



**Statement of Performance
Expectations
For the year ending 30 June 2016**

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1. Introduction

We are pleased to present the Statement of Performance Expectations (SPE) for the Tāmaki Redevelopment Company Limited (TRC).

This SPE is submitted by the Board of Directors of TRC pursuant to the Crown Entities Act 2004. It sets out the performance expectations of TRC for the year ending 30 June 2016.

On 30 April 2015, the Minister of Finance and the Minister for Building and Housing announced that TRC will be receiving 2,800 homes owned by the Housing New Zealand Corporation (HNZC) across the Tāmaki area by 31 March 2016. TRC has made significant assumptions (refer to page 15 for a complete list of assumptions made that have material impact on TRC's prospective financial statements) in preparing this SPE given that TRC has yet to complete detailed assessment of the operating models and resource requirements during and post-transfer of the housing stock and associated new functions.

It is intended that the SPE will be updated once the detailed planning work has been completed and the company's operating model is finalised.

Statement of Responsibility

The Board is responsible for the statements contained in TRC's Statement of Performance Expectations and for the appropriateness of the assumptions as well as the relevant disclosures made in them.

The Board of TRC has the responsibility for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial and non-financial reporting.

Signed on behalf of the Board:



Brian Donnelly
Chair

30 June 2015
Date



Dr. Susan Macken
Deputy Chair

30 June 2015
Date

2. Output Classes

Output Class One: Tāmaki Regeneration, Vote Housing

- TRC will, in partnership with HNZC, have construction underway in the Fenchurch neighbourhood stage 2 by 30 June 2016.
- TRC will, in partnership with HNZC, obtain resource consent for Fenchurch neighbourhood stage 3 by 30 June 2016.
- TRC will, in partnership with HNZC, have construction underway on Overlea neighbourhood stage 1 by 30 June 2016.
- TRC will, in partnership with HNZC, obtain consent for a neighbourhood framework plan for a Panmure neighbourhood stage 1 by 30 June 2016.
- TRC will continue to deliver regeneration as outlined in the Business Implementation Plan delivered to Shareholders in May 2014 including a focus on:
 - Implementing year two of the Early Childhood Education (ECE) strategy;
 - Community safety;
 - Leadership development and governance of the Tāmaki community.

Revenue and Output Expenses

	2015/16 Prospective Unaudited
Revenue	\$000's
Crown	3,370
Other	400
Total Revenue	3,770
Expenses	3,770
Net Surplus/(Deficit)	-

Output Class Two: Transfer of HNZC's Tāmaki housing stock to TRC, Vote Finance

- TRC will, in partnership with HNZC, execute the transfer of HNZC assets within the Tāmaki area by 31 March 2016.

Revenue and Output Expenses

	2015/16 Prospective Unaudited
Revenue	\$000's
Crown	-
Other	-
Total Revenue	-
Expenses	-
Net Surplus/(Deficit)	-

Output Class Three: Loan Facility for Tāmaki Redevelopment Company, Vote Finance

- TRC will identify and execute strategic land purchases to enable accelerated housing and economic redevelopment in the Tāmaki area by 30 June 2016.
- TRC will, in partnership with Treasury, prepare a business case for initiating procurement activity associated with housing redevelopment at scale within Tāmaki, incorporating the wider regeneration outcomes into the process.
- TRC will, in partnership with HNZC execute the transfer of HNZC tenancy and property management functions within the Tāmaki area by 31 March 2016.
- TRC will set up an appropriate social service framework in Tāmaki, in conjunction with wider Crown agencies in order to optimise future service delivery by the 30 June 2016. This will include development of:
 - A family by family approach to service delivery;
 - An outcomes and evaluation framework;
 - A skills pathway to employment; and
 - An affordable housing delivery plan.

Revenue and Output Expenses

	2015/16 Prospective Unaudited
Revenue	\$000's
Crown	-
Other	-
Total Revenue	-
Expenses	18,500
Net (Deficit)	(18,500)

Output Class Four: Post-transfer operations, Vote Housing

- TRC will operate tenancy management and asset management activity from 1 April 2016.

Revenue and Output Expenses

	2015/16 Prospective Unaudited
Revenue	\$000's
Crown	9,400
Other	4,700
Total Revenue	14,100
Expenses	11,100
Net Surplus	3,000

Capital Appropriations

TRC is delivering regeneration in Tāmaki on behalf of Crown and Council. Crown has provided capital appropriations for 2015/16 in addition to the revenues identified per output classes above. These are outlined below. Year one drawdown (refer balance sheet on page 7) will include strategic land purchases and development readiness.

