STRATEGY AND POLICY COMMITTEE
1 MARCH 2006

REPORT 4
(1215/52/IM)

FUNDING AND FINANCIAL POLICIES

1. Purpose of Report

The purpose of this report is to seek agreement that the following funding and financial policies be included in the 2006/07 – 2015/16 Long Term Council Community Plan (LTCCP):

- Investment Policy
- Liability Management Policy
- Accounting Policies
- Rates Postponement Policy
- Rates Remission Policy
- Policy on Partnerships with the Private Sector

2. Executive Summary

The Local Government Act 2002 (LGA) requires the Council to include certain funding and financial policies within the LTCCP. This report presents the policies listed above and reports on any significant changes proposed. Overall, there has been no material change to the Council's existing funding and financial policies contained within this report. The exception is in the Council's accounting policies, which have been amended to reflect a change in applicable financial reporting standards. However, while these changes result in some differing accounting treatments, there is not expected to be any significant impact on Council funding.

3. Recommendations

It is recommended that the Committee:

1. *Receive the information*

2. *Agree that the Investment and Liability Management Policies, as detailed in Appendix 1, be included in the draft 2006/07 – 2015/16 LTCCP.*

3. *Note that the Treasury Management Policy and Guidelines will be updated to reflect the approved Investment and Liability Management Policies, and presented to the Strategy and Policy Committee at a later date.*

4. *Agree that the Rates Postponement Policy, as detailed in Appendix 2, be included in the draft 2006/07- 2015/16 LTCCP.*

5. *Agree that the Rates Remission Policy, as detailed in Appendix 3, be included in the draft 2006/07- 2015/16 LTCCP.*

6. *Agree that the Policy on Partnerships with the Private Sector, as detailed in Appendix 4, be included in the draft 2006/07- 2015/16 LTCCP.*

7. *Agree that the Summary of Significant Accounting Policies, as detailed in Appendix 5, be included in the draft 2006/07 – 2015/16 LTCCP*

4. Background

The LGA requires the Council to adopt a number of funding and financial policies and include these within the LTCCP. This report specifically considers the following funding and financial policies, which are required in accordance with section 102 of the LGA:

- Investment Policy
- Liability Management Policy
- Rates Postponement Policy
- Rates Remission Policy
- Policy on Partnerships with the Private Sector

In addition, the Council is required to follow generally accepted accounting practice (GAAP) when presenting any financial information within the LTCCP. Since the last LTCCP was published in 2003/04, there have been some significant changes in GAAP due to the introduction of New Zealand equivalents to International Financial Reporting Standards (NZ IFRS). Therefore, this report also identifies the implications of this change for the Council's accounting policies on which the LTCCP financial information is based, with a particular focus on any consequential funding impacts.

5. Discussion

This section focuses on the significant changes which are proposed for the financial policies listed.

5.1 Investment and Liability Management Policies

The Investment Policy is required to state the local authority's policies in respect of investments, including—

(a) the objectives in terms of which financial and equity investments are to be managed; and
(b) the mix of investments; and
(c) the acquisition of new investments; and
(d) an outline of the procedures by which investments are managed and reported on to the local authority; and
(e) an outline of how risks associated with investments are assessed and managed.

The Liability Management Policy must state the local authority's policies in respect of the management of both borrowing and other liabilities, including—

(a) interest rate exposure; and
(b) liquidity; and
(c) credit exposure; and
(d) debt repayment; and
(e) specific borrowing limits; and
(f) the giving of securities.

The updated Investment and Liability Management Policies are presented in Appendix One. Overall the proposed policies are materially consistent with the current policies. The main change is to expand the policies to include more extensive disclosure of specific borrowing and investment limits.

In updating the policies, these limits have also been reviewed for appropriateness and compared to those used by other local authorities. As a result we have tightened the debt to equity guideline to 10% from 20%. As the Council's equity has grown significantly over the past few years (primarily due to the revaluation of land under roads) the 20% threshold has become inappropriate and out of line with the other borrowing ratios. For example, the Council would have had to borrow approximately $1 billion of gross debt in order to trigger the debt to equity guideline of 20%. Reducing the guideline to 10% is therefore recommended to balance the increased equity levels.

Further detail on the Council's investment and borrowing policies, operating procedures and associated internal controls is contained in the Treasury Management Policy and Guidelines (TMP). The detailed TMP will be updated to reflect the approved Investment and Liability Management Policies, and presented to the Strategy and Policy Committee for approval at a future date.

5.2 Rates Postponement and Remission Policies

The Rates Postponement and Remission Policies are included in Appendices Two and Three. Two changes to the previous policy are proposed:

- tightening the application of the rates penalties remission criteria; and
- As part of its review of the Revenue and Financing Policy, the Funding and Activity Review Working Party has recommended that the minimum allotment size for qualification for the Rural Open Space Rates Remission be revised from 40 hectares to 30 hectares. The change is recommended to achieve consistency with the minimum allotment size set out in District Plan change 33.

5.3 Policy on Partnerships with the Private Sector

This policy has essentially the same wording as the existing policy in this area, but with the review date changed. It is worded in a broad way to cover the general principles that should be considered when the Council envisages such arrangements, but does not bind Council to a specific course of action. Like the other policies in this report, it is required under the Local Government Act 2002.

5.4 Accounting Policies

A significant change in the Council's accounting policies is proposed as a result of a change in applicable financial reporting standards. The New Zealand accounting standards setting body announced on 19 December 2002 that NZ reporting entities would be required to follow NZ IFRS from 1 January 2007 (with the option to adopt early from 1 January 2005). Local authorities will adopt NZ IFRS for external reporting purposes for the accounting period ending 30 June 2007.

To prepare the Council for the implementation of NZ IFRS, the Council established an IFRS working group within the Financial Accounting Team. This group has been reporting to the Audit and Risk Management Sub-Committee (Sub-Committee) on a quarterly basis, in accordance with the Sub-Committee's mandate in relation to review of the Council's financial statements and accounting policies.

The working group recently completed the NZ IFRS compliant Summary of Significant Accounting Policies for inclusion in the 2006/07 – 2015/16 LTCCP. The process for developing these accounting policies has been comprehensive. The policies have been reviewed in detail by the Sub-Committee and Audit New Zealand.

The Summary of Significant Accounting Policies is included in Appendix Four. In most instances the approach has been to continue with existing accounting policies where permitted. However, policies have changed in circumstances where required by NZ IFRS, or in some cases where Council now has an accounting policy option. There have also been some changes in terminology.

In general, the NZ IFRS place a greater emphasis on measuring assets at their fair values (as opposed to their original cost) and accounting for movements in value within the Income Statement. The standards also require more stringent testing of assets for potential impairments in value.

