Financial information

Financial Strategy, policies, and assumptions

Financial strategy

Under the Local Government Act 2002, section 101A (the Act) "a local authority must as part of its long term plan, prepare and adopt a financial strategy for all of the consecutive financial years covered by the long term plan."

The financial strategy for Council sets the overall financial direction of the long term plan and how Council intends to maintain current levels of service as well as fund its proposed new capital expenditure. The legislated purpose of this financial strategy is to facilitate:

- prudent financial management by the council by providing a guide for the council to consider proposals for funding and expenditure against; and
- 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.

Overall context

The plan projects an overall surplus through the term of the plan. Council does not propose any reductions in services and is confident its asset management plans fully provide for infrastructural asset maintenance and renewal. Currently Council is in the fortunate position of not having any significant service delivery issues and is thus able to respond to the community and propose a range of exciting aspirational projects to help realise the city vision.

The important points supporting adoption of this strategy are:

- rates increases are on average within the strategy limit for the 10 years of the plan
- Council starts the plan period in a sound financial position with opening net public debt projected at $39.537m
- debt increases significantly through the plan period, but remains within policy parameters and there is capacity for unplanned/unexpected events. The increase in debt is to fund essential long term infrastructure, urgent seismic strengthening and 11 aspirational new projects to help realise our vision
- Council believes it has made adequate provision to maintain service levels and the integrity of assets throughout their useful life. Council's Infrastructure Strategy provides the supporting detail.
- there is an overall surplus for the term of the plan.
- Council's financial plans demonstrate that it will be cash positive over the term of the plan
- interest payments throughout the plan are within policy parameters.

Current position – key messages

- Council operates in a conservative and prudent manner
- Council has established comprehensive detailed asset management plans
- Council does not fund depreciation
- infrastructure renewals and replacements are funded through rates, loans and subsidies.

Council's overall approach is to operate in a fiscally prudent and conservative manner. To achieve this it endeavours to keep rates increases to the lower end of the New Zealand local authority spectrum, maintain a low level of debt and operate a lean cost structure. Council's Revenue and Financing Policy sets out the funding ranges for each activity area and these ranges will continue to inform the levels of (where applicable) fees and charges necessary.

Council does not fund the depreciation of infrastructural fixed assets. Council's view is that the renewal and replacement of infrastructural assets is better funded by a combination of rates, loans and subsidies, such that the costs are more fairly met by those receiving the benefit, leading to intergenerational equity.

The table below demonstrates that over the term of the plan this approach is prudent and sustainable.

	Forecast LTP Year 1 2018-2019 ($000)	Forecast LTP Year 2 2019-2020 ($000)	Forecast LTP Year 3 2020-2021 ($000)	Forecast LTP Year 4 2021-2022 ($000)	Forecast LTP Year 5 2022-2023 ($000)	Forecast LTP Year 6 2023-2024 ($000)	Forecast LTP Year 7 2024-2025 ($000)	Forecast LTP Year 8 2025-2026 ($000)	Forecast LTP Year 9 2026-2027 ($000)	Forecast LTP Year 10 2027-2028 ($000)	Forecast LTP 10 Years 2018-2028 ($000)
Funding Impact Statement surplus/(deficit) of operational funding	8,483	12,837	12,718	14,667	13,945	14,451	14,717	14,096	13,783	14,389	134,086
Add subsidies and grants for infrastructure renewals	931	959	956	987	1,030	1,037	1,063	1,105	1,113	1,138	10,319
Available to fund renewals and loan principal repayments	**9,414**	**13,796**	**13,674**	**15,654**	**14,975**	**15,488**	**15,780**	**15,201**	**14,896**	**15,527**	**144,405**
Less infrastructure renewals	(4,886)	(5,050)	(6,336)	(6,851)	(6,800)	(6,836)	(7,006)	(7,250)	(7,439)	(7,543)	(65,997)
Less loan repayments	(3,317)	(2,753)	(3,759)	(5,119)	(5,496)	(6,163)	(6,242)	(6,337)	(6,252)	(6,346)	(51,784)
Adjusted surplus/(deficit) for the year	**1,211**	**5,993**	**3,579**	**3,684**	**2,679**	**2,489**	**2,532**	**1,614**	**1,205**	**1,638**	**26,624**

Financial challenges – key messages

- Keep rates increases low
- Fund both essential infrastructure and aspirational community projects
- Balance required between affordability and increasing expectations

As rates are our primary form of income, Council is proposing a level of rates increase that would allow for new investment yet still be reasonable for the community. Council proposes a 3.48% average increase over the period of the plan (after including an allowance for growth).

This will allow Council to undertake essential seismic strengthening work, maintain business as usual (BAU) and also allow for new investment. Council must consider both the current and future wellbeing of the local community. As much as possible the intent is to ensure that the ratepayers of today pay for the services that they consume and do not pay for benefits that new ratepayers will receive in the future. This involves a balance both as to what services Council should provide and whether they should be paid for by current or future ratepayers. A significant portion of the assets that Council provides have a long economic life and provide long time benefits. At times, these assets need to be constructed in advance of the demand for the benefits that they provide e.g. water reservoirs.

Thus achieving fairness between ratepayers over time (‘intergenerational equity’) is an important consideration for Council. By understanding what the key issues are facing Upper Hutt, Council will endeavour to develop projects and initiatives that will take advantage of our opportunities and rise to the challenges.

Council activities are often expensive to deliver. Local government costs are increasing at a higher rate than the Consumer Price Index (CPI); there is continued devolution of responsibilities and an increased expectation of standards by central government; plus the ongoing costs of servicing existing infrastructure (plus new assets) means costs are unlikely to stabilise going forward. Over the plan, budgeted expenditure (*operating and capital*) on the three waters, sustainability and land transport is a significant percentage of total expenditure, as illustrated by the table below

2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
49.7%	53.7%	62.4%	54.5%	45.8%	58.0%	61.0%	58.8%	57.4%	60.8%

Council acknowledges the impact of ongoing rates increases, especially if they continue at a level above the increases in the CPI. Remuneration increases for residents in recent years will have been, on average, restrained meaning household budgets are under more pressure. Council is also keen to ensure that the relative affordability of rates is not a disincentive to commercial/industrial development in the city. Balancing these concerns plus costs increasing differently from the CPI against ongoing expectations of maintained and improved services and facilities is challenging.

Infrastructure Strategy – key messages

The key drivers and trends that Council anticipates will influence the growth or decline in demand for infrastructure services in Upper Hutt over the next 30 years are:

- Changes in demographics
- Planning for growth: Implementation of the Land Use Strategy (additional infill and greenfields development)
- A change from manufacturing to craft breweries and other industries that have a high demand for water
- Stormwater discharge consenting requirements.
- Community desire for improved walking and cycling facilities.
- Greater community awareness of the need to have resilient service networks.

These factors influence the demand for Council's services delivered by its infrastructure assets and consequently the programme of works reflected in the Long Term Plan. The challenge is to time any CAPEX projects (new or upgrades to existing assets) in order to provide the agreed level of service.

Recent housing and residential growth has begun to increase pressure on key assets and some of these growth-related needs have been reflected in projects brought forward in the LTP. Similarly Council is einstating its lapsed Development Contributions Policy and intends to implement a broader Development Contributions Policy across the whole of the city in the near future.

CHANGES IN DEMOGRAPHICS

Between 2006 and 2013 the Upper Hutt population increased by 1,764 (an increase of 4.5%) and the 2017 estimated resident population is 42,630.

The most significant trend for Upper Hutt is an aging population seeing an almost doubling of those in the 65+ age range over the next 30 years.

Council expects that an aging population will impact on the type of recreational and social facilities the council provides, the timing and extent of any upgrade to Akatarawa cemetery and transport accessibility (passenger transport and access for the less mobile/ transport disadvantaged).

Along with an aging population Council anticipates that there will be a fall in average household size.

PLANNING FOR GROWTH

Council prepared its Land Use Strategy 2016 – 2043 to identify key areas for growth in Upper Hutt to meet the needs of a changing population and to encourage and support future growth and development. The Land Use Strategy has informed the development of the Infrastructure Strategy.

The Land Use Strategy replaced the Urban Growth Strategy, which relied on a population projection of 41,000 by 2021 based on growth in subdivision and housing development, cheaper housing options than elsewhere in the Wellington metropolitan areas and access to amenities.

The current estimated resident population of 42,630 in 2017 indicates that growth has taken place at a faster rate than anticipated earlier. This demonstrates the need for the Land Use Strategy as Council's principal approach response to growth.

The Land Use Strategy predicts a population of 49,400 by 2043 based on a moderated growth rate of 0.6%. Based on this and the 2017 estimated resident population above, the current projected increase in population by 2043 is 6,770.

This is around the mid-point of the Land Use Strategy forecast of a population increase of 5,100 – 8,100 by 2043. The upper end of this range was projected to require up to an additional 4500 dwellings, which will result in changes to water consumption levels and the volume of wastewater discharged.

Any future growth areas will be well signalled and Council will carry out modelling of its networks as the implementation of the Land Use Strategy proceeds. The Land Use Strategy sets out Council's response to growth and includes amongst other things giving effect to the National Policy Statement on Urban Development Capacity. Modelling undertaken to date has identified the need for the following additional infrastructure to support the implementation of the Land Use Strategy for the time periods identified.

Development within the existing urban limits (2018 – 2028): infill and greenfield development

- Construction of a new sewer cross connection from the local network to the Design Build Operate (DBO) main trunk sewer network at Gibbons Street (2019 – 2020)
- Ward/Whakatiki/Fergusson Drive intersection upgrade (2018 – 2020)
- Fergusson/Gibbons/Main Road intersection upgrade (2019 – 2020)
- A new city centre reservoir to be constructed (2027 – 2028) to support an expected increase in demand as a result of infill and greenfield development over the next 30 years
- Silverstream Bridge replacement (2021 – 2025)

ASSUMPTIONS

The management of Council's infrastructure assets over the next 30 years is based on the following assumptions:

- There are currently no significant changes in customer expectations regarding demand for services or levels of service other than those identified within the Strategy.
- Levels of service for three waters activities may be standardised across the Wellington region, which in turn may affect the cost and programming of renewals and upgrades.
- Council's water supply is currently rated A1-a1 and it is assumed that any future changes to drinking water standards or legislation is not expected to alter this grading.
- The Greater Wellington Regional Council Natural Resources Plan will require Council to hold stormwater discharge consents. The effect of this is unknown.
- There will be minimal impact on Council services during the lifetime of the Strategy as a result of the implementation of the Land Use Strategy. That is areas of growth have been identified in the Land Use Strategy and are allowed for within the Strategy.
- The overall condition of the asset networks will not change significantly over the next 30 years (see renewal strategies), and therefore the level of maintenance required will not increase. However new assets associated with growth will, by necessity, increase maintenance costs.
- Traffic growth will occur at a rate 1 to 1.5% per annum.

- The New Zealand Transport Agency Financial Assistance Rate (FAR) will not change significantly over the lifetime of the Strategy.
- The impacts of increasing resilience, climate change and environmental awareness, as well as growth have been factored into the Strategy based on current best knowledge. Successive iterations of this document will address how those assumptions align with future changes.
- The costs shown in this document are full project costs irrespective of sources of funding. Where studies or other funding are known to be available these sources have been identified.

The asset management plans are the core documents upon which infrastructure expenditure is based and give confidence that the proposed expenditure in the plan is both prudent and affordable. These extend beyond the term of the current plan. This approach has worked for growth in the recent past and it is intended to maintain this approach in the future.

There is always a risk of unscheduled work being required on infrastructural assets due to possible failure or damage. Our detailed asset management knowledge helps to minimise this. However, in the event of such an incident, Council has the capacity to deal with it. The first response is to look at (short) deferrals of other work to fund the unplanned work or to utilise savings in related areas. If neither of these is possible Council has the capacity to loan fund such work.

Development and Financial Contributions

Council’s Development Contributions Policy had lapsed as it did not comply with the requirements for Development Contributions Policies introduced by the Local Government Amendment Act 2014. Council has now modified the existing policy so as to comply with current legislative requirements, updated the contributions tables and adopted the policy with effect from 1 July 2018. Further work is planned on a broader policy, with a view to having this adopted as part of the Annual Plan 2019 – 2020.

New Financial Contributions (often referred to as Reserve Fund Contributions) will not be able to be imposed under the Resource Management Act after 18 April 2022. Council will continue to impose them as it currently does up until that date. The funds received from this source are intended to be fully utilised in helping fund the exciting recreational and community facilities proposed in the plan.

Financial implications and responses

RATES - KEY MESSAGES

- Council does not propose to change the current rating system.
- Council will keep rates increases within its limit (as described below), on average over the term of the plan. It will exceed its limit for some years of the plan. The table below illustrates this.

2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
3.98%	5.51%	4.68%	5.44%	4.52%	4.74%	1.96%	1.79%	0.95%	1.23%

With local government costs often increasing at a higher rate than Consumer Price Index (CPI), it is very challenging to limit annual rates increases to no more than inflation.

Instead, Council will limit the increase in the overall rates requirements to no more than the forecast percentage increase in the Local Government Cost Index[1] plus 2%, along with an annual allowance for growth. This represents a more realistic reflection of the costs that Council actually faces. Council will estimate the growth in its rating database as part of its planning process and include the impact of this in its assessment of the increase in the overall rates requirement each year.

The Local Government (Financial Reporting and Prudence) Regulations 2014 (the Regulations), section 17 requires disclosure of compliance with the quantified limit on rates increases. This is not met for each year of the plan as shown in the table below.

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Forecast LGCI 2016 BERL inflation	1.90%	2.50%	2.50%	2.50%	2.60%	2.60%	2.60%	2.60%	2.60%	2.60%
Public growth allowed per the LTP 2015 2%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Total rates Public preferred public growth limit	3.90%	4.50%	4.50%	4.50%	4.60%	4.60%	4.60%	4.60%	4.60%	4.60%
2015-2025 LTP Forecast Rating Requirement	3.98%	5.51%	4.68%	5.44%	4.52%	4.74%	1.96%	1.79%	0.95%	1.23%
Difference	-0.08% Slightly over	-1.01% Over	-0.18% Slightly over	-0.94% Over	0.08% Slightly under	-0.14% Slightly over	2.64% Under	2.81% Under	3.65% Under	3.37% Under

After public consultation on the LTP 2015 - 2025, the consensus showed the public were prepared to allow 2% growth on top of LGCI inflation as a limit for rates growth.

