

# Notes to the financial statements

<b>1 – Rates</b>	Forecast	Forecast	Forecast	Forecast
	Annual Plan	LTCCP	Annual Plan	Variation
	Year 2	Year 3	Year 3	Year 3
	2010-11	2011-12	2011-12	2011-12
	(\$ 000)	(\$ 000)	(\$ 000)	(\$ 000)
General rates	15,622	16,836	16,254	(582)
Targeted rates water fire protection	999	1,096	1,076	(20)
Targeted rates water supply	2,884	3,241	3,282	41
Targeted rates stormwater	2,132	1,933	2,187	254
Targeted rates wastewater	5,401	5,443	5,717	274
Targeted rate Karapoti Bridge	2	2	2	0
Rates penalties	228	201	232	31
<b>Total rates income</b>	<b>27,268</b>	<b>28,752</b>	<b>28,750</b>	<b>(2)</b>

## Rates remission

Rates revenue is shown net of rate remission.

Upper Hutt City Council's rate remission policy allows Upper Hutt City Council to remit or postpone rate or penalties on condition of ratepayer's extreme hardship, land used for sport, and land protected for historical or cultural purposes also covers general rates under selected criteria for the Upper Hutt City Council's Economic Development Policy.

<b>Rates remissions</b>	Forecast	Forecast	Forecast	Forecast
	Annual Plan	LTCCP	Annual Plan	Variation
	Year 2	Year 3	Year 3	Year 3
	2010-11	2011-12	2011-12	2011-12
	(\$ 000)	(\$ 000)	(\$ 000)	(\$ 000)
Total gross rates revenue	27,488	28,866	28,859	(7)
Less rates remission				
Land used for sport	91	93	94	1
Rate penalties remission	25	21	15	(6)
Remission economic development policy	104	0	0	0
<b>Rates revenue net of remissions</b>	<b>27,268</b>	<b>28,752</b>	<b>28,750</b>	<b>(2)</b>

## Non-rateable land

Under the Local Government (Rating) Act 2002 certain properties cannot be rated for general rates.

These properties include schools, place of worship, public gardens and reserves.

These non-rateable properties may be subject to targeted rates in respect of sewerage, water, refuse and sanitation.

# Notes to the financial statements

<b>2 - Fees and charges</b>	Forecast	Forecast	Forecast	Forecast
	Annual Plan	LTCCP	Annual Plan	Variation
	Year 2	Year 3	Year 3	Year 3
	2010-11	2011-12	2011-12	2011-12
	(\$ 000)	(\$ 000)	(\$ 000)	(\$ 000)
Metered water charges	1,091	1,118	999	(119)
Property rentals	123	282	147	(135)
Permit and Licence Fees	1,714	1,768	1,731	(37)
H <sup>2</sup> O Xstream and Expression Charges	1,348	1,259	1,273	14
Library, Parks, Cemetery and Community Charges	494	473	531	58
Vested assets	2,333	2,332	2,245	(87)
Reserve and Rooding Development Fund Charges	371	685	457	(228)
Solidwaste charges	657	693	636	(57)
Other charges	567	575	1,613	1,038
<b>Total Fees and charges income</b>	<b>8,698</b>	<b>9,185</b>	<b>9,632</b>	<b>447</b>

N.B.

1. Metered water charges, although levied and recoverable under the Local Government (Rating) Act, are included with fees and charges as this more accurately represents the nature of the charge.
2. Metered properties are properties that consume more than 260 cubic metres of water per year.

<b>3 - Subsidies and grants</b>	Forecast	Forecast	Forecast	Forecast
	Annual Plan	LTCCP	Annual Plan	Variation
	Year 2	Year 3	Year 3	Year 3
	2010-11	2011-12	2011-12	2011-12
	(\$ 000)	(\$ 000)	(\$ 000)	(\$ 000)
Rooding subsidies - NZ Transport Agency (NZTA <sup>1</sup> )	4,237	2,834	1,865	(969)
Petrol tax (Crown)	155	164	155	(9)
Public transport subsidies (GWRC <sup>2</sup> )	0	34	0	(34)
Rural fire subsidies (GWRC <sup>2</sup> and NRFA <sup>3</sup> )	8	8	0	(8)
Subsidies for Activation	177	69	122	53
Other grants and subsidies	531	445	461	16
<b>Total Subsidies and Grants Income</b>	<b>5,108</b>	<b>3,554</b>	<b>2,603</b>	<b>(951)</b>

