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**ORDINARY MEETING**

**OF**

**WELLINGTON CITY COUNCIL**

**MINUTE ITEM ATTACHMENTS**

**Time:** 9:30am  
**Date:** Wednesday, 27 June 2018  
**Venue:** Committee Room 1  
Ground Floor, Council Offices  
101 Wakefield Street  
Wellington

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**Business**

**Page No.**

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**A.2 Adoption of the 2018-28 Long-Term Plan**

- |                                    |    |
|------------------------------------|----|
| 1. Unmodified Audit Opinion Letter | 2  |
| 2. Letter of Representation        | 6  |
| 3. Financial Prudence              | 11 |
| 4. Funding Impact Statement        | 16 |



**To the reader:**

**Independent auditor's report on Wellington City Council's 2018-28 Long-Term Plan**

I am the Auditor-General's appointed auditor for Wellington City Council (the Council). Section 94 of the Local Government Act 2002 (the Act) requires an audit report on the Council's long-term plan (the plan). Section 259C of the Act requires a report on disclosures made under certain regulations. We have carried out this work using the staff and resources of Audit New Zealand. We completed our report on 27 June 2018.

**Opinion**

In my opinion:

- the plan provides a reasonable basis for:
  - long-term, integrated decision-making and co-ordination of the Council's resources; and
  - accountability of the Council to the community;
- the information and assumptions underlying the forecast information in the plan are reasonable; and
- the disclosures on pages 152 to 156 represent a complete list of the disclosures required by Part 2 of the Local Government (Financial Reporting and Prudence) Regulations 2014 (the Regulations) and accurately reflect the information drawn from the plan.

This opinion does not provide assurance that the forecasts in the plan will be achieved, because events do not always occur as expected and variations may be material. Nor does it guarantee the accuracy of the information in the plan.

**Basis of opinion**

We carried out our work in accordance with the International Standard on Assurance Engagements (New Zealand) 3000 (Revised): Assurance Engagements Other Than Audits or Reviews of Historical Financial Information. In meeting the requirements of this standard, we took into account particular elements of the Auditor-General's Auditing Standards and the International Standard on Assurance Engagements 3400: The Examination of Prospective Financial Information that were consistent with those requirements.

We assessed the evidence the Council has to support the information and disclosures in the plan and the application of its policies and strategies to the forecast information in the plan. To select

appropriate procedures, we assessed the risk of material misstatement and the Council's systems and processes applying to the preparation of the plan.

Our procedures included assessing whether:

- the Council's financial strategy, and the associated financial policies, support prudent financial management by the Council;
- the Council's infrastructure strategy identifies the significant infrastructure issues that the Council is likely to face during the next 30 years;
- the information in the plan is based on materially complete and reliable information;
- the Council's key plans and policies are reflected consistently and appropriately in the development of the forecast information;
- the assumptions set out in the plan are based on the best information currently available to the Council and provide a reasonable and supportable basis for the preparation of the forecast information;
- the forecast financial information has been properly prepared on the basis of the underlying information and the assumptions adopted, and complies with generally accepted accounting practice in New Zealand;
- the rationale for the Council's activities is clearly presented and agreed levels of service are reflected throughout the plan;
- the levels of service and performance measures are reasonable estimates and reflect the main aspects of the Council's intended service delivery and performance; and
- the relationship between the levels of service, performance measures, and forecast financial information has been adequately explained in the plan.

We did not evaluate the security and controls over the electronic publication of the plan.

#### **Responsibilities of the Council and auditor**

The Council is responsible for:

- meeting all legal requirements affecting its procedures, decisions, consultation, disclosures, and other actions relating to the preparation of the plan;
- presenting forecast financial information in accordance with generally accepted accounting practice in New Zealand; and
- having systems and processes in place to enable the preparation of a plan that is free from material misstatement.

