



## Financial Information

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## Financial Information

## Prospective Income Statement - Dollars in Thousands

For the year Ending June	Plan 2007	Forecast 2008	Forecast 2009	Forecast 2010	Forecast 2011	Forecast 2012	Forecast 2013	Forecast 2014	Forecast 2015	Forecast 2016
Rates Income	126,521	135,863	145,524	155,930	166,901	178,127	189,961	201,661	211,432	223,671
ARH Distribution - Stormwater Grants	5,753	5,630	5,178	4,110	3,852	3,920	3,260	3,306	3,259	3,298
ARH Distribution - ARTA Opex	15,980	17,739	18,139	20,335	19,118	19,176	21,149	22,654	23,554	24,132
ARH Distribution - ARTA Capex	42,709	70,104	89,275	86,301	76,000	68,200	33,300	26,600	26,600	26,600
ARH Distribution - CCO Monitoring	1,396	1,432	1,465	1,498	1,529	1,555	1,575	1,600	1,622	1,643
ARH Distribution - Other	50	50	50	0	0	0	0	0	0	0
Service Fees - Consents	13,304	13,763	13,864	14,368	14,463	14,550	14,633	14,707	14,771	14,832
Facilities Income	7,461	7,305	7,543	7,922	8,142	8,357	8,562	8,749	8,920	9,090
Grants and Subsidies	3,093	1,279	622	630	656	663	666	690	695	696
Farming Income	873	917	1,055	1,090	1,498	1,540	1,568	1,591	1,610	1,629
Merchandising Sales	137	145	154	160	165	170	175	180	185	189
Sundry Operating Income	8,686	1,434	1,625	1,663	1,694	1,786	1,808	1,834	1,856	1,875
<b>Revenue</b>	<b>225,963</b>	<b>255,661</b>	<b>284,494</b>	<b>294,007</b>	<b>294,018</b>	<b>298,044</b>	<b>276,657</b>	<b>283,572</b>	<b>294,504</b>	<b>307,655</b>
ARTA Funding Grants(OPEX)	81,441	83,553	88,620	94,818	98,964	105,921	116,157	125,318	135,300	146,171
ARTA Funding Grants(CAPEX)	42,709	70,104	89,275	86,301	76,000	68,200	33,300	26,600	26,600	26,600
Grants & Subsidies (excl. ARTA)	2,873	2,755	2,921	2,379	2,253	2,289	1,636	1,653	1,397	1,408
Human Resources	42,004	45,299	46,913	47,984	49,239	50,338	51,548	52,286	53,105	53,686
Professional Services:										
- Other	530	448	443	369	371	809	511	389	487	405
- Legal Services	1,502	1,760	1,797	1,823	1,849	1,883	1,914	1,942	1,971	1,998
- Technical Services	13,390	12,885	11,771	11,658	12,208	11,977	12,054	12,937	12,526	12,796
- Contracted Services	3,395	3,898	4,346	4,122	4,210	4,143	4,193	4,259	4,366	4,403
- Valuers/Surveyors	1,288	1,346	1,406	1,474	1,531	1,590	1,649	1,705	1,761	1,819
- Consultants	10,894	8,462	9,135	8,927	9,388	9,887	11,344	11,118	12,034	12,564
Farming Cost of Sales	247	211	246	351	529	428	456	465	472	480
Materials	1,189	1,373	1,449	1,529	1,652	1,585	1,613	1,643	1,670	1,702
Printing and Office Supplies	1,671	1,861	1,899	1,876	1,977	1,989	2,014	2,103	2,132	2,133
Fuel and Power	712	736	758	785	833	853	871	885	900	912
Repairs and Maintenance	3,485	4,340	5,119	5,512	6,081	6,630	6,730	7,083	7,458	7,797
Communications	1,535	1,613	1,722	1,726	1,787	1,837	1,890	1,935	1,974	2,018
Information Services	3,170	1,279	1,309	1,394	1,379	1,410	1,493	1,467	1,491	1,356
Occupancy Costs	5,033	4,759	4,936	5,072	5,104	5,197	5,343	5,366	5,454	5,605
Other Expenditure	4,319	4,130	4,507	4,402	4,461	4,619	4,669	4,775	4,758	4,875
Internal Expenditure Recovery	(3,063)	(3,014)	(3,110)	(3,212)	(3,255)	(3,329)	(3,436)	(3,545)	(3,654)	(3,768)
Merchandising Cost of Sales	97	107	111	97	99	101	103	105	126	128
Vehicle Expenditure	959	912	940	967	1,009	1,030	1,052	1,070	1,090	1,104
Interest & Bank Charges	582	1,253	1,237	1,232	2,107	2,185	2,269	4,197	3,366	3,371
Depreciation	6,872	7,305	7,558	8,271	8,232	8,220	8,837	9,282	9,614	9,951
<b>Expenditure</b>	<b>226,834</b>	<b>257,375</b>	<b>285,308</b>	<b>289,857</b>	<b>288,008</b>	<b>289,792</b>	<b>268,210</b>	<b>275,038</b>	<b>286,398</b>	<b>299,514</b>
<b>Net Surplus/(Deficit)</b>	<b>(871)</b>	<b>(1,714)</b>	<b>(814)</b>	<b>4,150</b>	<b>6,010</b>	<b>8,252</b>	<b>8,447</b>	<b>8,534</b>	<b>8,106</b>	<b>8,141</b>

