Absolutely Positively Wellington City Council
Me Heke Ki Pōneke

ORDINARY MEETING

OF

FINANCE, AUDIT AND RISK MANAGEMENT SUBCOMMITTEE

AGENDA

Time: 9:30am
Date: Wednesday, 7 March 2018
Venue: Committee Room 1
Ground Floor, Council Offices
101 Wakefield Street
Wellington

MEMBERSHIP

Mayor Lester
Councillor Calvert
Councillor Foster (Chair)
Peter Harris (External)
Phillippa Smith (External)
Roy Tiffin (External)
Councillor Young

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

The Finance, Audit and Risk Management Subcommittee provides objective advice and recommendations regarding the sufficiency, quality and results of assurance on the adequacy and functioning of the council's financial processes, 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.

The Finance, Audit and Risk Management Subcommittee has responsibility for assisting the Council to discharge its responsibilities for:

- the robustness of the internal control framework and financial management practices;
- the integraity and appropriateness of internal and external reporting and accountability arrangements;
- the robustness of risk management systems, processes and practices;
- the independence and adequacy of internal and external audit functions;
- compliance with applicable laws, regulations, standards and best practice guidelines; and
- the establishment, maintenance and effectiveness of controls to safeguard the Council's financial and non-financial assets.

In fulfilling their role on the Finance, Audit and Risk Management Subcommittee, members shall be impartial and independent at all times.

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

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Me Heke Ki Pōneke

TABLE OF CONTENTS
7 MARCH 2018

Business **Page No.**

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 15 February 2018 will be put to the Finance, Audit and Risk Management 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 Finance, Audit and Risk Management 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 Finance, Audit and Risk Management Subcommittee.

No resolution, decision, or recommendation may be made in respect of the item except to refer it to a subsequent meeting of the Finance, Audit and Risk Management Subcommittee for further discussion.

2. General Business

DRAFT 2017/18 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 broad approach to the Council's Annual Report and Summary Annual Report 2017/18, including the format and disclosures for the Financial Statements.

Recommendations

That the Finance, Audit and Risk Management Subcommittee:

1. Receive the information.
2. Approve the broad approach to the Annual Report and Summary Annual Report as substantively the same as 2016/17 subject to:
   a. Actual results being determined and any change in messaging and delivery required to be made.
3. Approve the proposed format and disclosures for the 2017/18 financial statements subject to:
   a. Consideration of the implications of any changes in NZ GAAP arising up to 30 June 2018 which may be required to be applied retrospectively;
   b. The determination and disclosure of the final results of operations, cash-flows and financial position for the year ending 30 June 2018 (and any subsequent impact on the notes to the financial statements); and
   c. Receiving final clearance from Audit New Zealand.
4. Approve the sign-off process and timetable for the 2017/18 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 2017/18 Annual Report for adoption on the 26 September 2018. 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.
4. The financial statements template is currently being reviewed by Audit New Zealand. Their feedback will be incorporated into the attached draft financial statements and any material changes will be explained at the Annual Report workshop on the 11th September 2018.

Discussion

Overview of Annual Report and Summary Annual Report

5. The Annual Report comprises of four main sections: Introduction, Overview of our performance, Our performance in detail and Financial Statements.
6. The Summary Annual report comprises of an introduction, an overview, highlights of the year of our financial and non-financial performance, an overview of the Financial result (with reference to the Financial Statements in the full Annual Report), and independent auditors report.
7. No change is proposed to the broad approach to the Annual Report or the Summary Annual Report from the 2016/17 Annual Report and Summary Annual Report.
8. The near-final draft of the Annual Report will be circulated at the Annual Report workshop on 11th September 2018 for feedback.
9. The Summary Annual Report will be made publically available within one month of the adoption of the Annual Report.

Overview of our performance

10. As per the 2016/17 Annual Report, the Overview of our performance – will be split into two parts. The first is called “the money” and is a series of key financial messages on the Council performance. It will take the form of key headline messages with a short explanation underneath to explain the messages / themes that are wanted to be conveyed. This will be followed by graphs on revenue, expenditure and capital expenditure and a further explanation on the “underlying Surplus”. Depending on the performance of the capital expenditure programme, there may be a section explaining how the capital expenditure programme has performed during the 2017/18 year.
11. The second part is the “Highlights for the year”, which will provide a summary of non-financial performance by activity. Incorporating a series of non-financial performance measures, graphs and narrative to summarise Council’s performance during the year.
12. The two summaries will be useful for those who are not experienced readers of financial information but want to understand the Council’s financial performance in non-technical terms. For those who wish to achieve greater understanding, detailed explanations of financial information will be referenced in the summary, rather than having all the detailed information contained in the summary.

Overview of Financial Statements

13. The financial overview and financial statements template has been drafted by the Council’s Financial Accounting team, who are mindful of the Subcommittee desire to enhance the presentation of the financial overview and statements to increase readability to a wide range of readers.
14. The draft financial statements contained in Attachment 1 will undergo further presentational format changes, such as colour coding various financial sections e.g. Statement of Comprehensive Revenue and Expense, Statement of Financial Position etc in the published Annual Report.
15. 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.

16. It is important to note that the financial statements template reflects applicable PBE accounting standards as at the date of preparation and any subsequent changes to accounting standards will be updated at the next Subcommittee meeting.
17. These changes in format are subject to Audit NZ review and any changes / recommendations arising from that review will be incorporated into the financial statements to be presented at the workshop on 11th September 2018.

Key changes in the financial statements template

18. The attached financial statements template have only had minor editorial changes made and follows the same format and principles of the previous two years Annual Report.
19. There are no changes to the financial statements arising from any new PBE standards reflected in these draft statements.
20. The impact of proposed new or revised PBE standards will be outlined under a separate paper to the Subcommittee.

Proposed sign-off process for the 2017/18 financial statements

21. On the basis that the Subcommittee has been delegated the primary responsibility for the sudit of the Council's financial statements, a proposed sign-off process and timetable is outlined below.

Date:	Action:
7 March 2018	*Finance, Audit and Risk Management Subcommittee meeting* Subcommittee to review and conditionally approve draft format for the 2017/18 financial statements and th eproposed sign-off process.
20 August 2018 (scheduled)	Audit New Zealand commence final audit fieldwork.
11 September 2018 (scheduled)	Finance, Audit and Risk Management Subcommittee briefing on major provions and issues.
18 September 2018 (scheduled)	*Finance, Audit and Risk Management Subcommittee meeting* Subcommittee to review consolidated draft financial statements, including results of operations and cash-flows for th eyear ending 30 June 2018, financial position as at 30 June 2018 and financial overview, subject to final Audit New Zealand clearance. Subcommittee to also review Statements of Service Performance including reports on CCOs and mana whenua partnership. Audit New Zealand to provide update as to whether an unqualified, or qualified audit opinion will be issued. Subcommittee to recommend adoption of 2017/18 financial

	statements to City Strategy Committee and the letter of representation.
26 September 2018 (scheduled)	*City Strategy Committee meeting* Committee to recommend adoption of 2017/18 financial statements to Council.
26 September 2018 (scheduled)	*Council meeting* Council to adopt 2017/18 financial statements. Management Letter of Representation issued to Audit New Zealand. Audit New Zealand sign audit opinion. Media release – financial results for the year ending 30 June 2018.
TBC October 2018	Release of published Annual Report.

Attachments

Attachment 1. Draft Financial Statements 2018 template Page 12

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

SUPPORTING INFORMATION

Engagement and Consultation
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.

Health and Safety Impact considered
There are no impacts on Health and Safety.

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Item 2.1 Attachment 1

Wellington City Council and Group Consolidated Financial Statements For the year ended 30 June 2018

Absolutely Positively Wellington City Council
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Contents

Statement of Compliance and Responsibility

Reporting entity

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

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

The reported Council figures includes the results and operations of Wellington City Council and the Council's interests in the joint ventures as disclosed in Note 35: Jointly controlled assets (page XX).

The reported Group figures includes the Council (as defined above), its controlled entities as disclosed in Note 19 (page XX) and the Council's equity accounted interest in the associates and a jointly controlled entity as disclosed in Note 20 (page XX). A structural diagram of the Council and Group is included on the following page.

Compliance

The Council and management of Wellington City Council confirm that all the statutory requirements in relation to the Annual Report, as outlined in Schedule 10 of the Local Government Act 2002, including the requirement to comply with New Zealand Generally Accepted Accounting Practice (NZ GAAP) have been complied with.

The financial statements have been prepared to comply with Public Sector Public Benefit Entity Accounting Standards (PBE accounting standards) for a Tier 1 entity[1] and were authorised for issue by the Council on 26 September 2018.

Responsibility

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

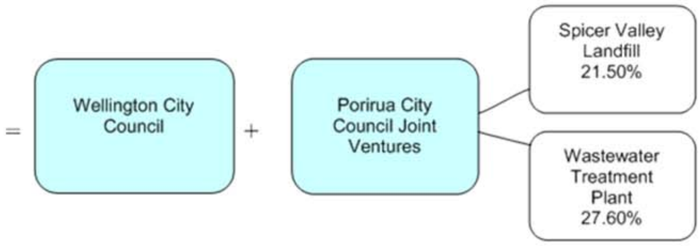
In the opinion of the Council and management, the Annual Report for the year ended 30 June 2017 fairly reflect the financial position, results of operations and service performance achievements of Wellington City Council and Group.

Justin Lester	**Kevin Lavery**	**Andy Matthews**
Mayor	**Chief Executive**	**Chief Financial Officer**
26 September 2018	26September 2018	26 September 2018

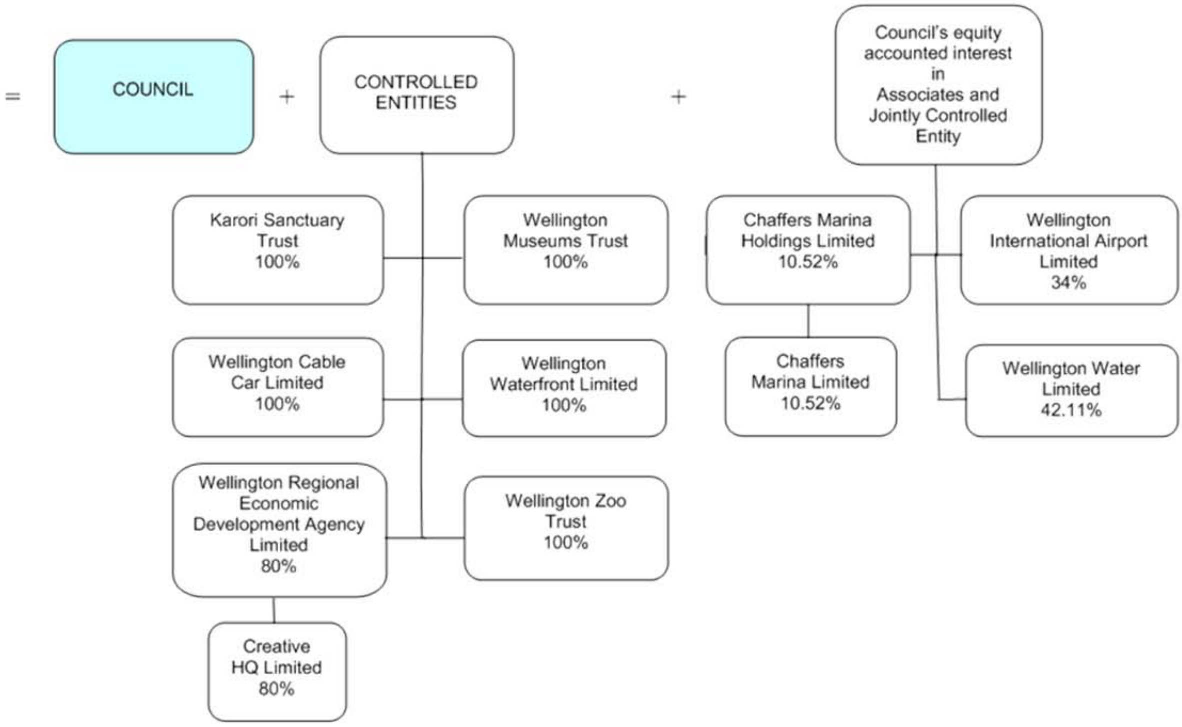
1. *A Tier 1 entity is defined as being either, publicly accountable or large (ie. expenses over $30m). Council exceeds the expenses threshold.*

Council and Group Structure

Wellington City Council Reporting Entity (Council)



Wellington City Council Group Reporting Entity (Group)



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

The percentages above represent the Council's interest and/or ownership (for accounting purposes) in each of the entities in the Group. Refer to Notes 19 and 20 (pages XX to XX) for more information

Basis of Consolidation

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. The two structure types are either a jointly controlled asset or a jointly controlled entity.

For a jointly controlled asset the Council has a liability in respect of its share of joint ventures' operational deficits and liabilities, and shares in any operational surpluses and assets. The Council's proportionate interest (ie. 21.5% of the Spicer Valley landfill) 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 are added 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 is 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.

Council Controlled Organisations

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.

Statement of Comprehensive Revenue and Expense

For the year ended 30 June 2018

		Council			Group	
		Actual	Budget	Actual	Actual	Actual
		2018	2018	2017	2018	2017
	Note	$000	$000	$000	$000	$000
Revenue						
Rates	1		296,806	286,015		286,015
Revenue from operating activities						
Development contributions	2		2,000	3,025		3,025
Grants, subsidies and reimbursements	2		55,913	33,881		46,538
Other operating activities	2		130,702	144,215		162,461
Investments revenue	3		22,454	24,585		12,648
Vested assets and other revenue	4		1,050	8,565		12,652
Fair value gains	5		3,058	23,500		23,404
Finance revenue			704	2,367		2,601
Total revenue		**-**	**512,687**	**526,153**	**-**	**549,344**
Expense						
Finance expense	6		(25,420)	(23,960)		(23,970)
Expenditure on operating activities	7		(348,489)	(368,625)		(398,986)
Depreciation and amortisation expense	8		(106,417)	(101,889)		(103,653)
Total expense		**-**	**(480,326)**	**(494,474)**	**-**	**(526,609)**
Share of equity accounted surplus/(deficit) from associates and jointly controlled entity	9	-	-	-		13,313
Net surplus before taxation		**-**	**32,361**	**31,679**	**-**	**36,048**
Income tax credit/(expense)	10	-	-	-		102
NET SURPLUS for the year		**-**	**32,361**	**31,679**	**-**	**36,150**
Net surplus attributable to:						
Wellington City Council and Group		-	32,361	31,679		35,866
Non-controlling interest		-	-	-		284
		-	**32,361**	**31,679**	**-**	**36,150**

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

Statement of Comprehensive Revenue and Expense - continued

For the year ended 30 June 2018

		Council			Group	
		Actual 2018	Budget 2018	Actual 2017	Actual 2018	Actual 2017
	Refer	$000	$000	$000	$000	$000
Net surplus for the year		-	32,361	31,679	-	36,150
Other comprehensive revenue and expense [1]						
Items that will be reclassified to surplus/(deficit)						
Cash flow hedges:						
Fair value movement - net	SCIE [2]			17,447		17,447
Fair value through other comprehensive revenue and expense						
Fair value movement - net	SCIE			1,240		1,195
Items that will not be reclassified to surplus/(deficit)						
Non-contolling interest:						
Movement in non-controlling interest				-		-
Revaluations:						
Fair value movement - property, plant and equipment - net	SCIE		122,876	295,254		295,254
Share of other comprehensive revenue and expense of associates and jointly controlled entity:						
Fair value movement - property, plant and equipment - net	SCIE			-		24,165
Total other comprehensive revenue and expense		-	122,876	313,941	-	338,061
TOTAL COMPREHENSIVE REVENUE and EXPENSE for the year		-	155,237	345,620	-	374,211
Total comprehensive revenue and expense attributable to:						
Wellington City Council and Group		-	155,237	345,620		373,927
Non-controlling interest		-	-	-		284
		-	155,237	345,620	-	374,211

1. Other comprehensive revenue or expense is non-cash in nature and only reflects changes in equity.
2. Statement of Changes in Equity – see page XX

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

Statement of Comprehensive Revenue and Expense - Major budget variations

Significant variations from budgeted revenues and expenses are as follows:

Revenues were ……………

Expenses were ……………

Net finance expense was ………….

Note 1: Rates revenue

	Council		Group	
	2018	2017	2018	2017
	$000	$000	$000	$000
General rates		160,558		160,558
Targeted rates		109,788		109,788
Water rates by meter		14,519		14,519
Penalties and adjustments		1,150		1,150
TOTAL RATES REVENUE		**286,015**		**286,015**

The total amount of rates charged on Council owned properties that have not been eliminated from revenue and expenditure is $XXXm (2017: $13.258m). For the Group, rates of $XXXm (2017: $13.298m) have not been eliminated.

The revenue from rates for Wellington City Council was billed on the following rating information held as at 30 June 2017.

The number of rating units: XXX (30 June 2016: 77,802).

	2018	2017
	$000	$000
Total capital value of rating units		**55,116,216**
Total land value of rating units		**23,300,843**

Relevant significant accounting policies

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 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. However, 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. Revenue from water rates by meter is recognised on an accrual basis based on usage.

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 2018 totalled $XXXm (2017: $0.751m).

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 2: Revenue from operating activities

	Council		Group	
	2018	2017	2018	2017
	$000	$000	$000	$000
Development contributions		**3,025**		**3,025**
Grants, subsidies and reimbursements				
Operating		6,606		18,961
Capital		27,275		27,577
Total grants, subsidies and reimbursements	**-**	**33,881**	**-**	**46,538**
Other operating activities				
Fines and penalties		7,196		7,196
Rendering of services		130,569		144,658
Sale of goods		6,450		10,607
Total other operating activities	**-**	**144,215**	**-**	**162,461**
TOTAL REVENUE FROM OPERATING ACTIVITIES	**-**	**181,121**	**-**	**212,024**

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 $XXXm (2017: $11.473m) and operating reimbursements of $XXXm (2017: $5.349m) 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 and operating grant recognised in the current year being, $XXXm (2017: $12.182m) and $XXXm (2017: $1.122m) respectively, are 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 utilised grant revenue apart from the overarching requirement for Council to maintain its investment and provision of social housing until 2037.

For the Group, the additional principal subsidy was $XXXm (2017: $3.616m) from Greater Wellington Regional Council to Wellington Cable Car Limited for the maintenance and upgrade of the overhead wire trolley system up to 31 October 2017 when the power was switched off and decommissioning of the system commenced.

For other operating activities of Council, the principal services rendered (provided) were:

- Community housing - $XXXm (2017: $22.280m)
- Parking fees and permits - $XXXm (2017: $18.287m)
- Convention and conferences centres – $XXXm (2017: $13.165m)
- Building consents and licensing services - $XXXm (2017: $15.319m)
- Landfill operations and recycling - $XXXm (2017: $15.636m) – including unbudgeted revenue from the joint ventures with Porirua City Council $XXXm (2017: $1.259m).

Relevant significant accounting policies

Revenue from operating activities is generally measured at the fair value of consideration received or receivable.

The Council undertakes various activities as part of its normal operations which generates 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.

See Note 13: Receivables and recoverables (page XX), for an explanation of exchange and non-exchange transactions, transfers and taxes.

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.

Grants, subsidies and reimbursements

Grants, subsidies and reimbursements are initially recognised at their fair value where there is reasonable assurance that the monies 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.

Fines and penalties

Revenue from fines and penalties (eg. traffic and parking infringements and library overdue book fines) is recognised when infringement notices are issued or when the fines/penalties are otherwise imposed. In particular the fair value of parking related fines is determined based on the probability of collecting fines considering previous collection history and a discount for the time value of money.

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

Note 3: Investments revenue

	Council		Group	
	2018	2017	2018	2017
	$000	$000	$000	$000
Dividend from associates		11,937		-
Dividend from equity investments		104		104
Investment property revenues		12,544		12,544
TOTAL INVESTMENTS REVENUE	**-**	**24,585**	**-**	**12,648**

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

The Council continues to maintain its current level of investment as it considers the dividend stream adds diversity to normal rates revenue. The investment holding is presently maintained as it is strategically, financially and economically prudent to do so.

For further information refer to Note 20: Investment in associates and jointly controlled entity (page XX).

The revenues from investment properties are primarily from ground leases around the CBD and on the waterfront. The Council periodically reviews its continued ownership of investment properties by assessing the benefits against other arrangements that could deliver similar benefits. Any assessment is based on both the strategic benefit of the investment/ownership and in terms of the most financially viable method of achieving the delivery of Council services.

For further information refer to Note 17: Investment properties (page XX).

Relevant significant accounting policies

Dividends

Dividends from equity investments are recognised when the Council's right to receive payment has been established.

Investment property lease rentals

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

Note 4: Vested assets and other revenue

	Council		Group	
	2018	2017	2018	2017
	$000	$000	$000	$000
Vested assets		6,250		6,250
Gain on business combination		-		4,072
Other revenue		2,315		2,330
TOTAL VESTED ASSETS AND OTHER REVENUE	**-**	**8,565**	**-**	**12,652**

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 - $XXXm (2017: $2.526m)
- Drainage, waste and water - $XXXm (2017: $2.645m)

Other revenue is principally Fuel Tax - $XXXm (2017: $1.120m)

For the group, the $4.072m gain on business combination in 2017 related to the Council acquiring control of the Karori Sanctuary Trust. For more information refer to Note 19 – Investment in Controlled entities (page XX).

Relevant significant accounting policies

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, as determined by active market prices, is recognised as non-exchange revenue when the control of the asset is transferred to the Council.

Gains

Gains include additional earnings (ie. sale proceeds in excess of the book value) on the disposal of property, plant and equipment.

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.

Note 5: Fair value gains

	Council		Group	
	2018	2017	2018	2017
	$000	$000	$000	$000
Investment property revaluation		18,222		18,222
Amortisation of loans to related parties		3		8
Fair value adjustment on loans to related parties		5,275		5,174
TOTAL FAIR VALUE GAINS	**-**	**23,500**	**-**	**23,404**

Investment properties, which are revalued annually, are held primarily to earn lease revenue and/or for capital growth. These properties include the Council's ground leases and certain lands and buildings, including the waterfront's investment properties. For more information refer to Note 17: Investment properties (page XX).

The $5.275m adjustment to the related party loan in 2017 was due to the early repayment of the loan Council made to the Karori Sanctuary Trust. This loan had previously been reduced to its fair value to reflect the time value of money and the expected repayment schedule and was being amortised back up over time to its original full value. The early full repayment required the fair value to be adjusted up to the full value of $10.347m. For more information refer to Note 14: Other financial assets (page XX).

Relevant significant accounting policies

Gains

Gains include increases on the revaluation of investment property and in the fair value of financial assets and liabilities.

Investment properties

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.

Derivatives

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.

Note 6: Finance expense

	Council		Group	
	2018	2017	2018	2017
	$000	$000	$000	$000
Interest on borrowings		22,956		22,966
Interest on finance leases		2		2
Re-discounting of interest on provisions		1,002		1,002
TOTAL FINANCE EXPENSE	**-**	**23,960**	**-**	**23,970**
Less				
Finance revenue - interest earned		2,367		2,601
NET FINANCE COST	**-**	**21,593**	**-**	**21,369**

Relevant significant accounting policies

Interest on borrowings

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

Re-discounting of interest

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 24: Employee benefit liabilities and provisions (page XX) and Note 25: Provision for other liabilities (page XX).

Interest earned

Interest earned is recognised using the effective interest rate method.

Note 7: Expenditure on operating activities

	Council		Group	
	2018 $000	2017 $000	2018 $000	2017 $000
Governance and employment				
Elected member remuneration		1,550		1,550
Independent directors/trustees fees for controlled entities		-		489
Employee benefits expense:				
- Remuneration		84,296		88,221
- Superannuation contributions (including Kiwisaver)		2,336		2,884
Other personnel costs		4,206		5,015
Impairments				
Bad debts written off not previously provided for		123		123
Increase in provision for impairment of receivables and recoverables		896		896
Impairment loss from property, plant and equipment		11,446		11,446
Impairment loss on shares		-		27
Insurance				
Insurance premiums		9,671		10,149
Insurance reserve costs - net		6,910		6,910
General				
Administration Costs		6,528		18,395
Auditor's remuneration:		308		555
Contractors		4,846		29,005
Contracts, services and materials		131,212		135,541
Grants - general		43,395		19,098
Information and communication technology		12,119		13,147
Loss on disposal of intangibles		-		-
Loss on disposal of property, plant and equipment		542		886
Other general costs		620		2,959
Professional costs		14,406		16,216
Reassessment of weathertight provision		4,429		4,429
Utility costs		28,786		31,045
TOTAL EXPENDITURE ON OPERATING ACTIVITIES	-	368,625	-	398,986

Governance and employment

Governance costs relate to the remuneration made to all elected members, comprising the Mayor, Councillors and Community Board members and also to directors appointed to boards of controlled entities.

Employment costs relate to the remuneration paid directly to staff, other employee benefits such as Kiwisaver and other associated costs such as recruitment and training.

During the year $XXXm (2017: $0.943m) of termination payments were incurred by the Council and $XXXm (2017: $1.278m) by the Group. Termination payments include all payments relating to the end of employment other than unpaid salary and leave entitlements. Termination payments include both redundancy (contractual) and severance (non-contractual) payments.

For further information refer to Note 37: Remuneration and staffing levels (page XX)

Impairments

The $11.446m impairment loss from Property, Plant and equipment in 2016/17 relates to the Civic Administration Building due to the damage sustained from the November 2016 Kaikoura earthquake. For more detailed information refer to Note 38: Financial impacts of the Kaikoura Earthquake.

General

Auditor's remuneration:	Council		Group	
	2018	2017	2018	2017
	$000	$000	$000	$000
Audit services - Audit New Zealand - Financial Statements		297		471
Audit services - Audit New Zealand - Long-Term Plan		-		-
Audit services - Audit New Zealand - other		11		11
Audit services - Other Auditors		-		73
		308	-	555

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 and assurance services relating to Council's debenture trust deed compliance.

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

Grants – general, include $2.250m (2017: $2.250m) towards the funding of the Museum of New Zealand, Te Papa Tongarewa.

Grants to controlled entities such as the Wellington Zoo Trust are for operational funding purposes. For details of the funding to these entities refer to Note 36: Related party disclosures (page XX).

Operating lease minimum lease payments are for non-cancellable agreements for the use of assets such as buildings and specialised computer equipment. For the year to 30 June 2018 Council paid $XXXm (2017: $1.737m) and the Group $XXXm (2017: $4.734m).

Reassessment of provisions primarily relates to the Weathertight homes provision. Refer to Note 25: Provisions for other liabilities (page XX) for more detailed information.

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 $XXXm (2017: $13.250m) on Council owned properties.

Relevant significant accounting policies

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.

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

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.

Note 8: Depreciation and amortisation

	Council		Group	
	2018	2017	2018	2017
	$000	$000	$000	$000
Depreciation				
Buildings		21,784		22,199
Civic Centre complex		2,592		2,592
Restricted buildings		1,577		1,577
Drainage, waste and water infrastructure		27,475		27,475
Service concession assets		4,911		4,911
Landfill post closure		132		132
Library collections		2,352		2,352
Plant and equipment		11,106		12,387
Roading infrastructure		25,039		25,039
Total depreciation	**-**	**96,968**	**-**	**98,664**
Amortisation				
Computer software		4,921		4,989
Total amortisation	**-**	**4,921**	**-**	**4,989**
TOTAL DEPRECIATION AND AMORTISATION	**-**	**101,889**	**-**	**103,653**

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).

Relevant significant accounting policies

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

Amortisation

The amortisation of intangible assets is charged on a straight-line basis over the estimated useful life of the associated assets.

The estimated useful lives and depreciation rate ranges of the major classes of property, plant and equipment are as follows:

	2017	
Asset Category	**Useful Life (years)**	**Depreciation Rate**
Land	unlimited	not depreciated
Buildings	1 - 75	1.33 - 100%
Civic Centre Complex	10 - 78	1.28 - 10%
Plant and equipment	3 - 100	1 - 33.3%
Library collection	3 -11	9.1 - 33.3%
Restricted assets (excluding buildings)	unlimited	not depreciated
Infrastructure assets:		
Land (including land under roads)	unlimited	not depreciated
Roading	3 - 175	0.57 - 33.3%
Drainage, waste and water	3 - 175	0.57 - 33.3%
Service concession arrangements	3 - 100	1 - 33.3%

The 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.

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 amortisation rate range of these assets are as follows:

	2017	
Asset Category	**Useful Life (years)**	**Amortisation Rate**
Computer software	2 - 10	10 - 50%

Note 9: Share of associates and jointly controlled entity's surplus or deficit

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

	Group	
	2018	2017
	$000	$000
Associates		
Chaffers Marina Holdings Limited		(31)
Wellington International Airport Limited		13,432
Jointly controlled entity		
Wellington Water Limited		(88)
TOTAL SHARE OF ASSOCIATES' AND JOINTLY CONTROLLED ENTITY'S SURPLUS OR (DEFICIT)	**-**	**13,313**

Further information on the cost and value of the above investments is found in Note 20: Investments in Associates and Jointly Controlled Entity (page XX).

