

FUNDING AND FINANCIAL STATEMENTS

WHAT'S YOUR VIEW

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Draft Annual Plan, Wellington City Council, PO Box 2199, Wellington.

Funding impact statement - Operating expenditure 2011/12 Draft Annual Plan

| Annual Plan | | Forecast |
|---|--|----------------|
| 2010/11 | | 2011/12 |
| \$000 | | \$000 |
| Operating Statement | | |
| 351,296 | Total project expenditure | 365,794 |
| 500 | Self-insurance & Weathertight Homes reserve | 500 |
| 351,796 | Total operating expenditure | 366,294 |
| | | |
| 1,457 | Add back City housing ring-fenced surplus | 797 |
| | | |
| Less expenditure not funded under section 100 of LGA: | | |
| (7,776) | NZTA Transport funded projects | (9,605) |
| (2,768) | Clearwater sewerage treatment plant | (3,029) |
| (187) | Living Earth (Decommissioned) | (204) |
| 342,522 | Total operating expenditure to be funded | 354,253 |
| | | |
| Funded by: | | |
| 123,476 | General rates | 127,181 |
| | | |
| Targeted rates: | | |
| 29,908 | Sewerage rates (including trade waste) | 30,541 |
| 33,690 | Water rate | 35,694 |
| 14,179 | Stormwater rate | 16,483 |
| 6,669 | Base (residential) sector targeted rate | 6,026 |
| 3,161 | Commercial sector targeted rate | 4,386 |
| 10,857 | Downtown levy | 11,268 |
| 33 | Tawa driveways levy | 33 |
| 14 | Marsden Village levy | 14 |
| 98,511 | Total targeted rates | 104,445 |
| 221,987 | Total rates to fund operating expenditure | 231,626 |
| | | |
| 77,223 | User charges | 77,801 |
| | | |
| Other income | | |
| 31,395 | Ground and commercial leases | 31,519 |
| 5,250 | Dividends | 5,650 |
| 3,873 | NZTA subsidies | 4,548 |
| 810 | Housing grants | 798 |
| 1,100 | Petrol tax | 1,300 |
| 884 | Miscellaneous | 1,011 |
| 342,522 | Total funding for operating expenditure | 354,253 |

Funding impact statement - Capital expenditure and loans to other organisations 2011/12 Draft Annual Plan

| Annual Plan | | Forecast |
|----------------|---|----------------|
| 2010/11 | | 2011/12 |
| \$000 | | \$000 |
| 64,794 | Renewal capital expenditure | 73,873 |
| 100,359 | Upgrade capital expenditure | 78,240 |
| 6,860 | Capital expenditure carried forward from 2007/08 | - |
| - | Capital expenditure carried forward from 2008/09 | - |
| 25,000 | Capital expenditure carried forward from 2009/10 | - |
| - | Capital expenditure carried forward from 2010/11 | 28,000 |
| 197,013 | Total capital expenditure to be funded | 180,113 |
| - | Loans to other organisations | - |
| 197,013 | Total capital expenditure and loans to be funded | 180,113 |
| | Funded by: | |
| 61,425 | Depreciation | 70,238 |
| 13,075 | NZTA transport subsidies | 14,473 |
| 36,690 | Housing grants | 42,702 |
| 7,065 | Development contributions | 5,753 |
| 490 | Bequests & grants | 1,452 |
| 78,268 | Borrowings | 45,495 |
| 197,013 | Total funding for capital expenditure and loans to other organisations | 180,113 |

Funding impact statement - Borrowing 2011/12 Draft Annual Plan

| Annual Plan 2010/11 \$000 | Forecast 2011/12 \$000 |
|---|------------------------------|
| Opening Gross Borrowings per LTCCP | |
| 287,881 | 323,985 |
| Opening Gross Borrowings - total | |
| 78,268 | 45,495 |
| New borrowings to fund capital expenditure and loans to other organisations | |
| Repayment of borrowings funded through rates and other sources: | |
| - | - |
| (4,826) | (4,069) |
| - | - |
| (1,458) | - |
| - | - |
| Asset proceeds | |
| Ring-fenced housing surpluses | |
| Repayment of loans | |
| Depreciation | |
| 359,866 | 365,411 |
| Closing Gross Borrowing | |

Statement of Prospective Capital Expenditure and Capital Expenditure Funding 2011/12 Draft Annual Plan

| Annual Plan 2010/11 \$000 | | Forecast 2011/12 \$000 |
|---------------------------------|---|------------------------------|
| | Capital expenditure: | |
| 64,794 | Renewals | 73,873 |
| 100,359 | New assets | 78,240 |
| 165,153 | Total annual capital expenditure programme | 152,113 |
| | Renewals funded by: | |
| 61,425 | Depreciation | 70,238 |
| 3,369 | Borrowings | 3,635 |
| | New assets funded by: | |
| 43,039 | Borrowings | 13,860 |
| 36,690 | Housing grants | 42,702 |
| 7,065 | Development contributions | 5,753 |
| 13,075 | NZTA subsidies | 14,473 |
| 490 | Bequests and other grants | 1,452 |
| 165,153 | Total capital expenditure funding | 152,113 |

Note that the annual capital expenditure programme excludes expenditure carried forward from previous years.

Funding impact statement (Housing) - Operating expenditure 2011/12 Draft Annual Plan

| Annual Plan | | Forecast |
|--|--|---------------|
| 2010/11 | | 2011/12 |
| \$000 | | \$000 |
| | Operating Statement | |
| 11,522 | Total project expenditure | 11,430 |
| 5,531 | Depreciation | 6,247 |
| 17,053 | Total operating expenditure | 17,677 |
| | Funded by: | |
| 17,700 | User charges (rental income) | 17,675 |
| | Other income | |
| 810 | Housing grants | 798 |
| 18,510 | Total funding for operating expenditure | 18,473 |
| 1,457 | Ringfenced Operating funding surplus | 796 |
| This information is incorporated into and forms part of the Funding Impact Statement - Operating Expenditure | | |

Funding impact statement (Housing) - Capital expenditure 2011/12 Draft Annual Plan

| Forecast | Forecast |
|--|-----------------|
| 2010/11 | 2011/12 |
| \$000 | \$000 |
| 1,889 Renewal capital expenditure | 2,920 |
| 36,963 Upgrade capital expenditure | 42,756 |
| 38,852 Total capital expenditure and loans to be funded | 45,676 |
| Funded by: | |
| 5,531 Depreciation | 6,247 |
| 36,690 Housing grants | 42,702 |
| 42,221 Total funding for capital expenditure and loans to other organisations | 48,949 |
| 3,369 Ringfenced Capital funding surplus | 3,273 |
| <i>This information is incorporated into and forms part of the Funding Impact Statement - Capital Expenditure and loans to other organisations</i> | |