The LTP 2018 – 2028 Consultation Document showed projected rates increases over the approved limit in four years of the LTP. Most submitters supported completing the optional projects, while fewer commented on rates increases and the approved limit. Following consultation, Council re-phased some of the projects into outer years, resulting in five years where the rates increase is projected to be above this approved limit, as shown in the table above and noted below:

[1] As provided by Business and Economic Research Limited (BERL).

- Years one, three, and six are slightly over the approved limit (<1%).
- Years two and four are over the approved limit by approximately 1%.
- The 10 year average variance is 1.02%.

Other than for year one, Council will review future years' projected rates increases during the Annual Plan process.

In the past Council has achieved rates requirements below their LTP comparative year, so there is precedent showing council can achieve a reduction to meet or reduce the rating limit gap. Over the 10 years Council achieves 1.02 under the rating limit.

It is not the intention of Council to specify limits on the level of increase on the individual rates, which make up the overall rates requirement. The level of movement in these rates is more variable (up and down) depending on the specific projects and asset management priorities of any one year. Similarly it is acknowledged that the overall rates requirement increase will translate to varying changes for ratepayers in different rating differentials[2] and with differing liabilities for specific rates. Council will review the rating system after each revaluation of the city, as this is the appropriate opportunity to address any highlighted inequities for groups of ratepayers.

For an indicator example of how this will impact on your rates, please see 'Indicative rates for sample properties' found in the Financial Statements section of this document.

BORROWING - KEY MESSAGES

- Council intend to take on significantly more debt in order to fund essential seismic strengthening, infrastructure works and a number of exciting major recreational and community projects.
- Council will stay within its debt parameters.

Council will continue to utilise external treasury management advice to assist in managing its debt. Council will source the bulk of its debt funding through the Local Government Funding Agency Limited (LGFA).

The current intention of Council is to maintain its debt funding so that it meets its debt affordability benchmarks as required in the Regulations section 18:

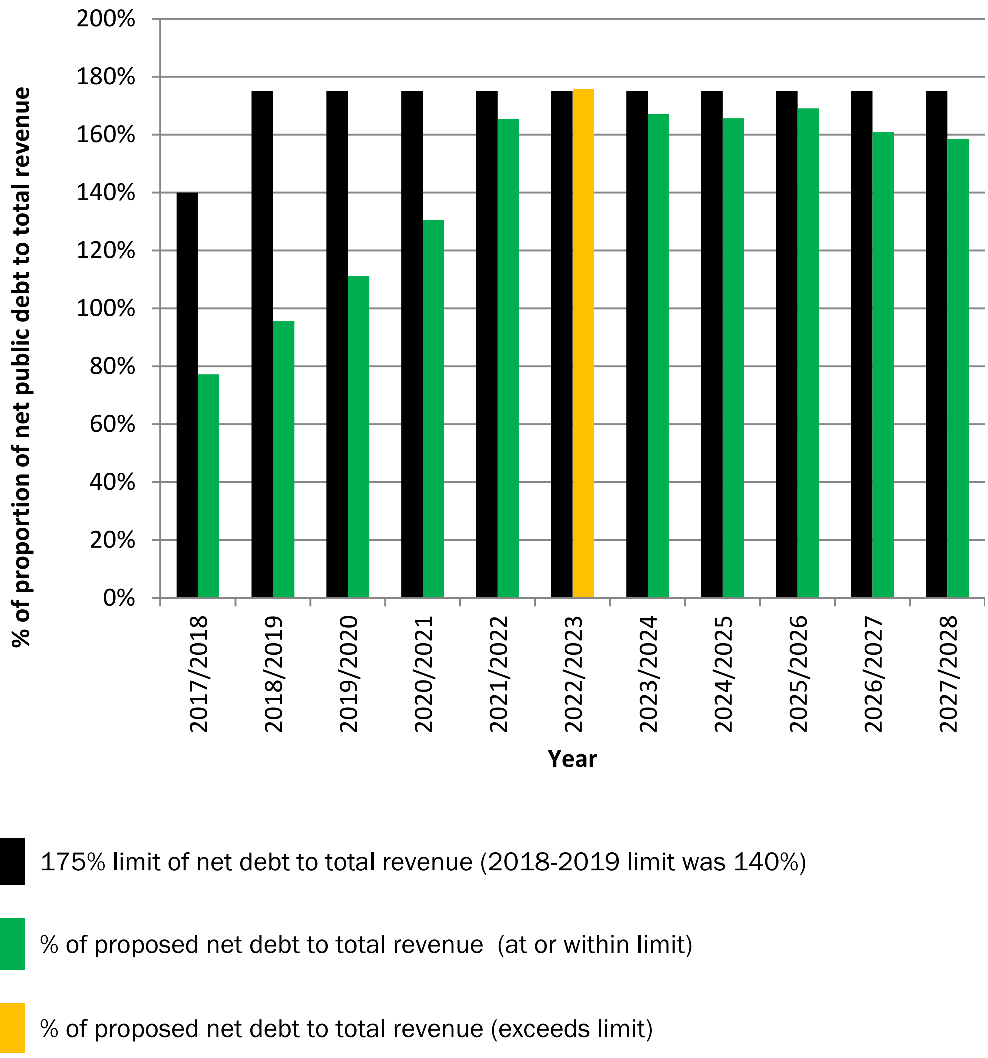
- net external debt will not exceed 175% of total revenue (previously 140%).
- net interest will not exceed 10% of total revenue
- net interest will not exceed 15% of annual rates income
- liquidity (as defined in the policy) will exceed 110%
- external public debt per capita will not exceed $3,000 adjusted by the LGCI.

Council must also meet benchmarks in order to continue borrowing from LGFA. The relevant benchmarks are less onerous or the same as Council's own benchmarks. Under LGFA regulations Council can borrow up to 250% of total revenue. Council will in the near future be obtaining a credit rating to ensure Council receives low interest rates.

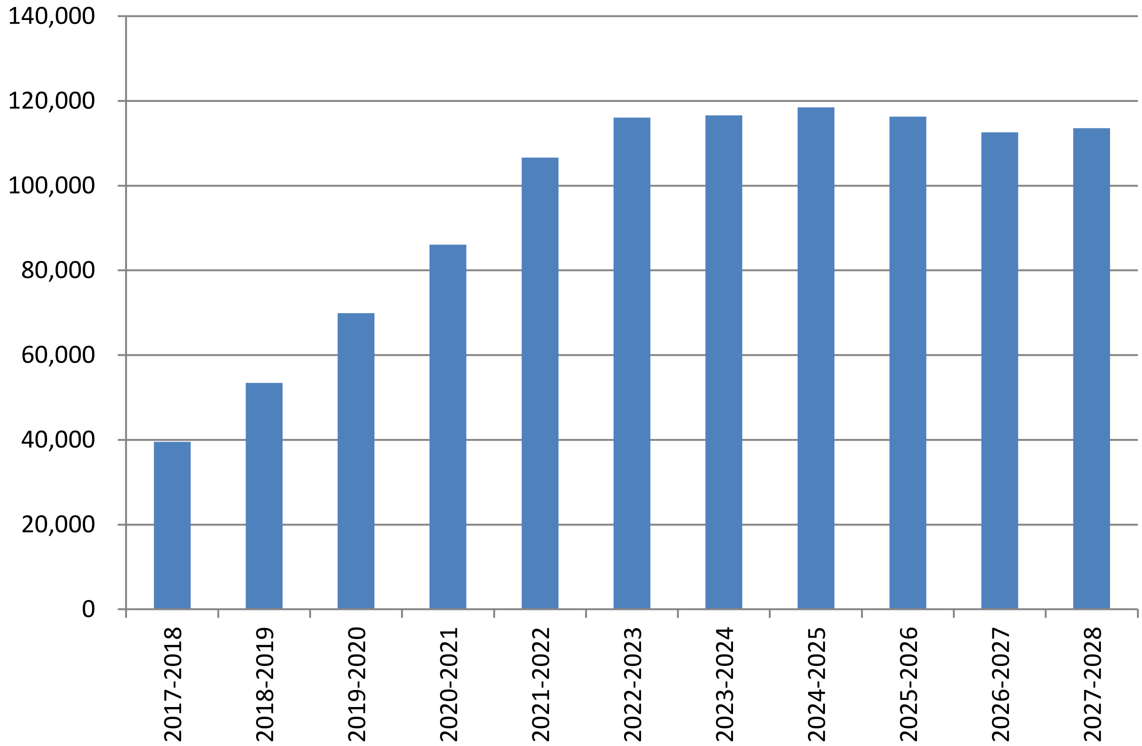
[2] Standard, rural, business etc.

Below is the graph of Net external debt will not exceed 175% of total revenue. In year 2022 – 2023, it is slightly over 175% (176%) but it begins to fall as loan repayments of large projects start to phase in.

NET DEBT WILL NOT EXCEED 175% OF TOTAL REVENUE (IN 2017-2018 THE LIMIT WAS 140%)



THE GRAPH BELOW SHOWS THE PROJECTED NET PUBLIC DEBT AT THE END OF EACH YEAR OF THE PLAN



In addition the regulations require disclosure:

1. Under section 21, of a mandated debt servicing benchmark
2. Under section 22, of a mandated debt control benchmark

Under Council's Treasury Policy a number of other limits are imposed to ensure interest expenses is minimised by the use of interest rate swaps To minimise this risk, loans are structured to avoid a concentration of refinancing at any one time, and a high portion of the current loans are covered by interest rate swaps.

Based on Council's Treasury policy, Council has limits of a fixed interest portfolio of interest rates swaps of 55 % -95 % fixed, plus our maturity profile hedged over maturity years bands see below:

- 1 -3 years Minimum hedge % 15 % Maximum hedge 60%
- 3 to 5 years Minimum hedge 15 % Maximum hedge 60%
- 5 years plus Minimum hedge 10% Maximum hedge 60%

These interest rates swaps cover a longer maturity period and fix the interest rates to ensure a lower overall interest expense to Council.

Council's *Treasury Risk Management Policy* (last reviewed and updated in September 2017) sets out in detail how Council's debt is to be managed.

Legislative Disclosures

SECURITIES FOR BORROWING

Council has secured its long term debt by issuing security stock, under its Debenture Trust Deed, to the organisations who have lent money to it. This security stock gives these organisations the ability to have a special rate struck to repay monies owed to them, in the event that Council defaults on an interest payment or principal repayment. It is the intention of the Council to continue to secure its long term debt in this way.

In 2014 Council became a guaranteeing member of LGFA and has subsequently borrowed funds through the Agency. This will continue.

HOLDING AND MANAGING FINANCIAL INVESTMENTS

Currently Council holds three share investments and these are all held for strategic rather than financial reasons. Council does not have any current intention to hold and manage any additional financial investments or equity securities. For these reasons Council has not set a targeted return on its equity investments.

Revenue and financing policy

Introduction

The Local Government Act 2002, Section 103 stipulates the content of Council's Revenue and Financing Policy which covers funding for operating and capital expenditure.

Council manages its revenues, expenses, net assets, reserves and special funds in such a manner that adequate and effective provision is made to meet the expenditure needs of the local community. One of Council's key responsibilities is to ensure that major assets are not run down, particularly infrastructural assets, by failing to provide adequate funds for future maintenance and renewals. Council manages its long term financial requirements with a suitable balance between long term debt and reserve funds, while ensuring at all times a sound debt/rates income ratio is maintained.

Policy statement on the funding of operational expenditure

Operating expenditure pays for Council's day-to-day operations and services, from collecting rubbish and providing street lighting to maintaining gardens and issuing building consents.

As allowed under Section 100(2) of the Local Government Act 2002, Council sets projected operating revenues at a different level to operating expenses. It is the view of Council that it is financially prudent to do so. This position has been arrived at for the following reasons:

- Council does not consider that depreciation reflects the annual cost of maintaining the service potential of assets but is merely the reduction in economic benefits embodied in the asset.
- For the above reason the renewal, replacement and establishment of assets is funded through a combination of rates, grants, subsidies and loans in order to equitably allocate the funding responsibility for provision and maintenance of assets and facilities throughout their useful life.
- Council's budgeting and asset management regimes ensure that the estimated cost of achieving and maintaining the predicted levels of service provision, set out in the Long Term Plan, including the estimated cost of maintaining the service capacity and integrity of assets, can be accurately determined.
- Council's budgeting regime ensures that the projected revenue is available to fund the estimated expenses associated with maintaining the service capacity and integrity of assets throughout their useful life.
- Under New Zealand International Public Sector Accounting Standards (IPSAS), changes in the fair value of certain assets must be accounted for within the Prospective Statement of Comprehensive Revenue and Expenses. In accordance with Section 100 of the Local Government Act 2002, Council does not consider it financially prudent to fund changes in the fair value of assets or liabilities as these are essentially unrealised accounting adjustments.

OPTIONS AVAILABLE FOR FUNDING COUNCIL SERVICES

It is Council policy to use the following mechanisms to fund operational expenditure requirements:

- **General rates.** General Rates are used to fund public goods where it is not possible to clearly identify customers or users. The general rate is also used to fund activities where, for reasons of fairness, equity and consideration of the wider community good, it is considered that this is the most appropriate way to fund an activity.
- **Targeted rates.** This form of rate is used where an activity benefits an easily identifiable group of ratepayers (such as the commercial or residential sectors) and where it is appropriate that only this group be targeted to pay for some or all of a particular service. For example, wastewater disposal and water supply.
- **Fees and Charges.** User charges are direct charges to people and/or groups who use certain Council services such as swimming pools. In these instances, an identifiable benefit exists to clearly identifiable people and/or groups and they are required to pay for all or part of the costs of using that service. It is noted that from 1 July 2006 councils are required to adjust budgets to include inflation of all income and expenditure with their LTP. Where appropriate and with consideration to 'ability to pay' principles, user charges will be increased by the rate of the inflation to achieve continued alignment with the proposed funding policy targets.
- **Grants and subsidies.** Grants and subsidies apply to some activities when income from external agencies is received to support that particular activity.
- **Other sources of funding.** Council also funds operating expenditure from other sources, including income from interest and dividends from investments held by the Council, lease income and proceeds from asset sales. In the event of a major civil emergency Council may be obliged to utilise cash reserves, overdraft facilities and/or loan funding in order to carry out essential repairs and restore core services. Other sources of funding include:

USE OF SURPLUSES FROM PREVIOUS FINANCIAL PERIODS

Where Council has recorded an actual surplus in one financial period it may pass this benefit to ratepayers in a subsequent period.

A surplus may arise from the recognition of additional income or through savings in expenditure. Council considers that passing this benefit on to ratepayers in future financial periods is equitable, in that most of the financial benefit is passed on to those ratepayers who shared the rates-funding burden in the financial period that the surplus was generated.