Relevant significant accounting policies

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.

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.

Note 10: Income tax expense

	Council 2018 $000	Council 2017 $000	Group 2018 $000	Group 2017 $000
Current tax expense				
Current year		-		293
Prior period adjustment		-		1
Total current tax expense	**-**	**-**	**-**	**294**
Deferred tax expense				
Origination and reversal of temporary differences		(73)		-
Change in unrecognised temporary differences		-		(396)
Recognition of previously unrecognised tax losses		73		-
Total deferred tax expense	**-**	**-**	**-**	**(396)**
TOTAL INCOME TAX EXPENSE / (CREDIT)	**-**	**-**	**-**	**(102)**

Reconciliation of tax on the surplus and tax expense	Council 2018 $000	Council 2017 $000	Group 2018 $000	Group 2017 $000
Surplus for the period before taxation	-	31,679	-	36,048
Prima facie income tax based on domestic tax rate - 28%		8,870		10,093
Effect of non-deductible expenses and tax exempt income		(8,897)		(10,321)
Effect of tax losses utilised		73		-
Current years loss for which no deferred tax asset was recognised		27		27
Recognition of prior year loss		(73)		(134)
Previously unreognised tax losses now utilised		-		-
Change in unrecognised temporary differences		-		208
Prior period adjustment		-		(407)
Share of income tax of equity accounted associates		-		385
Under / (over) provision of income tax in previous period		-		47
TOTAL INCOME TAX EXPENSE / (CREDIT)	**-**	**-**	**-**	**(102)**

Imputation credits	Group 2018 $000	Group 2017 $000
Imputation credits available in subsequent periods		**99**

Relevant significant accounting policies

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.

Statement of Financial Position

As at 30 June 2018

		Council			Group	
		Actual	Budget	Actual	Actual	Actual
		2018	2018	2017	2018	2017
	Note	$000	$000	$000	$000	$000
ASSETS						
Current assets						
Cash and cash equivalents	11		1,144	76,907		85,366
Receivables and recoverables	13		48,542	45,179		46,515
Other financial assets	14		-	263		304
Prepayments			13,414	14,012		14,303
Inventories			932	1,149		1,503
Non-current assets classified as held for sale	15			-		-
Total current assets		**-**	**64,032**	**137,510**	**-**	**147,991**
Non-current assets						
Derivative financial assets	12		-	1,283		1,283
Receivables and recoverables	13		-	4,185		4,185
Other financial assets	14		17,016	9,996		11,337
Intangibles	16		28,306	26,528		26,613
Investment properties	17		221,512	230,194		230,194
Property, plant and equipment	18		7,004,869	6,972,168		6,988,405
Investment in controlled entities	19		5,071	5,071		-
Investment in associates and jointly controlled entity	20		19,465	19,465		163,960
Total non-current assets		**-**	**7,296,239**	**7,268,890**	**-**	**7,425,977**
TOTAL ASSETS		**-**	**7,360,271**	**7,406,400**	**-**	**7,573,968**
LIABILITIES						
Current liabilities						
Derivative financial liabilities	12		-	975		975
Exchange transactions and transfers payable	21		62,060	58,155		59,639
Taxes payable	21		-	3,498		3,627
Revenue in advance	22		13,132	28,922		30,717
Borrowings	23		269,984	100,096		100,196
Employee benefit liabilities and provisions	24		7,807	7,811		9,808
Provision for other liabilities	25		12,028	13,584		13,584
Total current liabilities		**-**	**365,011**	**213,041**	**-**	**218,546**
Non-current liabilities						
Derivative financial liabilities	12		-	21,591		21,591
Exchange transactions and transfers payable	21		630	630		630
Borrowings	23		258,167	395,724		395,792
Employee benefit liabilities and provisions	24		1,467	889		924
Provision for other liabilities	25		28,110	44,404		44,404
Deferred tax	26		-	-		938
Total non-current liabilities		**-**	**288,374**	**463,238**	**-**	**464,279**
TOTAL LIABILITIES		**-**	**653,385**	**676,279**	**-**	**682,825**

Statement of Financial Position – continued

		Council			Group	
		Actual	Budget	Actual	Actual	Actual
		2017	2017	2016	2017	2016
	Note	$000	$000	$000	$000	$000
EQUITY						
Accumulated funds			1,269,134	1,269,134		1,293,162
Retained earnings			3,808,695	3,793,827		3,788,286
Revaluation reserves	27		1,611,454	1,677,312		1,815,338
Hedging reserve	28		-	(21,283)		(21,283)
Fair value through other comprehensive revenue and expense reserve	29		1,648	2,888		3,221
Non-controlling interest			-	-		284
Restricted funds	30		15,955	8,243		12,135
TOTAL EQUITY		**-**	**6,706,886**	**6,730,121**	**-**	**6,891,143**
TOTAL EQUITY AND LIABILITIES		**-**	**7,360,271**	**7,406,400**	**-**	**7,573,968**

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

Statement of Financial Position - Major budget variations

Significant variations from budget are as follows:

Current assets are $XXXm higher than budgeted primarily due to:…………

Non-current assets are $XXXm higher than budgeted primarily due to:………..

Total liabilities are $XXXm higher than budget primarily due to:……………..

Note 11: Cash and cash equivalents

	Council		Group	
	2018	2017	2018	2017
	$000	$000	$000	$000
Cash at bank		4,886		10,978
Cash on hand		21		39
Short term bank deposits up to 3 months		72,000		74,349
TOTAL CASH AND CASH EQUIVALENTS	**-**	**76,907**	**-**	**85,366**

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

Short term deposits are made with a registered bank, with a credit rating of at least A, 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 programme 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.

Note 12: Derivative financial instruments

	Council		Group	
	2018	2017	2018	2017
	$000	$000	$000	$000
Assets				
Non-current assets				
Interest rate swaps - cash flow hedges		1,283		1,283
Total non-current assets	**-**	**1,283**	**-**	**1,283**
TOTAL DERIVATIVE FINANCIAL INSTRUMENT ASSETS	**-**	**1,283**	**-**	**1,283**
Liabilities				
Current liabilities				
Interest rate swaps - cash flow hedges		975		975
Total current liabilities	**-**	**975**	**-**	**975**
Non-current liabilities				
Interest rate swaps - cash flow hedges		21,591		21,591
Total non-current liabilities	**-**	**21,591**	**-**	**21,591**
TOTAL DERIVATIVE FINANCIAL INSTRUMENT LIABILITIES	**-**	**22,566**	**-**	**22,566**

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 28: Hedging Reserve (page XX) and Note 32: Financial instruments (page XX).

Relevant significant accounting policies

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

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

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

Note 13: Receivables and recoverables

Receivables and recoverables	Council		Group	
	2018	2017	2018	2017
	$000	$000	$000	$000
Current		45,179		46,515
Non-Current		4,185		4,185
TOTAL RECEIVABLES AND RECOVERABLES - NET	-	49,364	-	50,700

Receivables and recoverables	Council		Group	
	2018	2017	2018	2017
	$000	$000	$000	$000
Trade receivables - debtors - net		18,119		17,394
Trade recoverables - fines - net		3,439		3,439
Accrued income		8,058		8,094
Sundry receivables		7,617		9,779
GST recoverable		2,803		2,666
Rates recoverable		9,328		9,328
TOTAL RECEIVABLES AND RECOVERABLES - NET	-	49,364	-	50,700

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.

Receivables and recoverables	Council		Group	
	2018	2017	2018	2017
	$000	$000	$000	$000
Receivables and recoverables from related parties				
- Controlled entities		1,294		-
- Associates and jointly controlled entity		187		187
Total receivables and recoverables from related parties	-	1,481	-	187

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

Provision for impairment of total receivables and recoverables	Council		Group	
	2018	2017	2018	2017
	$000	$000	$000	$000
Opening balance		6,183		6,183
New provisions made		896		896
Release of unused provision		(91)		(91)
Amount of provision utilised		(28)		(28)
Provision for impairment of total receivables and	-	6,960	-	6,960

The ageing profile of total net receivables and recoverables at the reporting date is as follows:

Council	2018			2017		
	Gross	Impaired	Net	Gross	Impaired	Net
	$000	$000	$000	$000	$000	$000
Trade and other receivables and recoverables						
Not past due				29,904	(179)	29,725
Past due 0-3 months				7,947	(57)	7,890
Past due 3-6 months				4,209	(227)	3,982
Past due more than 6 months				14,264	(6,497)	7,767
TOTAL RECEIVABLES AND RECOVERABLES	-	-	-	**56,324**	**(6,960)**	**49,364**

Group	2018			2017		
	Gross	Impaired	Net	Gross	Impaired	Net
	$000	$000	$000	$000	$000	$000
Trade and other receivables and recoverables						
Not past due				30,852	(179)	30,673
Past due 0-3 months				8,224	(57)	8,167
Past due 3-6 months				4,240	(227)	4,013
Past due more than 6 months				14,344	(6,497)	7,847
TOTAL RECEIVABLES AND RECOVERABLES	-	-	-	**57,660**	**(6,960)**	**50,700**

The net 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 for trade debtors.

Relevant significant accounting policies

Receivables from exchange transactions

Receivables from exchange transactions arise when the Council is owed by another entity or individual for goods or services provided directly by Council and will receive approximately equal value in a willing arm's length transaction (primarily in the form of cash in exchange). Examples of exchange transactions include parking services and metered water rates.

Recoverables from non-exchange transactions

Recoverables from non-exchange transactions arise when the Council is owed value from another party without giving approximately equal value directly in exchange for the value received. Most of the goods or services that Council provide are subsidised by rates revenue and therefore the exchange is unequal. Examples of non-exchange transactions include social housing rentals, parking fines and recreational centre activities. Non-exchange transactions are comprised of either taxes or transfers. Transfers also include grants that do not have specific conditions attached which require return of the grant for non-performance.

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.

Note 14: Other financial assets

	Council		Group	
	2018	2017	2018	2017
	$000	$000	$000	$000
Represented by:				
Current		263		304
Non-current		9,996		11,337
Total other financial assets	**-**	**10,259**	**-**	**11,641**
Comprised of:				
Financial assets at fair value through other comprehensive revenue and expense				
Equity investments:				
- Civic Financial Services Ltd		806		806
- NZ Local Government Funding Agency (LGFA)		4,475		4,475
- Creative HQ incubator/accelerator shareholdings		-		1,341
Loans and deposits				
Bank deposits - term greater than 3 months				
LGFA - borrower notes		4,688		4,688
Loans to related parties - other organisations		27		27
Loans to external organisations		263		304
TOTAL OTHER FINANCIAL ASSETS	**-**	**10,259**	**-**	**11,641**

Equity investments

Civic Financial Services Limited (formerly Civic Assurance) is the trading name for the New Zealand Local Government Insurance Corporation Limited. The Council holds a 4.78% (2017: 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 an AA+ (domestic long term) credit rating from Standard and Poors.

Creative HQ, a controlled entity of Wellington Regional Economic Development Agency Limited (WREDA), has small shareholdings in various incubator and accelerator programme companies. These shares are held until the companies mature or cease operations.

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	
	2018	2017	2018	2017
	$000	$000	$000	$000
Loans to related parties - other organisations				
Wellington Regional Stadium Trust				
(nominal value $15,394,893)				
Opening balance		24		24
Amortisation of fair value adjustment		3		3
Closing balance at fair value	**-**	**27**	**-**	**27**
Karori Sanctuary Trust				
(nominal value was $10,346,689)				
Opening balance		5,072		5,072
Movement in fair value		5,275		5,275
Loan repayment received		(10,347)		(10,347)
Closing balance at fair value	**-**	**-**	**-**	**-**
Loans to other external organisations				
Opening balance		315		366
New loan advances		-		-
Loan repayments received		(13)		(28)
Loan forgiveness		(39)		(39)
Loan write-off		-		-
Amortisation of fair value adjustment		-		5
Closing balance at fair value	**-**	**263**	**-**	**304**
TOTAL LOANS	**-**	**290**	**-**	**331**

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

Wellington Regional Stadium 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 The amortisation rate applicable to the Wellington Regional Stadium Trust loan is 12.710%.

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. The current expected repayment of the loan and the advance back to the Council, as advised by WRST, is in 2070.

Karori Sanctuary Trust

During the adoption of the 2016/17 Annual Plan, the Council agreed to the purchase of the Zealandia visitor centre building for $10.347m. Following this purchase, the Council loan to the Karori Sanctuary Trust was fully repaid. The $5.275m adjustment to the related party loan in 2017 was due to the early repayment of the loan Council made to the Karori Sanctuary Trust. This loan had previously been reduced to its fair value to reflect the term of the loan and expected repayment schedule. It was being amortised back up over time to its original value. The early full repayment required the fair value to be adjusted up to its full value.

Loans to other external organisations are generally 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 36: Related party disclosures.

Note 15: Non-current assets classified as held for sale

	Council		Group	
	2018	2017	2018	2017
	$000	$000	$000	$000
Opening balance		1,504		1,504
Disposals		-		-
Transfers from property, plant and equipment		-		-
Transfers to property, plant and equipment		(1,504)		(1,504)
TOTAL NON-CURRENT ASSETS CLASSFIED AS HELD FOR SALE	-	-	-	-

Relevant significant accounting policies

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

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

- the asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets;
- a plan to sell the asset is in place and an active programme to locate a buyer has been initiated;
- the asset is being actively marketed for sale at a price that is reasonable in relation to its current fair value;
- the sale is expected to occur within one year or beyond one year where a delay has occurred which is caused by events beyond the 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.

Note 16: Intangibles

	Council		Group	
	2018	2017	2018	2017
	$000	$000	$000	$000
Computer software				
Cost - opening balance		66,989		67,730
Accumulated amortisation		(44,304)		(44,967)
Computer software opening balance	-	22,685	-	22,763
Acquired by direct purchase		6,281		6,357
Amortisation		(4,921)		(4,990)
Net disposals		-		-
Transfer to property, plant and equipment		(140)		(140)
Total computer software - closing balance	**-**	**23,905**	**-**	**23,991**
Cost		73,340		74,210
Accumulated amortisation		(49,435)		(50,220)
Total computer software - closing balance	**-**	**23,905**	**-**	**23,990**
Work in progress				
Computer software		640		640
Total work in progress	**-**	**640**	**-**	**640**
Carbon credits				
Cost - Opening Balance		1,791		1,791
Additions		369		369
Net disposals		(177)		(177)
Total Carbon credits - closing balance	**-**	**1,983**	**-**	**1,983**
TOTAL INTANGIBLES	**-**	**26,528**	**-**	**26,613**

Disposals and transfers are reported net of accumulated amortisation.

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 2018 the Council received XXX credits (2017: 1,094). The Council purchased XXX credits (2017: 21,473) in the market to cover the expected liabilities associated with landfill operations. During the year, XXX credits (2017: 32,425) were surrendered to meet the Council's ETS obligations for the 2017 calendar year. At 30 June 2018 the total number of credits held is XXX (2017: 347,731).

At 30 June 2018 the liability relating to landfill carbon emissions is $XXXm (2017: $0.173m). More information on carbon credits can be found in the Statements of Service Provision under activity 2.2: Waste reduction and energy conservation (page XX).

Relevant significant accounting policies

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.

Typically, the estimated useful lives and amortisation rate range of these assets are as follows:

	2017	
Asset Category	Useful Life (years)	Amortisation Rate
Computer software	2 - 10	10 - 50%

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 initially recognised at fair value, which then becomes the deemed cost. Carbon credits that are 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.

Note 17: Investment properties

	Council		Group	
	2018	2017	2018	2017
	$000	$000	$000	$000
Opening balance		211,237		211,237
Additions by acquisition		153		153
Adjustment		(269)		(269)
Disposals		-		-
Fair value revaluation movements taken to surplus/(deficit)		18,222		18,222
Transfer to property, plant and equipment		(37)		(37)
Investment property - WIP		888		888
TOTAL INVESTMENT PROPERTIES	**-**	**230,194**	**-**	**230,194**

Wellington City Council's investment properties including the waterfront investment properties were valued as at 30 June 2017 by an independent valuer, William Bunt (FNZIV, FPINZ), registered valuer and Director of Valuation Services for CBRE Limited.

The Council's total investment properties comprise ground leases of $XXXm (2017: $185.208m) and land and buildings (including work in progress) of $XXXm (2017: $44.986m) held for investment purposes.

Investment properties are properties which are held primarily to earn lease revenue and/or for capital growth. These properties include the Council's ground leases and certain land and buildings.

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 leases are charged on a commercial market basis.

Investment properties exclude those properties held for strategic purposes or to provide a social service. This includes properties which generate cash inflows as the lease 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.

Relevant significant accounting policies

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 lease 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 lease payments.

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

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

Note 18: Property, plant and equipment

Summary	Council		Group	
	2018	2017	2018	2017
	$000	$000	$000	$000
Property, plant and equipment - Opening balance		6,645,975		6,659,487
Additions		83,496		87,773
Disposals		(1,094)		(2,151)
Depreciation expense		(96,968)		(98,663)
Impairment losses		(11,446)		(11,446)
Revaluation movement		295,254		295,254
Transfer between asset classes		179		178
Transfer to non-current assets held for sale		-		-
Transfer from non-current assets held for sale		1,504		1,504
Movement in work in progress		55,267		52,819
Acquistion of controlled entity		-		3,649
TOTAL PROPERTY, PLANT AND EQUIPMENT	**-**	**6,972,167**	**-**	**6,988,404**

Relevant significant accounting policies

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 (for example, land declared as a reserve under the Reserves Act 1977.) The use of the asset may also be restricted such as the donated Basin Reserve land which must be retained for the purposes of providing a cricket and recreation ground with no permitted thoroughfare.

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.

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

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

Library Collections

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

Operational Land & Buildings

Operational land and buildings are valued at fair value on a regular basis or, whenever the carrying amount differs materially to fair value, by independent registered valuers. Where the information is available, land and buildings are valued based on market evidence. The majority of Councils land and buildings are of a 'non-tradeable' or specialist nature and the value is based on the fair value of the land plus the optimised depreciated replacement cost of the buildings.

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

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

Restricted assets

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

Infrastructure assets

Infrastructure assets (the roading network, water, waste and drainage reticulation networks and service concession assets) are valued at optimised depreciated replacement cost on a regular basis or, whenever the carrying amount differs materially to fair value, by independent registered valuers. Infrastructure valuations are based on the physical attributes of the assets, their condition and their remaining lives based on Council's best information reflected in its assets management plans. The costs are based on current quotes from actual suppliers. As such, they include ancillary costs such as breaking through seal, traffic control and rehabilitation. Between valuations, expenditure on asset improvements is capitalised at cost.

Infrastructure land (excluding land under roads) is valued on a regular basis or, whenever the carrying amount differs materially to fair value, by independent registered valuers

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

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

Other Assets

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

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.

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

	Council		Group	
	2018	2017	2018	2017
	$000	$000	$000	$000
Operational assets				
Land				
Land - at cost - opening balance		21,741		21,741
Land - at valuation - opening balance		222,907		222,907
Total land - opening balance	-	244,648	-	244,648
Additions		120		120
Disposals		-		-
Transfer between asset classes		(663)		(663)
Total land - closing balance	**-**	**244,105**	**-**	**244,105**
Land - at cost - closing balance		21,862		21,862
Land - at valuation - closing balance		222,243		222,243
Total land - closing balance	**-**	**244,105**	**-**	**244,105**
Buildings				
Buildings - at cost - opening balance		25,906		25,906
Buildings - at valuation - opening balance		556,802		556,802
Total cost/valuation	-	582,708	-	582,708
Accumulated depreciation		(20,199)		(20,199)
Total buildings - opening balance	-	562,509	-	562,509
Additions		18,613		19,091
Disposals		(419)		(419)
Depreciation expense		(21,784)		(22,199)
Revaluation adjustment		-		-
Transfer between asset classes		5,837		8,770
Acquisition of controlled entity		-		1,500
Total buildings - closing balance	**-**	**564,756**	**-**	**569,252**
Buildings - at cost - closing balance		46,914		55,457
Buildings - at valuation - closing balance		561,635		561,635
Total cost/valuation	-	608,549	-	617,092
Accumulated depreciation		(43,793)		(47,840)
Total buildings - closing balance	**-**	**564,756**	**-**	**569,252**
Landfill post closure costs [1]				
Landfill post closure - at cost - opening balance		3,265		3,265
Accumulated depreciation		(2,333)		(2,333)
Total landfill post closure costs - opening balance	-	932	-	932
Depreciation expense		(132)		(132)
Movement in post closure costs		927		927
Total landfill post closure costs - closing balance	**-**	**1,727**	**-**	**1,727**
Landfill post closure - at cost - closing balance		4,561		4,561
Accumulated depreciation		(2,834)		(2,834)
Total landfill post closure costs - closing balance	**-**	**1,727**	**-**	**1,727**

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.

	Council		Group	
	2018	2017	2018	2017
	$000	$000	$000	$000
Civic Centre complex				
Civic Centre complex - at cost - opening balance		173,965		173,965
Accumulated depreciation		(61,443)		(61,443)
Total Civic Centre complex - opening balance	-	112,522	-	112,522
Additions		767		767
Depreciation expense		(2,592)		(2,592)
Impairment		(11,446)		(11,446)
Transfer between asset classes		(2,631)		(2,631)
Transfer from Non-Current Assets Held for Sale		1,054		1,054
Transfer to non-current assets held for sale		-		-
Total Civic Centre complex- closing balance	**-**	**97,674**	**-**	**97,674**
Civic Centre complex - at cost - closing balance		161,576		161,576
Accumulated depreciation		(63,902)		(63,902)
Total Civic Centre complex- closing balance	**-**	**97,674**	**-**	**97,674**
Plant and equipment				
Plant and equipment - at cost - opening balance		216,102		231,319
Accumulated depreciation		(100,714)		(109,808)
Total plant and equipment - opening balance	-	115,388	-	121,511
Additions		7,535		11,334
Depreciation expense		(11,106)		(12,386)
Disposals		(29)		(1,086)
Impairment		-		-
Transfer between asset classes		18,321		15,388
Acquisition of controlled entity		-		2,149
Total plant and equipment - closing balance	**-**	**130,109**	**-**	**136,910**
Plant and equipment - at cost		239,658		257,450
Accumulated depreciation		(109,549)		(120,540)
Total plant and equipment - closing balance	**-**	**130,109**	**-**	**136,910**
Library collections				
Library collections - at cost - opening balance		3,545		3,545
Library collections - at valuation - opening balance		14,818		14,818
Total cost/valuation	-	18,363	-	18,363
Accumulated depreciation		(4,256)		(4,256)
Total library collections - opening balance	-	14,107	-	14,107
Additions		1,709		1,709
Depreciation expense		(2,352)		(2,352)
Revaluation movement		1,377		1,377
Total library collections - closing balance	**-**	**14,841**	**-**	**14,841**
Library collections - at cost - closing balance		-		-
Library collections - at valuation - closing balance		14,841		14,841
Total cost/valuation	-	14,841	-	14,841
Accumulated depreciation		-		-
Total library collections - closing balance	**-**	**14,841**	**-**	**14,841**
Total operational assets	**-**	**809,107**	**-**	**820,404**

Disposals and transfers are reported net of accumulated depreciation

	Council		Group	
	2018	2017	2018	2017
	$000	$000	$000	$000
Infrastructure assets				
Drainage, waste and water				
Drainage, waste and water - at cost - opening balance		63,847		63,847
Drainage, waste and water - at valuation - opening balance		1,197,319		1,197,319
Total cost/valuation	-	1,261,166	-	1,261,166
Accumulated depreciation		(54,076)		(54,076)
Total drainage, water and waste - opening balance	-	1,207,090	-	1,207,090
Additions		22,995		22,995
Depreciation expense		(27,475)		(27,475)
Revaluation movement		132,146		132,146
Transfer between asset classes		(22,195)		(22,195)
Total drainage, water and waste - closing balance	**-**	**1,312,561**	**-**	**1,312,561**
Drainage, waste and water - at cost - closing balance		-		-
Drainage, waste and water - at valuation - closing balance		1,312,561		1,312,561
Total cost/valuation	-	1,312,561	-	1,312,561
Accumulated depreciation		-	-	-
Total drainage, water and waste - closing balance	**-**	**1,312,561**	**-**	**1,312,561**
Service concession assets				
Service concession assets - at cost - opening balance		-		-
Service concession assets - at valuation - opening balance		154,767		154,767
Total cost/valuation	-	154,767	-	154,767
Accumulated depreciation		(9,938)		(9,938)
Total service concession assets - opening balance	-	144,829	-	144,829
Depreciation expense		(4,911)		(4,911)
Revaluation movement		14,312		14,312
Total service concession assets - closing balance	**-**	**154,231**	**-**	**154,231**
Service concession assets - at cost - closing balance		-		-
Service concession assets - at valuation - closing balance		154,231		154,231
Total cost/valuation	-	154,231	-	154,231
Accumulated depreciation		-		-
Total service concession assets - closing balance	**-**	**154,231**	**-**	**154,231**
Roading				
Roading - at cost - opening balance		88,659		88,659
Roading - at valuation - opening balance		824,639		827,239
Total cost/valuation	-	913,298	-	915,898
Accumulated depreciation		(45,197)		(45,197)
Total roading - opening balance	-	868,101	-	870,701
Additions		26,867		26,867
Depreciation expense		(25,039)		(25,039)
Revaluation movement		144,434		144,434
Transfer between asset classes		(29)		(29)
Total roading - closing balance	**-**	**1,014,334**	**-**	**1,016,934**
Roading - at cost - closing balance		-		-
Roading - at valuation - closing balance		1,014,334		1,016,934
Total cost/valuation	-	1,014,334	-	1,016,934
Accumulated depreciation		-		-
Total roading - closing balance	**-**	**1,014,334**	**-**	**1,016,934**

	Council		Group	
	2018	2017	2018	2017
	$000	$000	$000	$000
Infrastructure land				
Infrastructure land - at cost - opening balance		3,720		3,720
Infrastructure land - at valuation - opening balance		35,818		35,818
Total infrastructure land - opening balance	-	39,538	-	39,538
Additions		-		-
Revaluation movement		2,985		2,985
Transfer between asset classes		(3,730)		(3,730)
Transfer from non-current assets held for sale		-		-
Total infrastructure land - closing balance	**-**	**38,793**	**-**	**38,793**
Infrastructure land - at cost - closing balance		-		-
Infrastructure land - at valuation - closing balance		38,793		38,793
Total infrastructure land - closing balance	**-**	**38,793**	**-**	**38,793**
Land under roads				
Land under roads - at cost - opening balance		2,950,144		2,950,144
Additions		1,833		1,833
Disposals		(506)		(506)
Transfer between asset classes		4,413		4,413
Transfer from non-current assets held for sale		377		377
Transfer to non-current assets held for sale		-		-
Land under roads - closing balance	**-**	**2,956,261**	**-**	**2,956,261**
Total infrastructure assets	**-**	**5,476,180**	**-**	**5,478,780**
Restricted assets [2]				
Art and cultural assets				
Art and cultural assets - at cost - opening balance		8,667		11,006
Additions		19		19
Transfer between asset classes		44		44
Art and cultural assets - closing balance	**-**	**8,730**	**-**	**11,069**
Restricted buildings				
Restricted buildings - at cost - opening balance		40,865		40,865
Accumulated depreciation		(10,870)		(10,870)
Total restricted buildings - opening balance	-	29,995	-	29,995
Additions		1,168		1,168
Depreciation expense		(1,577)		(1,577)
Transfer between asset classes		300		300
Restricted buildings - closing balance	**-**	**29,886**	**-**	**29,886**
Restricted buildings - at cost - closing balance		42,294		42,294
Accumulated depreciation		(12,408)		(12,408)
Total restricted buildings - closing balance	**-**	**29,886**	**-**	**29,886**

2. For restricted assets, valuation at cost means they are not subject to revaluation. Please refer to the relevant significant accounting policies above for a more detailed explanation.

Disposals and transfers are reported net of accumulated depreciation

	Council		Group	
	2018	2017	2018	2017
	$000	$000	$000	$000
Parks and reserves				
Parks and reserves - at cost - opening balance		211,888		211,888
Additions		943		943
Disposals		(140)		(140)
Transfer between asset classes		3,569		3,569
Transfer from non-current assets held for sale		73		73
Transfer to non-current assets held for sale		-		-
Parks and reserves - closing balance	**-**	**216,333**	**-**	**216,333**
Town Belt				
Town Belt - at cost - opening balance		84,544		84,544
Transfer between asset classes		(3,058)		(3,058)
Town Belt - at cost	**-**	**81,486**	**-**	**81,486**
Zoo animals - at cost		**500**		**500**
Total restricted assets	**-**	**336,935**	**-**	**339,274**
Work in progress				
Land		3,155		3,155
Buildings		50,573		50,573
Civic Centre complex		1,227		1,227
Plant and equipment		17,149		17,149
Library		781		781
Drainage, waste and water		18,261		18,261
Roading		14,517		14,517
Art and cultural		179		179
Restricted buildings		-		-
Total work in progress	**-**	**105,842**	**-**	**105,842**
TOTAL PROPERTY, PLANT AND EQUIPMENT	**-**	**6,728,063**	**-**	**6,744,299**

Disposals and transfers are reported net of accumulated depreciation

Revaluation of property, plant and equipment

The Council's operational land and buildings were valued as at 30 June 2018, and infrastructural land as at 30 June 2017 by William Bunt (FNZIV, FPINZI), registered valuer and Director of Valuation Services for CBRE Limited.

