

Reporting Entity

The Christchurch City Council is a territorial authority under the Local Government Act 2002.

Measurement Base

The measurement base adopted is that of historical cost as modified by the revaluation of certain assets.

Accounting Policies

The following accounting policies which materially affect the measurement of financial performance and the financial position have been applied.

A. Associates and Joint Ventures

Associate Organisations

Associate Organisations are accounted for by the Equity method, which records the Council's share of profits and losses for the period in the Statement of Financial Performance, and shows the amount of equity held in Investments in the Statement of Financial Position. An associate organisation is one in which the Council has an equity interest of between 20% and 50% and the capacity to significantly influence the policies of that organisation.

B. Operational and Fixed Assets

(a) The following operational assets were valued as at 30 June 1991 by Harcourts Valuations Ltd.

- Chattels
- Mobile Plant (including vehicles)
- Plant

Valuations above were based on depreciated replacement value.

This is deemed to be cost.

b) Land and Buildings were valued by Simes Ltd as at 30 June 2002 to fair value by reference to their highest and best use. Land and Buildings are revalued every three years by external valuers.

(c) Library Books are shown at a valuation by Harcourts Valuations Ltd as at 30 June 1992. The valuation was based on the lower of the net current replacement cost, and the recoverable amount. This is deemed to be cost.

Assets purchased since valuation, have been recorded at cost.

C. Infrastructural Assets

Stormwater Infrastructural Assets have been valued using the optimised depreciated replacement cost method as at 30 June 2002, by Meritec Limited. Sewerage Infrastructural Assets have been valued using the optimised depreciated replacement cost as at 30 June 2003 by GHD Limited. Roading and Water Reticulation Infrastructural Assets (including Traffic Signals and Bus Shelters) have been valued using the optimised depreciated replacement cost method as at 30 June 2004 by Maunsell Limited. Land under roads was valued as at 30 June 1992, by Quotable Value NZ at the value used for rating purposes. This is deemed to be cost.

D. Assets under Construction

Assets under construction are not depreciated. The total cost of a project is transferred to the relevant asset class on its completion, and then depreciated.

E. Restricted Assets

These assets are:

- Land and Buildings with restrictions on sale – eg, Parks and Reserves
- Library Books - New Zealand Collection
- Properties held in trust for other organisations

These assets have been valued on the same basis as Operational Assets with

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vested Reserve Land additions recorded at the cost to the subdivider.

- **Heritage Assets**

These assets have been valued at optimised depreciated reproduction cost as at 30 June 2003 by Plant & Machinery Valuers Limited.

- **Works of Art**

These have been valued at market value by the Senior Curator of the Art Gallery as at 30 June 2003 with this revaluation peer reviewed by Marshall Seiffert, an experienced valuer of New Zealand artworks.

Additions are recorded at cost for purchases and at valuation for vested assets.

F. Investment and Development Property

The Council has no properties purchased or acquired for the primary purpose of earning capital gains or rental income.

G. Depreciation

Depreciation provided in respect of Operational and Infrastructural Assets is intended to write off the cost of assets over their estimated useful lives.

The straight line method is used.

The main bases are the following periods:

Operational assets

Buildings	15-100 yrs
Office and Computer Equipment	4-5 yrs
Mobile Plant including Vehicles	2-30 yrs
Sealed Surfaces (other than roads)	30-100 yrs
Leasehold Land Improvements	5-100 yrs
Library Books	3-10 yrs

Infrastructural Assets

Pavement Sub-base	Not depreciated
Basecourse	50-90 yrs
Surface	2-63 yrs
Streetlights and Signs	25 yrs
Kerb, Channel, Sumps and Berms	80 yrs
Bridges	70-150 yrs
Bus Shelters and Furniture	20-40 yrs
Water Supply	55-130 yrs
Water Meters	20-25 yrs
Stormwater	30-120 yrs
Waterways	15-120 yrs
Sewer	50-150 yrs
Treatment Plant	15-100 yrs
Pump Stations	10-100 yrs

Restricted Assets are not depreciated except for Historic Buildings, Artworks and Heritage Assets that are depreciated at 1%, 0.1% and 0.1% on a straight line basis respectively.

H. Landfill Aftercare Costs

As operator of the Burwood Landfill, the Council has a legal obligation to provide ongoing maintenance and monitoring services at the landfill site after closure. To provide for the estimated cost of aftercare, a charge is made each year to spread the costs over the life of the landfill.

The estimated cost is calculated based on estimates of:

- (i) **Total current cost**

This is defined as the amount that would be paid if all equipment, facilities and services included in the estimate were acquired during the current period.

The estimate has been based on costs of closure of similar landfills by other local authorities.

(ii) Total capacity

The estimated length of time needed for post-closure care is 30 years.

The Council also has a legal obligation to provide ongoing maintenance and monitoring services for the closed landfill sites of the former amalgamating authorities.

The estimated future costs to perform this obligation have been accrued and charged.

The calculations assume no change in the legislative requirements for closure and post-closure treatment.

I. Revenue Recognition

Rates revenue is recognised when levied. Water billing revenue is recognised on an accrual basis. Unbilled sales, as a result of unread meters at year end, are accrued on an average basis.

Land Transport NZ roading subsidies are recognised as revenue upon entitlement, that is, when the conditions related to eligible expenditure have been fulfilled. Other grants and bequests and assets vested in the Council, are recognised as revenue when control over the assets is obtained. Dividends are only recognised as income, net of imputation credits, when the dividends have been declared and have or are almost certain to receive the necessary shareholder approval.

J. Goods and Services Tax

The financial statements have been prepared exclusive of GST with the exception of receivables and payables that have been shown inclusive of GST. Where GST is not recoverable as an input tax then it is recognised as part of the related asset or expense.