Funding impact statement (Housing) - Borrowing/Investments 2011/12 Draft Annual Plan

**Forecast
2010/11
\$000**

**Forecast
2011/12
\$000**

Opening Gross Borrowings per LTCCP

| | |
|---|--------------|
| 6,835 Opening Gross Borrowings/Investments - total | 2,009 |
|---|--------------|

| | |
|---|---------|
| (1,457) Ring-fenced housing operating surplus | (796) |
| (3,369) Ring-fenced housing capital funding surplus | (3,273) |

| | |
|---|----------------|
| 2,009 Closing Gross Borrowings/Investments | (2,060) |
|---|----------------|

This information is incorporated into and forms part of the Funding Impact Statement - Borrowings

1 Governance

Operational Expenditure (\$000)

| Annual Plan 2010/11 | Activity | Activity Name | Forecast 2011/12 |
|---|--|---|---------------------|
| 15,059 | 1.1 | Information, consultation and decision making | 14,362 |
| 360 | 1.2 | Maori engagement (including mana whenua) | 237 |
| 15,419 | Total Operating Expenditure | | 14,599 |
| 0 Less: Non-funded Depreciation | | | 0 |
| 15,419 | Net Operating Expenditure | | 14,599 |
| <i>Net operating expenditure funded by:</i> | | | |
| 552 | Direct activity income | | 245 |
| 14,867 | General Rates | | 14,354 |
| - | Targeted Rates | | 0 |
| - | Grants & Subsidies | | 0 |
| - | Other Income | | 0 |
| 15,419 | Net Operational Expenditure Funding | | 14,599 |

Capital Expenditure (\$000)

| Annual Plan 2010/11 | Activity | Activity Name | Forecast 2011/12 |
|---------------------------------------|------------------------------------|---|---------------------|
| 104 | 1.1 | Information, consultation and decision making | 0 |
| 104 | Total Capital Expenditure | | 0 |
| <i>Capital expenditure funded by:</i> | | | |
| 65 | Depreciation | | 75 |
| - | Grants & Subsidies | | 0 |
| - | Development Contributions | | 0 |
| 39 | Borrowings and working capital* | | (75) |
| 104 | Capital Expenditure Funding | | 0 |

* a debit balance indicates increased borrowings, while a (credit) balance indicates a funding surplus in that year which offsets borrowings and working capital.

2 Environment

Operational Expenditure (\$000)

| Annual Plan 2010/11 | Activity | Activity Name | Forecast 2011/12 |
|---|--|---|---------------------|
| 12,991 | 2.1 | Gardens and beaches | 13,333 |
| 15,472 | 2.2 | Green open spaces (Town belts) | 16,063 |
| 33,721 | 2.3 | Water | 35,725 |
| 48,348 | 2.4 | Wastewater and stormwater | 51,574 |
| 9,388 | 2.5 | Waste reduction and energy conservation | 10,545 |
| 5,337 | 2.6 | Environmental conservation attractions | 4,876 |
| 220 | 2.7 | Quarry | 217 |
| 125,477 | Total Operating Expenditure | | 132,333 |
| 2,955 | Less: Non-funded Depreciation | | 3,233 |
| 122,522 | Net Operating Expenditure | | 129,100 |
| <i>Net operating expenditure funded by:</i> | | | |
| 11,767 | Direct activity income | | 12,465 |
| 31,516 | General Rates | | 32,631 |
| 78,224 | Targeted Rates | | 82,982 |
| 563 | Grants & Subsidies | | 547 |
| 452 | Other Income | | 476 |
| 122,522 | Net Operational Expenditure Funding | | 129,100 |

Capital Expenditure (\$000)

| Annual Plan 2010/11 | Activity | Activity Name | Forecast 2011/12 |
|---------------------------------------|---|---|---------------------|
| 2,157 | 2.1 | Gardens and beaches | 2,205 |
| 602 | 2.2 | Green open spaces (Town belts) | 639 |
| 9,949 | 2.3 | Water | 10,701 |
| 11,536 | 2.4 | Wastewater and stormwater | 11,593 |
| 691 | 2.5 | Waste reduction and energy conservation | 941 |
| 2,147 | 2.6 | Environmental conservation attractions | 4,531 |
| 27,082 | Total Capital Expenditure | | 30,610 |
| 0 | Loans to other organisations | | 0 |
| 27,082 | Total capital expenditure and loans to be funded | | 30,610 |
| <i>Capital expenditure funded by:</i> | | | |
| 30,846 | Depreciation | | 33,912 |
| 490 | Bequests | | |
| 4,043 | Development Contributions | | 3,595 |
| - | Loan Repayments | | 0 |
| (8,297) | Borrowings and working capital* | | (6,898) |
| 27,082 | Capital Expenditure Funding | | 30,610 |

* a debit balance indicates increased borrowings, while a (credit) balance indicates a funding surplus in that year which offsets borrowings and working capital.

3 Economic Development

Operational Expenditure (\$000)

| Annual Plan 2010/11 | Activity | Activity Name | Forecast 2011/12 |
|---|--|---|---------------------|
| 23,969 | 3.1 | City promotions, events and attractions | 17,758 |
| 2,147 | 3.2 | Business support | 2,117 |
| 26,116 | Total Operating Expenditure | | 19,875 |
| - | Less: Non-funded Depreciation | | 0 |
| 26,116 | Net Operating Expenditure | | 19,875 |
| <i>Net operating expenditure funded by:</i> | | | |
| 6,257 | Direct activity income | | 248 |
| 7,821 | General Rates | | 6,054 |
| 12,032 | Targeted Rates | | 13,573 |
| - | Grants & Subsidies | | 0 |
| 6 | Other Income | | 0 |
| 26,116 | Net Operational Expenditure Funding | | 19,875 |

Capital Expenditure (\$000)

| Annual Plan 2010/11 | Activity | Activity Name | Forecast 2011/12 |
|---------------------------------------|---|---|---------------------|
| 603 | 3.1 | City promotions, events and attractions | 2,201 |
| 603 | Capital Expenditure | | 2,201 |
| - | Loans to other organisations | | 0 |
| 603 | Total capital expenditure and loans to be funded | | 2,201 |
| <i>Capital expenditure funded by:</i> | | | |
| | | | 0 |
| 1,285 | Depreciation | | 2,148 |
| - | Grants & Subsidies | | 0 |
| - | Development Contributions | | 0 |
| (682) | Borrowings and working capital* | | 53 |
| 603 | Capital Expenditure Funding | | 2,201 |

