STATEMENT OF ACCOUNTING POLICIES

Statement of Reporting Entity

The Christchurch City Council is a territorial local authority formed under the Local Government Act 1974 (as amended).

Measurement Base

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

Specific Accounting Policies

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

(a) **Fixed Assets**

Fixed assets have been divided into three broad categories:

(i) Operational Assets

Operational assets include land, buildings, furniture and office equipment, fixed plant, vehicles and mobile plant. All operational assets with the exception of land are depreciated and details of the depreciation methods and rates are noted below.

(ii) Infrastructural Assets

Infrastructural assets are the fixed utility systems. They include roads, footpaths, bridges, traffic signals, water, sewerage and drainage systems.

Infrastructural assets are also depreciated and details of the depreciation methods and rates are noted below.

(iii) Restricted Assets

Restricted assets cannot be disposed of because of legal and other restrictions.

They include:

- Land and buildings with restrictions on sale - eg, Reserves
- Trust Housing
- Library books - New Zealand Collection
- Properties held in trust for other organisations
- Works of Art

Restricted assets are not depreciated except for Trust Housing and Historic Buildings

(b) **Depreciation**

Depreciation is provided in respect of an operational or infrastructural asset. Depreciation is included in each cost of service statement and is an accounting method for writing off the cost of an asset over its estimated useful life. Where it is not shown as a line item it is disclosed by way of note.

(i) Operational Assets

Depreciation is on a straight line basis for all operational assets other than mobile plant. Mobile plant is depreciated on a diminishing value (DV) basis.

The following rates have been applied:

Buildings:	
Plant	2%-50% of valuation
Fixtures	2%-50% of valuation
Proper	1%-6.7% of valuation
Plant	10% of valuation established in 1991 10% of cost price for later purchases
Computers and associated equipment	25% of cost price
Chattels	20% of cost price
Library Books	10%-33% of cost price
Mobile Plant:	
Light Vehicles	20% DV
Trucks, Trailers, Buses	15% DV
Small Plant	50% DV
Medium Plant	33.3% DV
Heavy Plant	15% DV
Specialist Plant	7.5% DV

(ii) Infrastructural Assets

The approach to recognising a loss in service potential of Infrastructural Assets is different from that used for other assets. The basis for measuring the change in service potential of Infrastructural Assets is the long run average of future renewals expenditure indicated by the Asset Management Plan. This approach has been used for the following assets:

Roading

Sewer, Stormwater and Water Systems and Associated Plant

Water Meters

Street Lighting

Traffic Signals

Bridges

Bus Shelters

(iii) Restricted Assets

Trust Housing	1% of valuation
Historic Buildings	1% of valuation

(iv) 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.

(c) **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 after closure. To provide for the estimated cost of aftercare, a charge is made each year based on volumes processed through 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.

(d) **Debt Servicing and Cost of Capital**

Cost of capital charges for significant activities were stopped from 1 July 1996. These have been replaced by debt servicing charges that represent each activity's share of the Council's actual borrowing costs.

Cost of capital is taken into account in setting fees. The rate used for 1999/00 is 6.6%.

(e) **Goods and Services Tax (GST)**

GST has been excluded from all budgetary provisions except for rental housing, accounts receivable and accounts payable.

(f) **Cost Allocations**

The costs of all internal services are either charged directly to service delivery activities or allocated to them.

Where the user of the service can be identified the recovery is made by way of direct charge. This applies to services provided by City Design, Works Operations and Plant and Building Services. Where this is not possible, the costs are allocated by way of corporate overhead. The basis of the corporate overhead allocation is reviewed each year in order to ensure that the allocation best matches the service being utilised. Internal service costs which are allocated out as corporate overhead include: the Corporate Office, Corporate Services, Management Information Services and Financial Services.

Rate collection costs are included within the corporate overhead and are apportioned on the basis of the rates subsidy received.

Debt servicing costs are allocated out separately using assets held as the allocation base.

(g) **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.

(h) **Inventories**

Inventories are valued at the lower of cost and net realisable value. Cost is determined by FIFO or weighted average methods.

(i) **Investments**

Subsidiaries, Associates and shares in the Local Government Insurance Corporation Limited and New Zealand Counties Investment Company Limited are valued by the share of equity as per the latest Statement of Financial Position.

(j) **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 assets (land, buildings and infrastructural assets) are included at current value.

(k) **Third Party - Transfer Payment Agencies**

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

(l) **Infrastructural Assets**

Expenditure on infrastructural asset replacement and renewal is capitalised. Disclosure is in the capital expenditure summary immediately below the Cost of Service Statement on each of the significant activity pages. The expensing of these assets is by way of depreciation calculated using the long run average renewals approach (LRARA). The annual depreciation charge is the average annual long run expenditure on renewals and replacements.

