Prospective statement of comprehensive income and expense

Plan 2013/14	$000	Note	TYP 2014/15	Plan 2014/15	Variance to TYP
	REVENUE				
339,281	Rates revenue		363,357	358,126	(5,231)
13,000	Development contributions		17,466	18,766	1,300
402,081	Grants and subsidies		427,664	435,251	7,587
236,836	Other revenue	1	249,325	267,877	18,552
991,198	**Total operating income**		**1,057,812**	**1,080,020**	**22,208**
	EXPENDITURE				
40,637	Finance costs		57,477	60,482	3,005
106,364	Depreciation and amortisation	2	113,625	115,856	2,231
456,222	Other expenses	3	452,662	481,903	29,241
603,223	**Total operating expenditure**		**623,764**	**658,241**	**34,477**
387,975	**Surplus before asset contributions**		**434,048**	**421,779**	**(12,269)**
3,500	Vested assets		3,659	3,665	6
391,475	**Surplus before income tax expense**		**437,707**	**425,444**	**(12,263)**
(2,797)	Income tax expense		(2,780)	(2,779)	1
394,272	**Net surplus for year**		**440,487**	**428,223**	**(12,264)**
	Other Comprehensive Income				
57,773	Changes in Revaluation Reserve		233,152	55,627	(177,525)
452,045	**Total Comprehensive Income**		**673,639**	**483,850**	**(189,789)**

Prospective statement of changes in net assets/equity

Plan 2013/14	$000	Note	TYP 2014/15	Plan 2014/15	Variance to TYP
6,841,510	**EQUITY AT JULY 1**		7,293,555	7,354,178	60,623
	Net surplus attributable to:				
	Reserves				
57,773	Revaluation reserve		233,152	55,627	(177,525)
	Retained earnings				
394,272	Surplus		440,487	428,223	(12,264)
452,045	Total comprehensive income for the year		673,639	483,850	(189,789)
7,293,555	**EQUITY AT JUNE 30**	8	**7,967,194**	**7,838,028**	**(129,166)**

Family Fun Day, Burster Flipper Wobbler Dribbler Spinner Stacker Shaker Maker at ArtBox. Courtesy of Christchurch Art Gallery Te Puna o Waiwhetu

Prospective statement of financial position

Plan 2013/14	$000	Note	TYP 2014/15	Plan 2014/15	Variance to TYP
	Current assets				
1,897	Cash and cash equivalents		3,504	24,400	20,896
111,167	Trade and other receivables	4	112,879	149,516	36,637
3,914	Inventories		3,974	6,024	2,050
104,528	Other financial assets		105,811	40,205	(65,606)
	Non-current assets				
	Investments				
1,711,257	- Investments In CCOs and other similar entities		1,713,597	1,844,437	130,840
75,149	- Other investments		75,149	86,582	11,433
45,834	Intangible assets		54,370	78,634	24,264
1,010,963	Operational assets		1,257,583	1,325,521	67,938
4,615,054	Infrastructural assets		5,510,466	5,064,860	(445,606)
855,595	Restricted assets		897,895	884,410	(13,485)
8,535,358	**TOTAL ASSETS**		**9,735,228**	**9,504,589**	**(230,639)**
	Current liabilities	5			
139,352	Trade and other payables		142,451	113,748	(28,703)
118,109	Borrowings		122,324	160,993	38,669
15,646	Provisions		15,842	17,923	2,081
	Non-current liabilities				
779,566	Borrowings		1,299,351	1,205,353	(93,998)
185,265	Provisions	6	184,026	164,613	(19,413)
3,865	Deferred tax liability		4,040	3,931	(109)
7,293,555	**Equity**	7	7,967,194	7,838,028	(129,166)
8,535,358	**TOTAL EQUITY AND LIABILITIES**		**9,735,228**	**9,504,589**	**(230,639)**