The majority of the changes in accounting policies are accounting adjustments only and should therefore have no effect on funding. For example, the increased emphasis on measuring assets at their fair values will result in increased volatility in the Council's accounting surplus/deficit, but generally should not impact the rates requirement. The following paragraph has been inserted into the Council's Revenue and Financing Policy to clarify this point:

> "*Accounting for fair value changes.* Under New Zealand International Financial Reporting Standards (NZIFRS), changes in the fair value of certain assets must be accounted for within the Income Statement. In accordance with Section 100 of the Local Government Act 2002, the Council does not consider it financially prudent to fund changes in the fair value of assets or liabilities as these are essentially unrealised accounting adjustments."

It is important to note that the Summary of Significant Accounting Policies, as attached, reflects applicable NZ IFRS as at the date of preparing this report. The Council is required to update the policies on an ongoing basis to reflect amendments to NZ IFRS. As a result the policies reported in the Council's final 2006/07 – 2015/16 LTCCP and

30 June 2007 financial statements may differ from the attached drafts. Any adjustments will be highlighted in future reports.

6. Conclusion

This report has outlined the significant changes in the relevant financial policies and recommended their inclusion in the draft LTCCP for consultation purposes.

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APPENDIX ONE

Investment and Liability Management Policies

APPENDIX ONE

WELLINGTON CITY COUNCIL

Investment and Liability Management Policies

General Policy Objectives

The Council's general policy objectives relating to its investment and liability management are to:

- Minimise the Council's overall costs and risks associated with its borrowing activities and the general management of its other liabilities
- Manage its borrowings and cash assets on a "net borrower" basis in order to reduce the overall net cost to the Council
- Maximise the return on its investment portfolio and other financial assets
- Minimise the Council's exposure to adverse interest rate movements.
- Borrow and invest funds and transact risk management instruments within an environment of control and compliance under the Council approved Treasury Management Policy
- Regularly review and consider the performance of the Council's financial assets and investments. Where appropriate, the Council will dispose of under performing assets or those assets and investments that are not essential to the delivery of services and activities set out in the Council's Long Term Council Community Plan (LTCCP).

More detail on the Council's investment and borrowing policies, operating procedures and associated internal controls is contained in the Treasury Management Policy.

Investment Policy

Policy Objectives

The Council generally operates as a *"net borrower"* and therefore does not separately maintain significant cash investments. The general policy is to utilise surplus cash to repay borrowings.

The Council currently maintains an equity investment in Wellington International Airport Limited (WIAL) and an ownership and financial interest in Ground Leases and Investment Properties. The Council will continue to review the level of investment and return it receives on these investments.

Where appropriate, the Council will dispose of under performing or non-strategic investments/financial assets.

Investment Mix and Associated Objectives

The Council maintains investments in the following investment classes:

Equity investments

Equity investments arise from the Council owning or controlling an equity holding (for example shares) in another entity. The Council's equity investments in Council Controlled Organisations (CCOs) and other entities fulfils a specific strategic purpose as outlined in Council's LTCCP and fully complies with the Local Government Act 2002. All income from the Council's equity investments (including dividends, interest and lease income), is recognised in the consolidated statement of financial performance.

The Council currently maintains a 34% shareholding in WIAL. From time to time WIAL may seek to fund its capital expenditure programme through the injection of capital from its shareholders. In the event that a call for capital is made by WIAL the Council's current investment objective is to maintain its shareholding at 34% unless a specific resolution is passed not to do so. As a result, should the Council agree to inject additional capital in WIAL it will do so without further consultation.

Investment Properties

Investment properties are the Council's ground leases and land and buildings held primarily for investment purposes. The Council regularly reviews its continued ownership of investment properties by assessing the benefits of continued ownership in comparison to other arrangements that could deliver similar benefits. This assessment is based on both the strategic benefit of the investment / ownership to the City and in terms of the most financially viable method of achieving the delivery of Council services.

All income, including rentals and gain or loss on sale of property investments is recognised in the consolidated Statement of Financial Performance. The net carrying value of the Council's investment properties is disclosed separately in the Statement of Financial Position.

Contributions, Loans, Guarantees and Underwrites

The Council may assume the financial risk associated with providing contributions, loans, guarantees and underwrites to other entities where this financial support is integral to the Council delivering it's strategic objectives and outcomes.

Such undertakings require Council resolution and are monitored regularly by management to minimise the credit risk associated with the contribution, loan, guarantee and underwrite.

Loans and Advances

The Council may, in exceptional circumstances, consider the provision of loans or guarantees to Community groups.

Cash and Cash Equivalents

The Council may invest surplus cash funds with approved registered banking institutions.

Investment Acquisition/Addition/Disposal

With the exception of the day to day investment of cash and cash equivalents, all new investments including additions to existing investments and/or disposal of existing investments must be approved by the Council. The day to day management and investment of cash and cash equivalent may be made by Council officers in accordance with the approved Treasury Management Policy.

The Council will continue to maintain its current level of investment in WIAL (being a 34% equity interest) until it considers that it is financially and economically appropriate to dispose of the investment.

Investment properties will be acquired in the future where such acquisition strategically enhances the Council's core activities.

Proceeds from the sale of investments will go to repay existing borrowings, unless the Council specifically directs that the funds be put to another use.

Reporting

Monitoring of the Council's equity and ownership interests in Council Controlled Organisations (CCOs) is undertaken by the Council Controlled Organisation Performance Sub-Committee. The Sub-Committee reports to the Strategy and Policy Committee and is responsible for:

- monitoring CCOs, Council Controlled Trading Organisations (CCTOs) and Council Organisations (COs),
- reviewing the quarterly reports, annual reports, business plans, strategic plans and statements of corporate intent of these entities; and
- monitoring the performance of members of the governing body of these entities.

The Strategy and Policy Committee is responsible for monitoring all other investments and providing recommendations to the Council in regard to treasury management strategies, policy and guidelines in relation to those investments. The Strategy and Policy Committee will receive and review quarterly Treasury information as part of the consolidated quarterly reporting undertaken by the Council.

The Council is responsible for approving the Treasury Management Policy as recommended by the Strategy and Policy Committee.

Risk Management

The Council's principal exposure on its financial investments is credit risk. Credit risk is minimised by the Council investing in approved institutions with satisfactory credit ratings. Limits are spread amongst a number of counterparties to avoid concentrations of credit exposure.

Assessment and management of risks associated with the Council's investment in WIAL and its investment properties will be made on a case by case basis.

Liability Management Policy

In broad terms, the Council manages both current and term liabilities.

Current Liabilities

Current liabilities reflect those obligations, expressed in monetary terms, which the Council has to meet within relatively short timeframes, at a maximum within the next 12 months. In respect of its day to day obligations for both operational and capital expenditure, the Council's policy is to pay these liabilities in full by the due date. This eliminates any credit exposure or risk. Current liabilities also include the maturing portions of any term liabilities that are due for repayment within the following 12 months.

Term Liabilities

Term liabilities represent the Council's obligations which, in general terms, are not immediately payable, i.e. not due within the following 12 months. Borrowings comprise the majority of the Council's term liabilities.

