Absolutely Positively **Wellington** City Council
Me Heke Ki Pōneke

# ORDINARY MEETING

# OF

# AUDIT AND RISK SUBCOMMITTEE

# AGENDA

**Time:** 1.00 pm
**Date:** Tuesday, 2 June 2015
**Venue:** Committee Room 1
Ground Floor, Council Offices
101 Wakefield Street
Wellington

## MEMBERSHIP

Mayor Wade-Brown

Peter Harris (External)
Councillor Marsh
Councillor Peck (Chair)
Kevin Simpkins (External)
Councillor Woolf

**Have your say!**
*You can make a short presentation to the Councillors at this meeting. Please let us know by noon the working day before the meeting. You can do this either by phoning 803-8334, emailing public.participation@wcc.govt.nz or writing to Democratic Services, Wellington City Council, PO Box 2199, Wellington, giving your name, phone number and the issue you would like to talk about.*

# AREA OF FOCUS

Providing objective advice and recommendations regarding the sufficiency, quality and results of assurance on the adequacy and functioning of the council's risk management, control and governance frameworks and processes.  It is also responsible for exercising active oversight of all areas of the Council's control and accountability in an integrated and systematic way.

**Quorum:** 3 members (at least one external member must be present for a quorum to exist).

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# 1 Meeting Conduct

### 1. 1 Apologies
The Chairperson invites notice from members of apologies, including apologies for lateness and early departure from the meeting, where leave of absence has not previously been granted.

### 1. 2 Conflict of Interest Declarations
Members are reminded of the need to be vigilant to stand aside from decision making when a conflict arises between their role as a member and any private or other external interest they might have.

### 1. 3 Confirmation of Minutes
The minutes of the meeting held on 18 May 2015 will be put to the Audit and Risk Subcommittee for confirmation.

### 1. 4 Public Participation
A maximum of 60 minutes is set aside for public participation at the commencement of any meeting of the Council or committee that is open to the public. Under Standing Order 3.23.3 a written, oral or electronic application to address the meeting setting forth the subject, is required to be lodged with the Chief Executive by 12.00 noon of the working day prior to the meeting concerned, and subsequently approved by the Chairperson.

### 1. 5 Items not on the Agenda
The Chairperson will give notice of items not on the agenda as follows:

***Matters Requiring Urgent Attention as Determined by Resolution of the Audit and Risk Subcommittee.***

1. The reason why the item is not on the agenda; and
2. The reason why discussion of the item cannot be delayed until a subsequent meeting.

***Minor Matters relating to the General Business of the Audit and Risk Subcommittee.***
No resolution, decision, or recommendation may be made in respect of the item except to refer it to a subsequent meeting of the Audit and Risk Subcommittee for further discussion.

## 2. General Business

# DRAFT 2014/15 FINANCIAL STATEMENTS AND PROPOSED SIGN OFF PROCESS

## Purpose

1. The purpose of this report is to obtain the agreement of the Subcommittee as to the proposed format and disclosures for the Council's 2014/15 financial statements and proposed sign-off process.

## Recommendations

That the Audit and Risk Subcommittee:

1. Receive the information.
2. Note that the draft 2014/15 financial statements template is currently being reviewed by Audit New Zealand and that their comments / recommendations will be reflected in the final financial statements to Audit and Risk Subcommittee in August 2015.
3. Note that this is the first reporting period for the Council for the new Public Benefit Entity standards and that the draft 2014/15 financial statements will reflect the new reporting format.
4. Approve the application and interpretation of the new Public Benefit Entity standards as set out in this paper.
5. Approve the proposed format and disclosures for the 2014/15 financial statements subject to:
    a. Consideration of the implications of any changes in NZ GAAP arising up to 30 June 2015 which may be required to be applied retrospectively;
    b. The determination and disclosure of the final results of operations, cashflows and financial position for the year ending 30 June 2015 (and any subsequent impact on the notes to the financial statements); and
    c. Receiving final clearance from Audit New Zealand.
6. Approve the sign-off process and timetable for the 2014/15 financial statements.

## Background

2. Section 98 of the Local Government Act (LGA) 2002 requires the Council to prepare and adopt an Annual Report containing specified disclosures within four months after the end of the financial year. Section 111 of the LGA 2002 requires Council to comply with generally accepted accounting practice (GAAP) in preparing the Annual Report.
3. Council officers propose to prepare the 2014/15 Annual Report for adoption on the 26 August 2015. In order to achieve this timeframe, a draft template has been prepared for the Subcommittee's review which identifies the proposed financial statement format and disclosures. This report also outlines the proposed sign-off process and timetable for adoption of the 2014/15 Annual Report.

4. The template for the financial statements is currently being reviewed by Audit New Zealand as part of their financial statement audit for the year ending 30 June 2015 and their comments / recommendations will be incorporated into the final set of financial statements to the Subcommittee in August 2015.

## Discussion

**Significant changes in the content and format of the Council's financial statements**

**Process**

5. The template has been drafted by the Council's Financial Accounting team, who are mindful of the need to modify the presentation of the financial statements to maintain best practice. These financial statements have been prepared based on recently published PBE compliant model financial statements (Ernst & Young and Audit New Zealand).
6. A review was also undertaken looking at recently published annual reports prepared in accordance with NZ IFRS with the aim to reduce the amount of disclosures, and to improve the readability of the financial statements. The aim was to reduce the volume of information contained in the report and balance this against the need for transparency and accountability to ratepayers and other users of the financial information while still meeting statutory obligations.
7. The financial statements have been prepared where possible using plain english explanations but given the complexity of Council operations and the requirements of accounting standards, they will include technical explanations that only experienced readers of financial statements will understand. In order to ensure a greater understanding of the financial statements is available, key messages, themes and results achieved will be explained in the Financial Overview in a manner that allows for better understanding by a wider audience. This approach will be reflected in the document as a whole.
8. It is important to note that the template reflects applicable NZ IFRS PBE as at the date of preparation and any subsequent changes to accounting standards will be updated at the next Subcommittee meeting.

**Key changes in the financial statements template**

9. This section sets out of the non PBE changes made to the template that were made to increase the readability of the financial statements.
10. The major changes are:
    - Removal of Note 24 Accumulated Funds, as the information is already included in the Statement of Changes in Equity.
    - Removal of Note 32 Analysis of Operating Surplus by Activity area, as this information is already included in Statement of Service Performance.
    - Removal of the Statement of Comprehensive Performance table in Note 33 Major Budget Variations and to replace with narrative (now Note 30).
    - Removal of Note 34 Analysis of Capex by Activity area and Note 35 Capex Performance, as this information is already provided in the Statement of Service Performance.
11. A summary of the changes are included in Attachment 3: Summary of non PBE changes to Financial Statements.

**Accounting implications of adopting PBE standards for Council**

12. This section sets out the presentational changes arising from implementing the PBE suite of accounting standards:

    Statement of Comprehensive Revenue and Expense

    - Name change from Statement of Comprehensive Financial Performance to the new title “Statement of Comprehensive Revenue and Expense”
    - Any income references changed to revenue
    - Joint Ventures are now called “Jointly controlled entities” and are consolidated and referenced in the same way as any associate.

    Statement of Financial Position:

    - Increased disclosure in Assets to reflect Exchange and Non-Exchange transactions, and the recognition change to having jointly controlled entities upon the Balance Sheet
    - Increased disclosure in Liabilities to reflect Exchange and Non-Exchange transactions and their impact on the Balance Sheet

    Notes forming part of the Financial Statements:

    - A new note explaining “Exchange and non-exchange revenue”, with non-exchange revenue further split between Taxes and Transfers
    - Group Structure – changed to reflect:
        - Wellington Regional Stadium Trust (WRST) – no longer included in Group
        - Basin Reserve Trust (BRT) – no longer included in Group -
        - Wellington Water Limited (previously Capacity) – changed from an associate to a jointly controlled entity
    - Related Party disclosures – additional disclosure as to the actual number and equivalent number of full time Key Management personnel.

13. A summary of the changes are included in Attachment 4: Summary of PBE changes to financial statements.

14. Aside from the presentational changes noted above, there are further disclosure requirements around disclosing Exchange and Non-exchange transactions. Attachment 5: Identifying Exchange and Non Exchange transactions provides a summary of the approach Council has taken in identifying how it has classified various transactions into the new classifications.

15. The principles that Council is proposing in applying to the classification of transactions are as follows:

    - Council will be applying the classifications at the Activity level and not on a line by line basis. This approach is allowed by the standards and will prove to be a more cost effective way of complying with the new requirements.
    - That General Rates is a tax and therefore any Activity that has any part of the Activity funded from General Rates is a “Non-Exchange” transaction.
    - In taking this approach, it is proposed that any Activity that receives General Rate funding will be classified as “Non-Exchange” transactions on the basis that there is no fair exchange of payment that is of equal value between the recipient and the Council’s goods or services. This is due to the General Rate being leived on ratepayers based on the capital value of properties and that two ratepayers who live next to each other, could effectively mean one will pay more than the other

due to the value of their properties for the same service e.g. swimming pools and the proportion of rates paid by one when compared to the other.

- In taking an Activity level approach, it is proposed that any Activity that receives Targeted Rate funding based on a capital value will be classified as "Non-Exchange" transactions on the basis that there is no fair exchange of payment that is of equal value between the recipient and the Council's goods or services.
- The level of transactions must be material and consideration will be given to the impact of showing the transactions under either approach.

**Significant areas of focus for the financial statements for the year ending 30 June 2015**

16. Significant areas of focus identified to date as part of the preparation of the financial statements for the year ended 30 June 2015 are as follows:

17. Reassessment of fair values / impairment testing
    - The Council conducts revaluations of certain classes of property, plant and equipment on a rolling three year cycle. Revaluations are staggered over the three year period to spread the cost and workload involved. We are required to review the off-cycle classes to ensure that the carrying value of these assets is not materially different from fair value.
    - Operational land and buildings are due to be revalued as at 30 June 2015 and the results of the revaluation will be presented to the subcommittee in August. Of the other classes subject to the revaluation model, Infrastructural and Library assets are next due for revaluation in 2017, as they were last revalued at 30 June 2014.
    - We reviewed the off-cycle classes of property, plant and equipment, applying appropriate indices. The increase in asset value of 1.7% was not considered material and accordingly we concluded that there is no indication that fair values have shifted materially since the last valuations were completed which would necessitate an off-cycle revaluation.

18. Investment property revaluation
    - Investment properties comprise ground leases as well as land and buildings held for investment purposes (commercial rental or capital growth). In accordance with NZ IAS PBE 40: Investment Property, these are revalued annually to market value and all changes in fair value are shown within the surplus or deficit. All investment properties (including those in the Wellington Waterfront Project), will be revalued as at 30 June 2015.

19. Impairment of Assets
    - The Council is required to regularly consider impairment in accordance with NZ IAS PBE 36: Impairment of Assets. Given the difficult economic climate over the last few years and its potential impact on asset values, this remains a particular area of focus for 2014/15. We are looking closely at all of our assets to ensure that we have appropriately reflected any impairment issues. At the next Subcommittee meeting we will provide further information on the overall impairment for the 2014/15 financial year.

20. Weathertightness (leaky homes) provision
    - Exposure to liabilities from leaky home claims remains a significant issue for both the Council and wider sector. The Council is in the process of reviewing the assessment of the leaky homes provision.

**Year-end financial results**

21. This report has focused on the template for the year-end financial statements, the disclosures and financial overview. Any significant movements from budgeted results or issues arising will be reported to the Subcommittee during the scheduled year end meeting on 26 August 2015.

**Proposed sign-off process for the 2014/15 financial statements**

22. On the basis that the Subcommittee has been delegated the primary responsibility for the audit of the Council's financial statements, a proposed sign-off process and timetable has been developed in order to adopt the 2014/15 Annual Report. This is outlined in Attachment 1 to this report.

## Attachments



| | |
|---|---|
| Author | Richard Marshall, Manager Financial Accounting |
| Authoriser | Andy Matthews, Chief Financial Officer |

# SUPPORTING INFORMATION

**Consultation and Engagement**
There are no requirements to consult on the issues raised in this paper or report.

**Treaty of Waitangi considerations**
There are no specific Treaty of Waitangi considerations.

**Financial implications**
There are no new financial implications arising from this paper.

**Policy and legislative implications**
There are no new policy or legislative impliciations arising from this paper.

**Risks / legal**
There are no new risks or legal impliciations arising from this paper.

**Climate Change impact and considerations**
There is no climate change impliciations arising from this paper.

**Communications Plan**
No communication plan is required for this paper.

# Proposed sign off process and timetable for the 2014/15 Annual Report

| Date: | Action: |
|---|---|
| **2 June 2015 (scheduled)** | *Audit and Risk Subcommittee Meeting*<br>Subcommittee to review and conditionally approve draft format for the 2014/15 financial statements and the proposed sign-off process. |
| **27 July 2015** | Audit New Zealand commence final audit fieldwork |
| **1 August 2015** | Consolidated draft financial statements, including results of operations and cashflows for the year ending 30 June 2015, financial position as at 30 June 2015 and financial overview available for final internal review and management sign off. |
| **11 August 2015 (scheduled)** | Audit and Risk Subcommittee briefing on major provisions and issues. |
| **18 August 2015 (scheduled)** | *Audit and Risk Subcommittee Meeting*<br>Subcommittee to review consolidated draft financial statements, including results of operations and cashflows for the year ending 30 June 2015, financial position as at 30 June 2015 and financial overview, subject to final Audit New Zealand clearance. Subcommittee to also review Statements of Service Performance, report on CCOs and report on mana whenua partnership.<br><br>Subcommittee to review the draft letter of representation letter.<br><br>Subcommittee to recommend adoption of 2014/15 financial statements to the Governance, Finance and Planning Committee and the letter of representation.<br><br>Audit New Zealand to issue letter of comfort to strategy and Policy Committee as to whether an unqualified, or qualified, audit opinion will be issued. |
| **26 August 2015 (scheduled)** | *Governance, Finance and Planning Committee Meeting*<br>Committee to recommend adoption of 2014/15 financial statements to Council. |
| **26 August 2015 (scheduled)** | *Council Meeting*<br>Council to adopt 2014/15 financial statements.<br>Management Letter of Representation issued to Audit New Zealand.<br>Audit New Zealand sign Audit Opinion.<br>Media Release – Financial Results for the year ending 30 June 2015. |
| **TBC September 2015** | Release of published Annual Report. |

# Wellington City Council
# and
# Group

# Consolidated Financial Statements

# For the year ended 30 June 2015

## Section contents

# ;tatement of Compliance and Responsibility

## ompliance

ıe Council and management of Wellington City Council confirm that all the statutory requirements in relation to the ınual Report, as outlined in Schedule 10 of the Local Government Act 2002, have been complied with.

## esponsibility

ıe Council and management accept responsibility for the preparation of the annual financial statements and judgements ;ed in them. They also accept responsibility for establishing and maintaining a system of internal control designed to ovide reasonable assurance as to the integrity and reliability of financial reporting.

the opinion of the Council and management, the annual financial statements for the year ended 30 June 2015 fairly flect the financial position, results of operations and service performance achievements of Wellington City Council and roup.

| | | |
|---|---|---|
| **Celia Wade-Brown** | **Kevin Lavery** | **Andy Matthews** |
| **Mayor** | **Chief Executive** | **Chief Financial Officer** |
| 26 August 2015 | 26 August 2015 | 26 August 2015 |

DRAFT Financial Statements

## Statement of Comprehensive Revenue and Expense

For the year ended 30 June 2015

| | Note | Council Actual 2015 $000 | Council Budget 2015 $000 | Council Actual 2014 $000 | Group [1] Actual 2015 $000 | Group [1] Actual 2014 $000 |
|---|---|---|---|---|---|---|
| **Revenue** | | | | | | |
| Rates revenue | | | | | | |
| Rates (excluding water rates by meter) | | | 241,387 | 234,007 | | 234,007 |
| Water rates by meter | | | 13,879 | 12,329 | | 12,329 |
| Revenue from operating activities | | | | | | |
| Development contributions | | | 2,000 | 5,873 | | 5,873 |
| Grants, subsidies and reimbursements | | | 51,090 | 43,315 | | 49,597 |
| Other operating activities | | | 119,913 | 115,213 | | 125,440 |
| Investments revenue | | | 20,215 | 23,253 | | 11,287 |
| Fair value movement on investment property revaluation | | | - | - | | - |
| Other revenue | | | 1,100 | 14,949 | | 14,959 |
| Finance revenue | | | 603 | 2,752 | | 3,085 |
| **Total revenue** | | - | **450,187** | **451,691** | - | **456,577** |
| **Expense** | | | | | | |
| Finance expense | | | (23,041) | (22,754) | | (22,756) |
| Expenditure on operating activities | | | (298,596) | (297,951) | | (314,745) |
| Depreciation and amortisation expense | | | (102,165) | (95,860) | | (96,611) |
| Fair value movement on investment property revaluation | | | - | (7,661) | | (7,661) |
| **Total expense** | | - | **(423,802)** | **(424,226)** | - | **(441,773)** |
| Share of equity accounted surplus/(deficit) from associates and jointly controlled entities | | - | - | - | | 15,195 |
| **Net surplus before taxation** | | - | **26,385** | **27,465** | - | **29,999** |
| Income tax credit/(expense) | | - | - | - | | 64 |
| **NET SURPLUS for the year** | | - | **26,385** | **27,465** | - | **30,063** |
| **Other comprehensive revenue and expense** | | | | | | |
| *Items that will be reclassified to surplus/(deficit)* | | | | | | |
| **Cash flow hedges:** | | | | | | |
| Fair value movement - net | | | | 9,552 | | 9,552 |
| Reclassification to finance income | | | | - | | |
| **Fair value through other comprehensive revenue and expense** | | | | | | |
| Fair value movement - financial assets - net | | | | (30) | | (30) |
| **Share of other comprehensive revenue and expense of associates and jointly controlled entities:** | | | | | | |
| Reclassification to share of equity acounted surplus | | | | - | | 1 |
| *Items that will not be reclassified to surplus/(deficit)* | | | | | | |
| **Revaluations:** | | | | | | |
| Fair value movement - property, plant and equipment - net | | | 57,073 | (45,290) | | (47,163) |
| **Share of other comprehensive revenue and expense of associates and jointly controlled entities:** | | | | | | |
| Effect of changed shareholding in associates | | | | - | | 38 |
| **Total other comprehensive revenue and expense** | | - | **57,073** | **(35,768)** | - | **(37,602)** |
| **TOTAL COMPREHENSIVE REVENUE and EXPENSE for the year** | | - | **83,458** | **(8,303)** | - | **(7,539)** |
| **Total comprehensive revenue and expense is attributable to:** | | | | | | |
| Wellington City Council and Group | | | 83,458 | (8,303) | | (7,539) |
| Non-controlling interest* | | | - | - | | - |
| | | - | **83,458** | **(8,303)** | - | **(7,539)** |

*Greater Wellington Regional Council owns 20% of Wellington Regional Economic Development Agency Limited

1. The Group includes the Council, the controlled entities disclosed in Note 35, and the Council's interest in the associates and jointly controlled entities disclosed in Note 36 A structural diagram of the Group is shown in Note 33.
2. Other comprehensive revenue or expense is non-cash in nature and only reflects changes in equity.

The notes on pages XX to XX form part of and should be read in conjunction with these financial statements.

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## Statement of Changes in Equity

**For the year ended 30 June 2015**

| | | Council | | | Group | |
|---|---|---|---|---|---|---|
| | | Actual | Budget | Actual | Actual | Actual |
| | | 2015 | 2015 | 2014 | 2015 | 2014 |
| | Note | $000 | $000 | $000 | $000 | $000 |
| **EQUITY - Opening balances** | | | | | | |
| Accumulated funds | | | 1,269,134 | 1,269,134 | | 1,293,162 |
| Retained earnings | | | 3,696,747 | 3,653,843 | | 3,639,095 |
| Revaluation reserves | | | 1,685,991 | 1,417,323 | | 1,529,130 |
| Hedging reserve | | | (9,955) | (9,955) | | (9,956) |
| Fair value through other comprehensive revenue and expense reserve | | | 93 | 93 | | 93 |
| Restricted funds | | | 10,715 | 17,960 | | 20,647 |
| **TOTAL EQUITY - Opening balance** | | **-** | **6,652,725** | **6,348,398** | **-** | **6,472,171** |
| **CHANGES IN EQUITY** | | | | | | |
| **Retained earnings** | | | | | | |
| Net surplus for the year | | | 26,385 | 27,465 | | 30,063 |
| Transfer to restricted funds | | | (3,766) | (4,779) | | (5,097) |
| Transfer from restricted funds | | | 3,765 | 8,056 | | 8,307 |
| Transfer from revaluation reserves | | | - | - | | - |
| **Revaluation reserves** | | | | | | |
| Fair value movement - property, plant and equipment - net | | | 57,073 | (45,290) | | (47,163) |
| Effect of changed shareholding in associates | | | - | - | | 38 |
| Transfer to retained earnings | | | - | - | | - |
| **Hedging reserve** | | | | | | |
| Movement in hedging reserve | | | - | 9,552 | | 9,553 |
| **Fair value through other comprehensive revenue and expense reserve** | | | | | | |
| Movement in fair value | | | - | (30) | | (30) |
| **Restricted funds** | | | | | | |
| Transfer to retained earnings | | | (3,765) | (8,056) | | (8,307) |
| Transfer from retained earnings | | | 3,766 | 4,779 | | 5,097 |
| **Total comprehensive revenue and expense** | | **-** | **83,458** | **(8,303)** | **-** | **(7,539)** |
| **EQUITY - Closing balances** | | | | | | |
| Accumulated funds | | - | 1,269,134 | 1,269,134 | - | 1,293,162 |
| Retained earnings | | - | 3,723,131 | 3,684,585 | - | 3,672,368 |
| Revaluation reserves | | - | 1,743,064 | 1,372,033 | - | 1,482,005 |
| Hedging reserve | | - | (9,955) | (403) | - | (403) |
| Fair value through other comprehensive revenue and expense reserve | | - | 93 | 63 | - | 63 |
| Restricted funds | | - | 10,716 | 14,683 | - | 17,437 |
| **TOTAL EQUITY - Closing balance** | | **-** | **6,736,183** | **6,340,095** | **-** | **6,464,632** |

The notes on pages XX to XX form part of and should be read in conjunction with these financial statements.

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## Statement of Financial Position

As at 30 June 2015

| | Note | Council Actual 2015 $000 | Council Budget 2015 $000 | Council Actual 2014 $000 | Group Actual 2015 $000 | Group Actual 2014 $000 |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| **Current assets** | | | | | | |
| Cash and cash equivalents | | | 2,389 | 52,573 | | 56,853 |
| Derivative financial assets | | | 409 | - | | - |
| Receivables from exchange transactions | | | #REF! | #REF! | | #REF! |
| Recoverables from non-exchange transactions | | | #REF! | #REF! | | #REF! |
| Other financial assets | | | - | 20,000 | | 20,400 |
| Prepayments | | | 15,048 | 11,643 | | 11,723 |
| Inventories | | | 875 | 969 | | 1,755 |
| Non-current assets classified as held for sale | | | - | 1,367 | | 1,367 |
| **Total current assets** | | - | **#REF!** | **#REF!** | - | **#REF!** |
| **Non-current assets** | | | | | | |
| Derivative financial assets | | | 3,280 | 4,428 | | 4,428 |
| Other financial assets | | | 8,928 | 9,849 | | 9,849 |
| Intangibles | | | 16,743 | 16,750 | | 16,820 |
| Investment properties | | | 205,951 | 192,901 | | 192,901 |
| Property, plant and equipment | | | 6,974,749 | 6,536,012 | | 6,547,197 |
| Investment in subsidiaries | | | 3,809 | 3,809 | | - |
| Investment in associates and jointly controlled entities | | | 19,519 | 19,504 | | 135,154 |
| **Total non-current assets** | | - | **7,232,979** | **6,783,253** | - | **6,906,349** |
| **TOTAL ASSETS** | | - | **#REF!** | **#REF!** | - | **#REF!** |
| **LIABILITIES** | | | | | | |
| **Current liabilities** | | | | | | |
| Derivative financial liabilities | | | 404 | 180 | | 180 |
| Payables under exchange transactions | | | 43,467 | 44,952 | | 47,271 |
| Taxes and transfers payable | | | 14,478 | 14,973 | | 15,338 |
| Revenue in Advance | | | 11,405 | 12,105 | | 13,224 |
| Borrowings | | | 155,562 | 129,371 | | 129,375 |
| Employee benefit liabilities and provisions | | | 5,698 | 5,228 | | 6,440 |
| Provision for other liabilities | | | 17,466 | 30,781 | | 30,781 |
| **Total current liabilities** | | - | **248,480** | **237,590** | - | **242,609** |
| **Non-current liabilities** | | | | | | |
| Deferred tax | | | - | - | | 1,279 |
| Derivative financial liabilities | | | 12,831 | 4,788 | | 4,788 |
| Payables under exchange transactions | | | - | 630 | | 630 |
| Borrowings | | | 248,601 | 289,747 | | 289,750 |
| Employee benefit liabilities and provisions | | | 1,474 | 1,207 | | 1,288 |
| Provision for other liabilities | | | 43,687 | 35,422 | | 35,422 |
| **Total non-current liabilities** | | - | **306,593** | **331,794** | - | **333,157** |
| **TOTAL LIABILITIES** | | - | **555,073** | **569,384** | - | **575,766** |
| **EQUITY** | | | | | | |
| Accumulated funds | | | 1,269,134 | 1,269,134 | - | 1,293,162 |
| Retained earnings | | | 3,723,131 | 3,684,585 | | 3,672,368 |
| Revaluation reserves | | | 1,743,064 | 1,372,033 | | 1,482,005 |
| Hedging reserve | | | (9,955) | (403) | | (403) |
| Fair value through other comprehensive revenue and expense reserve | | | 93 | 63 | | 63 |
| Restricted funds | 29,30 | | 10,716 | 14,683 | | 17,437 |
| **TOTAL EQUITY** | | - | **6,736,183** | **6,340,095** | - | **6,464,632** |
| **TOTAL EQUITY AND LIABILITIES** | | - | **7,291,256** | **6,909,479** | - | **7,040,398** |

The notes on pages XX to XX form part of and should be read in conjunction with these financial statements

DRAFT Financial Statements

## Statement of Cash Flows

**For the year ended 30 June 2015**

| | | Council | | | Group | |
|---|---|---|---|---|---|---|
| | | Actual | Budget | Actual | Actual | Actual |
| | | 2015 | 2015 | 2014 | 2015 | 2014 |
| | Note | $000 | $000 | $000 | $000 | $000 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | | | |
| Receipts from rates - Council (excluding metered water) | | | 241,387 | 234,890 | | 234,890 |
| Receipts from water rates by meter | | | 13,879 | 12,086 | | 12,086 |
| Receipts from rates- Greater Wellington Reginal Council | | | 50,341 | 48,575 | | 48,575 |
| Receipts from activities and other Income | | | 123,013 | 137,052 | | 151,890 |
| Receipts from grants and subsidies - Operating | | | 7,715 | 5,189 | | 16,446 |
| Receipts from grants and subsidies - Capital | | | 43,375 | 37,129 | | 39,253 |
| Receipts from investment property lease rentals | | | 9,215 | 11,174 | | 11,174 |
| Cash paid to suppliers and employees | | | (286,780) | (276,384) | | (310,507) |
| Rates paid to GWRC | | | (50,341) | (48,828) | | (48,828) |
| Grants paid | | | (28,719) | (32,341) | | (25,743) |
| Income tax paid | | | - | - | | (15) |
| Net GST (paid) / received | | | - | (609) | | (1,487) |
| **NET CASH FLOWS FROM OPERATING ACTIVITIES** | | **-** | **123,085** | **127,933** | **-** | **127,734** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | | | |
| Dividends received | | | 11,000 | 12,079 | | 12,079 |
| Interest received | | | 44 | 2,240 | | 2,491 |
| Decrease in bank investments | | | - | - | | - |
| Proceeds from sale of property, plant and equipment | | | 4,050 | 4,088 | | 4,088 |
| Loan advance made | | | - | (300) | | (300) |
| Increase in investments | | | - | (20,683) | | (20,683) |
| Purchase of investment properties | | | - | (781) | | (781) |
| Purchase of intangibles | | | (8,777) | (1,788) | | (1,859) |
| Purchase of property, plant and equipment | | | (155,724) | (125,147) | | (126,976) |
| **NET CASH FLOWS FROM INVESTING ACTIVITIES** | | **-** | **(149,407)** | **(130,292)** | **-** | **(131,941)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | | | |
| New borrowings | | | 203,964 | 86,197 | | 86,197 |
| Repayment of borrowings | | | (155,562) | (55,000) | | (55,000) |
| Interest paid on borrowings | | | (22,080) | (20,654) | | (20,654) |
| **NET CASH FLOWS FROM FINANCING ACTIVITIES** | | **-** | **26,322** | **10,543** | **-** | **10,543** |
| Net increase/(decrease) in cash and cash equivalents | | - | - | 8,184 | - | 6,335 |
| Cash and cash equivalents at beginning of year | | | 2,389 | 44,389 | | 50,518 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | | **-** | **2,389** | **52,573** | **-** | **56,853** |

Wellington City Council acts as a collection agency for Greater Wellington Regional Council (GWRC) by including additional rates and levies in its own billing process. Once collected, the monies are passed to GWRC. The budget assumes that the inflows and outflows will offset each other and are shown as nil accordingly.

The Council has ring fenced cash of $24.320m (2014: $24.320m) relating to the housing upgrade project and waste activities; this has been offset against borrowings. See Note 22: Borrowings for more information.

The notes on pages XX to XX form part of and should be read in conjunction with these financial statements.

