

## Statement of significant accounting policies

Christchurch City Council (“Council”) is a territorial authority governed by the Local Government Act 2002. The primary objective of the Council is to provide goods or services for the community or for social benefit rather than to make a financial return. It is classified as a Public Benefit Entity.

These prospective financial statements are for the Council as a separate legal entity. Consolidated prospective financial statements comprising the Council and its subsidiaries and associates have not been prepared as the services which Council provides to the City are fully reflected within the Council’s financial statements.

### Basis of preparation

#### (i) Statement of compliance

These prospective financial statements have been prepared in accordance with the requirements of the Local Government Act 2002, which includes the requirement to comply with New Zealand Generally Accepted Accounting Practice.

The prospective financial statements have been prepared to comply with Public Benefit Entity Standards (PBE Standards) for a Tier 1 entity.

#### (ii) Prospective Financial Statements

The prospective financial statements comply with Tier 1 PBE Standards, (including PBE FRS 42 – Prospective Financial Statements).

In accordance with PBE FRS 42, the following information is provided:

#### Description of the nature of the entity’s current operation and its principal activities

The Council is a territorial local authority, as defined in the Local Government Act 2002. The Council’s principal activities are outlined within this Draft Long Term Plan.

#### Purpose for which the prospective financial statements are prepared

It is a requirement of the Local Government Act 2002 to present prospective financial statements that span 10 years and include them within the Long Term Plan. This provides an opportunity for ratepayers and residents to review the projected financial results and position of the Council. Prospective financial statements are revised annually to reflect updated assumptions and costs.

#### Basis for assumptions, risks and uncertainties

The prospective financial statements have been prepared on the basis of best estimate assumptions of future events which the Council expects to take place. The Council has considered factors that may lead to a material difference between information in the prospective financial statements and actual results. These factors, and the assumptions made in relation to the sources of uncertainty and potential effect, are outlined in this Draft Long Term Plan.

#### Cautionary Note

The financial information is prospective. Actual results are likely to vary from the information presented and the variations may be material.

#### Other Disclosures

The draft prospective financial statements were authorised for issue on 21 February 2018 by Christchurch City Council. The Council is responsible for the prospective financial statements presented, including the assumptions underlying the prospective financial statements and all other disclosures. The Draft Long Term Plan is prospective and as such contains no actual operating results.

#### **(iii) Measurement base**

The reporting period for these prospective financial statements is the 10 year period ending 30 June 2028. The statements are presented in New Zealand dollars, rounded to the nearest thousand (\$000), unless otherwise stated. The functional currency of the Council is New Zealand dollars.

The prospective financial statements have been prepared based on the historical cost basis, modified by the revaluation of certain assets and liabilities as identified in this statement of significant accounting policies.

The prospective financial statements do not disclose audit fees or imputation credits, and no comment is included regarding the effect on the community of the Council’s existence or operations. This information is fully disclosed in the Annual Report.

## Revenue

Revenue comprises rates, revenue from operating activities, investment revenue, gains and finance revenue and is measured at the fair value of consideration received or receivable.

Revenue may be derived from either exchange or non-exchange transactions.

### Revenue from exchange transactions

Revenue from exchange transactions arises where the Council provides goods or services to another entity and directly receives approximately equal value (primarily in the form of cash) in exchange.

### Revenue from non-exchange transactions

Revenue from non-exchange transactions arises from transactions that are not exchange transactions. These are transactions where the Council receives value from another party without giving approximately equal value directly in exchange for the value received.

Approximately equal value is considered to reflect a fair or market value, which is normally akin with an arm's length commercial transaction between a willing buyer and willing seller. Some services which Council provides for a fee are charged below market value as they are subsidised by rates. Other services operate on a cost recovery or breakeven basis which may not be considered to reflect a market return. A significant portion of the Council's revenue will be categorised non-exchange.