## Prospective Balance Sheet - Dollars in Thousands

For the year ending June	Plan 2007	Forecast 2008	Forecast 2009	Forecast 2010	Forecast 2011	Forecast 2012	Forecast 2013	Forecast 2014	Forecast 2015	Forecast 2016
<b>ASSETS</b>										
Cash and Bank	250	250	250	250	250	250	250	250	250	250
Accounts Receivable	14,787	15,607	16,502	17,470	18,501	19,580	20,712	21,862	22,926	24,070
Receivable from ARH	54,296	14,567	5,279	11,717	1,797	2,019	1,582	1,631	1,583	1,583
Inventories	1,071	1,071	1,071	1,071	1,071	1,071	1,071	1,071	1,071	1,071
<b>Total Current Assets</b>	<b>70,404</b>	<b>31,495</b>	<b>23,102</b>	<b>30,508</b>	<b>21,619</b>	<b>22,920</b>	<b>23,615</b>	<b>24,814</b>	<b>25,830</b>	<b>26,974</b>
Investment in subsidiaries	815,233	815,233	815,233	815,233	815,233	815,233	815,233	815,233	815,233	815,233
Receivable from ARH	27,972	14,819	11,032	858	521	0	0	0	0	0
Fixed Assets	208,691	221,095	221,502	225,629	243,516	248,593	253,449	274,398	278,286	282,799
<b>Total Non-Current Assets</b>	<b>1,051,896</b>	<b>1,051,147</b>	<b>1,047,767</b>	<b>1,041,720</b>	<b>1,059,270</b>	<b>1,063,826</b>	<b>1,068,682</b>	<b>1,089,631</b>	<b>1,093,519</b>	<b>1,098,032</b>
<b>TOTAL ASSETS</b>	<b>1,122,300</b>	<b>1,082,642</b>	<b>1,070,869</b>	<b>1,072,228</b>	<b>1,080,889</b>	<b>1,086,746</b>	<b>1,092,297</b>	<b>1,114,445</b>	<b>1,119,349</b>	<b>1,125,006</b>
<b>LIABILITIES</b>										
Payable to ARTA	20,454	21,358	22,366	23,139	23,949	25,310	26,964	28,367	29,867	31,703
Accounts Payable	13,281	13,805	14,354	14,923	15,523	16,153	16,814	17,511	18,243	19,011
Stormwater Grants Payable	7,628	12,253	3,787	3,374	337	521	0	0	0	0
Grants Payable to ARTA	45,246	900	0	6,800	0	0	0	0	0	0
Short Term Debt	32,246	45,902	46,829	46,612	58,180	54,364	49,836	61,622	56,628	51,795
<b>Total Current Liabilities</b>	<b>118,855</b>	<b>94,218</b>	<b>87,336</b>	<b>94,848</b>	<b>97,989</b>	<b>96,348</b>	<b>93,614</b>	<b>107,500</b>	<b>104,738</b>	<b>102,509</b>
Provision for Landfill	4,875	4,721	4,431	4,302	4,149	3,916	3,754	3,482	3,042	2,787
Stormwater Grants Payable	20,272	8,019	4,232	858	521	0	0	0	0	0
Grants Payable to ARTA	7,700	6,800	6,800	0	0	0	0	0	0	0
<b>Total Non-Current Liabilities</b>	<b>32,847</b>	<b>19,540</b>	<b>15,463</b>	<b>5,160</b>	<b>4,670</b>	<b>3,916</b>	<b>3,754</b>	<b>3,482</b>	<b>3,042</b>	<b>2,787</b>
<b>TOTAL LIABILITIES</b>	<b>151,702</b>	<b>113,758</b>	<b>102,799</b>	<b>100,008</b>	<b>102,659</b>	<b>100,264</b>	<b>97,368</b>	<b>110,982</b>	<b>107,780</b>	<b>105,296</b>
Ratepayer's Equity	970,598	968,884	968,070	972,220	978,230	986,482	994,929	1,003,463	1,011,569	1,019,710
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>1,122,300</b>	<b>1,082,642</b>	<b>1,070,869</b>	<b>1,072,228</b>	<b>1,080,889</b>	<b>1,086,746</b>	<b>1,092,297</b>	<b>1,114,445</b>	<b>1,119,349</b>	<b>1,125,006</b>