## Statement of Cash Flows - continued

The net surplus from the Statement of Comprehensive Revenue and Expense is reconciled to the net cash flows from operating activities in the Statement of Cash Flows as follows:

| Reconciliation of net surplus to net cash flows from operating activities | Note | Council 2015 $000 | Council 2014 $000 | Group 2015 $000 | Group 2014 $000 |
|---|---|---|---|---|---|
| **Net surplus for the period** | | | **27,465** | | **30,063** |
| **Add/(deduct) non-cash items:** | | | | | |
| Vested assets | | | (8,468) | | (8,468) |
| Bad debts written off not prevously provided for | | | 101 | | 101 |
| Depreciation and amortisation | | | 95,860 | | 96,841 |
| Impairment of property, plant and equipment | | | 458 | | 458 |
| Fair value changes in investment properties | | | 7,661 | | 7,661 |
| Other fair value changes | | | (375) | | (375) |
| Movement in provision for impairments of doubtful debts | | | (322) | | (333) |
| Tax expense | | | - | | 392 |
| Non-cash movement in provisions | | | (65) | | (65) |
| **Total non-cash items** | | **-** | **94,850** | **-** | **96,211** |
| **Add/(deduct) movement in working capital:** [1] | | | | | |
| Exchange receivables and non-exchange recoverables | | | 12,446 | | 12,368 |
| Prepayments | | | 3,405 | | 3,421 |
| Inventories | | | (94) | | 85 |
| Exchange transactions, taxes and transfers payables | | | (1,151) | | (758) |
| Revenue in advance | | | 700 | | (397) |
| Employee benefit liabilities | | | (737) | | (689) |
| Provision for other liabilities | | | (18,000) | | (17,945) |
| **Total working capital movement** | | **-** | **(3,431)** | **-** | **(3,914)** |
| **Add/(deduct) investing and financing activities:** | | | | | |
| Net (gain)/loss on disposal of property, plant and equipment | | | 1,861 | | 1,782 |
| Dividends received | | | (12,079) | | (113) |
| Interest received | | | (2,240) | | (2,383) |
| Tax paid | | | - | | (15) |
| Interest paid on borrowings | | | 21,507 | | 21,507 |
| Subvention payment | | | - | | (209) |
| Share of equity accounted surplus in associates | | | - | | (15,195) |
| **Total investing and financing activities** | | **-** | **9,049** | **-** | **5,374** |
| **Net cash flow from operating activities** | | **-** | **127,933** | **-** | **127,734** |

1. Excluding non-cash items

The notes on pages XX to XX form part of and should be read in conjunction with these financial statements.

# Notes forming part of the Financial Statements

For the year ended 30 June 2015

# Summary of Significant Accounting Policies

## Reporting entity

Wellington City Council is a territorial local authority governed by the Local Government Act 2002.

The primary objective of the Council and Group is to provide goods or services for community or social benefits rather than making a financial return. As a defined public entity under the Public Audit Act 2001, for the purposes of financial reporting, the Council is audited by the Auditor General, and is classed as a Public Sector Public Benefit Entity.

The financial statements include the Council and Group. A structural diagram is included in Note 33. The Council includes the results and operations of Wellington City Council as a separate legal entity, the Council's interests in the joint ventures as disclosed in Note 34 and the Wellington Venues project. The Group includes the Council, its controlled entities (subsidiaries) disclosed in Note 35, and the Council's equity accounted interest in the associates and jointly controlled entities disclosed in Note 36 .

All entities included within the Group are domiciled in Wellington, New Zealand.

The financial statements of the Council and Group are for the year ended 30 June 2015 and were authorised for issue by Council on 26 August 2015.

## Basis of preparation

### Statement of compliance

The financial statements have been prepared in accordance with the requirements of the Local Government Act 2002, which includes the requirement to comply with New Zealand Generally Accepted Accounting Practice (NZ GAAP).

The financial statements have been prepared to comply with Public Sector Public Benefit Entity Standards (PBE standards) for a Tier 1 entity. A Tier 1 entity is defined as being either, publicly accountable or large (ie. expenses over $30m). The Council and Group are adopting the PBE standards for the first time for the year ending 30 June 2015.

### Measurement base

The measurement basis applied is historical cost, modified by the revaluation of certain assets and liabilities as identified in this summary of significant accounting policies. The accrual basis of accounting has been used unless otherwise stated.

For the assets and liabilities recorded at fair value, fair value is defined as the amount for which an item could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's-length transaction. For investment property, non-current assets classified as held for sale and items of property, plant and equipment which are revalued, the fair value is determined by reference to market value. The market value of a property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction.

Amounts expected to be recovered or settled more than one year after the end of the reporting period are recognised at their present value. The present value of the estimated future cash flows is calculated using applicable inflation factors and a discount rate.

The financial statements are presented in New Zealand dollars, rounded to the nearest thousand ($000), unless otherwise stated.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

## Change of accounting policies

There have been no elected changes in accounting policies during the financial period. The first time adoption of the new suite of PBE standards after having previously applied NZ IFRS PBE does not constitute a change in accounting policies.

### Effect of first-time adoption of PBE standards

The changes to the accounting policies and disclosures (including comparatives) resulting from the first-time adoption of PBE standards are as follows:

***PBE IPSAS 1: Presentation of financial statements***

The main change on the face of the financial statements is within the Statement of Financial Position where;

1) Trade receivables are now disaggregated into:
    a) Receivables from exchange transactions and
    b) Recoverables from non-exchange transactions.

2) Trade payables are now disaggregated into:
    c) Payables from exchange transaction
    d) Taxes and transfers payable

Within the notes forming part of the financial statements, more comprehensive presentational changes have occurred as follows:

- A new note (Note 1) classifying the main revenue components as either exchange or non-exchange revenue.
- Changes to the receivables note (Note 13) and payables notes (Note 20) to reflect the disaggregation above
- Change to Revenue in advance reflecting the nature of the advance receipts and liabilities for transfers with conditional agreements
- Other minor terminology changes

***PBE IPSAS 23: Revenue from non-exchange transactions***

This is a new standard with no equivalent under NZ IFRS. It introduces new classifications of Taxes and Transfers and covers most revenue that is not exchange revenue. Due to the application of Council's activities funding policy as the determinate of approximately equal value, a key factor in the exchange/non-exchange distinction, most Council revenue being either, rates or revenue from rates subsidised fees & user charges, is non-exchange.

***PBE IPSAS 31: Intangibles***

The Council is allocated carbon credits from the government in recognition of the positive environmental effects of its trees particularly in the Town Belt. Council's policy has been to recognise these credits at cost. Under PBE IPSAS 17, such allocations, being non-exchange transactions, must now be fair valued at the date of allocation. This has required Council to establish fair values for credits previously allocated with the adjustment through opening equity.

***PBE IPSAS 32: Service concession arrangements (Grantor)***

This standard prescribes the accounting requirements, from the grantor's perspective, for public sector assets involved in arrangements where they are used by a private sector entity to provide a public service on behalf of a public sector entity. Often this arrangement would involve the asset being built and operated by the private sector entity, which is compensated by being able to directly charge users to recoup its costs. At the end of the arrangement the ownership of the asset would then be transferred to the public entity. For the Council, its wastewater treatments plants, while operated and maintained by a private sector entity, are owned and have been part of Council's infrastructure assets from inception. Apart from separating these assets into a new standalone category within the Property, Plant and Equipment note disclosure, no other change to the accounting treatment has been required.

**Standards, amendments and interpretations issued but not yet effective and not early adopted**

Standards, amendments and interpretations issued but not yet effective that have not been early adopted and which are relevant to the Group include a revised suite of Public Sector Public Benefit Entity accounting standards that includes enhanced guidance for Not-for-Profit Public Benefit Entities. This revised suite of accounting standards will be adopted from 1 July 2015. The adoption of these revised standards are not expected to impact on the Group..

## Judgements and estimations

The preparation of financial statements using PBE requires the use of judgements, estimates and assumptions. Where material, information on the main assumptions is provided in the relevant accounting policy or in the relevant note.

The estimates and assumptions are based on historical experience as well as other factors that are believed to be reasonable under the circumstances. Subsequent actual results may differ from these estimates.

The estimates and assumptions are reviewed on an ongoing basis and adjustments are made where necessary.

Judgements that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in the relevant notes. Significant judgements and estimations include landfill post-closure costs, asset revaluations, impairments, certain fair value calculations and provisions.

## Basis of consolidation

The Group includes joint ventures, controlled entities and associates. A Group structure diagram is included in Note 33

### Joint ventures

Joint ventures are binding contractual arrangements with other parties to jointly control an undertaken activity. The accounting treatment can vary according to the structure of the venture concerned.

For a jointly controlled asset the Council has a liability in respect of its share of joint ventures' deficits and liabilities, and shares in any surpluses and assets. The Council's proportionate interest in the assets, liabilities, revenue and expenditure is included in the financial statements of the Council and Group on a line-by-line basis.

For a jointly controlled entity the Council chooses to use the equity accounting treatment option available as it better reflects its investment in the joint venture. The investment is initially recognised at cost, and adjusted thereafter for the post-acquisition changes in the Council's share of net assets/equity of the entity. The Council's share of the surplus or deficit of the entity is included in the Group's surplus or deficit on a single line.

### Controlled entities

Controlled entities are entities that are controlled by the Council. In the Council financial statements, the investment in controlled entities are carried at cost. In the Group financial statements, controlled entities are accounted for using the purchase method where assets, liabilities, revenue and expenditure is added in on a line-by-line basis. Where a non-controlling interest is held by another party in a Council controlled entity, the controlled entity is consolidated as if it was fully controlled and the share of any surplus or deficit attributable to the non-controlling interest disclosed within the Statement of Comprehensive Revenue and Expense.

All significant transactions between Group entities, other than rates, are eliminated on consolidation. Rates are charged on an arm's length basis and are not eliminated to ensure that reported costs and revenues are consistent with the Council's Annual Plan.

**Associates**

Associates are entities where the Council has significant influence, over their operating and financial policies but they are not controlled entities or joint ventures. In the Council financial statements, the investments in associates are carried at cost. In the Group financial statements, the Council's share of the assets, liabilities, revenue and expenditure of associates is included on an equity accounting basis as a single line.

## Revenue

Revenue comprises rates, revenue from operating activities, investment revenue, gains, finance and other revenue and is measured at the fair value of consideration received or receivable.

Revenue may be derived from either exchange or non-exchange transactions.

**Revenue from exchange transactions**

Revenue from exchange transactions arises where the Council provides goods or services to another entity or individual and directly receives approximately equal value in a willing arm's length transaction (primarily in the form of cash in exchange).

**Revenue from non-exchange transactions**

Revenue from non-exchange transactions arises from transactions that are not exchange transactions. Revenue from non-exchange transaction arises when the Council receives value from another party without giving approximately equal value directly in exchange for the value received.

An inflow of resources from a non-exchange transaction recognised as an asset, is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As Council satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction

**Approximately equal value**

Approximately equal value is considered to reflect a fair or market value, which is normally commensurate with an arm's length commercial transaction between a willing buyer and willing seller. Some goods or services that Council provides (eg the sale of goods at market rates) are defined as being exchange transactions. Only a few services provided by Council operate on a full user pays, cost recovery or breakeven basis and these are considered to be exchange transactions unless they are provided at less than active and open market prices.

Most of the services that Council provides for a fee are subsidised by rates and therefore do not constitute an approximately equal exchange. Accordingly most of Council's revenue is categorised as non-exchange.

**Rates**

Rates are set annually by resolution from the Council and relate to a particular financial year. All ratepayers are invoiced within the financial year for which the rates have been set. Rates revenue is recognised in full as at the date when rate assessment notices are sent to the ratepayers. Rates are a tax as they are payable under the Local Government Ratings Act 2002 and are therefore meet the definition of non-exchange.

Water rates by meter are regulated in the same way as other rates and are taxes that use a specific charging mechanism to collect the rate. As the rates charged are primarily based on a per unit of consumption basis, water rates by meter are considered to be more in the nature of an exchange transaction.

**Operating activities**

The Council undertakes various activities as part of its normal operations which generate revenue, but generally at below market prices or at fees and user charges subsidised by rates. The following categories (except where noted) are classified as transfers, which are non-exchange transactions other than taxes.

*Grants, subsidies and reimbursements*

Grants, subsidies and reimbursements are initially recognised at their fair value where there is reasonable assurance that the payment will be received and all attaching conditions will be complied with. Grants and subsidies received in relation to the provision of services are recognised on a percentage of completion basis. Reimbursements (eg NZ Transport Agency roading claim payments) are recognised upon entitlement, which is when conditions pertaining to eligible expenditure have been fulfilled.

*Development contributions*

Development contributions are recognised as revenue when the Council provides, or is able to provide, the service for which the contribution was charged. Until such time as the Council provides, or is able to provide, the service, development contributions are recognised as liabilities.

*Fines and penalties*

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

*Rendering of services*

Revenue from the rendering of services (eg building consent fees) is recognised by reference to the stage of completion of the transaction, based on the actual service provided as a percentage of the total services to be provided. Under this method, revenue is recognised in the accounting periods in which the services are provided. Some rendering of services are provided at a market rate or on a full cost recovery basis (eg. Parking fees) and these are classified as exchange.

*Sale of goods*

The sale of goods is classified as exchange revenue. Sale of goods is recognised when products are sold to the customer and all risks and rewards of ownership have transferred to the customer.

**Investment revenues**

*Dividends*

Dividends from equity investments, other than those accounted for using equity accounting, are classified as exchange revenue and are recognised when the Council's right to receive payment has been established. Dividends from equity accounted investments are recognised in the same manner but classified as other revenue as they are neither exchange nor non-exchange revenue.

*Investment property lease rentals*

Lease rentals (net of any incentives given) are classified as exchange revenue and recognised on a straight line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which benefits derived from the leased asset is diminished

**Other revenue**

*Donated, subsidised or vested assets*

Where a physical asset is acquired for nil or nominal consideration, with no conditions attached, the fair value of the asset received is recognised as non-exchange revenue when the control of the asset is transferred to the Council.

*Gains*

Gains include additional earnings on the disposal of property, plant and equipment and movements in the fair value of financial assets and liabilities.

**Finance revenue**

*Interest*

Interest revenue is exchange revenue and recognised using the effective interest rate method.

**Donated services**

The Council benefits from the voluntary service of many Wellingtonians in the delivery of its activities and services (eg beach cleaning and Otari-Wilton's Bush guiding and planting). Due to the difficulty in determining the precise value of these donated services with sufficient reliability, donated services are not recognised in these financial statements.

## Expenses

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

**Operating activities**

*Grants and sponsorships*

Expenditure is classified as a grant or sponsorship if it results in a transfer of resources (eg cash or physical assets) to another entity or individual in return for compliance with certain conditions relating to the operating activities of that entity. It includes any expenditure arising from a funding arrangement with another entity that has been entered into to achieve the objectives of the Council. Grants and sponsorships are distinct from donations which are discretionary or charitable gifts. Where grants and sponsorships are discretionary until payment, the expense is recognised when the payment is made. Otherwise, the expense is recognised when the specified criteria have been fulfilled.

**Finance expense**

*Interest*

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

**Depreciation and amortisation**

Depreciation of property, plant and equipment and amortisation of intangible assets are charged on a straight-line basis over the estimated useful life of the associated assets.

## Taxation

Council, as a local authority is only liable for income tax on the surplus or deficit for the year derived from any council controlled trading organisations and comprises current and deferred tax. Other members of the Group are subject to normal taxation unless they have tax exempt status as charitable trusts.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, plus any adjustment to tax payable in respect of previous periods.

Deferred tax is provided 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. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the assets and liabilities, and the unused tax losses using tax rates enacted or substantively enacted at the end of the reporting period. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which they can be utilised.

## Goods and Services Tax (GST)

All items in the financial statements are exclusive of GST, with the exception of receivables, recoverables and payables, which are stated as GST inclusive. Where GST is not recoverable as an input tax, it is recognised as part of the related asset or expense.

## Financial instruments

Financial instruments include financial assets (loans and receivables or recoverables and financial assets at fair value through other comprehensive revenue and expense), financial liabilities (payables and borrowings) and derivative financial instruments. Financial instruments are initially recognised on trade-date at their fair value plus transaction costs. Subsequent measurement of financial instruments depends on the classification determined by the Council. Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the Group has transferred substantially all of the risks and rewards of ownership.

Financial instruments are classified into the categories outlined below based on the purpose for which they were acquired. The classification is determined at initial recognition and re-evaluated at the end of each reporting period.

### Financial assets

Financial assets are classified as loans and receivables or financial assets at fair value through other comprehensive revenue and expense.

Loans and receivables comprise cash and cash equivalents, trade and other receivables or recoverables and loans and deposits.

Cash and cash equivalents comprise cash balances and call deposits with maturity dates of three months or less.

Trade and other receivables and recoverables have fixed or determinable payments. They arise when the Group provides money, goods or services directly to a debtor, and has no intention of trading the receivable or recoverable.

*Loans and deposits* include loans to other entities (including controlled entities and associates), and bank deposits with maturity dates of more than three months.

Financial assets in this category are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method. Fair value is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date for assets of a similar maturity and credit risk. Trade and other receivables or recoverables due in less than 12 months are recognised at their nominal value. A provision for impairment is recognised when there is objective evidence that the asset is impaired. As there are statutory remedies to recover unpaid rates, rates penalties and water meter charges, no provision has been made for impairment in respect of these receivables or recoverables.

*Financial assets at fair value through other comprehensive revenue and expense* relate to equity investments that are held by the Council for long-term strategic purposes and therefore are not intended to be sold. Financial assets at fair value through other comprehensive revenue and expense are initially recorded at fair value plus transaction costs. They are subsequently measured at fair value and changes, other than impairment losses, are recognised directly in a reserve within equity. On disposal, the cumulative fair value gain or loss previously recognised directly in other comprehensive revenue and expense is recognised within surplus or deficit.

**Financial liabilities**

Financial liabilities comprise trade and other payables and borrowings. Financial liabilities with duration of more than 12 months are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method. Amortisation is recognised within surplus or deficit. Financial liabilities with duration of less than 12 months are recognised at their nominal value.

On disposal any gains or losses are recognised within surplus or deficit.

**Derivatives**

Derivative financial instruments include interest rate swaps used to hedge exposure to interest rate risk on borrowings. Derivatives are initially recognised at fair value, based on quoted market prices, and subsequently remeasured to fair value at the end of each reporting period. Fair value is determined by reference to quoted prices for similar instruments in active markets. Derivatives that do not qualify for hedge accounting are classified as non-hedged and fair value gains or losses are recognised within surplus or deficit.

Recognition of fair value gains or losses on derivatives that qualify for hedge accounting depends on the nature of the item being hedged. Where a derivative is used to hedge variability of cash flows (cash flow hedge), the effective part of any gain or loss is recognised within other comprehensive revenue and expense while the ineffective part is recognised within surplus or deficit. Gains or losses recognised in other comprehensive revenue and expense transfer to surplus or deficit in the same periods as when the hedged item affects the surplus or deficit. Where a derivative is used to hedge variability in the fair value of the Council's fixed rate borrowings (fair value hedge), the gain or loss is recognised within surplus or deficit.

As per the International Swap Dealers' Association (ISDA) master agreements, all swap payments or receipts are settled net.

## Inventories

Inventories consumed in the provision of services (such as botanical supplies) are measured at the lower of cost and current replacement cost.

Inventories held for resale (such as rubbish bags), are recorded at the lower of cost (determined on a first-in, first-out basis) and net realisable value. This valuation includes allowances for slow-moving and obsolete stock. Net realisable value is the estimated selling price in the ordinary course of business.

Inventories held for distribution at no or nominal cost, are recorded at the lower of cost and current replacement cost.

## Investment properties

Investment properties are properties which are held primarily to earn rental revenue and/or for capital growth. These properties include the Council's ground leases, 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. This includes properties which generate cash inflows as the rental revenue is incidental to the purpose for holding the property. Such properties include the Council's social housing assets, which are held within operational assets in property, plant and equipment.

Borrowing costs incurred during the construction of investment property are not capitalised.

Investment properties are measured initially at cost and subsequently measured at fair value, determined annually by an independent registered valuer. Any gain or loss arising is recognised within surplus or deficit. Investment properties are not depreciated.

## Non-current assets classified as held for sale

Non-current assets held for sale are separately classified as their carrying amount will be recovered through a sale transaction rather than through continuing use. A non-current asset is classified as held for sale where:

- the asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets;
- a plan to sell the asset is in place and an active programme to locate a buyer has been initiated;
- the asset is being actively marketed for sale at a price that is reasonable in relation to its current fair value;
- the sale is expected to occur within one year or beyond one year where a delay has occurred which is caused by events beyond the Group's control and there is sufficient evidence the Group remains committed to sell the asset; and
- actions required to complete the sale indicate it is unlikely that significant changes to the plan will be made or the plan will be withdrawn.
- A non-current asset classified as held for sale is recognised at the lower of its carrying amount or fair value less costs to sell. Impairment losses on initial classification are included within surplus or deficit.

## Property, plant and equipment

Property, plant and equipment consists of operational assets, restricted assets and infrastructure assets.

Operational assets include land, the landfill post-closure asset, buildings, the Civic Centre complex, the library collection, and plant and equipment.

Restricted assets include art and cultural assets, zoo animals, restricted buildings, parks and reserves and the Town Belt. These assets provide a benefit or service to the community and in most cases cannot be disposed of because of legal or other restrictions.

Infrastructure assets include the roading network, water, waste and drainage reticulation networks, service concession arrangement assets and infrastructure land (including land under roads). Each asset type includes all items that are required for the network to function.

Vested assets are those assets where ownership and control is transferred to the Council from a third party (eg infrastructure assets constructed by developers and transferred to the Council on completion of a subdivision). Vested assets are recognised within their respective asset classes as above.

Heritage assets are tangible assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture. The Council and Group recognises these assets within these financial statements to the extent their value can be reliably measured.

### Recognition

Expenditure is capitalised as property, plant and equipment when it creates a new asset or increases the economic benefits of an existing asset. Costs that do not meet the criteria for capitalisation are expensed.

**Measurement**

Property, plant and equipment is recognised initially at cost, unless acquired for nil or nominal cost (eg vested assets), in which case the asset is recognised at fair value at the date of transfer. The initial cost of property, plant and equipment includes the purchase consideration (or the fair value in the case of vested assets), and those costs that are directly attributable to bringing the asset into the location and condition necessary for its intended purpose. Subsequent expenditure that extends or expands the asset's service potential is capitalised.

Borrowing costs incurred during the construction of property, plant and equipment are not capitalised.

After initial recognition, certain classes of property, plant and equipment are revalued to fair value. Where there is no active market for an asset, fair value is determined by optimised depreciated replacement cost.

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

*Operational assets*

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

Library collections are valued at depreciated replacement cost on a three-year cycle by the Council's library staff in accordance with guidelines outlined in *Valuation Guidance for Cultural and Heritage Assets,* published by the Treasury Accounting Team, November 2002.

Land and buildings are valued at fair value on a three-year cycle by independent registered valuers.

*Restricted assets*

Art and cultural assets (artworks, sculptures and statues) are valued at historical cost. Zoo animals are stated at estimated replacement cost. All other restricted assets (buildings, parks and reserves and the Town Belt) were valued at fair value as at 30 June 2005 by independent registered valuers. The Council has elected to use the fair value of other restricted assets at 30 June 2005 as the deemed cost of the assets. These assets are no longer revalued. Subsequent additions have been recorded at cost.

*Infrastructure assets*

Infrastructure assets (the roading network, water, waste and drainage reticulation networks and service concession arrangement assets) are valued at optimised depreciated replacement cost on a three-year cycle by independent registered valuers. Infrastructure valuations are based on current quotes from actual suppliers. As such, they include ancillary costs such as breaking through seal, traffic control and rehabilitation. Between valuations, expenditure on asset improvements is capitalised at cost.

Infrastructure land (excluding land under roads) is valued at fair value on a three-year cycle.

Land under roads, which represents the corridor of land directly under and adjacent to the Council's roading network, was valued as at 30 June 2005 at the average value of surrounding adjacent land discounted by 50% to reflect its restricted nature. The Council elected to use the fair value of land under roads at 30 June 2005 as the deemed cost of the asset. Land under roads is no longer revalued. Subsequent additions have been recorded at cost.

The carrying values of revalued property, plant and equipment are reviewed at the end of each reporting period to ensure that those values are not materially different to fair value.

**Revaluations**

The result of any revaluation of the Group's property, plant and equipment is recognised within other comprehensive revenue and expense and taken to the asset revaluation reserve. Where this results in a debit balance in the reserve for a class of property, plant and equipment, the balance is included in the surplus or deficit. Any subsequent increase on revaluation that offsets a previous decrease in value recognised within surplus or deficit will be recognised firstly, within surplus or deficit up to the amount previously expensed, with any remaining increase recognised within other comprehensive revenue and expense and in the revaluation reserve for that class of property, plant and equipment.

Accumulated depreciation at the revaluation date is eliminated so that the carrying amount after revaluation equals the revalued amount.

While assumptions are used in all revaluations, the most significant of these are in infrastructure. For example where stormwater, wastewater and water supply pipes are underground, the physical deterioration and condition of assets are not visible and must therefore be estimated. Any revaluation risk is minimised by performing a combination of physical inspections and condition modelling assessments.

Further information in respect of the most recent valuations for each class is provided in Note 25: Revaluation reserves.

### Depreciation

Depreciation is provided on all property, plant and equipment, with certain exceptions. The exceptions are land, restricted assets other than buildings, and assets under construction (work in progress). Depreciation is calculated on a straight-line basis, to allocate the cost or value of the asset (less any assessed residual value) over its estimated useful life. The estimated useful lives and depreciation rate ranges of the major classes of property, plant and equipment are as follows:

| | 2015 | |
|---|---|---|
| Asset Category | Useful Life (years) | Depreciation Rate |
| Land | unlimited | not depreciated |
| Buildings | 1 ~75 | 1.33 ~ 100% |
| Civic Centre Complex | 10 ~ 78 | 1.28 ~ 10% |
| Plant and equipment | 3 ~ 100 | 1 ~ 33.3% |
| Library collection | 3 ~ 11 | 9.1 ~ 33.3% |
| Restricted assets (excluding buildings) | unlimited | not depreciated |
| Infrastructure assets: | | |
| Land (including land under roads) | unlimited | not depreciated |
| Roading: | 3~175 | 0.57 ~ 33.3% |
| Drainage, waste and water: | 3~175 | 0.57 ~ 33.3% |

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

Variation in the range of lives for infrastructural assets is due to these assets being managed and depreciated by individual component rather than as a whole asset.

### Impairment

The Council's assets are defined as cash generating if the primary purpose of the asset is to provide a commercial return. Non-cash generating assets are assets other than cash generating assets. Property, plant and equipment assets, measured at fair value, are not required to be reviewed and tested for impairment.

The carrying amounts of cash generating property, plant and equipment assets are reviewed at least annually to determine if there is any indication of impairment. Where an asset's, or class of assets', recoverable amount is less than its carrying amount it will be reported at its recoverable amount and an impairment loss will be recognised. The recoverable amount is the higher of an item's fair value less costs to sell and value in use. Losses resulting from impairment are reported within surplus or deficit, unless the asset is carried at a revalued amount in which case any impairment loss is treated as a revaluation decrease and recorded within other comprehensive revenue and expense.

The carrying amounts of non-cash generating property, plant and equipment assets are reviewed at least annually to determine if there is any indication of impairment. Where an asset's, or class of assets', recoverable service amount is less than its carrying amount it will be reported at its recoverable service amount and an impairment loss will be recognised. The recoverable service amount is the higher of an item's fair value less costs to sell and value in use. A non-cash generating asset's value in use is the present value of the asset's remaining service potential. Losses resulting from impairment are reported within surplus or deficit, unless the asset is carried at a revalued amount in which case any impairment loss is treated as a revaluation decrease and recorded within other comprehensive revenue and expense.

### Disposal

Gains and losses arising from the disposal of property, plant and equipment are recognised within surplus or deficit in the period in which the transaction occurs. Any balance attributable to the disposed asset in the asset revaluation reserve is transferred to retained earnings.

### Work in progress

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

## Intangible assets

*Computer software*

Acquired computer software is measured on initial recognition at the costs to acquire and bring to use and subsequently less any amortisation and impairment losses.

Computer software has a finite economic life and amortisation is charged to surplus or deficit on a straight-line basis over the estimated useful life of the asset. Typically, the estimated useful lives and depreciation rate range of these assets are as follows:

| | 2015 | |
|---|---|---|
| Asset Category | Useful Life (years) | Depreciation Rate |
| Computer software | 1 ~ 7 | 14.29 ~ 100% |

*Carbon Credits*

Carbon credits comprise either allocations of emission allowances granted by the Government related to forestry assets or units purchased in the market to cover liabilities associated with landfill operations. Carbon credits allocated as a non-exchange transaction are recognised at fair value. Carbon credits purchased are recognised at cost.

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

## Research and Development

Research costs are expensed as incurred. Development expenditure on individual projects is capitalised and recognised as an asset when it meets the definition and criteria for capitalisation as an asset and it is probable that the Council will receive future economic benefits from the asset. Assets which have finite lives are stated at cost less accumulated amortisation and are amortised on a straight-line basis over their useful lives.

## Leases

### Operating leases as lessee

Leases where the lessor retains substantially all the risks and rewards of ownership of the leased items are classified as operating leases. Payments made under operating leases are recognised within surplus or deficit on a straight-line basis over the term of the lease. Lease incentives received are recognised within surplus or deficit over the term of the lease as they form an integral part of the total lease payment.

### Operating leases as lessor

The Group leases investment properties and a portion of land and buildings. Rental revenue is recognised on a straight-line basis over the lease term.

### Finance leases

Finance leases transfer to the Group (as lessee) substantially all the risks and rewards of ownership of the leased asset. Initial recognition of a finance lease results in an asset and liability being recognised at amounts equal to the lower of the fair value of the leased property or the present value of the minimum lease payments.

The finance charge is released to surplus or deficit over the lease period and the capitalised values are amortised over the shorter of the lease term and the useful life of the leased item.

## Employee benefit liabilities

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

### Holiday leave

Holiday leave includes: annual leave, long service leave (qualified for), statutory time off in lieu and ordinary time off in lieu. Annual leave is calculated on an actual entitlement basis in accordance with section 21(2) of the Holidays Act 2003.

### Retirement gratuities

Retirement gratuities are calculated on an actuarial basis based on the likely future entitlements accruing to employees, after taking into account years of service, years to entitlement, the likelihood that employees will reach the point of entitlement, and other contractual entitlements information.

### Other contractual entitlements

Other contractual entitlements include termination benefits, which are recognised within surplus or deficit only when there is a demonstrable commitment to either terminate employment prior to normal retirement date or to provide such benefits as a result of an offer to encourage voluntary redundancy. Termination benefits settled within 12 months are reported at the amount expected to be paid, otherwise they are reported as the present value of the estimated future cash outflows.

## Provisions

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

### Landfill post-closure costs

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

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

Amounts provided for landfill post-closure are capitalised to the landfill asset. The capitalised landfill asset is depreciated over the life of the landfill based on the capacity used.

The Council 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.