<sup>1</sup>NZTA - NZ Transport Agency

<sup>2</sup>GWRC - Greater Wellington Regional Council

<sup>3</sup>NFRA - National Rural Fire Authority

# Notes to the financial statements

<b>4 - Interest and dividends</b>	Forecast	Forecast	Forecast	Forecast
	Annual Plan	LTCCP	Annual Plan	Variation
	Year 2	Year 3	Year 3	Year 3
	2010-11	2011-12	2011-12	2011-12
	(\$ 000)	(\$ 000)	(\$ 000)	(\$ 000)
Interest on general funds	102	102	136	34
Interest on special funds	79	139	104	(35)
Dividends	0	0	1	1
<b>Total Interest and Dividend Income</b>	<b>181</b>	<b>241</b>	<b>241</b>	<b>0</b>

<b>5 - Other expenditure and items for disclosure</b>	Forecast	Forecast	Forecast	Forecast
	Annual Plan	LTCCP	Annual Plan	Variation
	Year 2	Year 3	Year 3	Year 3
	2010-11	2011-12	2011-12	2011-12
	(\$ 000)	(\$ 000)	(\$ 000)	(\$ 000)
Employees costs - salaries and wages	7,942	7,798	8,509	711
Increase/decrease in employee benefit liabilities	0	0	0	0
Local government association	32	32	33	1
Employees association	4	4	4	0
Insurance	261	216	400	184
Disaster fund insurance	54	58	243	185
Entertainment	21	16	16	0
Civic functions	18	19	18	(1)
Audit fees	133	136	122	(14)
Audit Fees - LTCCP	0	74	80	6
Interest Expenses	1,637	1,624	1,883	259
Rental	269	318	262	(56)
<b>Depreciation:</b>				
Individual components are:				
Buildings (operational)	744	1,005	731	(274)
Buildings (restricted)	96	71	79	8
Furniture and equipment (operational)	33	55	17	(38)
Vehicle, computer equipment and plant	335	614	267	(347)
Library books	302	293	220	(73)
Property available for sale	3	0	0	0
Parks and reserves services	295	46	276	230
Land transport	4,255	3,668	4,125	457
Stormwater	1,266	1,115	1,238	123
Wastewater	1,463	1,298	1,413	115
Water supply	1,267	1,102	1,206	104
Hutt Valley wastewater project	1,344	1,293	1,306	13

# Notes to the financial statements

	Forecast Annual Plan Year 2 2010-11 (\$ 000)	Forecast LTCCP Year 3 2011-12 (\$ 000)	Forecast Annual Plan Year 3 2011-12 (\$ 000)	Forecast Variation Year 3 2011-12 (\$ 000)
Impairment of receivable	7	14	2	(12)
Impairment of property, plant and equipment	0	0	0	0
Loss on sale of assets	42	607	22	(585)
Rates remissions - sports clubs and other non profit bodies as per the Upper Hutt City Council	91	93	94	1
Penalty remissions	25	21	15	(6)
Derivative expenses	0	44	0	(44)
<b>Other items for disclosure</b>				
Derivative income	0	(49)	0	49
Profit on sale of assets	0	0	0	0
<b>6 - Cash and cash equivalents</b>				
	Forecast Annual Plan Year 2 2010-11 (\$ 000)	Forecast LTCCP Year 3 2011-12 (\$ 000)	Forecast Annual Plan Year 3 2011-12 (\$ 000)	Forecast Variation Year 3 2011-12 (\$ 000)
Cash on hand	4	3	4	1
Bank Balances (overdrafts)	633	330	7	(323)
Call account	1,000	300	70	(230)
Short term deposits maturing three months or less from data of acquisition	0	0	0	0
<b>Total Cash and Cash Equivalents</b>	<b>1,637</b>	<b>633</b>	<b>81</b>	<b>(552)</b>

The estimated carry value of short term deposits with maturity dates of three months of less approximates their fair value.

Refer to note 7 on estimated weighted average effective interest rate for cash and cash equivalents

The bank overdraft is unsecured. The facility totals \$600,000 (2011), \$600,000 (2010). The current interest rate on the facility is 11.40% per annum.

In the table above in note 6, cash and bank overdrafts are estimated as the same for the purposes of the Prospective Cash Flow Statement.

# Notes to the financial statements

<b>7 - Other financial assets</b>	<b>Forecast Annual Plan Year 2 2010-11 (\$ 000)</b>	<b>Forecast LTCCP Year 3 2011-12 (\$ 000)</b>	<b>Forecast Annual Plan Year 3 2011-12 (\$ 000)</b>	<b>Forecast Variation Year 3 2011-12 (\$ 000)</b>
<b>Current Portion</b>				
<i>Loans and receivables</i>				
Short-term deposits with maturities of 4-12 months	7,579	4,969	5,191	222
<b>Total Current Portion</b>	<b>7,579</b>	<b>4,969</b>	<b>5,191</b>	<b>222</b>
<b>Non-Current portion</b>				
<i>Loans and receivables</i>				
PINS Security	7	7	7	0
<i>Fair Value through Equity- Unlisted Shares</i>				
Investment in Civic Assurance Ltd	51	51	51	0
Investment in Smartlinx <sup>3</sup> Ltd	265	175	175	0
<b>Total Non-Current Portion</b>	<b>323</b>	<b>233</b>	<b>233</b>	<b>0</b>

Estimated Carry value of short term equates to estimated fair value.