(m) **Projected Cost of Service 1999/00 and 2000/01**

The projected cost of service for 1999/00 and 2000/01 relates only to operating expenditure. The projections do not include fixed asset purchases or capital expenditure on infrastructural assets. Details of these costs can be found under the Five Year Capital Expenditure Programme (see pages 68 to 87).

(n) **Changes in Accounting Policies**

Depreciation on Infrastructural Assets is now being calculated using the long run average renewals approach (LRARA) instead of the straight line depreciation method used previously. This change has been made as the Council believes the LRARA method more accurately reflects the decline in the service potential of these assets. The effect of the change on the 1999/00 calculation has been to reduce the depreciation charge for Infrastructural Assets, and hence operational expenditure, by $10.7 million.

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

(o) **Comparative Figures**

Certain comparative figures have been restated to reflect changes in presentation.

(p) **Income Tax**

The income tax expense charged to the Statement of Financial Performance includes the expense and the income tax effects of timing differences. This has been calculated using the liability method.

(q) **Financial Instruments**

The 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.

Details of the policy relating to Financial Instruments can be found on page 1.1.12 of Volume 1 of the Corporate Plan : 1999 Edition.

(r) **Investment and Development Property**

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

(s) **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 Long Term Financial Strategy:

(i) Cautionary Note

The Long Term Financial Strategy and 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 financial information presented consists of both forecasts and projections. The financials for 1999/00 are forecasts which reflect the most probable outcome. The financials for 2000/01 and subsequent years are projections. They are based upon varying assumptions about the conditions that might exist and possible courses of action.

(iii) Assumptions

The principal assumptions underlying the forecasts and projections are noted on page 11. These assumptions were valid as at 23 July 1999, the date this Plan was adopted.

(iv) Extent to which Prospective Information Incorporates Actual Results

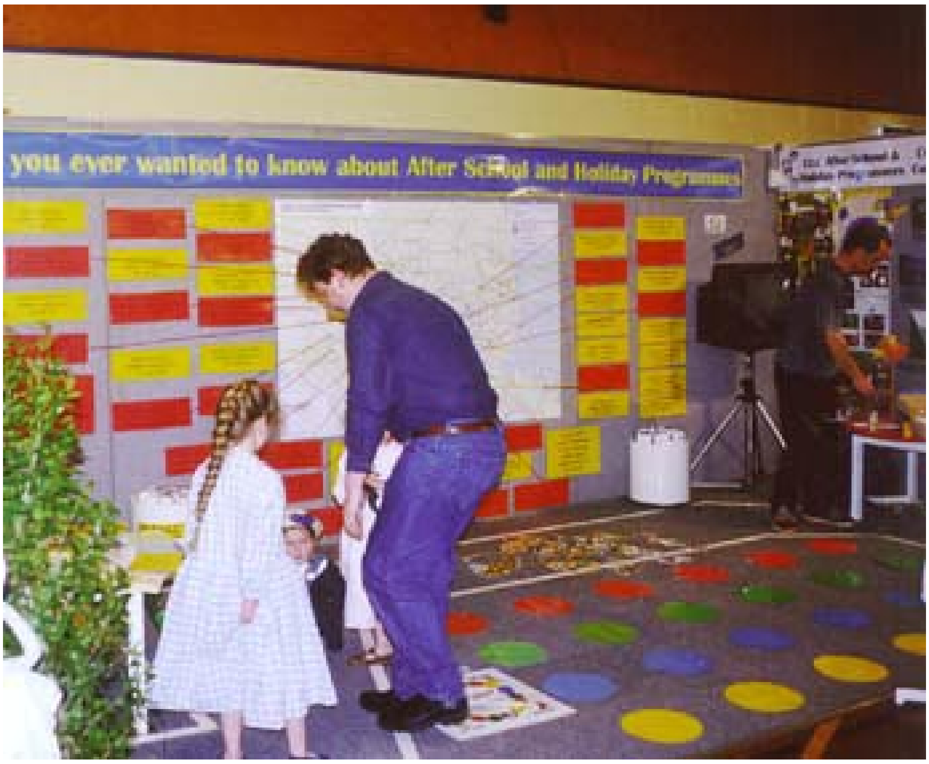
Although the period covered by the Long Term Financial Strategy contains no actual operating results, some financial information has however been extrapolated from the Council's audited Financial Statements as at 30 June 1998.

(v) Purpose for which the Prospective Information is Prepared

The Long Term Financial Strategy is in accordance with the Local Government Amendment Act (No. 3) 1996. The purpose of this legislation is to promote prudent, effective, and efficient financial management by local authorities.

Policy Change Statement

To meet the requirements of Sections 223D(2)(a) and (b), and Section 223D(4) of the Local Government Amendment Act (No. 3) 1996, it is stated that at this time the Council and its related organisations will have similar policies and objectives in 1999/00 and 2000/01. Where relevant, significant changes between the policies, objectives and activities proposed for 1999/00 and those for 1998/99 are described.



Christchurch City Council promotes Out of School and Holiday Programmes at Parent and Child Show - 1998.