#### ACC partnership programme

The Council is an Accredited Employer under the ACC Partnership Programme. As such the Council accepts the management and financial responsibility of our employee work-related injuries. From 1 April 2009 the Council changed its agreement with ACC from Full Self Cover (FSC) to Partnership Discount Plan (PDP). Under the PDP option, the Council is responsible for managing work related injury claims for a two-year period only and transfer ongoing claims to ACC at the end of the two-year claim management period with no further liability. Under the ACC Partnership Programme the Council is effectively providing accident insurance to employees and this is accounted for as an insurance contract. The value of this liability represents the expected future payments in relation to work-related injuries occurring up to the end of the reporting period for which the Council has responsibility under the terms of the Partnership Programme.

#### Financial guarantee contracts

A financial guarantee contract is a contract that requires the Group to make specified payments to reimburse the contract holder for a loss it incurs because a specified debtor fails to make payment when due.

Financial guarantee contracts are initially recognised at fair value. The Group measures the fair value of a financial guarantee by determining the probability of the guarantee being called by the holder. The probability factor is then applied to the principal and the outcome discounted to present value.

Financial guarantees are subsequently measured at the higher of the Group's best estimate of the obligation or the amount initially recognised less any amortisation.

### Equity

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

The components of equity are accumulated funds and retained earnings, revaluation reserves, a hedging reserve, a fair value through other comprehensive revenue and expense reserve and restricted funds (special funds, reserve funds, trusts and bequests).

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

### Contingent assets and liabilities

Contingent liabilities and contingent assets are disclosed in the Notes forming part of the Financial Statements at the point at which the contingency is evident. Contingent liabilities are disclosed if the possibility they will crystallise is not remote. Contingent assets are disclosed if it is probable the benefits will be realised.

### Statement of cash flows

Cash and cash equivalents for the purposes of the cash flow statement comprises bank balances, cash on hand and short term deposits with a maturity of three months or less. The statement of cash flows has been prepared using the direct approach subject to the netting of certain cash flows. Cash flows in respect of investments and borrowings that have been rolled-over under arranged finance facilities have been netted in order to provide more meaningful disclosures.

Operating activities include cash received from all non-financial revenue sources of the Council and Group and record the cash payments made for the supply of goods and services. Investing activities relate to the acquisition and disposal of assets and investment revenue. Financing activities relate to activities that change the equity and debt capital structure of the Council and Group and financing costs.

## Related parties

Related parties arise where one entity has the ability to affect the financial and operating policies of another through the presence of control or significant influence. Related parties include members of the Group and key management personnel. Key management personnel include the Mayor and Councillors as Directors, the Chief Executive and all members of the Executive Leadership Team, being key advisors to the Directors and Chief Executive.

The Mayor and Councillors are considered Directors as they occupy the position of a member of the governing body of the Council reporting entity. Directors' remuneration comprises any money, consideration or benefit received or receivable or otherwise made available, directly or indirectly, to a Director during the reporting period. Directors' remuneration does not include reimbursement of authorised work expenses or the provision of work-related equipment such as cell phones and laptops.

## Budget figures

The Annual Plan budget figures included in these financial statements are for the Council as a separate entity. The Annual Plan figures do not include budget information relating to controlled entities or associates. These figures are those approved by the Council at the beginning of each financial year following a period of consultation with the public as part of the Annual Plan process. These figures do not include any additional expenditure subsequently approved by the Council outside the Annual Plan process. The Annual Plan figures have been prepared in accordance with GAAP and are consistent with the accounting policies adopted by the Council for the preparation of these financial statements.

## Cost allocation

The Council has derived the cost of service for each significant activity (as reported within the Statements of Service Performance). Direct costs are expensed directly to the activity. Indirect costs relate to the overall costs of running the organisation and include staff time, office space and information technology costs. These indirect costs are allocated as overheads across all activities.

## Comparatives

To ensure consistency with the current year, certain comparative information has been reclassified where appropriate. This has occurred:

- where classifications have changed between periods;
- where the Council has made additional disclosure in the current year, and where a greater degree of disaggregation of prior year amounts and balances is therefore required; and
- where there has been a change of accounting policy (There has been no change in the 2014/15 year),
- as a requirement of adopting the new suite of PBE accounting standards.

## Note 1: Exchange / Non-exchange revenue

| | Council | | Group | |
|---|---|---|---|---|
| | Actual 2015 $000 | Actual 2014 $000 | Actual 2015 $000 | Actual 2014 $000 |
| **Exchange revenue** | | | | |
| Water rates by meter | | 12,329 | | 12,329 |
| Rendering of services | | 19,527 | | 19,527 |
| Sale of goods | | 6,263 | | 7,285 |
| Dividend from investment in controlled entity (subsidiary) | | 113 | | 113 |
| Interest on deposits, loans and receivables | | 2,240 | | 2,573 |
| Investment property lease rentals | | 11,174 | | 11,174 |
| **Total exchange revenue** | | **51,646** | | **53,001** |
| **Non-Exchange revenue** | | | | |
| ***Taxes*** | | | | |
| Rates | | 234,007 | | 234,007 |
| ***Transfers*** | | | | |
| Development contributions | | 5,873 | | 5,873 |
| Grants, subsidies and reimbursements | | 43,315 | | 49,597 |
| Fines and penalties | | 8,411 | | 8,411 |
| Rendering of services - subsidised | | 81,012 | | 90,217 |
| Fuel tax | | 1,074 | | 1,074 |
| Restricted funds | | 1,028 | | 1,028 |
| Vested assets | | 8,468 | | 8,468 |
| **Total non-exchange revenue** | | **383,188** | | **398,675** |
| **Other revenue** | | | | |
| Loan amortisation | | 512 | | 512 |
| Release of provisions | | 1,593 | | 1,603 |
| Gains | | 2,786 | | 2,786 |
| Dividend from investment in associates | | 11,966 | | - |
| **Total other revenue** | | **16,857** | | **4,901** |
| **Total Revenue** | **-** | **451,691** | **-** | **456,577** |

The classification of revenue between exchange and non-exchange revenue is primarily determined by the definitions from the accounting standards of PBE IPSAS 9: Revenue from Exchange Transactions and PBE IPSAS 23: Revenue from Non-exchange transactions. The interpretation of those definitions required the need to determine what approximately equal value meant and as such the Council has applied its activity funding policy which states whether the activity is user pays, funded by rates or a combination of the two. For some activities (eg Social Housing) the presence of an active market and Council's Social Housing policy has resulted in the Council applying an alternative treatment to the funding policy.

For the Council, most revenue transactions are non-exchange, which are further classified as either taxes (ie Rates) or transfers. Within the Group, most controlled entities are heavily funded by Council operating grants, which are funded from rates.

## Note 2: Rates revenue

| | Council 2015 $000 | Council 2014 $000 | Group 2015 $000 | Group 2014 $000 |
|---|---|---|---|---|
| **General rates** | | | | |
| Base sector | | 71,280 | - | 71,280 |
| Commercial, industrial and business sector | | 59,325 | - | 59,325 |
| **Targeted rates** | | - | - | - |
| All (excluding water rates by meter) | | 103,402 | | 103,402 |
| **Total rates revenue (excluding water rates by meter)** | - | 234,007 | - | 234,007 |
| **Water rates by meter revenue** | | 12,329 | - | 12,329 |
| **Total rates revenue for Wellington City Council** | - | **246,336** | - | **246,336** |

The total amount of rates charged on Council owned properties that have not been eliminated from revenue and expenditure is $11.333m (2014: 11.333m). For the Group, rates of $11.378m (2014: 11.378m) have not been eliminated.

The revenue from rates for Wellington City Council was billed on the following rating information held as at 30 June 2014.

The number of rating units: 76,680 (2013: 76,021).

| | 2015 $000 | 2014 $000 |
|---|---|---|
| Total capital value of rating units | | **50,540,014** |
| Total land value of rating units | | **22,127,973** |

### Rates remissions

Revenue from rates and levies is shown net of rates remissions. The Council's Rates Remission and Postponement Policies provide for general rates to be partially remitted for rural open space; land used principally for games or sport and in special circumstances (where the rating policy is deemed to unfairly disadvantage an individual ratepayer). A remission of the Downtown levy targeted rate may also be granted to provide rates relief for downtown commercial property temporarily not fit for the purpose due to the property undergoing development and therefore not receiving the benefits derived by contributing to the Downtown levy targeted rate. The Council committed itself at the start of the year to certain remissions, which for the reporting period ended 30 June 2015 totalled $0.215m (2014: $0.215m).

### Non-rateable land

Under the Local Government (Rating) Act 2002 certain properties are non-rateable. This includes schools, churches, public gardens and certain land vested in the Crown. This land is non-rateable in respect of general rates but, where applicable, is rateable in respect of sewerage and water. Non-rateable land does not constitute a remission under the Council's Rates Remission and Postponement Policies.

## Note 3: Revenue from operating activities

| | Council | | Group | |
|---|---|---|---|---|
| | 2015 $000 | 2014 $000 | 2015 $000 | 2014 $000 |
| **Grants, subsidies and reimbursements** | | | | |
| Operating | | 7,284 | | 12,317 |
| Capital | | 36,031 | | 37,280 |
| **Total grants, subsidies and reimbursements** | **-** | **43,315** | **-** | **49,597** |
| **Development contributions** | | **5,873** | **-** | **5,873** |
| **Other operating activities** | | | | |
| Fines and penalties | | 8,411 | - | 8,411 |
| Rendering of services | | 100,539 | | 109,744 |
| Sale of goods | | 6,263 | | 7,285 |
| **Total other operating activities** | **-** | **115,213** | **-** | **125,440** |
| **Total revenue from operating activities** | **-** | **164,401** | **-** | **180,910** |

For the Council, the principal grants and reimbursements are from:

- The New Zealand Transport Agency (NZTA), which reimburses part of the Council's costs for maintaining the local roading infrastructure. The capital reimbursements from NZTA of $10.491m (2014: $10.491m) and operating reimbursements of $4.555m (2014: $4.555m) are for costs already incurred and there are no unfulfilled conditions or other contingencies relating to the reimbursements.

- The Crown, for the upgrade of the Council's social housing stock. The capital grant recognised in the current year of $24.514m (2014: $24.514m) is part of a 10 year work programme that commenced in 2008 and the revenue is recognised in accordance with that agreed work programme. There are no unfulfilled conditions or other contingencies relating to this grant.

For the Group, the additional principal subsidy was $5.261m (2014: $5.261m) from Greater Wellington Regional Council to Wellington Cable Car Limited for the maintenance and upgrade of the overhead wire trolley system.

For the Council, the principal services rendered were:

- Building consents and licensing services - $XXXXm (2014:11.814m)
- Community housing - $XXXXm (2014: $19.808m)
- Convention and conferences centres – $XXXXm (2014: $13.865m)
- Parking fees & permits - $XXXXm (2014: $18.015m)
- Swimming pools - $XXXXm (2014: $6.519m)

Rendering of services contains unbudgeted revenue from the joint ventures with Porirua City Council $XXXXm (2014: $0.490m).

## Note 4: Investments revenue

| | | Council | | Group | |
|---|---|---|---|---|---|
| | | 2015 | 2014 | 2015 | 2014 |
| | Note | $000 | $000 | $000 | $000 |
| Dividend from investment in controlled entities | | | - | | - |
| Dividend from investment in associates | | | 11,966 | | - |
| Dividend from investment in other entities | | | 113 | | 113 |
| Investment property lease rentals | | | 11,174 | | 11,174 |
| **Total investments revenue** | | - | **23,253** | - | **11,287** |

The primary investment dividend was from Council's 34% holding in Wellington International Airport Limited.

## Note 5: Other revenue

| | Council | | Group | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | $000 | $000 | $000 | $000 |
| Gain on disposal of property, plant and equipment | | 2,786 | | 2,786 |
| Release of provisions | | 1,593 | | 1,603 |
| Fuel tax distribution | | 1,074 | | 1,074 |
| Restricted funds | | 1,028 | | 1,028 |
| Vested assets | | 8,468 | | 8,468 |
| **Total other revenue** | - | **14,949** | - | **14,959** |

Restricted funds are received for specific purposes and are generally held for future use within special reserves or bequest and trust funds. For further information refer to Note 28: Restricted funds

Vested assets are principally infrastructural assets such as roading, drainage, waste and water assets that have been constructed by developers. As part of the consents process, ownership of these assets is transferred to the Council, and on completion they become part of the city's network. Vested assets are non-cash in nature and represent a future obligation to the Council, as the Council will have the on-going costs associated with maintaining the assets.

The values of principal vested assets received were:

- Roading - $XXXXm (2014:$3.346m)
- Drainage, waste and water - $XXXXm (2014:$4.183m).

## Note 6: Finance revenue and expense

| | Note | Council 2015 $000 | Council 2014 $000 | Group 2015 $000 | Group 2014 $000 |
|---|---|---|---|---|---|
| **Finance revenue** | | | | | |
| Amortisation of loans to related parties | | | 512 | | 512 |
| Cash flow hedge movements reclassified from hedging reserve | | | - | | - |
| Fair value hedge adjustments to borrowings | | | - | | - |
| Interest on deposits, loans and receivables | | | 2,240 | | 2,573 |
| Movements on derivatives at fair value through surplus or deficit | | | - | | - |
| **Total finance revenue** | | **-** | **2,752** | **-** | **3,085** |
| *Less* | | | | | |
| **Finance expense** | | | | | |
| Fair value hedge movements | | | - | | - |
| Interest on borrowings | | | 21,466 | | 21,468 |
| Interest on finance leases | | | 41 | | 41 |
| Movements on derivatives at fair value through surplus or deficit | | | 137 | | 137 |
| Re-discounting of interest on provisions | | | 1,110 | | 1,110 |
| **Total finance expense** | | **-** | **22,754** | **-** | **22,756** |
| **Net finance cost** | | **-** | **20,002** | **-** | **19,671** |

Movements arising from the remeasurement of the Group's fair value hedges are offset by a fair value adjustment to borrowings so there is no impact on the net surplus for the year.

Movements on derivatives at fair value through surplus or deficit represents the fair value movements on interest rate swaps that do not meet the criteria for hedge accounting. Movements in the Group's other derivatives that meet the criteria for hedge accounting, are taken to the cash flow hedge reserve and have no impact on the net surplus for the year.

Re-discounting of interest on provisions is the Council's funding cost for non-current provisions (where the cash flows will not occur until a future date). For further information refer to Note 23: Employee benefit liabilities and provisions, and Note 23: Provision for other liabilities.

## Note 7: Expenditure on operating activities

| | Note | Council 2015 $000 | Council 2014 $000 | Group 2015 $000 | Group 2014 $000 |
|---|---|---|---|---|---|
| **Auditor's remuneration:** | | | | | |
| Audit services - Audit New Zealand - Financial Statements | | | 337 | | 411 |
| Audit services - Audit New Zealand - other | | | 7 | | 7 |
| Audit services - Other Auditors | | | - | | 52 |
| **Impairments** | | | | | |
| Bad debts written off not previously provided for | | | 101 | | 101 |
| Increase in provision for impairment of receivables and recoverables | 12 | | 218 | | 218 |
| Impairment loss from property, plant and equipment | 18 | | 458 | | 1,246 |
| **Governance and employment** | | | | | |
| Councillor remuneration as directors/trustees | 43 | | 1,341 | | 1,368 |
| Directors/trustees of subsidiaries - remuneration | | | - | | 442 |
| Other elected members' remuneration (Community Boards) | 43 | | 95 | | 95 |
| Employee benefits expense: | | | | | |
| - Remuneration | | | 71,268 | | 89,175 |
| - Superannuation contributions (including Kiwisaver) | | | 1,897 | | 2,272 |
| - Termination benefits (including severances) | | | 924 | | 974 |
| Other personnel costs | | | 3,515 | | 3,950 |
| **Insurance** | | | | | |
| Insurance premiums | | | 12,142 | | 12,613 |
| Insurance reserve costs - net | 29 | | 1,163 | | 1,163 |
| **General** | | | | | |
| Advertising, printing and publications | | | 2,380 | | 8,173 |
| Consultants and legal fees | | | 7,497 | | 7,720 |
| Contractors | | | 3,260 | | 4,982 |
| Direct costs | | | 106,095 | | 115,090 |
| Grants - general | | | 10,827 | | 10,624 |
| Grants to controlled entities | 42 | | 18,275 | | - |
| Grants to associates | 42 | | 355 | | 355 |
| Information and communication technology | | | 6,062 | | 6,818 |
| Loss on disposal of property, plant and equipment | | | 2,565 | | 2,486 |
| Loss on disposal of intangibles | | | 2,082 | | 2,082 |
| Operating lease - minimum lease payments | | | 1,116 | | 1,864 |
| Reassessment of provisions | 23 | | 2,979 | | 2,979 |
| Utility costs | | | 18,316 | | 18,710 |
| Other general costs | | | 22,676 | | 18,775 |
| **Total expenditure on operating activities** | | - | **297,951** | - | **314,745** |

### Auditor's remuneration

During the period Audit New Zealand provided other services to the Council, namely assurance services relating to the Clifton Terrace Carpark managed by the Council on behalf of the New Zealand Transport Agency.

### General

Direct costs are costs directly attributable to the provision of Council services, including contracts, maintenance, management fees, materials and services.

## Note 7: Expenditure on operating activities - continued

Grants – general include $2.250m (2014: $2.250m) towards the funding of the Museum of New Zealand Te Papa Tongarewa.

Operating lease minimum lease payments are for non-cancellable agreements for the use of assets such as buildings and specialised computer equipment.

Utility costs are those relating to the use of electricity, gas, and water. It also includes the payment of rates and water meter charges of $10.889m on Council owned properties.

## Note 8: Depreciation and amortisation

| | Council | | Group | |
|---|---|---|---|---|
| | 2015 $000 | 2014 $000 | 2015 $000 | 2014 $000 |
| **Depreciation** | | | | |
| Buildings | | 21,879 | | 21,879 |
| Civic Centre complex | | 2,962 | | 2,962 |
| Restricted buildings | | 1,302 | | 1,302 |
| Drainage, waste and water infrastructure | | 28,130 | | 28,130 |
| Landfill post closure | | 202 | | 202 |
| Library collections | | 2,438 | | 2,438 |
| Plant and equipment | | 9,797 | | 10,500 |
| Roading infrastructure | | 20,201 | | 20,201 |
| Service concession assets | | 5,023 | | 5,023 |
| **Total depreciation** | - | **91,934** | - | **92,637** |
| **Amortisation** | | | | |
| Computer software | | 3,926 | | 3,974 |
| **Total amortisation** | - | **3,926** | - | **3,974** |
| **Total depreciation and amortisation** | - | **95,860** | - | **96,611** |

Depreciation (amortisation) is an expense charged each year to reflect the estimated cost of using our assets over their lives. Amortisation relates to 'intangible' assets such as software (as distinct from physical assets, which are covered by the term depreciation).

The useful lives of assets and the associated depreciation rates are contained in the Summary of Significant Accounting Policies.

## Note 9: Income tax expense

| | Council | | Group | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | $000 | $000 | $000 | $000 |
| **Current tax expense** | | | | |
| Current year | - | - | - | - |
| Prior period adjustment | - | - | - | - |
| **Total current tax expense** | - | - | - | - |
| **Deferred tax expense** | | | | |
| Origination and reversal of temporary differences | | (75) | - | - |
| Change in unrecognised temporary differences | | - | - | - |
| Recognition of previously unrecognised tax losses | | 75 | - | - |
| **Total deferred tax expense** | - | - | - | - |

| Reconciliation of tax on the surplus and tax expense | Council | | Group | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | $000 | $000 | $000 | $000 |
| Surplus for the period before taxation | - | - | - | - |
| Prima facie income tax based on domestic tax rate - 28% | | 7,690 | | 8,658 |
| Effect of non-deductible expenses and tax exempt income | | (7,710) | | (9,944) |
| Effect of tax losses utilised | | 75 | | - |
| Current years loss for which no deferred tax asset was recognised | | 20 | | 30 |
| Recognition of prior year loss | | (75) | | (75) |
| Change in unrecognised temporary differences | | - | | 92 |
| Prior period adjustment | | - | | 12 |
| Share of income tax of equity accounted associates | | - | | 1,163 |
| **Tax Expense/ (Credit)** | - | - | - | **(64)** |

| Imputation credits | Group | |
|---|---|---|
| | 2015 | 2014 |
| | $000 | $000 |
| Imputation credits available in subsequent periods | | **98** |

## Note 10: Deferred tax assets and liabilities

**Unrecognised temporary differences and tax losses**

Deferred tax assets have not been recognised in respect of the following items:

| | Council | | Group | |
|---|---|---|---|---|
| | 2015 $000 | 2014 $000 | 2015 $000 | 2014 $000 |
| Deductible temporary differences | | - | | 971 |
| Tax losses | | 1,882 | | 1,921 |
| **Total** | **-** | **1,882** | **-** | **2,892** |

Under current income tax legislation, the tax losses and deductible temporary differences referred to above do not expire.

The unrecognised deferred tax asset in respect of the above items for the Council is $0.527m (2014: $0.527m) and for the Group $0.810m (2014: $0.810m).

Deferred tax assets have not been recognised in respect of these items as it is not probable that future taxable profits will be available against which the benefit of the losses can be utilised.

In 2015 $0.270m (2014: $0.270m) previously unrecognised tax losses, with a tax effect of $0.076m (2014: $0.076m) were recognised by the Group by way of loss transfer arrangement.

As at 30 June 2015, the Group had a deferred tax liability of $1.279m (2014: $1.279m).

## Note 11: Cash and cash equivalents

| | Council | | Group | |
|---|---|---|---|---|
| | 2015 $000 | 2014 $000 | 2015 $000 | 2014 $000 |
| Cash at bank | 4,434 | 7,284 | 5,600 | 10,105 |
| Cash on hand | 41 | 105 | 56 | 115 |
| Short term bank deposits up to 3 months | 48,098 | 37,000 | 51,197 | 40,298 |
| **Total cash and cash equivalents** | **52,573** | **44,389** | **56,853** | **50,518** |

Bank balances that are interest bearing earn interest based on current floating bank deposit rates.

Short term deposits are made with a registered bank for varying periods of up to three months depending on the immediate cash requirements and short term borrowings of the Group, and earn interest at the applicable short term deposit rates.

Council holds short term deposits as part of its overall liquidity risk management programme. This enables Council to maintain its regular commercial paper programme and to pre-fund upcoming debt maturities. The combination of the commercial paper programme and holding short term deposits reduces Council's cost of funds.

**Ring fenced funds**

The Council holds $24.320m (2014: $24.320m) of cash that may only be used for a specified purpose; this amount has been offset against borrowings. As part of the agreement with the Crown for the Housing Upgrade Project an amount of $21.041m (2014: $21.041m), representing the accumulated cash surpluses from the Housing activity, has been ring fenced for future investment in the Council's social housing assets. There is also an amount of $3.279m (2014: $3.279m) related to accumulated cash surpluses from the Waste Reduction and Energy Conservation activity which, under the Waste Minimisation Act 2008, must be ring fenced for future investment in waste activities.

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## Note 12: Derivative financial instruments

| | Council 2015 $000 | Council 2014 $000 | Group 2015 $000 | Group 2014 $000 |
|---|---|---|---|---|
| **Current assets** | | | | |
| Interest rate swaps - fair value hedges | - | - | - | - |
| **Total current assets** | - | - | - | - |
| **Non-current assets** | | | | |
| Interest rate swaps - cash flow hedges | | 4,428 | - | 4,428 |
| **Total non-current assets** | - | 4,428 | - | 4,428 |
| **Total derivative financial instrument assets** | - | 4,428 | - | 4,428 |
| **Current liabilities** | | | | |
| Interest rate swaps - cash flow hedges | | 180 | - | 180 |
| **Total current liabilities** | - | 180 | - | 180 |
| **Non-current liabilities** | | | | |
| Interest rate swaps - cash flow hedges | | 4,651 | - | 4,651 |
| Interest rate swaps - non-hedged | | 137 | - | 137 |
| **Total non-current liabilities** | - | 4,788 | - | 4,788 |
| **Total derivative financial instrument liabilities** | - | 4,968 | - | 4,968 |

Derivative financial instruments are used by the Group in the normal course of business to hedge exposure to cash flow and fair value interest rate risk. The amounts shown above represent the fair values of these derivative financial instruments. Although these are managed as a portfolio, the Group has no rights to offset assets and liabilities and must present these figures separately.

Cash flow hedges are used to fix interest rates on floating rate debt (floating rate notes or commercial paper) or bank borrowings. Fair value hedges are used to convert interest rates on some fixed rate debt (bonds) to floating rates.

For further information on the Council's interest rate swaps please refer to Note 29: Financial instruments

## Note 13: Receivables and recoverables

| Receivables from exchange transactions | Note | Council 2015 $000 | Council 2014 $000 | Group 2015 $000 | Group 2014 $000 |
|---|---|---|---|---|---|
| Trade receivables - debtors | | | #REF! | | #REF! |
| Provision for impairment - debtors | | | (2) | | (2) |
| **Net trade receivables - debtors** | | **-** | **#REF!** | **-** | **#REF!** |
| Trade receivables from related parties | | | | | |
| - Controlled entities | | | 257 | | - |
| - Associates and jointly controlled entities | | | 9 | | 9 |
| **Total trade receivables from related parties** | | **-** | **266** | **-** | **9** |
| **Total net trade receivables** | | **-** | **#REF!** | **-** | **#REF!** |
| Accrued income | | | 2,485 | | 2,806 |
| Sundry receivables | | | 916 | | 1,500 |
| **Total receivables from exchange transactions** | | **-** | **#REF!** | **-** | **#REF!** |
| Represented by: | | | | | |
| Current | | | #REF! | | #REF! |
| Non-current | | - | - | - | - |
| **Total receivables from exchange transactions** | | **-** | **#REF!** | **-** | **#REF!** |

## Note 13: Receivables and recoverables - continued

| Recoverables from non-exchange transactions | Note | Council 2015 $000 | Council 2014 $000 | Group 2015 $000 | Group 2014 $000 |
|---|---|---|---|---|---|
| **Taxes** | | | | | |
| GST recoverable | | | 5,070 | | 5,190 |
| Rates recoverable | | | 9,053 | | 9,053 |
| **Total taxes** | | - | **14,123** | - | **14,243** |
| **Transfers** | | | | | |
| Trade recoverables - debtors | | | #REF! | | #REF! |
| Provision for impairment - debtors | | | (254) | | (254) |
| **Net trade recoverables - debtors** | | - | **#REF!** | - | **#REF!** |
| Trade recoverables - fines | | | 9,773 | | 9,773 |
| Provision for impairment - fines | | | (6,286) | | (6,286) |
| **Net trade recoverables - fines** | | - | **3,487** | - | **3,487** |
| Trade recoverables from related parties | | | | | |
| - Controlled entities | | | 719 | - | - |
| - Associates and jointly controlled entities | | | - | - | - |
| **Total trade recoverables from related parties** | | - | **719** | - | - |
| **Total trade recoverables** | | | **#REF!** | | **#REF!** |
| **Other recoverables** | | | | | |
| Accrued income | | | 4,611 | | 4,611 |
| Sundry recoverables | | | 40 | | 40 |
| **Total other recoverables** | | - | **4,651** | - | **4,651** |
| **Total transfers** | | | **#REF!** | | **#REF!** |
| **Total recoverables from non-exchange transactions** | | - | **#REF!** | - | **#REF!** |
| Represented by: | | | | | |
| Current | | - | #REF! | - | #REF! |
| Non-current | | - | - | - | - |
| **Total recoverables from non-exchange transactions** | | - | **#REF!** | - | **#REF!** |

Current trade, rates and sundry receivables and recoverables are non-interest bearing and receipt is generally on 30 day terms, therefore the carrying value approximates their fair value.

The movement in the provision for impairment of trade receivables and recoverables is analysed as follows:

| Provision for impairment of total trade receivables and recoverables | Council 2015 $000 | Council 2014 $000 | Group 2015 $000 | Group 2014 $000 |
|---|---|---|---|---|
| Opening balance | | 6,864 | | 7,155 |
| New provisions made | | 218 | | 218 |
| Release of unused provision | | (351) | | (351) |
| Amount of provision utilised | | (189) | | (480) |
| **Provision for impairment of total trade receivables and recoverables - closing balance** | - | **6,542** | - | **6,542** |

## Note 13: Receivables and recoverables - continued

The ageing profile of trade and other receivables and recoverables at the reporting date is as follows:

| Council | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | Gross $000 | Impaired $000 | Net $000 | Gross $000 | Impaired $000 | Net $000 |
| **Trade and other receivables and recoverables** | | | | | | |
| Not past due | | | | 21,425 | - | 21,425 |
| Past due 0-3 months | | | | 6,311 | (98) | 6,213 |
| Past due 3-6 months | | | | 3,252 | (115) | 3,137 |
| Past due more than 6 months | | | | 12,941 | (6,329) | 6,612 |
| **Total trade and other receivables and recoverables** | **-** | **-** | **-** | **43,929** | **(6,542)** | **37,387** |

| Group | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | Gross $000 | Impaired $000 | Net $000 | Gross $000 | Impaired $000 | Net $000 |
| **Trade and other receivables and recoverables** | | | | | | |
| Not past due | | | | 23,128 | - | 23,128 |
| Past due 0-3 months | | | | 6,402 | (98) | 6,305 |
| Past due 3-6 months | | | | 3,252 | (115) | 3,137 |
| Past due more than 6 months | | | | 13,423 | (6,329) | 7,094 |
| **Total trade and other receivables and recoverables** | **-** | **-** | **-** | **46,205** | **(6,542)** | **39,664** |

The receivables and recoverables past due for more than six months primarily relates to fines. Due to their nature, the collection pattern for fines is longer than that for trade debtors.

## Note 14: Other financial assets

| | Note | Council 2015 $000 | Council 2014 $000 | Group 2015 $000 | Group 2014 $000 |
|---|---|---|---|---|---|
| **Financial assets at fair value through other comprehensive income** | | | | | |
| Equity investments: | | | | | |
| - Civic Assurance | | | 590 | | 590 |
| - NZ Local Government Funding Agency (LGFA) | | | 1,883 | | 1,883 |
| **Loans and deposits** | | | | | |
| Bank deposits - term greater than 3 months | | | 20,000 | | 20,400 |
| LGFA - borrower notes | | | 1,328 | | 1,328 |
| Loans to related parties - associates | | | 1,586 | | 1,586 |
| Loans to related parties - other organisations | | | 4,312 | | 4,312 |
| Loans to external organisations | | | 150 | | 150 |
| **Total other financial assets** | | **-** | **29,849** | **-** | **30,249** |
| Represented by: | | | | | |
| Current | | - | 20,000 | - | 20,400 |
| Non-current | | - | 9,849 | - | 9,849 |
| **Total other financial assets** | | **-** | **29,849** | **-** | **30,249** |

Civic Assurance is the trading name of New Zealand Local Government Insurance Corporation Limited, which provides insurance products and other financial services principally to local authorities. The Council holds a 4.78% (2014: 4.78%) shareholding in this entity with no present intention to sell.

