised on a straight-line basis over the term of the lease.

Finance Income

Interest

Interest income is recognised using the effective interest rate method.

Dividends

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

Other Revenues and Gains

Donated, subsidised or vested assets

When a physical asset is acquired for nil or nominal consideration the fair value of the asset received is recognised as revenue.

Donated Services

The Council benefits from the voluntary service of many Wellingtonians in the delivery of its arts and services (e.g. Beach cleaning, Otaran-Whitin’s Bush guided walking, 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.

EXPENSES

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

Operating Activities

Grants

Expenditure is classified as a grant if it results in a transfer of resources to another entity in return for compliance with certain conditions relating to the operating activities of that entity. Grants expensed includes any expenditure arising from a funding arrangement with another entity that has been established to achieve the objectives of the Council. Grants are distinct from donations which are discretionary charitable gifts. Where grants and subsidies are discretionary until payment, the expense is recognised when the payment is made.

Otherwise, the expense is recognised when the specified criteria have been fulfilled.

Finance Expense

Interest

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

Depreciation and Amortisation

Depreciation (of property, plant and equipment) and amortisation (of intangible assets) is charged to the Statement of Financial Performance on a straight-line basis over the useful life of the associated assets. Refer to the separate accounting policies for Property, Plant and Equipment and Intangible Assets for further information.

TAXATION

Income tax is charged in the Statement of Financial Performance in respect of the current period’s results of council controlled trading organisations only. Income tax on the profits or losses for the year compares current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance date, and any adjustment to tax payable or receivable in respect of previous periods.

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

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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 at GST inclusive.

When GST is not recoverable as an input tax (e.g. residential housing) then it is recognised as part of the cost of the asset purchased.

FINANCIAL INSTRUMENTS

Financial instruments include financial assets (cash and cash equivalents, loans and receivables, available-for-sale financial assets, and investments in subsidiaries and associated, financial liabilities (payables and borrowings) and derivative financial instruments. Financial instruments are initially measured at fair value and classified within one of the following categories.

Financial assets

These financial assets are classified as loans and receivables, or available for sale financial assets. Loans and receivables comprise cash and cash equivalents, trade and other receivables, loans and deposits.

Trade and other receivables are financial assets with fixed or determinable payments. They arise when the Council provides money, goods or services directly to a debtor, and has no intention of trading the receivable. Loans and deposits include loans to other entities (including loans to subsidiaries and associates), and bank deposits (with maturity greater than three months from the date of acquisition).

Financial assets in this category are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method.

Fair value is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date for assets of a similar maturity and credit risk. Trade and other receivables issued with duration less than 12 months are recognised at their nominal value.

Allowances for estimated irrecoverable amounts are recognised when there is objective evidence that the asset is impaired. As there are statutory remedies to recover unpaid rates, penalties and water meter charges, no provision has been made for impairment in respect of these receivables.

Available-for-sale financial assets are either designated in this category by nature or, by definition, if they cannot be classified in one of the other categories of financial assets. Available-for-sale financial assets are initially recorded at fair value plus transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognised directly in equity. If there is no active market and no intention to sell the asset, the asset is measured at cost.

Fair value is equal to Council’s share of net assets of the entity. On disposal, the cumulative fair value gain or loss previously recognised directly in equity is recognised in the Statement of Financial Performance.

Financial liabilities

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

Financial liabilities entered into with duration less than 12 months are recognised at their nominal value.

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

Derivatives

Derivative financial instruments include interest rate swaps used to hedge exposure to interest rate risk arising from financing activities. Derivatives are initially recognised at fair value based on quoted market prices, and subsequently re-measured at their fair value at each balance date. Derivatives that do not qualify for hedge accounting are classified as held for trading financial instruments with fair value gains or losses recognised in the Statement of Financial Performance.

Recognition of fair value gains or losses on derivatives that qualify for hedge accounting depends on the nature of the item being hedged. Where a derivative qualifies as a hedge of variability in asset or liability cash flows (cash flow hedge), the effective part of any gain or loss on the derivative is recognised in equity while the ineffective part is recognised in the Statement of Financial Performance. Gains or losses recognised in equity transfer to the Statement of Financial Performance in the same periods as when the hedged item affects the Statement of Financial Performance. As per the International Swap Dealers’ Association (ISDA) master agreements, all swap payments or receipts are settled net.

WELLINGTON CITY COUNCIL ANNUAL PLU REPORTING 2009
INVENTORIES
Inventories held for distribution or consumption in the provision of services that are not supplied on a commercial basis (such as botanical supplies) are measured at the lower of cost and net realisable value. Inventories held for use in the production of goods and services on a commercial basis, such as printing materials, are recorded at the lower of cost and net realisable value. This valuation includes allowances for slow moving and obsolete stock. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

INVESTMENT PROPERTIES
Investment properties are properties which are held primarily to earn rental income, for capital appreciation or for both. Investment properties exclude those properties held for strategic purposes or to provide a social service, including those which generate such inflows where the rental revenue is incidental to the purpose for holding the property. Such properties include the Council’s social housing assets, and are accounted for as described in the Property, Plant and Equipment accounting policy. Investment properties are measured initially at cost and subsequently at fair value as determined annually by an independent registered valuer. The fair value is determined based on quoted market prices and is the estimated amount for which a property could be exchanged in the date of valuation between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. Any gain or loss arising from a change in fair value is recognised in the statement of financial performance. Investment properties are not depreciated. Rental income from investment property is accounted for as described in the Revenue Recognition accounting policy.