4 Cultural Wellbeing

Operational Expenditure (\$000)

| Annual Plan 2010/11 | Activity | Activity Name | Forecast 2011/12 |
|---|--|-------------------------------------|---------------------|
| 7,942 | 4.1 | Galleries and museums | 8,325 |
| 1,435 | 4.2 | Heritage | 1,305 |
| 3,461 | 4.3 | Community arts and cultural support | 3,681 |
| 2,083 | 4.4 | Arts partnerships | 1,771 |
| 14,921 | Total Operating Expenditure | | 15,082 |
| - | Less: Non-funded Depreciation | | 0 |
| 14,921 | Net Operating Expenditure | | 15,082 |
| <i>Net operating expenditure funded by:</i> | | | |
| 689 | Direct activity income | | 794 |
| 11,140 | General Rates | | 11,146 |
| 2,724 | Targeted Rates | | 2,741 |
| - | Grants & Subsidies | | 0 |
| 368 | Other Income | | 401 |
| 14,921 | Net Operational Expenditure Funding | | 15,082 |

Capital Expenditure (\$000)

| Annual Plan 2010/11 | Activity | Activity Name | Forecast 2011/12 |
|---------------------------------------|------------------------------------|-------------------------------------|---------------------|
| - | 4.1 | Galleries and museums | 0 |
| 36 | 4.2 | Heritage | 0 |
| 413 | 4.3 | Community arts and cultural support | 43 |
| 449 | Total Capital Expenditure | | 43 |
| <i>Capital expenditure funded by:</i> | | | |
| 283 | Depreciation | | 478 |
| - | Grants & Subsidies | | 0 |
| - | Development Contributions | | 0 |
| 166 | Borrowings and working capital* | | (435) |
| 449 | Capital Expenditure Funding | | 43 |

* a debit balance indicates increased borrowings, while a (credit) balance indicates a funding surplus in that year which offsets borrowings and working capital.

5 Social & Recreation

Operational Expenditure (\$000)

| Annual Plan 2010/11 | Activity | Activity Name | Forecast 2011/12 |
|---|--|-------------------------------------|---------------------|
| 21,551 | 5.1 | Libraries | 21,216 |
| 1,730 | 5.2 | Recreation promotion and access | 1,494 |
| 29,177 | 5.3 | Recreation Services | 34,201 |
| 11,711 | 5.4 | Public health and safety | 12,282 |
| 17,053 | 5.5 | Housing | 17,698 |
| 8,443 | 5.6 | Community participation and support | 9,346 |
| 89,665 | Total Operating Expenditure | | 96,237 |
| - | Less: Non-funded Depreciation | | 0 |
| 1,457 | Add back Housing Surplus | | 797 |
| 91,122 | Net Operating Expenditure | | 97,032 |
| <i>Net operating expenditure funded by:</i> | | | |
| 15,245 | Direct activity income | | 16,811 |
| 52,083 | General Rates | | 56,797 |
| 5,483 | Targeted Rates | | 4,907 |
| 810 | Grants & Subsidies | | 798 |
| 17,501 | Other Income | | 17,719 |
| 91,122 | Net Operational Expenditure Funding | | 97,032 |

Capital Expenditure (\$000)

| Annual Plan 2010/11 | Activity | Activity Name | Forecast 2011/12 |
|---------------------------------------|---|-------------------------------------|---------------------|
| 2,382 | 5.1 | Libraries | 2,235 |
| 112 | 5.2 | Recreation promotion and access | 297 |
| 31,918 | 5.3 | Recreation Services | 7,965 |
| 1,967 | 5.4 | Public health and safety | 960 |
| 38,852 | 5.5 | Housing | 45,674 |
| 41 | 5.6 | Community participation and support | 336 |
| 75,272 | Total Capital Expenditure | | 57,468 |
| <i>Capital expenditure funded by:</i> | | | |
| 9,149 | Depreciation | | 11,147 |
| 5,531 | Housing (rental) Funded Depreciation | | 6,247 |
| 36,690 | Grants & Subsidies | | 44,154 |
| 589 | Development Contributions | | 898 |
| (3,369) | Adj for Housing ring-fenced capital funding surplus | | 797 |
| 26,682 | Borrowings and working capital* | | (5,799) |
| 75,272 | Capital Expenditure Funding | | 57,468 |

* a debit balance indicates increased borrowings, while a (credit) balance indicates a funding surplus in that year which offsets borrowings and working capital.

6 Urban Development

Operational Expenditure (\$000)

| Annual Plan 2010/11 | Activity | Activity Name | Forecast 2011/12 |
|---|--|--------------------------------------|---------------------|
| 2,757 | 6.1 | Urban planning and policy | 2,202 |
| 11,808 | 6.2 | Building control and facilitation | 12,075 |
| 6,528 | 6.3 | Development control and facilitation | 6,466 |
| 667 | 6.4 | Earthquake risk mitigation | 523 |
| 3,934 | 6.5 | Public spaces development | 3,824 |
| 25,694 | Total Operating Expenditure | | 25,090 |
| - | Less: Non-funded Depreciation | | 0 |
| 25,694 | Net Operating Expenditure | | 25,090 |
| <i>Net operating expenditure funded by:</i> | | | |
| 10,404 | Direct activity income | | 11,164 |
| 15,276 | General Rates | | 13,912 |
| 14 | Targeted Rates | | 14 |
| - | Grants & Subsidies | | 0 |
| - | Other Income | | 0 |
| 25,694 | Net Operational Expenditure Funding | | 25,090 |

Capital Expenditure (\$000)

| Annual Plan 2010/11 | Activity | Activity Name | Forecast 2011/12 |
|---------------------------------------|------------------------------------|----------------------------|---------------------|
| 190 | 6.1 | Urban planning and policy | 1,562 |
| 117 | 6.4 | Earthquake risk mitigation | 491 |
| 5,352 | 6.5 | Public spaces development | 5,422 |
| 5,659 | Total Capital Expenditure | | 7,475 |
| <i>Capital expenditure funded by:</i> | | | |
| 10 | Depreciation | | 12 |
| - | Grants & Subsidies | | 0 |
| 729 | Development Contributions | | 191 |
| 4,920 | Borrowings and working capital* | | 7,272 |
| 5,659 | Capital Expenditure Funding | | 7,475 |

* a debit balance indicates increased borrowings, while a (credit) balance indicates a funding surplus in that year which offsets borrowings and working capital.