The amount of any surplus carried forward from previous financial periods, will be transferred to the credit of the cost centre it relates to, in the case of restricted surpluses, in the year the benefit is passed onto ratepayers. When general rates surpluses are applied this will be reported in Council's Cost of Service Statements, in the year the benefit is passed onto ratepayers, but a formal accounting entry will not be actioned.

Council will not carry forward surpluses in relation to:

- The sale of assets.
- Trust and bequest revenue. Such surpluses shall be applied in accordance with the terms on which they are provided.

- Revenue received for capital purposes. Such surpluses shall be retained to fund the associated capital expenditure.

- Unrealised gains arising from fair value adjustments to assets and liabilities. These gains are unrealised accounting adjustments in the period which they are recognised.

FUNDING OF EXPENDITURE FROM RESTRICTED OR SPECIAL FUNDS

Certain operating and capital expenditure items may be funded from restricted or special funds. Restricted and special funds are those reserves within Council's equity that are subject to special conditions of use, whether under statute or accepted as binding by Council, and that may not be revised without reference to the courts or a third party.

Transfers may be made only for specified purposes or when specified conditions are met.

The following restricted and special funds are available for use by Council:

- **Trusts and bequests.** From time to time Council may be the recipient/holder of trusts monies and/or bequests. These funds can only be used for the express purposes for which they were provided to Council. Each year, Council may expend money, of an operating or capital nature, from its trusts and bequests in accordance with the specified conditions of those funds. For the avoidance of doubt, the Council does not fund the expenditure from its trusts and bequests from any of the sources of operating revenue.

- **NZTA subsidies.** Each year Council receives funding from NZTA as part of the overall replacement and renewal programme for the City's roading infrastructure. Council recognises the subsidies as income in accordance with Generally Accepted Accounting Practices (GAAP).

- **Other reserves.** Restricted funds are also included in other reserves, funds, renewals and contingency accounts. Subject to meeting any specified conditions associated with these reserves Council may expend money, of an operating or capital nature, from these reserves.

Policy statement on the funding of capital expenditure

Capital expenditure represents expenditure on property, plant and equipment. Property, plant and equipment are tangible assets that are held by Council for use in the provision of its goods and services (for example: bridges, libraries, pipes). They may also be used for rental to others or for administrative purposes, and may include items held for the maintenance or repair of such assets.

It is Council policy to fund capital expenditure items from a range of sources including rates, development contributions, capital subsidies, restricted funds and through new or extended borrowings.

It is Council policy to generally fund renewal or replacement capital expenditure items (such as pipelines) from rates. Generally Council funds the renewal of assets, which do not have a constant funding pattern (such as bridges and reservoirs) and new capital expenditure items from borrowings. Council's cumulative objective is to maintain a relatively uniform annual cost over all cost. In all cases however, the following funding sources may be utilised if and when appropriate:

- capital subsidies from third parties, to fund investment in new or upgraded assets (e.g. funding received from NZTA).

- capital expenditure from the sale of surplus assets, as decided on a case-by-case basis.

- capital expenditure from restricted or special funds, as decided on a case-by-case basis and subject to the specified purposes and conditions governing the use of those restricted funds.
- on projects, where on the basis of financial prudence, Council considers it appropriate to do so; it may impose a targeted rate to repay borrowings on an asset at a faster rate over the full life of the asset.
- if an approved capital expenditure project is not completed by the end of the financial period, the unspent funds may be carried forward to the next financial period to enable the project to be completed.
- in accordance with Council's Development Contributions Policy, development contributions are required to fund capital expenditure where development requires the construction of additional assets or increased capacity in network infrastructure, community infrastructure and reserves. Development contributions are transferred through to a Development Reserve within Council's equity.

It is Council policy that development contributions are to be used as a funding source for capital expenditure resulting from growth for community facilities. Council will continue to use Resource Management Act (RMA) based financial contributions in some circumstances. Funds collected under either the Development Contributions Policy or the Financial Contributions Policy in the District Plan will result in a corresponding decrease in the amount to be funded from new borrowings.

This policy should be read in conjunction with the Funding Impact Statement contained in the current Annual Plan.

Funding the activities of Council

Council operations have been analysed as to the most appropriate funding sources following consideration, In relation to each activity to be funded, of:

- the community outcomes that each activity contributes to;
- the distribution of benefits from each activity to the community as a whole, identifiable parts of the community, and individuals;
- the period over which the benefits from each activity can be expected to occur;
- the extent to which the actions or inactions of particular individuals contribute to the need to undertake each activity; and
- the costs and benefits of separate funding.

The overall impact of any allocation for revenue needs on the current and future social, economic, environmental and cultural wellbeing of the community.

The detailed analysis for each activity is as follows:

Leadership

Funding analysis	
Distribution of benefits	The public in general benefit from the Leadership activity.
Timeframe of benefits	The benefits of Leadership are ongoing, and may have both immediate and long term effects.
Need for activity	The leadership activity is required by legislation. At times, more active leadership may be required as a result of the action or inaction of individuals or groups. Local, regional or national issues may also trigger the need for action by the community's leaders.
Costs and benefits of funding activity distinctly	The elected Council is responsible for representing the community, consultation, and setting policy direction for Council. The community has an interest in being able to transparently see the costs of such representation and leadership.
Impact of funding mechanism on community wellbeing	While decisions made by leaders may have far reaching effects on community wellbeing, accountability lies with the presently elected Council. Accordingly, general rates funding is the most appropriate funding source.

The following funding source is proposed for Leadership:

Funding source	**Proportion of operational cost**
General rates	90 - 100%
Other sources	0% - 10%
Special funds	Up to 100% of expenses or projects

Land transport

Funding analysis	
Distribution of benefits	The following people and groups benefit from the Land Transport activity: • the public in general; and • those people who use particular services e.g. carparks, public transport, road safety programmes etc.
Timeframe of benefits	Land Transport offers both immediate and ongoing benefits for the wider community. Users of particular services gain immediate benefits while they are using the service e.g. parking, but the service is generally available to the public.
Need for activity	People have a fundamental need to move themselves, goods and services, from one place to another. The land transport activity provides for a range of ways for this to happen in a safe and efficient way.
Costs and benefits of funding activity distinctly	The community has an interest in being informed of the cost involved in providing land transport services. Other agencies involved in part funding land transport activities also have an interest in ensuring that their funding is accounted for appropriately.
Impact of funding mechanism on community wellbeing	As land transport covers a range of services for both current users and future generations, a range of funding mechanisms are appropriate. Rate funding covers local needs of the current generation, loan funding covers needs of the future generation. Subsidies from NZ Transport Agency and the Greater Wellington Regional Council contribute to the regional and national land transport network usage within Upper Hutt. Central city parking is free and therefore funded through rates. This policy provides a marketing advantage for the CBD and benefits the community at large.

The following funding sources are proposed for Land Transport:

Funding source	Proportion of operational cost
General rates	37% - 70%
Other sources	30% - 60%
Special funds	Up to 100% of expenses or projects

Funding source	Proportion of capital development cost
User contributions	By negotiation for particular services
Development contributions	In accordance with the Development Contributions Policy
Borrowing	Cost attributed to inter-generational benefit
Subsidies	According to criteria for subsidy, depending on the nature of the work
General rates	Balance of development cost, up to 100%
Special funds	Up to 100% of projects

Water supply

Funding analysis	
Distribution of benefits	The following people and groups benefit from the Water Supply activity: • the public in general; and • those areas serviced by the reticulated supply system, or reasonably able to connect to it.
Timeframe of benefits	Water Supply offers both immediate benefits for those connected to the system and ongoing benefits for the wider community in terms of having a quality water supply available.
Need for activity	Water is essential for life, and a reticulated supply system provides an efficient way to supply areas of concentrated populations. About 20% additional capacity is required to provide firefighting services.
Costs and benefits of funding activity distinctly	The community served by the supply system has an interest in being informed of the cost involved in providing water supply services.

Impact of funding mechanism on community wellbeing	User charges, including metering and uniform charges, are appropriate for those within the supply area. A smaller charge reflecting the potential to access the supply network is appropriate for those properties that are able to connect to the supply system, but have chosen not to connect. As additional capacity is built in to provide firefighting services, it is appropriate that this cost factor reflects capital valuations. The life of the water supply infrastructure, when properly maintained, extends beyond the present generation. Loan funding for major capital development and depreciation funding are appropriate funding sources. Development contributions may be used to cover the costs of providing water supply to new developments.

The following funding sources are proposed for Water Supply:

Funding source	**Proportion of operational cost**
Targeted rates [fire protection]	20 - 30%
Targeted rates [water supply] and Fees and Charges	70 - 82%
Special funds	Up to 100% of expenses or projects

Funding source	**Proportion of capital development cost**
User contributions	By negotiation
Development contributions	In accordance with the Development Contributions Policy
Borrowing	Cost attributed to inter-generational benefit
Targeted rates	Balance of development cost, up to 100%
Special funds	Up to 100% of projects

Wastewater

Funding analysis	
Distribution of benefits	The following people and groups benefit from the Wastewater activity: • the public in general; and • those areas serviced by the reticulated system, or reasonably able to connect to it.

Timeframe of benefits	Wastewater offers both immediate benefits for those connected to the system and ongoing benefits for the wider community in terms of having a healthy and hygienic urban environment.
Need for activity	Safe wastewater treatment and disposal is essential for life, and a reticulated system provides an efficient way to service areas of concentrated populations.
Costs and benefits of funding activity distinctly	The community served by the system has an interest in being informed of the cost involved in providing wastewater services. It also ensures the costs of the wastewater service are fully recovered from system users.
Impact of funding mechanism on community wellbeing	Pan charges are appropriate for those within the supply area. It is appropriate for businesses connected to the wastewater system to pay pan charges and trade waste charges in accordance with their need for wastewater disposal. The life of the wastewater infrastructure, when properly maintained, extends beyond the present generation. Loan funding for major capital development and depreciation funding are appropriate funding sources. Development contributions may be used to cover the costs of providing wastewater infrastructure to new developments.

The following funding sources are proposed for Wastewater:

Funding source	Proportion of operational cost
Targeted rates [wastewater]	90% - 100%
Other sources	0% - 10%
Special funds	Up to 100% of expenses or projects

Funding source	Proportion of capital development cost
Development contributions	In accordance with the Development Contributions Policy
Borrowing	Cost attributed to inter-generational benefit
Targeted rates	Balance of development cost, to 100%
Special funds	Up to 100% of projects

Stormwater

Funding analysis	
Distribution of benefits	The following people and groups benefit from the Stormwater activity: • those areas within the Upper Hutt Urban Drainage District, which was established in 1996; and • the public in general.
Timeframe of benefits	Stormwater offers both immediate benefits for those connected to the system and ongoing benefits for the wider community in terms of reduced flooding, and better control of where flooding occurs.
Need for activity	Stormwater disposal is important in built up areas because of the problems associated with flooding. A reticulated system provides an efficient way to service areas of concentrated populations.
Costs and benefits of funding activity distinctly	The community served by the system has an interest in being informed of the cost involved in providing stormwater services. It also ensures that the costs of the stormwater service are fully recovered from system users.
Impact of funding mechanism on community wellbeing	A targeted rate based on capital value is considered to most fairly reflect the level of benefit derived by particular properties. The use of differentials enables Council to target a sector which places a higher demand on the stormwater system. The life of the stormwater infrastructure, when properly maintained, extends beyond the present generation. Loan funding for major capital development and depreciation funding are appropriate funding sources. Development contributions may be used to cover the costs of providing stormwater infrastructure to new developments.

The following funding sources are proposed for Stormwater:

Funding source	**Proportion of operational cost**
Targeted rate [Stormwater]	90 - 100%
Other sources	0 – 10%
Special funds	Up to 100% of expenses or projects

Funding source	Proportion of capital development cost
Development contributions	In accordance with the Development Contributions Policy
Borrowing	Cost attributed to inter-generational benefit
Targeted rate	Balance of development cost, to 100%
Special funds	Up to 100% of projects

Sustainability

Funding analysis	
Distribution of benefits	The following people and groups benefit from the Sustainability activity: • those areas within the residential solid waste and recycling collection area; • users of the Silverstream Landfill; and • the public in general.
Timeframe of benefits	Sustainability offers both immediate benefits for those using the collection systems or the Silverstream Landfill, and ongoing benefits for the wider community in terms of a cleaner, litter free and more sustainable environment.
Need for activity	Council is legally required to provide for the management of solid waste. Households in urban areas generate solid waste, which must be disposed of appropriately to maintain a safe and clean living environment. Some of the household waste material is able to be recycled, and needs to be collected and sorted prior to being used again. The Council's Sustainability Strategy addresses a range of options to help achieve a more sustainable community.
Costs and benefits of funding activity distinctly	The community served by the collection system has an interest in being informed of the cost involved in providing these services. It also ensures that the costs of the solid waste service are fully recovered from system users. The wellbeing of the whole community is enhanced by sustainability initiatives.

Funding analysis	
Impact of funding mechanism on community wellbeing	User charges are appropriate to ensure that those people using the collection services cover the costs. Funding generated from Council's part share in the operations of the Silverstream Landfill contributes towards the cost of managing the overall service. Council's share of income generated by government levies on waste must be applied to sustainability activities.

The following funding sources are proposed for Sustainability:

Funding source	Proportion of operational cost
Landfill, Waste Levy and other income sources	Up to 100%
Rates/Special funds	Up to 100% of expenses or projects

City Planning

Funding analysis	
Distribution of benefits	The following people and groups benefit from the City Planning activity: • the public in general; • property owners; and • the business community in general.
Timeframe of benefits	City Planning offers both immediate benefits for people living and working in Upper Hutt and ongoing benefits for the wider community in terms of sustaining the natural and physical environment.
Need for activity	Council is required to administer the Resource Management Act 1991. This includes preparation of the District Plan. People interested in property purchase or developments want to know what the District Plan provides for in relation to specific properties. Resource consents are required where specific development proposals vary from that provided for in the District Plan.
Costs and benefits of funding activity distinctly	This is a significant Council activity and it is important that the community be kept informed of the costs involved.

Funding analysis	
	The costs of responding to specific needs, such as resource consents and property information, must be identified if they are to be recovered from applicants.
Impact of funding mechanism on community wellbeing	The preparation of the District Plan, the means by which Council gives effect to its responsibilities for sustainable management of the physical and natural resources, benefits the people now and the future. Therefore the general rate is appropriate as a funding mechanism. Individuals and specific groups benefit from specific information or resource consents, which enable them to carry out certain developments, and accordingly it is appropriate for fees to be charged to recover these costs.