The Council approves the borrowing programme for each financial year as part of the LTCCP or Annual Plan. Additional borrowings may be approved by Council on a case by case basis. The Council primarily borrows to fund its capital expenditure programme. In approving new borrowings the Council considers the impact of the proposed level of borrowings on its overall borrowing limits.

Policy Objectives

The Council primarily borrows to pay for the upgrading of existing assets or the construction/purchase of new assets. These assets generally provide new or enhanced benefits to Wellington for many years. Borrowing is therefore considered the most cost-effective and equitable way to fund these assets as it spreads the cost of the asset over the future generations of ratepayers who will benefit from the use of the asset. Accordingly, borrowings have a strategic benefit of making the cost of the asset investment affordable to today's ratepayers. Borrowings are maintained at a prudent level, in accordance with the Council's overall borrowing policy (for specific limits, refer below).

Power to Borrow

The Council borrows as it considers appropriate and in accordance with the provisions of the Local Government Act 2002 and its Treasury Management Policy. The Council approves the level of new borrowing in general terms as part of the LTCCP or Annual Plan. The Council delegates the authority to officers to raise the approved borrowing during the financial year as and when the funding is required. Any additional borrowing beyond that approved in the LTCCP or Annual Plan must be approved by the Council.

Interest rate exposure

Borrowings issued at variable (floating) interest rates expose the Council to a cash flow interest-rate risk. The Council manages its cash flow interest-rate risk by using floating to fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates.

The Council has set the following specific limits for its interest rate exposure:

Master Fixed/Floating Interest Rate Risk Control Limit	
Minimum Fixed Rate	Maximum Fixed Rate
50%	95%

The level of fixed interest rate cover at any point in time must be within the following maturity bands:

Fixed Rate Maturity Profile Limit		
Period	Minimum Cover	Maximum Cover
1 to 3 years	20%	50%
3 to 5 years	20%	50%
5 to 10 years	15%	50%

Liquidity

The Council minimises its liquidity risk by avoiding concentration of debt maturity dates and by maintaining committed borrowing facilities at a level that exceeds 110% of projected peak borrowing levels over the following twelve months. The Council will only drawdown or borrowing against these facilities as required.

Where special funds are maintained to repay borrowings, these investments are held for maturities not exceeding borrowing repayment dates.

The Council avoids exposure to liquidity risk by managing the maturity of its borrowing programme within the following maturity limits:

Borrowing Maturity Profile Limits		
Period	**Minimum**	**Maximum**
0 to 3 years	10%	50%
3 to 5 years	20%	60%
5 years plus	10%	60%

Credit Exposure

The Council borrows from approved institutions with satisfactory credit ratings. Borrowings are managed to ensure the Council is not exposed to material concentrations of credit risk. Limits are spread amongst a number of counterparties to avoid concentrations of credit exposure.

APPENDIX ONE

Borrowing Repayment

The Council will repay borrowings from a combination of excess depreciation over and above renewals, sale of surplus or underperforming assets, operating surpluses or from the renewal of borrowings.

Specific Borrowing Limits

In managing its borrowings, the Council adheres to the financial principles contained with its Treasury Management Policy. In determining a prudent level of borrowings the Council assesses the level of net borrowing against the Council’s recognised total realisable assets and net interest expense per annum against operating revenues.

Total Council Borrowings will be managed within the following macro limits:

Ratio	Limit
Net borrowing as a percentage of equity	<10%
Net borrowing as a percentage of income	<150%
Net Interest as a percentage of income	<15%
Net Interest as a percentage of annual rates income	<20%
Liquidity (Term borrowing + committed loan facilities to 12 month peak net borrowing forecast)	>110%

Security

Council borrowings are secured by way of a Debenture Trust Deed (representing a charge over Council rates revenue). This security relates to any borrowing and to the performance of any obligation under any incidental arrangement. However, if it is considered advantageous, the Council's borrowings and other financial arrangements may be undertaken on an unsecured basis, or secured by way of a charge over its physical assets.

APPENDIX TWO

Rates Postponement Policy

APPENDIX TWO

Rates Postponement Policy

Objective
To assist ratepayers experiencing extreme financial hardship that affects their ability to pay rates.

Conditions and criteria
For residential and other land rated at the Base differential:
The postponement of rates in cases of financial hardship is a last resort to assist residents who own their own home, after all other avenues to meet rates commitments have been exhausted.

The financial hardship must be caused by circumstances beyond the ratepayer's control. Criteria for the postponement of rates for residential ratepayers in cases of hardship are as follows:

i) the applicant must be unable to pay their rates bill because of personal circumstances
ii) the applicant must have tried all other avenues (including seeking a reverse mortgage from their bank) to fund their rates
iii) the applicant must have no significant assets (other than their family home)
iv) the applicant must accept a legal charge to the Council over the property.

Approval of rates postponement is for one year only. The applicant must reapply annually for the continuation of a rates postponement using the Council's 'Application for Postponement' form. An application fee of $200 (including GST) will be charged and added to the total value of rates postponed on the first successful postponement application granted on each rating unit. Before applications are processed, applicants must be provided with information that clearly sets out the long term effect of postponing rates on their estate. Annually on 30 June interest will be charged in arrears on rates postponed, at a rate equal to the Council's average cost of borrowing at that date.

For land rated at the Commercial, Industrial and Business differential:
The postponement of rates is a last resort to assist commercial, industrial and business ratepayers after all other avenues to meet rate commitments have been exhausted.
The financial hardship must be caused by circumstances outside the business' control. Criteria for the postponement of rates for commercial, industrial and business ratepayers in cases of hardship are as follows:

i) the applicant must be unable to pay their rates because of business circumstances
ii) the applicant must have tried all other avenues (including obtaining a loan from their bank) to fund their rates
iii) the net value of an applicant's property (after the value of all mortgages on the property and the total value of the rates postponed) must exceed 10 percent of the market value of the property i.e. the Council will not postpone rates where there is a significant risk that the rates will not be paid at some time in the future
iv) the applicant must accept the Council's legal charge over the property.

Approval of rates postponement is a one-off event. A one-off application fee of $200 (including GST) will be charged on all successful postponement applications. Rates

postponed on commercial, industrial or business property must be paid in full by the start of the Council's next financial year (i.e. 1 July). Annually on 30 June interest will be charged in arrears on rates postponed, at a rate equal to the Council's average cost of borrowing at that date.

Delegation

Decisions relating to the remission of penalties on rates are delegated to the Chief Financial Officer and Manager, Financial Transactions, as set out in the Council's delegations manual.

APPENDIX THREE

Rates Remission Policy

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Rates Remission Policy

In accordance with Section 85 of the Local Government (Rating) Act, 2002:

i) A local authority may remit all or part of the rates on a rating unit (including penalties for unpaid rates) if –
   (a) the local authority has adopted a remissions policy under section 102 of the Local Government Act 2002, and
   (b) the local authority is satisfied that the conditions and criteria in the policy are met.

ii) The local authority must give notice to the ratepayer identifying the remitted rates.