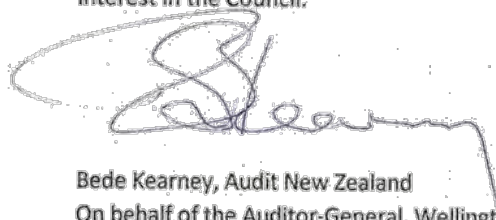
I am responsible for expressing an independent opinion on the plan and the disclosures required by the Regulations, as required by sections 94 and 259C of the Act. I do not express an opinion on the merits of the plan's policy content.

### Independence

In carrying out our work, we complied with the Auditor-General's:

- independence and other ethical requirements, which incorporate the independence and ethical requirements of Professional and Ethical Standard 1 (Revised); and
- quality control requirements, which incorporate the quality control requirements of Professional and Ethical Standard 3 (Amended).

In addition to this report on the Council's long-term plan and all legally required external audits, we provided an assurance report on certain matters in respect of the Council's Debenture Trust Deed and performed a review of the revenue and expenditure of the Clifton Terrace car park managed by the Council on behalf of the New Zealand Transport Agency. These assignments are compatible with those independence requirements. Other than these assignments, we have no relationship with or interest in the Council.



Bede Kearney, Audit New Zealand  
On behalf of the Auditor-General, Wellington, New Zealand



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Wellington City Council  
Me Heke Ki Pōneke

27 June 2018

Bede Kearney  
Director  
Audit New Zealand  
PO Box 99  
Wellington 6140

Dear Bede

#### Letter of representation for the audit of the Long-Term Plan

This representation letter is given in connection with your audit, conducted on behalf of the Auditor-General, to provide a report on Wellington City Council's (the Council's) Long-term Plan (LTP) for the 10 years commencing 1 July 2018.

This representation letter is provided to you in connection with your responsibility under the Local Government Act 2002 (the Act) to report on:

- whether the LTP gives effect to the purpose set out in section 93(6) of the Act; and
- the quality of information and assumptions underlying the forecast information provided in the LTP.

We understand that your audit was carried out in accordance with International Standard on Assurance Engagements (New Zealand) 3000 (Revised): Assurance Engagements Other Than Audits or Reviews of Historical Financial Information. In meeting the requirements of this standard, we understand you took into account particular elements of the Auditor-General's Auditing Standards and International Standard on Assurance Engagements 3400: The Examination of Prospective Financial Information that were consistent with those requirements.

We also understand that your audit was (to the extent that you deemed appropriate) for the purposes of expressing an opinion about whether the LTP provides a reasonable basis for long-term integrated decision-making by the Council and for accountability of the Council to the community, and whether the information and assumptions underlying the forecast information in the LTP are reasonable. We understand the audit would not necessarily disclose any or all irregularities should any exist.

We acknowledge that actual results are likely to be different from the forecast information because anticipated events frequently do not occur as expected and the variation may be material, and that

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you express no opinion about whether the forecasts will be achieved. We also acknowledge that you do not express an opinion on the merits of any policy content of the LTP.

We confirm, to the best of our knowledge and belief, the following representations:

#### **General**

- 1 The Council accepts that it is responsible for the preparation of the LTP that meets the requirements of the Act.
- 2 In complying with the requirements of the Act in relation to the LTP, we have acted in such a manner and included in the LTP such detail as we consider on reasonable grounds to be appropriate.
- 3 The LTP has been prepared using the best information currently available to the Council and accordingly the forecast information included in the LTP is our best forecast of anticipated events for the 10 years commencing 1 July 2018.
- 4 The LTP has been prepared and is consistent with Council's own policies and strategies and the strategies and policies of other organisations where appropriate.
- 5 We believe the effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the LTP as a whole.

#### **Underlying information and assumptions**

- 6 The forecast information has been properly prepared on the basis of the underlying information and the assumptions adopted. The assumptions and information underlying the forecast information are reasonable and supportable in the context of the Council's position and have been based on the best information currently available to the Council. The assumptions are consistent among themselves, consistent with the current strategies and plans of the Council, and have been consistently applied.
- 7 All significant forecasting assumptions have been included in the preparation of the forecast information and have been clearly identified in the LTP. Where significant forecasting assumptions have a high level of uncertainty, that uncertainty has been stated and the potential effects of the uncertainty on the forecast financial information have been provided.
- 8 The LTP includes all the items of operating expenditure and capital projects the Council reasonably expects will be done in the 10 years covered by the plan, based on the best information currently available to the Council.