The New Zealand Local Government Funding Agency Limited (LGFA), which commenced in December 2011 is an alternative debt provider majority owned by and operated for local authorities. The Council holds an 8% shareholding of the paid-up capital and as a shareholder will benefit from a return on its investment and as a borrower from lower borrowing costs. The LGFA has a AA+ (domestic long term) credit rating from Standard and Poors.

## Note 14: Other financial assets - continued

**Loans**

The loans to related parties are concessionary in nature, since the loans have been granted on interest free terms. The movements in the loans are as follows:

| | | Council | | Group | |
|---|---|---|---|---|---|
| | | 2015 | 2014 | 2015 | 2014 |
| | Note | $000 | $000 | $000 | $000 |
| **Loans to related parties - associates** | | | | | |
| ***Wellington Regional Stadium Trust (nominal value $15,394,893)*** | | | | | |
| Opening balance | | | 1,407 | - | 1,586 |
| Amortisation of fair value adjustment | | | 179 | - | 179 |
| Movement in fair value | | | - | | - |
| **Closing balance at fair value** | 42 | - | 1,586 | - | 1,765 |
| **Loans to related parties - other organisations** | | | | | |
| ***Karori Wildlife Sanctuary Trust (nominal value $10,346,689)*** | | | | | |
| Opening balance | | | 3,979 | - | 4,312 |
| Amortisation of fair value adjustment | | | 333 | - | 333 |
| **Closing balance at fair value** | | - | 4,312 | - | 4,645 |
| **Loans to other external organisations** | | | | | |
| Opening balance | | - | - | - | - |
| New loan advanced | | | 300 | - | 300 |
| Loan repayments | | | (150) | - | (150) |
| **Closing balance at fair value** | | - | 150 | - | 150 |
| **Total loans** | | - | 6,048 | - | 6,560 |

The fair value movement on loans reflects the timing of their expected repayments and the interest free nature of the loan. Over the remaining life of the loans their fair value will be amortised back up to their full nominal value.

The amortisation rate applicable to the Wellington Regional Stadium Trust is 12.710%. Following recent notification from the Trust, the expected repayment of this loan has been extended to 2070 in keeping with the terms of the loan, which states that repayment will only occur once all other debt has been repaid. The fair value of the loan has been reduced accordingly.

The amortisation rates applicable to the Karori Wildlife Sanctuary Trust range from 6.875% to 12.710%. This loan is expected to be fully repaid by the end of 2040.

Loans to other external organisations are suspensory loan arrangements associated with economic development grants provided by Council to achieve defined outcomes. The loans are repayable in the event that the economic development outcomes agreed in providing the grant are not delivered. As agreed outcomes for the grants are met the loans are reduced accordingly.

Further information on the related parties is disclosed in Note 37: Related party disclosures.

## Note 15: Inventories

| | Council 2015 $000 | Council 2014 $000 | Group 2015 $000 | Group 2014 $000 |
|---|---|---|---|---|
| Consumables | | 631 | | 1,313 |
| Inventories held for re-sale | | 256 | | 360 |
| Inventories held for distribution | | 82 | | 82 |
| **Total inventories** | **-** | **969** | **-** | **1,755** |

Consumables are materials or supplies which will be consumed in conjunction with the delivery of services. Consumables within the Council predominately comprise nursery plants, printing products and drainage and waste consumables. Consumables within the Group are mainly Wellington Cable Car Limited inventories of spare parts.

Inventories held for resale within the Council mainly comprise inventories at the Botanic Gardens and the Council's swimming pools. The Group includes inventories at Wellington Museums Trust and Wellington Zoo.

Inventories held for distribution primarily relate to the holding of wheelie bins, green bins and recycling bags for distribution at no or nominal cost.

## Note 16: Non-current assets classified as held for sale

| | Council 2015 $000 | Council 2014 $000 | Group 2015 $000 | Group 2014 $000 |
|---|---|---|---|---|
| Opening balance | | 272 | | 272 |
| Disposals | | (272) | | (272) |
| Transfers from property, plant and equipment | | 1,367 | | 1,367 |
| **Non-current assets classified as held for sale - closing balance** | **-** | **1,367** | **-** | **1,367** |

Non-current assets held for sale are valued at the lower of the carrying amount and fair value less costs to sell at the time of reclassification.

## Note 17: Intangibles

| | Council 2015 $000 | Council 2014 $000 | Group 2015 $000 | Group 2014 $000 |
|---|---|---|---|---|
| **Computer software** | | | | |
| Cost - opening balance | | 43,011 | | 43,701 |
| Accumulated amortisation | | (31,941) | | (32,592) |
| Computer software opening balance | - | 11,070 | - | 11,109 |
| Acquired by direct purchase | | 1,792 | | 1,871 |
| Amortisation | | (3,926) | | (3,974) |
| Net disposals | | (2,082) | | (2,082) |
| Transfer from property, plant and equipment | | - | | - |
| **Total computer software - closing balance** | - | **6,854** | - | **6,924** |
| Cost | | 39,849 | | 40,491 |
| Accumulated amortisation | | (32,995) | | (33,566) |
| **Total computer software - closing balance** | - | **6,854** | - | **6,924** |
| **Work in progress** | | | | |
| Computer software | | 9,864 | | 9,864 |
| **Total work in progress** | - | **9,864** | - | **9,864** |
| **Carbon credits** | | | | |
| Cost - Opening Balance | | 37 | | 37 |
| Additions | | 25 | | 25 |
| Net disposals | | (30) | | (30) |
| **Total Carbon credits - closing balance** | - | 32 | - | 32 |
| **Total intangibles** | - | **16,750** | - | **16,820** |

Disposals and transfers are reported net of accumulated amortisation.

The increase in computer software work in progress of $7.422m to $9.864m reflects Council's commitment to enhancing its technological capabilities across a number of platforms. Council has embarked on replacing its core applications, a new electronic document records management system and a new asset management information system for its infrastructure assets.

**Carbon credits**

As part of the Emissions Trading Scheme (ETS) the Council received carbon credits from Central Government in recognition of the carbon absorbed by a portion of the Council's green belt. For the year ending 30 June 2015 the Council received 29,721 credits (2014: 29,721). The Council purchased 110,000 credits (2014: 110,000) in the market to cover the expected liabilities associated with landfill operations. During the year 54,213 credits (2014: 54,213) were surrendered to meet the Council's ETS obligations for the 2014 calendar year. At 30 June 2015 the total number of credits held is 320,194 (2014: 320,194).

At 30 June 2015 the liability relating to these credits is $0.024m (2014: $0.024m).

More information on carbon credits can be found in the Statements of Service Performance under activity 2.2: Waste reduction and energy conservation.

## Note 18: Investment properties

| | Council 2015 $000 | Council 2014 $000 | Group 2015 $000 | Group 2014 $000 |
|---|---|---|---|---|
| Opening balance | | 205,951 | | 205,951 |
| Additions by acquisition | | - | | - |
| Additions by subsequent expenditure | | 781 | | 781 |
| Fair value revaluation movements taken to surplus/(deficit) | | (7,661) | | (7,661) |
| Transfer to property, plant and equipment | | (6,170) | | (6,170) |
| **Investment properties - closing balance** | **-** | **192,901** | **-** | **192,901** |

Wellington City Council's investment properties including the Wellington Waterfront investment properties were valued as at 30 June 2015 by William Bunt (FNZIV, FPINZ), registered valuer and Director of Valuation Services for CBRE Limited.

The Council's total investment properties comprise ground leases of $153.480m (2014: $153.480m) and land and buildings of $39,421m (2014: $39,421m) held for investment purposes.

Ground leases are parcels of land owned by the Council in the central city or on the waterfront that are leased to other parties who own the buildings situated on the land. The leases are generally based on 21-year perpetually renewable terms. As these parcels of land are held for investment purposes the rentals are charged on a commercial market basis.

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

| **Revenues and expenses** | Council 2015 $000 | Council 2014 $000 | Group 2015 $000 | Group 2014 $000 |
|---|---|---|---|---|
| Revenue from investment properties | | 11,174 | | 11,174 |
| Direct operating expenses of investment properties | | | | |
| - From investment properties that generated income | | 545 | | 545 |
| Contractual obligations for capital expenditure | | 19 | | 19 |
| Contractual obligations for operating expenditure | | 13 | | 13 |

The direct operating expenses relating to investment properties form part of the direct expenses in Note 7: Expenditure on operating activities.

| **Fair value of investment properties valued by independent registered valuers** | Council 2015 $000 | Council 2014 $000 | Group 2015 $000 | Group 2014 $000 |
|---|---|---|---|---|
| William Bunt - CBRE Limited | | 154,830 | | 154,830 |
| **Total fair value of investment properties valued by independent registered valuers** | **-** | **154,830** | **-** | **154,830** |

## Note 19: Property, plant and equipment

The movements in the property, plant and equipment assets are summarised as follows:

| Summary | Council 2015 $000 | Council 2014 $000 | Group 2015 $000 | Group 2014 $000 |
|---|---|---|---|---|
| Property, plant and equipment - Opening balance | | 6,546,292 | | 6,558,933 |
| Additions | | 104,321 | | 106,736 |
| Disposals | | (3,503) | | (3,504) |
| Depreciation expense | | (91,934) | | (92,637) |
| Impairment losses | | (458) | | (1,246) |
| Revaluation movement | | (45,291) | | (47,164) |
| Transfer from non-current assets held for sale | | (1,367) | | (1,367) |
| Transfer to non-current assets held for sale | | - | | - |
| Transfer from investment properties | | 6,170 | | 6,170 |
| Transfer to intangibles | | - | | |
| Movement in work in progress | | 21,781 | | 21,275 |
| **Property, plant and equipment - Closing balance** | **-** | **6,536,011** | **-** | **6,547,196** |

The movements according to the individual classes of assets are as follows:

| | Council 2015 $000 | Council 2014 $000 | Group 2015 $000 | Group 2014 $000 |
|---|---|---|---|---|
| ***Operational assets*** | | | | |
| **Land** | | | | |
| Land - at cost - opening balance | | - | | - |
| Land - at valuation - opening balance | | 203,331 | | 203,331 |
| Total land - opening balance | - | 203,331 | - | 203,331 |
| Additions | | 6,976 | | 6,976 |
| Disposals | | - | | - |
| Revaluation movement | | - | | - |
| Transfer between asset classes | | 2,775 | | 2,775 |
| **Total land - closing balance** | **-** | **213,082** | **-** | **213,082** |
| Land - at cost - closing balance | - | - | | |
| Land - at valuation - closing balance | | 213,082 | | 213,082 |
| **Total land - closing balance** | **-** | **213,082** | **-** | **213,082** |
| **Buildings** | | | | |
| Buildings - at cost - opening balance | | 60,906 | | 60,906 |
| Buildings - at valuation - opening balance | | 547,282 | | 547,282 |
| Total cost/valuation | - | 608,188 | - | 608,188 |
| Accumulated depreciation | | (17,813) | | (17,813) |
| Total buildings - opening balance | - | 590,375 | - | 590,375 |
| Additions | | 10,741 | | 10,741 |
| Depreciation expense | | (21,879) | | (21,879) |
| Disposals | | (1,228) | | (1,228) |
| Impairment | | (458) | | (458) |
| Revaluation movement | | (9,295) | | (9,295) |
| Transfer between asset classes | | 365 | | 365 |
| Transfer from investment properties | | 6,170 | | 6,170 |
| **Total buildings - closing balance** | **-** | **574,792** | **-** | **574,792** |

Disposals and transfers are reported net of accumulated depreciation.

## Note 19: Property, plant and equipment - continued

| | Council | | Group | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | $000 | $000 | $000 | $000 |
| Buildings - at cost - closing balance | | 69,409 | | 69,409 |
| Buildings - at valuation - closing balance | | 539,236 | | 539,236 |
| Total cost/valuation | - | 608,645 | - | 608,645 |
| Accumulated depreciation | | (33,853) | | (33,853) |
| **Total buildings - closing balance** | **-** | **574,792** | **-** | **574,792** |
| **Landfill post closure costs** [1] | | | | |
| Landfill post closure - at cost - opening balance | | 3,783 | | 3,783 |
| Accumulated depreciation | | (2,100) | | (2,100) |
| Total landfill post closure costs - opening balance | - | 1,683 | - | 1,683 |
| Depreciation expense | | (202) | | (202) |
| Movement in post closure costs | | (139) | | (139) |
| **Total landfill post closure costs - closing balance** | **-** | **1,342** | **-** | **1,342** |
| Landfill post closure - at cost - closing balance | | 3,643 | | 3,643 |
| Accumulated depreciation | | (2,301) | | (2,301) |
| **Total landfill post closure costs - closing balance** | **-** | **1,342** | **-** | **1,342** |
| **Civic Centre complex** | | | | |
| Civic Centre complex - at cost - opening balance | | 173,691 | | 173,691 |
| Accumulated depreciation | | (55,931) | | (55,931) |
| Total Civic Centre complex - opening balance | - | 117,760 | - | 117,760 |
| Additions | | 1,541 | | 1,541 |
| Disposals | | (687) | | (687) |
| Depreciation expense | | (2,962) | | (2,962) |
| Transfer between asset classes | | - | | - |
| **Total Civic Centre complex- closing balance** | **-** | **115,652** | **-** | **115,652** |
| Civic Centre complex - at cost - closing balance | | 173,817 | | 173,817 |
| Accumulated depreciation | | (58,165) | | (58,165) |
| **Total Civic Centre complex- closing balance** | **-** | **115,652** | **-** | **115,652** |
| **Plant and equipment** | | | | |
| Plant and equipment - at cost - opening balance | | 157,065 | | 169,867 |
| Accumulated depreciation | | (77,728) | | (83,415) |
| Total plant and equipment - opening balance | - | 79,337 | - | 86,452 |
| Additions | | 13,846 | | 15,473 |
| Depreciation expense | | (9,797) | | (10,500) |
| Disposals | | (1,491) | | (1,492) |
| Transfer between asset classes | | - | | (1,873) |
| Transfer to intangibles | | - | | - |
| **Total plant and equipment - closing balance** | **-** | **81,895** | **-** | **88,060** |
| Plant and equipment - at cost | | 166,755 | | 179,310 |
| Accumulated depreciation | | (84,860) | | (91,250) |
| **Total plant and equipment - closing balance** | **-** | **81,895** | **-** | **88,060** |

1. The Council's share of the joint venture with Porirua City Council relating to the Spicer Valley Landfill is included in this asset class.

Disposals and transfers are reported net of accumulated depreciation

## Note 19: Property, plant and equipment - continued

| | Council | | Group | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | $000 | $000 | $000 | $000 |
| **Library collections** | | | | |
| Library collections - at cost - opening balance | | 3,972 | | 3,972 |
| Library collections - at valuation - opening balance | | 15,715 | | 15,715 |
| Total cost/valuation | - | 19,687 | - | 19,687 |
| Accumulated depreciation | - | (4,377) | - | (4,377) |
| Total library collections - opening balance | - | 15,310 | - | 15,310 |
| Additions | | 2,072 | | 2,072 |
| Depreciation expense | | (2,438) | | (2,438) |
| Revaluation movement | | (132) | | (132) |
| **Total library collections - closing balance** | **-** | **14,812** | **-** | **14,812** |
| Library collections - at cost - closing balance | - | - | - | - |
| Library collections - at valuation - closing balance | | 14,812 | | 14,812 |
| Total cost/valuation | - | 14,812 | - | 14,812 |
| Accumulated depreciation | - | - | - | - |
| **Total library collections - closing balance** | **-** | **14,812** | **-** | **14,812** |
| ***Total operational assets*** | **-** | **1,001,574** | **-** | **1,007,740** |
| ***Infrastructure assets*** | | | | |
| **Drainage, waste and water** | | | | |
| Drainage, waste and water - at cost - opening balance | | 76,885 | | 76,885 |
| Drainage, waste and water - at valuation - opening balance | | 1,193,003 | | 1,193,003 |
| Total cost/valuation | - | 1,269,888 | - | 1,269,888 |
| Accumulated depreciation | - | (56,351) | - | (56,351) |
| Total drainage, water and waste - opening balance | - | 1,213,537 | - | 1,213,537 |
| Additions | | 27,784 | | 27,784 |
| Depreciation expense | | (28,130) | | (28,130) |
| Revaluation movement | | (35,663) | | (35,663) |
| Transfer between asset classes | | (4) | | (4) |
| **Total drainage, water and waste - closing balance** | **-** | **1,177,524** | **-** | **1,177,524** |
| Drainage, waste and water - at cost - closing balance | - | - | - | - |
| Drainage, waste and water - at valuation - closing balance | | 1,177,524 | | 1,177,524 |
| Total cost/valuation | - | 1,177,524 | - | 1,177,524 |
| Accumulated depreciation | - | - | - | - |
| **Total drainage, water and waste - closing balance** | **-** | **1,177,524** | **-** | **1,177,524** |
| **Roading** | | | | |
| Roading - at cost - opening balance | - | 77,227 | | 77,227 |
| Roading - at valuation - opening balance | | 784,374 | | 786,974 |
| Total cost/valuation | - | 861,601 | - | 864,201 |
| Accumulated depreciation | - | (38,113) | - | (38,113) |
| Total roading - opening balance | - | 823,488 | - | 826,088 |
| Additions | | 35,286 | | 35,286 |
| Depreciation expense | | (20,201) | | (20,201) |
| Revaluation movement | | (14,481) | | (16,354) |
| Transfer between asset classes | | 4 | | 1,877 |
| **Total roading - closing balance** | **-** | **824,096** | **-** | **826,696** |

Disposals and transfers are reported net of accumulated depreciation

Item 2.1 Attachment 2

## Note 19: Property, plant and equipment - continued

| | Council 2015 $000 | Council 2014 $000 | Group 2015 $000 | Group 2014 $000 |
|---|---|---|---|---|
| Roading - at cost - closing balance | - | - | - | - |
| Roading - at valuation - closing balance | | 824,096 | | 826,696 |
| Total cost/valuation | - | 824,096 | - | 826,696 |
| Accumulated depreciation | - | - | - | - |
| **Total roading - closing balance** | **-** | **824,096** | **-** | **826,696** |
| | | | | |
| **Service concession assets** | | | | |
| Service concession assets - at cost - opening balance | | - | | - |
| Service concession assets - at valuation - opening balance | | 157,571 | | 157,571 |
| Total cost/valuation | - | 157,571 | - | 157,571 |
| Accumulated depreciation | | (10,047) | | (10,047) |
| Total service concession assets - opening balance | - | 147,524 | - | 147,524 |
| Additions | | - | | - |
| Depreciation expense | | (5,023) | | (5,023) |
| Revaluation movement | | 12,266 | | 12,266 |
| Transfer between asset classes | | - | | - |
| **Total service concession assets - closing balance** | **-** | **154,767** | **-** | **154,767** |
| | | | | |
| Service concession assets - at cost - closing balance | | - | | - |
| Service concession assets - at valuation - closing balance | | 154,767 | | 154,767 |
| Total cost/valuation | - | 154,767 | - | 154,767 |
| Accumulated depreciation | | - | | - |
| **Total service concession assets - closing balance** | **-** | **154,767** | **-** | **154,767** |
| | | | | |
| **Infrastructure land** | | | | |
| Infrastructure land - at cost - opening balance | - | - | - | - |
| Infrastructure land - at valuation - opening balance | | 36,077 | | 36,077 |
| Total infrastructure land - opening balance | - | 36,077 | - | 36,077 |
| Additions | | 2,799 | | 2,799 |
| Disposal | | - | | - |
| Revaluation movement | | 2,015 | | 2,015 |
| Transfer between asset classes | | (2,884) | | (2,884) |
| **Total infrastructure land - closing balance** | **-** | **38,007** | **-** | **38,007** |
| | | | | |
| Infrastructure land - at cost - closing balance | - | - | - | - |
| Infrastructure land - at valuation - closing balance | | 38,007 | | 38,007 |
| **Total infrastructure land - closing balance** | **-** | **38,007** | **-** | **38,007** |
| | | | | |
| **Land under roads** | | | | |
| Land under roads - at cost - opening balance | | 2,947,937 | | 2,947,937 |
| Additions | | 58 | | 58 |
| Disposals | | (51) | | (51) |
| Transfer between asset classes | | 109 | | 109 |
| Transfer to non-current assets held for sale | | (84) | | (84) |
| **Land under roads - closing balance** | **-** | **2,947,969** | **-** | **2,947,969** |
| | | | | |
| ***Total infrastructure assets*** | **-** | **5,142,363** | **-** | **5,144,963** |

Disposals and transfers are reported net of accumulated depreciation

## Note 19: Property, plant and equipment - continued

| | Council | | Group | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | $000 | $000 | $000 | $000 |
| **Restricted buildings** | | | | |
| Restricted buildings - at cost - opening balance | | 34,832 | | 34,832 |
| Accumulated depreciation | | (6,793) | | (6,793) |
| Total restricted buildings - opening balance | - | 28,039 | - | 28,039 |
| Additions | | 638 | | 638 |
| Depreciation expense | | (1,302) | | (1,302) |
| Disposals | | - | | - |
| **Restricted buildings - closing balance** | - | **27,375** | - | **27,375** |
| Restricted buildings - at cost - closing balance | | 35,470 | | 35,470 |
| Accumulated depreciation | | (8,095) | | (8,095) |
| **Total restricted buildings - closing balance** | - | **27,375** | - | **27,375** |
| **Parks and reserves** | | | | |
| Parks and reserves - at cost - opening balance | | 208,802 | | 208,802 |
| Additions | | 2,706 | | 2,706 |
| Disposals | | (46) | | (46) |
| Transfer between asset classes | | - | | - |
| Transfer to non-current assets held for sale | | (1,283) | | (1,283) |
| **Parks and reserves - closing balance** | - | **210,179** | - | **210,179** |
| **Town Belt - at cost** | | **84,544** | | **84,544** |
| Transfer between asset classes | - | - | - | - |
| **Total restricted buildings - closing balance** | - | **84,544** | - | **84,544** |
| **Zoo animals - at cost** | | **500** | | **500** |
| ***Total restricted assets*** | - | **331,525** | - | **333,861** |
| **Work in progress** | | | | |
| - Land | | 80 | | 80 |
| - Buildings | | 52,311 | | 52,311 |
| - Civic Centre complex | | - | | - |
| - Plant and equipment | | 7,990 | | 8,074 |
| - Drainage, waste and water | | - | | - |
| - Roading | | - | | - |
| - Art and cultural | | 169 | | 169 |
| - Restricted buildings | | - | | - |
| **Total work in progress** | - | **60,550** | - | **60,634** |
| ***Total property, plant and equipment*** | - | **6,546,292** | - | **6,547,197** |

Disposals and transfers are reported net of accumulated depreciation

## Note 19: Property, plant and equipment - continued

### Core Assets

Included within the infrastructure assets above are the following core Council assets:

| Council | 2015 | | | |
|---|---|---|---|---|
| | Closing book value $000 | Additions Constructed $000 | Vested $000 | Replacement Cost $000 |
| **Water supply** | | | | |
| - treatment plants and facilities | | | | |
| - other assets | | | | |
| **Sewerage** | | | | |
| - treatment plants and facilities | | | | |
| - other assets | | | | |
| **Stormwater drainage** | | | | |
| **Flood protection and control works** | | | | |
| **Roads and footpaths** | | | | |
| **Total** | **-** | **-** | **-** | **-** |

| Council | 2014 | | | |
|---|---|---|---|---|
| | Closing book value $000 | Additions Constructed $000 | Vested $000 | Replacement Cost $000 |
| **Water supply** | | | | |
| - treatment plants and facilities | 198,824 | 793 | - | 342,597 |
| - other assets | 315,647 | 1,783 | - | 540,993 |
| **Sewerage** | | | | |
| - treatment plants and facilities | 171,589 | - | - | 211,785 |
| - other assets | 317,622 | 3,873 | - | 725,665 |
| **Stormwater drainage** | 327,629 | 3,032 | - | 615,621 |
| **Flood protection and control works** | - | - | - | - |
| **Roads and footpaths** | 602,634 | 4,994 | 500 | 784,610 |
| **Total** | **1,933,945** | **14,475** | **500** | **3,221,271** |

The replacement cost is based on the optimised replacement cost estimate amounts in the valuation for the 2013/14 year. The core value of Roads and footpaths shown above excludes the value of retaining walls, street lighting, sumps & leads and other related assets totalling $221.5 million that are included in the value of Roading assets under infrastructural assets as disclosed in the previous page.

### Finance leases

The net carrying amount of plant and equipment assets held by the Council under finance leases is $0.739m (2014: $0.739m).

## Note 19: Property, plant and equipment - continued

### Revaluation of property, plant and equipment

The Council's operational land and buildings were valued as at 30 June 2012, and infrastructural land as at 30 June 2014 by William Bunt (FNZIV, FPINZI), registered valuer and Director of Valuation Services for CBRE Limited.

Library collections were valued as at 30 June 2014 by the Council's library staff. The revaluation was carried out in accordance with guidelines outlined in *Valuation Guidance for Cultural and Heritage Assets* published by the Treasury Accounting Team, November 2002. An independent peer review was conducted by Michaela O'Donovan, Manager Service Design and Implementation, National Library of New Zealand.

The drainage, waste and water infrastructure and roading networks and the service concession assets were valued as at 30 June 2014 by John Vessey (MIPENZ), Partner of Opus International Consultants Limited.

In the years which an asset class is not revalued, the Group assesses whether there has been any material change in the value of that asset class. The movement in asset values between 30 June 2014 and 30 June 2015 for the operational land and buildings were assessed using appropriate indices. The increase in asset value of 3.4% was not considered material by management and accordingly the assets were not revalued at 30 June 2015.

Further information on revaluation reserves and movements is contained in Note 25: Revaluation reserves.

### Service concession arrangements

The service concession arrangement asset class consists of the Moa Point, Western (Karori) and Carey's Gulley waste water treatment plants which are owned by the Council but operated by Veolia Water under agreement. The assets are valued consistently with waste infrastructure network assets.

The Moa Point sewerage treatment plant is owned by the Council and operated by Veolia Water under a design, build and operate contract. Veolia Water also operates the Council owned Western (Karori) and Carey's Gully treatment plants. The plants and building assets are included in the service concession arrangement assets above.

Veolia Water is required to fund all renewals and repairs and return the plants to the Council in 2020 with a future life expectancy of at least 25 years.

As asset owner, the Council incurs all associated operating expenses, namely management fees, depreciation and finance costs. In accordance with section100 of the Local Government Act 2002, the Council does not fully rates fund the plant's depreciation expenditure.

Veolia's monthly management fee is determined in accordance with annually adjusted tariffs. The contract terminates either on the expiry of the 25 year term (2020) or on the occurrence of a contract default event by either party. The contract's right of renewal resides with the Council.

### Insurance of assets

| | Council | |
|---|---|---|
| | 2015 | 2014 |
| | $000 | $000 |
| Total value of property, plant and equipment | | 6,536,012 |
| Value or assets covered by insurance contracts | | 3,042,231 |
| The maximum amount to which assets are insured under Council insurance policies | | 550,000 |

The value of assets covered by insurance excludes land and land under roads.

In addition to Council's insurance, in the event of natural disaster it is assumed that Central Government will contribute 60% towards the restoration of Council owned underground drainage, waste and water assets and the New Zealand Transport agency will contribute between 44-54% towards the restoration of roading assets.

The Council is not covered by any financial risk sharing arrangements in relation to its assets.

An insurance reserve fund of $9.609m (2014:$ 9.609m) exists to meet the cost of claims that fall below deductible limits under Council insurance policies. Refer to Note 28: Restricted Funds

## Note 19: Property, plant and equipment - continued

**Significant acquisitions and replacements of assets**

In accordance with the provisions of Schedule 10 of the Local Government Act 2002, information in respect of significant acquisitions and replacements of assets is reported within the Statements of Service Performance.

## Note 20: Exchange transactions, taxes and transfers payable

| Payables under exchange transactions | | Council | | Group | |
|---|---|---|---|---|---|
| | | 2015 | 2014 | 2015 | 2014 |
| | Note | $000 | $000 | $000 | $000 |
| Exchange payables and accruals | | | 37,409 | | 39,453 |
| Payables owing to related parties | | | | | |
| - Controlled entities | 42 | | 125 | | - |
| - Associates and jointly controlled entities | 42 | | 1,030 | | 1,030 |
| | | | - | | |
| Interest payable | | | 3,679 | | 3,679 |
| Sundry payables | | | 3,339 | | 3,739 |
| **Total exchange and other payables** | | **-** | **45,582** | **-** | **47,901** |
| represented by: | | | | | |
| Current | | | 44,952 | | 47,271 |
| Non-current | | | 630 | | 630 |
| **Total exchange and other payables** | | **-** | **45,582** | **-** | **47,901** |

| Taxes and transfers payable | | Council | | Group | |
|---|---|---|---|---|---|
| | | 2015 | 2014 | 2015 | 2014 |
| | Note | $000 | $000 | $000 | $000 |
| **Taxes payable** | | | | | |
| - GWRC rates | | | 2,231 | | 2,231 |
| - FBT | | | 56 | | 56 |
| - PAYE | | | 927 | | 1,105 |
| - ESCT | | | 18 | | 19 |
| - Carbon credit liability | | | 24 | | 24 |
| **Transfers payable** | | | | | |
| - Creditors and accruals | | | 6,344 | | 7,422 |
| - Sundry payables | | | 4,295 | | 4,481 |
| Transfers payable to related parties | | | | | |
| - Controlled entities | 42 | | 1,078 | | - |
| - Associates and jointly controlled entities | 42 | | - | | - |
| **Total taxes and transfers payable** | | **-** | **14,973** | **-** | **15,338** |
| represented by: | | | | | |
| Current | | - | 14,973 | - | 15,338 |
| Non-current | | - | - | - | - |
| **Total taxes and transfers payable** | | **-** | **14,973** | **-** | **15,338** |

Exchange transactions, taxes and transfers payable are non-interest bearing and are normally settled on terms varying between seven days and the 20th of the month following the invoice date.