Prospective cash flow statement

Plan 2013/14	$000	TYP 2014/15	Plan 2014/15	Variance to TYP
	OPERATING ACTIVITIES			
	Cash was provided from:			
929,180	Rates, grants, subsidies, and other sources	995,086	1,007,912	12,826
16,072	Interest received	14,793	19,382	4,589
48,744	Dividends	48,940	55,504	6,564
993,996		1,058,819	1,082,798	23,979
	Cash was disbursed to:			
456,551	Payments to suppliers and employees	450,606	482,253	31,647
40,637	Interest paid	57,477	60,482	3,005
497,188		508,083	542,735	34,652
496,808	**NET CASH FLOW FROM OPERATIONS**	**550,736**	**540,063**	**(10,673)**
	INVESTING ACTIVITIES			
	Cash was provided from:			
75,792	Sale of assets	14,268	6,763	(7,505)
-	Investments realised	-	1,200	1,200
75,792		14,268	7,963	(6,305)
	Cash was applied to:			
934,825	Purchase of assets	1,083,774	1,028,643	(55,131)
(3,150)	Purchase of investments	2,340	(5,685)	(8,025)
(78,279)	Purchase of investments (special funds)	1,283	(25,142)	(26,425)
853,396		1,087,397	997,816	(89,581)
(777,604)	**NET CASH FLOW FROM INVESTING ACTIVITIES**	**(1,073,129)**	**(989,853)**	**83,276**

Plan 2013/14	$000	TYP 2014/15	Plan 2014/15	Variance to TYP
	FINANCING ACTIVITIES			
	Cash was provided from:			
289,283	Raising of loans	535,502	465,532	(69,970)
289,283		535,502	465,532	(69,970)
	Cash was applied to:			
8,218	Repayment of term liabilities	11,502	11,546	44
8,218		11,502	11,546	44
281,065	**NET CASH FLOW FROM FINANCING ACTIVITIES**	**524,000**	**453,986**	**(70,014)**
269	Increase/(decrease) in cash	1,607	4,196	2,589
1,628	Add opening cash	1,897	20,204	18,307
1,897	**ENDING CASH BALANCE**	**3,504**	**24,400**	**20,896**
	Represented by:			
1,897	Cash and cash equivalents	3,504	24,400	20,896

Notes to the Financial Statements

Plan 2013/14	$000	TYP 2014/15	Plan 2014/15	Variance to TYP
	NOTE 1			
	Other revenue			
172,020	Fees and charges	185,592	192,991	7,399
	Interest:			
7,979	Subsidiaries	7,983	11,889	3,906
7,889	Special and other fund investments	6,607	7,401	794
204	Short term investments	203	92	(111)
16,072	Total interest revenue	14,793	19,382	4,589
	Dividends:			
46,000	Christchurch City Holdings Ltd	46,000	52,000	6,000
2,684	Transwaste Ltd	2,820	3,384	564
60	Other	120	120	-
48,744	Total dividend revenue	48,940	55,504	6,564
236,836	**Total other revenue**	**249,325**	**267,877**	**18,552**

Plan 2013/14	$000	TYP 2014/15	Plan 2014/15	Variance to TYP
	NOTE 2			
	Depreciation			
8	City planning and development	34	37	3
6,511	Community support	7,167	6,958	(209)
7,212	Cultural and learning services	7,800	8,673	873
-	Democracy and governance	-	-	-
86	Economic development	90	102	12
7,930	Parks, open spaces and waterways	8,565	8,807	242
2,763	Recreation and leisure	2,932	3,042	110
2,005	Refuse minimisation and disposal	2,147	2,088	(59)
33	Regulatory services	92	65	(27)
37,433	Roads and footpaths	38,726	37,896	(830)
17,409	Sewerage collection, treatment and disposal	18,616	18,976	360
10,322	Water supply	11,041	10,886	(155)
4,571	Stormwater and flood protection and control works	4,827	4,731	(96)
10,081	Corporate	11,588	13,595	2,007
106,364	**Total Depreciation**	**113,625**	**115,856**	**2,231**
	NOTE 3			
	Other expenses			
	Operating expenditure:			
155,547	Personnel costs	162,050	166,313	4,263
33,981	Donations, grants and levies	31,907	34,724	2,817
266,694	Other operating costs	258,705	280,866	22,161
456,222	**Total other expenses**	**452,662**	**481,903**	**29,241**

