

## *Financial statements*



# Financial statements

## Christchurch City Council Accounting Policies

### Reporting Entity

The Christchurch City Council is a territorial authority under the Local Government Act 2002. The role of the Council is to enable democratic local decision-making and action by, and on behalf of, communities; and to promote the social, economic, environmental, and cultural well-being of communities, in the present and for the future.

### Purpose:

In general, these policies are intended to comply with New Zealand International Financial Reporting Standards (NZ IFRS).

These policies are intended as guidelines for financial accounting and also as the base for preparation of notes to the financial statements.

### Public Benefit Entity Treatment

Under NZ IFRS, Christchurch City Council is a public benefit entity (PBE). Where PBE treatment of specific issues differs from the usual treatment, this fact is noted in each policy.

### 1. Statement of Compliance

The forecast financial statements of Christchurch City Council (the 'Council') have been prepared in accordance with New Zealand International Financial Reporting Standards (NZ IFRS). These standards have been consistently applied to all the years presented from 1 July 2006, unless otherwise stated.

### 2. Basis of financial statement preparation

The forecast financial statements are prepared for the Council parent only and do not reflect the consolidated position.

They are prepared under the historical cost convention, as modified by the revaluation of:

- available-for-sale financial assets,

- financial assets and liabilities (including derivative instruments) at fair value through profit or loss,
- certain classes of property, plant and equipment,
- investment property.

Preparing forecast financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances and represent the best information available at the time of preparing the accounts. These estimates and assumptions form the basis for making judgements about the carrying values of assets and liabilities, where these are not readily apparent from other sources. It is likely that changes will be needed as events alter and actual quotes for work are obtained and that actual results may differ materially from this plan.





### 3. Foreign currency transactions

The functional and presentation currency is New Zealand dollars. Transactions in foreign currencies are translated at the foreign exchange rate ruling on the day of the transaction.

Foreign currency monetary assets and liabilities at the balance date are translated to NZ dollars at the rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to NZ dollars at rates ruling at the dates the fair value was determined.

Translation differences on equities held at fair value through profit or loss are reported as part of the fair value gain or loss. Translation differences on equities classified as available-for-sale financial assets are included in the fair value reserve in equity.

### 4. Derivative financial instruments

The Council uses derivative financial instruments to hedge its exposure to interest rate and foreign exchange risks arising from operational, financing and investment activities. The Council does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see Hedging policy 5).

The fair value of interest rate swaps is the estimated amount that the Council would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of forward exchange

contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.



# Financial statements

## 5. Hedging

Derivatives are first recognised at fair value on the date a contract is entered into and are subsequently remeasured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Council designates certain derivatives as either; (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or (2) hedges of highly probable forecast transactions (cash flow hedges).

The Council documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Council also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

### *(i) Fair value hedge*

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

### *(ii) Cash flow hedge*

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability.

When a hedging instrument expires or is sold or cancelled, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

### *(iii) Derivatives that do not qualify for hedge accounting*

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

## 6. Property, plant and equipment

The following assets (except for investment properties - refer to note 10(iii)) are shown at fair value, based on periodic (every three to five years) valuations by external independent valuers, less subsequent depreciation:

- Land
- Buildings
- Harbour structures
- Infrastructure assets
- Heritage assets
- Works of art

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Valuations are performed with sufficient regularity to ensure revalued assets are carried at a value that is not materially different from fair value.

All other property, plant and equipment is stated at historical cost less depreciation. Historical

## Financial statements

cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Council and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Where the Council has elected to account for revaluations of property, plant and equipment on a class of asset basis, increases in the carrying amounts arising on revaluation of a class of assets are credited directly to equity under the heading revaluation reserve. However, the net revaluation increase shall be recognised in profit or loss to the extent it reverses a net revaluation decrease of the same class of assets previously recognised in profit or loss.

Land is not depreciated. Depreciation on other assets is calculated using the straight line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives.