Valuation of unlisted shares is based on the carrying value which approximates their fair value.

PINS Investment has been written down to its current realizable value as at 30 June 2010.

There were no impairment provisions for other financial assets.

# Notes to the financial statements

<b>Estimated maturity analysis and effective interest rates</b>	Forecast Annual Plan Year 2 2010-11 (\$ 000)	Forecast LTCCP Year 3 2011-12 (\$ 000)	Forecast Annual Plan Year 3 2011-12 (\$ 000)	Forecast Variation Year 3 2011-12 (\$ 000)
The estimated maturity dates for all financial assets with the exception of equity investments are as follows:				
Short Term deposits (with maturities 3 months or less)	0	0	0	0
Estimated Weighted average effective interest rate	4.00%	4.83%	4.83%	0.00%
Short term deposits ( with maturities of 4-12 months or less)	7,579	4,969	5,191	222
Estimated Weighted average effective interest rate	4.00%	4.83%	4.83%	0.00%
PINS Security (maturity 31/01/2014)	7	7	7	0
Estimated Weighted average effective interest rate	100%	0%	100%	100%
Call account	1,000	300	100	(200)
Estimated Weighted average effective interest rate	4.00%	6.50%	6.50%	0%

<b>8 - Derivative financial instruments</b>	Forecast Annual Plan Year 2 2010-11 (\$ 000)	Forecast LTCCP Year 3 2011-12 (\$ 000)	Forecast Annual Plan Year 3 2011-12 (\$ 000)	Forecast Variation Year 3 2011-12 (\$ 000)
<b>Current asset portion</b>	0	0	0	0
<b>Non-current asset portion</b>	0	9	0	(9)
<b>Current liability portion</b>	(44)	0	0	0
<b>Non-current liability portion</b>	(1,065)	0	0	0

The swap matures on 27 March 2013 (\$2.895M).

# Notes to the financial statements

<b>9 - Trade and other receivables</b>	Forecast Annual Plan Year 2 2010-11 (\$ 000)	Forecast LTCCP Year 3 2011-12 (\$ 000)	Forecast Annual Plan Year 3 2011-12 (\$ 000)	Forecast Variation Year 3 2011-12 (\$ 000)
Rates receivable	727	727	727	0
Sundry debtors	959	977	951	(26)
Community loans	131	113	139	26
GST	339	339	339	0
Accrued revenue	806	806	806	0
Prepayments	212	212	212	0
	<u>3,174</u>	<u>3,174</u>	<u>3,174</u>	<u>0</u>
Less provision for impairment of receivables	(82)	(82)	(82)	0
<b>Total trade and other receivables</b>	<b>3,092</b>	<b>3,092</b>	<b>3,092</b>	<b>0</b>
<b>Less non-current portion:</b>				
<b>Community loans</b>	98	89	106	17
<b>Total non-current portion</b>	<b>98</b>	<b>89</b>	<b>106</b>	<b>17</b>
<b>Current portion</b>	<b>2,994</b>	<b>3,003</b>	<b>2,986</b>	<b>(17)</b>
Fair value has been determined using cashflows discounted at a rate of 7.75%				
<b>The fair value of community loans over the 10 years is:</b>	<b>131</b>	<b>113</b>	<b>139</b>	<b>26</b>
<b>The face value of community loans over the 10 years is:</b>	<b>155</b>	<b>116</b>	<b>160</b>	<b>44</b>

The estimated carrying value of trade and other receivables (excluding community loans) approximates their fair value.

There is no concentration of credit risk with respect to receivables outside the group, as the group has a large number of customers.

Upper Hutt City Council does not provide for any impairment on rates receivable as it has various powers under the Local Government (Rating) Act 2002 to recover any outstanding debts.

Ratepayers can apply for payment plan options in special circumstances.

Upper Hutt City Council holds no collateral as security or other credit enhancements over receivables that are either past due or impaired.