	2015/16 Prospective Unaudited \$000's
Loan Facility for Tāmaki Redevelopment Company	200,000
Transfer of HZNC's Tāmaki housing stock to TRC at HNZC book value	1,300,000

3. Prospective Financial Statements

Statement of Prospective Comprehensive Revenue and Expense For the year ending 30 June 2016

	2016 Prospective Unaudited \$000's
Revenue	
Crown appropriation income	3,370
Interest revenue	400
Rental income from tenants	4,700
Rental income from income-related rental subsidy	9,400
Other revenue	0
Total revenue	17,870
Expenditure	
Personnel costs	4,000
Directors fees	220
Programme and operational expenditure	2,600
Depreciation and amortisation expense	600
Tenancy management costs	3,700
Property management costs	6,400
Transition expenditure	10,000
Interest expense	3,500
Other expenses	2,350
Total expenditure	33,370
(Deficit) before tax	(15,500)
Tax expense	0
Net (deficit) for the year	(15,500)
Other comprehensive revenue and expense	0
Total comprehensive (loss)	(15,500)

**Statement of Prospective Financial Position
As at 30 June 2016**

	2016 Prospective Unaudited \$000's
ASSETS	
Current assets	
Cash and cash equivalents	20,900
Trade and other receivables	350
Prepayments	100
Total current assets	<u>21,350</u>
Non-current assets	
Property, plant and equipment	1,367,850
Intangible assets	100
Total non-current assets	<u>1,367,950</u>
Total assets	<u>1,389,300</u>
LIABILITIES	
Current liabilities	
Creditors and other payables	1000
Employee entitlements	200
Total current liabilities	<u>1,200</u>
Non-current liabilities	
Loan from Crown	100,000
Total non-current liabilities	<u>100,000</u>
Total liabilities	<u>101,200</u>
Net assets	<u>1,288,100</u>
EQUITY	
Equity attributable to Crown	1,305,000
Equity attributable to Council	3,500
Retained earnings	(20,400)
Total equity	<u>1,288,100</u>

For and on behalf of the Board who authorise the issue of the prospective financial statements on 30 June 2015.



Director
30 June 2015



Director
30 June 2015

Statement of Prospective Changes in Equity
For the year ending 30 June 2016

	2016 Prospective Unaudited \$000's
Opening balance 1 July 2015	3,600
Retained earnings	
Total comprehensive (loss)	(15,500)
Balance	<u>(15,500)</u>
Owners' transactions	
Transfer of HNZN Houses to TRC	1,300,000
Closing balance 30 June 2016	<u>1,288,100</u>

Statement of Prospective Cash Flows
For the year ending 30 June 2016

	2016 Prospective Unaudited \$000's
Cash flows from operating activities	
Cash provided from:	
Crown appropriation income	3,370
Rental income from tenants	4,700
Rental income from income-related rental subsidy	9,400
Interest received	400
Total cash provided	17,870
Cash applied to:	
Payments to suppliers	(28,460)
Payments to employees	(3,860)
Total cash applied	(32,320)
Net cash from operating activities	(14,450)
Cash flow from investing activities	
Cash applied to:	
Purchase of property, plant, and equipment	(68,100)
Purchase of intangible assets	(50)
Net cash applied to investing activities	(68,150)
Cash flow from financing activities	
Cash provided from:	
Loan from Crown	100,000
Net cash from financing activities	100,000
Net increase in cash and cash equivalents	17,400
Opening cash and cash equivalents	3,500
Closing cash and cash equivalents	20,900

Notes to the Prospective Financial Statements (Unaudited) For the year ending 30 June 2016

Statement of Accounting Policies

REPORTING ENTITY

Tāmaki Redevelopment Company Limited (TRC) is jointly owned by Auckland Council (Council) and the New Zealand Government (Crown). TRC operates with the objectives of housing, economic development, social renewal, and spatial regeneration in the Tāmaki area.

TRC is a Crown entity and is therefore principally governed by the Crown Entities Act 2004. TRC is a Schedule 4A entity under the Public Finance Act 1989 and is incorporated in New Zealand under the Companies Act 1993.

These prospective financial statements for the year ending 30 June 2016 were approved by the Board on 30 June 2015.

PROSPECTIVE FINANCIAL STATEMENTS

These prospective financial statements have been prepared for the express purpose of meeting legislative requirements set out under the Crown Entities Act 2004 and the use of these statements for any other purpose may not be appropriate. The description of the principal activities and current operations of TRC including those activities and operations expected to be undertaken during the period covered by these prospective financial statements are outlined in section 2 of this document. The actual financial results achieved for the year ending 30 June 2016 are likely to vary from these prospective financial statements and the variations could be material.