An inflow of resources from a non-exchange transaction recognised as an asset, is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the Council satisfies an obligation which has been recognised as a liability, it reduces the

carrying amount of the liability and recognises an amount of revenue equal to the reduction.

Specific accounting policies for the major categories of revenue are outlined below:

### **(i) Rates**

Rates are set annually by resolution from the Council and relate to a particular financial year. All ratepayers are invoiced within the financial year for which the rates have been set. Rates revenue is recognised in surplus or deficit at the time of invoicing.

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

Revenue from the sale of goods is recognised in surplus or deficit when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from services rendered is recognised in surplus or deficit in proportion to the stage of completion of the transaction at the reporting 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.

### **(iii) Finance Revenue**

Finance revenue comprises interest receivable on funds invested and on loans advanced. Finance revenue is recognised in surplus or deficit as it accrues, using the effective interest rate method.

### **(iv) Rental Revenue**

Rental revenue from investment and other property is recognised in surplus or deficit on a straight-line basis over the term of the lease. Lease

incentives granted are recognised as an integral part of the total rental revenue.

Rental revenue is classified as exchange revenue where it is considered to reflect a market/arm's length rental.

### **(v) Grants revenue (including government grants)**

Grant revenue is recognised on receipt, except to the extent that a liability is also recognised in respect of the same inflow. A liability is recognised when the resources received are subject to a condition such as an obligation to return those resources received in the event that the conditions attached are breached. As the conditions are satisfied, the carrying amount of the liability is reduced and an equal amount is recognised as revenue.

Grant revenue is categorised as non-exchange revenue.

### **(vi) Dividend revenue**

Dividend revenue is classified as exchange revenue and is recognised when the shareholder's right to receive payment is established.

### **(vii) Finance lease revenue**

Finance lease revenue is classified as exchange revenue and is allocated over the lease term on a systematic basis. This revenue allocation is based on a pattern reflecting a constant periodic return on the Council's net investment in the finance lease.

### **(viii) Development Contributions**

Development contributions are classified as exchange revenue and recognised as revenue in the year in which they are received.

### **(ix) Other gains**

Other gains include gains from the sale of property, plant and equipment and investments and gains arising from derivative financial instruments (see Hedging Policy).

### **(x) Vested assets and donated goods**

Where a physical asset is received by Council for no or minimal consideration, the fair value of the asset received is recognised as revenue. Assets vested in Council and goods donated are recognised as revenue when control over the asset is obtained. Vested assets and donated goods are categorised as non-exchange revenue.

## **Expenses**

Specific accounting policies for major categories of expenditure are outlined below:

### **(i) Operating lease payments**

Payments made under operating leases are recognised in surplus or deficit proportionally over the term of the lease. Lease incentives received are recognised in surplus or deficit 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) Finance costs**

Finance costs comprise interest payable on borrowings calculated using the effective interest rate method. The interest expense component of finance lease payments is recognised in surplus or deficit using the effective interest rate method. Interest payable on borrowings is recognised as an expense in surplus or deficit as it accrues.

### **(iv) Other losses**

Other losses include losses on the sale of property, plant and equipment and investments and losses arising from derivative financial instruments (see Hedging Policy).

### **(v) Grant expenditure**

Non-discretionary grants are those grants that are awarded if the grant application meets the specified criteria and are recognised as expenditure when an application that meets the specified criteria for the grant has been received.

Discretionary grants are those grants where the Council has no obligation to award on receipt of the grant application and are recognised as expenditure when approved by the Council and the approval has been communicated to the applicant and any grant criteria are met.

## **Income tax**

Income tax on the surplus or deficit for the year includes current and deferred tax.

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

Deferred tax is provided using the liability method on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes at the reporting date.

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 reporting 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.