# Notes to the financial statements

<b>Movements in the provision for impairment of receivables and community loans</b>	Forecast Annual Plan Year 2 2010-11 (\$ 000)	Forecast LTCCP Year 3 2011-12 (\$ 000)	Forecast Annual Plan Year 3 2011-12 (\$ 000)	Forecast Variation Year 3 2011-12 (\$ 000)
Opening balance as at 1 July	82	82	82	0
Additional provisions made during the year	7	14	2	(12)
Receivables written off during the period	(7)	(14)	(2)	12
<b>Closing balance as at 30 June</b>	<b>82</b>	<b>82</b>	<b>82</b>	<b>0</b>

<b>Estimated age of rates receivables</b> The age of rates receivables overdue that have not been impaired are as follows:	Forecast Annual Plan Year 2 2010-11 (\$ 000)	Forecast LTCCP Year 3 2011-12 (\$ 000)	Forecast Annual Plan Year 3 2011-12 (\$ 000)	Forecast Variation Year 3 2011-12 (\$ 000)
Current 90 days over	625	625	622	(3)
1-2 years old	102	24	100	76
2-3 years old	0	5	5	0
2 Greater than 3 years old	0	73	0	(73)
<b>Carrying amount as at 30 June</b>	<b>727</b>	<b>727</b>	<b>727</b>	<b>0</b>

<b>10 (a) - Operational property, plant and equipment</b>	Forecast Annual Plan Year 2 2010-11 (\$ 000)	Forecast LTCCP Year 3 2011-12 (\$ 000)	Forecast Annual Plan Year 3 2011-12 (\$ 000)	Forecast Variation Year 3 2011-12 (\$ 000)
Opening cost/ valuation as at 1 July	44,493	50,195	50,637	442
Accumulated depreciation and impairment charge	(1,404)	(9,133)	(5,120)	4,013
<b>Opening book value as at 1 July</b>	<b>43,089</b>	<b>41,062</b>	<b>45,517</b>	<b>4,455</b>
Current years additions	2,425	509	877	368
Current years disposals	0	0	0	0
Current year revaluation	0	170	0	(170)
Current year depreciation	(1,379)	(1,781)	(1,401)	380
WIP transferred	0	0	0	0
<b>Closing book value as at 30 June</b>	<b>44,135</b>	<b>39,960</b>	<b>44,993</b>	<b>5,033</b>
Closing cost/ valuation	46,918	50,704	51,514	810
Closing accumulated depreciation	(2,783)	(10,744)	(6,521)	4,223
<b>Closing book value as at</b>	<b>44,135</b>	<b>39,960</b>	<b>44,993</b>	<b>5,033</b>

# Notes to the financial statements

<b>10 (b) - Restricted property, plant and equipment</b>	Forecast Annual Plan Year 2 2010-11 (\$ 000)	Forecast LTCCP Year 3 2011-12 (\$ 000)	Forecast Annual Plan Year 3 2011-12 (\$ 000)	Forecast Variation Year 3 2011-12 (\$ 000)
Opening cost/ valuation as at 1 July	34,199	18,444	32,378	13,934
Accumulated depreciation and Impairment charge	(412)	(1,809)	(416)	1,393
<b>Opening book value as at 1 July</b>	<b>33,787</b>	<b>16,635</b>	<b>31,962</b>	<b>15,327</b>
Current years additions	679	1,142	414	(728)
Current years disposals	0	0	0	0
Current year revaluation	0	0	0	0
Current year depreciation	(428)	(303)	(193)	110
WIP transferred	0	0	0	0
<b>Closing book value as at 30 June</b>	<b>34,038</b>	<b>17,474</b>	<b>32,183</b>	<b>14,709</b>
Closing cost/ valuation	34,878	19,586	32,791	13,205
Closing accumulated depreciation	(840)	(2,112)	(608)	1,504
<b>Closing book value as at 30 June</b>	<b>34,038</b>	<b>17,474</b>	<b>32,183</b>	<b>14,709</b>

<b>11 - Infrastructure assets</b>	Forecast Annual Plan Year 2 2010-11 (\$ 000)	Forecast LTCCP Year 3 2011-12 (\$ 000)	Forecast Annual Plan Year 3 2011-12 (\$ 000)	Forecast Variation Year 3 2011-12 (\$ 000)
Opening cost/ valuation as at 1 July	470,243	482,963	540,176	57,213
Accumulated Depreciation and Impairment Charge	(8,911)	(26,780)	(28,845)	(2,065)
<b>Opening book value as at 1 July</b>	<b>461,332</b>	<b>456,183</b>	<b>511,331</b>	<b>55,148</b>
Current years additions	14,179	10,581	9,215	(1,366)
Current years disposals	(42)	(607)	(86)	521
Current year revaluation	0	0	6,326	6,326
Current year depreciation	(9,595)	(8,476)	(9,288)	(812)
WIP transferred	0	0	0	0
<b>Closing book value as at 30 June</b>	<b>465,874</b>	<b>457,681</b>	<b>517,498</b>	<b>59,817</b>
Closing cost/ valuation	484,380	492,937	555,631	62,694
Closing accumulated depreciation	(18,506)	(35,256)	(38,133)	(2,877)
<b>Closing book value as at 30 June</b>	<b>465,874</b>	<b>457,681</b>	<b>517,498</b>	<b>59,817</b>

# Notes to the financial statements

## 12 - Hutt Valley wastewater scheme

The Local Government (Wellington Region) Reorganisation Order 1989 transferred the functions of the Hutt Valley Drainage Board to the Hutt City Council. In so doing, the reorganisation provided for a joint committee to be established between the Upper Hutt and Hutt City Councils to consider the coordination of the two councils in respect of matters affecting the Hutt Valley as a whole, and the disposal of wastewater in particular.