7 Transport

Operational Expenditure (\$000)

| Annual Plan 2010/11 | Activity | Activity Name | Forecast 2011/12 |
|---|--|-------------------------------|---------------------|
| 860 | 7.1 | Transport planning and policy | 1,311 |
| 37,800 | 7.2 | Transport networks | 40,328 |
| 11,580 | 7.3 | Parking | 12,178 |
| 50,240 | Total Operating Expenditure | | 53,817 |
| 7,776 | Less: Non-funded Depreciation | | 9,605 |
| 42,464 | Net Operating Expenditure | | 44,212 |
| <i>Net operating expenditure funded by:</i> | | | |
| 28,819 | Direct activity income | | 31,909 |
| 10,302 | General Rates | | 7,841 |
| 33 | Targeted Rates | | 33 |
| 3,310 | Grants & Subsidies | | 4,429 |
| - | Other Income | | 0 |
| 42,464 | Net Operational Expenditure Funding | | 44,212 |

Capital Expenditure (\$000)

| Annual Plan 2010/11 | Activity | Activity Name | Forecast 2011/12 |
|---------------------------------------|------------------------------------|--------------------|---------------------|
| 43,064 | 7.2 | Transport networks | 36,622 |
| 269 | 7.3 | Parking | 1,316 |
| 43,333 | Total Capital Expenditure | | 37,938 |
| <i>Capital expenditure funded by:</i> | | | |
| 11,174 | Depreciation | | 11,782 |
| 13,075 | Grants & Subsidies | | 14,473 |
| 1,703 | Development Contributions | | 1,068 |
| 17,381 | Borrowings and working capital* | | 10,615 |
| 43,333 | Capital Expenditure Funding | | 37,938 |

* a debit balance indicates increased borrowings, while a (credit) balance indicates a funding surplus in that year which offsets borrowings and working capital.

2011/12

RATES FUNDING STATEMENT (excluding GST)

| Rate | Factor | Differentiation | Total Value of Factor | Rate/charge | Rates yield GST Exclusive | Rates yield GST Exclusive | |
|---|-------------------------|---|-----------------------|--------------------------|---------------------------|---------------------------|---------|
| (\$000's) | | | | | | | |
| General Rate | Capital Value | Base differential use | \$34,964,051,000 | €0.197629 | \$69,099,104 | 69,099 | |
| | Capital Value | Commercial, industrial & business use | \$10,678,941,000 | €0.543893 | \$58,081,813 | 58,082 | |
| | TOTAL | | | | | \$127,180,917 | 127,181 |
| Sewerage Rate | Fixed charge | Base differential use / connection status | 65295 properties | \$100.00 | \$6,529,500 | 6,530 | |
| | Capital Value | Base differential use / connection status | \$36,897,100,000 | €0.032910 | \$12,142,836 | 12,143 | |
| | Capital Value | Commercial, industrial and business use / connection status | \$9,117,997,000 | €0.130171 | \$11,868,988 | 11,870 | |
| | TOTAL | | | | | \$30,541,323 | 30,543 |
| Water rate | Fixed charge | Base differential use/connection status (without water meter) | 58372 properties | \$119.75 | \$6,990,047 | 6,990 | |
| | Capital Value | Base differential use/connection status (without water meter) | \$30,448,243,000 | €0.045776 | \$13,937,988 | 13,938 | |
| | Consumption unit charge | Base differential use/connection status (water meter) | n/a | \$1.715 / m ³ | \$418,382 | 418 | |
| | Fixed charge | Base differential use/connection status (water meter) | n/a | \$100.00 | \$69,500 | 70 | |
| | Capital Value | Commercial, industrial and business use /connection status(without water meter) | \$809,406,000 | €0.271063 | \$2,194,000 | 2,194 | |
| | Consumption unit charge | Commercial, industrial and business use /connection status (water meter) | n/a | \$1.715 / m ³ | \$11,789,375 | 11,789 | |
| | Fixed charge | Commercial, industrial and business use /connection status (water meter) | n/a | \$100.00 | \$294,300 | 294 | |
| | TOTAL | | | | | \$35,693,592 | 35,693 |
| Stormwater rate | Capital Value | Base differential use (excluding rural) | \$34,503,047,000 | €0.037023 | \$12,774,063 | 12,774 | |
| | Capital Value | Commercial, industrial and business use (excluding rural) | 9,634,096,000 | €0.038499 | \$3,709,031 | 3,709 | |
| | TOTAL | | | | | \$16,483,094 | 16,483 |
| Indoor Community Sports Centre rate | Capital Value | Base differential use | \$34,964,051,000 | €0.000000 | \$0 | - | |
| | Capital Value | Commercial, industrial and business use | \$9,634,096,000 | €0.000000 | \$0 | - | |
| | TOTAL | | | | | \$0 | - |
| Base sector targeted rate | Capital Value | Residential use | \$34,964,051,000 | €0.017232 | \$6,025,005 | 6,025 | |
| Commercial sector targeted rate | Capital Value | Commercial, industrial & business use | \$10,678,941,000 | €0.041071 | \$4,385,948 | 4,386 | |
| Downtown levy | Capital Value | Commercial, industrial & business use / central city location | \$7,409,419,000 | €0.152077 | \$11,268,022 | 11,268 | |
| Tawa driveways levy | Fixed charge | Shared residential access driveways in the suburb of Tawa and maintained by the Council | 251 properties | \$133.33 | \$33,467 | 33 | |
| Marsden Village levy | Capital Value | Commercial, industrial & business use located in Marsden shopping village | \$11,519,000 | €0.121538 | \$14,000 | 14 | |
| TOTAL RATES REQUIREMENT (excluding GST) | | | | | | \$231,625,368 | 231,626 |

Rating Mechanisms

RATES

Rates are assessed under the Local Government (Rating) Act 2002 on all rateable rating units in the Rating Information Database. Where rates are based on value, the capital value of the property as assessed by Quotable Value New Zealand Limited will apply. The latest city-wide revaluation was carried out as at 1 September 2009. This revaluation remains effective for the 2011/12 rating year, except where subsequent maintenance valuations have been required under valuation rules or Council's rating policies.

Policy Objective

- To provide the Council with adequate income to carry out its mission and objectives.
- To support the Council's achievement of its strategic objectives.
- To be simply administered, easily understood, allow for consistent application and generate minimal compliance costs.
- To spread the incidence of rates as equitably as possible, by balancing the level of service provided by the Council with ability to pay and the incidence of costs in relation to benefits received.
- To be neutral in that it does not encourage people to redirect activity in order to avoid its impact.
- To reflect the decisions of the Council's policies and rating reviews.

GENERAL RATES

General rates are set under section 13 of the Local Government (Rating) Act 2002 on all rateable rating units in the City of Wellington.

