PROSPECTIVE STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE

	2015-25 LTP 2015/16 $000	2015-25 LTP 2016/17 $000	2016/17 AP 2016/17 $001	Variance 2016/17 $000	Notes
INCOME					
Revenue from rates	270,907	283,927	284,650	723	
Revenue from development contributions	2,000	2,000	2,000	-	
Revenue from grants, subsidies and reimbursements	42,511	42,062	45,214	3,152	**1**
Revenue from operating activities	121,287	124,817	122,510	(2,307)	**1**
Investments	20,135	20,135	20,247	112	
Fair value movement on investment property revalaution	3,665	4,324	3,989	(335)	
Other revenue	1,050	1,050	810	(240)	
Finance revenue	637	650	650	-	
TOTAL INCOME	**462,192**	**478,965**	**480,070**	**1,105**	
EXPENSE					
Finance expense	22,961	26,498	26,281	(217)	**2**
Expenditure on operating activities	316,333	329,850	334,720	4,870	**3**
Depreciation and amortisation	99,797	102,250	103,471	1,221	
TOTAL EXPENSE	**439,091**	**458,598**	**464,472**	**5,874**	
NET SURPLUS FOR THE YEAR	**23,101**	**20,367**	**15,598**	**(4,769)**	**4**
OTHER COMPREHENSIVE INCOME					
Fair value movement - property, plant and equipment - net	-	223,273	106,241	(117,032)	**5**
Share of equity accounted surplus from associates	-	-	-	-	
TOTAL OTHER COMPREHENSIVE INCOME	**-**	**223,273**	**106,241**	**(117,032)**	
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**23,101**	**243,640**	**121,839**	**(121,801)**	

PROSPECTIVE STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE

Notes:

1. Details of specific changes to revenue from activities can be found in the Funding Impact Statements.

2. Additional interest costs due to funding of proposed Movie Museum and Convention Centre.

3. Details of specific changes to operational costs can be found in the Funding Impact Statements.

4. EXPLANATION OF NET OPERATING SURPLUS	**2016/17 AP**
	2016/17
EXPENDITURE NOT FUNDED UNDER SECTION 100 OF LGA	**$000**
NZTA Transport funded projects	(7,597)
General	(98)
Clearwater sewerage treatment plant	(3,040)
Decommissioned Living Earth joint venture plant	(201)
Wellington Waterfront Limited Depreciation	(3,445)
TOTAL EXPENDITURE NOT FUNDED UNDER SECTION 100 OF LGA	**(14,381)**
REVENUE RECEIVED FOR CAPITAL PURPOSES	
NZTA capital funding	17,710
Housing capital grant and ring-fenced surplus	(6,187)
Housing capital grant and ring-fenced	18,082
Development contributions	2,000
Bequests, trust and other external funding	0
TOTAL REVENUE RECEIVED FOR CAPITAL PURPOSES	**31,605**
ITEMS FUNDED FROM PRIOR YEAR SURPLUSES	
Economic Development Fund	(3,000)
Weathertight Homes funding	7,227
TOTAL ITEMS FUNDED FROM PRIOR YEAR SURPLUS	**4,227**
ADDITIONAL ITEMS	
ICT Infrastructure project	(3,835)
Cable car	(875)
Westpac Stadium	(4,575)
Alex Moore Park	(472)
Odyssey-related	221
Reserves purchase and development fund	(30)
Roading	(848)
Unrealised fair value adjustment for loans and receivables	637
Fair value movement on investment property revalaution	3,989
TOTAL ADDITIONAL ITEMS	**(5,789)**
TOTAL SURPLUS	**15,662**

5. Variance due to change in inflation assumptions used for the 2016/17 Annual Plan, in conjunction with a change in phasing of the Council infrastructure revaluation programme.