## Prospective Movements in Ratepayers' Equity - Dollars in Thousands

Prospective Changes in Equity - Dollars in Thousand	Plan 2007	Forecast 2008	Forecast 2009	Forecast 2010	Forecast 2011	Forecast 2012	Forecast 2013	Forecast 2014	Forecast 2015	Forecast 2016
Equity as at 1 July	971,469	970,598	968,884	968,070	972,220	978,230	986,482	994,929	1,003,463	1,011,569
Net Surplus / Deficit	-871	-1714	-814	4,150	6,010	8,252	8,447	8,534	8,106	8,141
<b>Equity as at 30 June</b>	<b>970,598</b>	<b>968,884</b>	<b>968,070</b>	<b>972,220</b>	<b>978,230</b>	<b>986,482</b>	<b>994,929</b>	<b>1,003,463</b>	<b>1,011,569</b>	<b>1,019,710</b>



## Prospective Capital Expenditure - Dollars in Thousands

For the year ending June	Plan 2007	Forecast 2008	Forecast 2009	Forecast 2010	Forecast 2011	Forecast 2012	Forecast 2013	Forecast 2014	Forecast 2015	Forecast 2016
<b>Open Spaces</b>										
Land	0	12,001	0	0	13,937	0	0	15,708	0	750
Land Improvements	1,010	1,389	1,303	3,157	3,341	4,004	3,937	3,539	3,540	3,803
Bridges, Structures and Dams	573	436	435	1,424	1,340	1,560	1,663	1,616	1,564	1,780
Buildings	1,054	641	1,267	1,562	1,609	1,852	1,633	2,146	1,418	1,504
Roads	851	761	1,229	1,834	2,065	1,547	2,146	2,498	2,679	2,375
<b>Total Open Spaces</b>	<b>3,488</b>	<b>15,228</b>	<b>4,234</b>	<b>7,977</b>	<b>22,292</b>	<b>8,963</b>	<b>9,379</b>	<b>25,507</b>	<b>9,201</b>	<b>10,212</b>
<b>Mt Smart Stadium</b>										
Land Improvements	25	124	101	76	22	0	0	0	0	49
Buildings	404	0	0	0	0	0	63	0	0	0
Furniture and Equipment	0	26	0	0	0	0	0	0	91	0
Vehicles	0	0	0	0	0	23	0	30	0	0
<b>Total Mt Smart Stadium</b>	<b>429</b>	<b>150</b>	<b>101</b>	<b>76</b>	<b>22</b>	<b>23</b>	<b>63</b>	<b>30</b>	<b>91</b>	<b>49</b>
<b>Natural Environment &amp; Heritage</b>										
Land Improvements	45	0	0	0	0	0	0	0	0	0
Plant & Equipment	513	424	436	446	456	466	474	482	490	497
<b>Total Natural Environment &amp; Heritage</b>	<b>558</b>	<b>424</b>	<b>436</b>	<b>446</b>	<b>456</b>	<b>466</b>	<b>474</b>	<b>482</b>	<b>490</b>	<b>497</b>
<b>Safety</b>										
Land Improvements	85	52	11	11	11	11	12	12	12	12
Plant & Equipment	0	0	64	0	0	0	0	0	72	0
Vehicles	88	0	0	0	0	112	0	0	0	0
<b>Total Safety</b>	<b>173</b>	<b>52</b>	<b>75</b>	<b>11</b>	<b>11</b>	<b>123</b>	<b>12</b>	<b>12</b>	<b>84</b>	<b>12</b>
<b>Support</b>										
Furniture and Equipment	297	262	114	117	120	122	125	127	129	131
Software and Hardware	2,410	2,520	2,028	2,736	2,189	2,469	2,567	2,981	2,397	2,435
Vehicles	535	938	839	894	882	903	922	939	954	969
<b>Total Support</b>	<b>3,242</b>	<b>3,720</b>	<b>2,981</b>	<b>3,747</b>	<b>3,191</b>	<b>3,494</b>	<b>3,614</b>	<b>4,047</b>	<b>3,480</b>	<b>3,535</b>
<b>TOTAL NET CAPITAL EXPENDITURE</b>	<b>7,890</b>	<b>19,574</b>	<b>7,827</b>	<b>12,257</b>	<b>25,973</b>	<b>13,069</b>	<b>13,542</b>	<b>30,078</b>	<b>13,346</b>	<b>14,305</b>
<b>Funded by</b>										
Rates	7,461	7,423	7,726	12,181	12,014	13,046	13,479	14,340	13,255	13,506
Borrowings	429	12,151	101	76	13,959	23	63	15,738	91	799
<b>Total Net Capital Expenditure</b>	<b>7,890</b>	<b>19,574</b>	<b>7,827</b>	<b>12,257</b>	<b>25,973</b>	<b>13,069</b>	<b>13,542</b>	<b>30,078</b>	<b>13,346</b>	<b>14,305</b>