A property intended under an operating lease is classified and accounted for as an investment property on a property-by-property basis where the Council holds it to earn rentals for or capital appreciation or both. Any such property intended under an operating lease classified as an investment property is carried at fair value.

NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE
Non-current assets are separately classified where their carrying amount will be recovered through a sale transaction rather than through continuing use. A non-current asset is classified as held for sale where:
- the asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets;
- a plan to sell the asset is in place, and an active programme to locate a buyer and complete the plan has been initiated;
- the asset is being actively marketed for sale at a price that is reasonable in relation to its current fair value;
- the sale is expected to qualify for recognition as a sale within one year from the date of classification or beyond one year where a delay has occurred which is caused by events beyond the Council’s control and there is sufficient evidence that the Council remains committed to its plan to sell the asset, and
- actions required to complete the plan to sell the asset indicate that it is unlikely that significant changes to the plan will be withdrawn.

A non-current asset classified as held for sale is recognised at the lower of its carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale are included in the statement of financial performance. Fair value is determined by market value. The market value of a property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

PROPERTY, PLANT AND EQUIPMENT
Property, plant and equipment consists of operational assets, restricted assets and infrastructure assets. Operational assets include land, the landfill post closure asset, buildings, the Oa One Centre complex, the library collection, and plant and equipment. Restricted assets include art and cultural assets, zoo annexes, restricted buildings, parks and reserves and the town belt. These assets provide a benefit or service to the community and cannot be disposed of because of legal or other restrictions. Infrastructure assets include the fixed utility systems comprising the wording, water reticulation and drainage systems, and infrastructure land (including land under roads). Such asset types include all items that are required for the network to function. Written assets are recognised within their respective asset classes as above. Written assets are those assets where ownership and control is transferred to the Council from a third party for example; infrastructure assets constructed by developers and transferred to the Council on completion of a sub-division.

RECOGNITION
Expensiture is capitalised as property, plant and equipment when it creates a new asset or increases existing assets. The asset is recognised at fair value at the date of acquisition.

The initial cost of property, plant and equipment includes the purchase consideration, or the fair value of consideration given or received in exchange for an asset. Where the consideration is not readily ascertainable, such as in the case of restricted assets, and those costs that are directly attributable to bringing the asset into the location and condition and ready for its intended use. Borrowing costs are not capitalised. Subsequent expenditure that extends or expands the asset’s service potential is capitalised. All costs incurred to maintain and keep an asset in the location and condition necessary for the intended use. 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). In accordance with NZ IAS 16: Property Plant and Equipment, depreciation is required to be provided in the Statement of Financial Performance. 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:

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Useful Life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>Indefinite</td>
</tr>
<tr>
<td>Oa Centre amenities</td>
<td>10 to 50 years</td>
</tr>
<tr>
<td>Plant and equipment</td>
<td>1 to 100 years</td>
</tr>
<tr>
<td>Library collections</td>
<td>1 to 10 years</td>
</tr>
<tr>
<td>Restricted assets</td>
<td>Indefinite</td>
</tr>
<tr>
<td>Infrastructure assets</td>
<td>Indefinite</td>
</tr>
<tr>
<td>Infrastructure land (including land under roads)</td>
<td>Indefinite</td>
</tr>
<tr>
<td>Traffic islands</td>
<td>1 to 40 years</td>
</tr>
<tr>
<td>Bridges and tunnels</td>
<td>1 to 100 years</td>
</tr>
<tr>
<td>Bridges</td>
<td>1 to 100 years</td>
</tr>
<tr>
<td>Retaining walls</td>
<td>1 to 100 years</td>
</tr>
<tr>
<td>Pedestrian corridor</td>
<td>1 to 25 years</td>
</tr>
<tr>
<td>Pedestrian furniture</td>
<td>1 to 25 years</td>
</tr>
<tr>
<td>Barriers and lighting</td>
<td>2 to 10 years</td>
</tr>
<tr>
<td>Cycle-way networks</td>
<td>2 to 10 years</td>
</tr>
<tr>
<td>Parking equipment</td>
<td>8 to 10 years</td>
</tr>
<tr>
<td>Passenger transport facilities</td>
<td>25 years</td>
</tr>
<tr>
<td>Traffic control</td>
<td>5 to 10 years</td>
</tr>
</tbody>
</table>

Drainage, storm and water
- Pipework       | Up to 150 years |
- Water pumps     | 2 to 10 years |
- Water reservoirs| 4 to 100 years |
- Equipment       | 25 years |
- Sewer pump stations | 25 years |
- Tunnels         | 150 years |
- Treatment plants| 1 to 100 years |

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

FINANCIAL STATEMENTS
Work in progress

The cost of projects within work in progress is transferred to the relevant asset class when the project is completed and their depreciation.