The Council proposes to set a general rate based on the Capital Value of each rating unit within the city.

The general rate will be set on a differential basis, based on land use. All rating units (or part thereof) will be classified for the purposes of General rates within one of the following rating differentials:

DIFFERENTIAL RATING CATEGORIES

NON-RATEABLE

Includes any land referred to in Part 1, Schedule 1 of the Local Government (Rating) Act 2002. This land is non-rateable with the exception of targeted rates for sewerage and water where rates are applicable.

50 PERCENT NON-RATEABLE

Includes all land referred to in Part 2, Schedule 1 of the Local Government (Rating) Act 2002. This land is 50 percent non-rateable in respect of the rates that would have applied had the property not been classified as non-rateable, with the exception of targeted rates for sewerage and water for which the land is fully rateable.

BASE DIFFERENTIAL

This includes:

- a) Separately rateable land used solely for one or more household units; excluding those properties that are used principally to provide short stay (28 days or less) commercial accommodation for which a tariff is charged
- b) Vacant land zoned residential

c) Rural land (including farmland and lifestyle blocks) under the District Plan that is administered by Council, but excluding any rating unit that is zoned rural industrial

d) Separately rateable land occupied by a charitable organisation, which is deemed by the Council to be used exclusively or principally for sporting, recreation or community purposes and that does not generate any private pecuniary profit.

COMMERCIAL, INDUSTRIAL AND BUSINESS DIFFERENTIAL

This includes:

a) Separately rateable land used for a commercial or industrial purpose

b) Vacant land zoned commercial, industrial or rural industrial under the District Plan administered by the Council

c) Land used for offices, administrative and/or associated functions

d) Land used for commercial accommodation for which a tariff is charged and where the principal purpose is the provision of short stay accommodation

e) Business-related premises used principally for private pecuniary benefit

f) Utility networks

g) Any property not otherwise categorised within the Base differential.

ANNUAL UNIFORM GENERAL CHARGE

The Council does not assess a Uniform Annual General Charge.

DIFFERENTIAL RATING CATEGORY CONDITIONS

- The Council has resolved to achieve a target in 2011/12, which modifies the differential apportionment so that the commercial, industrial and business sector pay 2.8 times the General rate per dollar of capital value payable by those properties incorporated under the Base (Residential) differential. For 2010/11 the General rate differential ratio is 3.1:1.
- The separated parts of a rating unit will be differentially rated where a part of the property is non-rateable or the property fits under one or more rating differential and either:
 - a) The total capital value of the rating unit is above \$800,000 or
 - b) Minority use(s) account for more than 30 percent of the total capital value of the rating unit.

In any other case, the General rate differential is determined by principal use.

- In regard to the rates attributable to a rating unit during the transition period between two differential rating categories, a ratepayer may apply for a change in rating category at any time between the lodgement of a building consent application with the Council (on the condition that the principal prior use has ended) and the earlier of either:
 - a) The time at which the Council gives final approval of the completed works, or
 - b) The property is deemed (by the Council) to be available for its intended use.

In situations where the change in land use does not require a Council consent, but warrants a change in differential rating category, the onus is on the ratepayer to inform the Council prior to the property being utilised under the new use.

- The rating differential classification of all rating units must be set prior to the commencement of a rating year and will remain in place for that entire rating year. Any change in circumstances that results in a change of differential classification during a rating year will apply from 1 July of the following rating year.
- Any property eligible for mandatory 50 percent non-rateability under Part 2, Schedule 1, of the Rating Powers Act will be first classified under the appropriate General rate differential classifications and the non-rateability applied to that rate.

TARGETED RATES

Targeted Rates are set under section 16 of the Local Government (Rating) Act 2002.

SEWERAGE RATE

A targeted sewerage rate is to be apportioned 60 percent: 40 percent between properties incorporated under the Base differential and the Commercial, Industrial and Business differential in accordance with the Revenue and Financing Policy. This rate pays for the cost of the provision of the sewerage treatment facilities for the city.

For the purposes of these rates the sewerage collection and disposal service is treated as being provided if the rating unit is connected to a public sewerage drain (either directly or indirectly), irrespective of whether the property is considered fully rateable or is mandatory non-rateable or 50 percent non-rateable under Schedule 1 of the Local Government (Rating) Act 2002.

The targeted Sewerage rate is calculated as follows:

For rating units incorporated in the Commercial, Industrial and Business differential:

A rate per dollar of capital value on all rating units connected to a public sewerage drain, to collect 40 percent of the required rates funding, after having deducted the total dollar amount budgeted to be collected through Trade Waste Charges (excluding consent fees).

For rating units incorporated in the Base differential:

A fixed amount of \$100 (+ GST) and a rate per dollar of capital value on all rating units connected to a public sewerage drain, to collect 60 percent of the required rate funding.

WATER RATE

A targeted rate for water is to be apportioned with the aim of achieving a 60 percent: 40 percent split between properties incorporated under the Base differential and the Commercial, Industrial and Business differential in accordance with the Revenue and Financing Policy.

This rate pays for water collection and treatment facilities, the water distribution network and water conservation for the city.

This rate is set on all rating units serviced by a water connection.

For the purposes of these rates, the water service is treated as being provided if the rating unit is connected to the public water supply (either directly or indirectly), irrespective of whether the property is considered fully rateable or is mandatorily non-rateable or 50 percent non-rateable under Schedule 1 of the Local Government (Rating) Act 2002.

The targeted Water rate is calculated as follows:

For rating units incorporated in the Commercial, Industrial and Business differential, either:

a) A fixed water meter charge of \$1.715 (+ GST) per cubic meter of water used by all rating units connected to the public water supply with a water meter installed, plus an administrative charge of \$100.00 (+ GST) per annum

Or

b) A rate per dollar of capital value on all rating units connected to the public water supply, without a water meter installed.

For rating units rated incorporated in the Base differential, either:

a) A fixed water meter charge of \$1.715 (+ GST) per cubic meter of water used by all rating units connected to the public water supply with a water meter installed, plus an administrative charge of \$100.00 (+ GST) per annum

Or

b) A fixed amount of \$119.75 (+ GST) per rating unit and a rate per dollar of capital value on all rating units connected to the public water supply without a water meter installed, to collect the required Base differential contribution.

STORMWATER NETWORK RATE

A targeted stormwater rate is to be apportioned 77.5 percent to the non-rural rating units incorporated under the Base differential and 22.5 percent to the Commercial, Industrial and Business differential in accordance with the Revenue and Financing Policy. This rate pays for the cost of the provision of the stormwater collection/disposal network for the city.

Properties classified as "rural" under the Council's operative District Plan are excluded from the liability of this rate.