## Prospective Capital Expenditure - Support Functions - Dollars in Thousands

For the year ending June	Plan 2007	Forecast 2008	Forecast 2009	Forecast 2010	Forecast 2011	Forecast 2012	Forecast 2013	Forecast 2014	Forecast 2015	Forecast 2016
Trade In - Vehicles	(90)	(134)	(138)	(142)	(145)	(149)	(152)	(154)	(157)	(160)
<b>Total Revenue - Support</b>	<b>(90)</b>	<b>(134)</b>	<b>(138)</b>	<b>(142)</b>	<b>(145)</b>	<b>(149)</b>	<b>(152)</b>	<b>(154)</b>	<b>(157)</b>	<b>(160)</b>
Furniture & Equipment	297	262	114	117	120	122	125	127	129	131
Software & Hardware	2,410	2,520	2,028	2,736	2,189	2,469	2,567	2,981	2,397	2,435
Vehicles	625	1,072	977	1,036	1,028	1,052	1,074	1,093	1,111	1,129
<b>Total Capital Expenditure - Support</b>	<b>3,332</b>	<b>3,854</b>	<b>3,119</b>	<b>3,889</b>	<b>3,337</b>	<b>3,643</b>	<b>3,766</b>	<b>4,201</b>	<b>3,637</b>	<b>3,695</b>
<b>Total Net Capital Expenditure - Support</b>	<b>3,242</b>	<b>3,720</b>	<b>2,981</b>	<b>3,747</b>	<b>3,192</b>	<b>3,494</b>	<b>3,614</b>	<b>4,047</b>	<b>3,480</b>	<b>3,535</b>
Funded by										
Rates	3,242	3,720	2,981	3,747	3,192	3,494	3,614	4,047	3,480	3,535
<b>Total Capital Expenditure Funding - Support</b>	<b>3,242</b>	<b>3,720</b>	<b>2,981</b>	<b>3,747</b>	<b>3,192</b>	<b>3,494</b>	<b>3,614</b>	<b>4,047</b>	<b>3,480</b>	<b>3,535</b>

## SIGNIFICANT FORECASTING ASSUMPTIONS

A number of assumptions have been made in the preparation of the financial forecasts in this LTCCP. This section outlines those assumptions which have a material impact on the forecasts and which are common across all functional areas, or make a material difference to the ARC's overall financial position.

The assumptions presented here are those that the ARC reasonably expects to occur. However, there are always inherent risks with such forecasts to the extent that the assumptions do, or do not, eventuate. Therefore, for those assumptions where there is a high risk of variance, this section also identifies, and attempts to quantify, the risks around the assumptions applied in these forecasts.

With rates being set for the forthcoming year, any forecast change in the ARC's 2006/07 net financial performance resulting from a change in forecast assumptions, would be met through one or a combination of:

- Changes to activity levels or programmes run by the ARC;
- Changes to the ARC's capital purchases programme; and/or
- Borrowing or investing by the ARC.

Thereafter, the impact of the changed forecast assumptions will be factored into the forecasts for following years, and a decision made about whether this change can continue to be met through a change in service levels, capital purchases, or borrowing/investing, or whether there needs to be a change in the rates requirements for those following years.

The figures for individual years are subject to final endorsement as part of each year's Annual Plan.

The underlying assumptions upon which this forecast information was prepared were adopted by the ARC.

The assumptions and figures are provided for the purpose of developing the LTCCP and are subject to change according to amendments and legislation, policy or circumstances. These variations may be material and should not be used for purposes other than that described.

### Population assumptions

The following table shows the forecast population trend for the Auckland region, including high and low forecasts of growth. In general, the medium forecasts of population and household numbers were taken into account by the functional areas. Changes in volumes, patronage, and service levels will vary across each functional area.

Population of Auckland Region				
Year	2001	2006	2011	2016
Total forecast population				
Low	1,216,820	1,333,578	1,405,572	1,477,006
Medium	1,216,820	1,359,454	1,457,691	1,556,138
High	1,216,820	1,385,429	1,510,594	1,635,668
Average annual percentage growth in previous 5 years				
Low		1.85%	1.06%	1.00%
Medium		2.24%	1.41%	1.32%
High		2.63%	1.74%	1.60%

Households in Auckland Region				
Year	2001	2006	2011	2016
Forecast number of households				
Low	412,837	465,513	500,815	537,688
Medium	412,837	483,629	533,969	587,439
High	412,837	491,145	559,190	624,903
Average annual percentage growth in previous 5 years				
Low		2.43%	1.47%	1.43%
Medium		3.22%	2.00%	1.93%
High		3.53%	2.63%	2.25%

Source: ARC Projection Model  
Based on information from Statistics NZ and ARC.