The joint Hutt Valley Wastewater Scheme has been constructed to improve the operation of the system and quality of the discharge. Upper Hutt pays an annual levy to the Hutt City Council, which manages the Wastewater system, based on an apportionment of between 26% and 31% for Upper Hutt City Council.

Upper Hutt City Council is funding the Hutt Valley Wastewater Scheme in line with the Strategic Plan Funding model.

While Upper Hutt City Council does not have any direct control over the Scheme it is entitled to a share of the proceeds from any sale of the Scheme's assets.

The Hutt Valley Wastewater Scheme was valued on the depreciated replacement value basis as at 1 July 2006.

The valuation of these assets was independently reviewed by Graham Hughson, BE (Civil), DIP Mgmt, CPEng, MIPENZ, Senior Infrastructure Management Consultant of Maunsell Ltd.

Upper Hutt City Council has an equitable interest in the total asset of \$37.081M (2011), \$37.081M (2010) which is recognised as part of Infrastructural assets.

This is the assessed net book value of the Upper Hutt City Council share.

<b>Hutt Valley wastewater scheme transactions</b>	Forecast	Forecast	Forecast	Forecast
	Annual Plan	LTCCP	Annual Plan	Variation
	Year 2	Year 3	Year 3	Year 3
	2010-11	2011-12	2011-12	2011-12
	(\$ 000)	(\$ 000)	(\$ 000)	(\$ 000)
Drainage levy	2,208	2,292	2,480	188
Capital contributions	510	527	599	72
Trade waste income	(125)	(132)	(126)	6

# Notes to the financial statements

<b>13 - Trade and other payables</b>	Forecast Annual Plan Year 2 2010-11 (\$ 000)	Forecast LTCCP Year 3 2011-12 (\$ 000)	Forecast Annual Plan Year 3 2011-12 (\$ 000)	Forecast Variation Year 3 2011-12 (\$ 000)
Trade creditors	3,244	3,244	3,244	0
Rates in advance	403	403	403	0
Greater Wellington Regional Council rates	222	222	222	0
Fees in advance	850	850	850	0
Accrued interest payable	49	49	49	0
Payroll liability	106	106	106	0
Other liabilities	40	40	40	0
Deposits and trust accounts	1,086	1,086	1,086	0
<b>Total trade and other payables</b>	<b>6,000</b>	<b>6,000</b>	<b>6,000</b>	<b>0</b>

<b>14 - Employees entitlements</b>	Forecast Annual Plan Year 2 2010-11 (\$ 000)	Forecast LTCCP Year 3 2011-12 (\$ 000)	Forecast Annual Plan Year 3 2011-12 (\$ 000)	Forecast Variation Year 3 2011-12 (\$ 000)
Accrued pay	100	100	100	0
Annual leave	425	425	425	0
Sick leave	25	25	25	0
<b>Total current portion</b>	<b>550</b>	<b>550</b>	<b>550</b>	<b>0</b>
Non current liabilities				
Retirement and long service leave	175	175	175	0
<b>Total non-current portion</b>	<b>175</b>	<b>175</b>	<b>175</b>	<b>0</b>
<b>Total employee entitlements</b>	<b>725</b>	<b>725</b>	<b>725</b>	<b>0</b>

# Notes to the financial statements

<b>15 – Public debt</b>	Forecast	Forecast	Forecast	Forecast
	Annual Plan	LTCCP	Annual Plan	Variation
	Year 2	Year 3	Year 3	Year 3
	2010-11	2011-12	2011-12	2011-12
	(\$ 000)	(\$ 000)	(\$ 000)	(\$ 000)
Opening balance	18,642	20,457	21,349	892
Loans raised during the year	3,638	1,518	3,940	2,422
Less repayments during the year	(572)	(609)	(620)	(11)
<b>Balance as at 30 June</b>	<b>21,708</b>	<b>21,366</b>	<b>24,669</b>	<b>3,303</b>
Less current borrowings repayable in 12 months	(617)	(617)	(641)	(24)
<b>Closing balance for non-current borrowings</b>	<b>21,091</b>	<b>20,749</b>	<b>24,028</b>	<b>3,279</b>

## Fixed-rate debt

Upper Hutt City Council's secured debt of \$7.584M (2011), \$5.18M (2010) is issued at fixed rates of interest.

