

# 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. Operational assets are valued at depreciated replacement value at 30 June 1991 with additions recorded at cost. The only exception is land and buildings that are revalued to net current value on an existing use basis every three years. 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 were valued as optimised depreciated replacement cost except for land under roads that was valued at 30 June 1992 by Quotable Value NZ at its rating value. Additions to Infrastructure Assets since valuation

are recorded at cost.

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. These assets are valued on the same basis as Operational Assets.

### (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	50%, 2 - 50 years
Fixtures	50%, 2 - 50 years
Proper	16 - 100 years

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Computers and associated equipment 4 years

Chattels 5 years

Library Books 3-10 years

## **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 (see pages 40, 59, 75 and 78). 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:

Sewer, Stormwater and Water Systems and Associated Plant,

Water Meters, Roading, Street Lighting, Traffic Signals, Bridges, Bus Shelters

## **(iii) Restricted Assets - The only restricted assets that are depreciated are:**

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**

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 2002.

## **(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 Solutions. Where this is not possible, the costs are allocated by way of corporate overhead.

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The basis of the corporate overhead was subject to a major review and significant changes have been made. Labour related overheads (e.g. HR Costs, Health and Safety and Payroll administration costs) are now allocated out to all labour cost centres on the basis of total hours worked. This allocation totals approximately \$2.4M.

The non labour related overheads (Financial Services costs, Corporate Service costs, MIS costs and Corporate Office costs) are allocated out to all Service Delivery Outputs on the basis of gross cost less any internal recoveries. This allocation totals approximately \$7.1M.

63% of rate collection costs (\$1.25M) are allocated out to the Service Delivery outputs as part of the non labour related overheads.

The balance (37%) is allocated out to capital projects. The capital component of the rate collection allocation totals \$.76M

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

## **(g) 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 the year end, are accrued on an average basis. Transfund 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.

## **(h) 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.

## **(i) Inventories**

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

## **(j) Investments**

Subsidiaries, except for Christchurch City Holdings Ltd (CCHL) 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. Shares in CCHL are valued at independent market valuation.

## **(k) 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.

## **(l) 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

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ownership. These lease payments are charged as expenses in the periods in which they are incurred.

## **(m) Employment Entitlements**

Provision is made in respect of the Council's liability for 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.

## **(n) 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 included in the Accounts Payable figure in the Statement of Financial Position.

## **(o) Projected Cost of Service 2001/02 and 2002/03**

The projected cost of service for 2001/02 and 2002/03 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 109 to 130).

## **(p) Comparative Figures**

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

## **(q) 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.

## **(r) 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 in the introductory section of Volume I of the Corporate Plan : 2003 Edition. (Copies can be inspected at the Civic Offices or on the web at [www.ccc.govt.nz](http://www.ccc.govt.nz))

## **(s) Investment and Development Property**

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

## **(t) 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 2002/03 are forecasts which reflect the most probable outcome. The financials for 2003/04 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 in the Long Term Financial Strategy Section of the Strategic Statement. These

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assumptions were valid as at 8 April 2002, the date this Draft Financial Plan and Programme 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 2001.

(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

The only change relates to the corporate overhead allocation and the details of this change are noted under Specific Accounting Policies (f) Cost Allocations. All other policies 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 2002/03 and 2003/04. Where relevant, significant changes between the policies, objectives and activities proposed for 2002/03 and those for 2003/04 are described.



The entranceway to the Halswell Domain.



New Neighbourhood Park in Hillary Crescent, Upper Riccarton.