Library collections were valued as at 30 June 2017 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.

The drainage, waste and water infrastructure and roading networks and the service concession assets were valued as at 30 June 2017 by John Vessey (MIPENZ), Partner of Opus International Consultants Limited.

Assets are valued at regular intervals by independent registered valuers or whenever the carrying amount differs materially to fair value. 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 2017 and 30 June 2018 for infrastructural network and infrastructural land assets were assessed using appropriate indices. The increase in asset value of XXX% of Total Assets was not considered material by management and accordingly the assets were not revalued at 30 June 2018.

Further information on revaluation reserves and movements is contained in Note 27: Revaluation reserves.

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 Provision.

Core Assets

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

Council	2018			
	Closing book	Additions		Replacement
	value	Constructed	Vested	Cost
	$000	$000	$000	$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 CORE ASSETS	-	-	-	-

Council	2017			
	Closing book	Additions		Replacement
	value	Constructed	Vested	Cost
	$000	$000	$000	$000
Water supply				
- treatment plants and facilities	386,880	14,431	1,554	878,743
- other assets				
Sewerage	171,176	-	431	230,000
- treatment plants and facilities	463,665	10,672	-	1,018,655
- other assets				
	419,210	7,217	660	817,747
Stormwater drainage				
	-	-	-	-
Flood protection and control works				
	722,067	33,837	-	944,597
Roads and footpaths	-	-	-	-
TOTAL CORE ASSETS	**2,162,998**	**66,157**	**2,645**	**3,889,742**

Drainage, waste, water and roads assets were revalued for the year ending 30 June 2017 by Opus International Limited as part of the normal revaluation cycle.

The core value of roads and footpaths shown above excludes the value of retaining walls, street lighting, sumps and leads and other related assets totalling $XXXm (2017: $292m) that are included in the value of roading assets under infrastructure assets as disclosed above.

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	
	2018	2017
	$000	$000
Total value of property, plant and equipment	-	6,645,975
less assets (primarily land) excluded from insurance contracts	-	(3,581,335)
Value of assets covered by insurance contracts	**-**	**3,064,640**
The maximum amount to which assets are insured under Council insurance policies	-	1,293,000

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 of $XXXm (2017: $4.156m) exists to meet the cost of claims that fall below deductible limits under Council insurance policies. The reserve is funded annually through rates by $1.500m (2017: $1.500m). The net cost of claims applied to the reserve during the year amounted to $XXXm (2017: $6.910m). The majority of the cost in 2017 related to the Kaikoura earthquake in November 2016.

For more information on the claims applied against the reserve refer to Note 38: Financial impacts of the Kaikoura earthquake (page XX).

Note 19: Investment in controlled entities

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

Investment in controlled entities	2018 $000	2017 $000
Wellington Cable Car Limited		3,809
Wellington Regional Economic Development Agency Limited (WREDA)		1,262
TOTAL INVESTMENT IN CONTROLLED ENTITIES	**-**	**5,071**

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 shareholders 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 or are considered as equity investments.

Information on inter-company transactions is included in the Note 36: Related party disclosures (page XX).

The following entities are controlled entities of Council:

Controlled entities	Accounting Interest 2018	Accounting Interest 2017	Nature of business
Karori Sanctuary Trust (Trading as Zealandia)	100%	100%	Owns and manages the activities of the urban eco-sanctuary in Karori.
Wellington Cable Car Limited	100%	100%	Owns and manages the trolley bus overhead wiring system and the Cable Car.
Wellington Museums Trust (Trading as Experience Wellington)	100%	100%	Administers the Cable Car Museum, Capital E, the City Gallery, the Nairn Street Cottage, the Space Place (Carter Observatory), the Wellington Museum and the NZ Cricket Museum
Wellington Regional Economic Development Agency Limited (WREDA)	80%	80%	Manages the Wellington Venues Project and creates economic and social benefit by marketing the city with the private sector as a tourism destination.
- Creative HQ Limited	80%	80%	Business incubators
Wellington Waterfront Limited	100%	100%	Acts as bare trustee for the Waterfront project
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 relevant sections of the Statements of Service Provision.

Note 20: Investment in associates and jointly controlled entity

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

Investment in associates and jointly controlled entity	Council	
	2018	2017
	$000	$000
Chaffers Marina Holdings Limited		1,290
Wellington International Airport Limited		17,775
Wellington Water Limited		400
TOTAL INVESTMENT IN ASSOCIATES AND JOINTLY CONTROLLED ENTITY	**-**	**19,465**

The Council has a significant interest in the following:

Associates and Jointly controlled entities	Accounting Interest 2018	Accounting Interest 2017	Nature of business
Chaffers Marina Holdings Limited	10.52%	10.52%	Holding company for Chaffers Marina Limited.
- Chaffers Marina Limited	10.52%	10.52%	Owns and manages the marina.
Wellington International Airport Limited	34%	34%	Owns and manages Wellington International Airport facilities and services.
Wellington Water Limited (Previously Capacity Infrastructure Services Limited)	42.11%	42.11%	Manages all water services for Wellington, Lower Hutt, Upper Hutt and Porirua City Councils and the Greater Wellington Regional Council.
Basin Reserve Trust	0% (See below)	0%	Manages, operates and maintains the Basin Reserve
Wellington Regional Stadium Trust	0% (see below)	0%	Owns and manages the Westpac Stadium.

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

Associates

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 2018 Council held a 10.52% interest in Chaffers Marina Holdings Limited (2017:10.52%) which has been recognised 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).

Basin Reserve Trust

The Basin Reserve Trust was established on 24 February 2005 to manage, operate and maintain the Basin Reserve. 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.

The Council no longer considers the Trust meets the requirements of PBE IPSAS 7 *Investments in Associates* to enable continued consolidation on an equity accounted basis. The Trust is still identified as an associate given the Council's level of influence and financial support but due to the lack of an equity investment the Council believes it is no longer appropriate to include the Trust in the Group financial statements.

Wellington Regional Stadium Trust

Wellington Regional Stadium Trust was jointly created with Greater Wellington Regional Council and 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.

The Council no longer considers the Trust meets the requirements of PBE IPSAS 7 *Investments in Associates* to enable continued consolidation on an equity accounted basis. The Trust is still identified as an associate given the Council's level of influence and financial support but due to the lack of an equity investment the Council believes it is no longer appropriate to include the Trust in the Group financial statements.

Jointly controlled entity

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 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. Council classifies 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 chooses to use equity accounting to recognise its 42.11% ownership interest as determined by the proportionate value of Class B shares held.

Summary of Financial Position and Performance of associates and jointly controlled entity

The Council's share of the assets, liabilities, revenues and surpluses or deficits of its associates and jointly controlled entity are as follows:

	Assets 2018 $000	Liabilities 2018 $000	Revenues 2018 $000	Surplus/(Deficit) 2018 $000
Associates				
Chaffers Marina Holdings Limited				
Wellington International Airport Limited				
Jointly controlled entity				
Wellington Water Limited				

Value of the investments

	Assets 2017 $000	Liabilities 2017 $000	Revenues 2017 $000	Surplus/(Deficit) 2017 $000
Associates				
Chaffers Marina Holdings Limited	596	172	114	(31)
Wellington International Airport Limited	369,134	194,761	40,651	13,432
Jointly controlled entity				
Wellington Water Limited	5,067	4,345	24,050	(88)

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

Investment in associates and jointly controlled entity	Council 2018 $000	Council 2017 $000
Chaffers Marina Holdings Limited		
Opening balance		903
Change in shares during the year		-
Change in equity due to changed shareholding		-
Equity accounted earnings of associate		(31)
Closing balance - investment in Chaffers Marina Holdings Limited	**-**	**872**
Wellington International Airport Limited		
Opening balance		136,706
Dividends		(11,937)
Equity accounted earnings of associate		13,432
Share of net revaluation of property, plant and equipment - movement		24,165
Closing balance - investment in Wellington International Airport Limited	**-**	**162,366.0**
Wellington Water Limited		
Opening balance		810
Change in equity due to changed shareholding		-
Equity accounted earnings of jointly controlled entity		(88)
Closing balance - investment in Wellington Water Limited	**-**	**722**
TOTAL INVESTMENT IN ASSOCIATES AND JOINTLY CONTROLLED ENTITY	**-**	**163,960**

The Council's share of the operating surplus or deficit results of the Chaffers Marina Holdings Limited, Wellington International Airport Limited and Wellington Water Limited is outlined in Note 9: Share of Associates' and Jointly Controlled Entity's surplus or deficit (page XX).

Note 21: Exchange transaction, transfers and taxes payable

Exchange transactions, transfers and taxes payable	Council 2018 $000	Council 2017 $000	Group 2018 $000	Group 2017 $000
Current				
Exchange transactions and transfers payable		58,155		59,639
Taxes payable		3,498		3,627
Non-current				
Exchange transactions and transfers payable		630		630
TOTAL EXCHANGE TRANSACTIONS, TRANSFERS AND TAXES PAYABLE	**-**	**62,283**	**-**	**63,896**

Comprised of:

Exchange transactions and transfers payable	Council 2018 $000	Council 2017 $000	Group 2018 $000	Group 2017 $000
Trade payables and accruals		51,293		52,780
Interest payable		3,113		3,113
Sundry payables		4,379		4,376
Total exchange transactions and transfers payable	**-**	**58,785**	**-**	**60,269**

Taxes payable	Council 2018 $000	Council 2017 $000	Group 2018 $000	Group 2017 $000
GWRC rates		3,207		3,207
Other		291		420
Total taxes payable	**-**	**3,498**	**-**	**3,627**
TOTAL EXCHANGE TRANSACTIONS, TRANSFERS AND TAXES PAYABLE	**-**	**62,283**	**-**	**63,896**

Exchange transactions, transfers and payable to related parties	Council 2018 $000	Council 2017 $000	Group 2018 $000	Group 2017 $000
Controlled entities	-	2,354	-	-
Associates and jointly controlled entity	-	-	-	-
Total exchange transactions, transfers and payable to related parties	**-**	**2,354**	**-**	**-**

Payables under exchange transactions, transfers and taxes 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. Most of Council's payables are exchange transactions as they are directly with another party on an arm's length basis and are of approximately equal value. Non-exchange payables are classified as either taxes (eg. PAYE) or transfers payable (eg. Council grants).

Note 22: Revenue in advance

	Council		Group	
	2018 $000	2017 $000	2018 $000	2017 $000
Exchange				
Lease rentals		2,910		2,910
Other		-		250
Taxes				
Rates		1,345		1,345
Transfers				
Wellington Venues operations		1,048		1,048
Inspection and licensing fees		3,639		3,639
Other		1,202		1,876
Liabilities recognised under conditional transfer agreements		18,778		19,649
TOTAL REVENUE IN ADVANCE	**-**	**28,922**	**-**	**30,717**

Relevant significant accounting policies

Liabilities recognised under conditional transfer agreements

Council and the Group have received non-exchange transfer monies for specific purposes, which apply to periods beyond the current year, with conditions that would require the return of the monies if they are not able to fulfil the agreement. The revenue from these agreements will only be recognised as the conditionals are fulfilled over time.

The primary liability recognised as being under a conditional transfer agreement is $XXXm relating to the capital grant received from the Crown for the housing upgrade project (2017: $15.172m)

Note 23: 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:

	Council		Group	
	2018	2017	2018	2017
	$000	$000	$000	$000
Current				
Bank loans - term		96		196
Commercial paper		85,000		85,000
Debt securities - fixed rate bonds		-		-
Debt securities - floating rate notes		15,000		15,000
Finance leases		-		-
Total current	**-**	**100,096**	**-**	**100,196**
Non-current				
Bank loans - term		4,224		4,292
Debt securities - fixed rate bonds		20,000		20,000
Debt securities - floating rate notes		371,500		371,500
Total non-current	**-**	**395,724**	**-**	**395,792**
TOTAL GROSS BORROWINGS	**-**	**495,820**	**-**	**495,988**

Net Borrowings

When the cash position of Council and the Group is taken into account the net borrowings position is comprised as follows:

	Council		Group	
	2018	2017	2018	2017
	$000	$000	$000	$000
Total gross borrowings	-	495,820	-	495,988
Less				
Cash and cash equivalents (see Note 11)	-	(76,907)	-	(85,366)
TOTAL NET BORROWINGS	**-**	**418,913**	**-**	**410,622**

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 32: Financial instruments (page XX).

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 current applicable maturity and interest rate ranges.

Group	Available $000	Utilised $000	Maturities	Rates %
Bank overdraft - committed				
Bank facilities - short term - uncommitted				
Bank facilities - long term - committed				
Bank loans - term				
Commercial paper				
Debt securities - fixed rate bonds				
Debt securities - floating rate notes				
Total	-	-		

Security

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.

Ring fenced funds

The Council holds $XXXm (2017: $61.135m) of funds that may only be used for a specified purpose. These funds are not held in cash but are utilised against borrowings until required. The specified uses for these funds are as follows:

Housing upgrade project

As part of the agreement with the Crown for the Housing Upgrade Project an amount of $XXXm (2017: $51.175m), representing any as yet unused grant funding from the Crown plus the accumulated surpluses and deficits from the Housing activity, has been ring fenced for future investment in the Council's social housing assets.

Waste reduction and energy

An amount of $XXXm (2017: $9.960m) related to accumulated surpluses and deficits 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. Council is committed to a number of waste minimisation projects that will utilise these funds.

Note 24: Employee benefits and liabilities provision

	Council		Group	
	2018	2017	2018	2017
	$000	$000	$000	$000
Current				
Short-term benefits				
Payroll accruals		2,213		2,922
Holiday leave		5,324		6,612
Total short-term benefits	-	**7,537**	-	**9,534**
Termination benefits				
Other contractual provisions		274		274
Total termination benefits	-	**274**	-	**274**
Total current	-	**7,811**	-	**9,808**
Non-current				
Long-term benefits				
Long service leave provision		-		35
Retirement gratuities provision		889		889
Total long-term benefits	-	**889**	-	**924**
TOTAL EMPLOYEE BENEFIT LIABILITIES AND PROVISIONS	-	**8,700**	-	**10,732**

Relevant significant accounting policies - general

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

Holiday leave

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

Movements in material employee benefit provisions above are analysed as follows:

Retirement gratuities provision	Council		Group	
	2018	2017	2018	2017
	$000	$000	$000	$000
Opening balance		995		1,007
Movement in required provision		9		9
Release of unused provision		(49)		(49)
Rediscounting of interest		27		27
Amount utilised		(93)		(105)
Retirement gratuities - closing balance	**-**	**889**	**-**	**889**

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.

Relevant significant accounting policies - specific

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.

Estimation

The gross retirement gratuities provision (inflation adjusted at XXX%) as at 30 June 2018, before discounting, is $XXXm (2017: $1.088m). The discount rate used is 6.10%.

Other contractual provisions	Council		Group	
	2018	2017	2018	2017
	$000	$000	$000	$000
Opening balance		55		55
New provision		274		274
Release of unused provision		-		-
Amount utilised		(55)		(55)
Other contractual provisions - closing balance	**-**	**274**	**-**	**274**

Background

The above provision is to cover estimated redundancy costs as at 30 June 2018 resulting from current restructuring within the Council.

Relevant significant accounting policies - specific

Other contractual provisions 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.

Note 25: Provisions for other liabilities

	Council		Group	
	2018	2017	2018	2017
	$000	$000	$000	$000
Current				
Landfill post closure costs		1,508		1,508
Weathertight homes		11,236		11,236
Unreinforced masonary grants		840		840
Total current	**-**	**13,584**	**-**	**13,584**
Non-current				
Landfill post closure costs		16,205		16,205
Weathertight homes		28,199		28,199
Total non-current	**-**	**44,404**	**-**	**44,404**
TOTAL PROVISIONS FOR OTHER LIABILITIES	**-**	**57,988**	**-**	**57,988**

Relevant significant accounting policies - general

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.

Movements in material provisions above are analysed as follows:

Landfill post closure costs	Council		Group	
	2018	2017	2018	2017
	$000	$000	$000	$000
Opening balance		16,771		16,771
Movement in provision		491		491
Re-discounting of interest		627		627
Amount utilised		(176)		(176)
Landfill post closure costs - closing balance	-	**17,713**	-	**17,713**
Current		1,508		1,508
Non-current		16,205		16,205
Landfill post closure costs - closing balance	-	**17,713**	-	**17,713**

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
- on-going 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.

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.

Relevant significant accounting policies - specific

A provision for post-closure costs is recognised as a liability when the obligation for post-closure arises, which is when each stage of the landfill is commissioned and refuse begins to accumulate.

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

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

The Council's provision for landfill post-closure costs includes the Council's 21.5% proportionate share of the Spicer Valley landfill provision for post-closure costs.

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 6.10%. The gross provision (inflation adjusted at 3.25%), before discounting, is $XXXm as at 30 June 2018 (2017: $23.152m). 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 XXXm^3 (2017: 545,530m^3) and is expected to close in 2021. 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 a remaining life out to 2030 to coincide with the end of its resource consent.

Weathertight homes	Council		Group	
	2018	2017	2018	2017
	$000	$000	$000	$000
Opening balance		44,420		44,420
Additional or increased provision made		4,429		4,429
Amount utilised		(9,414)		(9,414)
Weathertight homes - closing balance	**-**	**39,435**	**-**	**39,435**
Current		11,236		11,236
Non-current		28,199		28,199
Weathertight homes - closing balance	**-**	**39,435**	**-**	**39,435**

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 $XXXm (2017:

$5.377m) as a provision for future claims relating to weathertightness issues not yet identified or not yet reported.

Movement in the provision

During the year $XXXm was paid as either part or full settlement of claims. An additional $XXXm was added to the provision after an actuarial re-assessment of the likely future costs to be incurred as explained below. The current / non-current split above reflects the expected timing of payments but is reassessed each year to take account of delays in claim negotiations and any mediation outcomes.

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 the Treasury's risk-free 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.

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.

Sensitivity

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

Council and Group	2018 $000	
	+10%	-10%
Assumption	Effect on Surplus or Deficit	
Amount claimed		
Settlement level award		
Council contibution to settlement		
Change in percentage of homeowners who will make a successful claim		

Assumption	+2%	-2%
	Effect on Surplus or Deficit	
Discount rate		

Funding of weathertight homes settlements

Council uses borrowings in the first instance to meet the cost of settlements with the associated borrowings subsequently being repaid through rates funding. 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 2018 $000	Council 2017 $000	Group 2018 $000	Group 2017 $000
Opening balance		(26,883)		(26,883)
Rates funding for weathertight homes liability		7,227		7,227
Total amounts paid		(9,414)		(9,414)
Interest allocation		(1,896)		(1,896)
Closing balance funded through borrowings	**-**	**(30,966)**	**-**	**(30,966)**

Note 26: Deferred tax

	Council		Group	
	2018	2017	2018	2017
	$000	$000	$000	$000
Deductible temporary differences		-		852
Tax losses		394		394
TOTAL DEFERRED TAX	**-**	**394**	**-**	**1,246**

Unrecognised temporary differences and tax losses

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

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 $XXXm (2017: $0.110m) and for the Group $XXXm (2017: $0.349m).

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 2018 $XXXm (2017: $0.260m) previously unrecognised tax losses, with a tax effect of $XXXm (2017: $0.073m) were recognised by the Group by way of a loss transfer arrangement.

As at 30 June 2018, the Group has a deferred tax liability of $XXXm (2017: $0.938m).

Relevant significant accounting policies

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.

Statement of changes in equity

For the year ending 30 June 2018

		Council			Group	
		Actual	Budget	Actual	Actual	Actual
		2018	2018	2017	2018	2017
	Note	$000	$000	$000	$000	$000
EQUITY - Opening balances						
Accumulated funds			1,269,134	1,269,134		1,293,162
Retained earnings			3,777,087	3,756,048		3,745,251
Revaluation reserves			1,488,578	1,382,337		1,496,198
Hedging reserve			-	(38,730)		(38,730)
Fair value through other comprehensive revenue and expense reserve			1,648	1,648		2,026
Non-controlling interest			-	-		284
Restricted funds			15,202	14,064		18,741
TOTAL EQUITY - Opening balance		-	**6,551,649**	**6,384,501**	-	**6,516,932**
CHANGES IN EQUITY						
Retained earnings						
Net surplus for the year			32,361	31,679		36,150
Transfer to restricted funds			(4,518)	(4,518)		(5,147)
Transfer from restricted funds			3,765	10,339		11,753
Transfer from revaluation reserves			-	279		279
Revaluation reserves	27					
Fair value movement - property, plant and equipment - net			122,876	295,254		319,419
Transfer to retained earnings				(279)		(279)
Hedging reserve	28					
Movement in hedging reserve			-	17,447		17,447
Fair value through other comprehensive revenue and expense reserve	29					
Movement in fair value - Equity investments			-	1,240		1,240
Movement in fair value - Available for sale equities			-	-		(45)
Non-controlling interest						
Movement of non-controlling interest			-	-		-
Restricted funds	30					
Transfer to retained earnings			(3,765)	(10,339)		(11,753)
Transfer from retained earnings			4,518	4,518		5,147
Total comprehensive revenue and expense		-	**155,237**	**345,620**	-	**374,211**
EQUITY - Closing balances						
Accumulated funds		-	1,269,134	1,269,134	-	1,293,162
Retained earnings		-	3,808,695	3,793,827	-	3,788,286
Revaluation reserves		-	1,611,454	1,677,312	-	1,815,338
Hedging reserve		-	-	(21,283)	-	(21,283)
Fair value through other comprehensive revenue and expense reserve		-	1,648	2,888	-	3,221
Non-controlling interest		-	-	-	-	284
Restricted funds		-	15,955	8,243	-	12,135
TOTAL EQUITY - Closing balance		-	**6,706,886**	**6,730,121**	-	**6,891,143**

		Council			Group	
		Actual	Budget	Actual	Actual	Actual
		2018	2018	2017	2018	2017
	Note	$000	$000	$000	$000	$000
Total comprehensive revenue and expense attributable to:						
Wellington City Council and Group		-	155,237	345,620	-	373,927
Non-controlling interest		-	-	-	-	284
		-	**155,237**	**345,620**	**-**	**374,211**

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

Statement of changes in equity – Major budget variations

Significant variations from budgeted changes in equity are as follows:

Total closing equity is $XXXm higher than budget primarily due to:

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 broken down 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 which comprise special funds, reserve funds and 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.

Equity management

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 27: Revaluations

	Council		Group	
	2018	2017	2018	2017
	$000	$000	$000	$000
Land - opening and closing balance		**155,091**		**155,091**
Buildings - opening balance		230,634		230,634
Revaluation adjustment		-		-
Transfer to retained earnings on disposal of assets		(279)		(279)
Buildings - closing balance	**-**	**230,355**	**-**	**230,355**
Library collections - opening balance		7,015		7,015
Revaluation recognised in other comprehensive revenue and expense		1,377		1,377
Library collections - closing balance	**-**	**8,392**	**-**	**8,392**
Drainage, waste and water - opening balance		547,533		547,533
Revaluation recognised in other comprehensive revenue and expense		132,146		132,146
Transfer between asset classes		27,824		27,824
Drainage, waste and water - closing balance	**-**	**707,503**	**-**	**707,503**
Service concession assets - opening balance		70,619		70,619
Revaluation recognised in other comprehensive revenue		14,312		14,312
Transfer between asset classes		(27,824)		(27,824)
Service concession assets - closing balance	**-**	**57,107**	**-**	**57,107**
Infrastructure land - opening balance		15,410		15,410
Revaluation recognised in other comprehensive revenue and expense		2,985		2,985
Infrastructure land - closing balance	**-**	**18,395**	**-**	**18,395**
Roading - opening balance		356,035		356,035
Revaluation recognised in other comprehensive revenue and expense		144,434		144,434
Roading - closing balance	**-**	**500,469**	**-**	**500,469**
Associates' revaluation reserves - opening balance	-	-		113,861
Revaluation recognised in other comprehensive revenue	-	-		24,165
Associates' revaluation reserves - closing balance	**-**	**-**	**-**	**138,026**
Total revaluation reserves - closing balance	**-**	**1,677,312**	**-**	**1,815,338**

These revaluation reserves are represented by:

	Council		Group	
	2018	2017	2018	2017
	$000	$000	$000	$000
Opening balance		1,382,337		1,496,198
Revaluation recognised in other comprehensive revenue and expense	-	295,254	-	319,419
Transfer to retained earnings on disposal of assets	-	(279)	-	(279)
TOTAL REVALUATION RESERVES	**-**	**1,677,312**	**-**	**1,815,338**

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 2018 Council has revalued its investment properties, which are revalued annually. Council has also revalued its operational land and building assets.

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.

Relevant significant accounting policies

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, and 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

Note 28: Hedging reserve

	Council		Group	
	2018	2017	2018	2017
	$000	$000	$000	$000
Opening balance		(38,730)		(38,730)
Cash flow hedge net movement recognised in other comprehensive revenue and expenses		17,447		17,447
TOTAL HEDGING RESERVE	**-**	**(21,283)**	**-**	**(21,283)**

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 Council uses interest rate swaps to fix interest rates on floating rate debt (floating rate notes and commercial paper) to give it certainty over interest costs.

The Council uses hedge accounting to recognise any fair value fluctuations in these swaps through this reserve within equity. Using hedge accounting prevents any significant movement in interest rate exposure significantly affecting the Council's ability to meet its balanced budget requirements

Note 29: Fair value through other comprehensive revenue and expense reserve

	Council		Group	
	2018	2017	2018	2017
	$000	$000	$000	$000
Opening balance		1,648		2,026
Movements:				
Civic Financial Services Limited		40		40
Local Government Funding Agency		1,200		1,200
Creative HQ shareholdings - available for sale		-		(45)
TOTAL FAIR VALUE THROUGH OTHER COMPREHENSIVE REVENUE AND EXPENSE RESERVE	**-**	**2,888**	**-**	**3,221**

This reserve reflects the accumulated fair value movement in the Council's investment in Civic Financial Services Limited and the Local Government Funding Agency, for which there is no intention to sell. For further information refer to Note 14: Other financial assets (page XX).

In the Group, Creative HQ, a controlled entity of WREDA, has small shareholdings in incubator and accelerator programme companies. These shareholdings are fair valued annually and any movement is held within this reserve until the shares are disposed.

Note 30: Restricted funds

Restricted funds are comprised of special reserves and funds that Council holds for specific purposes and trusts and bequests that have been bestowed upon the Council for the benefit of all Wellingtonians.

	Council		Group	
	2018	2017	2018	2017
	$000	$000	$000	$000
Special reserves and funds		7,800		11,115
Trusts and bequests		443		1,020
TOTAL RESTRICTED FUNDS	**-**	**8,243**	**-**	**12,135**

Special reserves and funds	Opening Balance 2018 $000	Additional Funds 2018 $000	Funds Utilised 2018 $000	Closing Balance 2018 $000
Council				
City growth fund	2,862			
Reserve purchase and development fund	782			
Insurance reserve	4,156			
Total Council	**7,800**	**-**	**-**	**-**
Controlled entities' reserve funds	3,315			
Total Group - Special reserves and funds	**11,115**	**-**	**-**	**-**

Nature and purpose, funding and utilisation

City growth fund

This fund is part of an integrated approach to fostering growth in the economy. Funding of $3m was provided from previous surpluses and $XXXm was utilised during the year.

Reserve purchase and development fund

This fund is used to purchase and develop reserve areas within the city. During the year no purchases were made.

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 $1.500m (2017: $1.500m) are funded through rates as identified in the Annual Plan. During the year $XXXm (2017: $6.910m) was used to meet under-excess insurance costs. For more information on the cost of claims refer to Note 38 - Financial impacts of the Kaikoura earthquake

Controlled entities' reserve funds

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

- The Wellington Museums Trust has four reserves; a Capital Reserve, a Nairn Street Cottage Museum Collection reserve, a Wellington Museums Collection reserve and a City Gallery Wellington reserve. The two collection reserves are for the purpose of future museum acquisitions.
- The Wellington Zoo Trust has two reserves; an Animal Transfer Fund specifically for the transfer of animals and a Conservation Fund to specifically support field conservation.

Trust and bequests	Opening Balance 2018 $000	Additional Funds 2018 $000	Funds Utilised 2018 $000	Closing Balance 2018 $000
Council				
A Graham Trust	3			
A W Newton Bequest	333			
E A McMillan Estate	6			
E Pengelly Bequest	15			
F L Irvine Smith Memorial	7			
Greek NZ Memorial Association	5			
Kidsarus 2 Donation	4			
Kirkcaldie and Stains Donation	17			
QEII Memorial Book Fund	21			
Schola Cantorum Trust	8			
Terawhiti Grant	10			
Wellington Beautifying Society Bequest	14			
Total Council - Trusts and bequests	**443**	**-**	**-**	**-**
Controlled entities' trusts and bequests	577			
Total Group - Trusts and bequests	**1,020**	**-**	**-**	**-**

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.