The targeted Stormwater network rate is calculated as follows:

For non-rural rating units incorporated in the Commercial, Industrial and Business differential:

A rate per dollar of capital value to collect 22.5% percent of the required rates funding.

For non-rural rating units incorporated in the Base differential:

A rate per dollar of capital value to collect 77.5% percent of the required rates funding.

COMMERCIAL, INDUSTRIAL AND BUSINESS SECTOR TARGETED RATE

This rate pays for activities where the Council's Revenue and Financing Policy identifies that the benefit can be attributed to the commercial, industrial and business sector and where the activity is not incorporated in other service related targeted rates. This incorporates the following:

- 100% of the cost of the events attraction and support activity

This rate is levied on all properties incorporated in the commercial, industrial and business sector and is calculated on a rate per dollar of rateable capital value.

BASE SECTOR TARGETED RATE

This rate pays for activities where the Council's Revenue and Financing Policy identifies that the benefit can be attributed to properties incorporated under the Base differential rating category (incorporating residential ratepayers). This incorporates the following activities:

- 100% of the facilitation of community environmental initiatives, cultural grants, facilitation of recreation partnerships and community advocacy activities.
- 98% of the provision of community centres and halls activities.

This rate is levied on all properties incorporated under the Base differential rating category and is calculated on a rate per dollar of rateable capital value.

DOWNTOWN LEVY

This rate pays for tourism promotion, facilitation of suburban and city centre vitality. It also pays for 70% of the visitor attractions activity and 25% of the provision of galleries and museums activity.

This rate is levied on all commercial, industrial and business properties in the downtown area and is calculated on a rate per dollar of rateable capital value. For the purpose of this rate, the downtown area refers to the area designated as the "Central Area" under the operative Wellington City District Plan.

TAWA DRIVEWAYS LEVY

This rate pays for the maintenance of a specified group of residential access driveways in the suburb of Tawa, overseen by the Council. This rate is levied on a specific group of rating units in the former Tawa Borough at a fixed amount of \$133.33 (+ GST) per annum.

MARSDEN VILLAGE LEVY

This rate is collected by the Council on behalf of the Marsden Village Association on all commercial, industrial and business properties in the Marsden shopping village and is calculated on a rate per dollar of capital value.

RATES REMISSION AND POSTPONEMENT POLICIES

Refer to the Council Remission and Postponement Policies.

Prospective Statement of Comprehensive Financial Performance

| Annual Plan 2010/11 \$000 | | Forecast 2011/12 \$000 |
|-----------------------------------|---|------------------------------|
| INCOME | | |
| 221,987 | Revenue from rates | 231,626 |
| 153,892 | Revenue from operating activities | 170,546 |
| 9,599 | Revenue from investment property leases | 9,119 |
| 5,715 | Finance income | 6,161 |
| 9,092 | Other income | 1,680 |
| 400,285 | TOTAL INCOME | 419,132 |
| EXPENSE | | |
| 21,569 | Finance expense | 22,195 |
| 252,744 | Expenditure on operating activities | 257,251 |
| 76,983 | Depreciation and amortisation | 86,348 |
| 351,296 | TOTAL EXPENSE | 365,794 |
| 48,989 | TOTAL OPERATING SURPLUS | 53,338 |
| - | Income tax expense | - |
| 48,989 | NET SURPLUS FOR THE YEAR | 53,338 |
| OTHER COMPREHENSIVE INCOME | | |
| 152,382 | Revaluations - fair value movement on property, plant and equipment - net | 45,500 |
| 152,382 | TOTAL OTHER COMPREHENSIVE INCOME | 45,500 |
| 201,371 | TOTAL COMPREHENSIVE INCOME FOR THE YEAR | 98,838 |

Prospective Statement of Changes in Equity

| Annual Plan 2010/11 \$000 | | Forecast 2011/12 \$000 |
|----------------------------------|---|------------------------------|
| EQUITY - OPENING BALANCES | | |
| 4,769,715 | Accumulated funds and retained earnings | 5,003,091 |
| 1,118,338 | Revaluation reserves | 1,117,615 |
| 861 | Hedging reserve | (4,465) |
| 18,434 | Restricted funds | 17,248 |
| 5,907,348 | TOTAL EQUITY - Opening balance | 6,133,489 |
| CHANGES IN EQUITY | | |
| Retained earnings | | |
| 48,989 | Net surplus for the year | 53,338 |
| Revaluation reserves | | |
| 152,382 | Share of other comprehensive income | 45,500 |
| 201,371 | Total comprehensive income | 98,838 |
| EQUITY - CLOSING BALANCES | | |
| 4,818,704 | Accumulated funds and retained earnings | 5,056,429 |
| 1,270,720 | Revaluation reserves | 1,163,115 |
| 861 | Hedging reserve | (4,465) |
| 18,434 | Restricted funds | 17,248 |
| 6,108,719 | TOTAL EQUITY - Closing balance | 6,232,327 |

Prospective Statement of Financial Position

| Annual Plan 2010/11 \$000 | | Forecast 2011/12 \$000 |
|---------------------------------|---|------------------------------|
| ASSETS | | |
| Current assets | | |
| 3,945 | Cash and cash equivalents | 2,349 |
| 238 | Derivative financial assets | - |
| 42,046 | Trade and other receivables | 42,674 |
| | Prepayments | 3,874 |
| 925 | Inventories | 837 |
| - | Non-current assets classified as held for sale | - |
| 47,154 | Total current assets | 49,734 |
| Non-current assets | | |
| 4,831 | Derivative financial assets | 1,460 |
| 5,933 | Other financial assets | 7,070 |
| 9,935 | Intangibles | 11,144 |
| 217,617 | Investment properties | 213,127 |
| 6,265,228 | Property, plant & equipment | 6,392,973 |
| 6,509 | Investment in subsidiaries | 6,509 |
| 19,468 | Investment in associates | 19,556 |
| 6,529,521 | Total non-current assets | 6,651,839 |
| 6,576,675 | TOTAL ASSETS | 6,701,573 |
| LIABILITIES | | |
| Current liabilities | | |
| 153 | Derivative financial liabilities | 377 |
| 66,161 | Trade and other payables | 49,720 |
| | Revenue in advance | 8,876 |
| 84,490 | Borrowings | 100,105 |
| 8,228 | Employee benefit liabilities | 6,464 |
| 4,843 | Provision for other liabilities | 10,184 |
| 163,875 | Total current liabilities | 175,726 |
| Non-current liabilities | | |
| 5,819 | Derivative financial liabilities | 5,923 |
| 275,376 | Borrowings | 265,306 |
| 1,644 | Employee benefit liabilities | 1,614 |
| 21,242 | Provisions for other liabilities | 20,677 |
| 304,081 | Total non-current liabilities | 293,520 |
| 467,956 | TOTAL LIABILITIES | 469,246 |
| EQUITY | | |
| 4,818,704 | Accumulated funds and retained earnings | 5,056,429 |
| 1,270,720 | Revaluation reserves | 1,163,115 |
| 861 | Hedging reserve | (4,465) |
| - | Fair value through other comprehensive income reserve | - |
| 18,434 | Restricted funds | 17,248 |
| 6,108,719 | TOTAL EQUITY | 6,232,327 |
| 6,576,675 | TOTAL EQUITY AND LIABILITIES | 6,701,573 |