Assets to be depreciated include:

### Operational Assets:

Buildings	10 to 100 yrs
Office and computer equipment	4 to 5 yrs
Mobile plant including vehicles	2 to 30 yrs
Sealed surfaces (other than roads)	9 to 100 yrs
Harbour structures	3 to 50 yrs
Leasehold land improvements	5 to 100 yrs
Library books	3 to 10 yrs

### Infrastructure Assets:

Formation	Not depreciated
Pavement sub-base	Not depreciated

Basecourse	40 to 120 yrs
Footpaths and cycleways	20 to 80 yrs
Surface	2 to 25 yrs
Streetlights and signs	6 to 50 yrs
Kerb, channel, sumps and berms	80 yrs
Landscape/medians	15 to 80 yrs
Drain pipes/culverts/retaining walls	20 to 120 yrs
Bridges	70 to 120 yrs
Bus shelters and furniture	30 yrs
Water supply	55 to 130 yrs
Water meters	20 to 25 yrs
Stormwater	30 to 120 yrs
Waterways	15 to 120 yrs
Sewer	50 to 150 yrs
Treatment plant	15 to 100 yrs
Pump stations	10 to 100 yrs

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement. When revalued assets are sold, the amounts included in other reserves in respect of those assets are transferred to retained earnings.

# Financial statements

## 7. Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as held for sale and stated at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction rather than through continuing use.

An impairment loss is recognised for any initial or subsequent write down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of de-recognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. Further, the liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet. Those assets and liabilities shall not be offset and presented as a single amount.



## 8. Intangible assets

### (i) Goodwill

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is no longer amortised but is tested annually for impairment (see Impairment policy 14). In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

Negative goodwill arising on an acquisition is recognised directly in the income statement.

### (ii) Computer software

Acquired computer software licenses are capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives.

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Council, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognized as assets are amortised over their estimated useful lives.

### (iii) Other intangible assets

Other intangible assets that are acquired by the Council are stated at cost less accumulated amortisation (see below) and impairment losses (see Impairment policy 14).

### (iv) Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates, and it meets the definition of, and recognition criteria for, an intangible asset. All other expenditure is expensed as incurred.



**(v) Amortisation**

An intangible asset with a finite useful life is amortised over the period of that life. The asset is reviewed annually for indicators of impairment, and tested for impairment if these indicators exist. The asset is carried at cost less accumulated amortisation and accumulated impairment losses.

An intangible asset with an indefinite useful life is not amortised, but is tested for impairment annually, and is carried at cost less accumulated impairment losses.

**9. Biological assets and agricultural produce**

A biological asset is a living animal or plant.

Biological assets that are the subject of agricultural activity (i.e., the management by an entity of the biological transformation of biological assets for sale, into agricultural produce, or into additional biological assets) are stated at fair value less estimated point-of-sale costs, with any resultant gain or loss recognised in the income statement, and are revalued annually. Point-of-sale costs include all costs that would be necessary to sell the assets, excluding costs necessary to get the assets to market.

All other biological assets are measured at the lower of cost and net realisable value.

Agricultural produce is the harvested product of the entity's biological assets. Agricultural produce is measured at fair value less estimated point-of-sale costs at the point of harvest.

**10. Investments**

The Council classifies its investments in the following categories:

- (a) Financial assets at fair value through profit or loss  
This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges.
- (b) Loans and receivables  
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.
- (c) Held-to-maturity investments  
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity.
- (d) Available-for-sale financial assets  
Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

**(i) Council investment in subsidiaries**

For the purposes of the parent company financial statements, the Council's equity investments in its subsidiary companies are stated at fair value, based on periodic, but at least triennial, valuations by external independent valuers.

The investments in subsidiary companies are designated as available-for-sale financial assets. They are measured at fair value, with valuations performed by an independent, external valuer

## Financial statements

on a periodic basis. The valuation changes are held in a revaluation reserve until the subsidiary is sold.

### *(ii) Investments in debt and equity securities*

Financial instruments held for trading are classified as current assets and are stated at fair value, with any resultant gain or loss recognised in the income statement.

Where the Council has the positive intent and ability to hold government bonds to maturity, they are classified as held-to-maturity investments, measured at initial recognition at fair value, and subsequently carried at amortised cost less impairment losses (see Impairment policy 14).