## **Research and development costs**

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits or service potential;
- the availability of adequate technical, financial and other resources to complete

the development and to use or sell the intangible asset; and

- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in surplus or deficit in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

## Property, plant and equipment

The following assets are shown at fair value, based on periodic valuations by external independent valuers, less subsequent depreciation:

- Land (other than land under roads)
- Buildings
- 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 are stated at historical cost less depreciation. Historical 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 within surplus or deficit 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 surplus or deficit to the extent it reverses a net revaluation decrease of the same class of assets previously recognised in surplus or deficit.

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 as shown in the following table:

<b>Operational Assets:</b>	Estimated Useful Life
Buildings	1-100 yrs
Office and computer equipment	1-10 yrs
Mobile plant including vehicles	2-30 yrs
Sealed surfaces (other than roads)	9-100 yrs

Harbour structures	3-50 yrs
Seawalls	100 yrs
Leasehold land improvements	5-100 yrs
Library books	3-8 yrs
Vessels	5-25 yrs
Resource consents and easements	5-10 yrs

### Infrastructure Assets:

Formation	Not depreciated
Pavement sub-base	Not depreciated
Basecourse	40-120 yrs
Footpaths and cycleways	20-80 yrs
Surface	1-25 yrs
Streetlights and signs	15-40 yrs
Kerb, channel, sumps and berms	80 yrs
Landscape/medians	8-80 yrs
Drain pipes/culverts/retaining walls	20-100 yrs
Bridges	70-100 yrs
Bus shelters and furniture	15-30 yrs
Water supply	55-130 yrs
Water meters	20-25 yrs
Stormwater	20-150 yrs
Waterways	15-120 yrs
Sewer	50-150 yrs
Treatment plant	15-100 yrs
Pump stations	10-100 yrs

### Restricted Assets:

Planted areas	5-110 yrs
Reserves – sealed areas	10-40 yrs

Reserves – structures	25-150 yrs
Historic buildings	100 yrs
Art works	1000 yrs
Heritage assets	1000 yrs

Gains and losses on disposal are determined by comparing proceeds with the carrying amount. These are included as revenue or expenses. When revalued assets are sold, the amounts included in the revaluation reserve in respect of those assets are transferred to retained earnings.

### **Distinction between capital and revenue expenditure**

Capital expenditure is defined as all expenditure incurred in the creation of a new asset and any expenditure that results in a significant restoration or increased service potential for existing assets. Constructed assets are included in property, plant and equipment as each becomes operational and available for use. Revenue expenditure is defined as expenditure that is incurred in the maintenance and operation of the property, plant and equipment of the Council.

### **Intangible assets**

#### **(i) Computer software**

Acquired computer software licences 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 maintaining computer software programs 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

generate economic benefits exceeding costs beyond one year, are capitalised and recognised as intangible assets. Capitalised costs include the software development employee direct costs and an appropriate portion of relevant overheads.

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

#### **(ii) 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).

#### **(iii) 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.

#### **(iv) Amortisation**

An intangible asset with a finite useful life is amortised on a straight-line basis 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.

Estimated useful lives are:

Software	1-10 yrs
Resource consents and easements	5-10 yrs
Patents, trademarks and licenses	10-20 yrs

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.

### **Derivative financial instruments**

The Council uses derivative financial instruments to hedge its exposure to interest rate risks arising from operational, financing and investment activities. In accordance with its treasury policy 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 and subsequently at fair value. Changes in fair value are recognised immediately in surplus or deficit. 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).

### **Hedging**

The Council uses derivatives to hedge its exposure to interest rate risks. The derivatives are designated as either cash flow hedges (hedging highly probable future transactions (borrowing)) or fair value hedges (hedging the fair value of recognised assets or liabilities).

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive revenue and expense, limited to the cumulative change in the fair value of the hedged item from inception of the hedge. The gain or loss relating to the ineffective portion is recognised immediately in surplus or deficit. When the hedging relationship ceases to meet the criteria for hedge accounting

any gain or loss recognised in other comprehensive revenue and expense and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in surplus or deficit. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in surplus or deficit.