Nature and purpose

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

The Wellington Zoo Trust has a number of bequests, trusts and capital grants made to it for specific purposes, which are held as restricted funds until utilised. Further information on these can be found in the Wellington Zoo Trust annual report published on their website – https://wellingtonzoo.com/about-us/about-our-zoo/

Charles Plimmer Bequest

The bequest is held and administered by the Public Trust for the benefit of the Wellington City Council. Funds available for distribution are requested for particular projects after consultation with the Plimmer family. The receipt and use of these funds is shown outside of the table above to record the generous contribution the bequest makes to the benefit of the city.

- Distributions recognised as revenue - $XXXm
- Funds utilised for the Botanical Gardens Children's garden - $XXXm

Statement of cash flows

For the year ending 30 June 2018

	Council			Group	
	Actual 2018 $000	Budget 2018 $000	Actual 2017 $000	Actual 2018 $000	Actual 2017 $000
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from rates - Council		278,112	286,658		286,658
Receipts from rates- Greater Wellington Reginal Council		60,573	60,589		60,589
Receipts from activities and other revenue		140,506	145,185		160,648
Receipts from grants and subsidies - Operating		9,600	7,994		22,797
Receipts from grants and subsidies - Capital		46,313	12,899		13,347
Receipts from investment property lease rentals		11,214	12,038		12,038
Cash paid to suppliers and employees		(317,801)	(312,227)		(367,290)
Rates paid to GWRC		(60,573)	(59,324)		(59,324)
Grants paid		(45,651)	(43,395)		(17,388)
Income tax paid		-	-		(165)
Net GST (paid) / received		-	2,753		2,202
NET CASH FLOWS FROM OPERATING ACTIVITIES	**-**	**122,293**	**113,170**	**-**	**114,112**
CASH FLOWS FROM INVESTING ACTIVITIES					
Dividends received		11,240	12,041		12,041
Interest received		704	2,367		2,579
Loan repayments		-	10,399		10,414
Proceeds from sale of property, plant and equipment		10,350	1,248		1,248
Proceeds from sale of Investment property		-	-		-
Loan advance made		-	-		-
Increase in investments		-	(960)		(856)
Cash from aquisition of controlled entity		-	-		941
Purchase of investment properties		-	(153)		(153)
Purchase of intangibles		(8,162)	(5,029)		(5,057)
Purchase of property, plant and equipment		(187,584)	(132,617)		(135,841)
NET CASH FLOWS FROM INVESTING ACTIVITIES	**-**	**(173,452)**	**(112,704)**	**-**	**(114,684)**
CASH FLOWS FROM FINANCING ACTIVITIES					
New borrow ings		313,020	85,659		85,659
Repayment of borrow ings		(224,977)	(80,323)		(80,431)
Interest paid on borrow ings		(26,863)	(22,904)		(22,913)
NET CASH FLOWS FROM FINANCING ACTIVITIES	**-**	**61,180**	**(17,568)**	**-**	**(17,685)**
Net increase/(decrease) in cash and cash equivalents	-	10,021	(17,102)	-	(18,257)
Cash and cash equivalents at beginning of year		(8,877)	94,009		103,623
CASH AND CASH EQUIVALENTS AT END OF YEAR	**-**	**1,144**	**76,907**	**-**	**85,366**

The cash and cash equivalents balance above equates to the cash and cash equivalents balance in the Statement of Financial Position.

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

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 funds of $XXXm (2017: $61.135m) relating to the housing upgrade project and waste activities. For more information see Note 23: Borrowings (page XX).

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.

Statement of cash flows – Major budget variations

Cash flow budgeting is performed using various assumptions around the timing of events and any departure from these timings will affect the outcome against budget.

Significant variations from the cash flow budgets are as follows:

Net cash flows from operating activities were $XXXm higher than budgeted primarily due to:

Net cash flows from investing activities were $XXXm lower than budget primarily due to:

Net cash flows from financing activities were $XXXm lower than budget primarily due to:

Note 31: Reconciliation of net surplus to net cash flows from operating activities

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:

	Council		Group	
	2018	2017	2018	2017
	$000	$000	$000	$000
Net surplus for the period		**31,679**		**36,150**
Add/(deduct) non-cash items:				
Vested assets		(6,250)		(6,250)
Bad debts w ritten off not prevously provided for		151		151
Depreciation and amortisation		101,889		103,623
Impairment of property, plant and equipment		11,446		11,446
Fair value changes in investment properties		(18,222)		(18,222)
Other fair value changes		(5,278)		(5,278)
Movement in provision for impairments of doubtful debts		777		777
Tax expense/(credit)		-		(22)
Gain on business combination		-		(4,072)
Non-cash movement in provisions		4,440		4,596
Total non-cash items	**-**	**88,953**	**-**	**86,749**
Add/(deduct) movement in working capital: [1]				
Exchange receivables and non-exchange recoverables		537		3,677
Prepayments		(2,512)		(2,019)
Inventories		(48)		205
Exchange transactions, taxes and transfers payables		7,852		4,855
Revenue in advance		(14,176)		(14,604)
Employee benefit liabilities		516		219
Provision for other liabilities		(7,632)		(7,809)
Total working capital movement	**-**	**(15,463)**	**-**	**(15,476)**
Add/(deduct) investing and financing activities:				
Net (gain)/loss on disposal of property, plant and equipment		(495)		(153)
Net (gain)/loss on disposal of investment property		-		-
Dividends received		(12,041)		(104)
Interest received		(2,367)		(2,442)
Tax paid and subvention receipts		-		(213)
Interest paid on borrow ings		22,904		22,914
Share of equity accounted surplus in associates		-		(13,313)
Total investing and financing activities	**-**	**8,001**	**-**	**6,689**
NET CASH FLOWS FROM OPERATING ACTIVITIES	**-**	**113,170**	**-**	**114,112**

1. Excluding non-cash items

Note 32: 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 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.

Relevant significant accounting policies

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

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

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

> Cash and cash equivalents comprise cash balances and bank deposits with maturity dates of three months or less.
>
> 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. 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 primarily relate to equity investments that are held by the Council for long-term strategic purposes and therefore are not intended to be sold. Within the Group, small shareholdings are held in start-up companies, which are available for sale, until the companies mature or cease operations. Financial assets at fair value through other comprehensive revenue and expense are initially recorded at fair value plus transaction costs. They are subsequently measured at fair value and changes, other than impairment losses, are recognised directly in a reserve within equity. On disposal, the cumulative fair value gain or loss previously recognised directly in other comprehensive revenue and expense is recognised within surplus or deficit.

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

Financial Liabilities

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

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

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

	Council		Group	
	2018	2017	2018	2017
	$000	$000	$000	$000
Financial assets				
Loans and receivables				
Cash and cash equivalents	-	76,907	-	85,366
Receivables and recoverables	-	49,364	-	50,700
Other financial assets	-	4,978	-	5,019
Total loans and receivables	**-**	**131,249**	**-**	**141,085**
Financial assets at fair value through other comprehensive revenue and expense				
Other financial assets	-	5,281	-	6,622
Total financial assets at fair value through other comprehensive revenue and expense	**-**	**5,281**	**-**	**6,622**
Hedged derivative financial instruments				
Derivatives designated as cash flow hedges	-	1,283	-	1,283
Total hedged derivative financial instruments	**-**	**1,283**	**-**	**1,283**
Total financial assets	**-**	**137,813**	**-**	**148,990**
Total non-financial assets	-	7,268,587	-	7,424,978
TOTAL ASSETS	**-**	**7,406,400**	**-**	**7,573,968**
Financial liabilities				
Financial liabilities at amortised cost				
Exchange transactions and transfers payable	-	58,785	-	60,269
Taxes payable	-	3,498	-	3,627
Borrowings	-	495,820	-	495,988
Total financial liabilities at amortised cost	**-**	**558,103**	**-**	**559,884**
Derivative financial instruments				
Derivatives designated as cash flow hedges	-	22,566	-	22,566
Total derivative financial instruments	**-**	**22,566**	**-**	**22,566**
Total financial liabilities	**-**	**580,669**	**-**	**582,450**
Total non-financial liabilities	-	95,610	-	100,375
TOTAL LIABILITIES	**-**	**676,279**	**-**	**682,825**

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.

Group	2018			2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
	$000	$000	$000	$000	$000	$000
Financial assets						
Financial assets at fair value through other comprehensive revenue and expense	-	-	-	-	-	6,622
Derivative financial instruments						
- Cash flow hedges	-	-	-	-	1,283	-
Financial liabilities						
Derivative financial instruments						
- Cash flow hedges	-	-	-	-	22,566	-

Reconciliation of fair value movements in Level 3	Council		Group	
	2018	2017	2018	2017
	$000	$000	$000	$000
Financial assets at fair value through other comprehensive revenue and expense				
- Equity investments				
Opening balance - 1 July		4,041		5,468
Purchases		-		-
Disposals		-		(11)
Impairment		-		(27)
Gains or losses recognised in other comprehensive revenue and expense		1,240		1,192
Closing balance - 30 June	**-**	**5,281**	**-**	**6,622**

The level 3 equity investments comprise the Council's shareholdings in the Local Government Funding Agency $XXXm (2017: $4.475m) and Civic Assurance $XXXm (2017: $0.806m). Refer to Note 14: Other financial assets (page XX) for more details.

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 34: Contingencies (page XX)). 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	
	2018	2017	2018	2017
	$000	$000	$000	$000
Financial instruments with credit risk				
Cash and cash equivalents		76,907		85,366
Derivative financial instrument assets		1,283		1,283
Receivables and recoverables		49,364		50,700
Other financial assets				
- Bank deposits - term		-		-
- LGFA borrower notes		4,688		4,688
- Loans to related parties - other organisations		27		27
- Loans to external organisations		263		304
Financial guarantees to related parties		168		168
Total financial instruments with credit risk	**-**	**132,700**	**-**	**142,536**

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 34: Contingencies (page XX).

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	
	2018	2017	2018	2017
	$000	$000	$000	$000
Cash - registered banks				
AA-		4,886		10,978
Short term deposits - registered banks				
AA-		66,000		68,349
A		6,000		6,000
Term deposits (greater than 3 months) - registered banks				
AA-		-		-
Term deposits - borrower notes - NZ LGFA				
AA+		4,688		4,688
Derivative financial instrument assets				
AA-		1,283		1,283

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	
	2018	2017	2018	2017
	$000	$000	$000	$000
Contractual cash flows of financial liabilities excluding derivatives				
0-12 months		173,575		175,288
1-2 years		58,193		58,261
2-5 years		158,914		158,914
More than 5 years		257,441		257,441
Total contractual cash flows of financial liabilities excluding derivatives	**-**	**648,123**	**-**	**649,904**
Represented by:				
Carrying amount as per the Statement of Financial Position		557,973		559,754
Future interest payable		90,150		90,150
Total contractual cash flows of financial liabilities excluding derivatives	**-**	**648,123**	**-**	**649,904**

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	
	2018	2017	2018	2017
	$000	$000	$000	$000
Contractual cash flows of derivative financial liabilities				
0-12 months		8,719	-	8,719
1-2 years		6,321	-	6,321
2-5 years		8,510	-	8,510
More than 5 years		1,690	-	1,690
Total contractual cashflow of derivative financial liabilities	**-**	**25,240**	**-**	**25,240**
Represented by:				
Future interest payable	-	25,240	-	25,240
Total contractual cash flows of derivative financial liabilities	**-**	**25,240**	**-**	**25,240**

In addition to cash to be received in 2018/19 the Council currently has $XXXm in unutilised committed bank facilities available to settle obligations as well as $XXXm 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 34: Contingencies (page XX).

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.

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 net debt before interest rate swaps	Actual % of fixed net 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	
	2018	2017	2018	2017
	$000	$000	$000	$000
Financial instruments subject to interest rate volatility - before effect of interest rate swaps				
Cash and cash equivalents		76,907		85,366
Bank deposits - term greater than 3 months		-		-
Bank facilities - short term		-		-
Bank loans		(4,320)		(4,488)
Commercial paper		(85,000)		(85,000)
Debt securities - floating rate notes		(386,500)		(386,500)
Total financial instruments subject to interest rate volatility - before effect of interest rate swaps	**-**	**(398,913)**	**-**	**(390,622)**
Effect of interest rate swaps in reducing interest rate volatility				
Effect of Cash flow interest rate swaps - hedged		372,500		372,500
Total effect of interest rate swaps in reducing interest rate volatility	**-**	**372,500**	**-**	**372,500**
Total financial instruments subject to interest rate volatility - after effect of interest rate swaps	**-**	**(26,413)**	**-**	**(18,122)**

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 2018 the fair value of the interest rate swaps was -$XXXm (2017: -$21.283m). 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:

Weighted effective interest rates	Council		Group	
	2018	2017	2018	2017
	%	%	%	%
Investments				
Cash and cash equivalents		2.54		2.40
Bank deposits - term		-		-
LGFA - borrower notes		2.47		2.47
Loans to related parties		-		-
Loans to external organisations		-		-
Borrowings				
Bank facilities - short term		-		-
Bank loans		7.00		7.00
Commercial paper		2.02		2.02
Debt securities - fixed		4.84		4.84
Debt securities - floating		2.59		2.59
Derivative financial instruments - hedged		4.52		4.52

The related party loan to the Wellington Regional Stadium Trust is 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 exposures at the end of the reporting period:

Council		2018			
		$000			
		+1%	-1%	+1%	-1%
Interest rate risk	Note	Effect on Surplus or Deficit		Effect on Other Comprehensive Revenue and Expense	
Financial assets					
Cash and cash equivalents	a				
LGFA - borrower notes					
Derivatives - Interest rate swaps - hedged	b				
Financial liabilities					
Derivatives - interest rate swaps - hedged	b				
Debt securities - floating rate notes	c				
Debt securities - fixed rate bonds	d				
Bank term loans	e				
Commercial paper	f				
Total sensitivity to interest rate risk		-	-	-	-

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 $XXXm accordingly.

b. Derivatives - hedged interest rate swaps

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

c. Debt securities – floating rate notes

Debt securities at floating rates total $XXXm. The full exposure to changes in interest rates has been reduced because the Council has $XXXm of this 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 $XXXm accordingly.

d. Debt Securities – fixed rate bonds

Council has $20m of fixed rate bonds which are not exposed to interest rate changes.

e. Bank Loan

Council, through its joint venture with Porirua City Council has a bank term loan of $XXXm. This loan consists of various loans provided to the joint venture through Porirua City Council borrowing. The interest rate applied is fixed at 7% for the joint venture partners and is not subject to interest rate risk.

f. Commercial paper

Council has a Commercial Paper programme which is subject to floating rates and totals $100m of which only $XXXm is presently utilised. The full exposure to changes in interest rates has been reduced because the Council has $XXXm of this 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 $XXXm accordingly.

Note 33: Commitments

Capital commitments	Council 2018 $000	Council 2017 $000	Group 2018 $000	Group 2017 $000
Approved and contracted - property, plant and equipment		36,519		36,519
Approved and contracted - investment properties		-		-
Approved and contracted - intangibles		80		80
Approved and contracted - share of associates		-		10,958
Approved and contracted - share of joint ventures		-		-
TOTAL CAPITAL COMMITMENTS	**-**	**36,599**	**-**	**47,557**

The capital commitments above represents signed contracts in place at the end of the reporting period.

The contracts will often span more than one financial year and may include capital expenditure carried forward from 2017/18 to future years.

Lease commitments

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 7: Expenditure on operating activities (page XX).

Relevant significant accounting policies

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.

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

Non-cancellable operating lease commitments as lessee	Council		Group	
	2018	2017	2018	2017
	$000	$000	$000	$000
Plant and equipment				
Not later than one year		43		397
Later than one year and not later than five years		25		288
Later than five years		-		-
Land and buildings				
Not later than one year		1,982		3,525
Later than one year and not later than five years		5,644		10,213
Later than five years		4,922		6,626
TOTAL NON-CANCELLABLE OPERATING LEASE COMMITMENTS AS LESSEE	**-**	**12,616**	**-**	**21,049**

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 leases 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.

Relevant significant accounting policies

Rental revenue is recognised on a straight-line basis over the lease term.

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

Non-cancellable operating lease commitments as lessor	Council		Group	
	2018	2017	2018	2017
	$000	$000	$000	$000
Investment properties				
Not later than one year		9,972		9,972
Later than one year and not later than five years		37,499		37,499
Later than five years		64,280		64,280
Land and buildings				
Not later than one year		2,405		2,425
Later than one year and not later than five years		6,996		6,996
Later than five years		8,100		8,100
TOTAL NON-CANCELLABLE OPERATING LEASE COMMITMENTS AS LESSOR	**-**	**129,252**	**-**	**129,272**

Commitments to related parties

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

Note 34: Contingencies

Contingent liabilities	Council		Group	
	2018	2017	2018	2017
	$000	$000	$000	$000
Financial guarantees to community groups		168		168
Uncalled capital - LGFA		1,866		1,866
Other legal proceedings		393		393
Share of associates' contingent liabilities		-		-
Share of joint ventures' contingent liabilities		-		-
TOTAL CONTINGENT LIABILITIES	**-**	**2,427**	**-**	**2,427**

Contingent assets

The Council and Group have no contingent assets that can be quantified as at 30 June 2018 (2017: $Nil)

Relevant significant accounting policies

Contingent liabilities and contingent assets

Contingent liabilities and contingent assets are disclosed 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.

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.

Karori 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. The loan matures 30 June 2020 and repayments are being made ahead of schedule.

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 $1.866m. 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 2018, LGFA had borrowings totalling $XXXm (2017: $7,945m).

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. Council considers that even if it was called upon to contribute the cost would not be material.

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 $XXXm.

Unquantified contingent liabilities

Weathertight Homes

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 to Note 25: Provisions for other liabilities (page XX)). The impact and cost of future and unknown claims cannot be measured reliably and therefore the Council and Group have an unquantified contingent liability.

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.

Defective product

In April 2013, the Ministry of Education (MOE) initiated High Court proceedings against Carter Holt Harvey (CHH) and others alleging inherent defects in the cladding sheets and cladding systems manufactured and prepared by CHH. Subsequently, in December 2016, CHH commenced third party proceedings against 48 Councils, including Wellington City Council alleging a breach of duty in the processing of building consents, undertaking building inspections and issuing Code Compliance Certificates. The Councils have applied for orders setting aside and striking out CHH's claims against them. The MOE's claim against CHH is for 833 school buildings, 27 of which are located within Wellington City. At present there is insufficient information to conclude on potential liability and claim quantum, if any.

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.

Unquantified contingent asset

As at 30 June 2017 the Council had a contingent asset for insurance recoveries. The insurance claim related to the Civic Administration Building (CAB), which covers both the repair costs and the relocation costs, is still in progress. The Council's preliminary assessment of earthquake repairs is in the region of $33.0 million. The indemnity value of CAB under Council's insurance value is $48.7 million. The insurance policy has a deductible of $5.0 million. While an estimate of the repair costs has been obtained by the Council and provided to the insurer there are still a significant number of uncertainties in the numbers and it is still subject to discussion and agreement with the insurer. This means that the amount that the Council will receive cannot be reliably measured.

For further information please refer to Note 38: Financial impacts of the Kaikoura earthquake (page XX).

Note 35: Jointly controlled assets

The Council has significant interests in the following joint ventures:

Joint Venture	Interest 2018	Interest 2017	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.

Relevant significant accounting policies

For a jointly controlled asset the Council has a liability in respect of its share of joint ventures' operational deficits and liabilities, and shares in any operational surpluses and assets. The Council's proportionate interest (ie. 21.5% of the Spicer Valley landfill) in the assets, liabilities, revenue and expenditure is included in the financial statements of the Council and Group on a line-by-line basis.

Share of Net Assets - Porirua City Council Joint Ventures (PCCJV)	2018 $000	2017 $000
ASSETS		
Current		
Inventory		22
Receivables and recoverables		2,045
Non-current		
Property, plant and equipment		23,882
Share of total assets	**-**	**25,949**
LIABILITIES		
Non-current		
Borrowings		4,320
Provisions for other liabilities		2,340
Share of total liabilities	**-**	**6,660**
SHARE OF NET ASSETS	**-**	**19,289**

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	2018 $000	2017 $000
Operating revenue		1,279
Operating expenditure		(1,081)
Share of net surplus or (deficit)	**-**	**198**
Share of current year revaluation movement		**1,338**

The Council's and Group's share of the joint ventures' capital commitments is $Nil (2017: $Nil) and contingent liabilities is $Nil (2017: $Nil).

Note 36: Related party disclosures

Relevant significant accounting policies

Related parties arise where one entity has the ability to affect the financial and operating policies of another through the presence of control or significant influence. Related parties include all members of the Group (controlled entities, associates and joint ventures) and key management personnel.

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

Key management personnel

In this section, the Council discloses the remuneration and related party transactions of key management personnel. The remuneration payable to key management personnel of the Group's other entities is disclosed separately within their individual financial statements and is not included in the following table

Remuneration paid to key management personnel	Council	
	2018	2017
	$	$
Council Members		
Short-term benefits		1,492,887
Chief Executive and Executive Leadership Team		
Short-term employee benefits		2,490,472
Post employment benefits		41,272
TOTAL REMUNERATION PAID TO KEY MANAGEMENT PERSONNEL	**-**	**4,024,630**

As at 30 June 2018 key management personnel comprised of 21 individuals: 15 elected members or 15 fulltime equivalents and 6 executive leaders or 6 fulltime equivalents.

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

Material related party transactions – key management personnel

During the year key management personnel, as part of normal local authority relationships, were involved in transactions with the Council such as payment of rates and purchases of rubbish bags or other Council services

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 Basin Reserve Trust was established on 24 February 2005 to manage, operate and maintain the Basin Reserve. 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.
The Council considers the Trust does not meet the requirements of PBE IPSAS 7 *Investments in Associates* to enable continued consolidation on an equity accounted basis. The Trust is still identified as an associate given the Council's level of influence and financial support but due to the lack of an equity investment the Council believes it is not appropriate to include the Trust in the Group financial statements.

During the year ending 30 June 2018 Council contributed $XXXm (2017: $0.383m) to fund the core 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 $1.866m representing 8.3% of paid-up capital.

Wellington Regional Stadium Trust (WRST)

Wellington Regional Stadium Trust was jointly created with Greater Wellington Regional Council and 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.

The Council considers the Trust does not meet the requirements of PBE IPSAS 7 Investments in Associates to enable continued consolidation on an equity accounted basis. The Trust is still identified as an associate given the Council's level of influence and financial support but due to the lack of an equity investment the Council believes it is not appropriate to include the Trust in the Group financial statements.

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 2018 Council transacted directly with WRST to the amount of $XXXm in relation to the upgrade of the concourse. In 2016/17 $XXXm was contributed in support of major events.

Intra group transactions and balances

During the year the Council has entered into transactions with its joint venture partner Porirua City Council. These transactions disclosed are within the normal course of business. 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		2018	2017
		$000	$000
Expenditure incurred by the Council to fund the operation and management of:			
	Porirua - waste water treatment plant		2,011

During the year the Council has entered into transactions with its controlled entities. These transactions disclosed are within the normal course of business. 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		2018 $000	2017 $000
Revenue for services provided by the Council to:			
	Karori Sanctuary Trust		43
	Positively Wellington Tourism		-
	Wellington Cable Car Limited		48
	Wellington Museums Trust		1,469
	Wellington Regional Economic Development Agency		166
	Wellington Zoo Trust		1,054
		-	**2,780**
Grant funding by Council for the operations and management of:			
	Karori Sanctuary Trust		875
	Wellington Cable Car Limited		1,000
	Wellington Museums Trust		8,628
	Wellington Regional Economic Development Agency		7,404
	Wellington Zoo Trust		3,125
		-	**21,032**
Expenditure for services provided to the Council by:			
	Karori Sanctuary Trust		11
	Wellington Cable Car Limited		37
	Wellington Museums Trust		313
	Wellington Regional Economic Development Agency		10,044
	Wellington Zoo Trust		1,967
		-	**12,372**
Current receivables and recoverables owing to the Council from:			
	Karori Sanctuary Trust		2
	Wellington Museums Trust		40
	Wellington Regional Economic Development Agency		63
	Wellington Zoo Trust		1,189
		-	**1,294**
Current payables owed by the Council to:			
	Karori Sanctuary Trust		1
	Wellington Cable Car Limited		5
	Wellington Museums Trust		251
	Wellington Regional Economic Development Agency		366
	Wellington Zoo Trust		1,731
		-	**2,354**

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.

Payments to controlled entities

The total payments to controlled entities are $XXXm (2017: $33.404m) when the grant funding of $XXXm (2017: $21.032m) and expenditure for services provided to Council of $XXXm (2017: $12.372m) are combined.

During the year the Council has entered into several transactions with its associates and jointly controlled entity. These transactions disclosed are within the normal course of business. 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 entity		2018 $000	2017 $000
Dividend received from:			
	Wellington International Airport Limited		**11,937**
Revenue for services provided by the Council to:			
	Wellington International Airport Limited		61
	Wellington Water Limited		517
		-	**578**
Expenditure for services provided to the Council from:			
	Wellington International Airport Limited		1,132
	Wellington Water Limited		26,995
		-	**28,127**
Current receivables and recoverables owing to the Council from:			
	Wellington Water Limited		**187**
Current payables owed by the Council to:			
	Wellington Water Limited		**4,333**

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 37: Remuneration and staffing

Mayoral and Councillor remuneration

Relevant significant accounting policies

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

Remuneration

The following people held office as elected members of the Council's governing body, during the reporting period. The total remuneration attributed to the Mayor and Councillors during the year from 1 July 2017 to 30 June 2018 was $XXX (2017: $1,492,887) and is broken down and classified as follows:

Council Member	Monetary Remuneration		Non-monetary	Total
	Salary	Allowances	Remuneration	2018
	$	$	$	$
Lester, Justin (Mayor)				-
Calvert, Diane				-
Calvi-Freeman, Chris				-
Dawson, Brian				-
Day, Jill				-
Eagle, Paul (resigned September 2017)				-
Fitzsimons, Fleur (elected December 2017)				
Foster, Andy				-
Free, Sarah				-
Gilberd, Peter				-
David, Lee				-
Marsh, Simon				-
Pannett, Iona				-
Sparrow, Malcolm				-
Woolf, Simon				-
Young, Nicola				-
TOTAL REMUNERATION PAID TO COUNCIL MEMBERS	-	-	-	-
			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 2017/18 financial year rather than the alternative option of a combination of meeting fee payments and annual salary.

Taxable and non-taxable allowances – broadband services and mobile phones

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

The payment of a communication allowance of $400 per annum (applicable from the start of the new triennium) 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.

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	Other	Total 2018
	$	$	$	$
TAWA COMMUNITY BOARD				
Herbert, Richard (Chair)				-
Lucas, Margaret (Deputy Chair)				-
Hansen, Graeme				-
Langham, Liz				-
Marshall, Jack (includes Youth Council attendance fee)				-
Parkinson, Robyn				-
Day, Jill (see Councillor remuneration above)				-
Sparrow, Malcolm (see Councillor remuneration above)				-
MAKARA-OHARIU COMMUNITY BOARD				
Grace, Christine (Chair)				-
Apanowicz, John (Deputy Chair)				-
Liddell, Judy				-
Renner, Chris				-
Rudd, Wayne				-
Todd, Hamish				-
TOTAL REMUNERATION TO COMMUNITY BOARD MEMBERS	-	-	-	-

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.

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 2018.

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	
	2018	2017
	$	$
Short-term employee benefits		
Kevin Lavery		
Salary		413,160
Motor vehicle park		3,000
TOTAL REMUNERATION OF THE CHIEF EXECUTIVE	**-**	**416,160**

Severances

In accordance with Schedule 10, section 33 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 or other contractual entitlement.

For the year ending 30 June 2018 the Council made severance payments to XX employees totalling $XXX (2017: 15 employees, $261,259).

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

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	
	2018	2017
Full-time and full-time equivalent employee numbers		
Full-time employees (based on a 40 hour week) as at 30 June		1,037
Full-time equivalents for all other non full-time employees		265
Remuneration bands		
The number of employees receiving total annual remuneration of less than $60,000		1,115
The number of employees receiving total annual remuneration of more than $60,000 in bands of $20,000		
$60,000 - $79,999.99		269
$80,000 - $99,999.99		175
$100,000 - $119,999.99		80
$120,000 - $139,999.99		56
$140,000 - $159,999.99		30
$160,000 - $179,999.99		12
$180,000 - $199,999.99		8
$180,000 - $219,999.99*		
$200,000 - $239,999.99*		6
$220,000 - $299,999.99*		
$240,000 - $299,999.99*		6
$300,000 - $419,999.99*		5
TOTAL EMPLOYEES	**-**	**1,762**

Of the XXX (2017: 1,762) individual employees, XXX (2017: 725) work part-time or casually.