General and community loans are designated as loans and receivables. They are measured at initial recognition at fair value, and subsequently carried at amortised cost less impairment losses.

Other financial instruments held by the Council are classified as being fair value through profit or loss and are stated at fair value, with any resultant gain or loss flowing through the income statement.

Financial instruments classified as held-for-trading or available-for-sale investments are recognised / derecognised by the Council on the date it commits to purchase / sell the investments. Securities held-to-maturity are recognised / derecognised on the day they are transferred to / by the Council.

### *(iii) Investment property*

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Investment properties generate cashflow largely independent of other assets held by the entity. Investment properties are stated at fair value. An external, independent valuer, having an appropriate recognised professional qualification and recent experience in the location and category of property being valued, values the portfolio every year. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction.

Any gain or loss arising from a change in fair value is recognised in the income statement.

Rental income from investment property is accounted for as described in the Revenue policy below.

When an item of property, plant and equipment is transferred to investment property following a change in its use, any differences arising at the date of transfer between the carrying amount of the item immediately prior to transfer and its fair value is recognised directly in equity if it is a gain. Upon disposal the gain is transferred to retained earnings. Any loss arising in this manner is recognised immediately in the income statement.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment and its fair value at the date of reclassification becomes its cost for subsequent recording. When the Council begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property, which is measured based on the fair value model, and is not reclassified as property, plant and equipment during the re-development.





## Financial statements

A property interest under an operating lease is classified and accounted for as an investment property on a property-by-property basis when the Council holds it to earn rentals or for capital appreciation or both. Any such property interest under an operating lease classified as an investment property is carried at fair value. Lease payments are accounted for as described in the Expenses policy below.

### 11. Trade and other receivables

#### *(i) Construction work in progress*

Construction work in progress is stated at cost plus profit recognised to date (see Revenue policy 19) less a provision for foreseeable losses and less progress billings. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Council's contract activities based on normal operating capacity.

#### *(ii) Other trade and other receivables*

Trade and other receivables are stated at their cost less impairment losses (see Impairment policy 14).

### 12. Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Inventories held for distribution at no charge, or for a nominal amount, are stated at the lower of cost and current replacement cost.

The cost of other inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

### 13. Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits, and other short-term highly liquid investments with maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Council's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows, and in current liabilities on the balance sheet.



# Financial statements



## 14. Impairment

The carrying amounts of the Council's assets, other than biological assets (see Biological Assets policy 9), investment property (see Investments policy 10(iii)), inventories (see Inventories policy 12) and deferred tax assets (see Income Tax policy 21), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement. Impairment losses on revalued assets offset any balance in the asset revaluation reserve, with any remaining impairment loss being posted to the income statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

### *(i) Calculation of recoverable amount*

The recoverable amount of the Council's investments in held-to-maturity securities and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e., the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their market value less cost to sell and value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

### *(ii) Reversals of impairment*

An impairment loss in respect of a held-to-maturity security or receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of an investment in an equity instrument classified as available for sale is not reversed through profit or loss. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognised in profit or loss.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**15. Interest-bearing borrowings**

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

**16. Provisions**

A provision is recognised in the balance sheet when there is a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits, the amount of which can be reliably estimated, will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

**17. Employee entitlements**

Council's employee compensation policy is based on Total Cash Remuneration: a single cash payment in compensation for work, where the employee is responsible for and able to individually decide how best to use their remuneration to meet their needs over time in the mix and type of benefits purchased.

Provision is made in respect of Council's liability for the following short and long-term employee entitlements.

***(i) Short term entitlements***

Liabilities for annual leave and time off in lieu are accrued at the full amount owing at the pay period ending immediately prior to the balance sheet date.

Liabilities for accumulating short-term compensated absences (e.g., sick leave) are measured as the amount of unused entitlement accumulated at the pay period ending immediately prior to the balance sheet date, that the entity anticipates employees will use in future periods, in excess of the days that they will be entitled to in each of those periods.

***(ii) Long term entitlements***

The retiring gratuity liability is 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. These estimated amounts are discounted to their present value using an interpolated 10 year government bond rate.

Superannuation is provided as a percentage of remuneration.