The Council proposes to continue with the following rates remission provisions for 2006/07.

Rural Open Space Remission

Remission Statement
The Council may grant a 50 percent remission on land classified as "rural" under the District Plan where the rating unit is rated under the Base differential and used principally for farming or conservation purposes.

Policy objective
To provide rates relief for rural, farmland and open spaces.

Conditions and criteria
Land used principally for farming or conservation purposes
A rates remission of 50 percent of the Base general rate will be granted to rating units that are classified as rural under the District Plan and used principally for farming or conservation purposes. Under this policy "principally for farming or conservation purposes" is defined as where:

a) The rating unit (or property) exceeds 30 hectares in area, and
b) 50 percent or more of the rateable capital value of the property is made up of the land value, and
c) the principal use of the land is for conservation, agriculture, horticulture, pastoral or silviculture purposes, or for the keeping of bees, poultry or other livestock excluding commercial dog kennels or catteries.

Applying for Remission
All applications must be in writing using the Wellington City Council 'Application for Remission' form.

The approval of any remission is at the absolute discretion of the Wellington City Council or its delegated officer.

Applications for this remission must be received prior to the commencement of the rating year. Successful applications received during a rating year will be applicable from the commencement of the following year. No applications will be backdated.

Delegation
Decisions relating to the remission of rates are delegated to officers as set out in the Council's delegations manual.

Remissions on land used principally for games or sport

Remission statement
Where the Council considers a rating unit is used principally for games or sport, it will apply a 50 percent remission of general rates where the rating unit:
a) has a club licence under the Sale of Liquor Act 1989, and
b) would otherwise qualify as 50 percent non-rateable under Part 2, Schedule 1, of the Local Government (Rating) Act, and
c) the property is rated at the Base differential.

Policy objective
To reduce the adverse financial impact of the Local Government (Rating) Act 2002 on land used principally for games or sports, occupied by clubs that hold a club liquor licence and no longer qualify as 50 percent non-rateable.

Conditions and criteria
All applications must be received in writing using the Wellington City Council 'Application for Remission' form. A remission under this policy will apply for one year only. Applicants must reapply annually. The application for a rate remission must be made prior to the commencement of the rating year (1 July). Successful applications received during a rating year will be applicable from the commencement of the following year. No applications will be backdated. For the avoidance of doubt, this policy specifically excludes chartered clubs and clubs holding permanent charters.

Delegation
Decisions relating to the remission of rates are delegated to officers as set out in the Council's delegations manual.

Special Circumstances Remission Policy

Remission Statement
It is recognised that not all situations in which it may be appropriate for the Council to remit rates will necessarily be known in advance and/or provided for in specific rating policies. In circumstances where the rating policy is deemed by the Council to unfairly disadvantage an individual ratepayer, the Council may grant a one-off remission of part or all of the general rate on condition that the remission does not set a precedent that unfairly disadvantages other ratepayers.

Policy objective
To provide for the possibility of a rates remission in circumstances that have not been specifically addressed in other parts of the Council's Rates Remission and Postponement Policies.

Conditions and criteria
The Council may remit part of the general rate assessed in relation to particular rating unit where:
i) the rates on that rating unit are disproportionate to those levied in respect of comparable rating units, or
ii) the rating policy is determined by the Council to unfairly disadvantage an individual ratepayer.
The approval of the remission must not set a precedent that unfairly disadvantages other ratepayers. A remission under this policy will apply for one year only. Applicants must reapply annually. All applications must be received in writing using the Wellington City Council 'Application for Remission' form.
The application for this rates remission must be received prior to the commencement of the rating year (1 July). Successful applications received during a rating year will be applicable from the commencement of the following year. No applications will be backdated.

Delegation
Decisions relating to the remission of rates are delegated to officers as set out in the Council's delegations manual.

Rates Penalty Remission Policy

Policy Objective
To enable the Council to act fairly and reasonably when rates have not been received by the due date.

Conditions and criteria
Upon receipt of an application from the ratepayer, or if identified by the Council, the Council may remit all or part of a penalty where it considers that it is fair and equitable to do so.

Matters that will be taken into consideration by the Council include the following:
a) the ratepayer's payment history, and
b) the impact on the ratepayer of an extraordinary event, and
c) the payment of the full amount of rates due, or
d) the ratepayer entering into an agreement with the Council for the payment of rates within a reasonable timeframe.
The Council reserves the right to impose conditions on the remission of penalties.

Delegation
Decisions relating to the remission of penalties on rates are delegated to the Chief Financial Officer and Manager, Financial Transactions, as set out in the Council's delegations manual.

Remission of Rates on Maori Freehold Land
The Council does not have separate policies that apply to Maori freehold land. The rates remission policies applicable to Maori Freehold land are therefore identical to those that apply to non-Maori Freehold land.

APPENDIX FOUR

Policy on Partnerships with the Private Sector

APPENDIX FOUR

WELLINGTON CITY COUNCIL POLICY ON PARTNERSHIPS WITH THE PRIVATE SECTOR

INTRODUCTION

This policy on partnerships with the private sector outlines the Council's general approach to entering into this type of arrangement, when consultation would be undertaken prior to such a partnership, what conditions might be imposed on such partnerships, their risk management, and reporting on the funding and outcomes of any such partnerships.

RATIONALE FOR THE POLICY

Partnerships with the private sector are risk sharing mechanisms where the public sector specifies the public good elements to be delivered, then engages the private sector to deliver them. Private sector operators typically have greater expertise and incentive to manage risks than the public sector, and this greater effectiveness can result in benefits for the public and private sector alike.

The policy will guide Council's decision-making in the area of partnerships with the private sector. The definition of this type of agreement used in the Act is very broad and is likely to cover a wide range of situations. For this reason the policy contains general principles that will be taken account of when developing and managing a partnership proposal. It is likely that every such proposal would include a detailed analysis of structure, risks, and management provisions.

Specific proposals for partnerships with the private sector may well be judged significant under the Council's significance policy and subject to wider consultative and assessment requirements. However, the wide range of agreements covered under the Act ("any arrangement involving grants, loans, investments, commitments of resources or guarantees given to a person engaged in business") could cover some relatively routine contractual arrangements that are not likely to be considered significant in terms of the Council's significance policy.

STATUTORY REQUIREMENTS

For statutory requirements, refer to section 107 of the Local Government Act 2002 (LGA 2002).

A partnership as defined in the Act is any arrangement involving grants, loans, investments, commitments of resources or guarantees given to a person engaged in business (the context in which the term 'engaged in business' is used appears to mean 'engaging in an activity for profit') by 1 or more local authorities. Taken together the limitation on the types of arrangements that are considered partnerships with the private sector and the limit in the definition to persons engaged in business means that a partnership with the private sector for the purposes of this Act is really only a commitment of resources to the commercial sector.