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 we are legally required to combine it with the next highest band. This means that some rows span different bands across the two years shown.

Council has resolved that in addition to legislative requirements to disclose the above bandings it has also included the 2 lowest remuneration grades.

Grade	Salary Range	2018
Q	$33,705 - $42,132	
9	$42,132 - $55,672	

The Q grade includes 2 training level rates applicable to certain 'Parks, Sports and Recreation' positions that require people employed in these positions to meet specified core competencies before moving to the either level 2, or to the fully qualified rate of $20.20

The current living wage rate for WCC is $18.63. Each year the living wage rate for WCC is reviewed in accordance with the Consumer Price Index (CPI) rate for salary and wages.

Note 38: Financial impacts of the Kaikoura earthquake

Background

The devastating 14 November 2016 earthquake, while centred in the upper South Island also impacted on the Wellington region and particularly certain buildings in Wellington City including Council's own Civic Administration Building (CAB) in Civic Square.

Assets affected

Buildings
The Civic Administration Building (CAB) in Civic Square suffered significant damage during the 14 November 2016 earthquake. The building was immediately closed and has remained closed since the event. This building is subject to an insurance claim which covers both the repair costs and the relocation costs.

Two other buildings: 221 Wakefield Street and St John's Hall in Karori; both of which were already scheduled for demolition, were also damaged during the earthquake and were demolished in 2017.

Some other buildings suffered minor cosmetic damage and have since either been repaired or are scheduled for repair.

Other assets
All plant and equipment assets within CAB were recovered with no significant write offs.

Some other Council assets suffered minor cosmetic damage and have since either been repaired or are scheduled for repair.

Estimated costs to repair damage and impairment of CAB

In the 2017/18 year a total of $XXXm (2017: $4.143m) was paid out of the Council's insurance reserve fund related to earthquake repairs and relocation costs. This includes some items related to CAB which will be paid out of the fund until the excess level for the claim has been reached.

As a result of the damage suffered to CAB, the building was assessed for impairment as at 30 June 2017 and an impairment loss of $11.446m was recognised. CAB is not a revalued asset therefore the loss was included within Expenditure on operating activities in the Statement of Comprehensive Revenue and Expense for the period ending 30 June 2017.

Contingent Asset – Insurance recoveries

At as 30 June 2017 the Council had a contingent asset for the insurance recoveries. The insurance claim related to CAB, which covers both the repair costs and the relocation costs, is still in progress. While an estimate of the repair and relocation costs has been obtained by the Council and provided to the insurer there are still a significant number of uncertainties in the numbers and it is still subject to discussion and agreement with the insurer. This means that the amount that the Council will receive cannot be reliably measured.

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.

Other Significant Accounting Policies

The following accounting policies are additional to the disclosures and accounting policies that are included within the relevant specific Notes forming part of the financial statements.

Basis of preparation

Measurement base

The measurement basis applied is historical cost, modified by the revaluation of certain assets and liabilities as identified in the 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.

Exchange and 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 considered as 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 (eg. Parking), 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 (eg. The cost to swim in a Council pool) and therefore do not constitute an approximately equal exchange. Accordingly most of Council's revenue is categorised as non-exchange.

Change of accounting policies

There have been no elected changes in accounting policies during the financial period.

Changes to PBE accounting standards

There have been no new accounting standards issued with mandatory effect for the accounting period. However, amendments to standards have been made with effect for periods beginning after 1 January 2017.

2016 Omnibus amendments to PBE standards – These amendments were issued in parts in January 2017, being effective for periods beginning on or after 1 January 2017 or 1 January 2018, but not all parts being able to be early adopted. A relevant amendment for the Council that is able to be adopted is to *PBE IPSAS 32 Service Concession Arrangements: Grantor.* This amendment requires that service concession assets are grouped with similar property, plant and equipment assets for the purpose of subsequent measurement and disclosure under *PBE IPSAS 17 Property,* *Plant and Equipment.* In effect, this means that the Service Concession assets that have been previously disclosed as a separate class of asset will now be included within the Drainage, water and waste asset class.

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

Standards, amendments and interpretations issued but not yet effective and not early adopted which are relevant to the Group are:

- In April 2017, the XRB issued *Impairment of Revalued Assets*, which now scopes in revalued property, plant and equipment into the impairment accounting standards PBE IPSASs 21 and 26, which will require Council to assess at each reporting date whether there is any indication that an asset may be impaired. However, where an impairment loss is recognised for an asset, or group of assets, that is revalued, an entity is not necessarily required to revalue the entire class of assets to which that impaired asset, or group of assets, belongs. This amendment is effective for periods beginning on or after 1 January 2019.
- In January 2017, the XRB issued new standards for interest in other entities (PBE IPSAS 34 - 38). These new standards will replace the existing applicable standards (PBE IPSAS 6 - 8) and are effective for periods beginning on or after 1 January 2019.
- In January 2017, the XRB also issued *PBE IFRS 9 Financial Instruments* to replace *PBE IPSAS 29 Financial Instruments: Recognition and Measurement.* With an effective date for annual periods beginning on or after 1 January 2021, but with early adoption permitted, the intention is not to adopt at this stage while the effects on Council and the Group are more thoroughly assessed. The main changes under PBE IFRS 9 are:
  i. New financial asset classifications requirements for determining whether an asset is measured at fair value or amortised cost.
  ii. A new impairment model for financial assets based on expected losses, which may result in the earlier recognition of impairment losses.
  iii. Revised hedge accounting requirements to better reflect the management of risks.

Judgements and estimations

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

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.

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.

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 2017/18 year).

AUDIT NEW ZEALAND JUNE 2018 AUDIT PLAN

Purpose

1. The purpose of this report is to update the Subcommittee on the Audit New Zealand arrangements for the audit of financial statements, including statements of service performance for the year 30 June 2018.

Recommendations

That the Finance, Audit and Risk Management Subcommittee:

1. Receive the information.
2. Note the draft Audit Plan prepared by Audit New Zealand (attachment 1) and their approach to auditing the Council and Group.
3. Delegate the authority to finalise the Audit Plan to the Chief Financial Officier and Chair of the Finance, Audit and Risk Management Subcommittee.

Background

2. With the approach of the June 2018 year end, it is appropriate to review the draft approach Audit New Zealand is proposing to take with the audit of the financial statements and provide the Subcommittee the opportunity to highlight any others matters or areas that they would like Audit New Zealand to focus on during the audit.
3. The Audit Plan document has a number of changes to previous years, firstly a name change as the Audit Plan was previously called the Audit Arrangements Letter, the look of the document has been updated and the Mayor is no longer required to sign the document on behalf of Council.

Discussion

4. Audit New Zealand's approach to the audit is set out on page 2 of attachment 1 of the Audit Plan to Council where it identifies business risks and issues. Management has no other business risks or issues to bring to the Subcommittee or Audit New Zealand's attention.
5. Karen Young, Appointed Auditor and Audit Director will be in attendance. If there are any matters which the Subcommittee would like to discuss, seek clarification on or if there are additional matters that the Subcommittee think should be included, they can be discussed at the meeting.
6. In addition to the presentational changes outlined in para 3, this year Audit New Zealand is taking a different approach across the sector towards its audit of fraud risk. This includes a more explicit expectation of the role of the governing body and Subcommittee, as outlined on page 8 of attachment 1. Management will continue to work with the Subcommittee to ensure consistency in expectation and understanding of how the risk of fraud is managed in the organisation.
7. Audit New Zealand has outlined the key dates of the audit on page 12 of attachment 1, with the proposed date for the audit opinion being the 26th September 2018.

Management has in place a programme of work to ensure the financial statements with be completed within this timeframe.

8. Audit New Zealand professional fees for the audit will be as per the Audit Proposal letter signed last year for $300,000 (excl GST).

Attachments

Attachment 1. Audit Plan 2018 Page 122

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

SUPPORTING INFORMATION

Engagement and Consultation
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.

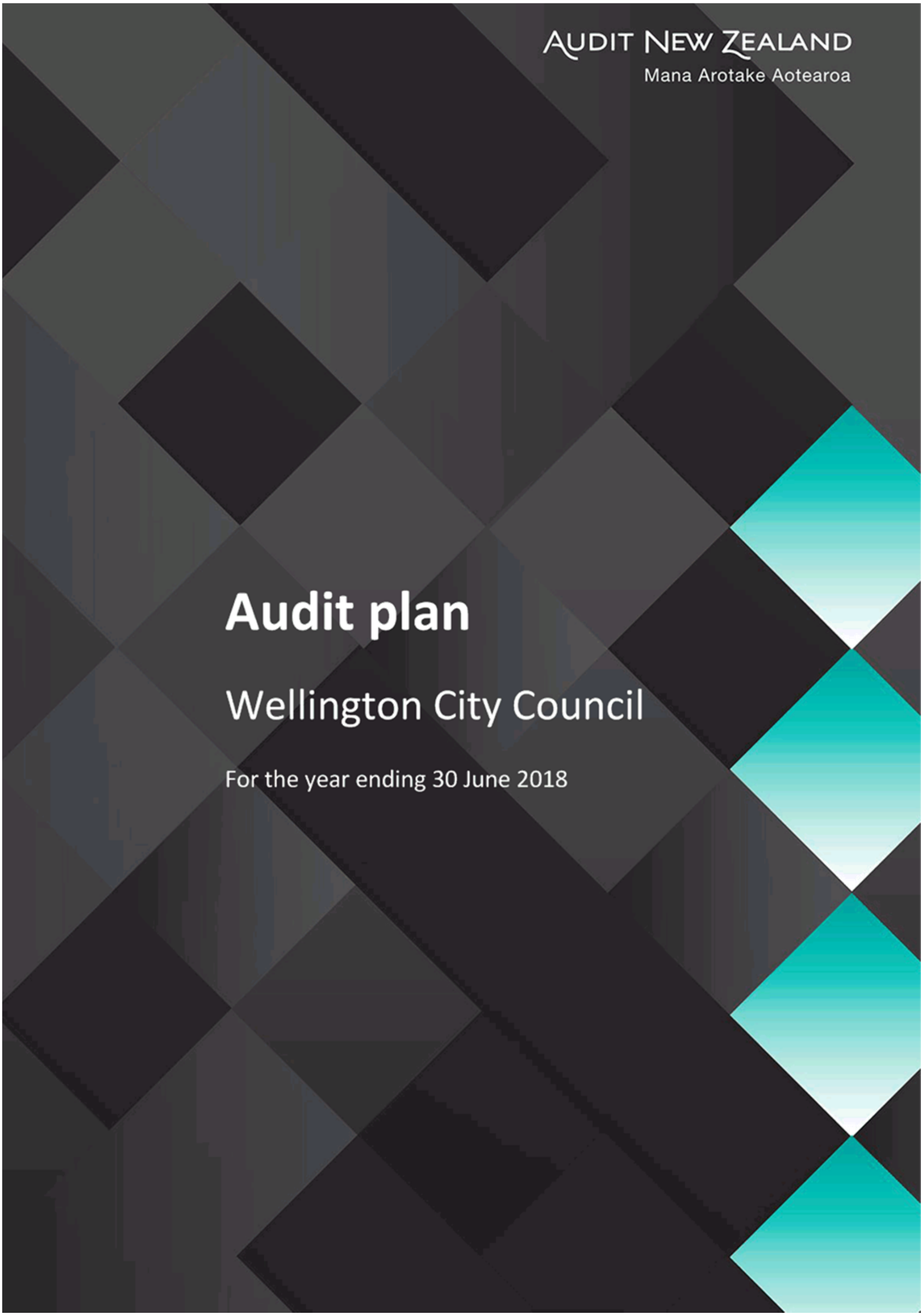
Policy and legislative implications
There are no new policy or legislative impliciations arising from this paper.

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.

Health and Safety Impact considered
There is no Health and Safety impliciations arising from this paper.



AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Audit plan

Wellington City Council

For the year ending 30 June 2018

Audit plan

I am pleased to present the arrangements for the audit of Wellington City Council for the year ending 30 June 2018. The purpose of this audit plan is to discuss:

The contents of this plan should provide a good basis for discussion when we meet with you.

We will be happy to elaborate further on the matters raised in this plan.

We are committed to delivering a high-quality audit. Our audit is risk based, which means that we focus on the areas that matter.

If there are additional matters that you think we should include, or any matters requiring clarification, please discuss these with me.

Yours sincerely

Karen Young
Director
Draft - 16 February 2018

Audit risks and issues

Focus areas

Based on the planning work and discussions that we have completed to date, this table sets out the main audit risks and issues.

Audit risk/issue	Our audit response
Valuation of the City Council's weathertightness liabilities	
Wellington City Council's (the City Council) liability for weathertightness claims remains significant, totalling $39 million at 30 June 2017. There is a high degree of judgement and estimation in the calculation of the liability.	We will review the valuation of the weathertightness homes provision as at 30 June 2018. This will include the testing of the underlying information used in the valuation.
Impact of the November 2016 earthquakes	
The November 2016 earthquakes caused damage to several City Council properties. In 2016/17 the City Council has assessed the damage to the Civic Administration Building (CAB) which resulted in an impairment loss of $11.446 million being recognised. The insurance claim related to CAB, which covers both the repair cost and the relocation cost is still in progress. The City Council will be relocating to a new premises. The accounting treatment for any insurance claims need to be considered carefully. We have provided our view on the accounting transactions that may arise. These views are available on Audit New Zealand's website and can be found by searching for "earthquake accounting issues paper". For the City Council, the main consideration will be related to the treatment of any insurance claim.	We will continue to monitor the status of the City Council's insurance claim. In light of the status of this claim at 30 June 2018, we will consider whether insurance recoveries have been appropriately accounted for in the 2018 Annual Report. We will review any relocation costs and new lease agreements to ensure they are correctly reflected in the financial statements for 2017/18.

Audit risk/issue	Our audit response
Project Odyssey and 'Smart Council'	
In 2017 City Council brought the Odyssey project under on overarching business transformation known as "Smart Council". This brings together a range of activities which interact with the technology developments. It is anticipated that the City Council will proceed with phases 2 and 3 of the former Odyssey project although structured differently to that set out in the original plan and applying the learnings from phase 1.	We will keep up-to-date with the project's progress. This will include considering significant changes to the business case, scope, timing and cost of the project. As the Council enters the next phase of the project we will consider the project management arrangements that the City Council is implementing for this project and whether they are in line with best practice.
Valuation of property, plant and Equipment	
The City Council revalues its operational assets and infrastructure assets on a three year rolling cycle. This year, the City Council will be revaluing its operational assets as at 30 June 2018. In non-revaluation years, PBE IPAS 17 *Property, Plant and Equipment* requires the City Council to consider whether the fair value of an asset class has moved significantly compared with its current carrying value. If a significant movement has occurred, a full revaluation of the asset class becomes necessary.	We will review the revaluation of operational assets: • Assess the valuation process, including the competence and experience of the person completing the valuation. • Review the valuation report to assess whether the requirements of PBE IPAS 17 *Property, Plant and Equipment* (including the appropriateness of the valuation basis) have been met. • Ensure changes to useful lives have been appropriately taken up, and values and depreciation charges have been appropriately accounted for. • Assess the presentation and disclosure of information related to the valuation in the financial statements. As part of the process, we will: • enquire into the processes employed by the City Council to ensure that the items revalued are complete, and any items excluded from the revaluation and reason for this; • review how the City Council satisfies itself that the revaluation is appropriate; and • discuss the results with, and obtain an assurance letter from the valuers.

Audit risk/issue	Our audit response
	For infrastructure assets, we will review the City Council's assessment of whether the asset class's fair value has significantly moved compared with its carrying value. This will include considering the appropriateness of the City Council's methodology and key assumptions.
Procurement	
A significant area of spend for the City Council is procuring goods and services needed to deliver their services and achieve the results sought.	We will enquired into the framework in place at the City Council for procuring goods and services, and ensuring delivery against the contract.
Consideration of, and audit response to the risk of management override (standard audit risk on all audits)	
Management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it results in a risk of material misstatement due to fraud. It is a requirement of NZ ISA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements* that we consider the risk of fraud due to management override, and complete audit procedures to address this risk.	Our audit response to this risk includes: • testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; and • reviewing accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud. For any significant transactions that are outside the normal course of business, or that otherwise appear to be unusual given our understanding of the City Council and its environment and other information obtained during the audit, we will evaluate whether the business rationale (or the lack thereof) of the transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets.

Please tell us about any additional matters we should consider, or any specific risks that we have not covered. Additional risks may also emerge during the audit. These risks will be factored into our audit response and our reporting to you.

Our audit process

Initial planning

Initial planning activities include verifying compliance with independence requirements and building the audit team.

Understand your business and environment

We use our extensive sector and business knowledge to make sure we have a broad and deep understanding of you, your business, and the environment you operate in.

Assess audit risk

We use our knowledge of the business, the sector and the environment to identify and assess the risks that could lead to a material misstatement in the financial statements and performance information.

Evaluate internal controls (interim audit)

During the interim audit, we update our understanding of internal control. This includes reviewing the control environment, risk assessment processes, and relevant aspects of information systems controls.

Finalise the audit approach

We use the results of the internal control evaluation to determine how much we can rely on the information produced from your systems during our final audit.

Gather audit evidence (final audit)

During the final audit we will be auditing the balances, disclosures, and other information included in the City Council's financial statements and performance information.

Conclude and report

We will issue our audit report on the financial statements and performance information. We will also report to the City Council covering any relevant matters that come to our attention.

Materiality

In performing our audit, we apply the concept of materiality. In the public sector, materiality refers to something that if omitted, misstated, or obscured could reasonably be expected to:

- influence readers' overall understanding of the financial statements and performance information; and
- influence readers' in making decisions about the stewardship and allocation of resources, or assessing your performance.

This definition of materiality is broader than the one used in the private sector.

Accounting standards also require the City Council and management to consider materiality in preparing the financial statements. IFRS Practice Statement 2, *Making Materiality Judgements*, provides guidance on how to make materiality judgements from a financial statements preparer's perspective.

Whether information is material is a matter of judgement. We consider the nature and size of each item judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor. Materiality will be lower for some items due to their sensitivity.

Misstatements

Misstatements are differences in, or omissions of, amounts and disclosures that may affect a reader's overall understanding of your financial statements and performance information. During the audit, we will provide details of any such misstatements we identify to an appropriate level of management.

We will ask for each misstatement to be corrected, other than those that are clearly trivial. Where management does not wish to correct a misstatement we will seek written representations from representatives of the City Council that specify the reasons why the corrections will not be made.

Professional judgement and professional scepticism

Many of the issues that arise in an audit, particularly those involving valuations or assumptions about the future, involve estimates. Estimates are inevitably based on imperfect knowledge or dependent on future events. Many financial statement items involve subjective decisions or a degree of uncertainty. There is an inherent level of uncertainty which cannot be eliminated. These are areas where we must use our experience and skill to reach an opinion on the financial statements and performance information.

The term "opinion" reflects the fact that professional judgement is involved. Our audit report is not a guarantee but rather reflects our professional judgement based on work performed in accordance with established standards.

Auditing standards require us to maintain professional scepticism throughout the audit. Professional scepticism is an attitude that includes a questioning mind and a critical assessment of audit evidence. Professional scepticism is fundamentally a mind-set. A sceptical mind-set drives us to adopt a questioning approach when considering information and in forming conclusions.

Exercising professional scepticism means that we will not accept everything we are told at face value. We will ask you and management to provide evidence to support what you tell us. We will also challenge your judgements and assumptions and weigh them against alternative possibilities.

How we consider compliance with laws and regulations

As part of the Auditor-General's mandate, we consider compliance with laws and regulations that directly affect your financial statements or general accountability. Our audit does not cover all of your requirements to comply with laws and regulations.

Our approach involves first assessing the systems and procedures that you have in place to monitor and manage compliance with laws and regulations relevant to the audit. We may also complete our own checklists. In addition, we will ask you about any non-compliance with laws and regulations that you are aware of. We will evaluate the effect of any such non-compliance on our audit.

Wider public sector considerations

A public sector audit also examines whether:

- the City Council carries out its activities effectively and efficiently;
- waste is occurring or likely to occur as a result of any act or failure to act by the City Council;
- there is any sign or appearance of a lack of probity as a result of any act or omission by the City Council or by one or more of its members, office holders, or employees; and
- there is any sign or appearance of a lack of financial prudence as a result of any act or omission by the City Council or by one of more of its members, office holders, or employees.

Fraud risk – enquiries of governing body, audit committee, management

Misstatements in the financial statements and performance information can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action is intentional or unintentional. In considering fraud risk, two types of intentional misstatements are relevant – misstatements resulting from fraudulent reporting, and misstatements resulting from misappropriation of assets.

The primary responsibility for the prevention and detection of fraud and error rests with the City Council, with assistance from management. In this regard, we will discuss the following questions with you:

- What role does the City Council play in relation to fraud? How do you monitor management's exercise of its responsibilities?
- Has a robust fraud risk assessment been completed? If so, is the City Council satisfied that it had appropriate input into this process?
- How does management provide assurance that appropriate internal controls to address fraud risks are in place and operating?
- What protocols/procedures have been established between the City Council and management to keep you informed of instances of fraud, either actual, suspected, or alleged?
- Are you aware of any actual, suspected, or alleged fraud? If so, have the results of management's investigation been reported to the City Council? Has appropriate action been taken on any lessons learned?

Our responsibility

Our responsibility is to obtain reasonable, but not absolute, assurance that the financial statements and performance information are free from material misstatement resulting from fraud. Our approach to obtaining this assurance is to:

- identify fraud risk factors and evaluate areas of potential risk of material misstatement;
- evaluate the effectiveness of internal controls in mitigating the risks;
- perform substantive audit procedures; and
- remain alert for indications of potential fraud in evaluating audit evidence.

The Auditor-General has published useful information on fraud that can be found at oag.govt.nz/reports/fraud-reports.

Reporting protocols

Communication with management and the Chief Executive

We will meet with management and the City Council throughout the audit. We will maintain ongoing, proactive discussion of issues as and when they arise to ensure there are "no surprises".

Reports to the governing body, the Council

We will provide a draft of all reports to management and the Chief Executive for discussion/clearance purposes. In the interests of timely reporting, we ask management to provide their comments on the draft within 10 working days. Once management comments are received the report will be finalised and provided to the City Council.

We will also follow up on your progress in responding to our previous recommendations.

Audit logistics

Our team

Our senior audit team members are:

Karen Young	Audit Director
Robert Cox	Engagement Quality Control Director
Matthew Geddes	Audit Manager
Rajesh Ratanjee	Audit Manager
Andrea Kieck	Audit Supervisor
Alan Clifford	Director, Information Systems Audit and Assurance
Ridwan Ridwan	Manager, Information Systems Audit and Assurance
Jason Biggins	Tax Director
Rachel McKechnie	Associate Director, Specialist Audit and Assurance Services

Our engagement team is selected to ensure that we have the right subject matter expertise and sector knowledge.

Timetable

Our proposed timetable is:

Interim audit Two weeks	Pre-final audit Two weeks	Final audit Four weeks
Weeks beginning: • 23 January • 29 January	Weeks beginning: • 14 May • 21 may	Weeks beginning: • 20 August • 27 august • 3 September • 10 September

Item	Date in 2018	Audit New Zealand	Wellington City Council
• Interim audit	Weeks 23 and 29 January	✓	✓
• Interim management report issued in draft	9 March	✓	
• Interim management comments provided	19 March		✓
• Interim management issued/finalised	21 March	✓	
• Pre-final audit	Weeks 14 and 21 May	✓	✓
• Draft financial statements and statement of performance available	13 August	✓	
• Final audit	Weeks of 20 and 27 August, and 3 and 10 September	✓	✓

12

Item	Date in 2018	Audit New Zealand	Wellington City Council
• Full annual report available	10 September		✓
• Final financial statements and statement of performance agreed between us available	17 September		✓
• Audit opinion issued and final management report issued in draft	26 September	✓	
• Final management comments provided	12 October		✓
• Final management issued/finalised	16 October	✓	
• Summary annual report available	No later than 19 October		✓
• Audit opinion issued on Summary annual report	26 October	✓	

Expectations

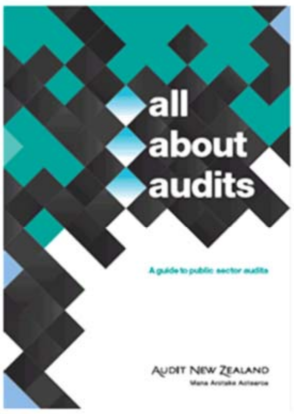
For the audit process to go smoothly for both you and us, there are expectations that each of us need to meet.

Our respective responsibilities are set out in our audit engagement letter.

We expect that:

- you will provide us with access to all relevant records and provide information in a timely manner;
- staff will provide an appropriate level of assistance;
- the draft financial statements, including all relevant disclosures, will be available in accordance with the agreed timetable;
- management will make available a detailed workpaper file supporting the information in the financial statements; and
- the annual report, financial statements and performance information will be subjected to appropriate levels of quality review before being provided to us.

To help you prepare for the audit, we will liaise with management and provide them with a detailed list of the information we will need for the audit. We have also published information to explain what to expect from your audit:



14

Health and safety

The Auditor-General and Audit New Zealand take seriously their responsibility to provide a safe working environment for audit staff.

Under the Health and Safety at Work Act 2015, we need to make arrangements with management to keep our audit staff safe while they are working at your premises.

We expect you to provide a work environment for our audit staff that minimises or, where possible, eliminates risks to their health and safety. This includes providing adequate lighting and ventilation, suitable desks and chairs, and safety equipment where required. We also expect management to provide them with all information or training necessary to protect them from any risks they may be exposed to at your premises. This includes advising them of emergency evacuation procedures and how to report any health and safety issues.

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

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AUDIT NEW ZEALAND GOVERNING BODY REPORT

Purpose

1. The purpose of this report is to present the Audit New Zealand Report to Council on the 2016/17 audit to the Subcommittee. This report contains audit recommendations from Audit New Zealand related to the 2016/17 audit as well as progress against recommendations made in prior years.
2.

Recommendations

That the Finance, Audit and Risk Management Subcommittee:

1. Receive the information.
2. Note the content of the 2016/17 Report to Council from Audit New Zealand.

Background

3. Every year after the completion of the audit of the annual report, Council auditors, Audit New Zealand produce a report to the Council on the audit conducted, and within the report provide a number of recommendations on matters that they believe will strengthen the Council's control environment, or enable greater efficiencies or effectiveness.
4. The report outlines their recommendations and officers response to those recommendations.The progress of implementing these recommendations will be monitored and reported on by Internal Audit.

Discussion

5. The key findings from Audit NZ audit are:
    - An unmodified audit opinion on the Council parent and group's annual report on 27th September 2017
    - The Council's control environment continues to operate effectively
6. There are seven recommendations on which officers have provided comments, that cover the following areas:
    - Specifying payment dates and penalty in the rates resolution
    - Network password security settings improvement
    - Periodic review of Technology One User Accounts
    - No regular restoration from backup media
    - High number of Local Administrator Rights for Staff
    - Reporting on patch compliance can be improved
    - Payroll reconciliation
7. The report also has an update on the status of 16 previous outstanding recommendations, 11 of which were closed.

Attachments

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

SUPPORTING INFORMATION

Engagement and Consultation
There is no requirement 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.