The following funding sources are proposed for City Planning:

Funding source	Proportion of operational cost
General rates	65% - 90%
Other sources	10% – 35%
Special funds	Up to 100% of expenses or projects

Environmental health

Funding analysis	
Distribution of benefits	The following people and groups benefit from the Environmental Services activity: • the public in general; • businesses that require licenses to operate under various regulations; and • property owners that must comply with health and safety regulations e.g. swimming pool owners.
Timeframe of benefits	Environmental Health offers both immediate benefits for users and ongoing benefits for the wider community.

Funding analysis	
Need for activity	Council is legally required to provide for environmental health services. Those needing licences to operate their businesses generate the need for licence administration. Those responsible for actions that lead to complaints and health and safety enforcement action by Council should also cover the costs of such enforcement.
Costs and benefits of funding activity distinctly	The community has an interest in being informed of the cost involved in investigating complaints. The costs of responding to specific needs, such as licensing and enforcement, must be identified if they are to be recovered from individuals or groups.
Impact of funding mechanism on community wellbeing	The public benefits from having health and safety standards enforced, and accordingly, the general rate is appropriate. Individuals and specific groups benefit from specific licences, which enable them to carry out certain activities, accordingly it is appropriate for fees to be charged to recover these costs.

The following funding sources are proposed for Environmental Health:

Funding source	**Proportion of operational cost**
General rates	70% - 90%
Other sources	10% - 25%
Special funds	Up to 100% of expenses or projects

Liquor Licensing, Gambling

Funding analysis	
Distribution of benefits	The following people and groups benefit from these activities: • those people and businesses that require a liquor license or gambling venue licence to operate; and • the public in general.
Timeframe of benefits	Liquor licensing and any gambling activities offer immediate benefits for those operating and using licensed venues.

Need for activity	Council is legally required to provide for the licensing of these services. Those needing licences to operate their businesses generate the need for licence administration.
Costs and benefits of funding activity distinctly	The community has an interest in being informed of the cost involved in licensing activities. The costs of responding to specific needs must be identified if they are to be recovered from individuals or groups.
Impact of funding mechanism on community wellbeing	The public gains some benefits from having liquor outlets and gambling venues managed through licensing, and accordingly, the general rate is appropriate. Individuals and specific groups benefit from specific licences, which enable them to carry out certain activities, and accordingly it is appropriate for fees to be charged to recover these costs. Council notes that the fees for liquor licences are set by law, and that these do not cover the full costs of administration of these licences.

The following funding sources are proposed for the Liquor Licensing and Gambling activities:

Funding source	**Proportion of operational cost**
General rates	0% - 45%
Other sources	55% - 100%
Special funds	Up to 100% of expenses or projects

Parking enforcement

Funding analysis	
Distribution of benefits	The following people and groups benefit from the Parking Enforcement activity: • the public in general; and • central city businesses.
Timeframe of benefits	Parking Enforcement offers immediate benefits for users of the central city.
Need for Activity	Parking Enforcement is needed to ensure that convenient parking is turned over and available throughout the day for central city users.

Funding analysis	
	It is appropriate for those who fail to comply with parking restrictions to meet the costs through infringement fees. It is also appropriate for vehicle warrants of fitness to be checked at the same time to ensure that cars are meeting required safety standards.
Costs and benefits of funding activity distinctly	It is important to identify the costs of this activity so as to ensure that, to the extent possible, they are recovered from those offending.
Impact of funding mechanism on community wellbeing	This activity is required because not all people comply with regulations at all times. Accordingly, Council's preferred funding mechanism is for all of the costs to be met by infringement fees and charges.

The following funding sources are proposed for Parking Enforcement:

Funding source	**Proportion of operational cost**
Infringement fees	85% or more
General rate	Up to 15%
Special funds	Up to 100% of expenses or projects

Building control

Funding analysis	
Distribution of benefits	The following people and groups benefit from the Building Control activity: • the public in general; • building developers; and • people purchasing property.
Timeframe of benefits	Building Control offers both immediate benefits for occupiers of buildings and those needing information about buildings. It also offers ongoing benefits for the community by having buildings that meet a minimum standard of construction.

Need for activity	Council is legally required to make provision for Building Control to ensure that minimum building standards are complied with. Without enforcement, there is a risk that minimum building standards may not be complied with, and this could place people's health and safety at risk. Prospective property purchasers are advised to establish what building consents have been issued for particular properties because of potential liability issues.
Costs and benefits of funding activity distinctly	It is important to identify the costs of this activity so as to ensure that, to the extent possible, they are recovered from those people undertaking building activities, or interested in building information.
Impact of funding mechanism on community wellbeing	It is in the interests of the community to have buildings that meet safety requirements for now and in the future.

The following funding sources are proposed for Building Control:

Funding source	**Proportion of operational cost (excluding any Weathertight home settlement costs)**
General rate	0% - 40%
Other sources	60% - 100%
Special funds	Up to 100% of expenses or projects

Animal control

Funding analysis	
Distribution of benefits	The following people and groups benefit from the Animal Control activity: • animal owners; • the public in general.
Timeframe of benefits	Animal Control offers immediate benefits for users and for the wider community.
Need for activity	Council is legally required to provide animal control services. The need for the activity arises largely from the need to manage the potentially adverse effects of dogs, and therefore it is appropriate for dog owners to meet the costs of this activity.

Funding analysis	
	Occasionally, animals stray onto roads and Council must place them safely until their owners are located. Recovery of costs is sought from owners.
Costs and benefits of funding activity distinctly	It is important to identify the costs of this activity so as to ensure that most of the costs can be recovered from animal owners. There is also a public benefit to the community at large for which a contribution from general rates is appropriate
Impact of funding mechanism on community wellbeing	While animal ownership makes a significant contribution to the wellbeing of many in the community, the adverse effects of animals must also be managed.

The following funding sources are proposed for Animal Control:

Funding source	**Proportion of operational cost**
Fees and charges	75% or more
General Rates	0% - 25%
Special funds	Up to 100% of expenses or projects

Funding source	**Proportion of capital development cost**
User contributions	Up to 100%
Special funds	Up to 100% of projects

Community services

Funding analysis	
Distribution of benefits	The following people and groups benefit from the Community Services activity: • the public in general; • participants in events and activities where the Community Services division has made a contribution; • sports, leisure, arts and cultural groups; and • sponsors advertising at particular events.

Timeframe of benefits	Benefits from this activity are both immediate and ongoing. While particular events and activities bring short term benefits, part of the work is to empower groups so that they are better able to manage their own affairs in the future.
Need for activity	The community has identified a need for this activity, recognising that a central and neutral service, that provides advice, information, coordination and training, benefits everyone. Without this support, there is a risk that sports and community groups may not function as well, and that some community events may not happen. Groups are assisted to improve activities that they may already be doing, or to start up new things. As sponsors will gain good publicity through events, it is appropriate that some funding for these activities come from the community.
Costs and benefits of funding activity distinctly	As Council has chosen to be involved in the Community Services activity on behalf of the community, it is important that the community is able to see what costs are involved in providing this service.
Impact of funding mechanism on community wellbeing	A safe, healthy and strong community is a vital outcome for the whole community to achieve, now and in the future. Therefore, general rate funding for most of this activity is appropriate.

The following funding sources are proposed for Community Services:

Funding source	**Proportion of operational cost**
General rates	Up to 100%
Other sources	Up to 100% of one–off projects (This funding is largely dependent on external agencies funding criteria)
Special funds	Up to 100% of expenses or projects

Activation

Funding analysis	
Distribution of benefits	The following people and groups benefit from the Activation activity: • the public in general; • participants in events and activities where the Activation team has made a contribution; • sports, leisure, arts and cultural groups; and • sponsors advertising at particular events.
Timeframe of benefits	Benefits from this activity are both immediate and ongoing. While particular events and activities bring short term benefits, part of the work is to empower groups so that they are better able to manage their own affairs in the future.
Need for activity	The community has identified a need for this activity - a need to enable the wider community to be more active, more often. In addition, a central and neutral service providing advice, encouragement, facilitation, information, coordination and training benefits everyone. Without this support, there is a risk that sports and community groups may not function as well, and that some sport and recreation club numbers may decline.
Costs and benefits of funding activity distinctly	As Council has chosen to be involved in the Activation initiative on behalf of the community, it is important that the community is able to see what costs are involved in providing this service. However, as this activity meets national government priorities and objectives, it is appropriate that some funding come from grants. In addition, this activity is an ideal candidate for corporate society gaming proceeds and external sponsorship.
Impact of funding mechanism on community wellbeing	A safe, healthy and strong community is a vital outcome for the whole community to achieve, now and in the future. Therefore, some general rate funding for this activity is appropriate.

The following funding sources are proposed for Activation:

Funding source	**Proportion of operational cost**
General rates	Up to 100%
Sponsorship and grants	20% - 86%

Emergency management

Funding analysis	
Distribution of benefits	The following people and groups benefit from the Emergency Management activity: • the public in general.
Timeframe of benefits	Emergency Management offers both immediate benefits for those affected by civil disaster. There are ongoing benefits for the wider community in being prepared to handle such events.
Need for activity	Council is legally required to provide for Emergency Management, including for disaster recovery.
Costs and benefits of funding activity distinctly	There is a significant cost involved in making provision for emergency management, and there is no statutorily defined level of service. The community has an interest in what costs are involved in protecting it in this way.
Impact of funding mechanism on community wellbeing	This activity is important if the effects of civil emergencies and rural fire events are to be minimised, now and in the future. The community as a whole benefits if people are well prepared and protected and therefore it is appropriate to use the general rate.

The following funding sources are proposed for Emergency Management:

Funding source	**Proportion of operational cost**
General rate	85% - 100%
Other sources	0% - 15%
Special funds	Up to 100% of expenses or projects

Funding source	**Proportion of capital development cost**
National Rural Fire Association	According to funding formula, for Rural Fire capital costs.
General rate	Balance of cost, to 100%
Special funds	Up to 100% of projects

Parks and reserves

Funding analysis	
Distribution of benefits	The following people and groups benefit from Parks and Reserves: • the public in general; • users of sports facilities, including sports fields; and • participants in organised events held on parks and reserves.
Timeframe of benefits	The benefits of parks and reserves are ongoing. Land may be held in perpetuity. When user groups book particular facilities, they enjoy additional exclusive use benefits for the period they have booked it for. The life of particular assets is variable e.g. playground equipment has a life of 10 years, sports grounds are considered to have a perpetual life.
Need for activity	For particular services and facilities, the level of service is determined by consultation with likely user groups. Where the user group will gain exclusive access to an appropriate facility [e.g. clubrooms], then that group will fully fund that facility, including its maintenance. Where the group will have exclusive use of the facility at certain times, Council will negotiate rentals and charges for that facility on a case by case basis, and with regard to the level of benefit for the general public.
Costs and benefits of funding activity distinctly	The community has placed a particular priority on having outstanding leisure facilities. As the Parks and Reserves activity contributes significantly to this outcome, it is important to show the community how this is being achieved. User groups also have an interest in seeing what they may expect to receive from any direct charges they incur.
Impact of funding mechanism on community wellbeing	As land for parks and reserves may be held for many generations for the use and enjoyment of the general public, it is appropriate for new land purchases to be funded intergenerationally for the existing community, or through Reserves Fund contributions to meet the needs of the population in newly developed areas. Where specific facilities are able to be used exclusively for some or all of the time by particular groups, it is appropriate to fund these by the public over the length of the life of the asset and in proportion to the extent of public benefit.

The following funding sources are proposed for Parks and Reserves:

Funding source	Proportion of operational cost
General rates	80% - 100%
Other sources	0% - 20%
Special funds	Up to 100% of expenses or projects

Funding source	Proportion of capital development cost
Financial contributions	In accordance with the Financial Contributions Policy under the District Plan and Resource Management Act 1991.
User contributions [including sponsorship]	By negotiation for particular assets / facilities
Borrowing	Cost attributed inter-generational benefit
Special funds	Up to 100% of projects
General rates	Balance of development cost, up to 100%

H^2O Xtream

Funding analysis	
Distribution of benefits	The following people and groups benefit from H2O Xtream: • the public in general; • users of the facility, including visitors to the city; and • sponsors advertising onsite.
Timeframe of benefits	H2O Xtream offers immediate benefits for users and sponsors. There are ongoing benefits to the wider community in terms of promotion of the city, by attracting visitors to Upper Hutt and in building a safe and healthy community through opportunities to enjoy aquatic exercise.
Need for activity	The community has identified a need for this activity, recognising that a top quality aquatic leisure facility will meet local needs as well as providing a significant attraction for visitors to Upper Hutt. It is targeted to meet the recreational needs of 10 -14 year olds, though all other age groups are catered for. No similar service is available within the private or community sectors.

Funding analysis	
Costs and benefits of funding activity distinctly	As Council has chosen to provide a high quality aquatic leisure facility, it is important to show the community how this is being achieved. Those who pay user charges have an interest in seeing what they may expect to receive from the charges they pay.
Impact of funding mechanism on community wellbeing	Particular people and groups benefit from use of the facility, so user charges are appropriate. The community generally benefits through improved health, entertainment and safety when leisure and sporting facilities are provided for residents who may not otherwise be able to afford to participate in such activities. The city image benefits from a facility which locals are proud of. For these reasons, general rates are also used to cover the cost of providing this service. The life of the pool asset, when properly maintained, extends beyond the present generation. Loan funding for major capital development and depreciation funding are appropriate funding sources. Should the population of Upper Hutt grow, then development contributions may be used to cover additional development required to meet the needs of the larger population.

The following funding sources are proposed for H²O Xtream:

Funding source	**Proportion of operational cost**
General rates	60 – 100%
Other sources	0% - 40%
Special funds	Up to 100% of expenses or projects

Funding source	**Proportion of capital development cost**
User contributions [including sponsorship]	By negotiation for particular facilities and equipment
Financial contributions	In accordance with the Financial Contributions Policy under the District Plan and Resource Management Act 1991.
Borrowing	Cost attributed to inter-generational benefit
Special funds	Up to 100% of projects
General rates	Balance of development cost, up to 100%

Library

Funding analysis	
Distribution of benefits	The following people and groups benefit from the Library activity: • the public in general; and • library users, including individuals, businesses, schools, groups and organisations.
Timeframe of benefits	The Library offers immediate benefits for users. There are ongoing benefits in terms of creating a literate and knowledgeable community. The library provides good access to a wide range of printed and electronic information covering a range of recreational, educational and business interests.
Need for activity	The community expects that library services will be available within the community, and that everyone has the right to use them. They also want a facility that contributes towards achieving outstanding leisure and economic development.
Costs and benefits of funding activity distinctly	As Council has chosen to provide a library service on behalf of the community, and it is legally required to provide free membership for Upper Hutt residents, it is important that the community is able to see what costs are involved. The community has placed a particular priority on having outstanding leisure facilities, an innovative economy and connections to the world. The library has been identified as one such facility to contribute to these priorities. It is important to show the community how this is being achieved. Those who pay for particular services provided by the library have an interest in seeing what they can expect to receive for the charges that are payable.
Impact of funding mechanism on community wellbeing	The obligation to provide free library membership for local residents ensures that cost is no barrier to use of the library service. Rates funding is appropriate to enable general access to this service, regardless of personal circumstances. Where people gain particular benefits, for example from reserving books, internet access, loan of best sellers, and use of overdue books, then specific charges will be made. It is likely that excessive user charges for particular services would result in a downturn in library use, which would not be in the interests of the community in general.

