

# 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 and 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

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. This is calculated using the long run average renewals approach (LRARA). 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.

## STATEMENT OF ACCOUNTING POLICIES

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

Significant Activities are charged a share of the Council's actual borrowing costs. These costs are apportioned on the book value of the Operational and Infrastructural Assets employed at 1 July 2000.

Cost of capital changes based on total capital employed is calculated for each significant activity and provided by way of note. These changes are taken into account in setting fees. The rate used for 2000/01 is 7.2%.

### (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 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 funding applied to each activity.

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) 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.

### (l) Employment Entitlements

Provision is made in respect of the Council's liability for gratuity allowances, and annual and long service leave. These have been calculated on an actual entitlement basis at current rates of pay.

### (m) 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.

### (n) Projected Cost of Service 2000/01 and 2001/02

The projected cost of service for 2000/01 and 2001/02 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 83 to 101).

### (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 1.1.15 of Volume 1 of the Corporate Plan : 2000 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.

## STATEMENT OF ACCOUNTING POLICIES

### (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 pages 10 and 12. These assumptions were valid as at 6 July 2000, 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 1999.

#### (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.

### Changes in Accounting Policies

There are no changes in accounting policies. These have been applied on a basis consistent with those in previous years.

### Policy Change Statement

To meet the requirements of Sections S223(1)(a) and (b) and (3)(b) 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 2001/02 and 2002/03. Where relevant, significant changes between the policies, objectives and activities proposed for 2000/01 and those for 1999/00 are described.



A spring scene in South Hagley Park.