PROSPECTIVE STATEMENT OF FINANCIAL POSITION

	2015-25 LTP 2015/16 $000	2015-25 LTP 2016/17 $000	2016/17 AP 2016/17 $000	Variance 2016/17 $000	Notes
ASSETS					
Current assets					
Cash and cash equivalents	1,249	1,306	2,420	1,114	
Derivative financial assets	-	-	-	-	
Receivables and recoverables	42,333	43,760	42,990		
Prepayments	12,096	12,815	13,468	653	
Inventories	888	906	906	-	
Total current assets	**56,566**	**58,787**	**59,784**	**1,767**	
Non-current assets					
Derivative financial assets	-	-	-	-	
Other financial assets	10,473	11,110	12,797	1,687	**1**
Intangibles	28,936	31,801	28,682	(3,119)	
Investment properties	196,566	200,890	213,931	13,041	**2**
Property, plant & equipment	6,674,860	6,960,405	6,859,555	(100,850)	**3**
Investment in subsidiaries	3,809	3,809	5,071	1,262	
Investment in associates	19,504	19,504	19,465	(39)	
Total non-current assets	**6,934,148**	**7,227,519**	**7,139,501**	**(88,018)**	
TOTAL ASSETS	**6,990,714**	**7,286,306**	**7,199,285**	**(86,251)**	
LIABILITIES					
Current liabilities					
Derivative financial liabilities	-	-	-	-	
Trade and other payables	59,122	63,291	71,908	8,617	**4**
Revenue in advance	33,496	13,345	16,765	3,420	**5**
Borrowings	219,789	259,762	308,257	48,495	
Employee benefit liabilities and provisions	6,845	6,856	7,117	261	
Provision for other liabilities	11,790	8,548	7,971	(577)	
Total current liabilities	**331,042**	**351,802**	**412,018**	**60,216**	
Non-current liabilities					
Derivative financial liabilities	-	-	-	-	
Trade and other payables	630	630	630	-	
Borrowings	196,474	232,206	244,233	12,027	
Employee benefit liabilities	1,708	1,711	1,580	(131)	
Provisions for other liabilities	23,945	19,402	18,231	(1,171)	**6**
Total non-current liabilities	**222,757**	**253,949**	**264,674**	**10,725**	
TOTAL LIABILITIES	**553,798**	**605,750**	**676,692**	**70,940**	
EQUITY					
Accumulated funds and retained earnings	4,994,681	5,014,552	5,018,829	4,277	
Revaluation reserves	1,429,106	1,652,379	1,489,442	(162,937)	**7**
Hedging reserve	137	137	-	(137)	
Fair value through other comprehensive income reserve	63	63	106	43	
Restricted funds	12,928	13,424	14,216	792	
TOTAL EQUITY	**6,436,915**	**6,680,555**	**6,522,593**	**(157,962)**	
TOTAL EQUITY AND LIABILITIES	**6,990,714**	**7,286,305**	**7,199,285**	**(87,022)**	

PROSPECTIVE STATEMENT OF FINANCIAL POSITION

Notes:

1. Projected increase in New Zealand Local Government Funding Agency borrower notes,

2. The investment property revaluation estimated for prior periods was less than the actual, in addition there is the expected movement in investment property revaluation for the 2016/17 year.

3. Budgeted increase in capital expenditure spend for the 2016/17 year less depreciation. More information can be found in the individual Funding Impact Statements.

4. Increased spend expected in 2016/17 has resulted in a higher than 2015/16 forecast level of trade payables.

5. Movement in revenue in advance for the Housing Upgrade Project.

6. Movement in weatertight homes provision

7. Variance between estimated revaluation movement for prior periods and the actual and expected revaulation movement from 2016/17.