Changes in the fair value of derivatives that are designated as fair value hedges are recorded in surplus or deficit, together with changes in the fair value of the hedged asset or liability. The carrying amount of a hedged item not already measured at fair value is adjusted for the fair value change attributable to the hedged risk with a corresponding entry in surplus or deficit. When the hedging relationship ceases to meet the criteria for hedge accounting the fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to surplus or deficit from that date.

## Investments

Financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the assets (other than financial assets at fair value through surplus or deficit). Transaction costs directly attributable to the acquisition of financial assets at fair value through surplus or deficit are recognised immediately in surplus or deficit.

The Council classifies its investments into the following categories:

(a) *Financial assets measured at amortised cost*

Financial assets held for collection of contractual cash flows where those cash flows represent solely payments of principal and

interest on the principal amount outstanding are subsequently measured at amortised cost.

(b) *Fair value through other comprehensive revenue or expense (FVTOCRE)*

Financial assets held for collection of contractual cash flows and for selling where the cash flows are solely payments of principal and interest on the principal amount outstanding are subsequently measured at fair value through other comprehensive revenue or expense (FVTOCRE).

Changes in the carrying amount subsequent to initial recognition as a result of impairment gains or losses, foreign exchange gains and losses and interest revenue calculated using the effective interest method are recognised in surplus or deficit. The amounts that are recognised in surplus or deficit are the same as the amounts that would have been recognised in surplus or deficit if these financial assets had been measured at amortised cost. All other changes in the carrying amount of these financial assets are recognised in other comprehensive revenue and expenses. When these financial assets are derecognised, the cumulative gains or losses previously recognised in other comprehensive revenue and expense are reclassified to surplus or deficit.

On initial recognition the Council may make the irrevocable election to designate investments in equity investments as at FVTOCRE. Designation at FVTOCRE is not permitted if the equity investment is held for trading or if it is contingent consideration recognised by an acquirer in a business combination to which PBE IFRS 3 applies. Subsequent to initial recognition equity investments at FVTOCRE are measured at fair

value with gains and losses arising from changes in fair value recognised in other comprehensive revenue and expense. The cumulative gain or loss will not be reclassified to surplus or deficit on disposal of the equity investments, instead, they will be transferred to accumulated surplus.

(c) *Fair value through surplus or deficit*

By default, all other financial assets not measured at amortised cost or FVTOCRE are measured at fair value through surplus or deficit.

Financial assets at fair value through surplus or deficit are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in surplus or deficit to the extent they are not part of a designated hedging relationship.

The net gain or loss recognised in surplus or deficit includes any dividend or interest earned on the financial asset.

### **(i) Investment in subsidiaries and unlisted shares**

The Council's equity investments in its subsidiaries and unlisted shares are classified as financial assets at fair value through other comprehensive revenue or expense.

### **(ii) Loan advances and investments in debt securities**

Investment in debt securities, general and community loan advances are classified as financial assets measured at amortised cost.

## Trade and other receivables

Trade and other receivables are classified as financial assets at amortised cost and are initially measured at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment (see Impairment Policy).

## 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.

## Impairment

### (i) Impairment of financial assets

The Council recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at FVTOCRE. No impairment loss is recognised for investments in equity instruments. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

For trade receivables, the Council applies the simplified approach permitted by PBE IFRS 9, which requires expected lifetime losses to be

recognised from initial recognition of the receivables.

For all other financial instruments, the Council recognises expected lifetime credit losses when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Council measures the loss allowance for that financial instrument at an amount equal to 12 months of expected credit losses. The assessment of whether expected lifetime credit losses should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring.

Lifetime expected credit losses represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12 months expected credit losses represent the portion of lifetime expected credit losses that are expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

### (ii) Impairment of non-financial assets

For the purpose of assessing impairment indicators and impairment testing, the Council classifies non-financial assets as either cash-generating or non-cash-generating assets. The Council classifies a non-financial asset as a cash-generating asset if its primary objective is to generate a commercial return. All other assets are classified as non-cash-generating assets.