For the purposes of this section, a partnership with the private sector includes any agreement or arrangement that is entered into between one or more local authorities and one or more persons engaged in business and does not include:

- a contract for the supply of goods or services to or on behalf of a local authority; or
- arrangements where the only parties are local authorities, or council and council-controlled organisations. (Section 1 07 (2)).

This policy must be in place for the 'first' LTCCP or annual plan.

Under Section 1 07, the policy on partnerships with the private sector must set out any policies that the local authority has with respect to committing resources to partnership with the private sector. This includes

- the circumstances in which the local authority will provide funding or other resources under partnership with the private sector (this includes grants, loans, investments or acting as a guarantor)
- what consultation the local authority will undertake with respect to any proposed commitment of funding or resources to a partnership with the private sector (undertaking a partnership with the private sector does not require consultation in and of itself unless it involves transfers or ownership or control of significant assets)
- any conditions that will imposed before entering into a partnership with the private sector
- procedures for assessing and managing associated risks
- monitoring and reporting procedures (including assessment, monitoring and reporting against the furtherance of community outcomes).

This policy on partnerships with the private sector sets out the processes that Council will adopt with respect to engaging in any partnerships with the private sector. Once adopted, this Policy may only be amended as an amendment to Councils Long Term Council Community Plan (Section 102).

CIRCUMSTANCES

The Council may consider entering into a partnership with a private sector partner, where an activity has been identified in Council's Strategic Plan, Long- Term Council Community Plan (LTCCP) or Annual Plan (henceforth referred to generically in this section as LTCCP) as a community priority or desirable community outcome.

The circumstances where a partnership with the private sector may be entered into are likely to be limited to one or more of the following:

- Where Council may be unwilling or unable to bear all of the risk (usually, though not always defined in terms of financial risks) of a particular project itself;

- Where Council may believe a particular project is of significant community benefit, but Council may have legal restrictions on its power to participate fully in that project;

- Where neither Council nor a private provider would otherwise provide the services or activity without the partnership;

- Where there are identifiable advantages in the project or activity being undertaken as a public private sector partnership rather than by either of the parties separately;

- Where the benefits to the community are greater than the costs of the partnership with the private sector.

Partnerships are expected to provide benefit to both the local authority and the private sector.

CONDITIONS

Council will enter into a partnership only where it expects that the partnership will help achieve the community outcomes or objectives in the LTCCP, but nothing in this policy commits Council to entering into such a partnership even if it will help achieve community outcomes or objectives.

Before entering into a partnership with the private sector, Council must be satisfied that:

- The partnership will help achieve the community outcomes or objectives identified in the Strategic Plan or LTCCP.

- The benefit from the partnership is greater than the costs and risks.

- Council is satisfied that the partner has demonstrated an ability to meet the terms of any agreement between Council and the private partner.

- All necessary consents, licenses, or other approvals have been obtained prior to any financial commitment by the Council.

- The partnership and its proposed business are lawful.

- A clear exit/termination strategy is agreed.

- Roles, responsibilities and liabilities of each partner are clearly defined.

Council will not enter into a Public Private Partnership where:

- The activity is primarily speculative in nature

- The cost or risk of the partnership with the private sector is judged to be greater to the community than the benefits that would accrue from the partnership with the private sector

Where appropriate, Council reserves the right to apply competitive tendering processes, in accordance with Council policy.

Other conditions may be imposed as considered appropriate by Council.

TYPES OF INVOLVEMENT

Council will consider the following methods of implementing a partnership with the private sector:

- Grants, where the assessed benefit to the community justifies, where the partnership with the private sector is accorded priority by Council, and funds are available for the activity

- Loans, where the benefit to the community is significant, but it is assessed that income or other funding can in time be accessed, and / or there will also be significant benefits to the private partner and/or it is otherwise unsuitable to provide other funding

- Investments, where there are deemed to be significant public benefits

- Acting as a guarantor for assets being constructed on Council-owned land

- Acting as a guarantor in extraordinary circumstances may be considered by Council and where there are appropriate safeguards in place to ensure budgets are not exceeded and where limitations are specified as to the total amount Council is guarantor for.

CONSULTATION

Council will undertake consultation on any revision of this “Policy on Partnerships with the Private Sector” as part of a Long-Term Council Community Plan. Where Council decides to undertake a partnership with the private sector in accordance with the policy, further consultation will not be required to be undertaken except in specific circumstances (see below).

Council may undertake additional consultation on individual partnerships with the private sector where:

- A partnership with the private sector is assessed as being greatly beneficial, but falls outside the conditions or circumstances identified in the policy.

- It is proposed to act as guarantor in extraordinary circumstances.

- The partnership would result in significant positive or negative changes in service levels, as defined in Council’s Significance Policy.

- The proposal would have a material impact on Council's projected budgets, performance measures, outcomes or other objectives.

- Ownership or control of a significant asset (as defined in Council's Significance Policy), is to be transferred to or from Council.

- There is expected to be considerable public interest in whether or not the partnership with the private sector should proceed.

Where practicable, consultation on partnerships with the private sector under the above criteria will take place under the Annual Plan or Long Term Council Community Plan process. Alternatively, a separate special consultative procedure may be undertaken.

RISK MANAGEMENT

When considering a public private partnership, the potential risks to Council will be outlined and where the risks are considered significant, in terms of probability and potential effect, Council will assess the level of the risks against their benefits and management strategies.

Risk will be assessed by calculating the probability of an adverse outcome multiplied by the cost/impact of that adverse outcome, while taking into account mitigating strategies and associated costs. Risks which may be considered are:

- Design and construction risk;
- Commissioning and operating risk;
- Service and under-performance risk;
- Maintenance risk;
- Risk of change to the legal or regulatory environment;
- Risk of legal challenge;
- Technology obsolescence risk;
- Planning risk;
- Price risk;
- Taxation risk;
- Residual value risk;
- Demand or valuation risk;
- Occupation safety and health risk;
- The. relative investment of the private sector partner;
- The level of experience / track record of the partner, particularly in that activity;
- Risk to the reputation of Wellington City Council and Wellington City generally;
- Insurance coverage and limitations;
- Risk to the capacity of the council to carry out its activities, now and in the future;
- Risk to property;
- Protection of any intellectual property; and
- Any other risks identified.

Where risks exist and a partnership is to be agreed, a risk management strategy will be put in place to appropriately minimise or provide cover for that risk to the satisfaction of Council. Risk management in any or all of the above areas may be specified as being the responsibility of Council or the partner.

MONITORING AND REPORTING

A private sector partner will be expected to report using GAAP (generally accepted accounting principles) appropriate to their type of financial entity, and to allow auditing of financial and non-financial records as and when reasonably requested by Council or a representative appointed by Council. Monitoring and reporting requirements will vary, depending on the level of resources Council is expending/investing/protecting, and the nature of the partnership.