The following funding sources are proposed for the Library:

Funding source	Proportion of operational cost
General rates	85% - 100%
Other sources	0% - 15%
Special funds	Up to 100% of expenses or projects.

Funding source	Proportion of capital development cost
User contributions [including sponsorship]	By negotiation for particular facilities /assets.
Financial contributions	In accordance with the Financial Contributions Policy under the District Plan and Resource Management Act 1991.
Borrowing	Cost attributed to inter-generational benefit.
Special funds	Up to 100% of projects.
General rates	Balance of development costs, up to 100%.

Expressions Arts and Entertainment Centre

Funding analysis	
Distribution of benefits	The following people and groups benefit from the Expressions activity: • the public in general; • centre users, including performers and exhibitors, individuals, businesses, schools, groups and organisations; and • sponsors.
Timeframe of benefits	The Expressions Arts and Entertainment Centre offers immediate benefits for users. There are ongoing benefits in terms of creating a community with a strong identity by providing good access to a venue where people can express themselves through the arts and performance, as well as through physical leisure activities.
Need for activity	The community has requested a facility that provides for outstanding cultural, arts, recreation and leisure opportunities.

Funding analysis	
Costs and benefits of funding activity distinctly	As Council has chosen to fund most of the construction costs of the venue on behalf of the community, is responsible for maintenance and replacement of the built asset, and provides substantial grant funding to the contractor for operational costs, it is important that the community is able to see what costs are involved.
Impact of funding mechanism on community wellbeing	Rates funding is appropriate to enable general access to this service, regardless of personal circumstances. Where people gain particular benefits, for example from attending particular events, it is the responsibility of the Expressions Arts and Entertainment Trust to set appropriate charges. The life of the venue, when properly maintained, extends beyond the present generation. Loan funding for major capital development and depreciation funding are appropriate funding sources. Should the population of Upper Hutt grow, then development contributions may be used to cover additional development required to meet the needs of the larger population.

The following funding sources are proposed for Council funding in relation to the Expressions Arts and Entertainment Centre:

Funding source	Operational grant and asset maintenance*
General rates	100%
Special funds	Up to 100% of expenses or projects

Funding source	Proportion of capital development cost
User contributions [including sponsorship]	By negotiation for particular facilities /assets
Financial contributions	In accordance with the Financial Contributions Policy under the District Plan and Resource Management Act 1991.
Borrowing	Cost attributed to inter-generational benefit
Special funds	Up to 100% of projects
General rates	Balance of development costs, up to 100%

* Note that funding for the Expressions Arts and Entertainment Centre relates to the operational grant made by Council and the costs of maintaining the asset. While the Expressions Arts and Entertainment Centre Trust receives operational grant funding from Council, it is responsible for generating additional income from other sources, including venue hire and sponsorship.

Property

Funding analysis	
Distribution of benefits	The following people and groups benefit from the Property activity: • users of Council property; and • the public in general.
Timeframe of benefits	Property offers both immediate benefits for users and ongoing benefits for the wider community.
Need for activity	Most of Council's property is held for strategic purposes: • Some properties are required for future public works, and may be rented out in the interim. • Some properties have been owned historically by Council and have benefit for the public e.g. the Cityline bus depot and Harcourt Holiday Park • Some properties are used as community buildings for use by community oriented organisations.
Costs and benefits of funding activity distinctly	As Council has chosen to purchase land for its strategic value, it is important for the community to see what costs are involved. Where private benefit is being derived by particular individuals and businesses, it is important to show that rents cover the cost of holding and maintaining the asset, to the maximum extent possible in the specific circumstances.
Impact of funding mechanism on community wellbeing	Council needs to make strategic land purchases in order to meet the future needs of the community. In order that land purchased for future use is not a burden on today's community, it is important to use such assets now to recover the maximum amount possible of the cost of holding the land until when it is needed.

The following funding sources are proposed for Property:

Funding source	Proportion of operational cost
Rental charges	Up to 100%
Rates	Up to 100%
Special funds	Up to 100% of expenses or projects

Funding source	Proportion of capital development cost
User contributions	Up to 100% of projects
Special funds	Up to 100% of projects

Akatarawa Cemetery

Funding analysis	
Distribution of benefits	The following people and groups benefit from the Cemetery activity: • users of the Akatarawa Cemetery; and • the public in general.
Timeframe of benefits	The Cemetery offers both immediate and ongoing benefits for users and the wider community.
Need for activity	Council is legally required to provide for interment services, therefore it is appropriate to secure land and develop it ready for use through the general rate. As people choose to use the Akatarawa Cemetery when they or their loved ones die, it is appropriate to recover these costs from the user. The community place a high value on the standard to which the Cemetery is maintained. As income is not controllable it is appropriate to use general rates to ensure the standard is met.
Costs and benefits of funding activity distinctly	As this activity is funded from user charges, it is important for the community to see what costs are involved.

Funding analysis	
Impact of funding mechanism on community wellbeing	Council considers it is appropriate to use rate funding to make the Cemetery available for use now and in the future, and for users to cover the costs of their use.

The following funding sources are proposed for Akatarawa Cemetery:

Funding source	Proportion of operational cost
Rates	Up to 40%
Fees and charges	Up to 100%
Special funds	Up to 100% of expenses or projects

Funding source	Proportion of capital development cost
User contributions	By arrangement
Special funds	Up to 100% of projects
Borrowing	Cost attributed to inter-generational benefit
General rate	Balance of development cost, up to 100%

City promotion/visitor industry

Funding analysis	
Distribution of benefits	The following people and groups benefit from the City Promotion activity: • the public in general; • users of the Visitor Information Centre, including visitors to Upper Hutt; and • those people, groups, businesses and organisations involved with particular activities, events and promotions.
Timeframe of benefits	City Promotion offers both immediate and ongoing benefits for users and the wider community.

Funding analysis	
Need for activity	The community has identified a need for Council to become more actively involved in facilitating the promotion of Upper Hutt. Businesses and other organisations recognise the value of events sponsorship and collaboration with others to attract more visitors in to Upper Hutt. It is appropriate to seek contributions from those that benefit, and to charge where particular services are required e.g. temporary road closure. No similar service is available within the private or community sectors. Visitors and residents also want to know about what is going on in Upper Hutt, what they can do and where they can go.
Costs and benefits of funding activity distinctly	As Council has chosen to be active in city promotion on behalf of the community, it is important that they are able to see what costs are involved in providing this service. For the user charges, it is important to be able to identify and recover appropriate charges.
Impact of funding mechanism on community wellbeing	City Promotion involves the direct provision of information and promotion services, and also an investment in attracting more people and businesses in to the city to ensure its ongoing vitality. General rates are therefore appropriate to use.

The following funding sources are proposed for city promotion/visitor industry:

Funding source	**Proportion of operational cost**
General rate	95% - 100%
Other sources	0% - 5%
Special funds	Up to 100% of expenses or projects

Business Development

Funding analysis	
Distribution of benefits	The following people and groups benefit from the Business Development activity: • the public in general; • the business community in general, including potential businesses; • central city businesses; and • visitors.
Timeframe of benefits	The benefits of this activity are immediate and ongoing.
Need for activity	The community has identified a need for Council to become more actively involved in facilitating promotion of the city and economic development in general. No similar service is available within the private or community sectors.
Costs and benefits of funding activity distinctly	As Council has chosen to be active in business development on behalf of the community, it is important that the community is able to see what costs are involved in providing this service. Although some individuals or groups obtain particular benefits from the services provided, these benefits are not material when compared to the benefits generated for the community as a whole.
Impact of funding mechanism on community wellbeing	A thriving business community is important to the wellbeing of the city as a whole, both now and for the future. For that reason Council does not seek to recover any of the cost of this activity from user charges.

The following funding sources are proposed for Business Development:

Funding source	Proportion of operational cost
General rates	95 - 100%
Other sources	0% - 5%
Special funds	Up to 100% of expenses or projects

Rating system

GENERAL RATES

General rates are calculated on the capital value of all rateable properties in the city and assessed on a differential basis in accordance with Council's Differential Rating policy.

Under differential rating, all land (which may be a rating unit or part of a rating unit) is allocated to one or more of the following differential rating categories namely:

- Standard(Residential)
- Residential High Value
- Business
- Utilities/ 3 water utilities
- Rural
- Rural High Value

These categories are based on zoning or usage of the land. Under differential rating, all property is allocated to one of the differential rating groups. This is based on zoning/usage, and a differential, based on a factor of 100 for the standard differential group.

TARGETED RATES

Water

A targeted rate, by way of a set rate per dollar on a capital value basis, is proposed to meet 20% of the revenue required for water supply. This component is identified as being required for fire protection purposes, and is assessed upon each separately used or inhabited portion of a rating unit, which is connected to the water supply ("a serviced property").

A further targeted rate, by way of a uniform annual charge, is proposed to be assessed against each separately used or inhabited portion of a rating unit to which water is supplied ("a serviced property") to provide 60% of the revenue needed for the general water supply service.

For both targeted water rates, if a rating unit can be, but is not supplied with water and is situated within 100 metres of any part of the water works, ("a serviceable property") a charge of 50% of the full charge will be made.

Note for completeness: Water is a valuable resource for which Council is accountable and for this reason water supplied for significant business purposes or extraordinary supply will be assessed on a user pays basis (rather than as a rate). The actual charge will be set based on the quantity of water used, as calculated by water meters installed on the properties concerned. This is authorised by the Water Supply Bylaw and specified in the Schedule of Fees and Charges.

Stormwater

This rate is assessed, differentially, on the capital value of all rating units within that part of the city of Upper Hutt that benefits from the provision of stormwater drainage and flood protection services.

The differentials are:

- Business
- Other

These categories are defined in the Funding Impact Statement of Council's Annual Plan for the current financial year.

Wastewater

A targeted rate will be set on each water closet (pan) or urinal connected to a public sewage drain. The charge will be assessed on a scale of charges in accordance with the number of water closets (pans) or urinals at present on each separately used or inhabited part of a rating unit.

A whole charge will be set for the first pan or urinal on each separately used or inhabited part of the rating unit and a half charge for every additional pan or urinal thereafter. In addition Council will assess schools on a formula basis, in recognition of their lower level of occupancy during the year.

Other targeted rates

From time to time it is necessary for Council to provide activities, services or facilities that only, or primarily, benefit specific ratepayers or small groups of ratepayers therefore Council may set a targeted rate to provide such activities, services or facilities. The targeted rates will be assessed against the rating units owned by the ratepayers who are to benefit. Special targeted rates, when set will be named by the specific activity, service or facility they are set to provide.

DIFFERENTIAL RATING POLICY

General rates

The Council will take into account the matters in section 101(3)(a) and (b) when applying the system of differential rating to the general rate with particular emphasis on:

- The overall impact of the latest general revaluation of the city.
    - The Council's desire to ensure, in general, that the amount of the general rate to be derived from each differential category, continues to be about the same share, relative to the other categories, as in the past.
    - Differences in the benefits received, and in the demands placed upon, the services provided by the Council for different categories of land.
- The period in or over which those benefits are expected to occur.
    - The principles and considerations identified by Council as relevant in its analysis of funding of the various activities it undertakes.

For the purposes of the differential rating system for the general rate, all rating units in the district of Upper Hutt City shall be allocated to one or more of the following categories:

- Standard(Residential)
- Residential High Value

- Business
- Utilities
- Three Waters Utilities
- Rural
- Rural High Value

The above categories and the factors for each differential will be defined annually in the Funding Impact Statement section of the Annual Plan for the current financial year.

Where different parts of a rating unit fall into different categories, the rating unit will be apportioned accordingly.

An important objective of the Council's differential rating system is to provide reasonable stability in the amount of the general rate on the relevant part of each rating unit with the effect that the total proportion of rates from each category will remain approximately the same.

Using Standard as a base, the Rural category's rating differential will be set lower, Business and Utilities higher, with a scale applying to Residential High Value and Rural High Value to prevent land in these categories from assuming a disproportionate rates burden.

Generally, the Rural category's rating differential will be set lower than the Standard category's differential because of the perceived distance of land in this category from Council services.

The Business and Utilities differential will be set higher than the Standard category in consideration of the overall impact of rates liability on the community.

Stormwater

For the purposes of the differential rating system for the stormwater rate, all liable rating units in the district of Upper Hutt City shall be allocated to one or more of the following categories:

- Business
- Other

The use of differentials enables Council to target a sector which places a higher demand on the stormwater system.

The above categories and the factors for each differential will be defined annually in the Funding Impact Statement section of the Annual Plan for Council's current financial year.

INTERPRETATION

In this Policy:

"District Plan" means the UHCC District Plan operative from 1 September 2004.

"Rating Unit" means a rating unit for the purposes of the Rating Valuations Act 1998.

"Ratepayer" has the same meaning as in Section 10 of the Local Government (Rating) Act 2002.

"Separately used or inhabited part" as required under the Local Government Act 2002 this is defined in Council's Funding Impact Statement.

"Zoning" is determined by reference to the District Plan.

This Policy has been drafted with reference to the District Plan. Terms and expressions used in it are intended to have the same meanings as in the District Plan.

Allocation to a category or group for differential rating purposes is subject to a right of objection as set out in Section 29 of the Local Government (Rating) Act 2002. Valuations are subject to a right of objection under the Rating Valuations Act 1998.

Accounting policies

Reporting entity

Upper Hutt City Council (the Council) is a territorial local authority established under the Local Government Act 2002 (LGA) and is domiciled and operates in New Zealand. The relevant legislation governing the Council's operations includes the LGA and the Local Government (Rating) Act 2002.