BASIS OF PREPARATION

The prospective financial statements have been prepared on a going concern basis, and the accounting policies have been applied consistently throughout the period.

Statement of Compliance

The prospective financial statements of TRC have been prepared in accordance with the requirements of the Crown Entities Act 2004, which includes the requirement to comply with generally accepted accounting practice in New Zealand (NZ GAAP).

TRC is a non-publicly accountable and non-large public benefit entity (PBE) as defined by the External Reporting Board. For that reason, TRC has elected to prepare its prospective financial statements in accordance with Tier 2 PBE accounting standards which means that TRC can apply PBE accounting standards with a Reduced Disclosure Regime.

These prospective financial statements comply with PBE accounting standards; Prospective Financial Statements (PBE FRS 42).

Functional and presentation currency

The prospective financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (\$000). The functional currency of TRC is New Zealand dollars (NZ\$).

Measurement base

The prospective financial statements have been prepared on a historical cost basis.

SIGNIFICANT ACCOUNTING POLICIES

Revenue

Revenue is recognised to the extent that it is probable that the economic benefits or service potential will flow to TRC and the revenue can be reliably measured, regardless of when the payment is being made.

Revenue from non-exchange transactions:

Revenue from non-exchange transactions is recognized only when TRC obtains control of the transferred asset (cash) and the transfer is free from conditions to refund or return the asset if the conditions are not fulfilled.

Crown appropriation income

Crown appropriation income is restricted in its use for the purpose of TRC meeting its objectives as specified in the Statement of Intent. Crown appropriation income is recognised as revenue when earned and is reported in the financial period to which it relates. The fair value of Crown appropriation income has been determined to be equivalent to the amounts due in the funding agreement.

Rental income from income-related rent subsidy

Rental income from income-related rent subsidy is recognised on a straight-line basis over the lease term.

Donations

Revenue from donations is recognised when received and all associated obligations have been met.

Revenue from exchange transactions:

Interest revenue

Interest revenue is recognised using the effective interest method. Interest income on an impaired financial asset is recognised using the original effective interest rate.

Rental income from tenants

Rental income from tenants is recognised on a straight-line basis over the lease term.

Leases

Operating leases

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. Lease incentives received are recognised in the surplus or deficit over the lease term as an integral part of the total lease expense.

Debtors and other receivables

Short-term debtors and other receivables are recorded at their face value, less any provision for impairment.

Impairment of a receivable is established when there is objective evidence that TRC will not be able to collect amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, receivership or liquidation, and default in payments are considered indicators that the debt is impaired. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the surplus or deficit. When the receivable is uncollectible, it is written off against the allowance account for receivables. Overdue receivables that have been renegotiated are reclassified as current (that is, not past due).

Investments

Bank deposits

Investments in bank deposits are initially measured at fair value plus transaction costs. After initial recognition investments in bank deposits are measured at amortised cost using the effective interest method, less any provision for impairment. For bank deposits, impairment is established when there is objective evidence that TRC will not be able to collect amounts due according to the original terms of the deposit. Significant financial difficulties of the bank, probability that the bank will enter into receivership or liquidation, and default in payments are considered indicators that the deposit is impaired.

Property, plant, and equipment

Property, plant, and equipment consist of the following asset classes: freehold land, rental properties, capital work in progress, leasehold improvements, office equipment and computer equipment. All assets classes are measured at cost, less accumulated depreciation and impairment losses.

Additions

The cost of an item of property, plant, and equipment is recognised as an asset only when it is probable that future economic benefits or service potential associated with the item will flow to TRC and the cost of the item can be measured reliably. Work in progress is recognised at cost less impairment and is not depreciated. In most instances, an item of property, plant, and equipment is initially recognised at its cost. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at its fair value as at the date of acquisition.

Disposals

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are reported net in the surplus or deficit.

Subsequent costs

Costs incurred subsequent to initial acquisition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to TRC and the cost of the item can be measured reliably. The costs of day-to-day servicing of property, plant, and equipment are recognised in surplus or deficit as they are incurred.

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. The useful lives and associated depreciation rates of major classes of property, plant, and equipment have been estimated as follows:

Leasehold improvements	5 years	20%
Office equipment	5 years	20%
Computer equipment	5 years	20%

Leasehold improvements are depreciated over the unexpired period of the lease or the estimated remaining useful lives of the improvements, whichever is the shorter. The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial year end.