The following points may be considered:

- Proposals for partnerships with the private sector should state how they might contribute to outcomes or objectives in the LTCCP
- Measurable and auditable performance standards should be included where appropriate in partnership documents
- Progress on agreed outcomes and objectives should be reported on to Council’s Strategic Planning and Policy Committee on a six-monthly basis
- Quarterly or annual financial reports may be required
- Transparency in the conduct and reporting of partnership with the private sector activities should be emphasised, acknowledging the need to protect commercial confidentiality where appropriate
- The performance of partnerships with the private sector will be reported on in Council’s Annual Report.

REVIEW

It is anticipated that this policy will be reviewed as part of the next LTCCP process, three years from now.

APPENDIX FIVE

Accounting Policies

Wellington City Council

Statement of Compliance

The prospective financial statements have been prepared in accordance with New Zealand generally accepted accounting practice. They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for public benefit entities. These are the Council Reporting Entity's first consolidated prospective financial statements complying with NZ IFRS. NZ IFRS 1: *First-time Adoption of NZ Equivalents to International Financial Reporting Standards* has been applied.

Until 30 June 200X the prospective financial statements of Wellington City Council had been prepared in accordance with previous New Zealand Financial Reporting Standards (NZ FRS). NZ FRS differs in certain respects from NZ IFRS. When preparing the 30 June 2007 prospective financial statements, management has amended certain accounting, valuation and consolidation methods applied in the NZ FRS prospective financial statements to comply with NZ IFRS. With the exception of xxxx, the comparative figures in respect of 200x were restated to reflect these adjustments.

An explanation of how the transition to NZ IFRS has affected the reported financial position, performance and cash flows of Wellington City Council is provided in Note XX.

Summary of Significant Accounting Policies

The prospective financial statements are prepared in accordance with the Local Government Act 2002. These prospective financial statements are presented in New Zealand dollars rounded to the nearest thousand, unless otherwise stated.

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.

For the purposes of financial reporting the Council is a public benefit entity. The following public benefit entity exemptions have been applied by the Council:

- the general exemption from the requirements of NZ IAS 14: *Segment Reporting*.
- the exemption from the requirements of paragraph 39 of NZ IAS 16: *Property, Plant and Equipment.* The Council will therefore account for revaluations of property, plant and equipment on a class of asset basis.
- the exemption from the requirements of paragraph 77 (e) of NZ IAS 16: *Property, Plant and Equipment.* The Council will therefore not disclose, for each revalued class of property, plant and equipment, the carrying amount that would have been recognised had the assets been carried under the cost model.

Reporting Period

The reporting period for these prospective financial statements is the year ended 30 June XX.

Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated prospective financial statements and in preparing an opening NZ IFRS balance sheet as at 1 July 2005 for the purposes of the transition to NZ IFRS.

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.

Judgements and Estimations

The preparation of prospective financial statements in conformity with NZ IFRS requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Where material, information on the major assumptions is provided in the relevant accounting policy or will be provided in the relevant note to the prospective financial statements.

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.

Judgements that have a significant effect on the prospective financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note XX.

Income

Rates
Rates income is recognised when levied.

Grants
Grants income includes any transfers of resources to the Council in return for past or future compliance with certain conditions relating to the operating activities of the Council. An unconditional grant is recognised in the income statement as other operating income when the grant becomes receivable. A conditional grant is recognised in the income statement as other operating income to the extent that conditions have been complied with.

Donated, subsidised or vested assets
Where a physical asset is acquired for nil or nominal consideration the fair value of the asset received is recognised as revenue.

Interest
Interest income is accrued using the effective interest rate method. The effective interest rate exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this rate to the principal outstanding to determine interest income each period.

Dividends
Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Rental income
Rental income is recognised on a straight line basis over the term of the lease. Lease incentives granted are recognised evenly over the term of the lease as a reduction in total rental income.

Sales of goods
Sales of goods are recognised when the Council has transferred the risks and rewards of ownership of the goods to the purchaser. Sales of goods are recognised net of GST, rebates and discounts.

Development contributions
Development contributions are recognised as revenue when the development in respect of which the contribution was received is completed and it is no longer probable that the contributions will be refunded to the developer.

Other income
All other income is recognised when billed or earned on an accrual basis.

Expenses

Grants and subsidies
Grants and subsidies expenditure includes transfers of resources to another entity in return for past or future compliance with certain conditions relating to the operating activities of that entity. Grants expenditure includes any expenditure arising from a funding arrangement with another entity that has been entered into to achieve the objectives of the Council.

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 and notice has been given.

Interest
Interest expense is accrued using the effective interest rate method. The effective interest rate exactly discounts estimated future cash payments through the expected life of the financial liability to that liability's net carrying amount. The method applies this rate to the principal outstanding to determine interest expense each period.

Donated Services
The Council benefits from the voluntary service of many Wellingtonians in the delivery of its activities and services (e.g. Beach cleaning, Otari-Wilton Bush guiding and planting, and the Volunteer Rural Fire Force). Due to the difficulty in determining the value of these donated services with sufficient reliability, donated services are not recognised in these prospective financial statements.

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 Income Statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease payment.

Finance leases transfer to the Council as lessee substantially all the risks and rewards incident to 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 corresponding rental obligations, net of finance charges, are included in other long term payables. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The leased asset acquired under finance leases is depreciated over the short of the useful life of the asset or the lease term.

Taxation

Income tax is charged in the income statement in respect of the current period's results of council controlled trading organisations only. Income tax on the profits or loss for the year comprises 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 sheet date, and any adjustment to tax receivable or payable in respect of previous periods.

Deferred tax is provided for in full using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for taxation purposes. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. 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 sheet 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 as GST inclusive. Where GST is not recoverable as an input tax (e.g. residential housing) then it is recognised as part of the related asset or expense.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with up to three months maturity. Bank overdrafts that are repayable on demand and form an integral part of the Council's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Inventories

Inventories are recorded at the lower of cost (determined on a first-in first-out basis) or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Investments and Other Financial Assets

The Council classifies its financial assets according to the purpose for which they were acquired. The Council determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

Financial Assets

The Council classifies its financial assets into the following categories: financial assets at fair value through profit and loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets.

Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term (held for trading) or if it has been designated as at fair value through profit and loss upon initial recognition. This includes derivative financial instruments (interest rate swaps), which are categorised as held for trading unless they are designated as hedges. Financial assets held for trading and financial assets designated at fair value through profit or loss are recorded at fair value with any realised and unrealised gains or losses recognised in the Income Statement. Transaction costs are expensed as they are incurred.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method. 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 doubtful debts in respect of these receivables.

Held-to-maturity financial assets
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Council has the intention and ability to hold to maturity. Held-to-maturity investments are initially recognised at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method.

Available for sale financial assets
All financial assets that are not classified in any other category are classified as available for sale financial assets. Available for sale financial assets are initially recorded at fair value plus transaction costs. They are subsequently recorded at fair value with any resultant fair value gains or losses recognised directly in equity except for impairment losses. Any interest is calculated using the effective interest method.