Prospective Statement of Cash Flows

| Annual Plan 2010/11 \$000 | | Forecast 2011/12 \$000 |
|---|--|------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| 221,987 | Receipts from rates and levies - Council | 231,626 |
| 108,413 | Receipts from activities and other income | 109,574 |
| 54,671 | Receipts from Government grants and subsidies | 62,652 |
| 9,599 | Receipts from investment property lease rentals | 9,119 |
| (226,567) | Cash paid to suppliers and employees | (229,791) |
| (27,993) | Grants paid | (29,002) |
| 140,110 NET CASH FLOWS FROM OPERATING ACTIVITIES | | 154,178 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| 5,250 | Dividends received | 5,650 |
| 10 | Interest received | 10 |
| - | Loan repayments received | - |
| - | Proceeds from sale of property, plant and equipment | - |
| 0 | Loan advances made | - |
| (4,128) | Purchase of Intangibles | (6,783) |
| (192,885) | Purchase of property, plant and equipment | (173,330) |
| (191,753) NET CASH FLOWS FROM INVESTING ACTIVITIES | | (174,453) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| - | Decrease in borrowings | |
| 71,984 | Increase in borrowings | 41,426 |
| (20,341) | Interest paid on borrowings | (21,151) |
| 51,643 NET CASH FLOWS FROM FINANCING ACTIVITIES | | 20,275 |
| - | Net increase/(decrease) in cash and cash equivalents | - |
| 3,945 | Cash and cash equivalents at beginning of year | 2,349 |
| 3,945 CASH AND CASH EQUIVALENTS AT END OF YEAR | | 2,349 |

Prospective Segmental Analysis by Strategy

| Annual Plan 2010/11 \$000 | Forecast 2011/12 \$000 |
|---------------------------------|------------------------------|
|---------------------------------|------------------------------|

NET SURPLUS/(DEFICIT) BY STRATEGY

| | |
|-------------------------------------|------------------|
| (14,642) Governance | (14,352) |
| (112,694) Environment | (118,844) |
| (19,853) Economic Development | (19,628) |
| (13,864) Cultural Wellbeing | (13,886) |
| (19,420) Social and Recreation | (18,206) |
| (15,290) Urban Development | (13,923) |
| (18,111) Transport | (17,906) |
| (213,874) Total | (216,745) |
| Council | |
| 221,762 Rates | 231,626 |
| 41,101 Other net revenues | 38,457 |
| 262,863 Total Council | 270,083 |
| 48,989 Net Surplus/(Deficit) | 53,338 |

CAPITAL EXPENDITURE BY STRATEGY

| | |
|---|----------------|
| 104 Governance | 0 |
| 27,107 Environment | 30,609 |
| 603 Economic Development | 2,201 |
| 449 Cultural Wellbeing | 44 |
| 75,272 Social and Recreation | 57,443 |
| 5,659 Urban Development | 7,475 |
| 43,333 Transport | 37,939 |
| 152,527 Total | 135,710 |
| 12,651 Council | 16,403 |
| 165,178 Total Annual Capital Expenditure Programme | 152,113 |
| 6,860 Capital Expenditure Carried Forward from 2008/09 | 0 |
| 0 Capital Expenditure Carried Forward from 2009/10 | 0 |
| 25,000 Capital Expenditure Carried Forward from 2010/11 | 28,000 |
| 197,038 Total Capital Expenditure | 180,113 |

Summary of Significant Accounting Policies

Reporting Entity

Wellington City Council is a territorial local authority governed by the Local Government Act 2002. For the purposes of financial reporting Wellington City Council is a public benefit entity.

These prospective financial statements are for the Wellington City Council (the Council) as a separate legal entity. Consolidated prospective financial statements comprising the Council and its subsidiaries and associates have not been prepared.

Basis of Preparation

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

The prospective financial statements comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for public benefit entities.

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

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

The reporting period for these financial statements is the year ended 30 June 2012. The financial statements are presented in New Zealand dollars, rounded to the nearest thousand, unless otherwise stated.

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

Judgements and Estimations

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

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.

Income

Income comprises revenue, gains and finance income and is measured at the fair value of consideration received or receivable. Specific accounting policies for major categories of income are outlined below:

Rates

Rates are set annually by resolution from the Council and relate to a particular financial year. All ratepayers are invoiced within the financial year for which the rates have been set. Rates revenue is recognised proportionately throughout the year.

Operating Activities

Grant and subsidies

Grants and subsidies are initially recognised at their fair value where there is reasonable assurance that the grant 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. Other grants (e.g. New Zealand Transport

Agency (NZTA) roading subsidies) are recognised upon entitlement, which is when conditions pertaining to eligible expenditure have been fulfilled.

Development contributions

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

Fines and penalties

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

Rendering of services

Revenue from the rendering of services (e.g. 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.

Sale of goods

Sale of goods is recognised when products are sold to the customer and all risks and rewards of ownership have transferred to the customer.

Investment Property Leases

Lease rentals (net of any incentives given) are recognised on a straight line basis over the term of the lease.

Other Income

Specific accounting policies for major categories of other income are outlined below:

Donated, subsidised or vested assets

Where a physical asset is acquired for nil or nominal consideration, the fair value of the asset received is recognised as income when the control of the asset is transferred to the Council.

Gains

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

Finance Income

Interest

Interest income is recognised using the effective interest rate method.

Dividends

Dividends are recognised when the shareholders' rights to receive payment have been established.

Donated Services

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

Expenses

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

Operating Activities

Grants

Expenditure is classified as a grant if it results in a transfer of resources (e.g. cash or physical assets) to another entity 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 are distinct from donations which are discretionary or charitable gifts. Where grants and subsidies are discretionary until payment, the expense is recognised when the payment is made. Otherwise, the expense is recognised when the specified criteria have been fulfilled.

Finance Expense

Interest

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

Depreciation and Amortisation

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

Taxation

Income tax on the surplus or deficit for the year comprises current and deferred tax.

