Accounting policies

Any accounting policies adopted in the prospective financial statements in this annual plan document which have a significant effect on the results and financial position disclosed, are set out below:

(a) Revenue recognition

Rates and levies are a statutory annual charge and are recognised in the year the assessments are issued. Grants for significant asset purchases are initially recognised in the balance sheet as deferred income and only recognised in the Income Statement over periods necessary to match them with the related use over the life of the asset. Other Government grants and contributions from territorial local authorities are recognised in the Income Statement when eligibility has been established by the grantor.

(b) Property, plant and equipment

Property, plant and equipment is categorised into the following classes:

- Port buildings, wharves and paving
- Operational port freehold land
- Operational land and buildings
- Operational plant and equipment
- Operational vehicles
- Flood protection infrastructural assets
- Transport infrastructural assets
- Rail rolling stock
- Navigational aids infrastructural assets
- Parks infrastructural assets
- Capital work in progress
- Water supply infrastructural assets
- Water supply administrative buildings
- Water supply minor equipment
- Water supply motor vehicles
- Water supply capital work in progress

Infrastructural assets are revalued or reviewed by independent qualified valuers at least every five years.

The results of any revaluation of a class of property, plant and equipment are credited or debited to an asset revaluation reserve for that class of asset. Where this results in a debit balance in the asset revaluation reserve, it is taken to the income statement as an expense.

Certain items of property, plant and equipment that had been revalued to fair value on or prior to 1 July 2005, have been included at deemed cost, being the revalued amount at this date. Subsequent purchases of fixed assets are recorded at cost.

(c) Impairment

All assets are reviewed annually for internal and external factors which may indicate that the service potential of that asset may be impaired. Impairment losses are recognised in the income statement unless they reverse a prior revaluation.

(d) Depreciation

Depreciation is provided on a straight line basis on all tangible property, plant and equipment other than land and capital works in progress, at rates which will write off assets, less their estimated residual value, over their remaining useful lives. The useful lives of major classes of assets have been estimated as follows:

• Operational land and buildings	10 years to indefinite
• Operational plant and equipment	2 – 20 years
• Operational vehicles	3 – 10 years
• Flood protection infrastructural assets	15 years to indefinite
• Transport infrastructural assets	5 – 50 years
• Rail rolling stock	15 – 35 years
• Navigational aids infrastructural assets	5 – 50 years
• Parks and forests infrastructural assets	10 – 100 years
• Regional water supply infrastructural assets	3 – 150 years

Stopbanks included in the flood protection infrastructure asset class are maintained in perpetuity. Annual inspections are undertaken to ensure design standards are being maintained and to check for impairment. As such, stopbanks are considered to have an indefinite life and are not depreciated.

Work in progress is not depreciated until the project phase is completed.

(e) Intangible assets

Software and floodplain management plans are carried at cost less any accumulated amortisation and any accumulated impairment losses. These are amortised over the useful life of the asset. The useful lives have been estimated as follows:

• Software	5 – 10 years
• Floodplain management plans	15 years

(f) Forestry investment

Plantation forests are stated at fair value less point-of-sale costs and are independently revalued to estimate of market valuation based on the net present value of future cash flows. The net gain or loss arising from changes in forest crop valuation is included in the income statement.

All revenues from forest harvesting are recognised in the income statement when realised.

Related costs are expensed as incurred.

(g) Inventories

The cost of inventory held for maintenance and construction purposes is calculated using the weighted average cost method.

All other inventories are valued at the lower of cost or net realisable value on a first-in-first-out basis.

(h) Financial investments

Greater Wellington classifies its financial investments in the following categories:

- Equity investments
- Other investments
- Derivatives (see accounting policy (i))

Equity investments are initially measured at fair value plus transaction costs and subsequently carried at fair value (unless it is an equity instrument in a subsidiary which must be held at cost). Changes in fair value are recognised directly in equity until the asset is derecognised, then cumulative gains or losses are taken to the income statement, the exception being interest calculated using the effective interest method which is recognised directly in the income statement.

Equity investments in a subsidiary are held at cost less any impairment loss. An impairment loss is recognised when its carrying amount exceeds its recoverable amount. Recoverable amount is the greater of their net selling price and value in use. Impairment losses are recognised in the income statement.

Other investments are initially measured at fair value plus transaction costs directly attributable to the acquisition or issue. Subsequent measurement is at amortised cost using the effective interest method. Gains or losses are taken to the income statement.

(i) Derivative financial instruments

Greater Wellington uses derivative financial instruments to manage its exposure to interest rate risks on financial investments and debt.

Greater Wellington designates certain derivatives as either fair value hedges or cash flow hedges (see below). Derivatives are initially recorded on balance sheet at fair value and the accounting treatment for any subsequent changes in fair value depends on the designation of the hedged item. Any changes in fair value of derivatives that do not qualify for hedge accounting are recognised immediately in the income statement.

(1) Fair value hedges

Fair value hedges are hedges of the fair value of recognised assets and liabilities or a firm commitment. Changes in the fair value of fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability.

(2) Cash flow hedges

Cash flow hedges are hedges of highly probable forecast transactions. The effective portion of the changes in fair value of cash flow hedges is recognised in equity. The gain or loss relating to any ineffective portion is recognised immediately in the income statement.

(j) Debt

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

(k) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Deferred tax is provided for using the balance sheet liability method, providing for temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

A deferred tax liability is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

(l) Foreign currency

In the event Greater Wellington does have any material foreign currency risk it will be managed by forward exchange contracts to hedge the risk.

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies at balance date are translated to NZ dollars at the foreign exchange rate ruling on that date. Foreign exchange differences arising on their translation are recognised in the income statement.

(m) Goods and services tax (GST)

All items in the financial statements exclude GST, with the exception of receivables and payables, which include GST.

(n) Overhead allocation and internal transactions

Greater Wellington allocates overhead from support service functions on a variety of different bases that are largely determined by usage. The treasury operation at Greater Wellington is treated as an internal banking activity and any surpluses generated are credited directly to the income statement.

Operating revenue and operating expenditure for each of the groups of activities is stated inclusive of any internal revenues and internal charges. These internal transactions are eliminated in the total council financial statements.

Investment in democracy costs have not been allocated to significant activities, except where there is a major separate community of benefit other than the whole region i.e. water supply and transport.

(o) Statement of cash flows

Cash means cash balances on hand, held in bank accounts, demand deposits and other highly liquid investments held as part of day to day cash management.

Operating activities include cash received from all income sources and the cash payments made for the supply of goods and services.

Investing activities are those activities relating to the acquisition and disposal of non-current assets.

Financing activities comprise the change in equity and debt capital structure.