PROSPECTIVE STATEMENT OF CHANGES IN EQUITY

	2015-25 LTP 2015/16 $000	2015-25 LTP 2016/17 $000	2016/17 AP 2016/17 $001	Variance 2016/17 $000	Notes
EQUITY - OPENING BALANCES					
Accumulated funds and retained earnings	4,972,119	4,994,681	5,003,784	9,103	
Revaluation reserves	1,429,106	1,429,106	1,383,201	(45,905)	
Hedging reserve	137	137	-	(137)	
Fair value through other comprehensive income reserve	63	63	106	43	
Restricted funds	12,389	12,928	13,663	735	
TOTAL EQUITY - Opening balance	**6,413,814**	**6,436,915**	**6,400,754**	**(36,161)**	
CHANGES IN EQUITY					
Retained earnings					
Net surplusfor the year	23,101	20,367	15,598	(4,769)	
Transfer to restricted funds	(4,518)	(4,555)	(4,533)	22	
Transfer from restricted funds	3,979	4,059	3,980	(79)	
Hedging reserve					
Share of other comprehensive income	-	-	-	-	
Restricted Funds					
Transfer to retained earnings	(3,979)	(4,059)	(3,980)	79	
Transfer from retained earnings	4,518	4,555	4,533	(22)	
TOTAL COMPREHENSIVE INCOME	**23,101**	**20,367**	**15,598**	**(4,769)**	
EQUITY - CLOSING BALANCES					
Accumulated funds and retained earnings	4,994,681	5,014,552	5,018,829	4,277	
Revaluation reserves	1,429,106	1,652,379	1,489,442	(162,937)	
Fair value through other comprehensive revenue and expense	137	137	0	(137)	
Restricted funds	63	63	106	43	
Hedging reserve	12,928	13,424	14,216	792	
TOTAL EQUITY - Closing balance	**6,436,915**	**6,680,555**	**6,522,593**	**(157,962)**	

PROSPECTIVE STATEMENT OF CASH FLOWS

	2015-25 LTP 2015/16 $000	2015-25 LTP 2016/17 $000	2016/17 AP 2016/17 $001	Variance 2016/17 $000	Notes
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from rates - Council	259,728	259,728	293,194	33,466	
Receipts from rates - Greater Wellington Regional Council	53,018	53,018	56,946	3,928	**1**
Receipts from activities and other income	136,363	136,363	100,425	(35,938)	**2**
Receipts from grants and subsidies - operating	36,026	36,026	35,792	(234)	
Receipts from grants and subsidies - capital	6,485	6,485	9,422	2,937	
Receipts from investment property lease rentals	9,135	9,135	9,135	-	
Cash paid to suppliers and employees	(294,178)	(294,174)	(292,702)	1,472	
Rates paid to Greater Wellington Regional Council	(53,018)	(53,018)	(56,946)	(3,928)	**1**
Grants paid	(35,583)	(35,583)	(42,292)	(6,709)	
NET CASH FLOWS FROM OPERATING ACTIVITIES	**117,976**	**117,980**	**112,974**	**(5,006)**	
CASH FLOWS FROM INVESTING ACTIVITIES					
Dividends received	11,000	11,000	11,112	112	
Interest received	637	650	650	-	
Proceeds from sale of property, plant and equipment	2,650	(4,600)	4,600	9,200	
Purchase of Intangibles	(11,195)	(8,418)	(5,578)	2,840	**3**
Purchase of property, plant and equipment	(146,857)	(152,301)	(256,316)	(104,015)	**4**
NET CASH FLOWS FROM INVESTING ACTIVITIES	**(143,765)**	**(153,669)**	**(245,532)**	**(91,863)**	
CASH FLOWS FROM FINANCING ACTIVITIES					
New borrowings	239,327	231,267	363,037	131,770	
Repayment of borrowings	(197,932)	(155,562)	(239,117)	(83,555)	
Interest paid on borrowings	(22,763)	(26,422)	(28,197)	(1,775)	
NET CASH FLOWS FROM FINANCING ACTIVITIES	**18,632**	**49,283**	**95,723**	**46,440**	
Net increase/(decrease) in cash and cash equivalents	(7,157)	57	(36,835)	(36,892)	
Cash and cash equivalents at beginning of year	8,406	1,249	39,255	38,006	
CASH AND CASH EQUIVALENTS AT END OF YEAF	**1,249**	**1,306**	**2,420**	**1,114**	

Notes:

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

2. Decrease in income from activites is detailed in the Funding Impact Statements by Activity.

3. Decrease in budgeted spend on information technology-related items in 2016/17.

4. Impact of re-phasing of infrastructure revaluation from 2017/18 to 2016/17, representing a 1.6% change increase to the Council's total asset base from $6.75b to $6.85b.