## Note 21: Revenue in advance

| | Council | | Group | |
|---|---|---|---|---|
| | 2015 $000 | 2014 $000 | 2015 $000 | 2014 $000 |
| **Exchange** | | | | |
| - Lease rentals | | 3,942 | | 3,942 |
| - Wellington Venues operations | | 1,547 | | 1,547 |
| - Controlled entities | | - | | 1,119 |
| - Other | | 67 | | 67 |
| **Taxes** | | | | |
| - Rates | | 968 | | 968 |
| **Transfers** | | | | |
| - Inspection and licensing fees | | 2,335 | | 2,335 |
| - Other | | 1,496 | | 1,496 |
| **Liabilities recognised under conditional transfer agreements** | | 1,750 | | 1,750 |
| **Total revenue in advance** | - | 12,105 | - | 13,224 |

**Liabilities recognised under conditional transfer agreements**

Council has received monies which apply to periods beyond the current year with conditions that would require it to return the money if it was not able to fulfil the agreement. The revenue from these agreements will only be recognised as the conditionals are fulfilled over time.

## Note 22: Borrowings

The Council maintains a prudent borrowings position in relation to our equity and annual revenue. Borrowings are primarily used to fund the purchase of new assets or upgrades to existing assets that are approved through the Annual Plan and Long-Term Plan processes.

### Gross Borrowings

The gross borrowings are comprised as follows:

| Gross borrowings | Council | | Group | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | $000 | $000 | $000 | $000 |
| **Current** | | | | |
| Bank facilities - short term - committed | | - | | - |
| Commercial paper | | 100,000 | | 100,000 |
| Debt securities - fixed rate bonds | | - | | - |
| Debt securities - floating rate notes | | 29,000 | | 29,000 |
| Finance leases | | 371 | | 375 |
| **Total current** | - | **129,371** | - | **129,375** |
| **Non-current** | | | | |
| Bank loans - term | | 3,125 | | 3,125 |
| Debt securities - fixed rate bonds | | 20,000 | | 20,000 |
| Debt securities - floating rate notes | | 266,500 | | 266,500 |
| Finance leases | | 122 | | 125 |
| **Total non-current** | - | **289,747** | - | **289,750** |
| **Total borrowings** | - | **419,118** | - | **419,125** |

The Council's borrowing strategy is to minimise liquidity risk by avoiding concentration of debt maturity dates and to ensure there is long term access to funds. Further information on the liquidity and market risks associated with borrowings is contained in Note 29: Financial instruments.

The following table shows the utilisation of the borrowing facilities available to the Group at the end of the reporting period. The table also indicates the applicable maturity ranges, interest rate ranges and timing of interest payments.

| Group | Available $000 | Utilised $000 | Maturities | Rates % | Interest Payable |
|---|---|---|---|---|---|
| Bank overdraft | 1,550 | - | - | - | |
| Bank facilities - short term - uncommitted | 5,000 | - | - | - | |
| Bank facilities - short term - committed | 55,000 | - | - | - | |
| Bank facilities - long term - committed | 90,000 | - | - | - | |
| Bank loans - term | 3,125 | 3,125 | 2015-2036 | 7 | |
| Commercial paper | 100,000 | 100,000 | ~3 months | 3.31 - 3.71 | On issue |
| Debt securities - fixed rate notes | 20,000 | 20,000 | 2016-2023 | 4.47 - 7.13 | 6 monthy in arrears |
| Debt securities - floating rate bonds | 294,500 | 294,500 | 2014-2023 | 3.28 - 4.81 | Quarterly in arrears |
| Finance leases | 500 | 500 | 2014-2017 | 10.2 | |
| **Total** | **569,675** | **418,125** | | | |

## Note 22: Borrowings - continued

### Security

Council borrowings are secured by way of a Debenture Trust Deed over the Council's rates revenue.

### Internal Borrowings

Council borrows on a consolidated level and as such does not use internal borrowing and therefore does not prepare internal borrowing statements.

### Finance lease liabilities

The Group has entered into finance leases for items of plant and equipment, predominantly computer equipment. The net carrying amount of the leased items is included within plant and equipment shown in Note 18: Property, plant and equipment.

The finance leases can be renewed at the Group's option, with rentals set by reference to current market rates for items of equivalent age and condition. The Group does have the option to purchase the asset at the end of the lease term.

There are no restrictions placed on the Group by any of the finance leasing arrangements.

Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

The finance lease liabilities are analysed as follows:

| Analysis of finance lease liabilities | Council | | Group | |
|---|---|---|---|---|
| | 2015 $000 | 2014 $000 | 2015 $000 | 2014 $000 |
| **Future minimum lease payments** | | | | |
| Not later than one year | | 394 | | 399 |
| Later than one year and not later than five years | | 130 | | 133 |
| Later than five years | | - | | - |
| **Total future minimum lease payments** | **-** | **524** | **-** | **532** |
| Future finance charges | | (31) | | (32) |
| **Present value of future minimum lease payments** | **-** | **493** | **-** | **500** |
| **Present value of future minimum lease payments** | | | | |
| Not later than one year | | 371 | | 375 |
| Later than one year and not later than five years | | 122 | | 125 |
| Later than five years | | - | | - |
| **Total present value of future minimum lease payments** | **-** | **493** | **-** | **500** |

## Note 23: Employee benefit liabilities and provisions

| | Council | | Group | |
|---|---|---|---|---|
| | 2015 $000 | 2014 $000 | 2015 $000 | 2014 $000 |
| **Current** | | | | |
| **Short-term benefits** | | | | |
| Payroll accruals | | 771 | | 1,039 |
| Holiday leave | | 4,380 | | 5,324 |
| **Total short-term benefits** | **-** | **5,151** | **-** | **6,363** |
| **Termination benefits** | | | | |
| Other contractual provisions | | 77 | | 77 |
| **Total termination benefits** | **-** | **77** | **-** | **77** |
| **Total current** | **-** | **5,228** | **-** | **6,440** |
| **Non-current** | | | | |
| **Long-term benefits** | | | | |
| Long service leave provision | | - | | 69 |
| Retirement gratuities provision | | 1,207 | | 1,219 |
| **Total long-term benefits** | **-** | **1,207** | **-** | **1,288** |
| **Total employee benefit liabilities and provisions** | **-** | **6,435** | **-** | **7,728** |

Movements in the above short term and long term benefit provisions are analysed as follows:

| **Long service leave provision** | Council | | Group | |
|---|---|---|---|---|
| | 2015 $000 | 2014 $000 | 2015 $000 | 2014 $000 |
| Opening balance | - | - | | 78 |
| Additional or increased provision made | - | - | | - |
| Release of provision | - | - | | (9) |
| Amount utilised | - | - | | - |
| **Long service leave - closing balance** | **-** | **-** | **-** | **69** |

## Note 23: Employee benefit liabilities and provisions - continued

| Retirement gratuities provision | Council | | Group | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | $000 | $000 | $000 | $000 |
| Opening balance | | 1,474 | | 1,486 |
| Movement in required provision | | (52) | | (52) |
| Release of unused provision | | (109) | | (109) |
| Rediscounting of interest | | 92 | | 92 |
| Amount utilised | | (198) | | (198) |
| **Retirement gratuities - closing balance** | **-** | **1,207** | **-** | **1,219** |

**Background**

The Council's retirement gratuities provision is a contractual entitlement for a reducing number of employees who, having qualified with 10 years' service will, on retirement, be entitled to a payment based on years of service and current salary. This entitlement has not been offered to Council employees since 1991. Based on the age of remaining participants the provision may not be extinguished until 2037, assuming retirement at age 65.

**Estimation**

The gross retirement gratuities provision (inflation adjusted at 2.57%) as at 30 June 2015, before discounting, is $1.679m (2014: $1.679m). The discount rate used is 6.275%.

Movements in the above termination benefits provision is analysed as follows:

| Other contractual provisions | Council | | Group | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | $000 | $000 | $000 | $000 |
| Opening balance | | 714 | | 714 |
| New provision | | 77 | | 77 |
| Release of unused provision | | - | | - |
| Amount utilised | | (714) | | (714) |
| **Other contractual provisions - closing balance** | **-** | **77** | **-** | **77** |

**Background**

The above provision is to cover estimated redundancy costs as at 30 June 2015 resulting from current restructuring within the Council.

## Note 24: Provision for other liabilities

| | Council 2015 $000 | Council 2014 $000 | Group 2015 $000 | Group 2014 $000 |
|---|---|---|---|---|
| **Current** | | | | |
| ACC Partnership programme | | 31 | | 31 |
| Landfill post closure costs | | 2,311 | | 2,311 |
| Storm costs | | - | | - |
| Weathertight homes | | 28,439 | | 28,439 |
| **Total current** | **-** | **30,781** | **-** | **30,781** |
| **Non-current** | | | | |
| Landfill post closure costs | | 13,468 | | 13,468 |
| Weathertight homes | | 21,954 | | 21,954 |
| **Total non-current** | **-** | **35,422** | **-** | **35,422** |
| **Total provision for other liabilities** | **-** | **66,203** | **-** | **66,203** |

Movements in the above provisions for other liabilities are analysed as follows:

| **ACC Partnership programme** | Council 2015 $000 | Council 2014 $000 | Group 2015 $000 | Group 2014 $000 |
|---|---|---|---|---|
| Opening balance | | 20 | | 20 |
| Change in provision for risks incurred | | 95 | | 95 |
| Amounts utilised | | (84) | | (84) |
| **Total liability for claims outstanding** | **-** | **31** | **-** | **31** |
| Represented by: | | | | |
| Present value of future payments | | 30 | | 30 |
| Risk margin | | 1 | | 1 |
| **Total liability for claims outstanding** | **-** | **31** | **-** | **31** |

### Background

The Council is a member of the Accident Compensation Corporation (ACC) partnership programme. The Council acts as an agent on behalf of ACC managing claims for its employees and providing entitlements under the Accident Insurance Act 1998 in relation to work-related personal injuries and illnesses.

### Estimation

This provision represents an estimate of the claims outstanding at the end of the reporting period together with an estimate of the claims incurred but not yet reported.

## Note 24: Provision for other liabilities - continued

| Landfill post closure costs | Council | | Group | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | $000 | $000 | $000 | $000 |
| Opening balance | | 16,349 | | 16,349 |
| Release of provision | | (1,284) | | (1,284) |
| Re-discounting of interest | | 1,018 | | 1,018 |
| Amount utilised | | (304) | | (304) |
| **Landfill post closure costs - closing balance** | **-** | **15,779** | **-** | **15,779** |

**Background**

The Council operates the Southern Landfill (Stage 3) and has a 21.5% joint venture interest in the Spicer Valley Landfill. It also manages a number of closed landfill sites around Wellington. The Council has responsibility for the closure of its landfills and to provide ongoing maintenance and monitoring of the landfills after they are closed.

As part of the closure of landfills, or landfill stages, the Council's responsibilities include:

- final cover application and vegetation;
- incremental drainage control features; and
- completing facilities for post closure responsibilities.

Post closure responsibilities include:

- treatment and monitoring of leachate;
- ground water and surface monitoring;
- gas monitoring and recovery;
- implementation of remedial measures such as needed for cover and control systems; and
- ongoing site maintenance for drainage systems, final cover and vegetation.

The management of the landfill will influence the timing of recognition of some liabilities – for example, the Southern Landfill operates in stages. A liability relating to any future stages will only be created when the stage is commissioned and when refuse begins to accumulate in this stage.

**Estimations**

The long term nature of the liability means there are inherent uncertainties in estimating costs that will be incurred. The provision has been estimated using known improvements in technology and known changes to legal requirements. Future cash flows are discounted using the rate of 6.25%. The gross provision (inflation adjusted at 2.80%), before discounting, is $23.287m as at 30 June 2015 (2014: $23.287m). This represents the Council's projection of the amount required to settle the obligation at the estimated time of the cash outflow.

Stage 3 of the Southern Landfill has an estimated remaining capacity of 700,000$m^3$ (2014: 700,000$m^3$) and is expected to close in 2018. These estimates have been made by the Council's engineers based on expected future and historical volume information.

The Council's provision includes a proportionate share of the Spicer Valley Landfill provision for post closure costs. The Spicer Valley Landfill has an estimated remaining capacity of 536,000$m^3$ (2014: 536,000$m^3$) and an estimated remaining life out to the end of 2022.

STAGE 4???

## Note 24: Provision for other liabilities - continued

| Weathertight homes | Council 2015 $000 | Council 2014 $000 | Group 2015 $000 | Group 2014 $000 |
|---|---|---|---|---|
| Opening balance | | 66,979 | | 66,979 |
| Additional or increased provision made | | 2,884 | | 2,884 |
| Amount utilised | | (19,470) | | (19,470) |
| **Weathertight homes - closing balance** | **-** | **50,393** | **-** | **50,393** |

### Background

This provision represents the Council's estimated liability relating to the settlement of claims arising in relation to the Weathertight Homes Resolution Services (WHRS) Act 2006 and civil proceedings for weathertightness.

A provision has been recognised for the potential net settlement of all known claims, including those claims that are being actively managed by the Council as well as claims lodged with WHRS but not yet being actively managed. The provision also includes an amount of $4.997m (2014: 4.997m) as a provision for future claims relating to weathertightness issues not yet identified or not yet reported.

### Estimation

The Council has provided for the expected future costs of reported claims. The provision for active claims is based on the best estimate of the Council's expected future costs to settle these claims and is reviewed on a case by case basis. The estimate for claims which have been notified and are not yet actively managed and unreported claims is based on actuarial assessments and other information on these claims. The nature of the liability means there are significant inherent uncertainties in estimating the likely costs that will be incurred in the future. This represents the Council's best estimate of the amount required to settle the obligation at the estimated time of the cash outflow. Future cash flows are inflation adjusted and discounted using an applicable discount rate. The provision is net of any third-party contributions including insurance, where applicable.

The provision is based on best estimates and actuarial assessments and therefore actual costs incurred may vary significantly from those included in this provision, especially for future claims relating to weathertightness issues not yet identified or not yet reported.

The significant assumptions used in the calculation of the weathertight homes provision are as follows:

### Amount claimed

Represents the expected amount claimed by the homeowner and is based on the actual amounts for claims already settled.

### Settlement amount

Represents the expected amount of awarded settlement and is based on the actual amounts for claims already settled.

### Amount expected to be paid by the Council

Represents the amount expected to be paid by the Council out of any awarded settlement amount and is based on the actual amounts for claims already settled. This figure has been increasing over the last few years as it is becoming more common for the other parties involved in a claim to be either in liquidation or bankrupt, or have limited funds and be unable to contribute to settlement.

### Timing of claim payments

Represents the expected timing of claim payments based on the expected length of time it takes to settle claims. This assumption is based on experience and the actual timings for claims already settled.

## Note 24: Provision for other liabilities - continued

**Participation in Financial Assistance Package scheme**

The provision for 2014 includes certain actuarial assumptions around the Government's Financial Assistance Package (FAP). This assumption is based on actual and expected participation rates in the scheme.

**Percentage of homeowners who will make a successful claim**

Historical data collected on the number of claims lodged has enabled assumptions to be made on the percentage of homes built in the last 10 years which may experience weathertightness problems and therefore the percentage of homeowner who may make a successful claim.

The table below illustrates the potential impact on surplus or deficit of changes in some of the assumptions listed above.

| Council and Group | 2015 $000 | |
|---|---|---|
| Assumption | +10% Effect on Surplus or Deficit | -10% |
| Amount claimed | | |
| Settlement level award | | |
| Council contibution to settlement | | |
| Timing of claim payments | | |
| Participation in FAP scheme | | |
| Change in percentage of homeowners who will make a successful claim | | |

| Council and Group | 2015 $000 | |
|---|---|---|
| Assumption | +2% Effect on Surplus or Deficit | -2% |
| Discount rate | | |

**Funding of weathertight homes settlements**

Weathertight homes settlements are funded initially through borrowings. To repay those borrowings, the Council has agreed to incrementally increase rates by 0.75% per annum until such time as the weathertight homes liability has been settled and the associated borrowings and funding costs are repaid. To ensure that the funding of weathertight homes is fully transparent the associated settlement costs, borrowings and rates funding is reported annually.

| Funding for weathertight homes liability | Council 2015 $000 | Council 2014 $000 | Group 2015 $000 | Group 2014 $000 |
|---|---|---|---|---|
| Opening balance | | (3,442) | | (3,442) |
| Funding for weathertight homes liability | | 4,996 | | 4,996 |
| Total amounts paid | | (19,470) | | (19,470) |
| Interest allocation | | (614) | | (614) |
| **Closing balance funded through borrowings** | - | **(18,530)** | - | **(18,530)** |

## Note 25: Revaluation reserves

| | Council 2015 $000 | Council 2014 $000 | Group 2015 $000 | Group 2014 $000 |
|---|---|---|---|---|
| **Land - opening balance** | | 144,302 | | 144,302 |
| Transfer between classes | | (48) | | (48) |
| Transfer to retained earnings on disposal of assets | | - | | - |
| **Land - closing balance** | - | **144,254** | - | **144,254** |
| **Buildings - opening balance** | | 240,462 | | 240,462 |
| Revaluation adjustment | | (9,295) | | (9,295) |
| **Buildings - closing balance** | - | **231,167** | - | **231,167** |
| **Library collections - opening balance** | | 7,147 | | 7,147 |
| Revaluation recognised in other comprehensive income | | (132) | | (132) |
| **Library collections - closing balance** | - | **7,015** | - | **7,015** |
| **Drainage, waste and water - opening balance** | | 641,549 | | 641,549 |
| Revaluation recognised in other comprehensive income | | (23,397) | | (23,397) |
| **Drainage, waste and water - closing balance** | - | **618,152** | - | **618,152** |
| **Infrastructure land - opening balance** | | 13,347 | | 13,347 |
| Revaluation recognised in other comprehensive income | | 2,015 | | 2,015 |
| Transfer between classes | | 48 | | 48 |
| **Infrastructure land - closing balance** | - | **15,410** | - | **15,410** |
| **Roading - opening balance** | | 370,516 | | 372,389 |
| Revaluation recognised in other comprehensive income | | (14,481) | | (16,354) |
| **Roading - closing balance** | - | **356,035** | - | **356,035** |
| **Associates' revaluation reserves - opening balance** | | - | | 109,934 |
| Revaluation recognised in other comprehensive income | | - | | - |
| Effect of changed shareholding in associates | | - | | 38 |
| **Associates' revaluation reserves - closing balance** | - | - | - | **109,972** |
| **Total revaluation reserves** | - | **1,372,033** | - | **1,482,005** |
| These revaluation reserves are represented by: | | | | |
| Opening balance | | 1,417,323 | | 1,529,130 |
| Revaluation recognised in other comprehensive income | | (45,290) | | (47,163) |
| Effect of changed shareholding in associates | | - | | 38 |
| Transfer to retained earnings on disposal of assets | | - | | - |
| **Total revaluation reserves - closing balance** | - | **1,372,033** | - | **1,482,005** |

The revaluation reserves are used to record accumulated increases and decreases in the fair value of certain asset classes. For the period ending 30 June 2015 Council revalued its operational land and buildings and investment properties.

Revaluation movements are non-cash in nature and represent the restating of the Council's assets, subject to revaluation, into current dollar values after taking into account the condition and remaining lives of the assets.

## Note 26: Hedging reserve

| | Council | | Group | |
|---|---|---|---|---|
| | 2015 $000 | 2014 $000 | 2015 $000 | 2014 $000 |
| Opening balance | | (9,955) | | (9,956) |
| Cash flow hedge net movement recognised in other comprehensive income | | 9,552 | | 9,552 |
| Cash flow hedge movement reclassified to share of equity accounted surplus of associate | | - | | 1 |
| **Hedging reserve - closing balance** | **-** | **(403)** | **-** | **(403)** |

The hedging reserve shows accumulated fair value changes for interest rate swaps which satisfy the criteria for hedge accounting and have operated as effective hedges during the period. The Group includes the equity accounted net movement in the hedging reserve of Council's associate, Wellington International Airport Limited.

## Note 27: Fair value through other comprehensive revenue and expense reserve

| | Council | | Group | |
|---|---|---|---|---|
| | 2015 $000 | 2014 $000 | 2015 $000 | 2014 $000 |
| Opening balance | | 93 | | 93 |
| Fair value adjustment taken to other comprehensive revenue and expense | | (30) | | (30) |
| **Fair value through other comprehensive revenue and expense reserve - closing balance** | **-** | **93** | **-** | **93** |

This reserve reflects the accumulated fair value movement in the Council's investment in Civic Assurance, for which there is no intention to sell. See Note 14: Other financial assets - for further information.

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## Note 28: Restricted funds

| | Council | | Group | |
|---|---|---|---|---|
| | 2015 $000 | 2014 $000 | 2015 $000 | 2014 $000 |
| Secial reserves and funds | | 14,271 | | 17,025 |
| Trusts and bequests | | 412 | | 412 |
| **Restricted funds - Opening balance** | **-** | **14,683** | **-** | **20,647** |
| Additional funds | | 4,779 | | 4,639 |
| Funds utilised | | (3,813) | | (1,293) |
| Funds released to retained earnings | | (4,243) | | - |
| **Total movments in restricted funds** | | **(3,277)** | | **3,346** |
| Secial reserves and funds | | 14,271 | | 17,025 |
| Trusts and bequests | | 412 | | 412 |
| **Restricted funds - Closing balance** | **-** | **14,683** | **-** | **20,647** |

| Special reserves and funds | Closing Balance 2014 $000 | Additional Funds 2015 $000 | Funds Utilised 2015 $000 | Closing Balance 2015 $000 |
|---|---|---|---|---|
| **Council** | | | | |
| Wellington economic initiatives development fund | 4,375 | | | |
| Reserve purchase and development fund | 287 | | | |
| Insurance reserve | 9,609 | | | |
| | **14,271** | | | |
| **Group** | | | | |
| Controlled entities' restricted funds | 2,754 | | | |
| **Council and Group** | **17,025** | | | |

**Nature and Purpose**

**Wellington economic initiatives development fund**
This fund has been set up to be part of an integrated approach to fostering growth in the economy.

**Reserve purchase and development fund**
This fund is used to purchase and develop reserve areas within the city but was not utilised during this year.

**Insurance reserve**
This reserve came into effect in 2001 and allows the Council to meet the cost of claims that fall below deductible limits under Council's insurance policies. Annual additions to the reserve of \$0.750m (2014: \$0.750m) are funded through rates as identified in the Annual Plan.

**Controlled entities' restricted funds**
The restricted funds of the controlled entities relate to the Wellington Museums Trust and the Wellington Zoo Trust:

- The Wellington Museums Trust has three reserves; a Capital Reserve, a Colonial Cottage Museum Collection reserve and a City and Sea Collection reserve. The two collection reserves are for the purpose of future museum acquisitions.
- The Wellington Zoo Trust has a number of trust and bequests made, which are held as restricted funds until utilised.

## Note 28: Restricted funds - continued

| Trust and Bequests | Closing Balance 2014 $000 | Additional Funds 2015 $000 | Funds Utilised 2015 $000 | Closing Balance 2015 $000 |
|---|---|---|---|---|
| A Graham Trust | 3 | | | |
| A W Newton Bequest | 301 | | | |
| Charles Plimmer Bequest | - | | | |
| E A McMillan Estate | 6 | | | |
| E Pengelly Bequest | 13 | | | |
| F L Irvine Smith Memorial | 7 | | | |
| Greek NZ Memorial Association | 5 | | | |
| Kidsarus 2 Donation | 3 | | | |
| Kirkcaldie and Stains Donation | 17 | | | |
| QEII Memorial Book Fund | 18 | | | |
| Schola Cantorum Trust | 6 | | | |
| Stanley Banks Trust | 9 | | | |
| Terawhiti Grant | 10 | | | |
| Wellington Beautifying Society Bequest | 14 | | | |
| **Total trusts and bequests** | **412** | - | - | - |

**Analysis of movements in trusts and bequests**

*Additional Funds*

Trusts and bequests receiving additional funds during the year were those where interest has been applied in accordance with the original terms and conditions.

Charles Plimmer - Distributions through the Public Trust recognised as revenue - $XXXXX

*Funds utilised*

Trusts and bequests funds utilised during the year were:

- Charles Plimmer - Botanical Gardens Children's garden - $XXXXX
- Stanley Banks - educational grants to children of WWII service personnel - $XXXXX
- QEII Memorial Book fund - Purchase of Commonwealth language books - $XXXXX

**Nature and purpose**

Other than those specific trusts and bequests discussed above, the others are generally provided for library, educational or environmental purposes.

## Note 29: Financial Instruments

The following tables provide an analysis of the Council's financial assets and financial liabilities by reporting category as described in the summary of accounting policies:

| | Council | | Group | |
|---|---|---|---|---|
| | 2015 $000 | 2014 $000 | 2015 $000 | 2014 $000 |
| **Financial assets** | | | | |
| **Loans and receivables** | | | | |
| Cash and cash equivalents | | | | |
| Trade and other receivables | | | | |
| Other financial assets | | | | |
| **Total loans and receivables** | - | - | - | - |
| **Financial assets at fair value through other comprehensive income** | | | | |
| Other financial assets | - | | - | |
| **Total financial assets at fair value through other comprehensive income** | - | - | - | - |
| **Hedged derivative financial instruments** | | | | |
| Derivatives designated as cash flow hedges | - | | - | |
| Derivatives designated as fair value hedges | - | - | - | - |
| **Total hedged derivative financial instruments** | - | - | - | - |
| **Total financial assets** | - | - | - | |
| Total non-financial assets | | | | |
| **Total assets** | | | | |
| **Financial liabilities** | | | | |
| **Financial liabilities at amortised cost** | | | | |
| Trade and other payables | | | | |
| Borrowings | | | | |
| **Total financial liabilities at amortised cost** | - | - | - | - |
| **Derivative financial instruments** | | | | |
| Derivatives designated as cash flow hedges | - | | - | |
| **Total derivative financial instruments** | - | - | - | - |
| **Financial liabilities at fair value through surplus/deficit** | | | | |
| Derivative financial instruments - non-hedged | - | | - | |
| **Total financial liabilities at fair value through surplus/deficit** | - | - | - | - |
| **Total financial liabilities** | - | - | - | - |
| Total non-financial liabilities | | | | |
| **Total liabilities** | | | | |

## Note 29: Financial instruments - continued

### Fair value

The fair values of all financial instruments equate or are approximate to the carrying amount recognised in the Statement of Financial Position.

### Fair value hierarchy

For those financial instruments recognised at fair value in the Statement of Financial Position, the fair values are determined according to the following hierarchy:

- **Level 1** - Quoted market price - Financial instruments with quoted prices for identical instruments in active markets.
- **Level 2** - Valuation technique using observable inputs – Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.
- **Level 3** - Valuation techniques with significant non-observable inputs – Financial instruments valued using models where one or more significant inputs are not observable.

| Council and Group | 2015 Level 1 $000 | 2015 Level 2 $000 | 2015 Level 3 $000 | 2014 Level 1 $000 | 2014 Level 2 $000 | 2014 Level 3 $000 |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Financial assets at fair value through other comprehensive income | - | - | - | - | - | 2,473 |
| Derivative financial instruments | | | | | | |
| - Fair value hedges | - | - | - | - | - | - |
| - Cash flow hedges | - | - | - | - | 4,428 | - |
| **Financial liabilities** | | | | | | |
| Derivative financial instruments | | | | | | |
| - Cash flow hedges | - | - | - | - | 4,831 | - |
| - non-hedged swaps | - | - | - | - | 137 | - |

| Reconciliation of fair value movements in Level 3 | Council 2015 $000 | Council 2014 $000 | Group 2015 $000 | Group 2014 $000 |
|---|---|---|---|---|
| **Financial assets at fair value through other comprehensive income** | | | | |
| **- Equity investments** | | | | |
| Opening balance - 1 July | | 2,503 | | 2,503 |
| Purchases | | - | | - |
| Disposals | | - | | - |
| Gains or losses recognised in other comprehensive income | | (30) | | (30) |
| **Closing balance - 30 June** | **-** | **2,473** | **-** | **2,473** |

The level 3 equity investments comprise the Council's shareholdings in the Local Government Funding Agency $1.833mm (2014: $1.833m) and Civic Assurance $0.590m (2014:$0.590m). Refer to Note 14: Other financial assets for more details.

## Note 29: Financial instruments - continued

### Financial risk management

As part of its normal operations, the Group is exposed to a number of risks. The most significant are credit risk, liquidity risk and market risk, which includes interest rate risk. The Group's exposure to these risks and the action that the Group has taken to minimise the impact of these risks is outlined below:

### Credit risk

Credit risk is the risk that a third party will default on its obligations to the Group, thereby causing a financial loss. The Group is not exposed to any material concentrations of credit risk other than its exposure within the Wellington region. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the Statement of Financial Position and the face value of financial guarantees to related parties (refer Note 32: Contingencies). There is currently no liability recognised for these guarantees as the Group does not expect to be called upon for payment.

The Group's maximum exposure to credit risk at the end of the reporting period is:

| | Council | | Group | |
|---|---|---|---|---|
| | 2015 $000 | 2014 $000 | 2015 $000 | 2014 $000 |
| **Financial instruments with credit risk** | | | | |
| Cash and cash equivalents | | 52,532 | | 56,797 |
| Derivative financial instrument assets | | 4,428 | | 4,428 |
| Receivables and recoverables | | | | |
| - Trade receivables and recoverables | | 15,268 | | 16,520 |
| - Other receivables and recoverables | | 22,119 | | 23,144 |
| Other financial assets | | | | |
| - Bank deposits - term | | 20,000 | | 20,400 |
| - LGFA borrower notes | | 1,328 | | 1,328 |
| - Loans to related parties - associates | | 1,586 | | 1,586 |
| - Loans to related parties - other organisations | | 4,312 | | 4,312 |
| - Loans to external organisations | | 150 | | 150 |
| Financial guarantees to related parties | | 600 | - | 600 |
| **Total financial instruments with credit risk** | **-** | **122,323** | **-** | **129,265** |

Receivables and recoverables balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

The Council is exposed to credit risk as a guarantor of the LGFA's borrowings. Further information about this exposure is explained in Note 32: Contingencies.