Notes to the Financial Statements

Plan 2013/14	$000	TYP 2014/15	Plan 2014/15	Variance to TYP
	NOTE 4			
	Current assets			
	Trade and other receivables			
14,069	Rates debtors	15,781	12,647	(3,134)
11,697	Other trade debtors	11,697	26,951	15,254
606	Amount owing by subsidiaries	606	3,834	3,228
83,694	Other receivables/prepayments	82,308	100,090	17,782
3,864	GST receivable	5,250	7,200	1,950
113,930		115,642	150,722	35,080
(2,763)	Less provision for doubtful debts	(2,763)	(1,206)	1,557
111,167	**Total receivables and prepayments**	**112,879**	**149,516**	**36,637**
	NOTE 5			
	Current liabilities			
122,196	Trade creditors	125,295	99,584	(25,711)
17,156	Owing to subsidiaries	17,156	14,164	(2,992)
139,352		142,451	113,748	(28,703)
118,109	Current portion of gross debt	122,324	160,993	38,669
335	Provision for landfill aftercare	311	325	14
1,000	Provision for weathertight homes	1,000	3,047	2,047
14,311	Provision for employee entitlements	14,531	14,551	20
15,646		15,842	17,923	2,081
273,107	**Total current liabilities**	**280,617**	**292,664**	**12,047**

Plan 2013/14	$000	TYP 2014/15	Plan 2014/15	Variance to TYP
	NOTE 6			
	Non-current provisions			
23,004	Provision for landfill aftercare	22,678	19,442	(3,236)
5,657	Provision for employee entitlements	7,437	5,884	(1,553)
2,264	Provision for weathertight homes	1,264	2,432	1,168
147,289	Provision for hedge and finance lease liability	146,331	127,779	(18,552)
7,051	Provision for service concession arrangement	6,316	9,076	2,760
185,265	**Total non-current provisions**	**184,026**	**164,613**	**(19,413)**
	NOTE 7			
	Equity			
1,733,853	Capital reserve	1,733,853	1,733,853	-
167,677	Reserve funds	168,960	146,658	(22,302)
2,913,207	Asset revaluation reserves	3,146,359	2,672,310	(474,049)
2,478,818	Retained earnings	2,918,022	3,285,207	367,185
7,293,555	**Total equity**	**7,967,194**	**7,838,028**	**(129,166)**

Significant Forecasting Assumptions

In preparing this Annual Plan it was necessary for Council to make a number of assumptions about the future. The following tables identify those forecasting assumptions which are significant (i.e. if actual future events differ from the assumptions, it could result in material variances to this Annual Plan). The table also identifies the risks that underlie those assumptions, the reason for that risk, and an estimate of the potential impact on the Plan if the assumption is not realised.