Freehold land and rental properties held by TRC are categorised on purchase or construction at cost. Such costs include the cost of repairs and renewals that are eligible for capitalisation. All other repairs and maintenance costs are recognised in the net surplus/(deficit) for the year.

Each year, freehold land and rental properties are revalued, on a class basis, to fair value. Fair value is determined by reference to market-based evidence and is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date.

Independent valuations are performed annually to ensure that the carrying amount does not differ materially from the asset's fair value at the balance date.

Any revaluation surplus is recognised in the asset revaluation reserve in other comprehensive revenue and expense, except to the extent that it offsets a previous revaluation deficit for the same asset class, that was recognised in the net surplus/(deficit) for the year. Therefore, the surplus is recognised in the net surplus/(deficit) for the year.

Any revaluation deficit is recognised in the net surplus/(deficit) for the year except to the extent that it offsets a previous revaluation surplus for the same asset class that was recognised in the asset revaluation reserve in other comprehensive revenue and expense. Therefore, the deficit is offset to the extent of the credit balance existing in the revaluation reserve for that asset class.

An item of property is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of this asset. Upon disposal any revaluation reserve relating to the particular asset being sold is transferred to retained earnings. Any gain or loss arising on derecognition of an asset is included in the net surplus/(deficit) for the year, in the period the item is derecognised. Gain or loss on derecognition is calculated as the difference between the net disposal proceeds and the carrying amount of the item.

Depreciation is calculated on a straight-line basis over the estimated useful life of the building as follows:

Rental properties 10 - 60 years

Intangible assets

Software acquisition and development

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Costs that are directly associated with the development of software for internal use are recognised as an intangible asset. Direct costs include software development employee costs and an appropriate portion of relevant overheads.

Staff training costs are recognised as an expense when incurred. Costs associated with maintaining computer software are recognised as an expense when incurred. Costs associated with development and maintenance of TRC's website are recognised as an expense when incurred.

Website development

Costs that are directly associated with the structural development of the website are recognised as an intangible asset. These costs include application and infrastructure development and testing.

Website content development and operating costs are recognised as an expense when incurred.

Amortisation

The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. The amortisation charge for each financial year is recognised in surplus or deficit.

The useful lives and associated amortisation rates of major classes of intangible assets have been estimated as follows:

Acquired computer software	3 years	33.3%
Developed computer software	4 years	25%

Impairment of property, plant, and equipment and intangible assets

TRC does not hold any cash-generating assets. Assets are considered cash-generating where their primary objective is to generate a commercial return through the provision of goods and/or services to external parties.

Non-cash-generating assets

Property, plant and equipment and intangible assets that have a finite useful life 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 assets carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an assets fair value less costs to sell and value in use. Value in use is depreciated replacement cost for an asset where the future economic benefits or service potential of the asset are not primarily dependent on the assets ability to generate net cash inflows and where TRC would, if deprived of the asset, replace its remaining future economic benefit or service potential. If an assets carrying amount exceeds its recoverable amount, the asset is impaired and the carrying amount is written-down to the recoverable amount. For assets not carried at a revalued amount, the total impairment loss is recognised in surplus or deficit. For assets not carried at a revalued amount, the reversal of an impairment loss is recognised in the surplus or deficit.

Creditors and other payables

Short-term creditors and other payables are recorded at their face value.

Borrowings

Loan from Crown

Loan from Crown is a \$200m drawdown facility that Crown has provided to TRC. TRC initially recognises all drawdowns on the loan at fair value plus transaction costs. After initial recognition, the loan is measured at amortised cost using the effective interest method. The loan is classified as a non-current liability (terms and conditions not finalised). Interest on the loan, calculated using the effective interest method is included in surplus or deficit in the period to which it relates.

Employee entitlements

Short-term employee entitlements

Employee benefits that are due to be settled within 12 months after the end of the period in which the employee renders the related service are measured based on accrued entitlements at current rates of pay. These include salaries and wages accrued up to balance date, annual leave earned to but not yet taken at balance date, and sick leave.

A liability and an expense are recognised for bonuses where there is a contractual obligation or where there is a past practice that has created a constructive obligation.

Presentation of employee entitlements

Annual leave and bonuses are classified as a current liability.

Superannuation schemes

Defined contribution schemes

The obligation for contributions to Kiwisaver is accounted for as defined contribution superannuation schemes and is recognised as an expense in surplus or deficit as incurred. TRC's liability is limited to the value of contributions only.