### Revenue and cost inflation assumptions

Revenues and costs in this LTCCP have been adjusted over the 10-year life of the plan for projected changes to input costs. The major costs faced by the ARC are personnel and professional fees, and distributions to ARTA for transport-related expenditure. In this LTCCP, projections of actual revenues and costs, including price changes, have been made for each functional area for 2006/07. From 2007/08 onwards:

- Personnel costs and professional fees have been adjusted for forecast changes to staff costs
- ARTA's financial projections of revenues, costs and capital expenditure, all of which incorporate an inflation component, have been factored into the ARC's forecasts. The particular inflation adjustment varies according to the particular area of expenditure, for example, bus contracts are adjusted differently than rail expenditure

## Financial Information

- The ARC's borrowing and investments have been assumed at 0.5% premium over the forecast 90-Day Bank Bill rate
- The remaining ARC operating and capital expenditure, other than depreciation (discussed below), are adjusted by a general cost adjustor.

Service charges and fees, and other revenue items, have been adjusted by an amount equal to the rate of cost increase, reflecting the assumption that charges and fees will be adjusted to reflect cost increases.

The following table shows the assumptions that have been applied from 2007/08 onwards. (The assumed 90-Day Bank Bill rate for 2006/07 is 6.8%).

A 1% change in the rate of inflation in 2006/07 applied across all costs and service fees and charges changes the ARC's net financial performance by around \$800,000. Given the ARC broadly projects only a small net borrowing position over the period of the LTCCP, a change in interest rates does not have a large effect on the ARC's financial performance.

Year Ending Personnel and Professional Services			
Year ending	Personnel and professional services (% aac)	Other costs (% aac)	90-Day Bank Bill rate (%)
Jun-08	2.5	3.1	6.3
Jun-09	2.4	2.9	6.0
Jun-10	2.2	2.7	5.8
Jun-11	2.0	2.5	5.8
Jun-12	1.8	2.3	5.8
Jun-13	1.7	2.1	5.8
Jun-14	1.5	1.9	5.8
Jun-15	1.3	1.6	5.8
Jun-16	1.3	1.6	5.8
Jun-17	1.3	1.9	5.8

aac = average annual percentage change

## Other Assumptions:

Assumption	Treatment in financial forecasts	Comment on risk around assumption	Quantification of risks, where feasible
Rates income	Rates for 2006/07 have been proposed at a level that, when combined with other income received by the ARC, will cover the ARC's costs and capital requirements	Once set, actual rates revenue varies from forecast due to variances from assumptions such as the number of ratepayers receiving early payment discounts, collection levels, and variations in the rating base	Actual rates collections have historically been close to and no more than 2% above, the levels projected in that year
Distributions to ARTA (operating and capital)	No provision has been made to fund the withdrawal of commercial services  ARTA has included an inflation component in its operating and capital forecasts, appropriate to the bus, ferry, rail and other revenue, expenditure and capital it incurs	Medium  High - changes to operating and capital cost can arise for a range of reasons including changes to labour rates, construction costs or foreign exchange rates	Not quantifiable, as depends upon the extent of services withdrawn, and ARTA's ability to rationalise services  A 1% change in the assumed rates of inflation in 2006/07, applied across all of ARTA's operating costs, changes ARTA's net costs by around \$800,000  Changes to the costs of ARTA's individual projects are expected to be managed within ARTA's total capital budget

## Other Assumptions (continued):

Assumption	Treatment in financial forecasts	Comment on risk around assumption	Quantification of risks, where feasible
Government funding for rail operating and capital	The forecast distributions to ARTA for capital expenditure are based on assumptions about how the Government's recently announced rail funding arrangements will work (The Government is moving to 100% funding for below-track developments, leaving the ARC to fund 100% of above rail developments). Operating expenditure would continue to be funded in accordance with Land Transport New Zealand's published policy. The most significant of the assumptions applied in these forecasts is that the new funding arrangements will apply over the term of this LTCCP. Other assumptions reflected in ARTA's budget are about which specific projects will be funded by ARTA or the Government (e.g. it is assumed that the Park and Ride/bus interchange costs will be funded by the ARC), and the particular split of costs for projects that have both an above- and below-track component (e.g. Newmarket junction remodelling)	Medium	Not quantifiable
Land Transport New Zealand (LTNZ) funding	The forecasts of distributions to ARTA assume various levels of funding from LTNZ as outlined in chapter 2.	Medium – there is a risk that LTNZ funding may not be available at the forecast level for ARTA's forecast projects	Not quantifiable
Asset management	The assumptions around the replacement of assets are built into each functional area's Asset Management Plans and are consistent with the ARC depreciation policy. That policy, including the estimated useful lives of major asset classes, is included in the Accounting Policies on page 143 of this LTCCP  The Council has determined not to revalue assets other than investment assets	Low	Not quantifiable