## Note 29: Financial instruments - continued

### Credit quality of financial assets

The credit quality of financial assets that are neither past due or impaired can be assessed by reference to Standard and Poor's credit ratings.

| Counterparties with credit ratings | Council | | Group | |
|---|---|---|---|---|
| | 2015 $000 | 2014 $000 | 2015 $000 | 2014 $000 |
| **Cash - registered banks** | | | | |
| AA- | | 4,434 | | 5,600 |
| **Short term deposits - registered banks** | | | | |
| AA- | | 48,098 | | 51,197 |
| A+ | | - | | - |
| **Term deposits (greater than 3 months) - registered banks** | | | | |
| AA- | | 10,000 | | 10,400 |
| A+ | | 10,000 | | 10,000 |
| **Term deposits - borrower notes - NZ LGFA** | | | | |
| AA+ | | 1,328 | | 1,328 |
| **Derivative financial instrument assets** | | | | |
| AA- | | 4,428 | | 4,428 |

## Liquidity risk

Liquidity risk refers to the situation where the Group may encounter difficulty in meeting obligations associated with financial liabilities. The Group maintains sufficient funds to cover all obligations as they fall due. Facilities are maintained in accordance with the Council's Liability Management Policy to ensure the Group is able to access required funds.

### Contractual maturity

The following maturity analysis sets out the contractual cash flows for all financial liabilities that are settled on a gross cash flow basis. Contractual cash flows for financial liabilities include the nominal amount and interest payable.

| | Council | | Group | |
|---|---|---|---|---|
| | 2015 $000 | 2014 $000 | 2015 $000 | 2014 $000 |
| **Contractual cash flows of financial liabilities excluding derivatives** | | | | |
| 0-12 months | | 200,845 | | 203,534 |
| 1-2 years | | 104,395 | | 104,398 |
| 2-5 years | | 139,265 | | 139,265 |
| More than 5 years | | 95,146 | | 95,146 |
| **Total contractual cash flows of financial liabilities excluding derivatives** | **-** | **487,187** | **-** | **491,606** |
| **Represented by:** | | | | |
| Carrying amount as per the Statement of Financial Position | | 477,386 | | 480,077 |
| Future interest payable | | 62,265 | | 62,266 |
| **Total contractual cash flows of financial liabilities excluding derivatives** | **-** | **487,187** | **-** | **491,606** |

## Note 29: Financial instruments - continued

The following maturity analysis sets out the contractual cash flows for all financial liabilities that are settled on a net cash flow basis. Contractual cash flows for derivative financial liabilities are the future interest payable.

| | Council | | Group | |
|---|---|---|---|---|
| | 2015 $000 | 2014 $000 | 2015 $000 | 2014 $000 |
| **Contractual cash flows of derivative financial liabilities** | | | | |
| 0-12 months | | 3,478 | | 3,478 |
| 1-2 years | | 1,464 | | 1,464 |
| 2-5 years | | 1,289 | | 1,289 |
| More than 5 years | | (252) | | (252) |
| **Total contractual cashflow of derivative financial liabilities** | **-** | **5,979** | **-** | **5,979** |
| **Represented by:** | | | | |
| Future interest payable | | 5,979 | | 5,979 |
| **Total contractual cash flows of derivative financial liabilities** | **-** | **5,979** | **-** | **5,979** |

In addition to cash to be received in 2015/16 the Council currently has $145m in unused committed bank facilities available to settle obligations as well as $89.915 of cash, cash equivalents and receivables and is expected to have sufficient cash to meet all contractual liabilities as they fall due.

The Council is exposed to liquidity risk as a guarantor of all of LGFA's borrowings. This guarantee becomes callable in the event of the LGFA failing to pay its obligations when they fall due. Information about this exposure is explained in Note 32: Contingencies.

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

| Period | Minimum | Maximum | Actual |
|---|---|---|---|
| 0 - 3 years | 20% | 60% | |
| 3 - 5 years | 20% | 60% | |
| More than 5 years | 15% | 60% | |

## Market risk

Market risk is the risk that the value of an investment will decrease or a liability will increase due to changes in market conditions. The Group uses interest rate swaps in the ordinary course of business to manage interest rate risks. A Treasury Committee, headed by senior management personnel and the Council's treasury management advisors (presently PWC), provides oversight for financial risk management and derivative activities and ensures any activities are in line with the Liability Management Policy which is formally approved by the Council as part of the Long-Term Plan (LTP).

### Cash flow and fair value interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's financial instruments will decrease due to changes in market interest rates. The Group is exposed to interest rate risk from its interest-earning financial assets and interest-bearing financial liabilities. The Group is risk averse and seeks to minimise exposure arising from its borrowing activities primarily by entering into interest rate swap arrangements to fix interest rates on its borrowings.

## Note 29: Financial instruments - continued

The Group manages its cash flow interest rate risk by using interest rate swaps. These have the economic effect of converting borrowings from floating rates to fixed rates. The Council uses interest rate swaps to maintain a required ratio of borrowing between fixed and floating interest rates as specified in the liability management policy:

| Minimum fixed rate | Maximum fixed rate | Actual % of fixed debt prior interest rate swaps | Actual % of fixed debt after interest rate swaps |
|---|---|---|---|
| 50% | 95% | | |

The table below shows the effect of the interest rate swaps at reducing the Council's exposure to interest rate risk:

| | Council | | Group | |
|---|---|---|---|---|
| | 2015 $000 | 2014 $000 | 2015 $000 | 2014 $000 |
| **Financial instruments subject to interest rate volatility - before effect of interest rate swaps** | | | | |
| Cash and cash equivalents | | 52,573 | | 56,853 |
| Bank deposits - term greater than 3 months | | 20,000 | | 20,400 |
| Bank facilities - short term | | - | | - |
| Bank loans | | (3,125) | | (3,125) |
| Commercial paper | | (100,000) | | (100,000) |
| Debt securities - floating rate notes | | (295,500) | | (295,500) |
| **Total financial instruments subject to interest rate volatility - before effect of interest rate swaps** | **-** | **(326,052)** | **-** | **(321,372)** |
| **Effect of interest rate swaps in reducing interest rate volatility** | | | | |
| Effect of fair value hedge | | - | | - |
| Effect of Cash flow interest rate swaps - hedged | | 303,500 | | 303,500 |
| Effect of Cash flow interest rate swaps - non-hedged | | 7,500 | | 7,500 |
| **Total effect of interest rate swaps in reducing interest rate volatility** | **-** | **311,000** | **-** | **311,000** |
| **Total financial instruments subject to interest rate volatility - after effect of interest rate swaps** | **-** | **(15,052)** | **-** | **(10,372)** |

These interest rate swaps have a nominal value which represents the value of the debt that they are covering (included above). This amount is not recorded in the financial statements; instead the fair value of these interest rate swaps is recognised. This represents the difference between the current floating interest rate and the fixed swap interest rate. At 30 June 2015 the fair value of the interest rate swaps was -$0.540m (2014: -$0.540m). This liability will reduce to zero as the swaps reach the end of their lives, and therefore do not represent a liability that the Council will be required to pay cash to settle.

Given that the interest rate swaps have terms that match with the borrowings (short term bank facilities, commercial paper and debt securities), it is appropriate to include the effect of the interest rate swaps on the borrowings interest rate and present the net effective interest rates for the underlying borrowings:

## Note 29: Financial instruments - continued

| Weighted effective interest rates | Council 2015 % | Council 2014 % | Group 2015 % | Group 2014 % |
|---|---|---|---|---|
| **Investments** | | | | |
| Cash and cash equivalents | | 3.79 | | 3.71 |
| Short term deposits > 3 months | | 4.29 | | 4.29 |
| Bank deposits - term | | - | | - |
| LGFA - borrower notes | | 4.11 | | 4.11 |
| Loans to related parties | | - | | - |
| Loans to external organisations | | - | | - |
| **Borrowings** | | | | |
| Bank facilities - short term | | - | | - |
| Bank loans | | 7.00 | | 7.00 |
| Commercial paper | | 3.46 | | 3.46 |
| Debt securities - fixed | | 5.14 | | 5.14 |
| Debt securities - floating | | 4.17 | | 4.17 |
| Derivative financial instruments - hedged | | 5.04 | | 5.04 |
| Derivative financial instruments - non-hedged | | 4.84 | | 4.84 |
| Finance leases | | 10.20 | | 10.21 |

Loans to related parties, being the loans to the Wellington Regional Stadium Trust and to the Karori Wildlife Sanctuary Trust, are both on interest free terms.

**Sensitivity analysis**

While the Council has significantly reduced the impact of short-term fluctuations on the Group's earnings through interest rate swap arrangements, there is still some exposure to changes in interest rates.

The tables below illustrate the potential surplus and deficit impact of a 1% change in interest rates based on the Council's and the Group's exposures at the end of the reporting period:

| Council | | 2015 $000 | | | |
|---|---|---|---|---|---|
| | | +1% | -1% | +1% | -1% |
| Interest rate risk | Note | Effect on | | Effect on | |
| **Financial assets** | | | | | |
| Cash and cash equivalents - Council | a | | | | |
| Bank deposits - term greater than 3 months | | | | | |
| LGFA - Borrower notes | | | | | |
| Derivatives - Interest rate swaps - hedged | b | | | | |
| **Financial liabilities** | | | | | |
| Bank term loans | | | | | |
| Commercial paper | c | | | | |
| Debt securities | d | | | | |
| Derivatives - Interest rate swaps - hedged | b | | | | |
| Derivatives - Interest rate swaps - non-hedged | e | | | | |
| **Total sensitivity to interest rate risk** | | - | - | - | - |

## Note 29: Financial instruments - continued

**a. Cash and cash equivalents**

Council funds are in a number of different registered bank accounts with interest payable on the aggregation of all accounts. A movement in interest rates of plus or minus 1% has an effect on interest revenue of $0.526m.

**b. Derivatives - hedged interest rate swaps**

Derivatives include interest rate swaps with a fair value totalling -$0.540m. A movement in interest rates of plus 1% has an effect on increasing the unrealised value of the hedged interest rate swaps by $15.486m. A movement in interest rates of minus 1% has an effect on reducing the unrealised value of the hedged interest rate swaps by $16.519m.

**c. Commercial paper**

Commercial paper is part of a programme and subject to floating rates and totals $100m. The full exposure to changes in interest rates has been reduced because the Council has $82m of the debt at fixed rates through interest rate swaps. A movement in interest rates of plus or minus 1% has an effect on the interest expense of $0.180m.

**d. Debt securities**

Debt securities at floating rates total $295.500m. The full exposure to changes in interest rates has been reduced because the Council has $211.500m of this debt at fixed rates through interest rate swaps. Debt securities at fixed rates total $20m. A movement in interest rates of plus or minus 1% has an effect on the interest expense of $0.840m.

## Equity management

The Group's equity includes accumulated funds and retained earnings, revaluation reserves, a hedging reserve, a fair value through other comprehensive revenue and expense reserve and restricted funds which comprise special funds, reserve funds and trusts and bequests.

The Local Government Act 2002 (the Act) requires the Council to manage its revenues, expenses, assets, liabilities, investments, and general financial dealings prudently and in a manner that promotes the current and future interests of the community. Ratepayer funds are largely managed as a by-product of managing revenues, expenses, assets, liabilities, investments, and general financial dealings.

The objective of managing these items is to achieve intergenerational equity, which is a principle promoted in the Act and applied by the Council. Intergenerational equity requires today's ratepayers to meet the costs of utilising the Council's assets but does not expect them to meet the full cost of long term assets that will benefit ratepayers in future generations. Additionally, the Council has asset management plans in place for major classes of assets, detailing renewal and programmed maintenance. These plans ensure ratepayers in future generations are not required to meet the costs of deferred renewals and maintenance.

The Act requires the Council to make adequate and effective provision in its Long-Term Plan (LTP) and in its Annual Plan (where applicable) to meet the expenditure needs identified in those plans. The Act sets out the factors that the Council is required to consider when determining the most appropriate sources of funding for each of its activities. The sources and levels of funding are set out in the funding and financial policies in the Council's LTP.

## Note 30: Major budget variations

**Statement of Comprehensive Revenue and Expense**

Significant variations from budgeted revenues and expenses are as follows:

**Statement of Changes in Equity**

Significant variations from budgeted changes in equity are as follows:

**Statement of Financial Position**

Significant variations from budget are as follows:

- Current assets are $XXXm higher than budget primarily due to:

- Non-current assets are $XXXm lower than budget primarily due to

- Total liabilities are $XXXm higher than budget due to:

**Statement of Cash Flows**

Significant variations from budget are as follows:

## Note 31: Commitments

| Capital commitments | Council 2015 $000 | Council 2014 $000 | Group 2015 $000 | Group 2014 $000 |
|---|---|---|---|---|
| Approved and contracted - property, plant and equipment | | 38,375 | | 46,475 |
| Approved and contracted - investment properties | | 19 | | 19 |
| Approved and contracted - intangibles | | - | | - |
| Approved and contracted - share of associates | | - | | 1,030 |
| Approved and contracted - share of joint ventures | | - | | - |
| **Total capital commitments** | **-** | **50,225** | **-** | **58,955** |

The capital commitments above often span more than one financial year and includes the budgeted capital expenditure carried forward as detailed below.

| Carried forward budgeted capital expenditure | Council 2015 $000 | Council 2014 $000 | Group 2015 $000 | Group 2014 $000 |
|---|---|---|---|---|
| **Strategic area** | | | | |
| Governance | | | | |
| Environment | | | | |
| Economic development | | | | |
| Cultural wellbeing | | | | |
| Social and recreation | | | | |
| Urban development | | | | |
| Transport | | | | |
| **Total strategic areas** | **-** | | **-** | |
| Council | | | | |
| **Total carried forward budgeted capital expenditure** | **-** | | **-** | |

## Note 31: Commitments - continued

**Operating leases – Group as lessee**

The Group leases certain items of plant, equipment, land and buildings under various non-cancellable operating lease agreements.

The lease terms are between 2 and 21 years and the majority of the lease agreements are generally renewable at the end of the lease period at market rates.

The amount of minimum payments for non-cancellable operating leases is recognised as an expense in Note 6: Expenditure on operating activities.

The future expenditure committed by these leases is analysed as follows:

| Non-cancellable operating lease commitments as lessee | Council | | Group | |
|---|---|---|---|---|
| | 2015 $000 | 2014 $000 | 2015 $000 | 2014 $000 |
| **Plant and equipment** | | | | |
| Not later than one year | | 29 | | 125 |
| Later than one year and not later than five years | | 13 | | 113 |
| Later than five years | | - | | - |
| **Land and buildings** | | | | |
| Not later than one year | | 973 | | 1,335 |
| Later than one year and not later than five years | | 1,625 | | 1,975 |
| Later than five years | | 1,100 | | 1,100 |
| **Total non-cancellable operating lease commitments as lessee** | **-** | **3,739** | **-** | **5,379** |

**Operating leases – Group as lessor**

The Group has also entered into commercial property leases of its investment property portfolio and other land and buildings.

The land and buildings held for investment purposes are properties which are not held for operational purposes and are leased to external parties.

Ground leases are parcels of land owned by the Group in the central city or on the waterfront that are leased to other parties who own the buildings situated on the land. The leases are generally based on 21-year perpetually renewable terms. As these parcels of land are held for investment purposes the rentals are charged on a commercial market basis.

The land and buildings not held for investment purposes are either used to accommodate the Group's operational activities or are held for purposes such as road widening, heritage, or are being monitored for compliance reasons. In some cases, parts of these assets are leased to external parties on a commercial basis. The terms of these commercial leases generally range from 1 to 15 years.

The committed revenues expected from these lease portfolios are analysed as follows:

## Note 31: Commitments - continued

| Non-cancellable operating lease commitments as lessor | Council 2015 $000 | Council 2014 $000 | Group 2015 $000 | Group 2014 $000 |
|---|---|---|---|---|
| **Investment properties** | | | | |
| Not later than one year | | 9,332 | | 9,332 |
| Later than one year and not later than five years | | 36,220 | | 36,220 |
| Later than five years | | 81,846 | | 81,846 |
| **Land and buildings** | | | | |
| Not later than one year | | 1,434 | | 1,512 |
| Later than one year and not later than five years | | 2,771 | | 2,771 |
| Later than five years | | 7,557 | | 7,557 |
| **Total non-cancellable operating lease commitments as lessor** | - | 139,160 | - | 139,238 |

**Commitments to related parties**

The Council and Group have no commitments to key management personnel beyond normal employment obligations.

The Council has commitments to its controlled entities and associates only to the extent of the expenditure approved in the Long-Term Plan for the period ending 30 June 2016. Other expenditure approved as part of the Long-Term Plan for the period from 1 July 2016 to 30 June 2025 is subject to change and approval each year through the Annual Plan.

| Council | 2016 LTP $000 | 2017-2025 LTP $000 | Total $000 |
|---|---|---|---|
| **Controlled entities** | | | |
| Wellington Zoo Trust | - | - | - |
| Wellington Museums Trust | - | - | - |
| Positively Wellington Tourism | - | - | - |
| Carter Observatory | - | - | - |
| Wellington Regional Economic Development Agency | - | - | - |
| **Total controlled entities commitments** | - | - | - |
| **Other related parties** | | | |
| Basin Reserve Trust | - | - | - |
| Karori Wildlife Sanctuary Trust | - | - | - |
| **Total other related party commitments** | - | - | - |
| **Total related party commitments** | - | - | - |

## Note 32: Contingencies

| Contingent liabilities | Council 2015 $000 | Council 2014 $000 | Group 2015 $000 | Group 2014 $000 |
|---|---|---|---|---|
| Financial guarantees to community groups | | 600 | | 600 |
| Uncalled capital - LGFA | | 1,883 | | 1,883 |
| Other legal proceedings | | 2,237 | | 2,237 |
| Share of associates' contingent liabilities | | - | | - |
| Share of joint ventures' contingent liabilities | | - | | - |
| **Total contingent liabilities** | **-** | **4,720** | **-** | **4,720** |

The financial guarantees to community groups above are analysed below:

| Outstanding debt subject to Council guarantees | Council 2015 $000 | Council 2014 $000 | Group 2015 $000 | Group 2014 $000 |
|---|---|---|---|---|
| Karori Wildlife Sanctuary Trust | | 600 | - | 600 |
| **Total outstanding debt subject to Council guarantees** | **-** | **600** | **-** | **600** |

**Karori Wildlife Sanctuary Trust (Zealandia)**

The Council has provided a guarantee over a term loan facility to a maximum limit of $1.550m plus any outstanding interest and enforcement costs.

**NZ Local Government Funding Agency Limited (LGFA)**

Council is one of 30 local authority shareholders and 8 local authority guarantors of the LGFA. In that regard Council has uncalled capital of $1.883m. When aggregated with the uncalled capital of other shareholders, $20m is available in the event that an imminent default is identified. Also, together with the other shareholders and guarantors, Council is a guarantor of all of LGFA's borrowings. At 30 June 2015, LGFA had borrowings totalling $3,778m (2014: $3,778m).

Financial reporting standards require Council to recognise the guarantee liability at fair value. However, the Council has been unable to determine a sufficiently reliable fair value for the guarantee, and therefore has not recognised a liability. The Council considers the risk of LGFA defaulting on repayment of interest or capital to be very low on the basis that we are not aware of any local authority, which is a member of the LGFA, that has had debt default events in New Zealand; and local government legislation would enable local authorities to levy a rate to recover sufficient funds to meet any debt obligations if further funds were required.

**Other legal proceedings**

Other legal proceedings are current claims against the Council and Group as a result of past events which are currently being contested. The amounts shown reflect potential liability for financial reporting purposes only and do not represent an admission that any claim is valid. The outcome of these remains uncertain at the end of the reporting period. The maximum exposure to Council is anticipated to be less than $2.237m.

**Unquantified contingent liabilities**

The Government's Weathertight Homes Financial Assistance Package aims to help people get their non-weathertight homes fixed faster, and centres on the Government and local authorities each contributing 25% of agreed repair costs and affected homeowners funding the remaining 50% backed by a Government loan guarantee. A provision for known claims and future claims has been made (refer Note 24: Provisions for other liabilities). The impact and cost of future and unknown claims cannot be measured reliably and therefore the Council and Group have an unquantified contingent liability.

## Note 31: Contingencies - continued

On 11 October 2012 the Supreme Court of New Zealand released a decision clarifying that councils owe a duty of care when approving plans and inspecting construction of a building which was not purely a residential building. The

Court held that there was no principled basis for distinguishing between the liability of those who played a role in the construction of residential buildings as against the construction of non-residential buildings. This extends the scope of the potential liability for the Council to include non-residential buildings consented under the Building Act 1991.

Through the process of working with our actuaries, it has been identified that due to a lack of historical and current information relating to non-residential building claims, a reliable estimate of any potential liability cannot be quantified at this time.

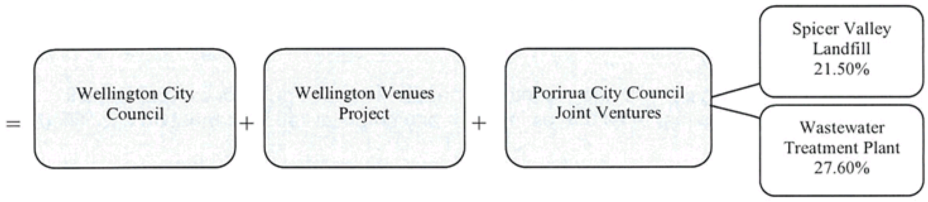
There are various other claims that the Council and Group are currently contesting which have not been quantified due to the nature of the issues, the uncertainty of the outcome and/or the extent to which the Council and Group have a responsibility to the claimant. The possibility of any outflow in settlement in these cases is assessed as remote.

**Contingent assets**

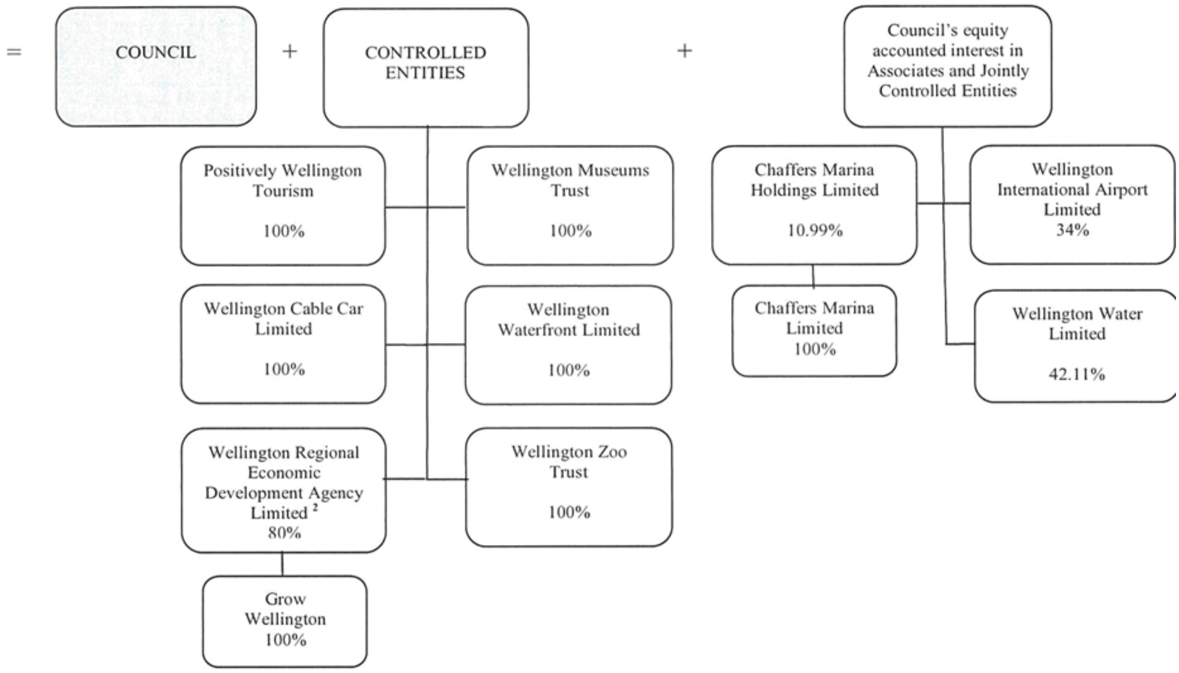
The Council and Group have no contingent assets as at 30 June 2015 (2014: $Nil).

## Note 32: Council and Group structure

Wellington City Council Reporting Entity (Council)




Wellington City Council Group Reporting Entity (Group)




The Council has established several Council Controlled Organisations (CCO's) and Council Controlled Trading Organisations (CCTO's) to help it achieve its goals for Wellington. These organisations were set up to independently manage Council facilities, or deliver specific services and developments on behalf of Wellington residents. A report on these organisations is found on page XX. Council has made appointments to other organisations, which make them Council Organisations (as defined in the Local Government Act 2002) but they are not Council controlled or part of the Group.

The percentages above represent the Council's interest and/or ownership (for accounting purposes) in each of the entities in the Group.

1. The legal name of Positively Wellington Tourism is Partnership Wellington Trust. The operations of the Trust have been transferred to Wellington Regional Economic Development Agency Limited with effect from 1 January 2015. The winding up of the Trust has not been completed as at 30 June 2015.

2. The Wellington Regional Economic Development Agency Limited (WREDA) is a combination of the previously held activities of the Wellington Venues Limited and Positively Wellington Tourism entities. WREDA has also acquired ownership of Grow Wellington Limited from Greater Wellington Regional Council for consideration of 20% of WREDA.

## Note 34: Jointy Controlled Assets

The Council has significant interests in the following joint ventures:

| Joint Venture | Interest 2015 | Interest 2014 | Nature of business |
|---|---|---|---|
| Wastewater treatment plant – Porirua City Council | 27.60% | 27.60% | Owns and operates a wastewater treatment plant and associated trunk sewers and pumping stations that provide services to Wellington City's northern suburbs. |
| Spicer Valley Landfill – Porirua City Council | 21.50% | 21.50% | Owns and operates a sanitary landfill that provides services to Wellington City's northern suburbs. |

The end of the reporting period for the joint ventures is 30 June. Included in the financial statements are the following items that represent the Council's and Group's interest in the assets and liabilities of the joint ventures.

| Share of Net Assets - Porirua City Council Joint Venture (PCCJV) | 2015 $000 | 2014 $000 |
|---|---|---|
| **Assets** | | |
| **Current** | | |
| Inventory | | 36 |
| Trade and other receivables | | 1,126 |
| **Non-current** | | |
| Property, plant and equipment | | 21,012 |
| **Share of total assets** | **-** | **22,174** |
| **Liabilities** | | |
| **Current** | | |
| Trade and other payables | | - |
| **Non-current** | | |
| Borrowings | | 3,125 |
| Provisions for other liabilities | | 1,661 |
| **Share of total liabilities** | **-** | **4,786** |
| **Share of net assets** | **-** | **26,960** |

The Council's and Group's share of the joint ventures' current year net surplus and revaluation movements (after elimination) included in the financial statements are shown below.

| Share of Net Surplus and Revaluation Movements - PCCJV | 2015 $000 | 2014 $000 |
|---|---|---|
| Operating revenue | | 2,679 |
| Operating expenditure | | (2,660) |
| **Share of net surplus or (deficit)** | **-** | **19** |
| **Share of current year revaluation movement** | | **2,044** |

The Council's and Group's share of the joint ventures' capital commitments is $Nil (2014: $Nil) and contingent liabilities is $Nil (2014: $Nil).

## Note 35: Investment in Controlled Entities

The following entities are controlled entities of Council:

| Controlled entities | Interest 2015 | Interest 2014 | Nature of business |
|---|---|---|---|
| Positively Wellington Tourism (Partnership Wellington Trust In( | 100% | 100% | The operations have been transferred to WREDA – (see below) while the Trust is being wound up |
| Wellington Waterfront Limited | 100% | 100% | Acts as bare trustee for the Waterfront project |
| Wellington Cable Car Limited | 100% | 100% | Owns and manages the trolley bus overhead wiring system and the Cable Car. |
| Wellington Museums Trust | 100% | 100% | Administers the Cable Car Museum, Capital E, the City Gallery, the Colonial Cottage Museum, the Carter Observatory and the Museum of Wellington City and Sea |
| Wellington Regional Economic Development Agency Limited (WREDA) | 80% | 100% | Manages the Wellington Venues Project and creates economic and social benefit by marketing the city with the private sector as a tourism destination. |
| - Grow Wellington Limited | 100% | 0% | The economic development agency working to accelerate economic growth in the Wellington region and make it more internationally competitive. |
| Wellington Zoo Trust | 100% | 100% | Manages and guides the future direction of the Wellington Zoo. |

The reporting period end date for all controlled entities is 30 June. Full copies of their financial statements can be obtained directly from their offices. Further information on the structure, objectives, the nature and scope of activities, and the performance measures and targets of the entities can be found in the Report on Council Controlled Organisations (page XX).

The cost of the Council's investment in controlled entities is reflected in the Council's financial statements as follows:

| Investment in controlled entities | 2015 $000 | 2014 $000 |
|---|---|---|
| Wellington Cable Car Limited | | 3,809 |
| Wellington Regional Economic Development Agency Limited | | - |
| **Total investment in controlled entities** | **-** | **3,809** |

The equity investment represents the cost of the investment to the Council and includes all capital contributions made by the Council to controlled entities. The Council has only made equity investments as noted in the table above. Nominal settlement amounts (i.e. $100) made in respect of Trusts, for which Council is the settlor, have not been recognised due to their materiality.

Information on inter-company transactions is included in the Note 37: Related party disclosures.

## Note 36: Investment in Associates and Jointly Controlled Entities

The Council has a significant interest in the following associates:

| Associates and Jointly controlled entities | Interest 2015 | Interest 2014 | Nature of business |
|---|---|---|---|
| Basin Reserve Trust | 0% | 50% | Manages, operates and maintains the Basin Reserve |
| Chaffers Marina Holdings Limited | 10.99% | 11.45% | Holding company for Chaffers Marina Limited. |
| - Chaffers Marina Limited | 100% | 100% | Owns and manages the marina. |
| Wellington International Airport Limited | 34% | 34% | Owns and manages Wellington International Airport facilities and services. |
| Wellington Regional Stadium Trust | 0% | 50% | Owns and manages the Westpac Stadium. |
| Wellington Water Limited (Previously Capacity Infrastructure Services Limited) | 42% | 50% | Manages all water services for Wellington, Lower Hutt, Upper Hutt and Porirua City Councils and Greater Wellington Regional Council. |

Full copies of the separately prepared financial statements can be obtained directly from their respective offices.

***Associates***

**Basin Reserve Trust**

The Basin Reserve Trust was established on 24 February 2005 to manage, operate and maintain the Basin Reserve and has a reporting period end date of 30 June. The Trust was jointly created with Cricket Wellington Incorporated (CWI). Wellington City Council and CWI each appoint two of the four trustees. Wellington City Council has significant influence over the Trust through the appointment of trustees, and receives benefits from the complementary activities of the Trust.
Under previously applicable accounting standards the Trust was consolidated as an associate. On transition to the new PBE standards, in particular PBE IPSAS 7 *Investments in Associates*, the requirement to have an investment through a formal equity structure has meant that Council no longer considers it is able to treat the Trust as an associate. The Trust is still identified as a related party given the financial contribution Council makes and the level of influence the Council has with the Trust.