The Upper Hutt City Council Group (Upper Hutt City Council) consists of Upper Hutt City Council and its Council controlled charitable organisation Expressions Arts and Entertainment Trust. Upper Hutt City Council is a joint venture partner with Hutt City Council and has an interest in the Hutt Valley Wastewater Scheme (refer to 10 in the Notes to the Financial Statements for details of the accounting treatments followed).

The Council has designated itself as public benefit entities (PBEs) for financial reporting. The primary objective of Upper Hutt City Council and group is to provide goods or services for the local community or social benefit rather than making a financial return. Accordingly, Upper Hutt City Council has designated itself and the group as public benefit entities for a tier 1 entity for the purposes of New Zealand equivalents to IPSAS.

The prospective financial statements of Upper Hutt City Council are for the period 1 July 2018 to 30 June 2028. The prospective financial statements were adopted for issue by Council on 27 June 2018.

Basis of preparation

The prospective financial statements have been prepared on the going concern basis, and the accounting policies have been applied consistently throughout the period.

STATEMENT OF COMPLIANCE

These financial policies are prepared in accordance with the requirements of the Local Government Act 2002, which includes the requirement to comply with generally accepted accounting practices in New Zealand (NZ GAAP).

The forecast financial statements are those which have been adopted by Council to meet the requirements of Clause 8 of Schedule 10 of the Local Government Act 2002.

Council is responsible for the prospective financial statements presented, including the appropriateness of the assumptions underlying the prospective financial statements and all other required disclosures.

The prospective financial statements have been prepared to comply with Public Benefit Entity Standards (PBE Standards) as appropriate for a Tier 1 entity for the purposes of New Zealand equivalents to International Public Sector Accounting Standards (IPSAS).

Measurement base

The financial statements have been prepared on the historical cost basis, modified by the revaluation of land and building, certain infrastructural assets, and financial instruments (including derivatives instruments).

Changes in accounting policies

No changes to accounting policies since the previous year.

Accounting policies

The particular accounting policies applied are as follows:

FORECAST FIGURES

The forecast figures are those approved by Council at the beginning of the year after a period of consultation with the public as part of the Long Term Plan process. The forecast figures have been prepared in accordance with generally accepted accounting practice and are consistent with the accounting policies adopted by the Council for the preparation of financial statements and in accordance with Financial Reporting Standard No. 42 (FRS 42) which applies to Prospective Financial Statements.

The financial statements, associated notes and accounting policies have been prepared under NZ IPSAS standards, as applying for a Public Benefit Entity ('PBE'). This is an entity whose primary objective is to provide goods or services for community or social benefit and where equity has been provided with a view to supporting that primary objective rather than for a financial return.

A 'forecast' means prospective financial information prepared on the basis of assumptions as to future events which Council reasonably expects to occur at the date the information is prepared. A forecast differs from a 'projection'. A projection contains financial information prepared on the basis of more hypothetical assumptions (or "what if" scenarios).

Significant Risks

It should be noted that:

1. Actual results achieved during the 2017 – 2018 year are likely to vary from the forecasts presented in this document and the variations may prove to be material.
2. The information in this document may not be appropriate for purposes other than as described herein.
3. The rate of inflation and interest rates may differ significantly from the assumptions used in preparing these forecast financial statements. The actual results are likely to vary materially depending upon other circumstances that arise during the period.

The financial statements have been prepared on a historical cost basis, modified by the revaluation of land and buildings, certain infrastructural assets, and financial instruments (including derivative instruments).

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand ($'000). The functional currency of Upper Hutt City Council is New Zealand dollars.

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the Prospective Statement of Financial Performance.

JUDGEMENTS AND ESTIMATIONS

The preparation of prospective financial statements using PBE standards 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 asset revaluations, impairments, certain fair value calculations and provisions.

STANDARDS ISSUED AND NOT YET EFFECTIVE AND NOT EARLY ADOPTED

Standards and amendments, issued but not yet effective that have not been early adopted, and which are possibly relevant to Council and group are:

Interest in other entities

In January 2017, the XRB issued new standards for interests in other entities (PBE IPSAS 34 – 38). These new standards replace the existing standards for interests in other entities (PBE IPSAS 6 – 8). The new standards are effective for annual periods beginning on or after 1 January 2019, with early application permitted.

Council plans to apply new standards in preparing the 30 June 2020 financial statements. Council and group has not yet assessed the effects of these new standards.

Financial instruments

In January 2017, the XRB issued PBE IFRS 9 Financial Instruments. PBE IFRS 9 replaces PBE IPSAS 29 Financial Instruments: Recognition and Measurement. PBE IFRS 9 is effective for annual periods beginning on or after 1 January 2021, with early application permitted. The main changes under PBE IFRS 9 are:

- New financial asset classification requirements for determining whether an asset is measured at fair value or amortised cost.
- A new impairment model for financial assets based on expected losses, which may result in the earlier recognition of impairment losses.

Council plans to apply this standard in preparing its 30 June 2022 financial statements. Council and group has not yet assessed the effects of the new standard.

STANDARDS ISSUED AND NOT YET EFFECTIVE THAT HAVE BEEN ADOPTED EARLY

Impairment of revalued assets

In April 2017, the XRB issued *Impairment of Revalued Assets*, which now scopes revalued property, plant, and equipment into the impairment accounting standards. Previously, only property, plant and equipment assets measured at cost were scoped into the impairment accounting standards.

Council has early adopted this amendment in preparing its 30 June 2018 financial statements. From the 30 June 2018 year onwards, Council is required to assess at each reporting date whether there is any indication that an asset may be impaired. If an indication exists, Council is required to assess the recoverable amount of that asset and recognize an impairment loss if the recoverable amount is less than the carrying amount. Council can therefore impair a revalued asset without having to revalue the entire class-of-asset to which the asset belongs.

Revenue

Revenue comprises rates, revenue from operating activities, investment revenue, gains, finance and other revenue and is measured at the fair value of consideration received or receivable. Revenue may be derived from either exchange or non-exchange transactions.

EXCHANGE TRANSACTIONS

Exchange transactions are transactions where Council receives assets (primarily cash) or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services, or use of assets) to another entity in exchange.

NON-EXCHANGE TRANSACTIONS

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, Council either receives value from or gives value to another entity without directly giving or receiving approximately equal value in exchange

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.

Specific accounting policies for major categories of revenue are outlined below.

RATES

Rates are set annually by resolution from 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. Rates revenue is classified as non-exchange.

Rates collected on behalf of the Greater Wellington Regional Council (GWRC) are not recognised in the financial statements as Council is acting as an agent for GWRC.

Revenue from water rates by meter is recognised on an accrual basis. Unbilled usage, as a result of unread meters at year-end, is accrued on an average usage basis.

Rates remissions are recognised as a reduction of rates revenue when Council has received an application that satisfies its rates remission policy.

Rates arising from late payment penalties are recognised as revenue when rates become overdue.

The following categories (except where noted) are generally classified as transfers of non-exchange revenue.

TRAFFIC AND PARKING INFRINGEMENTS

Revenue from fines and penalties (e.g. traffic and parking infringements, library overdue book fines) is recognised when infringement notice payment is received.

NEW ZEALAND TRANSPORT AGENCY ROADING SUBSIDIES

Council receives government grants from the New Zealand Transport Agency, which subsidise part of Upper Hutt City Council's costs in maintaining the local roading infrastructure and capital expenditure on the roading infrastructure. The subsidies are recognised as revenue upon entitlement, as conditions pertaining to eligible expenditure have been fulfilled.

OTHER GRANTS RECEIVED

Other grants are recognised as revenue when they become receivable unless there is an obligation in substance to return the funds if conditions of the grant are not met. If there is such an obligation, the grants are initially recorded as grants received in advance and recognised as revenue when conditions of the grant are satisfied

BUILDING AND RESOURCE CONSENT REVENUE

Fees and charges for building and resource consent services are recognised on a percentage completion basis with reference to the recoverable costs incurred at balance date.

PROVISION OF SERVICES

Revenue from the rendering of services by reference to the stage of completion of the transaction at balance date, based on the actual service provided as a percentage of the total services to be provided.

SALE OF GOODS

Revenue from sale of goods is recognised when a product is sold to the customer. Sales are usually in cash or by credit card. The recorded revenue is the gross amount of the sale including credit card fees payable for the transaction. Such fees are included in other expenses.

VESTED OR DONATED PHYSICAL ASSETS

For assets received for no or nominal consideration, the asset is recognised at its fair value when Council obtains control of the asset. The fair value of the asset is recognised as revenue, unless there is a use or return condition attached to the asset.

The fair value of vested or donated assets is usually determined by reference to the cost of constructing the asset. For assets received from property developments, the fair value is based on construction price information provided by the property developer.

For long-lived assets that must be used for a specific use (e.g. land must be used as a recreation reserve), Council immediately recognises that fair value of the asset as revenue. A liability is recognised only if Council expects that is will need to return or pass the asset to another party.

Where revenue is derived by acting for another party, the revenue that is recognised is the commission or fees on the transactions.

Investment revenues

INTEREST AND DIVIDENDS

Interest income is recognised using the effective interest method. Interest revenue on an impaired financial asset is recognised using the original effective interest rate.

Dividends are recognised upon receipt.

DONATIONS – PERMANENT COLLECTION – EXPRESSIONS

Donations of works of art are brought in at an estimated fair value by a valuation carried out by an independent registered valuer.

RESERVE FUND AND DEVELOPMENT CONTRIBUTIONS

The revenue is recognised when payment is made which occurs when the subdivision is substantially complete or when Council provides the service for which the contribution is changed. Contributions in advance are collected and transferred into their respective special funds. These funds can only be used when the capital works in their respective areas can be fully funded.

Expenses

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.

Operating activities

GRANT EXPENDITURE

Non-discretionary grants are those grants that are awarded if the grant application meets the specified criteria and are recognised as expenditure when an application that meets the specified criteria for the grant has been received. Discretionary grants are those grants where Council has no obligation to award on receipt of the grant application and are recognised as expenditure when a successful applicant has been notified of Council's decision.

DEPRECIATION AND AMORTISATION

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

ALLOCATION OF OVERHEADS TO SIGNIFICANT ACTIVITIES

The gross costs of Support Services have been allocated to individual significant activities. These overheads have been allocated at the most appropriate pre-determined basis e.g. actual usage, staff numbers, rates contribution, floor area etc. applicable to the service provided to each significant activity.

INTERNAL TRANSACTIONS

Each significant activity is stated with the inclusion of internal costs and revenues. In order to presents fairlyn the financial statements these transactions have not been eliminated. This method has no effect on the operating result for the year.

TAXATION

Upper Hutt City Council has a tax exemption in relation to the surplus or deficit for the period.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash in hand, deposits held on call with bank, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts.

Bank overdrafts are shown within borrowing in the current liabilities in the Prospective Statement of Financial Position.

TRADE AND OTHER RECEIVABLES

Rates arrears and debtors, “Trade receivables” are initially measured at fair value less any provision for impairment.

Loans, including loans to community organisations made by Upper Hutt City Council at nil, or below market value interest rates are initially recognised at the present value of their expected future cash flows, discounted at the current market rate of return for a similar asset/investment. They are subsequently measured at amortised cost using the effective interest method.

The difference between face value and present value of expected future cash flow, of the loan is recognised in the Prospective Statement of Comprehensive Revenue and Expense as a grant.

A provision for impairment of receivables is established when there is objective evidence that Upper Hutt City Council will not be able to collect all amounts due according to the original terms of receivable. The amount of the provision is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted using the effective interest method.

GOODS AND SERVICES TAX (GST)

The Financial Statements have been prepared exclusive of GST, with the exception of accounts payable and accounts receivable, which are stated as GST inclusive.

Where GST is not recoverable as an input tax then it is recognised as part of the related asset or expense.

The net amount for GST recoverable from, or payable to the Inland Revenue Department (IRD) is included as part of receivables or payables in the Prospective Statement of Financial Position.

The net GST paid to, or received from the IRD, included the GST relating to investing and financing activities, is classified as an operating cash flow in the Prospective Statement of Cash Flows. Contingencies are disclosed inclusive of GST.

INVENTORIES

Inventories held for consumption in the provision of services that are not supplied on a commercial basis are recorded at the lower of cost or Net realizable value.

No inventory is pledged security for liabilities (2017 :nil) However, some inventory is subject to retention title clauses..

FINANCIAL ASSETS

Upper Hutt City Council classifies its financial assets into the following four categories:

- financial assets at fair value through other comprehensive revenue and expenses
- held to maturity investments
- loans and receivables
- financial assets at fair value through equity.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

Financial assets and liabilities are initially measured at fair value plus transactions costs unless they are carried at fair value through profit or loss, in which case the transaction costs are recognised in the Prospective Statement of Comprehensive Revenue and Expenses.

Financial assets acquired principally for the purpose of selling in the short-term or part of a portfolio classified as held for trading are classified as a current asset. The current/non-current classification of derivatives is explained in the derivatives accounting policy below.

FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE REVENUE AND EXPENSE

For equity investments, a significant or prolonged decline in the fair value of the investment below its cost is considered objective evidence of impairment.

For debt investments, significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, and default in payments are considered objective indicators that the asset is impaired.

If impairment evidence exists for investments at fair value through other comprehensive revenue and expense, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the surplus or deficit) recognised in other comprehensive revenue and expense is reclassified from equity to the surplus or deficit.

Equity instrument impairment losses recognised in the surplus or deficit are not reversed through the surplus or deficit.

If in a subsequent period the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed in the surplus or deficit.

The four categories for financial assets are:

1. Financial assets at fair value through surplus or deficit

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

After initial recognition they are measured at their fair values. Gains or losses on re-measurement are recognised in the Prospective Statement of Comprehensive Revenue and Expense.

Financial assets in this category include shares and bonds.

Currently, Upper Hutt City Council does not hold any financial assets in this category.

2. Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets except for maturities greater than 12 months after the balance date, which are included in non-current assets.

After initial recognition they are measured at amortised cost using the effective interest method less impairment. Gains and losses when the asset is impaired or derecognised are recognised in the surplus or deficit. Loans and receivables are classified as “Receivables” in the Statement of Financial Position.

Loans, including loans to community organisations made by Upper Hutt City Council at nil, or below market value interest rates are initially recognised at the present value of their expected future cash flows, discounted at the current market rate of return for a similar asset/investment. They are subsequently measured at amortised cost using the effective interest method.

The difference between face value and present value of expected future cash flow, of the loan is recognised in the surplus or deficit as a grant.

Investments in this category include term deposits, cash equivalents, debtors, community and related party loans.

When Council receives a payment it is policy for it to be paid against the oldest debt first.