Assumption	*Risk*	*Level of Uncertainty*	*Reasons and Financial Impact of Uncertainty*
Capital Works. Programmes and projects are delivered within budget.	Actual costs will vary from estimates, due to higher input prices or delivery delays, resulting in budget shortfalls.	High	At the time this plan was adopted Council, insurers, and central Government were still refining estimates of earthquake related asset damage. Final capital works estimates could vary from this plan by 30% or more. There are also market capacity issues in delivering the volume of work planned.
Total infrastructure and facilities damage repairs can be made within budget.	At the time of preparing the plan damage assessments were not complete.	Moderate	Total costs may increase putting pressure on the Financial Strategy. Equally, some of the repairs may be deferred to help ease pressure on the strategy.
Sources of funds for replacing assets. The sources of funds will occur as projected.	Funding does not occur as projected.	Moderate	Council, insurers, and Central Government are still refining estimates of earthquake related asset damage and the associated funding sources. The risk is that Council assumes a higher share of the cost.
Growth. Council collects development contributions from property developers to fund the capital costs of growth in the City's infrastructure. The amount collected is dependent on the forecast growth in the number of residential, commercial, industrial, and other properties. This forecast is based on Council's Growth Model adjusted for expected post-earthquake activity.	If growth in the number of properties varies considerably from forecasts there is a possibility that revenue collected from development contributions will be too much or too little to fund Council's capital programme. If the timing of growth differs significantly from forecast this will impact on Council's cash flows and may necessitate changes to planned borrowing.	High	The timing of growth, and its impact on Council's development contributions revenue, can impact on the borrowing and interest expense assumptions in this Annual Plan.
Economic Environment. At the time of finalising this Annual Plan the performance of the New Zealand economy was linked to the Canterbury rebuild. Council has prepared this Annual Plan on the basis that the current predictions about the economy and speed of recovery will prove correct.	The current rebuild and recovery slows or the economy moves into a new recession.	Moderate	Any slow down in recovery will impact on the rating base.
Council policy. There will be no significant changes to Council policy as summarised in this plan.	New legislation is enacted that requires a significant policy response from Council or, CERA uses its statutory powers such that a change is required to Council policy.	Low	Dealing with changes in legislation is part of normal Council operations.
New Zealand Transport Agency subsidies. Requirements and specifications for the performance of subsidised work will not alter to the extent they impact adversely on operating costs.	Changes in subsidy rate and variation in criteria for inclusion in subsidised works programme.	Low	Changes to the funding priorities of New Zealand Transport Agency are outside Council control. The maximum financial impact would be elimination of the subsidy, estimated at $40 million per annum.

Significant Forecasting Assumptions

Assumption	*Risk*	*Level of Uncertainty*	*Reasons and Financial Impact of Uncertainty*
Credit Rating. The current A+ rating is maintained.	Council's credit rating with Standard and Poor's is downgraded to A.	Low	There is still some uncertainty around the final rebuild costs. A downgrade would increase costs of borrowing.
Resource Consents. Conditions of resource consents held by Council will not be significantly altered.	Conditions required to obtain/maintain the consents will change, resulting in higher costs than projected, and these costs will not be covered by planned funding.	Moderate	Advance warning of likely changes is anticipated. The financial impact of failing to obtain/renew resource consents cannot be quantified.
Borrowing Costs. Interest on new debt is calculated at 5.46% per annum.	Interest rates will vary from those projected.	Low	Rates used are based on expert advice. All future borrowings are fully hedged in accordance with the Liability Management Policy.
Securing External Funding. New, or renewal of existing borrowings on acceptable terms can be achieved.	That new borrowings cannot be accessed to refinance existing debt or fund future capital requirements.	Low	The Council minimises its liquidity risk by maintaining a mix of current and non-current borrowings in accordance with its Liability Management Policy.
Return on investments. Interest on general funds invested is calculated at 3.5%. The return on the Capital Endowment Fund is calculated at 5.15%.	Interest rates will vary from those projected.	Moderate	Rates used are based on expert advice. If actual interest rates differ from those anticipated the impact will largely fall on the Capital Endowment Fund.
Tax planning. The Council (parent) will be operating at a tax loss for the period covered by this Annual Plan due to the availability of tax deductions on some Council expenditure. This allows the Council's profit-making subsidiaries to make payments (know as subvention payments) to Council instead of tax payments. It has been assumed that sufficient profits will be made within the wider group to ensure that subvention receipts are available.	CCTOs will deliver lower than projected profits and subvention payments will be lower than planned.	Moderate	CCTOs are monitored by the Statement of Intent and a quarterly reporting process. Returns are expected to continue as forecast in this Annual Plan.
CCTO income. CCHL will deliver dividend income at the levels forecast in this Annual Plan.	CCHL will deliver a lower than projected dividend and Council will need to source alternate funding.	Low	CCTOs are monitored by the Statement of Intent and a quarterly reporting process. Returns are expected to continue as forecast in this Annual Plan.
Asset life. Useful life of assets is as recorded in asset management plans or based upon professional advice (The Accounting Policies detail the useful lives by asset class)	Damage to assets as a result of the earthquake is such that their useful lives are shortened significantly.	Moderate	No meaningful work has yet been done to determine the condition of assets in the lesser affected areas. Earlier replacement would put more pressure on the Council's capital programme, leading to higher depreciation expense and financing costs.
Asset revaluation. The carrying value of assets are revalued on a regular basis.	Asset revaluations will change projected carrying values of the assets and depreciation expense.	High	No adjustments have been made for the revaluation of assets because there is considerable uncertainty as to what the change resulting from the resumption of the revaluation programme will be.