Provisions

A provision is recognised for future expenditure of uncertain amount or timing when there is a present obligation (either legal or constructive) as a result of a past event, it is probable that an outflow of future economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax discount 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 and is included in "finance costs".

Equity

Equity is measured as the difference between total assets and total liabilities. Equity is disaggregated and classified into the following components:

- retained earnings; and
- share capital.

Goods and services tax

All items in the prospective financial statements are presented exclusive of goods and service tax (GST), except for receivables and payables, which are presented on a GST-inclusive basis. Where GST is not recoverable as input tax then it is recognised as part of the related asset or expense. The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the prospective statement of financial position. The net GST paid to, or received from the IRD, including the GST relating to investing and financing activities, is classified as a net operating cash flow in the prospective statement of cash flows.

Commitments and contingencies are disclosed exclusive of GST.

Income tax

TRC is a public authority and consequently is exempt from the payment of income tax. Accordingly, no provision has been made for income tax.

Critical accounting estimates and assumptions

In preparing these prospective financial statements, TRC has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimating useful lives and residual values of property, plant, and equipment

At each balance date, the useful lives and residual values of property, plant, and equipment are reviewed. Assessing the appropriateness of useful life and residual value estimates of property, plant, and equipment requires a number of factors to be considered such as the physical condition of the asset, expected period of use of the asset by TRC, and expected disposal proceeds from the future sale of the asset.

An incorrect estimate of the useful life or residual value will affect the depreciation expense recognised in the surplus or deficit, and carrying amount of the asset in the statement of financial position. TRC minimises the risk of this estimation uncertainty by:

- physical inspection of assets;
- asset replacement programs;
- review of second hand market prices for similar assets; and
- analysis of prior asset sales.

TRC has not made significant changes to past assumptions concerning useful lives and residual values.

Critical judgements in applying accounting policies

Management has exercised the following critical judgements in applying accounting policies:

Leases classification

Determining whether a lease agreement is a finance lease or an operating lease requires judgement as to whether the agreement transfers substantially all the risks and rewards of ownership to TRC. Judgement is required on various aspects that include, but are not limited to, the fair value of the leased asset, the economic life of the leased asset, whether or not to include renewal options in the lease term, and determining an appropriate discount rate to calculate the present value of the minimum lease payments.

Classification as a finance lease means the asset is recognised in the prospective statement of financial position as property, plant, and equipment, whereas for an operating lease no such asset is recognised. TRC has exercised its judgement on the appropriate classification of equipment leases, and has determined that there are no finance leases.

Assumptions, risks and uncertainties underlying the prospective financial statements

The prospective financial statements are unaudited. The main assumptions underlying the prospective figures are as follows:

- Housing New Zealand owned properties in Tāmaki will be transferred to the company on 31 March 2016 at Housing New Zealand's book value. This date affects the company's operational costs incurred to prepare for the transfer.
- The cost implications upon Ministers finalising the operating models of TRC have not been included in these prospective financial statements.
- The business case put forward for procurement at scale will be approved. High-level estimates of costs of undertaking the procurement have therefore been included.
- The company will earn rental income from tenants and from income-related rental subsidy following the asset transfer.
- The terms and conditions of the loan have not been finalised. The amount of the loan drawdown for the 2016 financial year is based on the strategic land purchases taking effect.
- The company will undertake tenancy management and property management and incur relevant costs as a result following the transfer of the assets.
- The company will undertake strategic land purchases during the 2015/16 financial year and will prepare for development to occur on this land in 2016/17 financial year. Professional fees incurred in preparing for development will be capitalised as work-in-progress if they meet the recognition criteria under PBE IPSAS 17: Property, Plant and Equipment.
- Operating costs are based on historical experience adjusted for the expected increase in capacity required for the company to be prepared for the change in the operating model.
- The following economic assumptions will eventuate:

Assumption (source: Treasury)	Level of uncertainty	Risk	Financial impact
Average change in CPI: +1.6%	Moderate	That actual inflation is higher than forecast inflation	Movements in market prices will impact the Company's operating and transition costs as well as interest revenue.

The actual results achieved for the period covered by the prospective figures are likely to vary from actual results for the year 2015/16, and these variances could be material.

Factors that could lead to material differences between the prospective financial statements and the 2015/16 actual financial statements, in addition to the sources of uncertainty mentioned above, include decisions being made that alter the assumptions made above. It is intended that these prospective financial statements be updated subsequent to publication once the detailed planning assessments have been undertaken and the company's operating model and strategic direction are finalised.