## Floating-rate debt

Upper Hutt City Council's secured debt of \$12.927M (2011), \$13.437M (2010) is issued at floating rates of interest.

## Security

From 27 June 2001 all current fixed term loan facilities are secured by the council's Debenture Trust Deed with security over rates income.

Upper Hutt City Council has issued security stock to the value of \$24.258M as at 30 June 2011, \$20.869M (2010), under its Debenture Trust Deed. This stock has been issued to three banking institutions, as security for existing committed funds of \$23.638M (2011), \$20.294M (2010) and uncommitted facilities available to the value of \$0.62M (2011), \$0.62M (2010)

<b>Interest expenses rates</b>	Forecast	Forecast	Forecast	Forecast
	Annual Plan	LTCCP	Annual Plan	Variation
	Year 2	Year 3	Year 3	Year 3
	2010-11	2011-12	2011-12	2011-12
	(\$ 000)	(\$ 000)	(\$ 000)	(\$ 000)
The weighted average interest rate on loans outstanding (current and noncurrent) at 30 June 2011 is estimated as:	8.0%	7.6%	8.0%	0.4%

The loans are secured by a rate pursuant to Section 115 of the Local Government Act 2002 upon the rateable property of the City of Upper Hutt.

# Notes to the financial statements

## 16 - Financial instruments

The financial instruments which expose the council to credit risk are principally bank balances, investments, accounts receivable, creditors and term loans.

The council's main bank accounts are held with the ANZ National Bank Limited. The credit risk is reduced by ensuring that the balances in the accounts are at sufficient levels to fund day to day operations of the council. Surplus funds are invested with trading banks and organisations with credit ratings of not less than AA-.

The level and spread of accounts receivable minimises the council's exposure to credit risk. Council does not engage in any material transactions in foreign currencies and therefore is not exposed to any material foreign currency risk.

Council's term loans are borrowed at fixed and floating interest rates. The main interest rate risk council is exposed to is that interest rates will fluctuate during the currency of the loans.

In addition, many of council's term loans are refinanced before ultimate repayment. Council is exposed to a risk that interest rates will have increased at the time loans are refinanced.

To minimise this risk, loans are structured to avoid a concentration of refinancing at one time, and a portion of the current loans are covered by interest rate swaps to the value of \$2.895M.

The swap matures on 27 March 2013 (\$2.895M).

The fair value of other financial instruments (except for Stocks and Bonds) is equivalent to the carrying amount disclosed in the Prospective Statement of Financial Position.

<b>17 - Accumulated funds</b>	Forecast	Forecast	Forecast	Forecast
	Annual Plan	LTCCP	Annual Plan	Variation
	Year 2	Year 3	Year 3	Year 3
	2010-11	2011-12	2011-12	2011-12
	(\$ 000)	(\$ 000)	(\$ 000)	(\$ 000)
Opening balance	241,972	241,496	242,929	1,433
Net operating surplus (deficit)	(938)	(1,013)	(2,122)	(1,109)
	<b>241,034</b>	<b>240,483</b>	<b>240,807</b>	<b>324</b>
Transfer to:				
Restricted reserves	(565)	(930)	(695)	235
Accounts restricted by law	0	0	0	0
Asset revaluation reserve on disposal of property, plant and equipment	0	0	0	0
	<b>(565)</b>	<b>(930)</b>	<b>(695)</b>	<b>235</b>
Transfer from:				
Restricted reserves	1,898	1,819	2,071	252
Accounts restricted by law	561	186	192	6
Asset revaluation reserve on disposal of property, plant and equipment	0	0	0	0
	<b>2,459</b>	<b>2,005</b>	<b>2,263</b>	<b>258</b>
<b>Closing balance as at 30 June</b>	<b>242,928</b>	<b>241,558</b>	<b>242,375</b>	<b>817</b>

# Notes to the financial statements

## 18 - Reserves

The council's capital is its equity (or ratepayers' funds), which comprise retained earnings and reserves.

Equity is represented by net assets.

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

The objective of managing these items is to achieve intergenerational equity, which is a principle promoted in the Act and applied by the council. Intergenerational equity requires today's ratepayers to meet the costs of utilising the council's assets and not expecting them to meet the full costs of long term assets that will benefit ratepayers in future generations are not required to meet the costs of deferred renewals and maintenance.

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

Upper Hutt City Council has the following council reserves:

- Reserves for different benefit
- Special Reserves

Reserves for different areas of benefit are used where there is a discrete set of rate or levy payers as distinct from the general rate.

Any surplus or deficit relating to these separate areas of benefit is applied to the specific reserves.