Significant Forecasting Assumptions

Assumption	*Risk*	*Level of Uncertainty*	*Reasons and Financial Impact of Uncertainty*
Carrying value of assets. The opening balance sheet reflects the correct asset values.	All assets are correctly recorded at their written down values.	High	An impairment provision was made in June 2012 and 2013 totalling $546 million being the best estimate of the value of assets to be replaced or repaired. Damage assessments on facility assets are still to be completed so the condition of some assets cannot be accurately determined. Similarly, the condition of below ground assets is still not yet fully assessed. Any error in the carrying values will affect levels of depreciation.
Opening Debt: The opening debt of $912 million is made up of; • $143 million of equity investments, mainly in CCTOs, • $188 million of money borrowed for on-lending to CCTOs, (in accordance with the Council's Liability Management Policy), • $296 million of earthquake related borrowings. • $285 million of borrowing for capital works. $128.1 million of the equity investment is in Vbase together with $29.1 million of the monies on-lent. $57.7 million of the monies on-lent is to Civic Building Limited to fund its share of the Hereford St Civic building.	Actual opening debt differs from forecast.	Low	Council's debt requirements are well understood and closely managed. It is unlikely that opening debt will be significantly different to forecast.
Social housing. This Annual Plan has been prepared on the basis that Council's existing policy in relation to social housing continues. Specifically, that social housing operating and capital costs are funded solely through rental income.	Council policy in relation to social housing changes	Moderate	There will be no effect on rating unless the Council changes the underlying assumption that social housing is a stand-alone activity and is not dependent on rates for its funding
Contract Rates. Re-tendering of major contracts will not result in cost increases other than those comparable with the rate of inflation.	There is a significant variation in price from re-tendering contracts.	Moderate	Council would review the amount of work planned and undertaken.
LGFA Guarantee. Each of the shareholders of the LGFA is a party to a deed of Guarantee, whereby the parties to the deed guarantee the obligations of the LGFA and they guarantee obligations of other participating local authorities to the LGFA, in the event of default.	In the event of a default by the LGFA, each guarantor would be liable to pay a proportion of the amount owing. The proportion to be paid by each respective guarantor is set in relation to each guarantors relative rates income.	Low	The Council believes the risk of the guarantee being called on and any financial loss arising from the guarantee is low. The likelihood of a local authority borrower defaulting is extremely low and all of the borrowings by a local authority from the LGFA are secured by a rates charge.
Rating Base. The capital value of Christchurch (post revaluation) is expected to increase by 0.9% in the 2014/15 year, generating additional in year rates income of $1.5 million.	The rating base grows at a rate different to that projected.	Moderate	Variances between the forecast and actual growth in the rating base are likely to cause changes to the total rates revenue collected.

Significant Forecasting Assumptions

Assumption	*Risk*	*Level of Uncertainty*	*Reasons and Financial Impact of Uncertainty*
Legislative change. Council will continue to operate within the same general legislative environment, and with the same authority, as it does at the time this Annual Plan is published.	Should the local government legislative environment change, the activities and services the Council plans to provide over the period of this Annual Plan could change.	Moderate	The Government has several taskforces reviewing different aspects of local government, with some legislative change having occurred and further is expected to occur within the period of this Annual Plan. At the time of preparing this Annual Plan the Council is unable to determine how potential legislative change might impact its operations or quantify the potential financial impact.