## Other Assumptions (continued):

Assumption	Treatment in financial forecasts	Comment on risk around assumption	Quantification of risks, where feasible
Statutory responsibilities of the ARC	The statutory responsibilities of the Council will not be changed by Government during the period covered by the financial projections	Low	Not quantifiable
Distributions from ARH	The LTCCP assumes that ARH makes distributions to the ARC in accordance with the forecasts outlined in this Plan. ARH's projected distributions are contained in ARH's Long-Term Funding Plan (LTFP), in accordance with s.21 of the LGAAA 2004. ARH's new draft LTFP is being received by the ARC in March 2006	Low in short term	Not quantifiable - changes to ARH's financial return (through changes to interest rates, capital values or dividend payments from ARH's subsidiaries), are unlikely to affect ARH's distributions in 2006/07. However, over time, ARH's profitability will impact on the level of funds available for distribution
Parks purchases	Assumed purchases of new regional parks are: \$12 million in 2008, \$13.9m in 2011, \$15.7m in 2014, and \$0.7m in 2016, consistent with the ARC's Land Acquisition Strategy	Medium - land will be purchased according to availability and market conditions, and hence the timing and the price of parks purchases are uncertain	To illustrate the size of the impact from a change in timing or price, the \$12 million acquisition forecast for 2008/09 has debt servicing costs in 2008/09 of around \$840,000. Bringing forward or delaying the timing of those purchases, or changing its cost, would impact on this \$840,000 debt servicing cost

## Statements of fact

ARTNL and Britomart Rail Station	The ARC, Auckland Regional Transport Network Ltd (ARTNL) and its shareholders, are in discussion on the transfer of ARTNL's assets and operations, and the Britomart Rail Station to the ARC. The full impacts of such a transfer have not been factored into the financial forecasts in this draft LTCCP
Specific assumptions for the activity groups	See Chapter 2

## STATEMENT OF ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the prospective financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### Basis of Preparation

The Long-Term Council Community Plan (LTCCP) has been prepared in accordance with New Zealand generally accepted accounting practice (NZ GAAP). The accounting policies applied in the preparation of the LTCCP comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable Financial Reporting Standards, as appropriate for Public Benefit Entities. As the LTCCP is for the ARC entity, consolidated prospective financial statements are not presented.

The Auckland Regional Council is designated as a Public Benefit Entity for financial reporting purposes.

### Reporting Entity

The Auckland Regional Council is a regional local authority governed by the Local Government Act 2002. 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 generally accepted accounting practice.

### Application of NZ IFRS 1: First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards

Prospective financial statements of the Auckland Regional Council until 30 June 2006 had been prepared in accordance

with previous New Zealand Financial Reporting Standards (NZ FRS). NZ FRS differs in certain respects from NZ IFRS. The Council plans to adopt NZ IFRS for the year starting 1 July 2006.

When preparing the Auckland Regional Council's prospective financial statements, management will amend certain accounting, valuation and consolidation methods applied in the NZ FRS financial statements to comply with NZ IFRS. These prospective financial statements will be the first Auckland Regional Council prospective financial statements to be prepared in accordance with NZ IFRS. NZ IFRS First-Time Adoption of New Zealand Equivalents to International Financial Reporting Standards will be applied in preparing these prospective financial statements.

This Long-Term Council Community Plan has been prepared using accounting policies expected to be applied in the first NZ IFRS prospective financial statements.

### Measurement Base

These prospective financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss.

### Critical Accounting Estimates

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Council's accounting policies.

### Long-Term Council Community Plan (LTCCP)

The LTCCP numbers are those approved by the Council after a period of consultation with the public as part of the three-yearly Long-Term Council Community Plan process. The LTCCP numbers have been prepared in accordance with generally accepted accounting practice and are consistent with the accounting policies adopted by the Council for the preparation of the financial statements. Each year, an Annual Plan is prepared and approved by the Council after a period of consultation with the public.

### Prospective Financial Information

The significant specific assumptions used in preparing the LTCCP are identified under each outcome area in Chapter 2.

The prospective financial information in respect of future years contains the following disclosures in accordance with Financial Reporting Standard 42.

The requirements for significant assumptions are based on:

- Legislative requirements: Local Government (Auckland) Amendment Act 2004, Local Government Act 2002, Resource Management Act
- Relevant financial reporting standards
- Asset Management Plan

### Activity - Prospective Cost of Services Statements (APCS)

The APCS report the revenue and cost of each activity and the rating requirement for the activity.

The term 'reserves' within the APCS covers a broad range of transactions which, together, have the effect of either increasing or decreasing the net cost of services to reflect the rate requirement of each outcome. Such transactions include, but are not limited to, the use of revenue that has been received in prior years, principal repayments on loans, capital grants and the transfer of ring-fenced profits to reserves.

In ensuring that each year's projected operating revenues are set at a level sufficient to meet that year's projected operating expenses, the ARC has taken into consideration the availability of prior year unallocated and ring fenced reserves.

#### Overhead Allocation

Support services net costs have been charged to each activity. These overheads have been allocated by determining the most appropriate basis, e.g. staff numbers, floor space, applicable to the service provided to each activity.

Internal Transactions: Each activity is stated inclusive of any internal costs and revenues. All internal transactions have been eliminated in the Financial Statements.

#### Rounding of Amounts

All amounts have been rounded to the nearest thousand dollars unless otherwise stated.