PROSPECTIVE STATEMENT OF CHANGES IN RESTRICTED FUNDS

	OPENING BALANCE 2016/17 $000	DEPOSITS $000	EXPENDITURE $000	CLOSING BALANCE 2016/17 $000	Purpose
SPECIAL RESERVES AND FUNDS					
Reserve purchase and development fund	999	0	0	999	Used to purchase and develop reserve areas within the city.
Economic initiatives development fund	2,976	3,015	(3,015)	2,976	
Insurance reserve	9,277	1,500	(950)	9,827	Allows the Council to meet the uninsured portion of insurance claims
Total special reserves and funds	**13,252**	**4,515**	**(3,965)**	**13,802**	
TRUSTS AND BEQUESTS					
A Graham Trust	3	-	-	3	For the upkeep of a specific area of Karori Cemetery
A W Newton Bequest	319	16	(15)	320	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	14	1	-	15	For the purchase of children's books
F L Irvine Smith Memorial	7	-	-	7	For the purchase of books for the Khandallah Library
Greek NZ Memorial Association	5	-	-	5	For the maintenance and upgrade of the memorial
Kidsarus 2 Donation	3	-	-	3	For the purchase of children's books
Kirkaldie and Stains Donation	17	-	-	17	For the beautification of the BNZ site
QEII Memorial Book Fund	20	1	-	21	For the purchase of books on the Commonwealth
Schola Cantorum Trust	7	-	-	7	For the purchase of musical scores
Terawhiti Grant	10	-	-	10	To be used on library book purchases
Total trusts and bequests	**411**	**18**	**(15)**	**414**	
Total restricted funds	**13,663**	**4,533**	**(3,980)**	**14,216**	

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, the Council is audited by the Office of the Auditor General and is classed as a Public Sector Public Benefit Entity for financial reporting purposes.

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

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 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 Annual 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 Annual Plan. This provides an opportunity for ratepayers and residents to review the projected financial results and position of the Council.

(*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 Annual 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 prospective financial statements were adopted, as part of the assumptions that form the 2016/17 Annual Plan consultative documents, for issue on 23 March 2016 by Wellington City Council. The Council is responsible for the prospective financial statements presented, including the assumptions underlying prospective financial statements and all other disclosures. The Annual Plan is prospective and as such contains no actual operating results.

Statement of compliance

The draft prospective financial statements for the Council 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). Council exceeds the expenses threshold.

The reporting period for these prospective financial statements is for the period ending 30 June 2017.

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 forecasting the long-term cost of borrowing are as per the "planning assumptions" which are disclosed on pages XX.

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.

Judgements and estimations

The preparation of prospective financial statements using PBE accounting 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.

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.

Operating activities

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 is 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

Services rendered are recognised by reference to the stage of completion of the transaction at the reporting date.

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. In particular the fair value of parking related fines is determined based on the probability of collecting fines considering previous collection history and a discount for the time value of money.

Sale of goods

The 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 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 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 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 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.

Goods and Services Tax (GST)

All items in the prospective financial statements are exclusive of GST, with the exception of receivables, recoverables 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 Council 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, receivables and recoverables, loans and deposits.

- Cash and cash equivalents comprise cash balances and call deposits with maturity dates of three months or less.
- Receivables and recoverables have 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 recoverable.
- Loans and deposits include loans to other entities (including controlled entities 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. Receivables and recoverables 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 or recoverables.

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 assets are derecognised when the rights to receive cash flows have expired or have been transferred and the Council has transferred substantially all of the risks and rewards of ownership.

Financial liabilities

Financial liabilities comprise payables under exchange transaction, taxes, transfers 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. 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.