Special reserves are set up where council has defined a specific purpose.

Interest is added to these reserves where applicable and deductions made when funds have been used for the purpose they were created.

<b>18 - Restricted reserves funds</b>	Forecast Annual Plan Year 2 2010-11 (\$ 000)	Forecast LTCCP Year 3 2011-12 (\$ 000)	Forecast Annual Plan Year 3 2011-12 (\$ 000)	Forecast Variation Year 3 2011-12 (\$ 000)
(a) Special funds	1,883	1,489	1,019	(470)
(b) Other accounts restricted by law	319	13	1,106	1,093
<b>Total restricted reserves</b>	<b>2,202</b>	<b>1,502</b>	<b>2,125</b>	<b>623</b>

# Notes to the financial statements

<b>18(a) Special funds</b>	Forecast Annual Plan Year 2 2010-11 (\$ 000)	Forecast LTCCP Year 3 2011-12 (\$ 000)	Forecast Annual Plan Year 3 2011-12 (\$ 000)	Forecast Variation Year 3 2011-12 (\$ 000)
Opening balance	3,216	2,378	2,395	17
Transfer from net surplus	486	791	591	(200)
Interest received	79	139	104	(35)
	<b>3,781</b>	<b>3,308</b>	<b>3,090</b>	<b>(218)</b>
Transfers to net surplus	(1,898)	(1,819)	(2,071)	(252)
<b>Total special funds balance as at 30 June</b>	<b>1,883</b>	<b>1,489</b>	<b>1,019</b>	<b>(470)</b>
<b>Special funds closing balances as at 30 June consists of:</b>				
General reserve	0	0	0	0
Amenities fund	237	267	286	19
Civic amenities fund	0	27	9	(18)
Plant renewal	49	84	55	(29)
Reserve fund contribution	759	571	230	(341)
Property sales	26	71	12	(59)
Sierra Way subdivision	108	122	115	(7)
Harcourt Park maintenance fund	8	0	0	0
Akatarawa roading levy	38	66	62	(4)
Kaitoke roading levy	156	55	56	1
Mangaroa roading levy	71	95	107	12
Katherine Mansfield levy	15	18	6	(12)
Blue Mountain levy	24	64	23	(41)
Moonshine Hill levy	22	4	4	0
Alexander Road levy	112	45	54	9
Library development	223	0	0	0
Trench resealing levy	35	0	0	0
<b>Total special funds</b>	<b>1,883</b>	<b>1,489</b>	<b>1,019</b>	<b>(470)</b>

# Notes to the financial statements

<b>18(b) Other accounts restricted by law</b>	Forecast Annual Plan Year 2 2010-11 (\$ 000)	Forecast LTCCP Year 3 2011-12 (\$ 000)	Forecast Annual Plan Year 3 2011-12 (\$ 000)	Forecast Variation Year 3 2011-12 (\$ 000)
Opening balance	880	199	1,298	1,099
Transfer from net surplus	0	0	0	0
Transfer from accumulated funds	0	0	0	0
	<b>880</b>	<b>199</b>	<b>1,298</b>	<b>1,099</b>
Transfer to accumulated funds	(561)	(186)	(192)	(6)
Transfers to net surplus	0	0	0	0
<b>Total other accounts restricted by law as at 30 June</b>	<b>319</b>	<b>13</b>	<b>1,106</b>	<b>1,093</b>

<b>Other accounts restricted by law consists of:</b>	Forecast Annual Plan Year 2 2010-11 (\$ 000)	Forecast LTCCP Year 3 2011-12 (\$ 000)	Forecast Annual Plan Year 3 2011-12 (\$ 000)	Forecast Variation Year 3 2011-12 (\$ 000)
Dog control account	27	13	35	22
Water rate account	200	0	237	237
Stormwater rate account	92	0	269	269
Wastewater rate account	0	0	565	565
<b>Total other accounts restricted by law</b>	<b>319</b>	<b>13</b>	<b>1,106</b>	<b>1,093</b>

# Notes to the financial statements

<b>19 - Asset revaluation reserves</b>	Forecast	Forecast	Forecast	Forecast
	Annual Plan	LTCCP	Annual Plan	Variation
	Year 2	Year 3	Year 3	Year 3
	2010-11	2011-12	2011-12	2011-12
	(\$ 000)	(\$ 000)	(\$ 000)	(\$ 000)
Opening balance	282,006	252,730	321,051	68,321
Change in asset revaluation	0	170	6,326	6,156
Less revaluation attributed to assets sold	0	0	0	0
<b>Closing balance as at 30 June</b>	<b>282,006</b>	<b>252,900</b>	<b>327,377</b>	<b>74,477</b>
<b>Consists of :-</b>				
General asset revaluation reserve	25,489	22,092	23,982	1,890
Land asset revaluation reserve	23,362	3,355	23,362	20,007
Roading asset revaluation reserve	73,163	73,288	101,829	28,541
Stormwater asset revaluation reserve	54,651	54,651	63,136	8,485
Hutt valley wastewater scheme	23,132	17,269	18,984	1,715
Wastewater asset revaluation reserve	47,820	47,820	54,806	6,986
Water asset revaluation reserve	34,389	34,425	41,278	6,853
<b>Total asset revaluation reserves</b>	<b>282,006</b>	<b>252,900</b>	<b>327,377</b>	<b>74,477</b>