#### Revenue Recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Council's activities. Revenue is shown net of goods and services tax, rebates and discounts. Revenue is recognised as follows:

- i) Rates revenue is recognised when levied. Penalties and discounts relating to rates are included where applicable
- ii) Grants and subsidies received in relation to the provision of services are recognised on a percentage of completion basis. Other grants and subsidies are recognised when receivable
- iii) Council interest earned is recognised as revenue in the Income Statement on a time proportion basis using the effective interest method. Interest earned from the investment of Special Funds is appropriated to Special Funds
- iv) Sales of goods are recognised when the Council sells a product to the customer. Retail sales are usually in cash or by credit card. The recorded revenue is the gross amount of the sale, including credit-card fees payable for the transactions. Such fees are included in the Long-Term Financial Strategy Statements
- v) Sales of services are recognised in the accounting period in which the services are rendered, by reference to the stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total service to be provided
- vi) Fines and penalty income is recognised when the fines and penalties are issued
- vii) Licences and permits revenue is recognised when the applications are received
- viii) Charitable receipts are recognised when the Council receives the cash or gains control over the assets
- ix) Ticket sales are recognised as revenue when the events take place

- x) Rental revenue is recognised in the period that it relates to
- xi) Dividend income is recognised when the right to receive payment is established.

#### Expenditure Recognition

Expenditure is recognised when Council is deemed to have been supplied with the service, or has the control of the goods supplied.

#### Ratepayers' Equity

Equity is the community's interest in the Council and is measured as the difference between total assets and total liabilities. Ratepayers' equity is disaggregated and classified into a number of reserves to enable clearer identification of the specified uses that the Council makes of its accumulated surpluses. The components of equity are:

- Accumulated funds
- Restricted reserves
- Council-created reserves.

#### Reserves – Statement of Financial Position

Reserves are a component of equity generally representing a particular use to which various parts of equity have been assigned. Reserves may be legally restricted or created by the Council.

- Restricted reserves are those reserves subject to specific conditions accepted as binding by the Council and which the Council may not revise without reference to the Courts or third party. Transfers from these reserves may be

made only for certain specified purposes or when certain specified conditions are met

- Council-created reserves are reserves established by Council decision. The Council may alter them without reference to any third party or the Courts. Transfers to and from these reserves are at the discretion of the Council.

### Inventories

Inventories are stated at the lower of cost (determined on a first-in, first-out basis) 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 the estimated costs necessary to make the sale.

### Biological Assets

Livestock are measured at their fair value less estimated point-of-sale costs. The fair value of livestock is determined based on market prices of livestock of similar age, breed and genetic merit.

### Trade Receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts.

Trade receivables are due for settlement no more than 30 days from the date of recognition.

Collectability of accounts receivable is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Council will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the

asset's carrying amount and the present value of the estimated future cashflows, discounted at the effective interest rate. The amount of the provision is recognised in the Income Statement.

### Trade Payables

These amounts represent liabilities for goods and services provided to the Council prior to the end of financial year that are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

### Investment in Subsidiaries

The Prospective Financial Statements account for subsidiaries using the purchase method. The purchase method requires the cost of the acquisition to be measured as the fair value of the assets given and liabilities incurred or assumed at the date of exchange, plus any costs directly attributable to the acquisition. Identifiable assets acquired, and liabilities and contingent liabilities assumed, are measured initially at their fair values at the acquisition date. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the Income Statement.

### Investments and Other Financial Assets

The Council's investments fall into the following categories: loans and receivables and held-to-maturity investments. 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 each reporting date.

### i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Council provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet.

### ii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Council's management has the positive intention and ability to hold to maturity.

Purchases and sales of investments are recognised on trade-date – the date on which the Council commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are de-recognised when the rights to receive cashflows from the financial assets have expired or have been transferred and the Council has transferred substantially all the risks and rewards of ownership.

### Fair Value Estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement, or for disclosure purposes.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their

fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cashflows at the current market interest rate that is available to the Council for similar financial instruments.

### Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the Income Statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Council has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

### Property, Plant and Equipment

Property, plant and equipment consists of:

- Operational assets: These include land, buildings, improvements, plant and equipment and motor vehicles
- Restricted assets: These are parks and reserves owned by the Council that provide a benefit or service to the community and cannot be disposed of because of legal or other restrictions.

Property, plant and equipment is stated at cost less depreciation. Cost includes the purchase price plus directly attributable costs of bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Where a physical asset is acquired for nil or nominal consideration, the fair value of the asset received is recognised as revenue.

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 items can be measured reliably. All other repairs and maintenance are charged to the Income Statement during the financial period in which they are incurred.

### Depreciation

Depreciation is provided for on all property, plant and equipment assets other than land. It is charged on a straight-line basis to write off the cost, net of residual values, of each asset over its useful life.