**Chaffers Marina**

Chaffers Marina Holdings Limited and Chaffers Marina Limited have a reporting period end date of 30 June. The shares in Chaffers Marina Holdings Limited are held by Wellington Waterfront Limited in a fiduciary capacity. As at 30 June 2015 Council held a 10.99% interest in Chaffers Marina Holdings Limited (2014:10.99%) which has been reflected in the Group financial statements on an equity accounting basis reflecting the special rights (as set out in Chaffers Marina Limited's Constitution) which attach to the golden share that it holds in Chaffers Marina Limited.

**Wellington International Airport Limited**

Wellington International Airport Limited has a reporting period end date of 31 March. The ultimate majority owner, Infratil Limited, has determined a different end of reporting period to Council, which is legislatively required to use 30 June. The Council owns 34% of the company, with the remaining 66% owned by NZ Airports Limited (which is wholly owned by Infratil Limited).

**Wellington Regional Stadium Trust**

Wellington Regional Stadium Trust was jointly created with Greater Wellington Regional Council and has a reporting period end date of 30 June. Wellington City Council has significant influence over the Wellington Regional Stadium Trust through the appointment of trustees and receives benefits from the complementary activities of the Trust.
Under previously applicable accounting standards the Trust was consolidated as an associate. On transition to the new PBE standards, in particular PBE IPSAS 7 *Investments in Associates*, the requirement to have an investment through a formal equity structure has meant that Council no longer considers it is able to treat the Trust as an associate. The Trust is still identified as a related party given the concessionary loan Council holds and the level of influence the Council has with the Trust.

## Note 36: Investment in Associates and Jointly Controlled Entities - continued

***Jointly controlled entities***

**Wellington Water Limited**

Formerly trading as Capacity (Capacity Infrastructure Services Limited) and jointly created with Hutt City Council on 9 July 2003 the company has expanded its operations and ownership to include Upper Hutt and Porirua City Councils from 1 November 2013 and Greater Wellington Regional Council from 16 September 2014. The company has a reporting period ending 30 June and has a dual share structure comprising A class shares (voting rights) and B Class shares (financial entitlements). The new structure is as follows:

| | Class A shares (voting rights) | Class B Shares (financial entitlements) | Ownership interest |
|---|---|---|---|
| Wellington City Council | 150 | 200 | 42% |
| Hutt City Council | 150 | 100 | 21% |
| Upper Hutt City Council | 150 | 40 | 8% |
| Porirua City Council | 150 | 60 | 13% |
| Greater Wellington Regional Council | 150 | 75 | 16% |
| **Total shares on issue** | **750** | **475** | **100%** |

The Class A shares represent voting rights and are split evenly between the five Councils. The Class B shares confer the level of contributions and ownership benefits of each council. Under NZ IFRS (PBE) this company was classed as an associate. Under PBE standards, Council has re-classified this entity as jointly controlled because of the equal sharing of voting rights conferred through the Class A shares and the shareholder's agreement, which constitutes a binding arrangement. Wellington City Council, in accordance with PBE IPSAS 8 *Joint Ventures,* chooses to use equity accounting to recognise its ownership interest as determined by the proportionate value of Class B shares held. Wellington City Council's ownership interest in the company is 42.11%.

**Summary of Financial Position and Performance of Associates**

The Council's share of the assets, liabilities, revenues and surpluses or deficits of the associates is as follows:

| | Assets 2015 $000 | Liabilities 2015 $000 | Revenues 2015 $000 | Surplus/(Deficit) 2015 $000 |
|---|---|---|---|---|
| **Associates** | | | | |
| Chaffers Marina Holdings Limited | | | | |
| Wellington International Airport Limited | | | | |
| **Jointly controlled entities** | | | | |
| Wellington Water Limited | | | | |

| Associates | Assets 2014 $000 | Liabilities 2014 $000 | Revenues 2014 $000 | Surplus/(Deficit) 2014 $000 |
|---|---|---|---|---|
| **Associates** | | | | |
| Chaffers Marina Holdings Limited | 668 | 138 | 95 | (15) |
| Wellington International Airport Limited | 286,391 | 136,678 | 37,703 | 15,192 |
| **Jointly controlled entities** | | | | |
| Wellington Water Limited | 1,835 | 1,499 | 6,641 | 18 |

## Note 36: Investment in Associates and Jointly Controlled Entities - continued

### Investment in associates and jointly controlled assets

The cost of the Council's investment in associates and jointly controlled entities is reflected in the Council financial statements as follows:

| Investment in associates and jointly controlled entities | Council | |
|---|---|---|
| | 2015 | 2014 |
| | $000 | $000 |
| Chaffers Marina Holdings Limited | | 1,329 |
| Wellington International Airport Limited | | 17,775 |
| Wellington Water Limited | | 400 |
| **Total investment in associates and jointly controlled entities** | **-** | **19,104** |

The investment in associates and jointly controlled entities in the Group financial statements represents the Council's share of the net assets of the associates and jointly controlled entities. This is reflected in the Group financial statements as follows:

| Investment in associates and jointly controlled entities | Group | |
|---|---|---|
| | 2015 | 2014 |
| | $000 | $000 |
| **Chaffers Marina Holdings Limited** | | |
| Opening balance | | 998 |
| Change in shares during the year | | (39) |
| Change in equity due to changed shareholding | | 15 |
| Equity accounted earnings of associate | | (15) |
| **Closing balance - investment in Chaffers Marina Holdings Limited** | **-** | **959** |
| **Wellington International Airport Limited** | | |
| Opening balance | | 130,633 |
| Dividends | | (11,966) |
| Equity accounted earnings of associate | | 15,192 |
| Share of hedging reserve - movement | | 1 |
| **Closing balance - investment in Wellington International Airport Limited** | **-** | **133,860** |
| **Wellington Water Limited** | | |
| Opening balance | | 271 |
| Change in shares during the year | | 24 |
| Change in equity due to changed shareholding | | 23 |
| Equity accounted earnings of jointly controlled entity | | 18 |
| **Closing balance - investment in Wellington Water Limited** | **-** | **336** |
| **Total investment in associates and jointly controlled entities** | **-** | **135,154** |

## Note 36: Investment in Associates and Jointly Controlled Entities - continued

The Council's share of the results of the Chaffers Marina Holdings Limited, Wellington International Airport Limited and Wellington Water Limited is as follows:

| Share of associates' and jointly controlled entities surplus/(deficit) | Group | |
|---|---|---|
| | 2015 $000 | 2014 $000 |
| **Chaffers Marina Holdings Limited** | | |
| Share of net surplus/(deficit) before tax | | (15) |
| Tax (expense)/credit | | - |
| **Share of associate's surplus/(deficit) - Chaffers Marina Holdings Limited** | **-** | **(15)** |
| **Wellington International Airport Limited** | | |
| Share of net surplus before tax | | 16,088 |
| Tax (expense)/credit | | (896) |
| **Share of associate's surplus/(deficit) - Wellington International Airport Limited** | **-** | **15,192** |
| **Wellington Water Limited** | | |
| Share of net surplus/(deficit before tax) | | 18 |
| Tax (expense)/credit | | - |
| **Share of jointly controlled entities surplus/(deficit) - Wellington Water Limited** | **-** | **18** |
| **Total share of associates' and jointly controlled entities surplus/(deficit)** | **-** | **15,195** |

## Note 37 : Related party disclosures

### Identity of related parties

In this section, the Council discloses the remuneration and related party transactions of key management personnel, which comprises the Directors (the Mayor and Councillors), the Chief Executive and all members of the Council's Executive Leadership Team. All members of the Group are also considered to be related parties of Wellington City Council, including its joint ventures, controlled entities and associates.

| Key management personnel | Note | Council 2015 $ | Council 2014 $ | Group 2015 $ | Group 2014 $ |
|---|---|---|---|---|---|
| **Council Members (Directors)** | | | | | |
| Short-term employee benefits | | | 1,385,983 | | 1,455,653 |
| **Chief Executive and Executive Leadership Team** | | | | | |
| Short-term employee benefits | | | 2,480,499 | | 2,480,499 |
| Post employment benefits | | | 52,576 | | 52,576 |
| Termination benefits | | | 285,000 | | 285,000 |
| **Total remuneration paid to key management** | | **-** | **4,204,058** | **-** | **4,273,727** |

Key management personnel comprise 23 individuals: 15 elected members (Directors) or XX fulltime equivalents and 8 senior management members or XX fulltime equivalents.

For further disclosure of the remuneration payable to the Mayor, Councillors and the Chief Executive refer to Note 37: Remuneration and staffing.

### Material related party transactions – key management personnel

During the year key management personnel, as part of normal local authority relationships, were involved in transactions of a minor and routine nature with the Council on normal commercial terms (such as payment of rates and purchases of rubbish bags).

These transactions were on normal commercial terms. Except for these transactions no key management personnel have entered into related party transactions with the Group.

The Mayor and Councillor's disclose their personal interests in a register available on the Council Website.

There are no commitments from Council to key management personnel.

### Material related party transactions – other organisations

#### - Basin Reserve Trust (BRT)

The Trust was established on 24 February 2005 to manage, operate and maintain the Basin Reserve and has a reporting period end date of 30 June. The Trust was jointly created with Cricket Wellington Incorporated (CWI). Wellington City Council and CWI each appoint two of the four trustees. Wellington City Council has significant influence over the Trust through the appointment of trustees, and receives benefits from the complementary activities of the Trust. Under previously applicable accounting standards the Trust was consolidated as an associate. On transition to the new PBE standards, in particular PBE IPSAS 7 *Investments in Associates*, the requirement to have an investment through a formal equity structure has meant that Council no longer considers it is able to treat the Trust as an associate. The Trust is still identified as a related party given the financial contribution Council makes and the level of influence the Council has with the Trust.

## Note 36 : Related party disclosures - continued

During the year ending 30 June 2015 Council contributed $XXXm (2014: $0.355m) to fund the operations of the Trust.

**- NZ Local Government Funding Agency Limited (LGFA)**

The LGFA was incorporated on 1 December 2011 and was established to facilitate the efficient, and cost effective, raising of debt funding for local government authorities. There are currently 30 regional, district and city councils throughout New Zealand that own 80% of the issued capital, with the Government holding the remaining 20%. The Council became an establishment shareholder in this Council Controlled Trading Organisation (CCTO) and currently has an investment of $1.883m representing 8% of paid-up capital.

**- Karori Wildlife Sanctuary Trust (Zealandia)**

The Council has influence in the governance, funding and operations of the Karori Wildlife Sanctuary Trust (trading as Zealandia) which is not part of the Group, to the extent that it is considered appropriate to disclose the nature of the transactions as being between related parties.

The Council appoints two of the five trustees including the Chair. Operational funding of $0.875m was made during the year to 30 June 2014. The Council has a concessionary loan totalling $10.347m on interest free terms to the Trust. Further information on the loan is included in Note 13: Other financial assets.

**- Wellington Regional Stadium Trust (WRST)**

Wellington Regional Stadium Trust was jointly created with Greater Wellington Regional Council and has a reporting period end date of 30 June. Wellington City Council has significant influence over the Wellington Regional Stadium Trust through the appointment of Trustees and receives benefits from the complementary activities of the Trust. Under previously applicable accounting standards the Trust was consolidated as an associate. On transition to the new PBE standards, in particular PBE IPSAS 7 *Investments in Associates*, the requirement to have an investment through a formal equity structure has meant that Council no longer considers it is able to treat the Trust as an associate. The Trust is still identified as a related party given the concessionary loan Council holds and the level of influence the Council has with the Trust.

Council holds a $15m limited recourse loan to WRST which, is unsecured, with no specified maturity and at no interest. The loan is not repayable until all other debts are extinguished.

On maturity of the initial WRST membership underwrite, the unpaid interest was converted to a $0.395m advance repayable after all other advances made by the Council and Greater Wellington Regional Council.

During the year ending 30 June 2015 Council transacted directly with WRST to the amount of $XX and also indirectly with the financial support of major events.

**Intra group transactions and balances**

During the year the Council has entered into several transactions with its joint venture partner Porirua City Council. The nature of these intra-group transactions and the outstanding balances at the year-end are as follows:

| Intra group transactions and balances - Jointly controlled assets | 2015 $000 | 2014 $000 |
|---|---|---|
| **Expenditure incurred by the Council to fund the operation and management of:** | | |
| Porirua - waste water treatment plant | | 2,196 |

## Note 36 : Related party disclosures - continued

During the year the Council has entered into several transactions with its controlled entities. The nature of these intra-group transactions and the outstanding balances at the year-end are as follows:

| Intra group transactions and balances - Controlled entities | 2015 $000 | 2014 $000 |
|---|---|---|
| **Dividend received from:** | | |
| Wellington Cable Car Limited | - | - |
| **Revenue for services provided by the Council to:** | | |
| Positively Wellington Waterfront | | 27 |
| Wellington Cable Car Limited | | 50 |
| Wellington Museums Trust | | 1,485 |
| Wellington Regional Economic Development Agency | | 254 |
| Wellington Zoo Trust | | 361 |
| | - | **2,177** |
| **Expenditure incurred by the Council to fund operations and management of:** | | |
| Positively Wellington Waterfront | | 1,075 |
| Wellington Museums Trust | | 8,010 |
| Wellington Regional Economic Development Agency | | 6,475 |
| Wellington Zoo Trust | | 2,715 |
| | - | **18,275** |
| **Expenditure for services provided to the Council by:** | | |
| Wellington Cable Car Limited | | 13 |
| Wellington Museums Trust | | 329 |
| Wellington Regional Economic Development Agency | | 5,763 |
| Wellington Zoo Trust | | 1,798 |
| | - | **7,903** |
| **Current receivables and recoverables owing to the Council from:** | | |
| Positively Wellington Waterfront | | 29 |
| Wellington Cable Car Limited | | 1 |
| Wellington Museums Trust | | 267 |
| Wellington Regional Economic Development Agency | | 386 |
| Wellington Zoo Trust | | 293 |
| | - | **976** |
| **Current payables owed by the Council to:** | | |
| Wellington Cable Car Limited | | 4 |
| Wellington Museums Trust | | 657 |
| Wellington Regional Economic Development Agency | | 121 |
| Wellington Zoo Trust | | 421 |
| | - | **1,203** |

**Current receivables, recoverables and payables**

The receivable, recoverable and payable balances are non-interest bearing and are to be settled with the relevant entities on normal trading terms and conditions.

## Note 36 : Related party disclosures - continued

During the year the Council has entered into several transactions with its associates and jointly controlled entities. The nature of these intra-group transactions and the outstanding balances at the year-end are as follows:

| Intra group transactions and balances - Associates and jointly controlled entities | 2015 $000 | 2014 $000 |
|---|---|---|
| **Dividend received from:** | | |
| Wellington International Airport Limited | | **11,966** |
| **Revenue for services provided by the Council to:** | | |
| Wellington Water Limited | | **45** |
| **Expenditure incurred by the Council to fund the operation and management of:** | | |
| Wellington International Airport Limited [1] | | - |
| **Expenditure for services provided to the Council from:** | | |
| Wellington International Airport Limited | | 120 |
| Wellington Water Limited | | 15,200 |
| | **-** | **15,320** |
| **Current receivables and recoverables owing to the Council from:** | | |
| Wellington Water Limited | | **9** |
| **Current payables owed by the Council to:** | | |
| Wellington Water Limited | | **1,030** |

**Current receivables, recoverables and payables:**

The receivable, recoverable and payable balances are non-interest bearing and are to be settled with the relevant entities on normal trading terms and conditions.

1. This grant to Wellington International Airport Limited related to the agreement to fund 50% (capped at $1m) of the resource consent costs arising from the airport runway extension.

## Note 37: Remuneration and staffing

### Mayoral and Councillor remuneration

Remuneration is any money, consideration or benefit received, receivable or otherwise made available, directly or indirectly, to the Mayor or a Councillor during the reporting period. The Mayor and Councillors are considered directors as they occupy the position of a member of the governing body of the Council reporting entity. The disclosures for the Group include the remuneration of the Mayor and the appropriate Councillors in their role as trustees or directors of entities within the Group.

The following people held office as, either or both, elected members of the Council's governing body, and trustees or directors of entities comprising the Group during the reporting period. The total remuneration attributed to the Mayor and Councillors during the year from 1 July 2014 to 30 June 2015 was $1,455,653 (2014: $1,455,653) and is disaggregated and classified as follows:

| Council Member | Monetary Remuneration | | | Non Monetary Remuneration | Total Council Remuneration 2015 | Director/ Trustee Fees | Total Remuneration 2015 |
|---|---|---|---|---|---|---|---|
| | Salary | Resource Consent Hearing Fees | Allowances | | | | |
| | $ | $ | $ | $ | $ | $ | $ |
| *Current Council* | | | | | | | |
| Ahipene-Mercer, Ray | | | | | - | | - |
| Coughlan, Jo | | | | | - | | - |
| Eagle, Paul | | | | | - | | - |
| Foster, Andy | | | | | - | | - |
| Free, Sarah | | | | | - | | - |
| Lee, David | | | | | - | | - |
| Lester, Justin | | | | | - | | - |
| Marsh, Simon | | | | | - | | - |
| Pannett, Iona | | | | | - | | - |
| Peck, Mark | | | | | - | | - |
| Ritchie, Helene | | | | | - | | - |
| Sparrow, Malcolm | | | | | - | | - |
| Wade-Brown, Celia | | | | | - | | - |
| Woolf, Simon | | | | | - | | - |
| Young, Nicola | | | | | - | | - |
| Totals | - | - | - | - | - | - | - |
| | | | | Total monetary remuneration | - | - | - |
| | | | | Total non- monetary remuneration | - | - | - |

### Salary

The Remuneration Authority is responsible for setting the remuneration levels for elected members (Clause 6, Schedule 7 of the Local Government Act 2002). The Council's monetary remuneration (salary) detailed above was determined by the Remuneration Authority. As permitted under the Authority's guidelines the Council has chosen for its elected members to receive an annual salary for the 2014/15 financial year rather than the alternative option of a combination of meeting fee payments and annual salary.

### Resource consent hearings payments

The determination issued by the Remuneration Authority also provides for the payment of hearing fees for those Councillors who sit as members of the Hearings Committee for hearings of resource consent applications lodged under the Resource Management Act 1991. The fees for members, who act in this capacity, are paid at the rate of $100 per hour for the Chair and $80 per hour for other members.

## Note 37: Remuneration and staffing - continued

**Taxable and non-taxable allowances – mileage, broadband services and mobile phones**

The Remuneration Authority's current policy does not allow Councillors to claim an allowance for mileage for their normal duties. However, prior to this decision Councillors had voluntarily decided to forgo receiving this allowance from December 2008.

Councillors are able to choose either of the following two options:

- The payment of a communication allowance of $30 per month; or
- The reimbursement of any Council related communication costs, over and above any communication costs they would normally incur, payable on receipt of the appropriate documentation required under the provisions of the Remuneration Authority's determination.

Both the allowance and reimbursement options are non-taxable. Only the payments under the allowance option have been included as remuneration in the schedule above.

The level of all allowances payable to the Council's elected members has been approved by the Remuneration Authority and is reviewed by the Authority on an annual basis.

The Remuneration Authority does permit Council to provide the Mayor with A vehicle for full private use, which would be a taxable benefit; however the current Mayor has declined to take up this option.

**Non-monetary**

In addition, the Mayor and Councillors receive non-monetary remuneration in relation to car parking space provided. The Councillors have shared office and working space available for use, and access to phones and computers. Professional indemnity and trustee liability insurance is also provided to Councillors against any potential legal litigation which may occur while undertaking Council business.

**Director/Trustee Fees**

In November 2012, the Council resolved that no further payments would be made to elected members appointed to Council Controlled Organisation (CCO) boards from the start of the new triennium (being 19 October 2013). On 14 November 2013 the Council resolved that elected members appointed to the Council Organisation (CO) boards, including the Wellington Regional Stadium Trust, Zealandia, and Wellington International Airport Limited (where applicable), would not receive remuneration with respect to those appointments. Any remuneration that otherwise would have been paid to elected members on a Council Organisation board will be paid directly to the Council and included in the relevant grant fund.

## Note 37: Remuneration and staffing - continued

### Community Boards

The Council has two community boards – the Tawa Community Board and the Makara/Ohariu Community Board. Remuneration paid to the elected members of these boards is as follows:

| Community Board Member | Salary $ | Allowances $ | Total 2015 $ |
|---|---|---|---|
| **TAWA COMMUNITY BOARD** | | | |
| ***Current Board*** | | | |
| Tredger, Robert (Chair) | | | - |
| Lucas, Margaret (Deputy Chair) | | | - |
| Hansen, Graeme (previous Deputy Chair) | | | - |
| Herbert, Richard | | | - |
| Lester, Justin (Councillor remuneration shown above) | | | - |
| Marshall, Jack | | | - |
| Sutton, Alistair | | | - |
| Sparrow, Malcolm (Councillor remuneration shown separately above) | | | - |
| **MAKARA-OHARIU COMMUNITY BOARD** | | | |
| Grace, Christine (Chair) | | | - |
| Burden, Murray | | | - |
| Liddell, Judy | | | - |
| Rudd, Wayne | | | - |
| Scotts, Margie | | | - |
| Todd, Hamish | | | - |
| **Totals** | - | - | - |

A technology allowance of $45 per month is available to the chair of both the Tawa and Makara/Ohariu Community Boards. This allowance can be taken as either an allowance or as an actual expense reimbursement. Both options are non-taxable but only payments under the allowance option are included in the above remuneration table.

Malcolm Sparrow was the previous Chair of the Tawa Community Board, before his election to the Council.

## Note 37: Remuneration and staffing - continued

**Chief Executive's remuneration**

The Chief Executive of the Council was appointed in accordance with section 42 of the Local Government Act 2002.

The table below shows the total remuneration of the Chief Executive paid or payable for the year ended 30 June 2015.

Under the terms of his agreement, the Chief Executive of the Council chooses how he wishes to take his remuneration package (salary only or a combination of salary and benefits).

| Remuneration of the Chief Executive | Council 2015 $ | Council 2014 $ |
|---|---|---|
| **Short-term employee benefits** | | |
| **Kevin Lavery** | | |
| Salary | | 379,624 |
| Motor Vehicle | | 20,376 |
| **Total remuneration paid or payable** | **-** | **400,000** |

**Severances**

In accordance with Schedule 10, section 19 of the Local Government Act 2002, the Council is required to disclose the number of employees who received severance payments during the year and the amount of each severance payment made.

Severance payments include any consideration (monetary and non-monetary) provided to any employee in respect of the employee's agreement to the termination of their employment with the Council. Severance payments exclude any final payment of salary, holiday pay and superannuation contributions.

For the year ending 30 June 2015 the Council made severance payments to XX employees (2014:15) totalling $290,555 (2014: $290,555).

The individual values of each of these severance payments are: $XX.........

## Note 37: Remuneration and staffing - continued

### Employee numbers and remuneration bands

The following table identifies the number of full time employees as at the of the reporting period and the full time equivalent number of all other part-time, fixed term and casual employees. The table further identifies the breakdown of remuneration levels of those employees into various bands.

| | Council | |
|---|---|---|
| | 2015 | 2014 |
| The number of full-time employees as at 30 June | | 971 |
| The full-time equivalent number of all other non full-time employees | | 228 |
| The number of employees receiving total annual remuneration of less than $60,000 | | 1044 |
| The number of employees receiving total annual remuneration of more than $60,000 in bands of $20,000 | | |
| $60,000 - $79,999.99 | | 266 |
| $80,000 - $99,999.99 | | 142 |
| $100,000 - $119,999.99 | | 74 |
| $120,000 - $139,999.99 | | 44 |
| $140,000 - $159,999.99 | | 23 |
| $160,000 - $179,999.99 | | 14 |
| $180,000 - $219,999.99* | | 9 |
| $220,000 - $299,999.99* | | 7 |
| $300,000 - $400,000** | | 3 |

The Council as at 30 June has XXXX (2014: 1626) individual employees of which XXX (2014: 655) work part-time.

A full-time employee or full-time equivalent is based on a 40 hour week.

Total annual remuneration has been calculated to include any non-financial benefits and other payments in excess of normal remuneration such as the employer Kiwisaver contribution.

*If the number of employees for any band was 5 or less then it has been combined with the next highest band.
** Includes the Chief Executive.

## Note 39: Events after the end of the reporting period

There are no events after the end of the reporting period that require adjustment to the financial statements or the notes to the financial statements.

# Summary of Non PBE changes to the Financial Statements

The following is a summary of the proposed changes resulting from the review of the financial statements to increase user readability and understanding.

| Ref | Description | Proposed change |
|---|---|---|
| Accounting Policies | | Summarise depreciation lives and depreciation rates to match the asset categories listed in Note 7 Depreciation and Amortisation and Note 19 Property, Plant & Equipment. |
| Note 2 (was Note 1 in 2013/14 Annual Report) | Rates Revenue | • Summarise the rates into Base and Commercial rates within General and Targeted rates.<br>• Remove GWRC breakdown; only need to report on WCC rates.<br>• Remove rates remission table; information not required to be reported on. |
| Note 3 (was Note 2 in 2013/14 Annual Report) | Revenue from operating activities | Remove “rendering of services” table and replace with narrative disclosure of principal amounts; information not required to be reported on but information is provided in a summarised narrative. |
| Note 8 (was Note 7 in 2013/14 Annual Report) | Depreciation and Amortisation | Add reference for the reader to the useful lives and depreciation rates in the Accounting Policies. |
| Note 22 (was Note 21 in 2013/14 Annual Report) | Borrowings | • Remove net borrowings, as this is already disclosed in the Financial Overview<br>• Remove unnecessary narrative on the different types of funding; information not required to be provided.<br>• Remove un-utilised facilities table; information not required to be reported on. |
| Note 24 (2013/14 Annual Report) | Accumulated Funds and Retained Earnings | Remove note as the information is already included in the Statement of Changes in Equity. |
| Note 32 (2013/14 Annual Report) | Analysis of Operating Surplus by Activity area | Remove note as this information is already included in Statement of Service Performance. |
| Note 30 (was Note 33 in 2013/14 Annual Report) | Major Budget variations | Removal of the Statement of Comprehensive Performance table and to replace with narrative. It is felt that this will provide improved information to the reader as the table was confusing to most readers. |
| Note 34 (2013/14 Annual Report) | Analysis of capex by activity area | Remove note as this information is already provided in the Statement of Service Performance. |

| | | |
|---|---|---|
| Note 35 (2013/14 Annual Report) | Capital Expenditure Performance | Remove note as this information is already provided in the Statement of Service Performance. |

## Accounting Implications of Adopting PBE Standards for Council

The following is a summary of changes resulting from the implementation of the PBE suite of accounting standards in terms of both the presentation and disclosures required.

### 1) PBE IPSAS 1 – Presentation of Financial Statements

***Statement of Comprehensive Revenue and Expense***

Naming change from Statement of Comprehensive Financial Performance

Any income references changed to revenue

Jointly controlled entities added to any equity accounting of associate's references

***Statement of Financial Position:***

*Assets*

Line item – Trade and other receivables - replaced by:

- Receivables from exchange transactions
- Recoverables from non-exchange transactions

Line item – Investment in subsidiaries – amended to:

- Investment in controlled entities

Line item – Investment in associates – amended to:

- Investment in associates and jointly controlled entities

*Liabilities*

Line item – Trade and other payables replaced by:

- Payables under exchange transactions
- Taxes and transfers payable

***Notes forming part of the Financial Statements:***

**Exchange and non-exchange revenue** – New note - with non-exchange revenue further split between Taxes and Transfers

**Depreciation and amortisation** – amended for: Service Concession assets

**Trade and other receivables** – Amended to: Receivables & recoverables

– with separate tables for:

- Receivables from exchange transactions
- Recoverables from non-exchange transactions

**Property, Plant & equipment** – new category: Service concession assets (previously part of Drainage, Waste & Water) – no change to accounting

**Trade and other payables** – amended to: Exchange, taxes and transfers payable - split into:

- Payables under exchange transactions
- Taxes and transfers payable

**Revenue in Advance** – split into: Exchange, taxes, transfers and Liabilities recognised under conditional transfer agreements.

**Revaluation reserves** – new category for Service Concession assets – disclosure only

Fair value from other comprehensive revenue and expense reserve – Naming change only

**Group Structure** – changed to reflect:

- Wellington Regional Stadium Trust (WRST) – no longer included in Group
- Basin Reserve Trust (BRT) – no longer included in Group -
- Wellington Water Limited (previously Capacity) – changed from an associate to a jointly controlled entity

**Jointly controlled assets -** change of name from: Joint Ventures

**Investment in Controlled Entities** – Change of name from: Investment in subsidiaries

**Investment in Associates and jointly controlled entities** –

Disclosure - Change of name to include jointly controlled entity (Wellington Water)

Accounting – Removal of WRST and BRT adjusted through equity in opening balance sheet as at 1/7/13

**Related Party disclosures** – additional disclosure as to the actual number and equivalent number of full time Key Management personnel.

**2) PBE IPSAS 7 – Investments in Associates**

As a result of the new requirement for investments in associates to be in a formal equity structure, the two trusts WRST and BRT are no longer able to be accounted for under this standard. As a result they have effectively been removed from the Council's group structure. The accounting for this has been carried out through an adjustment to opening equity.

**3) PBE IPSAS 8 – Joint Ventures**

The joint venture arrangements with Porirua City Council have been corrected to be identified as jointly controlled assets. No other change has been required in relation to this correction.

The recent changes in regard to the increased ownership structure of the previously accounted associate Wellington Water Limited (formerly Capacity) has resulted in a change of designation from associate to jointly controlled entity. This is primarily due to the presence of a shareholders agreement, which constitutes a binding agreement, and the even split of voting power. With 20% of voting rights the Council still retains significant influence but not control.

Council has elected to continue to equity account for its investment in the entity as allowed under the standard.

**4) PBE IPSAS 9 – Revenue from exchange transactions**

Disclosures in the notes of amounts of significant categories of exchange revenue and amounts of revenue within each category

For the determination between exchange and non-exchange transactions please refer to Attachment 5: Identifying Exchange & Non Exchange transactions.

**5) PBE IPSAS 20 – Related party disclosures**

Additional disclosure as to the actual number and equivalent number of full time Key Management Personnel (KMP).