<b>20 - Contingencies</b>	Forecast	Forecast	Forecast	Forecast
	Annual Plan	LTCCP	Annual Plan	Variation
	Year 2	Year 3	Year 3	Year 3
	2010-11	2011-12	2011-12	2011-12
	(\$ 000)	(\$ 000)	(\$ 000)	(\$ 000)
<b>Contingent liabilities</b>				
(a) Guarantees	0	0	0	0
(b) Other legal proceedings	91	119	871	752
<b>Total contingent liabilities</b>	<b>91</b>	<b>119</b>	<b>871</b>	<b>752</b>

## (a) Guarantees

The value of guarantees disclosed as contingent liabilities reflects Upper Hutt City Council's assessment of any loans guaranteed by council to local sporting groups.

Currently Upper Hutt City Council has made no guarantees.

## (b) Unquantified claims

Upper Hutt City Council has 6 claims (2011), 5 claims (2010) outstanding: 5(2011), 3(2010) have proceedings issued on them.

## Contingent assets

Upper Hutt City Council operates a scheme whereby sports clubs are able to construct facilities (e.g. club rooms on council owed reserve land).

# Notes to the financial statements

The Club control the use of these facilities and Upper Hutt City Council will only gain control of the asset if the club vacates the facility.

Until this event occurs these assets are not recognised as assets in the Prospective Statement of Financial Position.

As at 30 June 2011 there are 35 facilities, (17 in 2010) having an approximate value of \$7.35M (\$4.887M 2010). This estimate is based on Government valuation for this area.

## 21 - Discontinued activities

Under this LTCCP Activation ceases in the fifth year 2013-14.

## 22 - Expressions Arts and Entertainment Centre

Expressions Arts and Entertainment Centre is managed by an independent trust however Upper Hutt City Council owns the building assets.

## 23 - Net operating surplus (deficit)

The fact that recent revaluations (2007, 2008, 2009 and 2010) for all council assets have been undertaken means that current depreciation expense (consumption of the economic benefits of an asset over its useful life) does not reflect intended replacement plans and the council would be overfunding these assets if it was to 'fund' for depreciation on this basis.

24 - Inflation	Forecast Annual Plan	Forecast LTCCP
	Year 2 2011-12	Year 2 2011-12
Compounding average general inflation rate	0.00%	5.53%
General inflation per year	0.00%	2.65%

The average percentages as shown above have been applied to most items within the published accounts for the years shown. Refer also to the note on Inflation, Accounting Assumptions, Book 2 Policies, in the LTCCP 2019.

# Notes to the financial statements

<b>25 - Reconciliation of surplus before appropriation to cashflow from operating activities</b>	Forecast Annual Plan Year 2 2010-11 (\$ 000)	Forecast LTCCP Year 3 2011-12 (\$ 000)	Forecast Annual Plan Year 3 2011-12 (\$ 000)	Forecast Variation Year 3 2011-12 (\$ 000)
Surplus/ (deficit) before appropriations	(938)	(1,013)	(2,122)	(1,109)
<b>Add non cash items</b>				
Depreciation	11,402	10,560	10,878	318
Vested assets	(2,333)	(2,332)	(2,245)	87
Increase/(Decrease) in bad debts	0	0	0	0
Loss on derivative	0	44	0	(44)
Gain on derivative	0	(49)	0	49
Amortisation of premium	0	0	0	0
	<b>9,069</b>	<b>8,223</b>	<b>8,633</b>	<b>410</b>
<b>Add/less Items classified as investing or financing activities</b>				
Loss on disposal of fixed assets	42	607	22	(585)
Profit on sale of fixed assets	0	0	0	0
	42	607	22	(585)
<b>Movements in working capital items</b>				
(Increase)/decrease in trade receivables	0	0	0	0
(Increase)/decrease in inventories	0	0	0	0
Increase /(decrease) in employee entitlements	0	0	0	0
Increase/(decrease) in trade and other payables	0	0	0	0
	0	0	0	0
<b>Net inflow/(outflow) from operating activities</b>	<b>8,173</b>	<b>7,817</b>	<b>6,533</b>	<b>(1,284)</b>