Estimated useful lives for the major class of asset is as follows:

- Buildings: 10 to 100 years
- Roads and bridges: 50 years
- Dams and reservoirs: 50 years
- Land improvements: 20 years
- Plant and equipment: 4 to 20 years
- Vehicles: 5 years
- Office furniture and equipment: 4 to 8 years

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

The carrying amount of an asset is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. (Refer to the Accounting Policy for impairment of assets, right).

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the Income Statement.

### Assets Under Construction

Assets under construction are not depreciated. The total cost of a project is transferred to the relevant asset class on its completion and then depreciated.

### Intangible Assets

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

Cost associated with developing or maintaining computer software 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 recognised as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads. Computer software development costs recognised as assets are amortised over their estimated useful lives, not exceeding three years.

### Impairment of Assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Where the future economic benefits of an asset are not primarily dependent on the

asset's ability to generate net cash inflows, and where the Council would, if deprived of the asset, replace its remaining future economic benefits, value in use is determined as the depreciated replacement cost of the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cashflows (cash generating units).

#### Employee Entitlements

##### i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in accounts payable and accruals in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

##### ii) Long-service leave

The liability for long-service leave is recognised in accounts payable and accruals and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

##### iii) Bonus plans

The Council recognises a provision where contractually obliged, or where there is a past practice that has created a constructive obligation.

##### iv) Retirement benefit obligations

Current and former employees of the Council are entitled to benefits on retirement, disability or death from the National Provident Fund, a multi-employer defined benefit scheme which is accounted for as a defined contribution plan. Contributions are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset if a cash refund or a reduction in the future payments is available.

Contributions to other funds classified as defined contribution funds are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

##### v) Gratuities

The liability for gratuities is recognised in the accounts payable and accruals and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

#### Provisions

Provisions for ongoing maintenance and monitoring services costs at four landfill sites after closure are recognised when:

- the Council has a present legal or constructive obligation as a result of past events;
- it is more likely than not that an outflow of resources will be required to settle the obligation; and
- the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligations using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an interest expense.

#### Operating and Finance Leases

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased items are classified as operating leases. Payments under these leases (net of any incentives received from the lessor) are charged as expenses to the Income Statement on a straight-line basis over the period of the lease.

##### i) The Council as lessee

Leases, which effectively transfer to the lessee substantially all risks and benefits incident to ownership of leased items, are classified as finance leases. Finance leases

are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other long-term payables. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to the Income Statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

#### ii) The Council as lessor

Assets leased to third parties under operating leases are included in property, plant and equipment in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term.

#### Taxation

The Council is exempt from income tax except on interest received from certain trading activities in which other local authorities hold a substantial interest.

Distributions received from ARH is exempt from income tax.

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable

to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

#### Goods and Services Tax (GST)

All items in the financial statements are exclusive of GST, with the exception of Trade Receivables and Trade Payables, which are stated as GST inclusive. When GST is not recoverable as an input then it is recognised as part of the related asset or expense.

#### Statement of Cashflows

The closing cash balance figure in the Statement of Cashflows consists of cash on hand, bank account balances plus call deposits or call loans that form part of the day-to-day cash management of Council and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts are shown within short-term debt in current liabilities on the balance sheet.

The cashflows are classified as follows:

- Operating activities include cash received from all income sources and record the cash payments made for the supply of goods and services as well as other activities that are not investing or financing activities.
- Investing activities are those activities relating to the acquisition and disposal of non-current assets and other investment not included in cash equivalents.
- Financing activities comprise activities that change the equity and debt capital structure of the Council.

#### Foreign Currency Translation

##### i) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Council operates ('the functional currency'). The financial statements are presented in New Zealand dollars, which is the Council's functional and presentation currency.

##### ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Income Statement.

#### Change in Accounting Policy

There have been no changes from the accounting policies adopted in the last audited financial statements, other than those required under NZ IFRS as detailed above. The net effect of the changes driven by NZ IFRS are not material.

### ADOPTION OF NZ IFRS ACCOUNTING POLICIES

The ARC resolved on the 7 April 2005 to adopt NZ IFRS, effective from 1 July 2006, to align adoption of NZ IFRS with the LTCCP.

The projections in the draft LTCCP include the impact of changes required to implement NZ IFRS. Key policy changes resulting from the adoption of NZ IFRS are compared below with existing ARC accounting policies.

Accounting Policy	LTCCP Impact \$000s	\$000s
1. Inventories	Increase Inventory Increase Ratepayer Equity	749
2. Sick Leave	Creation Sick Leave Provision Decrease Ratepayer Equity	79
3. Long Service Leave	Increase Long Service Provision Decrease Ratepayer Equity	151
4. Retirement Allowance	Decrease Retirement Provision Increase Ratepayer Equity	365
5. Bonus Accrual	Create Bonus Accrual Decrease Ratepayer Equity	595
6. Intangible Assets	Increase in Assets Increase Ratepayer Equity	Not material
7. Foreign Currency Transactions	Increase/Decrease Liability Increase/Decrease Ratepayer Equity	Not material