

# 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 3 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, and 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.

### (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	1% of valuation
Plant	10% of valuation established in 1991 10% of cost price for later purchases
Computers and associated equipment	20%-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

Depreciation has been provided on the following basis:

Roading	1.3-3.57%
Sewer, Stormwater and Water Systems and Associated Plant	1.1%-1.25%
Water Meters	4.5%
Street Lighting	3.5%
Traffic Signals	10% of valuation established in 1991 2%-10% of cost price for later purchases
Bridges	0.7%
Bus Shelters	1.5%

### (c) Cost of Capital

Although no longer included in each Cost of Service Statement, cost of capital is shown as a below the line note. It has however been taken account of for fee calculation purposes.

The cost of capital rate used for 1997/98 is 8.0%. This is applied to the total value of the assets used in the provision of the outputs shown in the Cost of Service Statement. It does not apply to inventory or restricted assets.

### (d) Goods and Services Tax (GST)

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

### (e) Cost Allocations

The costs of all internal services are either charged directly to the 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 Planning and Information, Corporate Administration, Personnel, Management Information Services, Funds Accounting, Accounting Services, Financial Planning, Internal Audit and Purchasing.

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 total assets held as the allocation base.

### (f) 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.

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### (g) Inventories

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

### (h) Investments

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

### (i) Donated Goods and Services

The Council receives the benefits of many services provided by volunteers. The worth of these voluntary services is not reported as the sum total is not considered significant as a percentage of total costs.

Vested Land, Buildings and Infrastructural Assets are included at current value.

### (j) Third Party - Transfer Payment Agencies

The Council collects monies for many organisations including Southpower, Canterbury Regional Council 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.

### (k) Infrastructural Assets

Expenditure on infrastructural asset replacement and renewal is capitalised and reflected in the capital expenditure summary immediately below the Cost of Service Statement. The expensing of these assets is by way of depreciation.

### (l) Projected Cost of Service 1998/99 and 1999/00

The projected cost of service for 1998/99 and 1999/00 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 70-90).

### (m) Changes in Accounting Policies

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

### (n) Comparative Figures

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

### (o) Income Tax

The income tax expense charged to the Statement of Financial Performance includes the 1995/96 expense and the income tax effects of timing differences calculated using the liability method.

### (p) 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 1997/98 financials are forecasts which reflect the most probable outcome.

The financials for 1998/99 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 principle assumptions underlying the forecasts and projections are noted on page 13. These assumptions were valid as at 16 April 1997, the date this Draft 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 1996.

### (v) Updating the Long Term Financial Strategy

Should circumstances change, the financial information in the Long Term Financial Strategy will be updated prior to the adoption of the final 1997 Plan on 30 July 1997.

### (vi) Purpose for which the Prospective Information is Prepared

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

It should be noted that the Council has at this point in time only partially complied with S122 of the Act.

The first complete Long Term Financial Strategy will be for the period beginning on 1 July 1998 and this will be included in the 1998 Plan.

### Policy Change Statement

To meet the requirements of Sections 223D(2)(a) and (b), and Section 223D(4) of the Local Government Act it is stated that at this time the Council and its related organisations will, subject to the review of the Funding Policy and the Asset Management Policy have similar policies and objectives in 1997/98 and 1998/99. Where relevant, significant changes between the policies, objectives and activities proposed for 1996/97 and