- 9 The forecasts of capital expenditure and operating expenditure are supported by, and consistent with, underlying information such as asset management plans and the infrastructure strategy.
- 10 The records maintained by the Council were adequate for the preparation of the Council's LTP.
- 11 We have made available to you all supporting documentation on the information and assumptions underlying the forecast information used to prepare the LTP.
- 12 All minutes of meetings of the Council and its sub-committees held to date have been made available to you for inspection, including summaries of recent meetings for which minutes have not yet been prepared or approved.

#### Performance framework

- 13 The forecast information and proposed performance measures provide an appropriate framework for the meaningful assessment of the actual levels of service. The performance measures reflect the intended levels of service for those activities the Council has chosen to carry out in response to community consultation and legislative requirements. Proposed performance targets are based on the equivalent basis of reasonable and supportable assumptions and underlying information.

#### Systems and processes

- 14 The Council accepts that it is responsible for establishing and maintaining systems and processes designed to provide reasonable assurance about the integrity and reliability of the forecast information. The Council has maintained effective systems and processes, and they have operated to generate accurate and reliable forecast information.

#### Legislative compliance

- 15 The Council accepts that it is responsible for ensuring that all applicable aspects of the Act that affect the LTP have been complied with. To the best of its knowledge, the Council has complied with all legislative requirements in the preparation of the LTP.
- 16 The Council has followed the decision-making provisions of Part 6 of the Act in making decisions about the content considered for inclusion and exclusion from the LTP.
- 17 The Council followed the special consultative procedures outlined in the Act in relation to the consultation document. All changes to the underlying information resulting from consultation have been appropriately reflected in the LTP.



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- 18 We have a significance and engagement policy that outlines the Council's approach to determining the significance of proposals and decisions in accordance with section 76AA of the Act.
- 19 The Council has considered the balanced budget requirements outlined in section 100 of the Act, and is managing its revenue, expenses, assets, liabilities, and general financial dealings prudently as required by sections 101 and 101A of the Act. We have made adequate provision to meet the expenditure needs of the Council identified in the LTP.
- 20 The Council has adopted and applied the following policies in the development of the LTP:
- a revenue and financing policy that complies with section 103 of the Act and has been prepared after consideration of the matters outlined in section 101(3) of the Act;
  - a liability management policy that complies with section 104 of the Act;
  - an investment policy that complies with section 105 of the Act;
  - a policy on development contributions or financial contributions that complies with section 106 of the Act;
  - a policy on remission and postponement of rates on Māori freehold land that complies with section 108 of the Act; and
  - a rates postponement policy adopted under section 110 or rates remission policy adopted under section 109 of the Act.

These policies have formed the basis for the financial parameters used in the preparation of the LTP.

- 21 All the information required by Part 1 of Schedule 10 of the Act has been included in the LTP.
- 22 All the information required by the Local Government (Financial Reporting and Prudence) Regulations 2014 has been included in the LTP.

#### Generally accepted accounting practice

- 23 The accounting policies applied to the forecast financial statements comply with generally accepted accounting practice and are those that the Council intends to use in the future for reporting historical financial statements. Any change in accounting policy from policies previously applied and reported in historical financial statements has been disclosed in the LTP.

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- 24 The estimated effect of the revaluation of service delivery assets has been incorporated into the LTP.
- 25 The forecast financial information has been prepared and presented in accordance with PBE FRS 42 Prospective Financial Statements.
- 26 The forecast financial information has been prepared in accordance with the accounting policies.
- 27 The Council's assumption about future price changes on the forecast financial information is based on the best information currently available to the Council and is reasonable and supportable.