INTANGIBLE ASSETS

Intangible assets comprise computer software which has a finite life and is initially recorded at cost less any amortisation and impairment losses. Amortisation is charged to the Statement of Financial Performance on a straight-line basis over the useful life of the asset. Typically, the estimated useful lives of these assets are as follows:

- Computer Software: 3–5 years

Realised gains and losses arising from disposal of intangible assets are recognised in the Statement of Financial Performance in the period in which the transaction occurs. Intangible assets are reviewed at least annually to determine if there is any indication of impairment. Where an intangible asset’s recoverable amount is less than its carrying amount, it will be reported at its recoverable amount and an impairment loss will be recognised. Losses resulting from impairment are reported in the Statement of Financial Performance.

LEASES

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

Finance leases transfer to the Council as lessor substantially all the risks and rewards incident on the ownership of a leased asset. Initial recognition of a finance lease results in an asset and liability being recognised at amounts equal to the lower of the fair value of the leased property or the present value of the minimum lease payments. The capitalised values are amortised over the period in which the Council expects to receive benefits from their use.

EMPLOYEE BENEFITS

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

Holiday leave

Holiday leave (annual leave, long service leave qualified for and time off in lieu) is calculated on an actual 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 not reach the point of entitlement, and other contractual entitlements information. The present value of the estimated future cash flows has been calculated using an inflation factor and a discount rate. The inflation rate is the annual Consumer Price Index to 30 March prior year end. The discount rate used represents the Council’s average cost of borrowing.

Long Service leave and Retirement Gratuities

Long service leave (not yet qualified for) and retirement gratuities have been calculated on an actuarial basis based on the likely future entitlements accruing to staff. The present value of the estimated future cash flows has been calculated using an inflation factor and a discount rate. The inflation factor and discount rate for long service leave is determined by the probability of the employee remaining employed to retirement. The discount factor also includes the probability of the employee remaining employed to retirement.

Long Service Leave is a financial benefit. When the Council recognises the obligation it also recognises a liability, which is measured at the present value of the future cash flows. The present value of the estimated future cash flows has been calculated using an inflation factor and a discount rate. The inflation factor and discount rate for long service leave is determined by the probability of the employee remaining employed to retirement. The discount factor also includes the probability of the employee remaining employed to retirement.

Employee benefits are recognised in the period in which the Council expects to receive the benefits from their use.

Landfill Post Closure Costs

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

The provision is measured based on the present value of future cash flows expected to be incurred, taking into account future events including known changes to legal requirements and known improvements in technology. The provision includes all costs associated with landfill post closure including final cover application and vegetation; incremental drainage control features; completing facilities for leachate collection and monitoring; completing facilities for water quality monitoring; completing facilities for monitoring and recovery of gas.

Amounts provided for landfill post closure are capitalised to the landfill asset where they give rise to future economic benefits or if they are incurred to enable future economic benefits to be obtained. The capitalised landfill asset is depreciated over the life of the landfill based on the capacity used.

The Council has a 25% joint venture interest in the spaity Valley landfill. The Council’s proportionate share of the spaity Valley landfill provision for post closure costs.

The present value of the estimated future cash flows has been calculated using an inflation factor and discount rates for the Council and the spaity Valley landfill. The inflation rates are based on the Council’s average cost of borrowing.

PROVISIONS

Provisions are recognised for future expenditure of uncertain timing or amount when there is a present obligation as a result of a past event, it is probable that expenditures will be required to settle the obligation and a reliable estimate of the obligation can be made. Provisions are measured at the expenditure expected to be required to settle the obligation. Liabilities and provisions to be settled beyond 12 months are recorded at their present value.

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 the cash payments made for the supply of goods and services. Investing activities relate to the acquisition and disposal of assets. Financing activities include interest expense and activities that change the equity and debt capital structure of the Council.

COST ALLOCATION

The Council has derived the cost for each significant activity using the following cost allocation methodology. Direct costs can be directly attributed to the activity. Indirect costs include things like staff time, office space and information technology costs which relate to the overall costs of running the organisation. These indirect costs are allocated as overheads across all activities.

CHANGES IN ACCOUNTING POLICIES

There have been no changes in accounting policies. The Council has applied all IFRS that are applicable at the date of preparation of these prospective financial statements.

FINANCIAL REPORTING STANDARD 42: PROSPECTIVE FINANCIAL STATEMENTS (FRS 42) DISCLOSURES

The Council has complied with FRS 42 in the preparation of these prospective financial statements. In accordance with FRS 42, the following information is provided:

- (v) Other Disclosures

The prospective financial statements were authorised for issue on 2 June 2006 by Wellington City Council. The Council is responsible for the prospective financial statements presented, including the assumptions underlying the prospective financial statements and all other disclosures. The Annual Plan is prospective and as such contains no actual operating results.

FINANCIAL STATEMENTS