Statement of significant accounting policies

Reporting entity

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.

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.

Basis of preparation

These prospective financial statements are the first set of prospective financial statements prepared under Public Benefit Entity Accounting Standards. In accordance with the new Accounting Standards Framework the Council is a Public Benefit Entity ("PBE"), is publicly accountable due to its publicly traded debt instruments and is considered 'large' due to having expenses in excess of $30 million. This results in the Council being classified as a Tier 1 Public Sector PBE and being required to apply Tier 1 PBE Accounting Standards with effect from 1 July 2014.

Due to ongoing discussions between the Local Government sector and its auditors on the application of certain new PBE accounting standards no change other than changes to statement titles have been made in these prospective financial statements. The accounting policies have been updated to reflect the Council's current interpretation of the new standards but they are subject to amendment. It is currently anticipated that the application of the new accounting standards, will have no material changes in the Council's accounting policies and any changes will principally be presentational.

i) Statement of compliance

The prospective financial statements of the Council have been prepared in accordance with the requirements of the Local Government Act 2002: sections 95, 100, 101 and Part 2 of Schedule 10, which includes the requirement to comply with General Accepted Accounting Practice in New Zealand ("NZ GAAP").

ii) Prospective Financial Statements

The prospective financial statements comply with Tier 1 PBE Accounting Standards, (including PBE FRS 42 – Prospective Financial Statements (PBE FRS 42) and PBE FRS 46 – First-Time Adoption of PBE Standards by Entities Previously Applying NZ IFRSs) with the exception of PBE IPSAS 26 – Impairment of Cash-Generating Assets, PBE IPSAS 21 – Impairment of Non-Cash Generating Assets and PBE IPSAS 17 – Property, Plant and Equipment as detailed below.

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 Annual 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 1 year and include them within the Annual 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.

Bases 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 annual 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 prospective financial statements were authorised for issue on 25 June 2014 by Christchurch City Council. The Council is responsible for the prospective financial statements presented, including the assumptions underlying prospective financial statements and all other disclosures. The Annual Plan is prospective and as such contains no actual operating results.

iii) Measurement base

The reporting period for these prospective financial statements is the one year period ending 30 June 2015. The prospective financial 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, modified by the revaluation of certain assets and liabilities as identified in this statement of significant accounting policies.

The Canterbury Earthquakes of 2010 and 2011 have impacted the Council's ability to account for its property, plant and equipment in accordance with Tier 1 PBE Accounting Standards. Details of these departures are outlined below:

- PBE IPSAS 21 – Impairment of Non-Cash Generating Assets and PBE IPSAS 26 – Impairment of Cash-Generating Assets
  - Assets with earthquake damage have been written off only when it is certain that they have been destroyed. Where Council and its insurers have agreed that a building

Statement of significant accounting policies

has been damaged beyond economic repair, insurers have agreed to pay out the indemnity value of the building. In these circumstances, Council has recognised the indemnity amount as impairment to the building.

- An impairment provision was recognised in 2012 and 2013 for damage to certain classes of infrastructure assets. These provisions will be reversed and replaced with the final journals as more information becomes available.

- PBE IPSAS 17 – Property, Plant and Equipment
  - Land, buildings, storm water, waterways and wetlands infrastructure assets and works of art were due for valuation in 2011. With the exception of works of art where the carrying value is the 2012 valuation the carrying value of the other classes represents their 2008 fair value less depreciation. Parks land and land improvements, restricted land and buildings, sewerage infrastructure and heritage and public art assets were due for valuation in 2012. The carrying value of these assets represents their 2009 fair value less depreciation. Roading and water reticulation infrastructure assets are due for valuation in 2013. Their carrying value represents their 2010 fair value less depreciation. Water reticulation and marine structures infrastructure assets, will be valued in 2014. The remaining asset classes will be revalued in 2015 if sufficient information is available.
  - PBE IPSAS 17 requires the Council to review the useful lives and residual values of its assets annually. Because of the scale of earthquake damage the Council will not comply with this requirement for all asset classes in 2014. Useful lives will be reviewed as part of the asset revaluations in 2014 and 2015.