**Publication of the LTP and related audit report on the Council's website**

- 28 The Council accepts that it is responsible for the electronic presentation of the audited LTP.
- 29 The electronic version of the audited LTP and related audit report presented on the website are the same as the final signed version of the audited LTP and audit report.
- 30 We have clearly differentiated between audited and unaudited information in the preparation of the LTP on the Council's website and understand the risk of potential misrepresentation in the absence of appropriate controls.
- 31 We have assessed the security controls over audited forecast information and the related audit report and are satisfied that procedures in place are adequate to ensure the integrity of the information provided.
- 32 Where the audit report on the full LTP is provided on the website, the LTP is also provided in full.

These representations are made at your request, and to supplement information obtained by you from the records of the Council and to confirm information given to you orally.

Yours faithfully



Justin Lester

Mayor

Wellington City Council

## 2018-28 Long-term Plan disclosure statement for the period Commencing 1 July 2018

### Purpose of this statement

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

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

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

The Council considers there are three key financial areas that demonstrate whether a Council is being managed in a prudent manner:

- the level of rate increases
- level of borrowings
- the balancing of the budget

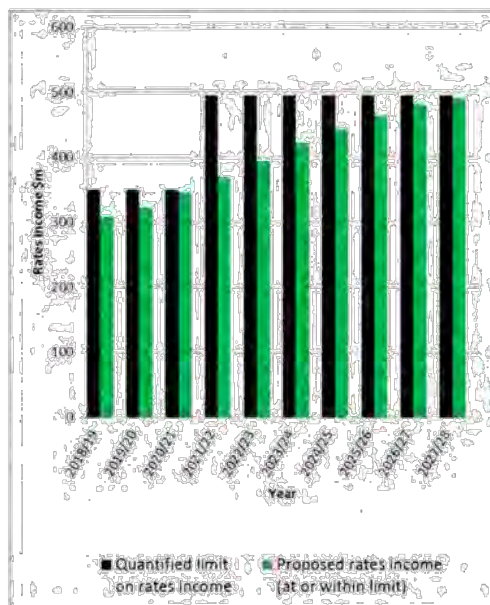
### Rates affordability benchmark

The council meets the rates affordability benchmark if—

- its planned rates income equals or is less than each quantified limit on rates; and
- its planned rates increases equal or are less than each quantified limit on rates increases.

### Rates (income) affordability

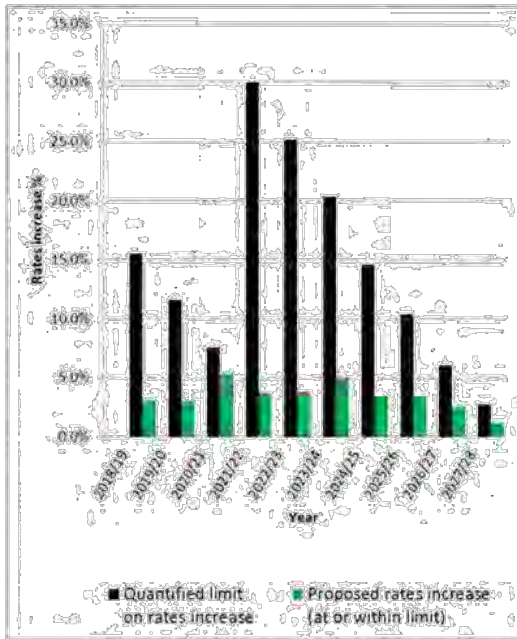
The following graph compares the council's actual rates increases with a quantified dollar limit on rates increases included in the financial strategy included in the council's long-term plan. The quantified limit for the first three years of the Long-term Plan is \$350,000,000 and is \$495,000,000 for the years 1 – 10 of the Long-term Plan .



### Rates (increases) affordability

The following graph compares the council's planned rates increases with a quantified limit on rates increases included in the financial strategy in the council Long-term Plan. The quantified limit for the annual rates increase is the difference between the rates limit for the year and the previous year's rates income expressed as a percentage. Growth in the rating base reduces the

impact of the overall rates increase on existing ratepayers. We have assumed an average growth in the ratepayer base of 0.9 percent per year over the 10 years of the plan. After accounting for growth and excluding the impact of the proposed tourism targeted rate (which, if introduced, will be rated on the tourism sector), the annual rates increase limit is the equivalent of an average rates increase of 3.5 percent over the first 3 years of this plan and an average of 4.0 percent over 10 years.