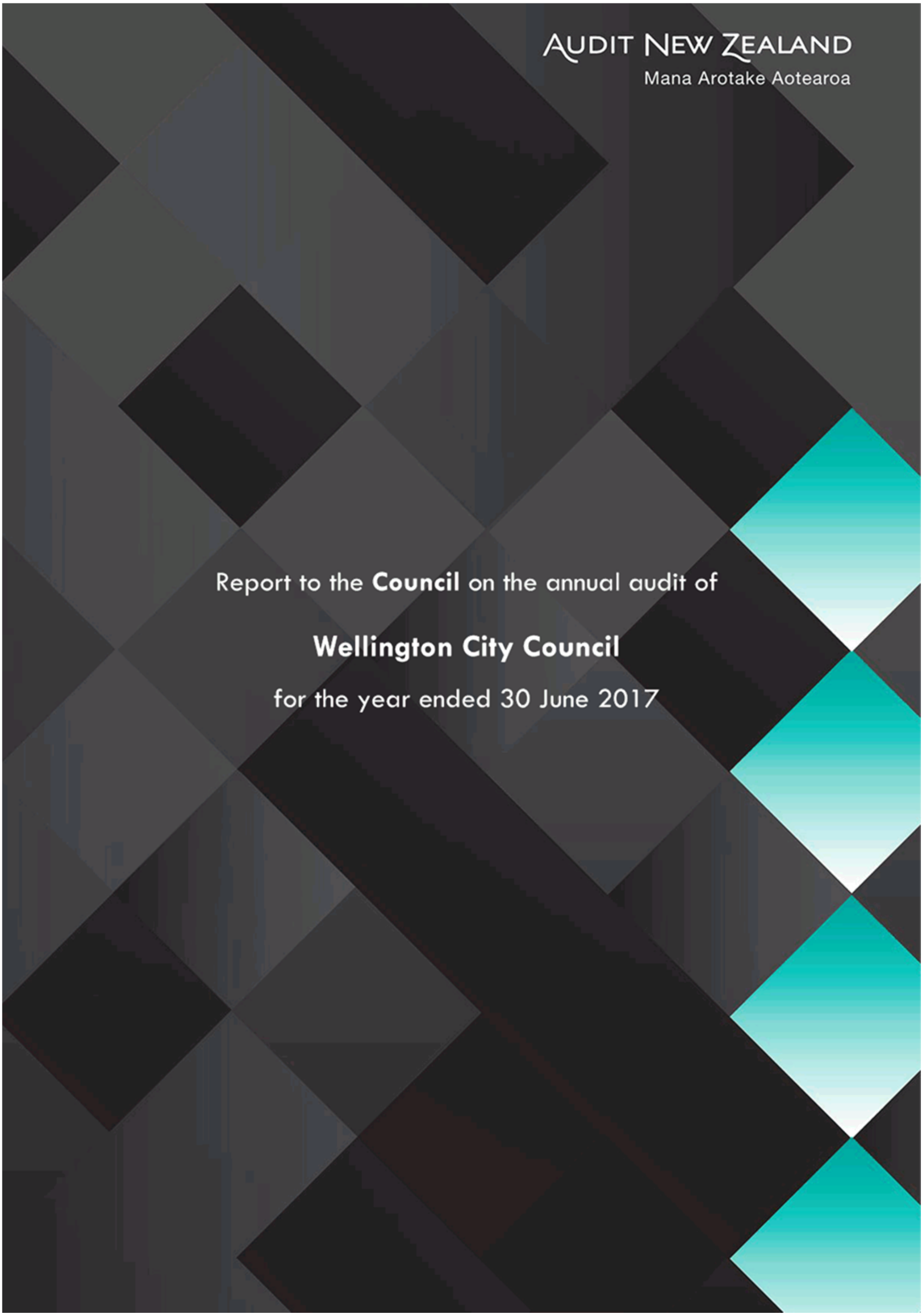
Policy and legislative implications
There are no new policy or legislative impliciations arising from this paper.

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.

Health and Safety Impact considered
There is no Health and Safety impliciations arising from this paper.



AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Report to the **Council** on the annual audit of

Wellington City Council

for the year ended 30 June 2017

Key messages

We have completed the audit for the year ended 30 June 2017. This report sets out our findings from the audit and draws attention to areas where Wellington City Council (the City Council) is doing well or where we have made recommendations for improvement.

Impact of the November 2016 earthquakes

We have considered the impact of the Kaikoura earthquake on the City Council's assets and operations and how these have been presented in the Annual Report.

The Civic Administration Building (CAB) suffered significant structural damages and as a result has remained closed since the earthquake. Initial engineering assessments indicate that the asset will be useable if repaired. The City Council has recognised an impairment loss of $11.4 million for CAB.

The City Council has lodged an insurance claim, but no substantive discussions have taken place with the insurer on the likely amount receivable. As the City Council cannot reasonably estimate the amount of recoveries receivable, no insurance recoveries receivable/revenue has been recognised in the financial statements as at 30 June 2017. An unquantified contingent asset has instead been disclosed.

We are satisfied with the City Council's accounting treatment for the earthquake impairment and insurance receivables.

Valuation of infrastructure assets

The City Council engaged an external valuer to perform the valuation of its infrastructure assets. The revaluation resulted in an uplift of $295.3 million. This increase represented 5.3% of the total infrastructure assets value as at 1 July 2016.

We reviewed the valuation report and significant underlying assumptions. We also tested on a sample basis, the data that was sent to the valuer to ensure completeness.

We are satisfied with the significant underlying assumptions and the methodology applied by the valuer and that the valuation has been appropriately accounted for and disclosed in the City Council's annual report.

Karori Sanctuary Trust

The City Council purchased the Zealandia Visitor Centre in exchange for the settlement of an outstanding loan between the Karori Sanctuary Trust and the City Council. The purchase price was equivalent to nominal value of the outstanding loan amount. The outstanding loan amount was $10.3 million. The valuation confirmed that the purchase price reflected the fair value of the assets purchased.

On 30 September 2016 the Trust deed of Karori Sanctuary Trust (KST) was amended to provide the City Council the power to appoint the majority of members of the Trust Board. Therefore, the City Council concluded that the Trust met the definition of a controlled entity and the Trust has been consolidated into the group financial statements.

Information technology controls

Our specialist IS auditors performed a review of the City Council's information systems general controls (ITGC). This comprise two parts:

- A risk assessment of activity level controls.
- An assessment of the design and operation effectiveness of activity level controls.

Our findings are in Appendix 2.

There is an explanation of the priority rating system in Appendix 1.

Thank you

We would like to thank the Audit and Risk Management Committee, management and staff for their assistance in completing the audit.

Bede Kearney
Audit Director
12 February 2018

Contents

1 Our audit opinion

1.1 We issued an unmodified audit opinion

We issued an unmodified audit opinion on 27 September 2017. This means that we were satisfied that the financial statements and statement of service performance fairly reflected the City Council's activity for the year and its financial position at the end of the year.

1.2 Uncorrected misstatements

The financial statements are free from material misstatements, including omissions. During the audit, we discussed with management any misstatements that we found, other than those which were clearly trivial. There were no significant misstatements identified during the audit that have not been corrected.

2 Significant risks

2.1 Impact of the November 2016 earthquakes

As a result of the Kaikoura earthquake, the Civic Administration Building (CAB) suffered significant structural damages and as a result has remained closed since the earthquake. Engineering reports prepared by Ryder Levett Bucknall (RLB) indicate that the asset will be useable if repaired.

The City Council has recognised an impairment loss of $11.4 million for CAB. We reviewed the City Council's rationale for, and calculation of, the impairment and are satisfied that it has been appropriately estimated and recognised within the financial statements. Associated disclosures comply with the requirements of PBE IPSAS 21 - *Impairment of Non-Cash Generating Assets*.

The City Council has not recognised insurance recoveries receivable/revenue as at 30 June 2017. It has disclosed an unquantified contingent asset.

The City Council has lodged an initial claim with its insurer. This covers both damage to CAB and business interruption costs. The City Council's preliminary assessment of repair costs is in the region of $33 million. The indemnity value of CAB under the City Council's insurance policy is $48.7 million. The insurance policy has a deductible of $5 million.

The insurer has acknowledged the claim and that it is covered by the City Council's insurance policy. However, the insurer is yet to give any indication of the insurer's view of the merits of the City Council's claim. Therefore, there is no agreed claim value. The City Council's officers advised us that the claim is an initial estimate and may change.

We are satisfied the insurance receivable cannot be reliably measured as at 30 June 2017. Therefore, we are satisfied that the City Council's treatment of insurance recoveries as a contingent asset is reasonable.

The City Council has incorporated the impact of the earthquake on its services and operations into its overall performance story within the Annual Report. The City

Council has articulated within the various service performance sections of the report, where relevant, how the earthquake has affected those services and also highlighted the actions it has taken to address these impacts.

We are satisfied that these narratives are consistent with our understanding of how the earthquake impacted the City Council and its services.

2.2 Valuation of infrastructure assets and investment properties

The City Council engaged external valuers to perform the valuation of its infrastructure assets and investment properties as at 30 June 2017. This valuation was completed by Opus International.

The revaluation of infrastructure assets resulted in an uplift by $295.3 million. This increase represented 5.3% of the total infrastructure assets value at 1 July 2016.

The revaluation of investment properties resulted in an increase in the value by $18.2 million. This valuation was completed by CBRE.

Both valuers are from reputable firms, are familiar with the City Council's assets, and experienced in valuing them over a number of years.

We reviewed the valuation source data, methodology and significant underlying assumptions. We are satisfied these are appropriate. The revaluations have been appropriately accounted for in line with the requirements of PBE IPSAS 16 – *Investment Property* and PBE IPSAS 17 – *Property, Plant and Equipment* respectively.

2.3 Valuation of weathertightness liabilities

We reviewed the valuation of the City Council's weathertight homes provision as at 30 June 2017. Consistent with prior years, the City Council engaged an external valuer (Melville Jessup Weaver) to perform the valuation.

We reviewed the valuation methodology and key assumptions and are satisfied that these are appropriate for fairly measuring the City Council's liability.

2.4 Implementation of Project Odyssey

2.4.1 Phase 1

Phase 1 of Project Odyssey went live on 1 July 2016. This included new Financial Management Information System (FMIS) (OneCouncil) and payroll systems. These have been developed by Technology One.

Our IS audit specialist performed a review of the data migration process from the old FMIS to OneCouncil. This review considered the appropriateness of the City Council's process and controls for data migration. We were satisfied that the City Council executed this process appropriately. For more details, see our detailed IT findings in section 4 of this report.

In our interim management report we noted that the Finance team had experienced difficulties in setting up the new Fixed Asset Register (FAR) module in TechOne, particularly with processing additions and disposals.

These issues have been rectified. The City Council performed a full update and reconciliation of the FAR as at 30 June 2017. We reviewed the reconciliation and we are satisfied that PPE has been fairly reflected in OneCouncil and the Annual Report as at 30 June 2017.

We engaged our Information Systems Audit and Assurance team to perform an assessment of the configuration controls operating within OneCouncil. This review found that key expenditure controls were operating effectively.

2.4.2 Phase 2 and beyond

Following the implementation of phase 1 of Odyssey, the City Council made the decision in November 2016 to go straight to the new technology, CI Anywhere.

During the year, the City Council brought the Odyssey project under on overarching business transformation known as "Smart Council". This brings together a range of activities which interact with the technology developments. Odyssey is one element of the overall transformation. It is now anticipated that the City Council will proceed with phases 2 and 3 although structured differently to that set out in the original plan and applying the learnings from phase 1.

It is important that the City Council ensures that it has in place a business case which demonstrates, at key stages of the project, that the revised scope, timing and cost of the project remains desirable, viable and achievable.

2.5 Specifying payment dates and penalty in the rates resolution

The High Court has stated that section 24 of the Local Government (Rating) Act 2002 requires rates resolutions to specify the due dates for the payment of rates.

The City Council's 2017/18 rates resolution specifies as calendar dates the due date for rates and the date for penalties for each rates instalment.

However the resolution does not state calendar dates for the due date of water rates by meter. It states – "*Targeted water rates that are charged via a water meter on rating units incorporated in the commercial, industrial and business differential will be invoiced on a one or two-month cycle, and are due at the date one month after the invoice date, as specified on the invoice.*" The same applies for water rates charged on the base differential, but they have a three month cycle.

For water by meter rates the penalty provisions in the resolution are on "*… any unpaid amount remaining unpaid after a due date in recommendation (3) above, to be added from the day following the due date*".

Recommendation

The City Council, should consider the High Court's view of the requirements of section 24 of the Local Government (Rating) Act 2002, and how the judgement might affect its rates.

Management comment

We have considered the High Court's view and are of the opinion that Council complies with the Act. We will continue to monitor this.

3 Karori Sanctuary Trust (Council Controlled Organisation)

In 2007 the City Council issued a non-interest bearing loan of $10.3 million to Karori Sanctuary Trust (Trust). The loan's fair value on 1 July 2016 was $5.1 million. The Trust had financial difficulties in paying off the loan, and as part of 2016/17 Annual Plan, the City Council approved the purchase of the Zealandia Visitor Centre in exchange of the settlement of its outstanding loan. The City Council obtained an independent valuation of the building, which was valued at $11.5 million. As the fair value of the building is materially consistent with the nominal outstanding loan amount, the City Council has considered the building to be appropriate settlement for the loan.

We reviewed the accounting entries and associated disclosures for this transaction in the City Council's financial statements. We are satisfied they are appropriate.

On 30 September 2016 the Trust deed of Karori Sanctuary Trust (KST) was amended to provide the City Council the power to appoint up to six members of the Trust Board. The Trust's Board consists of minimum of five and maximum of seven members. Therefore, the Trust now meets the definition of a Council Controlled Organisation.

The Trust has been consolidated into the City Council's group financial statements. We are satisfied that the consolidation has been fairly stated in the Annual Report.

4 Review of Information Technology General Controls (ITGC)

As part of our 2017 audit we performed an ITGC review. This review consisted of two parts. The first being a risk assessment of the entity level controls in place.

The entity level controls considered management's activities in: IT governance and strategic planning; IT processes, organisation, and relationships; assessment and management of IT risks; monitoring and evaluation of performance, and monitoring and evaluation of internal controls. We assessed the risk as low for these areas. Overall, the Council has taken reasonable steps to minimise the risk of disruptions or unauthorised actions.

The second part of our work was an assessment of the design and operational effectiveness of activity level controls on the following areas:

- systems acquisition/project management;
- security (network and applications);

- physical hardware;
- change management;
- third-party services;
- management of data;
- operations;
- configuration; and
- problems and incidents.

Overall, we are satisfied activity controls are design and operationally effective. Therefore, we were able to place reliance on them for the purposes of our audit. We acknowledge the progress made by the City Council to follow up matters raised in the prior year on IT Security Policies.

The work we performed also highlighted the following matters.

4.1 Network password security settings improvement

We found the network password complexity requirement is disabled or not enforced when passwords are changed or created. The minimum length is currently set to seven. The shorter the length of a password, the easier it is to hack a password.

We also noted that when third party (Dimension Data staff) own administrator accounts or manage service accounts at Shared Service Office Participating Agencies, the passwords length and complexity are dictated by the settings applied by the various Participating Agencies. Unlike other Participating Agencies, at the City Council, there is no extra level of password strength required for elevated or privileged user access, such as domain administrators.

We **recommend** that:

- Network password length should be set to a minimum of eight characters, and complexity should be enforced.
- For system-level administrator accounts, which are typically critical to the operation of a system, more lengthy and complex password requirements should be implemented.

Management comment

We agree with the recommendations, and have implemented a number of the recommendations already.

4.2 No formal periodic review of Technology One Accounts

Currently there is no formal periodic process to assess TechnologyOne user accounts, including its super user's accounts.

Employees or contractors may have over time accumulated access rights that are no longer needed, considering their current responsibilities. Additionally, accounts of employees or contractors left may not be blocked. Both situations could be misused to obtain unauthorized access to IT applications.

We **recommend** that access rights in IT applications should be reviewed on a regular basis.

Management comment

We agree with the recommendations. The regular review of accounts and those who have exit the organisation will be fully implemented as of January 2018. In the meantime we are retrospectively reviewing those accounts and removing access.

4.3 No regular restoration from backup media

There is no regular formalised testing to ensure that data can be restored from tape backup.

We **recommend** that a schedule of formal restore tests from tape backup should be performed to ensure that data is able to be recovered.

Management comment

We agree with the recommendation, and have implemented the recommendation already.

4.4 High Number of Local Administrator Rights for Staff

From our review of the latest domain administrator list we found 66 enabled local administrator accounts for the City Council. We consider that this is a high number of local administrator accounts.

As local administrator access gives users the ability to download software (including malware) freely; this can expose the City Council to a data breach due to a malware infection. In addition, the use of unauthorized, unlicensed software may result in erroneous processing of information, corruption of other software applications, misstatements caused by incompatibility with the existing environment and degradation of system performance.

There is also a risk that there is software installed where the licensing status is unclear. This exposes the City Council to potential losses: financial losses related to penalties for using unlicensed software, losses of reputation, and potential legal consequences for individuals and their supervisors.

We **recommend** that the City Council:-

- Perform a risk assessment and review users with local administrator rights, reconsider their appropriateness, and block such access unless it is absolutely necessary.

- When local administrator rights are deemed as appropriate, provide user education. There is no technical replacement for common sense. The first line of defence is to educate users on the best practices for securing their data and raising awareness of the potential risks involved with public internet access – especially when they have local administrator rights to their PC.

Management comment

We agree with the recommendations:-

WCC is currently undertaking an internal and external penetration test which includes an analysis of Local Administration rights. This component will be complete by end February 2018.

It has been recognised that WCC's default desktop build allowed for large numbers of local administrators in Windows 7 due to legacy application constraints and the need to access local drives on Laptops.

WCC's new Windows 10 environment removes a number of these constraints and will be progressively rolled out over the next four years.

A risk analysis will be undertaken to verify the need for local administrators and the implementation of mitigating controls.

During the last eight months there has been an active initiative to increase security awareness within WCC. This initiative has included email notification, StaffNet Web announcements and links to government security initiatives, spam awareness training and posters in lifts and staffrooms. This will be an ongoing activity and spam awareness, password management and privacy controls will be included in the New HR Learning Management system (LMS) once it is operational for all existing and new WCC employees.

4.5 Reporting on patch compliance can be improved

The City Council agreement with the Shared Service Office (SSO) includes managing processes for updating patches on desktops and servers.

From our review on SSO Monthly Reports, we found that exception based security reporting including patch management is part of SSO monthly report. The risk of this nature of reporting is to lose global view of business risk that the City Council and other participating agencies need to know on a regular basis.

We **recommend** the City Council requests a regular patch compliance status report is presented within SSO monthly report.

Where patches have not been updated these should be monitored and reported upon to ensure no out of date devices are in use.

Management comment

We agree with the recommendations, and have implemented the recommendations already.

4.6 Data Migration

We reviewed General Ledger (GL), Account Receivable, and Account Payable data migration process from PeopleSoft to Technology One. We found the controls over data transfer was performed adequately, with sufficient checks and procedures to ensure the accurate and appropriate transfer of data.

There is no issue to be brought to your attention.

5 Internal controls

We noted the following during our review of the City Council's financial systems:

5.1 Availability of information

In our interim management report, we noted that due to the closure of the CAB building, some information we required for our audit was unavailable. Due to this, at that time we were unable to:

- Evidence the operation of payroll controls before the November earthquake.
- Agree the approval and rationale for several one off payments to supporting documents.

As we were unable to evidence the operation of payroll controls for the entire financial year, we modified our audit approach to take account of this. The executed audit approach provided us with reasonable assurance that payroll expenses are fairly reflected in the City Council's Annual Report.

Subsequent to our interim audit, we were able to obtain sufficient documentation for approvals of and the rationale behind one-off payments we tested.

5.2 Payroll reconciliation

While staff prepare monthly payroll accrual reconciliations, there is a risk of unidentified manual payroll journals being posted in the GL. These are primarily journals other than the ones which are automatically updated from payroll system.

Best practice is to fully reconcile all transactions processed through the payroll system to the payroll expense recognised in the GL on a frequent basis. We **recommend** that the City Council implements such reconciliations.

Management response

We agree with this recommendation and will implement a quarterly reconciliation.

6 Status of previous recommendations

The status of each matters that were outstanding in previous management reports to the Council are summarised in Appendix 2.

Summary of action taken against previous years' recommendations:

Number of recommendations from previous years' audits	Current status
11	Matters that have been resolved
3	Some progress has been made
2	No substantive progress has been made

This summary needs to be read in conjunction with the status of recommendations raised in previous years' management reports as detailed at Appendix 2.

Appendix 1: Explanation of priority rating system

Our recommendations for improvement and their priority are based on our assessment of how far short the City Council is from a standard that is appropriate for the size, nature, and complexity of its business.

We have developed the following priority ratings for our recommended improvements:

Urgent Major improvements required	**Needs to be addressed *urgently*** These recommendations relate to a significant deficiency that exposes the City Council to significant risk. Risks could include a material error in the financial statements and the non-financial information; a breach of significant legislation; or the risk of reputational harm.
Necessary Improvements are necessary	**Address at the earliest reasonable opportunity, *generally within 6 months*** These recommendations relate to deficiencies that need to be addressed to meet expected standards of good practice. These include any control weakness that could undermine the system of internal control or create operational inefficiency.
Beneficial Some improvement required	**Address, *generally within 6 to 12 months*** These recommendations relate to deficiencies that result in the City Council falling short of best practice. These include weaknesses that do not result in internal controls being undermined or create a risk to operational effectiveness. However, in our view it is beneficial for the City Council to address these.

Appendix 2: Information Technology controls

The following table summarises our recommendations and their priority:

Recommendations	Urgent	Necessary	Beneficial
Network password security settings improvement			
• Network password length should be set to a minimum of eight characters, and complexity should be enforced. • For system-level administrator accounts, which are typically critical to the operation of a system, a more lengthy and complex password should be implemented.		✔	
No formal periodic review of Technology One Accounts			
Access rights in IT applications should be reviewed on a regular basis.		✔	
No regular restoration from backup media			
A schedule of formal restore tests from tape backup should be performed to ensure that data is able to be recovered.		✔	
High Number of Local Administrator Rights for Staff			
• Perform a risk assessment and review users with local administrator rights, reconsider their appropriateness, and block such access unless it is absolutely necessary. • When local administrator rights are deemed as appropriate, provide user education. There is no technical replacement for common sense. The first line of defence is to educate users on the best practices for securing their data and raising awareness of the potential risks involved with public internet access – especially when they have local administrator rights to their PC.		✔	
Reporting on patch compliance can be improved			
Request a regular patch compliance status report is presented within SSO monthly report. Where patches have not been updated these should be monitored and reported upon to ensure no out of date devices are in use.		✔	
Application control review			
Duplicate, self-approval, and three way matching preventative configuration controls should be strengthened.			✔
Payroll reconciliation			
Fully reconcile all transactions processed through the payroll system to the payroll expense recognised in the GL on a frequent basis.			✔

Appendix 3: Status of previous recommendations

Outstanding matters

Recommendation	Progress to date	Priority	Management's comment and proposed action
Lack of validation of attendance at events			
We reviewed the data collection system for the performance measure – "Estimated attendance at WCC events". We found that for ticketed events the City Council is using the attendance figures directly taken from the event organisers' reports without verifying that the attendance figures cited are correct. The City Council should obtain independent reports from the ticketing agency used by the event organiser to confirm that the attendance figures for events are valid. **Recommendation** Independent reports from the ticketing agency used by the Event Organiser. This will provide evidence that the attendance figures for events that it uses in reporting its result for this measure are valid.	**Outstanding** We understand from the Event Development Manager that any new or renewed contracts for the period 2016/17 onwards will require ticketing information from the Ticketing Agency.	**Necessary**	*This remains an ongoing piece of work. We are not able to request a ticketing report directly from the ticketing agent as we do not own the data. Therefore, all ticketing reports need to be supplied via the event organiser. Whilst the majority of event organisers have been able to voluntarily provide these reports we have not yet achieved 100% compliance.* *Where possible we are making this a requirement of our sponsorship agreements, however it is worth noting that this was not necessarily a requirement in some existing long term agreements.* *For ticketed events there are some practical challenges to fully achieve the solution:* *1 World of WearableArt (WOW) – WOW manage their own ticketing system, therefore an independent report is not possible. WOW does provide a ticketing report.*

Recommendation	Progress to date	Priority	Management's comment and proposed action
			2 *Stadium Concerts – our sponsorship agreements are with the Stadium, rather than the promoter. As the promoter owns the data, the Stadium is not able to provide the independent reports, but do include ticket sales in their post event report.* 3 *City Gallery Exhibition – did not use an independent ticketing agent.* 4 *Pinot Noir 2017 – was a registration event, not ticketed by an independent ticketing agent.* 5 *Events with a mixture of ticketed and non-ticketed elements. We are only able to ratify the ticketed element via a ticketing report.* *We are continuing to work with event organisers as we work towards compliance where possible.* **Additional audit comment** We will discuss this measure with management as part of our audit of the City Council's 2018-28 LTP.
Review of journals			
We reviewed the City Council's process for posting journals in TechOne. We noted that there was no formal independent review process for journals. Manual journals can be posted to the GL without review. This increases the risk of erroneous journals being posted without detection.	**In progress** We understand that these journals were being reviewed informally by year end. Management should formally	**Necessary**	*Management will formalise this process for AP and AR journals only.* *Council has a number of other manual checks and balances it considers appropriate for G/L journals that are currently in place.*

Recommendation	Progress to date	Priority	Management's comment and proposed action
Good practice would be to develop a workflow within the finance system which requires all manual journals to be reviewed prior to the journal being posted within the ledger. Many modern finance systems include functionality which automatically workflows journals to independent staff with appropriate delegation for approval prior to posting. This type of control would minimise the risk of erroneous journals being posted. We **recommend** that the City Council implements a formal independent review process for Accounts Payable and Accounts Receivable journals.	document this review process.		
Procurement – Strategy			
In 2014 we recommended the City Council documents an overall procurement strategy. This should be a long term strategy that has been approved at service management level.	**In progress** The City Council has drafted an updated procurement strategy which was in draft as of September 2017. The City Council is aiming to have the strategy finalised and implemented by the end of 2017.	**Necessary**	*This draft policy is still being reviewed and is scheduled to be adopted in the new year.*
Aged items in the work in progress balance			
In 2015, we noted that the City Council has a wide variety of assets under development at balance date. Within the work-in-progress balance of $69.5 million, some $5.2 million relates to items prior to 30 June 2013. This balance represents a number of minor items, and it is not clear whether they still represent valid	**In progress** An aged WIP report was not generated as there were a number of items being brought forward from legacy system. Therefore, we	**Beneficial**	*Finance staff does regularly review the WIP and assess the validity of the items contained in the balance.* *During the implementation of OneCouncil it was decided to bring over only the balance.*

Recommendation	Progress to date	Priority	Management's comment and proposed action
capital projects that will be completed. **Recommendation** Finance staff should review the work in progress balance to determine the validity of items within the balance. They should assess whether these items are being recognised and accounted for correctly.	have not been able to assess whether progress has been made in clearing aged WIP balances.		

Matters that have been resolved

Recommendation	Outcome
Significant reconciling items in bank reconciliation	
During our 2016 audit, we agreed amounts from bank confirmations to the trial balance. We noted that a reconciliation was prepared which included significant balancing items. These included (A) items in GL but not in the bank statement and (B) items in the bank statement but not the GL. The unmatched items in (A) related to amounts receipted through the debtor sub-systems and did not match with the expected corresponding amount that came through on the bank statement (B). Both (A) and (B) largely netted off as they potentially related to the same items. However, because they differed in one aspect, eg: name, amount or reference they remained on the unreconciled schedule. The net difference between the two reconciliations was not material. **Recommendation** Clear the significant reconciling items on a timely basis.	**Matter closed** The City Council has focused on clearing reconciling items. Significant progress has been made these have reduced to an acceptable level. We will continue to review reconciling items in future audits. We encourage the City Council to maintain the focus on clearing these on a timely basis.
Contract Management	
The City Council should review its contract register to ensure the accuracy and currency of information.	**Matter Closed** From 1 July 2016, the contract register has been on Tech One (previously it was an MS Excel spreadsheet). It is now the responsibility of business units to load their contracts onto the register directly. The register contains information on both current and expired agreements. Expired agreements are not deleted as more sophisticated filtering tools are used to display/report information in appropriate formats.
Conflicts of interest	
Recommendation 1 Review the content of interest registers and update them so they are more comprehensive and reflect all aspects of good practice. *Recommendation 2* Extend the registers to clearly document how interests have been judged as giving rise to conflict, and how these will be managed.	**Matter closed** *Recommendation 1* The City Council has performed an exercise to ensure all the contracts related database is up to date. *Recommendation 2* The City Council is satisfied with the current format of its Conflict of interest registers and has chosen not to alter them.

Recommendation	Outcome
Accounting for Fines and Penalties in line with the requirements PBE IPSAS 23 – Non Exchange Revenue	
Record fines and penalties revenue at fair value in future years.	**Matter closed** In the 2016/17 financial statements, the City Council recorded parking fines and penalties at fair value.
IT Security Policy	
Review and update the security framework and security awareness programmes should be carried out. The roles and responsibilities including monitoring of security compliance should be established and recommendations from the external KPMG review should be progressed.	**Matter closed** We have sighted examples of monthly security awareness programme has been carried out. This is done via the City Council's STAFFNET and ICT Shared Office Media.
Balance sheet reconciliations	
We recommend that the City Council re-establishes its balance sheet reconciliation processes to ensure that reconciliations for all accounts are prepared and independently reviewed on a timely basis. Timely and robust balance sheet reconciliations as at 30 June 2017 will be essential for reliable and accurate financial reporting.	**Matter closed** By year end the Council re-established its reconciliation process. Year-end reconciliations have been prepared and independently reviewed. Some June reconciliations were prepared and reviewed at the start of August. This was sufficiently timely for accurate financial reporting to occur.
Timeliness of Payroll Accrual Reconciliations	
Prepare and independently review payroll reconciliations in a timely manner.	**Matter closed** As with other balance sheet reconciliations, the payroll accruals reconciliation was prepared and reviewed in sufficient time for accurate financial reporting. Management is satisfied that these timeframes were appropriate.
Treasury management policy and guidelines	
We recommend that the City Council reassess its risk appetite for investing with institutions with a credit rating of "A". If the credit rating limits within the current policy are assessed as no longer appropriate, the City Council should update the policy to reflect current practice. Alternatively it should divest the investment to comply with its policy.	**Matter closed** Counterparty limits were revised in the Treasury management meeting on 11 July 2017 to allow investments in financial institutions with a credit rating of "A". Treasury policy will be updated to reflect these changes.