3. Held to maturity investments

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that Upper Hutt City Council has positive intention and ability to hold to maturity.

They are included in current assets, except for maturities greater than 12 months after balance date, which are included in non-current assets.

After initial recognition they are measured at amortised cost using the effective interest method less impairment. Gains and losses when the asset is impaired or derecognised are recognised in the surplus or deficit.

Investments in this category include local authority and government stock. Currently, Upper Hutt City Council does not hold any financial assets in this category.

4. Financial assets at fair value through other comprehensive revenue and expense

Financial assets at fair value through other comprehensive revenue and expense are those that are designated into the category at initial recognition or are not classified in any of the other categories above.

They are included in non-current assets unless management intends to dispose of share investment within 12 months of balance date or if the debt instrument is not expected to be realised within 12 months of balance date.

This category encompasses:

- investment that Upper Hutt City Council intends to hold long term but which may be realised before maturity: and
- shareholdings that Upper Hutt City Council holds for strategic purposes.

After initial recognition these investments are measured at their fair value.

Gains and losses are recognised directly in other comprehensive revenue and expense except for impairment losses which are recognised in the surplus or deficit.

On de-recognition, the cumulative gain or loss previously recognised in other comprehensive revenue and expense is reclassified from equity to surplus or deficit.

ACCOUNTING FOR DERIVATIVE FINANCIAL INSTRUMENTS

Upper Hutt City Council uses derivative financial instruments to manage exposure to interest rate risks arising from financial activities. In accordance with its treasury policy, Upper Hutt City Council does not hold or issue derivative financial instruments for trading purposes.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value at each balance date. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The associated gains or losses on derivatives that are not hedge accounted are recognised in the surplus or deficit.

- Upper Hutt City Council has a series of policies providing risk management for interest rates and the concentration of credit risk. Upper Hutt City Council is risk averse and seeks to minimise exposure from its treasury activities. Upper Hutt City Council has an established Treasury Risk Management Policy specifying what transactions can be entered into. The policy does not allow any transactions that are speculative in nature to be entered into.
- Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. This could particularly impact on the cost of borrowing or the return from an investment.
- The interest rates on Upper Hutt City Council investments are disclosed in Note 8, Notes to the Financial Statements.
- The actual management policies are set out in the separate policy document, Treasury Risk Management Policy.
- Credit risk is the risk that a third party will default on its obligation to Upper Hutt City Council, causing Upper Hutt City Council to incur a loss.
- The maximum amount of credit risk for each class is the carrying amount in the Prospective Statement of Financial Position.

- Upper Hutt City Council has minimal credit risk in its holdings of various financial instruments. These financial instruments include bank balances, local authority stock and accounts receivable.
- Upper Hutt City Council invests funds only in deposits with registered banks and local authority stock and limits the amount of credit exposure to any one institution or organisation. Accordingly, the Upper Hutt City Council does not require any collateral or security to support the financial instruments with organisations it deals with.
- Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable, willing parties, in an arm's length transaction.

IMPAIRMENT OF FINANCIAL ASSETS

Financial assets are assessed for evidence of impairment at each balance date. Impairment losses are recognised in the surplus or deficit.

LOANS RECEIVABLES, AND HELD-TO-MATURITY INVESTMENTS

Impairment is established when there is evidence that Council and group will not be able to collect amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, receivership, or liquidation and default in payments are indicators that the asset is impaired. The amount of the impairment is the difference between the assets carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate. For debtors and other receivables, the carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the surplus or deficit. When the receivable is uncollectible, it is written off against the allowance account. Overdue receivables that have been renegotiated are reclassified as current (that is, not past due). Impairment is term deposits, local authority stock, government bonds, and community loans, are recognised directly against the instrument's carrying amount.

FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE REVENUE AND EXPENSE

For equity investments, a significant or prolonged decline in the fair value of the investment below its cost is considered objective evidence of impairment.

For debt investments, significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, and default in payments are objective indicator that the asset is impaired.

If impairment evidence exists for investments at fair value through other comprehensive revenue and expense, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the surplus or deficit) recognised in other comprehensive revenue and expense is reclassified from equity to the surplus or deficit.

Equity instrument impairment losses recognised in the surplus or deficit are not reversed through the surplus or deficit.

If in a subsequent period that fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed in the surplus or deficit.

INVESTMENT PROPERTIES

Properties leased to third parties under operating leases are classified as investment property unless the property is held to meet service delivery objectives, rather than to earn rentals or for capital appreciation.

Investment property is measured initially at its costs, including transactions costs.

After initial recognition, Upper Hutt City Council measures all investment property at fair value as determined annually by an independent valuer. Gains and losses arising from a change in the fair value of investment property are recognised in the surplus or deficit.

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 Council's control and there is sufficient evidence Council 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 in Prospective Statement of Comprehensive Revenue and Expense.

Intangible assets

SOFTWARE ACQUISITION AND DEVELOPMENT

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Costs associated with maintaining computer software are recognised as an expense when incurred. Costs that are directly associated with the development of software for internal use by Upper Hutt City Council, are recognised as intangible assets. Direct costs include software development, employee costs and an appropriate portion of relevant overheads.

Staff training costs are recognised in the surplus or deficit when incurred.

Costs associated with maintaining computer software are recognised as an expense when incurred.

AMORTISATION

The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. Amortisation begins when the asset is available for uses and ceases at the date that the asset is derecognised. The amortisation charge for each period is recognised in the Prospective Statement of Comprehensive Revenue and Expense.

The useful life and associated amortisation rates of major classes of intangible assets have been estimated as follows:

- Computer software 3 years 33%

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Non-financial assets that have an indefinite useful life are not subject to amortisation and are tested annually.

Property, plant and equipment, and intangible assets subsequently measured at cost that have an infinite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

If an asset's carrying amount exceeds its recoverable amount, the asset is regarded as impaired and the carrying amount is written-down to the recoverable amount. The total impairment loss is recognised in the surplus or deficit. The reversal of an impairment loss is recognised in the surplus or deficit.

If an asset's carrying amount exceeds its recoverable amount the asset is impaired and the carrying amount is written down to the recoverable amount. For revalued assets the impairment loss is recognised against the revaluation reserve for that asset.

For assets not carried at a revalued amount, the total impairment loss is recognised in the Prospective Statement of Comprehensive Revenue and Expense.

The reversal of an impairment loss on a revalued asset is credited to the revaluation reserve. However, to the extent that an impairment loss for that class was previously recognised in the Prospective Statement of Comprehensive Revenue and Expense, a reversal of the impairment loss is also recognised in the Prospective Statement of Comprehensive Revenue and Expense.

For assets not carried at revalued amount (other than goodwill) the reversal of an impairment loss is recognised in the Prospective Statement of Comprehensive Revenue and Expense

IMPAIRMENT

Impairment losses of $2,662,624 (2017 NIL) have been recognised for the Central Library building in 2018. This is due increasing standards following the Christchurch and Kaikoura earthquakes and recent investigations resulting in the building being declared earthquake prone. Due to the fact the building can no longer be used by the public Council has created a temporary pop-up library to deliver services and meet the needs of the community. The library building has been impaired to show this change of use.

The recoverable amount of the building, plant and equipment was based on values using the restoration approach, which was determined by reference to the depreciated replacement value of the asset less the cost to repair, which is currently an estimated $1 million. This impairment is a critical estimate /assumption that we have made with the data currently available to Council.

Once restored, the library building will be brought back to National Building Standard rating of Importance Level 3 (IL3) for public use. This is significantly higher than its previous rating resulting in the earthquake prone status. In the LTP 2018 – 2028, this impairment value will be reversed in 2019 – 2020 year.

VALUE IN USE FOR NON-CASH-GENERATING ASSETS

Non-cash generating assets are those assets that are not held with the primary objective of generating a commercial return.

For non-cash generating assets, value is use is determined using an approach based on either a depreciated replacement cost approach, restoration cost approach, or a service units approach. The most appropriate approach used to measure value in use depends on the nature of the impairment and availability of information.

VALUE IN USE FOR CASH-GENERATING ASSETS

Cash-generating assets are those assets that are held with the primary objective of generating a commercial return.

The value in use for cash-generating assets and cash-generating units is the present value of expected future cash flows.

PROPERTY, PLANT AND EQUIPMENT

This is split into three sections:

Operational property, plant and equipment – which includes land, buildings, improvements, street trees, library books, plant and equipment, and motor vehicles

Restricted property, plant and equipment – which is mainly parks and reserves owned by Council which provide a benefit or service to the community and cannot be disposed of because of legal restrictions.

Aquatic Assets – Land, building, improvements, plant and equipment relating to the H^2O Xtream pool facility.

All property, plant and equipment is shown at cost or valuation, less accumulated depreciation and impairment losses.

Council has Asset Management Plans for all major assets. These plans have provided the base for development of the forecast financial statements.

INFRASTRUCTURE ASSETS

Infrastructure assets are the fixed utility network systems owned by Council and include roading, water, stormwater and wastewater assets. Each asset class includes all items that are required for the network to function.

Infrastructure assets (except land under roads) are measured at fair value less accumulated depreciation and impairment losses. Land under roads is held at cost.

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.

Property, plant and equipment is shown at cost or valuation, less accumulated depreciation and impairment losses.

ADDITIONS

The cost of an item of property, plant and equipment is recognised as an asset if, and only if it is probable that future economic benefits or service potential of the item will flow to Upper Hutt City Council and the cost of the item can be measured reliably. In most instances, an item of property, plant and equipment is recognised at its cost. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value as at the date of acquisition.

Work in progress is recognised at cost less impairment and is not depreciated.

In most instances, an item of property, plant, and equipment is initially recognised at its cost. Where an asset is acquired through a non-exchange transaction, it is recognised at its fair value as at the date of acquisition.

DISPOSALS

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are included in the Prospective Statement of Comprehensive Revenue and Expense. Where revalued assets are sold, the amounts included in asset revaluation reserves in respect of those assets are transferred to retained earnings.

SUBSEQUENT COSTS

Costs incurred subsequent to initial acquisition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to Upper Hutt City Council and the cost of the item can be measured reliably.

REVALUATION

Those asset classes that are revalued are valued on a valuation cycle as described below. All other asset classes are carried at depreciated historical costs. The carrying values of revalued items are reviewed at each balance date to ensure that those values are not materially different to fair value.

- Operational Assets
  Land over $120,000 has been revalued as at 30 June 2018 as per the external valuation by Ken Tonks ANZIV SPINZ an Independent valuer of Calibre Consulting Ltd. Land value valued at $120,000 or under is valued by Quotable Value (QV) NZ Ltd completed in August 2016.

Buildings, street trees, and statues were revalued as at 30 June 2018 by Ken Tonks ANZIV SPINZ – an independent valuer of Calibre Consulting Ltd.

Plant, furniture and equipment have been revalued as at 30 June 2018 by Peter Ollivier BSC BE (Civil) FIPENZ CPEng, IntPE MICE – and independent valuer of Calibre Consulting Ltd.

The revalued assets were valued depending on their nature on either a depreciated replacement cost or optimised depreciated replacement basis.

Minor structures, vehicles, computers, minor plant items and minor miscellaneous office equipment are valued at historical cost.

- Infrastructure Assets
  Roading assets were independently valued as at 30 June 2018 by Peter Ollivier BSC BE (Civil) FIPENZ CPEng, IntPE MICE.

  Infrastructure assets are reassessed every year as at 30 June by city engineers.

  Water, stormwater and wastewater assets were valued by city engineers of Wellington Water Ltd.as at 30 June 2018.

- Hutt Valley Wastewater Scheme
  These assets were valued on the depreciated replacement value basis as at 31 December 2017.

  The valuation of these assets was carried out by Wellington Water and independently reviewed by Aon Valuation Services Ltd as at 31 December 2018. The valuer was Peter Erceg and Roger Khoo (MPINZ) of Aon Risk Solutions Ltd. .

- Land under roads
  Under PBE IPSAS reporting standards Upper Hutt City Council has elected to use the fair value of land under roads as 30 June 2004 as deemed cost. Land under roads is no longer revalued.

- Restricted assets
  Assets that cannot be disposed of because of legal and other restrictions. These assets have been revalued as at 30 June 2018 by Ken Tonks, ANZIVS PINZ Registered Valuer of TSE Value Limited. Revaluations will be carried out every three to five years.

- Street trees
  Have been valued as at 30 June 2018 by Peter Olliver Bsc BE (Civil) FIPENZ CPEng, IntPE MICE an independent valuer of Calibre Consulting Ltd. The Council is currently bringing all Parks and Reserves assets into a more structured asset management regime and as part of this process has elected to value its stock of street trees and include them in its financial statements. Street trees typically have a long life and increase in size over this period. It is not generally possible to replace a large mature street tree on a like for like basis.

  Thus the Council has chosen to value all street trees on the typical cost that would be incurred for a young replacement tree. For this reason, street trees will not be depreciated and revaluations will be carried out five yearly.

- Library collection
  Has been revalued at depreciated replacement cost as at 30 June 201 in accordance with the guidelines released by the New Zealand Library Association and the National Library of NZ using the readily available market prices to determine fair value.

The library collection and heritage book collection was revalued as at 30 June 2015 by the Upper Hutt City Library Content Team Leader. The valuation was independently checked by Peter Trewern in 2015. Revaluations are carried out four yearly

- Vested assets
  Have been valued on the actual quantities of infrastructure components vested and the current in the ground cost of providing identical services. The vested assets have been valued by the developer's engineers and council's engineering staff

- Works of art
  Revalued every five years based on an estimate of current market value by an independent registered valuer. The Pumpkin Cottage collection was independently revalued as at 27 October 2015 by Suzanne Beere of Ngaio Fine Arts.

Revaluations for all assets are conducted more frequently if, at any balance date, the fair value differs materially from the carrying amount. Increases in the value of works of art are transferred to the asset revaluation reserve. A decrease in value is recognised in the surplus or deficit in the period it arises where it exceeds the increase previously recognised in the asset revaluation reserve. In subsequent periods, any revaluation surplus that reverses previous revaluation deficits is recognised as a credit to expenditure in the Prospective Statement of Comprehensive Revenue and Expense up to its original value.

ACCOUNTING FOR REVALUATIONS

Upper Hutt City Council accounts for revaluations of property, plant and equipment on a class of asset basis.

The results of revaluing are credited or debited to an asset revaluation reserve for that class of asset in other comprehensive revenue and expense. Where this results in a debit balance in the asset revaluation reserve, this balance is expensed in the surplus or deficit. Any subsequent increase or revaluation that offset a previous decrease in value is recognised in the surplus or deficit up to the amount previously expensed, and then credited to the revaluation reserve for that class of asset under other comprehensive revenue.