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the assets and liabilities, and to 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.

Good and Services Tax (GST)

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

Financial Instruments

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

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

Financial assets

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

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

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

Trade and other receivables 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.

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

Financial assets in this category are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method. Fair value is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date for assets of a similar maturity and credit risk. Trade and other receivables 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, penalties and water meter charges, no provision has been made for impairment in respect of these receivables.

Financial assets at fair value through other comprehensive income relate to equity investments that are held by the Council for long term strategic purposes and therefore are not intended to be sold. Financial assets at fair value through other comprehensive income 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 income is recognised within surplus or deficit.

Financial liabilities

Financial liabilities comprise trade and other payables and borrowings. Financial liabilities with a 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 a duration of less than 12 months are recognised at their nominal value.

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

Derivatives

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

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

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

Inventories

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

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

Investment properties

Investment properties are properties which are held primarily to earn rental income or for capital growth or both. These include the Council's ground leases, land and buildings and the Wellington Waterfront Project's investment properties.

Investment properties exclude those properties held for strategic purposes or to provide a social service, this includes properties which generate cash inflows as the rental revenue is incidental to the purpose for holding the property. Such properties include the Council's social housing assets, which are held within operational assets in property plant and equipment. Borrowing costs incurred during the construction of investment property are not capitalised

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

Non-current assets classified as held for sale

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

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

A non-current asset classified as held for sale is recognised at the lower of its carrying amount or fair value less costs to sell. Impairment losses on initial classification are included within surplus or deficit.

Property, Plant and Equipment

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

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

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

Infrastructure assets include the roading network, water, waste and drainage reticulation networks 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 (e.g. infrastructure assets constructed by developers and transferred to the Council on completion of a sub-division). Vested assets are recognised within their respective asset classes as above.

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

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

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

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

Operational Assets

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

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

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

Restricted Assets

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

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

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

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

Revaluations

The result of any revaluation of the Council's property, plant and equipment is recognised within other comprehensive income 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 off-sets a previous decrease in value recognised within surplus or deficit will be recognised firstly, within surplus or deficit up to the amount previously expensed, with any remaining increase recognised within other comprehensive income 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.

Impairment

The carrying amounts of property, plant and equipment 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 income.

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.

Depreciation

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

| | |
|---|-----------------|
| Land | unlimited |
| Buildings | 10 to 100 years |
| Civic Centre complex | 10 to 100 years |
| Plant and equipment | 3 to 100 years |
| Library collections | 3 to 10 years |
| Restricted assets (excluding buildings) | unlimited |
| Infrastructure assets | |
| Land (including land under roads) | unlimited |
| Roading | |
| Formation/earthworks | unlimited |
| Pavement | 3 to 40 years |
| Traffic Islands | 80 years |
| Bridges and tunnels | 3 to 150 years |
| Drainage | 15 to 120 years |
| Retaining walls | 30 to 100 years |
| Pedestrian walkway | 15 to 40 years |
| Pedestrian furniture | 8 to 25 years |
| Barriers & lighting | 2 to 50 years |
| Cycle-way network | 15 to 40 years |
| Parking equipment | 8 to 10 years |
| Passenger transport facilities | 25 years |
| Traffic infrastructure | 5 to 10 years |
| Drainage, waste and water | |
| Pipework | 40 to 100 years |
| Fittings | 10 to 111 years |
| Water pump stations | 10 to 100 years |

| | |
|---------------------|-----------------|
| Water reservoirs | 80 years |
| Equipment | 25 years |
| Sewer pump stations | 20 to 100 years |
| Tunnels | 150 years |
| Treatment plants | 3 to 100 years |

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

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

Intangible Assets

Intangible assets predominantly comprise computer software and carbon credits. They are recorded at cost less any subsequent amortisation and impairment losses.

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

| | |
|-------------------|--------------|
| Computer software | 3 to 5 years |
|-------------------|--------------|

Carbon credits are allocations of emission allowances granted by the Government. Cost is deemed to be equal to the fair value at the date of allocation. Any difference between the carrying value and the residual value is amortised over the estimated useful life of the asset.

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.

Leases

Operating leases as lessee

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

Operating leases as lessor

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

Finance leases

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

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

Employee Benefit Liabilities

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

Holiday Leave

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

Long Service Leave and Retirement Gratuities

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

Other Contractual Entitlements

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

Provisions

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

Landfill Post Closure Costs

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

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

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

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

ACC Partnership Programme

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

Financial Guarantee Contracts

A financial guarantee contract is a contract that requires the Council 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 Council 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 Council's best estimate of the obligation or the amount initially recognised less any amortisation.

Equity

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

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

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

Prospective Statement of Cash Flows

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

Operating activities include cash received from all non-financial income sources of the Council 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 income. Financing activities relate to activities that change the equity and debt capital structure of the Council and financing costs.

Related Parties

Related parties arise where one entity has the ability to affect the financial and operating policies of another through the presence of control or significant influence. Related parties include members of the Council and key management personnel, including the Mayor and Councillors, the Chief Executive and all members of the Management Board.

Cost Allocation

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

Comparatives

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

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

FINANCIAL REPORTING STANDARD 42: PROSPECTIVE FINANCIAL STATEMENTS (FRS 42 DISCLOSURES)

The Council has complied with FRS 42 in the preparation of these prospective financial statements. In accordance with FRS 42, the following information is provided:

(i) Description of the nature of the entity's current operation and its principal activities

The Council is a territorial local authority, as defined in the Local Government Act 2002. The Council's principal activities are outlined within this Annual Plan.

(ii) Purpose for which the prospective financial statements are prepared

It is a requirement of the Local Government Act 2002 to present prospective financial statements that span 1 year and include them within the Annual Plan. This provides an opportunity for ratepayers and residents to review the projected financial results and position of the Council. Prospective financial statements are revised annually to reflect updated assumptions and costs.

(iii) Bases for assumptions, risks and uncertainties

The financial information has been prepared on the basis of best estimate assumptions as the future events which the Council expects to take place. The Council has considered factors that may lead to a material difference between information in the prospective financial statements and actual results. These factors, and the assumptions made in relation to the sources of uncertainty and potential effect, are outlined within the LTCCP.

(iv) Cautionary Note

The financial information is prospective. Actual results are likely to vary from the information presented, and the variations may be material.

(iv) Other Disclosures

The prospective financial statements were authorised for issue on 24 March 2011 by Wellington City Council. The Council is responsible for the prospective financial statements presented, including the assumptions underlying prospective financial statements and all other disclosures. The Annual Plan is prospective and as such contains no actual operating results.