KMP has been broadened to include key advisors, but Council considers that the Executive Leadership Team already met this definition and as they have been included previously, no change has been required.

No disclosure will be required for transactions that are conducted on usual terms and on an arm's length basis.

**6) PBE IPSAS 23 – Revenue from non-exchange transactions**

Disclosures on the face of, or notes to, the financial statements:

- non-exchange revenue split between Taxes and Transfers showing separately by major classes
- the amount of receivables recognised in respect of non-exchange revenue
- the amount of liabilities recognised in respect of transferred assets subject to conditions
- the amount of assets recognised subject to restrictions and the nature of those restrictions
- the existence and amounts of any advance receipts in respect of non-exchange transactions (taxes and transfers)

Disclosure in the notes to the financial statements:

- accounting policies for the recognition of non-exchange revenue transactions
- for major classes of non-exchange revenue the basis of fair value measurement
- the nature and type of major classes of bequests, gifts, donations and goods in kind received.

**7) PBE IPSAS 31 – Intangible assets**

New requirement to value Carbon Credits received in non-exchange transaction at fair value on day of allocation. As previously recorded at cost, being Nil, Council needed to adjust through opening equity as at 1/7/13. As a Cost model is applied to intangibles the Council does not need to revalue these credits subsequently.

**8) PBE IPSAS 32 – Service concession arrangements – Grantor**

Due to Council previously recognising the waste water treatment plants as Council assets no accounting change has been required other than the separation of these assets out of the Drainage, waste and water category into a separate category – Service concession assets

This is most apparent in the PP&E note but has flow on effects in the Depreciation and Revaluation reserve notes.

**9) PBE FRS 46 – First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRSs**

Requires:

a) Affirmation of PBE status
b) Affirmation of tier status
c) Affirmation of compliance with PBE standards
d) Affirmation of first-time adoption
e) Disclosure of the nature and amount of material adjustments as a result of transition to PBE standards

# Identifying Exchange and Non-Exchange Transactions

## Purpose

This paper is to develop a principle based framework to be used by Wellington City Council ("the Council") to identify exchange and non-exchange transactions.

## Background

With effect from 1 July 2014, Public Benefit Entities (PBEs) are required to use the PBE suite of accounting standards which are largely based on International Public Sector Accounting Standards (IPSAS).

One of the standards PBE IPSAS 23 *Revenue from Non-exchange transactions (*PBE IPSAS 23*)* is new in concept to accounting in New Zealand. It requires users to separately identify non-exchange revenue from exchange revenue, which is in turn covered by PBE IPSAS 9 *Revenue from Exchange transactions (*PBE IPSAS 9*).*

In issuing these standards the XRB admitted that further guidance would be beneficial, but it was not in a position to provide it within the rollout timeframe. Given that and the absence of guidance, so far, from other bodies with a stated preference for the local government sector to self-determine on this issue, this has resulted with each Council left to form their own position.

The initial determining factor in choosing which standard to apply is the definition of exchange transactions, as non-exchange transactions are by definition not exchange transactions. The following discussion is used to develop a determination framework that will govern the Council's interpretation of the accounting standards and the formulation of its accounting policies.

## Discussion

### DETERMINATION FRAMEWORK

#### *Definition from the standard*

Exchange and Non-exchange transactions are defined in the Public Benefit Entity (PBE) standards glossary of defined terms as follows:

**Exchange transaction:** Transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

**Non-exchange transaction:** Transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.
The two areas of focus as underlined above are the questions of direct or indirect exchange and whether the exchange is of approximately equal value.

The first question as to whether the exchange is direct or not is reasonably straight forward as it tends to be a normal purchase of a good or service. It becomes indirect in the situation of paying through a form of taxation (like rates) for the supply of goods or services that are provided to all and which may or may not be directly consumed by the payer. By default the indirect transaction becomes non-exchange.[1]

Non-exchange transactions are either taxes or transfers. Taxes are revenues compulsorily paid or payable in accordance with tax or rating laws and/ or regulations, but not including fines or penalties imposed for breaches of the law. A transfer is a non-exchange transaction that is not a tax and includes grants, fines, bequests, gifts, donations, forgiveness of debt, fundraising proceeds and services in kind.

The second question of what constitutes "approximately equal value" is less clear cut and is the main discussion point for the rest of this paper.

### *Defining approximately equal value*

Approximately equal value is not defined in the PBE suite of standards, nor is it defined in NZ IFRS.

"Approximately" is defined by the Merriam-Webster dictionary as being nearly correct or exact, so for all intents and purposes the Council considers approximately equal value to represent equal value, which will now be referred to as equal value.

For the purpose of applying PBE IPSAS 9 and PBE IPSAS 23 the Council considers that "equal value" refers to fair value being "the value for which an asset could be exchanged, or a liability settled, between knowledgeable, willing partners in an arm's length transaction."[1]

Support for equal value being "fair value" is made in Paragraph 11 of PBE IPSAS 23 which states that "[if a] transaction is conducted at a subsidised price, that is, a price that is not approximately equal to the fair value of the goods sold, that transaction falls within the definition of a non-exchange transaction"[2]

The purpose of that paragraph is to note that not all deviations from fair value indicate the existence of a non-exchange transaction, i.e. "trade discounts [and] quantity discounts"[3] are generally adjustments to open market price that occur in the normal course of commercial business (exchange transactions).

Support is also provided in PBE IPSAS 9, paragraph 10 where an example is provided for separating exchange and non-exchange components of a transaction. In the example a multi-lateral development agency is providing funding via a loan at a below market interest rate. In determining whether the portion of the loan is an exchange or non-exchange transaction the example compares the discounted rate applied by the development agency with the prevailing market rates rather than the development agency's own cost of borrowing.

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[1] PBE IPSAS 9 *Revenue from exchange transactions*, Paragraph 11
[2] PBE IPSAS 23 *Revenue from non-exchange transactions*, Paragraph 11
[3] PBE IPSAS 23 *Revenue from non-exchange transactions*, Paragraph 11

### *Consideration of other standards*

Also considered is the application of PBE IPSAS 21 *Impairment of non-cash generating assets,* (PBE IPSAS 21*)* and PBE IPSAS 26 *Impairment of cash generating assets,* (PBE IPSAS 26) when determining a working definition of "equal value". "Cash generating assets are assets held with the primary objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted for a for-profit entity."[4] A commercial return implies that the transaction is occurring at a market value (fair value).

Using this definition of "equal value=market value" will also result in assets used to generate exchange revenue being reviewed for impairment as cash generating units, whereas assets used to generate non-exchange revenue will be reviewed for impairment as non-cash generating units.

### Application to Council

With "equal value=market value" being the primary defining characteristic for separating both our revenue streams and the assets that provide revenue for Council, there will be a clear and consistent alignment in our reporting to the public.

The inference so far is that if the "equal value = market value" approach is taken then Council could argue that most of its services (taking for granted that the sale of goods is defined as exchange) are not provided for an equal value, given the lack of a commercial mark-up, and therefore would be non-exchange transactions.

An alternative argument, suggested by Audit New Zealand, is that full cost recovery is sufficient to be considered equal value and a mark-up above cost is not required for a transaction to be exchange. This is a lower threshold test and would tend to favour more transactions being classified as exchange transactions. Support for this approach can be argued as follows.

Market value for Council is conceptually not the same as market value for commercial enterprises in as much as the market for Council, in particular, is somewhat of a captive one with usually no or little commercial competition. Therefore the requirement to have a commercial return (i.e. a margin over cost) is not essential to establish a market value. Basically, this is suggesting that Council's price is the market price as it is generally the only player in the market. In this light, equal value can be deemed to correlate to simple full cost recovery. Full cost recovery implies that all expenses are met by the associated revenues earned. Inherent in this understanding is that there is no subsidisation from rates revenue and therefore the revenue is 100% user pays. On this basis full cost recovery would constitute a reciprocal or equal exchange of value.

### Council policies

As discussed above, Council can dictate the market value as being the only price setter. The price driver may not be restricted to cost recovery only as sometimes other influences such as Council or other policies may determine a different outcome.

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[4] PBE IPSAS 26 *Impairment of cash generating assets*, paragraph 14

Examples of these, as discussed further below are: Housing rentals being set below market value for Council's social housing policy reasons and Parking fees set to maintain a % of available on-street parking spaces as per the Council's parking policy.

## Conclusion

Approximately equal value is a term undefined in the PBE suite of accounting standards but is a key determination of whether a revenue stream is exchange or non-exchange.

The two arguments that would define this term are essentially:

Option 1 - "Equal value" being synonymous with "market value" and a commercial return or profit margin, or

Option 2 - "Equal value" as applied to Council being sufficiently achieved with full cost recovery and not requiring a commercial return or profit margin.

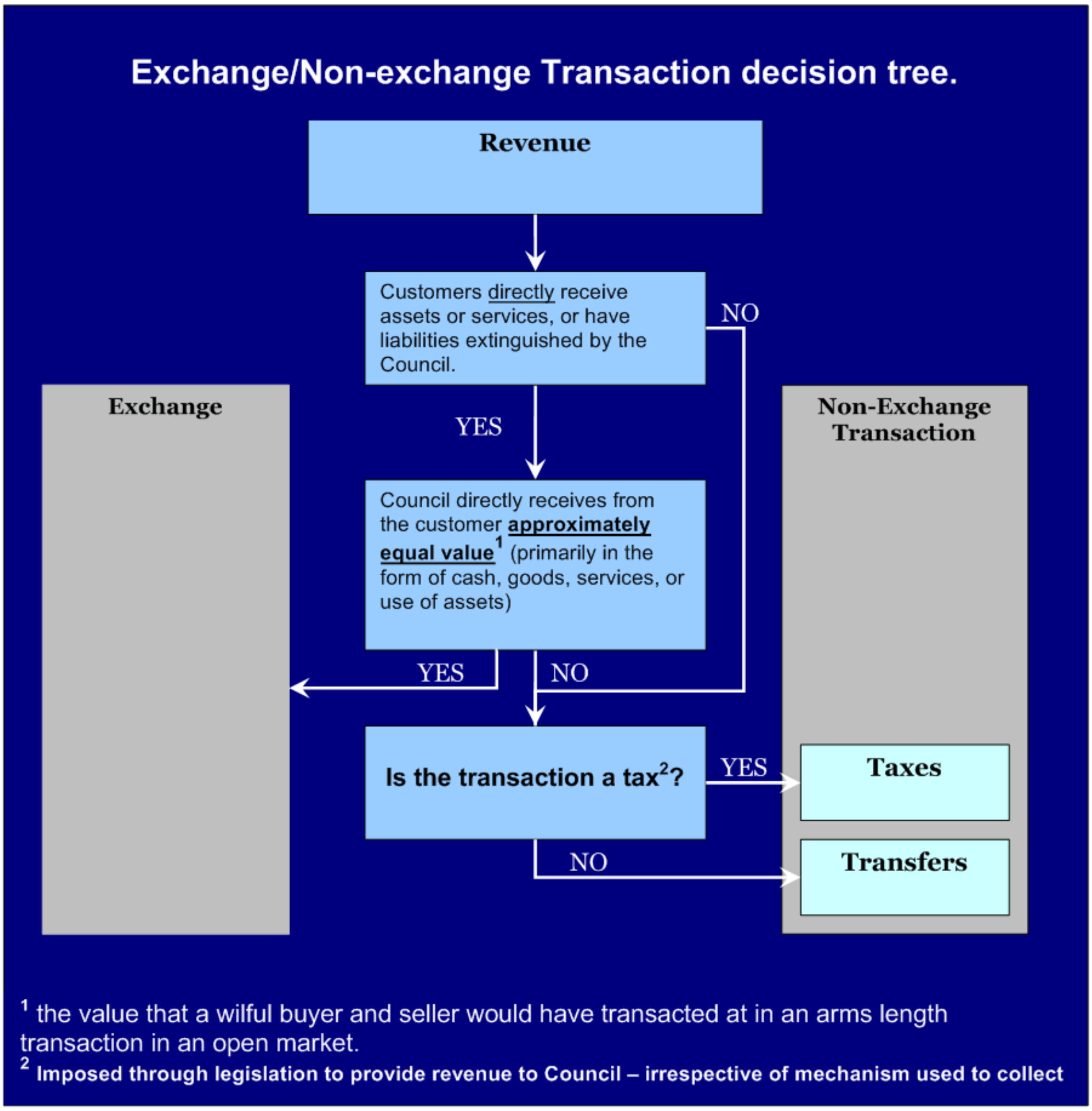
A third approach (Option 3) would be a combination of the two arguments, which would have equal value being achieved with full cost recovery unless Council was competing in an open market. In this circumstance any subsidised price to below the open market price would not constitute equal value and therefore the transaction would be non-exchange.

In applying any of the above options the effect for Council will be similar, as is further demonstrated below, given that it is recommended that Council adopt a high level approach to the classification process. This high level approach based on activity funding, as opposed to a transactional level approach, is recommended as it is the best way to determine whether approximately equal value is exchanged for the type of services provided.

Further analysis and summary of results provided below follows a practical application of the above discussion to Wellington City Council's revenue using the third option above. This option is also considered below for the consolidation of the Council group entities. This option is recommended as the one for Council to adopt in formulating its accounting policies and meeting the PBE disclosure requirements.

This analysis consists of a decision tree (Appendix 1) and a step through discussion of the application to Council revenues (Appendix 2), and finally an example of the application of the decision tree process (Appendix 3).

**Appendix 1: Exchange/Non-exchange Transaction decision tree.**



## Appendix 2: Application to Wellington City Council

**Wellington would look to apply a two stage approach.**

**Stage 1**

Identify transaction types which can be classified easily between exchange and non-exchange using the definitions found in the standards and the decision tree in appendix 1.

**Exchange** *(direct and approximately equal value as defined by the Council)*

- Water rates by meter – 11550X - while this is a tax imposed through legislation to provide revenue to Council it is for a product delivered directly to the user and is charged at greater than costs incurred to supply it).
- Sale of Goods – 12400X
- Rendering of services (Refer to the analysis below)
- Dividends – 16100X – excluding equity accounted dividends from associates
- Interest on deposits, loans and receivables – 14200X/14300X

**Non-exchange** (*not direct or approximately equal value as defined by the Council)*

**Taxes**
- Rates

**Transfers**
- Development contributions -
- Fines and penalties
- Fuel Tax – 15100X - (a distribution from a tax imposed by Central Government)
- Grants, subsidies and reimbursements
- Rendering of services (Refer to the analysis below)
- Restricted funds – 15200X
- Vested Assets – 15400X

Identify transaction types which cannot be classified easily between exchange and non-exchange using the definitions found in the standards and the decision tree in appendix 1.

- Rendering of services

Rendering of services could be either exchange or non-exchange depending on the nature of the transaction. To determine the classification we looked at how the operation of each Council activity (e.g. Golf Course, City Safety and Swimming pools) was to be funded. Of the 72 separate activities only 4 were intended to be 100 percent user funded. The other 68 were directly funded by rates by between 35 to 100 percent and therefore would not be considered approximately equal value under either option and hence fall into the non-exchange classification.

The four 100% user funded activities, which on the surface would likely be exchange revenue under either option, were then analysed further to see whether in substance they were exchange or non-exchange.

### Housing

This has two revenue streams:

- firstly, a housing upgrade capital expenditure grant which is a non-exchange transfer by definition and,
- secondly, tenancy rents which are generally at a 30% subsidy to the market but can range between 0-35% subsidy or higher in some circumstances.[5] Given that there is an active housing market in which Council is competing in, it is not only reasonable to expect a commercial return but also essential in order to sustain the activity over time. The 100% user funding aim should not in this instance constitute equal value. It is also not always achievable as is presently happening given that the current upgrade program is effectively reducing the revenue stream as units remain offline during the upgrade process.
-

"Wellington City Council is committed to the provision of social housing at below market rents for those households who experience barriers to accessing appropriate housing" (Social Housing policy - WCC website).

Council policy effectively restricts the return that Council could otherwise achieve and negates the notion of equal value given the subsidy from market rates.

### Marinas

This activity is intended to be largely cost recovery only. At a project level C418-*Marina Operations* is budgeted to record a very small surplus. Under any option above the revenue would be exchange.

### Parking

This activity also has two revenue streams:

- firstly, parking fines which by definition are non-exchange, and
- secondly, parking meter fees and permits which would be considered to be exchange revenues as there is some degree of an active market (i.e. Commercial parking buildings), and the project is revenue positive.

This activity would be split and separately disclosed as exchange and non-exchange accordingly.

One of the overall principles governing the Council's parking policy relates to the requirement that revenue from parking needs to reflect the parking policy and the Council's strategic direction. Pricing is an effect tool in maintaining a certain level of availability of the on-street spaces. However, the price of a parking space needs to recognise the cost of supplying and maintaining the road and street space asset.

The result of the policy may in fact mean that Council charges a premium for parking in order to achieve the above principle. This does not mean that is not an exchange

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[5] PBE IPSAS 9 *Revenue from exchange transactions*, para 5(b)

transaction as it is both direct and at a market rate with a willing buyer, given alternative choices are available.

### Waste Minimisation, disposal and recycling management

Wellington City Council is a partner in the Wellington Regional Waste Management and Minimisation Plan (WMMP) which has full-cost pricing as a guiding principle. This encourages minimisation of environmental and wider societal effects by ensuring all operating, capital, environmental and wider societal costs are reflected in product and service prices, and paid as closely to their source as possible.

The Council funds household recycling collection for residents mostly through a levy on each tonne of waste that goes into the landfills. It is also funded from rubbish bag sales and the waste minimisation levy. It is not paid for from rates.

This activity has multiple projects with a small total projected surplus which is only just above breakeven ($124,000). The activity is ring-fenced and any surplus/deficit must be used for the activity in the future. Like housing rentals above, this activity has some direct market competition (e.g. Wheelie bin companies) and full cost recovery should not be the sole determining factor. On further analysis, when the exchange revenues from the sale of goods (rubbish bags, recycling bins etc. amounting to $4,205,000) are deducted, all the projects and the activity as a whole become a deficit result. The remaining revenue would therefore be non-exchange.

### Project level

For the sake of completeness a further test was applied to all activities as each activity directly relates to one or more operating projects. The test was to see whether each project was budgeted as a surplus or deficit when costs were applied against revenues. Apart from some (but not all) of the projects relating to the four 100% user funded activities above, there were only 3 other individual projects that had a surplus position. These were:

C412 – Water connections - $32,960. This is not only immaterial but is only separately categorised for reporting purposes and does not reflect any off-setting costs. This would be considered non-exchange under the circumstances.

C378 – Waterfront parking services – $132,989. This is similar to Council's own parking fees and would be considered exchange revenue

C550 – Bus shelter contract income (Adshel) – $462,935. Council has no associated costs in relation to this revenue so it would be considered exchange revenue.

### Account code level

The rendering of services category is made up from the following account codes:

| | |
|---|---|
| 12300X | Recovered Expenditure Income |
| 12500X | Contract Income |
| 12600X | Fees & User Charges |
| 12700X | Landfill levies |
| 13200X | Lease Revenue from PP&E |
| 15300X | Other Corporate Income |

Looking at these one by one will have different outcomes in light of the methodology above.

12300X – Recovered income. This generally relates to the recovery of costs paid to third parties on behalf of other associated parties and generally only offsets actual expenses incurred without any real revenue flowing to Council. The transactions may not be direct and would generally be non-exchange in nature but would require review.

12500X – Contract income. This would require some further analysis but does include the C550 project above which would need to be split off as exchange.

12600X – Fees & User Charges. This is by far the largest account by value and would require adjustment for projects C378 and C418 and C290 as exchange revenue.

12700X – Landfill levies. These are a combination of Ministry of the Environment, recycling and carbon tax levies charged on a per tonne basis. While the transaction may be direct the approximately equal value test fails as the only applicable project C079 has a significant deficit budget.

13200X – Lease revenue from PP&E – the largest activity relating to this account code is social housing through Project C125, which as discussed above is non-exchange. The only other projects relating to this account with surplus positions are projects PPC332ART, PPC332CCO and PPC332LSE,
which would be exchange income.

15300X – Other corporate income – This account would need to be reviewed further but apart from the projects already identified above would principally be non-exchange.

### Summary of results – Rendering of services

In addition to the classification above for revenues in the Rendering of Services category the application of the principle above (option 3), would have the following results:

### Exchange Revenue

- 12300X – Recovered expenditure (subject to review)
- Bus shelter contract income (Adshel) – 12500X - Project C550
- Marinas - 12600X – Project C418
- Parking fees and permits - 12600X – Project C290
- Waterfront parking services – 12600X – Project C378
- Lease revenue from PP&E assets – Projects PPC332ART, PPC332CCO and PPC332LSE

### Non-exchange revenue

- 12700X
- Everything else in 12500X, 12600X, 13200X and 15300X except for the projects noted above as exchange subject to review.

### Council and Group

For reporting purposes Council also includes its two Projects, Wellington Waterfront (WWP) and Wellington Venues (WVP), and its share of the joint ventures with Porirua City Council (Landfill - 21.5% and Wastewater treatment plant 27.6%). The Group includes Council as defined above and its subsidiaries and the equity accounted share of its associates.

While the overall operations of the above Group entities are generally not considered to be material in comparison with the Council's, for the purposes of the exchange / non-exchange disclosure they need to be understood and integrated accordingly.

### Projects

The two projects WWP & WVP are essentially business units of Council, with public benefit purposes, being separately managed by Council subsidiaries, although WWP is fully in-house for 2014-15 and onwards. Some costs such as depreciation sit directly in Council with main revenues and other costs included on consolidation. Overall the projects are a cost to the ratepayer but some revenues would need to be classified as exchange such as parking revenues to be consistent with Council.

### Joint ventures

The Council's share in the joint ventures with Porirua City Council, the Spicer Valley Landfill (Spicer) and the Wastewater Treatment Plant (WWTP) are also consolidated into the Council results. Spicer usually generates a small surplus without any financial contribution from Council; however when taken into account with Council's waste activity results as a whole, the situation would remain as a deficit and should be regarded as non-exchange. The only revenues for the WWTP are Council contributions and are therefore non-exchange.

### Controlled Entities

Council's controlled entities are; Positively Wellington Tourism (PWT), Positively Wellington Venues Ltd (WVL); Positively Wellington Waterfront Ltd (WWL); Wellington Cable Car Ltd (WCCL); Wellington Museum's Trust (WMT), and the Wellington Zoo Trust (WZT).

All of these entities, except for WVL with interest revenue only, receive direct grant (ratepayer) funding in order to operate and provide public benefit services. WVL and WWL are merely managing the Venues and Waterfront projects and are intended to be breakeven only. Any rendering of service revenues would generally be considered as non-exchange as they are not full cost recovery activities. The one exception would be WCCL which operates two distinct services. One is the maintenance of the overhead trolley bus wires which is heavily subsidised by Greater Wellington Regional Council (GWRC) and as such would be non-exchange grant revenue. WCCL also operates the Cable Car with no direct subsidies and is a full cost recovery model in an open market, which would indicate classification as exchange revenue.

## Appendix 3: Application results from the decision tree

It should be noted we envisage the application for each Council will differ, however the principle framework will be the same.

Applying the above decision tree analysis in a tabular format would look like this: *(Note this is not a complete list of Transaction types or Activities for Wellington City Council – this is an illustrative sample).*

| | Approximately equal value | | | | |
|---|---|---|---|---|---|
| Transaction/ Activity | Customers directly receive assets or services, or have liabilities extinguished by the Council. | Council directly receives from the customer **approximately equal value** (primarily in the form of cash, goods, services, or use of assets) | Tax (non-exchange) | Transfer (non-exchange) | Exchange |
| Housing - Grant | No | Yes | No | Yes | No |
| Housing - Rental | Yes | No | No | Yes | No |
| Parking – Fines | No | Yes | No | Yes | No |
| Parking- Fees | Yes | Yes | No | No | Yes |
| Marinas | Yes | Yes | No | No | Yes |
| Waste disposal | Yes | No | No | Yes | No |
| Golf course | Yes | No | No | Yes | No |
| | | | | | |
| Rates | Yes | No | Yes | No | No |
| Metered water | Yes | Yes | No | No | Yes |
| Sale of goods | Yes | Yes | No | No | Yes |
| Fuel Tax | No | Yes | No | Yes | No |
| | | | | | |

# AUDIT AND RISK SUBCOMMITTEE FORWARD PROGRAMME FOR 2015/16

## Purpose

1. The purpose of this report is to:
   - Provide an overview of the forward programme and agenda for the Audit and Risk Subcommittee for the 2015/16 year.

## Summary

2. The Audit and Risk Subcommittee has responsibilities that relate to:
   - Financial reporting
   - External Audit process
   - Internal Audit
   - Risk Management.
3. The Subcommittee meets at least 4 times per year and the agenda is developed to ensure that reporting is provided to meet the Subcommittee's responsibilities. Officers have discussed the content of the agenda for each meeting with the Chair and have proposed a revised approach to the content and frequency of reporting. This forward programme has been developed to give the Subcommittee an overview of when specific reports will be presented for discussion and decisions (attachment 1). A number of changes have been proposed from the 2014/15 Programme, and these have been documented in the Discussion section of this report.
4. It should be noted that the Subcommittee can review the forward programme at any time and add or remove specific risk reporting items in response to issues.

## Recommendation

Officers recommend that the Subcommittee:

1. Agree the forward programme for the Audit and Risk Subcommittee for 2015/16.

## Discussion

### Key Changes

5. The following is a summary of the key changes from the way papers have been scheduled for the 2014/15 year.

### Audit New Zealand Recommendations (Update)

6. There will be no separate report. Instead recommendations that have been made by Audit New Zealand as part of its annual external audit are now tracked and updated by the Risk Assurance team, as part of the issue monitoring process. Updates and reporting of overdue issues will be included in the quarterly internal audit report to the Subcommittee.

**Insurance**

7. Insurance is a mechanism that the Council uses to transfer financial risk where no addition controls are practical to reduce the likelihood or consequence of an event. An annual insurance strategy will be reported to the Subcommittee. The following reports are planned:

| | |
|---|---|
| **March** | To provide details of any changes to the insurance strategy and procurement process. |
| **August** | The annual update of the self-insurance reserve fund performance. This will include both the financial and non-financial historical information for the year end position. In addition, an update on Insurance Strategy Performance will be provided so has been removed from the attached programme. |

**Contingent Liabilities**

8. Contingent Liabilities was on the forward programme in 2014/15. The contingent liability discussion will occur as part of the consideration of the Annual Financial Statements (August 2015), however will not be a specific agenda item.

**Health and Safety**

9. Historically health and safety has been reported to the Subcommittee at least 3 times a year as part of an overall incident report. It is proposed that this reporting change to provide half year (at the February meeting) and full year (at the August meeting) reports and analysis, which aligns with the Council's health and safety reporting framework. The content of the report and analysis is under review to ensure that it is aligned to the likely Health and Safety legislation changes. Officers will also report to the Subcommittee on progress against the Health and Safety implementation plan.

**Implications for Council of proposed Financial Reporting Standards**

10. The Subcommittee receives a report on key changes to proposed Financial Reporting Standards. It is considered that this report would be best tabled at the June meeting to ensure that the Subcommittee can consider any changes in conjunction with their annual review of the financial statements.

**Project Odyssey – Update**

11. Odyssey is the project to replace core applications covering finance, HR, payroll, customer, land, property and green and built assets. This project is large and will impact all areas of the Council operations and requires appropriate management to ensure timely and cost effective delivery. The Audit and Risk Subcommittee has requested regular updates on the project's status, risks and issues and independent quality assurance. This has been added to the forward programme.

## Attachments

Attachment 1. Audit and Risk Subcommittee Annual Programme 2015/16 Page 128

| | |
|---|---|
| Author | Geoff McRobie, Manager Risk and Assurance |
| Authoriser | Sally Dossor, Director Governance |

# SUPPORTING INFORMATION

**Consultation and Engagement**
There is no requirement to consult on the issues raised in this paper or report.

**Treaty of Waitangi considerations**
There are no specific Treat of Waitangi considerations.

**Financial implications**
There are no Financial implications arising from this paper.

**Policy and legislative implications**
There are no Policy or legislative implications arising from this paper.

**Risks / legal**
There are no new risks or legal implications arising from this paper.

**Climate Change impact and considerations**
There are no climate change implications arising from this paper.

**Communications Plan**
No communication plan is required for this paper.

**Attachment 1**

## Audit and Risk Subcommittee Annual Programme 2015/16

| | | 2015 | | 2016 | |
|---|---|---|---|---|---|
| | | *August* | *December* | *February* | *June* |
| | **Open Agenda** | | | | |
| | Annual Financial Statements | ✓ | | | ✓ |
| | Audit Engagement Letter | | | ✓ | |
| | Audit NZ– Management letter | | ✓ | | |
| | Implications for Council of proposed Financial Reporting Standards | | | | ✓ |
| | | | | | |
| | **Public Excluded Agenda** | | | | |
| | Project Odyssey - Update | ✓ | ✓ | ✓ | ✓ |
| | Internal Audit Update | ✓ | ✓ | ✓ | ✓ |
| | Annual Internal Audit Plan – for approval | | | | ✓ |
| | Risk Management Update | ✓ | | ✓ | |
| | Health and Safety *(to be reviewed once new legislation enacted)* | ✓ | | ✓ | |
| | Insurance Strategy | ✓ | | ✓ | |
| | Insurance Reserve Fund performance | ✓ | | | |
| | Security Incidents | | | ✓ | |
| | Council Debtor's Report | | ✓ | | ✓ |

## 3. Public Excluded

Resolution to Exclude the Public:

THAT the Audit and Risk Subcommittee :

1. Pursuant to the provisions of the Local Government Official Information and Meetings Act 1987, exclude the public from the following part of the proceedings of this meeting namely:

| General subject of the matter to be considered | Reasons for passing this resolution in relation to each matter | Ground(s) under section 48(1) for the passing of this resolution |
|---|---|---|
| 3.1 Council Debtors Report for April 2015 | 7(2)(c)(ii)<br>The withholding of the information is necessary to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to damage the public interest. | s48(1)(a)<br>That the public conduct of this item would be likely to result in the disclosure of information for which good reason for withholding would exist under Section 7. |
| 3.2 Internal Audit Update and Draft Internal Audit Plan 2015/16 for Approval | 7(2)(c)(ii)<br>The withholding of the information is necessary to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to damage the public interest. | s48(1)(a)<br>That the public conduct of this item would be likely to result in the disclosure of information for which good reason for withholding would exist under Section 7. |

2. Permit Audit New Zealand to remain at this meeting after the public has been excluded, because of their specialist knowledge of the matters under discussion.