DEPRECIATION

All assets, except for land and road formations, have been depreciated on either a Straight Line or Diminishing Value basis at rates estimated to write off the cost of the assets over their estimated useful life.

Hutt Valley Wastewater Scheme assets are controlled by Hutt City Council. Upper Hutt City Council is entitled to a share in any sale proceeds of these assets. The Seaview wastewater treatment plant is depreciated at 20 years and sewerage pipelines at 40-80 years.

The specific rates of depreciation applied to major classes of property, plant and equipment are:

Depreciation

STRAIGHT-LINE DEPRECIATION	YEARS	RATE
Buildings	10 to 100 years	1% to 10%
Buildings fitout and services	10 to 40 years	2.5% to 10%
Computer equipment	3 to 5 years	20% to 33.3%
Furniture and office equipment	5 to 15 years	6.67% to 20%
Library books	2 to 10 years	10% to 50%
Parks and reserves services	10 to 100 years	1% to 10%
Plant and equipment	4 to 50 years	2% to 25%
INFRASTRUCTURE ASSETS		
Roading		
Bridges (parks foot-bridges, roading bridges)	20 to 100 years	1% to 5%
Carparks	50 years	2%
Culvets	50 to 80 years	1.25% to 2%
Footpaths / accessways	30 to 60 years	1.25%-3.33%
Roads (except land and formation)	4 to 30 years	3.33% to 25%
Road formation	40 to 150 years	0.5% to 2.505%
Road marking	2 to 10 years	10% to 50%
Road signs	10 years	10%
Roundabouts	50 years	2%
Stormwater channels	15 to 60 years	1.66% to 6.66%
Street and traffic lights	5 to 50 years	2% to 20%
Street furniture and other features	12 to 25 years	4% to 8.337%
Subways	80 years	1.25%
Sumps	60 years	1.66%
Water		
Civil Works	80 to 100 years	1% to 1.25%
Mechanical and electrical plant, outlets, pumps	20 to 50 years	1% to 5%
Pipe work, appurtenances and associated structures	50 to 100 years	1% to 2%
Reservoirs, intake structure	100 years	1%
Stormwater		
Civil works	80 to 100 years	1% to 1.25%
Mechanical and electrical plant, outlets, pumps	20 to 50 years	1% to 5%
Pipe work, appurtenances and associated structures	50 to 100 years	1% to 2%
Wastewater		
Civil works	80 to 100 years	1% to 1.25%
Electronic equipment	10 to 20 years	5% to 10%
Mechanical and electrical plant, outlets, pumps	15 to 50 years	1% to 7%
Pipe work, wastewater mains	50 to 100 years	1% to 2%
Telemetry		
Civil works	80 to 100 years	1% to 1.25%
Electronic equipment	10 to 20 years	5% to 10%

Depreciation

STRAIGHT-LINE DEPRECIATION	YEARS	RATE
Mechanical and electrical plant, outlets, pumps	20 to 50 years	1% to 5%
Pipe work, appurtenances and associated structures	50 to 100 years	1% to 2%
Diminishing value depreciation		
Furniture and office equipment	2 to 15 years	6.67% - 50%
Plant and equipment	4 to 50 years	2% to 25%
Vehicles and plant	5 to 15 years	6.67% - 20%

The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial year-end.

PAYABLES

Short-term creditors and other payables are recorded at their face value.

Employee entitlements

SHORT TERM EMPLOYEE ENTITLEMENTS

Wages and salaries, annual leave and other entitlements that are expected to be settled within twelve months of reporting date are measured at nominal values on an actual entitlement basis at current rates of pay. Upper Hutt City Council recognises a liability for sick leave to the extent that absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year.

LONG TERM ENTITLEMENTS

Entitlements that are payable beyond twelve months, such as long service leave and retirement gratuity, have been calculated on an actuarial basis.

The amount is calculated based on the unused sick leave entitlement that can be carried forward at balance date, to the extent that Upper Hutt City Council anticipates it will be used by staff to cover those future absences.

The calculations are based on:

- likely future entitlements accruing to staff, based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement and contractual entitlements information; and
- the present value of the estimated future cash flows.

PRESENTATION OF EMPLOYEE ENTITLEMENTS

Sick leave, annual leave, and vested long service leave are classified as a current liability. Non-vested long service leave and retirement gratuities expected to be settled within 12 months of balance date are classified as a current liability. All other employee entitlements are classified as a non-current liability.

SUPERANNUATION SCHEMES

Obligations for contributions to KiwiSaver are accounted for as defined contribution superannuation schemes and are recognised as an expense in the surplus or deficit when incurred.

PROVISIONS

A provision is recognised for future expenditure of uncertain amount or timing when there is a present obligation (either legal or constructive) as a result of a past event, it is probable that expenditures will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

Leases

FINANCE LEASES

A finance lease is a lease that transfers to the lessee substantially all the risks and rewards incidental to the ownership of an asset, whether or not title is eventually transferred. At the commencement of the lease term, Upper Hutt City Council recognised finance lease as assets and liabilities in the Prospective Statement of Financial Position at the lower of the fair value of the leased items or the present value of the minimum lease payments.

The amount recognised as an asset is depreciated over its useful life. If there is no uncertainty as to whether Upper Hutt City Council will obtain ownership at the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life.

OPERATING LEASES

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to the ownership of an asset. Lease payments under an operating lease are recognised as an expense on a straight- line basis over the lease term.

Borrowings

Borrowings are initially recognised at their fair value. After initial recognition, all borrowings are measured at amortised cost using the effective interest method. Borrowings are classified as current liabilities unless the council or group has an unconditional right to defer settlement of the liability for at least twelve months after balance date or if the borrowings are expected to be settled within twelve months of balance date.

Equity

Equity is the community's interest in Upper Hutt City Council and is measured as the difference between total assets less total liabilities. Public equity is disaggregated and classified into the following components.

Components of equity are:

- accumulated funds

- restricted reserves
- asset revaluation reserve
- fair value through other comprehensive revenue and expenses

Reserves

Reserves are a component of equity generally representing a particular use to which various parts of equity have been assigned. Reserves may be legally restricted or created by Council.

Restricted reserves are those reserves subject to specific conditions accepted as binding by Council and which may not be revised by Council without reference to the Courts or third party. Transfers from these reserves may be made only for certain specified purposes or when certain specified conditions are met.

Council created reserves are reserves established by Council decision. Council is legally allowed to alter them without reference to any third party. Transfers to and from these reserves are at the discretion of the Council.

PROPERTY REVALUATION RESERVES

This reserve relates to the revaluation of property, plant, and equipment to fair value.

FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME RESERVES

This reserve comprises the cumulative net change in the fair value of fair value through other comprehensive income instruments.

Statement of cash flows

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

The prospective statement of cashflows has been prepared using the direct approach subject to the netting of certain cash flows. Cashflows in respect of investments and borrowings that have been rolled-over under arranged facilities have been netted in order to provide more meaningful disclosures.

Operating activities include cash received from all income sources of Council and record 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 of Council.

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 key management personnel. Key management personnel include the Mayor and Councillors as directors, the Chief Executive and all members of the Executive Leadership Team as key advisors.

The Mayor and Councillors are considered directors as they occupy the position of a member of the governing body of the Council reporting entity.

Directors' remuneration comprises any money, consideration or benefit received or receivable or otherwise made available, directly or indirectly, to a director during the reporting period. Directors' remuneration does not include reimbursement of authorised work expenses or the provision of work-related equipment such as cellphones and laptops.

Consolidated financial statements

The published financial statements are those of the parent. The presentation of consolidated group statements, including the Council controlled organisation, Expressions Arts and Entertainment Centre, would make no material difference to Council's net surplus/(deficit) or net fixed assets over the term of the plan.

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 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

Critical accounting estimates and assumptions

In preparing these financial statements Upper Hutt City Council has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations or future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Estimating retirement and long service leave obligations

The present value of retirement and long service leave obligations depend on a number of factors that are determined on an actuarial basis. Two key assumptions used in calculating this liability include the discount rate and the salary inflation factor. Any changes in these assumptions will affect the carrying amount of the liability.

Expected future payments are discounted using forward discount rates derived from the 90-day call rate from NZ Treasury. The discount rates used have maturities that match, as closely as possible, the estimated future cash outflows. The salary inflation factor has been determined after considering historical salary inflation patterns and after obtaining advice from an independent actuary. A weighted average discount rate of 1.98% (2016: 2.4%) and an inflation factor of 2.2% (2016: 0.4%) were used.

Impairment

Council has impaired the Central Library building in 2018 for $2,662,634 and the impairment is reversed in the 2019 – 2020 year of the LTP, allowing for a year to complete the restoration of the facility due to its earthquake prone status, On completion of the restoration the facility will have gained the National Building Standard rating of Importance Level 3 (IL3) for public use buildings.

Infrastructural assets

There are a number of assumptions and estimates used when performing Depreciated Replacement Cost valuations over infrastructural assets. These include:

- The physical deterioration and condition of an asset, for example Council could be carrying an asset at an amount that does not reflect its actual condition. This is particularly so for those assets which are not visible, for example stormwater, wastewater and water supply pipes those that are underground. This risk is minimised by Council performing a combination of physical inspections and condition modelling assessments of underground assets;
- Estimating any obsolescence or surplus capacity of an asset; and
- Estimates are made when determining the remaining useful lives over which the asset will be depreciated. These estimates can be impacted by the local conditions, for example weather patterns and traffic growth. If the useful lives do not reflect the actual consumption of the benefits of the asset, then Upper Hutt City Council could be over or under estimating the annual depreciation charge recognised as an expense in the Prospective Statement of Comprehensive Revenue and Expenses. To minimise this risk Upper Hutt City Council infrastructural asset useful lives have been determined with reference to the NZ Infrastructural Asset Valuation and Depreciation Guidelines published by the National Asset Management Steering Group, and have been adjusted for local conditions based on past experience. Asset inspections, deterioration and condition modelling are also carried out regularly as part of the Upper Hutt City Council's asset management planning activities, which gives Upper Hutt City Council further assurance over its useful life estimates.
- Experienced independent valuers perform Council's infrastructural asset revaluations..

Accounting and significant forecasting assumptions

The accounting and significant forecasting assumptions on which this document is based are set out in the next section headed **'Accounting assumptions'** and in the **'Significant forecasting assumptions'.**

Accounting assumptions

With future planning comes inevitable uncertainty and risk, and these assumptions are based on the best information available at the time. Wherever possible Council will use the most up to date information relating to any relevant factors noted in these assumptions to inform its decision-making. This includes using the Annual Plan process in years between Long Term Plans to revisit any substantial changes to the assumptions if required.

Council is required to state the level of uncertainty for each assumption, and where there is high uncertainty, to note the potential effects in terms of financial risk resulting from this uncertainty.

FACTOR	ASSUMPTION
Inflation Level of uncertainty: Low	Provision has been made for inflation based on projections provided by Business and Economic Research Ltd (September 2016 update). The Local Government Cost Index (LGCI) has been applied on a weighted average cumulative basis over the financial years 2018 – 2019 to 2027 – 2028 and

FACTOR	ASSUMPTION
	range from 1.4% to 2.6% on an annual basis.
Rating base Level of uncertainty: Low	The Rating base is expected to grow by varying amounts from 1 - 2%.
Term of debt and interest rate Level of uncertainty: Low	The default term of new debt is 20 years. However, there are some specific exemptions to this based on the intrinsic nature of the item. The weighted average interest rate for loans is forecast at between 4.0% and 5.0%. The new basis is 4.75%. The risk is low due to Council's use of financial instruments (interest rate swaps). To minimise this risk, new loans are structured to avoid a concentration of refinancing at any one time, and a high portion of the current loans are covered by interest rate swaps. Based on Council's Treasury policy, Council has limits of a fixed interest portfolio of interest rates swaps of 55 % -95 % fixed, plus our maturity profile hedged over maturity years bands see below: • 1 -3 years Minimum hedge % 15 % Maximum hedge 60% • 3 to 5 years Minimum hedge 15 % Maximum hedge 60% • 5 years plus Minimum hedge 10% Maximum hedge 60% These interest rates swaps cover a longer maturity period and fix the interest rates to ensure a lower overall interest expense to Council. The Treasury Policy is available to the public. Also within the Long Term Plan under the section called Financial Instruments and in every Annual Report under note 9 Derivative financial Instruments are the details of Council's current interest rate swap contracts.
Capital works funding Level of uncertainty: Low	In addition the wastewater project has a debt term of 40 years. Capital works with a cost in excess of $50,000 [other than renewals] will be funded from either rates, debt, or cash reserves. Capital renewal will be funded fully from rates. Depreciation is not funded.
Expected interest rate on investments Level of uncertainty: Low	Interest on investments will range from 1.75% to 3.5%. This normally ranges between 1.50% to 2% gap from what Council is incurring for interest expenses.

FACTOR	ASSUMPTION
Income Level of uncertainty: Moderate	Income figures are based on the Revenue and Financing Policy. Income is subject to growth in the local economy and within the next 10 years Council has forecast reasonable growth with the Wallaceville subdivision coming on line.
Useful life of significant assets Level of uncertainty: Low	Refer to Accounting policy on Depreciation.
Sources of funds for future replacement of significant assets Level of uncertainty: Low	This will be a mixture of rate funding, debt funding and special reserves.
Re-valuation of non-current assets Level of uncertainty: Low	All major property plant equipment, is revalued annually by city engineers and staff and have an internal peer review. Every three years the system used has a system and revaluation review by external reviewers. Infrastructure assets system are reviewed annually. • Land – 2020 ,2023, 2026 (external dates • Buildings – 2018, 2021, 2024, 2027 (external dates) • Library books – 2019, 2023, 2027 (external dates) • Infrastructure assets – Internally revalued annually • Infrastructure assets – Hutt Valley Trade Wastewater Service – 2021, 2024, 2027 (external dates) Refer to Schedule 7 and 8 containing proposed amendments to financial statements arising from revaluation of assets. Any adjustments to net asset values, as a result of revaluation would have no effect on rates funding, but would change depreciation expenses, the Prospective Comprehensive Revenue and Expense Statement and Prospective Statement of Financial Position.
New Zealand Transport Agency - subsidy rates Level of uncertainty: Moderate	There is a change in NZTA subsidy rates for years 2018 to 2028 of 51% capital expenditure and 51% operating costs. In the event of a significant reduction in NZTA subsidy levels Council will need to re-evaluate its position with regard to the proposed projects. The likely response will be a reduction and/or deferral of projects.