K. Research and Development Costs

Research and development costs are expensed in the period incurred. Development costs are deferred where it is probable that future benefits will exceed those costs. Deferred development costs are amortised over future periods in relation to expected future revenue.

L. Income Tax

The income tax expense charged to the Statement of Financial Performance includes both the current year's expense and the income tax effects of timing differences applied on a comprehensive basis and calculated using the liability method.

A debit balance in the deferred tax account, arising from timing differences or income tax benefits from income tax losses, are only recognised when there is virtual certainty of realisation.

M. Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is determined by FIFO or weighted average methods. Some inventories are subject to restriction of title.

N. Leases

(i) Finance Leases

These leases effectively transfer all the risks and benefits of ownership to the lessee. Finance Leases are included in liabilities at their current value.

Assets purchased under such leases are included in fixed assets and depreciated at usual rates.

(ii) Operating Leases

Under these leases, the lessor effectively retains all the risks and benefits of ownership. These lease payments are charged as expenses in the periods in which they are incurred.

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O. Employment Entitlements

Provision is made in respect of the Council's liability for retiring gratuity allowances, and annual and long service leave.

The liabilities for leave have been calculated on an actual entitlement basis at current rates of pay. The retiring gratuity liability has been assessed on an actuarial basis using current rates of pay taking into account years of service, years to entitlement and the likelihood staff will reach the point of entitlement. The estimated amounts have been discounted to their present value using an interpolated 10 year government bond rate.

P. Investments

Shares in subsidiaries, apart from Christchurch City Holdings Ltd (CCHL), associates and shares in Local Government Insurance Corporation Limited, are valued at share of equity off the latest Statement of Financial Position.

Shares in CCHL were revalued at 30 June 2003, based on a market valuation undertaken by KPMG with this value reduced as a result of the annual impairment test. All other investments are stated at lower of cost or net realisable value.

Q. Financial Instruments

Christchurch City Council is party to financial instrument arrangements as part of its everyday operations. These financial instruments include Banking Funds, Bank Deposits, Short Term Investments, Accounts Receivable, Sinking Fund Investments, Accounts Payable and Term Debt.

Revenues and Expenses in relation to all financial instruments are recognised in the Statement of Financial Performance.

All financial instruments are recognised in the Statement of Financial Position, with the exception of Guarantees and Contingent Assets and Liabilities, which are disclosed by way of note to the Financial Statements. Any income or expenditure arising from the

exercising of a guarantee, or upon a contingency becoming an actual asset or liability, will be recognised in the Statement of Financial Performance at the time of confirmation.

The following methods and assumptions were used to value each class of financial instrument:

- (a) Accounts Receivable and Long Term Receivables are recorded at estimated realisable value.
- (b) Short Term Investments are valued at fair value.
- (c) Investments in Government and Local Authority Stock are valued at cost with premiums paid or discounts taken on acquisition amortised over the life of the investment. Income is recognised on a yield to maturity basis.
- (d) Loans to various sporting and cultural organisations are recorded at fair value.
- (e) All of the financial instruments, including Cash and Bank balances, Accounts Payable and Term Debt are valued at fair value.

R. Debt Servicing Costs

Debt Servicing Costs are apportioned on the basis of the book value of the Operational and Infrastructural Assets employed at 1 July 2005.

S. Cost Allocations

The costs of all internal service activities are allocated or charged directly to external service activities.

External service activities refer to activities which provide a service direct to the public.

Internal service activities provide support for the external service activities. Where the user of a service can be identified, for example with City Solutions, the cost recovery is made by way of direct charge.

Where this has not been possible, the costs are allocated by way of corporate overhead.

The basis of the corporate overhead allocation is reviewed each year and every attempt is made to relate the allocation made with the service utilised.

Internal service costs which are allocated out as corporate overhead include corporate services and financial services.

T. Donated Goods and Services

The Council receives the benefits of many services provided by volunteers. These services are greatly valued. They are, however, difficult to measure in monetary terms. From an accounting point of view these services are not considered material in relation to the Council's total expenditure.

Vested Land is included at current value and Infrastructural Assets are included at the cost to the subdivider.

U. Third Party Transfer Payment Agencies

The Council collects monies for many organisations including Environment Canterbury, Building Industry Authority and others. Where collections are processed through the Council's books, any monies held are shown as Accounts Payable in the Statement of Financial Position.

V. Financial Reporting Standard No. 29 (FRS-29) Disclosures

In accordance with the Institute of Chartered Accountants of New Zealand Financial Reporting Standard 29, the following information is provided in respect of the Annual Plan:

(i) Cautionary Note

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

(ii) Nature of Prospective Information

The financial information has been prepared on the basis of best estimate assumptions as to future events which the Council expects to take place.

The financials for 2005/06 are forecasts which reflect the most probable outcome.

(iii) Assumptions

The principal assumptions underlying the forecasts are noted on page 119 of Volume 3 of the 2004/14 Long Term Council Community Plan. These assumptions were valid as at 30 June 2005, the date this Annual Plan was adopted, with two exceptions. Interest Rates for investments have been altered to an average of 6.25%, and the growth in the Rating Base set at \$3.5m for 2005/06.

(iv) Extent to which Prospective Information Incorporates Actual Results

Although the period covered by the Plan contains no actual operating results, some financial information has been extrapolated from the Council's audited Financial Statements as at 30 June 2004.

(v) Purpose for which the Prospective Information is prepared

The Annual Plan is prepared in accordance with the Local Government Act 2002. The purpose of this legislation is to provide for democratic and effective local government that recognises the diversity of New Zealand communities and promotes the accountability of local authorities to their communities.

W. Changes in Accounting Policies

There are no changes in Accounting Policies. They have been applied on a basis consistent with those used in previous years.