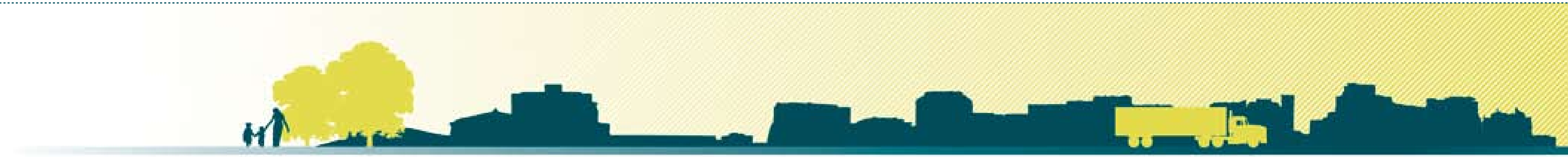
FORECAST FINANCIAL STATEMENTS – PROSPECTIVE NET DEBT POSITION

For the year ending 30 June	Estimate 2007 $000s	Budget 2008 $000s	Forecast 2009 $000s	Forecast 2010 $000s	Projection 2011 $000s	Projection 2012 $000s	Projection 2013 $000s	Projection 2014 $000s	Projection 2015 $000s	Projection 2016 $000s	Projection 2017 $000s
LESS OTHER ITEMS											
Rate funding	(1,391)	(1,696)	1,321	2,997	4,044	3,950	3,239	4,287	6,333	7,693	6,257
Cashflow movements	1,126	(103)	538	560	415	(2,426)	579	406	574	595	446
Other adjustments	(16,200)	(200)	(205)	(210)	(215)	2,780	(225)	(229)	(234)	(238)	(243)
Total other items	**(16,465)**	**(1,999)**	**1,654**	**3,347**	**4,244**	**4,304**	**3,593**	**4,464**	**6,673**	**8,050**	**6,460**
NET DEBT AT END OF THE YEAR											
Current borrowings	56,028	61,760	50,148	40,027	50,315	36,673	39,500	26,588	15,447	29,473	38,525
Non–current borrowings	25,000	25,000	25,000	25,000	10,000	10,000	10,000	10,000	10,000	–	–
Less cash and cash equivalents	(4,155)	(4,052)	(4,590)	(5,150)	(5,565)	(3,139)	(3,718)	(4,124)	(4,698)	(5,293)	(5,739)
Net debt at end of the year	**76,873**	**82,708**	**70,558**	**59,877**	**54,750**	**43,534**	**45,782**	**32,464**	**20,749**	**24,180**	**32,786**



SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

INTRODUCTION

Schedule 10(8) of the Local Government Act 2002 requires forecast financial statements to be included in a Long Term Council Community Plan. These Forecast Financial Statements have been prepared in accordance with generally accepted accounting practice as required by section 111 of that Act. Council is designated on a public benefit entity for purposes of complying with generally accepted accounting practice.

The Forecast Financial Statements are in full compliance with New Zealand equivalents to International Financial Reporting Standards. They comply with Financial Reporting Standard No.42 – Prospective Financial Statements.

This Summary of Significant Accounting Policies supports the Forecast Financial Statements and other budgetary information included in the Community Plan.

REPORTING ENTITY AND STATUTORY BASE

The Hutt City Council (referred to as "Council") is a territorial local authority governed by the Local Government Act 2002. Council was first formed as Lower Hutt City Council on 1 November 1989 by the amalgamation of five local authorities. The name was changed to "The Hutt City Council" by a special Act of Parliament on 8 October 1991.

The activities of Council Controlled Organisations ("CCOs") controlled by Council are included in the Forecast Financial Statements only to the extent of any dividends forecast to be paid to Council. Group prospective financial statements have not been presented as they would not differ significantly from the Forecast Financial Statements presented for Council.

MEASUREMENT BASE

These Forecast Financial Statements have been prepared using a historical cost basis, modified by the revaluation of certain assets and liabilities as identified in this Summary of Significant Accounting Policies. Accrual accounting has been used to match revenue and expenditure.

SPECIFIC ACCOUNTING POLICIES

Revenue

Rates revenue is recognised when levied on an accrual basis.

Water billing revenue is recognised on an accrual basis. Unbilled sales, as a result of unread meters at year-end, are accrued on an average usage basis.

Subsidies from Land Transport New Zealand and grants from other government agencies are recognised as revenue upon entitlement, which is when conditions pertaining to eligible expenditure have been fulfilled.

Other grants and bequests, and assets vested in Council – with or without conditions – are recognised as revenue when control over the assets is obtained.

Dividends are recognised on an accrual basis net of imputation credits.

Construction Contracts

Profits on contracts are recognised progressively over the period of each contract. The amount recognised in the Income Statement, and the value of contract work in progress, are established by assessment of individual contracts taking into account the proportion of work completed, cost analysis and estimated final results.