The basis of valuation varies depending on the nature of the lease. For sites that are subject to a terminating lease the approach is to assess the value of the rental revenue over the remaining term of the lease and add the residual value of the land at lease expiry. For sites subject to perpetually renewable leases values have been assessed utilising a discounted cash flow and arriving at a net present value of all future anticipated gross rental payments.

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 valued at the lower of the carrying amount and fair value less costs to sell at the time of reclassification.

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 Council's control and there is sufficient evidence the Council 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.

Optimised depreciated replacement cost is a valuation methodology where the value of an asset is based on the cost of replacement with an efficient modern equivalent making allowance for obsolesce or surplus capacity. The remaining life is of the asset is estimated and straight line depreciation applied to bring the replacement cost to a fair value.

Specific measurement policies for categories of property, plant and equipment are shown below:

Library Collections

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.

Operational Land & Buildings

Operational land and buildings are valued at fair value on a three-year cycle by independent registered valuers. Where the information is available land and buildings are valued based on market evidence. The majority of Councils land and buildings are of a 'non-tradeable' or specialist nature and the value is based on the fair value of the land plus the optimised depreciated replacement cost of the buildings.

For earthquake prone buildings that are expected to be strengthened, the estimated cost to strengthen the building has been deducted from the optimised depreciated replacement cost.

Buildings that comprise the Housing portfolio have been valued on market based approach with the associated land value being established through analysis of sales and market evidence.

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 (the roading network, water, waste and drainage reticulation networks and service concession arrangement assets) are valued at optimised depreciated replacement cost on a three-year cycle by independent registered valuers. Infrastructure valuations are based on the physical attributes of the assets, their condition and their remaining lives based on Council's best information reflected in its assets management plans. The costs 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 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.

Other Assets

Plant and equipment and the Civic Centre complex are measured at historical cost and not revalued.

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	3 - 175	0.57 – 33.3%
Drainage, waste and water	3 – 175	0.57 – 33.3%
Service concession arrangement assets	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.

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:

Asset Category	Useful Life (years)	Depreciation Rate
Computer software	1 to 10 years	10% 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.

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 Council 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 Council (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's provision for landfill post-closure costs includes the Council's 21.5% 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 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.

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 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 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 all members of the Group (controlled entities, associates and joint ventures) and key management personnel.

Key management personnel include the Mayor and Councillors as elected members of the governing body of the Council reporting entity, the Chief Executive and all members of the Executive Leadership Team, being key advisors to the Council and Chief Executive.

Remuneration of elected members comprises any money, consideration or benefit received or receivable or otherwise made available, directly or indirectly, during the reporting period but does not include reimbursement of authorised work expenses or the provision of work-related equipment such as cell phones and laptops.

Cost allocation

The Council has derived the cost of service for each significant activity (as reported within the Statements of Service Provision). 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.

FINANCIAL PRUDENCE

The government has introduced the new Local Government (Financial Reporting and Prudence) Regulations 2014 which has a series of measures and benchmarks, disclosed in the following pages. These measures further highlight the financial performance of Council in a way that is consistent and standardised.

These measures allow for comparison of financial performance with other Councils. However, readers are urged to read the commentary and explanations provided to give context to the information, as it is not always possible to compare Wellington City Councils' results with other Councils due to their size, location and provision of services.

The Council considers there are three key financial areas that demonstrate whether a Council is being managed in a prudent manner; they are in broad terms the level of rate increases, level of borrowings and the balancing of the budget. A Council sets what it believes to be prudent levels for each of these areas when it adopts its Long-term Plan.

Rates Increase

The Financial Strategy outlines the Councils strategy on rate increases and how to maintain the ratepayers willingness to pay rates as they perceive the value of the services provided by Council. There are two measures that indicate Councils adherence to its strategy:

1. Percentage limit on rate increases averaged over the first three years of the 2015-25 Long-term Plan before growth (in the rating base) is 4.5%.

   The percentage rate increase for 2016/17 is 3.8%

2. Dollar limit on rate increases for rates revenue not to exceed is set at $301.5 million for 2016/17.

The Council has committed to adhering to limits as set out in Long Term Financial Strategy as set out elsewhere in this 2015-25 Long-term Plan.