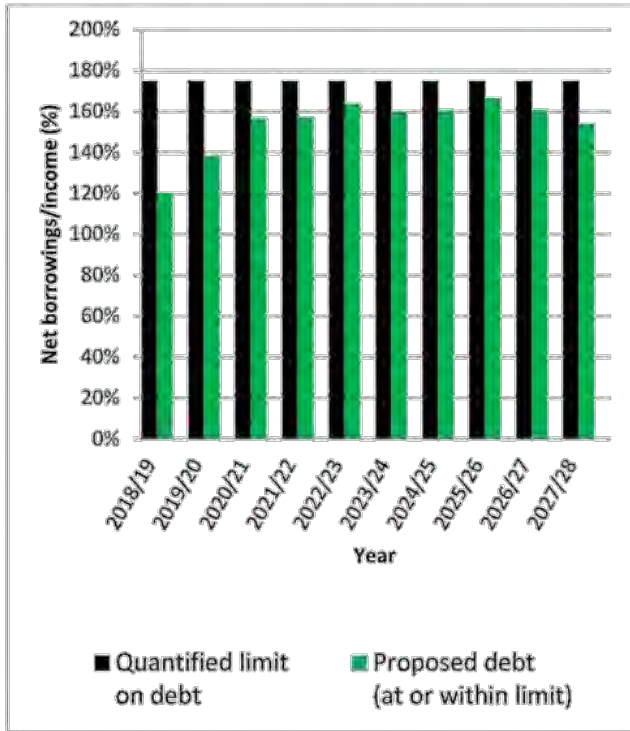


**Debt affordability benchmark**

**Net borrowing as a percentage of income**

The following graph compares the council's proposed borrowing with a quantified limit on borrowing stated in the financial strategy included in the council's long-term plan. The quantified limit is net borrowings, comprised of borrowings less cash and cash equivalents, being less than or equal to 175% of income. For this measure income is defined as total revenue less vested assets and development contribution income.

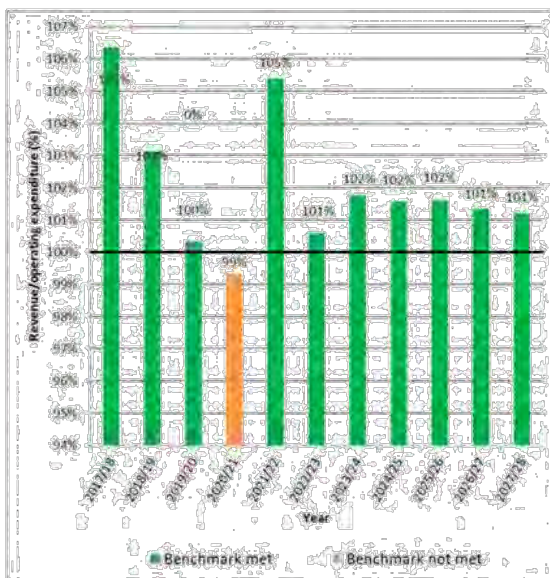
The council meets the debt affordability benchmark if its planned borrowing is within each quantified limit on borrowings.



**Balanced budget benchmark**

The following graph displays the council's revenue (excluding development contributions, financial contributions, vested assets, gains on derivative financial instruments, and revaluations of property, plant, or equipment) as a proportion of operating expenses (excluding losses on derivative financial instruments and revaluations of property, plant, or equipment).

The council meets this benchmark if its planned revenue equals or is greater than its planned operating expenses. In 2020/21 the planned revenue falls below the planned operating expenditure (99%).