Foreseeable losses on a contract are recognised immediately.

Goods and Services Tax "GST"
These Forecast Financial Statements have been prepared exclusive of GST with the exception of accounts receivable and accounts payable, which are stated inclusive of GST. When GST is not recoverable as an input tax then it is recognised as part of the related asset or expense.

Taxation
Income tax on the profits or loss 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 substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is provided for in full using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for taxation purposes. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. 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. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Council and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

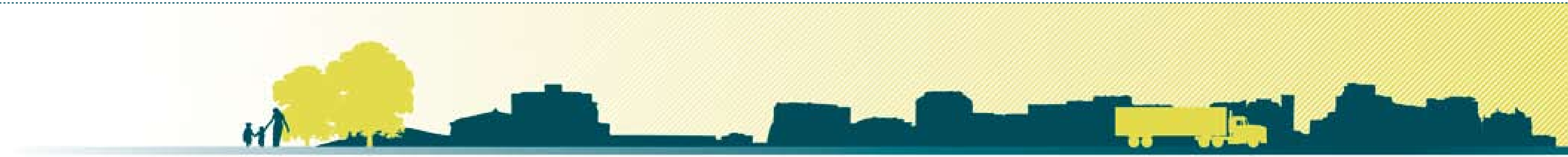
Reserves represent a particular use to which various parts of equity have been assigned. Reserves may be legally restricted or created by Council.

Council-created reserves are established by Council. They may be altered without reference to any third party or the courts. Transfers to and from these reserves are at the discretion of Council.

Restricted reserves are subject to specific conditions accepted as binding by Council, which may not be revised by Council without reference to the courts or third party. Transfers from these reserves may be made only for specified purposes or when certain conditions are met.

Cash and Cash Equivalents
Cash and cash equivalents are recognised in the Balance Sheet on an amortised cost basis. However, if evidence of any impairment loss exists, the carrying value is reduced to the present value of estimated future cash flows. The amount of any resulting reduction in carrying value is recognised as an expense in the Income Statement.

Sinking Funds
Funds have been set aside to meet future repayments of certain loans. These funds are invested with the Sinking Fund Commissioners of the City of Lower Hutt and the National Provident Fund. Interest earned on sinking funds is recognised as revenue in the Income Statement.



Sinking Funds are valued at amortised cost in Council's Balance Sheet. However, if evidence of any impairment loss exists, the carrying value of the investment is reduced to the present value of estimated future cash flows. The amount of any resulting reduction in carrying value is recognised as an expense in the Income Statement.

Trade and Other Receivables

Trade and other receivables are recognised initially at fair value and subsequently at amortised cost. An allowance is made for doubtful and uncollectable debts by establishing an offsetting provision in the Balance Sheet. Increases and decreases in the provision are recognised in the Income Statement.

Inventories

Inventories are recognised at the lower of their 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 applicable variable selling expenses.

Property, Plant and Equipment

Property, plant and equipment consist of:

- *Infrastructure assets.* The fixed utility systems owned by Council, including resource consents. Each asset type includes all items that are required for the network to function. For example, sewerage reticulation includes reticulation piping and sewer pump stations
- *Operational assets.* These include land, buildings, improvements, library books, plant and equipment, and motor vehicles
- *Restricted assets.* Parks and reserves owned by Council that cannot be disposed of because of legal or other restrictions and provide a benefit or service to the community.

Expenditure is capitalised as property, plant and equipment when it creates a new asset or increases the economic benefits over the total life of an existing asset and can be measured reliably. Costs that do not meet the criteria for capitalisation, or are below the thresholds of $1,000 for information technology hardware and $2,500 for other items, are charged to operating expenditure.

Valuation

All items of property, plant and equipment are initially recorded and subsequently valued at historical cost except for the categories of assets listed below. The initial cost of property, plant and equipment includes the purchase consideration, or the fair value in the case of bequeathed or vested assets, and those costs that are directly attributable to bringing the asset into the location and condition necessary for its intended purpose. Subsequent expenditure that extends or expands the asset's service potential and that can be measured reliably is capitalised. Borrowing costs are not capitalised.

- Land and buildings have been valued at fair value. Revaluations are carried out five-yearly.
- Infrastructure assets have been valued at optimised depreciated replacement cost. Revaluations are carried out five-yearly. The exceptions are:
  - wharves, which are valued at indemnity value, reflecting their minimum residual value
  - traffic signs, which are stated at cost
  - infrastructure land under roads, which is valued at 45% of the average land market value
- Library literary assets are valued at depreciated replacement cost in accordance with guidelines released by the New Zealand Library Association and the National Library of New Zealand. Revaluations are carried out five-yearly
- Vested assets are recognised within their respective asset classes at fair value. Vested assets are those assets where ownership and control is transferred to the Council from a third party (for example, infrastructure assets constructed by developers and transferred to the Council on completion of a subdivision). Fair value is determined on a basis consistent with the valuation of existing assets within the class. Vested infrastructure assets result in revenue being recognised in the Income Statement.