Timing of Recognition
Purchases and sales of financial assets are recognised on their trade-date – the date on which the Council commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Council has transferred substantially all the risks and rewards of ownership.

Derecognition
On derecognition the difference between the proceeds and carrying amount of the financial asset is recognised in the Income Statement. In addition, for available for sale assets, the cumulative fair value gain or loss previously recognised directly in equity is recognised in the Income Statement.

Fair values
For unlisted securities and where the market for financial assets is not active, the Council establishes fair value by using valuation techniques. These include reference to the fair values of recent arm's length transactions, involving the same instruments or other instruments that are substantially the same and discounted cash flow analysis.

Impairment
The Council assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss previously recognised in profit and loss for that asset – is removed from equity and recognised in the income statement.

For financial assets carried at cost, losses (measured as the difference between the asset's carrying amount and the present value of future cash flows discounted at its original effective interest rate) are recognised in the Income Statement.

Derivatives
Derivative financial instruments (interest rate swaps) are recognised as either assets or liabilities at fair value on the date the derivative is entered into and are subsequently re-measured to their fair value at each reporting date. Derivatives that do not qualify for hedge accounting are classified as held for trading financial instruments with fair value gains or losses for the period recognised in the Income Statement.

Hedging
Where a derivative (interest rate swap) qualifies as a hedge and hedges the variability in 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 Income Statement. Gains or losses recognised in equity transfer to the Income Statement in the same periods as when the hedged item affects the Income Statement.

When the Council enters into interest rate swaps, it documents at the inception of the transaction the relationship between the hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Council also documents it assessment, both at inception and on an ongoing basis, of whether the interest rate swaps have been and will continue to be highly effective in offsetting changes in the cash flows of hedged items.

Non-current assets held for sale

Non-current assets are separately classified as held for sale 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,
- The Council is committed to a plan to sell the asset, 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 made or that 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. An impairment loss is recognised for any initial or subsequent write down of the asset to fair value less costs to sell.

Investment properties

Investment properties are properties which are held primarily to earn rental income or for capital appreciation, or for both, and which are not occupied by the Council. These include the Council's ground leases and land and buildings and the Wellington Waterfront Project's investment properties. Investment properties exclude those properties held for strategic purposes or to provide a social service, including those which generate cash 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 stated at fair value (excluding disposal costs) and valued annually by an independent registered valuer. Any gain or loss arising from a change in fair value is recognised in the income statement. Investment properties are not depreciated. Rental income from investment property is accounted for as described in the *Income* accounting policy.

A property leased to a third party under an operating lease is classified and accounted for as an investment property on a property-by-property basis when the Council holds it to earn rental income or for capital appreciation, or for both. Any such property interest under an operating lease classified as an investment property is carried at fair value. Properties leased to third parties under operating leases will generally be classified as 'Investment Property' unless one of the following applies:

- The occupants provide services that are integral to the operation of the owner's business and/or these services could not be provided efficiently and effectively by the lessee in another location; or
- The owner of the property is a public benefit entity and the property is held to meet service delivery objectives, rather than to earn rentals or for capital appreciation (or both); or
- The property is being held for future delivery of services; or
- The lessor uses services of the owner and those services are integral to the reasons for their occupancy of the property.

In these cases the property will be accounted for as Property, Plant and Equipment.

Property, Plant and Equipment

Recognition
Property, plant and equipment consists of operational assets, restricted assets and infrastructure assets. Expenditure is capitalised as property, plant and equipment when it creates a new asset or increases the economic benefits over the total life of an existing asset and can be measured reliably. Costs that do not meet the criteria for capitalisation are expensed.

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

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

Infrastructure assets include the fixed utility systems comprising the roading, water reticulation and drainage systems, land under roads and infrastructure land. Each asset type includes all items that are required for the network to function.

Measurement
Items of property, plant and equipment are initially recorded at cost.

The initial cost of property, plant and equipment includes the purchase consideration, or the fair value in the case of bequeathed or vested assets, and those costs that are directly attributable to bringing the asset into the location and condition necessary for its intended purpose. Subsequent expenditure that extends or expands the asset's service potential and that can be measured reliably is capitalised. Borrowing costs are not capitalised.

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

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

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

Art and cultural assets (artworks, sculptures, statues and similar heritage items) are valued at historical cost, or fair value where acquired at nil cost. Zoo animals are stated at estimated replacement cost. All other restricted assets (buildings, parks and reserves and the town belt) are valued at cost. The Council has applied the transitional exemption in NZ IFRS 1: *First-time adoption of NZ Equivalents to International Financial Reporting Standards* to use the fair value of restricted assets at 1 July 2005 as its deemed cost at that date.

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

Infrastructure land is valued at fair value on a three-year basis.

Land under roads represents the corridor of land directly under and adjacent to the Council's roading network. Land under roads is valued at cost. The Council has applied the transitional exemption in NZ IFRS 1: *First-time adoption of NZ Equivalents to International Financial Reporting Standards* to use the fair value of land under roads at 1 July 2005 as its deemed cost at that date.

Vested assets are recognised within their respective asset classes at fair value. Vested 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). Fair value is determined on a basis consistent with the valuation of existing assets within the class.

Revaluations

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

Accumulated depreciation at revaluation date is eliminated against the gross carrying amount and the net amount is restated to the revalued amount.

Further information in respect of the most recent valuations for each class is provided in Note xx.

Impairment

The carrying amounts of property, plant and equipment are reviewed at each reporting date to determine if there is any indication of impairment. Where an 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. The recoverable amount is the higher of an item's fair value less costs to sell and value in use. Value in use shall be determined as the depreciated replacement cost where the future economic benefits are not dependent on the assets ability to generate cash flows. Losses resulting from impairment are reported in the Income Statement, unless the asset is carried at a revalued amount in which case any impairment loss is treated first as a revaluation decrease and then as a charge to the Income Statement to the extent that the impairment exceeds the amount in the revaluation reserve in respect of that asset.

Disposal

Gains and losses arising from the disposal of property, plant and equipment are determined by comparing the proceeds with the carrying amount and are recognised in the Income Statement 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.

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. 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:

Asset class	Useful life
Land	indefinite
Buildings	10 to 100 years
Civic Centre amenities	10 to 100 years
Plant and equipment	3 to 100 years
Library collections	3 to 10 years
Restricted assets (excluding buildings)	indefinite
Infrastructure assets	
Land	indefinite
Land under roads	indefinite
Roading	
Formation/earthworks	indefinite
Pavement	3 to 40 years
Traffic Islands	60 years
Bridges and tunnels	3 to 150 years
Drainage	10 to 120 years
Retaining walls	40 to 100 years
Pedestrian walkway	5 to 50 years
Pedestrian furniture	10 to 25 years
Barriers & lighting	2 to 50 years
Cycle-way network	15 to 40 years
Parking equipment	8 to 10 years
Passenger transport facilities	25 years
Traffic infrastructure	5 to 10 years
Drainage, waste and water	
Pipework	40 to 150 years
Fittings	10 to 111 years
Water pump stations	20 to 100 years
Water reservoirs	40 to 100 years
Equipment	25 years
Sewer pump stations	20 to 100 years
Tunnels	150 years
Treatment plants	3 to 100 years

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

The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each balance date.