Property, plant and equipment measured at fair value is not required to be reviewed and tested for impairment. The carrying values of revalued assets

are assessed annually to ensure that they do not differ materially from the assets' fair values. If there is a material difference, then the off-cycle asset classes are revalued.

The carrying amounts of the Council's other assets, other than investment property (see Investments Policy) and deferred tax assets (see Income Tax Policy), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit (CGU) exceeds its recoverable amount.

Impairment losses are recognised through surplus or deficit, unless the asset is carried at a revalued amount in which case any impairment loss is treated as a revaluation decrease and recorded within other comprehensive revenue and expense.

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

## 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 statement of financial position.

## 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 surplus or deficit over the period of the borrowings on an effective interest basis.

## Creditors and other payables

Creditors and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method.

## Provisions

A provision is recognised in the statement of financial position when the Council has 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.

## Employee entitlements

The 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 the 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 before the reporting 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 before the reporting 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 and long-service leave liabilities are 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.

Obligations for contributions to KiwiSaver are accounted for as defined contribution superannuation schemes and are recognised as an expense in surplus or deficit when incurred.

Superannuation is provided as a percentage of remuneration.

## Leases

### (i) As lessee

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 recognised as assets and liabilities on the statement of financial position 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 recognised as an asset. Subsequently, assets leased under a finance lease are depreciated as if the assets are owned.

### (ii) As lessor

Leases in which substantially all of the risks and rewards of ownership transfer to the lessor are classified as finance leases. Amounts due from lessees under finance leases are recorded as receivables. Finance lease payments are allocated between interest revenue and reduction of the lease receivable over the term of the lease in order to reflect a constant periodic rate of return on the net investment outstanding in respect of the lease.

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

## Net Assets / Equity

Net assets or equity is the community's and ratepayers' interest in the Council. It is measured as the difference between total assets and total liabilities. Net assets or equity includes the following components:

- Asset revaluation reserve
- Fair value through equity reserve
- Hedging reserves
- Reserve funds
- Capital reserves
- Retained earnings



## **Third party transfer payment agencies**

The Council collects monies for many organisations. Where collections are processed through the Council's books, any monies held are shown as accounts payable in the prospective statement of financial position. Amounts collected on behalf of third parties are not recognised as revenue, but commissions earned from acting as agent are recognised as revenue.

## **Goods and Services Tax**

The prospective financial statements are prepared exclusive of GST with the exception of receivables and payables that are shown inclusive of GST. Where GST is not recoverable as an input tax it is recognised as part of the related asset or expense.

## **Donated 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 prospective financial statements, as their value from an accounting point of view is considered immaterial in relation to total expenditure.

## **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 recipient of an internal service can be identified, the cost recovery is made by way of a

direct charge. Where this is not practical or the linkage is indirect, the costs are allocated by way of corporate overhead.

Corporate overhead is allocated either directly or indirectly to external service activities as follows:

- Property costs: pro rata based on the number of desks held for use for each unit.
- IT costs: pro rata based on the total number of active IT users.
- Human Resources and Payroll Services cost: pro rata based on the total number of planned employee work hours.
- All other costs: pro rata based on the gross cost of external service activities.

## **Critical judgements, estimates and assumptions in applying Council's accounting policies**

Preparing prospective financial statements to conform to PBE Standards 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 have been based on historical experience and other factors that are believed to be reasonable under the circumstances. These are outlined in the Significant Forecasting Assumptions section. These estimates and assumptions have formed the basis for making judgements about the carrying values of assets and liabilities, where these are not readily apparent from other sources. Subsequent actual results may differ from these estimates.

Estimates and underlying assumptions are regularly reviewed. Any change to estimates is

recognised in the period if the change affects only that period, or in future periods if it also affects future periods.