All revaluations are carried out by independent valuers who specialise in the asset classes listed above. The exception is library literary assets, which are valued by staff with specialist knowledge in this area.

Property, plant and equipment valuation increases and decreases are charged to the appropriate asset revaluation reserves. If the decreases would have resulted in a debit balance in the asset revaluation reserve, then this debit balance would be recognised as an expense in the Income Statement.

Any subsequent increase on revaluation that offsets the previous decrease in value in the Income Statement will be recognised first in the Income Statement up to the amount previously expensed, and then credited to the revaluation reserve for that class of asset.

Costs incurred in obtaining any resource consents are capitalised as part of the asset to which they relate. If a resource consent application is declined then all capitalised costs are written off.

Assets under construction

Assets under construction are included at cost. The total cost of a project is transferred to the relevant capital class on its completion and then depreciated.

Impairment

The carrying amounts of property, plant and equipment are reviewed at least annually to determine if there is any indication of impairment. Where an asset's recoverable amount is less than its carrying amount, it will be reported at its recoverable amount and an impairment loss will be recognised. The recoverable amount is the higher of an item's fair value less costs to sell and value in use. Losses resulting from impairment are reported in the Income Statement, unless the asset is carried at a revalued amount, in which case any impairment loss is treated first as a revaluation decrease and then as a charge to the Income Statement to the extent that the impairment exceeds the amount in the revaluation reserve in respect of that asset.

Disposal

Gains and losses arising from the disposal of property, plant and equipment are determined by comparing the proceeds with the carrying amount and are recognised in the Income Statement in the period in which the transaction occurs. Any balance attributable to the disposed asset in the asset revaluation reserve is transferred to retained earnings.

Non-current assets held for sale

Non-current assets are separately classified as held for sale where their carrying amount will be recovered through a sale transaction rather than through continuing use. A non-current asset is classified as held for sale where:

- The Group is committed to a plan to sell the asset
- The sale is expected to qualify for recognition as a sale within one year from the date of classification or beyond one year where a delay has occurred which is caused by events beyond Council's control and there is sufficient evidence that Council remains committed to its plan to sell the asset
- Actions required to complete the plan to sell the asset indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

A non-current asset classified as held for sale is recognised at the lower of its carrying amount and fair value less costs to sell. An impairment loss is recognised for any initial or subsequent write-down of the asset to fair value less costs to sell.

A gain is recognised for any subsequent increases in fair value less costs to sell of the asset, but not in excess of any cumulative impairment losses previously recognised. Impairment losses or reversal of impairment losses are included in the Income Statement. Any gain or loss not previously recognised by the date of the sale of the asset is recognised at the date of derecognition.

Non-current assets held for sale are not depreciated.

Upper Hutt City Council's interest in the bulk wastewater system

The Hutt Valley and Wainuiomata bulk wastewater system is managed by Council. Upper Hutt City Council pays an annual levy to the Hutt City Council based on an apportionment formula equating to between 26% and 31% of the funding requirements. While Upper Hutt City Council does not have legal ownership of the bulk wastewater system, it is entitled to a share of the proceeds from any sale of the assets.

Upper Hutt City Council's interest in the bulk wastewater system assets is deducted from the value of property, plant and equipment recognised in the Balance Sheet. Funding contributions from Upper Hutt City Council are recognised as revenue in the Income Statement if the contributions are for the operation of the bulk wastewater system. Funding contributions for capital work are recognised as an increase in Upper Hutt City Council's interest in the bulk wastewater system assets.

Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment at rates that will write off the cost (or valuation) of the assets to their estimated residual values over their useful lives, except that art, museum collections and land are not depreciated.

The expected useful economic lives have been estimated as follows:

Estimated economic lives	**Years**
Operational assets	
Buildings	50-80
Piers at Seaview Marina	25
Parking meters	15
Office equipment	10
Plant	10
Pay and display	10
Recycling depots	5-10
Playground equipment	5-10
Computer equipment	3-5

Estimated economic lives (continued)	**Years**
Infrastructure assets	
Bridges	75-100
Drainage including manholes and drainpipes	50-80
Kerbing	80
Footpaths	50
Unsealed pavement (base course and sub base)	50
Street lights	29
Wharves	15
Road surface	20
Traffic signals and signs	16
Reservoirs	80
Storm water pipe network assets	60-100
Water pipe network assets	60-90
Seaview wastewater treatment plant	20
Milliscreen plant	26
Pump and gauging stations	20-50
Sewerage pipe network assets	40-80
Gauging, milliscreen and reservoir equipment	15
Pump station control equipment	8-10
Resource consents	consent term