***(iii) DBP Contributors Scheme (the 'Scheme')***

Council participates in the Scheme, which is a multi-employer defined benefit plan. However, because it is not possible to determine, from the terms of the Scheme, the extent to which the deficit will affect future contributions by employers the Council participation in the Scheme is accounted for as if the Scheme were a defined contribution plan.

***(iv) Super Trust of New Zealand ('Super Trust')***

Council participates in Super Trust, a multi-employer master trust, where money invested in separate schemes is pooled for investment purposes. Super Trust is a defined contribution plan, and contributions to the plan are expensed as incurred.

**18. Leases**

Leases in which substantially all of the risks and rewards of ownership transfer to the lessee are classified as finance leases. At inception, finance leases are recognized as assets and liabilities on the balance sheet at the lower of the fair value of the leased property and the present value of the minimum lease payments. Any additional direct costs of the lessee are added to the amount recognized as an asset. Subsequently, assets leased under a finance lease are depreciated as if the assets are owned.



# Financial statements

## 19. Revenue

### *(i) Goods sold and services rendered*

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to surveys of work performed. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods, or continuing management involvement with the goods.

### *(ii) Construction contracts*

As soon as the outcome of a construction contract can be estimated reliably, contract revenue and expenses are recognised in the income statement in proportion to the stage of completion of the contract. The stage of completion is assessed by reference to surveys of work performed.

An expected loss on a contract is recognised immediately in the income statement.

### *(iii) Rental income*

Rental income from investment property is recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income.

### *(iv) Government grants*

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Council will comply with all attached conditions.

### *(v) Dividend income*

Dividend income is recognised when the shareholder's right to receive payment is established.

### *(vi) Finance lease income*

Finance lease income is allocated over the lease term on a systematic and rational basis. This

income allocation is based on a pattern reflecting a constant periodic return on the Council's net investment in the finance lease.

### *(vii) Development Contributions*

Development contributions are recognised in the income statement in the year in which they are received.

## 20. Expenses

### *(i) Operating lease payments*

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

### *(ii) Finance lease payments*

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

### *(iii) Net financing costs*

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, dividends on redeemable preference shares (which are redeemable at the option of the holder), interest receivable on funds invested, dividend income, foreign exchange gains and losses, and gains and losses on hedging instruments that are recognised in the income statement (see Hedging policy 5).

Interest income is recognised in the income statement as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established which in the case of quoted securities is usually the ex-dividend date. The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method.

**21. Income tax**

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

**22. Research and development costs**

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility, and costs can be measured reliably. Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs with a finite useful life that have been capitalised are amortised from the commencement of the commercial production of the product on a straight-line basis over the period of its expected benefit, not exceeding five years.

**23. Third party transfer payment agencies**

The Council collects monies for many organizations. Where collections are processed through the Council's books, any monies held are shown as Accounts Payable in the Balance Sheet. Amounts collected on behalf of third parties are not recognised as revenue, but commissions earned from acting as agent are recognised in revenue.

**24. 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 it is recognised as part of the related asset or expense.

**25. Donated goods and services**

The Council receives the benefit of many services provided by volunteers. These services are greatly valued. They are, however, difficult to measure in monetary terms, and for this reason are not included in the financial statements, as their value from an accounting point of view is considered immaterial in relation to total expenditure.

# Financial statements

## 26. Cost allocations

The costs of all internal service activities are allocated or charged directly to external service type 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 City Solutions, the cost recovery is made by way of a 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, Human Resources, and Public Affairs.

## 27. Landfill after care

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.

The provision is calculated based on:

The estimated amount required by the Council to meet its obligations for all equipment, facilities and services. The estimated amounts are based on costs of closure of similar landfills by other local authorities with an allowance for inflation.

The estimated costs have been discounted to their present value using a discount rate of 6%.

The estimated length of time needed for post-closure care is 35 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 of meeting this obligation have been accrued and charged. The calculations assume no change in the legislative requirements for closure and post-closure treatment.

## 28. Change in accounting policies

These are first financial statements that the Council has produced as a result of adopting the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS). The resulting changes are detailed within the impact statement on page 169.