All of the above have flow on effects to depreciation, impairment of assets carrying values, revaluation reserves, and retained earnings.

The prospective financial statements do not disclose audit fees nor 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.

The accounting policies set out below have been applied to the 2014/15 prospective financial statements and NZ IFRS for PBEs have been applied to the 2013/14 numbers and 2014/15 numbers per the Three Year Plan.

Revenue

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

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

<u>Revenue from exchange transactions</u>
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.

<u>Revenue from non-exchange transactions</u>
Revenue from non-exchanges 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. There are 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 the present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, 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 income 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 at the time of invoicing.

Rates are a tax as they are payable under the Local Government Ratings Act 2002 and are therefore defined as non-exchange.

ii) Goods sold and services rendered

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

Where the revenue received is considered to reflect market value it will be categorised as exchange income otherwise it will be non-exchange.

Statement of significant accounting policies

iii) Construction contracts

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

An expected loss on a contract is recognised immediately.

iv) Finance Income

Finance income comprises interest receivable on funds invested and on loans advanced. Finance income, is recognised using the effective interest rate method.

v) Rental income

Rental income from investment property is classified as exchange revenue and recognised proportionately over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income.

Rental income from social housing properties is classified as non-exchange revenue as the rental received is lower than market rentals.

vi) Grants income (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 that the Council has the obligation to return those resources received in the event that the conditions attached are breached. As the Council satisfies the conditions, the carrying amount of the liability is reduced and an equal amount is recognised as revenue.

Grant income is categorised as non-exchange revenue.

vii) Dividend income

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

viii) Finance lease income

Finance lease income is classified as exchange revenue and 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.

ix) Development Contributions

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

x) Other gains

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

xi) Earthquake subsidies and recoveries

Earthquake subsidies and recoveries include payments from Government agencies, Ministries and Departments as well as payments from Council's insurers. Earthquake subsidies and recoveries are recognised in the financial statements when received or when it is probable or virtually certain that they will be received under the insurance contracts in place.

The classification of earthquake subsidies and recoveries as exchange or non-exchange is dependent on the nature of the subsidy or recovery.

Expenses

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

i) Operating lease payments

Payments made under operating leases are recognised proportionally over the term of the lease. Lease incentives received are recognised within 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 using the effective interest rate method. Interest payable on borrowings is recognised as an expense as it accrues.

iv) Other losses

Other losses include revaluation decrements relating to investment properties (see Investment Property Policy), losses on the sale of property, plant and equipment and investments and losses arising from derivative financial instruments (see Hedging Policy).

Statement of significant accounting policies

Income tax

Income tax on the surplus or deficit for the year comprises 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 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.

Property, plant and equipment

The following assets (except for investment properties) 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. Under normal conditions, valuations are performed with sufficient regularity to ensure revalued assets are carried at a value that is not materially different from fair value. As mentioned above under Basis of Preparation, we are not yet in that position.

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 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	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

Statement of significant accounting policies

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 carrying amount. These are included as revenue or expenses. When revalued assets are sold, the amounts included in other reserves 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.

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.

Intangible assets

i) 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 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:

Statement of significant accounting policies

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 and foreign exchange 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 and changes in value are recognised in surplus or deficit.

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 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).

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.

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 the relationship between hedging instruments and hedged items at the inception of the transaction, 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 within surplus or deficit, 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 other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately within surplus or deficit.