Borrowing levels

The Financial Strategy outlines its guiding principles on the level of borrowing the Council may undertake, and in broad terms:

a) Debt cannot be used to fund operations, and
b) The current level of debt will not restrict a future Councils ability to fund new assets through debt.

The Council has met all of its borrowing measures set out in the following pages, as the Council continues to be prudent in carefully managing its debt levels and ensuring that future generations are not impeded in their ability to borrow to fund future capital expenditure.

Balanced Budget

This measure is designed to highlight whether a Council has achieved a balanced budget as discussed in the financial overview. The Council's aim is to be as close to the 100% as possible, as large variances would indicate that ratepayers are either paying too much or too little rates that could lead to intergenerational issues in later years.

Annual plan disclosure statement for year ending 30 June 2017

What is the purpose of this statement?

The purpose of this statement is to disclose the council's planned financial performance in relation to various benchmarks to enable the assessment of whether the council is prudently managing its revenues, expenses, assets, liabilities, and general financial dealings.

The council is required to include this statement in its annual plan in accordance with the Local Government (Financial Reporting and Prudence) Regulations 2014 (the **regulations**). Refer to the regulations for more information, including definitions of some of the terms used in this statement.

Benchmark		**Planned**	**Met**
Rates affordability benchmark			*No*
• income	Total rates collected	$302.0m	283.5
• increases	4.5% after growth average rates increase over the first triennium	4.5%	4.6%
Debt affordability benchmark	Net closing debt over operating income	175%	*Yes*
Balanced budget benchmark	100%	103%	*Yes*
Essential services benchmark	100%	134%	*Yes*
Debt servicing benchmark	10%	6%	*Yes*

[*Include a row in the table in this statement for each quantified limit on rates, for each quantified limit on rates increases, and for each quantified limit on borrowing.*]

Notes

1 Rates affordability benchmark

(1)

For this benchmark,—

(a)

the council's planned rates income for the year is compared with [*a quantified limit/quantified limits*] on rates contained in the financial strategy included in the council's long-term plan; and

(b)

the council's planned rates increases for the year are compared with [*a quantified limit/quantified limits*] on rates increases for the year contained in the financial strategy included in the council's long-term plan.

(2)

The council meets the rates affordability benchmark if—

(a)

its planned rates income for the year equals or is less than each quantified limit on rates; and

(b)

its planned rates increases for the year equal or are less than each quantified limit on rates increases.

2 Debt affordability benchmark

(1)

For this benchmark, the council's planned borrowing is compared with [*a quantified limit/quantified limits*] on borrowing contained in the financial strategy included in the council's long-term plan.

(2)

The council meets the debt affordability benchmark if its planned borrowing is within each quantified limit on borrowing.

3 Balanced budget benchmark

(1)

For this benchmark, the council's planned revenue (excluding development contributions, vested assets, financial contributions, gains on derivative financial instruments, and revaluations of property, plant, or equipment) is presented as a proportion of its planned operating expenses (excluding losses on derivative financial instruments and revaluations of property, plant, or equipment).

(2)

The council meets the balanced budget benchmark if its revenue equals or is greater than its operating expenses.

4 Essential services benchmark

(1)

For this benchmark, the council's planned capital expenditure on network services is presented as a proportion of expected depreciation on network services.

(2)

The council meets the essential services benchmark if its planned capital expenditure on network services equals or is greater than expected depreciation on network services.

5 Debt servicing benchmark

(1)

For this benchmark, the council's planned borrowing costs are presented as a proportion of planned revenue (excluding development contributions, financial contributions, vested assets, gains on derivative financial instruments, and revaluations of property, plant, or equipment).

(2)

Because Statistics New Zealand projects that the council's population will grow [*as fast as, or faster than,/slower than*] the national population growth rate, it meets the debt servicing benchmark if its planned borrowing costs equal or are less than [*10%/15%*] of its planned revenue.