Recommendation	Outcome
Fixed asset register	
We recommend that all additions/disposals for 2016/17 are reflected within the FAR and that the FAR is reconciled in full to the General Ledger as at 30 June 2017. If this is not completed by year-end, this significant increases the risk that Property, Plant and Equipment, and Intangible Asset disclosures within the financial statements are inaccurate or incomplete.	**Matter closed** The City Council updated the FAR with additions and disposals. The FAR and GL were fully reconciled as at 30 June 2017.
Event Logging	
We recommended that:- • IT security policies should include guidelines for ensuring event logging and monitoring is effective. • System settings such as what events are logged and how long logs are kept should be activated. • Logs should be able to record events for a full day, and then be backed up so that they can be referred to if required. • Event monitoring processes should be formalised into operational tasks.	**Matter closed** Event logging and monitoring is now addressed through the Shared Services arrangement. SSO reports now addressed the following relevant Service Integration Elements:- • Service Operations; • Managed Firewall; • Managed WAN; • Web Protection Service; and • Email Protection Service.

Appendix 4: Mandatory disclosures

Area	Key messages
Our responsibilities in conducting the audit	We carried out this audit on behalf of the Controller and Auditor-General. We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001. The audit of the financial statements does not relieve management or the Council of their responsibilities. Our audit engagement letter contains a detailed explanation of the respective responsibilities of the auditor and the Council.
Auditing standards	We carry out our audit in accordance with generally accepted audit standards. The audit cannot and should not be relied upon to detect every instance of misstatement, fraud, irregularity or inefficiency that are immaterial to your financial statements. The Council and management are responsible for implementing and maintaining your systems of controls for detecting these matters.
Auditor independence	We are independent of the City Council in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): Code of Ethics for Assurance Practitioners, issued by New Zealand Auditing and Assurance Standards Board. Other than the audit, we have no relationship with, or interests in, the City Council. In addition to the audit, we have carried out engagements in the areas of an audit of the City Council and Group's LTP amendment, an independent assurance review under the City Council and Group's Debenture Trust Deed, and a review of the revenue and expenditure of the Clifton Terrace car park managed by the City Council and Group on behalf of the New Zealand Transport Agency, which are compatible with those independence requirements. Other than the audit and these engagements, we have no relationship with, or interests in, the City Council.
Other relationships	We are not aware of any situations where a spouse or close relative of a staff member involved in the audit occupies a position with the City Council that is significant to the audit. We are not aware of any situations where a staff member of Audit New Zealand has accepted a position of employment with the City Council during or since the end of the financial year.
Unresolved disagreements	We have no unresolved disagreements with the City Council about matters that individually or in aggregate could be significant to the financial statements. The City Council has not sought to influence our views on matters relevant to our audit opinion.

REVIEW OF CHANGES TO INVESTMENT AND LIABILITY POLICIES

Purpose

1. The purpose of this report is to present the changes to the Council's Investment Policy and Liability Management Policy to the Subcommittee. This report outlines the changes and the reasons for their adoption.

Summary

2. <insert text here>

Recommendation/s

That the Finance, Audit and Risk Management Subcommittee:

1. Receive the information.
2. Note the changes to the Investment Policy and Liability Management Policy.

Background

3. The Local Government Act 2002 (LGA) requires councils to have an Investment Policy and Liability Management Policy, which set the broad parameters of how a council will manage its investments and borrowings and related financial risks. The policy sets out the general policy objectives, borrowing maturities, interest rate profiles, liquidity and security of a Council.
4. Section 102 of the LGA also allows or requires Council to adopt funding and financial policies on rates remissions, rates postponement, liability management, and investments.
5. A review of the policy is required to be completed as part of the 2018/28 Long-Term Plan (LTP).
6. During a review undertaken by the Treasury Management Committee, some changes have been identified and are now proposed for adoption.

Discussion

1. Some changes have resulted from the latest review and these are discussed below. In addition, some minor editorial changes have been made to wording to ensure the terminology used is accurate.
2. **Adapting a corridor approach**

   Council manages its interest rate risk position within approved interest rate control limits. Through fixing its debt within set limits there is a reduction in interest rate risk volatility.The current policy limits are more focused on a situation where debt levels are maintained at a fairly consistent level.

With significant capital investments throughout the LTP, debt is forecasted to go up. The existing control limits are not addressing this scenario, and as a result interest rate risk exposure is expected to increase.

In order to minimise this exposure to interest rate risk, the Liability Management Policy is introducing a move towards a "corridor" approach when managing this risk. The corridor approach provides a minimum/maximum range and enforces a spread of fixed rate maturities over multiple periods to reduce concentration of risk and reduce uncertainty around interest cost and cash flows.

The corridor approach considers debt forecast figures for every year of the Long-Term Plan, rather than the existing approach that is only forward looking by 12 months.

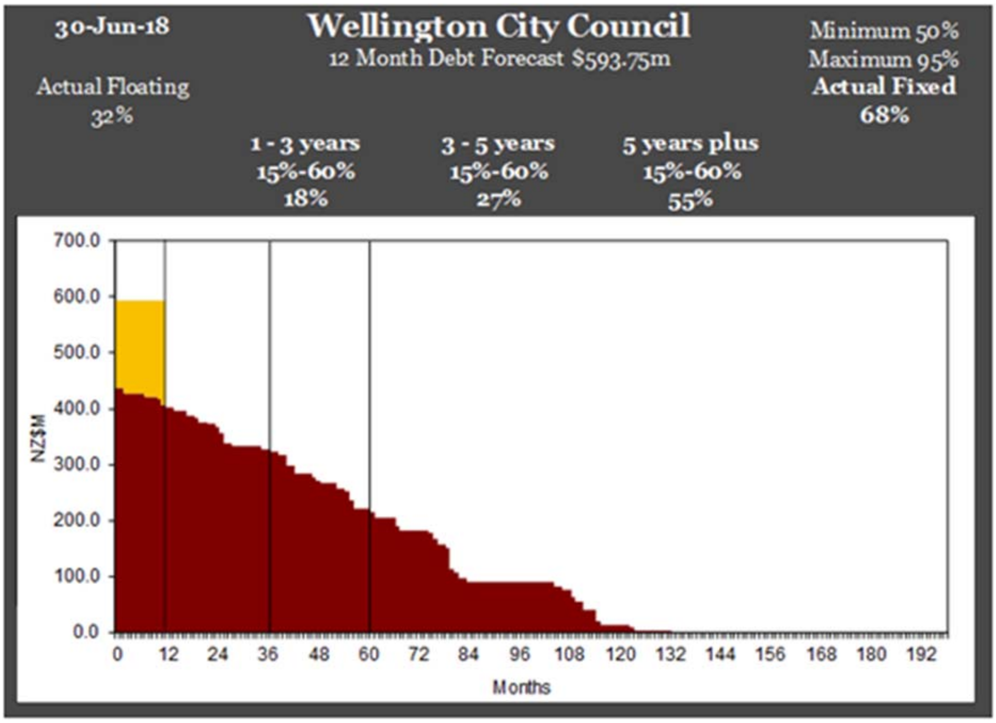
The following considerations have been taken into account when looking into this change to policy:

- Increasing debt levels over the 2018/28 Long-Term Plan period
- An ability to prudently manage future debt levels over a prolonged period with far greater flexibility than a rolling 12 month forecast period
- Forecast miss-hits and phasing delays are managed through a declining corridor (lower maximum/minimum fixed rate hedge percentages beyond 24 months)

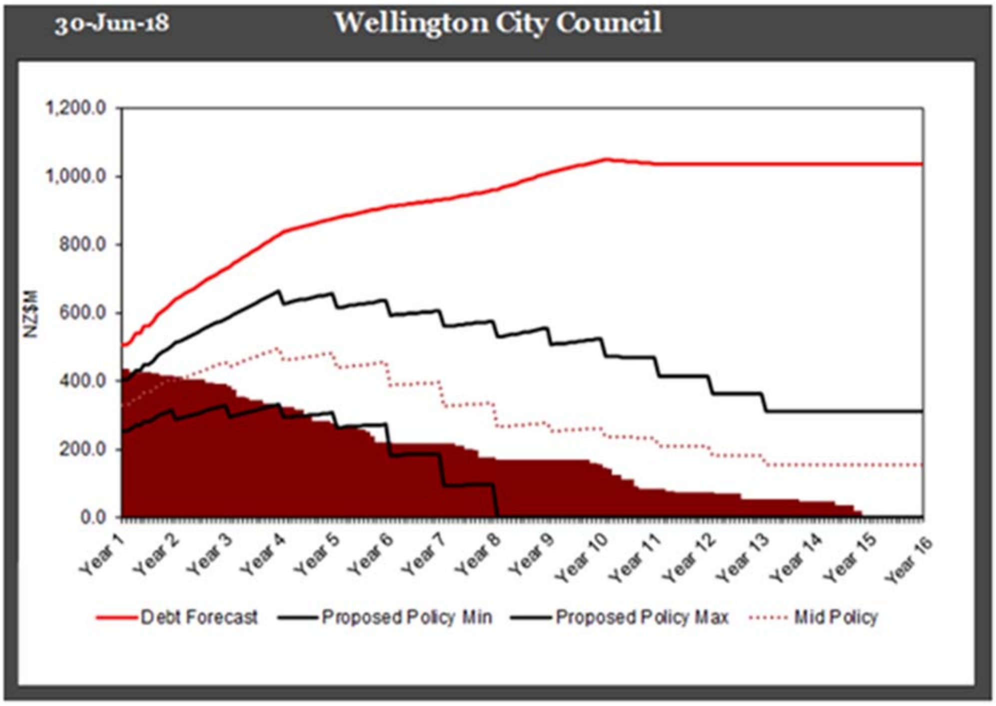
The following two charts illustrate Council's fixed rate portfolio (swaps/fixed rate bonds) under the existing interest rate limits, and the recommended corridor limits approach.

As seen under the corridor approach, the risk profile considers not only the 12 month debt forecast, but also the subsequent years. In doing so the Council has greater flexibility to implement proactive risk management decisions beyond a rolling 12 month horizon. As mentioned above, this allows for a more prudent approach given the size of the capital programme over the next ten year period.

Current policy approach:



Corridor policy approach:



The table below illustrates the fixed/floating interest rate risk control limits which are now included in the revised version of Liability Management Policy:

Debt Interest Rate Policy Parameters (calculated on rolling monthly basis)		
Debt Period Ending	Minimum Fixed Rate	Maximum Fixed Rate
Year 1	50%	80%
Year 2	45%	80%
Year 3	40%	80%
Year 4	35%	75%
Year 5	30%	70%
Year 6	20%	65%
Year 7	10%	60%
Year 8	0%	55%
Year 9	0%	50%
Year 10	0%	45%
Year 11	0%	40%
Year 12	0%	35%
Year 13	0%	30%
Year 14	0%	30%
Year 15	0%	30%
Year 16	0%	30%

The “Fixed Rate” percentage is based on the projected gross debt level on a rolling forward basis. Gross debt is the amount of total borrowing forecast. This allows for pre-hedging in advance of projected physical drawdowns of new debt. When forecasts are changed, the amount of fixed rate cover in place may have to be adjusted to comply with the policy minimums and maximums. In the event of one-off significant changes caused by asset sales/purchases or capital expenditure in advance of the forecast, then a 3 month period of adjustment is permitted.

3. **Borrowing Maturity Profile Limits**

The Council avoids exposure to liquidity risk by managing the maturity of its borrowing programme within set maturity limits. Liability Management Policy defines these limits based on the the term of debt instruments: 0 to 3 years; 3 to 5 years and 5 years plus. The maturity profile of the total committed funding in respect to all debt instruments is to be maintained within a specifically defined ranges. These limits had been matched across all periods to be within the range of 15% to 60%. The change (lowering the minimum range from 20% to 15%) reflects the sector practice and to allow for a greater flexibility for debt maturities beyond three years. The change also helps to ensure debt levels are maintained within the limits and any increase in debt levels supports Council true requirements.

The changes are highlighted in the tables below.

Before changes:

1. Period	2. Minimum	3. Maximum
0 to 3 years	20%	60%

3 to 5 years	20%	60%
5 years plus	15%	60%

After changes:

4. Period	5. Minimum	6. Maximum
0 to 3 years	15%	60%
3 to 5 years	15%	60%
5 years plus	15%	60%

4. **Carbon price risk**

Liability Management Policy has been updated to reflect the changes in Council practice through the Emissions Trading Scheme (ETS) Policy.

Attachments

Authors	Alina Manko, Funding Analyst Martin Read, Manager Financial Strategy & Treasury Deirdre Reidy, Specialist Funding Advisor
Authoriser	Andy Matthews, Chief Financial Officer

SUPPORTING INFORMATION

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

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

Financial implications
Implementation of changes proposed in the Liability Management Policy should help Council reduce its exposure to Interest Rate Risk and hence reduce overall financial risk. Details of implications are addressed above.

Policy and legislative implications
Changes to the policies are highlighted above, and there are are no new legislative implications.

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

Climate Change impact and considerations
Implications of climate change have been considered and are reflected in the review of Liability Management Policy.

Communications Plan
Communication will be through the 2018-28 Long-term Plan communication plan.

Health and Safety Impact considered
There is no Health and Safety impliciations arising from this paper.

Investment and Liability Management Policies

GENERAL POLICY OBJECTIVES

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

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

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

INVESTMENT POLICY

Policy Statement

The Council operates on a "net debt" basis, and does not separately maintain significant long term cash investments. The general policy with respect to surplus short term cash is to invest any short term surplus cash or to utilise it to reduce borrowings.

The Council currently maintains an equity interest in Wellington International Airport Limited (WIAL) and an ownership and financial interest in ground leases and investment properties. The Council will continue to review the level of investment as well as the return it receives on these investments.

Where appropriate, the Council may choose to dispose of investments/financial assets that no longer meet our investment objectives.

Investment Mix and Associated Objectives

The Council categorises its investments into 5 broad categories:

Cash and Cash Equivalents

The Council may invest funds with approved registered banking institutions. These investments generally mature in less than one year, and are held primarily for working capital/liquidity purposes or the pre-funding of debt maturing within twelve months.

Income generating commercial debt instruments

These are principally loans to other organisations (on commercial terms) which deliver a cash-flow return to the Council.

Income generating commercial equity investments

Equity investments arise from the Council owning or controlling an equity holding (e.g. shares) in another entity.

The Council currently maintains a 34% shareholding in Wellington International Airport Limited (WIAL). In the event that a call for capital is made by WIAL the Council's objective is to maintain its shareholding at 34% unless a specific resolution is passed not to do so. As a result, should the Council be required to inject additional capital in WIAL to maintain its existing shareholding, it will do so without further consultation.

Income generating commercial property investments

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

Non income generating investments

This includes loans to other organisations, and equity investments in Council Controlled Organisations. The Council may consider the provision of loans to Community groups but only in exceptional circumstances. The Council's non income generating investments are held for strategic or ownership reasons.

In addition to the above investment categories, the Council may assume financial risk associated with providing contributions, guarantees and underwrites, where these meet the Council's strategic objectives and outcomes. Such undertakings require a Council resolution.

New Zealand Local Government Funding Agency Limited

Despite anything earlier in this policy, the Council may invest in shares and other financial instruments (including borrower notes) of the New Zealand Local Government Funding Agency Limited (LGFA) and may borrow to fund that investment.

The Council's objective in making any such investment is to:

a. obtain a return on the investment; and
b. ensure that the LGFA has sufficient capital to remain viable, meaning that it continues as a source of debt funding for the Council.

Because of this dual objective, the Council has invested in LGFA shares in circumstances in which the return on that investment is potentially lower than the return it could achieve with alternative investments. If required in connection with the investment, the Council may also subscribe for uncalled capital in the LGFA and be a Guarantor.

Investment Acquisition/Addition/Disposal

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

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

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

Reporting

Investments in CCOs

Monitoring of the Council's equity investment and ownership interest in Council Controlled Organisations (CCOs) is undertaken by the Council

Controlled Organisations Subcommittee. The Subcommittee reports to the City Strategy Committee and is responsible for:

- communicating the Council's priorities and strategic outcomes to Council Controlled Organisations (CCOs)
- ensuring delivery through the development of Statements of Intent and integration of CCO outcomes with the Council's Long-term Plan and Annual Plan funding processes and decisions, and
- monitoring the financial performance and delivery on strategic outcomes of the Council's CCOs.

All other investments

The City Strategy Committee is responsible for monitoring all other investments and providing recommendations to the Council in regard to strategies, policy and guidelines in relation to those investments. The City Strategy Committee will receive and review the quarterly Treasury report contained within the consolidated quarterly report.

Risk Management

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

Assessment and management of specific risks associated with the Council's investment in WIAL, LGFA and investment properties will be performed on a regular basis. Any significant changes in the risk profile for these investments will be reported to the City Strategy Committee.

Investment Ratios

For the purposes of setting its Borrowing and Investment Ratios, the Council defines investments as assets which are cash or readily convertible to cash (either through fixed repayment and maturity profiles, or through sale or exchange) and assets which are held primarily for investment purposes (either for capital growth, commercial rental or interest). This is likely to include:

- Cash and cash equivalents (e.g. term deposits),
- Income generating commercial debt instruments
- Income generating commercial equity instruments
- Income generating commercial property instruments

LIABILITY MANAGEMENT POLICY

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

CURRENT LIABILITIES

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

TERM LIABILITIES

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

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

POLICY OBJECTIVES

The Council primarily borrows to pay for the upgrading of existing assets and the construction/purchase of new assets. These assets generally provide new or enhanced benefits to Wellington for many years. Borrowing is therefore considered the most cost-effective and equitable way to fund these assets as it spreads the cost of the asset over the future generations of ratepayers who will benefit from the use of the asset. In addition, Council borrows to meet the costs associated with settling liabilities arising with respect to weathertight homes issues, and the borrowings are repaid from future rates revenues. Accordingly, borrowings have a strategic benefit of making the cost of the asset investment or weathertight homes liabilities affordable to today's ratepayers. Borrowings are maintained at a prudent level, in accordance with the Council's overall financial strategy and specific borrowing limits.

POWER TO BORROW

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

INTEREST RATE RISK MANAGEMENT LIMITS

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

Council debt/borrowings must be within the following fixed/floating interest rate risk control limits:

Debt Interest Rate Policy Parameters (calculated on rolling monthly basis)		
Debt Period Ending	Minimum Fixed Rate	Maximum Fixed Rate
Year 1	50%	80%
Year 2	45%	80%
Year 3	40%	80%
Year 4	35%	75%
Year 5	30%	70%
Year 6	20%	65%
Year 7	10%	60%
Year 8	0%	55%
Year 9	0%	50%
Year 10	0%	45%
Year 11	0%	40%
Year 12	0%	35%
Year 13	0%	30%
Year 14	0%	30%
Year 15	0%	30%
Year 16	0%	30%

“Fixed Rate” is defined as an interest rate repricing date beyond 3 months forward on a continuous rolling basis.

The “Fixed Rate” percentage is based on the projected gross debt level on a rolling forward basis. Gross debt is the amount of total borrowing. This allows for pre-hedging in advance of projected physical drawdowns of new debt. When forecasts are changed, the amount of fixed rate cover in place may have to be adjusted to comply with the policy minimums and maximums. In the event of one-off significant changes caused by asset sales/purchases or capital expenditure in advance of the forecast, then a 3 month period of adjustment is permitted.

LIQUIDITY

The Council minimises its liquidity risk by avoiding concentration of debt maturity dates and by maintaining committed borrowing facilities at a level that exceeds 115% of the existing external net debt level. The Council will only drawdown or borrow against these facilities as required.

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

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

BORROWING MATURITY PROFILE LIMITS

Period	Minimum	Maximum
0 to 3 years	15%	60%
3 to 5 years	15%	60%
5 years plus	15%	60%

CREDIT EXPOSURE

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

LOCAL GOVERNMENT FUNDING AGENCY

Despite anything earlier in this Policy, the Council may borrow from the New Zealand Local Government Funding Agency Limited (LGFA) and, in connection with that borrowing, will enter into the following related transactions to the extent it considers necessary or desirable:

a. contribute a portion of its borrowing back to the LGFA as an equity contribution to the LGFA (for example borrower notes that may convert into redeemable preference shares).
b. provide guarantees of the indebtedness of other local authorities to the LGFA and of the indebtedness of the LGFA itself
c. commit to contributing additional equity (or subordinated debt) to the LGFA if required
d. secure its borrowing from the LGFA, and the performance of other obligations to the LGFA or its creditors with a charge over the Council's rates and rates revenue.
e. Subscribe for shares and uncalled capital in the LGFA

BORROWING REPAYMENT

The Council will repay borrowings from a combination of excess depreciation over and above renewals, sale of surplus or underperforming assets, operating surpluses, and any rates specifically set to repay borrowings, including those associated with settling weathertight homes liabilities, or from the renewal of borrowings.

SPECIFIC BORROWING LIMITS

In determining a prudent level of borrowings the Council assesses the level of net borrowing against the Council's operating income.

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

RATIO	LIMIT
Net borrowing as a percentage of income	<175%
Net Interest as a percentage of income	<15%
Net Interest as a percentage of annual rates income	<20%
Liquidity (Term borrowing + committed loan facilities to existing external net debt)	>115%

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

CREDIT RATING
To provide an independent assessment of the Councils' credit quality, Council maintains a credit rating with an independent rating agency.

CARBON PRICE RISK
Council maintains a stock of NZU credits and is a projected to remain a net holder of carbon credits for the foreseeable future. Within this context, Council manages its annual carbon liabilities through surrendering existing holdings and purchasing NZUs in the spot/forward market, where required. The Treasury Management Committee is responsible for carbon strategies/decisions and the CFO has responsibility for implementing the strategies.

AUDIT OF THE CONSULTATION DOCUMENT AND LONG TERM PLAN

Purpose

1. The purpose of this report is to advise the Subcommittee on the Audit New Zealand engagement and arrangements for the audit of the Consultation Document (CD) and Long-Term Plan (LTP) for the period commencing 1 July 2018.

Recommendations

That the Finance, Audit and Risk Management Subcommittee:

1. Receive the information.
2. Note the Audit Engagement Letter prepared by Audit New Zealand (attachment 1) and their approach to the audit of the CD and the LTP.

Background

2. The Council is responsible for preparting the CD and LTP in accordance with the Local Government Act 2002 and in accordance with the generally accepted accounting practice in New Zealand.

3. Audit New Zealand is required to provide two separate reports:

- On the CD, a report on:
  - o whether the CD gives effect to the purpose specificed in section 93B; and
  - o the quality of the information and assumptions underlying the information in the consultation document.
- On the LTP, a report on:
  - o whether the LTP gives effect to the purpose in section 93(6); and
  - o the quality of the information and assumptions underlying the forecast information provided in the LTP.

Discussion

4. Bede Kearney, Appointed Auditor and Audit Director will be in attendance to answer any questions or clarify any matters the Subcommittee may have.

5. Audit New Zealand has outlined the key dates of the audits on pages 10 and 11 of attachment 1, with the proposal to issue the opinion on the CD on 28 March 2018, and the opinion on the LTP on 28 June 2018.

6. Management has reviewed the Letter and have no matters to bring to the Subcommittee's attention.

7. Management has in place a programme of work to ensure the CD and LTP document are completed within this timeframe.

8. Audit New Zealand's professional fees covering both the consultation document and the LTP is $143,000 (plus GST and disbursements).

Attachments

Attachment 1.	Engagement Letter for the audit of the Consultation Document and the Long Term Plan	Page 184

Authors	Baz Kaufman, Manager Strategy Phyllis Lee, Principal Advisor Internal Audit
Authoriser	Kane Patena, Director Governance and Assurance

SUPPORTING INFORMATION

Engagement and Consultation
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 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 is no climate change implications arising from this paper.

Communications Plan
No communicaton plan is required for this paper.

Health and Safety Impact considered
There is no Health and Safety implications arising from this paper.

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

7 February 2018

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cc Andy Foster, Finance, Chair, Audit and Risk Management Committee
Kevin Lavery, Chief Executive Officer
Andy Matthews, Chief Financial Officer
Lloyd Jowsey, Team Leader (Planning and Reporting)
Baz Kaufman, Manager Strategy, Policy and Research
Marty Read, Manager Financial Strategy and Planning

Dear Justin

Audit Engagement Letter: Audit of the consultation document and Long-Term Plan for the period commencing 1 July 2018

This audit engagement letter is sent to you on behalf of the Auditor-General who is the auditor of all "public entities", including Wellington City Council (the City Council), under section 14 of the Public Audit Act 2001. The Auditor-General has appointed me, Bede Kearney, using the staff and resources of Audit New Zealand, under section 32 and 33 of the Public Audit Act 2001, to carry out the audit of the City Council's consultation document and Long-Term Plan (LTP).

This letter outlines:

- the terms of the audit engagement and the respective responsibilities of the governing body (the Council) and me as the appointed auditor;
- the audit scope and objectives;
- the approach taken to complete the audit;
- the areas of audit emphasis;
- the audit logistics; and
- the professional fees.

A BUSINESS UNIT OF THE CONTROLLER AND AUDITOR-GENERAL

1 Specific responsibilities of the Council for preparing the consultation document and the Long-Term Plan

Our audit will be carried out on the basis that the Council acknowledges that it has responsibility for preparing the consultation document and LTP, by applying its own assumptions, in accordance with the Local Government Act 2002 (the Act) (in particular, the requirements of Part 6 and Schedule 10), and in accordance with generally accepted accounting practice in New Zealand. We assume that elected members are familiar with those responsibilities and, where necessary, have obtained advice about them.

For clarity we note the following statutory responsibilities as set out in the Act:

- Section 93 of the Act requires the City Council to have an LTP at all times, and Part 1 of Schedule 10 governs the content of the LTP.
- Section 111 aligns the financial information with generally accepted accounting practice.
- Section 83 (with reference to section 93A) sets out the special consultative procedures that the Council is required to follow to adopt the consultation document and LTP.
- Section 93C(4) requires an auditor's report on the consultation document and section 94 requires a separate opinion on the LTP.

Please note that the audit does not relieve the Council of any of its responsibilities.

Other general terms are set out in the relevant sections of this letter and Appendix 1.

2 Our audit scope

The Act requires us to provide two separate reports as follows:

- On the consultation document, a report on:
    - whether the consultation document gives effect to the purpose specified in section 93B; and
    - the quality of the information and assumptions underlying the information in the consultation document.
- On the LTP, a report on:
    - whether the LTP gives effect to the purpose in section 93(6); and
    - the quality of the information and assumptions underlying the forecast information provided in the LTP.

We expect our work to assess the quality of underlying information and assumptions to be a single, continuous process during the entire LTP preparation period.

Our focus for the first limb of each opinion will be to assess whether each document meets its statutory purpose. Given the different purposes of each document, we will assess the answers to different questions for each opinion.

Our focus for the second limb of each opinion will be to obtain evidence about the quality of the information and assumptions underlying the information contained in the consultation document and LTP. How we obtain this information depends on our judgement, including our assessment of the risks of material misstatement of the information and assumptions underlying the information contained in the consultation document and LTP, whether because of fraud or error.

Our audit opinions do not:

- provide a guarantee of absolute accuracy of the information in the relevant document;
- provide a guarantee that the City Council has complied with all relevant legal obligations;
- express an opinion on the merits of any policy content; or
- include an opinion on whether the forecasts will be achieved.

3 Our approach to this audit

3.1 The content of the consultation document

The Act emphasises the discretion of the Council to decide what is appropriate to include in the consultation document and the associated consultation process. In deciding what to include in the consultation document, the Council must have regard to its significance and engagement policy, and the importance of other matters to the city and its communities.

We will need to understand how the Council has approached the task of applying its significance and engagement policy, and how it has considered the importance of other matters in deciding what to include in the consultation document. This will help inform our assessment of whether the consultation document achieves its statutory purpose.

3.2 Adopting and auditing the underlying information

Before adopting the consultation document, section 93G of the Act requires the Council to prepare and adopt the information that:

- is relied on by the content of the consultation document,
- is necessary to enable the Auditor-General to issue an audit report under section 93C(4), and
- provides the basis for the preparation of the LTP.

The information to be prepared and adopted needs to be enough to enable the City Council to prepare the consultation document.

We consider that local authorities will need to have thought comprehensively about how best to meet the requirements of the Act. Consistent with the guidance of the Society of Local Government Managers' (SOLGM), our view is that core building blocks of an LTP will be needed to support an effective consultation document. This will include, but not be limited to, draft financial and infrastructure strategies and the information that underlies them, including asset management information, assumptions, defined levels of service, funding and financial policies, and a complete set of financial forecasts.

In addition, the time frames to consider and adopt the LTP after the consultation process will be tight. From a practical perspective, it will be important that the City Council is well advanced with the preparation of the full LTP when it issues the consultation document. Otherwise you may find it difficult to complete the work and adopt the full LTP before the statutory deadline. The same is true for the audit work. The more audit work that is able to be completed at the first stage of the process, the less pressure there will be on you and the audit team at the end of the process.

3.3 Control environment

The Council is responsible for establishing and maintaining accounting and internal control systems (appropriate to the size of the City Council), supported by written policies and procedures, designed to prepare the consultation document and LTP, and to provide reasonable quality information and assumptions underlying the information contained in these documents.