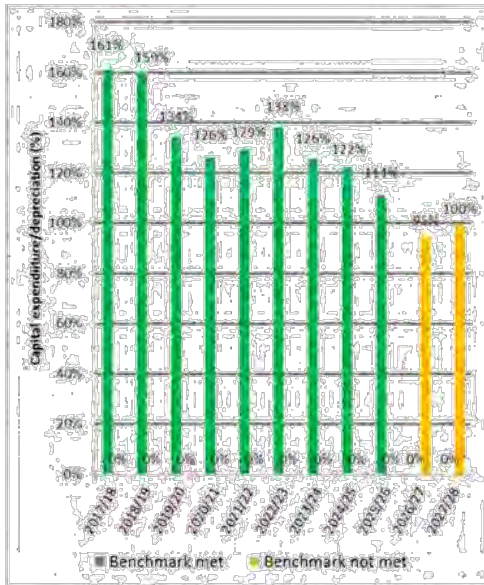


This has occurred because some of the planned operating expenditure is initially debt funded and then is rate funded to repay the debt for the purposes of inter-generational equity. The difference in timing between funding and expenditure has caused the balanced budget % to go below 100% in 2020/21.

**Essential services benchmark**

The following graph displays the council's planned capital expenditure on network services as a proportion of expected depreciation on network services. Essential services comprise expenditure on the three waters and transport.

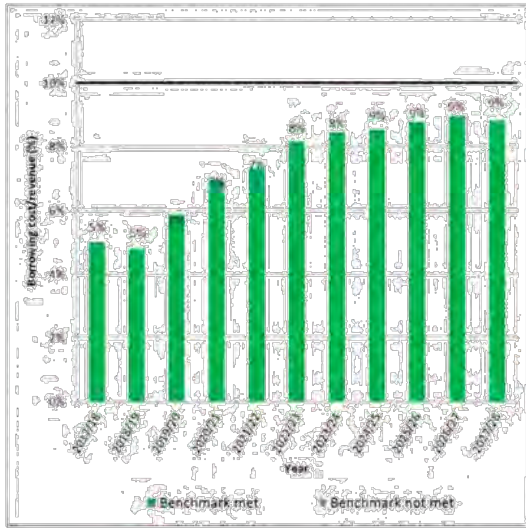
The council meets the essential services benchmark if its planned capital expenditure on network services equals or is greater than expected depreciation on network services. In years 9 and 10 of the plan the level of capital expenditure on network services falls below depreciation. This is driven by capital expenditure to improve levels of service occurring in the later years; the depreciation impact from this capital expenditure lags behind the investment. The depreciation is only for the existing assets in commission and is not related to the capital expenditure of assets yet to be commissioned.



**Debt servicing benchmark**

The following graph displays the council's planned borrowing costs as a proportion of planned revenue (excluding development contributions, financial contributions, vested assets, gains on derivative financial instruments, and revaluations of property, plant, or equipment).

Because Statistics New Zealand projects the council's population will grow more slowly than the national population growth rate, it meets the debt servicing benchmark if its borrowing costs equal or are less than 10% of its revenue.