Amounts accumulated in other comprehensive income are recycled through surplus or deficit profit or loss in the periods when the hedged item will affect the surplus or deficit (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 other comprehensive income are transferred from other comprehensive income 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 other comprehensive income at that time remains in other comprehensive income and is recognised when the forecast transaction is ultimately recognised within surplus or deficit.

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

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 within surplus or deficit.

Investments

The Council classifies its investments in the following categories:

a) *Financial assets at fair value through comprehensive income*

This category has two sub-categories: financial assets held for trading, and those designated at fair value through comprehensive income 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

Statement of significant accounting policies

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) *Financial assets at fair value through other comprehensive income*

Financial assets at fair value through other comprehensive income are non-derivatives that are either designated in this category or not classified in any of the other categories. This category also includes available-for-sale assets

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) Investment in subsidiaries

The Council's equity investments in its subsidiaries are designated as financial assets at fair value through other comprehensive income. They are measured at fair value, with valuations performed by an independent, external valuer with sufficient regularity to ensure no investments are included at a valuation that is materially different from fair value. 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 within surplus or deficit.

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.

Financial instruments classified as held-for-trading or fair value through other comprehensive income 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.

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) 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 contract activities based on normal operating capacity.

ii) Other trade and other receivables

Trade and other receivables 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

Normally the carrying amounts of the Council's assets, other than investment property (see Investments Policy) and deferred tax assets (see Income Tax Policy), 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. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

Impairment losses on property, plant and equipment are recognised within surplus or deficit. Impairment losses on revalued assets offset any balance in the asset revaluation reserve for that class of assets, with any remaining impairment loss being recognised within surplus or deficit. The opening balance for fixed assets includes a general provision of $771 million, $692 million was debited against the asset revaluation reserve and $79 million was recognised in surplus or deficit at 30 June 2013. This provision will be reversed and replaced with the correct accounting treatment as the condition of assets is identified.

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 balance sheet date.

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 other comprehensive income is recognised within surplus or deficit even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised within surplus or deficit is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised within surplus or deficit.

Statement of significant accounting policies

i) Calculation of recoverable amount

The recoverable amount of the Council's investments in 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.

As a public benefit entity, Council uses depreciated replacement cost to assess value in use where the future economic benefits or service potential of the asset are not primarily dependent on the asset's ability to generate net cash inflows and where Council would, if deprived of the asset, replace its remaining future economic benefits or service potential. For the Group, where an asset does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

The value in use for cash-generating assets is the present value of expected future cash flows. The discount rate used reflects current market assessments of the time value of money and the risks specific to the asset.

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 within surplus or deficit. 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 within surplus or deficit, the impairment loss shall be reversed, with the amount of the reversal recognised within surplus or deficit.

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.

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.

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 within 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 balance sheet 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.

i) Landfill aftercare provision

As operator of several closed landfill sites, including Burwood, the Council has a legal obligation to provide ongoing maintenance and monitoring services at these sites 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 6.00%.
- 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.

Statement of significant accounting policies

ii) Weathertight homes

The Council through its insurers is processing a number of weathertight home claims.

The provision is calculated based on:

- The number of known claims,
- The average actual settlement costs,
- The average actual claims settled per year.
- Costs in future years have been adjusted for inflation and discounted to their present value using a discount rate of 6.00%.

This method of calculation is consistent with previous years and has been subject to an actuarial peer review. A high level allowance has been added for claims not yet lodged for these prospective financial statements. A more accurate estimate of claims not yet lodged has not been possible, as a number of properties with earthquake damage that may have potential claims will be repaired or demolished and rebuilt by insurers or are in government red zones and will be abandoned.

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 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 before 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 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.

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) National Provident Fund's Defined Benefit Plan 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.

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 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 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.

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 in 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.

Statement of significant accounting policies

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 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.

Two primary drivers for allocating corporate overhead are used. Services related to people are reallocated based on employee costs, and those related to finance are reallocated based on external service activity gross cost.

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

Preparing prospective financial statements to conform with Tier 1 PBE Accounting 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 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 into future periods if it also affects future periods.