Our approach to the audit will be to identify, confirm and assess the City Council's key processes and controls over the underlying information and the production of both the consultation document and the LTP. The purpose of this assessment is to enable us to plan the most effective and efficient approach to the audit work needed to provide our two audit opinions. Our assessment is not for the purpose of expressing an opinion on the effectiveness of the City Council's internal controls.

We will carry out a review of the control environment to help us understand the approach taken to develop the consultation document and LTP, develop expectations of what should be included in the consultation document and LTP, and identify areas of potential audit risk. This will involve discussions with elected representatives and selected staff throughout the City Council, review of publicly available information about the City Council, updating our knowledge of the City Council issues developed during recent years, and a review of Council minutes since the last audit review.

Our review of your self-assessment response (see below), and key controls relating to the underlying information and development of the LTP is useful to our initial assessment of audit risk and so the nature and extent of our overall audit work.

3.4 Project management, reporting deadlines, and audit progress

The development of the consultation document and LTP is a significant and complex project and a comprehensive project plan is required for a successful LTP process. It is also essential that there is commitment throughout the organisation for the project, starting with the elected representatives. The involvement of senior management and elected representatives is important in deciding what to include in the consultation document.

The LTP has complex and inter-related information needs and draws together plans, policies, decisions and information from throughout the City Council and its community. We recognise that the City Council will be doing its LTP preparation over an extended period. A more efficient and cost effective audit can be achieved when audit work and feedback is provided in "real time" or on an "auditing as you go" basis as the underlying information is developed.

Consequently, we will discuss with you and your staff the City Council's approach to preparing and completing the LTP. We expect that the City Council is approaching its preparation on a project basis and recognise that ideally our audit work should "shadow" that project timetable. The success of this "auditing as you go" approach will depend on the City Council's project management of the overall LTP process which should include time for audit work at appropriate points in the process. We have agreed key milestones in section 6 and a detailed schedule of deliverables in Appendix 3.

3.5 Self-assessment

To assist our audit planning we intend to use a self-assessment process to assist with our risk assessment process. The self-assessment requires you to reflect on your most significant issues and risks, governance of the LTP project, and the systems and processes you have in place (particularly to meet the purposes in the Act for the consultation document and the LTP), asset management, performance management and reporting, and financial management.

We will shortly be forwarding the self-assessment to you under a separate cover. The self-assessment is similar to those used in our audit of previous LTPs. We ask for your co-operation in completing this assessment for return to us by 7 February 2018.

The self-assessment document covers a range of topics and has a large number of questions. These cover the LTP preparation process, the key strategies that provide a framework for the LTP forecasts, and the underlying information and assumptions. We do not expect detailed and comprehensive responses to all questions. The self-assessment's role is to give us an initial understanding of the City Council's LTP process and identify the key issues and risks that will be relevant to us in determining our approach and the areas of focus in our audits of the City Council's consultation document and LTP. Where the City Council is unable to respond at this stage, or believes it will be more effective or efficient to provide responses as part of our initial planning meetings, then note this in the self-assessment.

4 Our particular areas of audit emphasis

4.1 Financial strategy and infrastructure strategy

The Act requires a local authority to prepare two key strategies as part of the LTP: the financial strategy and the infrastructure strategy. The purpose of the financial strategy is to:

- facilitate prudent financial management by the local authority by providing a guide for the local authority to consider proposals for funding and expenditure against; and
- provide a context for consultation on the local authority's proposals for funding and expenditure by making transparent the overall effects of those proposals on the local authority's services, rates, debt, and investments.

The purpose of the infrastructure strategy is to:

- identify significant infrastructure issues for the local authority during the period covered by the strategy; and
- identify the principal options for managing those issues and the implications of those options.

The Act expects close alignment between the two strategies and section 101B(5) allows for them to be combined into a single document.

Although the Act clearly sets the minimum requirements for these strategies, it does not define the only things that can be in a strategy. A good strategy should include what is needed to be a good quality strategic planning document. In the case of the infrastructure strategy the principles of ISO55000 should be considered, particularly where the City Council is seeking to prepare a best practice strategy.

In our management reports from the previous LTP, we identified a number of areas for improvement, in particular in relation to the Infrastructure Strategy. We encourage the City Council to address these areas of improvement as part of the preparation for the 2018-28 LTP.

The Office of the Auditor-General has included sector-wide strengths and weaknesses in the publication Matters arising from the 2015-25 local authority long-term plans, which is available from http://www.oag.govt.nz/2015/ltps.

Our focus when reviewing both strategies is to assess whether the City Council has met the purpose outlined in the Act and presented the strategies in a coherent and easily readable manner. Specifically, we will:

- confirm that the two strategies are appropriately aligned;
- understand the impact of the financial forecasts included in the infrastructure strategy on the prudence of the financial strategy; and
- assess the reasonableness of the prepared forecasts by:
    - understanding how the City Council has applied the effect of its assumptions (for example, allowing for changing demographics) and levels of service on expenditure decisions, and outlined the implications of these decisions in the strategies;
    - reviewing the City Council's relationship between its renewal capital expenditure and depreciation expenditure forecasts; and
    - checking that the infrastructure strategy is appropriately inflated.

The City Council's financial modelling is a significant component of the underlying information that supports both the financial strategy and infrastructure strategy. We will place particular emphasis on the integrity and effectiveness of the financial modelling of all local authorities.

An additional role played by these strategies is to facilitate accountability to the community. It is critical that these strategies are presented in such a way that they are engaging and informative, and support the presentation of issues, options and implications presented in the consultation document.

4.2 Assumptions

The quality of the City Council's financial forecasts is significantly affected by whether the assumptions on which they are based are defined and reasonable. The Act recognises this by requiring all local authorities to clearly outline all significant forecasting assumptions and risks underlying the financial estimates in the LTP (Schedule 10, clause 17). *Prospective Financial Statements* (PBE FRS 42) also requires the disclosure of significant assumptions.

The following are a list of expected significant assumptions for the City Council.

- Population growth;
- Inflation;
- Interest rates;
- Levels of Service;
- NZTA Funding rate;
- Climate Change; and
- Timing of capital expenditure, replacement of assets and asset revaluation movements.

We have not raised any significant issues with the assumptions used by the City Council in previous LTP's. However we have raised issues around the quality of asset planning and the lack of asset condition information. The City Council needs to continue to improve in this area.

We will review the City Council's list of significant forecasting assumptions and confirm that they are materially complete. We will also test the application of selected assumptions in the financial forecasts to check they have been reasonably applied. Finally, we will confirm that:

- all significant forecasting assumptions disclose the level of uncertainty associated with the assumption; and
- for all significant forecasting assumptions that involve a high level of uncertainty, the uncertainty and an estimate of the potential effects of the uncertainty on the financial forecasts are appropriately disclosed in the LTP.

We consider that the significant forecasting assumptions are crucial to the underlying information for the consultation document and will complete our review during our audit of the consultation document.

4.3 Quality of asset-related forecasting information

A significant portion of the City Council's operations relates to the management of its infrastructure: the roading network and the "three-waters" of water supply, sewerage, and stormwater. These activities typically make up around 75% of the City Council's capital expenditure and around 50% of operational expenditure.

In our 2015-25 LTP management reports, we noted that data quality could be improved if the City Council:

- Performed condition assessments on significant assets to determine if asset data is correct and reliable.
- Reconciled asset management systems information with general ledger.
- Ensured appropriate agreements are in place for assets where responsibility or ownership is shared with another party.
- Captured asset performance information (it is not done in RAMM).

We also noted that the asset planning environment could be improved with the following actions.

- Timely update of other AMPs which are currently under development or planned.
- Further consideration of how asset management systems interface with the financial systems.
- Finalisation and approval of asset management policy.
- Update of Transportation AMP for latest valuation information.

To prepare reasonable quality asset information, the City Council needs to have a comprehensive understanding of its critical assets and the cost of adequately maintaining and renewing them. An important consideration is how well the City Council understands the condition of its assets and how the assets are performing.

In reviewing the reasonableness of the City Council's asset-related forecasting information, we will:

- assess the City Council's asset management planning systems and processes;
- understand what changes the City Council proposes to its forecast levels of service;
- understand the City Council's assessment of the reliability of the asset-related information;
- consider how accurate recently prepared budgets have been; and

- assess how matters such as affordability have been incorporated into the asset-related forecasts prepared.

Depending on what we identify in completing the above, we may have to complete further detailed testing on the City Council's asset-related information.

4.4 Consultation Document (CD)

The 2015-25 LTP was the first year a CD was required to be prepared and audited under the Local Government Act. The key consultation issues identified included within the City Council's CD were:

- Rates increases to fund the planned capital programme over the 10 year period.
- Significant changes to the Revenue and Financing Policy –this is a result of the change to the rating basis from land value to capital value, which the City Council adopted in December 2014.

In our view, overall, the CD presented the city's key issues clearly, concisely and with adequate detail to facilitate an understanding of the issues within the community.

We encourage the City Council to review the SOLGM guidance as part of its LTP planning, so it can identify aspects of good practice to incorporate into its 2018-28 CD.

5 Other matters

5.1 Our independence

It is essential that the audit team and Audit New Zealand remain both economically and attitudinally independent of the City Council (including being independent of management personnel and the Council). This involves being, and appearing to be, free of any interest that might be regarded, whatever its actual effect, as being incompatible with integrity, objectivity and independence.

5.2 Publication of the consultation document and adopted LTP on the City Council's website

The City Council is responsible for the electronic presentation of the consultation document and LTP on its website. This includes ensuring that there are enough security and controls over information on the website to maintain the integrity of the presented data. Please ensure that your project plan allows time for us to examine the final electronic file version of the respective documents, including our audit report, before their inclusion on the website.

We need to do this to ensure consistency with the paper-based documents that have been subject to audit.

6 Audit logistics

7 The key dates in the audit timetable are as follows:

Draft Significance and engagement policy, refreshed performancce measures framework (no targets) and AMPs provided to Audit.	22 December 2017 (completed)
First interim audit visit (initial assessment) to review Planning / budgetary process (non-asset activities), AMPs, asumptions, financial model.	29 January to 16 February 2018
Remaining draft AMPs available	31 January 2018
Budgeting model	31 January 2018
Self-assessment returned to audit team for consideration	7 February 2018
Full suite of assumptions available	7 February 2018
Audit Engagement Letter signed and returned to Audit New Zealand	16 February 2018
Draft consultation document available	16 February 2018
Financial strategy available	16 February 2018
Infrastructure strategy available	16 February 2018
Updated asset management plans available	16 February 2018
Draft performance measures framework (with draft targets)	20 February 2018
Full (but not necessarily final) financial forecasts available	26 February 2018
Second audit visit to review audit CD and review draft LTP	26 February – 16 March 2018
Draft performance framework with full PMs and targets available	28 February 2018
Reasonably complete draft LTP document available - ideally this will be before the CD audit is completed	5 March 2018
Audit clearance on consutation document	21 March 2018
Council meeting to approve consultation document	28 March 2018
Audit opinion on consultation document required	28 March 2018
Draft management report on consultation document engagement	15 April 2018
Complete draft LTP document (and any outstanding supporting information) available - our audit work on the draft (pre-consultation) LTP document needs to be completed by 31 May	13 April 2018
Finalised management report on consultation document engagement	30 April 2018
Audit visit to complete our review of the consultation process	23 May – 1 June 2018
The Council considers submissions and decides on changes (if any)	6 – 7 June 2018

Final (post-consultation) LTP available to Audit	13 June 2018
Final audit visit to review final (post-consultation) LTP	13 – 17 June 2018
Audit clearance on final LTP document	24 June 2018
Audit opinion on adopted LTP required	28 June 2018
The Council adopts the audited LTP	28 June 2018
Draft management report on LTP engagement	16 July 2018
Finalised management report on LTP engagement	31 July 2018

Should we encounter any significant problems or delays during the audit, we will inform you immediately.

We have an electronic audit management system. This means that our auditors will complete most their work on their laptops.

Therefore, we would appreciate it if the following could be made available during our audit:

- A suitable workspace for computer use (in keeping with the health and safety requirements discussed in **Appendix 1**).
- Electronic copies of key documents.

As noted in section 3.4, our audit work needs to be done as you develop your underlying information and prepare your consultation document and LTP, to ensure the timely completion of our audit.

To ensure that we meet agreed deadlines, it is essential that the dates agreed are adhered to.

8 Professional fees

Our audit fee, covering both the consultation document and the LTP for the period commencing 1 July 2018, is $143,000 (excluding GST and disbursements) as outlined in Appendix 2.

The proposed fee is based on the following assumptions:

- Information required to conduct the audit is complete and provided in accordance with the agreed timelines, including the draft consultation document and the full draft financial strategy and draft infrastructure strategy that supports it.
- There will be an appropriate level of assistance from your staff.
- All documentation (consultation document, LTP and all other underlying documentation) provided will be subject to appropriate levels of quality review before submission for audit.
- The consultation document and LTP will include all relevant disclosures.

- We will review, at most, two drafts of each of the consultation document and LTP during our audit.
- We will also review one printer's proof copy of the consultation document and LTP and one copy of the electronic version of the consultation document and LTP (for publication on your website).
- There are no significant changes in the structure or level of operations of the City Council.
- The local authority is preparing forecast financial statements for the "City Council parent" only, rather than including consolidated forecast financial statements for the City Council and any controlled entities in the adopted LTP.

If the scope and/or amount of work changes significantly (such as a change in direction during the development of the consultation document or between the development of the consultation document and the LTP), we will discuss the issues with you at the time.

If information is not available for the visits as agreed, or the systems and controls the City Council uses to prepare the underlying information and assumptions cannot be relied on, we will seek to recover all additional costs incurred as a result. We will endeavour to inform you as soon as possible should such a situation arise.

This fee is exclusive of any subsequent amendments the Council might make to the adopted LTP under section 93D.

We wish to interim bill as work progresses. We propose the following billing arrangements:

	$
January 2018	25,000
February 2018	30,000
March 2018	30,000
May 2018	30,000
June 2018	28,000
Total	$143,000

9 Personnel

Our personnel involved in the management of the audit are:

Bede Kearney	Appointed Auditor
Karen Young	Engagement Director
Matthew Geddes	Manager (1)
Rajesh Ratanjee	Manager (2)
Moeed Temuri	Assistant Manager
Rachel McKechnie	Asset management specialist

We have endeavoured to maintain staff continuity as far as possible.

10 Agreement

Please sign and return the attached copy of this letter to indicate that:

- it is in accordance with your understanding of the arrangements for this audit of the consultation document and LTP for the period commencing 1 July 2018; and
- you accept the terms of the engagement set out in this letter that apply specifically to the audit of the consultation document and LTP and supplement the existing audit engagement letter dated 3 May 2017.

If there are any matters requiring further clarification please do not hesitate to contact me.

Yours sincerely

Bede Kearney
Director

I acknowledge that this letter is in accordance with my understanding of the arrangements of the audit engagement. I also acknowledge the terms of the engagement that apply specifically to the audit of the consultation document and LTP, and which supplements the existing audit engagement letter dated 3 May 2017.

Signed: ______________________ Date: 9/2/18

Justin Lester
Mayor

Appendix 1: Terms of the engagement that apply specifically to the audit of the consultation document and LTP

Objectives

The objectives of the audit of the consultation document and LTP are:

- to provide independent opinions on the consultation document (under section 93C(4) of the Act) and on the LTP (under section 94(1) of the Act) about:
    - whether each document gives effect to the relevant statutory purpose; and
    - the quality of the information and assumptions underlying the information included in each document; and
- to report on matters relevant to the City Council's planning systems that come to our attention.

Our audit involves performing procedures that examine, on a test basis, evidence supporting assumptions, amounts and other disclosures in the consultation document and LTP, and evaluating the overall adequacy of the presentation of information.

We also review other information associated with the consultation document and LTP to identify whether there are material inconsistencies with the audited consultation document and LTP.

Provision of a management report to the Council

At a minimum, we will report to the Council at the conclusion of the engagement. The management report communicates matters which come to our attention during the engagement and that we think are relevant to the Council. For example, we will report:

- any weaknesses in the City Council's systems; and
- uncorrected misstatements noted during the audit.

Please note that the Auditor-General may refer to matters that are identified in the audit of consultation documents and LTPs in a report to Parliament if it is in the public interest, in keeping with section 20 of the Public Audit Act 2001.

Materiality

Consistent with the annual audit, the audit engagement for the consultation document and LTP adheres to the principles and concepts of materiality during the 10-year period of the LTP and beyond (where relevant).

Materiality is one of the main factors affecting our judgement on the areas to be tested and the nature and extent of our tests and procedures performed during the audit. In planning and performing the audit, we aim to obtain assurance that the consultation document and LTP, and the information and assumptions underlying the information contained in these documents, do not have material misstatements caused by either fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence a reader's overall understanding of the forecast financial statements and performance information.

Consequently, if we find material misstatements that are not corrected, we will refer to them in the audit opinion. Our preference is for any material misstatement to be corrected, avoiding the need to refer to misstatements in our opinion.

The standards applied when conducting the audit of the consultation document and adopted LTP

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

Responsibilities

General responsibilities

The general responsibilities of the Council for preparing and completing the consultation document and LTP are consistent with those for the annual report, as set out in the audit engagement letter dated 23 June 2017 – but noting that the consultation document and LTP include forecast information.

These responsibilities include those set out in Appendices 1 and 2 of that audit engagement letter as detailed below:

- Appendix 1: Respective specific responsibilities of the Council and the Appointed Auditor:
  - Responsibilities for compliance with laws and regulations.
  - Responsibilities to establish and maintain appropriate standards of conduct and personal integrity.

Specific responsibilities

The Council is responsible for:

- Maintaining accounting and other records that:
  - correctly record and explain the forecast transactions of the City Council;
  - enable the Council to monitor the resources, activities and entities under its control;
  - enable the City Council's forecast financial position to be determined with reasonable accuracy at any time; and

    - enable the City Council to prepare forecast financial statements and performance information that comply with legislation.

- Providing us with:
    - access to all information and assumptions relevant to preparing the consultation document and LTP, such as records, documentation and other matters;
    - additional information that we may request from the City Council for the purpose of the audit;
    - unrestricted access to Council members and employees that we consider necessary; and
    - written confirmation concerning representations made to us in connection with the audit.

Health and safety of audit staff

The Auditor-General and Audit New Zealand take seriously their responsibility to provide a safe working environment for audit staff. Under the Health and Safety at Work Act 2015, we need to make arrangements with you to keep our audit staff safe while they are working at your premises. We expect you to provide a safe work environment for our audit staff. This includes providing adequate lighting and ventilation, suitable desks and chairs, and safety equipment, where required. We also expect you to provide them with all information or training necessary to protect them from any risks they may be exposed to at your premises. This includes advising them of emergency evacuation procedures and how to report any health and safety issues.

Appendix 2: Team mix and hours for the audit of the consultation document and LTP for the 10-year period commencing on 1 July 2018

	Total hours
Appointed Auditor	85
Review Director	15
Audit Manager	170
Other staff	380
Asset management specialist	36
Sector specialist	3
Totals	689

Fee calculations

	$
Net fee	$143,000
OAG overhead contribution*	**NIL**
Total fee (including overhead contribution)	$143,000
GST	$21,450
Audit fee for the LTP for the period commencing 1 July 2018	$164,450

* No OAG overhead is charged in relation to the audit of the LTP.

We will charge disbursements, including travel, on an actual and reasonable basis.

17

Appendix 3: Audit's 2018 LTP information and documentation requirements

Information required	Relevance to our audit	Timing considerations	Agreed deliverables	Agreed date
Audit planning phase				
The City Council's timetable.	So we can understand and assess the City Council's planning processes and plan our workflows.	As soon as possible so we can populate key sign-off dates and deliverables into the audit arrangements letter. We also need this information to plan our resourcing of the audit given the major impact of LTP audits on our organisation.	Timetable provided and agreed between both parties.	7 December 2017
Signed audit arrangements letter.	To agree expectations, fee and timeframes.	Once timing and deliverables are agreed.	Signed audit arrangements letter return to Audit NZ.	16 February 2018
Description of the City Council's higher level planning processes (from self-assessment plus discussions).	So we can assess the robustness of the City Council's overall LTP preparations processes.	Initial phase of Audit's engagement with the City Council.	Self-assessment sent to the City Council Followed up by a discussion with senior management and Audit NZ Completed-self assessment returned to Audit NZ.	7 February 2018
Description of the state of progress in updating the City Council's AMPs and in particular a description of the significant issues/ changes that have arisen	So we can understand the state of the City Council's knowledge about its assets and the robustness of the forecasts that flow from the	Initial phase of Audit's engagement with the City Council as the AMPs drive the large and critical service components of the LTP.	Description of AMPs and significant issues/ changes that have arisen since 2015.	22 December 2017 – 31 January 2018

18

Information required	Relevance to our audit	Timing considerations	Agreed deliverables	Agreed date
since 2015.	AMPs.			
Description of the City Council's processes for preparing its forecasts (including its QA process) for non-asset based activity forecasts.	So we can assess the robustness of the City Council's overall financial forecasting processes.	Initial phase of Audit's engagement with the City Council as our audit approach is built on our assessment of the robustness of the City Council's forecasting processes. If they are not sufficiently robust then there will likely be issues for our audit opinion.	Description of the processes for preparing forecasts for non-asset based activity forecasts.	31 January 2018
Financial model.	We need to understand the functionality and controls in the model which applies the key forecasting assumptions to the raw forecasts from the planning and budgeting and the AMPs.	This could be done at an early stage, potentially even before we commence our work on the consultation document (CD) phase of the audit.	Copy of or access to the financial model (unpopulated).	31 January 2018
CD audit phase				
Underlying assumptions	Key assumptions drive the LTP and are important to our assessment and understanding of the City Council's forecasts.	Early advice on the nature (completeness) of assumptions as part of the initial phase of Audit's engagement with the City Council. Support for the assumptions actually applied is required as part of our audit of the CD.	Complete list of assumptions applied in populating the LTP.	7 February 2018

Information required	Relevance to our audit	Timing considerations	Agreed deliverables	Agreed date
Financial Strategy (FS)	To assess how well the FS communicates the City Council's financial strategy in terms of: **The financial position** the City Council is starting in and what position it is aiming to be in at the end of the LTP period. **The funding approach** and implications to achieve the position on key elements of the City Council's financial strategy – particularly investments, debt and rates? How the City Council has **taken into account current and future ratepayers** when considering the funding of services and asset purchases. We also assess the financial prudence (including balanced budget) of the financial strategy.	As with the infrastructure strategy, we expect the FS to be available relatively early in the process as it provides the high level, long-term context for the City Council's financial policies and forecasts.	Financial Strategy	16 February 2018
Infrastructure Strategy (IS)	To assess the IS which provides a long-term perspective on the City Councils infrastructure which is: • **Visionary** – tells the story about where the	As with the FS, we expect the IS to be available relatively early in the process as it provides the high level, long-term context for the City Council's infrastructural assets which	Infrastructure Strategy	16 February 2018

20

Information required	Relevance to our audit	Timing considerations	Agreed deliverables	Agreed date
	City Council is, where it expects to be, and how it intends to get there. • **Realistic** – includes assumptions and disclosures that are relevant and achievable. • **Relational** – creates the right debate and is credible because it connects to financial strategy and other relevant influences.	contribute the majority of the City Council's forecast expenditure and deliver core services to the community.		
AMPs	The AMPs identify the key issues that drive the City Council's IS and also provide the financial forecasts for the asset based activities. They also provide the underlying information for a large portion of the City Council's financial forecasts. Also provides the underlying information on which the 30 year forecasts in the FS are built.	As with the FS, we expect the updated AMPs to be available relatively early in the process. We use the information in and from the AMPs to understand the key issues facing the City Council and also to assess the proposed levels of service and financial forecasts in both the IS and the LTP.	Draft Asset Management Plans for Transportation and 3 Waters.	22 December 2017 – 31 January 2018
Full financial forecasts	We need these so we can: • understand the overall **financial context** for	We require the financial model, populated with full financial forecasts, at least	Full draft financial forecasts and supporting workpapers.	26 February 2018

Information required	Relevance to our audit	Timing considerations	Agreed deliverables	Agreed date
	the CD; and • assess the **robustness of the financial forecasts** in the LTP.	two weeks before sign-off on our CD audit.		
Funding and Financial policies	To assess their alignment with the FS and their prudence.	As with the FS, we expect these to be available relatively early in the process as they provide the framework for the City Council's financial forecasts.	Funding and Financial policies	16 February 2018
Draft performance framework	We are required to form a view about whether the City Council has complied with its performance reporting obligations as set out in the Local Government Act 2002. We assess whether the forecast performance report: • constitutes an adequate performance reporting framework; • provides an adequate basis for presenting fairly, in all material respects, the performance of the City Council; and • complies with generally accepted	We need a clear understanding of the proposed levels of service (and, in particular, significant proposed changes) in the LTP before we complete our audit of the CD. However, a complete draft performance framework is not required at this stage. It would be helpful, however, to at least have a reasonable understanding of the proposed structure and format of the performance framework at this stage. We will need to have substantially completed our work on the performance framework by the time the Council completes its	Draft performance framework	28 February 2018

Information required	Relevance to our audit	Timing considerations	Agreed deliverables	Agreed date
	accounting practice. For key performance measures we also assess whether the City Council has adequate systems and controls in place to appropriately record and report its performance.	consideration of submissions.		
Significance and engagement policy	We need to understand how the Council has approached the task of applying its significance and engagement policy, and how it has considered the importance of other matters in deciding what to include in the consultation document. This will help inform our assessment of whether the CD achieves its statutory purpose.	We expect this to be available relatively early in the process as it provides the basis for the Council determining the significant issues it wishes to consult on with its community.	Significance and engagement policy	22 December 2017 (completed)
Draft Consultation Document (CD)	Our audit opinion on the CD provides assurance to the community: • that the CD gives effect to the purpose set out in section 93B; and • on the quality of the information and assumptions	At the commencement of our fieldwork we will need a clear understanding of what the Council has identified as the key consultation issues. Where appropriate this should also cover those choices for the community to consider which the Council has identified.	Draft Consultation Document	16 February 2018

Information required	Relevance to our audit	Timing considerations	Agreed deliverables	Agreed date
	underlying the information provided in the consultation document.	We will need a good complete draft CD at least two weeks before we sign off on the CD audit.		
Final version of CD	Our audit opinion on the final version of the CD must be included in the document that goes out for consultation.	The Local Government Act 2002 does not specify that the Council needs to make a formal resolution to adopt the (audited) CD. However, the Council must approve the CD before we can issue our audit opinion.	Finalised version of CD	14 March 2018
LTP audit phase				
Draft LTP (pre-consultation version)	We need to review a complete draft as soon as possible to avoid last minute issues.	While the LTP document is not a pre-requisite for us to complete our CD audit, ideally we would have cleared much of the draft LTP document at the CD audit phase. In June there will be a compressed timeframe within which most local authorities will be finalising their LTPs after their consultation. This will put significant pressure on our staff resources. Therefore we will need to have substantially cleared all aspects of our audit work on the draft LTP document	Draft LTP (pre-consultation version)	5 March 2018 (If complete document not planned to be available, we will need to agree components. Also we will need to agree when the complete draft will be available).

Information required	Relevance to our audit	Timing considerations	Agreed deliverables	Agreed date
		prior to the final, post-consultation, version being prepared.		
A schedule of all changes arising from consultation, along with a description of how and where these have impacted the LTP.	So we can follow the changes arising from consultation through the final version of the LTP.	After the Council has confirmed the changes arising from consultation (if any) and management has flowed these changes through the document. We will need at least one week (depending on the extent of changes) between receiving this schedule of changes and the final LTP and our sign off on the LTP audit. As noted above, our audit sign off needs to be before the Council formally adopts the LTP.	A schedule of all changes arising from consultation, along with a description of how and where these have impacted the LTP.	13 June 2018
Supporting information for changes and how they have impacted the LTP.	So we can assess the reasonableness of the changes.	After the Council has confirmed its changes and management has updated the document to fully reflect the effect of these changes.	Supporting information for changes and how they have impacted the LTP.	13 June 2018
Final version of LTP	So we can issue our audit opinion for inclusion as part of the document.	Our audit opinion is issued after the Council has finalised the content of the LTP document but before the Council formally adopts the LTP.	Final version of LTP	13 June 2018

3. Public Excluded

Resolution to Exclude the Public:

THAT the Finance, Audit and Risk Management Subcommittee :

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 Health and Safety Report	7(2)(b)(ii) The withholding of the information is necessary to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information.	s48(1)(a) 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 Risk Management Update	7(2)(c)(ii) 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) 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.
3.3 Status of Audit Findings	7(2)(c)(i) 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 prejudice the supply of similar information or information from the same source and it is in the public interest that such information should continue to be supplied. 7(2)(c)(ii)	s48(1)(a) 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.

		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.	
3.4	Progress on Internal Audit Plan and Roadmap	7(2)(c)(i) 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 prejudice the supply of similar information or information from the same source and it is in the public interest that such information should continue to be supplied. 7(2)(c)(ii) 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) 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.