FUNDING IMPACT STATEMENT  
10.1 FOR ORGANISATIONAL

	2017/18 AP	2018/19 LTP	2019/20 LTP	2020/21 LTP	2021/22 LTP	2022/23 LTP	2023/24 LTP	2024/25 LTP	2025/26 LTP	2026/27 LTP	2027/28 LTP
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<b>Sources of operating funding</b>											
General rates, uniform annual general charges, rates penalties	(14,420)	(17,504)	(17,504)	(15,115)	(14,340)	(10,178)	(10,692)	(10,545)	(10,619)	(10,432)	(10,759)
Targeted rates (other than a targeted rate for water supply)	-	-	-	-	-	-	-	-	-	-	-
Subsidies and grants for operating purposes	95	-	-	-	-	-	-	-	-	-	-
Fees and charges	57,740	45,525	44,210	45,759	47,415	48,042	48,896	49,245	49,923	49,923	50,652
Internal charges and overheads recovered	31,528	32,243	33,021	33,923	34,857	35,823	36,823	36,856	36,942	37,311	38,250
Local authorities fuel tax, fines, infringement fees, and other receipts	1,050	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100
<b>Total operating funding (A)</b>	<b>55,983</b>	<b>61,169</b>	<b>61,169</b>	<b>63,216</b>	<b>66,435</b>	<b>70,194</b>	<b>73,973</b>	<b>75,487</b>	<b>76,668</b>	<b>78,102</b>	<b>79,243</b>
<b>Applications of operating funding</b>											
Payments to staff and suppliers	81,951	94,863	95,210	99,232	101,097	97,621	98,484	101,772	104,409	104,409	108,523
Finance costs	4,643	2,174	2,570	3,152	3,715	4,044	4,198	4,274	4,249	4,249	4,183
Internal charges and overheads applied	(41,047)	(49,240)	(49,727)	(53,586)	(54,794)	(51,038)	(52,481)	(54,825)	(54,100)	(54,100)	(55,682)
Other operating funding applications	100	1,100	3,100	3,100	3,100	100	100	100	100	100	100
<b>Total applications of operating funding (B)</b>	<b>45,647</b>	<b>48,893</b>	<b>49,607</b>	<b>51,268</b>	<b>51,888</b>	<b>53,118</b>	<b>50,727</b>	<b>50,319</b>	<b>51,321</b>	<b>54,858</b>	<b>55,124</b>
<b>Surplus (deficit) of operating funding (A - B)</b>	<b>10,336</b>	<b>12,276</b>	<b>11,562</b>	<b>11,947</b>	<b>14,548</b>	<b>17,076</b>	<b>23,246</b>	<b>25,168</b>	<b>25,347</b>	<b>23,244</b>	<b>24,119</b>
<b>Sources of capital funding</b>											
Subsidies and grants for capital expenditure	-	5,504	2,295	7,495	2,295	2,295	2,295	2,295	2,295	2,295	2,295
Development and financial contributions	-	-	-	-	-	-	-	-	-	-	-
Increase (decrease) in debt	49,767	(89)	39,461	7,259	2,710	(12,854)	(12,567)	(12,567)	(12,107)	(10,619)	(11,329)
Gross proceeds from sales of assets	7,100	12,000	8,300	2,900	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Lump sum contributions	-	-	-	-	-	-	-	-	-	-	-
<b>Total sources of capital funding (C)</b>	<b>56,867</b>	<b>17,605</b>	<b>31,256</b>	<b>16,754</b>	<b>7,005</b>	<b>(8,059)</b>	<b>(6,272)</b>	<b>(7,812)</b>	<b>(6,324)</b>	<b>(6,324)</b>	<b>(7,034)</b>
<b>Applications of capital funding</b>											
Capital expenditures	-	-	-	-	-	-	-	-	-	-	-
- to meet additional demand	-	-	-	-	-	-	-	-	-	-	-
- to improve the level of service	15,151	3,760	14,171	4,536	262	361	390	283	290	290	298
- to replace existing assets	9,249	15,448	21,589	22,048	20,416	12,362	14,776	15,973	15,996	15,996	16,398
Increase (decrease) in reserves	39,203	9,661	7,423	4,613	3,103	2,424	1,730	1,279	834	834	839
Increase (decrease) in investments	-	-	-	-	-	-	-	-	-	-	-
<b>Total applications of capital funding (D)</b>	<b>64,203</b>	<b>28,792</b>	<b>45,183</b>	<b>31,302</b>	<b>24,661</b>	<b>15,187</b>	<b>16,896</b>	<b>17,935</b>	<b>17,120</b>	<b>17,120</b>	<b>17,085</b>
<b>Surplus (deficit) of capital funding (C - D)</b>	<b>(10,336)</b>	<b>(11,187)</b>	<b>(11,286)</b>	<b>(11,927)</b>	<b>(14,548)</b>	<b>(17,076)</b>	<b>(23,246)</b>	<b>(25,168)</b>	<b>(25,347)</b>	<b>(23,444)</b>	<b>(24,119)</b>
<b>Funding balance ((A - B) + (C - D))</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Expenses for this activity grouping include the following depreciation/amortisation charge</b>	<b>7,419</b>	<b>8,472</b>	<b>9,432</b>	<b>11,449</b>	<b>12,637</b>	<b>13,328</b>	<b>14,500</b>	<b>15,907</b>	<b>16,093</b>	<b>14,136</b>	<b>14,313</b>