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.

Intangible Assets

Acquired intangible assets are initially recorded at cost. The cost of an internally generated intangible asset represents expenditure incurred in the development phase of the asset only. The development phase occurs after the following can be demonstrated: technical feasibility; ability to complete the asset; intention and ability to sell or use; and when development expenditure can be reliably measured. Development costs with a finite useful life that have been capitalised are amortised from the commencement of use or sale of the products developed on a straight-line basis over the period of its expected benefit.

Expenditure incurred on research of an internally generated intangible asset is expensed when it is incurred. Where the research phase cannot be distinguished from the development phase, the expenditure is expensed when it is incurred. Development costs previously recognised as an expense are not subsequently recognised as an asset in a subsequent period.

Intangible assets with finite lives are subsequently recorded at cost less any amortisation and impairment losses. Amortisation is charged to the Income Statement 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 to 8 years

Realised gains and losses arising from disposal of intangible assets are recognised in the Income Statement 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 Income Statement.

The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each balance date.

Trade and other payables

These amounts represent liabilities for goods and services provided to the Council prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

Employee Benefits

A provision for employee benefits is recognised as a liability when benefits are earned.

Wages and salaries, holiday leave and sick leave
Liabilities for wages and salaries, including non-monetary benefits, holiday leave (annual leave and time off in lieu) and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Holiday leave is calculated on an actual entitlement basis at the greater of the average or current hourly earnings in accordance with sections 16(2) & 16(4) of the Holidays Act 2003.

Long Service Leave
Long-service leave (not yet qualified for) and retirement gratuities are calculated on an actuarial basis based on the likely future entitlements accruing to staff, after taking into account years of service, years to entitlement, the likelihood that staff will reach the point of entitlement, and other contractual entitlements information.

Other Contractual Entitlements
Other contractual entitlements include termination benefits. Termination benefits are recognised in the Income Statement only when there is a demonstrable commitment either to 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.

Financial Liabilities

The Council classifies its financial liabilities into the following categories: financial liabilities at fair value through profit and loss or other financial liabilities.

Financial liabilities at fair value through profit and loss
A financial liability is classified in this category if incurred principally for the purpose of repurchasing in the short term (held for trading) or if it has been designated as at fair value through profit and loss upon initial recognition. This includes any derivatives (interest rate swaps) which are not designated as hedges. Financial liabilities at fair value through profit and loss are recorded at fair value with any realised and unrealised gains or losses recognised in the Income Statement. Gains or losses reported in the Income Statement include any interest component. Transaction costs are expensed as they are incurred.

Other financial liabilities
Other financial liabilities are recognised initially at fair value less transaction costs and subsequently measured at amortised cost using the effective interest rate method. Amortisation is recognised in the Income Statement as is any gain or loss when the liability is derecognised.

Derecognition
On derecognition the difference between the carrying amount of the financial liability extinguished or transferred and the consideration paid is recognised in the Income Statement.

Provisions

Provisions are recognised when the Council has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Other liabilities and provisions are recorded at the best estimate of the expenditure required to settle the obligation. Liabilities and provisions to be settled beyond 12 months are recorded at their discounted 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, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be estimated reliably. This would typically occur when each stage of the landfill is commissioned and refuse begins to accumulate.

The provision is measured based on the discounted 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 percentage of capacity used.

The liability is reassessed at each reporting date. Any change in the liability is accounted for against the cost of the asset.

The Council has a 21.5% joint venture interest in the Spicer Valley landfill. The Council's provision for landfill post closure costs includes the Council's proportionate share of the Spicer Valley landfill provision for post closure costs.

Contingent Assets and Liabilities

Contingent liabilities and contingent assets are disclosed in the Statement of Contingent Liabilities and Contingent Assets at the point at which the contingency is evident. Contingent liabilities are disclosed if the possibility that they will crystallise is not remote. Contingent assets are disclosed if it is probable that the benefits will be realised.

Equity

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

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

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

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; record the cash payments made for the supply of goods and services and include cash flows from other activities that are neither investing nor financing activities. Investing activities relate to the acquisition and disposal of assets. Financing activities relate to activities that change the equity and debt capital structure of the Council.

Comparative figures

The Council has adopted NZ IFRS commencing with this report. Comparative figures for the year ending 30 June 2006 have been restated to comply with these standards.

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

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

APPENDIX FIVE

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.
The Council publishes both parent entity and group financial statements for historical reporting purposes but does not publish group prospective financial statements. In accordance with FRS 42 the Council is required to disclose the reasons for not presenting group prospective financial statements. The Council has not prepared group prospective financial statements because:

- the primary focus of the LTCCP is on the activities of the Council (parent) and the consequent impact on rates. The financial impact of transactions with group entities is reflected within the LTCCP for funding purposes; and
- the consolidated results of the group do not differ significantly from the parent.

Changes in Accounting Policies

Early adoption of NZ IFRS
For reporting periods commencing on or after 1 January 2007, New Zealand reporting entities will be required to apply NZ IFRS. Entities have the option of adopting NZ IFRS early. The Council has decided to "early adopt" with effect from 1 July 2006 which means that these accounts have been prepared in accordance with NZ IFRS for the first time.

The Council has applied the NZ IFRS that are applicable at the date of preparation of these financial statements (xx 2006). The standards adopted before their effective date which are relevant to Council are as follows:

(INSERT REFERENCES - Note, these references should be inserted at the time of preparing the accounts to ensure they are those that apply at the time of preparation).

For disclosure of the financial impact of adoption of NZIFRS, please refer to Note XX.

Supporting Information

1)Strategic Fit / Strategic Outcome

The report fits within the LTCCP deliberations and is therefore a fundamental part of the Council's strategic planning.

2) LTCCP/Annual Plan reference and long term financial impact

As above, this report forms part of the LTCCP deliberations. The policies covered are required by the Local Government Act 2002. The financial impacts of the LTCCP are covered in a separate paper.

3) Treaty of Waitangi considerations

There are no specific Treaty of Waitangi considerations

4) Decision-Making

Where significant decisions are required a range of options have been presented, with rationale for the option recommended.

5) Consultation

a)General Consultation

Once adopted, the policies will be included within the draft LTCCP for consultation purposes.

b) Consultation with Maori

Once adopted, the policies will be included within the draft LTCCP for consultation purposes.

6) Legal Implications

Council's lawyers have been consulted as appropriate during the development of this report.

7) Consistency with existing policy

This report does not recommend material change to existing Council policy, with the exception of the Council's accounting policies. These have changed significantly as a result of a change in applicable financial reporting standards.