Statement of Significant Accounting Policies

I) 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 1 July 2006 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.

An explanation of how the transition to NZ IFRS has affected the reported equity of Wellington City Council is provided in Section iii.

II) 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 ten year period ending 30 June 2016.

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.

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 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 lengthtransactions, 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.

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, 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) 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.

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:

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.

Asset	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

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.

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. The discount rate used represents the Council's average cost of borrowing.

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.

The discount rates used represent the Council's and joint venture's average cost of borrowing respectively.

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.

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 all NZ IFRS that are applicable at the date of preparation of these financial statements.

For disclosure of the financial impact of adoption of NZIFRS, please refer below.

III) FINANCIAL IMPACT OF THE FIRST-TIME ADOPTION OF NZ IFRS

The financial impact of the adoption of NZ IFRS is shown in the following table through a reconciliation of equity at the beginning of the transition period (1 July 2005) under previous NZ GAAP, to equity under NZ IFRS. Forecast figures for 30 June 2006 are also included, as these represent the opening balance sheet position for the 2006/07 LTCCP.

Reconciliation of Opening Equity

as at 1 July 2005

	Note	Previous NZ GAAP 1 July 2005 $000	Effect of transition to NZ IFRS $000	NZ IFRS $000	Forecast 30-Jun-06 $000
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents		5,391	-	5,391	-
Trade and other receivables	a	27,494	486	27,980	27,980
Inventories		892	-	892	892
Non-current assets classified as held for sale		485	-	485	-
Total current assets		**34,262**	**486**	**34,748**	**28,872**
Non-current assets					
Derivative financial instruments	b	-	1,011	1,011	1,011
Trade and other receivables	c	29,574	(10,134)	19,440	22,661
Available-for-sale financial assets		527	-	527	527
Investment in subsidiaries		6,509	-	6,509	6,509
Investment in associates		19,468	-	19,468	19,368
Intangibles	d	-	6,007	6,007	9,828
Investment properties	e	155,335	921	156,256	156,256
Property, plant & equipment	d	5,444,382	(6,007)	5,438,375	5,477,442
Total non-current assets		**5,655,795**	**(8,202)**	**5,647,593**	**5,693,602**
Total Assets		**5,690,057**	**(7,716)**	**5,682,341**	**5,722,474**

Reconciliation of Opening Equity

as at 1 July 2005 continued

	Note	Previous NZ GAAP 1 July 2005 $000	Effect of transition to NZ IFRS $000	NZ IFRS $000	Forecast 30-Jun-06 $000
LIABILITIES					
CURRENT LIABILITIES					
Payables and accruals		51,273	–	51,273	45,397
Borrowings		144,582	–	144,582	154,000
Employee benefits	f	–	6,269	6,269	4,234
Provisions for other liabilities	f	8,353	(6,269)	2,084	4,119
Total current liabilities		**204,208**	**-**	**204,208**	**207,750**
NON-CURRENT LIABILITIES					
Borrowings		18,394	–	18,394	58,000
Employee benefits	f	–	2,062	2,062	2,062
Provisions for other liabilities	f	17,389	(2,062)	15,327	15,327
Total non-current liabilities		**35,783**	**-**	**35,783**	**75,389**
Total Liabilities		**239,991**	**-**	**239,991**	**283,139**
EQUITY					
Accumulated funds and retained earnings	a,c,e,g	1,501,554	3,160,637	4,662,191	4,658,676
Revaluation reserves	g	3,926,386	(3,169,364)	757,022	757,022
Hedging reserve	b	–	1,011	1,011	1,011
Restricted funds		22,126	–	22,126	22,626
Total Equity		**5,450,066**	**(7,716)**	**5,442,350**	**5,439,335**
Total Equity And Liabilities		**5,690,057**	**(7,716)**	**5,682,341**	**5,722,474**

EXPLANATORY NOTES – RECONCILIATION OF EQUITY

A. GENERAL PROVISIONS

Wellington City Council's provision for doubtful debts included a general provision which was calculated on the basis of historical information and various assumptions. Under NZ IFRS impairment losses can be recognised only if there is objective evidence of impairment as a result of a past event that occurred subsequently to the initial recognition. The impact for Wellington City Council is the reversal of approximately $486,000 of general provision against equity.

B. HEDGE ACCOUNTING – CASH FLOW HEDGE

Wellington City Council has chosen to apply the exemption under NZ IFRS 1 that defers the application of accounting for financial instruments under NZ IFRS to the date of transition.

Wellington City Council has identified a number of interest rate swaps which relate to floating interest rate debt. Its policy is to hedge its exposure to movements in these interest rates. On 1 July 2005, these derivatives were recognised on the balance sheet at fair value under NZ IFRS. The impact is the creation of a $1,011,000 asset and an increase in equity. This should be unwound through equity to the extent that the derivatives are deemed effective hedges in accordance with NZ IAS 39 – Financial instruments: Recognition and Measurement.

There are specific requirements under NZ IAS 39 for hedge accounting of derivatives for designation, documentation and effectiveness testing. If a cash flow hedge can not be achieved, all changes in fair value must be recognised in the income statement. If cash flow hedge accounting requirements continue to be met, changes in fair value of the derivatives can be recorded through a hedge accounting reserve in equity

C. LOAN RECEIVABLES

Included in Trade and other receivables are loans receivable, including a loan to Wellington Regional Stadium which in accordance with NZ IAS 39 – Financial instruments: Recognition and Measurement, is written down to fair value. Therefore disclosed above is the adjustment for the $10,134,000 difference between carrying value and market value.

D. INTANGIBLE / PROPERTY, PLANT AND EQUIPMENT

Under NZ IFRS implementation, the Wellington City Council has identified approximately $6,007,000 of software that is currently classified as plant, property and equipment which is reclassified as an intangible asset in accordance with NZ IAS 38 – Intangible Assets where software is not integral to a piece of equipment. The overall impact on net assets is nil, as this is purely a reclassification of an asset class. Amortisation of this intangible is consistent with the methodology applied to depreciating it under FRS 3 – Property, Plant and Equipment. Therefore there will be no additional impact to the income statement.

E. INVESTMENT PROPERTY DISPOSAL COSTS

Wellington City Council's investment properties were previously held at valuation less cost of disposal. On application of NZ IAS 40 – Investment Property the deduction of transaction costs in determining the fair value is not permitted. The impact of the application
of this standard has resulted in approximately $921,000 of disposal costs being written back to investment properties.

F. EMPLOYEE BENEFITS

Separate line disclosure is being made on the face of the balance sheet for employee benefit liabilities (holiday leave, long service leave and retirement gratuities) but the overall financial impact is nil with a reclassification transfer of $4,234,000 (current) and $2,062,000 (non-current) out of Provisions for liabilities.

G. DEEMED COST EXEMPTION

Wellington City Council has chosen to apply the one off deemed cost exemption available under NZ IFRS 1 in relation to its plant, property and equipment and investment property that is currently carried at valuation. This exemption allows Wellington City Council to use the carrying values of the assets under current reporting as deemed cost. The impact of the application of this exemption is to transfer approximately $3,169,364,000 from revaluation reserves to retained earnings.